

# Coping with Disasters: Two Centuries of International Official Lending

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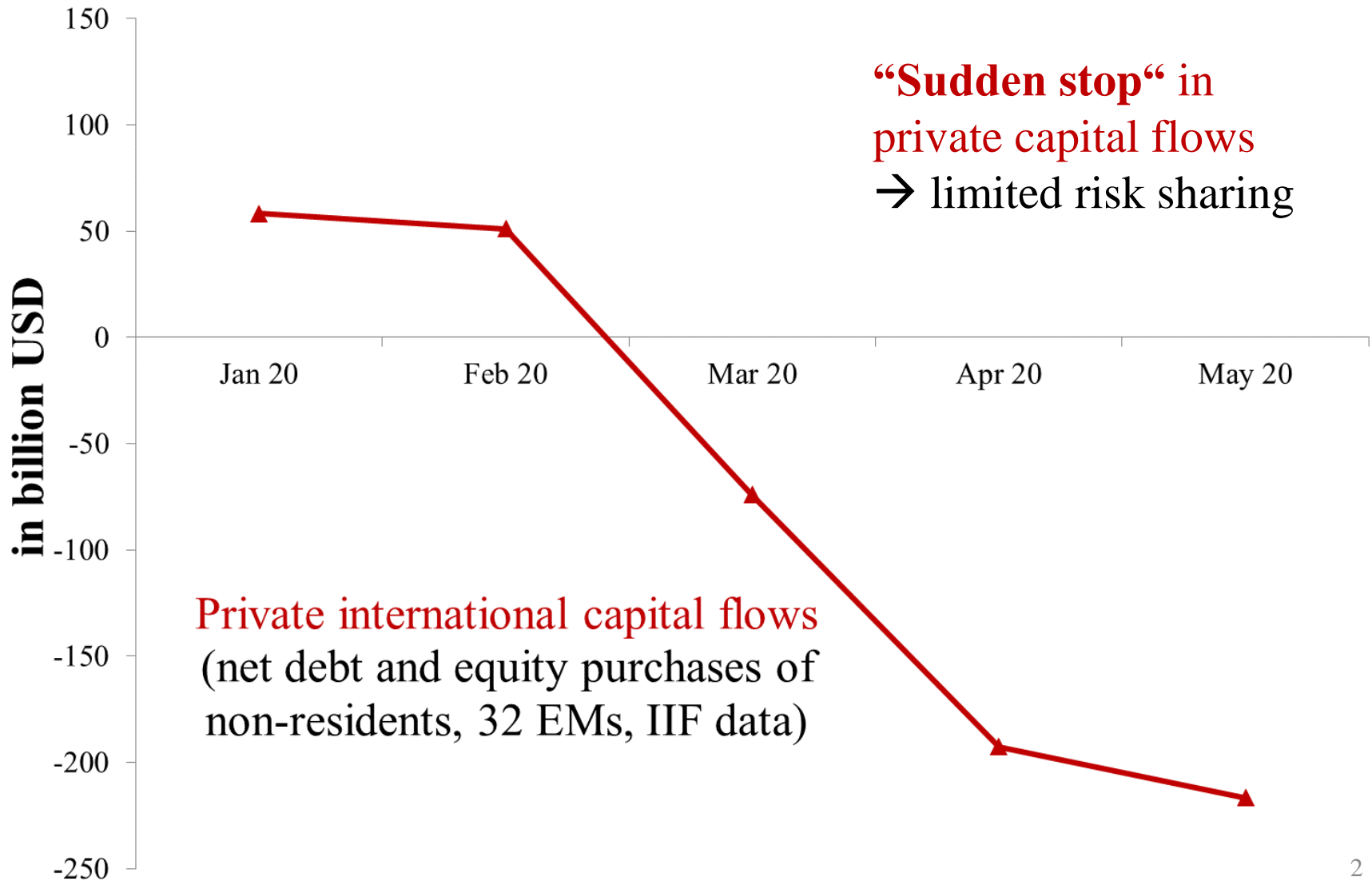
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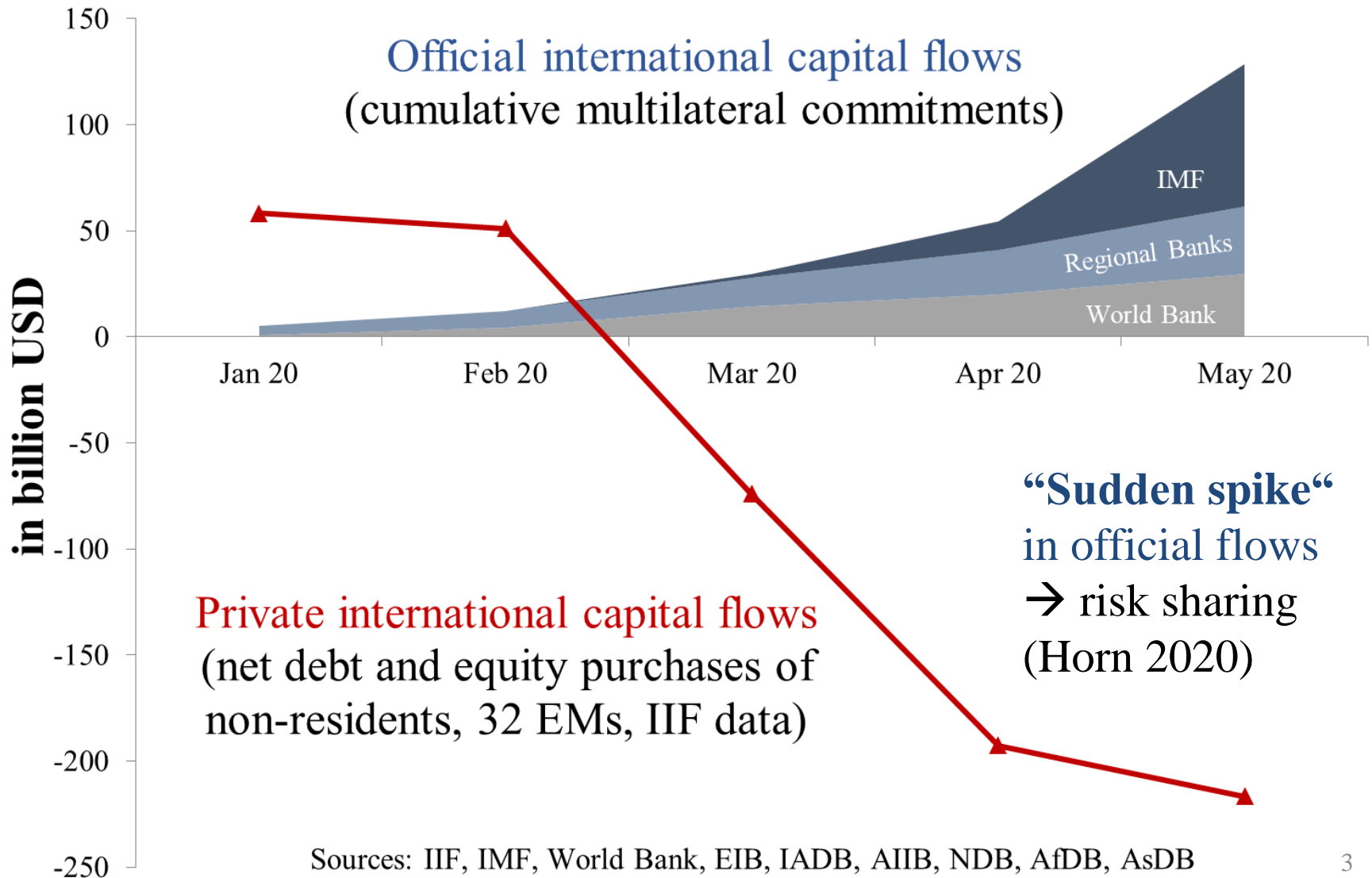
ASSA Annual Meetings 2021

