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

November 2005, Vol. 3, No. 11

Headlines

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F R A M E W O R K

Debt Conversion Not Beneficial to Developing Nations - Critic

In a searing retort, a Philippine economist called the debt-to-equity scheme of Philippine House Speaker Jose de Venecia a proposal that makes no economic sense.

Appearing in a recent forum in Manila, with Mr. de Venecia in attendance, Sixto Roxas said the scheme does not actually reduce debt. A debt-for-equity arrangement, he explains, merely converts the creditor's assets from one form to another; thus, it remains a liability.

The cost to the country may not be reduced, he adds. In fact, it may increase if profit and dividend rate and the potential capital gains are larger than the principal and interest due on the converted debt.

Mr. de Venecia, who first broached the idea to the Paris Club in June and later at the recent Summit of Speakers of Parliaments of the World, declined to respond to Mr. Roxas' comments. Instead, he said the proposal enjoys widespread support, particularly in Western Europe. Italy and Germany and U.N. Secretary-General Kofi Annan have hailed the proposal as an innovative way of achieving the Millennium Development Goals.

The MDGs are eight goals that all 191 U.N. member states have agreed to achieve by 2015. They include eradicating extreme poverty and hunger, reducing child mortality, combating HIV/AIDS and ensuring environmental sustainability, among others.

Under Mr. de Venecia's proposal, sovereign creditors will be asked to convert 50% of debt service payments into equities in programs supporting the attainment of the MDGs. These programs may include reforestation, mass housing, micro-financing or infrastructure development. Debt for reforestation, for instance, can turn a US$100 million investment into US$3 billion in 10 years from timber sales alone, he said.

But Mr. Roxas says reducing foreign debt by conversion does not generate new resources available for consumption or investment. In the end, future generations will continue to bear the debt. He likens the proposal to a father selling the family house to pay the debt and leaving his children nothing.

"In general, then, reducing foreign debt by conversion either into infrastructure or environmental projects or into ownership of land and natural resources makes no economic sense for the developing countries," Mr. Roxas says.

Former national treasurer Leonor Briones believes pulling off a debt conversion will require too much time and resources. "The government will have to engage in one-on-one negotiations with thousands of creditors to achieve the 50% goal," Business World quoted her say at the forum.

It must also be noted that creditors are in the business of lending, not holding stakes in development projects, she said, adding massive debt conversions could be inflationary. She also shares Mr. Roxas' observation that previous debt-for-goods arrangements have had minimal impact on debt reduction.

If foreign creditors genuinely desire to help, foreign debt should be condoned and not converted into a form that diminishes the national sovereignty, Mr. Roxas concludes.

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Don't Attach Conditions to New Loan Facility, IMF Told

Critics once more doubt the sincerity of the IMF, believing its new loan facility is another ploy to force developing countries open up their markets.

The new program aims to provide funding to low-income countries affected by high oil prices and other external economic pressures, but are not getting support under existing IMF programs.

"If history is anything to go by, this new facility will once again be used as a lever by the IMF to ratchet further free market reforms out of the poorest countries," Pete Hardstaff, the World Development Movement's policy director, told BBC News.

Because of too many conditions, he noted, assistance in the wake of the Asian financial crisis backfired. "While we recognize the need for ways of addressing short term balance of payment problems, if this is going to be yet another way to force free market reforms out of the poorest countries, then it is not welcome," Mr. Hardstaff says.

The new funding aims to give countries facing balance of payments problems quick access to loans. It targets post-conflict countries, those affected by natural disasters, or not currently receiving support through the Poverty Reduction and Growth Facility. It is the IMF's response to criticisms that its loans are not being made available quickly or widely enough, says the BBC.

The IMF, which has not disclosed the size of the new fund, hopes it will help developing countries cope with rising oil prices. Rising fuel prices has already sparked social unrest in a number of countries including Indonesia and Bangladesh.

Earlier, British Finance Minister Gordon Brown called the IMF, World Bank and the United Nations' emergency assistance facilities "not good enough." Writing in the International Herald Tribune, he said, "The world needs to get better at delivering humanitarian aid."

"A world that in just a year has seen a chain of disasters ravage communities and continents needs an international response that is more proactive in its ambitions and more coordinated in its reach," he wrote.

"The idea of a shocks facility is not new," Reuters says. "Washington said in April it favored such a body within the IMF, and the IMF discussed a commodity shocks body at its spring meeting."

"But Hurricane Katrina in the United States and this month's Asian earthquake have thrown a spotlight again on the way the world responds to major natural disasters," Reuters says.

Anti-poverty campaigners, however, want assurances that the money would not be conditional on countries introducing economic reforms such as opening up markets and privatizing industries.

"We wait for the IMF to say that this will categorically not be the case," Mr. Hardstaff says

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U.K. Increases 'Aid for Trade' Budget

The Department for International Development announced on November 14 it will treble its aid to poor countries to GBP100 million to boost their exports to the rest of the world.

By increasing "aid for trade", the UK hopes to help poorer countries seize the opportunities presented by more open markets. For example, the funding will help countries in sub-Saharan Africa and elsewhere to speed up their customs reform, get their goods to market and meet European Union health and safety standards.

International Development Secretary Hilary Benn said: "The UK is making good our commitment at the G8 Summit to help developing countries trade their way out of poverty. This year we have succeeded in highlighting poverty in Africa and pledged to increase world aid, but we will fall short if we cannot offer the poor a fair chance to trade with the rest of the world. I hope that as we get closer to the world trade talks in Hong Kong in December, other countries will also increase their aid for trade."

UK support for "aid for trade" has already produced benefits in Mozambique where DFID-backed customs reforms, which increased revenues from US$70 million to US$250 million a year. The UK government's announcement is aimed at extending these benefits to other poor countries.

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The Department for International Development currently contributes GBP30 million towards "aid for trade". Additionally, DFID support for "aid for trade" through the European Commission, World Bank, United Nations and other international agencies is around US$90 million.

The G8 Summit in Gleneagles committed member countries to "increase our help to developing countries to build the physical, human and institutional capacity to trade, including trade facilitation measures."

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T R O U B L E D   C O U N T R I E S
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ANTIGUA & BARBUDA: Hires Houlihan Lokey to Draft Debt Strategy

Over the past twelve months the government has intensified its efforts to correct the macroeconomic imbalances that have plagued the Antigua and Barbudan economy for the past several years. These macroeconomic imbalances include significant fiscal deficits and unsustainable public debt. Government has begun to tackle the fiscal situation with the assistance of several regional and international agencies by, inter alia, implementing a number of measures aimed at enhancing revenue generation, improving tax policy and creating a more efficient tax administration.

Minister of Finance and the Economy Dr. Errol Cort is confident that these fiscal reform programs will significantly improve the government's financial situation. However, the minister stressed the need to address the "very high and undoubtedly unsustainable" debt-to-GDP level in Antigua and Barbuda. The government therefore views the enhancement of debt management as a critical element of its overall strategy for engendering fiscal transformation and macroeconomic stabilization.

The government has managed, through a bilateral approach, to negotiate over US$500 million in debt relief from a number of creditors -- mainly the Italian Government and DEVCON International, thereby bringing about a reduction in the debt-to-GDP ratio from the 2003 level of 130% to 108% in 2004. While this represents a remarkable achievement and a positive step on the path to more manageable and sustainable public debt, there is still need for further intervention to bring the ratio in line with the benchmarks set by the Eastern Caribbean Central Bank.

To facilitate this, the government has received assistance from the Canadian International Development Agency (CIDA) to expand its debt strategy to include a more comprehensive and multilateral approach to debt management. Specifically, CIDA is funding the implementation of a Debt Management Project that will seek to develop a comprehensive strategy for more effective debt management in Antigua and Barbuda.

Houlihan Lokey Howard & Zukin emerged as the top candidate among the companies that tendered proposals and was selected to develop the government's multilateral debt management strategy. The finance minister indicated that this company brings to the table a "significant wealth of knowledge that will ensure the success of the Antigua and Barbuda Debt Management Project."

This project will assist the government to accelerate the process of reducing the debt-to-GDP ratio to no more than 80% by 2007; facilitate the regularization of the government's relationship with creditors; improve the credit rating of Antigua and Barbuda and initiate the establishment of more effective systems for ensuring debt sustainability.

Derrill Allatt, managing director of Houlihan Lokey Howard & Zukin, indicated that his firm has one of the largest worldwide financial restructuring practices of any investment bank. Houlihan Lokey has a Sovereign Advisory Services group that offers services such as debt management, the development of funding strategies and credit rating advice to sovereign clients. Mr. Allatt pointed out that "in the Caribbean region, our clients include the Dominican Republic where we recently advised on the restructuring of debt owed to various governments and commercial banks".

The Houlihan Lokey team of consultants commenced work in Antigua on November 9, 2005 and, through the provision of several deliverables, will support the development of mechanisms for more effective debt management in Antigua and Barbuda. One of the major deliverables of this project will be a Debt Strategy that will be used by the government to ensure public debt in Antigua and Barbuda is reduced to more manageable and sustainable levels. It is expected that the draft debt management strategy will be presented to the government by January 31, 2006.

The finance minister stressed that "this Debt Management project is the first phase in the government's comprehensive approach to improving the debt situation in Antigua and Barbuda." Once this project is completed, it plans to move to the second phase, which involves the implementation of the recommendations of the Debt Strategy provided by Houlihan Lokey.

