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CONTAINS CONFIDENTIAL
INFORMATION

April 24, 1985

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

Attached for consideration by the Executive Directors is the staff report for the midyear Article IV consultation with Venezuela, which will be brought to the agenda for discussion on a date to be announced.

Mr. Fajgenbaum (ext. 7162) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

VENEZUELA

Staff Report for the Midyear Article IV Consultation

Prepared by the Staff Representatives for the
Midyear Consultation with Venezuela

Approved by E. Wiesner and S. Kanesa-Thanan

April 23, 1985

I. Introduction

At the completion of the 1984 Article IV consultation, on August 31, 1984, Executive Directors concluded that the Fund should stand ready to assist Venezuela in its efforts to reschedule its external debt. In September 1984 the Venezuelan authorities proposed that the Article IV consultations be enhanced to facilitate a multiyear restructuring of public debts with commercial banks.

Under the enhanced surveillance procedures proposed by the Venezuelan authorities, staff reports on the regular Article IV consultation discussions will review and appraise a detailed and quantified Annual Economic Program prepared by the authorities. The reports will comment specifically on the feasibility and consistency of the objectives and targets of the Government's annual program, and their compatibility with a viable external payments position. In addition, the Venezuelan authorities proposed that midyear Article IV consultation discussions be conducted to review the progress achieved in implementing the annual program and evaluate the performance of the Venezuelan economy. As Executive Directors are aware, the authorities have undertaken to provide creditor commercial banks with copies of the staff reports on the regular and midyear Article IV consultation discussions as they become available, to facilitate the banks' monitoring of the Venezuelan economy in the context of the multiyear debt restructuring.

This report is the first to be prepared under the procedures for enhanced surveillance of the Venezuelan economy and reviews the 1985 Annual Economic Program prepared by the Venezuelan authorities. The Article IV consultation discussions with Venezuela were conducted in Caracas during the period January 30-February 8, 1985.^{1/} Venezuelan representatives in the discussions included the Minister of Finance, the President of the Central Bank, the Ministers of Development,

^{1/} Venezuela accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement on July 1, 1976. Relations with the Fund are described in Attachment I.

Planning, Mines and Energy, Agriculture, and of the Venezuelan Investment Fund, the Director of the Budget, other senior officials, and representatives of the banking community and private sector. The staff representatives were Messrs. Martin Hardy (Head), Pierre Ewencyk, Jose Fajgenbaum (all WHD), and Leonardo Cardemil (ETR), Miss Adrienne Cheasty (EP-WHD), and Mrs. Alicia Menza (Secretary-STAT). Mr. Pedro Perez, Executive Director for Venezuela, participated in a number of the policy discussions.

The last Article IV consultation discussions with Venezuela were held in May-June 1984. The relevant documents (SM/84/192, 8/7/84, and SM/84/201, 8/17/84) were considered by the Executive Board on August 31, 1984. In that meeting, Executive Directors commended the authorities for the implementation of adjustment policies that had contributed to a considerable strengthening in the current account of the balance of payments. Instrumental in this were the significant improvement in the consolidated public sector finances, the depreciation of the bolivar implicit in the multiple exchange rate system, and the policy of wage restraint. Directors encouraged continued monetary, fiscal, and wage restraint and noted that further adjustment in the public finances would be helpful.

Directors observed that despite the progress toward adjustment, confidence in the economy had not been restored. They were concerned about the large distortions created by the excessive reliance on mechanisms to protect the balance of payments such as the four-tier exchange rate system and import controls. Directors encouraged the authorities to unify the controlled exchange rates by the end of 1985 and to begin to relax the quantitative import restrictions and prohibitions. They underlined the urgency of completing the registration of the external private sector debt and of authorizing debt service payments, in order to eliminate the large and disturbing stock of external arrears and help restore the creditworthiness of the country. Directors also stressed the need to liberalize the price control mechanism as soon as possible because of the distortions that it was creating at a time when efficient diversification of the economy was essential.

II. Background

1. Developments before 1984

Following the oil price hike of 1979-80 and the attendant increase in oil revenues,^{1/} the authorities attempted to stimulate the economy by expanding public spending and granted significant general wage increases in early 1980. This led to an acceleration of domestic inflation and a sharp real appreciation of the bolivar which, together with a reduction

^{1/} In Venezuela, the oil sector accounts for over 90 percent of merchandise exports and contributes two thirds of central government revenue and more than 20 percent of nominal GDP.

in import protection and interest rate differentials in favor of external rates, contributed to stagnation of economic activity, a large decline in private investment, rapid increases in imports, and outflows of private capital (Tables 1 and 2).

Table 1. Venezuela: Selected Macroeconomic Indicators
(Percentage change from preceding year)

	1980	1981	1982	1983	Prel. 1984	Proj. 1985 1/
Real GDP (at 1968 prices)	-1.9	-0.4	0.7	-5.5	-1.8	2.1
Petroleum	-6.8	-4.3	-7.6	-3.3	1.7	-3.3
Nonpetroleum	-1.4	--	1.4	-5.7	-2.1	2.8
Nominal GDP	22.4	12.2	2.1	-0.3	14.7	18.5
Petroleum	33.0	4.9	-16.3	-9.0	34.0	1.4
Nonpetroleum	18.5	15.2	9.0	2.5	9.9	23.9
Domestic expenditure (at current prices)	14.5	15.0	11.8	-9.1	11.2	17.3
Investment <u>2/</u>	-4.3	4.1	15.1	-42.9	47.2	29.8
Consumption	23.4	19.1	10.6	2.2	5.6	8.4
GDP implicit price deflator	24.8	11.8	1.4	5.6	16.7	17.5
Petroleum	42.7	9.6	-9.4	-6.0	31.7	4.7
Nonpetroleum	20.2	15.2	7.5	8.7	12.5	20.5
Caracas consumer price index (end of period)	17.6	11.0	7.7	6.6	18.3	12.8
Unemployment rate <u>3/</u>	5.7	6.0	7.1	10.1	14.0	13.0

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

1/ Targets and projections contained in the quantified Annual Economic Program.

2/ Includes change in inventories.

3/ Second semester data through 1984.

The sharp drop in oil export earnings in 1982 led to significant balance of payments pressures in Venezuela. With oil export earnings declining by 18 percent, the external current account moved from a surplus of US\$2 billion in 1981 to a deficit of US\$3.2 billion (4.7 percent of GDP) in 1982. Facilitated by an expansionary credit policy, the widespread speculation about a possible devaluation resulted in

Table 2. Venezuela: Summary Balance of Payments
(In billions of U.S. dollars)

	1981	1982	1983	Prel. 1984	1985	
					Govt.	Staff
<u>Current account</u>	2.1	-3.2	4.2	4.2	1.7	1.7
Trade balance	7.8	3.9	8.4	8.6	6.7	6.2
Exports, f.o.b.	(20.2)	(16.5)	(14.8)	(15.9)	(15.2)	(14.7)
Of which: petroleum	/19.1/	/15.6/	/13.7/	/14.8/	/13.7/	/13.4/
Imports, f.o.b., net	(-12.4)	(-12.6)	(-6.4)	(-7.3)	(-8.5)	(-8.5)
Nonfactor services	-4.2	-5.0	-1.6	-1.7	-2.1	-2.1
Freight and insurance	(-1.0)	(-1.0)	(-0.6)	(-0.6)	(-0.7)	(-0.7)
Travel	(-2.1)	(-2.5)	(-0.6)	(-0.6)	(-0.7)	(-0.7)
Other	(-1.1)	(-1.5)	(-0.4)	(-0.5)	(-0.7)	(-0.7)
Investment income, net	-1.1	-1.5	-2.4	-2.6	-2.8	-2.3
Of which: interest payments						
accrued	(4.3)	(3.7)	(3.7)	(4.1)	(4.0)	(3.4)
Paid	/4.3/	/3.7/	/3.4/	/4.0/	/4.7/	/4.2/
In arrears	/-/	/-/	/0.2/	/0.1/	/-0.7/	/-0.7/
Transfers, net	-0.4	-0.6	-0.2	-0.2	-0.1	-0.1
<u>Capital account</u>	-0.8	-3.6	-3.7	-2.6	-2.6	-2.6
Medium- and long-term capital	1.4	2.3	--	-1.3	2.0	-2.0
Public sector debt, net	0.4	1.4	0.5	-0.8	-1.6	-1.6
Disbursement	(1.3)	(3.4)	(1.5)	(-)	(0.2)	(0.2)
Amortization	(-0.9)	(-2.0)	(-1.0)	(-0.8)	(-1.8)	(-1.8)
Scheduled	/-0.9/	/-2.0/	/-2.9/	/-2.8/	/.../	/-4.3/
Refinanced	/-/	/.../	/1.9/	1/ /2.0/	1/ /.../	2/ /2.5/
Of which: arrears	/-/	/0.4/	/-0.1/	/-0.3/	/-/	/-/
Other public sector	0.4	0.7	-0.4	0.2	0.2	0.2
Private sector	0.6	0.2	-0.1	-0.7	-0.6	-0.6
Direct investment	(0.2)	(0.3)	(0.1)	(-)	(-)	(-)
Other	(0.4)	(-0.1)	(-0.2)	(-0.7)	(-0.6)	(-0.6)
Of which: arrears	/.../	/.../	/0.4/	/0.7/	/.../	/-1.1/
Short-term capital	-2.2	-5.9	-3.7	-1.3	-0.6	-0.6
Of which: arrears	(...)	(...)	(1.1)	(-0.3)	(...)	(-0.9)
<u>SDR allocation</u>	0.1	--	--	--	--	--
<u>Net errors and omissions</u>	-0.9	-1.8	-1.7	0.1	--	--
<u>Overall balance</u>	0.5	-8.6	-1.2	1.7	-0.9	-0.9
<u>Valuation change</u>	--	3.0 3/	-0.2	--	--	--
<u>Financing</u>	-0.5	5.6	1.4	-1.7	0.9	0.9
Net international reserves						
(increase -)	-0.5	5.2	-0.3	-1.9	1.9	2.3
Change in arrears stock	--	0.4	1.7	0.2 4/	(	-2.7 4/
Refinanced	--	--	--	--	(-1.0	1.3 5/

Source: Statistical Appendix Table 16; and Fund staff estimates.

1/ Rollover of medium- and long-term debt to financial institutions.

2/ Under the new rescheduling agreement to take place in mid-1985.

3/ Reflects a revaluation of gold holdings from US\$42.20 to US\$300 per ounce.

4/ Fund staff estimates.

5/ Rescheduling of private debt arrears with financial institutions.

short-term private capital outflows of more than US\$5 billion, and the overall balance of payments registered a deficit of US\$8.6 billion in 1982. The decline in petroleum revenue combined with a further increase in public expenditure triggered a major deterioration in the consolidated public finances, and the overall deficit rose by 11 percentage points to 12.9 percent of GDP in 1982 (Table 3). A significant part of this deficit was financed by the accumulation of domestic arrears.

The further weakening of the international oil market at the beginning of 1983 accentuated the speculation against the bolivar. In February 1983, the authorities adopted a set of measures aimed at arresting the loss of reserves, including a sharp reduction in public investment and the introduction of a three-tier exchange rate system which resulted in an initial average depreciation of the bolivar of about 11 percent.^{1/} They also introduced tight import controls and implemented a 90-day price freeze which was followed by strict price controls. In addition, the authorities began negotiations with foreign creditor banks for the refinancing of Venezuela's public external debt.

Following the implementation of these measures, the consolidated public sector deficit declined by 7 1/2 percentage points of GDP to 5 1/2 percent of GDP in 1983, and the balance of payments improved significantly. Notwithstanding a further reduction in oil export earnings, the current account of the balance of payments moved from a deficit of US\$3.2 billion in 1982 to a surplus of US\$4.2 billion, mainly as a result of a 50 percent reduction in imports and a drastic drop in travel-related expenditures. Although the capital account continued to show a large net outflow, reflecting both net amortization of external debt and short-term capital outflows, the overall balance of payments deficit was reduced from US\$8.6 billion in 1982 to US\$1.2 billion in 1983. This figure included an accumulation of external arrears of US\$2.5 billion, of which US\$0.9 billion related to public sector debt service. Gross reserves increased to US\$11.8 billion by the end of 1983, the equivalent of 22 months of imports in 1983 (Statistical Appendix Table 17).

The introduction of import controls and the accumulation of external arrears resulted in a large expansion of banking system liabilities to the private sector. Broad money grew by 18 percent in 1983 to the equivalent of 72 percent of nonpetroleum GDP, about 10 percentage points above the average ratio of the previous three years (Table 4). The expansion was concentrated in demand deposits, indicating the temporary nature of these holdings, as many depositors were waiting for

^{1/} The system comprised the previously prevailing Bs 4.30 per U.S. dollar rate which was made applicable only to essential imports, public sector exports, and specified debt service; an exchange rate of Bs 6.00 applicable to all other transactions approved under the exchange control system; and a floating rate applicable to certain imports, tourist expenditure, and capital transactions. For a more detailed description see SM/83/201, pp. 68-69.

