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SM/84/192  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

August 17, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Venezuela - Staff Report for the 1984 Article IV Consultation

The following corrections have been made in SM/84/192 (8/7/84):

Page 3, Table 1, column 1981, line 1: for "0.4" read "-0.4"

Page 5, Table 2, "Change in PDVSA net foreign  
assets" columns 1982, 1983, Proj. 1984: add: "7.6" "1.0" and "--"

"Other (including domestic  
arrears)" column 1983: for "3.5" read "1.5"

Att. (2)

Other Distribution:  
Department Heads

Table 1. Venezuela: Selected Macroeconomic Indicators

(Percentage change from preceding year)

	1980	1981	1982	Prel. 1983	Proj. 1984
Real GDP (at 1968 prices)	-1.9	-0.4	0.7	-4.7	--
Petroleum	(-6.8)	(-4.3)	(-7.6)	(-3.3)	(--)
Nonpetroleum	(-1.4)	(--)	(1.4)	(-5.0)	(--)
Nominal GDP	22.4	12.2	2.1	-2.1	18.8
Petroleum	(33.0)	(4.9)	(-16.3)	(-10.4)	(45.3)
Nonpetroleum	(18.5)	(15.2)	(9.0)	(0.3)	(12.0)
Domestic expenditure (at current prices)	14.5	15.0	11.8	-9.1	3.0
Investment	(-4.3)	(4.1)	(15.1)	(-42.9)	(15.8)
Consumption	(23.4)	(19.1)	(10.6)	(2.2)	(-4.9)
GDP implicit price deflator	24.8	11.8	1.4	2.7	18.8
Petroleum	(42.7)	(9.6)	(-9.4)	(-7.3)	(45.3)
Nonpetroleum	(20.2)	(15.2)	(7.5)	(5.6)	(12.0)
Urban consumer price index (period average)	21.3	16.2	10.0	6.4	16.0
Unemployment rate <u>1/</u>	5.7	6.0	6.9	9.7	13.5 <u>2/</u>

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

1/ Second semester data through 1982 and first semester data for 1983.

2/ Average for February and March 1984.

Massive increases in public investment (largely financed through foreign borrowing) failed to reactivate the economy, and growing distortions in the cost-price structure and interest differentials in favor of U.S. dollar-denominated assets resulted in large capital outflows. In late 1981 policies were changed again: import restrictions were increased, price controls were tightened, and interest rates were freed, eliminating the differential in favor of rates abroad. However, the drop in oil export earnings in 1982 triggered a major deterioration in the public finances and balance of payments. The consolidated public sector 1/ overall deficit rose from 3.3 percent of GDP in 1981 to

1/ The consolidated public sector in this report covers the Central Government, central government extrabudgetary operations, the Venezuelan Investment Fund, the National Petroleum company (PDVSA), and the non-financial public enterprises.

11.3 percent of GDP in 1982 (Table 2), resulting in relatively large foreign and domestic borrowing, including a buildup of domestic arrears. With export earnings declining by 18 percent, the current account moved from a surplus of US\$2 billion in 1981 to a deficit of US\$3 billion in 1982; private capital outflows exceeded public sector external borrowing by over US\$5 billion, reflecting expansionary credit policies in the second half of the year and expectations of a devaluation. As a result, the overall balance of payments registered a deficit of US\$8.6 billion in 1982.

The further weakening of the international oil market in early 1983 intensified the balance of payments difficulties. In the two-year period 1982-83 Venezuela's external earnings dropped by the equivalent of 10 percent of GDP. In February 1983 the authorities introduced a set of adjustment measures, including a cutback in public investments, strict price, exchange, and import controls, and a three-tier exchange rate system which involved a depreciation of the bolivar averaging about 13 percent and which included a floating rate for tourist expenditures and capital transactions.

At the same time, the Government renewed its efforts to refinance the US\$14 1/2 billion of external public and publicly guaranteed debt with commercial banks maturing in 1983 and 1984. Since then, there have been successive 90-day deferrals on all principal payments, with the most recent one extending through October 31, 1984. Discussions on a possible financial arrangement with the Fund were held during 1983, but the authorities decided against concluding an arrangement in view of the approaching presidential elections, which were held in December 1983.

