

**\$4,000,000,000**



**The Republic of Venezuela**  
**9.25% U.S. Dollar-Denominated Unsecured Global Bonds Due 2027**

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Interest on the 9.25% U.S. Dollar-Denominated Unsecured Global Bonds Due 2027 (the "Global Bonds") is payable semi-annually on March 15 and September 15 of each year, commencing March 15, 1998. The Global Bonds will be direct, unsecured, general and unconditional obligations of the Republic of Venezuela (the "Republic" or "Venezuela"). The Global Bonds will not be redeemable prior to maturity and will not be entitled to the benefit of any sinking fund. All payments of principal and interest on the Global Bonds will be made in U.S. dollars without deduction for Taxes imposed by the Republic, subject to the exceptions described under "Description of the Global Bonds—Taxation; Additional Amounts."

U.S. \$4,000,000,000 in aggregate principal amount of Global Bonds are expected to be issued pursuant to the invitation by the Republic to owners (each, a "Bondholder") of its outstanding Collateralized Fixed Rate Bonds Due 2020, USD Par Series A and B (the "Par Bonds"), and its Collateralized Floating Rate Discount Bonds, USD Discount Series A and B (the "Discount Bonds" and, together with the Par Bonds, the "Brady Bonds"), to submit offers to exchange Brady Bonds for Global Bonds (each, an "Exchange Offer") on the terms and subject to the conditions set forth in the Prospectus dated September 3, 1997 and the related Letter of Transmittal (which together constitute the "Invitation"). Bondholders exchanging Brady Bonds for Global Bonds pursuant to Exchange Offers will not be obligated to pay brokerage commissions, solicitation fees or transfer taxes with respect thereto.

Fondo de Inversiones de Venezuela ("FIV"), an independent agency of the Republic, will receive U.S.\$491,598,000 in aggregate principal amount of the Global Bonds issuable pursuant to the Invitation, and those Global Bonds are offered hereby for cash (such offering, the "New Cash Offering" and, together with the Invitation, the "Global Bond Offering").

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**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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The issue price of the Global Bonds offered pursuant to the Invitation and the New Cash Offering is 93.501%, plus accrued interest (if any) from September 18, 1997 (the "Settlement Date"). Application has been made to list the Global Bonds on the Luxembourg Stock Exchange.

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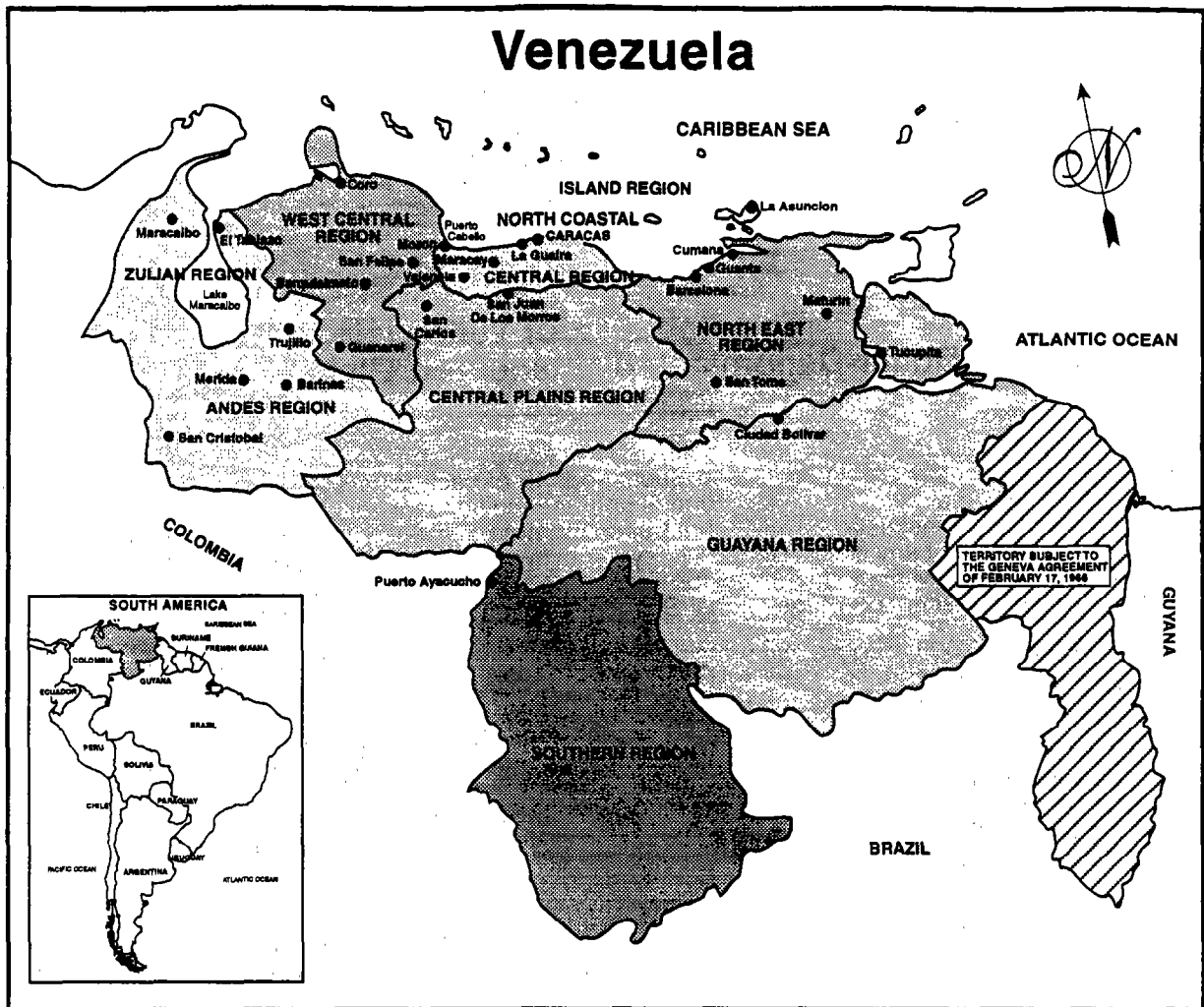
Global Bonds acquired by the Dealer Managers pursuant to the Invitation may be sold by them at prices that may vary from time to time. Global Bonds offered hereby pursuant to the New Cash Offering are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Global Bonds will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company in New York, New York, on or about September 18, 1997.

**Chase Securities Inc.**

**Goldman, Sachs & Co.**

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The date of this Prospectus is September 11, 1997



Until October 21, 1997, all dealers effecting transactions in the registered securities in the United States, whether or not participating in this distribution, may be required to deliver a copy of this Prospectus. This is in addition to the obligation of such dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

The Republic, having made all reasonable inquiries, confirms that this Prospectus contains all information with respect to the Republic and the Global Bonds which is material in the context of the issue and offering of the Global Bonds, and that such information is true and accurate in all material contexts and is not misleading, that the opinions and intentions expressed herein are honestly held and that, to the best knowledge and belief of the Republic, there are no other facts the omission of which would make any such information or the expression of any such opinions and intentions misleading. The Republic accepts responsibility accordingly.

**No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and any information or representation not contained in this Prospectus must not be relied on as having been authorized by or on behalf of the Republic or by or on behalf of either of the Dealer Managers. The delivery of this Prospectus at any time does not imply that the information contained therein is correct at any time subsequent to the date thereof.**

**CERTAIN PERSONS PARTICIPATING IN THE GLOBAL BOND OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE GLOBAL BONDS OR THE BRADY BONDS, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH GLOBAL BONDS OR BRADY BONDS, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE GLOBAL BOND OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "DEALER MANAGERS, UNDERWRITERS AND EXCHANGE AGENT; PLAN OF DISTRIBUTION."**

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**ADDITIONAL INFORMATION**

A Registration Statement with respect to the Republic and the Global Bonds has been filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1933. Additional information concerning the Republic and the Global Bonds is to be found in such Registration Statement and any pre- or post-effective amendment thereto, including the various exhibits thereto, which may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C., 20549, as well as at its Regional Offices located at Seven World Trade Center, New York, New York 10048 and at 500 West Madison Street, Chicago, Illinois 60661. Copies of such information can be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 at prescribed rates.

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Except as otherwise specified, all amounts in this Prospectus are expressed in United States dollars ("dollars", "\$", "U.S.\$", "US\$" or "U.S. dollars").

Certain amounts that appear in this Prospectus may not sum because of rounding adjustments.

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**OFFICIAL STATEMENTS**

Statistical and tabular information included herein which is identified as being derived from a publication of, or supplied by, Venezuela or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Venezuela. All other information herein and in the Registration Statement of which this prospectus is a part, is included as a public official statement made on the authority of Luis Raul Matos Azocar, Minister of Finance. Statistical and tabular

information included herein on the authority of Banco Central de Venezuela ("Banco Central") which is indicated as "preliminary" is considered preliminary until Banco Central has published such information in its Annual Report of National Accounts for the year following the year to which such data relates.

### **ENFORCEMENT OF CIVIL LIABILITIES**

The Republic is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of England, the United States and Venezuela against the Republic. The Republic will irrevocably submit to the exclusive jurisdiction of the courts of England that sit in London, the Supreme Court of the State of New York, County of New York or the United States District Court for the Southern District of New York and the courts of Venezuela that sit in Caracas in any suit, action or proceeding against it or its properties, assets or revenues, arising out of or relating to the Global Bonds (a "Related Proceeding") and the Republic will irrevocably agree that all claims in respect of any Related Proceeding may be heard and determined in such English courts, New York State or federal courts or Venezuelan courts. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any Related Proceeding and any objection to any Related Proceeding whether on the grounds of venue, residence or domicile with respect to Related Proceedings in any such courts. To the extent that the Republic has or hereafter may acquire any immunity (sovereign or otherwise) from jurisdiction of such courts or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) in such courts, the Republic will irrevocably agree not to claim and will irrevocably waive such immunity in respect of any Related Proceeding, and, without limiting the generality of the foregoing, the Republic will agree that such waivers shall have the fullest scope permitted under the Foreign Sovereign Immunities Act of 1976 of the United States (the "U.S. Immunities Act") and the State Immunity Act of 1978 of the United Kingdom and are intended to be irrevocable for purposes of such Acts. See "Description of the Global Bonds—Jurisdiction and Waiver of Immunity" and "—Governing Law." Under the laws of the Republic, neither the Republic nor any of its property has any immunity from jurisdiction of any court or from set-off or any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), except that the Republic and its properties located in Venezuela have immunity from set-off, attachment prior to judgment, attachment in aid of execution of judgment and execution in actions and proceedings in Venezuela.

The Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under United States federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a United States court against the Republic unless such court were to determine that the Republic is not entitled under the U.S. Immunities Act to sovereign immunity with respect to such action. Further, even if a United States judgment could be obtained in any such action under the U.S. Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a United States judgment. Execution upon property of the Republic located in the United States to enforce a United States judgment may not be possible except under the limited circumstances specified in the U.S. Immunities Act.

## INTRODUCTION

### General

Venezuela is situated on the northern coast of South America. It has a coastline on the Caribbean Sea and the Atlantic Ocean and is bordered on the west by Colombia, on the south by Brazil and on the east by Guyana. The capital of Venezuela is Caracas. At December 31, 1996, Venezuela had an estimated population of 22.3 million.

Venezuela has had a democratically elected government since 1958, following the overthrow of a military dictatorship. The most recent presidential election was held in December 1993 when Mr. Rafael Caldera, running as a coalition candidate for the Convergencia Party, was elected for a five-year term of office. Presidential elections are scheduled for December 1998. National legislative power is vested in the Congress. Venezuela is divided into 22 states, a federal district and various dependencies.

### The Venezuelan Economy

Venezuela has been a major petroleum exporter for most of the twentieth century. According to the *BP Statistical Review of World Energy 1996*, Venezuela is the seventh largest petroleum producer in the world and the fourth largest petroleum exporting country in the world. Petroleum revenues account for over 50% of fiscal revenues, and the petroleum industry accounts for approximately one-quarter of Venezuela's gross domestic product ("GDP") notwithstanding the fact that it employs less than one percent of the total Venezuelan workforce. In 1996 petroleum revenues represented 77.7% of Venezuela's foreign exchange earnings and 66.1% of Venezuela's fiscal revenues as a result of increased revenues from petroleum due to higher international petroleum prices and higher export volumes and the contraction in the nonpetroleum sector of the Venezuelan economy described below under "Agenda Venezuela."

Nevertheless, the Venezuelan economy is reasonably diversified, with nonpetroleum activities generating approximately three-quarters of GDP in recent years. Major components of nonpetroleum GDP include commerce, manufacturing and finance. The Government has introduced a number of measures to reduce its dependency on petroleum revenues, but it is anticipated that petroleum will continue to be the main source of export earnings and fiscal revenues for the foreseeable future.

### Recent Economic Performance

Beginning in 1989, the Government has implemented stabilization and structural adjustment reforms, first through a structural adjustment program launched in 1989 (the "Adjustment Program") and subsequently as a part of Agenda Venezuela, adopted in 1996, in an effort to correct fiscal, balance of payments, monetary and other macroeconomic imbalances evident in the Venezuelan economy. Economic policy measures under these programs have been aimed at reducing the role of the Government in the direct production and distribution of goods and services and in the Venezuelan economy in general in an effort to strengthen market forces in the economy. Such measures have included the liberalization of exchange, price and interest rate controls that had previously been imposed during periods of fiscal crises to address significant increases in inflation, capital account deficits and declines in the levels of international reserves.

The implementation of the Adjustment Program between 1989 and 1993 introduced important reforms in fiscal, exchange rate and monetary policies and produced positive results in growth of nonpetroleum GDP and improvement in international reserves. However, the Adjustment Program's effectiveness was undermined by political instability and adverse economic developments. In 1992, two coup attempts were launched by dissident factions within the Venezuelan military against the Government of then President Carlos Andrés Pérez. Although each coup attempt was successfully defeated in

less than one day by forces loyal to the Government, these events had adverse effects on the continuation of the economic reform programs and policies contemplated by the Adjustment Plan. Further political instability occurred in 1993 when President Pérez was suspended by Congress in connection with allegations concerning the misapplication of Bs. 250 million in Governmental funds, and an interim administration led by President Ramón Velásquez, an independent Senator not associated with any of the major political parties, was appointed by the Venezuelan Congress to serve until the next regularly scheduled Presidential elections in December 1993.

Immediately following President Caldera's election in December 1993, a financial sector crisis of unprecedented severity was triggered by the collapse of Banco Latino, Venezuela's second-largest commercial bank. This crisis led the Caldera administration to undertake significant corrective measures. Such measures included the imposition of exchange and price controls and the fixing of foreign exchange rates in an effort to address significant outflows of international reserves and a substantial devaluation of the Bolivar against the U.S. dollar. Subsequently, Banco Central de Venezuela ("Banco Central") established limits on maximum and minimum interest rates.

The financial sector crisis continued throughout 1994 and 1995 as additional financial institutions suffered significant losses of deposits, requiring the Government to intervene in financial institutions representing approximately 54.6% of total financial sector deposits. By the end of 1995, the financial sector crisis had been stabilized and in 1996 the Government commenced the reprivatization of a number of financial institutions that it had intervened during the early stage of the financial sector crisis.

### **Agenda Venezuela**

In April 1996 the administration of President Caldera began the implementation of Agenda Venezuela. The general objectives of Agenda Venezuela include the achievement of a sustainable low level of inflation, the stabilization and strengthening of the country's fiscal accounts, balance of payments and international reserves and structural reforms, all aimed at increasing the competitiveness and efficiency of the economy.

With the support of a standby agreement with the International Monetary Fund ("IMF"), Agenda Venezuela has been implemented in two stages. During the first stage, from April 1996 to April 1997, measures adopted led to a stabilization of the Venezuela economy. The objective of the second stage is to initiate a wide-ranging program of structural reforms. The IMF standby agreement totalled U.S.\$1.4 billion, of which U.S.\$509 million was disbursed prior to the end of the availability period under the agreement and was outstanding at June 30, 1997. The standby agreement contained a number of targets intended to promote greater flexibility in the economy through the removal of price and exchange controls; the reduction of the fiscal deficit through the adoption of measures to increase ordinary fiscal revenues and to reduce public expenditures; the introduction of structural reforms, including privatization of state-owned banks and other public enterprises; and labor reforms. All of such measures are consistent with the goals of Agenda Venezuela. The Government is currently in discussions regarding an 18-month extension of the standby facility with the IMF.

Agenda Venezuela has achieved positive results in its first year of implementation. Exchange and price controls were removed, and the Government implemented a unified, free-floating exchange rate of the Bolivar against the U.S. dollar and liberalized interest rates. These actions resulted, as expected, in a significant increase in inflation and a decrease in economic activity in the nonpetroleum sector of the economy. Year-end inflation, as measured by changes in the Consumer Price Index for the Caracas Metropolitan Area (the "CPI"), increased by 103.2%, the nonpetroleum sector of the economy declined by 3.6% in real terms, and the Bolivar experienced a devaluation against the U.S. dollar from a rate of Bs. 290=U.S.\$1.00 at April 22, 1996 to Bs. 476.50=\$1.00 at December 31, 1996. However, Agenda Venezuela's programs helped to stabilize the Venezuelan economy. Along with increased petroleum

revenues resulting from higher international petroleum prices in 1996 and higher volumes, the Venezuelan consolidated public sector recorded a fiscal surplus of 7.5% of GDP, reversing four years of fiscal deficits. Gross international reserves at Banco Central increased by U.S. \$5.5 billion and ended 1996 at U.S. \$15.2 billion, their highest level since before the beginning of the Latin American debt crisis in the early 1980s.

Inflation slowed in the second half of 1996, with the CPI recording an accumulated increase of 25.2% as compared to the 62.3% registered in the first half of 1996. The downward trend has continued in 1997, as evidenced by preliminary figures which indicate that the increase in the CPI for the first six months of 1997 was 14.6%, down from 62.3% for the comparable period in 1996. It is expected that in 1997 there will be a continued reduction of the underlying inflation rate and a recovery of economic growth. The preliminary results for the year to date are consistent with this expectation.

Notwithstanding the reduction in the rate of inflation since the introduction of the initial stabilization measures pursuant to Agenda Venezuela, the Venezuelan economy has suffered from high rates of inflation since the introduction of the Adjustment Program in 1989. In the past five years, inflation, as measured by the CPI, was 31.9% in 1992, 45.9% in 1993, 70.8% in 1994, 56.6% in 1995, and 103.2% in 1996, and it is anticipated that inflation for 1997 will be between 35% and 40%. Such inflation has resulted from the Government's fiscal deficits, which in turn have been caused by an inefficient public sector and by the dependence of the fiscal accounts on cyclical international petroleum markets. The restructuring of the public sector in Venezuela, including the privatization of many state-owned entities and other steps contemplated to reduce the role of the Government in the economy and improvements in the collection of nonpetroleum taxes, are intended to reduce the Government's fiscal deficits and thereby help to contribute to a lessening of inflationary pressures in the Venezuelan economy.

