

Message Text

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ACTION EB-08

INFO OCT-01 ARA-11 ADS-00 AID-05 CIAE-00 COM-02 FRB-03
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C O N F I D E N T I A L LA PAZ 9970

E.O. 12065: (GDS 11/20/85 (BOEKER, PAUL H.) OR-M
TAGS: EFIN, BL
SUBJECT: BOLIVIAN NEGOTIATIONS WITH THE IMF

1. (C - ENTIRE TEXT.)

2. SUMMARY: THE RESIDENT IMF REPRESENTATIVE HAS BEEN IN NEGOTIATIONS THIS PAST WEEKEND WITH AUGUST QUADROS SANCHEZ, EXPECTED TO BE NAMED FINANCE MINISTER LATER TODAY, AND ANTICIPATES THAT THE MAJOR ELEMENTS OF A STABILIZATION PROGRAM WILL BE IMPLEMENTED WITHIN THE NEXT 72 HOURS. QUADROS HAS AGREED TO A FLOAT, RATHER THAN ANY OF THE SPLIT MARKET FORMULAS UNDER DISCUSSION EARLIER. ON THIS BASIS, THE RESIDENT IMF REP IS WILLING TO RECOMMEND A THREE-YEAR EXTENDED FUND FACILITY PROGRAM OF SDR 240 MILLION. IN A CONVERSATION WITH THE AMBASSADOR TODAY, NOVEMBER 19, THE IMF REP READILY AGREED THAT A THREE-YEAR PROGRAM WAS WARRANTED, NOW THAT THE GENERAL CONTINUITY OF CIVILIAN RULE APPEARED PROBABLE, EVEN THOUGH UNDER A NEW GOVERNMENT AFTER AUGUST 1980. DEPARTMENT SHOULD UNDERLINE WITH IMF IN WASHINGTON THAT A THREE-YEAR PROGRAM FOR BOLIVIA IS HIGHLY DESIRABLE. END SUMMARY.

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3. THE IMF RESIDENT REPRESENTATIVE, JORGE SOL PEREZ, INFORMS US THAT QUADROS HOPES TO COMPLETE WORK ON THE DRAFT DECREES BY TOMORROW AND TO PROMULGATE THEN ON TUESDAY OR WEDNESDAY. THE MAJOR MEASURES WILL BE
A. A FLOAT IN THE EXCHANGE MARKET;
B. AN INCREASE IN PETROLEUM PRODUCT PRICES OF 100, 130 OR 150 PERCENT (AMOUNT STILL UNDECIDED);

C. A WAGE "BONO" (EXTRA PAYMENT, ONCE ANNUALLY)
OF 800 PESOS, WITH MAYBE MORE IN 1980;
D. A 1980 PUBLIC SECTOR BUDGET FIXED AT THE
1979 (NOMINAL) LEVEL, PLUS THE \$75 MILLION COST OF
THE WAGE ADJUSTMENT--RECOGNIZING THAT SOME SUPPLEMENTALS
MAY HAVE TO BE CONSIDERED LATER.

4. SOL PEREZ SAID HIS MAJOR CONCERN WAS THAT THE EXTREME
PSYCHOLOGICAL DISRUPTION OF NOVEMBER SO FAR, COMBINED
WITH THE CENTRAL BANK'S MINIMAL RESOURCES TO CUSHION
EXTREME MOVEMENTS IN THE MARKET, COULD CAUSE ERRATIC
INITIAL FLUCTUATION BEFORE THE RATE SETTLED AT A STEADY
LEVEL. TO INTERVENE IN THE MARKET THE CENTRAL BANK
NOW HAS ONLY ABOUT \$15 MILLION IN FOREIGN EXCHANGE,
PLUS 180-DAY LINES OF \$50 MILLION WITH US COMMERCIAL
BANKS WHICH IT HOPES TO ACTIVATE TODAY. IN A FEW
DAYS THE GOB HOPES THE VENEZUELAN (\$20 MILLION)
AND SPANISH (\$20 MILLION) WILL RELEASE THE UNDISBURSED
PORTION OF EARLIER CREDITS.

5. PEREZ EXPECTS THAT AN IMF "MISSION" WOULD COME IN A
FEW DAYS ONLY TO POLISH A LETTER OF INTENT WHICH IS
ALREADY DRAFTED AND HE HOPES IMPLEMENTED BY THEN.

6. IN ADDITION TO THE SDR 125 MILLION WHICH WOULD BE
AVAILABLE IN THE FIRST YEAR OF AN IMF PROGRAM, SOL
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PEREZ ANTICIPATES \$25 MILLION FROM THE ANDEAN RESERVE
FUND AND A \$50 MILLION PROGRAM LOAN FROM THE WORLD
BANK BY JANUARY OR FEBRUARY. (WE WOULD APPRECIATE
WASHINGTON COMMENT ON THIS POSSIBILITY.) ADDITIONAL
FINANCING WILL ALMOST CERTAINLY BE NEEDED, PARTICULARLY
FROM THE COMMERCIAL BANKS.
BOEKER

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