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**YEAR-END ADDRESS
OF THE PRESIDENT
OF THE CENTRAL BANK
OF VENEZUELA**

**Year-end Address
of the President
of the Central Bank
of Venezuela**

December 24, 1999

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Venezuela's economic situation will basically depend on how investors perceive the conditions for meeting their objectives and carrying out their business. The recently passed Constitution opens up a whole new sphere of activities in this regard

Monetary and exchange rate policies implemented by the Central Bank were designed to achieve an inflation rate below that of the prior year, with greater stability in the money and currency markets

I. REPORT

1999 may be characterized as a year of great changes in the performance of the world economy in general and Venezuela's in particular. The basic framework within which private investors and the country's economic authorities operated was determined by several factors: fluctuation of raw material prices was one factor, with particular emphasis on changes in oil-prices; another determinant was the performance of the Southeast Asian and Latin American countries, and a third was shifting capital flows.

Venezuela's political environment was colored by the natural uncertainty associated with the transfer of political power, the new economic policies to be implemented and the process of creating a Constitution. These issues added to the other factors that affected the performance of the economic variables in the period.

In this environment, the monetary and exchange policies implemented by the Central Bank were designed to achieve an inflation rate below that of the prior year, with greater stability in the money and currency markets. Both the objectives and the strategies followed by the Central Bank were conditioned by the level of recession in the economy and by the unfavorable expectations which affected private investors. In this environment, the Central Bank favored activities designed to ensure the orderly operation of the foreign exchange market, to meet the foreign-payment requirements of both private investors and the Government, to bring down interest rates, and to correct money-market imbalances through the use of Monetary Stabilization Bills (TEMs).

In the context of early-1999 projections for a decline in revenues due to a decrease in oil prices and to a lower level of economic activity in general, fiscal policy was characterized by an effort to reduce the deficit. When the oil-price decline began to turn around in the second quarter, some effort was directed toward saving resources derived from oil and oil-related exports. The fiscal adjustment was based on three key elements: an increase in revenues through measures approved by the Enabling Law [Ley Habilitante] of 1999, an overall spending cut and a financing plan that rested entirely on the domestic market given the unfavorable conditions abroad.

Achievement of the inflation target for the period under discussion reflected a clear and sustained downward trend in the rate of price increases for the third consecutive year. In the year ending December 1999, the inflation rate reached its lowest point in thirteen years. This was a result of the combined effects of a decline in aggregate demand, exchange rate stability and a major slowdown in the rate of price increases at the international level. However, the environment within which it was possible to limit the growth of domestic prices coincided with the recession that had begun toward the end of the first half of 1998.

Specific factors of a political nature had significant negative impact on economic activity, particularly on aggregate spending, and therefore on the level of disposable income.

The decline in economic activity affected the performance of the financial markets. This was seen in higher credit risk, an increase in non-performing loans in the banking system and a significant reduction in transactions carried out in the capital markets. These difficulties led the institutions responsible for oversight and regulation to adopt and emphasize measures aimed at preserving the stability of the banking and capital markets.

On the other hand, the external trade sector of the economy performed very favorably, as evidenced by an overall surplus in the balance of payments, in contrast with the BOP deficit in 1998. As a result, Venezuela's international reserves are healthy, affording a degree of freedom in the management of domestic economic policy and guaranteeing the availability of funds to meet Venezuela's commitments abroad. These positive results for 1999 are particularly impressive since they were accomplished despite the fact that it was a year during which foreign public debt service was very high.

II. VENEZUELA'S ECONOMY IN 1999

2.1. GENERAL FRAMEWORK

In early 1999, the economic environment affecting Venezuela continued to be marked by persistent downward pressure on the prices of basic products, including oil, and by the withdrawal of capital from emerging economies in favor of more developed countries. This adverse situation worsened with the Brazilian crisis, which forced Brazil to abandon its exchange rate system and led to greater instability in the Latin American region. This situation also affected the economic performances of Colombia and Ecuador, Venezuela's main trading partners in the Andean Community.

However, the adverse environment began to improve in March, with significant economic recovery in the Southeast Asian countries and greater stability in the financial markets. Thus, the economic recovery in these countries and the excellent performances of the more industrialized economies and China provided a new boost to worldwide demand, which had a favorable impact on the oil market. In this context, the OPEC countries' strategy of reducing the supply of oil, which was supported by Russia, Norway and Mexico, was a success, paving the way for a significant oil-price recovery starting in the second quarter. This trend was also supported by a reduction in the level of crude oil inventories, the arrival of winter in the Northern hemisphere and a decision by some producer countries to extend the agreement through March 2000.

International financial markets tended to show greater stability following the Brazilian crisis. However, the sharp recession that affected various Latin American economies during the year, and the resulting impairment of their fiscal accounts, generated fears of foreign payments default, increasing risk premiums throughout the region. Such was the case for Colombia and Ecuador. In Colombia, this led to the abandonment of the foreign exchange band system, and in Ecuador, it led to the suspension of service on restructured foreign debt. Since these countries purchase approximately 30% of Venezuela's non-oil exports, their economic recession represented one more factor adversely affecting the economy's performance.

Domestically, the planned oil-production cuts, along with the resulting reduction of investments in that sector, were key factors in the contraction of economic activity during the year.

In fact, preliminary estimates of economic activity in 1999 as measured by the Gross Domestic Product (GDP) show shrinkage of 7.2%. This reflects the contraction in both the oil sector (6.8%) and the non-oil sector (6.9%), as well as the reduction of import duties proceeds (17.5%).

Despite of the magnitude of this figure, it should be noted that GDP fell 9.1% in the first half of the year and significantly less than that in the second half (5.2%).

At the same time, the rate of inflation through November was 18.1%, the lowest one since 1986. The significant deceleration in inflation during the year can be explained by the decrease in aggregate demand, the stability of the exchange rate, and by the favorable impact of seasonal factors that curbed price increases for agricultural products.

Very preliminary figures show a surplus in the balance of payments of US\$ 724 million. This basically reflects the recovery in oil prices, which more than offset the reduction in the volume of oil exported. The surplus in foreign sector generated an estimated year-end increase in net Central Bank international reserves of US\$ 647 million. Adjusted for payment of reserve liabilities, this produced a US\$ 181 million increase in gross international reserves.

Preliminary figures available for fiscal accounts indicate that Central Government finances will close the year with a deficit of 3.1% of GDP, less than the 1998 deficit (4.1% of GDP) and below the deficit forecast at the start of the year.

The reduction in the government deficit can be attributed in part to the adjustment plan adopted by the government through the Enabling Law, which included measures to increase domestic income and cut spending. It was also the result of the significant increase in oil prices as of the second quarter to a level exceeding the reference price (US\$ 9.00/b) used in the Revised Budget [Ley de Presupuesto Reconducido] of 1999.

The performance of the financial system was affected by the recession and the high average interest rates. These factors gave rise to greater risk for credit activities and an impairment of loan portfolio quality. Nevertheless, interest rates were lowered significantly during the year. This reflected the reduction in inflation, lower expectations regarding the depreciation rate for the bolivar, as well as the inter-institutional agreement among the Administration, the Central Bank, the Superintendency of Banks, the Deposit Guarantee and Bank Protection Fund (Fogade) and the Banking Association of Venezuela. The basic purpose of this agreement was to reduce lending interest rates and to increase rates paid on deposits. In addition, it was designed to reduce operating costs associated with bank contributions to the system's supervisory bodies and to increase income on the interest-bearing portion of the banks' legal reserves maintained at the Central Bank.