All views are personal

# The Covid-19 disaster: private capital flows



# The Covid-19 disaster: the official response



# The world of official capital flows

- Extensive literature on private cross-border flows (see paper), but little work/data on official flows; narrower focus/time spans

## **Our contribution: encompassing new database and analysis of official international lending, 1790-2015**

- Definition: includes loans, grants and guarantees *by governments, multilateral institutions and central banks across borders*
- Sources: International treaty series (archives), creditor and debtor budget accounts, annual reports, post-1970: World Bank, OECD
- 230,000 grants & loans by 134 governments, 50 intl. institutions, in total 15 trillion real USD (commitments in 2015 terms)

# Examples of sources

## Historical budget accounts

RETURN to an Order of the Honourable House of Commons,  
of the 28th Day of May last, for

“ AN ACCOUNT of the several Sums of MONEY advanced by way  
“ of LOAN or SUBSIDY, to different States, from the Com-  
“ mencement of the present War; together with an Account of the  
“ INTEREST received on such Sums as have been advanced by way  
“ of Loan.”

	£.	s.	d.
There was issued for the Service of Prussia, in the Year 1794 -	1,223,891	10	6
D° - - - - of Sardinia, in 1793, 4, 5, & 6	* 500,000	—	—
D° - - - - of the Emperor, in 1795 & 6	† 6,220,000	—	—
D° - - - - - D° - - in 1797 - -	700,000	—	—
D° - - - - of Portugal - in 1797 - -	247,205	—	—
D° - - - - - D° - - in 1798 - -	120,013	13	—
D° - - - - of Russia - - in 1799 - -	825,000	—	—
D° - - - - of the Emperor, Elector of Bavaria, &c. - - - -	500,000	—	—
D° - - - - of the Emperor - - - -	‡ 1,066,666	13	4
D° - - - - of Russia - - - -	545,494	—	—
D° - - - - of Bavaria - - - -	§ 501,017	6	—
D° - - - - of the Emperor. to ena- 186			

## CIA reports on Sino-Soviet loans

### ECONOMIC INTELLIGENCE REPORT

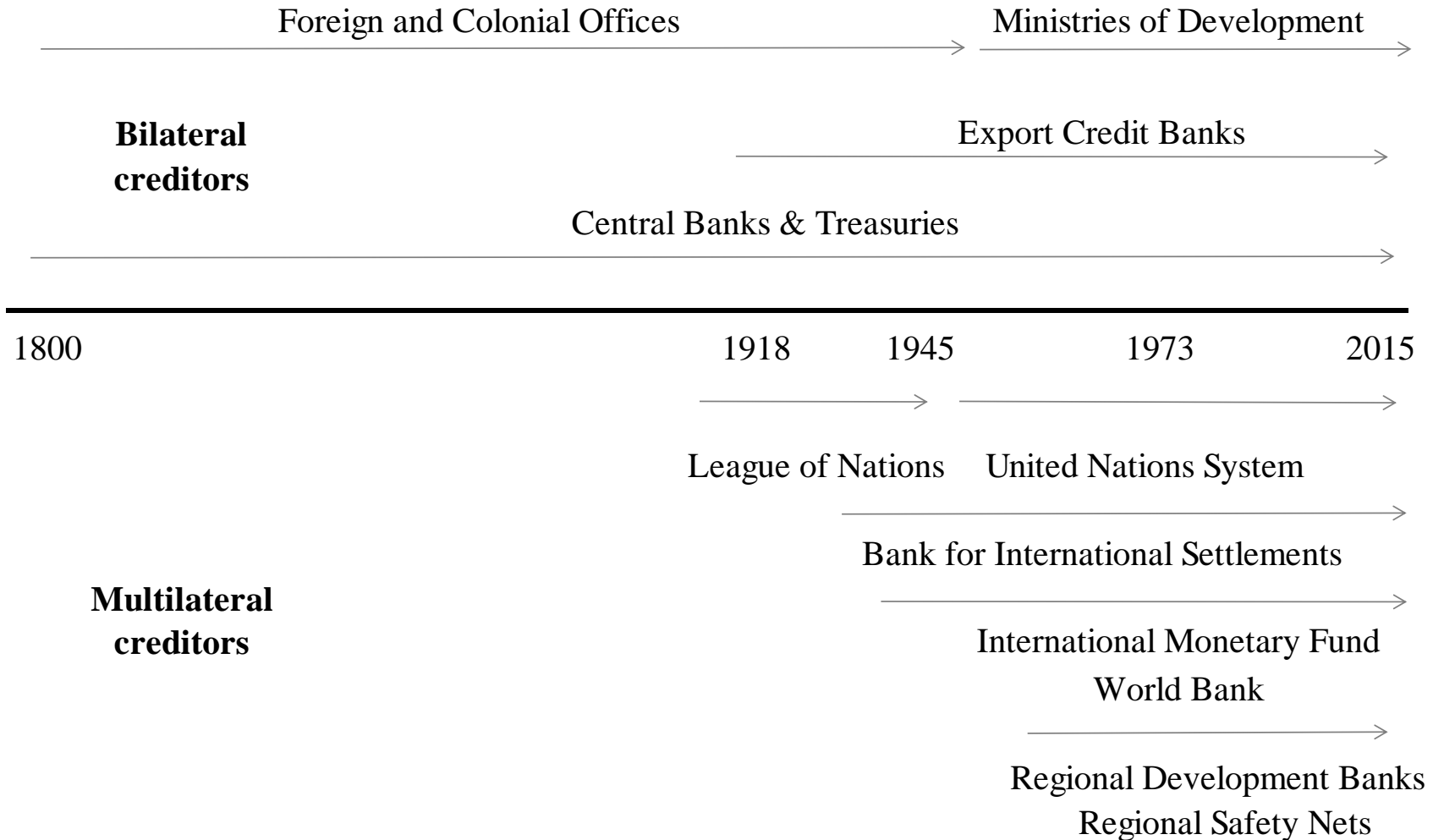
### SOVIET ECONOMIC ASSISTANCE TO THE SINO-SOVIET BLOC 1956-57



CIA/RR 146

8 September 1958

# Who lends? The universe of official creditors



# Disasters 1800-2015: A new database

We collect data on severe disasters from many sources:

