

Message Text

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ACTION ARA-15

INFO OCT-01 ADS-00 COM-02 LAB-04 AID-05 CIAE-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
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E.O. 12065: GDS 5/10/85 (JOHNSON, RALPH R.) OR-P-3
TAGS: EFIN, EGEN, BL
SUBJECT: BOLIVIAN FINANCIAL CRISIS DEEPENS

1. ENTIRE TEXT CONFIDENTIAL

2. SUMMARY: THE BOLIVIAN FINANCIAL SITUATION, WHICH
WAS CRITICAL BEFORE TODAY'S CABINET CHANGES MAY
DETERIORATE SHARPLY DURING THE NEXT SIX WEEKS. IF
THE GOVERNMENT CANNOT OBTAIN SUBSTANTIAL FINANCIAL
CREDITS (I.E. IN THE VICINITY OF \$100 MILLION) BEFORE
ELECTIONS, A SUBSTANTIAL BUILDUP OF ARREARAGES ON FOREIGN
OBLIGATIONS BY THE END OF JULY IS VIRTUALLY A FOREGONE CONCLUSION.
END SUMMARY.

3. ACCORDING TO A RELIABLE SOURCE WHO SPOKE WITH MINISTER ALBA
THE EVENING OF MAY 9, ALBA TOLD THE CABINET MEETING THAT MORNING
THAT THE COUNTRY QUOTE HAD REACHED AN HISTORIC LANDMARK:
RESERVES (I.E., THE INTERNATIONAL RESERVES OF THE CONSOLIDATED
BANKING
SYSTEM) HAD FALLEN TO ZERO UNQUOTE. ACCORDING TO
SOURCE, ALBA ALSO TRIED TO PRESS FOR ACTION ON
HYDROCARBONS, REFERRING TO AN EARLIER CABINET
AGREEMENT IN PRINCIPLE ON THE SUBJECT, BUT
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FOUND THAT WHATEVER ACCORD MAY HAVE EXISTED
HAD EVAPORATED. AT THE SAME MEETING, MINISTER
OF ENERGY AND HYDROCARBONS CANDIA IS SAID TO HAVE
INFORMED THE CABINET THAT YPFB (THEGOVERNMENT-OWNED
PETROLEUM COMPANY) WILL NOT HAVE
SUFFICIENT FUNDS TO MEET ITS JUNE PAYROLL.

4. IN LINE WITH THE GLOOMY ECONOMIC NEWS GIVEN THE CABINET, THE PRESIDENT OF THE CENTRAL BANK INFORMED US M THAT IN THE ABSENCE OF NEW FINANCIAL CREDITS HE DOUBTED THE GOVERNMENT COULD CONTINUE TO MEET ITS FINANCIAL OBLIGATIONS BEYOND JUNE 15. HE ADDED THAT HE HAD RECEIVED OFFERS OF UP TO \$150 MILLION IN FINANCING, BUT THAT THEY WERE CONTINGENT UPON THE ADOPTION OF AN ECONOMIC STABILIZATION PROGRAM. IN THE ABSENCE OF SUCH A PROGRAM HE DOUBTS THAT EVEN SHORT-TERM FINANCING CAN BE OBTAINED, AND HE (A CAREER BANKER) CLAIMS TO HAVE TAKEN THE POSITION WITHIN THE GOVERNMENT THAT HE WILL NOT LEND HIS REPUTATION TO A SEARCH FOR CREDITS UNLESS, AT A MINIMUM, MEANINGFUL PRICE INCREASES IN HYDROCARBONS ARE INSTITUTED.

5. PRESIDENT PADILLA'S REACTION TO THIS PRESSURE HAS BEEN TO FIRE BOTH FINANCE MINISTER ALBA AND PROBABLY CENTRAL BANK PRESIDENT FABRI AS WELL. HE HAS REPLACED ALBA WITH A LOYAL MILITARY MAN WHOSE JOB WILL BE TO STOP TALKING ABOUT ECONOMIC REFORMS AND START LOOKING FOR ENOUGH BORROWED MONEY TO FINANCE RESERVE LOSSES AND ESSENTIAL DOMESTIC EXPENSES, IN PARTICULAR GOVERNMENT SALARIES, UNTIL THE AUGUST TRANSITION. THIS WILL BE PADILLA'S LAST WORD ON ECONOMIC MEASURES UNLESS FINANCIAL COLLAPSE FORCES ACTION.

