

Message Text

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P 072005Z DEC 79
FM AMEMBASSY LA PAZ
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C O N F I D E N T I A L SECTION 1 OF 4 LA PAZ 10472

E.O. 12065: GDS 12/6/85 (THOMPSON, STEPHEN H) OR-P
TAGS: ECON, BL
SUBJECT: GOB ECONOMIC MEASURES

REF: LA PAZ 10309

1. (U) SUMMARY. THE NOV 30 ECONOMIC PACKAGE ANNOUNCED BY THE GOB ADDRESSES MANY IMMEDIATE PROBLEMS WHICH THE GOB IS FACING. THE MEASURES INCLUDE A 25 PERCENT DEVALUATION, CHANGES IN THE INTEREST RATES FOR TIME DEPOSITS AND BANK LOANS, CHANGES IN COMMERCIAL BANK RESERVE REQUIREMENTS, WAGE ADJUSTMENTS, HYDROCARBON PRICE INCREASES, CREATION OF A MONETARY STABILIZATION COUNCIL, AND LIMITATIONS ON GOB PUBLIC SECTOR EXPENDITURES. MUCH TO THE DISSATISFACTION OF THE COMMERCIAL BANKERS, THE CENTRAL BANK HAS NOT COMPLETED REGULATIONS FOR THE IMPLEMENTATION OF THE NEW MEASURES. END SUMMARY.

2. (C) DECREE 17123. THIS DECREE AUTHORIZES THE CENTRAL BANK TO MAKE FUTURE EXCHANGE RATE ADJUSTMENTS WHILE MAINTAINING A TWO PERCENT DIFFERENCE BETWEEN THE BUY AND SELL RATE TO COVER TRANSACTION COSTS. THE DECREE DOES NOT MENTION THE NEW EXCHANGE RATE; MINISTER OF FINANCE AUGUSTO CUADROS SANCHEZ ANNOUNCED THAT THE GOB HAD DEVALUED THE PESO 25 PERCENT SETTING THE NEW BUYING RATE AT 24.51 PESOS TO THE DOLLAR. THIS DECREE

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CLEARLY FACILITATES FUTURE EXCHANGE RATE ADJUSTMENTS WHICH BANKERS AND THE LOCAL IMF REPRESENTATIVE JORGE SOL PEREZ CONSIDER INEVITABLE. THE PROCEDURE--WHETHER MINI-DEVALUATIONS OR INFREQUENT MOVEMENTS OF SOME MAGNITUDE--WILL BE THE DECISION OF THE GOB AND WILL CERTAINLY TAKE INTO ACCOUNT POLITICAL CONSIDERATIONS AND THE SOCIAL IMPACT. UNTIL IT BECOMES CLEAR TO WHAT EXTENT THE CENTRAL BANK WILL HONOR FOREIGN EXCHANGE OBLIGATIONS OF THE COMMERCIAL

BANKS AND MONEY EXCHANGE HOUSES, THESE INSTITUTIONS ARE LIMITING SALES OF FOREIGN EXCHANGE. ALTHOUGH THERE IS NO "RUN" ON THE FINANCIAL INSTITUTIONS, THE DEMAND EXCEEDS PREVIOUS NORMAL LEVELS; ONLY A RELATIVELY SMALL PERCENTAGE OF CUSTOMERS ARE BEING TURNED ZTAY. SO FAR EXCHANGE RATE EXPECTATIONS OF LARGER FIRMS IN THE PRIVATE SECTOR APPEAR MIXED. ONE OF THE LARGER CUSTOMERS OF ONE US BANK, CONVERTED ABOUT \$US 600,000 TO PESOS ON DEC 3. NATIONAL BANKS REPORT, HOWEVER, THAT SPECULATION CONTINUES; LARGER FIRMS HAVE NOT BROUGHT BACK ALL OF THE LARGE AMOUNTS OF DOLLARS CONVERTED FROM PESOS BEFORE THE DEVALUATION.

