



INVESTMENTS IN EDUCATION DEVELOPMENT

Course: World Economy

Contents

The aim of the lecture is to describe the problem of foreign debt. Text is an overview of information resources for students (including links to official sources and supplement materials (green box)).

Content:

- 1) introduction – theory of budget deficit
- 2) definitions of budget debts
- 3) The HIPC Initiative
- 4) indebtedness of the world countries, indebtedness of the EU's countries

Government debt is the debt owed by a central government.

„public debt is the sum of the claims of other economic entities to the State, the individual stages of local and regional authorities, public funds and other institutions in the public sector, both internal entities (internal debt), and foreign entities (foreign debt)¹“

Governments usually borrow by issuing securities, government bonds and bills. Less creditworthy countries sometimes borrow directly from a supranational organization (e.g. the World Bank) or international financial institutions. Short term debt is generally considered to be for one year or less, long term is for more than ten years. Medium term debt falls between these two boundaries. „The national debt is closely related to the State budget deficit. Traditionally it is the link between the budget deficit and public debt understood in a unilateral causality. This concept is based on a very common definition, which defines the public debt as the sum of past budget deficits“².

internal deficit³

the gap between revenues and expenditures for a government (over a given period of time); often referred to as a public deficit or fiscal deficit. In many cases, a country has administrative subdivisions that also run significant fiscal deficits, e.g., India or Argentina. The sum of state, local, and federal deficits would constitute the internal deficit of those countries..

external deficit

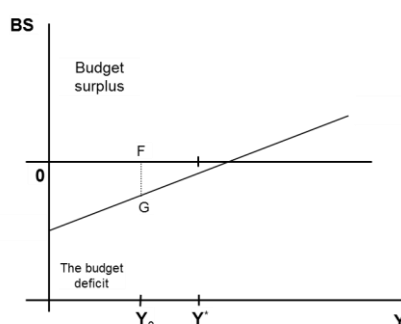
a negative net flow of liquid assets to the citizens of a particular country. The external balance includes the trade balance, net foreign factor income, and net foreign aid received. Usually the main cause of an external deficit is a trade deficit.

¹ PEKOVÁ, Jitka. Veřejné finance: úvod do problematiky. 4., aktualiz. a rozš. vyd. Praha: ASPI, 2008, 579 s. ISBN 978-80-7357-358-4.

² DVORÁK, Pavel. Vybrané problémy fiskální politiky. Vyd. 1. Praha: Vysoká škola ekonomická, 1997, 174 s. ISBN 80-7079-620-0.

³ <http://www.urbandictionary.com/define.php?term=external%20deficit>

The problems of indebtedness of countries will be explained on the example of the state budget deficit as a beginning of indebtedness of economies, which records the difference between national government revenues and expenditures. A positive (+) number indicates that revenues exceeded expenditures (a budget surplus), while a negative (-) number indicates the reverse (a budget deficit). The function is shown graphically and describes the factors that affect the volume of the budget deficit.



The horizontal axis shows the size of GDP. Vertical axis shows the budget surplus or deficit. Possibility of reducing the deficit: the decline in government spending, increasing taxes, economic growth.

The heavily indebted poor countries (HIPC)

“The HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage. Since then, the international financial community, including multilateral organizations and governments have worked together to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries.

In 1999, a comprehensive review of the Initiative allowed the Fund to provide faster, deeper, and broader debt relief and strengthened the links between debt relief, poverty reduction, and social policies.

In 2005, to help accelerate progress toward the United Nations Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). The MDRI allows for 100 percent relief on eligible debts by three multilateral institutions—the IMF, the World Bank, and the African Development Fund for countries completing the HIPC Initiative process. In

2007, the Inter-American Development Bank (IaDB) also decided to provide additional debt relief to the five HIPC's in the Western Hemisphere".⁴

The HIPC Initiative currently identifies 39 countries, most of them in Sub-Saharan Africa, as potentially eligible to receive debt relief.

Afghanistan, Benin, Plurinational State of Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Republic of Congo, Democratic Republic of Congo, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Níger, Rwanda, São Tomé Príncipe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zambia, Chad, Comoros, Côte d'Ivoire, Guinea, Eritrea, Somalia, Sudan⁵.

Debt Management

The World Bank Group helps low-income countries strengthen their ability to manage debt effectively, an increasingly important part of development.