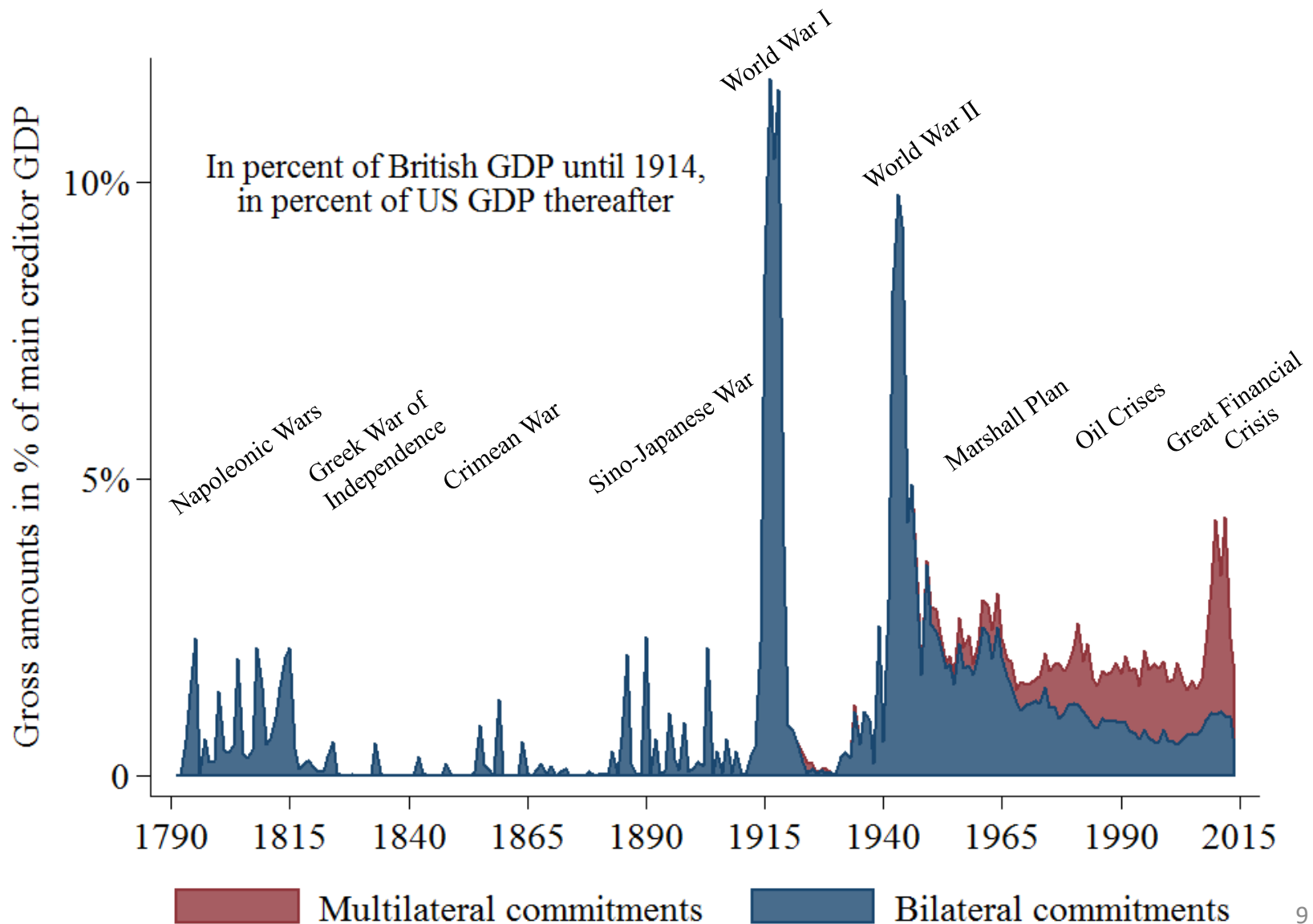
- **Financial crises:** Banking, currency and sovereign debt crises from Reinhart & Rogoff (2009) and Meyer et al. (2019)
- **Wars and military conflict:** Inter- and intra-state wars from the Correlates of War project (Sarkees and Wayman 2010)
- **Natural catastrophes:** Earthquakes, storms, floods, volcano eruptions, famines, epidemics from EM-DAT since 1900. Dozens of historical and country studies for 1800-1900

# Research questions and key take aways

- 1. Scale of official lending: It is large, often larger than private flows**
  - Official lending common long before IMF/World Bank
  - Much more institutionalized today (“globalization of assistance“)



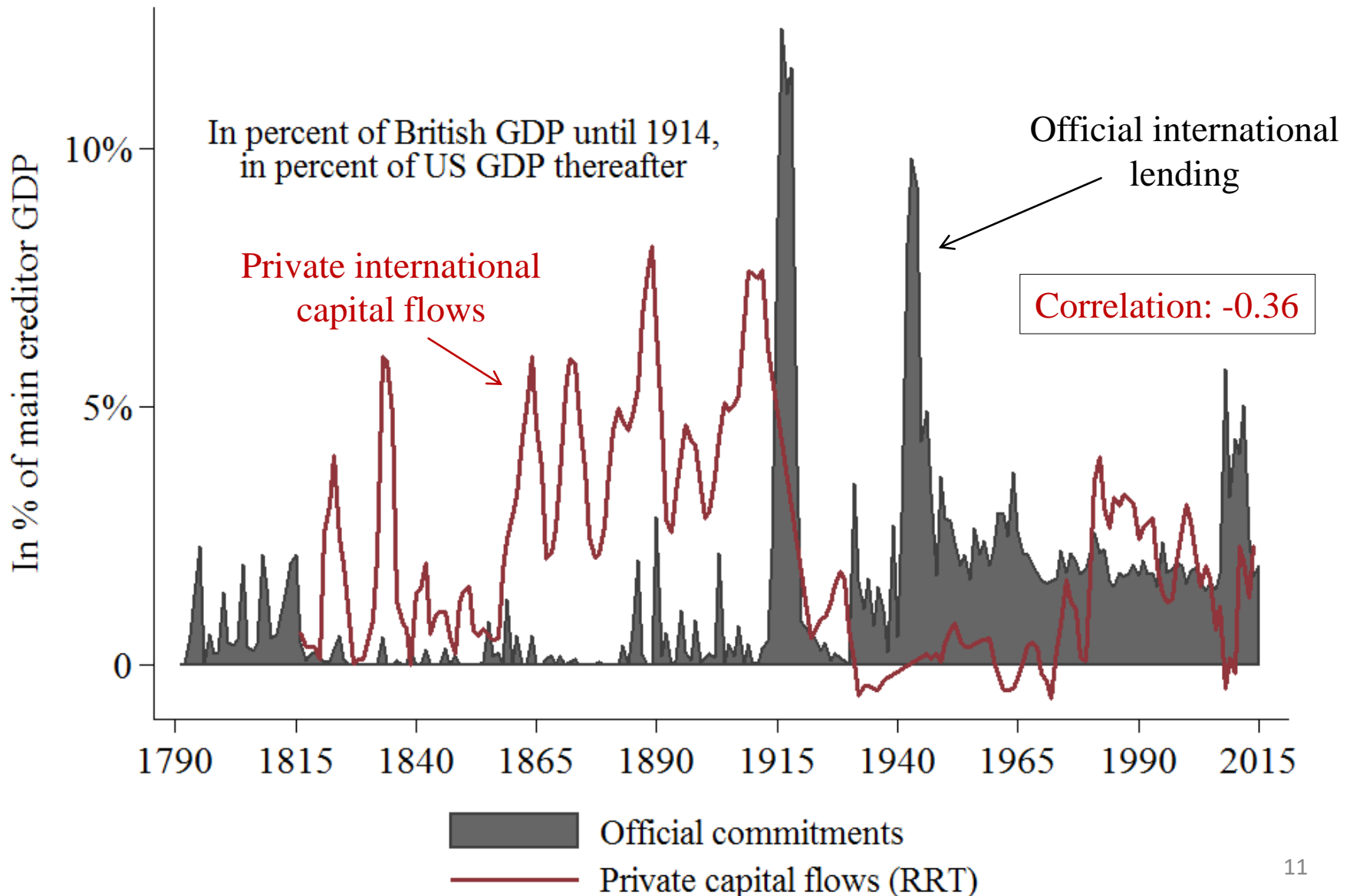
# Official international lending: 1790 - 2015



# Research questions and key take aways

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- 2. Interaction of private and official flows: When private flows retrench, official lending often steps in**
  - Private capital tends to be pro-cyclical, while official flows tend to be counter-cyclical (Covid crisis is a recent example)

