

Message Text

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ACTION ARA-15

INFO OCT-01 ADS-00 AID-05 CIAE-00 COM-02 EB-08 FRB-03
INR-10 NSAE-00 TRSE-00 XMB-02 OPIC-07 SP-02
LAB-04 H-01 SIL-01 OMB-01 SS-15 STR-08 CEA-01
NSCE-00 ICAE-00 SSO-00 INRE-00 /086 W
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O R 291200Z DEC 79
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC IMMEDIATE 9949
INFO AMEMBASSY BOGOTA
AMEMBASSY BRASILIA
AMEMBASSY CARACAS
AMEMBASSY LIMA
AMEMBASSY QUITO
USCINCSO J2 QUARRY HEIGHTS CZ

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EO 12065: NA
TAGS: EFIN, BL
SUBJECT: BOLIVIAN GOVERNMENT SIGNS IMF LETTER OF INTENT

REF: (A) LA PAZ 10725, (B) LA PAZ 10745, (C) STATE 330263

1. SUMMARY: GOB FINANCE MINISTER SIGNED A LETTER OF INTENT REQUESTING STANDBY AND TRUST FUND DRAWING FROM IMF DECEMBER 27. THE LETTER ALSO INDICATES THE GOB WILL SEEK EFF CREDIT AT THE CONCLUSION OF STANDBY IN LATE 1980. THE FINANCE MINISTER ALSO BELIEVES THE WORLD BANK IS COMMITTED TO PROVIDING A PROGRAM LOAN ONCE THE STANDBY IS APPROVED BY IMF AND HE PLANS TO APPROACH IBRD PRESIDENT MCNAMARA ACCORDINGLY. END SUMMARY.

2. AFTER RECEIVING INFORMAL APPROVAL BY THE IMF ON DECEMBER 24, BOLIVIAN FINANCE MINISTER AUGUSTO CUADROS SANCHEZ SIGNED LATE DECEMBER 27 A FORMAL LETTER OF INTENT REQUESTING THE IMF TO PROVIDE
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A STANDBY AND INDICATING THAT AT THE TERMINATION OF THE STANDBY THE GOB WILL REQUEST A CREDIT FROM THE EXTENDED FUND FACILITY. THE LETTER WAS ACCOMPANIED BY A MEMORANDUM ON GOB ECONOMIC POLICY OVER THE FOUR-YEAR PERIOD 1980 THROUGH 1983, A TECHNICAL MEMORANDUM OF UNDERSTANDING WITH SEVERAL TABLES, AND A SEPARATE SHORT LETTER REQUESTING A TRUST FUND DRAWING. ACCORDING TO LOCAL IMF REPRESENTATIVE JORGE SOL PEREZ, THE FUND

WILL GIVE FORMAL APPROVAL TO THE STANDBY AND THE TRUST FUND
DRAWING IN MID JANUARY.

3. THE STANDBY REQUEST IS FOR 66.375 MILLION SDRS, WHILE THE
TRUST FUND DRAWING REQUEST IS ESTIMATED CONSERVATIVELY AT 15
MILLION SDRS, FOR A TOTAL OF 81.4 SDRS OR ABOUT 105.8 MILLION
DOLLARS. SOL PEREZ ESTIMATES THAT, BECAUSE OF THE RISING PRICE
OF GOLD, THE TRUST FUND DRAWING WILL MORE LIKELY BE IN THE
NEIGHBORHOOD OF 20 MILLION SDRS AND THEREFORE THAT THE TOTAL
WILL BE CLOSER TO 86.4 SDRS OR 112.3 MILLION DOLLARS. DIS-
BURSEMENTS (USING THE MORE CONSERVATIVE ESTIMATE OF THE TRUST
FUND DRAWING) WILL BE AS FOLLOWS:

JANUARY 1980	41.4 SDR
MARCH 1980	14.0 SDR
JUNE 1980	13.0 SDR
SEPT 1980	13.0 SDR
TOTAL	81.4 SDR

THE GOB WOULD EXPECT TO RECEIVE THE FIRST TRANCHE OF THE EFF
CREDIT IN JANUARY 1981.