### **Social Development**

Agenda Venezuela has as an important goal the improvement of social development and social well-being among the Venezuelan population. The Government contemplates that its social development programs will be supported by financial and technical assistance from multilateral institutions, including the International Bank for Reconstruction and Development (the "World Bank") and the Inter-American Development Bank (the "IADB"). At the end of 1996, preliminary figures indicated that Venezuela's unemployment rate was 12.4%. In addition, an estimated 40% of the population may be earning income in the informal sector of the economy. The percentage of poor and extremely poor among the Venezuelan population has increased from 67.8% in 1995 to 78.8% in 1996, in part due to the failure of wages to maintain balance with the high rate of inflation experienced in 1996 and the decline in nonpetroleum GDP during 1996. In addition to seeking to stimulate real growth in the economy and thereby increase job opportunities, Agenda Venezuela aims at addressing these issues through an increased emphasis on the primary education system to improve educational and technological skills among the future Venezuelan workforce; a decentralization of health and education support systems; and a reform of the social security and pension systems. In June 1997, the Government adopted a series of long-awaited labor compensation reforms which are expected to provide greater flexibility in the labor markets.

## Principal Economic Indicators

	Year Ended December 31,				
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>
	(percentage change)				
<b>Economic Activity</b>					
Real GDP Growth (Decline) <sup>(2)</sup> .....	6.1%	0.3%	(2.9)%	3.4%	(1.6)%
Petroleum Sector .....	(1.2)	7.1	4.7	7.1	4.9
Nonpetroleum Sector .....	7.7	(1.3)	(4.6)	1.7	(3.6)
<b>Consumer Prices</b>					
End of year .....	31.9%	45.9%	70.8%	56.6%	103.2%
Average .....	31.4	38.1	60.8	59.9	99.9
<b>Wholesale Prices</b>					
End of year .....	26.0%	47.4%	89.5%	43.6%	105.8%
Average .....	23.6	35.4	77.5	57.7	103.2
Unemployment (in percent) .....	7.1	6.3	8.5	10.2	12.4
	(in millions of U.S. dollars, except where noted)				
<b>Balance of Payments</b>					
Exports (f.o.b.) .....	\$ 13,988	\$ 14,586	\$ 15,905	\$ 18,630	\$ 22,802
Imports (f.o.b.) .....	(12,714)	(11,390)	(8,346)	(11,447)	(10,598)
Trade Balance .....	1,274	3,196	7,559	7,183	12,204
Current Account Surplus (Deficit) .....	(3,753)	(1,993)	2,541	2,255	7,374
Overall Balance .....	(1,139)	(653)	(893)	(1,126)	6,549
<b>International Reserves</b>					
Gross Banco Central Reserves .....	13,001	12,656	11,507	9,723	15,229
Liquid Operating Reserves .....	8,118	8,344	7,217	5,527	11,066
Net Banco Central Reserves .....	9,180	8,324	7,262	6,194	12,038
FIV International Monetary Assets .....	728	881	984	906	1,603
<b>Average Petroleum Export Price</b> (U.S.\$/barrel) .....	14.92	13.34	13.23	14.84	18.39
Imports Coverage <sup>(3)</sup> .....	12.3	13.3	16.5	10.2	17.2
	(in billions of 1984 Constant Bolivars)				
<b>Consolidated Public Sector</b>					
Total Revenues .....	131.479	136.506	155.356	145.163	201.420
Total Expenditures .....	166.247	153.967	231.223	177.571	160.238
Overall Surplus (Deficit) .....	(34.768)	(17.461)	(75.867)	(32.408)	41.182
(as percentage of GDP) .....	(6.3)%	(3.1)%	(14.0)%	(5.9)%	7.5%
	(percentage change in real terms)				
<b>Monetary Aggregates</b>					
Money Supply (M2) .....	(9.9)%	(9.0)%	(3.8)%	(13.7)%	(20.7)%
Monetary Base .....	(12.0)	(20.0)	2.8	(21.9)	(3.9)

(1) Preliminary figures.

(2) Based on constant Bolivars of 1984 purchasing power ("1984 Constant Bolivars").

(3) Number of Months of Imports covered by Gross Banco Central Reserves.

Source: *Banco Central de Venezuela*.

## REPUBLIC OF VENEZUELA

### Area and Population

Venezuela is situated on the northern coast of South America. It has a coastline of approximately 2,813 kilometers on the Caribbean Sea and the Atlantic Ocean and is bordered on the west by Colombia, on the south by Brazil and on the east by Guyana. Venezuela's national territory of approximately 916,445 square kilometers includes 72 islands in the Caribbean.

At December 31, 1996, Venezuela had an estimated population of 22.3 million. 35.8% of all Venezuelans are under 15 years of age, 60.1% are between the ages of 15 and 64, and 4.1% are 65 years of age or older.

Caracas, Venezuela's capital and largest city, is the political, financial, commercial, communications and cultural center of Venezuela. The population of metropolitan Caracas is approximately 3.6 million. Maracaibo, the nation's second largest city with an estimated population of 1.8 million, is located near Venezuela's most important petroleum fields and richest agricultural areas. The Venezuelan territory varies from tropical to mountainous to Amazonian regions, and environmentally protected areas comprise approximately 20% of the land. See "—Environment." Drug traffickers and guerilla incursions from Colombia present a minor but continuing problem on the sparsely populated western border, where Venezuelan armed forces have been stationed to control such incursions and to provide protection to Venezuelan ranchers residing in this area. Part of the eastern border with Guyana is subject to a latent border dispute in which Venezuela has claimed that certain territory occupied by Guyana should be considered part of Venezuela's national territory. The area of dispute is currently under the control of Guyana. Pursuant to the Geneva Agreement of February 17, 1996, which has been superseded by the Protocol of Port Spain dated June 18, 1970, Venezuela and Guyana have agreed to seek a negotiated settlement of the territorial dispute. Since the execution of the Geneva Agreement Venezuela and Guyana have periodically undertaken negotiations regarding the status of the territory, but the negotiations to date have not resulted in a final accord. The Protocol of Port Spain does not contain any final date by which the parties must resolve the dispute.

The estimated labor force at December 31, 1996 was approximately 9.0 million, of whom approximately 12.0% were employed in the primary sector (agriculture and petroleum and mining exploration and extraction), approximately 19.0% in the secondary sector (manufacturing, petroleum refining, construction and water and electricity utilities) and approximately 57.0% in the tertiary sector (services, finance, transportation, communications and Government employment).

Programs to improve the social welfare of poor and extremely poor Venezuelans, estimated to represent 78.8% of the Venezuelan population at December 31, 1996, are part of Agenda Venezuela. See "The Venezuelan Economy—Historical Economic Performance—Agenda Venezuela and Economic Performance in 1996" and "—Poverty and Income Distribution; Education." The following table sets forth comparative GDP figures and selected other comparative social indicators for 1994 for Venezuela and other selected Latin American countries:

	<u>Venezuela</u>	<u>Argentina</u>	<u>Brazil</u>	<u>Chile</u>	<u>Colombia</u>	<u>Mexico</u>	<u>Peru</u>
GDP (billions) <sup>(1)</sup>	\$ 58.3	\$201.9	\$554.6	\$ 52.0	\$ 67.3	\$377.1	\$ 50.1
Life expectancy at birth (years) . . . . .	72.1	72.4	66.4	75.1	70.1	72.0	67.4
Infant mortality rate (per 1,000 births) . . . .	22	23	45	13	26	32	52
Adult literacy rate (%) .	91.0	96.0	82.7	95.0	91.1	89.2	88.3

(1) The United Nations calculates GDP and its components at purchaser values.

Sources: *United Nations Development Program Human Development Report, 1997: World Bank 1997 World Development Indicators. (Statistics for the largest seven economies of Latin America).*

## **Form of Government and Political Parties**

Venezuela, which is divided into 22 states, a federal district and various dependencies, has had a democratically elected government since 1958, following the overthrow of a military dictatorship. The Constitution of 1961 sets forth the structure of the government, individual and collective rights and duties, and the division of powers among the executive, legislative and judicial branches of government.

Executive power is vested in the President, who is elected for a term of five years. The President may not succeed himself or be reelected within ten years after the expiration of his term. The Ministers, who together constitute the Council of Ministers, are appointed by the President and head various executive departments. Pursuant to the Constitution, the President is the commander-in-chief of Venezuela's armed forces. The different services within Venezuela's armed forces report to the Minister of Defense.

Traditionally, the two largest political parties in Venezuela have been Acción Democrática ("AD") and Partido Social Cristiano ("Copei"). These parties attract support from a wide spectrum of political interests, and both parties are considered to be centrist. Between 1958 and 1993, representatives of AD held the presidency five times, and representatives of Copei held the presidency twice. In the most recent presidential election held in December 1993, Mr. Rafael Caldera of the Convergencia party ("Convergencia"), a recently formed party, was elected president for a five-year term with 30.5% of the vote. Mr. Caldera, who had previously served as President between 1969 and 1974, then as the head of Copei, ran in 1993 as a coalition candidate and defeated three other candidates, each of whom received between 21.9% and 23.5% of the vote. The Convergencia party was established among many followers of Mr. Caldera from Copei and has been run as a coalition comprised of a number of smaller parties. Mr. Caldera's election reflected the Venezuelan population's disenchantment with the established political parties and concerns over allegations of public mismanagement and corruption by the traditional majority parties. The next presidential elections are scheduled for December 1998.

National legislative power is vested in the Congress, which consists of a Senate and a Chamber of Deputies. Both senators and deputies are elected by universal suffrage for terms of five years. As a result of electoral reform legislation passed in 1993, approximately one-half of the members of the Chamber of Deputies are elected through direct elections of individual candidates. The remainder are elected under a proportional representation system by which party leaders name deputies to seats allocated on the basis of the number of votes received by each party in each state.

Currently, of the 50 seats in the Senate, AD holds 16, Copei holds 14, Causa R, a relatively new party with roots in the Guayana labor movement that promotes labor and socialist policies, holds nine, Convergencia holds six and the Movimiento al Socialismo party ("MAS") holds five. MAS, which was formed in the 1970s out of the former Venezuelan Communist Party, has shifted its emphasis from a socialist orientation towards the support of a market-oriented economy. In the Chamber of Deputies, AD holds 27.1% of the seats, Copei 26.1%, Causa R 19.7%, Convergencia 12.8% and MAS 11.8%. Prior to these elections, either AD or Copei had traditionally held a majority or near-majority of each of the Senate and the Chamber of Deputies. The 1993 elections resulted in giving neither President Caldera nor his opponents a working majority in the Congress, and thus coalitions are required for the passage of legislation. Nonetheless, the Government has been able to date to enact into law legislation effecting the major policy objectives of Agenda Venezuela, such as the passage of a sales tax at the wholesale level and an excise tax on certain luxury items (collectively, the "LWT"), the opening of the petroleum sector to foreign and domestic private investment, the second stage of the privatization of Compañía Anónima Nacional Teléfonos de Venezuela ("CANTV"), the former state-owned monopoly fixed-switched telephony provider, increases in domestic gasoline prices and the reform of severance liabilities, through a process of negotiation with the opposition parties and the formation of ad hoc coalitions. The Government will continue its policy of creating legislative coalitions in an effort to enact into law remaining items of structural reform contemplated by Agenda Venezuela, including scheduled privatizations of state-owned steel and integrated aluminium sector assets, reforms of the social security and pension systems, and reforms of the public administration system, during the remainder of its term ending December 1998. The next Congressional elections are scheduled for December 1998.

The Senate and the Chamber of Deputies have similar legislative powers. For a bill to become law, it must be approved by a majority of both bodies. Differences between the two chambers are resolved by majority vote of the Congress meeting in joint session. The Constitution provides for procedures by which the President may reject bills passed by Congress, as well as provisions by which Congress may override such Presidential veto acts.

Judicial power is vested in the Supreme Court of Justice (the "Supreme Court") and various lower tribunals. The Congress in joint session elects the 15 justices of the Supreme Court for nine-year staggered terms, one-third being elected every three years. The Supreme Court is the final court of appeal and has the power to declare null and void any laws, regulations or other acts of the executive or legislative branches which conflict with the Constitution. Venezuela is currently participating in a judicial reform program sponsored by the World Bank. With the support of a U.S.\$ 30 million loan from the World Bank, the Government has introduced a number of reforms to help modernize the judiciary. These reforms include enhanced technology, training and a general restructuring of the courts. As of June 30, 1997 U.S.\$ 3.5 million had been disbursed under this loan. The government is presently in the process of negotiating a second loan from the World Bank which would also allow the modernization of the Supreme Court.

In each state, executive power is exercised by a governor who is elected by universal suffrage. State legislative power is vested in state assemblies whose members are also elected by universal suffrage. In early 1992, the electoral procedure for gubernatorial and municipal officials was reformed to require that two-thirds of all officials be elected directly by the electorate and the remaining one-third be elected under a proportional representation system through the selection by the political parties based on the percentage of the vote received by candidates nominated by the political parties.

For the first time in over two decades, two military coup attempts were staged in 1992 against the Government of then President Carlos Andrés Pérez. Both attempts were short-lived and did not significantly interfere with normal economic activity. On December 6, 1992, less than two weeks after the second coup attempt, gubernatorial, mayoral and city council elections were held throughout Venezuela as originally scheduled. In May 1993 the Supreme Court of Justice determined that sufficient grounds existed to support a full trial against then President Pérez regarding allegations of the misapplication of Bs.250 million of Government funds. In accordance with the Venezuelan Constitution, the Venezuelan Senate then determined that a trial should take place and suspended President Pérez from office. The Venezuelan Congress then elected Mr. Ramón Velásquez, an independent Senator not associated with any of the major political parties, to serve as President until the scheduled Presidential elections in December 1993. Mr. Velásquez served in that position until Mr. Caldera was elected in December 1993 and began serving his term in March 1994.

#### **External Affairs and International Organizations**

Venezuela is a member of the United Nations and a founding member of the Organization of American States. It is also a member of the IMF, the World Bank, the IADB, the Organization of Petroleum Exporting Countries ("OPEC"), the General Agreement on Tariffs and Trade ("GATT") and the World Trade Organization ("WTO").

Venezuela has traditionally consulted with various international agencies, such as the IADB, the World Bank and the IMF, regarding its economic programs, objectives, projections and policies. In particular, Venezuela complies with Article IV of the IMF Articles of Agreement, which provides that member countries carry out annual consultations with the IMF.

Venezuela is a member of the Andean Community, an Andean regional integration alliance, the current member countries of which are Bolivia, Ecuador, Colombia, Peru and Venezuela. Venezuela, along with the other members of the Andean Community, is currently seeking to join Mercosur.

Recently, Venezuela has signed several bilateral trade agreements, including with Chile and Mexico, and has entered into a number of other multilateral trading groups, including the G-3 Group with

Mexico and Colombia and the Caribbean Community and Common Market ("CARICOM"). See "The Venezuelan Economy—Historical Economic Performance—Structural Adjustment Program, 1989-1993." Venezuela is a member of the Latin American Integration Association ("ALADI"), an association which promotes and regulates trade within Latin America, and of Corporación Andina de Fomento ("CAF"), a multilateral development bank, the headquarters of which are located in Caracas.

### **Environment**

Venezuela is a sparsely populated country with a wide range of geographically extensive habitats, many of which remain practically undisturbed. Venezuela is one of the world's most biologically diverse countries and is classified by the World Wildlife Fund for Nature as a megadiverse country. For example, Venezuela is home to more than 21,000 species of vascular plants, 1,300 species of birds (out of a world total of 9,000) and including 40% of the known species of neotropical birds and more than 300 species of mammals (18 of which are endangered).

Over the last 50 years, the Government has instituted a system of protected areas to manage and protect Venezuela's environment and natural resources. The protected areas now constitute approximately 20% of the national territory, compared to a world average of only 5%. In addition to preserving the environment and its rich biodiversity, the system of protected areas provides tangible economic and social benefits. Ecotourism is a developing sector of the Venezuelan economy. The protection of critical watersheds results in a good supply of potable water for the population as well as the national production and export of electricity. National parks are the source of 30% of the water supply to major urban areas, as well as 30% of the water used by Venezuelan hydroelectric dams.

A body of environmental legislation and an extensive legal system of management and enforcement are in place. Venezuela has ratified 72 international treaties related to the environment. Medium- and long-term environmental goals and related rules are set forth in the Organic Law of the Environment of 1976 and the Organic Zoning Law of 1983. Venezuelan environmental law is administered and enforced by the Ministry of the Environment and Renewable Natural Resources ("MARNR"), which was founded in 1976 and has broad authority to issue regulations. MARNR also supervises, plans and administers all aspects of the enjoyment, conservation, defense and improvement of the environment. Laws regarding municipalities and decentralization allow for the sharing and delegation of federal authority.

MARNR's policies include strategies and programs intended to: (i) promote development through a rational apportionment of renewable natural resources that stimulate the growth of industry, tourism and commerce, while minimizing adverse effects upon society and the environment; (ii) improve standards of living by securing a potable water supply, a healthy environment, the treatment of toxic or dangerous waste products and the control of contamination; and (iii) develop and apply clear, precise regulations that facilitate the adequate and enforcement of environmental policies.

Both the judiciary and MARNR became empowered to enforce environmental law standards through the Environmental Penal Law of 1992. This law calls for criminal sanctions for acts that violate Venezuelan environmental laws and regulations as well as for equitable remedies including injunctions, restitution and reparation. Claims may be brought by both the Government and individuals.

Venezuelan environmental law was recently enforced against Agip Petroli Spa ("Agip"), an Italian petroleum company, whose tanker spilled 25,406 barrels of oil in the Gulf of Venezuela near Maracaibo in February 1997. The damage to the environment was reported in the press at U.S.\$60 million, but the precise amount of the damage is still under official investigation. The Government's Institute for the Control and Conservation of Lake Maracaibo will prepare an assessment of the medium- and long-term environmental damage caused. The Government initiated a claim against Agip in the federal court of the state of Zulia, which has issued preliminary injunctive measures and will later determine the amount of damage and reparations to be paid to the Government.

## THE VENEZUELAN ECONOMY

### Overview

While for most of the 20th century Venezuela has been a major petroleum exporter, the Venezuelan economy is reasonably diversified, with nonpetroleum activities generating approximately three-quarters of GDP in recent years. The major components of nonpetroleum GDP in 1996 included commerce (8.5%), manufacturing (16.1%) and government (8.4%). Nonetheless, the structure of the Venezuelan fiscal system has been highly dependent on petroleum revenues, with petroleum revenues accounting in recent years for approximately three-quarters of Venezuela's foreign exchange earnings and over 50% of Venezuela's ordinary fiscal revenues.

Since 1989, the Government has implemented, as part of the Adjustment Program and subsequently as part of Agenda Venezuela, economic policy measures aimed at reducing the role of the Government in the direct production and distribution of goods and services and in the Venezuelan economy in general. See "—Historical Economic Performance—Structural Adjustment Program, 1989-1993" and "—Agenda Venezuela and Economic Performance in 1996." To achieve these objectives, the Government has reduced and rescinded import controls and other forms of licensing and implemented a privatization program. Although some of these efforts have been adversely affected by the actions taken by the Government in addressing the financial sector crisis (see "—Historical Economic Performance—The Financial Sector Crisis and Economic Performance in 1994"), the Government anticipates a continuation of these efforts in promoting private sector development in 1997 and the following years. These efforts are intended to refocus the Government's role toward directing its resources to the provision of basic infrastructure, health, safety and education services, particularly to the poorer segments of the population.

Notwithstanding the Government's efforts, the Venezuelan economy remains a mixed economic system in which both the public and private sectors are active participants. The Government, through *Petróleos de Venezuela, S.A.* ("PDVSA") and *Corporación Venezolana de Guayana* ("CVG"), controls significant proportions of GDP in the petroleum, mining and basic industries sectors of the economy. In addition, the Government supplies the majority of basic services such as water, electricity, health and education. Through PDVSA, the Government also accounts for the bulk of Venezuela's total exports. Most other economic activities are owned and operated by the private sector.