2.2. MONETARY AND EXCHANGE POLICIES OF THE CENTRAL BANK

The activities of the Central Bank of Venezuela during the year were directed toward achieving an inflation rate lower than that of 1998 by promoting equilibrium in the money market and stability of the exchange rate. However, the design and implementation of monetary and exchange policies were conditioned by a reduced demand for money for transactional purposes and by the climate of uncertainty that prevailed during the year. For these reasons, the Bank's anti-inflationary contribution was mainly based on greater intervention in the foreign exchange market, especially during those periods in which the demand for money fell more sharply. Thus, in addition to fostering a stable trend in the exchange rate, the Central Bank was able to partially correct the monetary imbalance without generating upward pressure on interest rates.

Monetary policy was implemented by managing Central Bank interest rates and through open market operations. Regarding interest rates, on two occasions the Board of Directors of the Central Bank modified the discount, rediscount and advance rate, lowering it from 60.0% to 55.0% in April and to 38.0% in July, where it remained for the rest of the year. In addition, the Board of Directors twice increased the rate on the interest-bearing portion of the legal reserves, from 2.0% to 4.0% in August and subsequently from 4.0% to 6.0% within the framework of the previously mentioned inter-institutional agreement. Separately, in order to facilitate financing of the agricultural sector, the Central Bank's Board of Directors agreed to temporarily reduce the legal reserve requirement for institutions that extended loans to that sector for certain specific purposes.

Open market operations were mainly carried out through the issuance of Monetary Stabilization Bills (TEM), whose frequency, amounts and financial features were adjusted throughout the year. Adjustments were based on market conditions and the role this instrument plays in the correction of monetary imbalances. Thus, in the first half of the year, TEM placements were a key instrument in correcting imbalances, and auctions were carried out on

The balance of outstanding Monetary Stabilization Bills (TEMs) dropped 38.5% to Bs. 970.1 billion as of December 1999

Through November, inflation showed a cumulative increase of 18.1%, which was 9.6 percentage points lower than the rate for January-November 1998

a weekly basis. There was at the time a change in the maturity profile toward a longer-term horizon, with a gradual decrease in yield. In the second period, between July and November, TEM open market operations were used to correct intermittent imbalances. For this reason, auctions of these securities were sporadic, for smaller amounts, and for shorter terms, and the decrease in their yield was more pronounced.

Total placements of TEM between January and November 1999 had a market value of Bs. 3.252 trillion. Given maturities of Bs. 4.233 trillion for the same period, the decrease in the balance of securities outstanding was 38.5%. Total TEM outstanding as of December 21 amounted to Bs. 970.1 billion, representing a reduction of Bs. 606.5 billion compared with the year-end balance for 1998.

The weighted average market yield of the TEM dropped 25.3 percentage points during the year as compared to the average yield in December 1998, falling from 36.9% down to 11.6%.

III. MAIN MACROECONOMIC RESULTS

3.1. PRICES, ECONOMIC ACTIVITY AND THE LABOR MARKET

The **inflation rate**, measured by the Consumer Price Index (CPI), showed a cumulative increase of 18.1% through November, which was 9.6 percentage points lower than the rate between January and November 1998 (27.7%). It is worth repeating that the 1999 inflation rate was the lowest recorded since 1986.

The deceleration of the rate of price increases was accompanied by lesser diffusion of the inflation process. Thus, the Diffusion Index, which represents the percentage of articles in the CPI basket whose price increased, dropped by 9.9 percentage points from an average of 52.0% in the January-November 1998 period, to 42.1% for the same period in 1999.

Less price fluctuation and lower diffusion of increases was seen in all groups of goods and services that make up the CPI reference basket. Food, Beverages and Tobacco were notable, with a cumulative price increase (10.7%) significantly lower than that of the same period in 1998 (28.7%). This trend may be explained by the moderate increase in the prices of agricultural goods (3.5%) which, in turn, contributed to the lower increase in the prices of agro-industrial goods (8.2%). Similarly, the deceleration of inflation was evident for Miscellaneous Expenses (26.7%), Household Expenses (18.2%) and Clothing and Footwear (12.3%) compared to the 1998 growth rates for the same categories of 34.3%, 23.2% and 16.4%, respectively. The behavior of inflation in 1999 reinforced the slowdown in the growth of prices that began in midyear 1997.

In spite of slower price growth, inflation still persisted and was prevalent in services, whose price increase (22.7%) far exceeded that of goods (11.3%).

The slowing of inflation may also be seen in the other price indices. Thus, the Wholesale Price Index (WPI) showed a cumulative increase of 12.0%, less than the 22.5% seen between January and November 1998, while the Producer Price Index (PPI) rose 9.0%, a figure also less than that of the prior year (18.8%).

With respect to **economic activity**, the recession that started toward the end of the first half of 1998 worsened in 1999. As has already been stated, preliminary estimates indicate a 7.2% decline in Gross Domestic Product (GDP).

Production cut-backs agreed upon by OPEC members as of the last meeting in March 1999 amounted to 650 million b/d for Venezuela. The volume of crude production was reduced by 9.2%, and exports by 14.7%.

At the same time, the unfavorable performance of the non-oil sector (6.9%) had its origin in the profound contraction of domestic demand that grew out of oil-production cuts, the reduction in government investment, and the adverse effect of higher taxes and interest rates on private consumption and investment. At the sectoral level, the contraction of production was particularly severe in those activities most heavily weighted within the non-oil GDP such as Manufacturing, down 10.0%; Construction, down 20.4%; and Trade, down 16.5%.

The decline in aggregate domestic demand was estimated at 8.7%, made up of reductions of 3.8% and 24.9% drops in consumption and gross fixed investment, respectively. Private consumption, heavily weighted within aggregate spending, shrank 4.7%. Meanwhile, public consumption increased 1.4%, driven by an increase in government spending in the second half of the year.

The decrease in gross fixed investment for the second consecutive year reflects reduced government investment (26.1%), which was affected by the rescheduling of the oil industry's expansion plans. Meanwhile, private investment plunged 23.4%.

During the year, exports—especially non-oil exports—moved pro-cyclically, falling 11.1%. Thus, oil exports fell 8.0% compared to the prior year (at constant 1984 prices), as a result of production cuts, while non-oil exports decreased 21.6%.

With respect to the **labor market**, according to figures furnished by the Office of Statistics and Information Technology [Oficina Central de Estadística e Informática (OCEI)], there was an increase in the unemployment rate from 11.4% at year-end 1998 to 15.4% at the end of the third quarter of 1999.

Similarly, the growth of the economically active population (2.6%) along with the decrease in formal employment (4.6%), indicated an increase in the “gross labor oversupply,” that is, people engaged in informal activities or who are unemployed. Greater unemployment was accompanied by an increase in informal employment, which reached 51.7% of the employed population.

Employment fell in both the private sector (2.3%) and the public sector (0.6%). The lower level of job creation in the private sector reflected the 6.4% decline in formal employment (192,470 people), which was not offset by the 1.3% growth in informal employment (56,604 people).

3.2. EXTERNAL SECTOR

According to preliminary figures, the balance of payments showed an overall surplus of US\$ 724 million, which put year-end estimated gross international reserves at around US\$ 15 billion. This result can be attributed to the positive balance in the current account (US\$ 5.465 billion), since the capital and financial accounts show a deficit estimated at US\$ 3.462 billion and a negative balance generated by foreign transactions that are difficult to track, which is recorded under the errors and omissions heading (US\$ 1.279 billion).