The February 1983 measures produced a significant improvement in the public finances and balance of payments positions in 1983, although the economy experienced a sharp recession. Real GDP declined by almost 5 percent, unemployment jumped to 13 percent by the end of 1983 (from 7 percent one year earlier), and the rate of increase in prices slowed to less than 7 percent (from 10 percent the previous year). The public sector deficit declined from 11.3 percent of GDP in 1982 to 4.7 percent of GDP in 1983, as a result of significant reductions in capital expenditure, particularly by public enterprises, and higher revenues from improved export earnings of the public enterprises and central bank profits from exchange differentials (see Table 2). An accumulation of payments arrears on private external debt and reductions in inventories led to a sharp increase in liquidity and a deceleration in private sector credit demand; as a result there was a buildup of excess reserve holdings by commercial banks (Table 3).

The effective devaluation of the bolivar, the strict import controls, and the decline in domestic expenditures led to an improvement in the balance of payments in 1983, primarily through a 50 percent reduction in imports. The exchange rate for travel averaged Bs 13 per U.S. dollar compared with Bs 4.3 per U.S. dollar before the devaluation, and foreign

Table 2. Venezuela: Operations of the Consolidated Public Sector <sup>1/</sup>

	1980	1981	1982	1983	Proj. 1984
(In billions of bolivares)					
<u>Total receipts</u>	<u>105.0</u>	<u>114.3</u>	<u>102.6</u>	<u>98.6</u>	<u>127.2</u>
Petroleum sales	80.8	84.4	70.7	63.5	92.6
Nonpetroleum central government receipts	17.2	21.8	25.3	21.2	23.9
Exchange profits	--	--	--	10.1	6.9
Operating surplus of NPEs	--	--	--	--	0.8
Interest and dividend income	7.0	8.1	6.6	3.6	3.0
Fixed asset sales	--	--	--	0.2	--
<u>Total expenditures</u>	<u>103.2</u>	<u>123.8</u>	<u>135.4</u>	<u>112.1</u>	<u>129.9</u>
<u>Current expenditures</u>	<u>58.5</u>	<u>72.1</u>	<u>67.4</u>	<u>63.5</u>	<u>80.4</u>
Central Government (net of transfers to NPEs)	(39.3)	(52.7)	(48.2)	(48.0)	(62.3)
Central Government (extrabudgetary)	(0.1)	(--)	(0.1)	(--)	(--)
Petroleum sector (PDVSA)	(12.7)	(13.2)	(14.4)	(15.1)	(18.0)
Operating deficit of NPEs	(6.4)	(6.2)	(4.6)	(0.4)	(--)
Venezuelan Investment Fund (VIF)	(--)	(--)	(0.1)	(--)	(0.1)
<u>Capital expenditure</u>	<u>44.7</u>	<u>51.7</u>	<u>68.0</u>	<u>48.6</u>	<u>49.5</u>
Central government transfers (net of VIF and NPEs)	(10.1)	(10.4)	(7.2)	(7.7)	(9.1)
Central government direct investment	(3.8)	(4.4)	(6.3)	(4.0)	(4.6)
Central Government (extrabudgetary)	(0.5)	(0.9)	(6.6)	(2.3)	(2.0)
Petroleum sector investment	(9.5)	(15.6)	(21.2)	(11.5)	(15.9)
Investments of NPEs	(16.3)	(15.6)	(26.7)	(21.3)	(17.9)
Other	(4.5)	(4.8)	(--)	(1.8)	(--)
<u>Current account surplus</u>	<u>25.9</u>	<u>42.2</u>	<u>35.2</u>	<u>35.1</u>	<u>46.8</u>
<u>Overall surplus or deficit (-)</u>	<u>1.8</u>	<u>-9.5</u>	<u>-32.8</u>	<u>-13.5</u>	<u>-2.7</u>
<u>Required adjustment</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3.8</u>
<u>Sources of financing</u>	<u>-1.8</u>	<u>9.5</u>	<u>32.8</u>	<u>13.5</u>	<u>-1.1</u>
<u>Banking system</u>	<u>0.8</u>	<u>2.1</u>	<u>8.0</u>	<u>6.0</u>	<u>7.5</u>
Central Bank	(4.4)	(-2.9)	(7.1)	(6.5)	(16.5)
Other	(-5.2)	(5.0)	(0.9)	(-0.5)	(-9.0)
Change in VIF reserves )	-19.4 )	-6.2 )	4.8 )	2.7 )	0.2 )
Change in PDVSA net foreign assets )			7.6 )	1.0 )	-- )
Change in external debt	6.4	1.4	6.0	2.3	-5.0
Other (including domestic arrears)	10.4	12.2	6.4	1.5	-3.8
(As percentage of GDP) <sup>2/</sup>					
Total receipts	41.3	40.1	35.2	34.6	37.5
Total expenditures	40.6	43.4	46.5	39.3	38.3
Overall surplus or deficit (-)	0.7	-3.3	-11.3	-4.7	-0.8
(Annual rates of change)					
Total receipts	...	8.9	-10.2	-3.9	29.0
Total expenditures	...	20.0	9.4	17.2	15.9
Of which: current expenditures	(...)	(23.2)	(-6.5)	(-5.7)	(26.6)

Sources: Central Bank of Venezuela, Central Budget Office; and Fund staff estimates.

