

YEAR-END ADDRESS PRESIDENT

THE CENTRAL BANK OF VENEZUELA



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I. PRESENTATION

The year 2000 marked the end of a century and a millennium, beginning a new era in the future of mankind. This is a propitious occasion to make some reflections on what has taken place, the accumulated experiences, the recognized consequences and the opportunities to address our route.

At the end of the century and the millennium, undoubtedly significant and almost unheard-of changes can be seen in every sphere: political, economic, social, cultural, ethical, environmental. A United Nations report identifies the great trends affecting a significant portion of the world: the spread of liberal democracy, the emphasis on market forces, advocacy of integration of the world economy, transformations of the production systems and labor markets, rapid technological changes, the revolution in the communications media, and consumerism. While these processes would seem to operate independently as factors in human progress, they are actually molded by political forces.

In the political sphere, a multilateral process side-by-side with the concentration of power on a planetary scale is almost a fait accompli. This is accompanied by a world order that is fractured, rather than integrated from the point of view of developing regions. Such a world order engenders contact among all nations, but at the same time maintains deep fissures among different groups of countries and the social groups within each country, and, of course, a marked asymmetry among the regions, to the detriment of the less developed ones. Among other trends, it features rapid growth and globalization of financial markets stimulated by the technological revolution and the opening of markets, transformations of trading patterns in favor of services and manufactured products with high technological content, a shift toward the Pacific as a trade-growth area, proliferation of regional trade agreements, and an increase in trade among the subsidiaries of transnational companies. At the institutional level, this has been accompanied by the creation of the World Trade Organization (WTO), which complements the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development (OECD) and the Trilateral Commission as supervisory organizations.

All this translates into the persistence of inequalities, which are on the upswing. There is a growing North-South imbalance between industrialized and developing countries, increased inequality

of income and opportunities either on rich or poor countries, and finally, the growing instability of the international economic and financial system.

In the social sphere, there is a contrast between the low growth and aging of the populations of rich countries and the relatively high population growth in poor countries. As a result, there is an expansion of social demand — for food, education, housing and health services — in poor countries and marginal areas of rich countries. Unemployment, for instance, assumes special characteristics: in poor countries, there is a challenge to increase labor productivity and at the same time absorb the growing number of young people entering the labor market. By contrast, rich countries are dealing with structural changes in the patterns of employment, as well as the expansion of social exclusion that is growing in all countries by reason of gender, ethnicity, age, poverty and education.

In environmental matters, there is a greater awareness of the problems related to pollution and sustainable use of resources, under conditions that threaten sustainability of the environment and suitable use of resources. The result is poverty in the Southern countries and excessive consumption in the North.

Culture and ethics, religious and spiritual values are considered important in spite of the advocacy of individualism and its related trends. We may see phenomena such as a surge of religious fundamentalism as a stimulant to political, social and even economic action. Conflict may arise from a growing trend toward cultural homogenization, as a result of globalization. At the same time, however, increased importance is accorded to moral and ethical matters related to equity and human rights.

With respect to governance, there are critical problems in all countries, particularly in terms of representation versus efficiency, to the extent that social demands exceed the capacities of institutions. All this is taking place in spite of the expansion of pluralism and formal democracy, as well as relatively greater popular participation, and it calls for a redefinition of the roles of the public sector, the private sector and the citizenry. Moreover, the problems of governance worsen as a result of the social consequences of economic reforms, especially when they are decided upon in the absence of the indispensable consensus. For this reason, attention to social capital and institutional development take on greater importance every day.

In this inventory of fractures in the global order, special mention must be made of the singular growth of information, which has put the spotlight on science and technology and has given rise to what is known as “the information society.” Given the systemic nature of technological research, there is a requirement for greater quantity and diversity of inputs, greater specialization and more information technology. At the same time, this promotes excessive, cumulative inequality between industrialized and underdeveloped economies, which lack the scientific and technological capacity to deal with the economic, social, political, cultural, and environmental challenges as well as the “information society” itself. This is of particular concern to developing countries that are producers and exporters of oil, given the change of the technical/economic paradigm from intensive use of fossil energy to intensive use of information, whose key factor is the microchip.

In the light of the factors noted, it is evident that the trend of the global society indicates worrying imbalances, and great disparities, privations and shortages for the majority of the inhabitants of the planet. This occurs within an international political order that lacks democratic support. Far from contributing to the resolution of such problems, it heightens them, and, to a great extent, it is responsible for them. In fact, the rules of the game within the world economy create the conditions for maintenance of inequalities, to the extent that they strengthen the differences and exclusions insofar as the dominant centers make disproportionate use of resources.

In this regard, it is appropriated to quote the statement of [Rubens Ricuperó,¹ the Secretary General of the [U.N.] Conference on Trade and Development (UNCTAD): “Two big global economic forces of the day are competing for the world’s attention. On the one hand, the promise of a new economy underpinned by information and communication technologies is exciting policy makers, including those from the world’s poorest countries. On the other hand, growing instability and uncertainty linked to globalization has left policy makers deeply worried about the impact of financial shocks on growth prospects....The vulnerability of developing countries to any policy shifts in the major industrialized countries will depend on their current state of health. The reactivation, stronger than expected in some of the economies badly affected by the crisis, offer a measure of hope. However, with persistent biases and asymmetries in the trading system, and structural uncertainty and volatility continuing to characterize the financial system; thus, growth in many countries remains beholden to unstable capital flows. The pace of recovery of East Asia over the past year has been

¹ El Nacional, 25-11-2000.

encouraging. However, the fact that neither the depth of the crisis nor the speed of recovery was anticipated even by those responsible for policy should caution against excessive exuberance ...”

“Exports are unlikely to continue at the recent pace,” added Ricupero, “ and public deficits and debt have been on the rise in most countries seriously hit by the crisis. Since premature fiscal tightening could stifle growth, fiscal consolidation needs to wait until private demand takes the lead in growth. But this process may be delayed because of persistent unemployment and the existence of excess capacity in many branches of industry...”. “Finally, the recovery has so far been supported by highly favorable conditions in the world economy, which are susceptible to change. A sharp slowdown in the United States and deterioration in global financial conditions could be particularly damaging. A fundamental lesson of the financial crisis is surely that excessive reliance on foreign resources and markets leaves growth prospects vulnerable to external shocks. In an increasingly interdependent global financial and trading system, it is clear that trust in market forces and monetary policies alone will not be sufficient. Increasing international cooperation and dialogue are needed if the full potential of the new technologies to bridge the growing gap between the rich and poor is to be realized.”

Thus, at the end of millennium, we are suffering from misguided global development, as indicated by its distinguishing features of domination, imbalances and asymmetry in North/South relations. It has thrown the material and spiritual sides out of balance, no longer making human beings the focus of strategy and politics. It has widened to the breaking point the growing deficit of the human component of today’s societies, which have been dragged into the suicidal position of turning money into an absolute value. In sum, let human beings be restored to being citizens and members of communities, both local and national, as well as members of the human race, and, beyond that, connected to future generations.

This is the inspiration and aspiration of the Bolivarian Republic of Venezuela. The development of the Venezuelan economy has been marked, like that of developing economies, by the misguidance of the global economy. This is the reason the Bolivarian Constitution places emphasis on “human development.” The United Nations Development Programme defines it as the process of broadening people’s range of options, providing them with greater opportunities for education, medical services, income and employment. It embraces the full range of options for all humanity, from a physical environment kept in good condition to economic and political freedom.

“The country’s economic trend in 2000 benefited from the higher level of growth experienced by the world economy, and particularly, from the strength of world demand for energy and its effects on the recovery of prices for the main crude oil indicators”

This concept, broad and complete, includes all options for humanity and expands the dialogue on development, which ceases to be a debate limited to the means (growth of gross national product), to become a debate focusing on the ultimate ends. Human development is concerned with creation of economic growth and its distribution, both with basic necessities and the complete spectrum of human aspirations. It is inspired by a society’s long-term objectives. It designs development around people, not people around development.

Given this concept, the Bolivarian Constitution gives meaning to the objectives of economic activity. Increases in capital and economic growth cease to be ends in themselves, in order to aim for a goal based on the basic needs of Venezuelans to live, grow and achieve fulfillment. In this way, the objective of the economy is to serve life and to foster development worthy of all human beings. The point of departure is the consideration of the social aspects integrated into a complex system of interrelationships that provides basic services (education, health, basic sanitation and housing), eradicates poverty and promotes employment. All these factors are inseparably linked with economic, institutional and legal conditions in Venezuela.

In a scenario of fractures and misguided development, the Venezuelan economy continues to develop under conditions of weakness and dependency. However, in quantitative terms, the country’s economic trend in 2000 benefited from the higher level of growth experienced by the world economy, and particularly, from the strength of world demand for energy and its effects on the recovery of prices for the main crude oil indicators.

For Venezuela, the change became evident in a strong rebound of the average price of the oil export basket and an increase in volumes of production and export of crude oil, with the resulting favorable impact on fiscal and foreign trade accounts. Along with further development of fiscal, monetary and foreign exchange policies aimed at growth and price stability, these factors stimulated a recovery of economic activity and enabled the government to maintain the inflation rate on the target path set at the beginning of the year.

A study of the main results shows that, in real terms, the Gross Domestic Product (GDP) grew 3.2% compared to the prior year. This increase reflected the recovery of both oil activity (3.4%), and the non-oil sector, which grew 2.7%. This performance was fostered in turn by domes-

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tic aggregated demand, which showed significant recovery during the year (5.8%), supported by government spending and a gradual decrease in interest rates.

Measured by fluctuations in the consumer price index, the inflation rate slowed substantially from an annualized rate of 20% in December 1999 to 14.2% in November 2000, which made it possible to forecast that as of year-end, inflation would be below the target set for 2000 (between 15.0% and 17%).

In the external sector, the substantial improvement in the terms of trade along with an increase in export volume set up the factors that led to a surplus in both the current account and the overall balance of payments. These surpluses more than offset an increase in imports brought about by economic activity and the net transfer of funds required for service of the foreign debt. All this allowed a significant accumulation of international reserves, which amounted to US\$ 21.647 billion, including the Macroeconomic Stabilization Fund [Fondo de Inversión para la Estabilización Macroeconómica] (FIEM), which is equivalent to 16 months of imports.

The financial system maintained stable development during the year, favored by the economic recovery and the decrease in interest rates, which led to a growth of credit activity and deposits. However, a decrease in indicators of capital adequacy and debt was observed. Also notable was the merger activity among banking institutions, which sought to achieve greater financial strength, repositioning themselves in the market, and improve their operating plans, as well as their service quality and efficiency.

