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Policy Development and Review Department

Historical Experience with Bond Financing to Developing Countries

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Abstract

The paper reviews the historical experience of developing countries with bond issues in international markets in order to put the recent wave of bond financing by these countries in some perspective. It examines developments in the early part of this century and during the mid-1970s and early 1980s. The sources and the role played by bond financing during these periods are discussed. The payments problems associated with these bonds that emerged during the 1930s and during the latter half of the 1980s and the ways in which these problems were resolved are also examined.

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Summary

Over the past five years, bonds placed by developing countries in international markets have accounted for a substantial portion of the funds raised by these countries. Historically, bonds were the predominant means by which countries raised foreign financing. Only during the 1970s, when relatively small amounts of bonds were issued, did bank lending play a predominant role. In order to put recent developments in perspective, the paper reviews experiences with bond financing in the early part of this century and in the 1970s and early 1980s.

The paper examines the sources and role played by bonds in providing financing to developing countries in the early part of this century. Also examined are the payments difficulties encountered during the 1930s, and the steps taken to resolve them. During that decade, a number of countries partially or totally defaulted on their foreign bonds. These defaults were generally settled through protracted formal negotiations between the debtor countries and representatives of the bondholders. In most cases it took more than five years, and in a few instances more than ten years, to reach a debt-restructuring agreement. As a result, most of the countries that defaulted on bond obligations during the 1930s took almost forty years to regain substantial access to international capital markets; when they did re-establish access in the 1970s, these countries generally had to pay higher rates than other developing countries.

During the 1970s and early 1980s, developing countries issued only a limited number of bonds; by the mid-1980s, bond debt amounted to only \$17 billion. During the ensuing debt crisis, the incidence of payments difficulties on these bonds was small relative to other forms of debt, perhaps pointing to some preferential treatment afforded by developing countries to bonds. The paper describes a distinctive feature of the restructurings that did take place: in lieu of extended, formal negotiations between debtors and bondholders or their representatives, debtor countries made unilateral offers based on informal contacts with creditors. Exchanges of new bonds for defaulted ones were made at par, and interest rates on the new instruments were generally higher than on the original bonds, although maturities were longer.

The paper finds that, after these defaults, new access to international markets has been quite limited for all of the countries that restructured bonds in the 1980s and 1990s. Where countries have managed to raise new funds, the amounts involved have been small, the interest rate premiums high, and the maturities short.

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Historical Experience with Bond Financing to Developing Countries

As developing countries have re-established access to international capital markets, bond placements in the five-year period since 1988 have accounted for a substantial portion of the funds raised. Historically, bonds were the predominant means by which countries raised financing internationally. Only during the 1970s did bank lending play a dominant role and external bonds could become again a significant source of financing for developing countries. In order to put recent developments in private market financing for developing countries in some perspective, the experiences during the last major wave of bond financing is reviewed. This review draws on the extensive literature that analyzes the experience with bond financing in the early 1900s (Borchard (1983), Fishlow (1985), Eichengreen (1991), Eichengreen and Lindert (1989)). In addition, the paper looks at some of the bond financing that took place during the 1970s and early 1980s.

1. Experience in the early 1900s

a. Bond financing flows

A wide range of countries engaged in foreign borrowing through the late 1930s. The regions with the largest gross international obligations in 1938 were North America and Asia; Eastern Europe was also an external debtor mainly on account of sovereign obligations. 1/ The United States, however, after World War I became a net creditor, and during the period after 1920 and before the U.S. Stock Market crash in 1929, it was a major source of funds, especially for borrowers in Latin America. In this period, net U.S. purchases of foreign securities amounted to nearly \$4.5 billion (equivalent to roughly 1/2 percent of GNP). 2/ Latin American obligations accounted for up to one quarter of new bond issues floated in the United States by foreign entities in the 1920s. The principal borrowers were national governments of major countries, including Argentina, Brazil, and Chile. Between 1920 and 1929, Latin American entities issued \$2.2 billion in bonds world-wide, of which \$1.3 billion was placed by sovereigns. 3/

Countries issued bonds abroad to finance railroad and road building, the cost of wars or reconstruction, or simply to support their international reserves in the face of a confidence crisis during domestic upheavals (e.g., Mexico 1911). Investment houses often guaranteed the solvency of the issuer, and countries at times also enhanced the bonds through various types of collateral such as revenues from railroads, tobacco, or other industries,

1/ Fishlow (1985).