3. (C) THE DECREE 17123 REQUIRES ALL EXPORTERS FROM THE PRIVATE AND PUBLIC SECTOR TO DELIVER 100 PERCENT OF THEIR EXPORT EARNINGS TO THE CENTRAL BANK. ONLY TRANSACTIONS FEES AND ROYALTIES PAID IN FOREIGN EXCHANGE NEED NOT BE TURNED OVER. THE DECREE ALSO STIPULATES THAT PUBLIC SECTOR AGENCIES AND THE STATE ENTERPRISES CANNOT MAINTAIN FOREIGN EXCHANGE ACCOUNTS EITHER IN BOLIVIA OR OUTSIDE; ANY SUCH FUNDS MUST BE DELIVERED TO THE CENTRAL BANK BY DEC 10, 1979. ALL FOREIGN EXCHANGE TRANSACTIONS MUST PASS THROUGH THE CENTRAL BANK, WHICH MUST BE INFORMED OF THE AGENCIES' MONTHLY FOREIGN EXCHANGE REQUIREMENTS. ONE BANKER INDICATED THAT THESE RESTRICTIONS ON THE PUBLIC SECTOR AGENCIES WERE TO AVOID A RECURRENCE OF THE LARGE PURCHASES (ESTIMATED TO BE UP TO \$US 60 MILLION) OF FOREIGN EXCHANGE FOR SPECULATIVE PURPOSES WHICH TOOK PLACE THE LAST DAYS OF THE NATUSCH REGIME.

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4. (C) DECREE 17123 FORBIDS BANKS AND MONEY EXCHANGE HOUSES FROM MAINTAINING ACCOUNTS OUTSIDE OF BOLIVIA. IT ALSO SETS THE FOLLOWING NEW LIMITS ON TOTAL COMMERCIAL BANK SHORT AND MEDIUM TERM FOREIGN CREDITS REPLACING THOSE ESTABLISHED BY DECREE 15719 BASED ON TOTAL CREDITS IN JUNE 1978:

(MILLIONS OF \$US)

	UP TO ONE YEAR	ONE TO FIVE YEARS	TOTAL
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PRIVATE BANKS	75	70	145
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STATE BANKS	25	45	70
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TOTAL	100	115	215
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BANKS SURPASSING THEIR LIMITS WILL HAVE THEIR RESERVE REQUIREMENT IN FOREIGN EXCHANGE INCREASED BY 100 PERCENT OF THE EXCESS. IT IS EXPECTED THAT THE CENTRAL BANK WILL ALLOCATE INDIVIDUAL BANK CREDIT CEILINGS BASED ON THEIR OCT 1979 FOREIGN LINES OF CREDIT. ONE BANKER POINTED OUT THAT THESE SEILINGS WILL HARM THE BIG BANKS WITH LARGE EXISTING LINES AND WILL BE TO THE ADVANTAGE OF THE NEW, SMALL BOLIVIAN BANKS. ONE US BANKER SAID THE CEILINGS WOULD HAVE ALMOST NO EFFECT ON HIS OPERATIONS SINCE THE LOCAL BRANCH ACTS AS AN AGENT BETWEEN HIS BANK'S BRANCHES OUTSIDE OF BOLIVIA AND LOCAL FIRMS SEEKING DIRECT LINES OF CREDIT. THE AVAILABILITY OF FOREIGN EXCHANGE FOR PAYMENT OF FOREIGN DEBT OBLIGATIONS IS OF GREATEST CONCERN TO BOTH US AND FOREIGN BANKERS. MOST BELIEVE THAT, RECOG-

NIZING THE IMPORTANCE OF MAINTAINING GOOD RELATIONS WITH FOREIGN COMMERCIAL BANKS, THE CENTRAL BANK WILL NOT BE TOO STRINGENT, BUT WILL EXAMINE EACH LOAN ON AN INDIVIDUAL BASIS FOR PROPER REGISTRATION WITH THE CENTRAL BANK. ONE BANKER NOTED THAT CENTRAL BANK RECORD KEEPING IS SO POOR THAT HE DOUBTS THAT MANY LOANS WHICH HIS BANK TOOK CARE TO REGISTER PROPERLY WILL BE LOCATED ON CENTRAL BANK RECORDS; THUS HE FEELS THE VERIFICATION PROCESS COULD BE LONG AND INVOLVED. ACCORDING TO A US BANKER, THE CENTRAL BANK, WHICH DID NOT REQUIRE REGISTRATION OF DIRECT CREDIT LINES TO BOLIVIAN FIRMS, MAY NOW RESTRICT SALES OF FOREIGN EXCHANGE TO FIRMS TO PRECLUDE ANY NEW LINES OF CREDIT OR EVEN A DRAWING DOWN OF EXISTING LINES.

