

Message Text

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ACTION ARA-15

INFO OCT-01 ISO-00 MMO-01 EB-08 COME-00 TRSE-00
CIAE-00 INR-10 NSAE-00 CEA-01 SS-15 NSC-05 AID-05
XMB-02 FRB-03 DOE-15 SOE-02 SP-02 GSA-02 INT-05
AGRE-00 PA-01 ICA-11 /104 W
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P 152155Z MAR 79

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 5260

C O N F I D E N T I A L SECTION 1 OF 2 LA PAZ 2299

E.O. 12065: GDS 3/15/85 (JOHNSON, RALPH R.) OR-E

TAGS: EGEN, EFIN, BL

SUBJECT: (C) THE BOLIVIAN ECONOMY ON A TIGHTROPE; CERP 102

REF: (A) LA PAZ 2233 (STADIS) (B) LA PAZ 1469

1. (C - ENTIRE TEXT)

2. SUMMARY: THE LATEST CENTRAL BANK ESTIMATES OF BOLIVIA'S 1978 BALANCE OF PAYMENTS PERFORMANCE SHOW THAT IMPORTS (FOB) INCREASED 23 PERCENT DURING THE YEAR, WHILE EXPORTS (FOB) FELL 1.1 PERCENT, AND THE SERVICES ACCOUNT DEFICIT ROSE BY MORE THAN 39 PERCENT. THESE UNHAPPY PHENOMENA GAVE RISE TO A CURRENT ACCOUNT DEFICIT OF \$385.1 MILLION. YEAR-END SHORT-TERM BORROWINGS, WHICH APPEAR TO HAVE AMOUNTED TO APPROXIMATELY \$100 MILLION, HELD THE BALANCE OF PAYMENTS DEFICIT TO AN ESTIMATED \$123.3 MILLION.

3. THE PADILLA GOVERNMENT HAS NOT AND ALMOST CERTAINLY WILL NOT ADOPT ECONOMIC MEASURES THAT WILL ARREST THE DETERIORATION WHICH IS SO EVIDENT FROM THE 1978 RESULTS. IMPORT GROWTH IS SAID TO BE CONTINUING, AND WE DO NOT EXPECT A NET INCREASE IN EXPORT EARNINGS. THE KEY TO BOLIVIA'S BALANCE OF PAYMENTS RESULTS IN 1979 WILL BE THE MANAGE-

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MENT OF THE CAPITAL ACCOUNT. AS DISBURSEMENTS UNDER USAID AND WORLD BANK LOANS ARE BEING LIMITED BY A SHORT-AGE OF BOLIVIAN COUNTERPART FUNDS, THEREBY REDUCING INFLOWS FROM THESE SOURCES, THE CAPITAL ACCOUNT BALANCE WILL DEPEND HEAVILY UPON THE GOVERNMENT'S SUCCESS IN REFINANCING DEBT, IN SECURING NEW CREDITS, AND IN MAINTAINING PUBLIC CONFIDENCE SO AS TO MINIMIZE SHORT TERM

CAPITAL FLIGHT. TO DATE THE PADILLA GOVERNMENT HAS NOT PERFORMED EFFECTIVELY IN ANY OF THESE THREE AREAS. ALTHOUGH WE CONTINUE TO BELIEVE THE GOVERNMENT HAS A REASONABLE CHANCE OF MUDDLING THROUGH FINANCIALLY UNTIL ELECTIONS, A CONTINUING BUILD-UP OF ARREARAGES ON OFFICIAL DEBT IS POSSIBLE IF CREDIT NEGOTIATIONS ARE NOT BROUGHT TO A SUCCESSFUL CONCLUSION, AND IF CREDITORS ULTIMATELY BALK AT ROLLING OVER A MAJOR PORTION OF THE DEBT SERVICE PAYMENTS DUE THIS YEAR. END SUMMARY.