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6. LT. COLONEL JAVIER, ALCOREZA, WHOM PRESIDENT PADILLA NAMED MINISTER OF FINANCE MAY 11, ALTHOUGH REGARDED AS AN ABLE AND INTELLIGENT OFFICER, HAS NO KNOWN EXPERIENCE IN ECONOMICS OR FINANCE, AND IS A RELATIVE STRANGER TO DOMESTIC AND INTERNATIONAL BANKERS. HE IS A CLOSE ASSOCIATE OF PRESIDENT PADILLA AND HAS MOST RECENTLY BEEN OCCUPIED WITH NEGOTIATING THE BULK OF BOLIVIA'S 1979 ARMS PURCHASES. THE APPOINTMENT AS MINISTER OF FINANCE OF A MAN WHO LACKS EXPERIENCE IN ECONOMICS AND BANKING, AND, MORE IMPORTANTLY, WHO IS UNKNOWN TO THE INTERNATIONAL FINANCIAL COMMUNITY, SHOULD MAKE IT MORE DIFFICULT FOR BOLIVIA TO OBTAIN CREDITS FROM LEGITIMATE SOURCES, PARTICULARLY BECAUSE IT APPEARS THE GOVERNMENT DOES NOT INTEND TOEMENT POLICIES (I.E., SUBSTANTIAL PRICE HIKES IN DOMESTIC HYDROCARBONS) WHICH WOULD GAIN THE SUPPORT OF THE IMF.

7. AS OF APRIL 30, THE NET INTERNATIONAL RESERVES OF THE CENTRAL BANK AMOUNTED TO \$111.2 MILLION, AND THE BANK WAS APPROXIMATELY \$65 MILLION OVERDRAWN

IN ITS FOREIGN EXCHANGE ACCOUNTS WITH OTHER BANKS.
BOTH THE IMF AND THE CENTRAL BANK REPORT HEAVY BUYING
OF DOLLARS BY THE PUBLIC DURING THE LAST TWO DAYS.
THIS DEMAND FOR FOREIGN EXCHANGE HAS UNDOUBTEDLY
MOVED THE NET INTERNATIONAL RESERVES OF THE CON-
SOLIDATED BANKING SYSTEM FROM ZERO, AS REPORTED
BY THE MINISTER ON MAY 9, INTO A NEGATIVE POSITION.

8. DURING THE NEXT THREE MONTHS, BOLIVIA OWES
\$68.88 MILLION DOLLARS IN DEBT SERVICE PAYMENTS:
MAY \$25.4 MILLION, JUNE \$21.649 MILLION; JULY
\$21.832 MILLION. IN ADDITION, THE NATION
FACES HEAVY CURRENT OBLIGATIONS ARISING FROM A
GROWING TRADE IMBALANCE. IMPORTS ARE SAID
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TO BE APPROXIMATELY 45 PERCENT ABOVE 1978 LEVELS
FOR THE FIRST QUARTER, AND CENTRAL BANK AUTHORITIES
ARE ANTICIPATING A CURRENT ACCOUNT DEFICIT OF AT
LEAST \$500 MILLION. UNLESS NEW FINANCIAL CREDITS
AMOUNTING TO APPROXIMATELY \$100 MILLION ARE OBTAINED
DURING THE NEXT THREE MONTHS, THE PADILLA GOVERNMENT
WILL BE UNABLE TO MEET ITS FOREIGN PAYMENT OBLIGATIONS
BEGINNING SOME TIME IN JULY. UNDER PRESENT
CIRCUMSTANCES THE PADILLA GOVERNMENT WILL HAVE GREAT DIFFICULTY
RAISING THESE CREDITS.

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