5. (U) DECREE 17123 DISCONTINUES, AS OF NOV 30, 1979, THE MAIN-
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TENANCE OF VALUE CLAUSE FOR PESO SAVINGS ACCOUNTS AND PESO CERTIFICATES OF DEPOSIT. DURING THE FIRST 15 DAYS OF MARCH 1980 AND PERHAPS SOONER, ACCOUNT HOLDERS QUALIFYING FOR MAINTENANCE OF VALUE GUARANTEES, WILL BE PAID THE DIFFERENCE IN PESOS AT THE NOV 30 EXCHANGE RATE. PESOS PRESENTLY IN THEIR ACCOUNT MAY BE WITHDRAWN AT ANY TIME BUT THE INCREMENT WILL STILL BE PAID.
BY DEC 30, 1979 BANKS MUST DELIVER TO THE CENTRAL BANK THE EXCESS

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FOREIGN EXCHANGE ASSETS. THESE FUNDS WILL BE USED BY THE CENTRAL BANK TO HONOR THE MAINTENANCE OF VALUE CLAUSES.

6. (U) THE ECONOMIC PACKAGE CHANGES BANK RESERVE REQUIREMENTS
TO THE FOLLOWING RATES:

	NATIONAL BANKS		FOREIGN BANKS	
	OLD RATE	NEW RATE	OLD RATE	NEW RATE
A. PESOS DEPOSITS	48	40	48	45
DEAMND	25	10	30	10
SAVINGS	10	5	15	5
TIME	100	100	100	100
PRIOR IMPORT DEPOSIT	30	40	30	45
OTHERS	30	40	30	45

B. FOREIGN EXCHANGE DEPOSITS

DEMAND	48	100	48	100
SAVINGS	0	100	0	100
TIME	15	40	20	45
OTHERS	30	100	30	100

(ACCORDING TO A CENTRAL BANK OFFICIAL, THE PRIOR DEPOSIT WHICH AN IMPORTER MUST MAKE WITH A COMMERCIAL BANK WILL RANGE UP TO A MAXIMUM OF 25 PERCENT OF THE VALUE OF THE IMPORTED PRODUCT DEPENDING ON THE TYPE OF GOODS IMPORTED. THE BANK IN TURN

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MUST DEPOSIT WITH THE CENTRAL BANK THE ENTIRE PRIOR DEPOSIT.)
THE NEW LOWER RESERVE REQUIREMENTS WILL NOT LEAD TO EXPANSION OF THE MONEY SUPPLY ACCORDING TO BANKERS AND THE IMF REPRESENTATION, SINCE THE BANKING SYSTEM, AND ESPECIALLY THE NATIONAL BANKS, ARE FAR SHORT OF MEETINGRVE REQUIREMENTS.
UNLIKE IN THE PAST, BANKS NOT MEETING THE RESERVE REQUIREMENTS WILL BE HEAVILY FINED. DETAILS REMAIN TO BE WORKED OUT, BUT IT IS GENERALLY BELIEVED THAT THE CENTRAL BANK WILL PROVIDE REDISCOUNT FACILITIES AND ALLOW AMPLE TIME FOR COMPLIANCE.

7. (U) ANNUAL MAXIMUM INTEREST RATES ON PESO SAVINGS ACCOUNTS HAVE BEEN INCREASED FROM 10 TO 15 PERCENT AND ON PESO CERTIFCATES OF DEPOSIT FROM 11.75 TO 16 PERCENT. INTEREST RATES ON DOLLAR ACCOUNTS MAY RANGE UP TO 11.75 PERCENT FOR CERTIFICATES OF DEPOSIT. ONE OF THE GOB DECREES CHANGES THE MAXIMUM INTEREST RATES AND FEES ON BANK CREDITS AS THE FOLLOWING TABLE SHOWS:

	(PERCENTAGES)				
	PRODUCTIVE COMMERCIAL PRODUCTIVE COMMERCIAL				
PESO LOANS	SECTOR	SECTOR	SECTOR	SECTOR	SECTOR
INTEREST	16	15	19	19	
EMPLOYEE FUND	3	3	3	3	
UNIVERSITY TAX	1	1	1	1	
FISCAL TAX	-	7	-	3	
TOTAL	20	26	23	26	

