S O V E R E I G N   D E B T   R E S T R U C T U R I N G

May 2005, Vol. 3, No. 5

Headlines

F R A M E W O R K

Canada: Time for G-7 to Shut up and Show up
Fact Sheet on Debt Cancellation and IMF Gold
IMF, WB Adopt Common Debt Sustainability Assessment Framework

T R O U B L E D   C O U N T R I E S

ARGENTINA: U.S. Appeals Court Removes Final Obstacle to Swap
ARGENTINA: Actual Debt Exchange Formally Opens
ARGENTINA: Issues ARS1 Billion Worth of Boden Bonds
BRAZIL: Moody's Upgrades Minas Gerais to B2; Outlook Stable
COLOMBIA: Fitch Affirms 'BB' Ratings, Stable Outlook

DOMINICA: IMF Loan Fails to Stir Sluggish Economy
DOMINICAN REPUBLIC: Fitch Downgrades FC Rating to 'DDD'
DOMINICAN REPUBLIC: Fitch Rates New Bonds 'B-'
DOMINICAN REPUBLIC: Moody's Lauds Successful Debt Swap
ECUADOR: New Govt Won't Allow Outsiders to Chart Future

ECUADOR: Shift in Economic Policies Worries Investors
HONDURAS: US$206 Million Debt to Paris Club Cancelled
INDIA: Fitch Affirms 'BB+' Sovereign Ratings; Outlook Stable
MALI: 'B' Ratings Affirmed on Steady Donor Support
NIGERIA: Lawmakers Revive Threat of Argentina-like Default

PERU: Debt Buyback to Save US$300 Mln Annual Servicing Charges
PHILIPPINES: National Debt Balloons to US$73.75 Billion
PHILIPPINES: Napocor Debt to Weigh Down 2005 Budget
PHILIPPINES: Maynilad Debt May also end up in Govt Books
PHILIPPINES: Looks a lot Like Argentina Circa 2002 -- Moody's

PHILIPPINES: Borrows Another US$750 Mln Using 10-, 25-yr Bonds
PHILIPPINES: Fitch Rates US$750 Million Global Bonds 'BB'
PHILIPPINES: S&P Rates Latest Global Bonds 'BB-'
PHILIPPINES: Fitch Revises Rating Outlook to Stable
PHILIPPINES: Moody's, S&P not Upgrading Ratings Soon

PHILIPPINES: Records First Budget Surplus in Four Years
PHILIPPINES: Revises Deficit Forecast to PHP151 Billion
RUSSIA: Paris Club Creditors Accept Early Repayment Proposal
RWANDA: Gets US$82.7 Million Debt Relief from Paris Club
SERBIA: Receives 'BB-' Rating, Stable Outlook from Fitch

UKRAINE: Long-term Foreign Currency Rating Raised to 'BB-'
UNITED STATES: Detroit City Courting with Disaster
UNITED STATES: Lansing Stops Detroit's Borrowing Spree
UNITED STATES: Detroit Mayor Cutting 754 More Jobs
UNITED STATES: Pittsburgh Debt Eats up a Quarter of Budget

URUGUAY: US$300 Mln Bonds Get 'B+' Rating, Stable Outlook
VENEZUELA: Moody's Lauds Prompt Debt Payments
ZAMBIA: Paris Club Forgives US$1.403 Billion Debt

R E S E A R C H & A N A L Y S E S

President Kirchner: 'There Is Life After the IMF'

International Borrowing and Macroeconomic Performance in Argentina

Forget Forgiveness: Make the Looters Pay

Crises in Emerging Market Economies: A Global Perspective

Washington and Wall Street: The Interplay of External Financial Influences on the Course of Debt and Currency Crises in Argentina, Brazil and Uruguay, 1998-2002

Political Instability Continues to Plague Balkan States -- S&P

The International Exposure of U.S. Banks

A Quantitative Model of Sudden Stops and External Liquidity Management

International Reserves: Precautionary Versus Mercantilist Views, Theory and Evidence

****

F R A M E W O R K

Canada: Time for G-7 to Shut up and Show up

If the rest of G-7 won't do it, then Canada will go at it alone.

This was the stand made by Canada's Finance Minister Ralph Goodale during the annual meetings of the G-7 finance ministers and the IMF in April.

Canada is pushing for another debt relief alternative considered to be the most generous of several competing plans, principally from Britain and the United States, CNews said.

Canada's plan "does not hinge on issues related to gold or any other resource," Mr. Goodale told CNews. "Ours is cash on the dash, it's money on the barrelhead. We put our money where our mouth is and we're prepared to move and we call on all other countries to be prepared to do the same."

Canada's proposal is backed by Netherlands, Ireland and even Britain, the proponent of the gold sale, which is opposed by the United States. The G-7 agrees that the world's poorest nations need debt relief, but remains divided as to what form.

Selling IMF gold, according to Mr. Goodale, misses the point: "The point is, we want to alleviate that debt -- 100 percent

elimination of the debt-servicing charges. We're saying to other countries, don't make your commitment conditional upon getting some break from the gold. That may or may not be a useful technique," he said.

Bank of Canada Governor David Dodge agrees with the finance minister: "The gold at the IMF in many ways is a spurious issue. (It's) opposed by a number of people."

"It's not an ideal way to go at it. The ideal way is for everybody to . . . pony up the resources," he told CNews in a separate interview.

The Canadian proposal would provide total relief from all debt-servicing charges for 10 years, according to the report. "I think there's great potential to get more and more countries to agree to do what we're (doing) and to move this along. If other countries fail to do that, then we will still contribute our proportionate share," Mr. Goodale said.

The minister put in money in the February budget for Canada's share of World Bank-related debt. He also set aside up to CA$185 million as Canada's contribution to IMF debt for poor countries, regardless of what other countries do.

Canada has a system for forgiving bilateral debt, which has so far wiped out some CA$600 million in loans extended to 11 Third World countries. It recently added Rwanda, Zambia and Honduras to the list of eligible countries. Ottawa is committed to forgive as much as CA$1.2 billion in Third World debt.

CONTACT: DEPARTMENT OF FINANCE
Finance Minister Ralph Goodale
140 O'Connor Street
Ottawa, Ontario K1A 0G5
Tel: (613) 992-1573
Web site: http://www.fin.gc.ca/fin-eng.html

Fact Sheet on Debt Cancellation and IMF Gold

[Reprinted with permission from Jubilee USA Network.]

In 2005, there is a rare opportunity to address the crisis of debt, which is exacerbating poverty in Africa, Asia, and Latin America.

The Bush administration and the G-8 have acknowledged that more must be done to cancel impoverished country debt and the issue is on the agenda of the July 2005 G-8 summit in Gleneagles, Scotland. We call on the U.S. government to work with other G-8 nations to announce a deal at the July G-8 Summit for full debt cancellation from the IMF, World Bank, and other creditors for all impoverished nations and countries in crisis, without harmful economic conditions.

100% multilateral debt cancellation for impoverished countries would enable them to invest their resources in HIV/AIDS treatment and prevention, health care, education, clean water,

poverty reduction, and other programs that meet human needs.

The Crisis of Debt

Many impoverished countries are unable to eradicate poverty, develop their economies or provide for the basic needs of their people because of the crushing burden of servicing their multilateral debt. Poor countries in Africa, for example, spend an average of US$14 per person on debt service payments to international financial institutions like the International Monetary Fund (IMF) and the World Bank and only US$5 per person on health care.

While more 6,000 Africans die daily from HIV/AIDS, African nations send US$13 billion in debt service payments each year to wealthy creditors. UNAIDS estimates that US$10 billion each year would stem the tide of the HIV/AIDS pandemic.

The U.N. estimates that 30,000 children die each day from preventable diseases. Meanwhile, 10 out of 14 African nations are still paying more on debt service than on their entire health budget. Debt cancellation frees up resources to invest in health and stops children from dying needlessly.

Debt Relief Works

Debt relief is a tested and effective tool for releasing resources to fight poverty. Under pressure from the global Jubilee movement, most debt owed to the U.S. and other G-7 governments for the poorest nations was cancelled in 1999 and some debt owed to the IMF and World Bank has been relieved under the Heavily Indebted Poor Countries (HIPC) Initiative.

This debt relief has been used to fight poverty and savings from debt relief have:

(i) More than doubled school enrollment in Uganda;

(ii) Provided 3 extra years of school for Honduran children; and

(iii) Provided resources to fight against HIV/AIDS in Mali, Mozambique, Senegal and Cameroon.

But the HIPC Initiative has failed to provide an exit to the debt crisis. The amount countries pay creditors each year has only fallen by on average by one-third. HIPC provides too little relief, for too few countries, with too many harmful economic conditions. It is time for a bold new approach.

The G-8 Must Act in 2005

Jubilee USA Network has called for 100% debt cancellation for impoverished nations for years. Impoverished nations will not meet the internationally agreed upon Millennium Development Goals (MDGs) without full debt cancellation - additional resources will be needed as well, but debt cancellation is a critical first step.

In 2004, after years of campaigning, the U.S. and U.K.

governments embraced for the first time the principle of 100% debt cancellation - an important victory for our movement. The Bush administration supports 100% cancellation of World Bank and African Development Fund debt for 27 countries. But the Treasury department has recently backtracked and deemed IMF debt cancellation unnecessary at this time. Yet IMF debt service payments representative a significant portion of total multilateral debt payments over the next 10 years. We call on the U.S. government to cancel 100% of the debt owed to the IMF, World Bank, and African Development Fund for all impoverished countries without harmful economic conditions.

The G-8 have now been discussing debt cancellation since June 2004 - with little progress. Much of the delay is due to quibbling over how to pay for debt cancellation and over which countries will be included.

Resources Exist to Finance Debt Cancellation

Jubilee USA Network supports financing debt cancellation through some sale of the IMF's gold reserves (valued at US$45 billion), using the accumulated and future profits of the World Bank (IBRD), and drawing down the harmful PRGF/structural adjustment lending arm of the IMF.

A recent IMF report on the possibility of IMF gold sales submitted to the G-7 demonstrated that gold sales could take place without negatively impacting the world market price for gold.

Officials from gold producing countries also support such an initiative: "We would probably want to ask that if we could speed up debt relief and ensure that there is deeper debt relief for African countries, that the IMF sales get precedence over some of the other countries sales," Trevor Manuel, South Africa Finance Minister, speaking on the sidelines of a two-day meeting of Britain's Commission for Africa, March 2005.

"I have been assured that selling [IMF] gold would not drastically affect the price of gold in the world market. So I'm in favour of it. Not as an alternative but as an addition to what Gordon Brown has suggested in terms of the IFF funding for development in our countries," President Benjamin Mkapa of Tanzania said in response to a question about use of IMF gold at Jubilee Debt Campaign conference, 26 February 2005.

- - - - - - - - -

[*] Jubilee USA Network is a national network of 70 faith-based, environmental, community, solidarity, and labor rights organizations working for freedom from debt for nations across Asia, Africa, and Latin America.

CONTACT: JUBILEE USA NETWORK
222 East Capitol St. NE
Washington DC 20003
Tel: (202) 783-3566
Fax: (202) 546-4468
E-mail: coord@j2000usa.org
Web site: http://www.jubileeusa.org/

IMF, WB Adopt Common Debt Sustainability Assessment Framework

On April 11, 2005, the Executive Board of the International Monetary Fund (IMF) discussed a paper prepared jointly by the staff of the IMF and the World Bank on an "Operational Framework for Debt Sustainability Assessments in Low-income Countries-Further Considerations."

The Executive Board previously discussed the proposed framework for debt sustainability assessments on February 23 and September 24, 2004. The latest paper addresses remaining issues that need to be resolved before the framework can become operational.

Background

In its earlier discussions, the IMF's Executive Board endorsed key elements of the proposed framework for assessing debt sustainability in low-income countries. The framework is intended to help low-income countries avoid the excessive buildup of external debt in their pursuit of the Millennium Development Goals (MDGs). The framework rests on three pillars: (i) an assessment of debt sustainability guided by indicative debt burden thresholds that depend on the quality of a country's policies and institutions; (ii) a standardized forward-looking analysis of debt and debt-service dynamics under a baseline scenario and in the face of plausible shocks; and (iii) an associated borrowing (and financing) strategy that seeks to contain the risk of debt distress.

Concerns about the debt sustainability framework that were not fully resolved in previous Board discussions related to: (i) the choice of the indicative debt-burden thresholds; (ii) the interaction of the framework with the Heavily Indebted Poor Countries (HIPC) Initiative; and (iii) the modalities for IMF-World Bank collaboration in arriving at a common assessment of debt sustainability.

On previous occasions, Directors indicated a preference for more conservative debt-burden thresholds than originally proposed, particularly for strong policy performers. In response, the staff presented three alternatives for revised threshold ranges. In the option favored by the staff, the thresholds for the net present value of debt-to-export ratios are 100, 150, and 200 percent for countries' with "weak," "medium," and "strong" policy ratings, respectively. An advantage of this proposal is its consistency with the HIPC Initiative, with the midpoint of the threshold range equal to the HIPC Initiative threshold for the NPV of debt-to-exports ratio of 150 percent.

To minimize the risk of confusion arising from this new forward looking debt sustainability framework and the HIPC Initiative, the staff propose transitional arrangements for preparing debt sustainability assessments (DSAs) for HIPCs. For HIPCs that have not yet received permanent debt relief, it is proposed that the new DSAs also show the relevant debt-stock indicators under the baseline scenario using the rules

of the HIPC Initiative, including currency-specific discount rates and three-year backward-looking averages of exports (or government revenue).

The paper also specifies modalities for collaboration between IMF and World Bank staff in the preparation of DSAs under the new framework. The aim is to arrive at common assessments of the debt sustainability outlook for individual countries. The paper covers issues such as the timing of DSAs, the division of responsibility between the staff, documentation requirements, and mechanisms to resolve differences of view. In particular, DSAs will be integrated into the normal operations of the two institutions and generally be prepared annually. In preparing DSAs, the IMF will take the lead on macroeconomic projections and the World Bank on long-term growth prospects. It is proposed that these modalities be reviewed after six months.

Executive Board Assessment

Executive Directors welcomed the opportunity to consider the outstanding issues regarding the joint Fund-World Bank operational framework for the debt sustainability assessments in low-income countries. They underscored the importance of such a framework for helping low-income countries avoid an unsustainable build-up of debt in their pursuit of the Millennium Development Goals. Directors reiterated their broad support for the key elements of the framework: (i) country-specific, policy-dependent external debt-burden thresholds to guide debt sustainability assessments; (ii) forward-looking simulations of debt and debt service under a baseline scenario and in the face of shocks; and (iii) prudent borrowing strategies to contain risks of debt distress. Most Directors agreed that the operational framework is now ready to be incorporated in Fund operations.

Directors endorsed the proposed country-specific thresholds for external debt-burden indicators, including the classification of countries based on policy and institutional performance. They noted that the empirical evidence indicates that a country's ability to carry debt is correlated with the quality of its policies and institutions, and agreed that this should be reflected in the debt-burden thresholds. Directors also maintained that the need for prudence in external borrowing calls for a conservative approach in setting the thresholds. Directors felt that the staff's preferred option is consistent with these criteria. They also saw centering the thresholds on the operational threshold of the HIPC Initiative as essential to preserve the coherence of the international community's approach to debt sustainability. Directors noted, moreover, that the preferred option does not require as high a share of grant financing, the availability of which is not assured, as the alternatives considered.

Directors again cautioned that the thresholds should be seen as guideposts for informing debt sustainability assessments rather than as rigid ceilings, and that individual country circumstances, including the burden of domestic public sector debt, need to be factored into the assessments. In this regard, some Directors expressed concern that the framework

could be implemented rigidly, resulting in foregone development opportunities if additional grant financing or debt relief does not materialize; but some others stressed the need to avoid perceptions that the thresholds can be consistently exceeded because they are only indicative. Directors stressed that the framework does not imply that countries with lower debt should borrow up to their thresholds. A few Directors noted the importance of adequate conditionality being attached to grants, to reduce any moral hazard implicit in the framework. Some Directors also stressed the need to avoid using over-optimistic export projections in the DSAs. Some Directors continued to express some reservations about the use of the World Bank's Country Policy and Institutional Assessment (CPIA) to classify the quality of policies and institutions, but most Directors supported its use, subject to periodic review, and while recognizing that CPIA thresholds should not be used mechanically in country assessments.

Directors welcomed the proposed transitional arrangements for the use of the new DSA framework for HIPCs, while the HIPC Initiative is still under way. They recognized that there are fundamental differences between DSAs under the HIPC Initiative and those under the new framework, the former being a backward-looking calculation for the purpose of determining debt relief, while the latter is a forward-looking exercise to inform future borrowing and policy decisions. While these differences would need to be clarified, Directors felt that applying the new framework to HIPCs as soon as possible is important to guide HIPCs in their borrowing decisions and provide creditors and donors with a clear view of these countries' debt sustainability outlook. Directors also stressed the importance of a well-designed communications strategy to accompany the introduction of the framework.

Directors supported the preparation of a joint DSA for each low-income country and welcomed the proposed modalities of collaboration between Fund and World Bank staff for achieving these objectives. Most Directors felt that the proposed modalities are in line with previous Board discussions of this topic and the respective mandates of the two institutions. They noted that, in almost all cases, Fund and World Bank staff are expected to agree on the baseline for the DSA and the assessment of the risk of debt distress; and only in highly exceptional cases would they be unable to reach agreement on the underlying DSA baseline or the assessment of debt distress risks. Directors agreed that in such cases the different views of the staff should be reported to the country authorities at an early stage, and later to the Boards in the DSA document. They urged the staff, however, to avoid this outcome to the extent possible, and a number of Directors were of the view that the production of a single DSA is critical for the framework's credibility. Directors noted that minor revisions to DSAs would only be made in cases where both staff agreed that the revision was minor, and would not in any case change the overall assessment or lead to two separate and inconsistent DSAs. Some Directors urged a clearer definition of what would be considered a minor update under the framework that would not warrant the production of a new joint DSA.