4. 1978 RESULTS. THE MOST RECENT ESTIMATES OF BOLIVIA'S 1978 BALANCE OF PAYMENTS PERFORMANCE, PREPARED BY THE CENTRAL BANK FEBRUARY 22, 1979, ARE SUMMARIZED BELOW:

	1977	1978	PERCENT CHANGE
CURRENT ACCOUNT			
A. EXPORTS (FOB)	649	641.7	(1.1)
B. IMPORTS (FOB)	(644)	(791.9)	23
C. SERVICES	(188)	(261.9)	39.3
D. TRANSFERS	15	27	
E. BALANCE	(168)	(385.1)	
CAPITAL ACCOUNT			
A. LONG TERM CAPITAL	335	294.1	
(NET)			
B. SHORT TERM CAPITAL	(96)	1.6	
(NET)			
C. BALANCE	239	295.7	

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D. ERRORS AND OMISSIONS (39) (33.9)

E. NET BALANCE 32 (123.3)

(NOTE: FIGURES IN PARENTHESES ARE NEGATIVE.)

THE NET SHORT TERM CAPITAL BALANCE IS SOMEWHAT MISLEADING. ACCORDING TO THE CENTRAL BANK, PUBLIC ENTERPRISES RECEIVED \$97 MILLION IN SHORT TERM CREDITS IN 1978, AND THE PRIVATE SECTOR ABSORBED ANOTHER \$50 MILLION IN SHORT TERM LOANS. THESE CREDITS OFFSET SHORT TERM OUT- FLOWS OF \$145.5 MILLION.

5. MINERALS AND HYDROCARBONS EXPORTS. WE ESTIMATE THAT MINERAL AND HYDROCARBONS EXPORTS IN 1979 WILL VARY LITTLE FROM LEVELS ATTAINED LAST YEAR. INCREASED SALES OF GAS TO ARGENTINA WILL BRING \$15.99 MILLION IN ADDITIONAL REVENUES, BUT PETROLEUM EXPORTS ARE EXPECTED TO DECLINE BY \$37.82 MILLION AS PRODUCTION CONTINUES TO FALL AND DOMESTIC CONSUMPTION INCREASES. THE FOLLOWING ARE OUR PROJECTIONS OF 1979 MINERAL AND HYDROCARBONS EXPORTS, TOGETHER WITH ACTUAL EXPORTS FOR 1978.

(ALL AMOUNTS IN MILLIONS OF \$ US)

COMMODITY	EXPORTS-1978	EXPORTS-1979
(FOB)	(FOB)	

TIN
METALLIC 191.77 211.19
CONCENTRATE 138.6 122.84
ALLOY 5.39 6.37
ANTIMONY
METALLIC 4.92 4.26
CONCENTRATE 12.13 9.38
ZINC 5.18 6.00
TUNGSTEN 34.81 25.98
COPPER 2.52 4.90
LEAD 7.78 8.61
SILVER 22.25 22.34
OTHERS 1.58 1.76
TOTAL MINERALS 426.93 423.63
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NATURAL GAS 78.51 94.50
PETROLEUM 42.32 4.50
LIQUID GAS 1.31 1.32
GASOLINE -0- 17.0
TOTAL HYDROCARBONS 122.14 117.32
TOTAL MINERALS AND
HYDROCARBONS 549.07 540.95

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C O N F I D E N T I A L S E C T I O N 2 O F 2 L A PAZ 2299

6. AGRICULTURAL EXPORTS. WE HAVE NOT YET BEEN ABLE

TO ASSESS THE IMPACT OF RECENT HEAVY RAINS ON AGRICULTURAL PRODUCTION AND THEREFORE ON NON-TRADITIONAL EXPORTS. HOWEVER, ASSUMING THAT AGRICULTURAL EXPORTS WILL NOT EXCEED LAST YEAR'S LEVELS (AN ASSUMPTION THAT IS NOW GENERALLY ACCEPTED), 1979 EXPORTS ARE LIKELY TO BE AT LEAST 1 PERCENT LESS THAN EXPORTS FOR 1978.