### Privatization Program

In recognition of the fact that the Government will be unable, due to budgetary constraints, to provide sufficient capital resources to the state-owned enterprises and in order to attract new capital and technology to such sectors of the economy, the Government identified a large set of assets at the outset of the Adjustment Program that would be better managed by the private sector. Such assets included certain public sector assets in industries such as telecommunications, banking, electricity and steel and aluminum in which the Government's role is no longer deemed to be relevant and in which the private sector will be able to provide needed new capital and technology more efficiently than the Government. The assets being privatized also include miscellaneous assets that have come under Government ownership in the past, including hotels, farms and agro-industry companies, cement plants and industrial companies. In addition, the Government's privatization program seeks to remove the budgetary burden posed by such enterprises on the consolidated public sector by inefficiently managed public sector enterprises.

The Government's privatization program is being managed by FIV, except with respect to the financial entities that were acquired by the Government during the financial crisis, which are under the control of *Fondo de Garantía de Depósitos y Protección Bancaria* ("FOGADE"). FIV, which was established in 1975 to act as a mechanism for directing the Government's petroleum revenues into the nonpetroleum sectors of the Venezuelan economy, was restructured in 1990 to oversee the privatization process. Pursuant to applicable law, public sector assets scheduled for privatization have generally been transferred to FIV for restructuring and temporary financial assistance while the Government

establishes necessary regulatory frameworks for the entities to be privatized and commences the privatization process. The proceeds of the privatization transactions are then used to repay FIV's interim financial assistance, with the balance being transferred to the consolidated public sector accounts.

The Government's privatization program has resulted in the transfer to private ownership and operation of a number of Venezuela's previously state-owned industrial and commercial companies. Since 1990, FIV has successfully privatized 33 companies in industries ranging from telecommunications and airlines to hotels and dairy processing facilities, raising a total of approximately U.S.\$3.5 billion. Of this amount, over U.S.\$2.5 billion has been received from foreign investors. Among the most significant public sector assets sold by FIV in the Government's privatization program to date are 80.0% of CANTV; 40.0% of VIASA, Venezuela's state-owned airline; 100.0% of Aeropostal, another state-owned airline; the "B" band cellular telephone concession; and several commercial banks. FIV views foreign participation, with access to new technology, markets and financing, as integral to a successful privatization process. In addition, the privatization process generally contemplates that a minority of the privatized enterprise's shares will be made available for purchase by the entity's employees, often on financed terms.

After a period of significant activity in the privatization area in 1991 and 1992, the privatization program was delayed in 1993 as a result of the political and economic uncertainty then facing Venezuela and in 1994 as the Government addressed the financial sector crisis. Since the announcement of Agenda Venezuela, the Government and FIV have reinvigorated their efforts to sell public sector assets. In 1996, the Government sold 40% of CANTV (following an earlier sale of 40% in 1991) in an initial public offering listed on the New York and Caracas Stock Exchanges and made progress in the restructuring of certain iron ore, steel and integrated aluminium sector assets owned by CVG. See 'Principal Sectors of the Venezuelan Economy—Manufacturing and Mining—Corporación Venezolana de Guayana.' FIV's current expectations regarding further privatizations during the remainder of 1997 and the first quarter of 1998 include the sale by CVG of such restructured assets as well as several hotel properties, port operations and a cement plant. FIV currently estimates that such asset sales could result in the receipt of up to U.S.\$1.9 billion. FIV also contemplates the sale of certain other assets, including certain electric sector assets owned by Energía Eléctrica de Venezuela ("ENELVEN") and C.A. Energía Eléctrica de Barquisimeto ("ENELBAR"), and certain infrastructure assets in 1998.

In 1996, FOGADE successfully reprivatized Banco de Venezuela, Banco Consolidado, Banco Tequendama and four insurance companies and sold a number of assets owned by the financial institutions acquired by the Government during the financial sector crisis for a total of Bs.406 billion (approximately U.S.\$1.1 billion at the 1996 average exchange rate of Bs.382.37=U.S.\$1.00). International investors played a significant role in the reprivatization of such financial sector assets—the Infisa group of Chile acquired Banco Consolidado; Grupo Santander of Spain acquired Banco de Venezuela; and Banco Bilbao Vizcaya of Spain acquired the 9.4% of Banco Provincial that was owned by Banco Metropolitano. See "—Historical Economic Performance—The Financial Sector Crisis and Economic Performance in 1994." During 1997 to date, FOGADE has reprivatized Banco República and various assets of Banco Latino, including its branch networks, credit card affiliate and insurance affiliate.

The table below sets forth significant (over \$5.0 million) privatization transactions since 1990 by FIV and FOGADE and the U.S. dollar amount of the proceeds received:

<u>Company</u>	<u>Nature of Business</u>	<u>Date of Sale</u>	<u>Purchase Price (in millions of U.S. dollars)</u>
Banco Occidental de Descuento	Bank	October 1990	\$ 9.7
Banco Italo Venezolano <sup>(1)</sup>	Bank	January 1991	63.6
"B" Band Cellular Concession	Telecommunications	May 1991	97.7
Banco República <sup>(1)</sup>	Bank	July 1991	62.0
VIASA (40%)	Airline	September 1991	145.5
CANTV (40%)	Telecommunications	November 1991	1,805.0
Astinave	Shipyards	December 1991	20.5
Hotel Cumanagoto	Hotel	February 1992	5.4
Central Rio Yaracuy	Sugar Cane	October 1992	7.0
Hotel Jirahara	Hotel	October 1992	6.2
Central Las Majaguas	Sugar Cane	February 1992	8.7
Banco Popular <sup>(1)</sup>	Bank	September 1993	22.2
Indulac	Milk Producers	June 1995	14.7
Electricidad de Caracas (shares) <sup>(2)</sup>	Electric Utility	March 1996	43.4
Seguros Nuevo Mundo	Insurance	August 1996	12.2
Banco Provincial (shares) <sup>(2)</sup>	Bank	March 1996	35.6
General de Seguros	Insurance	November 1996	9.2
Aeropostal	Airline	August 1996	20.0
CANTV (additional 40%)	Telecommunications	November 1996	1,026.4
Hotel Bella Vista	Hotel	November 1996	15.6
Banco de Venezuela	Bank	December 1996	378.0
Banco Consolidado	Bank	December 1996	155.0
Banco Tequendama	Bank	December 1996	48.0
Seguros Royal Caribe	Insurance	December 1996	5.3
Custravalca	Private Security	December 1996	68.1
Latincorp	Financial Institution	March 1997	7.5
Latino Seguros	Insurance	May 1997	6.7
Inversiones Tocoa (shares) <sup>(2)</sup>	Real Estate Holding	May 1997	5.4
Visa Latino	Credit Card	June 1997	18.6
Banco Latino (branches)	Bank	June 1997	70.0
Banco República	Bank	June 1997	57.5
Total			<u>\$4,291.9</u>

(1) Subsequently reacquired by the Government as a result of the financial sector crisis. See "—Historical Economic Performance—The Financial Sector Crisis and Economic Performance in 1994." Banco República was reprivatized in 1997.

(2) Represents shares of subject entity that were owned by financial institutions intervened and acquired by FOGADE as part of the financial sector crisis in 1994 and 1995.

Sources: FIV and FOGADE.

## Historical Economic Performance

### **Structural Adjustment Program, 1989–1993**

Following the inauguration of the Pérez administration in February 1989, the Government adopted a structural adjustment program (the "Adjustment Program") aimed at correcting the severe macroeconomic imbalances, including continued fiscal and capital account deficits and declines in the level of Venezuela's international reserves, that had constrained economic growth in Venezuela in the 1980s. The Adjustment Program had as its objective the transformation of the Venezuelan economy from an economy based on the general subsidization by the petroleum industry of all other sectors of the economy to a broader-based, competitive economy not tied to trends in international petroleum prices that would promote sustainable long-term growth. The Adjustment Program relied on the elimination of many general subsidies in the Venezuelan economy to balance the fiscal accounts and the introduction of a competitive exchange rate to balance external accounts. By adopting a unified floating exchange rate, the Government eliminated a *de facto* system of generalized price subsidies created by a multiple exchange rate system applied to certain consumer goods, decreased imports and promoted non-petroleum exports. The Government also announced that the implementation of a program of gradual increases in the price of many public sector goods and services, including gasoline, electricity and water. The Government liberalized domestic interest rates by removing limits on the maximum interest rates chargeable on loans and payable on deposits so as to enable such rates to be set by market forces. The removal of such prior limits permitted interest rates to become positive in real terms, which in turn helped to promote private sector savings and reduce incentives for capital flight. Combined with an improvement in international petroleum prices in 1990, the Adjustment Program was successful in rapidly restoring general macroeconomic equilibria: the deficit of the consolidated nonfinancial public sector was reduced from 8.6% of GDP in 1988 to 1.1% in 1989. By 1990 a surplus of 0.2% of GDP was achieved; and the current account shifted from a deficit of 10.4% of GDP in 1988 to a surplus of 5% and 4% of GDP in 1989 and 1990, respectively. The Adjustment Program also resulted, however, in an 8.6% decrease in GDP in 1989 as the economy adjusted to new prices and shifted away from the production of import substitutes toward the manufacture of products in which Venezuela possessed a competitive advantage. Following the removal of most price controls, excluding those on a basket of basic foodstuffs and transportation, consumer prices increased during March and April 1989 to more realistic levels. Inflation for 1989, as measured by the change in the CPI, reached 81.0%, although excluding the adjustment in March and April 1989 the average monthly increase during 1989 was 2.8%.

A major part of the fiscal policy and public sector restructuring policy was the privatization of public assets. As previously noted, in 1991 the Government sold 40.0% of CANTV to an international consortium led by GTE Corporation for U.S.\$1.9 billion, a 40% interest in the state airline, VIASA, to Iberia Airlines, a cellular telephone band concession to a consortium led by BellSouth, several commercial banks and other assets.

In order to open the Venezuelan economy, the Government took a number of steps commencing in 1989 with the lowering of tariffs and the removal of non-tariff barriers. The Government acceded to GATT in September 1990 and in addition entered into a number of bilateral and multilateral trade alliances. Venezuela concluded free-trade agreements with Colombia, Chile, Ecuador, Mexico and the CARICOM countries and promoted the creation of a free trade zone among the Andean Community countries within the framework of the Cartagena Agreement. In addition, Venezuela pursued free-trade agreements with certain countries of Central America. As a result of the free trade agreement with Colombia, Colombia has become the largest market for non-oil Venezuelan exports, which reached U.S.\$1.3 billion in 1996, representing a U.S.\$229 million increase from the previous year. In April 1991, Venezuela entered into a framework agreement with the United States to promote increased trade and investment.

The Government also commenced a program of financial sector reform in an effort to permit greater transparency and market forces in the financial intermediation process. Banco Central freed interest rates to match demand, allowing rates for loans and deposits to float within wide bands. In addition, the Government adopted a new law for Banco Central which was designed to provide for greater independence. See "Financial System—Banco Central de Venezuela."

Despite certain macroeconomic disruptions associated with the implementation of the Adjustment Program, including the significant devaluation of the Bolivar against the U.S. dollar in 1989 upon the freeing of exchange rate controls and an increase in inflation as a result thereof, the Venezuelan economy substantially improved its internal and external financial positions during the period from 1990 through 1992. By 1993, however, political uncertainties caused by two unsuccessful coup attempts in 1992 and elections scheduled for the end of 1993, as well as high interest rates and contraction in the rate of GDP growth in the nonpetroleum sector of the Venezuelan economy, led to a slowdown in economic activity.

#### ***The Financial Sector Crisis and Economic Performance in 1994***

Political difficulties and changes during 1993, including the suspension of former President Pérez, the appointment of the interim Velásquez administration and upcoming congressional and presidential elections, contributed to an atmosphere of increasing commercial uncertainty and a deterioration in the economy. The economic situation deteriorated further when, in January 1994 the Government was forced to intervene in, and temporarily close, Banco Latino, Venezuela's second-largest commercial bank with deposits of over Bs.134.3 billion (approximately U.S.\$1.3 billion). The temporary closure of Banco Latino caused depositors at several other large Venezuelan banks to question the solvency of those institutions. As a result, an additional eight financial institutions were forced to seek more than Bs.500 billion (approximately U.S.\$4.0 billion) in financial assistance from FOGADE during the first six months of 1994. In addition, FOGADE capitalized Banco Latino, prior to its reopening, with Bs.300 billion (approximately U.S.\$2.4 billion). In connection with its financial assistance, FOGADE received collateral, including real estate properties, loan portfolios and other assets, as security for the repayment of such assistance.

Although the financial sector crisis appeared to be triggered by the Government's intervention in Banco Latino, the crisis soon proved to be the result of a number of systemic factors including: (i) internal mismanagement regarding loans and investments, including certain alleged fraudulent transactions; (ii) lack of efficient supervision within both the system and the individual institutions; (iii) low capitalization levels in the banking system; (iv) general inefficiencies in the banking sector resulting from an overcapacity of institutions and high transaction costs; (v) unsupervised and unregulated investments in off-shore banks and loans to interrelated companies with poor credit; (vi) sustained high interest rates coupled with inflation, which increased the levels of arrears in loan portfolios; and (vii) general macroeconomic instability in Venezuela. The passage of amendments to the General Law of Banks and other Financial Institutions in January 1994 and subsequent developments in the Venezuelan financial sector have resulted in improvements in many of the areas of weakness in the financial sector that caused the financial sector crisis. See "Financial System—Financial Institutions."

On March 8, 1994, Congress passed special laws that retroactively raised the upper limit on insured deposits from Bs.1,000,000 to Bs.4,000,000 and raised the insurance fees that local banks were required to pay semiannually to FOGADE from 0.25% to 1.0% of a bank's total deposits (excluding deposits of public sector entities). In June 1994, the Republic issued Bs.400.0 billion (approximately U.S.\$2.4 billion) in domestically placed government bonds, with staggered maturities, for placement in the market by FOGADE. It was anticipated that the issuance of the government bonds would permit FOGADE to repay a portion of the money that FOGADE borrowed from Banco Central (approximately U.S.\$6.9 billion) to assist troubled financial institutions. However, this objective was not achieved because FOGADE was forced to use the proceeds to pay depositors for their insured deposit amounts and to provide capital to certain of the nationalized financial institutions. Banco Central and FOGADE subsequently negotiated terms for the repayment of the debt owed by FOGADE to Banco Central. The current terms set forth in the *Ley de Regulación de la Emergencia Financiera* permit FOGADE to repay the loan with bonds issued by FOGADE with maturities of no more than 30 years and interest rates not higher than 5.0%.

Government intervention in the financial sector in 1994 caused a significant increase in the monetary base in nominal terms, which in turn resulted in an acceleration in inflation and exchange rate deterioration. On June 29, 1994, pursuant to Decree No. 248, the Junta de Emergencia Financiera ("Financial Emergency Board" or the "Board") was created to manage and supervise the remaining financial institutions. The Board was given broad powers to prevent the failure of additional financial institutions, including the powers to hire and dismiss directors and managers; expropriate assets from troubled institutions; and direct and approve the purchase of all shares of a troubled financial institution that had been pledged to the Government in exchange for FOGADE's financial assistance as described above. The Board superseded in authority both FOGADE and the Superintendency of Banks. Members of the Board included the Minister of Finance, the President of Banco Central, and three individuals appointed by the President of the Republic. The flight of private capital due to the financial crisis during the first half of 1994 accounted for a significant portion of the U.S.\$3.8 billion drop in Venezuela's foreign reserves during that period. The continuing adverse economic conditions and pressures on the rate of inflation, exchange rates and the level of international reserves led the Government in July 1994 to implement an exchange control regime and to adopt price controls in an effort to control inflation and support Venezuela's international reserves position.

During the period following the introduction of exchange and price controls, the financial sector continued to experience additional disruptions. In August and September 1994, the Board discontinued financial assistance to troubled banks and instead acquired for nominal consideration Banco de Venezuela, Banco Consolidado and Banco Andino, which together held approximately 15.0% of the financial system's total deposits. On December 13, 1994, the Board intervened and closed Banco Progreso, and distributed certain of its liabilities among all the public sector banks. On January 31, 1995, the Board intervened and closed Banco Italo Venezolano, Banco Profesional and Banco Principal and distributed certain of their liabilities among the public sector banks. The last bank intervened and closed was Banco Empresarial in August 1995. The total cost to the Government of the financial sector crisis was approximately Bs.2,563 billion in nominal terms (approximately U.S.\$16.8 billion).

By the third quarter of 1995, the financial sector's position had stabilized. Two foreign banks, ING Bank and ABN AMRO, opened operations in Venezuela in March and October 1995, respectively. By the end of 1996 the financial crisis had been overcome, and three banks and several assets owned by financial institutions acquired by the Government during the financial crisis were reprivatized in December 1996, raising more than Bs.406 billion. See "—Agenda Venezuela and Economic Performance in 1996" and "Financial System—Financial Institutions."

In 1994, after four consecutive years of growth, the Venezuelan economy, as measured by GDP, contracted in real terms by 2.9%. The lower level of economic activity contributed to an increase in the unemployment rate in 1994 to 8.5%, compared to the 1993 unemployment rate of 6.3%. The balance of payments registered a deficit of U.S.\$893 million in 1994 despite a significant surplus in the current account of U.S.\$2.5 billion, which surplus was principally attributable to an increase in petroleum exports and a decrease in imports of 26.7%, caused primarily by the imposition of exchange controls. The capital account registered a deficit of U.S.\$3.2 billion, partially attributable to a lack of external financial resources. An acceleration in prices and exchange rates as well as an increase in the monetary base due to government intervention in the financial sector contributed to an increase in inflation in 1994 as measured by the CPI of 70.8% for 1994, compared to 45.9% in 1993.

#### ***Economic Performance in 1995***

The Venezuelan economy grew during 1995, with preliminary figures showing an increase in GDP of 3.4%. This increase was attributable principally to increased production and exports of petroleum and to higher international petroleum prices. Preliminary figures also indicate that the private sector experienced a gradual decline, principally in the areas of commerce, financial institutions and construction.

The consolidated nonfinancial public sector registered a deficit of 5.8% of GDP, an improvement over the 14.0% deficit recorded in 1994. The decrease in the public sector deficit was due to a decrease in Government spending and a readjustment of Venezuela's investment plans in order to regain access to local and international financial markets in light of Venezuela's economic situation. The current account surplus decreased from U.S.\$2.5 billion at year-end 1994 to U.S.\$2.3 billion for 1995, primarily as a result of a 37.2% increase in imports. In addition, Venezuela's continued lack of access to the international capital markets, combined with continuing levels of amortizations of public and private indebtedness, led to a capital account deficit of U.S.\$2.8 billion as of December 31, 1995. As of December 31, 1995, the balance of payments registered a deficit of U.S.\$1.1 billion, as compared to the U.S.\$893 million deficit registered in 1994.

Inflation for year-end 1995, as measured by the CPI, registered approximately 56.6%, compared to 70.8% for year-end 1994. The significant decrease can be principally attributed to the effects of the exchange and price controls. During 1995, unemployment increased to 10.2% from 8.5% in 1994.

Gross international reserves at Banco Central declined during 1995 by U.S.\$1.8 billion and stood at U.S.\$9.7 billion at December 31, 1995. Liquid operating reserves at Banco Central were at U.S.\$5.5 billion at December 31, 1995. International monetary assets of FIV totalled U.S.\$906 million at December 31, 1995.