# Official vs private capital flows: 200 year view

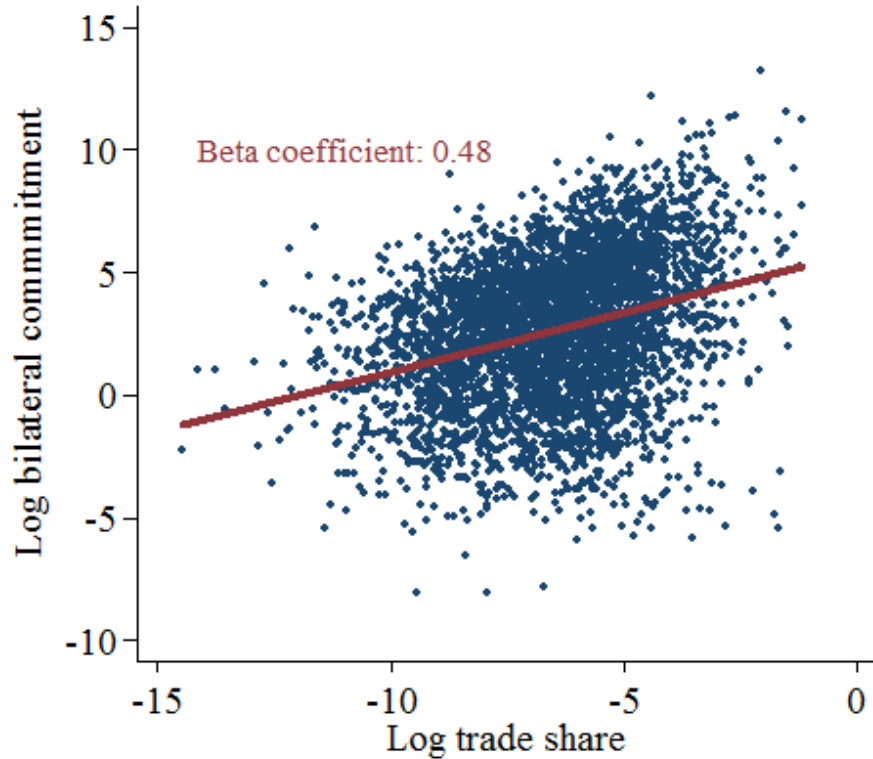


# Research questions and key take aways

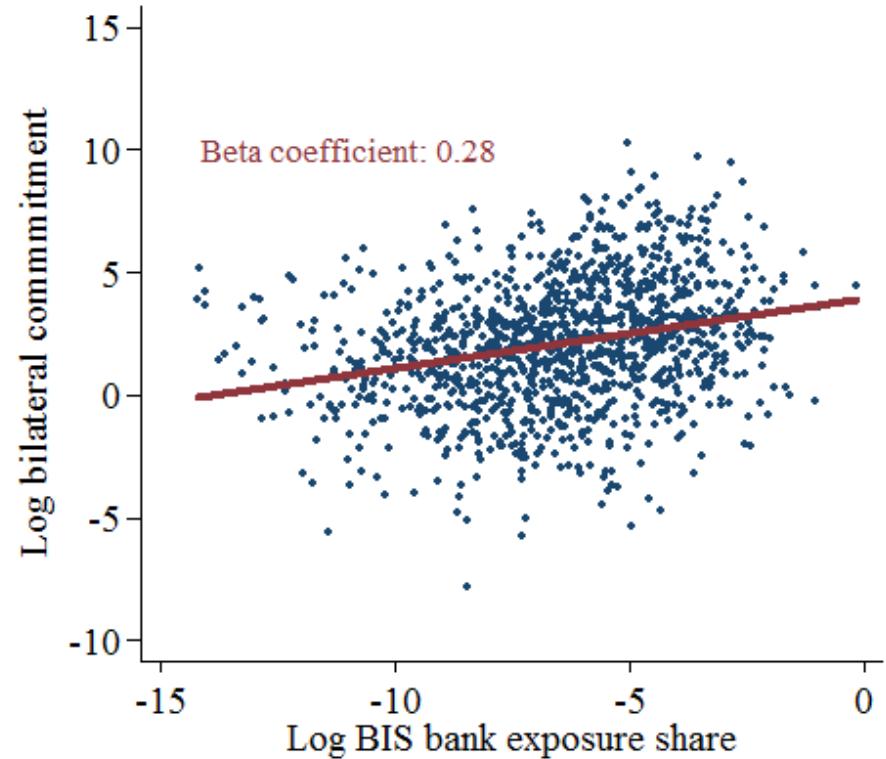
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- 2. Interaction of private and official flows: When private flows retrench, official lending often steps in**
  - Private capital tends to be pro-cyclical, while official flows tend to be counter-cyclical (Covid crisis is a recent example)
- 3. Patterns of official lending: trade and financial integration matters**
  - What drives country rescues and official lending? (Tirole 2015, Gourinchas et al. 2019)
  - Bailouts increase with economic exposure (selfish motive vs. altruism an interpretation issue)

# Trade and bank exposure predicts rescue loans

Panel A: Trade exposure and official lending  
(1830 - 2015)



Panel B: Banking exposure and official lending  
(1984 - 2015)



# The more exposed you are, the more you lend

	Dep. variable: Bilateral rescue lending					
	Full Sample 1830 - 2015	Pre-WWII 1830 - 1945	Bretton Woods 1946 - 1973	Modern Era 1973 - 2015 (trade linkages)	Modern Era 1984 - 2015 (banking linkages)	
	(1)	(2)	(3)	(4)	(5)	
Trade exposure	0.34*** (0.10)	0.99* (0.54)	0.32** (0.15)	0.50*** (0.12)		1% higher trade exposure 0.34% more official loans
Financial exposure					0.26*** (0.06)	
Distance	-0.35** (0.15)	-0.95** (0.48)	-0.63** (0.28)	-0.30* (0.18)	-0.55*** (0.17)	
UN voting			6.60*** (1.45)	2.54** (1.25)	5.44** (2.41)	
(Former) colony	1.12*** (0.29)	1.37*** (0.46)	1.53*** (0.34)	0.69*** (0.26)	1.18*** (0.22)	
Constant	9.67*** (1.26)	7.10 (4.63)	8.25*** (2.65)	0.67 (1.53)	-0.43 (1.92)	
Observations	15429	449	1736	12042	1283	
R-squared	0.825	0.997	0.921	0.730	0.961	
Creditor FE	✓	✓	✓	✓	✓	
Debtor FE	✓	✓	✓	✓	✓	
Episode FE	✓	✓	✓	✓	✓	
Controls	✓	✓	✓	✓	✓	