7. SHOULD THE IMPORT TRENDS ESTABLISHED IN 1978 PREVAIL THIS YEAR, AS APPEARS LIKELY TO BE THE CASE, BOLIVIA'S CURRENT ACCOUNT DEFICIT COULD EXCEED \$550 MILLION IN 1979. IMPORTS (CIF) IN JANUARY 1979 ARE SAID BY THE CENTRAL BANK TO HAVE REACHED \$100 MILLION, VERSUS \$58 MILLION (CIF) IN JANUARY 1978. WE EXPECT THAT GROWTH IN IMPORT ORDERS WILL SLOW IN LATE 1979 AS A RESULT OF A SHORTAGE OF FOREIGN EXCHANGE. HOWEVER, GIVEN THE LAG OF THREE TO SIX MONTHS BETWEEN THE DATE OF ORDERS AND THE ACTUAL RECEIPT OF MERCHANDISE, THE VOLUME OF IMPORTS MAY NOT BEGIN TO DECLINE UNTIL EARLY 1980, AND, DEPENDING UPON BOLIVIA'S SUCCESS IN OBTAINING MAJOR CREDITS (CA \$250 MILLION) IN THE FIRST SIX MONTHS OF 1979, SERIOUS DELAYS IN PAYMENT OF BOTH PRIVATE COMMERCIAL AND GOVERNMENT CREDIT OBLIGATIONS MAY BE ENCOUNTERED BEGINNING ABOUT MID-YEAR.

8. RESERVES: NET CENTRAL BANK FOREIGN EXCHANGE RESERVES, CONFIDENTIAL

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WHICH AMOUNTED TO \$162 MILLION ON JANUARY 1, STOOD AT \$149.1 MILLION ON FEBRUARY 28, DESPITE THE RECEIPTS IN JANUARY OF \$30 MILLION FROM MINERALS SALES CONSUMMATED SEVERAL MONTHS EARLIER. AS OF THE SECOND WEEK OF MARCH, NET CENTRAL BANK RESERVES ARE ESTIMATED TO BE APPROXIMATELY \$140 MILLION. OF THIS AMOUNT, ONLY ABOUT \$20 TO \$30 MILLION CAN BE DESCRIBED AS COMPLETELY LIQUID (THIS EXCLUDES, FOR EXAMPLE, \$22 MILLION IN SDR'S). HOLDINGS OF FOREIGN EXCHANGE HAVE DECLINED FROM \$44.4 MILLION ON FEBRUARY 28, 1978, TO \$8.4 MILLION ON FEBRUARY 28, 1979.

9. DEBT PAYMENTS: MARCH AND SEPTEMBER ARE REPORTEDLY THE MONTHS IN WHICH BOLIVIA'S MAJOR DEBT PAYMENTS FALL DUE. ACCORDING TO CENTRAL BANK SOURCES APPROXIMATELY \$100 MILLION IN PAYMENTS COME DUE THIS MONTH. TO DATE NO NEGOTIATIONS HAVE BEEN INITIATED OF WHICH WE OR THE THREE US BANKS IN BOLIVIA (CITIBANK, BANK OF AMERICA, BANK OF BOSTON) ARE AWARE. (BOTH CITIBANK AND BANK OF AMERICA ARE MAJOR CREDITORS, AND CITIBANK LED THE \$155 MILLION REFINANCING SINDICATION NEGOTIATED IN 1978.) AT THIS LATE DATE IT WILL BE VIRTUALLY IMPOSSIBLE TO REFINANCE PAYMENTS DUE IN MARCH. BOLIVIA MAY YET CONCLUDE NEW CRIDIT NEGOTIATIONS THIS MONTH WHICH WILL MAKE IT POSSIBLE TO MEET MARCH DEBT OBLIGATIONS. ALTERNATIVELY, CREDITORS MAY BE ASKED TO ROLL OVER AMOUNTS COMING DUE IN MARCH, E.G., FOR AN ADDITIONAL 90 TO 180 DAYS. THIS APPROACH, AS OPPOSED TO A REFINANCING OF

DEBT SERVICE PAYMENTS, WILL SIMPLY MOVE ADDITIONAL MATURITIES TOWARD YEAR END, INCREASING THE SHORT TERM PAYMENT OBLIGATIONS THAT THE INCOMING GOVERNMENT WILL INHERIT. SOME PRIVATE BANKDERS NOW BELIEVE THE GOB HAS DECIDED NOT TO SEEK REFINANCING IN ORDER TO AVOID THE RISK THAT REFINANCING EFFORTS MIGHT FAIL IN THE ABSENCE OF ECONOMIC MEASURES.