Another major component of this project is the training element, which should result in the expansion of the skills and expertise of public sector technocrats who are responsible for monitoring and managing public debt.

Mr. Allatt indicated that the purpose of the team's current mission was to conduct a diagnostic examination of the government's overall debt portfolio after which a diagnostic report would be presented to the government by December 31, 2005.

Finally, it is expected that the outcome of the government's efforts with respect to its debt management strategy should impact the lives of all Antiguans and Barbudans and as such, the finance minister indicated that "every effort will be made to ensure the general public remains informed of developments with respect to the Debt Management Project."

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ARGENTINA: U.S. Rebuffs Call to help in IMF Negotiations

You're on your own. This was U.S. President George Bush's reply to President Nestor Kirchner, who asked him to help the country get better loan terms from the IMF.

The two leaders met on the fringes of the 34-nation Summit of the Americas earlier this month. Mr. Bush said Argentina was now in a much stronger position than when it relied on U.S. help previously.

"I was pleased that the United States was helpful during the early part of his (Kirchner's) term with the IMF, and I suggested that his record is such now that he can take his case to the IMF with a much stronger hand," Reuters quoted Mr. Bush as saying.

He confirmed that his Argentine counterpart told him he wished the IMF had a different outlook toward Argentina and its economy. "He (Kirchner) has been an outspoken person for reform. I listened very carefully to his point of view," Mr. Bush said.

Argentina has been asking the IMF to take a more flexible position on issues such as taxes, debt, interest rates and exchange rates. The country is currently preparing to negotiate for a new IMF loan to sustain economic growth. It abandoned negotiations more than a year ago to focus on restructuring US$100 billion in defaulted debt to private creditors.

Tom Shannon, assistant secretary for the Western Hemisphere at the U.S. State Department, told reporters at the summit that Argentina's record could stand on its own.

"Argentina really doesn't need our help in this regard because it has the success story that it needs to take into these kinds of negotiations," Reuters quoted Mr. Shannon as saying.

Since taking power, Mr. Kirchner has been a fierce critic of the IMF. He believes that as Argentina moves forward, the IMF should be a less-intrusive partner in terms of creating conditionalities for official IMF assistance.

Mr. Shannon says the U.S. will continue to support Argentina in other ways, adding it is in the interest of Washington that Buenos Aires do well, "because a stable, democratic, prosperous Argentina is an important anchor in a region that faces a lot of trouble at this time."

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ARMENIA: Gets Second Tranche of US$32 Mln PRGF Loan

The Executive Board of the International Monetary Fund (IMF) completed on November 14 the first review of the Republic of Armenia's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables Armenia to draw an amount equivalent to SDR3.28 million (about US$4.7 million), which will bring total disbursement under the arrangement to SDR6.56 million (about US$9.4 million).

The Executive Board approved the three-year arrangement on May 25, 2005, for a total amount equivalent to SDR23 million (about US$32.8 million) to support the government's economic program through 2008.

Following the Executive Board discussion, Agustin Carstens, Deputy Managing Director and Acting Chair, said: "Armenia's economy continues to perform strongly. Prudent fiscal and monetary policies, strong external inflows, and ongoing structural reforms have contributed to double-digit growth, low inflation, and declining poverty in 2005. The outlook is for continued robust growth in 2006, underpinned by buoyant investment and remittance inflows.

"The authorities made good progress in structural reforms in 2005. They adopted a comprehensive two-year Tax Action Plan to improve tax and customs administrations. Two major amendments to tax legislation that reduce exemptions and loopholes have been submitted to parliament. Moreover, an operational review of customs is currently under way. Steps have also been taken to strengthen banking supervision and improve corporate governance of the financial sector. The financial performance of the energy, water, and irrigation sector has continued to improve.

"The thrust of the authorities' economic program for 2006 is to maintain macroeconomic stability and keep inflation below 3 percent. The Central Bank of Armenia will continue to focus on maintaining price stability, and to limit intervention in the foreign exchange market to smoothing out volatility in the exchange rate.

"The government will also continue to pursue reforms aimed at enhancing growth prospects and alleviating poverty. In particular, structural reforms in the fiscal area focus on improving tax and customs administration to mobilize domestic revenues to finance capital, and social expenditures. As part of the efforts to improve the business climate, the government will continue with the implementation of its anti-corruption action plan. Financial sector reforms should boost financial intermediation and reforms in the public utility sector will emphasize improving its services and financial viability," Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a PRSP. This is to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5«-year grace period on principal payments.

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BELIZE: Moody's Sees Severe Pressure on Balance of Payments

Moody's Investors Service has downgraded Belize's ceilings for foreign-currency bonds to Caa3 from B3 in light of persistent concerns about external liquidity and a macroeconomic framework that is inconsistent with debt sustainability.

The rating agency has also changed the country ceiling for foreign-currency deposits to Caa3 from Caa1. The government's local-currency rating was also downgraded to Caa3 from B3. The outlook on all of the ratings is stable.

Attempts to correct the large fiscal and external imbalances have proven to be insufficient to avert potentially severe pressure on the balance of payments, said Moody's. This, in turn, could threaten macroeconomic stability, including the sustainability of the country's fixed exchange rate regime.

The downgraded ratings reflect heightened risks that Belize will need to restructure its debt obligations in a manner that would inflict considerable losses to creditors. Even under the most optimistic assumptions, Moody's concluded that an external funding gap could lead to a rapid reduction of foreign-exchange reserves, which might lead to a disorderly restructuring of obligations.

Moody's said that it will continue to monitor the government's progress toward fiscal consolidation and its announced intentions to improve the external debt profile through negotiations with private creditors.

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BOLIVIA: Passes Sixth Review of IMF Stand-by Arrangement

The Executive Board of the International Monetary Fund (IMF) completed on October 31 its sixth review of Bolivia's performance under an SDR171.5 million (about US$248.9 million) Stand-By Arrangement that was originally approved for SDR85.75 million (about US$124.5 million) on April 2, 2003 and subsequently augmented and extended through March 31, 2006.

The Board also granted the authorities' request to reduce the size of the current arrangement by SDR25.72 million (about US$37.3 million) to SDR145.78 million (about US$211.6 million). The reduction in total access under the Stand-By Arrangement reflects Bolivia's stronger than envisioned balance of payments outcome under the IMF-supported economic program. Completion of this review makes an amount equivalent to SDR17.14 million (about US$24.9 million) available to Bolivia immediately. The remaining SDR17.14 million under the arrangement could be made available for disbursement subject to Board approval during the next and final review of Bolivia's performance. However, the authorities have indicated that they intend to treat the arrangement as precautionary henceforth.

In completing the sixth review, the Board also granted the authorities' request for waivers of applicability of performance criteria on the combined public sector deficit and domestic financing outturns relative to their end-September quantitative performance criteria, and for the non-observance of the end-June 2005 performance criterion on passage of a revised 2005 budget law.[1]

Following the Board's discussion on Bolivia, Anne O. Krueger, First Deputy Managing Director and Acting Chair, issued this statement:

"Despite the difficult political developments, and aided by a favorable external environment, macroeconomic stability in Bolivia has been maintained and overall economic performance in 2005 has been positive. Economic activity has picked up despite the negative impact of social tensions early in the year, inflation remains in single digits, and the external current account continues to show a surplus. Financial system deposits have recovered and central bank reserves have strengthened. Risks remain for the authorities' economic program, but the recent strong performance has lessened economic vulnerabilities.

"The authorities are committed to maintaining the fiscal deficit on its declining trend. This will be achieved by saving part of the large increase in hydrocarbons revenue resulting from an increase in the tax rate and strong gas export prices. The recently submitted 2006 budget aims at reducing the fiscal deficit further, thereby consolidating the fiscal adjustment effort pursued in recent years.

"Aided by a better-than-programmed fiscal position, the central bank has been implementing a measured and appropriate monetary policy during the difficult political transition. International reserves are being rebuilt in the context of a decline in policy interest rates and a welcome improvement in the maturity structure and currency composition of the domestic debt. The authorities' prudent financial management is allowing them to adhere to the quantitative targets of the program.

"Looking ahead, the macroeconomic policy targets for 2005 and 2006 have been strengthened, and the structural policy component of the program has been re-profiled in light of the interim nature of the current government. On the structural front, the authorities have submitted to Congress a draft budget framework law, aimed at strengthening the budget process at all levels of government; and a draft law introducing a partial coverage deposit insurance scheme. However, the hydrocarbons law enacted by Congress last May risks undermining the development of the sector, especially in light of tax rigidities and legal uncertainties. The authorities believe that more time is needed for a full assessment of the impact of that law given the altered energy price outlook and the ongoing contacts with oil companies on the implementing regulations.

"Continued macroeconomic stability and sustained growth and poverty reduction over the medium term depend on prudent management of hydrocarbons-based revenue together with a removal of impediments to investment in the sector. It will also be important to achieve a balance between revenue allocations and spending responsibilities at all levels of government, to make progress with the tax reform, to implement a more market-based petroleum product pricing mechanism, to appropriately focus poverty-reducing spending, and to reduce further vulnerabilities in the financial sector," Ms. Krueger said.

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[1] The staff report for the Sixth Review of the Stand-By Arrangement with Bolivia may be made available at a later stage if the authorities consent.

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BRAZIL: S&P Raises Credit Outlook to Positive

Brazil's effort to trim down external public and private sector external debt is paying off, at least on the ratings.