4. CUADROS SANCHEZ'S MEMORANDUM ON ECONOMIC POLICY ANALYZES
BOLIVIA'S CURRENT ECONOMIC PROBLEMS AND THEIR ORIGINS, DEFENDS
THE ECONOMIC MEASURES ALREADY TAKEN BY THE GOB AND DESCRIBES
ADDITIONAL MEASURES TO BE TAKEN IN THE FUTURE. THE OBJECT OF
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THE GOB'S EFFORTS IN 1980, ACCORDING TO THE MEMORANDUM, IS "TO
CREATE THE BASES TO ACHIEVE SUSTAINED ECONOMIC GROWTH DURING
SUBSEQUENT YEARS" AND THEREFORE "TO PUT PUBLIC FINANCES AND
THE ADMINISTRATION OF MONETARY INSTRUMENTS IN ORDER AND TO
ESTABLISH REGULATIONS AND CONTROLS OVER PUBLIC-SECTOR EXTERNAL
DEBT OPERATIONS, WITH THE PURPOSE OF REDUCING THE BALANCE OF
PAYMENT DEFICIT." FOR THE 1981-1983 PERIOD, THE ECONOMIC PRO-
GRAM'S OBJECTIVE WILL BE "TO ACHIEVE AND MAINTAIN AN ACCEPTABLE
LEVEL OF ECONOMIC GROWTH IN REAL TERMS, AVOIDING INFLATIONARY
PRESSURES AND SEEKING TO STRENGTHEN STILL FURTHER THE BALANCE
OF PAYMENTS." AN ACCEPTABLE LEVEL OF ECONOMIC GROWTH IS DEFINED
AS FOUR-AND-A-HALF TO FIVE PERCENT ANNUAL GROWTH IN THE GROSS
INTERNAL PRODUCT, COMPARED WITH THE TWO PERCENT REPORTEDLY RE-
GISTERED IN 1979. THE MEMORANDUM NOTES THAT AMONG THE OBJECTIVES
FOR 1980 WILL BE A "VIALE" EXCHANGE RATE, REDUCTION OF THE
OVERALL PUBLIC SECTOR DEFICIT, RATIONALIZATION OF PUBLIC INVEST-
MENT, ADJUSTMENT OF THE PRICES OF PUBLIC-SECTOR GOODS AND SER-
VICES TO REALISTIC LEVELS, AND CONTROL OF THE EXTERNAL DEBT OF
THE PUBLIC SECTOR AND THE PRIVATE BANKING SYSTEM. THE MEMORAN-
DUM STRONGLY IMPLIES THE POSSIBILITY OF FUTURE DEVALUATION OF
THE PESO BY STATING THAT, "IN THE FUTURE THE VALUE OF THE PESO
WILL BE DETERMINED BY THE BEHAVIOR OF THE BOLIVIAN ECONOMY,

PARTICULARLY THE INTERNATIONAL RESERVE POSITION OF THE
CENTRAL BANK AND THE RELATIONSHIPS BETWEEN EXTERNAL AND
INTERNAL COSTS."