The positive balance in the current account is largely a result of the increased value of oil exports (37.3%). As of the second quarter, these exports reflected the favorable effect of the OPEC policy to defend oil prices. Thus in 1999, the average price of the export oil basket increased more than 40.0% on a year-to-year basis, offsetting the reduction in volume exported.

Non-oil public and private exports declined 21.4% due both to the recessions of Venezuela’s trading partners in the Andean Group and to the low international prices of primary goods. The contraction in imports, in turn, can be attributed to the lower level of economic activity.

Service and financial income transactions showed a reduced deficit. For services, the reduction was related to a lower volume of imports and was manifested in smaller outlays for transport and insurance. For financial income, the reduction was related to lower yields on foreign investment, mainly foreign direct investment.

The deficit in the capital and financial account was mainly linked to capital outflows in the non-financial private sector, which reached US\$ 4.638 billion, and to the decline in foreign direct investment in Venezuela (US\$1.766 billion). This decline partly reflects the fact that there were no revenues in 1999 from privatization of public assets, which had reached US\$ 1.206 billion in 1998. Excluding this effect, the flow of foreign investment into Venezuela

was reduced by US\$ 560 million. Separately, investment portfolio inflows decreased 8.3%, linked to a lower level of placements of government and private securities.

3.3. PUBLIC FINANCES

Preliminary figures indicate that the government financial accounts will close the year with a deficit of 3.1% of GDP. This result represents an improvement from the 1998 deficit (4.1% of GDP) and is significantly lower than the projections at the start of the year (7.4% of GDP).

The initial deficit projection was based on a continued downward trend in oil revenues, as prices had been sliding since early 1998, and on the difficulty of improving domestic tax collection, since projections for declining economic activity and income for 1999 implied lower tax revenues. Added to these factors was the scarce availability of funds in the Venezuelan Treasury; these funds were insufficient to cover payments deferred from the 1998 budget.

The size of the estimated fiscal deficit led the government to adopt a program of fiscal adjustments including measures to increase revenues and cut spending. A financing plan was also adopted. These measures were included in the Enabling Law that the Administration presented to Congress for consideration in mid-February and was approved on April 26, 1999.

Highlights of the revenue measures passed include: creation of a Bank Debit Tax [Impuesto a los Débitos Bancarios] (IDB); application of a Value Added Tax (VAT) as a replacement for the Luxury and Wholesale Tax [Impuesto al Consumo Suntuario y Ventas al Mayor], with a 1% rate reduction; the Partial Reform of the Act Regulating Customs [Ley Orgánica de Aduanas]; and Decree No. 2,991, which creates the Macroeconomic Stabilization Investment Fund [Fondo de Inversión para la Estabilización Macroeconómica (FIEM) and the Act Authorizing the Government for Fiscal-Year-1999 Public-Credit Transactions [Ley que Autoriza al Ejecutivo Nacional para la Contratación y Ejecución de Operaciones de Crédito Público Durante el Ejercicio Fiscal 1999], also known as Ley Paraguas 1999.

With respect to financing, the revised Ley Paraguas included borrowing authorization for US\$ 4.303 billion and, in addition, the Administration had authorization for US\$ 1.4 billion included in the Special Refinancing Act, of September 1998

In addition to revenue and financing measures, Congress passed a spending cut as set in the budget in the amount of Bs. 987.2 billion, equivalent to approximately 1.5% of GDP.

Adoption of these corrective measures, and, most importantly, the rebound of oil prices in the international markets, enabled the Administration to gradually reduce the 1999 projected deficit. There was continued improvement in the average price of the oil basket exported by Venezuela, particularly as of June. As a result, PDVSA filed amended income tax returns in order to transfer the positive effects of the increase to public finances. In this regard, the average price obtained was initially adjusted to US\$ 11.88/b and finally to US\$ 15.00/b. This meant that, for fiscal purposes, the average price increased US\$ 6.00/b compared with the price originally set in the Revised Budget Act adjusted for 1999 (US\$ 9.00/b).

The increase in the oil basket price above the reference price used for fiscal purposes enabled the Administration to finance current expenses with up to 50% of extraordinary revenues as established in the Law creating the FIEM. Funds accrued in the FIEM will be earmarked, in part, for financing the Unified Social Fund [Fondo Único Social] in the year 2000. This fund was created to concentrate in a single body the accumulation and management of funds to be applied to different social plans and programs.

It is estimated that primary expenses (total expenditures less financial costs) for 1999 will fall by 1 percent of GDP owing to cutbacks in capital and current expenditures set in the budget and to the under-performance of budgetary spending during the year.

The government deficit was basically financed with domestic funds obtained through the placement of Treasury Bonds and Treasury Bills. Securities were not placed on the international markets, in spite of the fact that the government had authorization to issue foreign debt, given the onerous conditions for financing in these markets in terms of costs, and the opportunity to issue paper in the domestic market.

3.4. MONETARY AGGREGATES AND INTEREST RATES

For most of 1999, the trend of the principal monetary aggregates reflected a process of demonetization originating in a drop in real money demand, which was consistent with the trend of its key determinants, mainly output. However, toward the end of the year, significant remonetization is evident, attributable to an increase in transactional demand typical of this season. Added to this was the precautionary demand of the banking industry and the public in preparation for failures that might occur in computer systems as a result of the so-called "Y2K" problem.

According to preliminary figures available as of November 26, the money supply (M2) showed nominal growth of 13.8%, while the monetary base increased 21.2%. In real terms, the money supply shrank 3.7%, while the monetary base expanded 2.6%.

During the first four months of the year, the contraction in the demand for base money led to demonetization, by way of foreign exchange operations, of money flows originated in fiscal expenditure. As a result, the monetary base contracted by a nominal 10.2% during this period. Subsequently, during the period between the months of April and October, this aggregate reversed its downward slide, showing a slight increase. This reflected the propensity of the banking industry and the public to hold a proportion of the new flows of money injected into the economy. Meanwhile, there was an ongoing correction of excess liquidity through purchase of securities issued by the Central Bank and net purchase of foreign exchange. But in spite of the recovery, the monetary base still showed a 1.4% drop in October compared with the value at the end of 1998. However, in November, the monetary base had a growth spurt of 22.9%, and this performance was a key determinant in the annual growth of this aggregate.

Net Domestic Assets showed a Bs. 409.0 billion increase, which originated in the reduction of the TEM balance. This offset the increase in the government and PDVSA accounts at the Central Bank.

With respect to the money supply, the expanding inflows mainly originated in fiscal spending and PDVSA. To a lesser degree, funds were provided by a recovery of credit activity, which otherwise bore no relation to the growth of bank reserves.

Money market **interest rates** moved steadily downward throughout the year, both in nominal and real terms. Among other factors, this trend was determined by a less restrictive monetary policy during the year, within a context of slowing inflation and growing availability of foreign assets, which contributed to a lower expected rate of currency devaluation. The downward direction of interest rates was supported by a reduction of the rediscount rate in July, the increase in the interest-bearing portion of legal reserves and the reduction in the TEM yield. It was also fostered by the effect of the previously mentioned inter-institutional agreement.