Following Moody's lead, Standard & Poor's upgraded on November 8 its credit outlook for Brazil to positive from stable. S&P analysts Lisa Schineller said the debt reduction, coupled by solid exports, are reducing the likelihood of a default. However, its dependence on debt to finance the budget continues to restrict its rating.

Reuters says S&P expects Brazil's financing needs to remain near 85% this year and 2006, close to the median for 'BB-'-rated countries. Also restricting its fiscal and economic progress is high interest rates, but S&P believes efforts to cut bureaucratic red tape should boost its prospects.

"Reducing the magnitude and complexity of Brazil's fiscal and external vulnerabilities closer to those of its 'BB' rated peers requires further consolidation of prudent policy by the current and future administration," Ms. Schineller added.

In related development, Brasilia has hinted it may re-open its 10-year international bonds for the fourth time this year. A Treasury statement did not provide details about the size of the offering or the banks that will manage the sale, Bloomberg News says. The Treasury sold US$500 million of the 10-year bonds in January, US$1 billion in February and another US$600 million in June. The bonds carry 7 7/8 percent interest.

Brazil is the biggest debtor among developing nations with US$440 billion of debt. S&P rates Brazil's foreign debt BB-, Moody's has it at Ba3.

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CAMEROON: Fitch Lifts DDD Local Currency Debt Rating

Fitch Ratings upgraded on November 7 the Republic of Cameroon's "structured contractors" debt to 'CCC+' from 'DDD', placing it at the same level as that of other local currency debt. At the same time, the agency has changed the Outlook on Cameroon's Long-term foreign and local currency ratings to Positive from Stable. The rating action reflects the success of the arrears settlement plan on domestic debt implemented by the government and the significant improvement of the sovereign financial situation.

Cameroon's other ratings are affirmed at Long-term foreign currency 'B-' (B minus), Short-term foreign currency 'B' and Long-term local currency 'CCC+'. As a member of the CEMAC currency zone, Cameroon has a Country ceiling rating of 'BBB-' (BBB minus), which was also affirmed.

In 2003 and 2004, Cameroon went through a severe fiscal crisis, which eventually led the State to default on its domestic debt. As a result, in H2 2004, the structural adjustment programme initiated by the IMF, which was supposed to help Cameroon reach the completion point of the Highly Indebted Poor Countries (HIPC) debt reduction initiative, went "off-track". However, Cameroon, during that period, assumed the service of its external debt, although with some delays.

In February 2005, the Long-term foreign currency rating of Cameroon was downgraded to 'B-' (B minus) from 'B', and the local currency rating to 'CCC+' from 'B'; the structured contractors' debt, which had been issued previously in exchange for debt owed to the State's suppliers, was downgraded to 'DDD' as it was subject to a less favorable treatment than the rest of domestic debt.

The Cameroonian government has launched, in the first term 2005, a comprehensive audit of its domestic debt, and subsequently implemented an arrears settlement plan. The debt due to banks is being repaid according to the initial schedule; however, the debt owed to other creditors, including the structured contractors, has been rescheduled over several years. Since the inception of this plan, in H12005 no arrear has been recorded, which led Fitch to upgrade the structured contractors' debt to 'CCC+', placing it at the same level as that of other domestic debt.

The financial situation of Cameroon greatly improved in 2005, under the combined effect of the increase in oil prices and the fiscal austerity measures put in place by the government. State revenues have significantly increased, which allowed an acceleration of the arrears settlement process and a reduction of public debt. Structural reforms are being pursued, although at a slower pace than initially planned. These accomplishments have led the IMF in October 2005 to grant Cameroon a Poverty Reduction and Growth Facility, which, if successfully reviewed, will allow the country to reach HIPC completion point in 2006.

In Fitch's view, Cameroon has a good chance to reach HIPC completion point in H12006. Combined with the tight fiscal policy pursued by the government, this will result in a substantial reduction in the country's debt. Over the medium term, the upgrade of the ratings will depend on the capacity of the country to maintain a steady economic growth and the willingness of the State to keep a balanced budget and pursue the restructuring of the economy.

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Standard & Poor's rates Cameroon CCC/Stable

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GRENADA: Emerges from Default; Sovereign Rating Raised to B-

Standard & Poor's Ratings Services on November 18 raised its long-term foreign currency sovereign credit rating on Grenada to 'B-' from 'SD' and its short-term foreign currency sovereign credit rating to 'C' from 'SD'. At the same time, Standard & Poor's raised its long-term local currency sovereign credit rating on Grenada to 'B' from 'CCC' and affirmed its 'C' short-term local currency sovereign credit rating. The outlook on the long-term foreign currency sovereign credit rating is stable, while the outlook on the long-term local currency sovereign credit rating was revised to stable from negative.

Standard & Poor's also affirmed its 'B-' ratings on Grenada's recently concluded exchange offers of US$193 million step-up bonds and of EC$184 million step-up bonds, all due Sept. 15, 2025. These bonds are being exchanged for principal and past-due interest (through Sept. 15, 2005) of these rated defaulted securities:

(i) US$100 million 9.375% bonds due 2012,

(ii) US$41.5 million 7.15% bonds due 2014, and

(iii) some unrated obligations

Participation in the exchange offers is estimated at 91%. The new bonds will have a longer maturity and lower coupon than the sovereign's original debt obligations. Specifically, the interest rate on the new bonds is 1% during the first three years, rising to 9% by 2018. Bank overdrafts have been rescheduled separately.

According to Standard & Poor's credit analyst Helena Hessel, Grenada's ratings are supported by the government's commitment to prudent fiscal management and an economic recovery expected to begin in 2006.

"Real GDP growth is forecast to average above 4% over the medium term, reflecting an ongoing construction boom and gradual improvement in tourism and agriculture," Ms. Hessel said. "The government plans to cut both fiscal imbalances and the heavy debt burden, despite possible political pressures from the opposition and labor unions."

The stable outlook on the long-term ratings reflects Standard

& Poor's expectation that the successfully completed debt restructuring, combined with ongoing strong donors' support and necessary fiscal adjustment, will alleviate fiscal pressures and stabilize and eventually reduce the government debt burden.

"However, if, due to political pressures, the fiscal adjustment is not achieved or donors' support falls short of expectations, the government's creditworthiness may be negatively affected," Ms. Hessel concluded.

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IRAQ: Japan Discharges JPY690 Million Sovereign Debt

Japan and Iraq will sign the final agreement of a generous debt write-off later this month, PNG Post-Courier said on November 7.

Tokyo has agreed to forgive JPY690 billion, or 80%, of Baghdad's JPY860 billion debt, pursuant to a Paris Club debt agreement reached November last year. Iraq accumulated the debt in the 1980s during a military buildup that eventually led to the Iran-Iraq War.

The deal will enable Japan to reopen aid to Iraq beginning next year, the paper said. Aside from Japan, Italy, also wrote off US$2.4 billion of Iraq's debt in October. A month before that, non-Paris Club members, Romania and Bulgaria, also granted debt relief.

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IRAQ: Norway Backs Cancellation of Odious Debt

Norway's new government has signaled its intention to support the cancellation of illegitimate debt and the establishment of an international court to hear matters concerning illegitimate debt claims.

"Norway must adopt an even more offensive position in the international work to reduce the debt burden of poor countries," Norway's Soria Moria Declaration states.

"The UN must establish criteria for what can be characterized as illegitimate debt, and such debt must be cancelled... The government will support the work to set up an international debt settlement court that will hear matters concerning illegitimate debt."

The statement also challenges the Paris Club and IMF's policy of putting economic conditions on debt relief, something that is being required of Iraq: "No requirements must be made for privatization as a condition for the cancellation of debt."

Although Norway does not hold any debt claims against Iraq, the move is significant because it means that a major northern government has finally recognized that there is such a thing as illegitimate or odious debt, which is the liability of the lender and not the borrower, Jubilee Iraq says.

Jubilee Iraq has worked closely with Norwegian debt campaigners such as SLUG and Changemakers, whose committed efforts have now borne significant fruit. Jubilee Iraq applauds the Norwegian government and encourages it to implement these principles and other countries to follow its lead.

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LEBANON: Credit Outlook Upgraded to Positive

Fitch Ratings changed on November 18 the Republic of Lebanon's Outlook to Positive from Stable. At the same time, the Long-term foreign and local currency ratings are affirmed at 'B-' and the Short-term foreign currency rating is affirmed at 'B'.

"The assassination of former Prime Minister Rafik Hariri last February has proved to be a political watershed. Although the new political environment presents risks and new challenges, on balance we believe it more likely than not that a programme of economic, structural and political reforms will gain domestic approval and attract the support of international donors in the coming weeks and months," says Richard Fox, Senior Director in Fitch's Sovereign Department.

"This could have a decisive impact on Lebanon's public finances and broader economic and political development. But political support for and implementation of the programme will be paramount to the progress of Lebanon's ratings," adds Mr. Fox.

The government headed by Prime Minister Fouad Siniora, which came to power in June, is working on a multi-pillared reform programme expected to be submitted to the Cabinet in the near future. Details are still under discussion and the final programme will inevitably be influenced by the political process now in train. Nevertheless, Fitch considers that in the new political environment following the Syrian withdrawal, there is a broad political consensus in favour of reform, although the extent and pace of change remains to be seen. Crucially, this makes it less likely that expectations will be disappointed, in contrast to the experience following the Paris II conference in 2002. Efforts are also to be made to garner popular support for the programme, which will be important given that many of the problems that will eventually need to be addressed will be politically challenging. These include stemming the losses of electricity company, EdL, and the loss of excise taxes associated with the cap on petrol prices. Moves to privatize the mobile phone companies could have a major impact on the debt burden and plans here will be closely watched.