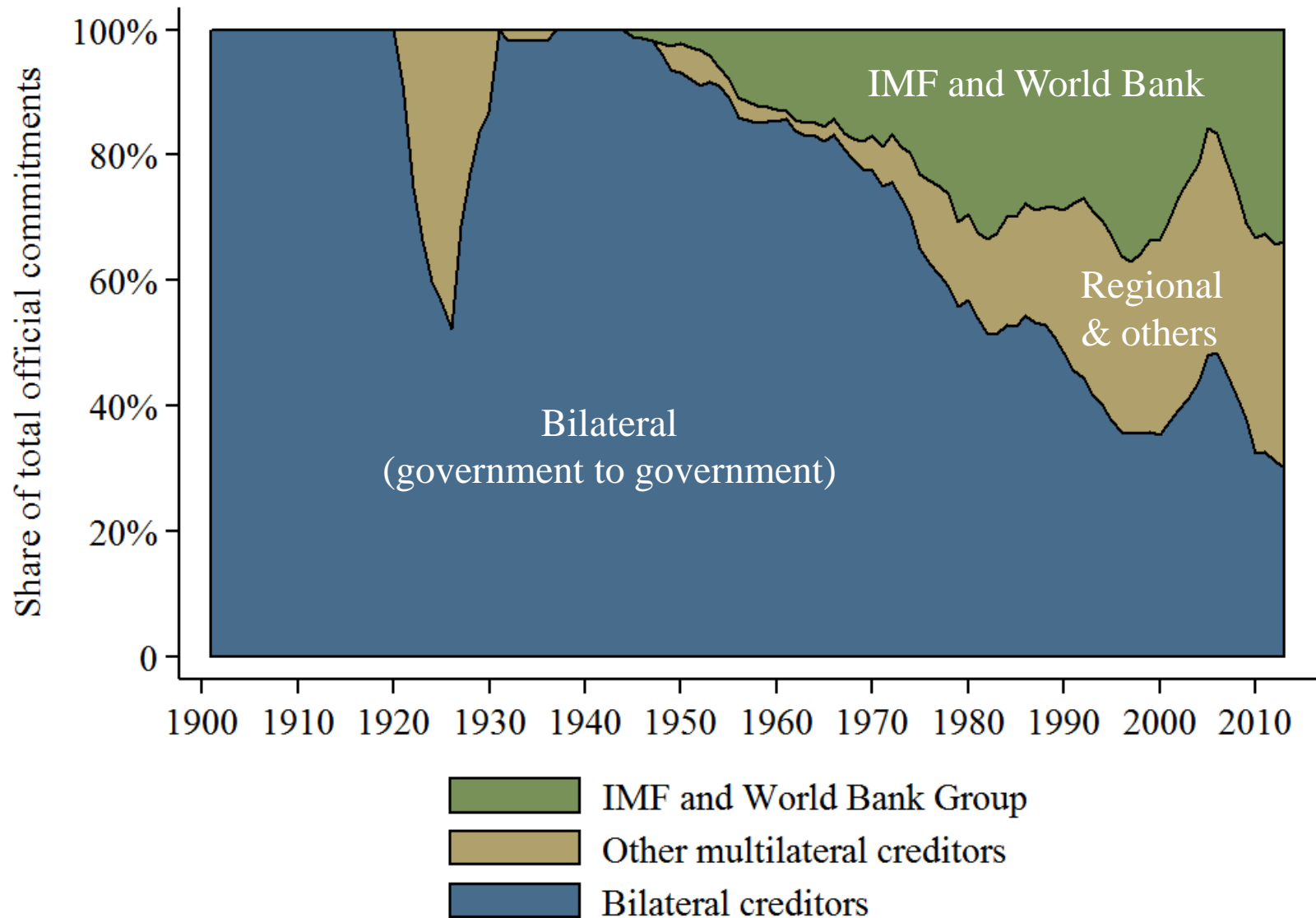
# Conclusion

- Official lending is much larger than previously known and existed long before the foundation of IMF and World Bank
- Official lending rises in times of disaster, when private capital flows retrench
- Rescue loans and bailouts much more prevalent today (from exception to norm); economic integration matters

