

MASTER FILES

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SM/85/115
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

May 15, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Venezuela - Staff Report for the Midyear Article IV Consultation

The following corrections have been made in SM/85/115 (4/24/85):

Page 12, Table 5, last column, line 1: for "29,850" read "30,046"
line 2: for "24,280" read "24,476"
line 3: for "24,280" read "24,476"
line 4: for "(334)" read "(530)"

Page 14, Table 6, line 1: for "13,747 13,393 12,846 12,423 11,896"
read "13,708 13,354 12,807 12,384 11,857"

line 2: for "24,280 23,927 23,479 23,000 22,729"
read "26,027 25,674 25,226 24,747 24,476"

Page 29, last column, line 2: for "135.5" read "132.5"
line 4: for "-7.7" read "-4.7"
line 6: for "14.5" read "11.5"

Footnote 1: for "Bs 9 million" read "Bs 6 billion"

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

years and a two-year grace period. In December 1984, the Venezuelan authorities announced that this restructuring would not apply to registered debts smaller than US\$250,000--previously US\$100,000. Loans for amounts below this limit will be serviced according to their original maturity.

To facilitate interest payments while registration is being completed, in April 1984 the authorities allowed debtors to have access to the preferential exchange rates prior to registration by RECADI as long as a bank provided a guarantee to cover for any exchange rate differential that might arise if the debt was found not to be eligible for these rates (Decree 96). However, arrears continued to accumulate throughout most of 1984. As a consequence, in November the authorities devised a new system (aviso de reconocimiento) which enables debtors to have access to the preferential rates as soon as their debt has been declared as contracted "in the national interest," i.e., without waiting for the final administrative processing which might take two to three months to complete. Between November 1984 and January 1985, interest payments averaged US\$60 million a month, and resulted in some reduction in outstanding private interest arrears.

By the end of December 1984, RECADI had reviewed 4,000 applications (out of a total of 8,000) for registration of debts amounting to US\$8 billion, or 80 percent of the estimated total private external debt. Of this amount, US\$4.5 billion has been registered (after netting out US\$1.2 million in foreign assets held by the debtors), US\$1.3 billion has been left undecided pending a clarification of whether the items financed were considered essential goods (in the national interest), and US\$1 billion has been rejected and will have to be serviced with foreign exchange acquired in the free market.

In March 1983, the Government approached Venezuela's creditor commercial banks for a rescheduling of all public sector and publicly guaranteed debts maturing in 1983 and 1984. These debts have been rolled over through successive 90-day deferrals. In September 1984, an agreement in principle was reached on a multiyear rescheduling which covers public and publicly guaranteed debts falling due in the period 1983-88 and amounting to US\$20.75 billion (more than 94 percent of total public debt with commercial banks). Repayments are to start immediately after the final agreement is reached and are to be stretched out over a period of 12 1/2 years. Under the agreement, Venezuela will make a downpayment of US\$750 million and will have amortized an additional US\$4.1 billion by 1989; the interest rate will be 1 1/8 percentage points over LIBOR. Following the recent improvement in the flow of interest payments by the private sector, Venezuela's creditor banks resumed negotiations on the remaining technical and legal aspects of the rescheduling, including a currency switching option for European and Japanese banks and a re-lending facility (Table 5 and Statistical Appendix Table 20).

Table 5. Venezuela: External Debt

(In millions of U.S. dollars)

	1982	1983	Prel. 1984	Proj. 1985
<u>Total debt (year-end)</u>	...	34,326	32,397	30,046
Public sector	28,003	27,616	26,027	24,476
Medium- and long-term	...	18,178	17,247	24,476
To official creditors		(683)	(473)	(530)
To private creditors		(17,495)	(16,774)	(23,946)
Financial institutions		/15,051/	/15,021/	/22,666/
Other		/2,444/	/1,753/	/1,280/
Short-term	...	9,438	8,780	—
Private sector <u>1/</u>	...	6,710	6,370	5,570
Financial institutions	...	5,200	5,200	5,200
Suppliers	...	800	800	370
Other	...	710	370	—
<u>Debt service <u>2/</u></u>	6,515	7,267	7,667	5,739 <u>3/</u>
Amortization	2,832	3,598	3,513	2,327
Public sector	(2,032)	(2,896)	(2,813)	(1,747)
Private sector	(800)	(702)	(700)	(580)
Interest	3,683	3,669	4,154	3,412
Public sector	(2,970)	(2,949)	(3,454)	(2,762)
Private sector	(713)	(720)	(700)	(650)
<u>Temporary rollover financing</u>	—	10,716	12,710	—
Medium- and long-term	(—)	(1,936)	(3,930)	(—)
Short-term	(—)	(8,780)	(8,780)	(—)
<u>Stock of arrears</u>	825	2,510	2,693	—
Public	825	945	—	—
Interest	(400)	(175)	(—)	(—)
Principal <u>4/</u>	(425)	(770)	(—)	(—)
Private	...	855	2,323	—
Interest	(...)	(455)	(723)	(—)
Principal <u>1/ 4/</u>	(...)	(400)	(1,600)	(—)
Commercial arrears	—	710	370	—
<u>Memorandum item</u>				
Debt service ratio (percent) <u>5/</u>	37.1	45.9	45.1	35.8