Table 3. Venezuela: Consolidated Public Sector Operations

	1980	1981	1982	1983	Prel. 1984	1985	
						Govt.	Staff
(In billions of bolivares)							
<u>Total revenues</u>	92.6	103.0	88.2	84.6	126.5	132.9	127.8
Tax revenues	12.9	16.8	18.9	25.6	26.3	33.3	31.0
Nontax revenues	79.7	86.2	69.3	59.0	100.2	99.6	96.8
Central Government	(4.2)	(4.8)	(6.4)	(5.3)	(6.4)	(8.3)	(8.3)
PDVSA operating surplus	(68.2)	(71.2)	(57.7)	(49.4)	(83.7)	(76.6)	(75.1)
Venezuelan Investment Fund:							
interest and dividend income	(2.8)	(3.9)	(1.4)	(0.9)	(1.8)	(3.8)	(2.5)
Nonfinancial public enterprises							
operating surplus	(--)	(--)	(--)	(2.8)	(8.1)	(9.4)	(9.4)
Other (including interest income and FOCOCAM)	(4.5)	(6.3)	(3.8)	(0.6)	(0.2)	(1.5)	(1.5)
<u>Total expenditures</u>	87.9	108.1	125.9	100.8	114.7	135.5	132.5
Current expenditures	47.3	61.6	56.8	53.1	68.2	73.1	70.1
Personal emoluments	(16.3)	(19.6)	(19.2)	(19.3)	(20.4)	(20.0)	(20.0)
Purchases of goods and services	(3.0)	(4.1)	(5.1)	(3.6)	(2.6)	(3.8)	(3.8)
Interest payments	(9.0)	(11.9)	(12.6)	(9.1)	(16.2)	(16.5)	(13.5)
Transfers to private sector	(1.3)	(5.2)	(3.0)	(3.3)	(3.0)	(3.1)	(3.1)
Nonfinancial public enterprises							
operating deficits	(3.3)	(2.5)	(0.2)	(--)	(--)	(--)	(--)
Central Government (extrabudgetary)	(0.1)	(--)	(0.1)	(...)	(...)	(...)	(...)
Central Government transfers to nonconsolidated entities	(14.3)	(18.3)	(16.6)	(17.8)	(26.0) ^{1/}	(24.7) ^{1/}	(24.7) ^{1/}
FOCOCAM (reimbursements)	(--)	(--)	(--)	(--)	(--)	(5.0)	(5.0)
Capital expenditures	40.3	46.3	68.8	47.5	46.3	61.2	61.2
Capital formation	(26.7)	(33.7)	(42.8)	(33.4)	(35.4)	(42.0)	(42.0)
Central Government (extrabudgetary)	(0.5)	(0.9)	(6.6)	(3.9)	(0.3)	(6.0)	(6.0)
Other (including transfers to nonconsolidated entities)	(13.1)	(11.7)	(19.4)	(10.2)	(10.6)	(13.2)	(13.2)
Net lending to private/external sector	0.3	0.2	0.3	0.2	0.2	1.2	1.2
<u>Overall surplus or deficit (-)</u>	4.7	-5.1	-37.7	-16.3	11.8	-2.6	-4.7
<u>Sources of financing</u>	-4.7	5.1	37.7	16.3	-11.8	2.6	-1.2
Net change in PDVSA's assets)			10.9	2.5	-10.6	1.5	4.7
Net change in VIF reserves)	-19.4	-6.2	2.9	3.7	2.4	1.0	1.0
FOCOCAM	--	--	--	--	4.2	5.0	5.0
Net change in external debt	6.4	1.4	2.5	-4.0	-4.8	-9.2	-9.2
Banking system	-0.8	2.1	8.0	6.0	-5.7	4.7	-2.3
Central Bank of Venezuela	(4.4)	(-2.9)	(7.1)	(6.5)	(-4.6)	(...)	(...)
Rest of banking system	(-5.2)	(5.0)	(0.9)	(-0.5)	(-1.1)	(...)	(...)
Other ^{2/}	9.1	7.8	13.5	8.1	2.7	-0.4	-0.4
<u>Financing gap</u>	--	--	--	--	--	--	5.9
(As percentage of GDP)							
Total revenues	36.4	36.1	30.2	29.1	38.0	33.7	32.4
Total expenditures	34.6	37.9	43.1	34.7	34.5	34.4	33.6
Overall surplus or deficit (-)	1.8	-1.8	-12.9	-5.6	3.5	-0.7	-1.2
(Annual rates of change)							
Total revenues	32.7	11.2	-14.4	-4.1	49.5	5.1	1.0
Total expenditures	27.0	23.0	16.5	-19.9	13.8	18.1	15.5
Of which: capital expenditures	(7.5)	(14.9)	(48.6)	(-31.0)	(-2.5)	(32.2)	(32.2)
<u>Memorandum item</u>							
Current account surplus (in billions of bolivares)	45.3	41.4	31.4	31.5	58.3	59.8	57.7

Sources: Central Bank of Venezuela; and Statistical Appendix Tables 8 and 13.

1/ Includes transfers for interest payments abroad.

2/ Largely short-term foreign borrowing until 1981 and domestic overdues in 1982-83.

Table 4. Venezuela: Summary Accounts of the Banking System

	December 31						
	1981	1982 1/	1983 2/	1984	Gov. 1985	Staff 1984 3/	1985 3/
(In billions of bolivares)							
Net foreign assets 4/	37.9	29.3	50.8	78.5	68.7	98.5	82.7
Net domestic assets	125.0	157.5	165.0	147.1	188.8	158.2	191.2
Net credit to public sector	-21.0	-13.0	-18.6	-44.1	(177.1)	-44.1	-35.1
Credit to private sector	141.9	162.0	167.4	181.0	()	181.0	205.0
other 5/	4.1	8.5	16.2	10.2	11.7	21.3	21.3
Valuation and other adjustments 6/	1.4	9.2	8.0	4.6	5.0	35.7	35.7
Medium- and long-term foreign liabilities	12.0	16.2	16.7	17.2	17.2	17.2	17.2
Liabilities to the private sector	149.5	161.4	191.1	203.8	235.3	203.8	221.0
Of which: Money and quasi-money 7/	(132.2)	(139.1)	(166.5)	(179.9)	(213.0)	(179.9)	(197.1)
(Percentage change in relation to liabilities to private sector at the beginning of the period)							
Net domestic assets	14.7	21.8	9.6	-9.4	21.6	-3.6	16.2
Net credit to public sector	1.7	5.4	3.7	-13.3	...	-13.3	4.4
Credit to the private sector	13.2	13.5	3.3	7.1	...	7.1	11.8
Liabilities to the private sector	17.9	8.0	18.4	6.7	15.5	6.7	8.4
(As percent of nonpetroleum GDP)							
Net domestic assets	60.1	69.5	72.6	57.6	59.8	62.0	60.5
Net credit to public sector	-10.1	-5.7	-8.2	-17.3	...	-17.3	-11.1
Credit to the private sector	68.3	71.5	73.7	70.9	...	70.9	64.9
Liabilities to the private sector	71.9	71.3	84.1	79.9	74.6	79.9	69.9
Money and quasi-money 7/	63.6	61.4	71.7	70.5	67.4	70.5	62.4
<u>Memorandum items</u>							
Excess reserve holdings of commercial banks (in billions of bolivares) 8/	3.7	2.1	8.4	2.3	...	2.3	...
Money and quasi-money (annual percentage change)	18.3	5.2	19.7	8.1	18.4	8.1	9.6

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

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

3/ Net international reserves of the Central Bank of Venezuela are revalued at US\$1 = Bs 7.50.

4/ Includes net international reserves and other foreign assets.

5/ 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.

6/ 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 includes the counterpart of the Bs 7 billion transfer of gold revaluation profits.

7/ Comprises currency in circulation and demand, time, and saving deposits.

8/ Excludes the National Discount Bank until 1982 and all intervened banks from 1983.

the authorization to import or access to the preferential exchange rate for debt servicing. In the meantime, commercial banks accumulated sizable excess reserves with the Central Bank.

The economy experienced a sharp recession in 1983, with nonpetroleum real GDP declining by almost 6 percent and the rate of unemployment rising from 7 percent in 1982 to 10 percent (Statistical Appendix Table 12). The rate of price increases was limited to 6.6 percent during 1983, compared with 7.7 percent during the previous year.

2. Developments in 1984

The Administration which took office in February 1984 reinforced substantially the policies that were initiated in 1983. To deal with existing imbalances, the authorities modified the multiple exchange rate system into a four-tier system, which on average involved an additional 29 percent depreciation of the bolivar,^{1/} tightened fiscal policies further, and continued to implement wage restraint together with import and price controls.

The authorities stated that all controlled exchange rates would be unified by the end of 1985, except for the amortization payments of certain external debts, and gradually transferred most of the import commodities that had been in the Bs 4.30 per U.S. dollar rate to the Bs 7.50 rate. By the end of 1984 only 12 agricultural commodities (representing about 10 percent of 1984 imports) remained on the Bs 4.30 list.

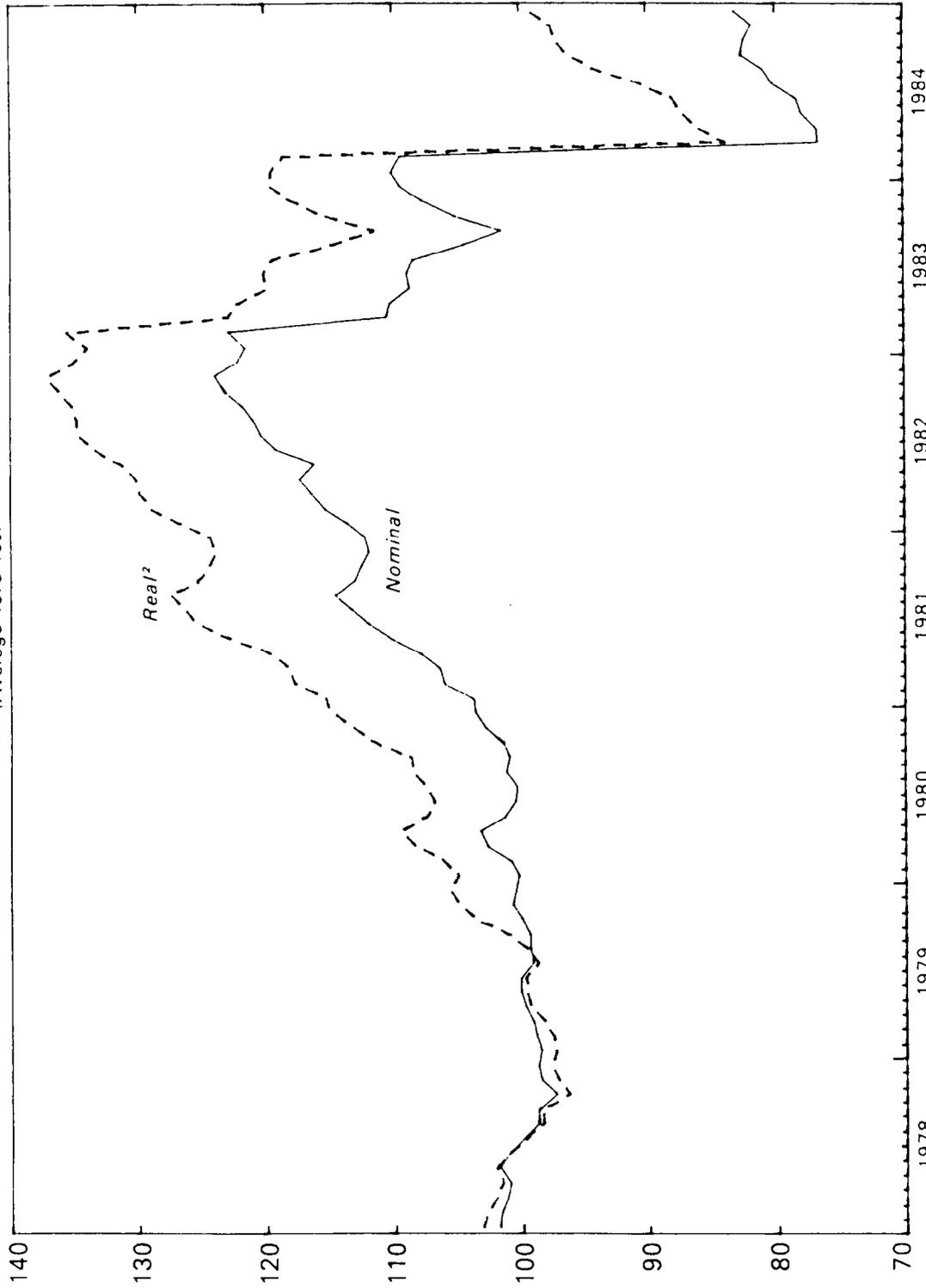
The exchange rate in the free market had opened at about Bs 7.50 per U.S. dollar in March 1983, and depreciated to over Bs 17 per U.S. dollar by September of that year, reflecting in part purchases of foreign exchange for debt service in this market pending registration of the private debt. Since then, the free rate has fluctuated between Bs 12 and Bs 14 per U.S. dollar (Statistical Appendix Table 18).

The cumulative depreciation of the bolivar from February 1983 to December 1984 was about 42 percent, as the weighted average of the four exchange rates was about Bs 7.46 per U.S. dollar at the end of 1984 compared with Bs 4.30 prior to the adoption of the multiple exchange rate system. This depreciation together with relatively low price and wage pressures had the effect of reversing the real appreciation of the bolivar which took place between 1978 and 1982 (Chart 1).

^{1/} The system comprises the previous exchange rate of Bs 4.30 per U.S. dollar applicable to some essential imports and amortization of certain external debts; a rate of Bs 6.00 per U.S. dollar applicable to transactions of the petroleum and iron ore sectors; a rate of Bs 7.50 per U.S. dollar applicable to most other current transactions; and a free rate applicable to the remaining transactions. For a full description of Venezuela's exchange rate system see SM/84/201, pp. 69-70.

CHART 1
VENEZUELA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES¹

(Average 1978=100)



Source: Statistical Appendix Table 19
¹Weighted by import shares of principal trading partners in 1980. A decrease in the indices represents a depreciation of the exchange rate. Since February 1983 indices are based on the weighted average of the multiple exchange rate system.
²Adjusted by the consumer price index for Venezuela and consumer price indices of trading partners.



Adjustment of the Venezuelan economy continued in 1984. The consolidated public sector position strengthened to an estimated surplus equivalent to 3 1/2 percent of GDP.^{1/} Thus, the public sector overall balance improved by nearly 16 1/2 percent of GDP in the two years 1983-84. This improvement reflected the freeze of wages, restraint on other current outlays, increased revenues from higher domestic fuel prices (which were more than doubled on average), and higher domestic currency receipts from exports by public enterprises, especially petroleum.

In 1984 the net domestic assets of the banking system contracted by 9 percent (in contrast to increases averaging 15 percent a year in the preceding three years) and credit to the private sector expanded by only 7 percent, continuing the relatively slow growth of the previous year.^{2/} In February 1984 the Central Bank re-established a maximum lending rate for commercial banks of 14 1/2 percent a year (or about 2-3 percentage points lower than the prevailing rates) and in June it raised it to 16 percent (Chart 2). The Central Bank also introduced a preferential interest rate of 8 1/2 percent a year on loans to the agricultural sector and lowered mortgage rates to 14-16 percent a year, depending on the type of housing. In addition, the Central Bank required commercial banks to raise the share of loans to the agricultural sector from 20 percent to 22.5 percent of their total loan portfolio (17 percent for agriculture and 5.5 percent for agro-industry).