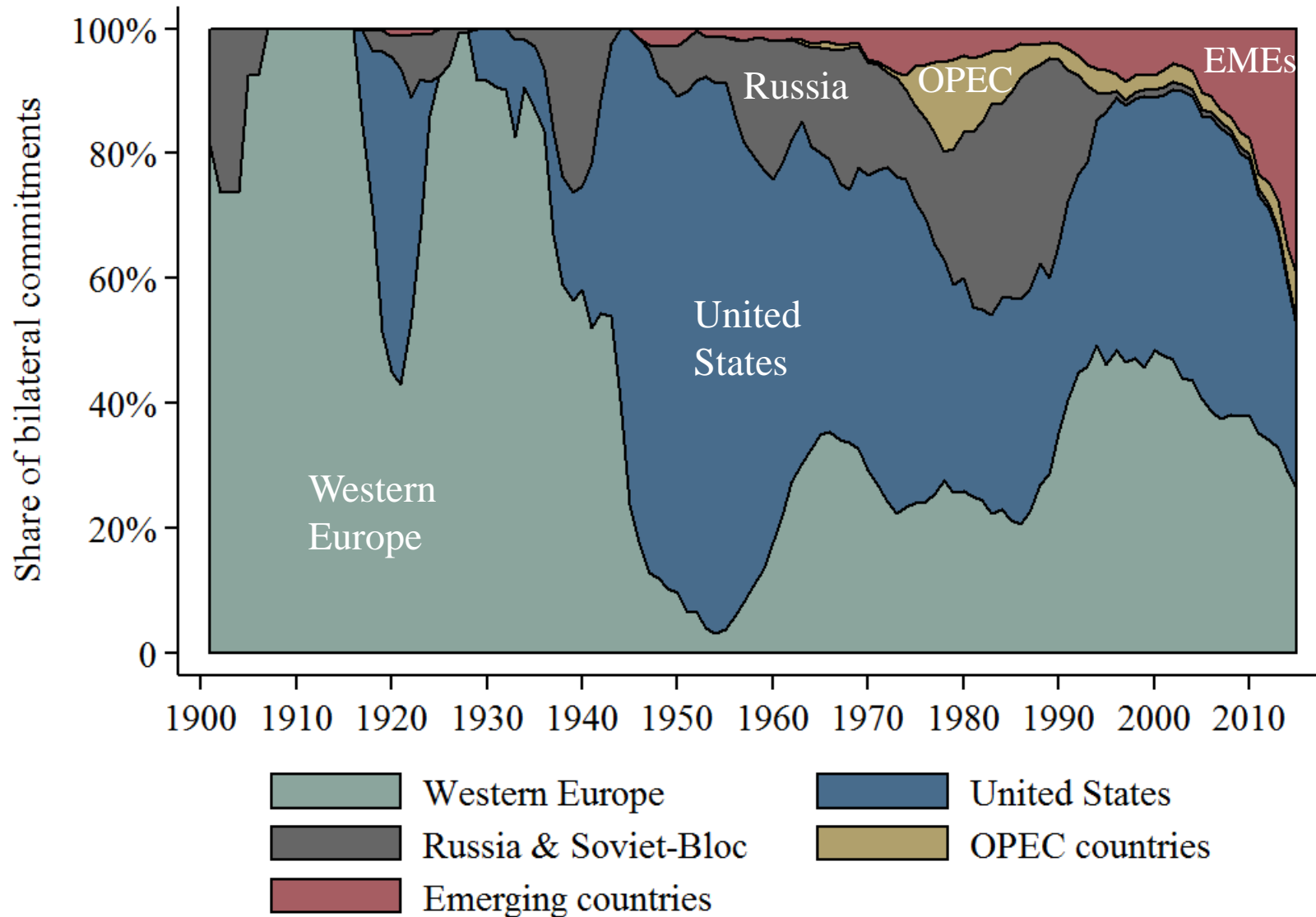
# Appendix



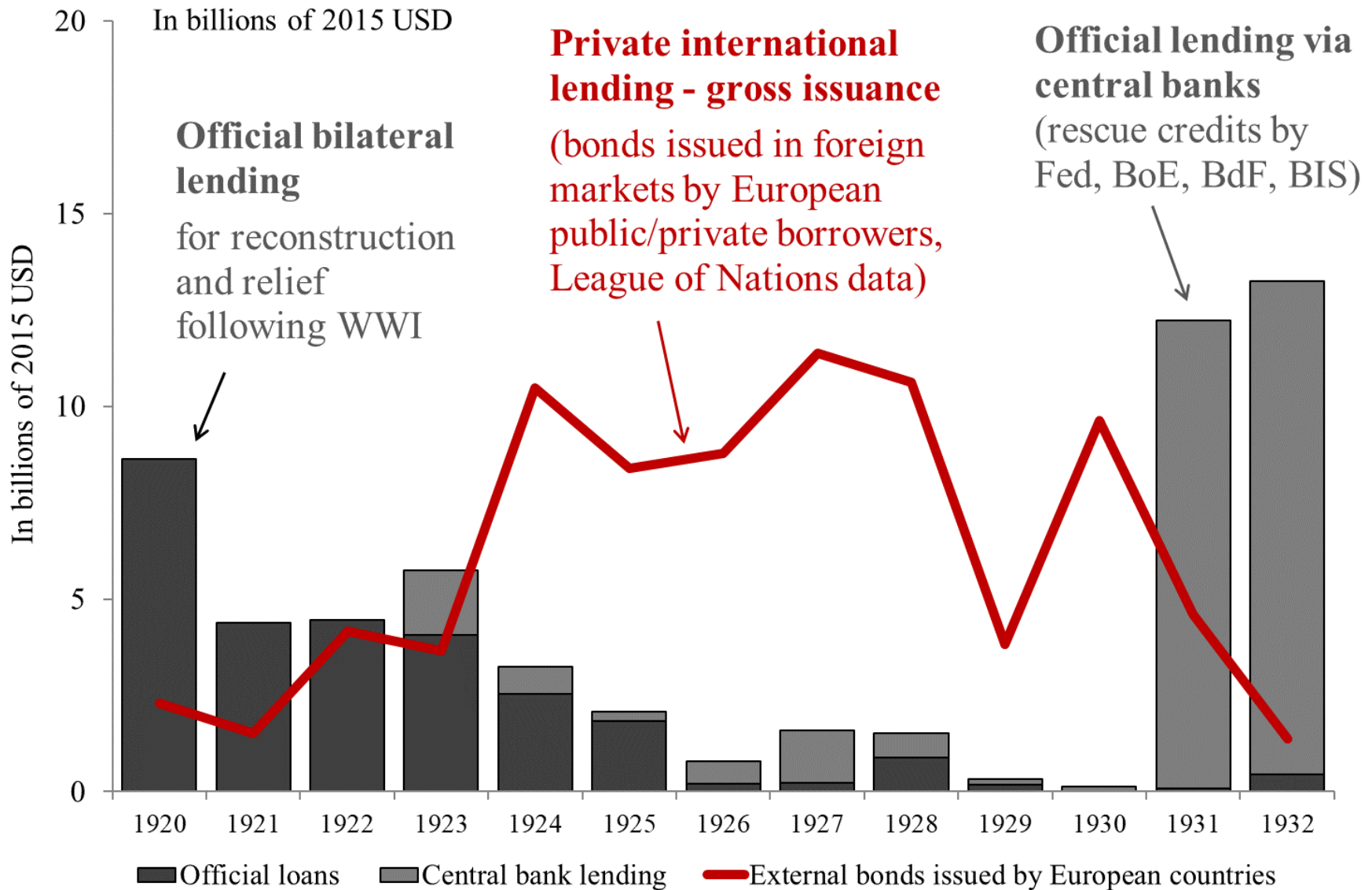
# Official lending is much bigger than IMF & World Bank