Based on preliminary figures, government financial accounts showed an overall deficit of 1.8% of GDP, a figure lower than that recorded in 1999 (2.6% of GDP). This result shows the favorable impact of the increase in oil-related revenues, which offset lower domestic tax revenues and increase government spending during the year.

In 2000, monetary and exchange-rate policies were designed to reduce the inflation rate. The Central Bank’s inflation-fighting measures were fundamentally based on using the exchange rate as a nominal anchor for prices within the existing band system. This strategy was fostered by the growing strength of international reserves, which provided the cushion needed to implement the

“The monetary aggregates improved significantly, reflecting the above mentioned recovery of demand and the expansion of credit activity in the banking system”

strategy without compromising the foreign trade balance. Similarly, the gradual recovery of the demand for money and the improvement of the domestic political scenario allowed the Bank to follow a short-term expansive monetary policy in the first half of the year through net maturities of Monetary Stabilization Bills (TEMs). Subsequently, its monetary policy was neutral, which facilitated the downward trend of interest rates. In sum, the monetary aggregates improved significantly, reflecting the above mentioned recovery of demand and the expansion of credit activity in the banking system.

II. THE INTERNATIONAL ENVIRONMENT

The decade of the nineties concluded with a favorable balance for developed countries, which was promising for some developing countries and discouraging for others, mainly located in the African continent.

The unequal impact of globalization on countries continues to dominate discussions about the global economy in the various international forums. Such discussions evidenced the discrepancies between the visions of developed and developing countries. Particularly, there are differences on important issues such as trade liberalization, protectionist threats, the openness of financial markets, the role of civil society, labor codes, environmental claims, human rights and the appropriate functioning of multilateral institutions.

A major focal point in this debate during the year 2000 was the discussion about the benefits of free trade as a discernible element of development. Even now, many less advanced countries are afraid of the usage by developed countries of trade policies as mechanisms of protection, while, the less advanced countries are being pressured to open up their markets.

Under such circumstances, the benefits of globalization continued to be asymmetrical, mainly hurting developing countries, given their basic condition as exporters of raw materials. Likewise, the existence of tariff and non-tariff barriers in developed countries, whose objective is to protect the domestic producer, has made it difficult for their goods to freely enter developed markets.

In this context, one of the factors that most limits the growth of developing countries is the presence of non-tariff barriers in developed countries and the use of subsidies to protect a broad

range of domestic business sectors involved in production of raw materials in these countries. According to the World Bank, payments made by OECD countries to subsidize their agriculture are estimated at around US\$ 300 billion per year, a figure that approaches Africa's gross national product.

Similarly, the tariffs applied to commodities coming from developing countries, such as meat, sugar, milk and chocolate, often exceed 100% of their value in many advanced countries. The equivalent non-tariff barriers may be a few times more than the amount of the aforementioned tariffs. In addition, there are domestic taxes, which push prices to exaggerated levels, as in the case of oil. Such taxes often become obstacles to imports from developing countries, as is the case with coffee.

The curtailment of protectionist policies in developed countries would help reduce economic disparities facing developing countries and promote equity. Many developing countries that have deregulated their economies and maintain open trading policies have lost competitive capacity, entering into a gradual process of deindustrialization leading to more concentration on sales of raw materials, at a time when agricultural products represent a smaller portion of the world market every day.

On the socioeconomic level, although many developing countries improved their social indicators over the last decade, in general, the well-being of the people has declined. Even countries where significant advances were made against poverty in the first half of the decade have evidenced deteriorated living conditions as a consequence of the regional financial crises that occurred between 1995 and 1999.

This situation has forced the United Nations to redefine the objectives of international development, among which one stands out: to reduce the proportion of people living in extreme poverty in developing countries by less than half between 1990 and 2015. For Latin America, this objective would mean reducing the proportion of people who live on less than one dollar per day to 8% by 2015. Among the directives that have been suggested for dealing with poverty, one outstanding idea was the allocation of 20% of the budget to basic health and education, to be matched by international assistance funds. However, few donors or developing countries observe these guidelines.

As stated above, the unequal progress in human development indicators has put the relevance of market-oriented economic models to the test. A debate has arisen on the dogmas and

policies derived from these models and promoted by multilateral agencies. In accordance with the Human Development Report of the United Nations Development Programme between 1975 and 1998, the majority of countries observed growth in their human development indices, although at unequal rates. Ireland and Australia, countries that belong to the high human-development group, quickly improved their quality of life, as did countries such as Tunisia and China, in the medium human-development group, and Indonesia and Egypt, listed in the low human-development group. However, other countries have progressed very slowly, thus increasing the disparities between countries of high and medium human development, with respect to those at low levels. For this reason, combating poverty is now a high-priority policy objective.

Similarly, the state has been recast as a protagonist in economic activity, moving away from the trend to assign it a minimalist role, such as was enunciated in what is known as the “Washington Consensus”.

Moreover, an intense discussion has arisen about the opening of capital markets and its adverse effects on developing economies, given the volatility of private capital. This has compelled multilateral institutions to evaluate credit conditionalities and strengthen preventive actions in light of new financial crises.

In 2000, discussions continued on the new international finance architecture and the convenience of understanding the opening of capital markets as a gradual process, which demands the existence of strengthened national banking systems. Specific considerations have been added to this discussion, related to the use of capital controls and the standardization of monetary practices.

Regarding global economic performance, in 2000, the United States reached the top of the upward cycle which begun in the early 1990s, mainly based on high labor productivity. Real U.S. GDP was up about 5% this year, after growing 4.2% in 1999. However, projections indicate that the coming year’s growth rate will slow to 3.2%, as a result of interest rate hikes introduced by the Federal Reserve between 1999 and 2000.

In Europe, economies grew at a much slower rate than that observed in the United States, and average unemployment rate remained over 9%. European Union’s GDP increased more than

3% in 2000, after a 2.4% rise in 1999. For its part, the Japanese economy continued to fall short of a solid recovery, showing instead a growing weakness. This economy appeared unaffected by the approval of various fiscal stimulus plans and interest rates hovering around 0%. The increase in Japanese GDP could be about 1.5%, following upon a 1999 GDP of 0.2%.

In the developing countries, real GDP grew at a higher rate (5.6%) than that of the advanced nations. Contributing to this rate was the rebound (6.7%) of the Southeast Asian countries for the second consecutive year, benefiting from a healthy increase in their exports, mostly directed toward the U.S. market. Similarly, countries in transition showed outstanding growth (4.9%), although some were behind the curve of the regional upswing in the cycle led by Poland, Hungary and Slovenia.

Regarding Latin America, the recovery initiated in 1999 consolidated in the majority of countries in 2000, with real GDP growth estimated around 4%, after a modest 0.3% in 1999. The exceptions were represented by Ecuador (0.5%) and Argentina (around 1%). Ecuador was affected by the adjustments derived from the implementation of a dollarization plan early in the year; Argentina, by the approval of restrictive fiscal measures in the process of meeting the targets agreed upon with the IMF.

Likewise, oil exporting countries benefited tremendously from the steady increase in the price of crude oil throughout 2000. As a result, their GDP grew about 3.5%, enabling countries such as Venezuela and Saudi Arabia to overcome the contractions recorded in their 1999 GDPs, equivalent to 7.2% and 1.0%, respectively. The oil-price increase signaled the turn around of its sharp GDP decrease during 1998 and early 1999, caused by the weakened international demand for power due to the recession of the Asian economies. Similarly, Russia also benefited by the rise in oil prices, showing an economic growth rate in excess of 7% for the year.

In the oil price recovery, the cohesion of the OPEC member countries regarding their price-defense policies, in which Venezuela consistently played a leadership role, was a decisive influence. This was not the case for the majority of raw materials exported by the developing countries. As a result, their terms of trade continued to worsen, in spite of the expansion of the global economy. This year, the international prices of some raw materials such as wheat, rice, soy, fish, sugar, coffee, cotton, jute, copper, cobalt and gold fell for the second consecutive year, and some for the third consecutive year. Oil, natural gas, and nickel were among the few raw materials whose prices rebounded in 2000.

“Economic activity turned in a favorable performance in 2000, evidence that the economy is in a recovery stage following the recession experienced between the second half of 1998 and year-end 1999. According to preliminary estimates, Gross Domestic Product (GDP) grew 3.2% at constant prices, in contrast with a 6.1% decline in 1999”

Another key factor was the global integration of markets, which continued its upward march, driven by the trading facilities created through information technology. Many countries in fact did take advantage of information networks. However, because of lower transaction costs, faster methods of organizing production and greater flexibility in the formation of trading relationships, if developing countries are to realize their growth potential, they must improve their access to networks.

Finally, globalization continued to create winners and losers, with the greatest concentration of losers located in developing countries. These countries can't compete with the winning countries' manufactured products; they are highly dependent on raw materials with depressed prices, and they have large low skill workforces.

III. VENEZUELA'S ECONOMY

1. ECONOMIC ACTIVITY: PRODUCTION AND EMPLOYMENT

Economic activity turned in a favorable performance in 2000, evidence that the economy is in a recovery stage following the recession experienced between the second half of 1998 and year-end 1999. According to preliminary estimates, Gross Domestic Product (GDP) grew 3.2% at constant prices, in contrast with a 6.1% decline in 1999.

GROSS DOMESTIC PRODUCT % change

	At 1984 prices		
	2000/99(*)	1999/98(*)	1998/97*
OIL ACTIVITIES	3.4	(7.4)	2.0
NON-OIL ACTIVITIES	2.7	(5.4)	(0.9)
Goods	3.3	(6.9)	(3.8)
Services	2.5	(4.8)	0.5
IMPORT DUTIES	15.0	(10.4)	10.9
TOTAL	3.2	(6.1)	0.2

(*) Preliminary Figures

* Revised Figures

Source: BCV

“Private consumption, for its part, showed an increase estimated at 4.6%, permitting it to return to its level prior to the 1999 recession. This was attributable to higher family incomes derived from the growth in economic activities and the effects of the increase in government spending”

This increase in GDP can basically be explained by the government’s adoption of an expansive fiscal policy in order to stimulate the economy, as well as the stronger growth in oil-related activity. Preliminary figures show that production volume reached 3.1 million b/d, representing 5.1% growth compared to 1999. To a large degree, this was led by the extraordinary growth in the production of heavy and extra-heavy crude oil (34.2%), not to overlook the significant contribution made by production of light crude and condensates.

The recovery of aggregate domestic demand stimulated the growth of non-oil GDP (2.7%), which translated into a recovery in both goods (3.3%), and services (2.5%). Broken down by sector, it can be seen that the trading sector stood out among service activities, with growth of 5.1%. The remaining service sectors also performed well, except construction, which declined 4.9%, in spite of the 6.9% rebound in the fourth quarter. With a weight of about 90.0% among non-oil GDP goods, manufactured goods expanded 3.6%, entirely due to 4.2% growth in private-sector manufactured goods, while government manufactures declined 0.6%.