The new government has acted to stem the damage to public finances following the slump in economic activity in the spring; the primary surplus in the third quarter was two-thirds higher than in the first half. Together with continuing benefits from the concessional finance gained from Paris II, Fitch expects the overall budget deficit to show a further fall to around 8% of GDP this year. Unfortunately, this will not prevent a rise in the ratio of public debt to GDP this year, but that ratio will nevertheless remain within the 165%-170% of GDP range seen for the past five years, notwithstanding the fall in GDP growth to almost zero this year. The broad stability of the debt ratio reflects improved public debt dynamics following an almost 10% of GDP improvement in the primary fiscal balance in recent years, and not just the impact of Paris II. However, a decisive reduction in the debt ratio that could support a rating upgrade relies on the implementation of further fiscal and structural reforms.

The assassination of Mr. Hariri is generally acknowledged to have been Lebanon's severest stress test since the civil war. Fortunately, the starting point was reasonably robust, with Lebanon having enjoyed two years of 5%-6% GDP growth in a supportive external environment. International reserves reached an all time high in 2004. So although the banking system suffered some deposit flight in February/March and international reserves fell by US$2 billion, high liquidity meant that these pressures were manageable and short-lived. Reserves have already recouped their losses and the deposit base of the banking system, which enables Lebanon to support such a high level of public debt, is growing again. Further political shocks that test Lebanon's financial system anew cannot be ruled out. However, Fitch notes these risks are already well encapsulated in the 'B-' rating.

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LEBANON: S&P Affirms Ratings; Cites Improving Prospects

Standard & Poor's Ratings Services affirmed on November 18 its 'B-' long-term and 'C' short-term sovereign credit ratings on the Republic of Lebanon. The outlook is stable.

"The affirmation reflects Lebanon's improved fiscal and economic prospects, in light of expected progress with key reforms and of forthcoming international financial support," said Standard & Poor's credit analyst Beatriz Merino. "These factors are offset, however, by the Republic's large fiscal imbalances and near-term political risks."

Lebanon's central government deficit and debt-to-GDP ratios -- forecast by Standard & Poor's at 10% and 180%, respectively, for 2005 -- are among the highest of any rated sovereign. Although the interest burden has declined in recent years, it still represents an exceptionally high 50% of government revenues. Nevertheless, sizable resident and nonresident deposits in Lebanon's financial sector -- with total assets amounting to 3x GDP -- continues to provide ample liquidity for the government's near-term financing requirements.

Over the past year, the political landscape has changed dramatically, following the assassination of former Prime Minister Rafik Hariri and the withdrawal of Syrian forces from Lebanon. Prospects for economic and fiscal reforms have improved under Fouad Siniora's more united government, and amid expectations of international financial support. Political stability, however, remains fragile and may continue to delay reform implementation.

Despite political risks, Lebanon's post-election political consensus, renewed reform plans, and international support for the Republic's new order have generated economic upside potential. Standard & Poor's assumes a gradual implementation of reform, average GDP growth of 3.5%, and the decline of the deficit and debt-to-GDP ratios to 5%, and 160%, respectively, toward the end of the current decade.

"Although the ongoing political transition will take time to create political stability, the government is expected to weather political setbacks without major disruptions to its reform agenda," said Ms. Merino. "In the medium term, government commitment to fiscal restraint and structural reforms will be crucial to ensuring market confidence."

A faster-than-expected improvement in fiscal indicators could boost the rating on Lebanon. Conversely, sustained political deterioration and/or failure to tackle the implementation of long-awaited reforms could undermine growth and investment prospects and place international financial support at risk, resulting in lower confidence, funding difficulties, and consequent downward pressure on the ratings.

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NIGERIA: Meets US$6.4 Billion Payment to Paris Club

Nigeria beat the October 31 deadline to pay its US$6.4 billion arrears to the Paris Club, Finance Minister Ngozi Okonjo-Iweala told Reuters on Nov. 10 during an investment promotion tour to the U.S.

The sum is part of the US$12.4 billion that Nigeria must repay to avail of a US$30 billion debt write-off from the Club. The second payment is due in March after the IMF conducts its first review of the country's new program called Policy Support Initiative.

Ms. Okonjo-Iweala expects to hurdle the review and make the second payment to the Paris Club. Immediately after the payment, Nigeria's debt will be reduced to US$5 billion, she said.

"Thirty billion (dollars) will be off the books," she said, adding the remaining US$5 billion are multilateral debt owed to the World Bank and the African Development Bank (US$3 billion) and private creditors including commercial debt, promissory notes and par bonds (US$2 billion).

As agreed, the US$6.4 billion initial payment was deposited to an escrow account at the Bank of International Settlements in Switzerland.

"We've put it in an escrow account ... as was agreed during the negotiations, and each country will access it as initialed by bilateral agreement which we are on our way to doing," she said.

"We just got the draft (of the bilateral agreement) from the United States," one of the foreign government creditors grouped under the Paris Club, she said.

At home, lawmakers are debating where to source the US$6 billion to buy back at a discount the Paris Club debt in March. If sourced from the Federal fund, all 36 state houses of assembly must pass a measure approving the disbursement. Solons are also questioning the US$6.4 billion payment, which was not covered by an appropriation measure.

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PANAMA: Fitch Rates US$980 Mln 2026 Bonds BB+; Outlook Stable

Fitch Ratings has assigned a 'BB+' rating to Panama's US$980 million in Global bonds due Jan. 29, 2026. The Rating Outlook is Stable. Proceeds from the bond issue were used to fund a cash tender offer for eligible securities as part of a general program to manage its external liabilities.

Dollarization, a stable financial system, moderate debt service needs, and the Government's considerable financial and land assets support the sovereign's ratings.

Dollarization has resulted in a long history of monetary and price stability unseen in other emerging markets. In addition, it limits the probability of a devaluation-induced increase in public debt ratios or a balance of payment crisis.

"Despite recent fiscal slippage, a strong economic recovery and the Torrijos administration's efforts to strengthen public finances, as demonstrated by the prompt passage of fiscal reform in January and improvements in fiscal transparency also underpin Panama's sovereign ratings," said Theresa Paiz Fredel, lead analyst for Panama and Director of Latin American Sovereign Ratings at Fitch.

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PERU: Fitch Revises Outlook on Sovereign Ratings to Positive

Fitch Ratings revised on November 4 the Rating Outlook on Peru's sovereign ratings to Positive from Stable. This applies to these ratings for Peru:

-- Long-term foreign currency 'BB';

-- Long-term local currency 'BB+'

This reflects the country's favorable trends in the balance of payments and public and external debt dynamics. Furthermore, the recent Paris Club debt prepayment and other market-based operations have significantly reduced refinancing risks over the medium-term.

"The marked improvement in Peru's external solvency indicators is expected to continue near-term given the favorable external environment for commodity prices," said Theresa Paiz Fredel, Director, Latin American Sovereign Ratings at Fitch.

Peru's net external debt declined to 106% of current external receipts in 2004, almost halving in five years, and is expected to fall to 79% by year-end 2005, though still significantly higher than the 45% median for the 'BB' rating category. Although non-traditional export growth has accelerated since 2002 and volumes of traditional exports are up as well, particularly those of copper, gold and zinc, the overriding driver of Peru's favorable export development has been a positive terms of trade shock. As a proportion of total current external receipts, exports of mineral products increased from 31% in 2001 to 43% last year, highlighting the narrowness of Peru's export base.

Robust GDP and export growth support Peru's sovereign creditworthiness and should provide a sufficient buffer to deal with possible adverse shocks, whether election-related or externally driven. A solid balance of payments performance has been reflected in international reserve accumulation of US$1.2 billion since year-end 2004 and Peru's low external financing needs of about 15% of reserves. Similarly, reserve accumulation, combined with the reduction of debt service achieved through the government's debt re-profiling operations, will boost Peru's liquidity ratio to a projected 219% at the beginning of 2006. While this compares favorably to a forecasted median of 125% for 'BB' rated sovereigns, when adjusting the liquidity ratio to include resident foreign currency deposits in the denominator, the liquidity ratio falls to around 89%, highlighting the risks associated with high, albeit declining, dollarization.

The government has been focusing on reducing refinancing risk through market-based operations that increase the average life and duration of the debt portfolio, as well as reduce currency and interest rate exposure. This year's debt re-profiling operations included a prepayment to the Paris Club and a local bond exchange. These operations will provide amortization relief of about US$623 million this year and US$350 million between 2006 and 2009. As a result, the public sector's financing requirement will remain at a manageable 3% of GDP over the medium-term if the current fiscal stance is maintained. The re-profiling transactions undertaken this year also improve the structure of Peru's public debt and help reduce Peru's sensitivity to global interest rate hikes and future increases in sovereign spreads to more normal levels.

Furthermore, the authorities do not intend to tap international debt markets in 2006.

Factors that could trigger an upgrade of Peru's sovereign ratings include evidence that export volume and investment growth trends are sustainable, as well as an improvement in fiscal trends, such as conversion of temporary tax measures into more permanent revenue sources. A smooth transition to the next government and maintenance of prudent macroeconomic settings after the election would also be positive for creditworthiness. On the other hand, a populist departure from the current policy framework would be negative.