# Bilateral creditors 1900 - 2015: Europe then, China now...



# Case study: Interwar and Great Depression

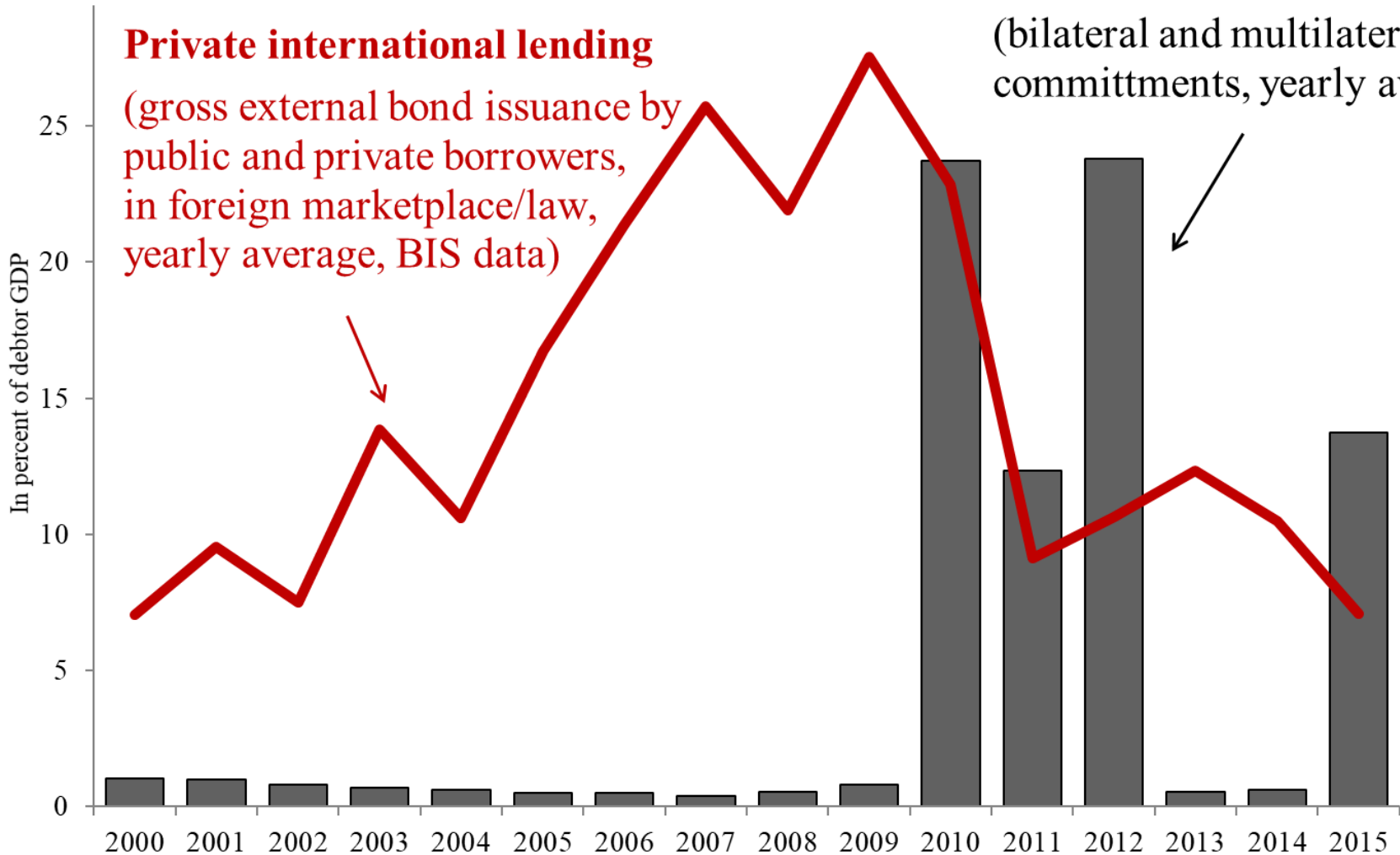


# Case study: Eurozone crisis (2010-2012)

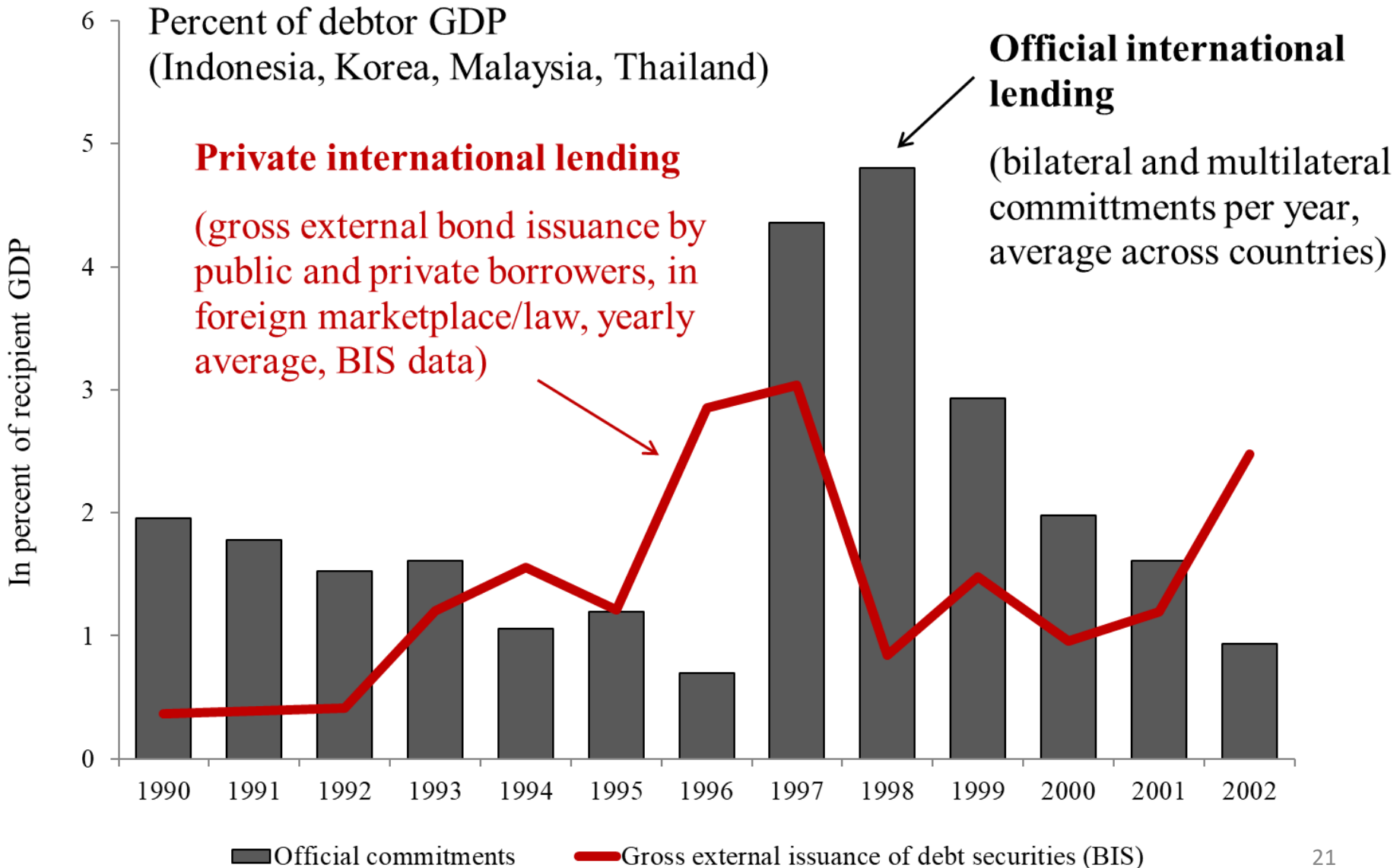
Percent of debtor GDP (Greece, Ireland, Portugal, Spain)

**Official international lending**

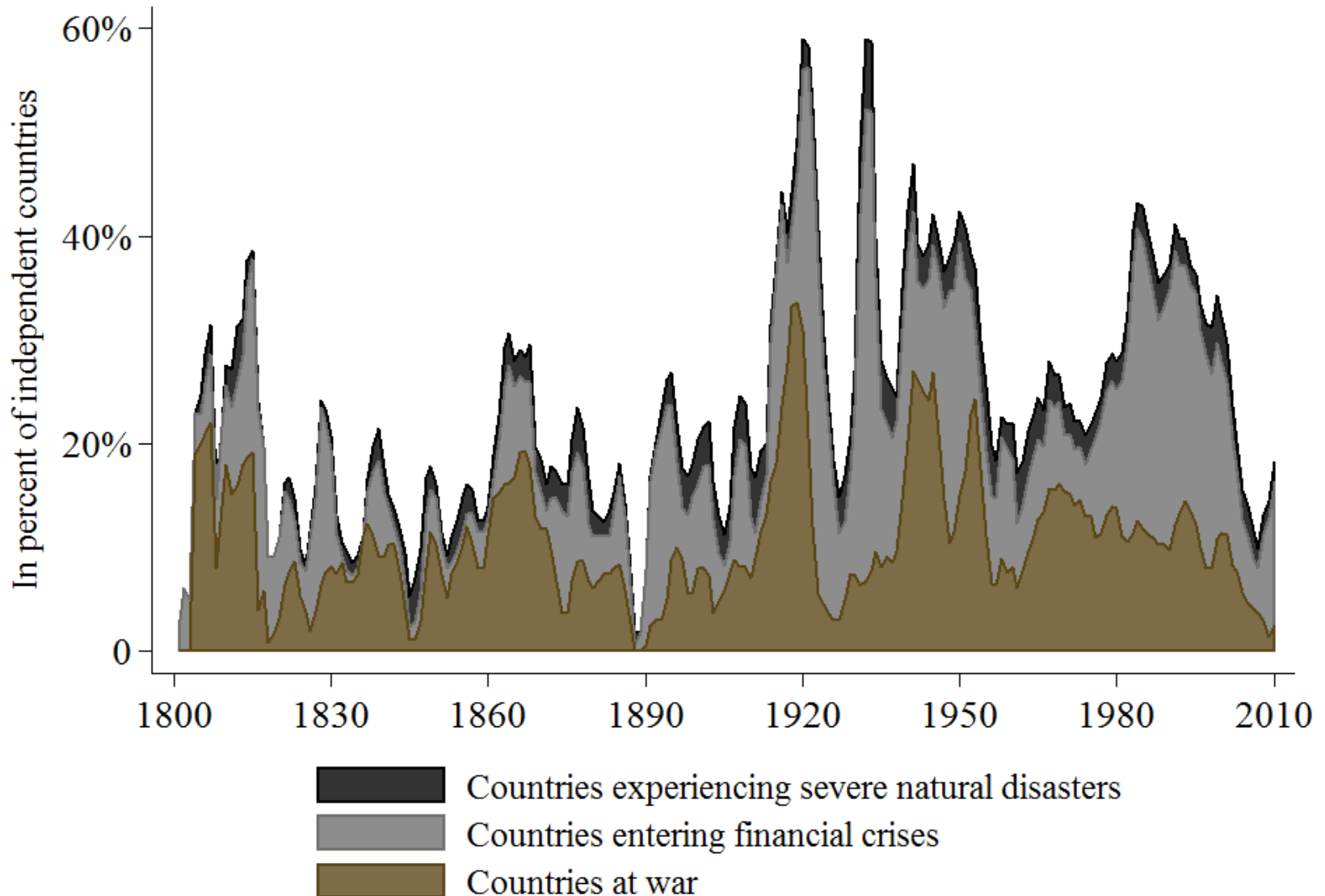
(bilateral and multilateral commitments, yearly average)