FOREIGN EXCHANGE LOANS

INTEREST	16	15	19	19
EMPLOYEE FUND	3	3	3	3
UNIVERSITY TAX				
	1	1	1	1
FISCAL TAX	3	3	-	3
TOAL	23	22	23	26

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(THE PRODUCTIVE SECTOR INCLUDES INDUSTRY, SERVICES, CONSTRUCTION, AND AGRICULTURE WHILE THE COMMERCIAL SECTOR INCLUDES COMMERCE AND PRIVATE INDIVIDUALS.) THE MAXIMUM BANK RATE EXCLUDING TAXES IS NOW 19 PERCENT. COMMERCIAL PESO AND DOLLAR LOANS ARE NOW TAXED THREE PERCENT WITH THE REVENUE GOING TO THE NATIONAL TREASURY; THIS REPLACES THE PREVIOUS FISCAL TAX OF SEVEN PERCENT FOR PESO COMMERCIAL LOANS AND THREE PERCENT FOR DOLLAR LOANS.

8. (C) REACTIONS TO THE CHANGES IN RESERVE REQUIREMENTS AND DEPOSIT AND LOAN INTEREST RATES ARE MIXED. SOL PEREZ SAYS THAT THE SPREAD HAS INCREASED FOR THE BANKS; HOWEVER, ONE BOLIVIAN BANKER SAID THAT A STUDY PREPARED BY THE ASSOCIATION OF PRIVATE BANKERS FOUND THAT THE SPREAD FOR THE NATIONAL BANKS HAS DECREASED A LITTLE. ONE US BANKER CALCULATED THAT THE EFFECTIVE COST TO BANKS OF PESO SAVINGS ACCOUNTS AND THE PESO TIME DEPOSITS IS 17.3 AND 16.8 PERCENT, RESPECTIVELY, MAKING SUCH DEPOSITS RELATIVELY UNATTRACTIVE TO BANKS IN LIGHT OF THE MAXIMUM INTEREST RATES THEY MAY CHARGE BORROWERS. HE PLANS, HOWEVER, TO BE MORE AGGRESSIVE IN SEEKING PESO DEPOSITS SINCE HIS BEST CUSTOMERS ARE FOREIGN FIRMS NEEDING PESOS.

9. (C) HYDROCARBON PRICE INCREASES AVERAGING 140 PERCENT PER BARREL WERE DECREED ON NOV 30. SOL PEREZ INDICATED THAT THE AVERAGE WILL REACH 156 PERCENT WHEN PRICE INCREASES ARE ANNOUNCED FOR LIQUEFIED PETROLEUM GAS (LPG) AND CERTAIN COMMONLY USED VEHICLE OILS ARE ELIMINATED. THE MOST WIDELY SOLD AND LEAST EXPENSIVE GASOLINE, "CORRIENTE" WAS DISCONTINUED. DEVALUATION OF THE PESO ACTUALLY MAKES SOME PRODUCTS COST LESS IN DOLLAR TERMS THAN BEFORE EVEN THOUGH THEIR PRICES HAVE INCREASED, E.G. SUPERIOR BRAND GASOLINE WHICH PREVIOUSLY COST \$US 0.74 PER GALLON NOW COSTS \$US 0.68. THE INCREASES ARE ALSO SOMEWHAT REGRESSIVE; THE CHEAPEST GRADE OF GASOLINE WENT UP TWO PESOS A LITER AND THE MOST EXPENSIVE GRADE DID NOT INCREASE--REMAINING AT FIVE PESOS A LITER. KEROSENE PRICES WERE INCREASED FROM \$US 0.06 TO \$US 0.25 PER GALLON. PRICES WERE RAISED FOR PUBLIC TRANSPORTATION TO COVER

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THE HIGHER HYDROCARBON PRICES.