In November, the average lending rate for commercial and universal banks was 32.9%, down 19.2 percentage points from the 1998 year-end rate. Likewise, the real lending rate dropped approximately 16.0 percentage points. Furthermore, the average rate on deposits offered by the financial institutions decreased from 38.8% at the end of December 1998 to an average of 18.9% at the end of November 1999. In real terms, the borrowing rate has remained at negative levels since July 1999.

3.5. FINANCIAL MARKET

During 1999, the performance of Venezuela's financial market was impaired by the economic recession and by the high level of interest rates in the early months of the year.

Among other negative effects, these factors gave rise to greater credit risk, an increase in non-performing loans, and a significant decrease in the number of transactions carried out in capital markets.

This unfavorable environment led institutions responsible for the supervision and regulation of financial activities to adopt and strengthen measures to preserve the stability of the financial system. These were basically aimed at periodic review of provisions, achieving a reduction in interest rates and fostering an increase in the equity capital of the banking system.

In this respect, during the year, efforts were made to bring about a decrease in lending rates and an increase in deposit rates. These efforts were formalized in August through the previously mentioned inter-institutional agreement. It was designed to achieve, within a prudential time frame, a balance of asset and liability interest rates that would contribute to economic recovery, improve compensation for Venezuela's savings and preserve the strength of the financial system within the framework of the government's economic and monetary policies.

In this regard, the government decided to reduce the contribution of the financial sector to the Deposit Guarantee and Bank Protection Fund (Fogade) from 2% to 0.5% of deposits in order to reduce the cost to the banking system. On its own behalf, the Central Bank increased the interest-bearing portion of legal reserves from 4 to 6 percent so that the financial system could obtain additional revenues. Among other measures, the banking system agreed to reduce the lending rate by two percentage points and to increase the rate on deposits by one percentage point. In addition, it agreed to carry out an analysis of non-financial expenses to improve the efficiency of its operations. This study is now under way.

Lending transactions carried out by the commercial and universal banking subsectors showed a growth of 7.0% according to figures available as of October. This increase basically reflects the increase in securities investments (29.2%), given that the loan portfolio increased only 1.0%.

In spite of the decrease in the lending rate, the non-performing loans portfolio (past-due and in-litigation portfolios) of the banking system maintained a growth trend (71.6%). ~~This reflected a 3.3 percentage point increase in the delinquency ratio~~¹ of the banking system to 7.9% during the period under analysis. The trend of this index reinforces the deterioration observed since the third quarter of 1998, justifying the preventive control measures carried out by the Superintendency of Banks for the purpose of maintaining the quality of the loan portfolio. In some special cases, the Superintendency has issued additional measures increasing the provision required for the non-performing loans portfolio.

¹ Past-due and in-litigation portfolios over total loan portfolio.

In this regard, the banking system's level of provisions for the loan portfolio increased 28.8% during the January-October period. This was reflected in an increase in the index that measures the ratio between the provision and the loan portfolio, which rose from 6.2% at the end of the prior year to 7.8% in October 1999. However, in relative terms, the non-performing loans portfolio grew faster than the provisions made by the banking system. This could be seen in the index that measures the level of provision for the non-performing loans portfolio², which fell from 144.5% at the end of December 1998 to 108.4% in October 1999. At the same time, the restructured loan portfolio increased 47.5%, demonstrating that financial institutions must act to prevent greater growth of unrecoverable loans.

Based on the sectoral allocation of the loan portfolio, the greatest drop can be seen in consumer loans (4.3%), mainly as a result of the lower growth level of loans in demand deposit accounts (50.8%). This can be attributed to the high cost of loans to users, and, to a lesser degree, a decrease in loans to finance vehicle purchases (12.7%). On the other hand, credit-card financing increased 9.0%, while commercial loans dropped 1.4% owing to the low level of economic activity.

The lower level of loan activity led banking institutions to direct a portion of their reserves toward investments in securities, which increased 29.2%. However, at the end of October, provisions for investments in securities showed a significant drop of 93.5%. This can be explained, in part, by amendments to the Accounting Manual for Financial Institutions [Manual de Contabilidad de las Instituciones Financieras], which went into effect in July 1999. Another influential factor was the measure enacted by the Superintendency of Banking and Other Financial Institutions [Sudeban], which freed the generic provision covering securities investments. This was published in the Official Gazette, No. 36,726 dated June 18, 1999.

As a result of this trend, the share of assets represented by investments in securities increased to 18.6%, compared to 15.5% in the prior year. Meanwhile, the share represented by the loan portfolio declined from 46.0% at the end of 1998 to 43.4% in the period under analysis.

Regarding universal and commercial banks' funding transactions, there was a decline in the rate of growth of deposits, which increased 8.2%, as compared with 15.2% in 1998. This performance can be explained by a sharp deceleration in the growth of time deposits (30.4% compared to 87.5% in 1998). This situation is associated with the trend in the interest rate paid on deposits during the period, which began to show real negative levels starting in July. More liquid instruments, on the other hand (demand deposits and savings accounts) grew only 2.3% and 0.9% respectively, in spite of the raffles and sweepstakes offered by banking institutions to maintain balances in these accounts.

² Loan portfolio provision over gross non-performing loans.

The behavior of banking system loans and deposits led to a 5.6 percentage-point drop in the financial intermediation ratio³ to 60.4% at the end of October. Likewise, the broad intermediation ratio⁴ edged down from 88.0% in December 1998 to 86.5% in the period under analysis.

The index that measures the proportion of non-income-producing assets to all assets shows that during the year, the banking system has increased the amount of assets that do not generate returns. These include the non-performing loans portfolio, cash and equivalents, provisions, depreciation, amortization, and accounts receivable, among others. The index that measures that ratio increased 1.3 percentage points between December 1998 (45.8%) and October 1999 (47.1%) as a result of the previously mentioned growth of the non-performing loans portfolio and provisions. Likewise, the index that measures capital adequacy decreased 1.7 percentage points (to 12.5%) compared to the prior year. This can be explained by the 5.7% drop in the equity capital of commercial and universal banks during the period. However, this index is still higher than the current level required by Sudeban (7.0%) as stated in the ruling issued in June 1999, which provided for modifications of the minimum capital adequacy percentage on a rising scale through December 2000.

Transactions carried out in the capital market were also adversely affected by the presence of the unfavorable domestic and foreign factors discussed above, according to figures available in October 1999. Total transactions fell 22.0% which, while less than the 1998 decrease of 48.2%, reflects mixed results: transactions with corporate securities have fallen 51.4% compared to the prior year, while transactions with government securities rose 21.3%.

The decrease in transactions in the primary corporate securities market basically reflects the significant shrinkage in commercial paper issues (83.4%) resulting from companies' lower financing requirements. This decrease in turn led to a reduction in public offerings of mutual funds' investment units (77.0%) and issues of shares (14.7%). Share issues were affected by diminished capitalization both through undistributed earnings and the restatement of capital stock as well as fewer transfers among group shareholders.

Transactions effected through October on the Caracas Stock Exchange fell significantly (49.8%). This performance was not uniform throughout the period under analysis. During the first quarter of the year, the stock market was characterized by low trading volumes attributable to macroeconomic instability and political uncertainty, which affected investors' perception of country risk. On the other hand, during the months of April and May, there was an upswing in share volumes traded stemming from the positive effect generated by passing of the Enabling Law. Likewise, the acquisition of the Fivenez group by Banco Caracas had a favorable impact. This deal represented 71.0% of the group's outstanding shares.