### ***Agenda Venezuela and Economic Performance in 1996***

In April 1996, the Government began to implement Agenda Venezuela, which superseded the Adjustment Program implemented during the Pérez administration. See "—Structural Adjustment Program, 1989-1993." Agenda Venezuela is premised upon the acknowledgment that Venezuela's public sector is inefficient and rigid in its expenditure, labor and legal structures and that Venezuela's budget deficits have diverted required financial and technological investments from the productive sectors of the economy. These matters in turn have adversely affected social conditions and development, as real wages have decreased, public services have deteriorated and unemployment and inflation have increased.

The objectives of Agenda Venezuela include promoting social development, increasing the competitiveness and efficiency of the economy and its legal structure, stabilizing and strengthening the country's fiscal accounts, balance of payments and international reserves and achieving a sustainable low level of inflation. The following paragraphs describe certain principal objectives of Agenda Venezuela and the means by which Venezuela expects to achieve such objectives:

- ***Fiscal Policy.*** Agenda Venezuela contemplated an initial period of macroeconomic stabilization through integrated fiscal, monetary, exchange rate and financial sector policies. Through a process of reduced spending, privatization and increased collection of nonpetroleum taxes, Agenda Venezuela contemplates lowering the deficit in the consolidated public sector accounts. Preliminary results for 1996 show a surplus equivalent to 7.5% of GDP for the consolidated public sector accounts.

To reduce governmental spending and increase fiscal revenues, Agenda Venezuela contemplates a number of institutional and legal reforms, including a reduction in the total number of Government employees and the creation of a more efficient system of budget preparation and administration through the adoption of a new law governing the budget and appropriations process. Once fully implemented, these reforms should help to remove public administration and budget rigidities and create a process of decentralization that allows the Government to set priorities for its expenditures, as opposed to the previous system in which the Government's expenditures were automatically assigned by formula without regard for the Government's current priorities, needs and strategies. Regarding reduction of Government spending, over 17,500 public sector employees were terminated in 1996. Regarding increases in revenues, on April 16, 1996, the Government increased domestic gasoline prices by approximately 800%. Prior to the increase,

domestic gasoline prices had been heavily subsidized by the Government, resulting in substantial annual fiscal losses. In order to minimize the effects of the gasoline price increase on the poorer segments of Venezuelan society, the Government announced a subsidy for users of public transportation. On July 31, 1997, the Government again raised domestic gasoline prices by an average of 25.5% to adjust domestic gasoline prices to the equivalent export FOB price received by Venezuela from its petroleum exports.

In addition to increasing domestic gasoline prices, the Government has taken a number of other actions to increase revenues, including the reform of the tax collection process through Servicio Nacional Integrado de Administración Tributaria ("SENIAT") and the adoption of a sales tax at the wholesale level, an excise tax on certain luxury items and a business assets tax. Further steps to improve fiscal revenues include the realization of increased receipts from the privatization of state-owned industries and the authorization of private investment in the petroleum sector to make needed capital investments in that sector. The Government also has realized revenues in 1996 and the first half of 1997 from the sale of the assets received by FOGADE in connection with the financial sector crisis. See "—The Financial Sector Crisis and Economic Performance in 1994" and "Financial System—Financial Institutions." The Government in the fourth quarter of 1996 completed the reprivatization of several large Venezuelan financial institutions acquired as a result of the financial sector crisis in 1994 and 1995, as well as the sale of 40% of CANTV (in addition to the 40% sold in 1991).

- **Financing Policy.** In order to provide the necessary resources and increase international reserves during the restructuring process, the Government's financing policy includes a consensual restructuring of Venezuela's bilateral and domestic indebtedness and a return to the domestic and international capital markets on an opportunistic basis. Between September 1996 and June 1997, Venezuela issued debt securities in the German and Euromarkets in the approximate aggregate principal amount of U.S.\$700 million.
- **Monetary and Exchange Policy.** Agenda Venezuela contemplates a continuation of the current restrictive monetary policy. In April 1996, the Government announced a dismantling of the system of official controlled exchange rates instituted in July 1994 and the establishment of a unified, free-floating exchange rate with free convertibility. In addition, Banco Central deregulated interest rates in April 1996. Such policies are intended to help stabilize prices and, along with the financing policies described above, to help maintain an acceptable level of international reserves. On July 8, 1996, the Government announced the establishment of a trading band for the Bolivar. For 1997, the Government established an initial central parity of Bs. 472=U.S.\$1.00, effective January 2, 1997 and a crawling band of 7.5% above and below the central parity. Between July 8, 1996 and August 4, 1997, the central parity increased by 1.32% per month. On August 4, 1997, Banco Central modified the rate of increase of the central parity to 1.16% per month. Banco Central undertook this policy action as a result of the failure of the foreign exchange market to adopt the devaluation curve implied by the previous rate. Banco Central believes that the newly announced central parity slope should create more realistic expectations for foreign exchange rates. For July 1997, the band was between Bs.567 and Bs.487=U.S.\$1.00. At August 25, 1997, the Bolivar traded at Bs.496.75=U.S.\$1.00.
- **Stabilization Funds.** As an adjunct to the macroeconomic and social development programs being implemented as part of Agenda Venezuela, the Government has introduced a proposed law that seeks to provide fiscal stability to the Venezuelan economy through the savings of unanticipated revenues from petroleum sales. Through the establishment of the Macroeconomic Stabilization Fund, the Government would be obligated to reserve in special accounts excess petroleum revenues from those anticipated in a given budgetary period, which excess amounts would be available in future periods of lower than anticipated revenues to provide supplementary funds for

general budgetary purposes. In addition, Congress has introduced a proposed law for the establishment of a Debt Management Fund that would be created with excess petroleum revenues, the net proceeds of privatizations and certain other amounts. The balance of the Debt Management Fund would be available to provide funds for the payment of public sector debt during periods of reduced revenues. The Government is currently discussing with Congress the proposed enabling legislation for the two funds.

- **Social Development.** Agenda Venezuela recognizes that in order to position Venezuela successfully in the global economy, it is necessary to invest in social development. The social instability resulting from the decrease in real wages, under- and unemployment and the existence of a work force that lacks the educational and technological skills necessary to develop a competitive economy have impeded the Government's efforts to correct the current macroeconomic disequilibria. Among the contemplated reforms are an increased emphasis on the primary education system; a decentralization of health and educational support systems; technical and financial support for micro-enterprises (defined as entities with five or fewer employees and with assets of Bs.10 million or less); and a reform of the social security system, including health services, retirement funds and fringe benefits. On April 15, 1996, the Government announced a number of new social measures, including an increase in the family subsidy, an increase in the amount received pursuant to social security retirement pensions, an increase in public worker salaries, subsidies for public transportation and certain prescriptions and medicines, and the expansion of staple supply centers which distribute five key staples at a 40% discount from market prices. The Government has also recently reformed the labor law. See "—Employment and Labor." The Government contemplates that its social development programs will be supported by financial and technical assistance from multilateral institutions, including the World Bank and the IADB. The Government is a party to eleven separate loan agreements with the World Bank and the IADB covering programs in the areas of social development, health, education, judicial reform and living conditions. Such loans total U.S.\$762.4 million, of which approximately U.S.\$105.6 had been disbursed as of June 30, 1997. In addition, the Government is discussing with the IADB additional loan facilities of up to U.S.\$245.0 million to assist the Government in its planned reform of the social security system. Such support will be directed to worker training programs; nutritional support for the youth segment of the population; and strengthening of the health and transportation sectors used by the poorer segments of the Venezuelan society.

With the support of the IMF, Agenda Venezuela has been implemented in two stages. During the first stage, from April 1996 to April 1997, the Government adopted measures to stabilize the Venezuelan economy. The objective of the second stage is to initiate a wide-ranging program of structural reforms. In the first stage of the implementation of Agenda Venezuela, the Government entered into a 12-month standby agreement with the IMF for a total of U.S.\$1.4 billion of which U.S.\$509 million was disbursed during the availability period for the agreement and was outstanding at June 30, 1997. The standby agreement contained a number of targets intended to promote greater flexibility in the economy through the removal of price and exchange controls; the reduction of the fiscal deficit through the adoption of measures to increase ordinary fiscal revenues and to reduce public expenditures; the introduction of structural reforms, including privatization of the state-owned banks and other public enterprises; and labor reforms. All of such measures are consistent with the goals of Agenda Venezuela. The Government is currently in discussions regarding an 18-month extension of the standby facility with the IMF.

Agenda Venezuela also contemplated that many of the financial institutions taken over by the Government during the financial sector crisis will be returned to private ownership and that improved regulation of the banking sector as a result of legal and regulatory reforms commenced in the beginning of 1994 will result in a stronger, more competitive financial sector. During the second half of 1996 and the first half of 1997, the Government successfully reprivatized three of the banks that were intervened during the financial sector crisis, sold the banking network sector of Banco Latino, and sold assorted

assets and entities owned by the Venezuelan banks intervened by the Government in 1994 and 1995. See “—Privatization Program” and “Financial System—Financial Institutions.”

Agenda Venezuela achieved a number of positive results in its first year of implementation. Even though the inflation rate for year-end 1996 was 103.2%, the inflation rate slowed in the second half of 1996 with an accumulated increase of 25.2% compared to the 62.3% registered in the first half of 1996. The downward trend has continued, as evidenced by preliminary figures which indicate that inflation for the first six months of 1997 was 14.6%, compared to 62.3% for the comparable period in 1996. It is expected that in 1997 there will be a continued reduction in the underlying inflation rate and a recovery of economic growth. The preliminary results for the year-to-date period are consistent with this expectation. As previously noted, the financial sector crisis was overcome in 1996 and three banks and several assets owned by financial institutions acquired by the Government during the crisis were privatized in December 1996, raising more than Bs.406 billion. Major foreign banking institutions, including Banco Bilbao Vizcaya, Grupo Santander and a large Chilean group, Infisa, participated in such acquisitions and, as a result, have active operations in the country. At December 31, 1996, all but one of 37 Venezuelan commercial banks were in compliance with internationally recognized minimum capital adequacy standards (the “Basle Standards”), and their profitability indicators have exhibited gradual improvement. See “Financial System—Financial Institutions.”

Although the policy action items of Agenda Venezuela, including the devaluation of the Bolivar, the removal of price and interest rate controls and the increases in the prices of public sector goods and services such as domestic gasoline, have resulted in diminished purchasing power for the Venezuelan population, the Government believes that the Venezuelan public has been generally supportive of Agenda Venezuela. Although there were certain peaceful public protests in connection with the increases in the price of domestic gasoline, the majority of the Venezuelan population have accepted the increases in prices, unlike the situation encountered when the Government raised gasoline prices in 1989 at which time widescale riots resulted in over 250 deaths and significant property damage. The Government believes that the Venezuelan public shares the Government's principal goals of improving the competitiveness and efficiency of the Venezuelan economy with a sustainable low level of inflation and understands that the adjustment actions taken under Agenda Venezuela have been necessary steps in accomplishing such goals notwithstanding their initial adverse effects on the Venezuelan population and economy.

According to preliminary figures, the Venezuelan economy, as measured by GDP, contracted 1.6% during 1996 notwithstanding the 4.9% growth experienced by the petroleum sector. The nonpetroleum sector contracted by 3.6%. The expansion in the petroleum sector is attributable to an increase in international demand, investments made within this sector by both national and international companies through the program to open the petroleum sector (see “Principal Sectors of the Venezuelan Economy—Petroleum and Natural Gas—The Opening of the Venezuelan Petroleum Sector”) and increases in international oil prices. The contraction in the nonpetroleum sector can be attributed to a decrease in internal demand due to price adjustments and deterioration of salaries in real terms. Preliminary figures for 1996 show an increase in unemployment to 12.4% compared to 10.2% in 1995, with the highest unemployment levels in the construction (20%), manufacturing (11.3%) and services (11.1%) sectors.

The consolidated public sector registered a surplus equivalent to 7.5% of GDP in 1996 which reversed the previous year's deficit of 5.9% of GDP. This result was achieved through an increase in fiscal revenues resulting from, among other measures, an increase in the wholesale sales tax and excise tax on certain luxury items from 12.5% to 16.5%, an increase in the domestic price of gasoline by approximately 800%, adjustments in certain public service tariffs and improvements in Venezuela's tax collection systems. The oil royalty payment from PDVSA increased as a result of increased oil exports during the year. The central Government registered a surplus equivalent to 0.5% of GDP compared to the previous year's deficit of 4.8% of GDP.

In 1996, the balance of payments registered a surplus for the first time in five years, reaching U.S.\$6.5 billion. This surplus can be attributed to a trade surplus of U.S.\$12.2 billion, which allowed the current account balance to increase by U.S.\$5.1 billion over its level in 1995. The positive results for 1996 were achieved as a result of substantial increases in the dollar value of oil exports and a significant increase in foreign direct investment in Venezuela. Also, an additional 40% of CANTV was sold by FIV in 1996 in an initial public offering listed on the New York and Caracas Stock Exchanges. The CANTV initial public offering included a feature intended to help to promote stock ownership among Venezuelan citizens. See "Financial System—Securities Markets." The increased investment in both the financial and petroleum sectors contributed significantly to a reduction in the capital account deficit from U.S.\$2.8 billion in 1995 to U.S.\$518 million in 1996.

Gross international reserves at Banco Central increased during 1996 by U.S.\$5.5 billion and stood at U.S.\$15.2 billion at December 31, 1996. International monetary assets of FIV totalled U.S.\$1.6 billion at December 31, 1996. Liquid operating reserves stood at U.S.\$11.1 billion at December 31, 1996. The increase in reserves at Banco Central is attributable to the measures imposed by the Government in accordance with Agenda Venezuela and also to increased revenues from the petroleum sector.

### **Recent Developments**

The Government has continued the implementation of Agenda Venezuela during 1997. Among the major policy actions taken by the Government in 1997 have been the adoption of reforms in the Venezuelan labor law in the area of severance payments, a further increase in the price of domestic gasoline to raise such prices to the FOB export price for Venezuelan gasoline and further structural reforms of the public sector.

Preliminary economic results during the first six months of 1997 indicate a continuation of improvements in the Venezuelan economy. Inflation for the first six months of 1997 totalled 14.6%, as compared to 62.3% for the comparable period in 1996. The current account registered a surplus of U.S. \$3.3 billion for the first half of 1997, and the trade balance, led by continued strong petroleum export revenues of U.S. \$8.8 billion, recorded a surplus of U.S. \$5.9 billion. Gross international reserves at Banco Central increased during the six-month period ended June 30, 1997 by U.S. \$1.4 billion and totalled U.S. \$16.7 billion at that date. Net international reserves at the same date totalled U.S. \$14.0 billion.

### **Gross Domestic Product**

Venezuela has experienced volatile rates of growth during the period from 1989 to 1996. In 1989 there was a significant decrease in economic activity associated with the introduction of the Adjustment Program, evidenced by a reduction in real GDP of 8.6%, with commerce, construction and manufacturing sectors registering substantial decreases. The effects of the Adjustment Program began to produce a recovery in economic activity in 1990, with GDP growing at a rate of 8.5% in real terms. This recovery continued in 1991, with the economy growing at a real rate of 9.7%, led by the petroleum sector registering real growth of 10.3%. In 1992, despite lower international oil prices and significant political turbulence, the Venezuelan economy grew by 6.1% in real terms, led by the nonpetroleum sector, which grew by 7.7% (including particularly strong contributions from construction, mining and commerce), while the petroleum sector contracted by 1.2%. In 1993, GDP grew at a real rate of 0.3%, with the petroleum sector growing at 7.1% and the nonpetroleum sector contracting 1.3%. In 1994, after four years of real growth, the economy contracted by 2.9% in real terms, principally as a result of the financial sector crisis. In 1995, the economy grew by 3.4% in real terms, led by higher output and prices in the petroleum sector. Preliminary figures for 1996 show a contraction of the Venezuelan economy of 1.6% in real terms, the net result of an increase of 4.9% in the petroleum sector and a contraction in the nonpetroleum sector of 3.6%.

The following table sets forth Venezuela's GDP and expenditures in 1984 Constant Bolivars for each of the years indicated and GDP and expenditures in nominal Bolivars for the year ended December 31, 1996:

	Year Ended December 31,											
	1992		1993		1994		1995 <sup>(1)</sup>		1996 <sup>(1)</sup>		1996 <sup>(1)</sup>	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
	(In billions of 1984 Constant Bolivars and as percentage share of GDP)										(In billions of nominal Bolivars)	
Aggregate Global Demand	556.7	100.0	558.2	100.0	542.3	100.0	560.6	100.0	551.6	100.0	28,091.1	100.0
Aggregate Internal Demand	502.5	90.3	478.2	85.7	430.1	79.3	459.3	81.9	436.2	79.1	24,458.4	87.1
Gross Capital Formation	103.1	18.5	95.8	17.2	73.0	13.5	71.8	12.8	66.6	12.1	4,154.8	14.8
Public	69.3	12.5	66.9	10.2	40.5	7.5	45.3	8.1	44.8	8.1	2,847.5	10.1
Private	33.8	6.1	38.9	7.0	32.5	6.0	26.6	4.7	21.8	4.0	1,307.1	4.7
Consumption	387.8	69.7	385.0	69.0	371.0	68.4	377.2	67.3	361.2	65.5	19,753.6	70.3
Public	60.8	10.9	57.6	10.3	54.3	10.0	55.6	9.9	52.2	9.5	1,281.1	4.6
Private	327.0	58.7	327.4	58.6	316.8	58.4	321.6	57.4	308.9	56.0	18,472.5	65.8
Variation of Stock	11.5	2.1	(2.5)	(0.5)	(14.0)	(2.6)	10.3	1.8	8.4	1.5	548.1	2.0
Net External Demand <sup>(2)</sup>	54.2	9.7	80.0	14.3	112.2	20.7	101.3	18.1	115.4	20.9	3,634.8	12.9
Gross Domestic Product	556.7	100.0	558.2	100.0	542.3	100.0	560.6	100.0	551.6	100.0	28,091.1	100.0
Petroleum Activities	116.1	20.9	124.4	22.3	130.2	24.0	139.5	24.9	146.3	26.5	7,577.5	27.0
Nonpetroleum Activities	428.2	76.9	422.9	75.8	403.5	74.4	410.5	73.2	395.8	71.8	19,191.2	68.3
Agriculture	26.6	4.8	27.5	4.9	27.1	5.0	27.2	4.9	27.3	5.0	1,146.3	4.1
Mining	3.8	0.7	4.2	0.8	4.7	0.9	4.8	0.9	4.6	0.8	250.6	0.9
Manufacturing	92.4	16.6	91.2	16.3	88.0	16.2	94.2	16.8	88.7	16.1	3,673.8	13.1
Electricity and Water	9.2	1.7	9.5	1.7	9.6	1.8	9.8	1.8	10.0	1.8	388.3	1.4
Construction	41.6	7.5	39.3	7.0	29.7	5.5	27.5	4.9	26.4	4.8	1,182.0	4.2
Commerce <sup>(3)</sup>	62.1	11.2	60.2	10.8	54.6	10.1	53.0	9.4	47.0	8.5	3,244.3	11.5
Transportation, Storage and Communication	27.9	5.0	28.1	5.0	27.1	5.0	28.3	5.1	28.2	5.1	2,301.5	8.2
Financial Institutions and Insurance <sup>(4)</sup>	10.2	1.8	12.2	2.2	10.4	1.9	8.7	1.5	6.8	1.2	717.8	2.6
General Government	47.7	8.6	46.4	8.3	46.6	8.6	46.9	8.4	46.1	8.4	913.7	3.3
Other <sup>(5)</sup>	106.7	19.2	104.4	18.7	105.7	19.5	110.2	19.7	110.7	20.1	5,374.9	18.1
Import Rights	12.4	2.2	11.0	2.0	8.6	1.6	10.6	1.9	9.6	1.7	1,322.4	4.7

	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>
	(% change from prior year in real terms)			
Aggregate Global Demand	0.3	(2.9)	3.4	(1.6)
Aggregate Internal Demand	(4.8)	(10.1)	6.8	(5.0)
Gross Capital Formation	(7.1)	(23.7)	(1.7)	(7.2)
Public	(17.9)	(28.7)	11.6	(1.0)
Private	15.0	(16.4)	(18.3)	(17.8)
Consumption	(0.7)	(3.6)	1.7	(4.3)
Public	(5.2)	(5.9)	2.5	(6.0)
Private	0.1	(3.2)	1.5	(4.0)
Variation of Stock				
Net External Demand <sup>(2)</sup>	47.6	40.3	(9.7)	13.9
Gross Domestic Product	0.3	(2.9)	3.4	(1.6)
Petroleum Activities	7.1	4.7	7.1	4.9
Nonpetroleum Activities	(1.3)	(4.6)	1.7	(3.6)
Agriculture	3.0	(1.1)	0.3	0.3
Mining	11.4	10.6	2.7	(4.0)
Manufacturing	(1.4)	(3.4)	7.0	(5.8)
Electricity and Water	3.2	1.4	2.2	1.5
Construction	(5.5)	(24.6)	(7.4)	(3.9)
Commerce <sup>(3)</sup>	(3.1)	(9.3)	(3.0)	(11.2)
Transportation, Storage and Communication	0.9	(3.4)	4.3	(0.5)
Financial Institutions and Insurance <sup>(4)</sup>	19.6	(14.4)	(16.6)	(21.6)
General Government	(2.7)	0.4	0.6	(1.5)
Other <sup>(5)</sup>	(2.2)	1.2	4.3	0.5
Import Rights	(11.2)	(21.8)	24.0	(10.1)

(1) Preliminary figures.