In addition to the stimulus of aggregate domestic demand, another factor influencing the growth of non-oil GDP, though to a lesser degree, was a 15.8% real increase in non-oil exports (29.1% in current U.S. dollars). This basically reflected the growth recorded by the economies of Venezuela’s main trading partners such as the United States, Mexico and Colombia.

The growth in aggregate domestic demand (5.8%) contrasted with a 5.9% decrease that occurred in the prior year. It was the result of a 4.8% increase in consumption and a 2.0% increase in investment. Government consumption rose sharply, 5.6%, by virtue of an increase in government spending during the year, which was especially notable in the first half of the year. Private consumption, for its part, showed an increase estimated at 4.6%, permitting it to return to its level prior to the 1999 recession. This was attributable to higher family incomes derived from the growth in economic activities and the effects of the increase in government spending.

“ Investment showed favorable signs, with a 2.0% recovery, after a significant drop of 16.4% in 1999. According to estimates, investment was driven by particular events that took place in the telecommunications and oil sectors”

**AGGREGATE DEMAND
% change**

	At 1984 prices		
	2000/99(*)	1999/98(*)	1998/97*
1) FINAL CONSUMPTION	4.8	(3.2)	0.1
Public Sector	5.6	3.0	1.4
Private Sector	4.6	(4.3)	(0.1)
2) GROSS FIXED INVESTMENT	2.0	(16.4)	(2.5)
3) AGGREGATE DOMESTIC DEMAND 1/	5.8	(5.9)	0.4
4) EXPORTS	5.8	(10.8)	4.2
5) Less: IMPORTS	19.5	(14.6)	9.4
6) AGGREGATE DEMAND (3 + 4 - 5)	3.2	(6.1)	0.2

(*) Preliminary figures

* Revised figures

1/ Includes Change in Inventory

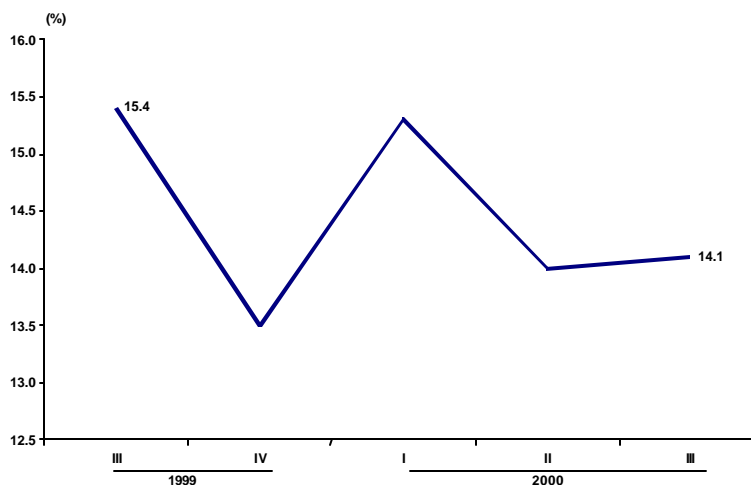
Source: BCV

Investment showed favorable signs, with a 2.0% recovery, after a significant drop of 16.4% in 1999. According to estimates, investment was driven by particular events that took place in the telecommunications and oil sectors. Therefore, it must be admitted that investment has still not achieved a level of strength that would point to recovery of the economy, neither in the government nor in the private sphere.

Furthermore, according to figures furnished by the Office of Statistics and Information Technology [Oficina Central de Estadística e Informática (OCEI)], in the labor market, the unemployment rate fell from 15.4% in the third quarter of 1999 to 14.1% in the third quarter of 2000. Lower unemployment was a result of the conjunction of a slight increase of 0.4% in the economically active population (PEA) (44,700 people) and an addition of 1.9% people to the workforce (164,997 people). Thus there was a net decrease of 120,297 people in the unemployed population.

“ For the fourth consecutive year, inflation, measured by the changes in the Consumer Price Index (CPI) for the Caracas Metropolitan Area, experienced a slowdown. It was reduced from an annualized rate of 20.0% in December 1999, to 14.2% in November 2000”

QUARTERLY UNEMPLOYMENT RATE

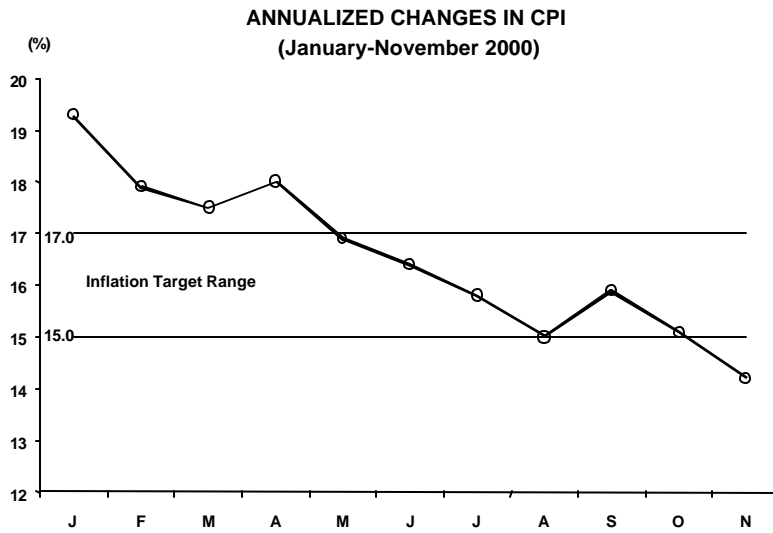


Source: OCEI

The preliminary nature of the numbers does not allow a conclusive analysis. However, it is possible to suggest some factors that relate the weak rebound of formal employment and the recovery of output, particularly non-oil output, which might explain the precariousness of the majority of the jobs being created. Among other factors, a fundamental explanation of this behavior is the uncertainty about future reforms of the social security system and the Labor Law [Ley Orgánica del Trabajo] and the introduction of flexible labor policies mainly used by transnational companies around the world.

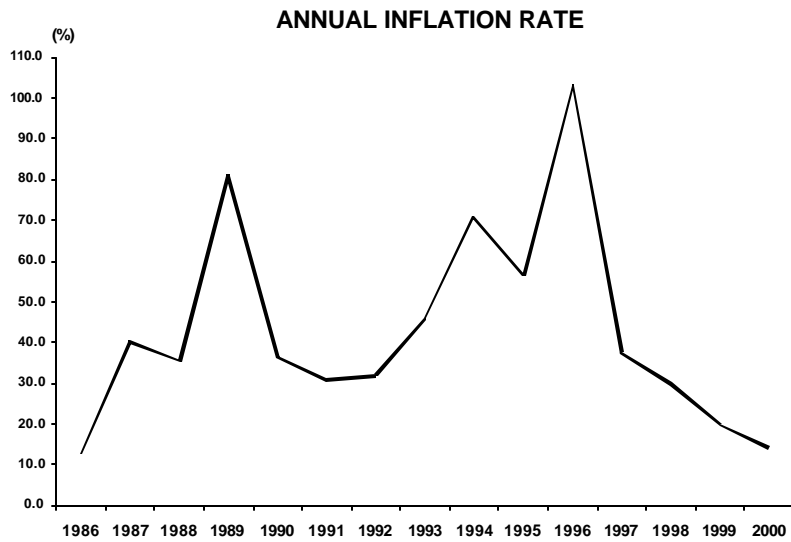
2. INFLATION

For the fourth consecutive year, inflation, measured by the changes in the Consumer Price Index (CPI) for the Caracas Metropolitan Area, experienced a slowdown. It was reduced from an annualized rate of 20.0% in December 1999, to 14.2% in November 2000. Similarly, the cumulative price change for the January-to-November 2000 period was 12.3%, below the price change for the same period in the prior year (18.1%).



Source: BCV

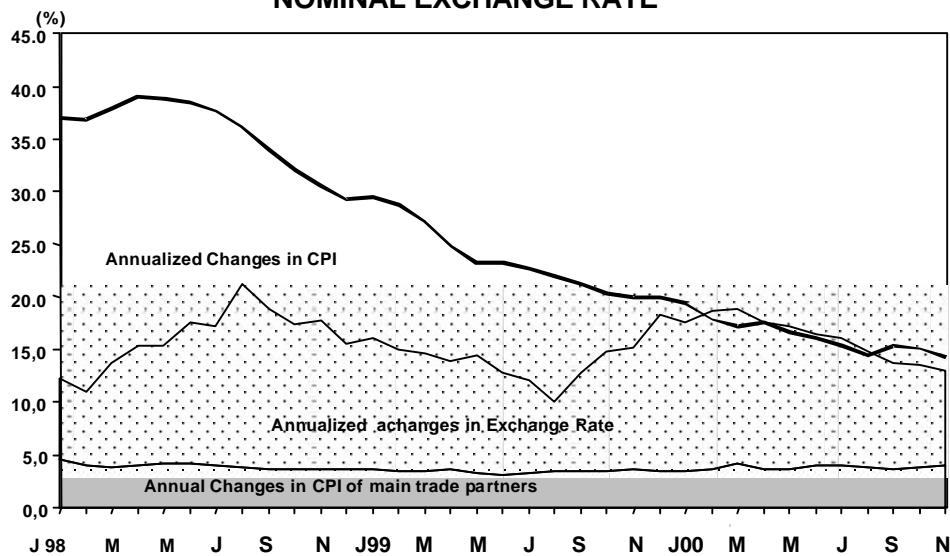
It is estimated that, in spite of a seasonal surge of demand in the month of December, inflation will not show significant deviations from the trend observed during the year. If this is the case, the inflation level will be the lowest achieved since 1986



Source: BCV

Price growth in 2000 has two essential features: in the first place, it is on a downtrend, important in itself and, in the second place, it is below the target range set by the economic authorities (between 15.0% and 17.0%). This behavior was fundamentally supported by the currency anchor represented by the band system. Furthermore, it was based on its sustainability, given the favorable conditions in the oil market, which fostered continuing convergence of the national inflation rate with that of Venezuela's major trading partners. In fact, it has been shown that this year, the gap between the two inflation levels converged, on average, at the rate of depreciation of the nominal exchange rate.

DOMESTIC INFLATION, INTERNATIONAL INFLATION AND¹ DEPRECIATION OF THE NOMINAL EXCHANGE RATE



(1) This refers to the average CPI change for Venezuela's main trade partners, weighted by the respective import share.

