EXECUTIVE BOARD MEETING

SM/20/101
Correction 2

July 23, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **2020 External Sector Report—Chapter 2**

Board Action: The attached correction to SM/20/101 (7/2/20) and SM/20/101, Cor. 1 (7/22/20) has been provided by the staff:

Evident Ambiguity **Page 6**

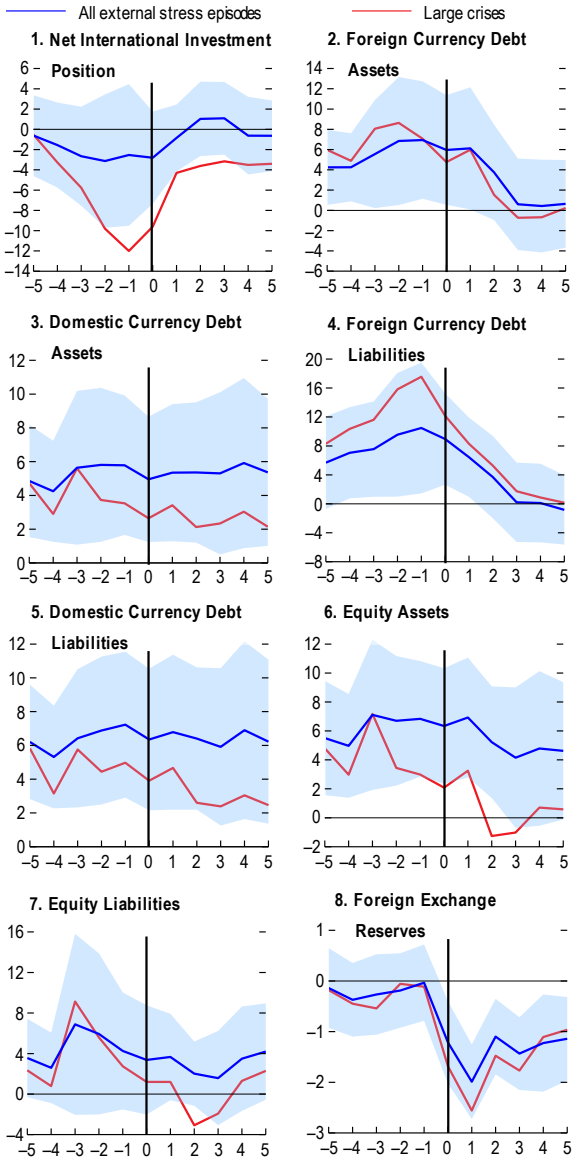
Questions: Mr. Leigh, RES (ext. 34747)
Mr. Adler, RES (ext. 35648)
Mr. Rabanal, RES (ext. 36784)

default or restructurings or the start of IMF-supported financial assistance. Sovereign debt defaults and restructuring episodes are identified based on an updated version of the data set in Das, Papaioannou, and Trebesch (2011) and Asonuma and Trebesch (2016), and recent Paris Club reports. Using the aforementioned criteria, the chapter identifies 176 cases of external stress (Figure 2.2), most of which involve emerging market and developing economies.[4] It is important to note that the chapter focuses on episodes of external stress, using the aforementioned definition, and not on fiscal stress or public debt crisis episodes. The latter would include, in addition to sovereign defaults and restructurings and recourse to IMF financing, additional events such as implicit default via high inflation and rising sovereign risk premiums (see Cerovic, Gerling, and Medas 2018).

The first part of the analysis studies the evolution of the main IIP components around external stress episodes. The sample comprises 73 advanced and emerging market economies during 1991–2018. This event-study analysis controls for country and time fixed effects to capture differences in countries' average IIP levels as well as the influence of common shocks (as in Gourinchas and Obstfeld 2012 and Catão and Milesi-Ferretti 2014;

Figure 2.3. Conditional Mean of the International Investment Position and Its Components around External Stress Episodes, 1990–2018
(Percent of GDP)

External stress episodes are usually preceded by a deterioration of the net international investment position and a large buildup of foreign-currency-denominated debt liabilities.



Source: IMF staff calculations.
Note: The methodology for construction of conditional mean estimates is based on Catão and Milesi-Ferretti (2014) and is discussed in Online Annex 2.1. Shaded area corresponds to the 90 percent confidence interval for all external stress episodes.

[4]One difference with Catão and Milesi-Ferretti (2014) is that it focuses on IMF-supported arrangements exceeding 200 percent of quota, while this chapter considers all IMF-supported arrangements, excluding precautionary and nondisbursing arrangements. Robustness to different definitions of external stress episodes is discussed in Online Annex 2.1. All annexes are available at www.imf.org/en/Publications/ESR.