(2) Exports minus imports.

(3) Includes commerce, restaurants and hotels.

(4) Includes financial institutions, insurance, real estate and lending activities.

(5) Includes community, social and personal services and private non-profit services minus imputed banking services.

Source: Banco Central de Venezuela.

## Inflation

Venezuela has experienced high levels of inflation during the last five years as a consequence of a variety of factors including devaluations of the Bolivar, consolidated public sector deficits, increases in the prices for public and private sector goods and services and increases in taxes. Although the Government has effected a number of policies to reduce inflation since the initial implementation of the Adjustment Program in 1989, those actions have not been uniformly successful and in some instances the policy measures taken have led to temporary exacerbations in the rate of inflation. The freeing of interest and exchange rates in 1989 at the commencement of the Adjustment Program and again in 1996 at the outset of Agenda Venezuela in each case resulted in significant surges of inflation upon the

readjustment of real prices that had been restrained by the prior controls. In addition, the Government's actions in adjusting the prices of public goods and services to remove general subsidies, including increases in the prices of domestic gasoline and utilities, and in adjusting minimum wage levels to address the negative effect of prior increases in inflation on the purchasing power of the working population, have themselves led to increases in inflation. It is the Government's expectation that once the prices of such goods and services and salary levels have reached appropriate levels, the pattern of continual significant increases in inflation should lessen.

In 1992, the rate of inflation was 31.9%, basically unchanged from the rate in 1991. The rate of inflation continued to be influenced by staggered wage contracts, increases in the prices of public sector goods and services and the devaluation of the Bolivar.

The rate of inflation increased in 1993 by 14 percentage points over 1992 to 45.9%. This increase was due in part to the increased charges for public services, a recurring fiscal deficit and continued political uncertainty.

An acceleration in prices and exchange rates as well as an increase in the monetary base due to government intervention in the financial sector in response to the financial sector crisis contributed to a 24.9 percentage point increase in inflation during 1994 to 70.8%.

Inflation for year-end 1995, as measured by CPI, reached approximately 56.6%, down 14.2 percentage points from year-end 1994. The decrease can be principally attributed to the effects of the exchange rate and price controls implemented during the year.

Inflation for year-end 1996, as measured by CPI, increased by 46.6 percentage points over the previous year, reaching 103.2%. This increase was due to several policy measures implemented under Agenda Venezuela including the devaluation of the Bolivar, the elimination of price controls, an increase in the level of taxation, and an increase in prices for goods and services produced by the public sector.

Accumulated inflation, as measured by CPI, for the first six months of 1997 was 14.6%, compared to 62.3% for the same period in 1996. The rate of inflation has decreased during 1997 as the devaluation of the Bolivar against the U.S. dollar has moderated in light of the Government's fiscal surplus for 1996, the significant increase in international reserves of Banco Central at the end of 1996 and throughout the first six months of 1997 and the implementation of gradual price increases in goods and services as opposed to the sharp increases in prices in the first six months of 1996 that resulted from the devaluation of the Bolivar in December 1995 and Agenda Venezuela's removal of price and exchange controls. The Government has announced a target inflation rate of 35% to 40% for all of 1997.

The following table sets forth five price indices for the periods indicated:

	1992 Quarters		1992 Full Year	1993 Quarters				1993 Full Year	1994 Quarters				1994 Full Year	1995 Quarters				1995 Full Year	1996 Quarters				1996 Full Year	1997 Quarters			
	I	II		III	IV	I	II		III	IV	I	II		III	IV	I	II		III	IV	I	II		III	IV	I	II
	(percentage change during period)																										
Producer Price Index <sup>(1)</sup> :																											
Manufacturing Goods <sup>(2)</sup> :																											
Average	6.1	5.2	4.2	6.1	23.7	8.8	6.9	7.8	15.9	33.6	11.8	15.2	24.6	9.2	69.0	11.1	10.0	5.6	9.6	53.1	34.1	35.1	16.8	5.4	110.5	4.0	5.0
End of Period <sup>(3)</sup>	n.a.	n.a.	n.a.	n.a.	23.3	n.a.	n.a.	n.a.	n.a.	45.2	n.a.	n.a.	n.a.	n.a.	75.4	n.a.	n.a.	n.a.	n.a.	41.3	n.a.	n.a.	n.a.	n.a.	112.3	n.a.	n.a.
Raw Materials for Construction:																											
Average	7.0	6.7	4.3	5.5	24.7	11.5	7.9	7.2	13.6	36.8	14.8	17.3	30.6	5.9	76.5	8.4	8.4	3.4	7.9	45.9	46.3	37.1	15.2	4.5	124.7	6.5	4.6
End of Period <sup>(3)</sup>	n.a.	n.a.	n.a.	n.a.	25.8	n.a.	n.a.	n.a.	n.a.	46.4	n.a.	n.a.	n.a.	n.a.	86.2	n.a.	n.a.	n.a.	n.a.	31.3	n.a.	n.a.	n.a.	n.a.	131.8	n.a.	n.a.
Wholesale Price Index <sup>(4)</sup> :																											
Domestic Goods <sup>(1)</sup> :																											
Average	3.5	7.2	7.8	6.7	25.8	7.5	7.0	6.7	19.1	35.8	12.6	13.6	29.8	12.4	76.4	12.8	9.0	6.8	8.7	60.3	33.2	27.1	17.4	6.3	99.6	4.1	5.0
End of Period <sup>(3)</sup>	5.1	8.6	5.7	6.6	28.8	9.8	4.8	9.1	18.6	48.8	11.4	22.2	22.6	11.5	86.0	12.4	8.7	7.0	10.7	44.8	32.5	35.0	9.4	4.8	105.2	3.5	5.8
Imported Goods <sup>(1)</sup> :																											
Average	2.9	4.6	2.7	7.1	17.6	10.6	8.1	6.4	12.4	34.5	14.2	19.9	32.4	10.1	80.7	7.6	5.4	6.5	11.1	50.8	43.0	30.2	12.7	4.5	113.8	1.2	1.8
End of Period <sup>(3)</sup>	3.8	3.7	3.0	6.5	18.8	11.8	9.3	4.6	12.3	43.3	17.7	34.6	20.3	7.1	100.1	8.0	6.7	4.2	17.1	40.5	45.1	29.0	8.2	2.4	107.4	0.9	2.2
Consumer Price Index <sup>(5)</sup> (Caracas Metro Area):																											
Average	6.4	7.3	8.9	7.1	31.4	8.1	8.4	9.6	12.3	38.1	10.4	12.8	20.0	14.1	60.8	9.9	11.6	9.7	14.3	59.9	23.0	28.5	18.6	11.4	99.9	7.8	7.0
End of Period <sup>(3)</sup>	6.3	7.6	8.5	7.4	31.9	8.1	8.0	9.9	12.7	45.9	9.3	18.4	16.3	13.5	70.8	9.0	12.0	9.5	12.1	56.6	23.9	30.9	13.2	10.6	103.2	6.6	7.5

- (1) Since 1993, the Wholesale Price Index and the Producer Price Index include the General Wholesale Tax.  
(2) The percentage changes refer to the producer price index for manufactured goods (Caracas Metropolitan Area and Central Region of Venezuela—Base 1984 = 100).  
(3) This index is calculated with quarterly information collected at mid-term.  
(4) The percentage changes refer to the wholesale price index for manufactured goods (Caracas Metropolitan Area and Central Region of Venezuela—Base 1984 = 100).  
(5) Base 1984 = 100.  
n.a.: Not available.

Source: Banco Central de Venezuela.

## Foreign Trade and Balance of Payments

### Foreign Trade

Foreign trade plays a vital role in the Venezuelan economy. Venezuela traditionally has experienced a favorable balance of trade. In the four years ended December 31, 1996, exports averaged 28% of GDP and consisted primarily of crude oil and refined petroleum products. During the same period, imports, consisting mainly of machinery, equipment and manufactured goods, averaged 25% of GDP.

The following table sets out the composition of Venezuela's exports and imports for the five years ended December 31, 1996. As indicated in the table, crude oil and refined petroleum products accounted for approximately 76% of exports in the period 1992 to 1996. Average annual exports for the 1992 to 1996 period were U.S.\$17.2 billion. Average annual imports for the same period were U.S.\$10.4 billion. During this period, approximately 56.0% of imports were of raw materials, machinery and equipment.

	Year Ended December 31,				
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>
	(In millions of U.S. dollars) <sup>(2)</sup>				
<b>Exports (f.o.b.):</b>					
Petroleum Products . . . . .	\$11,209	\$11,030	\$11,472	\$13,739	\$17,878
Iron Ore and Steel Products . . . . .	525	646	731	681	787
Aluminum Products . . . . .	667	567	768	941	774
Other Products . . . . .	1,784	2,443	3,118	3,096	2,898
<b>Total Exports</b> . . . . .	<b>\$14,185</b>	<b>\$14,686</b>	<b>\$16,089</b>	<b>\$18,457</b>	<b>\$22,337</b>
<b>Imports (f.o.b.):</b>					
Raw Materials . . . . .	\$ 3,865	\$ 3,360	\$ 2,831	\$ 4,383	\$ 3,619
Machinery and Equipment . . . . .	2,956	2,547	1,938	1,872	1,783
Transport Materials . . . . .	2,894	2,396	1,405	1,581	1,174
Construction Materials . . . . .	529	385	371	433	468
Food Products and Beverages . . . . .	439	533	390	511	528
Other Consumer Goods . . . . .	1,989	2,050	1,342	2,012	1,572
<b>Total Imports</b> . . . . .	<b>\$12,672</b>	<b>\$11,271</b>	<b>\$ 8,277</b>	<b>\$10,792</b>	<b>\$ 9,144</b>
<b>Trade Balance</b> . . . . .	<b>\$ 1,513</b>	<b>\$ 3,415</b>	<b>\$ 7,812</b>	<b>\$ 7,665</b>	<b>\$13,193</b>

(1) Preliminary figures.

(2) The figures contained in this table differ from those included in the Balance of Payments table set forth under "Balance of Payments" below. The differences with respect to exports result from the use by the Central Statistical Office and Banco Central of different sources for public sector exports. The differences with respect to imports result from the inclusion by Banco Central in the Balance of Payments table of an estimated amount for imports of contraband goods and for amounts of military imports. The Banco Central calculations contained in the Balance of Payments table are used for all purposes in this Prospectus with the exception of this table and the text immediately preceding this table.

Sources: *Banco Central de Venezuela, Central Statistical Office, Petróleos de Venezuela, S.A. and Ferrominera del Orinoco.*

### Trade Policy

Venezuelan trade policy is currently defined by Agenda Venezuela, which, in general terms, is directed toward opening the Venezuelan economy through the reduction of tariffs and other trade barriers, as well as various measures designed to increase foreign direct investment and to maintain a favorable balance of trade. Privatization, especially in the petroleum sector, is anticipated to play an

important part in the opening of the Venezuelan economy. See “—Historical Economic Performance—Agenda Venezuela and Economic Performance in 1996.” In addition, Venezuela has entered into a number of bilateral, regional, and multilateral free trade agreements, and it is an active member of the GATT and the WTO. See “Republic of Venezuela—External Affairs and International Organizations.”

The Ministry of Industry and Commerce (“MIC”) has developed specific trade policies and measures designed to promote the opening of the trade sector of the Venezuelan economy and to promote free trade agreements. The basic goals of trade policy are to promote productive investment and to stimulate various sectors of the economy.

Venezuela is a signatory to a World Commerce Association (“WCA”) accord on subsidies and compensatory measures. In accordance with the standards set by the WCA, the MIC is currently designing a more flexible import tax system with the principal objective of reducing import taxes on goods incorporated in products for export. In addition, the MIC is developing trade policy programs with a broader geographic scope and a longer-term perspective. In this connection, the MIC plans to implement and monitor programs designed to improve the quality and productivity of Venezuelan exporters through a global export incentive scheme.

### ***Trading Partners***

The United States has historically been Venezuela’s most important trading partner. In 1996, trade with the United States accounted for 24.5% and 43.7% of total nonpetroleum exports and imports, respectively. Also, Venezuela is the largest exporter of petroleum products to the United States. In addition to the United States, Venezuela’s significant trading partners include Colombia, Germany, Brazil, Italy and Japan. In 1993, Colombia replaced the United States as the principal market for Venezuela’s nonpetroleum exports, with 24.8% of Venezuela’s nonpetroleum exports destined for Colombia.

The following tables set out the geographical distribution of Venezuela's imports and exports (including the petroleum sector) for the five years ended December 31, 1996 and the four-month period ended April 30, 1997:

	Imports					Four Months Ended April 30, 1997
	Year Ended December 31,					
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>	
	(as a percentage of total)					
Brazil .....	3.9%	3.5%	3.2%	4.0%	4.2%	5.0%
Colombia .....	3.8	4.2	5.0	7.5	7.7	5.1
France .....	2.2	2.8	2.7	2.4	1.8	2.1
Germany .....	6.3	5.4	5.8	4.8	4.6	4.8
Italy .....	4.8	4.7	3.6	3.0	3.7	3.5
Japan .....	7.9	7.7	5.4	4.1	3.1	3.9
United States .....	45.7	46.0	47.1	44.4	45.9	47.7
Others .....	25.4	21.8	27.2	29.8	29.0	28.4
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

	Exports					Four Months Ended April 30, 1997
	Year Ended December 31,					
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>	
	(as a percentage of total)					
Brazil .....	1.8%	2.7%	9.3%	4.2%	4.3%	n.a.%
Colombia .....	3.5	6.2	0.3	7.7	5.5	25.1
France .....	0.7	0.3	2.1	0.5	0.4	n.a.
Germany .....	4.2	2.1	0.9	2.0	1.4	n.a.
Italy .....	0.6	0.6	1.8	1.0	0.8	n.a.
Japan .....	2.5	1.8	2.4	1.7	1.0	3.8
United States .....	50.8	53.7	49.0	49.9	50.1	27.6
Others .....	35.9	32.6	34.2	33.0	36.5	43.5
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Preliminary figures.

Sources: *Banco Central de Venezuela, Central Statistical Office, Petróleos de Venezuela, S.A. and Ferrominera del Orinoco.*

n.a.: not available

#### **Development of Nonpetroleum Exports**

From the 1970s to 1983, nonpetroleum exports represented a *de minimis* percentage of total exports. Since 1983, the volume of nonpetroleum exports has increased. While nonpetroleum exports averaged approximately 18% of total exports during the period 1985 to 1990, in 1995 and 1996, nonpetroleum exports were valued at U.S.\$5.1 billion and U.S.\$5.2 billion, respectively, or approximately 27.4% and 22.8% of total exports in such years. Approximately 37.7% of nonpetroleum exports in 1994 and 1995 were produced by state-owned enterprises and include aluminum, steel products and petrochemicals. Nonpetroleum exports produced by the private sector include chemical products, aluminum, fish and shellfish, cement, paper products, ceramics and tropical fruits.

### ***Balance of Payments***

In 1993, the capital account surplus declined to U.S.\$1.9 billion, a decrease of 39.5% from the 1992 level of U.S.\$3.1 billion, with reduced levels of all major components of inflows and outflows. Direct investments declined from the level achieved in 1992 due to political uncertainty and a reduction of the level of investments by PDVSA. During the period, the amortization of both short- and medium-term loans increased substantially.

The capital account recorded a significant deficit in 1994 of U.S.\$3.2 billion. The deficit resulted from a lack of new borrowings in the international markets, with total inflows declining approximately 40% from those recorded in 1993, and a sustained high level of amortizations and other outflows.

In 1995, the capital account deficit decreased to U.S.\$2.8 billion, which represented a 11.0% reduction from the 1994 deficit. Inflows amounted to U.S.\$7.5 billion, a 1.7% reduction over the previous year. Outflows decreased to U.S.\$10.3 billion, a 4.4% reduction from 1994.

Due to the implementation of significant reforms in accordance with Agenda Venezuela, the capital account deficit was further reduced to U.S.\$518 million in 1996. While inflows increased to U.S.\$7.9 billion outflows decreased to U.S.\$8.5 billion, an 18.1% reduction from the 1995 outflows.

After suffering a deficit of U.S.\$2.0 billion in the balance of trade in 1988, Venezuela has had a positive balance of trade in every year since 1989. In 1989, a recovery in oil prices, growth in non-traditional exports and the containment of imports led to a surplus of U.S.\$5.6 billion. In 1990, Venezuela recorded a trade surplus of U.S.\$10.7 billion, mainly as a result of increased revenues from petroleum sales due in part to the Persian Gulf crisis. Venezuela recorded a trade surplus of U.S.\$3.2 billion in 1993, U.S.\$7.6 billion in 1994, U.S.\$7.2 billion in 1995, and U.S.\$12.2 billion in 1996.