Source: BCV

Furthermore, as opposed to the deceleration observed in 1999, this year's reduction of inflation occurred in a context of economic recovery. There were several factors preventing the demand that activated the economic recovery from translating into upward pressure on prices. These included the low levels of capacity in use by [manufacturing] companies, owing to the prolonged period of economic recession, as well as the reallocation of spending toward goods produced abroad, given the cumulative decline in their relative price (23.1% over the past four years).

“ In accordance with preliminary estimates, the Venezuelan economy showed a balance of payments surplus of US\$ 6.092 billion for the year 2000. The surplus was basically attributed to the substantial recovery of the current account, closely related to oil revenues ”

Unlike data observed for 1999, this year we can see differences in the behavior of the CPI, on the one hand, and the Producer Price Index (PPI) and Wholesale Price Index (WPI), on the other. In fact, while the fluctuations in the CPI maintained a downward trend, other indices showed greater increases, which were most pronounced in the wholesale sphere. Thus, as of the end of November 2000, annualized changes in producer and wholesale prices were 10.9% and 16.0%, respectively, higher than the rates recorded in December 1999 (9.7% and 13.6%, respectively).

3. EXTERNAL SECTOR

In accordance with preliminary estimates, the Venezuelan economy showed a balance of payments surplus of US\$ 6.092 billion for the year 2000. The surplus was basically attributed to the substantial recovery of the current account, closely related to oil revenues.

BALANCE OF PAYMENTS Millions of US\$)

	2000 (*)	1999 *
CURRENT ACCOUNT	13.365	3.689
Goods Balance	17.965	7.606
Exports fob	34.038	20.819
Oil	28.716	16.697
Non-oil	5.322	4.122
Imports fob	(16.073)	(13.213)
Services Balance	(3.309)	(2.469)
Income Balance	(1.152)	(1.518)
Current Transfers	(139)	70
CAPITAL AND FINANCIAL ACCOUNT	(3.670)	(1.650)
Direct Investment	3.789	2.669
Portfolio Investment	(1.403)	1.459
Other Investment	(6.056)	(5.778)
ERRORS AND OMISSIONS	(3.603)	(990)
GLOBAL BALANCE	6.092	1.049
NET CHANGES IN RESERVES	(6.092)	(1.049)
Central Bank of Venezuela	(1.388)	(784)
Venezuelan Investment Fund	(368)	(50)
Macroeconomic Stabilization Fund	(4.336)	(215)

(*) Preliminary figures

* Revised figures

Source: Central Bank of Venezuela

“Given these results, the total gross international reserves (Central Bank, Venezuelan Investment Fund and Macroeconomic Stabilization Fund) rose to US\$ 21.647 billion, equivalent to 16 months of imports”

“Although the increase in oil exports strongly influenced the results of the current account, there was also a favorable trend in non-oil exports, which rose 29.1% compared to 1999, from US\$ 4.122 billion to US\$ 5.322 billion”

Given these results, the total gross international reserves (Central Bank, Venezuelan Investment Fund and Macroeconomic Stabilization Fund) rose to US\$ 21.647 billion, equivalent to 16 months of imports. The current account surplus of US\$ 13.365 billion, represents 11.5 GDP percentage points and reflects an absolute change of US\$ 9.676 billion compared to the prior year. The greatest growth in the current account basically came from an increase of US\$ 12.019 billion from oil exports, and, to a lesser degree, from a non-oil revenue increase of US\$ 1.200 billion.

The significant increase brought about by oil exports is the result of a 2.0% increase in volume, and a substantial recovery — 66.9% — of the average price of Venezuela’s oil basket (crude oil and oil products), which rose to US\$ 26.69/b from US\$ 16.04/b, the average 1999 price.

Although the increase in oil exports strongly influenced the results of the current account, there was also a favorable trend in non-oil exports, which rose 29.1% compared to 1999, from US\$ 4.122 billion to US\$ 5.322 billion. The trend of non-oil exports is linked to more active trading with Venezuela’s main trading partners, which sought to strengthen their economies and obtain the higher prices available for the majority of goods traded in the international market.

Similarly, imports increased US\$ 2.860 billion (21.7%), an important determinant of this behavior was the increase of the related intermediate goods (24.4%), congruent with the expansion seen in domestic economic activity. Private-sector imports, representing 82.3% of total imports, grew US\$ 2.245 billion, of which US\$ 1.619 billion corresponded to intermediate goods. Similarly, there was a strong surge in public sector non-oil imports (39.5%), with a 33.9% increase in intermediate goods and a 94.9% increase in capital goods, while public-sector oil imports rose 23.5%.

The Services Account showed a deficit of US\$ 3.309 billion, basically linked with a negative balance of US\$ 1.413 billion in transport expenses and US\$ 1.206 billion in the travel account. These accounts traditionally have a negative balance, but the greater requirements associated with greater import growth increased the demand for transport and insurance services.

According to preliminary figures, the Capital and Financial Account ended the year with a deficit balance. Factors explaining this trend include less use of foreign debt to fund government accounts and a stock repurchase transaction by Electricidad de Caracas. The conjunction of these

“At the end of the month of November, the nominal exchange rate was 697.00 Bs./US\$, while the average exchange rate for the year was 678.87 Bs./US\$. Similarly, the behavior of the currency market was reflected in the trend of the nominal exchange rate, which depreciated by 7.4 percentage points during the year to date, indicating comparatively greater stability”

events, recorded in the Portfolio Investment Account, was responsible for the 1999 surplus of US\$ 1.459 billion falling to a deficit of US\$ 1.403 billion at year-end 2000.

Net direct foreign investment was an outstanding source of revenues, reaching US\$ 3.789 billion. However, investment carried out in Venezuela by non-residents rose to US\$ 4.110 billion, representing an increase of US\$ 923 billion compared to the flow recorded at the close of 1999. Basically, these investments are directed toward the non-oil private sector (US\$ 2.437 billion). On the other hand, private direct foreign investment in the oil sector fell from its 1999 level to a total of US\$ 1.549 billion.

The balance in the Other Investment category remained at a level similar to that of the prior year. Among other items, this account includes settlement by government-owned oil companies of interest payable, disbursements for deposits abroad by public financial institutions and reallocation of portfolios by investors.

At the end of the month of November, the nominal exchange rate was 697.00 Bs./US\$, while the average exchange rate for the year was 678.87 Bs./US\$. Similarly, the behavior of the currency market was reflected in the trend of the nominal exchange rate, which depreciated by 7.4 percentage points during the year to date, indicating comparatively greater stability.

The price of Latin American debt was mainly influenced by external factors. Among these, the most significant were progressive interest-rate increases in the U.S. market and the high volatility observed in the stock markets. This situation led investors to rebalance their portfolios, selling securities from emerging markets and buying safer financial instruments that had growing returns, such as those issued by the U.S. Treasury. As a result, there was an unfavorable trend in the region's country risk, with steadily increasing spreads in the returns required by investors. Although these indicators would place Venezuela among the highest-risk countries in Latin America, in relative terms, it obtained a less negative result in 2000 than Argentina, Brazil, Colombia and Mexico. In fact, while Colombia, Argentina, Brazil and Mexico recorded country risk increases of 69,0%, 64,0%, 48,0% and 33,0% through early December, respectively, Venezuela's country risk only increased 19,0%. In addition to the external factors already mentioned, some countries were also affected by domestic socioeconomic and/or political situations. Venezuela experienced a significant improvement in its main macroeconomic indicators. Nevertheless, it would seem that the risk rating agencies accord

“The government hoped that a higher level of spending and the resulting increase of aggregate domestic demand would help keep the economy’s recessionary cycle from broadening.”

greater importance to factors of another kind, because in spite of its achievements, its risk rating has still not improved.

4. FISCAL POLICY

The fiscal policy designed by the Administration for the year 2000 was expansive in order to foster economic growth, adversely affected in 1998 and 1999. The government hoped that a higher level of spending and the resulting increase of aggregate domestic demand would help keep the economy’s recessionary cycle from broadening.

To this end, the financial accounts of the Central Government began 2000 with significant changes in the fiscal scenario projected in the Budget Act [Ley de Presupuesto]. This called for adjustments in revenues and expenses, as well as in funding requirements, without changing the direction of fiscal policy set for the fiscal year.

Regarding fiscal revenues, the international oil market scenario in the first quarter indicated that the rising oil-price trend was already firming up in the short term. This allowed an estimate of an average expected price for Venezuela’s export basket that was significantly higher than the average price of US\$ 15.0/b established in the Budget Act. This highly favorable oil scenario translated into a substantial increase in the fiscal contribution of Petróleos de Venezuela [PDVSA]. That increase improved the Government’s capacity to finance its expenditures and reduce the projected fiscal deficit.

However, the favorable impact that higher oil revenues would have on fiscal accounts was partially offset by lower non-oil tax revenues. This was basically a result of the slow recovery of the domestic economy and the negative effect of the 1999 economic recession on income tax receipts.

In terms of government expenditures, the Administration’s budget started out with new and greater social requirements. Among other factors, they were tied to the need to undertake works to rebuild the State of Vargas, which incurred severe damages from the natural tragedy that took place in the month of December 1999. Likewise, the Government was under an urgent obligation to implement public-works programs promised to contribute to the recovery of economic growth and reduce the unemployment rate. It also had to increase compensation of workers by setting a new

national minimum wage, pass a decree increasing wages and sign public-sector collective bargaining agreements, as well as allocate the funds required to service the national debt in a timely manner.

This combination of revenue and expense factors resulted in government financial accounts showing an overall deficit of 1.8% of GDP, according to preliminary Central Bank figures, which was lower than the 1999 fiscal deficit (2.6% of GDP). This deficit derives from an actual expense level that remains higher than revenues, even though the nominal rate of increase in expenses (46.2%) was lower than that of fiscal revenues (54.6%).

**GOVERNMENT
FINANCIAL ACCOUNT**
(% of GDF)

	2000 (**)	1999 (*)	1998*
TOTAL REVENUES	19.6	16.6	16.4
Oil	10.0	6.3	6.2
Non-oil	9.6	10.3	10.2
TOTAL EXPENSES	21.4	19.2	20.6
Current expenses	16.8	15.7	16.1
Capital expenses	3.3	2.8	3.3
Unbudgeted expenses	0.4	0.3	0.5
Net loans granted	0.8	0.3	0.7
Overall surplus or deficit (-)	(1.8)	(2.6)	(4.1)

(**) Preliminary estimate

(*) Preliminary figures

* Revised figures

Source: Central Bank of Venezuela and Ministry of Finance

Regarding government expenditures, the Government met the greater demands indicated above by floating additional debt. In fact, budgeted expenditures increased from 21.7% (Budget Act 2000) to 28.7 % of GDP, as of year-end. Actual expenses reached a level of 21.4% of GDP, a figure slightly higher than that recorded in the prior year (19.1%).