\$US PER GALLON IN LA PAZ (PESOS PER LITER)

OLD PRICES NEW PRICES

EXTRA GASOLINE 0.32 (1.5) 0.59 (3.5)

SUPERIOR GASOLINE 0.74 (3.5) 0.68 (4.0)

PREMIUM GASOLINE

1.06 (5.0) 0.85 (5.0)

DIESEL FUEL 0.27 (1.3) 0.68 (4.0)

JET FUEL:

BOLIVIAN FIRMS 0.40 (8.0) 0.80 (20.0)

FOREIGN FIRMS 0.85 (17.0) 1.00 ---

KEROSENE 0.06 0.3) 0.25 (1.5)

10. (C) TO STRENGTHEN THE INSTITUTIONAL STRUCTURE FOR DEALING WITH ECONOMIC AND FINANCIAL MATTERS, THE GOB CREATED A NATIONAL COUNCIL OF MONETARY STABILIZATION (CONSEJO NACIONAL DE POLITICA MONETARIA) TO STUDY AND RECOMMEND APPROPRIATE ECONOMIC MEASURES TO THE GOB WITH THE FOLLOWING OBJECTIVES: THE BEST USE OF THE GOB'S FINANCIAL RESOURCES, AN ACCEPTABLE CURRENT ACCOUNT BALANCE, ELIMINATION OF PUBLIC SECTOR DEFICITS, AND PROMOTION OF ECONOMIC GROWTH AND DEVELOPMENT. THE COUNCIL, WHICH IS COMPOSED OF THE FOLLOWING MEMBERS, MAY ADOPT OR AUTHORIZE MEASURES TO IMPLEMENT THE GOB'S

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MONETARY AND FISCAL POLICIES:

PRESIDENT: MINISTER OF FINANCE

VICE PRESIDENT: MINISTER OF PLANNING

HVSECRETARY: GENERAL MANAGER, CENTRAL BANK

MINISTER OF INDUSTRY AND COMMERCE

MINISTER OF LABOR

MINISTER OF MINES

PRESIDENT, BANCO CENTRAL

OTHER MINISTERS, GOB OFFICIALS, OR PRIVATE BUSINESS MEN MAY ATTEND AND PARTICIPATE IN THE COUNCIL'S METTINGS WHEN TOPICS PERTAINING TO THEM ARE UNDER CONSIDERATION; HOWEVER, ONLY OTHER GOB MINISTERS IN ADDITION TO THE PERMANENT MEMBERS OF THE COUNCIL, MAY VOTE. THE CENTRAL BANK WILL PROVIDE STAFF PERSONNEL. (SOL PEREZ DIS- AGREES WITH THIS AND IS TRYING TO PERSUADE THE MINISTER OF FINANCE THAT THE COUNCIL WOULD BE BETTER OFF WITH ITS OWN PROFESSIONAL STAFF. HE FEELS THIS WOULD PROVIDE THE CONTINUITY OFTEN UNAVAILABLE IN THE GOB AND WOULD ATTRACT BETTER QUALIFIED PEOPLE. CENTRAL BANK PERSONNEL ARE PROMOTED BASED ON SENIORITY NOT COMPETENCE.)

11. (C) HOW THE COUNCIL WILL WORK IN PRACTICE IS UNCEERTAIN, THE PACKAGE OF ECONOMIC DECREES GIVES BOTH THE CENTRAL BANK AND THE NEW NATIONAL COUNCIL OF MONETARY STABILIZATION AUTHORITY TO TAKE NECESSARY MEASURES TO DEAL WITH THE ECONOMIC SITUATION. BUT, A CAREFUL READING OF THE DECREES SUGGESTS THAT AFTER PREPARING AND CONFIDENTIAL

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ANALYZING REPORTS ABOUT THE ECONOMIC SITUATION, THE COUNCIL WILL MAKE RECOMMENDATIONS TO THE CENTRAL BANK WHICH WOULD THCIDE WHETHER TO TAKE THE MEASURES. SOL PEREZ BELIEVES THIS WILL BE THE CASE. ONE BANKER POINTS OUT, HOWEVER, THAT MINISTER OF FINANCE CUADROS SANCHEZ, WHO HEADS THE COUNCIL AND IS A FAITHFUL PAZ SUPPORTER, IS UNLIKELY TO RELINQUISH ANY OF HIS PRESENT POWER TO THE CENTRAL BANK. HE WILL WANT TO ASSURE THAT ANY FUTURE ECONOMIC MEASURES WILL NOT REDUCE PAZ' PROSPECTS FOR REELECTION NEXT YEAR. THE SAME BANKER ADDS THAT TO ASSUME CONTROL OVER THE CENTRAL BANK, CUADROS, FIRST, WILL NAME A NEW BOARD OF DIRECTORS OF HIS CHOOSING. THEN WITH HIS INFORMAL APPROVAL, THE BOARD WILL NAME A CENTRAL BANK PRESIDENT. WHILE NOT DISCOUNTING CUADROS' INTEREST IN CONTROLLING ECONOMIC POLICY-MAKING, WE BELIEVE THE FORMER PATTERN, I.E. THE COUNCIL MAKING RECOMMENDATIONS TO THE CENTRAL BANK WHICH MAY OR MAY NOT CARRY THEM OUT, WILL PREVAIL. CERTAINLY, CUADROS WILL INSURE THAT A MAN OF HIS OWN CHOOSING AND SUBJECT TO HIS PERSUASION WILL BE NAMED AS PRESIDENT OF THE CENTRAL BANK.