<sup>1/</sup> Covers the Central Government, the Venezuelan Investment Fund, the National Petroleum Company, and the Nonfinancial Public Enterprises. The source of data for 1980 and 1981 is the Central Bank, while the source for 1982 onward is the Central Budget Office (OCEPRE), which includes a greater number of nonfinancial public enterprises.

<sup>2/</sup> As receipts and expenditures of the National Petroleum Company are included on a gross basis, ratios to GDP differ from the ones in the accompanying recent economic developments paper where data up to 1983 are fully consolidated and the coverage of the public sector is broader.

Table 3. Venezuela: Summary Accounts of the Banking System

	1980	1981	1982 1/	1983 2/	Proj. 1984
(In billions of bolívares)					
I. Central Bank					
Net international reserves	30.3	36.8	30.0	47.8	69.4
Net domestic assets	-3.5	-5.1	6.7	-1.9	6.6
Net credit to public sector	-4.1	-7.2	-	-5.0	4.5
Credit to banks	5.7	8.7	13.9	12.6	12.6
Other 3/	-5.1	-6.6	-7.2	-9.5	-10.5
Valuation and other adjustments 4/	1.6	1.5	9.2	8.0	36.2
Liabilities to banks	12.8	16.6	14.1	22.8	22.8
Liabilities to private sector	12.4	13.6	13.4	15.1	17.0
II. Banking System					
Net foreign assets 5/	32.2	37.9	29.3	50.8	72.4
Net domestic assets	106.3	125.0	157.5	165.0	183.6
Net credit to public sector	-23.1	-21.0	-13.0	-18.6	-18.1
Credit to private sector	125.1	141.9	162.0	167.4	187.6
Other 6/	4.3	4.1	8.5	16.2	14.9
Valuation and other adjustments 4/	1.6	1.4	9.2	8.0	36.2
Medium- and long-term foreign liabilities	10.2	12.0	16.2	16.7	16.7
Liabilities to private sector	126.7	149.5	161.4	191.1	202.9
(Percentage change in relation to liabilities to private sector at the beginning of the period)					
Net domestic credit	26.4	14.7	21.8	9.6	13.4
Net credit to public sector	0.7	1.7	5.4	3.7	3.9
Credit to private sector	24.4	13.2	13.5	3.3	12.1
Liabilities to private sector	22.1	17.9	8.0	18.4	6.2
(As percent of nonpetroleum GDP)					
Net domestic credit	58.9	60.1	69.5	72.6	72.1
Net credit to public sector	-12.8	-10.1	-5.7	-8.2	-7.1
Credit to private sector	69.3	68.3	71.5	73.7	73.7
Liabilities to private sector	70.2	71.9	71.3	84.1	79.7
Money and quasi-money	64.2	65.8	64.7	64.7	75.0
Memorandum items					
Average interest differential between domestic and LIBOR rates	-0.8	-1.7	1.6	4.2	...
Excess reserve holdings of commercial banks (in billions of bolívares) 7/	1.7	3.7	2.1	7.6	...

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

1/ Data in this column excludes the effects of: (a) the gold revaluation of September 1982; (b) the centralization of international reserves by transfer to the Central Bank of deposits held abroad by PDVSA; and (c) the transfer of two thirds of the Securities Stabilization Fund to the Central Government.

2/ Data in this column records as credit the Bs 7 billion transfer of central bank gold revaluation profits to the Central Government.

3/ Includes official capital and surplus, net credit to the rest of the financial system, net credit to nonmonetary international organizations, medium- and long-term foreign liabilities and net unclassified assets.

4/ Includes SDR allocations and valuation changes in foreign exchange and gold holdings. In 1982 it also includes the deposits held by PDVSA at the Central Bank resulting from the centralization of international reserves. In 1983, it also includes the counterpart of the Bs 7 billion transfer of gold revaluation profits.

5/ Includes net international reserves and other foreign assets.

6/ Includes official capital and surplus, net credit to the rest of the financial system, net credit to nonmonetary international organizations, net unclassified assets, and interbank float.

7/ Excludes the National Bank of Discounts.