“Similarly, during the fourth quarter of the year, the Government began a process of refinancing domestic debt through a Treasury Bond issue using a swap mechanism. The purpose of the refinancing was to improve the domestic debt profile, increase its sustainability and stimulate the capital markets”

**GOVERNMENT
FISCAL ACCOUNT**
(% of GDF)

	2000 (**)	1999(*)	1998*
Budgeted expense	28.7	23.3	22.7
Actual expense	21.4	19.2	20.6
Primary	18.9	16.5	18.2
Domestic	19.5	17.3	18.5

(**) Preliminary estimate

(*) Preliminary figures

* Revised figures

Source: Central Bank of Venezuela and Ministry of Finance

The increase in expenditures budgeted for 2000 translated into greater funding requirements, which were met by a strategy basically directed to raising funds in the domestic market. In fact, this year, the preference for obtaining funds in that market prevailed, in both medium- and long-term bonds and Treasury Bills.

The strategy of issuing domestic debt continued to receive support from the surplus of liquidity in the financial system, given the incipient recovery of bank credit. Thus the Government was able to issue government bonds at a price very close to face value (99.0% on average). However, the real annual percentage rate of Treasury Bonds [DPN] increased 1.1 percentage points from 8.6% in 1999 to 9.7% at year-end 2000.

Similarly, during the fourth quarter of the year, the Government began a process of refinancing domestic debt through a Treasury Bond issue using a swap mechanism. The purpose of the refinancing was to improve the domestic debt profile, increase its sustainability and stimulate the capital markets.

The strategy of focusing on the domestic market as a source of funding was supplemented by raising funds in the foreign voluntary credit markets. Thus, in the second quarter, the Government issued [debt] in the amount of US\$ 498.0 billion in the Eurobond market, at a fixed nominal rate of 10.5% with a 5-year term. In placing this debt, Venezuela regained its presence in the foreign market, in contrast to prior years, when there were difficulties accessing that market. Venezuela continued to receive loans from multilateral and bilateral lending institutions (Bs. 727.4 billion).

When comparing the foreign funding received with the loan payments remitted, the net foreign financing was negative, according to preliminary figures, at Bs. 554.7 billion. In addition, the Government made contributions to the Macroeconomic Stabilization Fund (FIEM) in the amount of Bs. 1.41 trillion, contributing to the cumulative balance of US\$ 3.603 billions in that fund as of December 19, 2000.

5. MONETARY POLICY

In 2000, the activities of the Central Bank of Venezuela were designed to achieve the inflation target set by the economic authorities at the beginning of the year. Based on this objective, as stated above, the anti-inflationary policy of the Central Bank was based on using the exchange rate as a nominal anchor for prices, within the framework of a band.

In this regard, the Bank's greater participation in the currency market corrected the imbalances in the money market while guaranteeing the stability of the exchange rate. This policy achieved significant milestones throughout the year, evidenced in the record of the monthly inflation rate, which was in line with expected levels.

In this context, monetary policy during the year can be divided into two clearly distinct periods. The first period, from January to June, when monetary policy was expansive, as a result of calling the outstanding Monetary Stabilization Bills (TEMs). These money market transactions led to the elimination of this non-monetary liability in June. Among other things, this meant a substantial improvement in the financial balance sheet of the Central Bank.

The second period began in June, when the Bank assumed a neutral position with respect to monetary policy strategy, limiting Central Bank of Venezuela activities to credit assistance transactions. During this period, for the first time since November 1989, open market operations were not used as an instrument of monetary control.

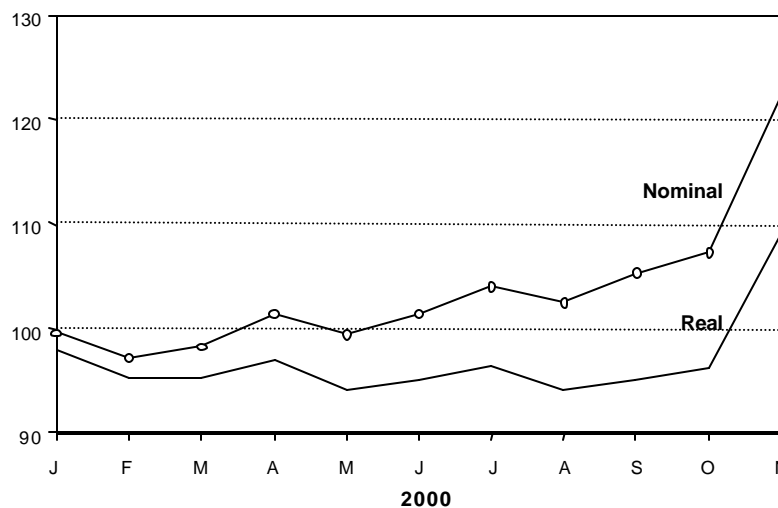
The neutral monetary policy position taken was based on the growing availability of international reserves, given the favorable performance of oil exports during the year. The greater availability of foreign exchange gave the Bank the cushion it needed to implement its anti-inflationary policy

without compromising the trade balance. Similarly, the incipient economic recovery and domestic political exigencies stimulated the growth of demand for money throughout the year.

According to preliminary figures as of mid-November, the money supply (M2) recorded a nominal increase of 22.3%, a reflection of the secondary creation of money seen during the year. For its part, the monetary base showed a nominal increase of 12.1%, behavior influenced by the correction in the demand for currency by private investors in the first half of the year, after the Year 2000 Problem scenario had wound down.

Thus, the banking system and the public adjusted the significant increase in the monetary holdings demanded for precautionary purposes, investing their surpluses in government and private [corporate] bonds, as well as in the currency market.

Monetary Liquidity Index (December 1999=100)

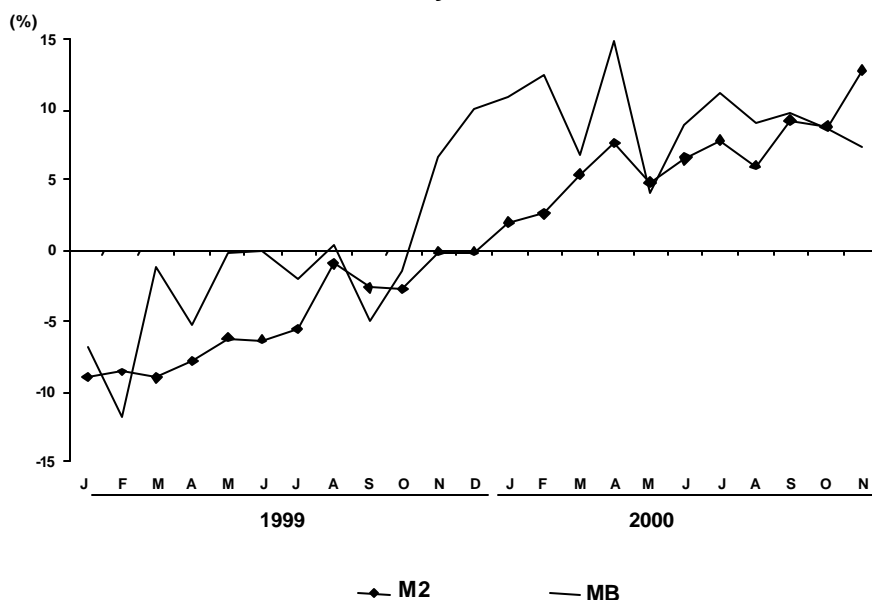


The behavior of the money supply (M2) was determined by the trend of total deposits held by the public (25.5%), which shows the significant creation of money carried out by the banking system. Breaking M2 down into its components, we can see private investors' preference for savings instruments as opposed to cash holdings.

“The fact that monthly inflation rates were less than those of 1999, and declining expectations of depreciation due to growing availability of foreign assets, led to a progressive reduction in interest rates. In fact”

For its part, the demand for money showed signs of recovery in 2000. In fact, the annualized monthly change in real M2 was positive every month, all year, which was consistent with the economic recovery process in Venezuela.

Annual Growth Rate of the Money Supply and the Monetary Base in Real Terms



Source: BCV

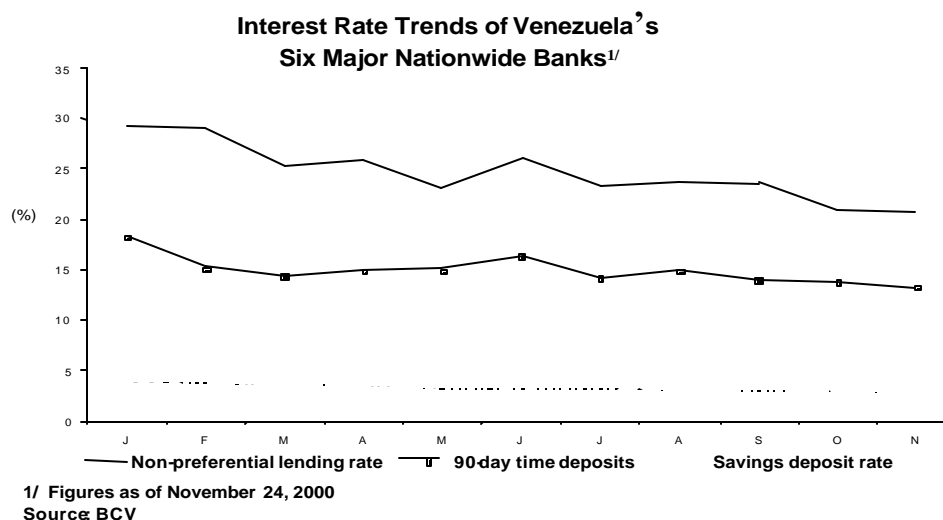
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The fact that monthly inflation rates were less than those of 1999, and declining expectations of depreciation due to growing availability of foreign assets, led to a progressive reduction in interest rates. In fact, according to preliminary figures as of November 24, 2000, the average lending rate of the six main banks in the system fell 6.5 percentage points to 21.7%, compared to December 1999. Similarly, the borrowing rate for 90-day savings instruments fell 3.5 percentage points to 13.7% compared to December 1999.

The interest-rate trend translated into a gradual reduction in the spread between lending and borrowing rates² throughout the year, from 19.4 percentage points as of December 1999 to 14.0 percentage points as of October 2000. The reason that this spread has not been further reduced is the lack of flexibility in the lending rate, given the cost structure that still prevails in the

² To calculate the interest rate spread, the Bank used the weighted average lending rate applicable to the portfolio of current and restructured loans of the six major banks and the weighted average borrowing rate for interest-bearing time and demand deposits.

banking industry. In this regard, the fact that nonfinancial expenses are currently weighted heavily among total costs (58.9%) negatively affects the sector's financial results.