The financial system in Venezuela has weakened significantly in recent years; the authorities have intervened in the operations of the Workers' Bank, several regional banks, and small nonbank financial institutions (financieras), and in June 1984 they decided to close the National Discount Bank. In part, the difficulties in the financial system reflected the accumulation of domestic payments arrears by the public sector during 1982-83, which caused the private sector to fall into arrears with the domestic banks. In accordance with the Enabling Law (Ley Habilitante), since late 1984 the Government has been issuing securities to cancel the public sector's domestic arrears.

The current account of the balance of payments again registered a surplus of US\$4.2 billion in 1984, as exports rose by 8 percent to US\$15.9 billion while imports grew by 13 percent to US\$7.3 billion (see Table 2). Imports were substantially lower than originally projected, reflecting not only tighter than expected demand management policies but also the effect of import restrictions. The capital account registered a net outflow of US\$2.6 billion as Venezuela reduced the net outstanding external public debt by US\$0.8 billion and short-term capital

^{1/} Estimates are based on adjusted budget figures rather than actuals for the nonfinancial public enterprises. Preliminary information from a number of enterprises suggests that investment outlays were significantly lower than the budgeted levels and thus the surplus in 1984 might be underestimated.

^{2/} Changes are expressed in relation to banking system liabilities to the private sector at the beginning of the period.

outflows continued, albeit at a much slower rate than in the previous years. The overall balance of payments recorded a surplus of US\$1.7 billion and gross official reserves rose by US\$1.9 billion to US\$13.7 billion (or 18 months of imports at the projected 1985 level). In 1984, the public sector eliminated all existing external arrears on debt service, which had amounted to US\$0.9 billion at the end of 1983. In contrast, private sector arrears increased from US\$1.6 billion to an estimated US\$2.7 billion--including US\$0.7 billion in interest--as a result of the slow pace at which the external private sector debt has been registered.

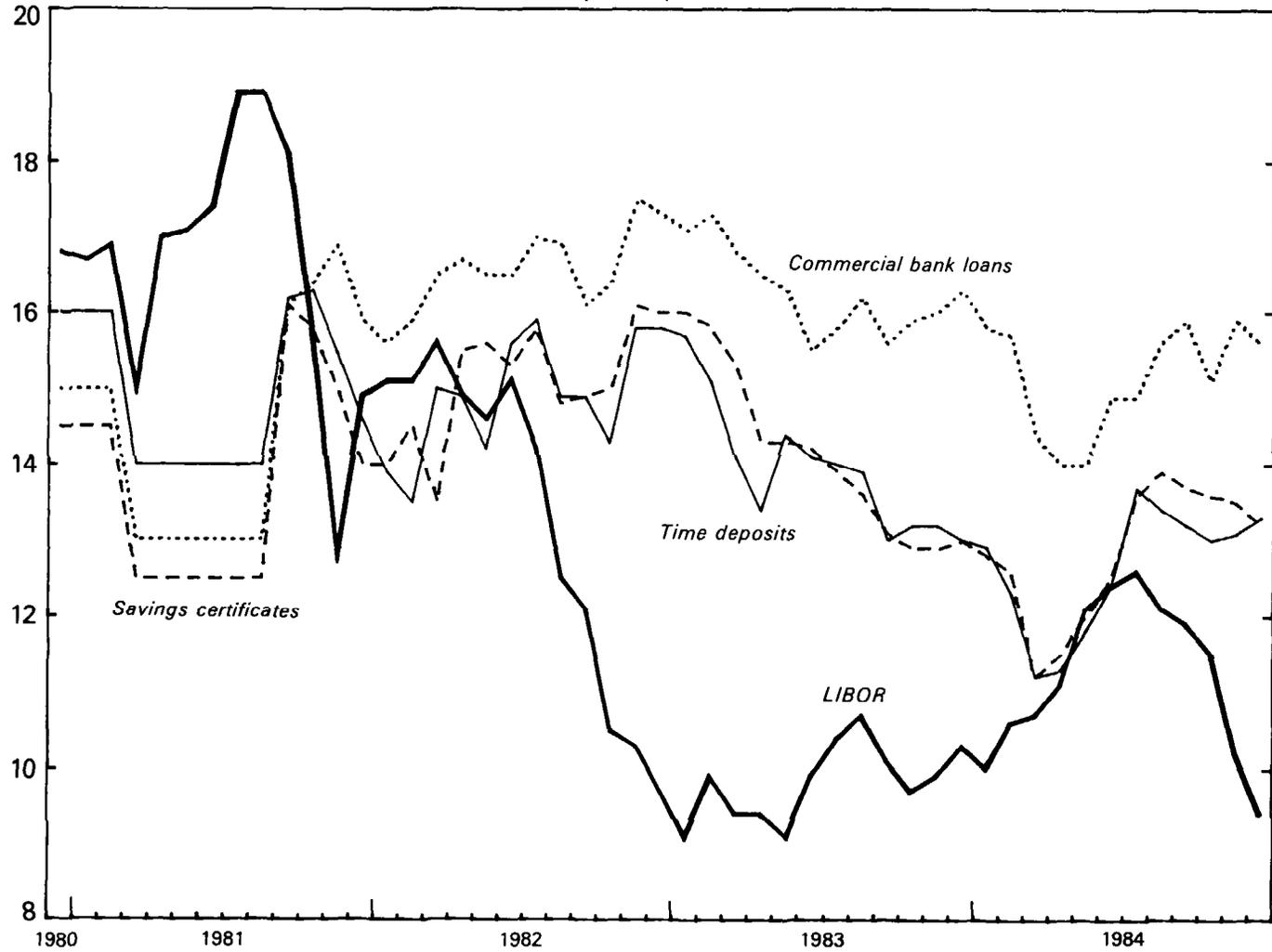
In 1984, nonpetroleum economic activity registered a decline of 2 percent, although preliminary information indicates that the downturn was halted by midyear. The rate of unemployment rose to the 13-14 percent range early in the year and remained at this level through January 1985. Consumer prices increased by 18.3 percent during 1984 (6.6 percent during 1983), with food prices rising by 31 percent. Price controls have been used to curb speculative price increases while accommodating the effects of the devaluation, but the use of price controls may have resulted in some repression of prices.

The price control policy is part of a social pact that includes trade union restraint on wages and requirements on private enterprises to raise employment by 10 percent during 1984 and pay a two-year transportation bonus of Bs 100 a month to employees earning less than Bs 3,000 a month. In addition, large enterprises have been required to limit profit distributions and to open cafeterias for their employees. In practice, the requirement to increase employment has been applied flexibly; sectors facing an improvement in demand complied with this requirement while other sectors were exempted. During 1982-84 real wages declined by about 10-15 percent, with a larger reduction in the Central Government where salaries have remained unchanged in nominal terms since 1980.

At the time when the multiple exchange rate system was introduced, the Government announced that the private sector would have access to the most appreciated rate of Bs 4.30 per U.S. dollar for the servicing of certain debts. This access had not been established fully, and Venezuela's public external debt rescheduling negotiations have been delayed as a consequence of a large accumulation of arrears on private sector debt service. In February 1984 the new authorities re-affirmed through Decree 61 that the debt service pertaining to private sector debts contracted before February 18, 1983 would have access to preferential exchange rates,^{1/} but only for the "net" debt (i.e., net of foreign assets held by the debtor) and provided the debt had been contracted "in the national interest" i.e., registered with the Exchange Control Agency (RECADI) and restructured into loans with a maturity of seven

^{1/} Bs 4.30 per U.S. dollar for principal and Bs 7.50 per U.S. dollar for interest payments.

CHART 2
VENEZUELA
INTEREST RATES
(In percent per annum)



Source: Statistical Appendix Table 15.



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 billion 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	29,850
Public sector	28,003	27,616	26,027	24,280
Medium- and long-term	...	18,178	17,247	24,280
To official creditors		(683)	(473)	(334)
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>	<u>6,515</u>	<u>7,267</u>	<u>7,667</u>	<u>5,739 <u>3/</u></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>	<u>825</u>	<u>2,510</u>	<u>2,693</u>	<u>--</u>
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)	13,747	13,393	12,846	12,423	11,896
Net outstanding public external debt	24,280	23,927	23,479	23,000	22,729
(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.

Both the authorities and the staff envisage a narrowing in the surplus in the current account of the balance of payments to US\$1.7 billion in 1985, reflecting the decline in oil export earnings and an increase of some 17 percent in imports to US\$8.5 billion. Similarly, both the authorities and the staff expect net capital outflows of US\$2.6 billion, reflecting net repayments of external debt of US\$2.1 billion and the assumptions that there will be no new borrowing from commercial banks and that a re-establishment of trade credits may begin only around the turn of the year. Some short-term outflows are expected to continue, although at a much lower rate than in recent years. As a result, the overall balance of payments deficit is projected at US\$0.9 billion. The mission has estimated a reserve loss of US\$2.3 billion reflecting the elimination of private sector external arrears while the authorities projected a loss of gross reserves of US\$1.9 million as they estimated a lower level of arrears. On these assumptions, by the end of 1985 net international reserves would decline to US\$11.4 billion, or 14 months of 1985 imports.

With regard to exchange rate policies, the Venezuelan authorities stressed their intention of speeding up the transfer of import goods from the Bs 4.30 per U.S. dollar list to the Bs 7.50 exchange rate and stated that only very few goods would remain eligible for the Bs 4.30 rate until the end of the year, when all controlled rates would be unified at Bs 7.50 per U.S. dollar. Further transfers were made in February 1985 and only 10 agricultural products accounting for 7 percent of 1985 imports now remain in the Bs 4.30 list. The authorities said that the exchange rate policy to be pursued subsequently will be judged in light of developments in the economy and abroad, but stressed that they were committed to at least avoid a real appreciation of the exchange rate from the level that will prevail at the end of 1985. The authorities noted that the Central Bank will continue to intervene in the free market in order to avoid disruptive fluctuations and to support the eventual unification of the exchange rates. They pointed out that the volume of transactions in the free market was relatively small, perhaps 10 percent of total transactions.

The mission noted the large distortions that the multiple exchange system and trade restrictions have been creating and shared the authorities' view on the need to accelerate the unification of all controlled exchange rates. The mission urged the authorities to unify all fixed rates by mid-1985 and adopt a flexible exchange rate policy within which full unification could be achieved during 1986. The recent further deterioration of the international oil market has accentuated the need to diversify Venezuela's exports and to promote efficient import substitution; the present exchange system was not promoting these objectives because of its transitional nature. The mission commented that although the real appreciation that had taken place between 1978 and 1982 had been largely reversed, the competitiveness of the nonpetroleum sectors had not been fully adequate in 1978. Moreover, the present exchange rate structure was being sustained by tight import controls. In addition,

some real appreciation of the bolivar is expected to take place during 1985 which will further undermine the Bs 7.50 rate as the target for unification of the controlled exchange rates.

Thus, the mission urged the authorities to reduce uncertainties by accelerating the process of unification and providing the private sector with an indication of the exchange rate policy that will be pursued after the unification of the fixed rates. At the same time, a process of lifting the prohibitions on many imports could be started, with such imports channeled through the free market; these imports could be subjected to tariffs to protect local producers if deemed necessary. Furthermore, to assist in the full unification of the exchange rate system during 1986, the mission suggested that, beginning in the second half of 1985, imports and other current transactions at present in the controlled markets could be gradually transferred to the free market while the Central Bank increased its sales to this market.

In the area of commercial policy, the mission stressed that the restrictiveness of the import control system needed to be reduced in order to enhance the allocation of resources; it urged the authorities to complete the review of the tariff structure promptly and to replace the current import licensing system with tariff protection. The import control function of RECADI should be eliminated, as it duplicates that of the Ministries of Development and Agriculture, and because the Central Bank already reviews exchange applications. In addition, the mission recommended the removal of the export licensing system because it affected adversely the potential for diversification and growth of exports.

The Venezuelan representatives stressed the need to maintain the present import controls in order to protect domestic industry, which has large unused capacity, and to change import composition toward inputs for the manufacturing sector. They noted that the system of controls was functioning well and that no shortages had emerged during 1984. They observed that the higher projected level of imports for 1985 pointed to a relaxation of these controls. The authorities also noted that the recent simplification of the administrative procedures to obtain import or export permits would speed up the processing of applications.

With respect to the private external debt, the authorities underscored that elimination of the arrears was urgently needed to improve the country's creditworthiness. They expected to finish the registration of private sector debt by end-June 1985. The mission urged the authorities to define precisely the list of essential goods which will permit debtors access to the preferential rates; a lack of clarity in this respect has been delaying the registration of some debts that already had been reviewed.

To re-establish Venezuela's access to trade financing, the authorities have stated that private sector debts with foreign official guarantees will be serviced according to their original maturities, irrespective of the amounts involved. However, they stressed that the criteria for

access to the preferential exchange rates should be the same as for other debts to avoid discriminatory treatment among debtors. They pointed out that servicing of the nonregistered debt can be made through the free exchange market given the free access to exchange in this market.

3. Demand policies

The authorities emphasized that the cautious fiscal and monetary policies that were pursued in 1984 had resulted in a stronger adjustment of the economy than had been expected early in the year. However, in view of the relatively high unemployment rate and several years of declining non-oil GDP, their 1985 program aims at providing a modest stimulus to domestic economic activity by adopting somewhat more expansionary fiscal and credit policies.

a. Fiscal policy

The stated aim of the authorities' 1985 fiscal program is to attain balance in the consolidated public sector finances. It was originally framed to include a special investment program of the Central Government of Bs 9 billion. However, following the drop in projected petroleum revenues, the authorities revised this program and divided it into three tranches. They explained that the special investment program will be implemented only to the extent that it can be financed without affecting the balance of payments and inflation targets; thus far only the first two tranches (Bs 6 billion) have been approved for implementation.

Under the authorities' program, revenues are expected to rise by 5 percent in nominal terms notwithstanding a substantial drop in petroleum revenues. This is to be achieved by higher transfers of profits from the Central Bank to the Central Government, improved operating surpluses of the nonfinancial public enterprises, higher nonpetroleum revenues of the Central Government as a result of tax increases on liquor (90 percent) and cigarettes (40 percent), and higher income tax revenue.