2/ Balance of Payments, Office of Business Economics U.S. Department of Commerce (1963). During 1921-28, gross purchases of foreign securities were \$6.3 billion (3/4 percent of GDP).

3/ See Jorgensen and Sachs (1989).

and assets like gold or other commodities (e.g., a 1922 British loan to Brazil was backed by coffee). In some cases bondholders assumed the administration of pledged revenues, as was the case in Nicaragua where creditors assumed the management of the country's steamship and railroad lines under the loan contract of March 1912. 1/

Developing country bonds offered higher returns than bonds issued in the investors' home country, with maturities often in the 20-30 year range-- similar to maturities on domestic bonds. Latin America's dollar bonds issued in the 1920s, for example, had on average yields generally above those of industrial country public entities and corporate bonds. The average yield at the time of issue (during the 1920s) on national and nationally guaranteed dollar bonds ranged from 6.2 percent (Argentina) to 7.6 percent (Bolivia). By comparison, the Canadian provinces of Alberta and Vancouver issued 40-year bonds in 1927 and 1928, yielding 4 1/2 percent. Moreover, the average yield for five major Latin American countries taken together fluctuated from 8 to 99 percent basis points above that on U.S. low-grade (Baa) corporate bonds, with the exception of Argentine bonds in 1923-24 which yielded less than the Baa rate. 2/

b. Payments difficulties in the 1930s

A steady deterioration in the terms of trade of primary commodity exports during the 1920s and a contraction of world trade in the later part of the decade and into the 1930s combined with the sharp rise in foreign borrowing during the 1920s to leave a number of developing countries vulnerable to external shocks. Thus, the world-wide depression of the 1930s caused severe financial problems for these countries and resulted in a number of countries partially or totally defaulting on their foreign bonds.

These defaults were generally settled through negotiations between the debtor countries and representatives of the bondholders. 3/ To deal with debt servicing problems, the British Corporation of Foreign Bondholders (BCFB) had been established in 1868. In 1933, a similar organization, the Foreign Bondholders Protective Council (FBPC), was set up in the United States with support from the U.S. Government. These formal organizations replaced ad hoc committees which tended to compete for support of the various bondholder groups by making exorbitant promises to bondholders,

1/ See Borchard (1983).

2/ The returns on Latin American bonds are those reported by Jorgensen and Sachs (1989) based on five selected countries.

3/ In general, legal action against defaulting debtor countries had to be taken in the debtor country, which had the option of determining whether it would allow itself to be sued. Even when the debtor country could be sued in its own courts by consent, legal recourse could prove ineffective because the bond issue was generally created by legislation (an act of sovereignty) and could be suspended, modified, or repudiated by a similar method, which would be binding on the national courts (Borchard 1983).

protected exclusively their own interests, and inflated their expenses. Debtor countries, however, did not always recognize the formal British and American committees as representing the interests of all bondholders, and at times, they did not respond to these committees' requests for information, since these requests were viewed as potentially infringing on national sovereignty. 1/