³ Performing loan portfolio over demand, savings and time deposits.

⁴ Performing loan portfolio plus investments in securities over demand, savings and time deposits.

Starting in June, trading in shares was curtailed by the implementation of the Bank Debit Tax, which made trading on the local stock exchange more expensive. This negative effect on the equities market started to appear before the implementation of the tax, as investors began to take positions in ADRs as a way of protecting themselves from possible losses. Fears of a possible interest rate hike by the U.S. Federal Reserve had a similar influence, as did the adverse effect of exchange rate pressures on some Latin American countries, particularly Colombia, which led to increased perceptions of risk in the region. During September and October, however, average volume traded recovered slightly as local and foreign investors attracted by low share prices entered the market.

This slight recovery was reflected in a 17.6% nominal increase (equivalent to a 5.2% real increase) in the Stock Market Capitalization Index [Indice de Capitalización Bursátil], to 5,633.2 at the end of October. Similarly, market capitalization rose from Bs. 4,283 billion in December 1998 to Bs. 4,916 billion at the end of October 1999.

Transactions effected with government securities benefited from greater placements of Treasury Bonds in the primary market (250.2%). In the secondary market, however, transactions with Treasury Bonds fell 68.4%, which contrasts with the prior year when these transactions increased 7.3%.

This performance can be explained by the reduction of transactions with Brady Bonds and Global Bonds (70.5%) because of the higher country risk resulting from political developments and the economic recession. However, the rebound of oil prices starting in March generated confidence in the country's capacity to make payments, which in turn had a favorable impact on the market price of Foreign Public Sector Debt.

At the end of October, the price of the Brady bond was 65.8%, representing a decline of 1.5 percentage points compared to that of December 1998 (67.3%). The prices of Global Bonds and Debt Conversion Bonds recovered to 66.4% and 77.4%, respectively, compared with their December 1998 prices of 55.8% and 60.5%.

IV. CENTRAL BANK ACTIVITIES IN INTERNATIONAL RELATIONS

The Bank's activities in the international area were largely set in the context of the fallout from the financial crises of prior years and its lessons. These crises had given rise to efforts to develop corrective measures in the architecture of the international financial and monetary systems. In this regard, in 1999, the Bank was the spokesman for the Interim Committee of the Board of Governors of the International Monetary Fund. Subjects addressed by this committee included the strengthening of international financial and monetary systems, the need to involve the private sector in the prevention and resolution of financial crises,

freeing capital movements, and the initiative for assistance in the reduction of debt of heavily indebted poor countries, among others.

In the same vein, the Central Bank was an active participant at meetings of central bank governors from the Americas, Spain and the Philippines. In these meetings, views were exchanged regarding the international financial and economic situation and its effects on the Latin American region, with the idea of introducing needed corrective measures. Matters related to financial systems and the effects of the year 2000 were among the subjects discussed.

The Bank has also participated in efforts to achieve international financial stability and to strengthen relationships between developing and developed countries. Thus, it attended meetings held for these purposes in Mexico City and Cairo. The Bank also participated in meetings at the Latin American level in order to establish links with the International Financial Stability Forum created by the G-7 nations. These meetings took place in Brazil under the auspices of the Center for Latin American Monetary Studies [known as CEMLA, for its initials in Spanish] and with the cooperation of the Bank for International Settlements.

In addition, the Central Bank has been more actively involved in meetings carried out in various international forums regarding subjects linked to the Free Trade Area of the Americas (FTAA), the Andean Community and the World Trade Organization. In each case it has collaborated with the public administrative agencies that are directly responsible for negotiation of the previously mentioned matters.

The Bank has initiated a process of approaching the units that handle international matters in the various public institutions of Venezuela to develop a coordinated position on financial and monetary subjects. It has also approached the international areas of Latin American central banks in order to exchange knowledge and experiences, coordinate international activities, and evaluate the possibility of making joint or individual proposals to international institutions.

Attention to international missions has also been one of the ongoing activities carried out by the Bank. Thus, in order to strengthen Venezuela's relationships with other countries, the Bank has worked very closely with authorities of foreign ministries of finance and the economy as well as those of central banks. Countries involved in these activities included Chile, Canada, Japan, France, Iran, Haiti, Nicaragua, and Cuba, among others.

Naturally, all these activities have been done in addition to those performed by the Bank as a matter of law, in other words, as the official contact organization with several multilateral institutions.

V. OUTLOOK FOR THE YEAR 2000

Having overcome the Asian crisis of 1997-1998 and more recently that of Brazil in early 1999, world financial and economic conditions have improved. This will be reflected in an acceleration of global economic growth rate from 2.5% in 1998 to an estimated 3.0% and 3.5% for 1999 and 2000, respectively. However, this performance will not be the same in all groups of countries. With the exception of the Asian region, developing nations are expected to show significant slowdowns of economic activity in 1999, with recovery taking place in 2000.

Latin America stands out in this regard, with the lowest economic growth rate, barely 0.1%, in 1999. The contractions expected in Argentina, Brazil, Chile, Ecuador and Venezuela will be a key determinant of this low rate, which will be partially offset by the favorable performance of Peru, Mexico and the Central American countries. By 2000, a significant recovery of economic growth is expected in the region, to 3.9%, as a response to stimulus policies applied in 1999. This, coupled with the sustained increase in worldwide demand, will stimulate exports from emerging countries and benefit basic product prices.

In spite of these positive expectations, there remains a shroud of uncertainty regarding the sustainability of this growth, given the role the expansion of the U.S. economy has played. It is clear that, as the expansion cycle of the economy unfolds, it begins to produce inflationary pressures. To deal with them, the Federal Reserve has begun to tighten monetary policy. Meanwhile, the European recovery has not solidified, and with respect to Japan, it is too early to be sure of a sustainable recovery. Added to this are the difficulties met by various Latin American countries in deepening the structural reforms that would finally re-establish confidence in the region.

The expansion process witnessed by the economy in the last five-year period has been accompanied by a favorable trend of worldwide inflation. One determinant of this environment has been the transformation in the productive structure of the industrial sector associated with greater productivity in the industrialized countries, particularly in the United States. Other determinants have been advances in the reduction of fiscal deficits in the United States and Europe and the weakness of raw material prices owing to the Asian crisis. All this has slowly reduced inflation to its lowest levels in almost 40 years, especially in industrialized countries, where it is estimated that it will reach 1.4% in 1999 and 1.8% in 2000. For the developing countries, the expected increase in consumer prices will be 6.7% for 1999 and 5.8% for 2000. The Middle East is expected to show the highest rate, followed by Latin America, with 9.8% for 1999 and 7.6% for 2000.

Thus, it is estimated that the net transfer of private capital to Latin America has been reduced by US\$ 26.6 billion compared to the prior year to reach US\$ 47.2 billion in 1999 and that it will recover by US\$ 15.5 billion of this amount in 2000. In spite of the

shrinkage expected for 1999, the region will continue to be the greatest recipient of capital flows among emerging countries for the fourth consecutive year, with Mexico standing out as the main beneficiary of these flows.

With regard to Venezuela, the economic situation will basically depend on how current and potential investors perceive the conditions for meeting their objectives and carrying out their business. The recently passed Constitution opens up a whole new sphere of activities in this regard. In any event, the Central Bank of Venezuela will continue to work with the objective of obtaining the stability of the money and foreign exchange markets.