The following table sets out Venezuela's balance of payments for the five years ended December 31, 1996 and for the six-month period ended June 30, 1997:

	Year Ended December 31,					June 30,
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>	1997 <sup>(1)</sup>
	(in millions of U.S. dollars)					
Current Account	\$(3,753)	\$(1,993)	\$ 2,541	\$ 2,255	\$ 7,374	\$ 3,281
Trade Balance	1,274	3,196	7,559	7,183	12,204	5,939
Oil Exports (f.o.b.)	11,014	10,855	11,288	13,517	17,612	8,840
Non-oil Exports (f.o.b.)	2,974	3,731	4,617	5,113	5,190	2,619
Imports (f.o.b.)	(12,714)	(11,390)	(8,346)	(11,447)	(10,598)	(5,520)
Freight and Insurance	(1,118)	(1,054)	(637)	(1,036)	(827)	(394)
Travel	(984)	(1,521)	(1,163)	(1,034)	(1,552)	(341)
Investment Income	(1,745)	(1,714)	(1,895)	(1,737)	(1,606)	(1,079)
Inflows	1,605	1,597	1,624	2,047	1,669	904
Public Sector Interest	738	598	545	760	601	421
Private Sector Interest	681	652	793	1,024	958	513
Other	186	347	288	263	110	(30)
Outflows	(3,350)	(3,311)	(3,519)	(3,784)	(3,275)	(1,983)
Public Debt Interest	(1,814)	(1,626)	(1,685)	(1,930)	(1,743)	(789)
Private Debt Interest	(237)	(224)	(300)	(301)	(253)	(108)
Other	(1,299)	(1,461)	(1,534)	(1,553)	(1,279)	(1,086)
Other Services	(827)	(577)	(1,306)	(1,315)	(1,078)	(803)
Unilateral Transfers	(353)	(323)	(17)	194	233	41
Capital Account	\$ 3,104	\$ 1,878	\$(3,153)	\$(2,807)	\$ (518)	\$ (837)
Inflows	10,148	12,879	7,664	7,533	7,952	7,330
Public Debt (Disbursement)	1,529	4,329	1,025	1,489	1,010	543
Private Debt	909	1,038	195	83	190	154
Direct Investment	629	378	813	909	1,732	1,673
Other	3,883	2,969	2,021	1,894	1,895	3,389
Imports Financing	3,198	4,165	3,610	3,158	3,125	1,571
Outflows	(7,044)	(11,001)	(10,817)	(10,340)	(8,470)	(8,167)
Public Debt (Amortization)	(881)	(1,262)	(1,928)	(2,381)	(3,059)	(1,240)
Private Debt	(606)	(720)	(802)	(834)	(842)	(463)
Other	(5,557)	(9,019)	(8,087)	(7,125)	(4,569)	(6,464)
Net Errors and Omissions	\$ (490)	\$ (538)	\$ (281)	\$ (574)	\$ (307)	\$ (694)
Overall Balance	\$(1,139)	\$ (653)	\$ (893)	\$(1,126)	\$ 6,549	\$ 1,750
Valuation Change	(6)	(50)	(66)	(20)	(8)	(123)
Change in Reserves (Increase)	1,145	703	959	1,146	(6,541)	(1,627)
Banco Central de Venezuela	1,104	345	1,149	1,784	(5,506)	(1,426)
FIV	61	(153)	(103)	78	(697)	343
Reserves Obligations	(20)	511	(87)	(716)	(338)	(544)

(1) Preliminary figures.

Source: *Banco Central de Venezuela*.

#### **International Reserves**

As of December 31, 1992, Banco Central's gross international reserves totalled U.S.\$13.0 billion. Despite a net balance of payments deficit of U.S.\$653 million in 1993, gross international reserves at Banco Central declined by only U.S.\$345 million to a level of U.S.\$12.7 billion at December 31, 1993. The

decline in international reserves, resulting from a decrease in the supply of foreign exchange from external operations net of the petroleum industry, was offset in part by Banco Central's increase in reserve obligations from official sources. Banco Central's net international reserves declined in 1993 by approximately U.S.\$856 million to U.S.\$8.3 billion at December 31, 1993. At the end of 1993, FIV's international monetary assets increased to U.S.\$881 million.

At December 31, 1994, gross international reserves at Banco Central had declined to U.S.\$11.5 billion, a decrease of U.S.\$1.1 billion from the end of 1993. The decline in international reserves during 1994 resulted from significant net outflows of foreign exchange due to a decrease in monetary demand as a result of the financial sector crisis and expectations in the Venezuelan economy of a devaluation of the Bolivar. Banco Central's net international reserves totalled U.S.\$7.3 billion at the close of 1994, a decrease of U.S.\$1.1 billion. FIV's international monetary assets increased to U.S.\$984 million at December 31, 1994.

Gross international reserves at Banco Central declined during 1995 by U.S.\$1.8 billion and stood at U.S.\$9.7 billion at December 31, 1995. Liquid operating reserves at Banco Central stood at U.S.\$5.5 billion at December 31, 1995 and net international reserves were U.S.\$6.2 billion at year-end 1995. International monetary assets of FIV were U.S.\$906 million as of December 31, 1995.

By December 31, 1996, gross international reserves at Banco Central had increased by U.S.\$5.5 billion and stood at U.S.\$15.2 billion. International monetary assets were at U.S.\$17.1 billion at December 31, 1996. Liquid operating reserves at Banco Central totalled U.S.\$11.1 billion at year-end 1996, with net international reserves at Banco Central totalling U.S.\$12.0 billion at the same date.

The following table sets out a breakdown of the international monetary assets of Venezuela for the years ended December 31, 1992 through 1996 and for the six-month period ended June 30, 1997:

	Year Ended December 31,					June 30,
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>	1997 <sup>(1)</sup>
	(in millions of U.S. dollars)					
International Reserves at Banco Central <sup>(2)</sup> . . . . .	\$13,001	\$12,656	\$11,507	\$ 9,723	\$15,229	\$16,655
Gold <sup>(3)</sup> . . . . .	3,439	3,440	3,440	3,440	3,440	3,440
IMF Position <sup>(4)</sup> . . . . .	75	486	463	215	208	201
Special Drawing Rights . . . . .	199	199	212	380	456	254
Total Liquid Operating Reserves . . .	9,288	8,531	7,392	5,688	11,125	12,760
Liquid Operating Reserves of Banco Central <sup>(5)</sup> . . . . .	8,118	8,344	7,217	5,527	11,066	12,722
Liquid Operating Reserves of FIV <sup>(6)</sup> . . . . .	1,170	187	175	161	59	38
Liabilities of Banco Central <sup>(7)</sup> . . . . .	(3,821)	(4,332)	(4,245)	(3,529)	(3,191)	(2,646)
Net Liquid Operating Reserves . . . . .	5,467	4,199	3,147	2,159	7,934	10,114
International Monetary Assets <sup>(8)</sup> . . .	13,872	13,787	12,731	10,884	17,130	18,332
International Monetary Assets of FIV	728	881	984	906	1,603	7,264

(1) Preliminary figures.

(2) Includes letter of credit liabilities.

(3) Valued at U.S.\$300 per ounce.

(4) Includes net IMF Position and IMF Supplementary Credit Fund.

(5) Includes international financing cooperation and ALADI Agreement.

(6) Includes FIV cash flow and FIV balance with Banco Central.

(7) Includes Banco Central de Venezuela reserve liabilities and liabilities.

(8) Includes all monetary or similar assets denominated in units of exchange other than Bolivars owned or controlled by the Republic, Banco Central and other public sector entities.

Sources: *Banco Central de Venezuela, FIV and Petr6leos de Venezuela, S.A.*

## Foreign Exchange Rates and Exchange Controls

Since April 22, 1996, Venezuela has had a unified, free-floating exchange rate with free convertibility. The exchange rate, however, is subject to a system established by the Central Bank which is designed to allow the Bolivar to fluctuate within a crawling band. For 1997, the band has been set at 7.5% above and below an initial central parity of U.S.\$1.00=Bs.472, effective January 2, 1997. Between July 6, 1996 and August 4, 1997 the central parity increased by 1.32% per month. On August 4, 1997, Banco Central modified the rate of increase of the central parity to 1.16% per month. For July 1997, the band was between Bs.567 and Bs.487=U.S.\$1.00. At August 25, 1997, the Bolivar traded at Bs.496.75=U.S.\$1.00.

Prior to February 1983, the exchange rate was fixed at Bs.4.30=U.S.\$1.00. In February 1983, a system of differential exchange rates was implemented to reduce imports and to stimulate domestic production and production of nontraditional exports. Under this system, while the Bolivar was permitted to float for certain transactions, a series of controlled foreign exchange rates was established to moderate the inflationary impact of the cost of living and mitigate the financial costs of the devaluation of the Bolivar among those sectors of the economy with a high level of external debt. These controlled rates of exchange were utilized for payments of registered external public and private debt and for most commercial transactions. During the same period, a much higher free market exchange rate was in effect for obtaining foreign exchange for tourism, imports of certain nonessential goods, personal transfers and certain other items. Although the system of differential exchange rates assisted in moderating inflation, it also resulted in imbalances in both the external and internal accounts by effecting quantitative restrictions on imports, creating an anti-export bias in the Venezuelan economy, and increasing speculative pressures on the Bolivar. On March 13, 1989, pursuant to the Adjustment Program, the Pérez administration ended the system of official, controlled exchange rates and established a unified, floating exchange rate with free convertibility.

The financial sector crisis in 1994 resulted in a solvency and/or liquidity crisis in the Venezuelan financial sector. See "—Historical Economic Performance—The Financial Sector Crisis and Economic Performance in 1994." This crisis, occurring in the context of a general climate of economic and political insecurity and uncertainty, caused a run in the foreign exchange markets in favor of U.S. dollars. As of the end of June 1994, the exchange rate had declined to Bs.199.69=U.S.\$1.00. The adverse effect of such pressure in the foreign exchange markets, and the resulting intensification of devaluation expectations and the loss of international reserves, led the Government temporarily to close the foreign exchange markets on June 27, 1994 and to adopt an exchange control regime on July 9, 1994. Between July 1994 and December 11, 1995, the official exchange rate was set at Bs.170=U.S.\$1.00. On December 11, 1995, the Government announced Decree No. 972 which devalued the Bolivar and changed the official exchange rate from Bs.170=U.S.\$1.00 to Bs.290=U.S.\$1.00 effective as of December 12, 1995. In April 1996, the exchange control system was eliminated and the Bolivar was permitted to float.

The following table sets out the average Bolivar/U.S. dollar exchange rate for the periods indicated:

<u>Year and Month</u>	<u>Exchange Rates</u> (Bollivars/ U.S. dollar)
<b>1992</b>	
March .....	Bs.65.44
June .....	65.97
September .....	68.89
December .....	78.97
<b>1993</b>	
March .....	Bs.84.14
June .....	88.93
September .....	96.34
December .....	104.51
<b>1994</b>	
March .....	Bs.113.13
June .....	171.80
September .....	170.00
December .....	170.00
<b>1995</b>	
March .....	Bs.170.00
June .....	170.00
September .....	170.00
December .....	251.29
<b>1996</b>	
January .....	Bs.290.00
February .....	290.00
March .....	290.00
April .....	385.65
May .....	468.89
June .....	471.25
July .....	470.61
August .....	474.20
September .....	476.08
October .....	470.01
November .....	471.57
December .....	474.73
<b>1997</b>	
January .....	Bs.476.84
February .....	474.40
March .....	478.40
April .....	479.25
May .....	483.38
June .....	485.63
July .....	491.14

Source: *Banco Central de Venezuela*.

## **Foreign Investment and the Private Sector**

In order to augment domestic savings and increase Venezuela's export capacity, the Government has introduced a number of measures intended to promote foreign and domestic private sector investment. In January 1990, the Government adopted Decree No. 727 which was designed to increase foreign investment and encourage private sector participation in the Venezuelan economy. The regulations included the elimination of required prior authorizations for investment and expanded the areas in which foreign investment was permitted. The only areas in which foreign investment is still restricted are iron ore and petroleum exploitation (subject to the recent measures described under "Principal Sectors of the Venezuelan Economy—Petroleum and Natural Gas—The Opening of the Venezuelan Petroleum Sector") and insurance companies, personal security services, and media industries (radio, television and Spanish language newspapers). In January 1994, a new banking law was passed pursuant to which foreign investors now are permitted to participate in the financial sector. See "Financial System—Financial Institutions." In addition, Decree No. 727 permits foreign investors to establish subsidiaries in Venezuela and the unrestricted contracting within the technology sector (requiring only subsequent notification) and allows foreigners to invest in securities on domestic stock exchanges and to obtain financing in Venezuela, either from banks or by way of the issue of shares or notes in the capital markets. Decree No. 727 was replaced by Decree No. 2,095 in February 1992. The purpose of this new decree was to incorporate into the newly liberalized foreign investment regime certain changes in the Andean Community norms concerning foreign investment. See also "—Agenda Venezuela and Economic Performance in 1996" and "—Foreign Trade and Balance of Payments."

In order to promote foreign investment, Venezuela has entered into agreements with the U.S. Overseas Private Investment Corporation, the Export-Import Bank of the United States, the Multilateral Investment Guaranty Agency (an affiliate of the World Bank), and certain other bilateral agencies of the OECD countries, to enable such entities to offer noncommercial risk insurance to foreign investors.

## **Employment and Labor**

The estimated labor force of Venezuela at December 31, 1996 was approximately 9.0 million (8.6 million at December 31, 1995), which represented approximately 40.0% of the total population. The composition of the labor force has undergone substantial changes during the last 25 years, the most significant of which has been a shift in employment from the primary sector, principally consisting of agricultural activities and petroleum and mining exploration and extraction, to the tertiary sector, principally consisting of services, finance, transportation, communications and Government employment. In 1996, approximately 12.0% of the labor force was employed in the primary sector, approximately 19.0% in the secondary sector and approximately 57.0% in the tertiary sector.

The labor force grew at an average annual rate of 4.0% during the period 1990 to 1996. However, the economy has been unable to absorb fully large numbers of unskilled workers, particularly persons migrating from rural to urban areas. The ability of the economy to absorb additional workers has been weakest in the secondary sector of the economy. In addition, the Government recognizes that there is underemployment, particularly in urban areas, but is unable to estimate the precise amount of such underemployment. The unemployment rate was estimated at approximately 8.5% of the labor force at the end of 1994 and at 10.2% at the end of 1995. Preliminary figures for 1996 indicate an increase in the unemployment level to 12.4%. 40% of the population may be earning income in the informal sector of the economy.

A significant shortage of management personnel, technicians and skilled workers of all kinds and a relatively limited supply of agricultural workers currently exist. Because approximately 35.8% of the total population is estimated to be under 15 years of age, the working age population is expected to grow substantially in coming years. In connection with expected growth in the Venezuelan economy in coming years, improvements in training and education will be needed to remedy a significant shortage of management personnel, technicians and skilled workers of all ages.

The Organic Labor Law sets forth minimum standards for employee benefits and working conditions such as a minimum wage, maximum working hours, specified holidays, vacations, retirement and severance compensation, and health and safety regulations. The law applies to private sector workers and to most public sector employees. On May 1, 1997, the Government enacted a bonus to the minimum wage for workers earning less than Bs.75,000 per month, so that they will receive at least Bs.75,000 per month in total remuneration. The benefits of other public employees, technicians and professionals are also regulated by the Law of Administrative Careers. Public sector wages are set by decree, in accordance with the labor laws and the Law of Collective Contracting of the Public Sector. Skilled and professional private sector wages are competitive, or set through collective bargaining contracts.

In early 1997, after extensive debate, the Government announced an increase in salaries for public employees, with smaller salary increases for senior government officials. Effective April 1997, public employees now earn between Bs.97,000 and Bs.435,858 per month, including wages and bonuses.

On June 19, 1997, President Caldera signed a sweeping labor reform law. The new law implemented a tripartite agreement reached by the Government, employees represented by unions and employers. The most significant reform is the elimination of retroactive calculation of mandatory severance compensation for years of service. Previously, employers were required to pay severance compensation for years of service calculated retroactively, based on salary at the time of termination of the labor relationship, regardless of any changes in the salary over the course of the employment. The new law requires that severance pay accumulated by December 1996, termed "Labor Liabilities," must be paid out within five years to both public and private employees. The method of payment of the Labor Liabilities is still under study. After December 1996, employers must calculate this severance compensation monthly based on wages earned at that time and they must deposit the amount in an account designated by, and in the name of, the employee. The amounts deposited will earn interest tax-free, which interest may be withdrawn on a yearly basis. The account will accumulate during the entire period of employment, and at the end of employment the entire amount can be withdrawn by the employee. Under defined circumstances, portions of the principal in the account may be withdrawn by the employee prior to the end of the employee's retirement.

Social security reforms are currently being discussed in the Venezuelan Congress. Proposed legislation contemplates reforms including a mixed public/private pension system. Private pension funds would utilize an individual capitalization scheme and private/public funds would rely on a pay-as-you-go scheme. Also, the reengineering of the Instituto Venezolano de los Seguros Sociales (IVSS), in order to provide a more efficient health services system, is being debated.

Venezuela has numerous labor unions, most of which are affiliated with the Confederación de Trabajadores de Venezuela, an umbrella union organization ("CTV"). Unions engage in collective bargaining primarily involving the negotiation of contracts on an industry-wide basis. Strikes and lockouts are permitted, but there are conciliation procedures which must be observed prior to calling a strike or lockout. Although the CTV and affiliated unions from time to time have held demonstrations to promote support for labor-related issues, including proposed increases in minimum wages, such demonstrations have not caused a change in the Government's policy of avoiding the inflationary spirals that would result from large wage increases. The CTV has staged several single-day work stoppages to protest the failure of the Government or the private sector to increase wages, most recently on August 13, 1997, but such stoppages have not had any significant effect on the Venezuelan economy as a whole.

The following table sets forth employment activity by sector for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>1995</b>	<b>1996</b>
<b>Labor Force:</b>		
Employed .....	7,729,174	7,986,563
Unemployed .....	879,479	1,095,476
Total .....	<u>8,608,653</u>	<u>9,082,039</u>
<b>By Sector:</b>		
Petroleum and Mining .....	67,324	88,977
Agriculture, Fishing and Hunting .....	1,032,289	1,036,662
Manufacturing .....	1,034,564	1,020,088
Water, Electricity and Gas .....	68,652	63,416
Construction .....	622,584	605,441
Commerce, Restaurant and Hotels .....	1,766,939	1,866,970
Transportation, Storage and Communications .....	474,282	546,413
Financial Institutions, Insurance and Real Estate .....	438,730	499,168
Community, Social and Personal Services .....	2,207,369	2,247,319
Others .....	16,441	12,109

Source: *Central Statistical Office.*

### **Poverty and Income Distribution; Education**

#### ***Poverty and Income Distribution***

Agenda Venezuela contemplates that the benefits of economic development reach the poor so as to enable further, long-term development. See "The Venezuelan Economy—Agenda Venezuela and Economic Performance in 1996."

The Government differentiates between extremely poor, poor and non-poor households based on census survey examinations with respect to qualitative factors such as access to electricity, potable water, number of persons per dwelling units and related factors. The following is a table of Government statistics comparing the number and percentage of extremely poor, poor and non-poor households in Venezuela for the last two years:

	1995		1996 <sup>(1)</sup>	
	Total	%	Total	%
<b>Households:</b>				
Non-Poor .....	1,696,973	38.6%	1,159,588	25.5%
Poor .....	1,266,367	28.8	1,227,454	27.0
Extremely Poor .....	1,430,520	32.6	2,162,114	47.5
Total .....	<u>4,393,860</u>	<u>100.0%</u>	<u>4,549,156</u>	<u>100.0%</u>
<b>Population:</b>				
Non-Poor .....	7,267,335	33.3%	4,638,106	21.2%
Poor .....	6,571,543	30.1	5,576,018	25.4
Extremely Poor .....	8,025,530	37.7	11,700,852	53.4
Total .....	<u>21,864,408</u>	<u>100.0%</u>	<u>21,914,976</u>	<u>100.0%</u>

(1) Preliminary statistics.

Source: *Central Statistical Office*.

The percentage of poor and extremely poor among the Venezuelan population has increased from 67.8% in 1995 to 78.8% in 1996, in part due to the failure of wages to maintain balance with the high rate of inflation experienced in 1996 and the decline in nonpetroleum GDP during 1996. In addition to seeking to stimulate real growth in the economy and thereby increase job opportunities, Agenda Venezuela aims at addressing these issues through an increased emphasis on the primary education system to improve educational and technological skills among the future Venezuelan workforce; a decentralization of health and education support systems; and a reform of the social security and pension systems.