In real terms, money market interest rates maintained a stable trend. In fact, the lending rate declined 0.8 percentage points compared to December 1999, to 8.8% as of November 24. For its part, the reference rate for 90-day deposits was 0.8%, a fluctuation of 1.9 percentage points compared to its December level. In September the real borrowing rate turned positive for the first time in the last 15 months. If that trend is maintained, it could become a stimulus for domestic private savings in the months to come.

6. FINANCIAL SYSTEM

In 2000, Venezuela's financial system operated in an environment of slow recovery of domestic economic activity and a greater demand for money expressed by an increase in general deposits. The combination of these two factors led to a recovery in the degree of monetization of the economy and the current loan portfolio, which experienced both nominal and real increases.

The financial intermediation ratio (current loans/total deposits) did not experience a significant fluctuation compared to the prior period, and was 60.9% as of October 2000. At the same time, the problem loan portfolio improved slightly as a proportion of the total portfolio, from 6.1% in 1999 to 6.0% as of October 2000.

Although a recovery in demand for money can be observed, the structure of banking system deposits continues to be similar to that of prior periods. The public continues to prefer highly liquid, short-term instruments, although there is a slight rebalancing in favor of time deposits. In this regard, demand deposits represent 44.5% of total deposits, while time deposits amount to 27.1% of the total.

Regarding the structure of the banking sector and the measures adopted to improve its performance, this sector experienced a boom in 2000 due to mergers among financial institutions, mainly savings and loan institutions. This process could contribute to the adjustment of the size of the banking sector. However, in the medium term, we should be able to see benefits such as rationalization of cost structures and taking advantage of economies of scale and scope. It should be borne in mind that the bank mergers are taking place in a system that is showing signs of concentration both in debt issued and deposits received. This situation could become more pronounced, with a resizing of the sector in terms of fewer institutions, which could affect the structure of the market.

For their part, the capital markets showed little activity for the greater part of the year. This was basically a function of the uncertainty generated by the electoral process. In addition, it reflected the performance of the international markets brought about by interest rate policies implemented by the U.S. Federal Reserve, and recent adjustments in the risk ratings of the emerging markets in Latin America. However, transactions carried out in this market were driven by the short-term effect of the bid to take over Electricidad de Caracas (EDC), as well as by mergers being carried out by financial institutions during the second and third quarter of 2000.

IV. THE ROLE OF INSTITUTIONS

The Central Bank of Venezuela shares the increasingly accepted opinion about the reforms known as “first generation,” that is, those associated with the achievement of macroeconomic equilibrium. They are considered insufficient for achieving per se the solution for problems related to a better income distribution. In this regard, other changes must be implemented in order to reach higher sustainable levels of human development and a significant reduction in poverty.

Among the aforementioned changes are those of an institutional nature, the changes that make it viable to establish a system of rules to define the performance of both organizations and individuals. In Venezuela, over the past two years, the groundwork has been laid for the operation and achievement of greater efficiency in markets and organizations, both public and private.

In fact, the goals envisioned by the promulgation of the new Constitution and Enabling Law [Ley Habilitante] in 1999 included an increase in the Administration's efficiency and advancement of the plan to modernize public finances. The measures also worked toward creating conditions favorable to productive investment, in particular opening spaces for and channeling resources toward private investment. Thus, the Bank has continued to have a positive influence on a set of perceptions and expectations regarding recognition of property rights, the broadening of law-and-order mechanisms and the quality of the bureaucracy. At the same time, it is working on eliminating occurrences of corruption in government. Progress on these initiatives is indispensable for achieving a greater return on the economy by accelerating the schedule of investment in human and physical capital.

In this regard, this year there has been continued progress in the area of defining institutions, one highlight of which was approval of the Public Finance Act [Ley Orgánica de la Administración Financiera del Sector Público]. The purpose of this Act is to regulate and control the administration of public finances, including macroeconomic coordination and the preparation of multi-year budgets. Likewise, contributions to the Macroeconomic Stabilization Fund (FIEM) throughout the year guarantee the availability of an effective instrument for dealing with the traditional volatility of Venezuela's economy.

The recent approval of a new Enabling Law will provide continuity for the above-mentioned institutional initiatives. In this law, directly related to the achievement of greater economic efficiency, there is a provision for new legal measures to regulate and strengthen the stability and competitiveness of the financial system, including the strengthening of capital in the banking sector. The law also addresses organization of information systems for the purpose of establishing legal security for the expansion and development of electronic communications. In addition, it mandates standards for minimizing operating expenses and for improving technical capabilities and management of the government.

“The most significant institutional definition for strengthening the coordination and improving the efficiency of monetary and fiscal policies will be a Policy Agreement that must be reached between the Ministry of Finance and the Central Bank of Venezuela. This Agreement is also set forth in the current Constitution”

“The Central Bank of Venezuela has dedicated special effort to the regional integration process through active participation in the Andean Community”

Implementation of these reforms must be continued during the next year. In this regard, the most significant institutional definition for strengthening the coordination and improving the efficiency of monetary and fiscal policies will be a Policy Agreement that must be reached between the Ministry of Finance and the Central Bank of Venezuela. This Agreement is also set forth in the current Constitution. Its basic tenets must be supplemented by measures to refine budget preparation procedures, implement fiscal reform, regulations for the FIEM, and restructure the Servicio Nacional Integrado de Administración Tributaria (SENIAT) [Internal Revenue Service] with a view to improving tax collection.

In keeping with the Temporary Provisions of this Constitution, the new Law of the Central Bank of Venezuela [Ley del Banco Central de Venezuela] must also be passed this year. This Law includes the basic definitions of the new framework within which the Bank must perform its duties, which must adhere to the national goal of developing the productive economy within the appropriate framework of social justice. This will ensure the macroeconomic and macro-social equilibria indispensable for better income distribution. These objectives are also basic instruments to enable the country to achieve genuine competitiveness rooted in an economic system that rewards the activities of financial and social investors. For this purpose, conditions must guarantee availability of timely financial resources at a reasonable price, as well as educational resources that provide a labor force and stimulate an adequate level of skill and creativity. They must also guarantee a highway infrastructure and suitable communications capabilities, all within a fully operational institutional framework.

V. INTERNATIONAL RELATIONS OF THE CENTRAL BANK OF VENEZUELA

The Central Bank of Venezuela has dedicated special effort to the regional integration process through active participation in the Andean Community.

Particularly, the Central Bank has strengthened its advisory role with the Government regarding negotiations to create an Andean Common Market as well as in the Negotiating Groups on Investments and Services Trade in the Free Trade Area of the Americas (FTAA) and the World Trade Organization. At the same time, the Bank has met its commitments as a member of the Andean Community Advisory Council of Finance Ministers, Central Banks and Economic Planning Officials [Consejo Asesor de Ministros de Hacienda y Finanzas, Bancos Centrales y Responsables de

Planeación Económica]. The relevance of these negotiations and their potential impact on Venezuela's financial system led to creation of a Working Group on Regional Integration and International Trade Agreements [Mecanismo de Trabajo para la Atención de los Procesos de Integración Regional y Acuerdos Internacionales de Comercio]. Its goal is to provide institutional responses to support Venezuela's national position in the various regional and international forums in which the country participates.

In order to strengthen this regional perspective and the negotiating capacity of the countries in our region, the Bank has been a very active participant in the recent debates and amendments to the bylaws of the Center for Latin American Monetary Studies (CEMLA). Likewise, it has attended the Annual Meetings of the Board of Directors of the Latin American Reserve Fund [Fondo Latinoamericano de Reservas (FLAR)] during which important discussions have taken place regarding the creation of a Latin American Monetary Fund [Fondo Monetario Latinoamericano], an important step toward the effective economic integration of Latin America.

In the global scene, the Bank continues to contribute to the search for the suitable corrective measures to the framework of the international monetary and financial system and strengthened Venezuela's position as an active member of the multilateral institutions, which are increasingly dedicated to the promotion of financial stability, sustainable growth and the reduction of poverty. To this end, the Bank participated in the Spring and Annual Meetings of the IMF and the World Bank. These meetings addressed in depth the mechanisms for involving the private sector in the resolution of financial crises, a review of IMF facilities, progress on Supervision and International Codes and Standards, and the financing and implementation of the Initiative for Heavily Indebted Poor Countries (HIPC). This participation in the executive bodies of the Bretton Woods institutions has been reinforced through Venezuela's presence in the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24). In addition, the Bank participated in the Annual Meeting of the Inter-American Development Bank (IADB), to follow up on the agenda of this multilateral development bank.

With the same perspective, the Bank attended the annual meetings of Central Bank Governors of the Americas and Spain, and of these countries with the Philippines. During these meetings, the discussion focused on the trends of the global economy and its repercussions for the region, the

implementation of key international standards, and the role of the IMF in Latin America and the Caribbean. It also addressed certain basic matters that would be placed before the executive bodies of the Bretton Woods Institutions the authorities and the authorities of the G24.

In addition, the Bank has continued strengthening contacts with the offices responsible for international relations of the various Venezuela's Government agencies, in the context of the newly created Inter-Institutional Consulting Group on International Economic Policies [Grupo de Consulta Interinstitucional en Materia de Política Económica Internacional]. This Group is sponsored by the Central Bank of Venezuela to facilitate interaction, consulting, support and coordination of activities regarding international economic policies among the participants..

VI. OUTLOOK FOR VENEZUELA'S ECONOMY

The performance of Venezuela's economy in 2000 showed a turnaround of the recession that was its hallmark for the past two years. For the coming year, it is hoped that the positive performance will be taken to another level.

Thus, the international scenario in which Venezuela's economy will unfold seems to be positive. In fact, in spite of indicating a lower rate of growth for the global economy, international agencies have been projecting a growth rate above 4.0%. A possible slowdown of the U.S. economy would be partially offset by higher growth rates in Germany, Japan, China, and newly industrialized countries in Asia, as well as stronger growth in Latin America and Africa.

This growth of the global economy projected by various specialized agencies assumes greater requirements for crude oil. For its part, the global crude oil supply must increase as well, though to a lesser degree than demand. Specifically, the supply of crude oil from non-OPEC producers could increase, but this would still not be sufficient to meet the increased power requirements. Thus if OPEC continued its joint management of production, and the problem of refineries changing their diet to sweet crude oil persisted along with the deficit in crude-oil transport capacity, the expected average price level would be similar to that of 2000.

“In this scenario of greater economic growth and significant institutional changes, Central Bank activities will continue to be aimed at inflation control, in the context of the rest of the policies determined by the Government”

Similarly, the expansion of the global economy in the coming year, particularly with reference to Venezuela’s main trading partners, does not only mean greater demand for Venezuela’s oil, but also for the other goods and services produced in the country.