Directors noted that the framework would be an important addition to the Fund's toolkit to assess the appropriate balance between adjustment, lending, grants, and debt restructuring/relief in low-income countries. They also underlined the importance of the Fund and Bank staff working closely with other international financial institutions and donors to allow a coordinated approach to concessionality decisions and to ensure that the proposed framework guides the decisions of donors and creditors, including the Fund. Directors also saw a key role for the Fund and Bank staff in integrating country-led approaches into the process and building broad country ownership of the analytical underpinnings of the framework, which would be essential to enhance its effectiveness.

Directors asked the staff to report to them after a six- to twelve-month period on the results of the country application of the proposed framework after sufficient experience has been gained and welcomed the staff's intention to update the framework in light of these results. Directors provided a number of suggestions for guiding the implementation of the proposed framework and the Fund's continuing work in this area, which the staff will take into account.

CONTACT: INTERNATIONAL MONETARY FUND
700 19th Street, NW
Washington, D.C. 20431 USA
Public Affairs
Tel: 202-623-7300
Fax: 202-623-6278
Media Relations
Tel: 202-623-7100
Fax: 202-623-6772

WORLD BANK
1818 H Street, N.W.
Washington, DC 20433 U.S.A.
Tel: (202) 473-1000
Fax: (202) 477-6391
Web site: http://worldbank.org/

===================================
T R O U B L E D   C O U N T R I E S
===================================

ARGENTINA: U.S. Appeals Court Removes Final Obstacle to Swap

A New York appeals court ruled in favor of Argentina on May 13, allowing the country to go ahead with its debt exchange, The Associated Press said.

In a brief order, 2nd U.S. Circuit Court of Appeals upheld the ruling of U.S. District Judge Thomas Griesa to lift the freeze on US$7 billion worth of bonds tendered in the exchange offer in February.

Judge Griesa had first sided with EM Ltd., which sought to enforce their US$700 million claims on the bonds held by the

Bank of New York, the debt exchange agent. Shortly after, however, Judge Griesa lifted the freeze, but refused to enforce it until after the appeals court's ruling.

The appeals court said it was unnecessary to rule definitively on any of the legal issues in dispute, according to AP. It added that even if Judge Griesa was wrong on some issues, "this is not a situation where the court's exercise of discretion rested on an arguably incorrect view of the law."

"We're disappointed, and we're considering our options," David W. Rivkin, a partner at New York-based Debevoise & Plimpton LLP who represented EM Ltd., told AP.

EM Ltd. is a fund controlled by Kenneth Dart, the 50-year-old billionaire president of Mason, Michigan-based Dart Container Corp. He is the same businessman who previously contested the debt restructurings of Brazil and Ecuador in the 1990s. In both cases he managed to recoup more of his investment than bondholders who agreed to the initial terms offered by the governments, Bloomberg News said in a separate report.

In the Argentine case, Mr. Dart sued the government following its default in late 2001, seeking compensation for bonds he says are worth about US$700 million. EM Ltd. and NML Capital Ltd., a Cayman Islands-based hedge fund and co-plaintiff in the New York lawsuit, are two of the debt swap holdouts, which continue to hold US$20 billion of Argentina's junk bonds.

Argentina's lawyer, Jonathan I. Blackman, of New York's Cleary Gottlieb Steen & Hamilton, said the "republic is very pleased that the court agreed with Judge Griesa." He predicted the freeze to be lifted "promptly."

About 76% of bondholders participated in the unprecedented exchange offer in February. If not for Mr. Dart's lawsuit, the actual exchange was supposed to start on April 1. The new bonds are worth about 33 cents for each dollar of its old bonds. The country defaulted on some US$104 billion in principal and interest payments after its economy collapsed in December 2001.

CONTACT: DART CONTAINER CORPORATION
500 Hogsback Road
Mason, MI 48854 USA
Switchboard: 517-676-3800
Web site: http://www.dartcontainer.com/

DEBEVOISE & PLIMPTON LLP
Phone: 212 909 6671
Fax: 212 909 6836
E-mail: dwrivkin@debevoise.com
Web site: http://www.debevoise.com/

MINISTRY OF ECONOMY AND PRODUCTION
Guillermo E. Nielsen, Secretary of Finance
E-mail: infodebt@mecon.gov.ar
Web site: http://www.mecon.gov.ar

CLEARY GOTTLIEB STEEN & HAMILTON LLP

Jonathan Blackman
Phone: +1 212 225 2490
Fax: 1 212 225 3999
E-mail: jblackman@cgsh.com
Web site: http://www.cgsh.com/

ARGENTINA: Actual Debt Exchange Formally Opens

Argentina formally commenced the debt exchange on May 24, according to Euroclear, one of the institutions responsible for administering the exchange.

This exchange was supposed to start on April 1 but two holdouts succeeded in delaying the process by seeking the seizure of some US$7 billion in bonds tendered during the debt swap offer in February. A federal appeals court in New York (see related article) reversed that ruling on May 13, paving the way for the exchange to proceed. Euroclear says the exchange will take 7-10 business days to complete.

"Finalizing the exchange will mark an important step towards repairing Argentina's reputation and reopening its access to international capital markets," The Financial Times said on May 24.

The country has been a financial pariah since defaulting on US$100 billion debt in 2002.

CONTACT: EUROCLEAR
Web site: http://www.euroclear.com/

ARGENTINA: Issues ARS1 Billion Worth of Boden Bonds

Argentina formally returned to the capital markets on May 4 with ARS1 billion in new Boden bonds, the Financial Times reported that day.

The government went on with the sale despite uncertainty over the outcome of the lawsuit that sought to derail the country's debt swap (see related story). Finance minister and chief negotiator, Guillermo Nielsen, regarded the occasion as "a way of getting back to normal," the report said.

Analysts, who spoke to the Financial Times, say there was a practical aspect to the move. The government had paid about US$370 million of Boden bonds that came due earlier in the week. The auction, if fully subscribed, would meet that sum almost exactly, they said. Wall Street analysts also expected most of the bonds to be gobbled up by local banks and pension funds and a marginal part by foreign investors.

Although the government has issued about US$18 billion of peso-denominated Boden bonds since its unprecedented default in 2002, it had not played on the capital market since then. Earlier tranches of these bonds were used by the government to pay domestic bondholders in the intervening years prior to the debt swap in February.

CONTACT: FINANCE MINISTER GUILLERMO NIELSEN
Hipolito Yrigoyen 250
(1310) Cdad. Aut. de Buenos Aires
Phone: 4349-5000/5010/5020
E-mail: ministrosecpriv@mecon.gov.ar
Web site: http://www.mecon.gov.ar/finance/

BRAZIL: Moody's Upgrades Minas Gerais to B2; Outlook Stable

Moody's Investors Service upgraded on May 2 the State of Minas Gerais' foreign and domestic issuer ratings to B2 from B3, and a positive outlook was assigned, to reflect improvements in recent years' financial performance and expectations of continued fiscal progress over the medium term.

The state's financial performance improved over the past two years largely due to the implementation of budgetary reforms, which include modernization of tax collection systems and greater control over expenditures. As a result of these measures the state moved into a financing surplus (total revenues excluding borrowing minus total expenditures excluding debt amortization) equivalent to 0.7% of revenues in 2003. In 2004, the state showed further improvement, generating a surplus of 2.4% of revenues. The state achieved this larger surplus while also increasing capital expenditures, which are of critical importance to the state's economic growth.

The positive outlook reflects improving macro-economic conditions and the expectation that the state's prudent policy framework and continued surplus operations will be maintained. Despite fiscal improvements, the state's sizable debt burden continues to rise.

The bulk of the state's debt is owed to the federal government as a result of a national refinancing exercise that intended to alleviate the rapid growth of debt that occurred in the mid-1990s. Debt continues to accumulate because the inflation index specified in the refinancing law grew faster than anticipated.

Federal limits on debt service payments mitigate the budget impact of the growing debt, but the stock of debt continues to rise since the amounts in excess of the debt service limits are added to the outstanding debt. Also contributing to improved credit quality is the state's progress in significantly reducing payables through a program to pay down amounts owed to suppliers and public sector workers.

The rating is supported by Minas' relatively large and diverse economic base; the state is the third largest in the country by GDP and the second by population.

CONTACT: MOODY'S INVESTORS SERVICE
Yves Lemay
Senior Vice President
International Subsovereign Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Debra Roane
VP - Senior Credit Officer
International Subsovereign Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

BRAZILIAN EMBASSY IN WASHINGTON
3006 Massachusetts Avenue, NW
Washington, DC 20008-3634
Tel: (202) 238-2700
Fax: (202) 238-2827
Web site: http://www.brasilemb.org/

Official Portal of the State of Minas Gerais
http://www.mg.gov.br/portalmg/

COLOMBIA: Fitch Affirms 'BB' Ratings, Stable Outlook

Fitch Ratings has affirmed Colombia's ratings as:

-- Long-term foreign currency 'BB';
-- Country ceiling 'BB';
-- Local currency 'BBB-';
-- Short-term 'B'.

The Rating Outlook is Stable.

"Economic performance has continued on an improving trend over the past two years and near-term prospects appear generally sound, although external and election-related risks are significant," said Morgan C. Harting, Fitch Senior Director and sovereign analyst for Colombia.

Growth has been supported by a favorable external environment and by improvements in local business sentiment based in part on perceptions of advances in the war against insurgent groups.

Currency appreciation has helped reduce general government debt to 51% of GDP at end-2004. After narrowing to 2.7% 2004 from 3.9% of GDP in 2003 on higher tax revenues and local government budget under-execution, the general government deficit is expected to revert back to 3.9% of GDP this year because of higher local government spending and deterioration in the social security balance. Fitch expects the social security reform legislation currently before Congress to be approved by June, but this would not have an impact on cash imbalances before 2010.

According to Mr. Harting, "it is clear that some portion of Colombia's recent economic improvement is the result of transitory positive shocks that will not be sustained over the medium term. Higher oil prices, low international interest rates and strong external demand have helped improve economic performance, and we expect these conditions to revert toward normal levels."

Beyond the expectation of a somewhat less favorable external

environment going forward, there are also risks that local and foreign sentiment may cool somewhat as the 2006 presidential and legislative elections approach and uncertainty about whether President Uribe may run for re-election continues. The somewhat larger fiscal deficit target for this year may have to be loosened further if political and external risks prove to have been underestimated. Structural fiscal imbalances related to the social security deficit, declining oil production and rising transfers to local governments will make it difficult to reduce shortfalls below current levels absent significant fiscal reform. This appears unlikely before the elections and cannot be assured afterward, either.

The Stable Outlook reflects the expectation that growth and fiscal performance will be broadly sustained over the next two years, supporting general stability in government debt and gradual reductions in external debt. Creditworthiness could improve on: substantial reductions in structural fiscal imbalances; continued growth in investment to support higher potential output; and sustained, strong export performance. The credit could come under pressure, on the other hand, if fiscal performance should deteriorate beyond current expectations and if Colombia reverts back to a prolonged slow-growth path. Significant deterioration in monetary and exchange rate stability could also increase credit risk.

CONTACT: FITCH RATINGS
Morgan C. Harting
Tel: +1-212-908-0820

Roger M. Scher
Tel: +1-212-908-0820

Kenneth Reed (Media Relations/New York)
Tel: +1-212-908-0540

COLOMBIAN EMBASSY IN WASHINGTON
2118 Leroy Place, NW
Washington, DC 20008
Tel: (202) 387-8338
Fax: (202) 232-8643
E-mail: emwas@colombiaemb.org
Web site: http://www.colombiaemb.org/

REPUBLIC OF COLOMBIA
Office of the President
Web site: http://cne.presidencia.gov.co/

DOMINICA: IMF Loan Fails to Stir Sluggish Economy

Dominica needs to double its current growth rate to stay competitive and survive in the global economy, according to Trade Minister Charles Savarin.

Mr. Savarin raised the issue as he noted that the economy has remained sluggish despite receiving an US$11.7 million, three-year loan from the IMF. In August, the fund released US$450,000 to fund rural development and help the government make salary payments. Some US$4.3 million of the loan has

been released so far.

After growing 7.38% in 1988, mainly through banana production, Dominica's economy slumped from 2001 to 2003, posting a negative growth rate of 5%. Things picked up last year, when the economy grew by 3.49%. The government projects a 3.7% growth this year.

Dominica, is one of the poorest countries in the Caribbean, according to the Associated Press. Unlike its neighbors that lean on large-scale tourism for revenues, Dominica has mountainous terrain that precludes building a runway long enough for jets carrying hundreds of tourists.

Amid the decline of agriculture and tourism, Dominica started implementing IMF austerity measures in June 2002 by cutting public spending by 15 percent and introducing new taxes.

Mr. Savarin says Dominica's economy must grow at seven percent annually to improve the lot of its populace. "This is the only way that our generation will be able to pass on to the next a standard of living we believe they are entitled to," he said.

Dominica has a population of about 70,000 people; about 16% of the total workforce are unemployed. The island became independent from Britain in 1978.

CONTACT: EMBASSY OF DOMINICA IN THE U.K.
1 Collingham Gardens, Earls Court,
London SW5 OHW.
Tel: +44 (0) 20 7370 5194
Fax: +44 (0) 20 7373 8743
Web site: http://www.dominica.co.uk/

DOMINICAN REPUBLIC: Fitch Downgrades FC Rating to 'DDD'

Fitch Ratings on May 5 downgraded the Dominican Republic's foreign currency issuer rating as well as the ratings on the debt eligible for the exchange to 'DDD' from 'C'. However, the long-term local currency rating has been placed on Rating Watch Positive in anticipation of the government's improved liquidity position as a result of the exchange.

The downgrade marks the completion of a comprehensive debt exchange, which Fitch deemed to be an event of default under its criteria for distressed debt exchanges. The government announced [on May 5] that the exchange offer had achieved the required minimum participation level and that the exchange would therefore be completed. Of the US$1.1 billion in global bonds eligible for the exchange, slightly more than 90% was tendered. As local currency obligations were excluded from the debt exchange, the long-term local currency (Dominican peso) rating remains at 'CCC+'.

Ratings on the securities to emerge from the exchange will be formally rated when they are issued on May 11, and are likely to be rated in the 'B' category. In accordance with Fitch's practice in distressed debt exchanges, existing bonds would

retain a default rating for at least 30 days. After 30 days, if the government is committed to continuing to pay principal and interest on any outstanding defaulted bonds according to their original terms, the ratings on these securities would be raised to a non-default rating to the extent that they are not fully extinguished through tenders.

As the results of the exchange imply a substantial improvement in the Dominican Republic's liquidity position, the long-term local currency rating has been placed on Rating Watch Positive. Scheduled amortizations through 2013 are almost entirely to official creditors. Most of the savings in 2005 comes from Paris Club debt relief (US$142 million) and the 100% capitalization of the remaining interest payments on the new bonds (US$46 million), as market amortizations, which amount to US$20 million, would remain unchanged as a result of the exchange. In 2006, the most significant savings would come from the five-year extension of the US$500 million maturity on the existing bonds. In light of stronger than expected fiscal results during the first quarter of this year, the public sector's total financing needs could be reduced to an estimated 4.2% of GDP in 2005 from 8.4% in 2004. As the new bonds begin to amortize in 2007, market amortizations would increase to US$119 million from US$20 million pre-exchange.

CONTACT: FITCH RATINGS (New York)
Theresa Paiz Fredel
Tel: +1-212-908-0534

Morgan Harting
Tel: +1-212-908-0820

Kenneth Reed (Media Relations)
Tel: +1-212-908-0540

EMBASSY OF THE DOMINICAN REPUBLIC
1715 22nd Street NW
Washington DC 20008
Tel: (202) 332-6280
Fax: (202) 265-8057
Web site: http://www.domrep.org/home.htm

DOMINICAN REPUBLIC: Fitch Rates New Bonds 'B-'

Fitch Ratings assigned on May 11 long-term 'B-' foreign currency ratings to the new bonds issued by the Dominican Republic as a result of its debt exchange.

Approximately US$456 million aggregate amount of 9.50% amortizing bonds due 2011 and US$574 million aggregate amount of 9.04% amortizing bonds due 2018 are affected by this rating action. Should the Dominican authorities meet the performance criteria included in the country's International Monetary Fund (IMF) program and pursue sound macroeconomic policies, multilateral financing should be assured and the government's liquidity position would remain stable. With this as a backdrop, Fitch would consider a Positive Outlook or even an upgrade of the ratings in the medium-term.

Fitch deemed the exchange offer to be a distressed debt exchange and downgraded the eligible bonds and the long-term foreign currency issuer rating to 'DDD' on 5 May 2005. If the government is committed to servicing the eligible bonds not extinguished with the exchange on time and in full, the default ratings will be removed on 6 June 2005. As local currency obligations were excluded from the debt exchange and the government's liquidity position has improved as a result of the exchange, the long-term local currency (Dominican peso) rating has been upgraded to 'B' from 'CCC+'. Following the rating action, the Rating Outlook is Stable. Similarly, the Dominican Republic's country ceiling has been upgraded to 'B-'.