VI. CONCLUSIONS

In 1999, the policies implemented by the Central Bank were framed by the effect of the economic direction taken by the new Administration. In this regard, coordination of monetary and exchange rate policies with fiscal policies has been achieved, which enabled the inflation target to be met. At the same time, the financing of the deficit in the Treasury accounts has been facilitated. All this has been done in a stable environment in the foreign exchange market, an increase of international reserves, a reduction of interest rates and a timely servicing of the national debt. On the minus side, the trend of the economy was marked by recession during the period.

Having emerged from the process of the constituent assembly and institutional changes, a new era is taking shape for Venezuela. The Central Bank participated in the process by issuing opinions regarding important aspects of the economic area in the new Constitution. From the beginning, the Bank publicly supported the single article proposed by the president of Venezuela with respect to monetary and exchange rate matters. This was because, considered from a principled view, the article indicated a modern direction for Central Bank activities. However, as the constituent assembly proceeded, the provisions related to the Bank were aimed more at legal and even regulatory issues.

Of course, the way is open for the new Central Bank Act [Ley del Instituto] to positively direct the Bank's activity. Therein we will be able to clarify and spell out the standards that will strengthen the Bank's nature as a fundamentally technical body, separating the sensitive duty of managing the nation's money supply from Venezuela's political concerns.

The need to update our organization's computer systems and equipment in order to be able to function without potential disturbances and consequences of the so-called "Y2K" problem was also an inescapable challenge that the Bank assumed in a timely and diligent manner. All the human and financial resources needed to carry out such a complex and sensitive job were applied. We submitted the inventory of technical components that could be affected by the previously mentioned phenomenon to a rigorous process of evaluation, repair or replacement, testing, validation and implementation.

With respect to the tragedy that has afflicted the country, the Central Bank will assume its institutional commitment to contribute to re-establishing the social and family fabric

As a result of this great effort, today we are able to report to the country and to the domestic and international financial community that we are ready to function in the year 2000. We have reduced to a minimum the risks imposed on us early this year by the lack of foresight of the providers of this technology to correctly process dates. Regarding this same issue, we also consider it fair and necessary to highlight the satisfactory results of the common effort carried out throughout the year by the Superintendency of Banks and Other Financial Institutions, the Banking Association of Venezuela, the Venezuelan Securities Commission and the Superintendency of Insurance. Along with the Central Bank, these organizations sought to guarantee the country a financial system capable of providing service free of interruptions and difficulties caused by this problem.

Separately, it is also appropriate for the country to be informed that the Central Bank is fully prepared to meet the cash needs of the economy. To this end, it has designed and implemented a plan for strategic access to storage centers for currency and bills in sufficient quantities for the requirements of individuals and institutions.

The Central Bank cannot ignore the tragedy that has afflicted the country at this time, causing numerous families to face immeasurable distress and suffering. Resignation in the face of the forces unleashed by nature has been accompanied by the admirable human solidarity shown by Venezuelan society, its public and private institutions, and the international community. For its part, the Central Bank of Venezuela, in addition to the support provided in these days of crisis, is assuming its institutional commitment to contribute to re-establishing the social and family net that gives continuity to countries. To this end, the Bank will use all the resources permitted to it by Law.

While it is true that new rules of the game have been designed for the Central Bank, it is also true that each time it has faced a different challenge, the Bank has overcome it. Thus, the country may continue to rely on the best disposition and technical capabilities of its monetary authority.

Antonio Casas González

President

PRINCIPAL MACROECONOMIC INDICATORS

ECONOMIC VARIABLES	1999(*)	1998(*)	1997*
GDP AT 1984 PRICES (% Change)			
TOTAL	(7,2)	(0,1)	6,4
Oil	(6,8)	1,7	9,4
Non-oil	(6,9)	(1,2)	4,2
CENTRAL GOVERNMENT SURPLUS OR DEFICIT (% OF GDP)			
	(3,1)	(4,1)	1,9
CURRENT ACCOUNT BALANCE (Millions of US\$)			
	5.465	(2.562)	6.739
GROSS INTERNATIONAL RESERVES a/ B.C.V. (Millions of US\$)			
	15.030	14.849	17.818
CHANGE IN GROSS INTERNATIONAL RESERVES (Millions of US\$)			
	181	(2.969)	2.589
MONETARY BASE (% Change) b/			
	21,2	23,7	79,3
MONEY SUPPLY (M2 (% Change) b/			
	13,8	18,6	62,5
COMMERCIAL AND UNIVERSAL BANKS c/			
Total Deposits (% Change)	8,4	13,5	62,1
Total Loans (% Change)	(0,9)	12,9	132,6
Interest Rate (%) d/			
Lending (%)	33,0	52,1	31,7
Deposits (%)	18,9	38,8	17,6
NOMINAL EXCHANGE RATE (Bs./US \$)			
Average	619,9 e/	548,1	488,8
End of Period	644,3 e/	565,0	504,8
CONSUMER PRICE INDEX (% Change) f/			
	20,1	31,0	38,2

(*) Provisional figures

* Revised figures

Notes:

a/ Includes accounting adjustments specified in the Institution's financial statements. Includes payments by PDVSA to the Investment Fund for Macroeconomic Stabilization (FIEM) in 1999.

b/ at Nov-11-99

c/ In 1999, the changes are for the October 1999 - December 1998 period.

d/ Weighted average asset and liability operations for commercial and universal banks in November.

e/ at Dec-20-99

f/ Annualized: November of year t compared to November of year $t-1$.

GROSS DOMESTIC PRODUCT
(% Change)

<u>AREA OF ECONOMIC ACTIVITY</u>	<u>1984 prices</u>		
	<u>1999/98(*)</u>	<u>1998/97(*)</u>	<u>1997/96*</u>
OIL	(6,8)	1,7	9,4
NON-OIL	(6,9)	(1,2)	4,2
Public	0,4	(8,4)	(1,1)
Private	(8,4)	0,3	5,4
IMPORT RIGHTS PLUS ICSVM COLLECTIONS	(17,5)	10,9	50,2
TOTAL	(7,2)	(0,1)	6,4

(*) Provisional figures

* Revised figures

GROSS DOMESTIC PRODUCT
(Millions of Bolívares)

<u>AREA OF ECONOMIC ACTIVITY</u>	<u>1984 Prices</u>			<u>% Change</u>	
	<u>1999(*)</u>	<u>1998(*)</u>	<u>1997*</u>	<u>1999/98(*)</u>	<u>1998/97(*)</u>
OIL SECTOR	155.670	167.035	164.247	(6,8)	1,7
NON-OIL SECTOR	389.296	418.308	423.284	(6,9)	(1,2)
Manufacturing	79.086	87.860	93.105	(10,0)	(5,6)
Construction	28.996	36.409	36.569	(20,4)	(0,4)
Commerce	41.841	50.138	53.079	(16,5)	(5,5)
Financial and Insurance Institutions	6.413	7.210	7.330	(11,1)	(1,6)
Electricity and Water	10.708	10.576	10.459	1,2	1,1
Transportation and Warehousing	17.766	19.737	20.089	(10,0)	(1,8)
Communications	15.796	13.237	10.987	19,3	20,5
Others	188.690	193.141	191.666	(2,3)	0,8
IMPORT RIGHTS PLUS ICSVM COLLECTIONS	12.811	15.535	14.003	(17,5)	10,9
TOTAL	557.777	600.878	601.534	(7,2)	(0,1)

(*) Provisional figures.

