

Message Text

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ACTION SS-25

INFO OCT-01 ADS-00 SSO-00 /026 W
-----003676 151608Z /44

P 151455Z SEP 79
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC PRIORITY 8175

C O N F I D E N T I A L SECTION 1 OF 2 LA PAZ 7871

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E.O. 12065: GDS 9/15/85 (BOEKER, PAUL H.) OR-M

TAGS: EFIN, ECON, BL

SUBJECT: GOB NEGOTIATIONS WITH IMF

REF: A) STATE 236589, B) LA PAZ 7451, C) LA PAZ 7552

1. (C - ENTIRE TEXT.)

2. SUMMARY: ACCORDING TO IMF TEAM LEADER CIAOLA, NEGOTIATIONS BETWEEN THE FUND AND THE GOB ARE ON TRACK AND FINAL ACTION BY THE IMF SHOULD TAKE PLACE BY MID DECEMBER. CIAOLA BELIEVES THAT THE CENTRAL BANK'S RESERVE POSITION IS SUFFICIENTLY GOOD, PROVIDING RECENT CREDITS FROM LATIN AMERICAN CENTRAL BANKS ARE ROLLER OVER, FOR SUCH A SCHEDULE TO BE FEASIBLE. END SUMMARY.

3. MARCELO CAIOLA, THE LEADER OF THE IMF TEAM CURRENTLY NEGOTIATING WITH THE GOB, AND JORGE SOL PEREZ, THE FUND'S LOCAL REPRESENTATIVE, BRIEFED ME FRIDAY AFTERNOON ON THE CURRENT STATE OF THE NEGOTIATIONS. CIAOLA INDICATED THAT THE NEGOTIATIONS WERE PROCEEDING WELL, ALTHOUGH THEY WERE SLOWED SOMEWHAT BY DIFFICULTIES IN OBTAINING SOME KEY DATA. THE APPOINTMENT THIS WEEK OF JOSE JUSTINIANO AS CENTRAL BANK PRESIDENT IS VIEWED BY CIAOLA AS A VERY POSITIVE DEVELOPMENT.

4. THE PRESENT SCHEDULE IS FOR CIAOLA TO ASSEMBLE HIS ANALYSIS
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AND RECOMMENDATIONS BY SEPTEMBER 26 SO THAT THEY CAN BE DISCUSSED BY GOB AND FUND OFFICIALS DURING THE IMF/IBRD ANNUAL MEETING IN BELGRADE. AGREEMENT ON THE STEPS TO BE TAKEN BY THE GOB SHOULD BE REACHED AT THE MEETING OR SHORTLY THEREAFTER. THE GOB WILL THEN BEGIN TO IMPLEMENT THE MEASURES, ESPECIALLY THOSE CONCERNING THE EXCHANGE RATE, DURING NOVEMBER. CIAOLA WILL PREPARE HIS DOCUMENTATION AND SUBMIT IT TO THE IMF BOARD AT THAT TIME.

THE BOARD SHOULD TAKE ACTION BY DECEMBER 15.

5. THE FINANCIAL PACKAGE CAIOLA HAS IN MIND WOULD INCLUDE: (A) AN EXTENDED FUND FACILITY DRAWING OF \$240 TO \$280 MILLION DISBURSED AS FOLLOWS--25 PERCENT IN DECEMBER 1979, 50 PERCENT IN CALENDAR 1980 AND 25 PERCENT IN CALENDAR 1981; (B) A CREDIT OF ABOUT \$250 MILLION PROBABLY OVER FIVE YEARS WITH TWO YEARS GRACE FROM A SYNDICATE LED BY CITIBANK TO COVER \$200 MILLION OWED TO COMMERCIAL BANKS WITH A LITTLE EXTRA FOR THE CENTRAL BANK'S RESERVES; (C) A \$30 TO \$40 MILLION LOAN BY THE FUNDO ANDINO; AND (D) POSSIBLY A \$30 TO \$40 MILLION PROGRAM LOAN FROM THE IBRD.