After assessing a debtor country's capacity to pay, the bondholders' committees would negotiate a rescheduling plan with the country. This plan would be published with a recommendation for approval by all bondholders. Settlements could be temporary or permanent, based on judgments regarding the nature of the shock that affected the debtor at the time of its default. Some settlements included contingency arrangements to reflect an unexpected improvement or deterioration in a debtor's economic situation. 2/ Debtors preferred to represent that their financial impairment was permanent, but initially bondholders' committees tended to resist permanent debt adjustments, instead attempting to arrange short-term settlements subject to revision as they fell due for renewal. 3/ In time, permanent settlements became predominant. Less than half of the debt relief plans recommended by the FBPC in the period 1934-39 were permanent. In contrast, of the 19 debt relief plans recommended in the period 1940-67, only two were temporary. The offer of a permanent settlement by the bondholders' committee was used as a means of extracting a more precise estimate of the debtor's capacity to pay. Also, permanent settlements were granted when the new instruments issued in exchange for old debt were clearly senior to other issues or carried other enhancements. For example, Buenos Aires Province was able to obtain a permanent settlement in 1935 by offering as security for the new bonds issued revenues collected by the Federal Government and paid directly to the bonds' paying agents in New York.

The acceptance by bondholders of a settlement was signalled by cashing the first coupon under a rescheduling plan or by exchanging an old certificate for a new one. 4/ Debtor countries would sometimes set a time limit for the acceptance of the rescheduling agreement, and debt service payments made under it were considered to constitute full payment. Bondholders could hold out for a better deal, but the debtor governments involved had little incentive to continue negotiations once a deal had been reached with the relevant bondholders' committee and their good standing had

1/ Borchard (1983).

2/ Borchard (1983), cites a mid 1930's agreement between Great Britain and Greece, that contains such clauses.

3/ In the early stages of the debt crisis of the 1980s, commercial bank reschedulings of syndicated loans followed a similar pattern.

4/ The U.S. Government sometimes intervened directly in the negotiations, although not always successfully. According to Borchard (1983), in 1941 and 1942 the State Department approved a Colombian and a Dominican Republic proposal, but the FBPC disapproved the plans because they were judged not to be fair enough to bondholders.

been restored. 1/ On occasion, debtors made unilateral offers to bondholders which were not based on the completion of negotiations, with marginal success. In 1935, Chile established a unilateral plan to service its external bonds based on the principle that revenues from the nitrate and copper industry would be assigned in equal parts to the servicing and retirement of bonds that had lapsed into default.

Negotiations to settle bond defaults were protracted, with it generally taking more than five years to reach a rescheduling agreement. In the case of Chile, it took 17 years from the default on its bonds in 1931 to reach a final settlement with creditors (Table 1). Agreement was finally reached under pressure from the World Bank, which would not disburse new loans to a country in formal default. 2/ It took Brazil about ten years to complete the restructuring of its bonds after declaring suspension of debt payments in November 1937. Several countries bought back some of the bonds in the secondary market at a discount while they were in the process of negotiating a final settlement (e.g., Chile in 1934-35), but this practice was strongly criticized by the bondholders' committees.

Bond rescheduling agreements generally included a negative pledge clause which automatically extended to the rescheduled debt the advantages granted by the debtor to any of its outstanding external obligations. Some agreements granted preferences on the timing of interest and principal payments to the rescheduled bonds, the assignment of new security (or collateral), the allocation of certain revenues for servicing them, and the transfer of the service abroad by preferred assignment of foreign exchange.

The most common methods used in providing debt relief generally consisted of replacing defaulted bonds by new bonds carrying longer repayment periods, lower interest rates, or lower principal. 3/ New money was disbursed in some cases by allowing the debtor to float new bonds as part of the deal. In some instances, debtor countries merged existing

1/ Eichengreen (1991).

2/ According to the FBPC Report, some bondholders that accepted Chile's 1935 unilateral plan received interest payments of 1-1 1/2 percent of face value over several years. However, in 1940, the Chilean Government began to divert to other uses a large part of the funds that should have been used for amortization under the unilateral offer to bondholders. Under the final offer made by Chile and agreed with the FBPC in 1948, those bondholders who had not agreed to the 1935 plan were to receive in payment of back interest the amounts that had been paid to participating bondholders under the plan. In addition, those who had assented late to the Government's unilateral offer--and under the terms of the offer had not been entitled to payments made before the year of acceptance--were to receive payments made in earlier years.