As mentioned above, the set of institutional reorganizations proposed is a sine qua non of economic and social viability. Although the design and implementation of these reforms could generate short-term costs, to delay them would have worse effects, especially after the partial progress that has already been made. Implementing the reforms will foster significant strengthening of Venezuela’s public finances, create greater fiscal discipline, and stimulate both public and private domestic savings, which is essential to sustained economic growth. Fiscal discipline and generation of domestic savings will increase the investors’ faith in economic policy, reducing the risk level associated with Venezuela’s economy in the medium and long term.

In this scenario of greater economic growth and significant institutional changes, Central Bank activities will continue to be aimed at inflation control, in the context of the rest of the policies determined by the Government. The price stabilization strategy will be guided in an exchange-rate policy designed to maintain the stability of the nominal exchange rate and a monetary policy that promotes behavior of monetary aggregates consonant with Venezuela’s requirements for economic and social development.

This forecast, though based on objective factors, still requires an effort by the population to adopt positive attitudes, and have faith and confidence in Venezuela. A concerted will and community spirit will be required to achieve the common well being based on the true and full exercise of individual and collective responsibility. All this will also contribute to economic and social stability.

Diego Luis Castellanos E.

President

ATTACHMENT

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PRINCIPAL MACROECONOMIC INDICATORS

ECONOMIC VARIABLES	2000(*)	1999(*)	1998*
GDP AT 1984 PRICES (% Change)			
TOTAL	3,2	(6,1)	0,2
Oil	3,4	(7,4)	2,0
Non-oil	2,7	(5,4)	(0,9)
CENTRAL GOVERNMENT SURPLUS OR DEFICIT (% OF GDP)			
	(1,8)	(2,6)	(4,1)
CURRENT ACCOUNT BALANCE (Millions of US\$)			
	13.365	3.689	(2.562)
GROSS INTERNATIONAL RESERVES (Millions of US\$)			
BCV	21.647	16.023	15.458
FIV	16.070	15.164	14.849
FIEM	1.026	644	609
	4.551	215	-
CHANGE IN GROSS INTERNATIONAL RESERVES (BCV) (Millions of US\$)			
	906	315	(2.969)
MONETARY BASE (% Change)			
	12,1 a/	32,1	23,7
MONEY SUPPLY (M2 (% Change)			
	22,3 a/	19,9	18,6
COMMERCIAL AND UNIVERSAL BANKS b/			
Total Deposits (% Change)			
	17,6	15,8	13,5
Total Loans (% Change)			
	17,4	8,4	12,9
Interest Rate (%) c/			
Lending (%)	24,7	31,3	44,9
Deposits (%)	15,0	20,6	36,1
NOMINAL EXCHANGE RATE (Bs./US \$)			
Average	678,9 d/	607,1	549,0
End of Period	697,0 e/	649,3	565,0
CONSUMER PRICE INDEX (% Change) f/			
	14,2	20,1	31,0

(*) Provisional figures

* Revised figures

Notes:

a/ Figures as of December 01.

b/ In 2000, corresponds to the period October 2000-December 1999.

c/ It corresponds to the annual average of the six main commercial and universal banks assets and liabilities operations. The 2000 figures corresponds to the average up to november.

d/ It corresponds to the period January - November.

e/ Figures as of November 30.

f/ Annualized variation: November 2000 compared to November 1999.

Source: BCV

BALANCE OF PAYMENTS

(Millions of US\$)

	2000 (*)	1999 *
CURRENT ACCOUNT	13.365	3.689
Goods Balance	17.965	7.606
Exports FOB	34.038	20.819
Oil	28.716	16.697
Non-oil	5.322	4.122
Imports FOB	(16.073)	(13.213)
Services Balance	(3.309)	(2.469)
Incomes Balance	(1.152)	(1.518)
Current Transfers	(139)	70
CAPITAL AND FINANCIAL ACCOUNT	(3.670)	(1.650)
Direct Investment	3.789	2.669
Portfolio Investment	(1.403)	1.459
Other Investment	(6.056)	(5.778)
ERRORS AND OMISSIONS	(3.603)	(990)
OVERALL BALANCE	6.092	1.049
CHANGE IN NET RESERVES	(6.092)	(1.049)
BCV	(1.388)	(784)
FIV	(368)	(50)
Investment Fund for Macroeconomic Stabilization Outstanding	(4.336)	(215)

(*) Provisional figures.

* Revised figures.

Source: BCV

**CENTRAL GOVERNMENT
FINANCIAL PERFORMANCE**
(Millions of bolívares)

	2000 (**)	1999 (*)	1998 *	% of GDP		
				2000 (*)	1999 (*)	1998 *
Total Revenues	16.040.224	10.374.061	8.589.422	19,6	16,6	16,4
Current	16.040.224	10.374.061	8.589.422	19,6	16,6	16,4
Oil	8.175.767	3.959.497	3.244.816	10,0	6,3	6,2
Income Tax	3.624.560	1.320.891	1.008.336	4,4	2,1	1,9
Royalty	3.369.207	1.638.606	1.186.480	4,1	2,6	2,3
PDVSA Dividends	1.182.000	1.000.000	1.050.000	1,4	1,6	2,0
Non-oil	7.864.457 1/	6.414.564	5.344.606	9,6	10,3	10,2
Total Expenses	17.504.669	11.970.838	10.749.208	21,4	19,2	20,5
of which: Interest	2.059.904	1.666.008	1.242.114	2,5	2,7	2,4
OVERALL SURPLUS OR DEFICIT	(1.464.445)	(1.596.777)	(2.159.786)	(1,8)	(2,6)	(4,1)

1/ It includes BCV exchange revenues (Bs. 750,387 Millon) trasfered to the Treasury .

(**) Preliminary stimation.

(*) Provisional figures.

* Revised figures.

Source: BCV and Ministerio de Finanzas.

GROSS DOMESTIC PRODUCT

(Millions of bolívars)

AREA OF ECONOMIC ACTIVITY	1984 Prices			% Change	
	2000(*)	1999(*)	1998*	2000/99(*)	1999/98(*)
OIL SECTOR	160.366	155.066	167.490	3,4	(7,4)
NON-OIL SECTOR	407.699	396.905	419.533	2,7	(5,4)
Manufacturing	82.620	79.771	87.863	3,6	(9,2)
Electricity and Water	10.933	10.711	10.593	2,1	1,1
Construction	28.935	30.428	36.462	(4,9)	(16,5)
Commerce	47.088	44.783	50.774	5,1	(11,8)
Real State	66.394	65.488	66.921	1,4	(2,1)
Transportation and Warehousing	19.414	18.506	19.714	4,9	(6,1)
General Government Services	45.848	44.454	43.948	3,1	1,2
Financial and Insurance Institutions	6.360	6.258	7.261	1,6	(13,8)
Communications	17.131	14.930	13.182	14,7	13,3
Community, Social and Personal Services and Product of Non-Profit Private Services	39.137	38.552	38.768	1,5	(0,6)
Others	43.839	43.024	44.047	1,9	(2,3)
IMPORT RIGHTS PLUS	16.009	13.917	15.535	15,0	(10,4)
TOTAL	584.074	565.888	602.558	3,2	(6,1)

(*) Provisional figures.

* Revised figures.

Source: BCV

PRICE INDEXES

(% change)

Indicators	Accumulated (Nov./Dec.)	
	2000	1999
Consumer Price Index (CPI)		
General CPI	12,3	18,1
Goods and Services Groups		
Food, Non Alcoholic Beverage	7,4	8,8
Alcoholic Beverage and Tobacco	10,9	15,3
Clothing and Footwear	4,2	12,3
Household Expenses	17,0	19,5
Housing Service Except Phone	19,3	28,8
Home Equipment	10,8	19,2
Health	19,4	35,7
Transportation	13,7	16,9
Communications	22,6	23,0
Recreation	2,8	14,3
Educational Service	18,8	35,2
Restaurants and Services	4,6	19,8
Diverse Good and Services	11,9	13,0
Goods		
Agriculture	7,9	11,3
Agribusiness	(1,9)	3,5
Other Manufactured Goods	9,8	8,2
	8,2	15,3
Services		
	16,0	22,7
Diffusion Index (percentage)	35,8	42,1
Tradable / Non-Tradable Ratio	(7,5)	(9,3)
Wholesale (WPI)		
General		
Domestic	14,4	12,0
Imported	15,8	13,9
	9,7	6,0
PPI Private Manufacturing Industry	10,2	9,0

Source: BCV

TOTAL POPULATION: INACTIVE, ACTIVE AND EMPLOYMENT
(Persons)

	QUARTERLY				
	III 2000(*)	IV 1999 *	III 1999 *	Variation %	
				III 2000/IV 99	III 2000/III 99
TOTAL POPULATION	24.118.220	23.769.087	23.652.557	1,5	2,0
POPULATION WITH 15 YEARS OR MORE	15.928.450	15.614.267	15.510.150	2,0	2,7
Outside of Labor Force	5.646.452	5.408.008	5.272.852	4,4	7,1
Labor Force 2/	10.281.998	10.206.259	10.237.298	0,7	0,4
Employment	8.828.087	8.828.174	8.663.090	(0,0)	1,9
Formal	4.195.058	4.125.587	4.180.917	1,7	0,3
Private Sector	2.852.646	2.864.461	2.806.874	(0,4)	1,6
Public Sector	1.342.412	1.261.126	1.374.043	6,4	(2,3)
Informal	4.633.029	4.701.360	4.477.729	(1,5)	3,5
Household Servants	187.365	200.574	160.856	(6,6)	16,5
Self Employed Worker	2.984.581	2.888.420	2.759.036	3,3	8,2
Employers	325.399	334.542	349.542	(2,7)	(6,9)
Employees and Workers	1.009.048	1.111.214	1.046.731	(9,2)	(3,6)
Family Helpers	126.636	166.640	161.564	(24,0)	(21,6)
Non Classified	0	1.227	4.444	(100,0)	(100,0)
Unemployed	1.453.911	1.378.085	1.574.208	5,5	(7,6)
Out of work	1.314.031	1.248.367	1.424.118	5,3	(7,7)
BTPPV 3/	139.880	129.718	150.090	7,8	(6,8)
Unemployment Rate (%)	14,1	13,5	15,4		

(*) Provisional.

* Revised figures.

Note: The total employment in private sector includes formal private employment, informal employment and non-classified.

1/ Population in working age.

2/ Labor Force participation.

3/ Searching for a job for the first time.

Source: OCEI, Household Surveys.