6. ALTHOUGH THE CENTRAL BANK'S RESERVE POSITION CONTINUES TO WEAKEN, CAIOLA IS CONFIDENT THAT WITH THE ROLLOVER FOR 180 DAYS OF THE \$140 MILLION BORROWED RECENTLY (FOR 90 DAYS) FROM THE CENTRAL BANKS OF ARGENTINA, BRAZIL AND VENEZUELA, THE DRAWDOWN OF \$50 MILLION LINES OF CREDIT WITH COMMERCIAL BANKS WHICH THE GOB HAS NOT YET TOUCHED, AND A TIGHT CREDIT POLICY, THE TIME-TABLE OUTLINED IN PARA 5 WILL BE FEASIBLE.

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ACTION SS-25

INFO OCT-01 ADS-00 SSO-00 /026 W
-----003839 151621Z /44
P 151455Z SEP 79
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC PRIORITY 8176

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7. THE MEASURES TO BE ADOPTED BY THE GOB REMAIN ESSENTIALLY AS DESCRIBED IN REFTELS WITH A FEW NEW WRINKLES. THE MOST SIGNIFICANT NEW IDEAS PROPOSED BY CAIOLA CONCERN THE EXCHANGE RATE AND THE DEDOLLARIZATION OF SAVINGS ACCOUNTS. CAIOLA NOW BELIEVES THE MOST EFFECTIVE APPROACH WOULD BE NOT TO ANNOUNCE A DEVALUATION OF THE PESO, BUT RATHER TO ANNOUNCE THAT THE PESO WILL BE ALLOWED TO FLOAT. THE FLOAT WOULD BE MANAGED, HOWEVER, WITH THE CENTRAL BANK INTERVENING TO KEEP THE EXCHANGE RATE WITHIN A BAND AS THE PESO GRADUALLY SINKS TO A NEW LEVEL OVER

ABOUT EIGHT MONTHS. ONCE A STEADY LEVEL HAS BEEN HELD FOR A FEW WEEKS, THE EXCHANGE RATE WOULD BE FIXED THERE. (AS CAIOLA HAS NOT YET BROACHED THE FOLLOWING IDEA WITH THE GOB, PLEASE TREAT IT WITH GREAT CONFIDENTIALITY.) OWNERS OF DOLLAR-GUARANTEED ACCOUNTS (WHICH AMOUNT TO OVER \$100 MILLION) WOULD BE OFFERED SEVERAL ALTERNATIVES. THEY COULD IMMEDIATELY CONVERT THEIR ACCOUNTS TO PESOS AT 20 TO THE DOLLAR OR THEY COULD EXCHANGE THEM FOR DOLLAR-GUARANTEED CERTIFICATES REDEEMABLE IN 180 OR 360 DAYS AT THE EXCHANGE RATE IN EFFECT ON THE DATE OF MATURITY. WHILE CAIOLA RECOGNIZES THAT THESE CERTIFICATES COULD ENGENDER A SUBSTANTIAL DRAIN ON GOB RESOURCES SIX MONTHS AND A YEAR FOLLOWING THE ANNOUNCEMENT OF THE FLOAT, HE FEARS THAT WITHOUT SOME SUCH DEVICE THERE WOULD BE SUCH WITHDRAWALS IMMEDIATELY AFTER THE FLOAT BEGINS THAT THE LIQUIDITY OF THE BANKING SYSTEM WOULD BE SERIOUSLY THREATENED.

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8. THE GOB RECOGNIZES THAT DOMESTIC PRICES FOR HYDROCARBONS MUST BE INCREASED. INCREASES OF 100 PERCENT OR 130 PERCENT ARE NOW BEING CONSIDERED. CAIOLA HOPES THAT AFTER THIS PRICE HIKE THE GOB WILL CONTINUE TO ADJUST HYDROCARBON PRICES IN ACCORDANCE WITH CHANGES IN INTERNATIONAL PRICES SO THAT THE STATE OIL COMPANY (YPFB) WILL NOT FIND ITSELF IN SIMILAR STRAITS IN THE FUTURE.