12. (U) TO ALLEVIATE THE IMPACT OF THE ECONOMIC MEASURES FOR EMPLOYEES OF THE PRIVATE AND PUBLIC SECTOR, A MONTHLY COST-OF-LIVING BONUS WAS AWARDED TO THE FOLLOWING WAGE GROUPS:

BASIC MONTHLY SALARY MONTHLY COST-OF-LIVING BONUS

UP TO 5,000 PESOS 1,000 PESOS

5,001 TO 7,000 PESOS 800 PESOS

7,001 TO 9,000 PESOS 600 PESOS

EMPLOYEES EARNING MORE THAN 9,000 PESOS MONTHLY RECEIVE NO BONUS.

RESTAURANT OR OTHER FOOD SERVICE WORKERS WHO RECEIVE BOTH SALARY

AND MEALS WILL BE PAID ONLY 25 PERCENT OF THE BONUS FOR THEIR WAGE GROUP. LIKEWISE, DOMESTIC EMPLOYEES ARE TO RECEIVE ONLY 25 PER-CENT. NON-SALARIED SHIFT WORKERS WILL RECEIVE AN ADDITIONAL 35 PESOS PER SHIFT INSTEAD OF THE BONUS. THE SPECIAL COST-OF-LIVING BONUS IS A SPECIAL WAGE ADJUSTMENT NOT TO BE INCLUDED IN THE TOTALS USED TO CALCULATE OTHER BONUSES OR SOCIAL SECURITY TAX

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PAYMENTS.

13. (C) ACCORDING TO SOL PEREZ, THE GOB ECONOMIC PROGRAM ALLOWS FOR PUBLIC SECTOR WAGE INCREASES TOTALING \$US 150 MILLION OR ABOUT A 30 PERCENT OVERALL INCREASE. THE NOV 30 SALARY INCREASE WAS ABOUT 18 PERCENT MEANING THAT ANOTHER WAGE INCREASE OF ABOUT 12 PERCENT OR SOME \$US 60 OR 70 MILLION IS A POSSIBLE OPTION FOR THE GOB TO APPEASE THE LABOR SECTOR. ACTUALLY, SOL PEREZ SAID THAT THE PACKAGE WOULD ALLOW FOR A TOTAL PUBLIC SECTOR WAGE INCREASE EVEN GREATER THAN \$US 150 MILLION. THE PROGRAM'S \$US 150 MILLION WAGE INCREASE WAS BASED ON CALCULATIONS WHICH ASSUMED THAT THE 1980 BUDGET WOULD EQUAL ACTUAL 1979 PUBLIC SECTOR EXPENDITURES, WHICH WOULD BE GREATER THAN 1979 BUDGETED LEVELS. THE MINISTER OF FINANCE, HOWEVER, EXPECTS TO HOLD THE 1980 CONSOLIDATED PUBLIC SECTOR BUDGET TO JUST SLIGHTLY MORE THAN 1979 BUDGETED--NOT EXPENDITURE--LEVELS. THUS, DEPENDING ON THE SUCCESS OF THE MINISTER'S EFFORTS, THE PROGRAM COULD INCLUDE A WAGE INCREASE GREATER THAN THE \$US 150 MILLION AND STILL REMAIN AT PROJECTED 1980 BUDGET LEVELS.