* Revised figures.

AGGREGATE DEMAND
(% Change)

		(1984 Prices)		
		1999/98(*)	1998/97*	1997/96*
1)	FINAL CONSUMPTION	(3,8)	0,3	5,0
	Public Sector	1,4	2,2	4,2
	Private Sector	(4,7)	(0,1)	5,1
2)	GROSS FIXED INVESTMENT	(24,9)	(2,3)	23,9
3)	DOMESTIC AGGREGATE DEMAND 1/	(8,7)	(0,4)	10,3
4)	EXPORTS	(11,1)	4,0	9,4
5)	Mirus: IMPORTS	(21,0)	7,3	33,9
6)	AGGREGATE DEMAND (3 + 4 - 5)	(7,2)	(0,1)	(6,4)

(*) Provisional figures.

* Revised figures.

1/ Includes changes in Stocks

**PERCENTAGE CHANGES IN THE CONSUMER PRICE INDEX
FOR THE CARACAS METROPOLITAN AREA**

YEARS AND MONTHS	GENERAL INDEX	FOOD, BEV. AND TOBACCO	CLOTHING AND FOOTWEAR	HOUSING EXPENSES	VARIOUS EXPENSES
<u>1999</u>					
January	2,2	1,9	0,3	2,7	2,6
February	1,7	(0,2)	0,6	1,7	3,6
March	1,2	(0,1)	1,8	1,9	1,8
April	1,1	1,1	0,2	1,3	1,2
May	2,0	1,9	0,9	2,4	1,9
June	1,5	0,6	1,7	1,6	2,2
July	1,6	0,0	1,1	1,2	3,6
August	1,5	0,3	1,4	1,8	2,2
September	0,9	0,6	1,4	0,7	1,1
October	1,6	2,1	1,0	0,9	1,8
November	1,5	2,0	1,3	0,5	1,8
<u>CUMULATIVE CHANGE (*)</u>					
1997	34,2	34,6	21,7	30,4	41,7
1998	27,7	28,7	16,4	23,2	34,3
1999	18,1	10,7	12,3	18,2	26,7
<u>ANNUALIZED CHANGE (**)</u>					
1997	38,2	37,0	28,2	36,4	44,3
1998	31,0	32,1	20,1	26,0	37,8
1999	20,1	12,7	15,4	19,3	29,2

(*) Change accumulated through November

(**) Annualized: November of year t compared to November of year $t-1$.

PRICE INDEXES
(% change for the January - November period)

Indicators	1999	1998
Consumer Price Index (CPI)		
General CPI	18,1	27,7
Diffusion Index (percentage)	42,1	52,0
Goods and Services Groups		
Food, Beverage and Tobacco	10,7	28,7
Clothing and Footwear	12,3	16,4
Household Expenses	18,2	23,2
Various Expenses	26,7	34,3
Sector of Origin		
Goods	11,3	20,8
Agriculture	3,5	41,6
Agribusiness	8,2	23,0
Other Manufactured Goods	15,3	16,1
Services	22,7	33,0
Tradable / Non-Tradable Ratio	-9,3	
Wholesale (WPI) and Producer (PPI) Prices Indexes		
General WPI	12,0	22,5
Domestic	13,9	24,9
Imported	6,0	15,6
PPI Private Manufacturing Industry	9,0	18,8

PRICE INDEXES
(% change)

Indicators	Nov-99/ Nov-98	Nov-98/Nov-97
Consumer Price Index (CPI)		
General CPI	20,1	31,0
Diffusion Index (percentage)	43,4	52,6
Goods and Services Group		
Food, Beverage and Tobacco	12,7	32,1
Clothing and Footwear	15,4	20,1
Household Expenses	19,3	26,0
Various Expenses	29,2	37,8
Sector of Origin		
Goods		
Agriculture	6,6	41,6
Agribusiness	9,9	26,6
Other Manufactured Goods	17,7	17,9
Services		
	24,6	37,0
Tradable / Non-Tradable Ratio	-8,9	-10,0
Wholesale (WPI) and Producer (PPI) Prices Indexes		
General WPI		
Domestic	12,7	24,2
Imported	14,4	26,9
	7,2	16,2
PPI Private Manufacturing Industry	9,9	20,3

BALANCE OF PAYMENTS
(Millions of US\$)

	1999 (*)	1998 (*)
CURRENT ACCOUNT	5.465	(2.562)
Goods Balance	9.164	2.748
Exports FOB	20.915	17.564
Oil	16.627	12.111
Non-oil	4.288	5.453
Imports FOB	(11.751)	(14.816)
Services Balance	(2.502)	(3.597)
Incomes Balance	(1.204)	(1.559)
Current Transfers	7	(154)
CAPITAL AND FINANCIAL ACCOUNT	(3.462)	861
Direct Investment	2.070	4.168
Portfolio Investment	958	1.045
Other Investment	(6.490)	(4.352)
ERRORS AND OMISSIONS	(1.279)	(1.231)
OVERALL BALANCE	724	(2.932)
CHANGE IN NET RESERVES	(724)	2.932
Banco Central de Venezuela a)	(647)	2.318
Fondo de Inversiones de Venezuela	(77)	614

a/ Excludes accounting adjustments specified in the Institution's financial statements. Includes payments by PDVSA to FIEM in 1999.

(*) Provisional figures.

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

	1999 (*)	1998 (*)	1997 *	% of GDP		
				1999 (*)	1998 (*)	1997 *
Total Revenues	10.327.138	8.589.422	9.985.506	16,7	16,4	23,0
Current	10.327.138	8.589.422	9.985.506	16,7	16,4	23,0
Oil	3.990.784	3.244.816	5.758.352	6,4	6,2	13,3
Income Tax	1.346.993	1.008.336	3.163.401	2,2	1,9	7,3
Royalty	1.643.791	1.186.480	1.594.951	2,7	2,3	3,7
PDVSA Dividends	1.000.000	1.050.000	1.000.000	1,6	2,0	2,3
Non-oil	6.336.354	5.344.606	4.227.154	10,2	10,2	9,8
Total Expenses	12.254.588	10.749.208	9.166.771	19,8	20,6	21,1
of which: Interest	1.675.208	1.242.114	1.033.106	2,7	2,4	2,4
OVERALL SURPLUS OR DEFICIT	(1.927.450)	(2.159.786)	818.735	(3,1)	(4,1)	1,9

(*) Provisional figures

* Revised figures

Source: BCV

MONETARY AGGREGATES

(Balance in Millions of Bolívares)

	Monetary Base \1		M2 \ 1		M1 \1		Near-money \1	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
1997 *								
December	3.004.685	25.675	8.956.173	76.531	4.633.228	39.591	4.322.945	36.940
1998 *								
December	3.717.323	24.452	10.621.846	69.869	4.938.181	32.483	5.683.665	37.386
1999								
January	3.327.979	21.415	10.411.312	66.995	4.614.629	29.694	5.796.683	37.300
February	3.243.734	20.533	10.233.407	64.778	4.410.606	27.919	5.822.801	36.859
March	3.465.894	21.669	10.109.871	63.208	4.254.111	26.597	5.855.760	36.611
April	3.339.729	20.643	10.177.296	62.907	4.269.510	26.390	5.907.786	36.517
May	3.436.806	20.829	10.346.083	62.703	4.366.241	26.462	5.979.842	36.241
June	3.489.402	20.838	10.425.986	62.263	4.444.844	26.544	5.981.142	35.719
July	3.535.044	20.777	10.618.893	62.410	4.649.254	27.325	5.969.639	35.085
August	3.609.248	20.909	10.711.684	62.054	4.605.927	26.682	6.105.757	35.371
September	3.532.296	20.280	10.589.714	60.800	4.618.048	26.514	5.971.666	34.286
October	3.666.549	20.720	10.893.072	61.556	4.829.079	27.289	6.063.993	34.267
November (*)	4.505.700	25.085	12.089.418	67.307	5.685.536	31.654	6.403.882	35.653
% Change								
Nov.99/ Dec.98	21,21	2,59	13,82	(3,67)	15,13	(2,55)	12,67	(4,64)

\1 Figures as of Nov-26-99.