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PHILIPPINES: Analysts Predict VAT to Unleash 'Bull Run'

The Philippines started implementing the controversial expanded-VAT law on November 1, setting off more rallies against the government.

The new law lifts exemptions on products like oil and power, leading consumer groups to fear prices will go up and trigger a spike in inflation. Analysts, however, say the EVAT will unleash a bull run.

"Raising the VAT to 12 percent will solidify investors' view that this government is committed to putting its fiscal house in order and erase lingering doubts about the President's political resolve," Jose Arnulfo Veloso, HSBC Philippines treasurer, told the Philippine Daily Inquirer on Nov. 10.

"It will unleash a bull run across the board for at least three months," he said. "After three months, investors would know by then whether the 12 percent VAT has translated to higher revenue collections. If it has, then the Philippines will be up for a very, very long ride on the back of the bulls."

Under the law, the President may raise the VAT rate from 10% to 12% beginning next year if VAT collections as a percentage of GDP exceed 2.8% or the budget deficit exceed 1.5% of GDP.

Mr. Veloso sees the run to peak in the first full year of implementation of the 12% VAT when investors can already gauge whether the tax is the cure to the government's chronic budget deficit.

"We expect a significant change in the market outlook, an inevitable upgrade in the country's credit rating," he said.

Former Philippine Stock Exchange chair, Wilson Sy, predicts the Phisix to grow at least 25% or back to the 2,600 level, its peak in 1999. As early as now, he said, portfolio managers are again looking at Philippine stocks with interest.

"The [EVAT] will unleash a flood of funds from portfolio managers hungry for a recovery play in the region. Investors will look at the Philippines in a different light," he told the Inquirer in a separate interview.

Swiss banking giant UBS sees the peso stabilizing at 54 against the U.S. dollar by the end of the year and 53 by next year. It also expects interest rates on Philippine foreign debt to drop nearly 2 percentage points.

Trade Secretary Peter Favila brushed aside concerns raised by consumer groups, saying the VAT was a "necessary burden that will in due time address the never ending headache of debt service."

He said the increased revenues from VAT will translate to more funding for social services that will impact the lives of the poor. In addition, it will boost the credibility of the country in the international market.

In another report, ABS-CBN News said Malacanang will not wait until March next year to raise the rate to 12%. Finance Secretary Margarito Teves had said it might take time to compile the economic data required by law to support a rate increase. But National Treasurer Omar Cruz says the data can be finalized by the third week of January.

A 12% VAT is projected to add PHP82 billion to the national coffers and cut the budget deficit to PHP125 billion or 2.1% of GDP next year. Already at 10%, the EVAT has raised monthly revenues by as much as PHP3 billion a month, the treasury says.

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PHILIPPINES: IMF Hails Fiscal Reform, EVAT Implementation

The IMF staff mission that recently visited Manila issued this statement on November 22:

"The 2005 Article IV and post program monitoring mission visited Manila during November 10-22, 2005. The discussions focused on the macroeconomic and structural policy challenges facing the Philippines. The mission's findings will be reported to the Executive Board of the IMF in February 2006, but the preliminary assessment is as follows:

"Significant progress with economic reforms has been made since the new administration took office in 2004. The first phase of the Expanded Value Added Tax law (EVAT) was implemented November 1, and the mission welcomes the clear commitment made to raising the VAT rate on February 1 next year. These developments have lifted sentiments with the stock market rallying, sovereign bond spreads tightening, and the peso appreciating. Reforms have also advanced in the electricity and financial sectors, including through the increase in average generation tariffs and sales of banks' non-performing assets under the Special Purpose Vehicle (SPV) framework. Looking ahead, the challenge is to sustain the economic reform momentum.

"The economy has performed well. Growth in remittances has helped to offset the impact of oil prices and indirect taxes on consumption, and the economy is projected to grow about 5 percent this year and next. The National Government budget deficit has been below target through October, aided by tight control over expenditures and a recent pick up in revenue collections. Foreign portfolio investment has responded favorably to the positive fiscal news and gross reserves have risen above US$18 billion.

"There are risks to the outlook, however. These include a possible softening of foreign demand for Philippine exports due to increased competition in the electronics sector. A further spike in oil prices or Avian flu could also take a toll on the real economy, while adverse developments in international capital markets could raise external borrowing costs. However, the economy's improving fundamentals should provide for a better shock absorber in case such risks materialize. At the same time, additional reforms are necessary to decisively reduce vulnerabilities.

"A significant reduction in the public sector fiscal deficit is in prospect for 2005, aided by lower losses at the National Power Corporation (NPC). Looking ahead, the full implementation of the EVAT reform will allow for a further reduction in the deficit in 2006, while at the same time providing resources for increased expenditure on infrastructure and social services. Strong tax administration will be crucial to ensuring that the gains from EVAT are realized and an IMF/World Bank technical assistance mission is currently focusing on ways to improve tax administration. Over the medium term, balancing the budget will require additional measures, including a rationalization of tax incentives. Also, other parts of the public sector, such as the government-owned and controlled enterprises (GOCCs), should be monitored closely so that the ongoing fiscal consolidation effort is not undermined by individual enterprises.

"Although inflation has started to ease, it has remained above target reflecting the impact of supply shocks, and may rise again when the VAT rate is increased. Continued above target inflation can pose a risk to inflation expectations while narrow interest rate differentials can lead to exchange rate volatility and affect inflation. The BSP has appropriately acted to guard against the risks to inflation expectations by raising policy rates, most recently in October, and markets have welcomed these actions.

"In the power sector, privatization of generation and transmission assets would help to mobilize additional investments, and efforts to strengthen the regulatory framework would reduce uncertainties for investors.

"The mission welcomes recent positive developments in the banking system including sales of non-performing assets and developments in bank consolidation. Accelerating the passage of BSP charter amendments, which would strengthen legal protection for bank supervisors and the prompt corrective action framework, remains an important reform priority.

"The IMF will continue a close policy dialogue with the Philippine authorities."

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RUSSIA: Moody's Ups Rating to Baa2 Behind Rising Oil Prices

Moody's Investors Service has raised Russia's foreign-currency country ceiling for bonds and the foreign- and local-currency rating of bonds of the Russian government to Baa2 from Baa3 to reflect a confluence of factors, including a very rapid and significant buildup in the government's foreign-currency and oil stabilization fund reserves.

In addition, Moody's also raised the ratings of Ministry of Finance tranches V, VI, and VII to Baa2. The foreign-currency bank deposit ceiling was raised to Baa2 from Ba1. The short-term foreign-currency country ceiling, the foreign-currency country ceiling for short-term bank deposits, and the short-term local-currency issuer rating of the Russian government were all raised to P-2 from NP. The outlooks for all the ratings are stable. The country guideline for local currency obligations of the Russian Federation remains at A1.

In addition to the pickup in oil revenues, the rating upgrades reflect the Russian Federation's prudent fiscal policies, stable politics, and an exhibited commitment to pay -- and in some cases, pre-pay -- outstanding debt, said Moody's. Russia's liquidity and debt ratios have improved dramatically in a relatively short time period.

Although fiscal policies have loosened in 2005 and may well be marginally looser in 2006, Russia should continue to experience no difficulty in making timely debt payments over Moody's three-to-five-year time horizon. This holds true even in the unlikely event of a drastic, downward correction in commodity prices. While the current account and budget may not run surpluses in the next two to four years as large as the current surpluses, foreign-currency and oil-stabilization reserves will likely continue to grow substantially, providing the necessary means to easily service government debt, said Moody's.

Even a small deficit over the next several years could be easily financed on local markets. With a highly centralized political system and the memory of the 1998 financial collapse still fresh in the mind of Russia's political class, increases in public expenditures are likely to be kept within reasonable bounds, said Moody's.

According to the rating agency, the key challenges facing the government include a need to increase competition throughout the economy; to improve Russian fiscal federalism and the state's capacity for economic regulation and service provision; and to improve the judicial system and combat corruption.

Moody's said Russia may also needs to encourage the development of local capital markets and real instruments of sterilization in the face of large capital inflows, currency appreciation, and relatively stubborn inflation levels, and to monitor and perhaps issue guidelines for the rapidly growing foreign-currency borrowings of major quasi-sovereign corporations.

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SERBIA: IMF Rep Reports Good Progress in Policy Reforms

Harald Hirschhofer, resident representative of the International Monetary Fund (IMF) in Serbia and Montenegro, issued this statement on October 31, 2005 in Belgrade:

"An IMF mission led by Piritta Sorsa visited Belgrade and Podgorica from October 20-31 and made good progress in discussions under the sixth and final review of the Extended Arrangement. Discussions will continue in the forthcoming weeks on a number of issues, including the composition of fiscal spending, monetary policy measures, and wage bill growth in public enterprises in Serbia. Further meetings are also required with the Montenegrin government to firm up understandings about the privatization agenda envisioned for 2006.

"In Serbia, discussions were held against the background of broadly favorable economic developments. Growth projections for 2005 and 2006 were revised upward to 4.8 percent and 5.0 percent, respectively, amid improving export performance, strong domestic demand and growing investment activity by local and foreign companies. The current account deficit is improving, but remains high at about 10.6 percent of GDP and inflation is too high. External debt dynamics remain of concern with external debt amounting to about 60 percent of GDP.