14. (U) BY DECREE, THE 1980 CONSOLIDATED PUBLIC SECTOR BUDGET (INCLUDING THE CENTRAL GOVERNMENT AND THE STATE ENTERPRISES) CANNOT EXCEED THE TOTAL OF THE 1979 BUDGET AND SALARY INCREASES. SOME BUDGET INCREASES, HOWEVER, WILL BE PERMITTED FOR THE MINISTRIES OF DEFENSE, EDUCATION, PUBLIC HEALTH AND INTERIOR AND FOR SOME Viable PUBLIC SECTOR INVESTMENT PROJECTS. THERE CAN BE NO INCREASE IN PUBLIC TREASURY SUBSIDIES TO THE PUBLIC AND PRIVATE SECTORS. THE MINISTRIES OF FINANCE AND PLANNING MUST REVIEW AND APPROVE THE 1980 BUDGETS OF ALL PUBLIC SECTOR AGENCIES AND ALL STATE AGENCIES COLLECTING REVENUES EAR-MARKED FOR THEIR OWN USE. ALL PUBLIC REVENUES MUST BE DEPOSITED IN THE NATIONAL TREASURY; THE COMPTROLLER GENERAL WILL OVERSEE USE OF THESE FUNDS. STRINGENT RESTRICTIONS GOVERN TRANSFERS OF FUNDS FROM ONE BUDGET ITEM TO ANOTHER. BUDGET EXPENDITURES WILL BE CLOSELY MONIT TO ASCERTAIN THAT FUNDS ARE AVAILABLE BEFORE DISBURSEMENTS ARE MADE. VOUCHERS MUST BE SIGNED BY THE APPROPRIATE MINISTERS. ANY

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SECURITIES ISSUED BY PUBLIC AGENCIES OR THE PRIVATE SECTOR MUST BE APPROVED BY THE TREASURER'S OFFICE. FOR THE RAMAINDER OF 1979 THERE MAY NOT BE ANY ADDITIONAL BUDGET REQUESTS OR TRANSFERS OF BUDGETED FUNDS; MOREOVER, NON-ESSENTIAL EXPENDITURES ARE PROHIBITED.

15. (U) OTHER MEASURES REVOKE THE CONTROVERSIAL 500 PERCENT PRIOR IMPORT DEPOSIT AND PROHIBIT RENT INCREASES FOR ALL HOUSING. THE GOB ANNOUNCED THAT IT WOULD MAINTAIN PRICE CONTROLS ON CERTAIN BASIC PRODUCTS INCLUDING RICE, FLOUR, SUGAR, CERTAIN PASTA PRODUCTS, AND THE POPULAR 60-GRAM WEIGHT BREAD ROLL. GOB OFFICIALS ADMIT THAT THEY ARE STUDYING THE POSSIBILITY OF FUTURE PRICE INCREASES ON THESE HEAVILY SUBSIDIZED COMMODITIES TO CUT THEIR LOSSES.

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16. (C) ACCORDING TO SOL PEREZ, THE GOB WILL SOON ANNOUNCE TWO OTHER IMPORTANT ECONOMIC DECREES--MINING REFORM AND THE ABOLISHMENT OF INDEF, THE NATIONAL EXTERNAL FINANCING INSTITUTE. DRAWN UP BY MINING SECTOR EXPERTS IN THE MINISTRIES OF MINING AND FINANCE, THE TAX REFORM FOLLOWS RECOMMENDATIONS OF THE MUSGRAVE AND HARVARD STUDIES. A SENSITIVE ISSUE IN BOLIVIA, MINING TAX REFORM WILL AROUSE OPPOSITION IN THE CONGRESS AND AMONG VARIOUS LABOR ORGANIZATIONS WHICH RECALL THE ABUSES OF THIS POWERFUL PRIVATE VECTOR BEFORE THE 1952 REVOLUTION. BUT SOL PEREZ BELIEVES THAT THE GOB CAN COUNTER SUCH OPPOSITION BY STRESSING BENEFITS TO THE SO-CALLED SMALL MINERS (SMALL, UNDER-CAPITALIZED COOPERATIVES AND FAMILIES PRODUCING 10-15 PERCENT OF TOTAL MINERAL PRODUCTION) AND BY EMPHASIZING THE IMPACT ON THE FINANCIAL HEALTH OF COMIBOL, THE STATE MINING ENTERPRISE. SOL PEREZ, ALONG WITH MOST STUDENTS OF THE BOLIVIAN ECONOMY, CALLS

