

# Economicly developed countries economy

Countries



The increasing burden of external debt in the least economic developed countries has been a widely discussed topic in the international community. However, some concepts are shared by most of the economists, being this a reality in third world country economies. Without a doubt, the increasing flow of external resources from rich countries to poor countries, has contributed, in some cases, to impulse economic development and accelerate economic growth.

However, it is also evident that an increase in the amount of external debt and the hardening of its financial conditions has resulted in a net outflow of payments, mainly capital plus interest, which has slowed down economic development. The logical consequence has been an increase in the external debt; a problem that has worsened since these additional resources have not been used in social projects whereas in the long run, the benefits are higher than the costs (interest rate).

Twenty two years later, Ecuador is still unable to adequately develop its economy, thus making it necessary to question whether its situation is caused by the high stock of external debt. With this said, does Ecuador's External hinder economic development? 1. 2 On the other hand, an international market of capitals developed rapidly, represented among others by private banks, whose funds have been added to the already existing funding. Access to these funds was relatively easy for developing countries.

However, these type of creditors were not interested in the use of these resources for social projects, but only expected the repayment of their debt

and high yields in the short term. In October 1982, a balance of payments crisis forced Ecuador, into a suspension of debt service, mainly capital installments, while interest payments were kept current. Thus it joined other countries which had earlier set off what we now regard as a global debt crisis.

From its earliest stages, Ecuador met its debt crisis by traditional refinancing arrangements - initially on an annual basis and by 1984 on a multi annual scheme - designed to buy time until normal debt service could eventually be resumed. This strategy, based on a liquidity view, assumes that the crisis would be a temporary one. Proponents of a opposed solvency view supported that if similar rescheduling agreements continued, the Ecuadorian debt would be too large ever to be serviced, and that the only reasonable approach was to comprehensively search for alternative strategies that would reduce the external debt problem.

Despite various agreements reached by Ecuador to reduce its external bank debt, ironically the country has experienced an increase in its total external debt, which provoked various economic, social and political problems. 1. 3 This investigation will try to test the level of external debt and measure its impact upon the countries economy. The research will be based on existent facts and figures, passed papers written on the particular subject and verbal remarks from individuals that have been involved in the negotiation of the countries debt.

Without the suitable knowledge off how these phenomenon's have originated in the past, it's difficult to judge on any present aspect, and least of all carry

out any conclusions on what the burden of the debt holds for Ecuador's economy. 1. 4 With the basic comprehension on what has been examined through the analysis, the essay will outline a synthesis with the final conclusions of the study. On the other hand, the study will contain a high degree of objectivity, trying this way to obtain valid sources that will constitute to the theme of external debt. The general content of this essay is summarized in the following aspects:

Chapter I will contain the necessary theoretical framework, which will sustain the explanation of Ecuador's economy in a practical order that will later be presented. In chapter II, the empirical framework will be undertaken, specifically a critical study of the burden of external debt, from the period of 1990 to April 2004. In the following Chapter, there will be a global analysis from the period 1990 to 2004, which involve the stock of the external debt, the structure by creditor as well as the structure by debtor, and I will finally analyze the new debt that has been incurred in the period mentioned above.

It is convenient to deepen the analysis since 1990, because of the notorious increment that the economic activity had, since this year. In chapter IV, there will be a highlight of the social economic indicators that have caused the external debt to rise throughout the years, such indicators include: income distribution, poverty and the external debt service vs. GNP and Exports. Finally, Chapter V will contain the conclusions that will be obtained from this essay, the same that will confirm the verification of the original stated question.