"The key policy challenges for Serbia remain to reduce the current account deficit and inflation by strengthening competitiveness and investment, while constraining consumption. The mission made good progress on discussing these policies to achieve:

(a) Next year's public sector surplus will rise to 2.3 percent of GDP, but the structure of spending is still under discussion. This is to be supported by prudent wage increases in the public sector;

(b) The government prepared an impressive set of measures to reduce permanent, non-discretionary public spending by one percentage point of GDP next year, and to improve its quality. These still need to be anchored in supporting legal actions along with the 2006 budget. The measures include improving the quality and efficiency of the healthcare system, reforming the army and adjusting its operations to the requirements outlined by the currently finalized Strategic Defense Review, further reducing subsidies to inefficient enterprises, and ending transfers to the Development Fund;

(c) Monetary policy and prudential regulations will be tightened to address the fast growth in lending, in particular consumer lending, and its risks. It is of key importance that the planned new Banking Law will be passed by Parliament. Discussions continue on the exact measures to be undertaken;

(d) The exchange rate policy remains appropriate. Competitiveness can be improved by restructuring and privatizing state enterprises, greater competition in the economy, improving the investment climate, and increasing the efficiency of public administration;

(e) Structural reforms need to continue. The work of the Privatization Agency to prepare auctions and tenders of socially owned enterprises has been proceeding well. Its agenda now needs to be broadened towards privatizing spun -off units from the large public enterprises. The government is making efforts to overcome remaining obstacles. The strong interest by top international firms to participate in the tender for the NIS privatization advisor reflects the importance of this industry, its regional opportunities, and the excellent privatization prospects. Measures to continue the restructuring in public enterprises are still being discussed."

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UGANDA: 2nd Country to Apply for IMF's New Instrument

Uganda is the second country to apply for the IMF's newest program, the Policy Support Instrument (PSI), Reuters reported on October 28.

The country recently said it no longer wishes to seek a new loan facility from the international lender after its current three-year US$19.5 million Poverty Reduction and Growth Facility expires. Since the early 1990s, the country has experienced high and sustained growth. It is now into its sixth and final review of the PRGF.

"Once again, Uganda is at the forefront of its class, in the vanguard of the low income countries," Peter Allum, the IMF's senior resident representative in Uganda, told Reuters. He said the country is now ready to move up to the new PSI.

"This framework is designed for low income countries that may not need or want IMF financial assistance, but still seek IMF advice, monitoring, and endorsement of policies," he explained.

Under the new instrument, unveiled on October 14, poor countries will continue to receive IMF backing for their economic policies, even without an existing loan facility. This is important because many donors, creditors and markets look to the IMF for clear signals if a country is following sound economic policies and deserves support, Reuters says.

"Donor nations fund almost half the Ugandan government's spending, and continued IMF oversight under the PSI facility is likely to reassure diplomats worried about budget 'slippage' ahead of multiparty elections next March -- Uganda's first for 20 years," Reuters says.

Nigeria was the first country to be granted the new instrument, which paved the way for its debt deal with the Paris Club.

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URUGUAY: US$200 Million Global Bonds Get B+, Stable Rating

Fitch Ratings assigned on November 16 a 'B+' rating to Uruguay's US$200 million in global bonds due Nov. 18, 2022. The Rating Outlook is Stable. Proceeds from the bond issue will be used for general budgetary purposes.

Uruguay's sovereign ratings reflect its improving debt dynamics underpinned by currency strength, economic growth, and fiscal prudence. On the other hand, public and external debt ratios are still higher than peers, concerns about long-term economic growth persist, and the highly dollarized financial system remains vulnerable.

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VENEZUELA: Fitch ups Ratings, But Warns of External Shocks

Fitch Ratings upgraded on November 14 the long-term foreign currency and long-term local currency ratings of the Bolivarian Republic of Venezuela to 'BB-' from 'B+'. At the same time, Fitch upgraded the country ceiling to 'BB-'. The short-term foreign currency rating is affirmed at 'B', and the Outlook is Stable.

"The upgrade reflects significant improvements in external debt and liquidity ratios because of windfall oil export receipts, leaving them significantly better than peer 'BB' levels," said Morgan Harting, Senior Director and lead sovereign Fitch analyst for Venezuela.

Official reserves and bank foreign assets now represent about 208% of next year's debt service plus the stock of short-term external debt, compared with the 'BB' median of 133%. The public sector is expected to end the year as a net external creditor, one of only four such sovereigns in the speculative category to do so, together with India (long-term foreign currency rated 'BB+' by Fitch), Azerbaijan (long-term foreign currency rated 'BB' by Fitch) and Lebanon (long-term foreign currency rated 'B-' by Fitch). Fitch assumes broadly stable oil production rates going forward, but substantial reductions in output could put pressure on the credit.

Above-average oil prices have clearly underpinned the improvement in external indicators, a trend Fitch does not expect to be sustained beyond 2006. Lower prices assumed in Fitch's base case for 2007 will bring external liquidity ratios for the following year closer in line with 'BB' peers, but even in the event of a significantly larger price decline, liquidity would still be expected to remain near the peer median, and net public external debt would hold well below peers for the next two years.

Public finances would suffer in the event of an oil price decline, but as in the past, financing needs would likely be contained by an adjustment in the official exchange rate. This has the effect of reducing expenditures in U.S. dollar terms to limit expansion of the fiscal deficit. The overall public sector has also accumulated substantial assets in the past two years, some portion of which would presumably be available for central government financing. Fitch estimates that the various funds managed by the public sector may have accumulated as much as US$26 billion in assets over this period, although reporting is not adequate to verify the figure, and there is no certainty that such assets would be fully available for debt service. In the event that oil prices remain favorable, Fitch expects that some portion of these assets will be used to retire existing public sector debt.

Mr. Harting cautions that "should oil prices decline by 2007, as Fitch expects, the economy is likely to fall into a recession because an offsetting increase in oil production volumes is not anticipated and because the non-oil sector is poorly positioned to compensate for lost oil revenues."

"Capital account outflows would likely accelerate in this scenario, and the fiscal deficit would widen because it will be politically difficult to reduce spending commensurately with lost revenues, even allowing for some fiscal benefit from devaluation. As government outlays are curtailed, political tensions would likely rise. The expectation of this scenario notwithstanding, Venezuela's ability to service debt over the rating horizon appears consistent with other 'BB' sovereigns," he said.

Venezuela's creditworthiness could improve if credible policies were implemented to reduce its vulnerability to oil price fluctuations. Reviving a rules-based stabilization mechanism to smooth the effect of oil price volatility on public finances and the balance of payments would be beneficial. Steps to reduce state intervention in the economy to improve the private sector's ability to absorb shocks are also important. Repayment of public debt is anticipated in the current rating assessment, but an even faster deleveraging process would support creditworthiness.

As for potential sources of downward pressure on the credit, oil price declines are central to most such scenarios. Price declines within historical ranges need not harm Venezuela's credit standing per se; rather, the policy response to such an event will be critical. It will be important to monitor how quickly public finances adjust to lower revenues and how the adjustment is achieved. Responses that emphasize targeted spending reductions rather than blunt adjustment to real spending levels through inflation would be more supportive of economic growth and fiscal sustainability. Fitch is also monitoring a trend of increased interference in private contracts and property rights out of concern that it could spill over into attempts to alter terms of government debt agreements, too.

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VENEZUELA: Proposed 2016, 2020 Sovereign Bonds Rated BB-

Fitch Ratings has assigned expected 'BB-' ratings to the pending issues of Venezuelan government bonds maturing Feb. 26, 2016 and Dec. 9, 2020. The 2016 bond has a 5.75% fixed coupon and the 2020 bond has a 6% fixed coupon. The bonds are being marketed in Venezuela to be purchased in local currency at the official exchange rate but under New York law, with all coupon and principal payments in U.S. dollars.

Venezuela's sovereign ratings are supported by superior international liquidity and low external financing requirements relative to similarly rated sovereigns. The ratings are constrained by vulnerability to external shocks because of oil dependency; diminished capacity of the private sector to absorb shocks because of heavy government intervention in the productive sector; recent spending increases that reduce fiscal flexibility; and concerns about the rule of law and potential political instability. The Rating Outlook is Stable.

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VIETNAM: Raises US$750 Million in First Return to Bond Market

Demand for Vietnam's first bond offering in years rose to as high as US$4.5 billion, six times more than the value on offer, Financial Times reported on Oct. 27.

This allowed Hanoi to raise capital cheaper than expected, as the demand pulled down yield to 7.125% from 7.25%. Still, this is higher than comparable U.S. Treasuries by 2.564 percentage points, says FT. Encouraged by the strong interest, Hanoi raised the offer to US$750 million from US$500 million.

Bookrunner Credit Suisse First Boston said half of the buyers were asset managers looking for competitive yields and diversification. Geographically, the issue was taken up evenly among investors from Asia, Europe and the US, FT says.

Vietnam last issued bonds in 1998 as part of a debt restructuring. Called Brady bonds, these bonds were created in the 1980s for developing countries that defaulted on their bank loans. Vietnam's debt stock has about US$500 million of these bonds.

About 80 percent of the country's external debt is owed by the government, mainly on concessional terms and with long maturity, International Herald Tribune says. Its currency reserves is about US$7.2 billion.

The government had been planning the bond sale for seven years. It expects proceeds to fuel the rapidly expanding economy, the second fastest in Asia at 7-8% a year.

S&P has raised the outlook on Vietnam's BB- rating to "positive." Moody's has the country at Ba3, while Fitch rates it BB-.