3/ The agreement reached by Peru in 1943 included provisions to stretch debt maturity from 1958-60 to 1997, whereas the maturities of Brazil's debt were stretched out by 40 to 60 years.

obligations into a single new debt instrument, to arrive at a uniform interest rate and facilitate administration. Liquidity-constrained countries used this method to reorganize and stabilize their financial situation, even if they had not actually lapsed into default. 1/ Although bondholders regarded the reduction of principal and interest as the most radical method, in some cases this was justified because the face value of debt was judged to be obviously in excess of the debtor's capacity to repay. 2/ As part of the debt settlements, interest arrears were usually partially or entirely canceled. 3/ Debtors were generally unable to make up-front cash payments, except in instances where new money was provided. In many cases, a reversion clause was included in the agreements which specified that failure of the debtor to comply with the new terms would lead to an immediate reversion to the terms of the original contract.

c. Access following restructurings

According to most accounts, defaults in the 1930s appear to have carried a high price for developing countries in terms of subsequent market access. Following payments suspensions during that decade, it took about 40 years for these countries to regain substantial access to international capital markets. 4/ Lenders' reactions also were across the board, affecting all borrowing countries, including those which did not reschedule their debt obligations. These contagion effects were particularly evident for Latin American countries. Between 1950 and 1964 (the 15-year period immediately after the time that most settlements of the 1930s defaults were reached), capital flows to these countries remained modest. 5/ Not until the 1970s did developing countries re-establish significant market access. The lengthy period of time before access was restored may have reflected the widespread nature of the bond defaults in the 1930s and the nature of the settlements, leading lenders to a general reassessment of the external bond

1/ As an example, in 1903 the external and internal debt of Venezuela was converted into a unified issue.

2/ Interest payments were sometimes reduced on the grounds that interest rate levels had fallen significantly since the time of issue of the original bonds, although such settlements often provided for a gradual increase over time. The interest reduction agreements of Brazil in 1934 and the Province of Buenos Aires in 1935 provided for a rising interest rate schedule. Brazil's settlement in 1943 also included a provision in one of its two plans for principal reduction.

3/ Chile's settlement of 1948 included payment of about 12 percent of its unpaid interest since default, Peru's 1943 agreement included a 10 percent payment, and Brazil's 1943 agreement only a small portion.

4/ World War II and its immediate aftermath contributed in part to this lengthy delay in regaining market access.

5/ See Jorgensen and Sachs (1989), and Eichengreen and Portes (1989).

market. 1/ Moreover, lenders did not entirely forget the experience of the 1930s when market access was re-established in the 1970s. When countries that defaulted on bonds in the 1930s came back to international financial markets, they generally had to pay a higher interest premium on funds borrowed than other developing countries.

2. Experience in the 1970s and 1980s

a. Bond financing flows

Although most developing countries in the 1970s and early 1980s received external financing mainly in the form of syndicated loans, some of them also chose to issue bonds. However, bond issues never reached the annual levels observed in the early 1900s, and bond financing declined in relative importance. International bonds issued by developing countries in the first half of the 1980s amounted to \$24 billion, with the stock of bond debt of major indebted countries amounting to only \$17 billion in the mid-1980s. Bond financing during this period tended not to be project-specific, rather it was one of several venues that countries used to cover their overall financing needs.

The pool of lenders in the 1970s and 1980s became quite diversified as the Euromarket and the Samurai market competed with New York to float new developing country issues. The terms for the bonds mirrored those of syndicated commercial bank loans ranging from about 1 percent to 2 percent above LIBOR, but in some cases bonds with fixed interest rates of 11-12 percent were issued. Maturities varied from 5 to 12 years--considerably shorter than those of developing country bonds issued earlier in the century. Developing countries in some cases used enhancements to make bonds more attractive to investors. For example, some Mexican issues were indexed peso-denominated petro bonds and silver-indexed bonds. 2/

1/ To some extent, the pervasiveness of defaults in the 1930s is explained by the reluctance of bondholders to provide new money, and thus mitigate borrowing countries' illiquidity as noted in Eichengreen (1991). In addition, creditor-country governments appear to have been unwilling to intervene. Some political nuances to this explanation are added by De Cecco (1984), who argues that the post-World War I recognition by the U.S. and Great Britain that German war reparations--required by the Peace Treaty--were unrealistic, and that Germany would be unable to honor them, opened the door for repudiation and default on foreign obligations as a legitimate recourse for other debtor countries encountering financial difficulties in the 1930s.