MONETARY AGREGATES

(Balance in Billions of bolivars)

	Monetary Base \1		M2 \1		M1 \1		Near-money \1	
	Nominal	Real \2	Nominal	Real \2	Nominal	Real \2	Nominal	Real \2
1999 *								
November	4.531	2.537	12.105	6.777	5.745	3.217	6.359	3.561
December	4.910	2.704	12.738	7.015	6.096	3.357	6.642	3.658
2000								
January	4.407	2.386	12.682	6.868	5.853	3.170	6.829	3.698
February	4.304	2.322	12.381	6.678	5.630	3.037	6.751	3.642
March	4.350	2.325	12.517	6.691	5.643	3.016	6.875	3.675
April	4.528	2.384	12.919	6.800	5.867	3.088	7.052	3.712
May	4.182	2.180	12.667	6.602	5.605	2.921	7.062	3.681
June	4.423	2.280	12.926	6.663	5.772	2.975	7.154	3.688
July	4.546	2.319	13.253	6.762	6.040	3.081	7.214	3.681
August	4.523	2.290	13.054	6.610	5.843	2.959	7.211	3.651
September	4.491	2.236	13.410	6.675	6.037	3.005	7.373	3.670
October	4.582	2.261	13.676	6.750	6.140	3.031	7.536	3.720
November (*)	5.505	2.701	15.577	7.643	7.612	3.735	7.965	3.908
% Change								
Nov.00/ Nov.99	21,5	6,5	28,7	12,8	32,5	16,1	25,3	9,8
Nov.00/ Dec.99	12,1	(0,1)	22,3	9,0	24,9	11,2	19,9	6,8

\1 Figures as of Dec-01-00.

\2 1997 Base Year.

(*) Provisional figures.

Source: BCV

UNIVERSAL AND COMERCIAL BANKING
Summary Balance Sheet
(Billions of bolívares)

	% Change				
	2000 ^{a/}	1999	1998	2000/99	1999/98
TOTAL ASSETS	16.572	14.125	12.484	17,3	13,1
Cash and Equivalents ^{1/}	3.901	3.502	3.076	11,4	13,8
Loan Portfolio	7.299	6.219	5.739	17,4	8,4
Current	7.275	6.228	5.799	16,8	7,4
Restructured	123	102	58	20,6	75,9
Past-due	369	337	245	9,5	37,6
In Litigation	71	43	19	65,1	126,3
Less:					
Provision for Loan Portfolio	539	491	382	9,8	28,5
Investments in Securities ^{2/}	2.929	2.284	1.929	28,2	18,4
Less:					
Provision for Securities Investment Portfolio	3	5	90	(40,0)	(94,4)
Interest and Commissions Receivable ^{3/}	271	295	299	(8,1)	(1,3)
Investments in Related Companies, Affiliates and Overseas Branches ^{4/}	753	514	519	46,5	(1,0)
Other Assets ^{5/}	1.419	1.311	922	8,2	42,2
TOTAL LIABILITIES	14.639	12.261	10.715	19,4	14,4
Total Deposits	12.568	10.686	9.232	17,6	15,7
Sight	5.322	4.455	3.955	19,5	12,6
Savings	3.392	3.202	2.790	5,9	14,8
Time	3.236	2.431	2.040	33,1	19,2
Other Deposits ^{6/}	618	598	447	3,3	33,8
Obligations with Other Credit Institutions	1.091	890	703	22,6	26,6
Obligations with the B.C.V.	0	0	0	0,0	0,0
Obligations with Other Institutions ^{7/}	1.091	890	703	22,6	26,6
Interest and Commissions Payable ^{8/}	46	38	152	21,1	(75,0)
Other Liabilities ^{9/}	794	647	628	22,7	3,0
Operating Performance	140	0	0	100,0	0,0
EQUITY CAPITAL	1.934	1.865	1.770	3,7	5,4

Note: The primary information is taken from Published Consolidated Financial Statements

a/ Figures as of October 2000.

1/ It refers to net cash and equivalents, including the provision

2/ Includes investments in: Negotiable securities, assets available for sale, held until maturity, in other securities and with limited availability.

3/ Includes interest receivable: Cash and equivalents, Investments in Securities, Loan Portfolio and Other Accounts Receivable. Also includes Commissions receivable and the Provision.

4/ Includes participation in other institutions, investments in overseas branches and the provisions.

5/ Includes Assets available for sale, Fixed Assets and Other Assets.

6/ Includes Other Sight Deposits, Money Desk operations, Securities Issued by the Institution and Restricted Public Deposits

7/ Includes Obligations with BANAP and other financings obtained.

8/ Includes Expenses payable: Public Deposits, Obligations with the BCV, Obligations with BANAP, Other Financing Obtained, Other Obligations from Financial Intermediation, Obligations Convertible to Capital and Subordinated Obligations.

9/ Includes Other Obligations from Financial Intermediation, Subordinated Obligations and Obligations Convertible to Capital and Other Liabilities.

Source: Published Consolidated Financial Statements

UNIVERSAL AND COMMERCIAL BANKING

Financial Indicators

	Annual		
	2000 ^{a/}	1999	1998
Intermediation ^{1/} (%)	60,9	61,7	66,0
Broadly-defined Intermediation ^{2/} (%)	85,4	84,4	88,0
Immediate Liquidity ^{3/} (%)	32,6	34,7	35,0
Debt ^{4/}	7,6	6,6	6,1
Capital Adequacy ^{5/} (%)	11,7	13,2	14,2
Non-interest bearing Assets/Total Assets (%)	24,8	26,5	-
Past-due and Loans in Litigation Portfolios/Total Loans (%)	6,0	6,1	4,6
Past-due and Loans in Litigation Portfolios/Capital (%)	22,8	20,4	14,9
Current and Restructured Loan Portfolios/Total Assets (%)	44,6	44,8	46,9
Loan Portfolio Provision/Gross Loan Portfolio ^{6/} (%)	6,9	7,3	6,2
Loan Portfolio Prov./Gross Non-performing Loan Portfolio ^{7/} (%)	122,3	129,1	144,5
Total Loan Portfolio/Total Assets(%)	44,0	44,0	46,0
Investments in Securities/Total Assets(%)	17,7	16,2	15,5
Average Capital (Billions of Bs.)	1.899	1.817	1.521
Average Assets (Billions of Bs.)	15.349	13.305	11.367

a/ Figures as of October 2000.

1/ Performing Loans Portfolio/Sight, Savings and Time Deposits

2/ (Current Loan Portfolio+Investments in Securities)/Demand, Savings and Time Deposits.

3/ Cash and Equivalents/Deposits.

4/ Liabilities/Equity.

5/ Capital/Asset.

6/ Net Loan Portfolio and Provision.

7/ Portfolio of Loans in Litigation and Past Due Loans.

Source: Published Consolidated Financial Statements and BCV.

**GROSS CAPITAL MARKETS TRANSACTION FLOW
BY MARKET TYPE**
(Billions of bolívares)

	(Billions of Bolívares)			CHANGE			
				Absolute		Percentage	
	2000 ^{a/}	1999	1998	2000/99	1999/98	2000/99	1999/98
Primary Market	2.739,0	2.817,0	1.040,8	(78)	1.776	(2,8)	170,7
Public ^{1/}	2.470,1	2.226,6	349,6	244	1.877	10,9	536,9
DPN and DP Bonds	2.470,1	2.226,6	349,6	244	1.877	10,9	536,9
Private ^{2/}	268,9	590,4	691,2	(322)	(101)	(54,5)	(14,6)
New Issues ^{3/}	268,9	590,4	691,2	(322)	(101)	(54,5)	(14,6)
Shares	94,1	280,5	313,4	(186)	(33)	(66,5)	(10,5)
Debt	8,0	45,0	0,8	(37)	44	(82,2)	5.525,0
Commercial Paper	164,1	229,4	377,0	(65)	(148)	(28,5)	(39,2)
Others ^{4/}	2,7	35,5	N.D.	(33)	-	(92,4)	-
Secondary Market ^{5/}	1.305,2	891,8	1.733,3	413	(842)	46,4	(48,5)
Public	127,0	316,4	892,4	(189)	(576)	(59,9)	(64,5)
DPN Bonds	2,0	47,0	93,9	(45)	(47)	(95,7)	(49,9)
Brady and Global Bonds	125,0	269,4	798,5	(144)	(529)	(53,6)	(66,3)
Private	1.178,2	575,4	840,9	603	(266)	104,8	(31,6)
Shares	1.178,2	575,4	840,9	603	(266)	104,8	(31,6)
Total Transactions	4.044,2	3.785,2	3.075,1	259	710	6,8	23,1
Public Securities	2.597,1	2.543,0	1.242,1	54	1.301	2,1	104,7
Private Securities	1.447,1	1.242,2	1.833,0	205	(591)	16,5	(32,2)
Total New Issues	2.286,9	2.469,0	1.100,4	(182)	1.369	(7,4)	124,4
Public Securities ^{6/}	2.018,0	1.878,6	409,3	139	1.469	7,4	359,0
Private Securities	268,9	590,4	691,1	(322)	(101)	(54,5)	(14,6)

a/ Figures as of October 2000.

1/ Excludes issuance and placement of public bonds denominated in foreign currency.

2/ Excludes primary placements of mortgage securities and financial bonds.

3/ It is reasonable to assume that the new issues of shares during a given year are placed that same year, given the nature of their source.

4/ Includes dividend receipts, participation quotas, participations securities and investment units.

5/ It refers to Caracas Stock Market transactions.

6/ It refers to issues of Public Bonds published in the Gaceta Oficial up to Nov. 2000.

Source: Comisión Nacional de Valores, Bolsa de Valores de Caracas.

STOCK MARKET CAPITALIZATION INDEX

	Nominal	Real ^{1/}
1999		
January	4.185,2	7,3
February	3.810,7	6,6
March	4.133,9	7,1
April	5.515,8	9,3
May	5.535,0	9,2
June	5.367,4	8,9
July	4.952,6	8,1
August	4.287,3	6,9
September	5.803,8	9,2
October	5.633,2	8,9
November	5.158,3	8,1
December	5.418,0	8,3
2000		
January	5.246,2	8,3
February	5.797,9	8,8
March	5.495,9	8,2
April	5.535,1	8,2
May	6.844,7	10,1
June	6.977,9	10,2
July	6.806,6	9,9
August	6.691,5	9,7
September	6.863,5	9,9
October	6.386,1	9,2
Percentage Changes		
Oct00/Dec99	17,87	10,27
Oct99/Dec98	17,64	5,23
Dec99/Dec98	13,14	(1,59)

^{1/} The Market Capitalization Index is calculated in real terms,
based on the official exchange rate.

Source: Primary information is taken from the Caracas Stock Exchange

ESTE MENSAJE DE FIN DE AÑO
SE TERMINÓ DE IMPRIMIR EN
CARACAS, VENEZUELA,
EN LOS TALLERES DEL
BANCO CENTRAL DE VENEZUELA,
DURANTE EL MES DE FEBRERO
DE DOS MIL UNO.