The exchange has improved the Dominican Republic's near term credit profile due to the significant debt service relief achieved in 2005 and 2006. However, other fundamental credit concerns remain. Meeting the sovereign's debt service requirement remains contingent upon complying with the performance criteria contained in its Stand-by Agreement with the IMF. While it appears that quantitative performance criteria and indicative targets should be easily met, Fitch remains concerned with the authorities' ability to stay on track with structural performance criteria and benchmarks given past difficulties. Any additional disbursement delays could make meeting even modest debt service requirements challenging as the public sector's external debt service could still be upwards of US$829 million this year compared with international reserves of around US$1.2 billion. Similarly, debt service could increase to around US$1 billion in 2006, compared with forecasted reserve levels of US$1.8 billion. In addition, medium-term export growth prospects remain below average due to the expiry of textile quotas under the WTO's Agreement on Textiles and Clothing and the short-lived gains in competitiveness from the devaluation.

Stronger than expected fiscal results and economic growth during the first quarter of this year as well as the debt restructuring, could reduce the public sector's total financing needs to an estimated 4.2% of GDP in 2005 from 8.4% in 2004, supporting the 'B-' rating of the new bonds. A comparatively orderly exchange undertaken with the support of the IMF and official bilateral creditors, while at the same time remaining current on its obligations to bondholders, signals the Dominican authorities' commitment to make best efforts to normalize relations with creditors.

Nevertheless, maintaining improvements in public finances and strengthening the financial system will require significant structural reforms, a process that could be complicated by the 2006 upcoming congressional elections. Improving export prospects, which in turn could benefit reserve growth beyond 2006, will also be dependent upon the eventual approval of CAFTA, a process that is becoming an increasingly uphill battle in both the United States and some of the prospective member countries of CAFTA.

CONTACT: FITCH RATINGS
Theresa Paiz Fredel

Tel: +1-212-908-0534

Morgan Harting
Tel: +1-212-908-0820

Kenneth Reed (Media Relations/New York)
Tel: +1-212-908-0540

EMBASSY OF THE DOMINICAN REPUBLIC
1715 22nd Street NW
Washington DC 20008
Tel: (202) 332-6280
Fax: (202) 265-8057
Web site: http://www.domrep.org/home.htm

DOMINICAN REPUBLIC: Moody's Lauds Successful Debt Swap

Moody's Investors Service changed on May 14 its outlook on the Dominican Republic's B3 foreign- and local-currency ratings to stable from negative as a result of the recent debt exchange. The exchange, which was successfully completed in early May, had a high participation rate.

Moody's noted that the stable outlook incorporates the debt "relief" that will be derived from the extension of maturities as well as evidence of an improved macroeconomic environment.

Economic policy actions undertaken by the administration of President Leonel Fernandez have been effective in reversing trends that led to persistent deterioration in various financial indicators, said Moody's.

Conservative fiscal and monetary policies have contributed to restoring the conditions necessary to maintain macroeconomic stability. Nonetheless, institutional and structural challenges remain.

The rating agency noted that, while the debt ratios of the Dominican Republic appear low relative to its peer group, despite larger-than-anticipated increases in international reserves, the country's external liquidity ratios reveal a high degree of financial vulnerability when compared to similarly rated countries, and thereby makes the country's B3 rating consistent with its current risk profile.

CONTACT: MOODY'S INVESTORS SERVICE
Vincent J. Truglia
Managing Director
Sovereign Risk Unit
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Mauro Leos
VP - Senior Credit Officer
Sovereign Risk Unit
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

EMBASSY OF THE DOMINICAN REPUBLIC

1715 22nd Street NW
Washington DC 20008
Tel: (202) 332-6280
Fax: (202) 265-8057
Web site: http://www.domrep.org/home.htm

ECUADOR: New Govt Won't Allow Outsiders to Chart Future

Ecuador's new minister of economy vows to pursue only those reforms that are beneficial to the country and not everything that the International Monetary Fund says.

Minister Rafael Correa does not believe the country is bound by any agreements entered into by ousted president Lucio Gutierrez, not even those forged with the IMF.

"In contrast with the previous government, this new administration will never accept anyone even insinuating that we could not carry out legal or structural reforms that have been approved by the people," Granma International quoted Mr. Correa on May 23.

"While the deposed president Lucio Gutierrez received offers from the IMF, the country has not signed any agreements with that agency. For that reason, nobody will be allowed to suggest structural reforms," he said.

Ecuador still has a year into its US$304 million IMF loan program after seeking a one-year extension on its debt repayments last year. These repayments are due on May 28, July 2, August 30, October 1 and November 30 this year.

Under the administration of Alfredo Palacio, everything would change regarding dialogues maintained with IMF representatives, Mr. Correa said. For instance, the country will only present to the IMF a totally financed budget, clear fiscal objectives and respect for the macro-fiscal regulations that are improving in the country.

Mr. Correa recently presented a budget to Parliament that redefined, among others, the use of surplus from oil exports, which a substantial amount thereof currently goes to debt servicing.

CONTACT: REPUBLIC OF ECUADOR
Web site: http://www.presidencia.gov.ec/

EMBASSY OF ECUADOR IN WASHINGTON
2535 15th Street, N.W.
Washington, DC 20009
Tel: (202) 234-7200
Fax: (202) 667-3482
Web site: http://www.ecuador.org/main.htm

ECUADOR: Shift in Economic Policies Worries Investors

The radical pronouncement coming out of Quito lately has unnerved New York investment bank Morgan Stanley.

The bank as a result came out with a strategy note in late April, lowering its recommendation on Ecuadorian sovereign debt to underweight from overweight. The investment house cited the unclear position of newly installed President Alfredo Palacio on the country's debt.

Mr. Palacio, who replaced President Lucio Gutierrez who was ousted by opposition lawmakers on April 20, has been very vocal about shifting the country's priorities.

In particular, he and his finance minister, Rafael Correa, have spoken of "changing or scrapping the country's fiscal responsibility law," according to Dow Jones Newswires on April 25. Mr. Palacio has also revealed plans to revamp a windfall oil revenue fund to allocate more money for social spending and less to paying down foreign debt.

"While the market has already priced in significant negative news in Ecuador, we do not yet appear to be pricing in a restructuring scenario, something that can't be ruled out given statements from both the president and finance minister," Morgan Stanley's strategy note on April 25 stated.

The bank, however, does not anticipate a default by Ecuador, noting that the country only has US$260 million debt to pay this year.

"We do not believe that a default in Ecuador would occur because of a lack of resources," Morgan Stanley said. "The ability of Ecuador to continue to service its external debt is there. At issue now is the new government's willingness to pay."

Lawmakers booted out Mr. Gutierrez amid a swelling street protest that was triggered by the dissolution of the country's Supreme Court. Congress used a vague provision in the Constitution, which permits a president's removal for "abandonment of the post." By disbanding the Supreme Court and declaring a state of emergency, solons argued that Mr. Gutierrez had in effect violated the charter.

Mr. Gutierrez, who took office in January 2003, is the third president since 1997 to be ousted from power. Mr. Palacio, who was his vice president, succeeded him on April 20.

CONTACT: REPUBLIC OF ECUADOR
Web site: http://www.presidencia.gov.ec/

MORGAN STANLEY
1585 Broadway
New York, NY 10036
Phone: (212) 761-4000
Web site: http://www.morganstanley.com/

HONDURAS: US$206 Million Debt to Paris Club Cancelled

The representatives of the Paris Club creditor countries met on May 12, 2005 and agreed to recommend to their Governments a

reduction of Honduras' stock of debt.

The representatives of the creditor countries took note that Honduras had reached the Completion point under the enhanced initiative for the Heavily Indebted Poor Countries (enhanced HIPC initiative) on April 5, 2005. They welcomed Honduras' determination to implement a comprehensive poverty reduction strategy and an ambitious economic programme providing the basis for sustainable economic growth.

In order to contribute to restore Honduras' debt sustainability, they decided to cancel US$206 million in nominal terms, which represents the Paris Club's share of the effort in the framework of the enhanced HIPC Initiative. Most creditors also committed on a bilateral basis to grant additional debt relief to Honduras so that the stock of the debt owed to Paris Club creditors will be reduced by a further US$855 million in nominal terms.

As a result of this agreement and additional bilateral assistance, Honduras' debt to Paris Club creditors will be reduced from US$1,474 million to US$413 million. Honduras committed to allocate the resources freed by the present treatment of the debt to priority areas identified in the country's poverty reduction strategy. Creditors welcome and support the Honduran Authorities' commitment to seek comparable treatment from all their other external creditors (including other creditor countries as well as commercial creditors).

Background Notes

The members of the Paris Club that participated in the reorganization of Honduras' debt were representatives of the Governments of Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland and the United States of America.

Observers at the meeting were representatives of the Governments of Norway and the United Kingdom as well as the International Monetary Fund (IMF), the International Development Association (IDA), and the Secretariat of UNCTAD. The delegation of Honduras was headed by Mr. William Chong Wong, Minister of Finance.

The meeting was chaired by Mr. Ramon Fernandez, Deputy Assistant Secretary at the Treasury and Economic Policy Department of the French Ministry of Economy, Finance and Industry, Vice President of the Paris Club.

Technical Notes

(1) Honduras' economic program is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF).

(2) Honduras' public external debt was estimated to be US$4.8 billion in nominal value as at end 2003 (source: IMF and IDA document, dated March 9, 2005 published on the IMF Web site http://www.imf.org). The debt owed to Paris Club creditors as of March 1, 2005 was estimated to be US$1,474 million in

nominal value (source: Paris Club May 2005).

CONTACT: PARIS CLUB
Web site: http://www.clubdeparis.org/en/index.php

EMBASSY OF HONDURAS IN WASHINGTON
3007 Tilden Street, NW
Suite 4M
Washington, DC 20008
Tel: (202) 966-7702
Fax: (202) 966-9751
E-mail: embassy@hondurasemb.org
Web site: http://www.hondurasemb.org/

INDIA: Fitch Affirms 'BB+' Sovereign Ratings; Outlook Stable

Fitch Ratings affirmed on May 19 India's foreign and local currency ratings at 'BB+'. The rating Outlook is Stable. The rating agency said that despite India's external strengths, such as solid external liquidity and a declining external debt burden, its high fiscal deficit prevents the country from achieving an investment-grade rating in the near term.

"In essence, India's weak public finances have become a binding constraint on its sovereign ratings," said Shelly Shetty, Senior Director on Fitch's Sovereigns team. Fitch says future rating changes will hinge upon the progress made by authorities to improve public finances. "Swifter deficit reduction would place public debt on a stronger footing and encourage a virtuous cycle of lower interest rates, greater private investment, and higher economic growth, all of which will be supportive of a higher sovereign rating," added Ms. Shetty.

In recent years, India's favorable macro conditions have prevented an escalation in the government debt burden; however, Fitch stresses that it is critical that complacency does not set in with regard to the need to implement fiscal reforms, as debt dynamics remain vulnerable to a sharp and prolonged slowdown in growth and rise in interest rates. Moreover, the general government debt stock of over 80% of GDP is significantly higher than the 'BB' median, and a further build-up in public debt would undermine the ability of the government to respond to shocks.

Fitch says India's ratings are supported by its strong international liquidity position, a declining external debt burden, its improving growth prospects, and its robust political and private sector institutions. With a rapid build-up in international reserves that reached US$137 billion at the end of 2004/05, Fitch estimates that India has turned into a net external creditor. Moreover, strong export growth has placed external debt ratios on a solid downward trajectory. India's external debt as a percentage of current external receipts ("CXR") is estimated to have declined to 97% in 2004/05 compared to 114% for the 'BB' median. "However, the country is expected to record current account deficits in the coming years and the financing of these deficits could increasingly become dependent on foreign portfolio inflows,

which are traditionally more volatile," said Ms. Shetty.

The agency notes that that the strong foreign capital flows into India in recent years may partly reflect low global interest rates; as such, it is critical for India to accelerate the reform process and deliver on higher growth to maintain its attractiveness to foreign portfolio investors.

But the main factor holding India's ratings in check is its poor record of controlling large and persistent fiscal deficits. General government deficits at 9-10% of GDP are nearly triple the level of the 'BB' median and five times the 'BBB' median. In addition, interest payments represent nearly one-third of general government revenues, which is very high compared to similarly rated sovereigns. Despite the fiscal weaknesses, the 2005/06 budget missed the opportunity presented by high growth to consolidate the fiscal accounts faster. The authorities did not opt for an aggressive tax reform to increase the tax intake, and issues such as phasing out of subsidies and cutting current spending were sidelined. Although the government has reaffirmed its commitment to achieve a zero revenue deficit by 2009, and it has provided incentives to states to achieve the same, much will depend on the implementation of tax-enhancing and expenditure-reducing policies.

Nonetheless, India's near-term growth prospects appear to be fairly robust, a consequence of past reforms and the resultant restructuring by the Indian private sector. The main drivers of growth will be higher consumption and infrastructure spending, and higher growth in the services and industrial sectors. "However, we believe that sustaining a 7% growth rate and increasing it to 8-10% will depend on the ability of the government to implement structural reforms, including fiscal consolidation and further disinvestment, and easing of infrastructure bottlenecks," said Ms. Shetty. Fitch expects the new government to continue with reforms albeit at a slow pace due to the constraints imposed by coalition politics. Progress on controversial issues like labor reform and strategic disinvestment, which are critical to fostering greater market forces and improving overall productivity growth, is unlikely. However, further liberalization of the foreign direct-investment regime, minority sales in public sector enterprises, financial reforms, and steady trade liberalization could continue.

CONTACT: FITCH RATINGS (NEW YORK)
Shelly Shetty
Tel: +1-212-908-0324

Paul Rawkins (London)
Tel: +44 (0)20 7417-4239

James McCormack (Hong Kong)
Tel: +852 2263 9925

Kenneth Reed (Media Relations/New York)
Tel: +1-212-908-0540

EMBASSY OF INDIA IN WASHINGTON

2107 Massachusetts Avenue, NW
Washington, DC 20008
Tel: (202) 939-7000
Fax: (202) 265-4351
Web site: http://www.indianembassy.org/

Official Government Directory
http://goidirectory.nic.in/

MALI: 'B' Ratings Affirmed on Steady Donor Support

Standard & Poor's Ratings Services on May 23 affirmed its 'B' long-term and 'B' short-term foreign and local currency sovereign credit ratings on the Republic of Mali. The outlook is stable.

"The ratings on Mali are constrained by a low level of economic development," said Standard & Poor's credit analyst Luc Marchand. "In 2005, per capita income is just US$383, and economic diversification is limited, with exports relying heavily on gold, cotton, and livestock."

The ratings on Mali are also constrained by a lack of fiscal flexibility. Fiscal deficits are projected to run at 3.5%-4.0% of GDP for the foreseeable future. This includes substantial grants from international donors, which accounted for 4.1% of GDP in 2004, representing 18.5% of total government revenues.

"Even with these deficits being financed by concessional funding, Mali's net general government debt should continue to remain high, at an estimated 62.6% of GDP in 2005," said Mr. Marchand.

In 2005-2006, the pressures on fixed expenditures will remain high, due to the heavy development needs. In addition, the expected presidential and parliamentary elections in 2007 are likely to place further upward pressure on expenditures, as the government seeks to build support in Mali's fractured political landscape.

The ratings on Mali are supported by the sovereign's membership of the West African Economic and Monetary Union (WAEMU). The institutional arrangements of this organization have had several benefits for its members, including low inflation, estimated at 2.5% in 2004. The ratings are also supported by Mali's achievement of completion point under the Heavily Indebted Poor Countries (HIPC) initiative in March 2003.

"We expect that Mali will continue to receive donor support and to implement economic and fiscal reforms within the framework of the policies and targets of the HIPC initiative," said Mr. Marchand.

The ratings could come under pressure, however, should Mali's medium-term growth fall significantly below current expectations. Mali's economy remains vulnerable to prolonged external shocks linked to cotton or gold demand and prices.

Wavering donor support or fiscal slippage from current Projections -- particularly due to expenditures that do not directly alleviate poverty -- could also put downward pressure on the ratings. Conversely, should Mali's economic indicators move into line with those of its more prosperous neighbors more quickly than currently expected, the ratings could be raised.

CONTACT: STANDARD & POOR'S (London)
GROUP E-MAIL ADDRESSES
SovereignLondon@standardandpoors.com

Luc Marchand
Tel: (44) 20-7176-7111;
E-mail: luc_marchand@standardandpoors.com

Sarah N'Sonde
Tel: (44) 20-7176-7118
E-mail: sarah_nsonde@standardandpoors.com

EMBASSY OF MALI IN WASHINGTON
2130 R Street NW
Washington, D.C. 20008 United States
Tel: (202) 332-2249
Fax: (202) 332-6603
E-mail: infos@maliembassy.us
Web site: http://www.maliembassy.us/

NIGERIA: Lawmakers Revive Threat of Argentina-like Default

Nigerian lawmakers are intensifying their call for debt relief from the world's richest nations. Last month, they renewed their threat to halt debt payments, believing the country had nothing to lose by doing so.

"The mood in the National Assembly is that there would be no negative consequences from halting debt payments because Nigeria doesn't have any credit lines," Senator Udoma Udo Udoma told Reuters. He is leading the team of lawmakers and government officials lobbying for a debt haircut from Britain, Germany, Italy and the United States.

In particular, Nigeria is targeting the Paris Club of creditors, which the country owes US$28 billion. It currently pays the Club US$1 billion a year, less than half what is due, so the total stock of debt grows every year, according to Reuters.