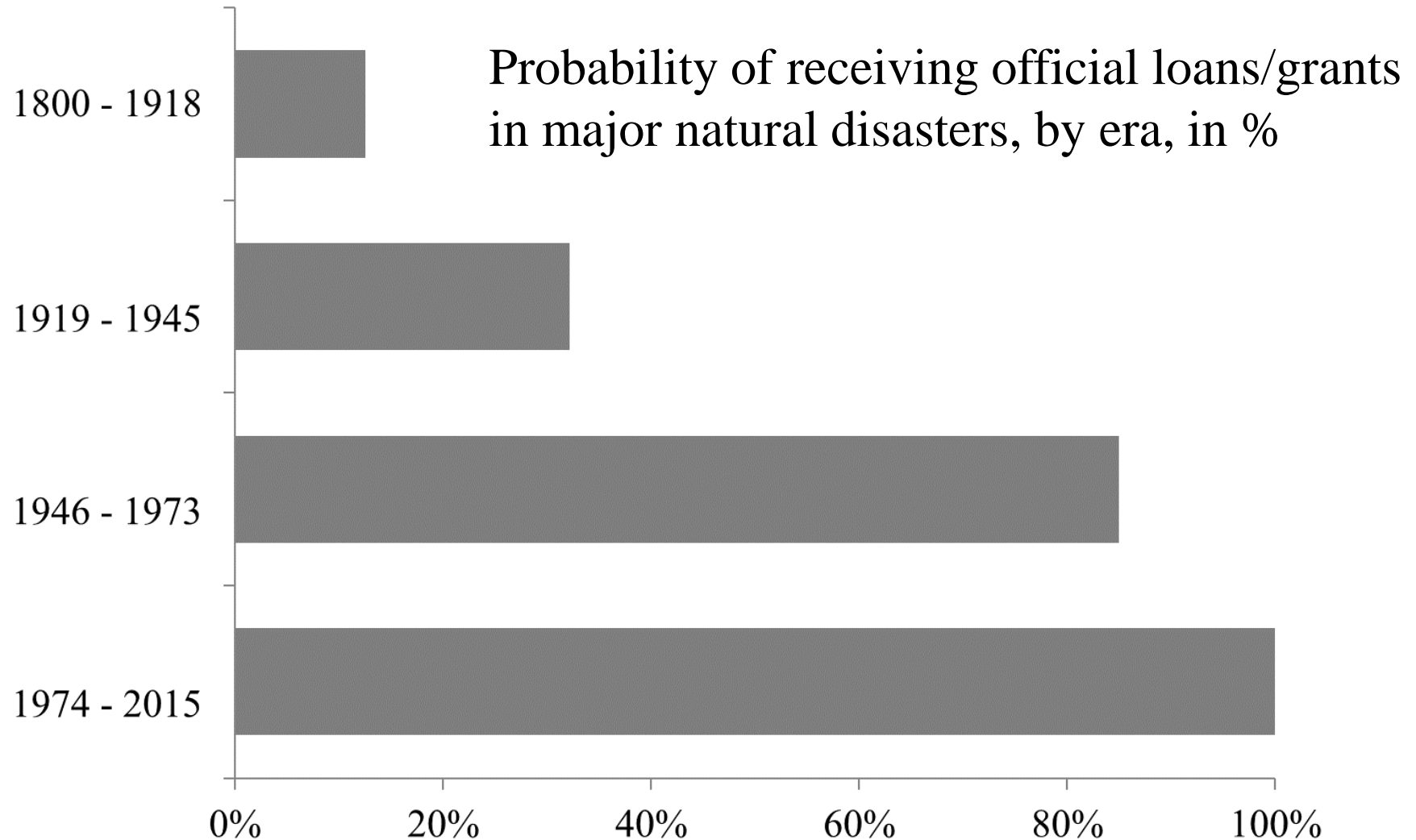
# Case study: Asian crisis (1997)



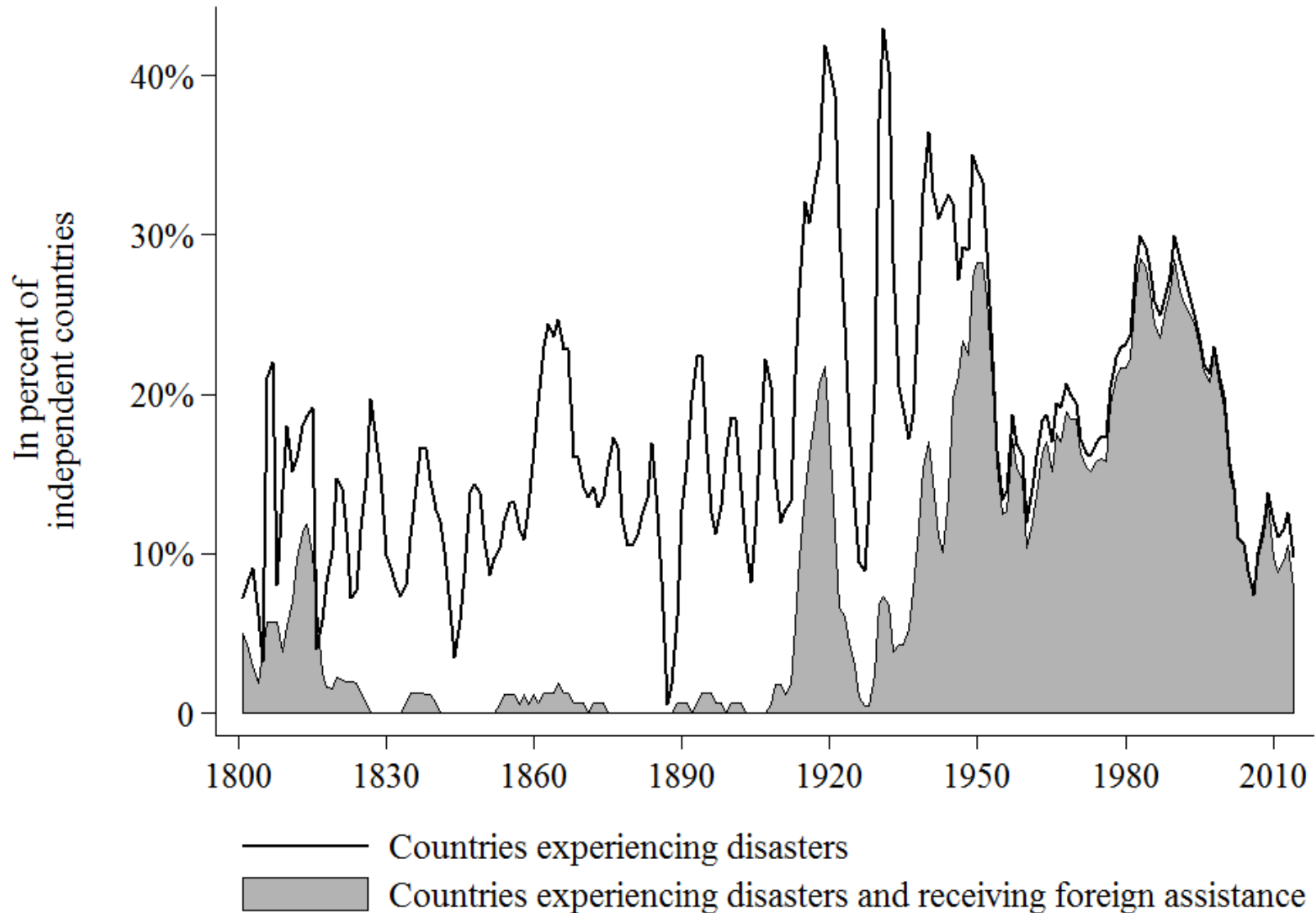
# Financial crises, wars, and natural disasters



# Natural disasters: increasing odds of rescue lending



# Rescue lending has become much more systematic





# Bilateral loans 1790-2015