2/ OECD (1981).

b. Payments difficulties in the 1980s

Repayments problems in the 1980s followed a period of poor economic policies by some developing countries, but were also triggered in some cases by adverse external shocks, such as lower oil prices or higher world interest rates. The incidence of payment difficulties on bonds was smaller relative to that on other debts, perhaps pointing to some preferential treatment of these instruments by debtor countries. ^{1/} In some cases, bonds were restructured as they matured (e.g., Costa Rica and Guatemala), while in others defaults took place (e.g., Panama and Nigeria).

A distinctive feature of the restructurings that took place was that no official bondholder committees were involved in the settlements. Rather, debtor countries facing servicing difficulties made unilateral offers to bondholders, who signalled their approval by exchanging instruments carrying new terms for the old instruments. These offers, however, were formulated based on at least informal contacts with the main groups holding the securities. All settlements were final. No debt reduction was involved, and some of the settlements required the debtors' to make up-front cash payments of interest arrears (see Table 1). Moreover, interest rates on the new instruments were generally higher than those on the old bonds.

In some cases (notably Panama), the formulation of an acceptable settlement was complicated by the diverse group of creditors involved and the different currencies of denomination of the bonds issued (U.S. dollars, yen, and ECUs). All settlements included negative pledge clauses, providing that bonds would be extended any advantage granted to new or outstanding obligations. In addition, some settlements included early redemption options and allowed for debt conversions into equity. In the cases of Costa Rica and Guatemala, it took from six months to a year to complete a bond restructuring, with 90-100 percent of bondholders accepting the offer. The speed with which agreement was reached and the high level of acceptance reflected the fact that these agreements involved the rollover of maturing obligations, more favorable terms were offered on the new instruments exchanged for the old obligations, and in the case of Costa Rica interest arrears were paid in part up-front as part of the settlements. Restructurings of bonds in default by Nigeria and Panama were also worked out in six months to a year with the participation of virtually all bondholders; however, only after these bonds had been in default for extended periods.

^{1/} This experience is often cited as supporting the current market view that bonds are seen as being senior to other forms of indebtedness.

c. Access after recent restructurings

The evidence on new access following recent restructurings is mixed. Broad statements are difficult to make because the sample is small, and some of these restructurings are too recent. More importantly, it is difficult to disentangle the influences of the broader problem with bank debt. On the whole, new access has been quite limited for all countries that restructured their bonds in the 1980s and 1990s. Where countries have managed to raise new funds, amounts have generally been small, interest rate premiums high, and maturities short.

Guatemala returned to the international bond markets in August 1993. The country's Asociación Nacional del Café raised \$60 million through a five-year Eurobond guaranteed by the Government and reportedly partially collateralized with coffee export receivables. The issue was priced at 605 basis points over U.S. Treasury securities with comparable maturities. The spread on this issue substantially exceeded the average spread on other Latin American bonds of around 350 basis points which prevailed at that time.

Costa Rica returned to international capital markets in January 1994, after 14 years' absence, with a three year \$50 million Eurobond at a 395 basis point spread issued by the state-owned electricity and telecommunications monopoly (ICE), without any explicit government guarantee. While the bond was relatively short term and the spread on the high end of the spectrum for Latin American bond issues, the deal was considered a success with demand from a wide range of investors.