Sources: Ministry of Finance; Central Bank of Venezuela; and Fund staff estimates.

1/ Based on the assumption that only US\$6 billion of private debt will be registered by RECADI, and excludes nonregistered debt.

2/ As originally scheduled; i.e., includes arrears on principal and the temporary rollover of medium- and long-term debt.

3/ Under new rescheduling agreement with financial institutions.

4/ Includes arrears on short-term as well as medium- and long-term debt.

5/ Ratio of debt service to exports of goods and nonfactor services.

III. Economic Prospects and Policies

The mission reviewed the 1985 Quantified Economic Program prepared by the Government of Venezuela. The program aims at providing a modest stimulus to economic activity while maintaining a surplus in the current account of the balance of payments. It projects that the rate of price increase will decline to about 13 percent (end of period basis), and that nonpetroleum real GDP will grow by nearly 3 percent. The program envisages a gradual transfer of the remaining import items on the Bs 4.30 per U.S. dollar list to the Bs 7.50 exchange rate, and the unification of all controlled exchange rates at the end of 1985, except for the purpose of specified debt servicing. The registration of the private external debts is expected to be completed by midyear, which would facilitate the elimination of all external arrears before end-1985.

1. The Quantified Annual Economic Program

The Venezuelan representatives observed that the Quantified Annual Economic Program for 1985 was the first exercise of this nature they had undertaken, and every effort was being made to improve its coverage. The Program includes quarterly projections of fiscal, monetary, and foreign exchange transactions. Regarding fiscal operations, at this stage the Program includes the plans of the Central Government, the Venezuelan Investment Fund (VIF), and the petroleum sector (PDVSA); the authorities expect to expand the coverage to include the finances of a representative sample of nonfinancial public enterprises in the coming months.

The monetary program is based on a projection of the demand for broad money (i.e., money and quasi-money) and a fixed money multiplier, which determine the demand for base money. The demand for broad money is based on an estimated growth of nominal non-oil GDP. The objective of monetary policy is to achieve a certain expansion of base money through an increase of the net domestic assets of the Central Bank of Venezuela, taking into account the targeted change in the Central Bank's net international reserves. The quantified program includes projections of foreign exchange transactions in each individual exchange market, including the planned net repayments of public external debt and the targeted changes in the net international reserves.

The main quantitative targets of the 1985 Economic Program are shown in Table 6 and they are examined, together with their supporting policies, in the following sections.

Table 6. Venezuela: Quantitative Targets of the
1985 Economic Program

	1984	1985			
	Dec.31	Mar.31	June 30	Sept.30	Dec.31
(In millions of U.S. dollars)					
Net international reserves (Central Bank and VIF)	13,708	13,354	12,807	12,384	11,857
Net outstanding public external debt	26,027	25,674	25,226	24,747	24,476
(In millions of bolivares)					
Broad money	176,330	185,441	187,852	196,890	208,862
Monetary base	38,879	40,683	39,007	42,355	45,920
Public sector net financing needs <u>1/</u>	...	-5,980	-4,306	-4,473	-1,527

Source: Central Bank of Venezuela.

1/ Excludes nonfinancial public enterprises.

During the consultations, the mission agreed with the authorities on procedures for reporting and monitoring of performance under the program.