Total expenditure (including the Bs 6 billion special investment program) is estimated to grow by 18.1 percent, about in line with nominal GDP (see Table 3). Current expenditure is projected to rise by only 7 percent in nominal terms, reflecting the expected reimbursement of exchange rate differentials to private sector debtors who serviced their external debts with foreign exchange acquired at the free market and who are now eligible for the preferential exchange rates. Most other categories of current outlays would remain constant in nominal terms. The 1985 central government budget does not contemplate wage increases, reflecting the continuation of the restrictive wage policy stance; the central government wage bill has remained constant in nominal terms since 1981 (Statistical Appendix Table 13).

The fiscal program contemplates a major boost in capital expenditure. Investment outlays are expected to rise sharply as the National Petroleum Company and the nonfinancial public enterprises embark on

projects that will expand exports, replace certain imports, and seek to revive the depressed construction sector. In addition, the special investment program of the Central Government includes labor-intensive projects, infrastructure in the agricultural sector, and construction of low-income housing. Implementation of the investment package is expected to increase public sector capital expenditure by 32 percent.

The main differences between the mission's projections and those of the authorities related to the estimates of revenues, with these partly offset by differences in estimates of interest payments. The mission estimated that public sector revenues would remain approximately constant in nominal terms because of lower petroleum export earnings, lower exchange profits, and less buoyancy of the income tax on nonpetroleum activities. This revenue estimate, in conjunction with the implementation of the Bs 6 billion special investment program, would result in a deficit in the consolidated public sector finances of 1.2 percent of GDP. The mission compared this projected outcome with its estimate that the consolidated public sector finances needed to show a surplus of about 0.3 percent of GDP in 1985 to be consistent with the scheduled net amortization of external debt, the avoidance of crowding out the private sector, and the authorities' inflation and balance of payments targets.

To provide room for a part of the special investment program, the mission encouraged the authorities to take steps to increase revenues. This could be secured by early implementation of a tax reform along the lines recommended by the 1983 Tax Reform Commission, including the modification of the personal and corporate income taxes, and the introduction of a general sales tax. In addition, prices of goods and services of other public enterprises could be raised, reducing the dependence of these enterprises on transfers from the Central Government. Such price adjustments might appropriately include increases in domestic fuel prices, which continue to involve a large implicit subsidy.

The authorities responded that the proposed tax reform was under review and said that prices of several public enterprises would be adjusted in the course of the year. It was their view, therefore, that a number of the public enterprises would perform better than projected. Furthermore, some savings in terms of central government transfers could be expected as the program of restructuring, divestment, and liquidation of public enterprises would continue.

b. Monetary policy

The Venezuelan authorities said that monetary policy had been designed to be consistent with the balance of payments and inflation targets while providing some stimulus to economic activity. The quantified monetary program designed by the authorities was based on the assumption that broad money (i.e., money and quasi-money) would grow by 18.4 percent in 1985, which was expected to be consistent with a

growth of 15.5 percent in bank liabilities to the private sector.^{1/} Given the targeted decline in the Central Bank's net international reserves, the program envisaged that the net domestic assets of the banking system would grow by 21.6 percent in relation to bank liabilities to the private sector at the beginning of the year. The authorities noted that the pace of credit expansion would be monitored closely and would be adjusted downward in the event of unanticipated price or external payments pressures.

To encourage the use of credit, in late December 1984 the Central Bank lowered the maximum lending rate charged by commercial banks by 1 percentage point to 15 percent a year. The decision was taken within the context of monthly reviews of interest rates conducted by the authorities, and was based on the lower expected domestic inflation and the drop in interest rates abroad; in December 1984 the spread between domestic and foreign deposit interest rates was 4 percent in favor of Venezuela (see Chart 2). (Since the mission, the staff has learned that the Central Bank imposed minimum and maximum deposit rates which have had the effect of lowering deposit rates by 2 percentage points on average.)

The mission estimated that the underlying demand for broad money would increase by about 15 percent during 1985, in line with the targets for prices and growth in the calendar year, but that broad money would in fact increase much less rapidly. The reason for the difference between the underlying and actual demand is that the stock of broad money at the end of 1984 included "involuntary" holdings of deposits that reflected the accumulation of external arrears and frozen deposits in the intervened banks. With the release of these deposits in 1985, the ratio of broad money to nonpetroleum GDP should return to the 1980-82 average. Thus, the expansion of money and quasi-money consistent with the broad macroeconomic targets of the Government's program would be some 10 percent (which would indicate a growth of liabilities to the private sector of 8 1/2 percent). To be consistent with the balance of payments target, the growth of the net domestic assets of the banking system would need to be held to little over 16 percent (in relation to banking system liabilities to the private sector at the beginning of the year) compared with the authorities' program which envisages an increase of 21.6 percent. On the assumption that the demand for private sector credit would grow by nearly 12 percent in relation to bank liabilities to the private sector,^{2/} the growth of bank credit to the public sector would need to be limited to 4 1/2 percent (see Table 4).

^{1/} As of the end of 1984, bank liabilities to the private sector amounted to Bs 203.8 billion, of which broad money was Bs 179.9 billion; the liabilities other than broad money are expected to remain constant during 1985.

^{2/} This rate of expansion takes into account the fact that private debtors who had serviced their external debt at free market rates will be reimbursed for the difference between those rates and the preferential exchange rates, and that the payment of external arrears by the private sector will give rise to some demand for credit.

Government securities are being issued to settle public sector domestic arrears, improve the financial position of intervened banks, and facilitate the liquidation of the National Discount Bank. The Central Bank's task of controlling credit expansion is expected to be particularly difficult in 1985 because of its obligation to rediscount some of these securities and because the Government has authorized the National Petroleum Company to acquire some of these securities with deposits presently held at the Central Bank (an operation that has an expansionary effect equivalent to a central bank rediscount). The mission recommended that the issue of these bonds be spread out over the year and that their eligibility for rediscounting be circumscribed. It suggested that the rediscount rate be raised above the yield on these bonds in order to eliminate the incentive to rediscount them. Moreover, to the extent that any such bonds are discounted at the Central Bank, rediscounting of other papers should be curtailed or the reserve requirement on the commercial banks raised to avoid the creation of excess liquidity.

The mission stressed that a flexible interest rate policy is of particular importance and encouraged the authorities to adopt a policy of freely market-determined interest rates. It also recommended the gradual elimination of the subsidy element on agricultural loans in line with the improvement in the profitability of that sector as the remaining food imports are transferred from the Bs 4.30 per U.S. dollar rate to the Bs 7.50 rate.

4. Price and wage policies

The Venezuelan representatives expressed their satisfaction with regard to price and wage developments in 1984. They noted that even though a generalized price control system was in place, a significant shift in the relative price structure had taken place. The new structure mainly reflected the pass-through of the devaluation of the bolivar, including substantial increases in prices of agricultural products, and a large increase in domestic fuel prices.

The system of price controls was liberalized somewhat in November 1984. Approval by a commission of government, labor, and business representatives is required for price adjustments for 150 products or groups of products, including food, clothing, certain home appliances, and certain vehicles. For other goods and services, price increases have to be communicated to the Ministry of Development in advance and become effective in 60 days if the Ministry does not object to them. At the time of the discussions, 2,000 notifications were awaiting disposition; the proposed increases were generally quite small, suggesting that prices of these goods were not repressed to a large degree. The authorities stressed that price controls were being applied flexibly, and with most of the devaluation already reflected in prices, they expected a decline in the rate of price increase to 13 percent during 1985.

The authorities felt that the price control system had been helpful in maintaining wage stability. Indeed, the change in relative

prices has been greatly facilitated by restraint on wage increases. The authorities felt that the compensation policies included in the social pact, such as the transportation bonus, the employment programs, and the requirement of cafeterias had been effective in moderating wage demands in 1984. The Government raised the agricultural minimum wage by 33 percent in October 1984 and the urban minimum wage by 67 percent in February 1985; the previous minimum wages had been set in January 1980. The authorities explained that very few workers will benefit from these increases as the wages of most workers are well above the new minima. They noted that the decree relating to the new urban minimum wage established that certain enterprises may be exempted from paying this wage. The authorities emphasized that the general policy stance is that wages should be adjusted through free collective bargaining rather than by generalized wage increases or wage indexation.

The mission acknowledged that the social pact has contributed to the adjustment process in 1984, but it cautioned that the inefficiencies caused by the price control system should not be underestimated. The mission therefore recommended a further simplification of price controls and a reduction in their scope to cover only a limited set of items. This would help improve confidence in the domestic private sector and induce private investment.

The mission commended the authorities for the wage policy that had been pursued and encouraged them to continue exercising wage restraint in order to stimulate employment growth in the context of price stability. The mission stressed in particular the need for flexibility in the application of the new urban minimum wage to avoid increasing unemployment in the small enterprises, which have been a major source of increases in employment in recent years.

5. Medium-term outlook

The authorities have formulated a set of medium-term macroeconomic projections in the context of the VII National Development Plan for 1985-88. These projections, which include various scenarios of world oil market developments, point to external current account surpluses ranging from US\$1 billion to US\$4 billion a year. Over the period 1985-88, the optimistic scenario contemplates cumulative net amortization of external debt of US\$5 billion compared with US\$2 billion under the conservative scenario. The corresponding overall balance of payments outcomes range from equilibrium to an average surplus of US\$1.5 billion a year.

In light of the recent developments in the world oil market, the staff's medium-term balance of payments projection is close to the authorities' conservative scenario (Table 7). Starting with the present oil production level, oil export volume is assumed to increase only gradually and to recover by 1990 the level reached in 1984. Under this assumption, the external current account surplus would decline to about US\$1 billion by the end of the decade. This contemplates an

Table 7. Venezuela: External Sector Medium-Term Projections (1985-1990)^{1/}
(In millions of U.S. dollars)

	1985	1986	1987	1988	1989	1990
I. Balance of Payments						
<u>Current account</u>	<u>1,739</u>	<u>1,415</u>	<u>1,320</u>	<u>1,195</u>	<u>1,090</u>	<u>970</u>
Trade balance, f.o.b.	6,248	5,900	5,900	5,970	6,025	6,040
Exports	(14,720)	(15,000)	(15,830)	(16,730)	(17,695)	(18,710)
Of which: petroleum	/13,420/	/13,610/	/14,340/	/15,130/	/15,950/	/16,810/
Imports	(-8,472)	(-9,100)	(-9,930)	(-10,760)	(-11,670)	(-12,670)
Nonfactor services	-2,059	-2,200	-2,360	-2,525	-2,700	-2,890
Investment income	-2,308	-2,140	-2,060	-2,085	-2,035	-1,970
Of which: interest payments ^{2/}	(3,412)	(3,036)	(2,962)	(2,783)	(2,735)	(2,582)
Transfers	-142	-145	-160	-165	-200	-210
<u>Capital account</u>	<u>-2,644</u>	<u>-1,415</u>	<u>-1,320</u>	<u>-1,195</u>	<u>-1,090</u>	<u>-970</u>
Direct investment	—	100	130	150	200	200
Public debt	-1,551	-1,358	-1,398	-1,339	-1,588	-1,095
Gross disbursements	(196)	(250)	(350)	(400)	(550)	(1,000)
Amortization	(-1,747)	(-1,608)	(-1,748)	(-1,739)	(-2,138)	(-2,095)
Other public sector	102	-100	-100	-130	-150	-150
Private sector	-580	-480	-360	140	290	240
Gross disbursements	(—)	(500)	(500)	(1,000)	(1,200)	(1,300)
Amortization	(-580)	(-980)	(-860)	(-860)	(-910)	(-1,060)
Short-term capital	-615	423	408	-16	158	-165
Overall balance	-905	--	--	--	--	--
II. Debt Indicators						
Medium- and long-term debt	30,046	28,208	26,450	25,251	23,953	23,098
Public	(24,476)	(23,118)	(21,720)	(20,381)	(18,793)	(17,698)
Private	(5,570)	(5,090)	(4,730)	(4,870)	(5,160)	(5,400)
Short-term debt	...	1,000	2,000	2,700	3,420	3,820
Total debt	30,046	29,208	28,450	27,951	27,373	26,918
External debt as proportion of GDP ^{3/}	54.1	48.6	43.8	39.8	36.1	32.8
Exports of goods and nonfactor services	16,040	16,415	17,340	18,350	19,425	20,560
Debt service ratio	35.8	34.3	32.1	29.3	29.8	27.9
III. Trade indicators						
Petroleum exports						
Volume (m.b.d.)	1.41	1.43	1.45	1.47	1.49	1.51
Unit value (US\$ per barrel) ^{4/}	26.07	26.07	27.10	28.20	29.33	30.50
Imports of the oil sector (in millions of U.S. dollars) ^{8/10}	740	810	810	810	820	830
Other imports (in millions of U.S. dollars)	7,662	8,360	9,120	9,950	10,850	11,840
Volume increase (percent)	12.4	3.9	3.9	3.9	3.9	3.9
Unit value (percentage change) ^{5/}	4.0	5.0	5.0	5.0	5.0	5.0

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

^{1/} Assumes completion of the multi-year rescheduling agreement with creditor banks.

^{2/} International interest rates (LIBOR) are assumed to decline gradually from 10.0 percent in 1985 to 8 percent in 1990.

^{3/} Real GDP is assumed to grow at 2 percent in 1985 and 3 percent in 1986-90; GDP deflator is assumed to grow at 5 percent per annum in U.S. dollar terms.

^{4/} The assumed rates of price increase for 1987-90 are somewhat more conservative than those of the recent World Economic Outlook exercise.

^{5/} The assumed rates for 1985-86 are somewhat higher than those of the recent World Economic Outlook exercise while those for 1987-90 are lower.

annual rate of growth in imports of about 4 percent in real terms after 1985, which would be compatible with a GDP growth rate of about 3 percent a year in the nonpetroleum sector. The projection also assumes net amortization of public sector medium- and long-term debt of about US\$1.4 billion a year for the period 1985-90. This, together with the multiyear debt rescheduling with commercial banks which is expected to be concluded shortly, will lower the debt service ratio from 45 percent in 1983-84 to less than 30 percent by the end of the decade. On this basis, net international reserves are expected to remain in the next few years at around the level projected for the end of 1985 (US\$11.4 billion). The authorities and the staff consider that this relatively high level of net international reserves is necessary, given Venezuela's heavy dependence on oil export earnings and the uncertainties present in the international oil market.^{1/}

The mission noted that while the medium-term projections were reassuring in that there would be no need for additional net commercial borrowing, they indicated that there was little room for demand policies to be relaxed and were predicated on the implementation of a flexible exchange rate policy. The projections envisaged small overall surpluses in the consolidated public sector finances consistent with the planned net amortization of external debt and the avoidance of inflationary pressures.