<http://www.worldbank.org/en/topic/debt/brief/debt-management>

REVISED GUIDELINES FOR PUBLIC DEBT MANAGEMENT

http://www.worldbank.org/content/dam/Worldbank/document/Debt/Revised%20Guidelines%20for%20Public%20Debt%20Management%202014_v2.pdf

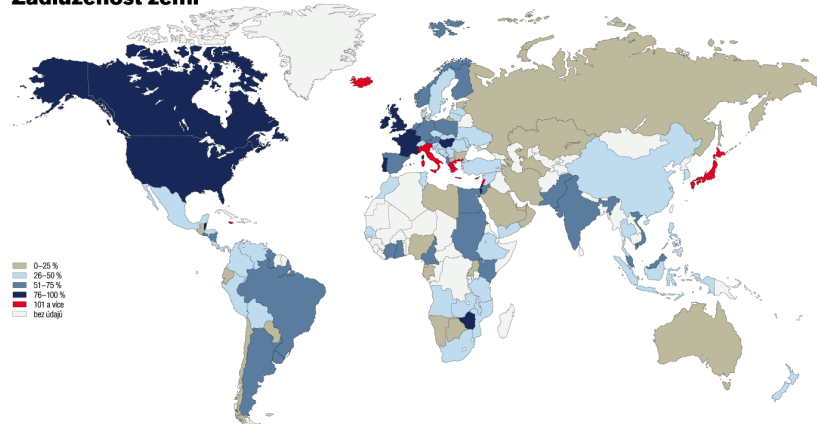
⁴ <http://www.imf.org/external/np/exr/facts/hipc.htm>

⁵

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20260049~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html>

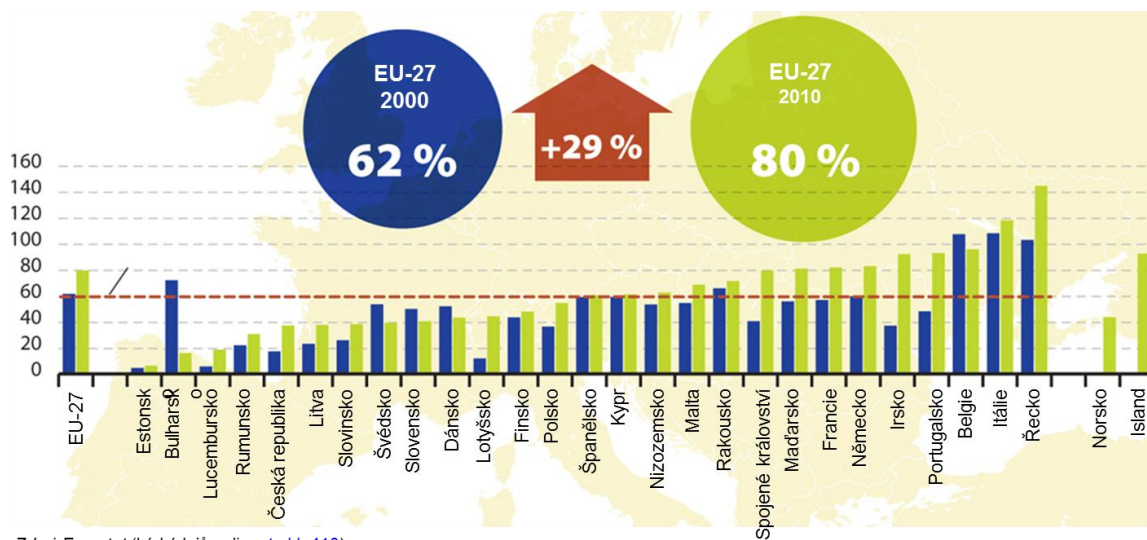
Indebtedness of the world countries, indebtedness of the EU's countries (graphs)

Zadluženost zemí



<http://ekonom.ihned.cz/c1-52473940-svet-miri-do-dluhove-pasti>

public debt % of GDP (in current prices)



JENÍČEK, Vladimír a Jaroslav FOLTÝN. Globální problémy světa: v ekonomických souvislostech. Vyd. 1. V Praze: C.H. Beck, 2010, xix, 324 s. ISBN 978-80-7400-326-4.

PEKOVÁ, Jitka. Veřejné finance: úvod do problematiky. 4., aktualiz. a rozš. vyd. Praha: ASPI, 2008, 579 s. ISBN 978-80-7357-358-4.

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External Deficit . [online]. 2014 [cit. 2014-11-11]. Dostupné z:
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<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20260049~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html>