Table 1. Selected Bond Restructurings

Country	Amount and Original Terms	Year of Settlement and New Terms
<u>Brazil:</u>		
Federal Government and most Brazilian states and cities defaulted on debt service of their dollar bonds in the period October 1931-May 1932. Santa Catharina bonds had been in default since 1925. Sao Paulo continued service on a secured issue until 1937.	Original face value of US\$450 million, issued in the 1920's, 20 to 30 years maturity, and interest rates ranging from 6.5 to 8 percent.	<p>Settlement in 1943. Face value of adjusted bonds amounted to US\$287 million. Two options offered.</p> <p><u>Option A:</u> Original obligors maintained the responsibility of servicing the new bonds. No reduction of principal, but interest rates would be reduced to 2-3.5 percent with a provision for a sinking fund. Interest rate plus sinking fund ranged between 2.9 and 5.1 percent of principal per year.</p> <p><u>Option B:</u> The Brazilian Government assumed the service of state and municipal bonds under this option. For every US\$1,000 of original bonds, bondholders would receive a cash payment of between US\$75 and US\$175 (in lieu of interest arrears), a new bond with a face value of US\$800 (or US\$500 in some cases), and a reduced interest rate of 3.75 percent a year. The bonds had no fixed maturity but were entitled to a sinking fund. Debt service amounted to about 6.4 percent of principal.</p> <p>By early 1946 (time limit to accept plan B) out of 78 percent of the bondholders that accepted the offer, 22 percent had chosen plan A, and 56 percent had opted for plan B. Maturities of the new bonds ranged from 30 to 60 years.</p>
<u>Chile:</u>		
All its dollar bonds went into default in 1931 or in early 1932.	Default involved US\$260 million in bonds issued during the period 1922-30, with maturities ranging from 30 to 40 years and average interest rate of 6.58 percent.	<p>Settlement in 1948. Chile offered to exchange at par new 46-year bonds for its outstanding dollar bonds. The new bonds would bear an increasing interest rate schedule beginning at 1.5 percent in 1948 and rising to 3 percent in 1954 and thereafter. Some payments of back interest were to be made over a ten-year period without additional interest. Maturities of the new bonds were extended to 45 years (1993). During the time it took to complete the settlement, Chile bought back US\$46 million of principal at about 60 cents on the dollar. As of December 31, 1967, 99 percent of outstanding dollar bonds of Chile had been assented to the 1948 offer.</p>

Table 1 (continued). Selected Bond Restructurings

Country	Amount and Original Terms	Year of Settlement and New Terms
<u>Costa Rica</u>		
In 1985 as part of an overall restructuring of its obligations, the country offered to extend the maturities of certain sovereign external bonds before they fell due. This refinancing would be voluntary.	US\$90 million in principal falling due in 1985 from US dollar floating rate notes issued in the late 1970s and early 1980s. Interest rate was Libor + 7/8.	Settlement in 1985. Old bonds would be exchanged for new U.S. dollar floating rate notes with a three year grace period and an average maturity of 5.5 years. Interest rate of new offer Libor + 1.25. Banks or financial institutions had the option of tendering old bonds for conversion to debt under the 1985-86 bank refinancing agreement, where the terms were a 3 year grace period and an average maturity of 7.5 years, at an interest rate of Libor + 1 5/8. The refinancing agreement allowed for conversion to lender country currency. Interest arrears of about US\$22 million accrued in 1984 were cleared prior to the exchanges. More than 90 percent of creditors accepted the bond offer (within a year), and the restructured bonds were subsequently serviced on schedule.
<u>Guatemala</u>		
Debt obligations restructured in 1989 following decline of its international reserve holdings to a historical low in 1988. The bunching of debt service obligations in 1988-90 meant that Guatemala would be repaying two-thirds of its external public sector debt by 1991, with the remaining one-third repayable over the following 20 years.	US\$500 million of 1983-84 external (stabilization) bonds falling due in 1988-89, with interest rates ranging from 11 percent to 12.5 percent.	Settlement in 1989. New financing plan aimed at reducing the total debt service ratio to about 30 percent from 65 percent. No interest arrears existed on bonds to be restructured. Restructuring process was quite swift as an initial contact with bondholders in May 1988 was followed by an offer in September/October with expiration in December of the same year, and the deal was closed in February, 1989. Stabilization bonds would be replaced by either dollar bonds with a fixed interest of 10 percent and 10.5 year maturity, including a 4.5 year grace period, or local currency denominated bonds with a fixed interest rate of 16 percent and a 7.5 year maturity, with preference for the latter instrument provided for in a number of early redemption options. The amount of new bonds issued compensated for any reduction in interest rates compared with the old ones, and both dollar and local currency denominated bonds were eligible for debt conversions. Interest would continue to be paid on 1984 stabilization bonds (which were not yet due), but any future exchanges would not be more favorable. The new bond offer was accepted by 95-96 percent of bondholders within a year.