"It is unconscionable that Nigeria has paid US$3.5 billion in debt service over the past two years but our debt burden has risen by US$3.9 billion -- without any new borrowing. We cannot continue. We must repudiate this debt," Farouk Lawan told Britain's The Guardian recently. Mr. Lawan chairs the finance committee in the House of Representatives.

The Club, according to Reuters, normally insists on countries to adopt a formal IMF program before engaging in talks on debt relief or rescheduling. But the IMF in March rejected Nigeria's plea for relief, arguing that the African country

can afford to pay its debt in full. It cited the country's foreign reserves, which have grown to US$20 billion largely as a result of soaring oil prices. Nigeria is Africa's top oil exporter.

President Olusegun Obasanjo insists the country needs substantial relief to save money for basic services like education and health. He said the West should show more support for the many changes that have transpired during his tenure, many of which are unpopular among Nigerians.

"We need help from creditors to make the huge investments required to get the country back to where it was before the military came in," Reuters quoted Mr. Udoma saying.

In March, the House of Representatives passed a non-binding motion calling for a unilateral halt on repayments, which now total US$35 billion. The threat fizzled because the chamber eventually passed the country's budget that included US$1.3 billion for debt service.

Lawmakers believe now is the best time to seek relief because Britain, its main backer and largest creditor, holds the presidency of the Group of Eight rich nations.

CONTACT: Consulate General of Nigeria, New York
828 Second Avenue
New York, New York 10017
Phone: (212) 850-2200
Fax: (212) 687-8768
E-mail: info@nigeria-consulate-ny.org
Web site: http://www.nigeria-consulate-ny.org/

Paris Club
Web site: http://www.clubdeparis.org/en/

PERU: Debt Buyback to Save US$300 Mln Annual Servicing Charges

Peru's finance minister, Pedro Pablo Kuczynski, expects the Paris Club to accept the country's offer to buy back some US$1.5 billion of debt, according to The Financial Times.

The country hopes to save US$300 million in debt servicing charges annually in retiring the debt early. Government emissaries led by Mr. Kuczynski presented the proposal to the Club in early May. A decision is expected at month's end.

The government will finance the buy-back by selling longer-term sovereign debt both on the local and international capital markets. Peru's total debt with the Club is about US$8.5 billion, according to the paper.

CONTACT: PERUVIAN EMBASSY IN WASHINGTON
1700 Massachusetts Ave. NW
Washington D.C. 20036,
Tel: (202) 833-9860
Fax: (202) 659-8124
Web site: http://www.peruvianembassy.us/

PHILIPPINES: National Debt Balloons to US$73.75 Billion

The national debt of the Philippines as of January totaled PHP4.01 trillion (US$73.75 billion), up more than 5% from end-2004, according to the finance department.

The sharp rise was attributed by the ministry to PHP5 billion in new borrowings to finance the country's budget deficit and the PHP196 billion loans that the government absorbed from the National Power Corporation (Napocor).

On a year-to-year comparison, domestic debt, which accounts for 50.9% of the national debt, rose 1.8% from PHP2.04 trillion in January 2004. Foreign debt, which represents the balance, jumped 8.7% to PHP1.97 trillion, the finance department said.

At end-2004, total debt stood at PHP3.81 trillion (US$70.07 billion), according to Dow Jones, citing official figures. The absorption of Napocor's debt is mandated by law as part of its privatization. The government still needs to absorb PHP300 billion more to make the country's main power producer attractive to investors. The debt assumed is estimated to cost the national government additional interest payment expenses of PHP18 billion a year, Dow Jones said.

The national government's contingent debt, or debt by state firms and other public agencies that had been guaranteed by the government, dropped to PHP619 billion in January from PHP833.7 billion at the end of 2004, Dow Jones said.

Mrs. Arroyo has been pushing for key revenue-raising measures to reduce the government's budget deficit and lessen its dependence on borrowings.

CONTACT: DEPARTMENT OF FINANCE
Phone: (02) 404-1774
(02) 404-1776
Web site: http://www.dof.gov.ph

PHILIPPINES: Napocor Debt to Weigh Down 2005 Budget

The country's financial problems could turn from bad to worse when the government absorbs this year another PHP300 billion of National Power Corporation's (Napocor) debt.

Budget Secretary Emilia Boncodin, in a recent interview with The Philippine Star, said the government has no choice but to shoulder the debt to advance the power sector reform program of President Gloria Arroyo.

Under the Electric Power Industry Reform Act (EPIRA) passed by Congress in 2001, the government was mandated to absorb no more than PHP200 billion of Napocor's debt. But as it turned out, Napocor still has PHP300 billion of debt that it can no longer service. The government has to absorb them because they are guaranteed by the republic.

"[I]t's only a matter whether the obligations will be in the Napocor books or in the NG [national government] books because these loans all carry the sovereign guarantee of the republic. It's just cheaper for the NG to carry these loans," Ms. Boncodin told The Star.

Napocor, meanwhile, absorbed a huge blow recently when the Energy Regulatory Commission only approved a PHP0.05 per kilowatt-hour rate adjustment instead of the PHP0.97 per kWh it had requested. This is the second adjustment since September and the other half of the PHP1.87/kWh total adjustment Napocor had submitted for approval. But because the Commission approved only PHP0.05/kWh, the total adjustment came only to PHP1.04.

Ms. Boncodin said the balance will ultimately be borne by the national government since the requested adjustment was supposed to plug Napocor's losses.

Prior to its privatization, Napocor was the country's main power producer. Its transmission assets were recently acquired by the National Transmission Corporation, a government-owned and controlled corporation created under the EPIRA.

CONTACT: Department of Budget and Management
Secretary Emilia Boncodin
Gen. Solano St., San Miguel, Manila
Phone: (02) 735-4926, 735-4927
Fax: (02) 735-4936
E-mail: etb@dbm.gov.ph
eboncodin@dbm.gov.ph
dbmtis@dbm.gov.ph
Web site: http://www.dbm.gov.ph/

National Power Corporation
BIR Road corner Quezon Avenue
Diliman, Quezon City, Philippines
Phone: (632) 921-3541
Fax: (632) 921-2468
Web site: http://www.napocor.gov.ph/

National Transmission Corporation
Power Center
BIR Road corner Quezon Avenue
Diliman, Quezon City
Phone: (02) 981-2100
E-mail: corpcomm@transco.ph
Web site: http://www.transco.ph/index3.asp

PHILIPPINES: Maynilad Debt May also end up in Govt Books

The Philippine government may end up absorbing more contingent debt from other agencies aside from Napocor, the state-owned power company, The Manila Times reported on May 9.

Under the rehabilitation plan of troubled water distributor, Maynilad Water Services Inc., the government is required to issue sovereign guarantees on a US$31 million loan to keep the

utility afloat.

Although Maynilad is privately owned by Benpres Holding Corporation, it is supervised by the Metropolitan Waterworks and Sewerage System (MWSS). MWSS is a government body that acts as part regulator and part de facto owner of Maynilad and Manila Water Company, the other utility serving the East Zone of Metro Manila.

Maynilad, which serves the West zone, ran into serious financial troubles two years ago. Under the rehab plan approved by creditors, MWSS will take out a World Bank loan to fund the utility's capital and operating expenditures. Maynilad will only begin to remit loan payments to MWSS in 2013 after all the debt to other creditors have been paid. The loan will enjoy sovereign guarantee from the Philippine government, Manila Times learned.

In addition to this loan, MWSS has also asked the government to borrow US$125 million for Maynilad's Revenue Generation and Service Improvement Project and include it in the World Bank's country assistance strategy (CAS).

Opposition

Already saddled by a burgeoning deficit, made worse by the absorption of Napocor's loans (see related article), the government may yet face another obligation if Maynilad's rehabilitation end up a failure.

The Action for Economic Reforms (AER), a non-government organization critical of the plan, has suggested that Maynilad take out the loan from the International Finance Corp., the World Bank's private sector lending arm, but without the sovereign guarantee.

Lawyer Nepomuceno Malaluan, an AER member who told The Manila Times that the matter is a "done deal," said the Development Bank of the Philippines (DBP) is the only stumbling block to the plan. One of Maynilad's nine creditor banks, DBP is still deliberating the matter, according to Mr. Malaluan. The other creditor banks are Equitable-PCI Bank, Rizal Commercial Banking Corp., Credit-Agricole, Indosuez, Merchant Bank Asia Ltd., Citibank NA, Barclays Bank plc and BNP Paribas.

Maynilad filed for corporate rehabilitation in 2003 after admitting it could no longer pay its debt. One of its biggest obligations is a PHP10 billion concession fee to the MWSS, which makes the latter its largest creditor. The rehab plan is still under review by a court in Quezon City, which declared during a hearing on May 4 that the matter is considered submitted for resolution. The decision is expected soon, the report said.

Several firms have expressed interest in buying Maynilad recently. They include Manila Waters, investment bank ING Barings, International Finance Corp. and DMCI Holdings Inc.

CONTACT: MAYNILAD WATER SERVICES
c/o Benpres Holdings Corporation

Benpres Bldg., Exchange Rd.
Corner Meralco Ave., Ortigas Center
Pasig City, Philippines
Tel: (632) 631 3111
Fax: (632) 631 3156
Web site: http://www.benpres-holdings.com/

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
4th Floor, Administration Building, MWSS Complex
489 Katipunan Road, Balara
Quezon City 1105
Tel: (632) 922-3757
(632) 922-2969
(632) 920-5560
Fax: (632) 921-2887
E-mail: info@mwss.gov.ph
Web site: http://www.mwss.gov.ph/

DEPARTMENT OF FINANCE
Phone: (02) 404-1774
(02) 404-1776
Web site: http://www.dof.gov.ph

MANILA WATER COMPANY
Administration Building
489 Katipunan Road Balara
Quezon City 1105 Philippines
Tel: (632) 926 7999
Fax: (632) 928 2450
Web site: http://www.manilawater.com

DMCI HOLDINGS INC.
3/F, Dacon Building
2281 Chino Roces Ave. Ext.
Makati City 1231
Tel: (632) 888-3000
Fax: (632) 816-7362
E-mail: dmcihi@dmcinet.com
Web site: http://www.dmchi.com

DEVELOPMENT BANK OF THE PHILIPPINES
Sen. Gil J. Puyat Avenue corner Makati Avenue,
Makati City, Philippines
Tel: (632) 818-9511 to 20
(632) 818-9611 to 20
E-mail: info@devbankphil.com.ph
Web site: http://www.devbankphil.com.ph/

EQUITABLE-PCI BANK
Equitable PCI Bank Tower Makati Ave.
Cor. H.V. dela Costa Sts., Makati City
Tel: (632) 840-7000
Web site: http://www.equitable.com.ph/

RIZAL COMMERCIAL BANKING CORP.
Yuchengco Tower
RCBC Plaza
6819 Ayala Avenue
Makati City 0727
Philippines

Tel: (632) 894-9000
Fax: (632) 894-9958
Web site: http://www.rcbc.com/

ING BARINGS
Web site: http://www.ing.com/index.jsp

INTERNATIONAL FINANCE CORP.
Web site: http://www.ifc.org/

CREDIT-AGRICOLE
Web site: http://www.credit-agricole.fr/

CITIBANK
Web site: http://www.citibank.com/us/

BARCLAYS BANK PLC
Web site: http://www.barclays.co.uk/

BNP PARIBAS
Web site: http://www.bnpparibas.com/

PHILIPPINES: Looks a lot Like Argentina Circa 2002 -- Moody's

A Moody's sovereign analyst declared recently that the Philippines is worse than Argentina.

Thomas Byrne said the country's debt situation is comparable to Argentina prior to its unprecedented US$95 billion default in 2002. Now at US$75 billion, the government's debt is equivalent to 525% of its revenue last year and is almost double the ratio for Argentina prior to its collapse, he said.

"If you compare all the key fiscal ratios that we look at, the Philippines is much worse now than Argentina was in 2001," Hong Kong's The Standard recently quoted Mr. Byrne on the sidelines of Asian Development Bank's annual meeting. The Philippines, he added, "is no longer under water, it's treading water."

The country's current account surplus in 2004 amounted US$2.08 billion, but that may narrow to US$1.2 billion this year on expectations import growth will continue to outpace export. "A very negative credit development would be if the current account swings into deficit," Mr. Byrne said.

The budget deficit is a major concern not only for Moody's. It is nearly 4% of gross domestic product, wider than Argentina's 3.2 percent deficit in 2001. Moody's underscored this in February when it downgraded the country to B1, four notches below investment grade.

Mr. Byrne adds the Philippines' so-called external vulnerability indicator -- the ability to cover maturing debt through reserves -- was below 100 percent last year, less than half of Argentina's before the latter defaulted.

Deputy National Treasurer Omar Cruz disputes Mr. Byrne's assessment. According to him, the country's finances is

relatively healthy and its maturity profile has an average of more than eight years.

"I control the government's cash flow and I know our cash-flow position and our maturities," he told The Standard. "The maturity profile is very long." Pressure "for some kind of default" is far from apparent, Mr. Cruz added.

Mr. Byrne prescribes a "much more vigorous program of tax reform and administrative reform" for the Philippines, which is considered Asia's biggest seller of foreign debt.

The government of President Gloria Arroyo has proposed sweeping fiscal reforms and various revenue-raising measures. She aims to gradually narrow the budget deficit and cap debt that swallows a third of spending each year. She plans to balance the budget by the end of her term in 2010. This year's deficit is estimated to fall below PHP180 billion, from a record PHP211 billion in 2002.

CONTACT: MOODY'S INVESTORS SERVICE
Web site: http://www.moodys.com/

PHILIPPINES: Borrows Another US$750 Mln Using 10-, 25-yr Bonds

The Philippines raised another US$750 million from the bond market, bringing its total borrowing for the year to US$2.25 billion, Reuters said on May 10.

The country reopened its 10-year and 25-year bonds, which were eight times oversubscribed, according to Finance Secretary Cesar Purisima. "The issue had relatively good investor distribution in the U.S., Asia and Europe," he said.

The latest issue follows the sale of US$1.5 billion in 25-year bonds in January. The government had earlier said it will raise US$3 billion this year to plug the 2005 budget deficit and another US$1 billion to support debt-laden National Power Corp.

The 2015 bonds were priced at 101.375, or 438.5 basis points above 10-year U.S. Treasuries, according to the finance department. The 2030 bonds were priced at 97.875, or 510.5 basis points over comparable U.S. Treasuries. Both were priced at the top end of their price guidance ranges. The 2015 bonds were quoted at 102.375/103.125 in price terms on May 10, while the long-dated 2030 bonds were traded at 99.125/99.875, according to Reuters.

"A source familiar with the bond sale said U.S. investors took 42 percent of the 2015 reopening, while Asian buyers accounted for 34 percent and the remainder went to European clients," Reuters said. "U.S. customers bought 50 percent of the 2030 bonds on offer, with the rest equally split between Asian and European buyers."

"By investor type, funds and pension took 55 percent of the 10-year tranche, banks 36 percent, and insurance and retail buyers 9 percent," Reuters added. "Funds and pensions

accounted for 49 percent of the 25-year deal, banks 27 percent, and insurance and retail 24 percent."

The Philippines is Asia's most-active sovereign debt issuer after Japan. In the latest transaction, the 10-year bonds raised US$250 million, while the 25-year bonds raised US$500 million. Deutsche Bank, HSBC and JPMorgan were the lead managers.

CONTACT: DEUTSCHE BANK
Web site: http://www.db.com/

HSBC
Web site: http://www.hsbc.com/

JPMORGAN
Web site: http://www.jpmorgan.com/

PHILIPPINES: Fitch Rates US$750 Million Global Bonds 'BB'

Fitch Ratings assigned on May 10 a rating of 'BB' to the Republic of the Philippines' US$750 million bond issue. The issue re-opens the 8.875% USD Global Bonds maturing in 2015 and the 9.5% USD Global Bonds maturing in 2030.

Fitch says the Philippines' Long-term foreign currency rating of 'BB' with a Negative Outlook reflects concerns about fiscal flexibility in the presence of high levels of public debt but also recognizes the country's relatively comfortable external finances and recently robust macroeconomic performance.

Government debt (on a consolidated basis) was estimated at 73.4% of GDP at end-2004 compared to a 'BB' median of 51.8%, with a heavy interest servicing burden equivalent to 30% of total government expenditure. These concerns are compounded by financial pressures in the state enterprise sector. However 2004 saw a seventh successive year of current account surplus at 2.4% of GDP, supported by US$9.5 billion of overseas Filipino workers' remittances which continue to grow rapidly. The 2005 external liquidity ratio is estimated at 151%, close to the 'BB' median of 158%, while net external debt as a share of current external receipts declined to 62% in 2004, a ratio which is substantially below that of 'BB-' (BB minus) rated Turkey (119.7%), Brazil (124.6%) and Indonesia (103.7%).

Fitch notes that, while it has been a long time coming, legislative progress on the crucial VAT package looks as though it may be imminent, with reports of a bicameral agreement to raise the VAT rate from 10% to 12% from January 2006, substantially reduce VAT exemptions and raise the corporate tax rate from 32% to 35% for three years.

While final details are still emerging, Brian Coulton, head of Fitch's Sovereigns group in Asia said, "Such a package, if implemented, would help to push the primary fiscal surplus towards 3% of GDP from an estimated 1.5% in 2004. In the presence of healthy nominal GDP growth this would put the government debt to GDP ratio on a firm downward

trajectory over the medium-term." However, he adds it will also be crucial to maintain expenditure restraint and continue with intense efforts to raise tax collection efficiency.