6. International cooperation

The Venezuelan representatives described the Program of Cooperation with Central America and the Caribbean which covers the period from August 1984 through July 1985. This is the fifth year under the joint oil facility with Mexico, which is likely to be renewed for an additional year. Through this facility the two countries had committed themselves, in equal shares, to provide and partially finance 160,000 barrels a day of crude oil to ten countries in the region. Average annual net disbursements under this program have exceeded US\$200 million in recent years. The mission acknowledged the important assistance Venezuela has provided to other countries at a time when Venezuela itself was adjusting its economy.

IV. Staff Appraisal

During 1983 and 1984 Venezuela made commendable progress toward adjusting its economy to the large drop in export earnings that had taken place since 1981. There has been a substantial improvement in the competitiveness of the economy as the result of the devaluation of the bolivar since February 1983 in the context of a multi-tier exchange

^{1/} A decline of US\$1 a barrel reduces export earnings by US\$1/2 billion and public sector revenues by 1 percent of GDP. The same quantitative relationship applies to a decline in exports of 50,000 barrels a day.

rate system. The public sector deficit, which had reached nearly 13 percent of GDP in 1982, was reduced substantially in 1983 and was turned into a surplus of 3.5 percent of GDP in 1984. This improvement in the fiscal position reflected a large cut in public investment, the containment of current expenditures, and various revenue measures, including a substantial increase in domestic fuel prices and higher domestic currency earnings from public sector exports.

Following a sharp reduction in imports (partly as a result of the application of tight controls) and in foreign travel expenditures, the current account of the balance of payments shifted from a deficit of US\$3 billion in 1982 to surpluses of more than US\$4 billion a year in 1983 and 1984. The capital account continued to show deficits over the period 1983-84 as the public sector reduced its outstanding external debt and foreign banks curtailed trade-related lines of credit. The overall balance of payments deficit narrowed to US\$1.2 billion in 1983 from US\$8.6 billion in 1982, and moved to a surplus of US\$1.7 billion in 1984. Venezuela's gross international reserves amounted to US\$13 1/2 billion at the end of 1984, but arrears on private sector external debt servicing of more than US\$2 1/2 billion have accumulated during the last two years, pending completion of the process of registration of such debt for access to preferential exchange rates.

The adjustment of the economy has been accompanied by a significant contraction in economic activity. Real nonpetroleum GDP, after stagnating from 1979 to 1982, declined by almost 8 percent in 1983-84, and the unemployment rate jumped from 7 percent in 1982 to 13-14 percent in 1984. Wage increases have been modest and real wages have declined, in the wake of the devaluation of the bolivar and the relaxation of price controls.

Notwithstanding the major adjustments that have taken place in the public finances and the improvement in the balance of payments position, the authorities continue to rely to a significant extent on mechanisms such as the multiple exchange rate system and import controls. A reduction in the scope of these mechanisms would be helpful in fostering the conditions for a sustained expansion of the economy.

The quantified economic program of the Government of Venezuela for 1985 contemplates an easing of fiscal and credit policies to stimulate economic activity. The authorities' desire to reactivate the economy is understandable in view of the relatively high level of unemployment and several successive years of declining domestic economic activity. As Venezuela's previous experience has made clear, however, attempts to spur activity by increasing fiscal expenditure and relaxing credit policies have not proved successful.

In the staff's view, the targeted external current account surplus of US\$1.7 billion in 1985 is consistent with the programmed net amortization of external debt and the need to limit reserve losses, given the uncertainty prevailing in the international oil market. However, to

achieve the current account target, fiscal and monetary policies will need to be tighter than have been planned by the authorities. In particular, implementation of the special investment program would result in a deficit in the consolidated public sector finances equivalent to 1.2 percent of GDP, whereas achievement of the current account objective without a crowding out of the private sector would seem to require a small overall surplus in the consolidated public finances.

Measures to obtain such a result could include (1) a scaling down of the special investment package of the Central Government by implementing only its first tranche; (2) adjustments of certain public enterprise prices, including those of petroleum products; and (3) an acceleration of the program to restructure, divest, and liquidate public entities which would reduce the need for central government transfers. In addition, the staff would urge an early implementation of a tax reform along the lines recommended by the 1983 Tax Reform Commission, including a modification of the personal and corporate income taxes and the introduction of a general sales tax.

The staff believes that the credit expansion of 21 1/2 percent and growth in broad money of 18 1/2 percent contemplated in the quantified program are based on too optimistic a view of the public's demand for financial assets in real terms. A more realistic projection of the growth in the demand for broad money in 1985 would be nearly 10 percent. Also, the Central Bank will need to exercise considerable care in rediscounting bonds issued to cancel floating debt, with any such rediscounting offset by reductions in other rediscounts or increases in reserve requirements. In regard to interest rates, the staff believes that the practice of fixing maximum rates should be abandoned and that the subsidy element implicit in the low interest rate on agricultural loans should be eliminated over time.

The wage policy pursued by the authorities has been of critical importance in securing the realignment of relative prices and in containing inflation. The staff agrees with the authorities that wages should be determined through free bargaining and would caution against any attempt to raise the level of real wages through an officially sanctioned general increase. The flexibility that is envisaged in the application of the recently decreed minimum wage increases is essential if the unemployment problem is not to be exacerbated.

The present exchange and trade system gives rise to significant distortions. The staff would therefore urge the authorities to complete the unification of all controlled exchange rates by mid-1985 and adopt a flexible exchange rate policy under which full unification of the system would be sought during 1986. In establishing a unified controlled exchange rate, the authorities would need to take into account the effects of reducing the reliance on import controls as well as the signals furnished by developments in the free exchange rate market. Full unification of the system would be facilitated by starting in 1985 a gradual transfer to the free exchange market of imports and other

current transactions at present in the controlled markets. As regards trade policies, a substantial reduction in the restrictiveness of the import control system would help improve resource allocation. In particular, the staff would urge the authorities to simplify the import system by eliminating the duplication of controls currently exercised by the ministries and RECADI, and to replace the quantitative import controls by tariff protection based on a reduced number of tariff rates.

Despite recent developments in the world oil market, the medium-term outlook for Venezuela still remains relatively favorable. Even with only a gradual recovery of Venezuela's petroleum export volume, moderate growth of imports in real terms would still be compatible with surpluses in the current account of the balance of payments of more than US\$1 billion a year. Thus, Venezuela should be able to service its external debt and make net amortization payments without difficulty as long as the fiscal policies that are followed result in a small overall surplus in the public sector finances, supported by cautious monetary and wage policies and a flexible exchange rate policy. In the pursuit of such policies, Venezuela will be in a position to regain its traditional financial and price stability.

The adjustment that has been accomplished in the last two years provides a basis for the multiyear rescheduling of public debts with creditor banks, and this rescheduling will contribute in turn to the strengthening of confidence in the Venezuelan economy and the country's economic performance. Although there has been an encouraging improvement in private debt servicing in recent months, full elimination of external arrears needs to be completed without delay.

The changes in exchange arrangements that have been made by the Venezuelan authorities since February 27, 1983 have included the introduction of a multi-tiered exchange system that gives rise to exchange restrictions and multiple currency practices subject to the Fund's approval under Article VIII, Sections 2(a) and 3. The processing of foreign exchange applications for current transactions to be settled at the fixed rates continues to be subject to approval and delays. These exchange measures, together with the restrictions and prohibitions on imports that are being maintained for balance of payments reasons, have made the exchange and trade system highly restrictive. The staff urges the authorities to reduce reliance on such measures, and to liberalize the exchange and trade system. In current circumstances, the staff would not propose approval under Article VIII of Venezuela's exchange measures.

It is recommended that the next regular Article IV consultation with Venezuela be held within six months.

Venezuela - Fund Relations
(As of March 31, 1985)

I. Membership Status

- (a) Date of membership: December 30, 1946
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Accounts)

- (a) Quota: SDR 1,371.5 million
(b) Total Fund holdings SDR 874.6 or 63.8 percent
of bolivares of quota
(c) Reserve tranche position SDR 496.9 million
(d) Outstanding lending to the
Fund (supplementary
financing facility) SDR 311.5 million

III. SDR Department

- (a) Net cumulative allocation SDR 316.9 million
(b) Holdings SDR 392.5 million or
123.9 percent of net
cumulative allocation
(c) Current designation plan None

IV. Administered Accounts

- (a) Trust Fund
(i) Donation US\$52.4 million

V. Venezuela has not used Fund resources to date

B. Nonfinancial Relations

- VI. Effective February 24, 1984, a four-tier exchange system was established, comprising an exchange rate of Bs 4.30 per U.S. dollar applicable to priority transactions; a rate of Bs 6.00 per U.S. dollar for petroleum and iron ore transactions; a rate of Bs 7.50 per U.S. dollar for all other transactions approved under the exchange control system; and a free rate applicable to the remaining transactions.
- VII. Last Article IV consultation was concluded on August 31, 1984 (SM/84/192 and SM/84/201) and the Executive Board did not approve Venezuela's exchange measures. The consultation is under the 12-month cycle.

Venezuela--Basic Data

Area and population

Area	912,000 sq. kilometers
Population (1984)	16.8 million
Annual rate of population increase (1979-84)	2.9 percent

<u>GNP per capita (1984)</u>	SDR 2,745
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Origin of nominal GDP (1984) (percent)

Agriculture	6.6
Petroleum (crude and refining) and mining	23.8
Manufacturing, construction and utilities	19.2
Commerce	8.9
Transport, storage, and communications	11.9
Government	11.3
Other services	18.3

Ratios to GDP (1984)

Exports of goods and nonfactor services	32.5
Imports of goods and nonfactor services	19.3
Net factor receipts from abroad	-5.1
Central government revenues	28.5
Central government expenditures	26.5
External public debt (end of year)	50.2
External total debt (end of year)	62.5
Savings	28.8
Investment	15.6
Money and quasi-money (end of year)	53.9

Annual changes in selected economic indicators

	<u>1982</u>	<u>1983</u>	<u>Prel 1984</u>	<u>Proj. 1985</u>
	(percent)			
Real GDP	0.7	-5.5	-1.8	2.7
Real GDP per capita	-2.2	-7.8	-4.5	-0.2
GDP at current prices	2.1	-0.3	14.7	18.5
GDP deflator (excluding petroleum)	7.5	8.7	11.2	20.3
Wholesale prices (annual average)	8.1	7.0	11.5	17.5
Consumer prices (annual average)	10.0	6.4	12.2	16.6
Central government revenues (budget)	-19.5	-3.7	32.5	7.8
Central government expenditures (budget)	-6.3	-9.2	18.9	11.9 ^{1/}
Money and quasi-money	5.2	19.7	8.0	9.6
Money	(-8.2)	(25.8)	(2.3)	(...)
Quasi-money	(13.9)	(16.6)	(11.3)	(...)
Net domestic bank assets ^{2/}	21.8	9.6	-3.6 ^{3/}	16.2 ^{3/}
Credit to public sector (net)	(5.4)	(3.7)	(-13.3)	(4.4)
Credit to private sector	(13.5)	(3.3)	(7.1)	(11.8)
Merchandise exports (f.o.b., in U.S. dollars)	-18.2	-10.6	8.0	-7.6
Merchandise imports (f.o.b., in U.S. dollars)	1.7	-49.1	13.3	16.7

<u>Public sector finances</u> 4/	1982	1983	1984	Proj. 1985
	(billions of bolivares)			
Revenues	88.2	84.6	126.5	127.8
Expenditures	125.9	100.8	114.7	135.5
Current account surplus or deficit (-)	31.4	31.5	58.3	57.7
Overall surplus or deficit (-)	-37.7	-16.3	11.8	-7.7
External financing (net)	16.3	1.3	-0.2	-6.8
Internal financing (net)	21.4	15.0	-11.6	14.5
<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 9 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	

Table 8. Venezuela: National Income by Final Expenditure
at Current Prices ^{1/}

	1980	1981	1982	1983	Prel. 1984
(In billions of bolivares)					
<u>Gross domestic expenditure</u>	<u>233.3</u>	<u>268.5</u>	<u>300.1</u>	<u>260.1</u>	<u>289.3</u>
Consumption	170.5	203.1	224.8	224.7	237.2
Private	(135.4)	(160.5)	(182.2)	(183.4)	(194.4)
General government	(35.1)	(42.6)	(42.6)	(41.3)	(42.8)
Gross domestic investment	62.8	65.4	75.3	35.4	52.1
Private fixed investment	(33.0)	(27.9)	(22.3)	(13.0)	(9.5)
Public fixed investment	(31.1)	(41.8)	(47.9)	(42.3)	(42.6)
Change in inventories	(-1.3)	(-4.3)	(5.1)	(-21.1)	(-)
Exports of goods and non-factor services	85.4	89.6	75.1	74.1	108.3
Imports of goods and non-factor services	-64.5	-72.9	-84.0	-43.7	-64.3
<u>Gross domestic product at market prices</u>	<u>254.2</u>	<u>285.2</u>	<u>291.3</u>	<u>290.5</u>	<u>333.3</u>
Net factor receipts from abroad	-1.2	-2.2	-6.5	-9.8	-17.0
<u>Gross national product at market prices</u>	<u>253.0</u>	<u>283.0</u>	<u>284.7</u>	<u>280.7</u>	<u>316.3</u>
Indirect taxes less subsidies	-8.0	-8.4	-9.8	-20.3	-17.2
Depreciation	-17.1	-19.8	-21.6	-24.0	-22.0
<u>National income</u>	<u>227.9</u>	<u>254.8</u>	<u>253.3</u>	<u>236.4</u>	<u>277.1</u>
(As percent of GDP)					
<u>Gross domestic expenditure</u>	<u>91.7</u>	<u>94.1</u>	<u>103.0</u>	<u>89.5</u>	<u>86.8</u>
Consumption	67.0	71.2	77.2	77.3	71.2
Private	(53.2)	(56.2)	(62.6)	(63.1)	(58.3)
General government	(13.8)	(14.9)	(14.6)	(14.2)	(12.8)
Gross domestic investment	24.7	22.9	25.8	12.2	15.6
Private fixed investment	(13.0)	(9.7)	(7.7)	(4.5)	(2.9)
Public fixed investment	(12.2)	(14.7)	(16.4)	(14.6)	(12.8)
Change in inventories	(-0.5)	(-1.5)	(1.7)	(-7.3)	(-)
Exports of goods and non-factor services	33.6	31.4	25.8	25.5	32.5
Imports of goods and non-factor services	-25.3	25.5	28.8	15.0	19.3
Net Factor receipts or payments (-) from abroad	-0.5	-0.7	-2.2	-3.4	-5.1

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

^{1/} Figures from the national accounts may differ from fiscal data. Totals may not add due to rounding.

