

Heterogeneity in Bank Valuation of LDC Debt:
Evidence from the 1988 Brazilian Debt-Reduction Program

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Abstract:

We examine the determinants of commercial bank choice among a "menu" of financial instruments similar to those used in the 1988 Brazilian debt reduction deal. In particular, we examine the impact of capital adequacy rules on bank choice and show that bank choice can differ in spite of the existence of a secondary market for LDC claims. Our results link commercial banks' menu choice with their characteristics. In addition to financial strength, bank choice depends on nationality, and on exposure to, and long term business interests in, the country whose debt is being recontracted. We then verify our results using actual bank choices in the 1988 Brazil rescheduling deal.