The following table compares statistics for the distribution of income or consumption in Venezuela and other Latin American countries:

	<u>Venezuela(1)</u>	<u>Brazil(1)</u>	<u>Chile(1)</u>	<u>Colombia(1)</u>	<u>Mexico(2)</u>	<u>Peru(2)</u>
Survey Year .....	1990	1989	1994	1991	1992	1994
General Index .....	53.8	63.4	56.5	51.3	50.3	44.9
Lowest 10% <sup>(3)</sup> .....	1.4	0.7	1.4	1.3	1.6	1.9
Lowest 20% .....	3.6	2.1	3.5	3.6	4.1	4.9
Second 20% .....	7.1	4.9	6.6	7.6	7.8	9.2
Third 20% .....	11.7	8.9	10.9	12.6	12.5	14.1
Fourth 20% .....	19.3	16.8	18.1	20.4	20.2	21.4
Highest 20% .....	58.4	67.5	61.0	55.8	55.3	50.4
Highest 10% .....	42.7	51.3	46.1	39.5	39.2	34.3

(1) Rankings are based on per capita income. Data refers to income shares by percentile of the population.

(2) Rankings are based on per capita expenditures. Data refers to expenditure shares by percentile of the population.

(3) The percentage share of income or consumption is the share that accrues to subgroups of population indicated by the deciles or quintiles. Percentage shares by quintiles may not add to 100 because of rounding.

Source: *World Bank 1997 World Development Indicators*.

### Education and Other Sustainable Development Factors

According to the Human Development Index ("HDI") measure used by the United Nations Development Program ("UNDP"), Venezuelan social conditions rank 47th among the 171 countries in the world surveyed. The following table summarizes the statistics for social factors related to the HDI in Venezuela and the other six largest economies in Latin America:

HDI Rank	Survival			Education		Income			
	People Not Expected to Survive to Age 40 (%) 1990	Population without access to health services (%) 1990-95	Population without access to safe water (%) 1990-96	Adult Illiteracy Rate (%) 1995	Children not reaching grade 5 (%) 1990-95	Real GDP per capita (PPP\$)		Population in Poverty (%)	
						Poorest 20% 1980-94	Richest 20% 1989-94	\$1 a day (PPP\$) <sup>(1)</sup> 1989-94	National poverty line 1989-94
30 Chile . . . .	4.6	3	n.a.	4.8	5	1,558	27,145	15	n.a.
36 Argentina . .	6.3	29	29	3.8	n.a.	n.a.	n.a.	n.a.	26
47 Venezuela . .	6.1	n.a.	21	8.9	22	1,505	24,411	12	31
50 Mexico . . .	8.3	7	17	10.4	16	1,437	19,383	15	34
51 Colombia . .	6.3	19	15	8.7	41	1,042	16,154	7	19
68 Brazil . . . .	14.0	n.a.	27	16.7	30	578	18,563	29	17
89 Peru . . . .	13.4	56	28	11.3	n.a.	813	8,366	49	32

n.a.: Statistics not available.

(1) Personal Purchasing Power used to measure the poverty line.

Source: *United Nations Development Program, Human Development Report, 1997*. (Statistics for the largest seven economies of Latin America).

While the extremely poor in Venezuela are severely challenged by a lack of access to basic necessities, some positive signs of sustainable development are present. The adult literacy rate was 92% in 1995. In 1992, the average number of years in school was 10 years for men and 11 years for women. The quality of Venezuelan higher education and the level of development in terms of communications and technology are relatively high on the UNDP's HDI. Venezuela is ranked in the category of high human development in terms of measures of overall profile and HDI trends, South-North gaps, child survival, health, food security, education imbalances, communications, social investment, and natural resource uses.

## PRINCIPAL SECTORS OF THE VENEZUELAN ECONOMY

### Petroleum and Natural Gas

#### *General*

The petroleum industry has been the cornerstone of the Venezuelan economy for the past 50 years, providing both the principal source of Government revenues and foreign exchange earnings and the stimulus for extensive economic, industrial and social change. According to the *BP Statistical Review of World Energy 1996*, Venezuela is the seventh largest petroleum producer in the world and the fourth largest petroleum exporting country in the world. In 1996, the petroleum industry accounted for 26.5% of GDP and 80% of the total value of exports. International sales of crude oil, refined products, petrochemical products and coal accounted for approximately 97% of total sales in 1996.

#### *Petróleos de Venezuela, S.A.*

Petróleos de Venezuela, S.A. ("PDVSA"), a company wholly owned by the Republic, is the holding company for the national petroleum, petrochemical, bitumen and coal industries. PDVSA was created in 1975 to manage the assets acquired as a result of the nationalization of the domestic oil industry in that year. Since January 1, 1976, PDVSA has been responsible for coordinating most aspects of the petroleum industry, including administration, planning, operations, domestic and foreign marketing and capital investment. Since 1978, PDVSA has also been responsible for the petrochemical sector, and since 1985 also has been responsible for the development of coal resources located in western Venezuela and for the development of the country's bitumen resources. The Ministry of Energy and Mines determines overall Government policies with respect to the rate of production, new investments and resource conservation. In addition, the Minister of Energy and Mines is the chairman of PDVSA's General Shareholder's Assembly, which sets PDVSA's general policy. PDVSA obtains income from its subsidiaries in the form of a mandatory 10% payment of their net export revenues from oil and oil derivatives calculated after deductions for related royalties and expenses but before income taxes. In accordance with the law relating to the nationalization of the petroleum industry, such revenues must be used for the industry's capital investment programs. PDVSA also receives the net profits of each subsidiary after those companies pay taxes to the Government.

PDVSA is the largest corporation in Venezuela. As of December 31, 1996, PDVSA's total assets were approximately US\$45.4 billion. In 1996, PDVSA reported revenues of approximately US\$33.9 billion, pre-tax income of US\$10.7 billion and net cash provided by operating activities of US\$9 billion. In both 1993 and 1995, PDVSA was voted "Best Run/Financially Managed National Oil Company" in the bi-annual *Petroleum Economist* surveys.

According to the most recent comparative study published by *Petroleum Intelligence Weekly*, PDVSA is the world's second largest oil and gas company, ranking behind Saudi Aramco and ahead of Royal Dutch Shell and Exxon. These rankings, published in December 1996, were based on a composite of 1995 operating criteria, including reserves, production, refining capacity and refined product sales. According to *Petroleum Intelligence Weekly*, PDVSA is ranked third in the world in production of crude oil (2.9 million barrels per day ("bpd")) and proven reserves (66.3 billion barrels), third in refining capacity (2.4 million bpd), and sixth in product sales (2.5 million bpd). Through its United States subsidiaries, CITGO Petroleum Corporation ("CITGO") and the Lemont Refinery, PDVSA is the largest gasoline retailer in the United States.

Upon the nationalization of the petroleum industry in 1975, PDVSA established a number of operating subsidiaries, including Lagoven, S.A. ("Lagoven"), Maraven, S.A. ("Maraven") and Corpoven, S.A. ("Corpoven"), its current main operating subsidiaries, to continue the businesses of the concessionaires that had been operating in Venezuela prior to the nationalization of the oil industry, in each case with

existing infrastructure and personnel. Over time, PDVSA has incorporated additional subsidiaries to take advantage of new developments within the petroleum industry and new businesses, such as coal and petrochemicals. The main structure of the three main operating subsidiaries, each operating a vertically integrated business from exploration and refining to international distribution and domestic retail sales, has been maintained for the past twenty years to retain perceived competitive advantages in that structure.

In July 1997, PDVSA announced plans to restructure its corporate organization along functional lines from the current structure of separate and overlapping operating subsidiaries. The restructuring would align PDVSA's operating subsidiaries along three principal lines: exploration and production; refining and sales; and affiliated services. The exploration and production subsidiary would be responsible for company-wide exploration and production of petroleum and natural gas, heavy oil in the Orinoco Belt, Orimulsion® and coal. The refining and sales subsidiary would be responsible for refining, sales, international joint ventures and operations, transport of oil and petrochemicals. The services subsidiary would be responsible for information technology, purchasing and related areas of shared services. In addition, the separate finance, human resources, planning and senior management areas of the several subsidiaries would be combined to oversee PDVSA's full operations. PDVSA has stated that it believes that the new structure will create greater efficiency and enable PDVSA to utilize human and financial resources in an optimal manner.

### ***Hydrocarbon Reserves and Exploration***

Proven crude oil reserves of Venezuela at December 31, 1996 amounted to approximately 72.6 billion barrels. The average API gravity of proven crude oil reserves was 16° as compared to an average API gravity of 24° for crude oil produced in 1996. Based on 1995 production levels, proven reserves of crude oil (which include extra heavy crude oil reserves) had a remaining reserve life of 72 years.

Cumulative production of crude oil in Venezuela from 1914 to the present totals approximately 48 billion barrels. One in fifteen barrels consumed in the world to date has come from Venezuela. Despite the quantities of oil produced, new discoveries continue to be made and proven reserves increased. Between 1991 and 1996, Venezuela replaced more than 200% of crude oil production. During this period, total proven reserves of oil increased by 12 billion barrels. These increases resulted from the application of secondary recovery technology to existing crude oil deposits and to the discovery of new crude oil. At December 31, 1996, crude oil represented 74% of Venezuela's total estimated proven oil reserves on the basis of barrels of oil equivalent ("boe").

Domestic natural gas production is predominantly a by-product of petroleum extraction. Gross natural gas production during 1996 was 5.27 billion cubic feet ("bcf") per day, of which 28% was reinjected into the ground to increase secondary petroleum recovery, 38% was utilized by the petroleum industry and 34% was sold to the public or transferred to Petroquímica de Venezuela ("Pequiven"), a wholly-owned subsidiary of PDVSA, to be processed into petrochemicals. Natural gas production during 1995 was 4.70 bcf per day, of which 27% was reinjected, 37% was utilized by the petroleum industry and 36% was sold to the public or transferred to Pequiven. The natural gas was transported through approximately 4,200 kilometers of gas pipelines. Between 1991 and 1996, proven reserves of natural gas increased 17 trillion cubic feet (2.8 billion boe).

The following table shows estimated proven crude oil and natural gas reserves and proven developed crude oil and natural gas reserves, all located in Venezuela. Proven reserve quantities exclude natural gas liquids.

	Year Ended December 31				
	1992	1993	1994	1995	1996
	(million barrels)				
<b>Proven Reserves<sup>(1)</sup></b>					
Light and medium crude oil (API gravity of 21° or more) . . . . .	17,929	18,712	19,335	19,907	21,426
Heavy and extra heavy crude oil (API gravity of less than 21°) <sup>(2)</sup> . . . . .	45,404	45,735	45,543	46,421	51,149
Total crude oil . . . . .	63,330	64,447	64,878	66,328	72,575
Natural gas (bcf) . . . . .	128,945	138,050	140,009	143,542	142,976
Proven reserves of crude oil and natural gas (boe) <sup>(3)</sup> . . . . .	85,562	88,249	89,017	91,077	97,226
Remaining reserve life of crude oil (years) <sup>(4)</sup> . . . . .	73	72	69	65	72
<b>Proven Developed Reserves</b>					
Light and Medium crude oil (API Gravity of 21° or more) . . . . .	8,296	8,484	8,463	8,712	9,884
Heavy and extra heavy crude oil (API gravity of less than 21°) . . . . .	5,307	5,363	5,691	5,758	5,949
Total crude oil . . . . .	13,603	13,847	14,154	14,470	15,883
Percentage of proven crude oil reserves . . . . .	22%	22%	22%	22%	22%
Natural gas (bcf) . . . . .	90,262	96,635	98,006	100,702	100,278
Proven developed reserves of crude oil and natural gas (boe) . . . . .	29,165	30,508	31,052	31,832	33,122
Remaining reserve life of crude oil (years) . . . . .	16	15	15	14	15
Percentage of world crude oil reserves . . . . .	1.6%	1.4%	1.4%	1.4%	1.6%

- (1) Proven reserves include both proven developed reserves and proven undeveloped reserves.
- (2) Includes reserves in the Orinoco Oil Belt.
- (3) Natural gas is converted to barrels of oil equivalent (boe) at a ratio of 5.8 thousand cubic feet of natural gas per one barrel of crude oil.
- (4) Based on 1995 crude oil production.

Source: *Petróleos de Venezuela, S.A.*

Proven crude oil and natural gas reserves are estimated by using geological and engineering data to demonstrate with reasonable certainty whether they are recoverable in future years from known reservoirs under existing economic and operating conditions, and include proven developed and proven undeveloped reserves. Proven developed crude oil and natural gas reserves can be expected to be recovered through existing wells with available equipment and operating methods; and proven undeveloped crude oil and natural gas reserves are expected to be recovered from new wells on undrilled acreages. Reserve estimates are based on subjective judgments and, consequently, are not precise and are subject to revision. Crude oil and natural gas reserves are reviewed annually to take into account factors such as production levels, reservoir performance reviews, the addition of new reserves from discoveries and changes in economic parameters.

In July 1995, Corporación Venezolana del Petróleo ("CVP"), an affiliate of PDVSA, was authorized by the Government to begin hydrocarbon exploration, development and production offshore and in the states of Cojedes, Delta Amacuro, Guárico, Mérida, Portuguesa, Sucre, Trujillo and Zulia (collectively, the "Areas"). The Areas comprise approximately 4.5 million acres. To accelerate the development of the Areas, CVP selected a number of foreign investors in January 1996 to undertake exploration of the Areas. The selected investors will bear all of the risks and expenses during the exploration stage which, depending upon the Area assigned, is expected to last between three and five years (and may be extended by two to four years). With respect to certain parts of the Areas (each a "Block") in which hydrocarbons are discovered, it is anticipated that CVP will enter into a joint venture agreement with the investor assigned to such Blocks. CVP may own between 1% and 35% of the joint venture.

Using its own resources, PDVSA plans investments of approximately U.S.\$2.7 billion in exploration activities in the period 1997 through 2006 to increase its light and medium crude oil reserves. It is expected that these activities could increase such reserves by as much as 8,500 million barrels. Total expected investment in exploration from the winning bidders is expected to reach approximately U.S.\$2 billion.

PDVSA has also conducted exploration activities in the Orinoco Belt where it has large proven reserves of heavy and extra heavy crude oil. The Orinoco Belt is generally considered the world's largest area of heavy and extra heavy oil accumulation. In the period 1979 through 1983 PDVSA, through its affiliates undertook an evaluation of the area. An intensive exploration campaign was carried out during which approximately 660 wells were drilled. After this activity original-oil-in-place of 1,200 billion barrels were estimated to be contained in the Orinoco Belt. By the end of 1996, only 36.3 billion barrels of this immense resource had been incorporated in the Venezuelan oil reserves because only those oil reserves in areas ready for production projects in the Orinoco Belt are taken into account for purposes of calculating reserves.

#### **Petroleum Production and Exports**

The following table sets out production, export and revenue statistics for the industry since 1992, excluding all products refined outside of Venezuela:

Years	Production <sup>(1)</sup>		Exports			Domestic	Realized Price		
	Crude	Refined	Crude	Refined	Total	Consumption	Crude	Products	Total
	(Thousands of bpd)		(Thousands of bpd)			(Thousands of bpd)	(U.S. dollars per barrel)		
1992.....	2,334	1,939	1,429	625	2,054	363	\$13.73	\$17.62	\$14.92
1993.....	2,410	2,038	1,540	630	2,170	376	12.11	16.35	13.34
1994.....	2,542	1,999	1,693	649	2,342	361	12.41	15.36	13.23
1995.....	2,752	2,124	1,818	718	2,536	378	13.93	17.14	14.84
1996.....	2,937	2,153	1,976	775	2,751	334	17.44	20.82	18.39

(1) Excludes condensates.

Source: *Petróleos de Venezuela, S.A.*

Production during 1996 averaged 2,937,000 bpd of crude oil. Total petroleum exports from Venezuela averaged 2,751,000 bpd in 1996, of which 1,976,000 bpd consisted of crude oil and 775,000 bpd consisted of refined products. The average price of these sales was U.S.\$18.39 per barrel.

One of the most significant undertakings of PDVSA has been the adaptation of its national refining operations to satisfy PDVSA's domestic and export requirements. Prior to nationalization in 1976, concessionaires were required by law to refine in Venezuela a certain portion of the oil produced in

Venezuela. In order to meet this legal obligation while pursuing their commercial objectives, the concessionaires installed plants which could only process light crudes. The typical yield of those refineries was 35% gasoline and distillates, supplying local market demand, and 60% residuals, which were mainly exported to the United States. Upon nationalization, PDVSA determined that because its oil reserves were composed of 65% heavy crudes and 35% light and medium crudes a change in refining capabilities was required. Plans were implemented to adapt the Amuay, Punta Cardón and El Palito refineries to process heavier crudes and improve product yields. During the next seven years, the results were a substantial improvement in the composition of exports, reducing progressively PDVSA's participation in the residuals markets; the assurance of supply capacity for the local market; an increase in domestic refinery capacity; and an improvement of yields, increasing gasoline and distillates from 35% to 71% and reducing residuals from 60% to 22%.

Between 1983 and 1994, PDVSA implemented a complementary refining and marketing strategy through the acquisition of additional refinery capacity geographically closer to the final consumer. During this period, PDVSA acquired total or partial ownership in 15 refineries in Belgium, Germany, England, Sweden and the United States, and leased a refinery in the Caribbean. See "*Diversification Programs and Foreign Investment.*" As of December 31, 1996, PDVSA's share of the installed capacity of offshore refineries, calculated on the basis of supply or operating agreements that generally give PDVSA the right to process an amount of crude oil proportionate to its ownership interests, was 1,250,000 bpd while that of domestic refineries was 1,190,000 bpd. The total amount of crude oil processed by PDVSA's refineries in 1996 totalled approximately 2,243,000 bpd, which includes Venezuelan crude and crude purchased in the international markets. In 1996, domestic refineries processed an average of 1,047,900 bpd of crude. Utilization of PDVSA's domestic and offshore refinery capacity for 1996 was approximately 80% and 82%, respectively.

#### ***Diversification Programs and Foreign Investment***

The Venezuelan oil industry, which prior to the 1980s was largely an exporter of crude oil, is now predominantly a seller of oil products via downstream investments in important centers of consumption. Downstream diversification programs, planned since 1978 and initiated in 1983 with the establishment of a 50% joint venture with the German company Veba Oel for refining and distribution, form part of PDVSA's global marketing strategy. In 1986, PDVSA entered into another joint venture in Western Europe when it purchased a 50% interest in Nynas Petroleum, a subsidiary of Sweden's Axel Johnson group, which participates in five refineries in Western Europe. Also in 1986, PDVSA purchased CITGO, which in turn has purchased various petrochemical assets in the United States. In 1995, the overall operations of CITGO provided PDVSA with an outlet for a total of 378,000 bpd of Venezuelan crude oil and petroleum products pursuant to long-term supply agreements. In 1989 PDVSA entered into a 50% joint venture with Unocal covering most of Unocal's refining, distribution and marketing assets in the midwestern United States and in 1997 PDVSA acquired Unocal's 50% of the venture. The objective of these programs is to secure a stable outlet for a significant proportion of Venezuela's petroleum production, while assuring a long-term, secure and reliable supply to the world's major consumption centers. Since the implementation of such programs commenced in 1983, PDVSA has invested approximately U.S.\$3.0 billion in refining and marketing subsidiaries and joint ventures outside of Venezuela. At December 31, 1996, approximately 20% of PDVSA's consolidated net assets were represented by foreign assets.

