

Message Text

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PAGE 01 LA PAZ 00493 241759Z

43

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 AID-20 AGR-20 DRC-01

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC PRIORITY 2026

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E.O. 11652: N/A

TAGS: ECON, BL

SUBJ: REACTION TO GOB ECONOMIC MEASURES

REF: LA PAZ 0430

SUMMARY: GOB SEEKING TO PROMOTE ACCEPTANCE OF ECONOMIC MEASURES
DECREED EVENING JANUARY 20. MINISTERS OF FINANCE AND IND/COM HELD
JOINT RADIO/TV INTERVIEW JANUARY 21 AND FINANCE MINISTER AND
MINISTER SECRETARY AND MINISTER OF TRANSPORTATION GAVE OTHER
RADIO/TV
INTERVIEWS JANUARY 22 ATTEMPTING TO ASSURE POPULACE THAT STEPS
TAKEN
NECESSARY TO ELIMINATE SHORTAGES AND THAT THEY ARE SUFFICIENT AND
FURTHER PRICE INCREASES SHOULD NOT BE ANTICIPATED. SUB-SECRETARY
OF COMMERCE TOLD EMBOFF THAT HE ESTIMATES FOOD SUPPLIES MUST BE
REGULARIZED IN NEXT TEN DAYS OR PUBLIC CONFIDENCE WILL BE LOST
AND MEASRES WILL PROVE INEFFECTIVE. END SUMMARY.

1. SIMPLE EXPLANATION GIVEN BY GOVERNMENT FOR MEASURES, FOR
INSTANCE IN SIGNS POSTED THROUGHOUT CITY, IS THAT LINES (COLAS)
HAD TO BE ELIMINATED. WITHOUT CLEAR ELABORATION, PRESS REPORTED
THAT IN INTERVIEWS MINISTERS REFERRED TO FOUR PROBLEMS AS CASUE OF
GOVERNMENT ACTION: CONTRABAND AND HOARDING, OVEREVALUATION OF
NEIGHBORING COUNTRIES' CURRENCIES, NATIONAL PRODUCTION AND IMPORTS.
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MINISTER IND/COM PEREDA SAID THAT COUNTRY "NOT AN ISLAND" BUT HAS LONG BORDER AND ALTHOUGH GOVERNMENT EARLIER FROZE PRICES WOULD EXPERIENCING WORST ECONOMIC CRISIS SINCE 1930 AND FORCES OF INFLATION HAVE HAD LOCAL EFFECT. MINISTERS EXPLAINED THAT WHEAT ESSENTIALLY TRANSPORTATION PROBLEM BUT SAID THAT SUGAR IN OVERSUPPLY AND RICE HARVEST DELAYED. THEY STATED THAT OFFICIAL MEAT PRICES WILL NOT BE RAISED. SUBSEQUENT PRESS NOTICE STRESSED THAT A GENERAL PRICE INCREASE NOT PERMITTED AND FORTY-FOUR BASIC ITEMS STILL CONTROLLED AT FORMER PRICES.

2. GOVERNMENT TOOK PAINS TO EMPHASIZE THAT THERE WILL BE NO DEVALUATION. ONE OF DECREES GAVE GUARANTEE AGAINST DEVALUATION FOR DOMESTIC SAVINGS. MINFIN STATED THAT THIS YEAR BOLIVIA WILL HAVE FAVORABLE BALANCE OF PAYMENTS. HE ADMITTED THAT SOME ADDITIONAL MEASURES, SUCH AS REDUCTION OF EXPORT TAXES AND IMPORT DUTIES AND SOME INTERNAL TAXES, ARE BEING CONTEMPLATED TO STABILIZE PRODUCTION AND REDUCE BURDEN OF NEW BONUS ON PRIVATE CONCERNS.

3. FOR BENEFIT OF PRESS MINFIN GAVE DETAILED BREAKDOWN OF GOVERNMENT'S CALCULATION OF \$B400 BONUS SHOWING THAT IT BASED ON EFFECT OF NEW PRICES ON "MARKET BASKET" SURVEY DONE BY FACTORY WORKERS FEDERATION. HE SAID THAT MINISTRY CONCLUDED THAT \$B254 BONUS MERITED BUT PRESIDENT BANZER PERSONALLY RULED THAT HIGHER AMOUNT SHOULD BE PAID. WORKERS WHO HAVE MORE THAN ONE SOURCE OF INCOME OR WHO BENEFIT FROM SUBSIDIZED COMMISSARY WILL HAVE TO NEGOTIATE WITH EMPLOYERS REGARDING SIZE OF BONUS. ACCORDING TO PRESS SOME FIRMS COMPLAINING OF INABILITY PAY BONUS.

4. ALTHOUGH NO REPORT NO ANNOUNCEMENT MADE OF NEW PUBLIC TRANSPORTATION FARES MINFIN INFERRED THAT 30 PERCENT RISE CAN BE EXPECTED AND WE UNDERSTAND THAT NEGOTIATIONS NOW UNDERWAY WITH DRIVERS. HE STATED THAT PUBLIC TRANSPORTATION SUBSIDY WILL CONTINUE AND DOMESTIC GASOLINE PRICES WILL NOT REPORT NOT BE RAISED BECAUSE INTERNATIONAL PRICES HIGH ENOUGH TO SUPPORT PRESENT LOW DOMESTIC GASOLINE PRICE.

5. COMMENT: INITIAL REACTION TO MEASURE IS ONE OF UNCERTAINTY AND TO SOME EXTENT CONFUSION CAUSED BY GOB'S EXPLANATION OF MEASURES. AS RESULT MOST STOREKEEPERS HAVE SHUT DOORS AND GENERALLY RETAILERS HAVE SHOWN HESITANCY IN DEALING WITH PUBLIC. LABOR HIGHLY CONCERNED ABOUT PRICE RISES WHILE DOWNPLAYING BENEFIT OF BONUS (SEE SEPTEL). AN ECONOMIC SLOWDOWN AND INCREASED UNEMPLOYMENT
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PAGE 03 LA PAZ 00493 241759Z

ARE PROBABLY VERY BAL EVENTUALITIES UNLESS GOB PROVIDES SOME FORM OF

RELIEF, POSSIBLY TAX CONCESSIONS, RESTORATION OF SUBSIDIES TO SOME
BASIC FOOD CROPS, ET. THE SUBSIDY MAY NOT BE REASONABLE TOOL IF
ABSOLUTE SCARCITIES PREVAIL AND TAX CONCESSIONS MAY BE OVERLY
COSTLY TO FISCAL INTEGRITY OF GOB.
STZEMAN

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