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

IMF Adds New Tool to Bag of Tricks

An announcement by International Monetary Fund (IMF) Managing Director Rodrigo Rato at the annual meeting of the African

Development Bank in Abuja, Nigeria in May signaled the inauguration of a new tool for ensuring IMF -- and by extension, U.S. and G8 -- control of national economic policies in Global South countries. After going through several low-key proposals and different names, a paper defining the Policy Support Instrument (PSI) has been completed -- and leaked to civil society ("Policy Support & Signaling in Low-Income Countries," IMF Policy Development and Review Department, June 10, 2005).

The New Facility and G8 Debt Cancellation

The idea of this new IMF device arose in the context of G8 negotiations on multilateral debt cancellation, which culminated in the June 11 announcement by G8 Finance Ministers and confirmed at the July G8 Summit. If the G8's debt plan is implemented as currently written -- something that powerful forces in the IMF are trying to prevent -- the debt claimed by the IMF in 18 countries would be eliminated, with no new conditions required.

That would mean that countries could move to free themselves from the grasp of the IMF, and the treadmill of conditions and debt it has overseen. If they chose to take no further loans from the IMF, countries would, presumably, no longer have to accept its conditions. But if the PSI's potential is realized, those countries could be required to enter that program in order to qualify for new assistance, credit, or trade deals. The PSI, in other words, could significantly limit the positive impact of any G8 debt cancellation.

The PSI was first hinted at during the IMF/World Bank meetings in October 2004. After the G8 failed to reach an agreement on debt at its June 2004 summit, public statements from Canadian Finance Minister Ralph Goodale and U.S. Treasury Secretary John Snow in September alluded to the possible creation of a new IMF "facility" that would serve the ostensible "needs" of countries that neither want nor need a full-blown IMF program.

The communique of the IMF's oversight body at the April 2005 meetings put the institution and its most powerful members on record for the first time as supporting such a facility, though its definition was left vague. Messrs. Goodale and Snow -- and Rato in Nigeria -- made it sound like a staff monitoring program (SMP), in which a country submits to IMF supervision without getting any new loans; in April it was described more as a new program to "pre-qualify" countries for IMF loans if they were hit by a currency crisis. This sort of "pre-qualification" failed to attract even one country to the IMF's Contingent Credit Line, which was recently terminated for lack of interest, so it is unlikely that this will be viewed as the PSI's primary function, though it is a major concern of the IMF's paper.

Whichever way it is framed, it is likely to serve the same purpose: a formal method for continuing to impose IMF conditions on countries even if they are no longer officially indebted to the IMF or taking loans from it.

IMF: Still in the Driver's Seat

Until now the IMF has relied on a very effective "unwritten agreement" whereby donors and creditors -- including the World Bank -- all defer to the IMF in determining which countries are creditworthy. When the IMF cuts off its loan program to a country for non-compliance with its policies, the World Bank, regional development banks, and bilateral agencies generally follow suit. With the prospect of 100% cancellation with no additional conditions, the IMF's relationship with low-income countries, under current practices, is threatened. It seems no coincidence that the PSI has now been invented. Just when liberation seems possible, the IMF will find a new way to control and determine countries' economic policy choices.

This may answer some of the suspicions that arose when the Bush Administration, somewhat out of character, declared its support for 100% debt cancellation with no new conditions. After all, if one accepts the premise that the primary function of debt in the global economy is to allow powerful countries to maintain control of weaker countries' economies -- with the IMF and World Bank serving as the tools for doing that -- an obvious question when a 100% debt cancellation program is proposed would be "how will they continue to maintain that control?"

Nigeria: Testing Ground for the PSI

It is fitting that Mr. Rato made his announcement in Abuja because Nigeria is to be the "pilot" for the PSI, as part of its agreement with the Paris Club (bilateral creditors) for an unprecedented debt deal. The Paris Club requires that countries applying for relief be under an IMF program, but the prospect of agreeing to one is political dynamite in Nigeria. The Paris Club was, however, under great pressure to complete a landmark deal with Nigeria, where the legislature had threatened to simply repudiate the debts, so the PSI was deemed an acceptable alternative. Nigerian Finance Minister Ngozi Okonjo-Iweala told Reuters on May 18 that "the IMF makes sure it is as stringent as an upper credit tranche program and then monitors it like a regular program, but the difference is that you develop it and you own it." This sort of "ownership" does not sound very promising to observers familiar with the IMF's and World Bank's manipulations of that term, but apparently it was considered sufficient to sell the deal to the Nigerian public.

A deal with the Paris Club was announced in early June, writing off 67% of Nigeria's bilateral debt. Nigeria will then "buy back" the remainder over the next two years with about US$12 billion in windfall profits from its recent oil sales. Commentators are now asking whether the multi-billion-dollar outlay required for the buyback won't negate many of the potential benefits, especially since the country will also have to stay in good standing with the IMF -- i.e. continue taking economic policy orders from the institution.

IMF Goes High-Profile with the PSI

In Abuja, Rato indicated that while the PSI has not yet been formally created, it would be formally defined, but it will not require any changes in our relationship with Nigeria. In fact, the IMF has monitoring programs with a number of countries that are not borrowing money. So why create a new name and make new announcements as if something new were happening?

The IMF paper is silent on this matter -- it never even mentions the existence of staff-monitoring programs. It does compare the PSI to the standard "Article IV" surveillance the IMF regularly carries out on every member country, acknowledging that "while Article IV consultations provide policy advice, support, and an assessment, these may not be frequent or specific enough." What is needed, argues the paper, is "a new instrument allowing closer engagement than under Article IV consultations while sending clear signals on the strength of a member's policies." Unpacked, this means that although the scope of the PSI will not differ much from standard IMF surveillance, Article IV is not enough because the IMF does not customarily use those reports as its instruments of coercion, and they are not looked to by other donors and creditors as "signals" on whether a country should be considered creditworthy.

For countries like Nigeria that already had staff-monitored programs, the PSI is a change of form more than substance; the difference lies precisely in the arrangement being "formally defined." It is the spotlight thrown on the process that makes it news. By giving these programs a formal name and definition, and by publicizing them with press conferences and a new study (drafts of which are now being leaked), the IMF is assigning this function a new status, a new political profile. It is saying more straightforwardly than before that it will be "available" to impose its views on Southern countries even if they manage to extricate themselves from both multilateral debt and IMF programs. The staff monitoring programs have often grown out of a series of interactions between the IMF and the client-country, and are grudgingly accepted in order to demonstrate that the country does not need a formal program, or to reassure other creditors. As a consequence of the formalization of this process, a wider range of countries can presumably more easily be pressured into accepting a PSI.

The PSI in Detail

The official description in the IMF paper frames the PSI as the answer to "how the Fund's instruments and practices might be adapted to support sound policies in low-income members, in particular those that do not have a need or want to use Fund resources." Its outline of the main elements of the PSI includes:

- The PSI would be based on the country's PRSP, thus "ensuring ownership."

- It would "consist of a policy framework normally focused on consolidating macroeconomic stability and debt sustainability, while deepening structural reform in key areas that constrain growth." This is the standard code for the standard set of IMF conditions.

- It would "provide the basis for rapid access to concessional Fund resources in the event of shocks." Again, this is unlikely to be the main function of the PSI.

- Each PSI would be approved by the IMF Board, thus delivering "clear signals to donors, creditors, and the general public on the strength of these policies." This will enable the IMF to maintain its signaling role even if the debt it claims is cancelled.

- It would run for between one and three years, though the paper adds that "the duration of a PSI could be extended up to a maximum of 4 years. Members could request a successor PSI."

Although the pretense is that this should appeal to the client governments, it is probably more comforting to the IMF itself and the G8 countries that control it. Ironically the paper discusses whether the PSI threatens to become a "longer-term program engagement" -- something the IMF, buffeted by charges that repeated structural adjustment programs are a sign of the failure of the policies, has been forced to identify as a problem (so much so that it's referred to by acronym - LTPE). "On balance," says the paper, "staff does not recommend that PSIs be included in the LTPE policy, but the Board may wish to consider whether such inclusion is warranted."

Who Will Be PSI'd?

The IMF and G8 have been sending mixed signals about which countries are targeted for the PSI. Over the last year, however, what has become the PSI was usually discussed in conjunction with the plans for extensive debt cancellation by the G8. Though the two were never explicitly linked, it did not require a great deal of ingenuity to see how the PSI would become useful to the G8 and IMF in the wake of a sweeping cancellation of IMF debt.

But with the unofficial rollout of the program in Nigeria, it appeared that it was designed for countries that had to display the IMF seal of approval but needed or wanted to keep some distance, however illusory, from the institution. If so, the PSI can be seen as a high-octane version of staff-monitoring programs.

The staff-monitoring programs have been more commonly associated with middle-income countries, such as the large economies of East Asia or South America, than with the African and Central American beneficiaries of the G8 debt cancellation plan. This brings up the possibility that middle-income countries could be an intended target of the PSI. Indeed, the same logic that makes the PSI a seemingly innocuous way of keeping Nigeria and the beneficiaries of the G8 plan in the clutches of the IMF could very easily apply to countries like the Philippines or Brazil. These are countries that have mostly left the IMF behind and do not want to be seen as submitting to it again, but because of debt or the need to attract other creditors remain vulnerable to its coercion. The IMF's paper repeatedly emphasizes that the PSI is designed for low-income countries, but in a footnote adds, "Should middle-income (emerging market) members express interest in this type of instrument, the PSI's eligibility criteria could be revisited or a different instrument developed tailored to their needs."