Table 9. Venezuela: GDP by Sector of Origin ^{1/}

(In billions of bolivares)

	1980	1981	1982	1983	Prel. 1984
(At constant 1968 prices)					
<u>Total GDP (at market prices)</u>	<u>75.9</u>	<u>75.6</u>	<u>76.1</u>	<u>71.9</u>	<u>70.6</u>
Petroleum GDP	6.9	6.6	6.1	5.9	6.0
Nonpetroleum GDP	69.0	69.0	70.0	66.0	64.6
<u>Primary sector</u>	<u>10.9</u>	<u>10.6</u>	<u>10.1</u>	<u>9.9</u>	<u>10.1</u>
Agriculture, livestock, fishing, and forestry	4.8	4.7	4.8	4.9	4.9
Crude petroleum and natural gas	5.5	5.3	4.8	4.6	4.7
Other mining	0.6	0.6	0.5	0.5	0.5
<u>Secondary sector</u>	<u>20.3</u>	<u>20.1</u>	<u>20.4</u>	<u>19.8</u>	<u>19.6</u>
Manufacturing	12.3	12.0	12.5	12.3	12.7
Petroleum refining	1.4	1.3	1.3	1.3	1.3
Construction	4.6	4.5	4.1	3.6	2.8
Water and electricity	2.0	2.3	2.5	2.6	2.8
<u>Tertiary sector</u>	<u>44.7</u>	<u>44.9</u>	<u>45.3</u>	<u>42.2</u>	<u>41.0</u>
Commerce	6.9	6.7	6.9	7.0	5.9
Transport, storage, and communications	9.8	10.2	10.5	9.1	8.8
General government	10.5	10.6	10.6	10.4	10.5
Financial and business services	9.2	9.4	9.7	9.7	10.2
Other services	8.3	8.0	7.6	6.0	5.6
(At current prices)					
<u>Total GDP (at market prices)</u>	<u>254.2</u>	<u>285.2</u>	<u>291.3</u>	<u>290.5</u>	<u>333.3</u>
Petroleum GDP	73.7	77.3	64.7	58.3	78.1
Nonpetroleum GDP	180.5	207.9	226.6	232.2	255.2
<u>Primary sector</u>	<u>76.6</u>	<u>83.3</u>	<u>72.1</u>	<u>66.5</u>	<u>87.9</u>
Agriculture, livestock, fishing, and forestry	14.4	16.4	17.7	19.5	21.9
Crude petroleum and natural gas	61.0	65.6	53.3	45.9	64.9
Other mining	1.2	1.3	1.1	1.1	1.1
<u>Secondary sector</u>	<u>58.3</u>	<u>62.8</u>	<u>67.3</u>	<u>69.0</u>	<u>77.3</u>
Manufacturing	28.5	31.4	35.3	36.9	45.5
Petroleum refining	12.7	11.7	11.4	12.4	13.2
Construction	14.5	15.7	15.7	14.3	12.7
Water and electricity	2.6	4.0	4.9	5.4	5.9
<u>Tertiary sector</u>	<u>119.3</u>	<u>139.1</u>	<u>151.9</u>	<u>155.0</u>	<u>168.1</u>
Commerce	20.8	23.2	25.7	33.3	29.8
Transport, storage, and communications	25.2	30.8	35.6	33.3	39.6
General government	30.1	34.9	35.2	34.5	37.6
Financial and business services	24.8	29.9	34.1	35.7	39.8
Other services	18.4	20.3	21.3	18.2	21.3

Source: Central Bank of Venezuela.

^{1/} Totals may not add due to rounding.

Table 10. Venezuela: Importance of the Petroleum Sector
in the Economy 1/

	1980	1981	1982	1983	Prel. 1984
(In billions of bolivares)					
<u>Petroleum value added</u>					
<u>at current prices</u>	73.7	77.3	64.7	58.3	78.1
Crude petroleum	61.0	65.6	53.3	45.5	64.9
Refined petroleum	12.7	11.7	11.4	12.5	13.2
<u>Petroleum value added</u>					
<u>at 1968 prices</u>	6.9	6.6	6.2	5.9	6.0
Crude petroleum	5.5	5.3	4.8	4.6	4.7
Refined petroleum	1.4	1.3	1.3	1.3	1.3
<u>Petroleum exports at</u>					
<u>realized prices</u>	78.6	82.0	67.2	59.5	85.0
Crude petroleum	53.4	58.5	44.6	36.6	55.4
Refined petroleum	25.2	23.4	22.6	22.9	29.6
<u>Petroleum fiscal revenues <u>2/</u></u>	45.3	70.9	49.2	40.5	60.6
(In percent)					
<u>Share of petroleum</u>					
<u>in nominal GDP</u>	28.9	27.1	22.2	20.1	23.4
Crude petroleum	24.0	23.0	18.3	15.9	19.5
Refined petroleum	4.9	4.1	3.9	4.3	4.0
<u>Share of petroleum in real GDP</u>	9.0	8.7	8.0	8.1	8.5
Crude petroleum	7.2	7.0	6.3	6.2	6.7
Refined petroleum	1.8	1.7	1.7	1.9	1.8
<u>Share of petroleum in</u>					
<u>total exports</u>	94.9	94.6	94.8	92.6	92.9
<u>Share of petroleum in central</u>					
<u>government revenues</u>	72.2	76.5	66.0	56.4	63.7

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

1/ Totals may not add due to rounding.2/ Of the Central Government.

Table 11. Venezuela: Selected Price Indices
(Annual percentage change)

	Weights	1980	1981	1982	1983	1984
<u>I. Wholesale Price Index</u>						
(1968 = 100.0)						
<u>End of period</u>	100.0	16.9	11.3	6.2	10.8	24.4
Domestic	65.7	18.6	12.3	6.6	10.9	25.3
Foreign	34.3	14.2	9.5	5.6	10.8	22.9
Agriculture	17.5	17.2	13.9	4.1	20.6	20.3
Manufacturing	78.3	16.2	10.1	6.2	8.9	24.9
Energy	4.2	0.2	30.1	8.0	-4.8	21.6
<u>Period averages</u>	100.0	20.1	13.8	8.1	7.0	17.4
Domestic	65.7	22.9	15.0	8.6	7.5	17.3
Foreign	34.3	15.6	11.9	7.3	6.0	17.4
Agriculture	17.5	27.4	19.8	5.3	14.2	16.4
Manufacturing	78.3	17.4	11.9	8.4	5.4	17.8
Energy	4.2	0.1	30.9	8.1	-1.3	4.0
<u>II. Caracas Consumer Price Index</u>						
(1971 = 100.0)						
<u>End of period</u>	100.0	19.6	11.0	7.7	6.6	18.3
Food, beverages, and tobacco	27.1	22.3	12.7	6.9	10.6	31.1
Clothing	5.9	45.4	-2.2	-3.0	3.5	7.7
Household expenditures	30.0	17.1	14.6	3.3	1.4	6.6
Other	37.0	15.6	8.8	14.1	8.9	21.1
<u>Period averages</u>	100.0	21.6	16.1	9.9	5.6	12.2
Food, beverages, and tobacco	27.1	33.1	11.5	9.7	7.8	17.2
Clothing	5.9	25.3	46.2	16.2	-2.6	8.2
Household expenditures	30.0	18.6	16.3	7.5	4.0	6.7
Other	37.0	11.6	13.9	14.5	11.1	13.9

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

Table 12. Venezuela: Contribution to Total Unemployment by Sector 1/
(In percent of total labor force)

	1980		1981		1982		1983		1984	
	First Semester	Second Semester								
	Semester	Semester								
Total unemployment	6.2	5.7	6.3	6.0	7.1	7.1	9.8	10.1	12.4	
Primary sector	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.6	
Agriculture	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	
Petroleum and mining	(--)	(--)	(--)	(--)	(--)	(0.1)	(0.1)	(0.1)	(0.1)	
Secondary sector	2.5	2.2	2.4	2.2	2.7	2.5	3.8	3.6	4.5	
Manufacturing	(1.3)	(1.1)	(1.3)	(1.1)	(1.3)	(1.1)	(1.8)	(1.6)	(1.9)	
Construction	(1.1)	(1.1)	(1.1)	(1.1)	(1.3)	(1.3)	(1.9)	(1.9)	(2.5)	
Electricity, gas, water, and sanitary services	(0.1)	(--)	(--)	(--)	(--)	(0.1)	(0.1)	(0.1)	(0.1)	
Tertiary sector	2.3	2.1	2.4	2.1	2.6	2.5	3.6	4.0	5.1	
Commerce and finance	(1.1)	(1.0)	(1.1)	(0.9)	(1.3)	10.2	(1.7)	(1.9)	(2.3)	
Transport and communications	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.5)	(0.6)	(0.7)	
Services	(0.9)	(0.8)	(1.0)	(0.9)	(1.0)	(1.0)	(1.4)	(1.5)	(2.1)	
Unspecified activities	0.3	0.3	0.3	0.5	0.5	0.4	0.4	0.5	0.3	
New entrants	0.8	0.8	0.9	0.9	1.0	1.2	1.5	1.5	1.9	

Source: Central Bank of Venezuela with data from the Survey of Households conducted by the Central Statistical Office.

1/ Totals may not add due to rounding.

Table 13. Venezuela: Summary of Public Sector Operations

(in millions of bolivares)

	1980	1981	1982	1983	Prel. 1984
I. Central Government (Budget)					
<u>Current revenues</u>	62,716	92,701	74,586	71,832	95,170
Tax revenues	51,138	80,324	61,605	60,053	79,670
From petroleum sector	(37,945)	(63,285)	(42,603)	(34,082)	(51,473)
Other	(13,193)	(17,039)	(19,002)	(25,971)	(28,197)
Nontax revenues	11,578	12,377	12,981	11,779	15,500
Petroleum royalties	(7,386)	(7,600)	(6,620)	(6,464)	(9,086)
Other ^{1/}	(4,192)	(4,777)	(6,361) ^{2/}	(5,315)	(6,414)
<u>Current expenditures</u>	41,209	54,616	54,440	53,943	66,668
Operating expenditures	23,588	29,452	30,445	29,731	34,055
Personal emoluments	(16,354)	(19,606)	(19,193)	(19,267)	(20,430)
Interest payments	(4,267)	(5,763)	(6,149)	(6,847)	(11,080)
Of which: to autonomous agencies	/55/	/158/	/--/	/369/	/.../
to PDVSA	/--/	/--/	/--/	/1,259/	/907/
Purchases of goods and services	(2,987)	(4,083)	(5,103)	(3,617)	(2,545)
Current transfers	17,621	25,164	23,995	24,212	32,613
To rest of public sector	(16,329)	(20,004)	(21,010)	(20,963)	(29,632)
Of which: to uncons. public sector	/--/	/--/	/--/	/129/	/.../
To private sector	(1,292)	(5,160)	(2,985)	(3,249)	(2,981)
<u>Current account surplus or deficit (-)</u>	21,507	38,085	20,146	17,889	28,502
<u>Capital expenditures</u>	21,987	32,753	27,438	20,399	21,747
Capital formation	3,832	4,354	6,183	4,630	4,210
Capital transfers	18,155	28,399	21,255	15,769	17,537
To rest of public sector	(17,545)	(28,008)	(20,710)	(15,171)	(16,559)
Of which: to V.I.F.	/4,337/	/11,609/	/5,061/	/2,312/	/3,859/
To private/external sector	(610)	(391)	(545)	(598)	(978)
<u>Overall surplus or deficit (-)</u>	-480	5,332	-7,292	-2,510	6,755
II. Central Government (Extrabudgetary)					
<u>Total expenditures</u>	576	869	6,690	3,890	300
Current expenditures	66	10	136	--	--
Capital expenditures	510	859	6,554	3,890	300
III. Venezuelan Investment Fund					
<u>Current revenues</u>	2,784	3,912	2,248	1,908	2,733
Interest income	2,586	2,931	2,224	1,713	2,872
Of which: from public sector	(--)	(--)	(817)	(1,049)	(972)
Dividends	197	981	24	194	-139
Other	1	--	--	1	--
<u>Current expenditures</u>	27	31	40	38	35
Personal emoluments	16	18	21	23	24
Purchase of goods and services	11	13	19	15	11
<u>Current account surplus or deficit (-)</u>	2,757	3,881	2,208	1,870	2,698
Capital transfers from Central Government	4,337	11,609	5,061	2,312	3,859
<u>Capital expenditures</u>	1	8	2	1	-3
Building and equipment	1	8	2	1	-3
<u>Net lending operations</u>	4,736	10,618	10,477	8,059	3,250
To rest of public sector	1,219	-2,921	2,883	1,308	775
Of which: to official banks	(--)	(--)	(280)	(--)	(-18)
Equity contribution	3,270	13,316	7,331	6,523	2,304
International financial cooperation	247	223	263	228	171
<u>Overall surplus or deficit (-)</u>	-2,357	-4,864	-3,210	-3,878	3,310

Table 13. Venezuela: Summary of Public Sector Operations (Concluded)

(In millions of bolivares)