CONTACT: FITCH RATINGS
Brian Coulton
Tel: +85 (2) 2263 9797

James McCormack +85
Tel: (2) 2263 9925

Ching-Yuen Lock (Media Relations/Singapore)
Tel: +65 6238 7301

PHILIPPINES: S&P Rates Latest Global Bonds 'BB-'

Standard & Poor's Ratings Services assigned on May 10 its 'BB-' senior unsecured debt rating to the Republic of Philippines' (foreign currency BB-/Stable/B, local currency BB+/Stable/B) US$750 million global bond issue. The issuance consists of a reopening of the country's U.S. dollar denominated bonds for US$250 million, maturing in 2015, and US$500 million, maturing in 2030.

The sovereign credit ratings on the Philippines reflect its high fiscal debt and the attendant impairment of fiscal flexibility. Net general government debt, excluding guaranteed contingent liabilities of non-financial public enterprises, is projected at about 74% of GDP for 2005, compared with the 'BB' median of 46.6%. The Philippines' debt levels translate into an interest burden of around 40% of general government revenues. Although the general government deficit peaked at 5.3% of GDP in 2002 and has eased since then, deficits are still expected to remain high in the medium term in light of persistently weak revenue collection that lags nominal GDP growth.

"Notwithstanding recent improvements in revenue collection, a substantial reduction in the fiscal deficit and the attendant debt burden will require additional revenue measures, and improved administration of existing taxes," said Standard & Poor's credit analyst Agost Benard.

The reform agenda of President Gloria Macapagal-Arroyo's administration, however, announced after the president's June 2004 re-election, continues to show only incremental progress. The ongoing delay in legislating on a VAT rise -- which, as the single largest revenue measure is the main component of the administration's fiscal consolidation platform -- is symptomatic of the difficulty in passing essential reforms, despite the President's majority in both houses of parliament.

As the external environment is gradually becoming less supportive in the near term, the slow progress of reform may increase the country's external vulnerability due to the sovereign's large foreign debt stock. Net external debt as a percentage of current account receipts is almost 50%, compared with 22.8% for the 'BB' median.

CONTACT: STANDARD & POOR'S (Singapore)
Agost Benard
Tel: (65) 6239-6347;
E-mail: agost_benard@standardandpoors.com

Ping Chew
Tel: (65) 6239-6345;
E-mail: ping_chew@standardandpoors.com

PHILIPPINES: Fitch Revises Rating Outlook to Stable

Fitch Ratings affirmed on May 26 the Republic of the Philippines' Long-term foreign currency and Long-term local currency ratings at 'BB' and 'BB+', respectively, but revised the Outlook on both ratings to Stable from Negative.

At the same time, the agency also affirmed the country's Short-term foreign currency rating at 'B' and the foreign currency Country Ceiling at 'BB'. The Outlook revision reflects the recent passage of significant fiscal policy measures, which should help restore the public finances to a sustainable path over the medium term, assuming they are implemented as planned.

"We have had to wait a long time for this package but it has been worth it. The policy response that has taken shape is really quite something in the Philippines' historical context and should mark the turning point in the country's fiscal profile," said Brian Coulton, Senior Director of Fitch Ratings' Sovereigns team in Asia.

President Gloria Macapagal-Arroyo signed the VAT package into law earlier this week, harboring a two percentage point increase in the VAT rate from January 2006, a significant narrowing of VAT exemptions and an increase in the corporate income tax rate until 2009. While the VAT increase is not immediate and subject to certain conditions being met, Fitch believes that there is a very strong likelihood that it will go ahead.

The package represents the key component of the government's tax policy response to the fiscal problems that have blighted the Philippines in recent years. Together with other measures passed earlier including the indexation of 'sin' taxes, the lateral attrition bill and increased petroleum import duties, the VAT package should secure additional revenues of around 2% of GDP by 2006.

The tax policy effort has been accompanied by an impressive degree of restraint in the government's non-interest expenditure as reflected in its decline to an historical low of 12.9% of GDP in 2004, and growth well below nominal GDP in the first four months of 2005. Recent electricity tariff increases should also help substantially reduce the deficit of state power company NAPOCOR. Additionally, efforts to improve the efficiency of tax collection appear to be gaining momentum, though at this stage it is still hard to identify a concrete impact on tax elasticity.

Fitch estimates that these efforts should help the national government deficit fall to 3.2% of GDP this year from 3.9% in 2004 and further to 2.7% of GDP in 2006. The primary balance -- which excludes interest payments and more closely reflects policy driven movements in the public finances -- is expected to improve more rapidly to over 3% of GDP in 2006 from 1.5% in 2004, even allowing for some pick up in non-interest spending after 2005.

Doubtless, the Philippines' public debt burden remains high at an estimated 73.4% of GDP at end-2004 for the general government, and 95.6% for the broader non-financial public sector (NFPS), although the recent consolidation exercise has seen public debt ratios reduced significantly compared to previous estimates. But crucially, the prospect of increased primary surpluses should, in combination with still-healthy nominal GDP growth, see public debt ratios decline firmly over the short and medium term.

General government debt is expected to fall below 70% of GDP by end-2006 even allowing for the transfer of debt of 3.7% of GDP from NAPOCOR this year, while the NFPS debt-to-GDP ratio should decline by around 10 percentage points between end-2004 and end-2006. And while the interest payment burden will remain heavy for the foreseeable future, the ratio of interest payments to revenue should start to fall after 2005, in contrast to Fitch's earlier projections.

Needless to say, the Stable Outlook assumes that the government will persist with the implementation of the fiscal effort and avoid the temptation to spend an excessive portion of additional tax revenues or ease up on efforts to improve tax administration and the health of state enterprises. But it is also supported by the stability of Philippines' external finances.

The current account registered its seventh successive year of surplus in 2004 at 2.4% of GDP and continues to be supported by strong remittance flows. Stronger-than-expected portfolio investment inflows this year have supported the capital account, and official foreign exchange reserves excluding gold rose to US$14.1 billion in April, their highest level for almost three years.

Rising U.S. interest rates and weakening global demand will present a less favorable external environment over the next couple of years but with a 2005 external liquidity ratio of 151% and net external debt of 62% of current external receipts at end-2004, the Philippines should be no more vulnerable than 'BB' rated peers.

CONTACT: FITCH RATINGS (HONG KONG)
Brian Coulton
Tel: +852 2263 9797

Ai Ling Ngiam
Tel: + 852 2263 9913

James McCormack
Tel: + 852 2263 9925

Ching-Yuen Lock (Media Relations/Singapore)
Tel: +65 6238 7301
Web site: http://www.fitchratings.com/

PHILIPPINES: Moody's, S&P not Upgrading Ratings Soon

The Philippines will not get an upgrade anytime soon even with the recent passage of a crucial revenue measure, Dow Jones said on May 11.

Both Moody's Investors Service and Standard & Poor's, which downgraded the country below investment grade this year, said the current ratings had already taken into account progress in fiscal reform efforts, including the passage of the VAT amendment.

Congress recently approved the proposal to raise the Value-Added Tax from 10% to 12% beginning 2006, subject to certain conditions. The measure is considered crucial to the government's effort to raise revenues to limit dependence on borrowings to plug the budget deficit.

The VAT amendment, which also eliminated the exemptions enjoyed by sectors such as power generation and oil and raised the corporate income tax to 35% from 32%, will raise PHP28-31 billion in revenues this year, and as much as PHP105 billion next year. It is the largest revenue-raising measure under the government's fiscal-reform package.

Moody's downgraded the Philippines to B1 in February. "The stable outlook on our rating anticipated additional revenue measures," Thomas Byrne, a senior sovereign analyst at Moody's, told Dow Jones Newswires.

"We will have to wait and see what the actual revenue and budget performance is over the next year before we can come to an assessment that the government's fiscal position is on a path of fundamental improvement," he said.

Told of the VAT's passage, Agost Benard, an associate director for Sovereign ratings at Standard & Poor's in Singapore, said "while the news on VAT is definitely positive, this development falls short of the kind of robust, front-loaded deficit reduction effort that could be reason for a ratings upgrade."

"I think that at this stage it is somewhat premature to speculate on potential rating moves one way or another," he told Dow Jones in a separate interview.

S&P's current rating and outlook "already incorporate progress in fiscal consolidation, that is slow and incremental" such as the VAT measures, Mr. Benard added. Standard & Poor's in January lowered its long-term foreign-currency credit rating on the Philippines by one notch to BB-.

Brian Coulton of Fitch Ratings said the risk of a downgrade has been staved off by the government's commitment to raise

VAT. Considered by many as the most lenient of the three major rating agencies, Fitch merely changed its outlook on the Philippines from stable to negative in December.

CONTACT: MOODY'S INVESTORS SERVICE
Web site: http://www.moodys.com/

STANDARD & POOR'S
Web site: http://www2.standardandpoors.com/

FITCH RATINGS
Web site: http://fitchratings.com/

PHILIPPINES: Records First Budget Surplus in Four Years

The government posted a rare surplus in April this year, as tax collection rose to a record high while government spending dropped, ABS-CBN reported on May 19.

Revenues rose 9.1% to PHP82.784 billion in April, while spending fell 5.1% to PHP79.445 billion year-on-year. This resulted in a PHP3.3 billion (US$60.5 million) surplus, in sharp contrast to last year's PHP7.8 billion deficit for the month. This is the first surplus the country has had in four years, the report said.

Analysts hailed the surplus as a positive sign. Song Seng Wun, regional economist at G.K. Goh Securities in Singapore, said, "It is about making sure that this trend in improvement of revenue collection continues and subsequently it would be about productive spending."

"The surplus in April will make it easier for the government to achieve or even beat its full-year fiscal deficit target," she told ABS-CBN in an interview.

The economic team of President Gloria Arroyo is targeting a PHP180 billion deficit this year, down from PHP187 billion last year, and hopes to balance the budget by 2010. They project the VAT amendments, passed recently by Congress, to raise enough revenues to achieve these goals.

The new amendments to the country's Value-Added Tax lifts several exemptions and allows the president to raise the rate from 10% to 12% beginning January next year. This is the most important tax measure in Mrs. Arroyo's fiscal reform package that is estimated to rake in more than PHP100 billion in additional revenues yearly.

The challenge now is how to collect the money. The country has one of the lowest tax collection rates in the region at about 12.5 percent of GDP, according to ABS-CBN. This is largely the reason why the government has run deficits in 11 of the last 15 years, including 2005.

For the first four months of the year, the government had a budget deficit of PHP60.1 billion, down from a shortfall of PHP64.7 billion in January to April 2004.

The Bureau of Internal Revenue, the country's main collection agency, has intensified its campaign to collect taxes by targeting high-profile tax evaders to send a strong signal to the public. Since March, it has filed 17 cases against celebrities and businessmen.

PHILIPPINES: Revises Deficit Forecast to PHP151 Billion

Government drumbeaters are projecting this year's budget deficit to fall 16% below the target, Inquirer News Service reported on May 19.

The Development Budget Coordinating Committee (DBCC), an inter-agency group tasked to review the government's economic forecasts, expects the deficit to fall below the targeted PHP180 billion as a result of the VAT amendments recently approved by Congress. The agency projects the expanded Value-Added Tax to raise PHP28.75 billion in additional revenues this year.

"We call it an emerging scenario . . . [and] the emerging scenario is [the deficit will fall to] PHP151.25 billion," Assistant Finance Secretary Gil Beltran was quoted by the Inquirer as saying.

The DBCC is composed of representatives from the Department of Budget and Management, Bangko Sentral ng Pilipinas, and the National Economic and Development Authority.

The VAT bill, which takes effect on July 1, also removed exemptions on several products and services, including electric power. The bill also increases the corporate income tax rate from 32 to 35 percent, and gives the President the authority to raise the VAT rate from 10 to 12 percent next year.

The VAT bill is only one of the fiscal reform measures President Gloria Arroyo is pushing. A few months ago, Congress also passed the Lateral Attrition Law, which provides a reward and penalty system for revenue collectors. Along with this, Congress also raised the so-called "sin" taxes on alcohol and cigarette.

To further boost revenues, the Bureau of Internal Revenue has started a crackdown on high-profile tax evaders such as celebrities and businessmen.

Mrs. Arroyo also plans to privatize state-owned corporations, especially in the energy sector, to cut spending and raise additional revenues. She aims to leave office in 2010 with a balanced budget.

RUSSIA: Paris Club Creditors Accept Early Repayment Proposal

The representatives of the Paris Club creditor countries met on May 13, 2005 with the representatives of the Russian Federation to examine the offer made by the Russian Federation to prepay US$15 billion of its debt.

The prepayment will be made at par and offered pari passu to all creditors. The prepayment offer is the largest ever made by a Paris Club debtor country to its Paris Club creditors and will translate into major savings for the Russian Federation in the years to come.

Paris Club creditors welcomed the Russian Federation's offer, made six years after Russia's last Paris Club rescheduling, granted in August 1999. The prepayment offer confirms Russia's status as a Paris Club success story. Participation in the prepayment programme is voluntary.

An overwhelming majority of creditors have indicated that they are likely to accept Russia's offer. Payments to creditors are expected to begin in June and to end no later than August 20, 2005.

Background Notes

The members of the Paris Club who are creditors of the Russian Federation are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.

The delegation of the Russian Federation was headed by Mr. Serguey Storchak, Director, Department of International Financial Relations, Government Debt and Government Financial Assets at the Ministry of Finance. The meeting was chaired by Mr. Jean-Pierre Jouyet, Chairman of the Paris Club.

Technical Notes

The Russian Federation debt owed to Paris Club creditors as of March 31, 2005 was estimated at US$40 billion.

CONTACT: PARIS CLUB
Web site: http://www.clubdeparis.org/en/index.php

EMBASSY OF RUSSIA IN WASHINGTON
2650 Wisconsin Ave., NW
Washington, DC 20007
Tel: (202) 298-5700
Fax: (202) 298-5735
Web site: http://www.russianembassy.org/

OFFICIAL GOVERNMENT PORTAL OF RUSSIA
http://www.gov.ru/

RWANDA: Gets US$82.7 Million Debt Relief from Paris Club

The representatives of the Paris Club creditor countries met on May 10, 2005 and agreed to recommend to their governments a cancellation of Rwanda's stock of debt.

The representatives of the creditor countries took note that Rwanda had reached its Completion Point under the enhanced Initiative for the Heavily Indebted Poor Countries (Enhanced

HIPC Initiative) on April 13, 2005. They welcomed Rwanda's determination to implement a comprehensive poverty reduction strategy and an ambitious economic programme providing the basis for sustainable economic growth.

They decided to cancel US$82.7 million in nominal terms, which represents the Paris Club share of the HIPC effort, decided by the IMF and the IDA, in the framework of the Enhanced HIPC Initiative. The debt of Rwanda towards Paris Club Creditors will be further reduced by US$7.7 million in nominal terms as a result of additional debt relief granted by creditors on a bilateral basis. With the additional bilateral cancellation, the entire debt of Rwanda towards Paris Club Creditors will be cancelled.

Rwanda is committed to devote the resources freed by the present treatment to priority areas identified in the country's poverty reduction strategy and to seek comparable treatment from all its other external creditors (including other creditor countries as well as commercial creditors).

Background Notes

(1) The Paris Club was formed in 1956. It is an informal group of creditor governments from major industrialized countries. It meets on a monthly basis in Paris with debtor countries in order to agree with them on restructuring their debt.

(2) The members of the Paris Club that participated in the reorganization of Rwanda's debt were representatives of the Governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, the United Kingdom and the United States of America. Observers at the meeting were representatives of the Governments of Spain and Switzerland as well as the IMF and the International Development Association (IDA). The delegation of Rwanda was headed by Mr. Donald Kaberuka, Minister of Finance and Economic Planning.

The meeting was chaired by Mr. Ramon Fernandez, Deputy Assistant Secretary at the Treasury and Economic Policy General Directorate of the French Ministry of Economy, Finance and Industry, Vice President of the Paris Club.

Technical Note

(1) Rwanda's economic programme is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF). Rwanda reached its completion point under the enhanced HIPC Initiative on April 13, 2005.

(2) The Rwanda's public debt was estimated to be US$1,572.5 million in face value as at end 2003 (source: IMF and IDA documents, dated March 25, 2005 published on the IMF Web site http://www.imf.org and on the World Bank Web site http://www.worldbank.org/hipc). The debt owed to Paris Club creditors as of end March 2005 was estimated to be US$90.4 million in face value. IDA-administered E.U. loans are included in this treatment.

(3) As in any Paris Club agreement, Rwanda agreed to seek comparable treatment from non-Paris Club creditors and commercial creditors. The delegation of the Republic of Rwanda indicated its willingness to meet these creditors soon in order to negotiate the terms of a future treatment.

CONTACT: PARIS CLUB
Web site: http://www.clubdeparis.org/

EMBASSY OF RWANDA IN WASHINGTON
1714 New Hampshire Avenue, NW
Washington, D.C. 20009
United States
Tel: 202-232-2882/3/4
Fax: 202-232-4544
E-mail: rwandemb@rwandemb.org
Web site: http://www.rwandemb.org/index.html

SERBIA: Receives 'BB-' Rating, Stable Outlook from Fitch

Fitch Ratings assigned on May 19 Long-term foreign and local currency ratings of 'BB-' (BB minus) to the Republic of Serbia. The Outlooks on the ratings are Stable. The agency has assigned the rating of 'BB-' (BB minus) to the U.S. dollar-denominated global bonds maturing in 2024 arising from the recent exchange with the London Club of commercial creditors and to euro-denominated domestic bonds known as "Frozen currency" bonds. At the same time Fitch has assigned a Short-term rating of 'B' and a Country Ceiling of 'BB-' (BB minus).

