1-20-2006

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LADB Article Id: 51842
ISSN: 1060-4189

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by LADB Staff
Category/Department: Bolivia
Published: 2006-01-20

The International Monetary Fund (IMF) announced on Dec. 21 that it would be eliminating 100% of the institution's debts owed by 19 of the world's poorest countries, a list that in Latin America included Bolivia, Honduras, Nicaragua, and Guyana. The debt cancellation resulted in a US$251 million gain for the Bolivian government and US$3.3 billion in all for the 19 nations of the Heavily Indebted Poor Countries (HIPC) initiative.

Announcement coincides with Evo Morales victory

The announcement coincided with the electoral victory of Evo Morales in his campaign for the presidency of Bolivia (see NotiSur, 2006-01-06) and may be a small help for his effort to lift up the Bolivian people, an overwhelming majority of whom live in poverty. More important, however, will be the economic support he is attempting to garner from foreign countries during a whirlwind global tour prior to his inauguration (see NotiCen, 2006-01-12). The method by which Bolivia capitalizes on its immense natural-gas reserves will also be one of the major factors in the country's future.

"This is a historic moment that will permit these countries to increase spending in priority areas to reduce poverty," said IMF managing director Rodrigo Rato in a written statement. He said other countries were also on the way to entering the program, "and, to the extent that they continue this progress, which I hope will be quickly, we are disposed to help them." IMF spokesman Thomas Dawson would not comment on whether Latin American countries other than the four listed were being considered for debt forgiveness.

The other recipients of the cancellation were mostly African countries: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia, and, in Asia, Cambodia, and Tajikistan.

In its Dec. 21 announcement, the IMF said Mauritania would be included on the list "in a matter of weeks." The IMF's Multilateral Debt Relief Initiative will be funded in part by profits from 1999 off-market gold sales, as well as by existing contributions from 43 countries to the IMF's lending facility for poor countries, according to Reuters. The IMF also said it had commitments from donors to fill a US$285 million gap in the debt-relief package.

The Latin American countries are among 19 countries eligible for the program because they completed requirements under the IMF's HIPC initiative. The countries eligible for debt relief will have 100% of debts owed to the IMF at the end of 2004 written off. No provision has been made for debt issued in 2005.

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The debt write-off will free up resources in the budgets for spending on poverty-reduction programs, said Mark Allen, the IMF's director for policy development. "[The debt write-off] will relieve the budgets of these countries of considerable expenditures, which we are hoping will be used to reach the millennium development goals," Allen said. "We will be following up with countries in the course of our normal contacts on how they are actually spending this money."

Bolivia still owes billions

This debt-relief operation has been underway since last June after a proposal for it was made at a meeting of the G-8 countries, the world's richest nations. The conditions set for the debt forgiveness, however, have been a concern to governments and nongovernmental organizations (NGOs). Those conditions may lessen the degree to which the money saved can go to poverty reduction (see NotiCen, 2005-06-23).

Humanitarian organizations like Oxfam received the news of the debt cancellation positively, having denounced the harmful effects of public debt on the world's poorest countries in the past. But for other social organizations, the quarter-billion dollar relief is insufficient and insignificant relative to the remaining debt still hobbling the government of Bolivia and, for that matter, the other 18 HIPCs.

The Committee for the Abolition of the Third World Debt (CADTM, in its French initials) says the US$3.3 billion package represents a mere 0.14% of the total debts in question. The Fitch Corporation, a stock evaluator, said the day of the announcement that, if Bolivia could eliminate its total debt to the IMF and World Bank, its public sector debt would be reduced by about US$2.1 billion.

The Fitch statement said sovereign-debt burden's relation to the GDP could go down to 54% by the end of 2006. The current level is 75%, according to Fitch. "In the immediate future, the value of Bolivian credit will be determined by the economic and political pragmatism of President-elect Evo Morales and his capacity to face the demands of the most radical social movements," prognosticated Fitch's main Bolivia analyst, Theresa Paiz-Fredel. Fitch has given a financial rating of B- to Bolivia with a negative projection for the short term.

Bolivia has had one of the worst growth rates in the region as political turmoil has frequently paralyzed the national economy. Morales has said he will nationalize the country's natural resources but will not expropriate foreign businesses. The foreign companies have invested some US$3.5 billion in Bolivia since 1996, but, after the approval of the new Hydrocarbons Law in May 2005 (see NotiSur, 2005-05-27) and numerous calls for the nationalization of the energy industry, new investments have been frozen.

The Camara Boliviana de Hidrocarburos said the week of the IMF announcement that the total investments in exploitation and production would reach some US$175 million by the end of 2005, less than the US$235.9 million of the year before. Fitch said that Morales' campaign rhetoric had worried them, with calls for a reversal of liberal economic policies followed by recent Bolivian governments and opposition to US policies and coca eradication. Nonetheless, said Fitch, "the Morales victory might give his government a greater level of legitimacy than that held by his recent

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predecessors and could lead to improvements in governability." Morales won a greater percentage of the vote than any presidential candidate in decades.

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