MINING TAX REFORM ONE OF THE MOST IMPORTANT STEPS WHICH THE GOB CAN TAKE TO ADDRESS BOLIVIA'S STRUCTURAL ECONOMIC PROBLEMS. ALTHOUGH DEVALUATION WILL PROVIDE SOME ASSISTANCE TO THE AGRICULTURAL SECTOR, SOL PEREZ HOPES THAT NEXT THE GOB WILL DEVELOP A COMPREHENSIVE AGRICULTURAL POLICY PROVIDING INCENTIVES FOR INCREASING AGRICULTURAL PRODUCTION AND REDUCING IMPORTS.

17. (C) CREATED IN 1974 BY THE MINISTER OF FINANCE CARLOS CALVO, INDEF, WHICH REMAINS AFFILIATED WITH THE MINISTRY OF FINANCE, WAS CONFIDENTIAL

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TO NEGOTIATE AND REGISTER ALL NEW GOB CREDITS. IN PRACTICE, INDEF HAS NEVER LIVED UP TO ITS CHARTER, LANGUISHING IN ALMOST COMPLETE OBSCURITY; RECENT EFFORTS TO ANALYZE BOLIVIA'S MEDIUM AND LONG TERM DEBT STRUCTURE REVEAL THAT GOB AGENCIES AND PUBLIC ENTERPRISES FREQUENTLY FAILED TO CONSULT WITH INDEF WHEN NEGOTIATING NEW CREDITS AND, LATER, FAILED TO REGISTER THEM. SOL PEREZ NOTES THAT CALVO USED INDEF TO NEGOTIATE LARGE GENERAL PURPOSE LOANS, BY-PASSING THE CENTRAL BANK, AND CREATING THE HIGH LEVELS OF NON-PRODUCTIVE FOREIGN DEBT WHICH TODAY ARE THE CENTRAL PROBLEMS OF BOLIVIA'S PRESENT ECONOMIC DIFFICULTIES. THE NEW DECREE WILL ABOLISH INDEF GIVING ITS RESPONSIBILITIES TO THE CENTRAL BANK IN AN EFFORT TO CENTRALIZE ALL GOB FOREIGN CREDIT OPERATIONS.

18. COMMENT: AS AN INITIAL, BUT DECISIVE STEP TOWARD THE LONG-NEEDED GOAL OF ECONOMIC STABILIZATION IN BOLIVIA, THE PROGRAM REPRESENTED BY THE ABOVE MEASURES IS A SOUND ONE. ALONG WITH THE FURTHER ACTIONS CONTEMPLATED OVER COMING MONTHS (HIGHER PRODUCER PRICES FOR AGRICULTURAL PRODUCTS, REDUCING SUBSIDIES FOR BASIC CONSUMER ITEMS AT THE RETAIL LEVEL, FURTHER EXCHANGE RATE MOVEMENT, MINING TAX REFORM) THIS PROGRAM COULD RESTORE A BASIS FOR REASONABLE GROWTH RATES. THE GOVERNMENT'S PROBLEMS WILL NOW BE TWOFOLD: MAINTAINING THE INTEGRITY OF THE FINANCIAL PROGRAM WILL REQUIRE MAKING SOME ADJUSTMENTS IN RESPONSE TO POLITICAL PRESSURES, FROM WORKERS AND SMALL FARMERS IN PARTICULAR; AND MOBILIZING INTERNATIONAL SUPPORT FOR A SOUND INVESTMENT PROGRAM WHICH CAN MOVE THE COUNTRY FROM THE BASE OF FINANCIAL STABILIZATION TO ECONOMIC GROWTH.

BOEKER

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 dec 1979
Decapton Date: 01 jan 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1979LAPAZ10472
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS 19851207 THOMPSON, STEPHEN H
Errors: N/A
Expiration:
Film Number: D790573-0403
Format: TEL
From: LA PAZ OR-P
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1979/newtext/t19791285/aaaacqzr.tel
Line Count: 539
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fa0ab911-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 79 LA PAZ 10309
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 451275
Secure: OPEN
Status: NATIVE
Subject: GOB ECONOMIC MEASURES
TAGS: ECON, BL
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/fa0ab911-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014