"Serbia's 'BB-' ratings are supported by its improving public finances, comfortable public and external liquidity position, and good prospects for continued structural reforms and GDP growth, anchored by potential EU accession," says Edward Parker, Senior Director in the Fitch Sovereigns Group. "However, the ratings are constrained by risks associated with Serbia's large current account deficit, structural weaknesses revealed by high unemployment and low export capacity, as well as potential, albeit diminishing, risks of political instability."

The Serbian government has made significant strides over the past 12 months in implementing structural reforms, tightening budget discipline and regularizing international and creditor relations, building on progress since the overthrow of the Slobodan Milosevic regime in 2000. Serbia benefits from a high level of human capital and potential, as demonstrated by its income per capita (excluding Kosovo) of around US$2,980, not dissimilar from Bulgaria and Romania, both rated investment-grade. GDP growth was a buoyant 7.5% last year. However, to sustain growth the authorities will need to implement further difficult reforms to restructure and privatize state-owned companies, cut spending on subsidies and social benefits and improve the business climate.

Relations with the international community have been enhanced by the authorities' cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). In March,

a European Commission feasibility study recommended that Serbia and Montenegro should start negotiations this year on a Stability and Association Agreement. This is a key milestone on the road to EU accession, which should help to anchor economic policy and political stability, as in other Eastern European transition countries - though EU membership itself remains a distant and uncertain prospect. In April, Serbia completed the restructuring of US$2.6 billion of London Club debt into US$1.08bn of new global bonds. This follows its Paris Club debt reduction agreement in 2001, which should lead to a further 15% Paris Club write-off on the completion of Serbia's IMF programme later this year.

Debt restructuring and prudent fiscal policy have helped to reduce Serbia's government debt to 59% of GDP at end-2004 from over 200% at end-2000, though it is still above the 'BB' range median of 51%. But Serbia has a relatively low debt-to-revenue ratio and near-term debt service burden, which support debt sustainability and reduce refinancing risks. Moreover, the introduction of VAT in January has boosted tax compliance and revenues so that Fitch expects the government to agree with the IMF to tighten fiscal policy and run a budget surplus of around 0.6% of GDP this year. The budget surplus, privatization receipts, low debt service costs and GDP growth should keep the public debt ratio on a downward trajectory. However, around 96% of government debt is denominated in foreign currency, rendering public finances vulnerable to exchange rate shocks.

Despite sizeable foreign direct investment and grants, Serbia's large current account deficit, which was 15.6% of GDP in 2004, means it has a substantial external financing requirement that is leading to rising private sector debt and is a potential source of vulnerability. These concerns are accentuated by the somewhat fragile nature of macroeconomic stabilization, with inflation in double digits and a high level of "euroisation", which complicates the conduct of monetary and exchange rate policies. Nevertheless, Fitch expects the current account deficit to narrow this year to around 11.5% of GDP, helped by strong recent export growth. Foreign exchange reserves are rising, indicating that financing is currently ample. Furthermore, the low 7% share of short-term debt, grace periods and long maturity of the debt mean that the current liquidity position is relatively comfortable.

Serbia's ratings have upward potential over the medium-term if it continues to implement prudent fiscal policy and structural reforms. However, it faces a daunting agenda. The Stable Outlook balances this upside potential against uncertainty of delivery and downside risks from external financing and political shocks.

CONTACT: FITCH RATINGS (LONDON)
Edward Parker
Tel: +44 (0) 20 7417 6340

David Riley
Tel: +44 (0) 7417 6338

Jon Laycock (Media Relations)
Tel: +44 20 7417 4327

EMBASSY OF SERBIA AND MONTENEGRO IN WASHINGTON
2134 Kalorama Rd., NW
Washington, DC 20008
Tel: (202) 332-0333
Fax: (202) 332-3933
Web site: http://www.yuembusa.org/

UKRAINE: Long-term Foreign Currency Rating Raised to 'BB-'

Standard & Poor's Ratings Services on May 11 raised its long-term foreign currency sovereign credit rating on Ukraine to 'BB-' from 'B+'. At the same time, the long-term local currency rating was raised to 'BB' from 'B+'. In addition, the 'B' short-term foreign and local currency ratings and 'uaAA' national scale rating were affirmed. The outlook is stable.

"Ukraine's improved creditworthiness reflects an enhanced political and policy environment," said Standard & Poor's credit analyst Helena Hessel. "The new president, Viktor Yushchenko, advocates transparency, the rule of law, and democratic values, which should over time lead to the implementation of political, institutional, and structural reforms that are necessary to transform Ukraine into a country with an open, democratic political system and a market-based economy."

Although the shift toward greater transparency and institutional reform after years of pervasive corruption will not be easy, the current reformist administration's political will is strong--even if its actual decisions are somewhat constrained by the upcoming parliamentary elections in March 2006.

The improvements in Ukraine's external liquidity and government debt levels in 2003-2004 also support the upgrade, by providing the government with necessary flexibility during any potential period of stress as it attempts to implement difficult reform. The current administration inherited an overheated economy with rising inflationary pressures and a growing fiscal deficit.

Consumer price inflation increased to an average of 9.0% in 2004, up from 5.2% one year earlier. Standard & Poor's expects 2005 inflation to increase to an average of 13.0%.

The general government deficit is estimated to have increased to almost 4.5% of GDP in 2004 due to pre-election fiscal relaxation, up from 0.7% in 2003. The government envisages a deficit of 1.5% of GDP in 2005. In Standard & Poor's opinion, however, this target is very ambitious, and is unlikely to be achieved.

Although better tax collection and a crackdown on contraband has helped increase revenues in the first quarter of 2005--a trend that is likely to continue through the year, albeit not

at the pace projected by the government--spending pressures are enormous.

The two-notch upgrade of the long-term local currency rating on Ukraine is underpinned by expected systemic improvement in the country's tax system, in particular through the elimination of tax privileges and exemptions. As a result, the government's ability to collect taxes is likely to improve in coming years, reducing the default risk on hryvnia-denominated debt.

The stable outlook balances the new administration's commitment to advance meaningful political and economic reform with an uphill struggle to fight corruption and break apart the old political-business nexus remaining from the previous administration.

"We expect a gradual rehabilitation of state institutions after decades of corruption and mismanagement, thereby increasing private sector confidence, reducing tax evasion, and attracting foreign direct investment into the economy," said Ms. Hessel. "In the near future, reducing inflation, sustaining output growth, and achieving a fiscal adjustment are the key economic challenges that must be addressed to ensure that the improvement in Ukraine's creditworthiness will not be jeopardized," she concluded.

CONTACT: STANDARD & POOR'S
GROUP E-MAIL ADDRESS
SovereignLondon@standardandpoors.com

Helena Hessel (New York)
Tel: (1) 212-438-7349
E-mail: helena_hessel@standardandpoors.com

Konrad Reuss (London)
Tel: (44) 20-7176-7102
E-mail: konrad_reuss@standardandpoors.com

UKRAINIAN EMBASSY IN WASHINGTON
3350 M st, N.W.
Washington, D.C. 20007
Tel: (202) 333-0606
Fax: (202) 333-0817
Web site: http://www.ukraineinfo.us/

GOVERNMENT PORTAL OF UKRAINE
http://www.kmu.gov.ua/control/en

UNITED STATES: Detroit City Courting with Disaster

The City of Detroit runs the risk of falling into receivership if it fails to cut spending and collect new revenues.

In its latest financial statement, submitted to the state capital only in April, way past the December 31 deadline, the city reported a budget deficit of US$95 million at the end of the 2003-04 fiscal year in June.

According to The Detroit News, the annual report revealed "a pattern of borrowing to offset lower tax receipts: US$70 million in September 2003 to pay for claims against the city and US$61 million in June 2004 to mitigate the deficit."

In net asset terms -- the amount the city would have left over if it paid off all its debt and other obligations -- the city is down to US$193 million in 2004, a 55% drop from US$430 million in 2003. At the end of 2004, the city carried US$974.2 million in general obligation bonds, the paper said.

One of the biggest expenses of the city is on healthcare, which rose to US$78 million, or 46 percent in the past three years. Pension costs also jumped by US$120 million, the paper said.

This confirms the study recently commissioned by the state auditor general, which identified two problems plaguing Detroit: retiree health care benefits and pension benefits. While the city is funding most of pension benefits, it has not yet addressed the cost needed to fund retiree health care benefits, the report said.

"We all realize that the hour is here, not near, it's here," Deputy Finance Director Matthew Grady III told The Detroit News. "We're going to need the unions, and we're going to need the council to make radical changes. We have to come together to make sure that the changes happen."

While Mayor Kwame Kilpatrick and his appointees have agreed to a 10% pay cut, the city has been unable to get the workers unions to follow. Only a fraction of city contractors have heeded the call.

In March, the city fired 686 workers and eliminated 237 vacant positions. It has also raised some fees and the City Council approved refinancing pension obligation bonds to save about US$80 million in the first year.

But Eric Lupher, director of local affairs at the Citizens Research Council of Michigan, a nonpartisan research group, believes the city needs to do more. His group estimates the city needs to trim 3,500 from the current work force of 18,000.

"It's put off the inevitable and now it's time to make some hard decisions," Mr. Lupher told The Detroit News.

Standard & Poor's has lowered the city's rating from A- to BBB+, a notch above junk status.

CONTACT: CITY OF DETROIT
Mayor Kwame Kilpatrick
Executive Office
Coleman A. Young Municipal Center
2 Woodward Ave., Ste. 1126
Detroit, MI 48226
Phone: (313) 224-3400
Web site: http://www.ci.detroit.mi.us/default.htm

UNITED STATES: Lansing Stops Detroit's Borrowing Spree

Michigan State officials in Lansing have opted to step in to prevent the City of Detroit from getting into more trouble.

Over the next five years, the State Treasury will require the city to accomplish additional paperwork before it can borrow cash, according to The Detroit News.

The administration of Mayor Kwame Kilpatrick has been taking out loans to fill in the gaps in the city budget. At the moment, he has a pending US$55 million loan proposal to keep the city afloat for the rest of the current fiscal year.

In a scathing report recently, City Auditor General Joe Harris blamed the mayor, the City Council and workers unions for failing to move past politics to address the city's financial crisis.

"We've been in pretty good financial shape until recently," he wrote, "[but Mr. Kilpatrick has] plugged the gaps with loans. He couldn't borrow any money this time; his hands were tied so he had to plug the gap with things that are improbable."

Mr. Harris took note of a US$300 million item in the mayor's US$1.4 billion city budget for 2005-06, which he said has "questionable or unattainable" objectives. He threatened to send the city into receivership to allow the state to send in an independent team to revamp the city government without regard for jobs or politics.

"A receivership will not only be the outcome, it will be preferable to the dysfunctional government to which our citizens are being subjected," he wrote.

Citing City Council Fiscal Analyst Irvin Corley Jr., the paper said Detroit borrowed US$65 million to finance the deficit in the 2002-03 budget. This was followed by a US$95 million deficit in 2003-04 and right now the administration is on course for another deficit, which the city auditor general puts at US$89 million.

"The city's precarious standing is being aggravated by the fact that it is four months late in turning in to the state treasury department a mandated year-end audit that was due Dec. 31," The Detroit News added.

Any time a city is late in turning in its annual report, the state has the option of withholding state revenue-sharing funds, sending in an auditor, or preventing the city from borrowing more money, according to State Treasury Department Spokesman Terry Stanton, who spoke to The Detroit News.

CONTACT: CITY OF DETROIT
Mayor Kwame Kilpatrick
Executive Office
Coleman A. Young Municipal Center
2 Woodward Ave., Ste. 1126
Detroit, MI 48226

Tel: (313) 224-3400
Web site: http://www.ci.detroit.mi.us/default.htm

AUDITOR GENERAL
Joseph L. Harris
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, MI 48226
Tel: (313) 224-3101
Fax: (313) 224-4091
E-mail: Auditor_mb@ci.detroit.mi.us

UNITED STATES: Detroit Mayor Cutting 754 More Jobs

Detroit Mayor Kwame Kilpatrick has turned back on his promise not to touch the police force in his effort to trim down city finances.

In his proposed budget, submitted in April, Mr. Kilpatrick proposed an additional 754 layoffs, including some in the police and fire departments. This adds to the 900 job cuts announced in January.

In his address before the City Council on April 12, the mayor proposed reducing the number of commanders and inspectors in the department and suspending existing classes at the police academy.

"Not one police officer who is out there patrolling the streets today will be laid off," The Associated Press quoted Mr. Kilpatrick saying. However, he said that promise could be kept only if the officers' union agrees to renegotiate benefits.

Mr. Kilpatrick is also proposing 61 layoffs in the fire department and 47 in EMS, the report said. Detroit has been struggling with a deficit of more than US$300 million, raising the specter of receivership over the city.

CONTACT: CITY OF DETROIT
Mayor Kwame Kilpatrick
Executive Office
Coleman A. Young Municipal Center
2 Woodward Ave., Ste. 1126
Detroit, MI 48226
Tel: (313) 224-3400
Web site: http://www.ci.detroit.mi.us/default.htm

UNITED STATES: Pittsburgh Debt Eats up a Quarter of Budget

Debt service accounted for 25% of Pittsburgh's spending last year, the highest ever in the city's history, Pittsburgh Post-Gazette reported on April 30.

Citing the Comprehensive Annual Financial Report prepared by city controller Tom Flaherty, the paper said the city spent US$101 million on debt service last year, a US$16 million increase from US$84 million in 2003. According to Mr.

Flaherty, debt service will remain at this level through 2010.

"[Mayor Tom Murphy] in effect mortgaged the city's future in an effort to balance the prior year's budget," Mr. Flaherty said in a recent report.

According to that report, the city, located in southwest Pennsylvania, collected only US$382 million in revenue while spending US$402 million in 2004. This cut the city's 2003 fund balance from US$35 million to US$15 million at the end of 2004. It predicted the city to borrow more money to pay for long-term capital improvements.

At present, the city's US$821 million in gross bonded debt make every person living in the city indebted by at least US$2,456.

Last year, city spending on salaries dropped to US$15 million as a result of job cuts in 2003. Tax revenues increased US$12 million, largely because of the 19 percentage point increase in parking taxes in 2004. But collection of that tax, which amounted to US$44.5 million, was nearly US$3 million below the estimates in the 2004 budget, according to the paper.

CONTACT: MAYOR TOM MURPHY
Mayor's Office
Room 512
City-County Building
414 Grant Street
Pittsburgh, PA 15219
Phone: 412-255-2626
Fax: 412-255-2687
E-mail: mayorcompl@city.pittsburgh.pa.us
Web site: http://www.city.pittsburgh.pa.us/

URUGUAY: US$300 Mln Bonds Get 'B+' Rating, Stable Outlook

Fitch Ratings has assigned a 'B+' rating to Uruguay's US$300 million in Global bonds due May 17, 2017. The Rating Outlook is Stable.

According to Fitch sovereign analyst, Morgan Harting, "Uruguay's sovereign ratings reflect its improving debt dynamics as a result of currency strength and economic growth. On the other hand, public and external debt is still higher than peers and there are concerns about long-term growth prospects."

CONTACT: FITCH RATINGS (New York)
Morgan C. Harting
Tel: +1-212-908-0820

Roger M. Scher
Tel: +1-212-908-0240

Kenneth Reed (Media Relations)
Tel: +1-212-908-0540

REPUBLIC OF URUGUAY

Web site: http://www.presidencia.gub.uy/portada.htm

VENEZUELA: Moody's Lauds Prompt Debt Payments

In its annual report on Venezuela, Moody's Investors Service says the country's foreign-currency debt rating of B2 and stable outlook are supported by a demonstrated policy of servicing public-sector debt in full and on a timely basis and a strong foreign exchange reserve position.

"Venezuela's policy on foreign exchange and capital controls has provided foreign-exchange authorizations for servicing private-sector debt on a timely basis. Moody's ratings and outlook reflect our view that foreign exchange controls reduce the possibility of a sharp and sudden decline in international reserves, even in the event of falling oil prices," states Moody's Vice President Luis Ernesto Martinez-Alas, author of the report released on May 10.

Venezuela's total official foreign exchange reserves are estimated to exceed US$30 billion, well in excess of the yearly debt service and the total debt of the central administration, according Moody's report. Recent reductions in Venezuela's debt-to-GDP ratio reflect the combined effect of economic growth, inflation, and a moderate adjustment to the nominal exchange rate. Venezuela's total public debt, including that of the state-owned oil company, PDVSA, is expected to continue to decline in 2005 to about 40% of GDP, from 46% in 2004 and 57% in 2003. The central administration's debt is estimated to have fallen to 39.9% of GDP in 2004 from a peak of 45.9% in 2003, but still above the most recent trough of 27.2% in 2000.

"Venezuela's ratings are both strongly supported and constrained by the oil sector's influence on fiscal accounts, the balance of payments, and the overall performance of the economy," said Mr. Martinez-Alas.

The nation's fiscal policy is based on maintaining non-interest primary spending at a minimum of 21% of GDP with the intent of rejuvenating domestic investment and limiting the country's volatile economic performance. While this unorthodox economic policy goes against the grain of the market-oriented approaches promoted by the United States and aid organizations such as the World Bank and the International Monetary Fund, the administration's efforts to increase non-oil taxes as a share of total revenues may have a chance to be successful, said Mr. Martinez-Alas.