9. STEPS WILL BE TAKEN TO RATIONALIZE STATE MINING ACTIVITIES TO ASSURE THAT THE BENEFITS OF DEVALUATION TO THE STATE MINING COMPANY (COMIBOL) WILL NOT BE LOST. TAXATION OF MINING OPERATIONS WILL BE CHANGED TO ENCOURAGE NEW INVESTMENT BY COMIBOL AS WELL AS THE PRIVATE MINING COMPANIES. IBRD OR IDB CREDITS MAY BE SOUGHT TO FACILITATE REFORM OF COMIBOL.

10. ONE NEW PROBLEM WHICH HAS EMERGED THIS WEEK IS THE IMPOSITION BY THE IBRD TEAM VISITING BOLIVIA OF THREE PRECONDITIONS ON THE GOB FOR A \$30 TO \$40 MILLION PROGRAM LOAN. THESE PRECONDITIONS ARE: (A) REFORM OF THE MININT TAXATION SYSTEM, (B) A WELL-CONSTRUCTED 3-5 YEAR PUBLIC SECTOR INVESTMENT BUDGET AND (C) AGREEMENT BY THE GOB TO PUSH AHEAD WITH THE GAS PIPELINE TO BRAZIL. THE FIRST TWO MAKE SENSE, ACCORDING TO CAIOLA, BUT THE THIRD, HE THINKS, IS PROBABLY POLITICALLY IMPOSSIBLE FOR THE GUEVARA ADMINISTRATION. CAIOLA BELIEVES, HOWEVER, THAT ONCE THE GOB TAKES THE STEPS OUTLINED ABOVE AND THE FINANCIAL PACKAGE FALLS INTO PLACE, THE IBRD MAY RELENT AND PROVIDE THE PROGRAM LOAN WITHOUT A GOB COMMITMENT TO MOVE FORWARD NOW ON THE PIPELINE.

11. COMMENT: THE NEGOTIATIONS SEEM TO BE PROCEEDING AS WELL AS CAN BE EXPECTED, BUT NEXT WEEK WILL BE THE CRUCIAL ONE. THE IBRD'S CURRENT ATTITUDE IS SURPRISINGLY UNREALISTIC, HOWEVER.

ALTHOUGH PRESIDENT GUEVARA HAS TOLD ME HE WILL PROCEED WITH
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THE PIPELINE, HE WANTS TO DO IT IN A MANNER WHICH IS WELL
TIMED IN BOTH AN ECONOMIC AND POLITICAL SENSE. IN THIS REGARD,
HE CANNOT COMMIT HIMSELF TO IT PUBLICLY IN THE NEXT FEW WEEKS.
THE IBRD SHOULD REALIZE THAT, IF THE GOB ADOPTS ALL THE
MEASURES PROPOSED BY THE IMF, IT WILL CONSTITUTE TRULY
REMARKABLE PROGRESS FOR BOLIVIA, TO WHICH A PROGRAM LOAN COULD
MAKE A SIGNIFICANT CONTRIBUTION.

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Message Attributes

Automatic Decaptoning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NEGOTIATIONS, FINANCIAL AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 sep 1979
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1979LAPAZ07871
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS 19850915 BOEKER, PAUL H
Errors: N/A
Expiration:
Film Number: D790421-1051
Format: TEL
From: LA PAZ OR-M
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1979/newtext/t19790963/aaaabzqd.tel
Line Count: 185
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 75f36856-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 79 STATE 236589, 79 LA PAZ 7451, 79 LA PAZ 7552
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14 dec 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1516511
Secure: OPEN
Status: NATIVE
Subject: GOB NEGOTIATIONS WITH IMF
TAGS: EFIN, ECON, BL, IMF
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/75f36856-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014