	1980	1981	1982	1983	Prel. 1984
IV. Petroleum Sector					
<u>Operating revenues</u>	80,833	84,406	70,740	64,038	98,320
Foreign sales	78,328	81,723	67,068	59,948	85,039
Domestic sales	2,432	2,664	3,642	4,071	4,082
Other	53	19	30	19	4,199
<u>Operating expenditures</u>	12,655	13,212	13,015	14,676	14,587
Personal emoluments	4,193	4,743	5,218	6,386	6,265
Purchases of goods and services	8,455	8,469	7,697	8,190	8,322
Purchase of crude oil and derived products	1,607	467	902	961	772
Technological fees	561	478	277	231	182
Other	6,287	7,524	6,518	6,998	7,368
Transfers to private sector	7	--	100	100	--
<u>Operating surplus or deficit (-)</u>	68,178	71,194	57,725	49,362	83,733
Interest income	3,950	5,522	3,068	1,259	907
<u>Transfers to Central Government</u>	45,712	71,507	50,610	41,760	62,162
Direct taxes	37,731	63,215	42,560	34,028	51,439
Indirect taxes	595	692	1,430	1,268	1,637
Royalties	7,386	7,600	6,620	6,464	9,086
<u>Current accounts surplus or deficit (-)</u>	26,416	5,209	10,183	8,861	22,478
<u>Capital expenditures</u>	9,246	14,561	21,045	11,333	11,923
Capital formation	8,878	12,353	15,615	12,154	11,098
Change in stocks	355	2,136	5,403	-845	452
Buildings and other	13	72	27	24	373
Of which: transfers to PEQUIVEN	(...)	(...)	(...)	(...)	(373)
<u>Overall surplus or deficit (-)</u>	17,170	-9,352	-10,862	-2,472	10,555
V. Nonfinancial Public Enterprises 3/					
<u>Operating revenues</u>	24,478	27,901	28,751	31,008	42,766
Sales of goods and services	23,268	26,423	27,628	29,716	42,545
Other	1,210	1,478	1,123	1,292	221
<u>Operating expenditures</u>	27,768	30,390	28,960	28,231	34,703
Personal emoluments	9,141	9,272	10,240	10,640	10,711
Purchases of goods and services	15,906	17,832	15,382	14,949	21,847
Transfers to private sector	2,575	3,028	3,164	2,158	1,725
Indirect taxes to Municipal Government	146	258	174	484	420
<u>Operating surplus or deficit (-)</u>	-3,290	-2,489	-209	2,777	8,063
<u>Current transfers from Central Government</u>	2,041	1,718	4,476	3,117	3,681
Direct taxes to Central Government	-270	-264	-83	-331	-1,912
Interest income	529	786	671	614	215
Interest payments	-4,775	-6,153	-7,249	-4,550	-6,959
<u>Current account surplus or deficit (-)</u>	-5,765	-6,402	-2,394	1,627	3,088
<u>Capital transfers from Central Government</u>	4,425	6,024	4,430	2,367	3,789
Capital transfers/loans from VIF	3,893	10,287	9,262	7,931	3,965
Capital transfers from PDVSA	...	...	...	...	373
<u>Capital expenditures</u>	16,754	15,593	22,278	16,656	21,237
Capital formation	13,970	16,862	20,981	16,579	20,132
Change in stocks	2,784	-1,269	1,297	77	1,105
<u>Overall surplus or deficit (-)</u>	-14,201	-5,684	-10,980	-4,731	-10,022

Sources: Central Bank of Venezuela; Central Budget Office; Venezuelan Investment Fund; National Petroleum Corporation; and Fund staff estimates.

1/ Includes profits from exchange rate differentials.

2/ Excludes Bs 3,680 million of transfers from the Security Stabilization Fund of the Central Bank which are treated as financing.

3/ Data for 1984 are adjusted budgets rather than actuals.

Table 14. Venezuela: Accounts of the Banking System

(In millions of bolivares)

	December 31						Preliminary	
	1980	1981	1982 1/	1982 2/	1983 3/	1983 2/	1984	1984 4/
<u>Net international reserves</u>	<u>32,031</u>	<u>37,646</u>	<u>28,967</u>	<u>41,805</u>	<u>50,258</u>	<u>50,258</u>	<u>77,313</u>	<u>97,296</u>
<u>Other net foreign assets</u>	<u>197</u>	<u>263</u>	<u>321</u>	<u>321</u>	<u>514</u>	<u>514</u>	<u>1,195</u>	<u>1,195</u>
<u>Net domestic assets</u>	<u>106,498</u>	<u>125,179</u>	<u>157,654</u>	<u>136,901</u>	<u>165,096</u>	<u>158,096</u>	<u>147,114</u>	<u>158,183</u>
<u>Net claims on public sector</u>	<u>-23,138</u>	<u>-21,010</u>	<u>-13,914</u>	<u>-24,609</u>	<u>-18,608</u>	<u>-25,608</u>	<u>-44,100</u>	<u>-44,100</u>
Net Central Government	(-12,727)	(-10,440)	(-3,060)	(-6,740)	(1,507)	(-5,493)	(-7,031)	(-7,031)
Net Venezuelan Investment Fund	(-301)	(-333)	(-561)	(-561)	(-175)	(-175)	(-581)	(-581)
Net other decentralized agencies	(-100)	(-559)	(-158)	(-158)	(-395)	(-395)	(...)	(...)
Net social security funds	(-3)	(-135)	(-6)	(-6)	(-5)	(-5)	(...)	(...)
Net state and local governments	(-574)	(-249)	(-28)	(-28)	(13)	(13)	(...)	(...)
Net official enterprises	(-9,433)	(-9,994)	(-9,201)	(-17,116)	(-19,553)	(-19,553)	(-35,372)	(-35,372)
<u>Official capital and surplus</u>	<u>-8,546</u>	<u>-10,500</u>	<u>-11,758</u>	<u>-8,078</u>	<u>-13,977</u>	<u>-13,977</u>	<u>-19,691</u>	<u>-8,622</u>
<u>Credit to rest of financial system</u>	<u>750</u>	<u>695</u>	<u>1,036</u>	<u>1,036</u>	<u>879</u>	<u>879</u>	<u>1,675</u>	<u>1,675</u>
<u>Credit to private sector</u>	<u>125,137</u>	<u>141,924</u>	<u>162,062</u>	<u>162,062</u>	<u>167,425</u>	<u>167,425</u>	<u>181,002</u>	<u>181,002</u>
<u>Net credit to nonmonetary inter-</u>								
<u> national organizations</u>	<u>-275</u>	<u>-170</u>	<u>-204</u>	<u>-204</u>	<u>-260</u>	<u>-260</u>))
<u>Net unclassified assets</u>	<u>6,101</u>	<u>5,740</u>	<u>11,842</u>	<u>-996</u>	<u>18,426</u>	<u>18,426</u>	)28,228	)28,228
<u>Net interbank float</u>	<u>6,469</u>	<u>8,500</u>	<u>7,690</u>	<u>7,690</u>	<u>11,211</u>	<u>11,211</u>))
<u>Counterpart unrequited foreign</u>								
<u> exchange</u>	<u>1,651</u>	<u>1,425</u>	<u>9,158</u>	<u>1,243</u>	<u>7,982</u>	<u>982</u>	<u>4,493</u>	<u>35,545</u>
<u>Medium- and long-term</u>								
<u> foreign liabilities</u>	<u>10,160</u>	<u>12,040</u>	<u>16,188</u>	<u>16,188</u>	<u>16,733</u>	<u>16,733</u>	<u>17,230</u>	<u>17,230</u>
<u>Liabilities to rest of</u>								
<u> financial system</u>	<u>157</u>	<u>178</u>	<u>136</u>	<u>136</u>	<u>58</u>	<u>58</u>	<u>135</u>	<u>135</u>
<u>Liabilities to private sector</u>	<u>126,758</u>	<u>149,445</u>	<u>161,460</u>	<u>161,460</u>	<u>191,095</u>	<u>191,095</u>	<u>203,764</u>	<u>203,764</u>
<u>Monetary liabilities</u>	<u>47,680</u>	<u>52,268</u>	<u>48,042</u>	<u>48,042</u>	<u>60,381</u>	<u>60,381</u>	<u>61,784</u>	<u>61,784</u>
Currency in circulation	(12,091)	(13,305)	(12,915)	(12,915)	(14,634)	(14,634)	(15,227)	(15,227)
Demand deposits	(35,589)	(38,963)	(35,127)	(35,127)	(45,747)	(45,747)	(46,557)	(46,557)
<u>Other liabilities</u>	<u>72,376</u>	<u>89,432</u>	<u>104,560</u>	<u>104,560</u>	<u>121,364</u>	<u>121,364</u>	<u>...</u>	<u>...</u>
Time and savings deposits	(64,143)	(79,933)	(91,042)	(91,042)	(106,134)	(106,134)	(118,116)	(118,116)
Bonds	(4,135)	(4,592)	(7,595)	(7,595)	(4,089)	(4,089)	(2,872)	(2,872)
Other	(4,098)	(4,907)	(5,923)	(5,923)	(11,141)	(11,141)	(...)	(...)
<u>Private capital and surplus</u>	<u>6,602</u>	<u>7,745</u>	<u>8,858</u>	<u>8,858</u>	<u>9,350</u>	<u>9,350</u>	<u>...</u>	<u>...</u>

Source: Central Bank of Venezuela.

1/ For purposes of comparison the effects of the following measures are excluded: (a) gold revaluation; (b) centralization of international reserves to the extent of the deposits of PDVSA held at the Central Bank (Bs 7,915 million); and (c) transfer of Bs 3,680 million of the Securities Stabilization Fund to the Central Government. The first two have their counter-entry in the "counterpart unrequited foreign exchange account".

2/ In accordance with end-of-year balance sheets.

3/ For purposes of comparison, data in this column record as credit the transfer of central bank gold revaluation profits (Bs 7,000 million) to the Central Government.

4/ After revaluation of net international reserves at US\$1 = Bs 7.50.

Table 15. Venezuela: Selected Interest Rates

(In percent)

End of Period	Domestic			Foreign	
	Time Deposits	Share Bonds	Savings Certificates	Commercial Bank Loans 1/	LIBOR (6 Months) 2/
<u>1980</u>					
December	16.0	14.5	14.5	15.0	16.8
<u>1981</u>					
January	16.0	14.5	14.5	15.0	16.7
February	16.0	14.5	14.5	15.0	16.9
March	14.0	12.5	12.5	13.0	15.0
April	14.0	12.5	12.5	13.0	17.0
May	14.0	12.5	12.5	13.0	17.1
June	14.0	12.5	12.5	13.0	17.4
July	14.0	12.5	12.5	13.0	18.9
August	14.0	12.5	12.5	13.0	18.9
September	16.2	16.5	16.1	16.1	18.1
October	16.3	16.5	15.8	16.4	15.7
November	15.5	15.5	15.0	16.9	12.8
December	14.6	15.0	14.0	15.9	14.9
<u>1982</u>					
January	13.9	14.9	14.0	15.6	15.1
February	13.5	15.2	14.5	15.9	15.1
March	15.0	14.8	13.5	16.5	15.6
April	14.9	15.1	15.5	16.7	14.9
May	14.2	16.0	15.6	16.5	14.6
June	15.6	16.1	15.3	16.5	15.1
July	15.9	16.2	15.8	17.0	14.2
August	14.9	15.3	14.8	16.9	12.5
September	14.9	15.0	14.9	16.1	12.1
October	14.3	15.0	15.0	16.4	10.5
November	15.8	16.4	16.1	17.5	10.3
December	15.8	16.5	16.0	17.3	9.7
<u>1983</u>					
January	15.7	16.5	16.0	17.1	9.1
February	15.1	16.5	15.8	17.3	9.9
March	14.1	15.6	15.3	16.8	9.4
April	13.4	14.4	14.3	16.5	9.4
May	14.4	15.1	14.3	16.3	9.1
June	14.1	14.7	14.2	15.5	9.9
July	14.0	14.7	13.9	15.8	10.4
August	13.9	14.6	13.6	16.2	10.7
September	13.2	13.4	13.1	15.6	10.1
October	13.2	12.9	12.9	15.9	9.7
November	13.2	13.2	12.9	16.0	9.9
December	13.0	12.9	13.0	16.3	10.3
<u>1984</u>					
January	12.9	13.2	12.8	15.8	10.0
February	12.3	13.6	12.6	15.7	10.6
March	11.2	11.4	11.2	14.4	10.7
April	11.3	11.7	11.5	14.0	11.1
May	11.8	12.7	12.0	14.0	12.1
June	12.4	13.2	12.5	14.9	12.4
July	13.7	14.1	13.6	14.9	12.6
August	13.4	13.3	13.9	15.6	12.1
September	13.2	13.9	13.7	15.9	11.9
October	13.0	14.2	13.6	15.1	11.5
November	13.1	14.0	13.5	15.9	10.2
December	13.3	13.8	13.2	15.6	9.4

Sources: Central Bank of Venezuela; and IMF, International Financial Statistics.

1/ Average interest rate charged on nonmortgage loans.

2/ On U.S. dollar deposits.