The core of the government's strategy is to use extra oil resources to address longstanding social ills affecting over half the population. The importance of oil-revenue distribution is indicated by the subsuming of PDVSA within the Ministry of Energy, according to the ratings agency.

The rating agency's report, "Venezuela 2005 Credit Analysis," is a yearly update to the markets and is not a rating action.

For a copy of this report, contact New York Press Information

+1-212-553-0376; Anna Passey in London +44-20-7772-5456; Louisa Pearce-Smith in Paris +33-1-5330-1073; Juan Pablo Soriano in Madrid +34-91-310-1454; Henry McNevin in Milan +39-02-58-215-580; Hector Lim in Sydney +612 9270 8102; Detlef Scholz in Frankfurt +49-69-707-30-700; Adel Satel in Limassol +357-25-586-586; Tokyo Press Information +813-5408-4110; Hilary Parkes in Toronto +1-416-214-1635; Hong Kong Press Information +852-2916-1150; Luiz Tess in Sao Paulo +55-11-3443-7444; Benito Solis in Mexico City +5255-9171-1817; Jose Fenner in Buenos Aires +54 11-4816-2332 ext. 118, or Reynold Leegerstee in Johannesburg +27-11-217-5471. Or visit http://www.moodys.com.

CONTACT: MOODY'S INVESTORS SERVICE
Luis Ernesto Martinez-Alas
VP - Senior Credit Officer
Financial Institutions Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Vincent J. Truglia
Managing Director
Financial Institutions Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

EMBASSY OF THE BOLIVARIAN REPUBLIC OF VENEZUELA
1099 30th St., N.W.,
Washington D.C. 20007 USA
Tel: (202) 342 2214
Fax: (202) 342 6820
E-mail: apaiva@embavenez-us.org
Web site: http://www.embavenez-us.org/

ZAMBIA: Paris Club Forgives US$1.403 Billion Debt

The representatives of the Paris Club creditor countries met on May 11, 2005 and agreed to recommend to their Governments a reduction of Zambia's stock of debt.

The representatives of the creditor countries took note that Zambia had reached the Completion point under the enhanced initiative for the Heavily Indebted Poor Countries (enhanced HIPC initiative) on April 8, 2005. They welcomed Zambia's determination to implement a comprehensive poverty reduction strategy and an ambitious economic programme providing the basis for sustainable economic growth.

In order to contribute to restore Zambia's debt sustainability, they decided to cancel US$1.403 billion in nominal terms, which represents the Paris Club's share of the effort in the framework of the Enhanced HIPC Initiative. Most creditors also committed on a bilateral basis to grant additional debt relief to Zambia so that the stock of the debt owed to Paris Club creditors will be reduced by a further US$393 million in nominal terms.

Zambia's debt to Paris Club creditors has been reduced from US$1.92 billion to US$124 million as a result of this

agreement and additional bilateral assistance. Paris Club creditors also agreed to reschedule 50% of the payments due in 2005, 2006 and 2007 on the debt remaining due after additional bilateral cancellation.

Zambia committed to allocate the resources freed by the present treatment of the debt to priority areas identified in the country's poverty reduction strategy and to seek comparable treatment from all its other external creditors (including other creditor countries as well as commercial creditors).

Background Notes

The members of the Paris Club that participated in the reorganization of Zambia's debt were representatives of the governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, the Russian Federation, the United Kingdom and the United States of America.

Observers at the meeting were representatives of the government of Spain as well as the International Monetary Fund (IMF), the International Development Association (IDA), the Secretariat of UNCTAD and the OECD. The delegation of Zambia was headed by Hon. Ng'andu P. Magande, MP, Minister of Finance and National Planning.

The meeting was chaired by Ms. Odile Renaud-Basso, Deputy Secretary at the Treasury and Economic Policy Department of the French Ministry of Economy, Finance and Industry, Co President of the Paris Club.

Technical Notes

(1) Zambia's economic program is supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF).

(2) Zambia's public external debt was estimated to be US$7 billion in nominal value as at end 2003 (source: IMF and IDA documents, dated March 25, 2005 published on the IMF Web site http://www.imf.org and on the World Bank Web site http://www.worldbank.org/hipc). The debt owed to Paris Club creditors as of March 31, 2005 was estimated to be US$1.92 billion in nominal value.

CONTACT: PARIS CLUB
Web site: http://www.clubdeparis.org/en/index.php

EMBASSY OF ZAMBIA IN WASHINGTON
2419 Massachusetts Avenue, NW
Washington DC 20008
Tel: (202) 265-9717
E-mail: info@zambiainfo.org
Web site: http://www.zambiaembassy.org/

=====================================

R E S E A R C H & A N A L Y S E S

=====================================

President Kirchner: 'There Is Life After the IMF'

[This interview by Cynthia R. Rush with Argentine President Nestor Kirchner first appeared in the April 29, 2005 issue of Executive Intelligence Review.]

On the final day of his five-day state visit to Germany, Argentine President Nestor Kirchner delivered a pointed warning to the International Monetary Fund and its allied financial beast-men who are determined to crush Argentina for daring to defy them. "There is life after the IMF, and it's a very good life," Mr. Kirchner said from Munich on April 15. And remember, he added, that "being in the embrace of the IMF isn't exactly like being in heaven."

EIR readers who have followed founder Lyndon LaRouche's writings for some time, would have recognized in the Argentine President's words an echo of EIR's 1995 Special Report entitled, "Yes, There Is Life After the Death of the IMF," which included some of LaRouche's crucial writings on economics and defense of national sovereignty.

Now, in an international environment shaped by LaRouche's fight to create a New Bretton Woods, Mr. Kirchner chose these words to respond to the IMF's blackmail threat not to negotiate a new agreement unless the government agrees to reopen the bond swap concluded on Feb. 25 to restructure US$82 billion in defaulted debt. Although 76.6% of bondholders participated in the restructuring, the Fund is demanding that Mr. Kirchner now show "good faith" by allowing the remaining 24.4% who initially rejected the government's offer, and who hold some US$20 billion in defaulted debt, to join in. A sizable portion of that 24.4% are the vulture funds that speculated on Argentine debt prior to the 2001 default.

At the same time, the IMF is demanding deeper "structural reform" (more austerity), a higher primary budget surplus (the amount set aside to pay debt), and respect for the "property rights" of those foreign-owned utility and oil companies that have already savagely looted this nation.

No 'Privileged Creditor' Status

During his April 11 flight to Berlin, Mr. Kirchner reportedly told his closest aides that he would consider pulling the plug on the Fund altogether, revoking its status as a "privileged creditor," unless the blackmail stopped. Since its December 2001 default, Argentina has paid US$12 billion to the IMF, prioritizing payments to that institution above any other creditor. To other bondholders, the Kirchner government offered a 60% write-down of the debt, underscoring that this was the most it could pay without jeopardizing the physical well-being of a population exhausted by years of looting.

As he told an audience at the Friedrich Ebert Foundation in Berlin on April 14, the IMF model that had been "imported and imposed" on Argentina unleashed the "worst social-economic catastrophe in our history, which exploded at the end of

2001." This catastrophe, he said, was the product of "a political-economic model at the service of interests alien to the common good, which favored the proliferation of the corrupt, genocidalists, and thieves."

"I received an Argentina devastated by an economic program supported by the International Monetary Fund," Mr. Kirchner said. The country's rulers at that time were put on display by the IMF as an example to follow, "saying 'here, this is the path the countries of the world have to follow.'" Yet dozens of governments have fallen, he added, because they imposed these failed IMF prescriptions, whose priority was collecting debt instead of promoting economic development.

"The placing of private interests over the general interest was the expression of a specific model of society which led to generalized poverty, uncertainty, isolation, and impoverishment of life at all levels" in Argentina, President Kirchner warned. Today, he said, it is the IMF that needs to be "restructured," because it is not serving the purpose for which it was originally intended. "As it operates today, it has no future, and the developed world has to understand this." As for Argentina, he added, it is prepared to work "actively and constructively on behalf of a new world economic order," without renouncing the "autonomy of its decision-making."

>From Germany, where he held a warm personal meeting with Chancellor Gerhard Schroder, Mr. Kirchner announced that the bond swap "will not be touched." In a statement issued April 16 in Washington, Finance Minister Roberto Lavagna affirmed that the Argentine government "fully ratifies the fact that the swap of public debt which concluded successfully on Feb. 25 will not be reopened." Moreover, he added, "the Republic of Argentina doesn't accept discriminatory treatment, or unusual demands regarding sovereign restructuring."

A 'Moral Hazard'?

The problem Mr. Kirchner's defiance poses for the international financial predators is that the demise of the global monetary system is imminent. The U.S. auto industry, the world's largest, is on the brink of bankruptcy, and the plunging value of the dollar could unleash global financial catastrophe, if not stopped in an orderly fashion.

Under these precarious conditions, Argentina's refusal to submit to IMF dictates, sets what Japanese Finance Minister Sadakazu Tanigaki described as a "bad precedent," that might be emulated by other indebted nations. Speaking at the annual meeting of the Inter-American Development Bank (IADB) April 9-10 in Okinawa, Mr. Tanigaki said that the way that Argentina dealt with its debt crisis and restructuring shouldn't be tolerated, as it could otherwise "constitute a moral hazard."

The reality is, that were other debt-strapped nations to follow Argentina's lead in defying the IMF, they could bring down the whole system. Brazil, whose US$500 billion debt bubble dwarfs Argentina's, is on everyone's mind, as participants at the IADB meeting readily admitted. Even

though Brazil is so far the "good boy" on the block, in terms of applying IMF policies domestically, there is nothing stable about its overall financial situation.

Argentine Finance Ministry officials who participated in talks with the IMF in Washington over the weekend of April 16-17 reported that IMF and G-7 pressures on Argentina over its debt restructuring are intimately tied to fears over Brazil. "No one wants to say it, but they're all thinking about Brazil." They're worried that at some point, President Lula "might break the vicious cycle of high interest rates and increased indebtedness and go with a solution similar to ours," one official told the daily Pagina 12.

This is the context in which the threats against Argentina to reopen the bond swap have intensified. IMF Managing Director Rodrigo Rato warned in an April 14 press conference that Argentina had to adopt a "realistic" strategy toward the US$20 billion in "unrestructured debt." Otherwise, he hypocritically lectured, any future loans or agreement would be a violation of the Fund's "lending into arrears" policy.

During other press conferences the same day, Mr. Rato's associates delivered the same message. Outgoing World Bank President James Wolfensohn, outgoing Treasury Undersecretary John Taylor, and Secretary of the Treasury John Snow all threatened that any future agreement with the IMF would be contingent on Argentina finding a "solution" for those "holdout" bondholders. Especially outrageous was the unconfirmed report that the Fund expected Argentina to annul legislation passed last February that makes any reopening of the bond swap illegal.

'A Fighting Position'

There has reportedly been some Argentine commitment to the IMF -- no timeframe has been announced -- to allow for a "differentiated" approach toward those bondholders who didn't participate in the swap. There will be no reopening of the bond swap, but as one Finance Ministry official put it, "one thing is the vulture funds and the other are the small Italian investors." There are 450,000 in the latter group who were swindled out of their savings by Italian banks, which sold them high-risk Argentine bonds in 2001, knowing that a debt default was imminent. Italian legislators have called this operation by the banks illegal.

Argentina was counting on a new agreement with the Fund in order to roll over debt coming due this year, which it would otherwise have to scrounge to produce. The agreement to deal with the holdouts in some unspecified fashion is a way to buy time, in a situation Mr. Kirchner knows will be filled with tension and continued bludgeoning. He has been heard to tell close associates, "as the Gospel says, we have to be as docile as the dove and as astute as the serpent" in dealing with the Fund.

But as Mr. LaRouche emphasized in his April 7 Web cast in Washington, D.C., President Kirchner is now also in a "extremely interesting strategic situation" as a result of

recent Ibero-American moves toward South American physical integration discussed by the Presidents of Brazil, Colombia, and Venezuela with Spanish Prime Minister Rodriguez Zapatero during their historic March 29 conference in Ciudad Guayana, Venezuela.

Responding to an e-mail question sent from a meeting in the Annex of the Argentine Congress, organized to listen to the Web cast, Mr. LaRouche underscored that the Argentine situation must be viewed "strategically," rather than from the inside out. The commitment to forge the continent's physical integration, which the four heads of state discussed at their March 29 meeting [see EIR April 15, 2005] "makes a change in the entirety of the situation of South America," and provides Mr. Kirchner with a crucial opportunity to flank the financial warfare waged against him by the IMF and vulture funds.

While the government's debt restructuring bond swap is "not desirable in terms of its effect," Mr. LaRouche said, it puts President Kirchner "in a fighting position . . . and then maybe he'll get a victory because he's got a fighting position."

CONTACT: Executive Intelligence Review
Tel: 1-888-EIR-3258
E-mail: eirns@larouchepub.com
Web site: http://www.larouchepub.com/

International Borrowing and Macroeconomic Performance in Argentina

[Authored by Kathryn M.E. Dominguez and Linda L. Tesar, this paper was included in the May 2005 issue of the NBER Working Paper Series.]

ABSTRACT

This paper provides an overview of the major economic events in Argentina from the adoption of the convertibility plan in 1991 to the collapse of the exchange rate regime in 2001. We focus on the relationship between the credibility of the currency board and capital flows, and the inescapable link between fiscal and monetary policy. Argentina inadvertently entered into a vicious circle with financial markets -- one in which it felt compelled to raise the exit costs from the currency board in order to maintain the regime%u2019s credibility. As exit costs mounted, financial markets became increasingly concerned about the dire implications of a devaluation, which in turn, compelled the government to raise exit costs further. In the late 1990s, when Argentina went into recession, it required some sort of stimulus -- either a loosening of monetary policy (i.e. a devaluation) or fiscal stimulus. But either way spelled disaster. The added pressure of capital outflow, first by international investors and then the withdrawal of deposits from the Argentine banking system, eventually tipped the scales.

The full copy of this paper is available at http://papers.nber.org/papers/W11353

CONTACT: NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138-5398 U.S.A.
Tel: 617-868-3900
Fax: (617)868-2742
Web site: http://www.nber.org/

KATHRYN M.E. DOMINGUEZ
University of Michigan
Ford School of Public Policy
462 Lorch Hall
611 Tappan Street
Ann Arbor, MI 48109-1220
Tel: (734) 764-9498
Fax: (734) 763-9181
E-mail: kathrynd@umich.edu
http://www-personal.umich.edu/~kathrynd/

LINDA L. TESAR
Professor of Economics
Department of Economics
358 Lorch Hall
611 Tappan Street
University of Michigan
Ann Arbor, MI 48109-1220
Tel: (734) 763-2254
Fax: (734) 764-2769
E-mail: ltesar@umich.edu
http://www-personal.umich.edu/~ltesar/

Forget Forgiveness: Make the Looters Pay

[Published on May 24, 2005, this article is reprinted here with permission from Lisa Peryman, editor of http://www.OdiousDebts.org]

Tony Blair's historic win of a third term as prime minister earlier this month was tentatively welcomed as good news by African commentators who would like to see the newly re-elected head of Britain put his money where his mouth was before the election.

Having made Africa's problems the ennobling mission of his second-term as prime minister, Mr. Blair now has the chance to force the issue. As Britain is in the driving seat this year as both leader of the Group of Eight (G8) rich nations and the European Union, Mr. Blair's efforts to make Africa a main focus of discussion and the ambitious recommendations of his Commission for Africa report have raised hopes he can now press ahead and rally the developed world to make good on promises to help Africa turn the tide on decline, disease and destitution, once and for all.

Given that previous international efforts to "Save Africa" have failed to accomplish their goals and acknowledge Western complicity in African corruption - corruption being the greatest obstacle to stable improvement in the region - Mr. Blair's Africa Commission report was refreshing in that it saw

graft as a two-way street. Mr. Blair's commitment to ushering in a new era of partnership between Africa and the West also suggested a marked change in tone from the patronizing attitude wealthy nations have taken toward Africa in the past.

In light of this history, news of Blair's return to office received approval from African observers, although enthusiasm appeared somewhat limited.

Chege Mbitiru of the Nairobi daily, The Nation, weighed in on the third-term victory as a "minuscule good for Africa" that "may not amount to much," but did credit Mr. Blair with being the "first Western leader in decades to make Africa a personal agenda."

"Mr. Blair's commission has been rubbished as just another 'Save Africa' jig," writes Mr. Mbitiru, and "good reasons exist. In 22 years, there have been at least ten such jigs. Yet, other than a small elite that rubs shoulders with the likes of Blair, natives are worse off than 40 years ago."

The real significance of Mr. Blair's efforts, Mr. Mbitiru declared, "is that a looter is telling fellow looters: At least let's get civilized; otherwise there'll be nothing left..."

The results of Mr. Blair's Commission for Africa report, released in March, have since provided a framework for the prime minister's campaign to focus global attention on African issues.

The highly anticipated report proposed 100% cancellation of sub-Saharan Africa's multilateral debt, a doubling of foreign-aid spending by wealthy nations to a total of $US50 billion a year and an end to the subsidies and tariffs that cripple African trade, by 2010. The 17-strong commission of African leaders, experts and development advocates also called on industrialized countries to strengthen their efforts to curb graft and help African governments crack down on corruption and recoup stolen assets stashed by African leaders in Western banks.