5. IN ADDITION, THE MEMORANDUM NOTES, THE
ADMINISTRATION WILL PRESENT TO THE CONGRESS IN
1980 TAX REFORM LEGISLATION INTENDED TO STIMULATE ECONOMIC
GROWTH AND INCREASE PUBLIC SECTOR REVENUES. SPECIFICALLY,
ACCORDING TO CUADROS SANCHEZ, THE GOB WILL BROADEN THE COVERAGE
OF TAXES ON PROFITS, INTRODUCE SOME NEW INDIRECT TAXES, REDUCE
DRASTICALLY EXEMPTIONS FROM IMPORT DUTIES, MAINTAIN A RATE OF
EXPANSION IN THE MONEY SUPPLY WHICH CONFORMS TO THE PROJECTED
GROWTH OF PRIVATE SECTOR SAVINGS AND TO BALANCE OF PAYMENTS
OBJECTIVES, ESTABLISH NEW INCENTIVES FOR SAVINGS AND MODIFY
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THE TAXATION OF THE MINING SECTOR TO PROMOTE INCREASED INVEST-
MENT AND PRODUCTION. THE GOB WILL NOT, SAYS CUADROS SANCHEZ,
IMPOSE ANY MORE RESTRICTIONS IN 1980 ON INTERNATIONAL PAYMENTS
AND TRANSFERS NOR WILL IT TIGHTEN PRESENT RESTRICTIONS, IF
SUCH ACTIONS WOULD VIOLATE THE IMF'S PRESCRIPTIONS. HE EXPECTS
THAT DURING THE FIRST SEMESTER OF 1980 THE GOB WILL BE CURRENT
ON ITS EXTERNAL DEBT SERVICE.

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6. CUADROS SANCHEZ HAS TAKEN THE APPARENTLY UNPRECEDENTED STEP OF MAKING AVAILABLE TO THE PRESS AT THE OUTSET OF A STABILIZATION PROGRAM AND BEFORE THE IMF HAS FORMALLY APPROVED IT ALL OF THE DOCUMENTS HE HAS SENT TO THE IMF. HE INTENDS TO HAVE THEM PUBLISHED IN THEIR ENTIRETY IN THIS SUNDAY'S NEWSPAPERS. WE UNDERSTAND THAT HIS MOTIVATION FOR THIS ACTION IS TO CLEAR UP PUBLIC UNCERTAINTIES CONCERNING OTHER MEASURES THE GOB IS SUSPECTED OF HAVING UP ITS SLEEVE AND TO STIMULATE NATIONAL AND INTERNATIONAL CONFIDENCE IN BOLIVIA'S ECONOMIC POLICIES. HE ALSO ADVOCATES OPEN GOVERNMENT AND BELIEVES HE SHOULD TAKE FULL PUBLIC RESPONSIBILITY FOR THE ECONOMIC PROGRAM HE HAS DEVISED.

7. CONCERNING THE ISSUE OF THE WORLD BANK PROGRAM LOAN DESCRIBED IN REFTELS, CUADROS SANCHEZ IS CERTAIN THAT HE WAS ASSURED THAT THE LOAN WOULD BE FORTHCOMING ONCE THE CONDITIONS MENTIONED IN PARAGRAPH 4 OF REF A WERE MET, AND THAT THE GOB
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NEED NOT SUBMIT ANY FURTHER "PROGRAM" FOR IBRD APPROVAL AS AVERRERD BY MR LERDAU (REF C). HE IS DEAD SET AGAINST ANY LETTER OF INTENT OR OTHER COMMITMENT BY THE GOB TO EXPORT NATURAL GAS TO BRAZIL. MOREOVER, DESPITE THE PROTESTATIONS TO THE CONTRARY BY MR LERDAU (REF C), SEVERAL INDIVIDUALS HERE, INCLUDING SOL PEREZ, RECALL BEING TOLD EXPLICITLY AT THE LAST MINUTE BY IBRD STAFFER AYUB THAT THE PROGRAM LOAN WOULD BE CONTINGENT UPON SUCH A LETTER OF INTENT.

8. CUADROS SANCHEZ WILL DEAL WITH THIS ISSUE BY SENDING A CABLE TO IBRD PRESIDENT MCNAMARA, EITHER NEXT WEEK OR IMMEDIATELY AFTER FORMAL APPROVAL BY THE IMF OF THE STANDBY, REQUESTING ACCELERATION OF THE PROCESSING OF THE PROGRAM LOAN. THE CABLE WILL BE LOW KEY, WILL ASSUME THE LOAN IS FORTHCOMING AND WILL IGNORE AYUB'S REMARKS. CUADROS SANCHEZ WILL ALSO MOBILIZE AMBASSADOR ARCE TO CALL ON MCNAMARA ON THIS SUBJECT.
BOEKER

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