Table 16. Venezuela: Balance of Payments

(In millions of U.S. dollars)

	1980			1981			1982		
	Credits	Debits	Net	Credits	Debits	Net	Credits	Debits	Net
Current account	22,232	19,784	2,448	24,519	22,410	2,109	20,122	23,368	-3,246
Goods and nonfactor services	19,968	15,762	4,206	20,938	17,304	3,634	17,557	18,634	-1,077
Merchandise	19,275	11,127	8,148	20,181	12,373	7,808	16,516	12,584	3,932
Petroleum sector	(18,301)	(793)	(17,508)	(19,094)	(713)	(18,381)	(15,659)	(1,658)	(14,001)
Other public sector	(672)	(2,271)	(-1,599)	(839)	(2,660)	(-1,821)	(611)	(2,036)	(-1,425)
Private sector	(302)	(8,063)	(-7,761)	(248)	(9,000)	(-8,752)	(246)	(8,890)	(-8,644)
Nonfactor services	693	4,635	-3,942	757	4,931	-4,174	1,041	6,050	-5,009
Freight and insurance	(45)	(988)	(-943)	(52)	(1,012)	(-960)	(124)	(1,120)	(-996)
Other transportation	(244)	(460)	(-216)	(325)	(555)	(-230)	(355)	(404)	(-49)
Other insurance	(95)	(105)	(-10)	(75)	(117)	(-42)	(164)	(243)	(-79)
Travel	(243)	(1,880)	(-1,637)	(187)	(2,255)	(-2,068)	(309)	(2,814)	(-2,505)
Government n.i.e.	(30)	(601)	(-571)	(28)	(158)	(-130)	(37)	(244)	(-207)
Other services	(36)	(601)	(-565)	(90)	(834)	(-744)	(52)	(1,225)	(-1,173)
Petroleum sector	/-1	/526/	/-526/	/1/	/736/	/-735/	/-1	/988/	/-988/
Other	/36/	/75/	/-39/	/89/	/98/	/-9/	/52/	/237/	/-185/
Investment income	2,264	3,383	-1,119	3,581	4,697	-1,116	2,565	4,095	-1,530
Central Bank	(...)	(--)	(--)	(896)	(--)	(896)	(731)	(--)	(731)
Petroleum sector	(912)	(--)	(912)	(1,279)	(--)	(1,279)	(685)	(--)	(685)
Other public sector	(831)	(2,507)	(-1,676)	(384)	(3,520)	(-3,136)	(518)	(2,981)	(-2,463)
Private sector	(521)	(876)	(-355)	(1,022)	(1,177)	(-155)	(631)	(1,114)	(-483)
Unrequited transfers	--	639	-639	--	409	-409	--	639	-639
Public	(--)	(24)	(-24)	(--)	(26)	(-26)	(--)	(24)	(-24)
Private	(--)	(615)	(-615)	(--)	(383)	(-383)	(--)	(615)	(-615)
Capital account	12,121	10,313	1,808	8,740	9,546	-806	13,940	17,509	-3,569
Direct investment	82	27	55	184	--	184	257	4	253
Medium- and long-term financial	4,833	4,039	794	3,718	2,539	1,179	5,402	3,340	2,062
Private sector	(1,663)	(1,007)	(656)	(1,370)	(951)	(419)	(772)	(810)	(-38)
Private debt	/1,661/	/741/	/920/	/1,370/	/833/	/537/	/772/	/800/	/-28/
Accumulation of assets	/2/	/266/	/-264/	/-1/	/118/	/-118/	/-1/	/10/	/-10/
Public sector	(3,170)	(3,032)	(138)	(2,348)	(1,588)	(760)	(4,630)	(2,530)	(2,100)
Public debt	/2,666/	/1,170/	/1,496/	/1,273/	/943/	/330/	/3,439/	/2,032/	/1,407/
International cooperation	/-1/	/250/	/-250/	/-1/	/229/	/-229/	/-1/	/230/	/-230/
Other	/504/	/1,612/	/-1,108/	/1,075/	/416/	/659/	/1,191/	/268/	/923/
Short-term capital	7,206	6,247	1,959	4,838	7,007	-2,169	8,281	14,165	-5,884
Private nonbank sector	(2,836)	(4,198)	(-1,362)	(2,592)	(5,243)	(-2,651)	(3,242)	(8,026)	(-4,784)
Liabilities	/2,836/	/2,752/	/84/	/2,592/	/2,631/	/-39/	/3,242/	/3,074/	/168/
Assets	/-1/	/1,446/	/-1,446/	/-1/	/2,612/	/-2,612/	/-1/	/4,952/	/-4,952/
Public sector	(4,201)	(2,018)	(2,183)	(1,585)	(1,764)	(-179)	(4,102)	(4,931)	(-829)
Commercial banks	(--)	(31)	(-31)	(35)	(--)	(35)	(937)	(--)	(937)
Import financing	(--)	(--)	(--)	(317)	(--)	(317)	(--)	(1,057)	(-1,057)
National Petroleum Company	(169)	(--)	(169)	(309)	(--)	(309)	(--)	(151)	(-151)
Errors and omissions			-697			-899			-1,775
SDR allocation			89			90			--
Overall balance			3,559			494			-8,590
Valuation change			242			-37			2,935 1/
Financing			-3,801			-457			5,655
Change in reserves (increase -)			-3,801			-457			5,230
Central Bank			(466)			(-1,586)			(-1,369)
VIF			(-505)			(-899)			(802)
National Petroleum Company			(-3,850)			(2,028)			(5,797)
Accumulation of arrears			--			--			425

Table 16. Venezuela: Balance of Payments (Concluded)

(In millions of U.S. dollars)

	1983			Prel. 1984		
	Credits	Debits	Net	Credits	Debits	Net
<u>Current account</u>	17,341	13,166	4,175	...	...	4,217
Goods and nonfactor services	15,841	9,090	6,751	...	...	7,001
Merchandise	14,759	6,409	8,350	15,937	7,261	8,676
Petroleum sector	(13,667)	(749)	(12,918)	(14,810)	(704)	(14,106)
Other public sector	(727)	(2,052)	(-1,325)	(689)		
Private sector	(365)	(3,608)	(-3,243)	(438)	(6,557)	(-5,430)
Nonfactor services	1,082	2,681	-1,599	...	...	-1,675
Freight and insurance	(99)	(659)	(-560)	(101)	(683)	(-582)
Other transportation	(386)	(271)	(115)	(...)	(...)	
Other insurance	(55)	(41)	(14)	(...)	(...)	(120)
Travel	(310)	(946)	(-636)	(253)	(853)	(-600)
Government n.i.e.	(--)	(172)	(-172)	(...)	(...)	
Other services	(232)	(592)	(-360)	(...)	(...)	(-613)
Petroleum sector	/22/	/301/	/-279/	/.../	/.../	/.../
Other	/210/	/291/	/-81/	/.../	/.../	/.../
Investment income	1,500	3,865	-2,365	1,676	4,305	2,629
Central bank	(562)	(--)	(562)	(798)	(--)	(798)
Petroleum sector	(22)	(--)	(22)	(25)	(--)	(25)
Other public sector	(287)	(2,949)	(-2,662)	(223)	(3,454)	(-3,231)
Private sector	(629)	(916)	(-279)	(630)	(851)	(-221)
Unrequited transfers	--	211	-211	...	...	-155
Public	(--)	(24)	(-24)	(...)	(...)	(...)
Private	(--)	(187)	(-187)	(...)	(...)	(...)
<u>Capital account</u>	4,848	8,505	-3,657	...	...	-2,543
Direct investment	91	5	86	--	--	--
Medium- and long-term financial	1,981	2,023	-42	252	1,529	-1,277
Private sector	(505)	(709)	(-204)	(--)	(710)	(-710)
Private debt	/505/	/702/	/-197/	/--/	/700/	/-700/
Accumulation of assets	/--/	/7/	/-7/	/--/	/10/	/-10/
Public sector	(1,476)	(1,314)	(162)	(252)	(819)	(-567)
Public debt	/1,476/	/960/	/516/	/--/	/819/	/-819/
International cooperation	/--/	/172/	/-172/	/252/	/--/	/252/
Other	/--/	/182/	/-182/	/--/	/--/	/--/
Short-term capital	2,776	6,477	-3,701	...	...	-1,266
Private nonbank sector	(2,120)	(3,179)	(-1,059)	(...)	(1,107)	(-1,107)
Liabilities	/2,120/	/2,456/	/-336/	/.../	/527/	/-527/
Assets	/--/	/723/	/-723/	/--/	/580/	/-580/
Public sector	(368)	(1,472)	(-1,104)	(...)	(...)	(...)
Commercial banks	(--)	(326)	(-326)	(...)	(...)	(...)
Import financing	(--)	(1,500)	(-1,500)	(...)	(...)	(...)
National Petroleum Company	(288)	(--)	(288)	(--)	(159)	(-159)
<u>Errors and omissions</u>			-1,735			89
<u>SDR allocation</u>			--			--
<u>Overall balance</u>			-1,217			1,677
<u>Valuation change</u>			-190			10
<u>Financing</u>			1,407			-1,687
Change in reserves (increase -)			-278			-1,870
Central Bank			(-1,200)			(-1,320)
VIF			(922)			(-550)
National Petroleum Company			(--)			(--)
Accumulation of arrears			1,685			183

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

1/ Reflects a revaluation of gold holdings from US\$42.20 to US\$300 per ounce.

Table 17. Venezuela: Official International Reserves

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984
Official international reserves	16,333	16,790	11,560	11,838	13,708
Central Bank	6,955	8,541	9,910	11,110	12,430
Assets	(6,992)	(8,563)	(9,915)	(11,113)	(12,432)
Gold	/484/	/484/	/3,439/ ^{1/}	/3,439/	/3,439/
Foreign exchange	/5,080/	/6,440/	/4,831/	/5,701/	/7,161/
SDRs	/343/	/445/	/440/	/450/	/373/
IMF position	/599/	/655/	/805/	/914/	/965/
International bonds	/159/	/141/	/105/	/23/	/25/
Reciprocal credit agreements	/327/	/398/	/424/	/625/	/469/
Liabilities	(-37)	(-22)	(-5)	(-3)	(-2)
Venezuela Investment Fund	1,553	2,452	1,650	728	1,278
National Petroleum Company ^{2/}	7,825	5,797	--	--	--

Sources: Central Bank of Venezuela; Venezuela Investment Fund; and National Petroleum Company.

^{1/} Change with respect to previous years reflects a revaluation of gold holdings from US\$42.20 to US\$300 per ounce.

^{2/} Excludes accounts receivable and working balances of about US\$300 million held in 1982-84.

Table 18. Venezuela: Average Exchange Rates

	1983/84	1984			Year
	Mar. 1983- Feb. 1984	March- June	July- Sept.	Oct.- Dec.	
<u>I. Weights</u>					
<u>Exchange rate</u>					
4.30	75	13	12	9	22
6.00	18	4	4	4	12
7.50	--	77	78	81	60
Free	7	6	6	6	6
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>II. Exchange Rates (Bs/US\$)</u>					
	<u>Free Market Exchange Rate</u>	<u>Average Exchange Rate</u>			
<u>1983</u>					
January-February	4.30	4.30			
March	7.50	4.84			
April	8.10	4.88			
May	9.30	4.96			
June	10.10	5.02			
July	11.00	5.08			
August	14.75	5.34			
September	17.25	5.52			
October	14.25	5.31			
November	13.25	5.24			
December	12.90	5.21			
<u>Year average 1/</u>	<u>10.58</u>	<u>5.00</u>			
<u>1984</u>					
January	13.02	5.22			
February	13.10	5.22			
March	13.43	7.38			
April	14.21	7.43			
May	14.25	7.43			
June	14.23	7.43			
July	13.10	7.39			
August	12.70	7.37			
September	12.28	7.34			
October	13.32	7.44			
November	12.67	7.46			
December	12.71	7.46			
<u>Year average 1/</u>	<u>13.17</u>	<u>7.05</u>			
<u>1985</u>					
January	13.12	7.49			
February	13.50	7.51			

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

1/ Arithmetic average.

Table 19. Venezuela: Nominal and Real Effective Exchange Rate

(Base: 1978=100)

	Real Effective Exchange Rate 1/	Nominal Effective Exchange Rate 1/
1976	107.58	101.60
1977	106.46	103.57
1978	100.00	100.00
1979	100.40	99.60
1980	108.90	101.54
1981	122.47	110.24
1982	132.78	119.14
1983	121.06	109.90
1984	96.55	85.05
1980		
First quarter	106.40	101.16
Second quarter	107.88	101.61
Third quarter	108.19	100.81
Fourth quarter	113.14	102.58
1981		
First quarter	117.02	105.34
Second quarter	122.41	109.86
Third quarter	126.31	113.56
Fourth quarter	124.15	112.20
1982		
First quarter	128.45	115.03
Second quarter	131.61	117.50
Third quarter	134.90	120.98
Fourth quarter	136.15	123.04
1983		
First quarter	130.79	118.22
Second quarter	120.71	109.25
Third quarter	115.15	104.75
Fourth quarter	117.57	107.37
1984		
First quarter	107.33	98.71
Second quarter	87.14	77.67
Third quarter	93.71	81.33
Fourth quarter	98.01	82.48
1984		
January	119.50	110.03
February	118.54	109.40
March	83.96	76.69
April	85.98	76.74
May	87.39	77.98
June	88.03	78.30
July	90.63	80.25
August	94.20	80.99
September	96.30	82.75
October	97.20	82.44
November	97.57	81.88
December	99.26	83.13

Source: Fund staff calculations.

1/ Import weighted. From March 1983 data reflect a weighted average of the different exchange rates as presented in Statistical Appendix Table 18.

Table 20. Venezuela: Maturity Profile of External Public Debt, as of end of 1984

(In billions of U.S. dollars)

	1984	1985	1986	1987	1988	1989	1990	1991	1982	1993-98	Amounts Rolled Over 1/
Outstanding End-1984	17,247.1	4,278.5	2,595.0	2,514.0	1,638.2	1,019.6	719.3	342.3	132.4	76.4	3,930.8
<u>Total debt outstanding</u>	<u>26,026.6</u>										
Medium- and long-term	17,247.1	4,278.5	2,595.0	2,514.0	1,638.2	1,019.6	719.3	342.3	132.4	76.4	3,930.8
Bonds	930.1	103.3	159.2	73.3	262.4	65.3	170.3	46.1	6.7	43.5	--
Multilateral	321.0	66.0	58.6	47.7	45.2	36.1	29.0	20.7	6.2	11.5	--
Bilateral	152.4	73.0	31.1	17.0	17.2	8.1	2.5	0.3	0.3	2.9	--
Suppliers	813.8	366.7	280.5	95.5	31.3	25.3	7.3	4.5	1.8	0.9	--
Other	8.4	2.6	1.9	2.0	1.9	--	--	--	--	--	--
To financial institutions	15,021.4	3,666.9	2,063.7	2,279.1	1,280.2	884.8	510.2	270.7	117.4	17.6	3,930.8
Short-term	8,779.5	--	--	--	--	--	--	--	--	--	8,779.5
<u>Total debt outstanding</u>	<u>26,026.6</u>										
Medium- and long-term	26,026.6	1,746.3	1,607.6	1,734.6	1,698.1	2,059.6	1,969.3	2,212.3	2,382.4	10,616.4	
Of which:											
financial institutions	(23,800.9)	(1,134.7)	(1,076.3)	(1,499.1)	(1,340.1)	(1,924.8)	(1,760.2)	(2,140.7)	(2,367.4)	(10,557.6)	

I. Before Rescheduling

II. After Rescheduling 2/

Source: Ministry of Finance.

1/ Medium- and short-term maturities falling due in 1983-84; initially these were rolled over, and now form part of the debt covered by the multiyear rescheduling.

2/ Rescheduling of US\$20.75 billion owed to financial institutions over the period 1985-98.