2. External prospects and policies

Because of the continued weakness in the international oil market, the authorities project oil export earnings at US\$13.7 billion in 1985, compared with US\$14.8 billion in 1984; this projection is based on an export volume of 1.41 million barrels a day, reflecting observance of the latest OPEC agreed cut in production of 120,000 barrels a day during the whole year. The authorities estimate that the recent realignment of OPEC prices will have a relatively small effect on Venezuela's export earnings because light crudes represent only 10 percent of total oil exports. They assume an average export price of US\$26.57 a barrel, which would represent a US\$0.50 a barrel reduction from the average realized price in the last quarter of 1984; they pointed out that the export mix may be varied to limit the decline in the average price. Because of the unsettled situation in the international oil market, the mission noted that a more cautious projection was advisable, and based its projections on a reduction in the average realized price of US\$1 a barrel, while maintaining the official assumption on volume. However, according to the mission's estimates, lower interest payments than those projected by the authorities would offset the effects of the somewhat lower assumptions on oil export earnings.

<u>Public sector finances</u> 4/	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Proj.</u> <u>1985</u>
	(billions of bolivares)			
Revenues	88.2	84.6	126.5	127.8
Expenditures	125.9	100.8	114.7	132.5
Current account surplus or deficit (-)	31.4	31.5	58.3	57.7
Overall surplus or deficit (-)	-37.7	-16.3	11.8	-4.7
External financing (net)	16.3	1.3	-0.2	-6.8
Internal financing (net)	21.4	15.0	-11.6	11.5
<u>Balance of payments</u>	(millions of U.S. dollars)			
Merchandise exports, f.o.b.	16,516	14,759	15,937	14,720
Merchandise imports, f.o.b.	-12,584	-6,409	-7,261	-8,472
Investment income (net)	-1,530	-2,365	-2,629	-2,308
Other services and transfers (net)	-5,648	-1,810	-1,830	-2,201
Balance on current and transfer accounts	-3,246	4,175	4,217	1,739
Official long-term capital (net)	2,100	162	-567	-1,449
Private long-term capital (net)	215	-118	-710	-580
Short-term capital and errors and omissions	-7,681	-5,626	-1,253	-615
SDR allocations	--	--	--	--
Change in net international reserves (increase -)	8,187	5/ -278	-1,870	2,268
Change in stock of external arrears and refinancing	425	1,685	183	-1,363
<u>Official International reserves</u>	(millions of SDRs)			
Central Bank (gross)	8,988	10,615	12,683	10,744
Central Bank (net) 6/	8,235	8,214	9,934	10,742
Venezuelan Investment Fund	1,496	695	1,304	930

1/ Includes special investment program for Bs 6 billion.

2/ Change in net domestic assets in relation to the private sector claims on the banking system outstanding at the beginning of the period.

3/ Excludes change in valuation of Central Bank net foreign assets.

4/ Includes the consolidated operations of the Central Government, the Venezuelan Investment Fund, the National Petroleum Company, the nonfinancial public enterprises, and the Exchange Differentials Compensation Fund (FOCOCAM)

5/ Excludes revaluation of gold holdings from US\$42.20 to US\$300 per ounce.

6/ Net of external arrears and other liabilities.

Venezuela--Statistical Issues

1. Outstanding statistical issues

a. Government finance

The 1984 Government Finance Statistics Yearbook includes data for the consolidated central government in the derivation table through 1982 and in the statistical tables through 1983. For local governments the 1984 Yearbook includes only aggregate data through 1979.

b. Merchandise trade

Data on trade by partner countries have not been reported since 1982. The authorities have encountered a number of problems in data collection and processing. It would be useful if the authorities were able to overcome these problems, and were able to report their data at least quarterly.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Venezuela in the March 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banco Central de Venezuela, which during the past year have been provided on a timely basis, although the data on total exports and imports are lagged by one year.

Status of IFS Data

		<u>Latest Data in March 1985 IFS</u>
Real Sector	- National Accounts	1983
	- Prices (CPI)	Nov. 1984
	- Production (crude petroleum)	Oct. 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	Sept. 1984
	- Financing	Sept. 1984
	- Debt	Sept. 1984
Monetary Accounts	- Monetary Authorities	Oct. 1984
	- Deposit Money Banks	Sept. 1984
	- Other Financial Institutions	July 1984
External Sector	- Merchandise Trade: Values	
	Total trade	Q4 1983
	Petroleum exports	Oct. 1984
	Prices	
	Crude petroleum	Nov. 1984
	- Balance of Payments	1983
	- International Reserves	Jan. 1985
	- Exchange Rates	Jan. 1985