Table 1 (concluded). Selected Bond Restructurings

Country	Amount and Original Terms	Year of Settlement and New Terms
<u>Nigeria</u>		
In 1982-83 the country ran into considerable payments difficulties, and accumulated US\$6 billion in trade arrears (more than half to uninsured suppliers).	US\$4.9 billion (including capitalized interest) of government guaranteed promissory notes issued to refinance uninsured trade arrears. Six year maturity, including 2.5 year grace period, and an interest rate of Libor + 1 percent. Nigeria did not meet the first amortization payment due in the fourth quarter of 1986 or interest payments that fell due in 1987.	In January 1988, a settlement was reached at a large bond holders meeting, by which all claims (including late interest) would be rescheduled over 16 years with a 2 year grace period, at a 5 percent interest rate. Payments in each period would be fixed at 2.5 percent of outstanding claims as of January 1988, with part of the payment applied to current interest and the rest to reduce principal. The rescheduled promissory notes have reportedly been serviced as agreed. Nonetheless, in 1992 US\$1.2 billion (of an estimated US\$4.3 billion outstanding debt) was bought back in the secondary market at a discount or eliminated through debt-for-equity conversions.
<u>Panama</u>		
Bonds had not been serviced since 1987.	<p>US\$450 million at end of 1993, of which US\$170 million were interest arrears. Bonds had been issued in the late 1970s and the early 1980s to a diverse group of creditors and in different currencies (U.S. dollar floating rate notes, Japanese yen, and ECU denominated bonds).</p> <p>U.S. dollar floating rates notes carried maturities of five to 12 years and paid interest rates ranging from LIBOR + 5/8 to LIBOR + 1 3/4, but no less than 7 percent. ECU denominated bonds carried five year maturities and paid a fixed 8.25 percent interest rate (8.75 percent on overdue amounts). Yen denominated bonds had five year maturities and paid a fixed interest rate of 7.6 percent per year.</p>	<p>Contacts with major bondholders were initiated in the Spring of 1993, but progress was made only in the fall of that year. No committee was established by bondholders, and efforts were concentrated on reaching an understanding on yen bonds because there was no precedent for a bond default and restructuring in the Samurai market. Contacts were maintained with other bondholders to make certain that the solution being developed with respect to the yen-bonds also would be satisfactory to them. An offer was finally made on January 31, 1994, included a 25 percent downpayment on past due interest, and the restructuring of principal and remaining past due interest at par. New notes were denominated in US dollars or Japanese yen with a maturity of 8 years, including 1.5 years grace and interest rates of Libor + 1 on US dollar bonds or a fixed 3.75 percent for yen bonds. It was explicitly agreed that Panama would not settle other claims on more favorable terms than those under this settlement agreement. By the April 19, 1994 deadline more than 97 percent of creditors had accepted the offer, almost all choosing the new US dollar bonds. The exchange was completed on May 1, 1994.</p>

Sources: Cardoso E. and Dornbusch R. (1989), "Brazilian Debt Crises: Past and Present," in B. Eichengreen and Lindert, P. (eds), The International Debt Crisis in Historical Perspective, Cambridge: The MIT Press; Jorgensen and Sachs (1989); various issues of the Foreign Bondholders Protective Council, Inc. Report; and Fund Staff.

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