

Message Text

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64

ACTION ARA-20

INFO OCT-01 ISO-00 EB-11 TRSE-00 AID-20 CIAE-00 COME-00

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 2454

LIMITED OFFICIAL USE LA PAZ 1388

E.O. 11652: N/A

TAGS: EFIN, BL

SUBJ: IMF MISSION TO BOLIVIA

REFS: (A) STATE 31086: (B) LA PAZ 594

1. IN RESPONSE PARA 2 REF A EMBASSY ASSUMES GROWTH OVER LAST TWO YEARS HAS ABSORBED GOOD PORTION OF UNUTILIZED INDUSTRIAL AND MINING CAPACITY AND LAND EASILY PUT UNDER CULTIVATION WITHOUT IRRIGATION OR COSTLY CLEARING. THEREFORE, ALSO ASSUMES INCREMENTAL CAPITAL OUTPUT RATION (ICOR) OF AT LEAST THREE WOULD BE REQUIRED TO ASSURE LONG-TERM GROWTH AT RECENT RATES. SUCH AN ICOR MEANS INVESTMENT WOULD HAVE TO RISE TO ABOUT 16 PERCENT OF GDP. IF ADDITIONAL INVESTMENT NOT WELL PLACED IN PRODUCTIVE SECTORS OR EFFICIENTLY MANAGED, ICOR LIKELY BE EVEN HIGHER. NOTE THAT WE STATED PARA 3D REF B THAT WE BELIEVED INVESTMENT WOULD HAVE TO EXCEED 15PERCENT OF GDP
TO ASSURE CONTINUATION OF CURRENT GROWTH RATES. WE ESTIMATE THAT INVESTMENT WOULD HAVE TO REACH ABOUT 19PERCENT TO REACH "SELF-SUSTAINING" GROWTH RATES OF 8PERCENT TO 9PERCENT. WILL DISCUSS WITH IMF MISSION WHEN ARRIVES.

2. BELIEVE ESTIMATES OF SUBSIDY PAID IN 1973 AND WHAT PROBABLY WOULD HAVE BEEN PAID IN 1974 IN COMPARISON TO ESTIMATED WAGE INCREASE COST IN 1974 BETTER BASIS FOR SEEING HOW BUDGET MIGHT

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WORSEN (PARA 3 REF A). MINFIN'S ORIGINAL BUDGET (NEVER RELEASED)

DID NOT ALLOW FOR ANY 1974 WAGE INCREASE. IMF REP ON BASIS
DISCUSSIONS WITH MINFIN OFFICIALS ESTIMATES TOTAL COST TO TREASURY
OF WAGE INCREASES GRANTED THUS FAR IN 1974 AT ABOUT \$B 897 MILLION,
PARTLY UNDER PERSONAL SERVICES LINE AND PARTLY UNDER CURRENT
TRANSFERS TO PUBLIC SECTOR LINE. ON OTHER HAND, WE ESTIMATE FLOUR
SUBSIDY IN 1973 WAS NO MORE THAN \$B 200 MILLION. WITHOUT INCREASE
IN FLOUR PRICE IN JANUARY FROM \$B 177 PER QUINTAL TO \$B 300 PER
QUINTAL SUBSIDY IN 1974 LIKELY TO HAVE BEEN AS MUCH AS \$B 500 MILLION

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Message Attributes

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