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Ecuadoran Government Plans To Capitalize 1.2% Of Foreign Debt In 1987

by John Neagle

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In early December the Ecuadoran government announced plans to capitalize \$100 million or 1.2% of its \$8.4 billion foreign debt in 1987. To the present, five Latin American nations have succeeded in capitalizing a small portion about 1% of their respective foreign debts. Chile has thus far converted 2.8% of its \$21.2 billion debt into equity capital. Next in line is Brazil, with capitalization of 1.62% of its \$102 billion debt. Argentina and Mexico follow with 0.9% and 0.24%, respectively. Ecuadoran financial authorities have announced that next year's debt conversion will occur under certain conditions. First, the Central Bank plans to release national currency to holders of debt equity instruments in stages, rather than on the basis of a lump sum. Next, new financial resources will be directed at sectors most affected by the economic crisis. Thus, enterprises considered solvent will be excluded from receiving new investment capital under the debt conversion scheme. Finally, in an effort to minimize the "monetization" of the capitalized debt, buyers of debt instruments will be offered stock ownership in Ecuadoran firms as an alternative to receiving large sums of local currency. This procedure is considered necessary in avoiding large-scale emissions of new currency into the national economy. In most instances, debt conversion is initiated when a foreign investor purchases debt instruments from creditor banks at a substantial discount. In the Ecuadoran case, the discount could be up to 35%. The investor then redeems the debt instrument via the central bank, receiving its nominal value in local currency. (Inter Press Service, 12/04/86)

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