Disingenuously enough, the IMF paper describes the first group of countries expected to make use of the PSI as "mature stabilizers that currently have low-access PRGF [Poverty Reduction Growth Facility, the IMF low-income loan] arrangements" and would like to "graduate" from the PRGF - which is to say the better-off low-income countries. This is a category that describes neither countries like the Philippines (middle-income), nor countries like Nigeria (no IMF loans), nor many of the projected beneficiaries of the G8 debt cancellation plan (which are often only recently "stabilized," if at all, and usually quite aid-dependent). The category described by the IMF in the PSI paper would include countries like Armenia, Vietnam, and Kenya.

If the IMF paper is sincere, the PSI will probably not be very controversial in practice. But this has the look of a program that will not serve the stated function, but entirely different purposes. As the IMF presents the PSI, it is unclear what great need it would be filling for its ostensible target countries. The origins of the PSI, the timing of its launch, and its debut client, Nigeria, all suggest that the IMF's rhetoric is calculated to conceal the true intent of the program. If so, the PSI should itself become a target -- for those who want to limit, or eliminate, the continuing imposition of neo-liberal economic programs.

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Bolivia: Another Uncompleted Revolution

Since 1999, growing citizen dissatisfaction in Bolivia has been manifest in a cycle of often-violent protests. Citizens believe that they have no means of expressing themselves except demonstrations. The public has grown weary of neoliberalism, which is perceived as benefiting only the elite. A recent economic downturn provided the catalyst for the unrest. Underlying these economic concerns, however, are fundamental problems with representation. The second Bolivian "revolution" involved not only the shift from state-led economic development to neoliberalism but also a shift from corporatism to pluralism. Representative institutions have not fully responded to the new pluralistic landscape, despite a range of political reforms. Many Bolivians find that their voice in government has weakened even as their needs have grown. The Bolivian case thereby highlights the obstacles young democracies face in winning over decreasingly tolerant citizens.

Bolivia's political establishment recently arrived at a turning point. In October 2003, mounting violence forced President Gonzalo Sanchez de Lozada to step down and turn over the government to his vice president, political independent Carlos Mesa. The new president, who faced similar difficulties and threatened to resign in March 2005, was the first since Bolivia's democratic transition to come from outside the three main political parties. The writing was on the wall, however. In the 2002 elections, Sanchez de Lozada, of the Movimiento Nacionalista Revolucionario (MNR), had narrowly taken the presidency with only 22.5 percent of the popular vote. Collectively, the three main parties received less than half the total votes cast. Second place went to Evo Morales, the leftist leader of the country's powerful coca growers' association, the small farmers who produce the raw material for cocaine. Morales, who was kicked out of Congress early in 2002 for leading violent protests against the government's eradication policies, lost to Sanchez de Lozada in the run-off. He received 20.94 percent of the popular vote, just ahead of Manfred Reyes Villa with 20.92 percent. Both Reyes and Morales campaigned against the neoliberal economic policies supported by the traditional parties.

Although the traditional parties have withstood previous electoral challenges from political outsiders and populists, their grip on power has steadily and significantly waned. Political competition increasingly takes place between the beleaguered political establishment and the outside challengers, rather than among the three traditional parties (Van Cott 2002a, 1). With Sanchez de Lozada's fall from grace, it seems likely that Bolivia's party system will undergo further fragmentation and perhaps collapse, as experienced by the party systems in Venezuela and Peru.

This electoral trend is but one manifestation of mounting societal discontent in Bolivia. Another is the virtually continuous cycle of protest. Despite their dramatic conclusion, the October protests were only part of a far broader trend of dissension dating to 1999 and involving an equally broad array of social groups. The year 2003 just happened to be one of the more violent periods, probably the most violent year since the 1952 revolution. In February 2003, two days of conflicts in the capital, La Paz, left about 30 people dead, government buildings burned, stores looted, and Sanchez de Lozada's grip on power substantially weakened. The conflicts that brought down the president in October resulted in 59 deaths. Comparable events since the end of the 1990s have also left an array of casualties, disrupted the economy, and obstructed governance. The demands of farmers, teachers, miners, police, retirees, and other protesters have not been of an ideological or esoteric sort, but have reflected very concrete concerns about economic issues and living conditions. The difficult economic circumstances are part of the lingering costs of economic restructuring and recent macroeconomic difficulties.

Citizens have clearly placed the blame for those problems on the political establishment. Considering the variety of groups and the number of people involved in the protests, a wide swath of society apparently believes that political parties have failed or are incapable of representing its interests and meeting its demands. Despite a range of reforms over the past decade to strengthen the ties between government and society, the credibility of political parties is so weak that expression of societal interests takes place outside formal political channels. The paradox is that Bolivia has been the locus of some of the most radical and innovative political reforms in Latin America. Implementing those reforms, however, raised popular expectations beyond the state's ability to meet them.[1]

The imbalance between social demands and state capacity has been exacerbated by the very attempt to correct it. Compounding the problem are poor public sector management and muddled responsibilities among the levels of government. Many groups therefore believe that they lack any recourse other than protest aimed primarily at national authorities. As a result, societal demands become social crises, even over local or regional issues.

Although the immediate causes of the societal discontent are largely economic (including the government's coca eradication policies), on a more fundamental level the origin is the failure of effective interest intermediation. In a sense, Bolivia's political system has yet to adapt to the increased complexity of the socioeconomic landscape. Beginning in 1985, the country underwent a revolution of sorts, with pluralism replacing the former system of corporatism and neoliberalism supplanting import substitution industrialization. Under the previous state-centered "sociopolitical matrix" (Garreton et al. 2003), many Bolivians had enjoyed some, albeit collective, voice in government through the peak labor confederation, as well as some employment stability and benefits.[2] Since the implementation of neoliberalism, the political influence of the peak organizations has vanished, and employment is more likely to be found in the informal sector, where it lacks benefits and security. Political representation in today's liberal sociopolitical matrix, however, has not fully responded to the new pluralistic landscape; the transformation is not complete. The state seems ineffective at both representing and responding to societal interests. From the perspective of many citizens, their voice in government has weakened even as their needs have grown. Bolivia's second "revolution" therefore remains uncompleted.[3]

Although the shortcomings of interest intermediation are not unique to Bolivia, the country's recent turmoil provides an excellent opportunity to examine the sources of a trend that has important regional implications. This article seeks to illuminate this broader phenomenon by explaining the specific reasons for the failure of interest intermediation in the Bolivian case.

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[1] Malone and Baviskar (2002) show that citizens tend to have higher expectations of government performance in young democracies than in older democracies. By extension, the pursuit of reforms advertised as measures to improve democracy, as in the Bolivian case, may raise popular expectations even further.

[2] The term sociopolitical matrix refers to "relationships among the state, a structure for representation or a political party system (to aggregate global demands and involve subjects politically), and a socioeconomic base of social actors with cultural orientations and relations . . . all mediated institutionally by the political regime" (Garreton et al. 2003, 2).

[3] This metaphor borrows from the title of Malloy's important work about Bolivia's genuine revolution in 1952 (see Malloy 1970).

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Financial Crises and Political Crises

[Authored by Roberto Chang, this paper was featured in the NBER Working Paper Series, November issue]

ABSTRACT

This paper is an analysis of the simultaneous determination of financial default and political crises and its consequences. It focuses on a small open economy that faces a debt default decision. Crucially, this decision is made by a government that has superior information than the public about the social costs of default. Citizens can dismiss the government, and overrule its default decision, at the cost of a political crisis. If there is a divergence between the objectives of the government and its people, a political crisis may emerge in equilibrium. For this to be the case, the foreign debt must be large enough, and international reserves low. When this political equilibrium is seen as a part of a larger investment problem, there are equilibria in which crises are "only financial," and equilibria in which both default and political crises occur. In some cases, these two kinds of equilibria coexist and, in this sense, a loss of confidence by foreign lenders can exacerbate the likelihood of a political crisis. If so, international intervention in financial markets may ensure financial and political stability at little cost.

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Should Debt Relief be Linked to Governance Indicators?

A research paper by Brian Cooksey, individual member of Transparency International, this paper asks whether debt relief should be linked to governance performance in debtor nations. It explores the specific case of Cameroon.

Debt relief to HIPC countries, including Cameroon, should be total and unconditional, he says. The poor majority in African countries, who are potential beneficiaries of debt relief, should not be penalized for the past failures of aid.

Aid agencies did not impose good governance or anti-corruption conditions on past aid, as the case of Cameroon demonstrates. While Cameroon languished near bottom of the corruption and governance leagues, aid per capita increased both in absolute terms and in comparison to other African countries with better governance records.

Conditionalities normally fail because there is insufficient local political support for the donor-driven reforms to which the conditions for aid are theoretically attached. 'Political will' is a major constraint on anti-corruption efforts, but so is the inability to translate 'will' into effective policies and practices. As long as donors continue to reward ex ante promises rather than ex post achievements, conditionality will continue to be an ineffective policy instrument.

Comprehensive debt write-offs contain profound moral hazards for both lenders and borrowers. Both share responsibility for past development failures. Yet the odious nature of much past aid has not been acknowledged by the development community. An immediate moratorium on lending and borrowing should accompany the implementation of the G8 debt relief plan, so that debtor countries do not fall back into the debt trap, and in order to establish what went wrong in contracting past debt.

Donor constituencies must demand more transparency and accountability from aid agencies, both individually and collectively, the paper recommends. Governance indicators are not sufficiently precise or reliable to provide an objective comparative measure of performance, it said.

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