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SM/83/201

CONTAINS CONFIDENTIAL
INFORMATION

September 15, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Report on Ecuador's External Debt Renegotiation

Attached for the information of the Executive Directors is a report on the meeting, held in Paris on July 27 and 28, 1983, on Ecuador's request for a rescheduling of its external debt service obligations.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Report on Ecuador's External Debt Renegotiation

(In consultation with the Exchange and Trade Relations
Department and the Legal Department)

Approved by E. Wiesner and W. A. Beveridge

September 14, 1983

Representatives of Ecuador and 13 creditor countries ^{1/} met in Paris under the framework of the Paris Club on July 27 and 28, 1983 to discuss Ecuador's request for a rescheduling of its external debt service obligations. Members of the Fund staff ^{2/} and observers from Austria, Finland, the Netherlands, and Sweden as well as the World Bank, the Inter-American Development Bank, the Secretariat of the United Nations Conference on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development (OECD) also attended the meeting, which was chaired by Mr. M. Philippe Jurgensen, Deputy Director of the French Treasury.

The Ecuadoran delegation outlined the economic and financial difficulties faced by its country and expressed the strong determination of its Government to reduce the economic and financial imbalances and to comply with the targets of the program underlying the stand-by arrangement with the Fund. The Fund representatives, at the request of the Chairman, described the economic situation of Ecuador and the major elements of the adjustment program undertaken by the Government of Ecuador and supported by the stand-by arrangement with the Fund (EBS/83/91), approved, in principle, by the Executive Board on June 1, 1983. The arrangement became effective on July 25, 1983 after satisfactory arrangements were made between the Government of Ecuador and a group of commercial banks on the rescheduling of part of Ecuador's public and private external debt service payments and on the granting of a new medium-term loan to Ecuador's public sector. The representatives of the governments of the participating creditor countries took note of the measures of adjustment set forth in the economic and financial program undertaken by the Government of Ecuador and stressed the *importance they attach to the continuing and full implementation of this program*, in particular, the revitalization of the productive sector of the economy and the improvement of the public finances and foreign exchange management.

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^{1/} Belgium, Canada, Denmark, France, the Federal Republic of Germany, Israel, Italy, Japan, Norway, Spain, Switzerland, the United Kingdom, and the United States of America.

^{2/} The Fund staff representatives were Messrs. Caiola (WHD), Hino (ETR), and Taplin (Office in Europe).

In the approved minutes of July 28, 1983, the representatives of the participating creditor countries agreed to recommend to their governments or appropriate institutions that they provide debt relief to Ecuador, through rescheduling or refinancing. The agreement applies both to commercial credits, guaranteed or insured by the governments of participating creditor countries or their appropriate institutions, and to direct loans from such governments and institutions. The rescheduling or refinancing applies to credits or loans having an original maturity of more than one year and contracted prior to January 1, 1983. The creditors agreed on a consolidation period from June 1, 1983 to May 31, 1984. Eighty-five percent of the principal and interest payments falling due during the period will be consolidated and repaid in ten equal semi-annual installments starting May 31, 1987 at the end of a grace period of three years. The remaining 15 percent of principal and interest will be paid as follows: 10 percent according to the original schedule and the remaining 5 percent on December 31, 1984. The Government of Ecuador agreed to pay all debt service arrears on debt owed to or guaranteed by the governments of the participating creditor countries or their appropriate institutions and not covered by the rescheduling agreement as soon as possible and, in any case, not later than November 30, 1983. The provisions of the agreement do not apply to countries to which total principal and interest falling due in the consolidation period is less than SDR 0.5 million.

The details of the arrangement for the rescheduling or refinancing, including the rate and the conditions of interest to be paid, will be determined bilaterally between the Government of Ecuador and the government or appropriate institution of each participating creditor country. These bilateral agreements should be concluded with the least delay and, in any case, before March 31, 1984. The provisions of the present agreement will apply provided that the Government of Ecuador continues to have an arrangement with the Fund in the upper credit tranches.

The Ecuadoran delegation agreed to seek to secure from external creditors, including banks and suppliers, rescheduling or refinancing arrangements on terms comparable to those set forth in the present arrangement, avoiding inequality among different categories of creditors. The Government of Ecuador agreed to accord to each of the participating creditor countries a treatment not less favorable than that which it may accord to any other creditor country for the consolidation of debts of a comparable term. The participating creditor countries agreed in principle to consider the matter of Ecuador's debt service payments falling due after May 31, 1984 provided that Ecuador continues to have an arrangement with the Fund involving use of Fund resources subject to upper credit tranche conditionality and that Ecuador reaches arrangements with banks and other creditors meeting the conditions described above.

The agreed terms of the rescheduling are consistent with the assumptions made in the stabilization program supported by the standby arrangement approved on June 1, 1983.