The following recommendations formulated by the Commission for Africa are expected to be placed before G8 members at their next summit to be held at Gleneagles, Scotland in July:

"Countries and territories with significant financial centres should take, as a matter of urgency, all necessary legal and administrative measures to repatriate illicitly acquired state funds and assets. [The commission calls] on G8 countries to make specific commitments in 2005 and to report back on progress, including sums repatriated, in 2006."

"All states should ratify and implement the UN Convention Against Corruption during 2005." (The convention can come into force only if 30 nations ratify it. So far, 22 have done so and Britain is the only G8 nation that has pledged to ratify the convention.)

Amending and passing the necessary laws to facilitate the

commission's proposals for combating corruption would go some way to legitimizing Mr. Blair's recovery plan for Africa and increase its chances of lasting success.

"However, in order not to let these proposals become another one of those endless communiqu,s normally issued at the end of every conference or seminar on Africa's problems," warns UK-based African journalist and scholar, Uche Nworah, "it is vital that both the Prime Minister and the Commission for Africa go a step further."

"He should let his actions speak louder than the words contained in the 461-page [commission] report," advises Mr. Nworah, in a recent edition of Global Politician. "The common man on the streets of Africa desirous of real change would like to see Mr. Blair convince his fellow Western leaders of the seriousness of the African situation," but "he can only do this if he sets the ball rolling by acting decisively, the same way he did when he led the way in the aftermath of the Tsunami disaster, through his government's record œ75M contribution. This time, Africans expect a British government announcement of debt cancellations for poor African nations; such announcements may be the tonic the other creditor nations need to begin to take action themselves towards that direction."

Writing off debt as "a radical but progressive and humanitarian course of action," says Mr. Nworah, is a compelling argument in relation to African debt incurred by corrupt governments that used borrowed money to enrich themselves and remain in power.

"Corrupt regimes who ended up recycling the funds back into their private bank accounts scattered all over the western countries" continues Mr. Nworah, have left African citizens "to suffer from the repayments, without any real and tangible differences in the social systems and infrastructures" the loan money was secured to improve in the first place.

Writing off such debt, however, might strike Western creditors as a shrewd move for less than noble reasons. After all, what better way to conceal their complicity in the misuse of public funds by despotic rulers than by erasing bad debt at a time when debt cancellation is lauded as the way forward to making poverty history?

According to Mr. Nworah, the "good thing" about the Commission for Africa report is that it "talks about a partnership between Africa and the West," which is a "new approach to dealing with Africa" that "is most welcome" because "it not only shows that Africa as a continent has grown up, it also challenges Africa to rise up and accept its responsibilities as a grown up."

The report, he says, "entrusts Africa's destiny into Africa's hands."

And yet as the upcoming G8 summit in Scotland this summer makes clear, Africa's destiny is not in Africa's hands. So long as African leaders continue to look to the West to bail

them out, others will always be able to call the shots.

The most decisive way to signal responsible leadership and authority is to forgo debt forgiveness and declare a moratorium on debt repayments. Debt cancellation doesn't punish the wrongdoers or curb corruption and odious debt left unchallenged will be treated as legitimate and enforceable by lenders. However, challenging odious debt is one way African governments can hold both Western creditors and corrupt African officials to account.

The time of the G8 summit in July poses the perfect opportunity for African leaders and the NEPAD Secretariat (New Partnership for Africa's Development) to launch such a challenge and declare a new era of good governance and prosperity for Africa.

If Tony Blair is serious about a partnership between Africa and the West, he too should drop debt forgiveness in favour of a rigorous accounting of loose lending and corrupt spending.

CONTACT: ODIOUS DEBTS
Web site: http://www.odiousdebts.org/

PROBE INTERNATIONAL
225 Brunswick Avenue
Toronto, Ontario
CANADA
M5S 2M6
Phone: (416) 964-9223
Toll-free in North America: 1-800-26-EARTH
Fax: (416) 964-8239
E-mail: odiousdebts@eprf.ca
Web site: http://www.ProbeInternational.org/

Crises in Emerging Market Economies: A Global Perspective

[Authored by Guillermo A. Calvo, this paper was included in the April 2005 issue of the NBER Working Paper Series.]

ABSTRACT

The paper argues that global financial factors played an important role in the capital-inflow episode in Emerging Market economies (EMs), during the early part of the 1990s, and clearly in the Sudden Stop (of capital inflows) crises that took place after the 1998 Russian crisis. Moreover, the paper shows that recovery after crises that exhibit large output loss (more than 5 percent of GDP from peak to trough) occurs in a Phoenix-like fashion: little credit or investment is required. These results strongly suggest that: (1) deep financial crises can be prevented or at least largely alleviated and (2) global institutions and arrangements should be high on the policy agenda. The paper then discusses an Emerging Market Fund (EMF) charged with the task of lowering the incidence of contagion in EM bond prices. In addition, the paper analyzes domestic policies and concludes that they are critical and important in making EMs less vulnerable to shocks but are unlikely to succeed in fully shielding these

economies from global financial shocks if not supported by arrangements like the EMF. Finally, two sections of the paper are devoted to discussing some current issues regarding applicable theory and econometrics.

The full copy of this paper is available at
http://www.nber.org/papers/w11305

CONTACT: NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138-5398 U.S.A.
Tel: 617-868-3900
Fax: (617)868-2742
Web site: http://www.nber.org/

GUILLERMO A. CALVO
Department of Economics
University of Maryland
4118 Tydings Hall,
College Park, MD 20742-7211 USA
Tel: (301) 405-3553
Fax: (301) 405-7835
E-mail: calvo@wam.umd.edu
http://www.bsos.umd.edu/econ/ciecalvo.htm

Washington and Wall Street: The Interplay of External Financial Influences on the Course of Debt and Currency Crises in Argentina, Brazil and Uruguay, 1998-2002

The partial restructuring of Argentina's US$100 billion sovereign debt earlier this month makes the prospects for a return to economic stability look more promising. So says Toby Nangle, a Director of Fixed Income at Baring Asset Management (BAM), the global institutional investment management firm.

Mr. Nangle is the author of the newly published study, "Washington and Wall Street: The Interplay of External Financial Influences on the Course of Debt and Currency Crises in Argentina, Brazil and Uruguay, 1998 - 2002," sponsored by Baring Asset Management (BAM).

"The Government's success in persuading creditors holding 76 percent of the country's defaulted bonds to accept its US$100 billion restructuring offer has been viewed positively by the markets," said Mr. Nangle. "That such a high proportion of U.S. dollar bonds tendered were swapped into peso-denominated securities bodes well for the country's financial stability, and improves its debt dynamics.

"Argentina found itself in a vicious cycle of diminishing market confidence, higher interest costs, and a deteriorating fiscal profile," he said. "It implemented policies that were without economic merit in an effort to win back the confidence of the markets, the IMF and the U.S. Treasury. Reducing the proportion of debt denominated in U.S. dollars reduces the likelihood of such a situation recurring."

Described by Dr. Charles Jones, Director of the Centre for

Latin American Studies, Cambridge University, as "simply the best account of the Argentine crisis that I have read," Mr. Nangle's study describes how, during 2001, market measures of Argentina's 'country-risk' soared, the economy contracted, and the government collapsed. Over the first half of 2002, Uruguay followed Argentina into an economic and financial tailspin, and Brazil encountered financing problems that endangered government solvency.

The study investigates the influence of both Washington-based institutions and financial markets on the course of the debt and currency crises. Rather than reflecting solely on domestic policy errors and existing shocks, Mr. Nangle argues that these crises became self-fulfilling, assisted by Wall Street's perception of country-risk, until Washington institutions intervened to stop them.

The study argues the understanding of the broader geopolitical framework in which countries sit is key, as is an understanding of the interaction between perceptions of financial fragility and financial fragility itself. The Argentinean, Brazilian and Uruguayan crises also illustrate that with increasing levels of financial integration, political choices are narrowed: the electorate in these countries are presented with options that are the function of Wall Street belief-systems that may make little economic sense.

The 75 page study, "Washington and Wall Street: The Interplay of External Financial Influences on the Course of Debt and Currency Crises in Argentina, Brazil and Uruguay, 1998 - 2002," is available in the market commentary section on http://www.baring-asset-us.com

About Baring Asset Management

Baring Asset Management (BAM) is a global investment management firm that manages approximately $35 billion on behalf of governments, institutions, charities, private clients and mutual fund investors located around the world.

Within North America, BAM provides asset management services to institutional investors, offering them a range of equity and fixed income products in both domestic and international markets from their offices in Boston, San Francisco and Toronto.

BAM follows a Growth at a Reasonable Price (GARP) equity investment strategy. Its approach focuses on identifying favorable earnings surprise and valuation characteristics through fundamental research, and it seeks companies, sectors and markets whose attractive growth prospects are not fully reflected in their prices.

Baring Asset Management is part of the MassMutual Financial Group, a global, diversified financial services organization. Massachusetts Mutual Life Insurance Company (MassMutual) is one of the largest life insurance businesses in the USA.

More information about Baring Asset Management can be found at

http://www.baring-asset-us.com

CONTACT: BARING ASSET MANAGEMENT
Gina Solomon
Tel: (617) 946-5217
E-mail: gina.solomon@baring-asset.com

TowersGroup
Scott Sunshine/Andrew Healy
Tel: (212) 354-5020
E-mail: scottsunshine@towerspr.com
andrewhealy@towerspr.com

Political Instability Continues to Plague Balkan States -- S&P

The creditworthiness of the governments of the Republic of Serbia (B+/Stable/B), Former Yugoslav Republic of Macedonia (BB/Positive/B), Republic of Montenegro (BB/Stable/B), Ukraine (BB-/Stable/B), and Socialist Republic of Vietnam (BB-/Stable/B) continue to be constrained by varying political risks, according to an article published by Standard & Poor's Ratings Services on May 17.

The article, entitled "Political and Policy Risks Constrain Ratings on Five Sovereign With Transition Economies," compares the creditworthiness of these five sovereigns, which are considered to have transition economies.

"The commentary points out a number of challenges facing each government and illuminates their important political, institutional, and economic similarities and differences to enhance the understanding of their relatively similar creditworthiness," explained Standard & Poor's credit analyst Helena Hessel. "In contrast to many other 'BB' rated sovereigns, all five governments have a shorter tradition of democratic institutions and less stable, less liberal political and economic foundations. Political and policy risks varying among these peers but are still relatively high in all of them."

The ratings on these sovereigns are supported by their relatively strong economic performance but continue to be constrained by structural and institutional weaknesses of their economies, which still face many challenges of the transition to a market economy.

The report is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit research and analysis system at http://www.ratingsdirect.com.

CONTACT: STANDARD & POOR'S (New York)
Helena Hessel
Tel: (1) 212-438-7349
E-mail: helena_hessel@standardandpoors.com

Agost Benard (Singapore)
Tel: (65) 6239-6347
E-mail: agost_benard@standardandpoors.com

Beatriz Merino (London)
Tel: (44) 20-7176-7108
E-mail: beatriz_merino@standardandpoors.com

Kai Stukenbrock (London)
Tel: (44) 20-7176-7119
E-mail: kai_stukenbrock@standardandpoors.com

Marc Eiger (Media contact/New York)
Tel: (1) 212-438-1280
E-mail: marc_eiger@standardandpoors.com

EMBASSY OF SERBIA AND MONTENEGRO IN WASHINGTON
2134 Kalorama Rd., NW
Washington, DC 20008
Tel: (202) 332-0333
Fax: (202) 332-3933
Web site: http://www.yuembusa.org/

Official Government Portal
http://www.srbija.sr.gov.yu/?change_lang=en

The International Exposure of U.S. Banks

[Authored by Linda S. Goldberg, this paper was included in the May 2005 issue of the NBER Working Paper Series.]

ABSTRACT

This paper documents the changing international exposures of U.S. bank balance sheets since the mid-1980s. U.S. banks have foreign positions heavily concentrated in Europe, with more volatile flows to other regions of the world. In recent years some cross-border claims on Latin American countries have declined, while claims extended locally by the branches and subsidiaries of U.S. banks have grown. The foreign exposures of larger U.S. banks tend to be less volatile than claims of smaller banks, and locally issued claims tend to be more stable than cross-border flows. Business cycle variables have mixed influence on U.S. bank cross-border and local claims. The cross-border claims of U.S. banks on European customers tend to be procyclical. By contrast, locally generated and cross border claims on Latin American customers of U.S. banks are not robustly related to either U.S. or country-specific business cycle variables. U.S. banks do not appear to be strong conduits for transmitting U.S. cycles to these smaller markets, and may instead serve a positive role in stabilizing the amplitude of foreign country cycles.

The full copy of this paper is available at
http://papers.nber.org/papers/W11365

CONTACT: NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138-5398 U.S.A.
Tel: 617-868-3900
Fax: (617)868-2742
Web site: http://www.nber.org/

LINDA S. GOLDBERG
Vice President and Head
International Research Function
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
Tel: (212) 720-2836
E-mail: linda.goldberg@ny.frb.org

A Quantitative Model of Sudden Stops and External Liquidity Management

[Authored by Ricardo J. Caballero and Stavros Panageas, this paper was included in the April 2005 issue of the NBER Working Paper Series.]

ABSTRACT

Emerging market economies, which have much of their growth ahead of them, run persistent current account deficits in order to smooth consumption intertemporally. The counterpart of these deficits is their dependence on capital inflows, which can suddenly stop. In this paper we develop and estimate a quantifiable model of sudden stops and use it to study practical mechanisms to insure emerging markets against them. We first assess the standard practice of protecting the current account through the accumulation of international reserves and conclude that, even when optimally managed, this mechanism is expensive and incomplete. External insurance, on the other hand, is hard to obtain because sudden stops often come together with distress in emerging market investors themselves (the most natural insurers). Thus, one needs to find global (non-emerging-market specific) assets that are correlated to sudden stops. We show an example of such an asset based on the S&P 500's implied volatility index. If added to these countries portfolios, it would significantly enhance their sudden stop risk-management strategies. In our simulations, the median gain in terms of reserves available at the time of sudden stop is around 30 percent. Moreover, in instances where the level of non-contingent reserves is low, the median gain is close to 300 percent. We also find that as countries manage to reduce the size of the sudden stops that afflict them, they should reduce their stock of reserves and significantly increase their share of contingent reserves. The main insights of the paper extend to external liquidity and liability management more generally.

The full copy of this paper is available at
http://www.nber.org/papers/w11293

CONTACT: NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138-5398 U.S.A.
Tel: 617-868-3900
Fax: (617)868-2742
Web site: http://www.nber.org/

RICARDO CABALLERO
MIT Department of Economics

E52-252A
50 Memorial Drive
Cambridge MA 02142-1347
Tel: (617) 253-0489
Fax: (617) 253-6915
E-mail: caball@mit.edu

International Reserves: Precautionary Versus Mercantilist Views, Theory and Evidence

---

[Authored by Joshua Aizenman and Jaewoo Lee, this paper was included in the May 2005 issue of the NBER Working Paper Series.]

ABSTRACT

This paper tests the importance of precautionary and mercantilist motives in accounting for the hoarding of international reserves by developing countries, and provides a model that quantifies the welfare gains from optimal management of international reserves. While the variables associated with the mercantilist motive are statistically significant, their economic importance in accounting for reserve hoarding is close to zero and is dwarfed by other variables. Overall, the empirical results are in line with the precautionary demand. The effects of financial crises have been localized, increasing reserve hoarding in the aftermath of crises mostly in countries located in the affected region, but not in other regions. We also investigate the micro foundation of precautionary demand, extending Diamond and Dybvig (1983)'s model to an open, emerging market economy where banks finance long-term projects with short-term deposits. We identify circumstances that lead to large precautionary demand for international reserves, providing self-insurance against the adverse output effects of sudden stop and capital flight shocks. This would be the case if premature liquidation of long-term projects is costly, and the economy is de-facto integrated with the global financial system, hence sudden stops and capital flight may reduce deposits sharply. We show that the welfare gain from the optimal management of international reserves is of a first-order magnitude, reducing the welfare cost of liquidity shocks from a first-order to a second-order magnitude.

The full copy of this paper is available at
http://papers.nber.org/papers/W11366

CONTACT: NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138-5398 U.S.A.
Tel: 617-868-3900
Fax: (617)868-2742
Web site: http://www.nber.org/

JOSHUA AIZENMAN
Professor of Economics
463 Engineering 2
University of California Santa Cruz
Santa Cruz, CA 95064

Tel: (831) 459-4791
Fax: (831) 459-5077
E-mail: jaizen@ucsc.edu
http://econ.ucsc.edu/Faculty/facAizenman.shtml

****

S U B S C R I P T I O N   I N F O R M A T I O N

Sovereign Debt Restructuring is a monthly newsletter co-published by Bankruptcy Creditors' Service, Inc., Fairless Hills, Pennsylvania, USA, and Beard Group, Inc., Frederick, MD, USA. Larri-Nil G. Veloso, Editor.

Copyright 2005. All rights reserved. ISSN: 1544-7855.

This material is copyrighted and any commercial use, resale or publication in any form (including e-mail forwarding, electronic re-mailing and photocopying) is strictly prohibited without prior written permission of the publishers. Information contained herein is obtained from sources believed to be reliable, but is not guaranteed.

The SDR subscription rate is $--- for -- months delivered via e-mail. Additional e-mail subscriptions for members of the same firm for the term of the initial subscription or balance thereof are $-- each. For subscription information, contact Christopher Beard at 240/629-3300.

*** End of Transmission ***

Recommended Reading: John O. Whitney's newest title, "Taking Charge: Management Guide to Troubled Companies and Turnarounds." List Price: US$34.95 at http://www.beardbooks.com/taking_charge.html
----