10. CONCLUSION: BOLIVIA'S ECONOMIC AND FINANCIAL SITUATION

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IS BECOMING INCREASINGLY PRECARIOUS. NEGOTIATIONS TO REFINANCE AT LEAST A PORTION OF THE DEBT PAYMENTS DUE THIS YEAR SHOULD HAVE BEGUN IN DECEMBER OR JANUARY, WHEN THE FINANCIAL CLIMATE WAS BETTER. THE BOLIVIANS HAVE NOW BEEN TOLD BY AT LEAST ONE MAJOR BANK THAT REFINANCING MAY BE IMPOSSIBLE WITHOUT MEANINGFUL ECONOMIC MEASURES, BUT WE FIND NO SIGNIFICANT POLITICAL SUPPORT WITHIN THE PADILLA GOVERNMENT FOR THESE MEASURES. NEGOTIATIONS FOR NEW CREDITS, REPORTED IN REF B, HAVE ALSO BEEN LAGGING, AND THEY APPEAR TO BE POORLY COORDINATED WITHIN THE GOVERNMENT. (FYI: THE LOCAL IMF REPRESENTATIVE WAS TOLD BY THE MINISTER OF FINANCE, HE BELIEVES HONESTLY, THAT HE, THE MINISTER, DID NOT KNOW WHAT AMOUNTS WERE UNDER NEGOTIATION BY COMIBOL OR YPFB, NOR WAS HE AWARE OF THE TERMS BEING DISCUSSED.)

11. WITH A SPEEDUP IN CREDIT NEGOTIATIONS, SUCCESS IN ROLLING OVER SUBSTANTIAL PAYMENTS DUE IN MARCH, AND A LITTLE BIT OF LUCK, THE GOB COULD AVOID A FINANCIAL CRISIS BEFORE THE ELECTIONS. HOWEVER, AS INTERNATIONAL RESERVES DWINDLE, THE MARGIN FOR ERROR IS BECOMING EXTREMELY THIN. SHOULD THE CENTRAL GOVERNMENT OR THE STATE CORPORATIONS BE UNABLE TO OBTAIN SUFFICIENT NEW CREDITS OR TO DELAY PAYMENT OF SOME DEBT, OR SHOULD THERE BE A NEW DEFAULT ON A MAJOR OBLIGATION GUARANTEED BY THE CENTRAL BANK OR THE BANCO DEL ESTADO, THE RESULTING FINANCIAL CRUNCH COULD PRECIPITATE SERIOUS POLITICAL AS WELL AS ECONOMIC PROBLEMS.

12. ALTHOUGH THE PROBLEMS FACED BY THE CURRENT GOVERNMENT BETWEEN NOW AND AUGUST ARE GRAVE, THEY PALE BY COMPARISON WITH THE LEGACY THAT WILL LIKELY BE LEFT TO ITS SUCCESSOR. PRIVATE BANKERS SUSPECT THAT THE CREDITS NOW UNDER NEGOTIATION BY YPFB AND COMIBOL MAY EXHAUST THE BORROWING POTENTIAL OF THESE INSTITUTIONS AT LEAST UNTIL ECONOMIC STABILIZATION MEASURES ARE INTRODUCED, AND FEW BANKDERS BELIEVE THAT THE CENTRAL GOVERNMENT COULD OBTAIN MAJOR NEW CREDITS. THUS THE ELECTED GOVERNMENT WILL AT THE OUTSET HAVE VERY LIMITED ACCESS TO EXTERNAL FINANCING FROM NONOFFICIAL SOURCES. AT THE SAME TIME, IT WILL FACE SUBSTAN-

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TIAL PAYMENT OBLIGATIONS, IN PART RESULTING FROM THE 1979 CURRENT ACCOUNT DEFICIT, AND IN PART FROM DEBT SERVICE PAYMENTS. WE DO NOT BELIEVE THAT IT WILL BE POSSIBLE TO OBTAIN SUFFICIENT FUNDS FROM COMMERCIAL SOURCES TO MEET THESE OBLIGATIONS.

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SAS ID: 3674111
Secure: OPEN
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