Source: BCV

COMMERCIAL AND UNIVERSAL BANKING
Financial Indicators

	Annual		
	1999 ^{a/}	1998	1997
Intermediation ^{1/} (%)	60,4	66,0	66,4
Broadly-defined Intermediation ^{2/} (%)	86,5	88,0	87,5
Immediate Liquidity ^{3/} (%)	30,5	33,3	29,7
Debt ^{4/}	7,0	6,1	7,1
Capital Adequacy ^{5/} (%)	12,5	14,2	12,4
Non-interest bearing Assets/Total Assets (%)	47,1	45,8	45,1
Past-due and Loans in Litigation Portfolios/Total Loans (%)	7,9	4,6	2,2
Past-due and Loans in Litigation Portfolios/Capital (%)	27,2	14,9	9,0
Current and Restructured Loan Portfolios/Total Assets (%)	43,7	46,9	50,4
Loan Portfolio Provision/Gross Loan Portfolio ^{6/} (%)	7,8	6,2	3,7
Loan Portfolio Prov./Gross Non-performing Loan Portfolio ^{7/} (%)	108,4	144,5	168,9
Total Loan Portfolio/Total Assets(%)	43,4	46,0	49,7
Investments in Securities/Total Assets(%)	18,6	15,5	15,9
Average Capital (Billions de Bs.)	1.719	1.521	1.060
Average Assets (Billions de Bs.)	12.924	11.367	8.404

a/ Figures as of October 1999.

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.

BCV.

UNIVERSAL AND COMMERCIAL BANKING
Summary Balance Sheet
(Millions of Bolívars)

	1999 ^{a/}	1998	% Change	
			1999/98	1998/97
TOTAL ASSETS	13.363	12.485	7,0	21,8
Cash and Equivalents ^{1/}	3.045	3.076	(1,0)	29,5
Loan Portfolio	5.796	5.739	1,0	12,8
Current	5.749	5.799	(0,9)	12,9
Restructured	85	58	47,5	85,3
Past-due	413	245	68,3	150,0
In Litigation	41	19	114,4	15,9
Less:				
Provision for Loan Portfolio	492	382	28,8	97,3
Investments in Securities ^{2/}	2.492	1.929	29,2	18,1
Less:				
Provision for Securities Investment Portfolio	6	90	(93,5)	(32,0)
Interest and Commissions Receivable ^{3/}	309	299	3,3	(3,3)
Investments in Related Companies, Affiliates and Overseas Branches ^{4/}	471	519	(9,2)	35,6
Other Assets ^{5/}	1.249	922	35,4	101,7
TOTAL LIABILITIES	11.694	10.716	9,1	19,4
Total Deposits	9.986	9.232	8,2	15,2
Sight	4.047	3.955	2,3	0,3
Savings	2.816	2.790	0,9	3,0
Time	2.661	2.040	30,4	87,5
Other Deposits ^{6/}	462	447	3,3	64,7
Obligations with Other Credit Institutions	820	703	16,6	44,1
Obligations with the B.C.V.	0	0	0,0	(100,0)
Obligations with Other Institutions ^{7/}	820	703	16,6	44,1
Interest and Commissions Payable ^{8/}	36	152	(76,2)	(40,4)
Other Liabilities ^{9/}	738	628	17,5	182,9
Operating Performance	114	0		
EQUITY CAPITAL	1.668	1.770	(5,7)	39,2

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

a/ Figures as of October 1999.

1/ 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

**GROSS CAPITAL MARKETS TRANSACTION FLOW
BY MARKET TYPE**

	CHANGE						
				Absolute (Billions of Bolívares)		Percentage	
	1999 ^{a/}	1998	1997	1999/98	1998/97	1999/98	1998/97
Primary Market	1.694	1.342	3.168	352	(1.826)	26,3	(57,6)
Public ^{1/}	1.225	350	2.088	875	(1.738)	250,2	(83,3)
DPN and DP Bonds	1.225	350	2.088	875	(1.738)	250,2	(83,3)
Private ^{2/}	470	992	1.080	(523)	(88)	(52,7)	(8,1)
New Issues ^{3/}	470	992	1.080	(523)	(88)	(52,7)	(8,1)
Shares	267	313	504	(46)	(190)	(14,7)	(37,8)
Debt	30	1	4	29	(3)	3.900	0,0
Commercial Paper	62	377	365	(315)	12	(83,4)	3,3
Others ^{4/}	110	301	207	(191)	94	(63,5)	45,4
Secondary Market ^{5/}	704	1.733	2.769	(1.029)	(1.036)	(59,4)	(37,4)
Public ^{6/}	282	892	831	(610)	61	(68,4)	7,3
DPN Bonds	47	94	83	(47)	10	(50,5)	12,5
Brady and Global Bonds	236	799	748	(563)	51	(70,5)	6,8
Private	422	841	1.938	(419)	(1.097)	(49,8)	(56,6)
Shares	422	841	1.930	(419)	(1.089)	(49,8)	(56,4)
Debt	0	0	8	(0)	(8)	0	0,0
Total Transactions ^{7/}	2.399	3.075	5.936	(676)	(2.861)	(22,0)	(48,2)
Public Securities	1.507	1.242	2.919	265	(1.677)	21,3	(57,5)
Private Securities	892	1.833	3.017	(941)	(1.184)	(51,4)	(39,3)
Total New Issues	870	1.401	1.343	(532)	59	(38,0)	4,4
Public Securities ^{8/}	400	409	263	(9)	146	(2,3)	55,7
Private Securities	470	992	1.080	(523)	(88)	(52,7)	(8,1)

a/ Figures as of October 1999.

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/ Excludes secondary transactions in money desks and other markets.

6/ Includes primary and secondary negotiations.

7/ This figure may include primary placements of new debt issued in the same year.

8/ Refers to issues of Public Bonds published in the Gaceta Oficial.

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

STOCK MARKET CAPITALIZATION INDEX

	Nominal	Real ^{1/}
1998		
January	7.332,8	14,4
February	7.175,6	13,9
March	7.685,8	14,7
April	6.104,3	11,4
May	6.179,5	11,5
June	4.802,6	8,7
July	4.846,4	8,6
August	2.904,0	5,0
September	3.893,9	6,8
October	3631,2	6,4
November	3944,0	6,9
December	4788,7	8,5
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
Percentage Changes		
Oct99/Dec98	17,64	5,23
Oct98/Dec97	(58,05)	(62,74)
Dec98/Dec97	(44,68)	(50,55)

Source: Primary information is taken from the Caracas Stock Exchange
^{1/} The Market Capitalization Index is calculated in real terms based on the official exchange rate.

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