In addition to the investments described above, PDVSA has increased its storage capacity abroad to enhance its operational and commercial flexibility. PDVSA's total storage capacity at December 31, 1996 included 92,000,000 barrels in Venezuela, 15,000,000 barrels in Curacao, 10,000,000 barrels in Bonaire and 20,000,000 barrels in the Bahamas.

### ***Strategic Plan—Investments***

As noted above, since 1990 PDVSA and the Government have jointly pursued an ambitious long-term expansion initiative aimed at developing the country's enormous hydrocarbon resources. PDVSA has set aggressive goals and objectives for the Venezuelan petroleum industry, summarized as follows:

- To increase substantially production and refining capacity and capabilities through PDVSA's own investments and through joint ventures;
- To expand and upgrade PDVSA's crude oil refining capacity, both within and outside Venezuela, to accommodate higher crude oil production and an anticipated increase in the production of heavy and extra heavy crude oil, which otherwise would have limited markets, and to adapt its product slate to the quality constraints of its international markets, including the United States, and
- To expand its refining and marketing operations internationally, to ensure stable demand for its crude oil production and reduce vulnerability to crude oil volume and price fluctuations.

PDVSA's five-year strategic plan calls for an increase in production capacity from 3.4 million bpd during 1996 to 5.0 million bpd during the period between 1997 and 2001. The five-year plan is part of a larger plan to produce 6.2 million bpd by the year 2006. Most of the growth in production is expected from the associations with foreign partners initiated in 1991. See "—The Opening of the Venezuelan Petroleum Sector."

PDVSA's five-year strategic plan calls for average annual capital expenditures of U.S.\$4.4 billion, the same amount as the actual average annual capital expenditures from 1991 through 1996. PDVSA's strategy is to finance future capital expenditures from its annual operating cash flow (net income plus depreciation), which was U.S.\$5.5 billion, U.S.\$6.2 billion and U.S.\$7.2 billion for 1994, 1995 and 1996, respectively. With respect to liquidity, PDVSA's net working capital totaled U.S.\$2.6 billion as of December 31, 1996. PDVSA is currently receiving on average approximately U.S.\$62 million in export revenues each business day. Such revenues are available on a priority basis by law to meet PDVSA's commitments in foreign currency. Should lower oil prices or other factors cause reductions in expected cash flows, PDVSA expects to maintain the flexibility to reduce spending (particularly for exploration and production) to meet any commitments related to projects whose construction cannot be delayed. PDVSA's strategic plan also contemplates approximately U.S.\$11.3 billion in capital contributions from its foreign partners. See "—The Opening of the Venezuelan Petroleum Sector."

PDVSA's ability to make investments depends on its income. The income of PDVSA's operating subsidiaries, Lagoven, Maraven, and Corpoven, is taxed at a rate of 67.7%. In determining taxable income for the operating subsidiaries, export revenues are adjusted upward by a percentage (the "Export Reference Value") that cannot legally exceed 20%. The average Export Reference Values were 18.9%, 15.9%, 8% and 4% in 1992, 1993, 1994 and 1995, respectively. In order to permit PDVSA to increase its capital expenditures, the Ministry of Energy and Mines and the Ministry of Finance reduced the Export Reference Value to 0% in 1996. In addition to income tax liability, the operating subsidiaries are obligated by law to make a mandatory payment to PDVSA equal to 10% of their net income from exports. Although these mandatory payments are deductible from the operating companies' taxable income, they are non-taxable income for PDVSA.

PDVSA and all of its subsidiaries are entitled to a tax credit for new investments up to 14% of the amounts invested. Such credits, however, may not exceed 2% of the subsidiary's annual net taxable income.

### ***The Opening of the Venezuelan Petroleum Sector***

Since 1990, PDVSA and the Government have jointly developed initiatives aimed at expanding the country's hydrocarbon production through greater private participation. The purpose of the initiatives is to strengthen the private sector's role in developing Venezuela's hydrocarbon reserves, and to integrate

the international oil community's participation in Venezuela's upstream development. By working with the private sector, PDVSA also expects to leverage existing resources to develop areas of strategic importance, the development of which would otherwise be postponed until resources became available. These initiatives reflect PDVSA's philosophy of involving the latest technology, outside management, partner relationship, and private ownership in its expansion program and non-core activities.

Since 1992, Venezuela has held two successful bidding rounds with 24 oil companies to reactivate 14 marginal fields. These oil companies will use secondary and tertiary recovery techniques to produce oil for PDVSA, pursuant to service agreements, from fields that no longer meet PDVSA's required rate of return on investment. Approximately 170,000 barrels per calendar day ("bcd") of crude oil were being produced from these fields at year-end 1996, and PDVSA projects that production will increase to 396,000 bcd when the fields are in substantially full operation by the year 2000. These fields are expected to contain reserves of approximately 2 billion barrels of crude oil and condensates. Under the initiative, companies have already invested in excess of U.S.\$1.6 billion and are committed to spending another U.S.\$3.0 billion over the next ten years.

A new round of bidding for operating service agreements in 20 additional inactive fields was launched in June 1997. Successful bids were placed for 17 and the 20 areas offered by consortia including both foreign and Venezuelan companies. These fields are estimated to have recoverable reserves of between 2 and 3 billion barrels. Total investments of U.S.\$4 to U.S.\$6 billion leading to daily production of 400,000 to 500,000 bcd by 2002 are expected. The proceeds from the award of the service agreements to operate these fields, which in this instance contemplated initial cash payments to PDVSA, were approximately U.S.\$2.1 billion.

In addition to the marginal field initiatives the Venezuelan Congress has approved since 1993 several strategic associations with foreign investors requiring investments of almost U.S.\$15 billion. The Venezuelan Government has approved three joint ventures for the exploitation of the hydrocarbon resources of the Orinoco Belt; the first is between Maraven and Conoco Inc.; the second is a joint venture between Maraven, TOTAL, Statoil, and Norsk Hydro; the third is a joint venture between Corpoven and Atlantic Richfield Corporation, Phillips Petroleum Company and Texaco, Inc. A fourth agreement, between Lagoven, Mobil Oil Corporation and Veba Oel, is expected to be approved shortly. If completed as planned these four alliances will produce approximately 500,000 bcd of upgraded crude oil by early in the next decade. In addition, two letters of intent have been signed with Exxon and Coastal for the possible development of additional heavy crude oil projects.

In 1995, PDVSA established the Petroleum Investment Fund, which is expected to structure debt and equity instruments generated by PDVSA's expansion and place them in the local capital markets. In addition to becoming an important source of funds and a vehicle to encourage savings, it will allow local investors to become direct shareholders in the Venezuelan oil industry.

#### ***Petrochemicals, Orimulsion® and Coal***

Government activities in the field of petrochemicals are carried out through Pequiven. Pequiven promotes initiatives in the field of petrochemicals and related chemicals, participates in the development of investment opportunities in these fields and, when necessary, invests directly in projects of a strategic nature.

The raw materials currently used in the Venezuelan petrochemical industry are natural gas and natural gas liquids ("NGLs"), reformed naphtha, sulphur phosphate rock and salt. The main feedstocks, natural gas and NGLs, are supplied by Corpoven and Maraven. Phosphate rock is mined in the State of Falcón by a Pequiven subsidiary, Fosfaven. Marine salt comes from eastern Venezuela, and sulphur is provided by the refineries of Amuay, Cardón and El Palito, belonging respectively to Lagoven, Maraven and Corpoven. Reformed naphtha is supplied by Corpoven at the El Palito refinery. In addition to natural gas, intermediate refinery streams from PDVSA refineries will become a major feedstock for future petrochemical developments.

Pequiven operates three petrochemical complexes, with a total combined production capacity of over three million metric tons per annum. In addition to Pequiven's own production facilities, the three sites include plants belonging to joint ventures between Pequiven and local and foreign private partners.

The Morón complex, in the State of Carabobo, deals primarily with fertilizer production for the local market. The El Tablazo complex, on the eastern shore of Lake Maracaibo in the State of Zulia, produces olefins and derivatives thereof, mainly thermoplastic resins, nitrogen-based fertilizers and industrial chemicals. In 1987, construction began on the third petrochemical complex, the Eastern ("Jose") complex, located on the eastern coastline of the country in the State of Anzoátegui. Next to this site, a cryogenic complex built and operated by Corpoven supplies most of the raw materials required for the manufacture of petrochemicals. The first plant within this complex, a methyl-tertiary-butyl-ether (MTBE) unit, started production in March 1991. This complex also includes two large methanol plants, which started commercial operations in April 1994 and January 1995, respectively. Plants for producing petrochemicals out of intermediate refinery streams will be located close to the Cardón and Amuay refineries.

At present, Pequiven is a partner in 16 joint ventures operating mostly in the three existing petrochemical complexes. Eight new joint ventures are at various stages of development. Gross production from joint ventures was approximately 3.3 million metric tons in 1996, compared to approximately 2.7 million metric tons in 1995. The main products to be produced by the joint ventures include methanol, ethylene, propylene, ethylene oxide, glycols, polyethylenes, caustic soda, chlorine, ethylene dichloride, thermoplastic resins, aromatics and derivatives, and other special products.

With a view to contributing to the funding of the continued expansion of Pequiven's petrochemical activities in accordance with the investment plan, PDVSA is encouraging further private participation in these activities.

Gross production of Pequiven's wholly-owned plants and its joint ventures is estimated to increase from eight million metric tons per annum in 1996 to 12 million metric tons per annum in 2001. As of December 31, 1996, Pequiven's total gross assets amounted to approximately U.S.\$3.2 billion. Its revenues for 1996 were approximately U.S.\$916 million. Pequiven's gross production in 1996 totalled 4.7 million metric tons, of which 30% was exported at a value of U.S.\$412 million. Domestic sales by Pequiven amounted to 3.3 million metric tons. Net income before taxes in 1996 was U.S.\$225 million.

The Orinoco Belt has substantial reserves of natural bitumen, an extra-heavy hydrocarbon product. PDVSA, through its wholly-owned subsidiary, Bitúmenes Orinoco, S.A. ("Bitor"), has developed a process of combining natural bitumen with water and a surfactant to create Orimulsion®; a liquid coal substitute. Bitor plans, develops and markets the bituminous resources of the Orinoco Belt. Field development and production of the resources needed to manufacture Orimulsion® are carried out through operating arrangements and contracts with Corpoven, Lagoven and Maraven. Net production of Orimulsion® in 1996 was approximately four million metric tons, an increase of 362,000 metric tons from 1995. Orimulsion® is marketed world-wide by Bitor itself, and through Bitor's two wholly-owned subsidiaries, Bitor Europe Limited and Bitor America Corporation, and through a 50% joint venture with Mitsubishi Corporation of Japan, MC Bitor Ltd. Bitor has also signed a marketing alliance with Citizens Corporation for the North American market and has begun developing commercial relations with local channels in various countries in the Far East.

With respect to coal, a project has been commenced to tap a rich thermal coal bed located in the Guasare River basin in the northwestern region of the State of Zulia. The project is led by Carbones del Zulia, S.A. ("Carbozulia"), a wholly-owned subsidiary of PDVSA. Detailed exploration of the Guasare region has shown proven coal reserves of 983 million metric tons. The coal deposit is about 50 kilometers long by three kilometers wide and comprises four major areas that can be exploited. The Guasare region, from north to south, has the following coal reservoirs: the Norte mine with proven reserves exploitable by open-pit operations of 59 million metric tons; the Paso Diablo mine with open-pit proven reserves of 180 million metric tons; the Socuy mine with 226 million metric tons; and the Cachirí

field with 14 million metric tons. Guasare offers a premium quality bituminous coal with a sulphur content of only 0.6%, a low ash content of 6.7% and a high calorific value of 12,650 BTU/lb. Of the total proven coal reserves, 18% has been exploited, and 50% of the total can be exploited using current operating methods. New methods of extraction must be applied in the near future to recover the remaining Guasare coal reserves.

International sales of coal are conducted by Guasare Coal International, a wholly-owned subsidiary of Carbozulia. Carbozulia expects to increase coal production to 14 million metric tons per year by the year 2000 by means of additional international joint ventures. Carbozulia does not sell coal to the Venezuelan domestic market.

### **OPEC**

Venezuela is a founding member of OPEC, whose members collectively produced approximately 41% of total world production of crude oil and accounted for about 62% of worldwide crude oil exports in 1996. In addition, OPEC countries hold 77% of world crude oil reserves. OPEC was founded in 1960 for the purposes of improving oil prices, attaining greater state participation by member countries in the petroleum industry and influencing production levels. Pursuant to agreement among OPEC members, general quotas for production by each country have been established. Such quotas have not been the subject of any formal actions by OPEC, and the quotas do not distinguish clearly between crude oil, refined products and derivatives and between exports and domestic utilization. To date, the quotas assigned to Venezuela within OPEC have not had any adverse effects on Venezuela's petroleum exports or production. Venezuela's strategic plan to increase its petroleum production and exports assumes that the growth in international demand for petroleum products can only be met by a small number of countries, including Venezuela, that have adequate reserves. Venezuela believes that the reality of this situation, and the need for oil consuming countries and oil producing countries to continue to act in a mutually beneficial manner, will result in the future in a reorientation in the structure and stated goals of OPEC.

### **Manufacturing and Mining**

After the petroleum and natural gas sector, the second most important sector of the Venezuelan economy is manufacturing. The manufacturing sector can be divided into two sub-sectors, one which produces goods for the domestic market in connection with the Government's plans to encourage domestic industry and import substitution and the other which produces goods for export.

The industries producing intermediate goods (inputs for other factories) have been developed predominantly by public enterprises.

### ***Corporación Venezolana de Guayana***

After PDVSA, the second most important industrial complex in the country is made up of branches and subsidiary companies of CVG. CVG was created in 1960 to institutionalize the industrial development strategies of one of the richest areas in Venezuela. The creation of CVG has enabled Venezuela to develop an extensive industrial complex in sectors in which Venezuela has a comparative advantage due to low-cost inputs of energy, electricity and high-quality minerals. Pursuant to Agenda Venezuela, a number of the CVG companies are being restructured, reorganized and/or privatized.

Many of the CVG companies have incurred significant losses over the past several years due to low commodity prices for CVG's products and inefficient management operations. As part of the Adjustment Program and Agenda Venezuela, the Government has undertaken a number of internal reorganizations intended to improve the operating performance of CVG and reduce the costs imposed on the consolidated public sector accounts occasioned by CVG's losses. In 1994, the Government decided to privatize CVG's aluminum and steel industries, among others, and a commission, comprised of CVG, FIV and each institution involved in the aluminum and steel sectors, was established to oversee the restructuring and privatization processes.

Pursuant to that program, FIV and CVG have announced plans to privatize the steel, ferroalloy and integrated aluminum sectors of CVG within the next six months. The integrated aluminum sector includes the bauxite transport and storage and alumina processing operations of C.V.G. Bauxilum, C.A. (with an installed capacity of 230,000 metric tons per year of alumina), the aluminum processing facilities of C.V.G. Industria Venezolana de Aluminio, C.A. (VENALUM) (with an installed capacity of 430,000 metric tons per year) and C.V.G. Aluminio del Caroní S.A. (ALCASA) (with an installed capacity of 210,000 metric tons per year), and the coal anode processing facilities of C.V.G. Carbones del Orinoco, C.A. (CARBONORCA) (with an installed capacity of 193,800 metric tons per year of baking capacity), is intended to be sold to strategic industry participants in the first stage of the privatization process, with a potential public offering of the Government's remaining shares at a later date. In addition to the planned sale of CVG's aluminum sector assets, the Government has announced the sale of CVG's steel and ferroalloy assets currently held by C.V.G. Siderúrgica del Orinoco, C.A. (SIDOR) and C.V.G. Venezolana de Ferrosilicio (FESILVEN), respectively. In view of Venezuela's position as the third largest steel producer in Latin America, behind Brazil and Mexico, the Government anticipates that private ownership of SIDOR will enable it to gain access to the technological and financial resources necessary to compete successfully in the global marketplace.

The following tables set out the production and exports of CVG's aluminum, iron, steel and gold companies for the five years ended December 31, 1996:

<u>Production</u>	<u>Year Ended December 31,</u>				
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
	(in thousands of metric tons, except as noted)				
Iron .....	18,310	17,300	18,300	19,432	19,720
Bauxite .....	1,117	2,500	4,892	5,360	5,360
Alumina .....	1,282	1,500	1,551	1,669	1,778
Aluminum .....	591	576	418	427	426
Steel .....	2,068	2,655	2,682	2,791	3,194
Gold (in kilograms) .....	2,539	2,548	2,916	3,274	3,486
Ferroalloys .....	45	47	41	47	67

Source: *Annual Reports of CVG Companies.*

<u>Exports</u>	<u>Year Ended December 31,</u>				
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
	(in millions of U.S. dollars)				
Iron Ore .....	\$161	\$145	\$137	\$202	\$161
Aluminum .....	488	472	571	915	660
Steel .....	243	252	350	276	294
Alumina .....	33	46	48	91	48
Ferroalloys .....	21	16	18	27	48

Source: *Annual Reports of CVG Companies.*

## Agriculture and Livestock

Venezuela's principal agricultural and livestock products are coffee, cacao, plantains, sugar cane, rice, corn, pork, eggs and milk. The following tables set out the production, exports and imports of the agricultural sector for the five years ended December 31, 1996:

Production	Year Ended December 31,				
	1992	1993	1994	1995	1996
	(in thousands of metric tons)				
Coffee .....	69.3	66.5	68.4	65.1	73.0
Cacao .....	17.1	16.1	17.0	16.5	17.1
Sugar cane .....	7,128.3	7,200.7	6,521.8	6,146.9	6,423.8
Rice .....	622.6	723.4	728.1	756.9	779.9
Corn .....	787.1	987.8	1,094.5	1,166.7	1,033.3

Source: *Banco Central de Venezuela*.

Year ended December 31,	Exports	Imports
	(f.o.b.)	(f.o.b.)
	(in millions of U.S. dollars)	
1992 .....	\$ 184	\$ 695
1993 .....	239	709
1994 .....	250	641
1995 <sup>(1)</sup> .....	224	877
1996 <sup>(1)</sup> .....	259	878

(1) Preliminary figures.

Source: *Banco Central de Venezuela*.

The Adjustment Program in 1989 and 1990 had an adverse effect on the agricultural sector through significant increases in the costs of agricultural inputs. The impact of the exchange rate unification and corresponding depreciation of the Bolivar against the U.S. dollar had a greater effect on this sector than other sectors due to the fact that many inputs for the agricultural sector had been imported at the preferential controlled rate of Bs.7.50 = U.S.\$1.00 until March 1989. In addition, the agricultural sector had benefited from preferential interest rate policies. In July 1990, the Government issued new guidelines and adopted measures for the commercial reform of the agricultural sector. The measures were intended to promote efficiency in, and diversification of, the agricultural sector, mitigate the adverse effects of the Adjustment Program on consumer prices for foodstuffs, and orient the agricultural sector toward specialization in those agricultural products in which Venezuela has a comparative advantage. The most significant of these measures have been a simplification of the tariff classification system for agricultural products; a progressive reduction of tariffs for agricultural products, which at present have a maximum rate of 20%; and the progressive elimination of import quotas. Another important step taken has been the creation of the Interministerial Commission for the Design and Follow-up of the Commercial Agricultural Reform, which coordinates actions and policies among the ministries involved in the agricultural sector. In order to stimulate growth in the agricultural sector, the Government is providing financing to small, medium and large producers. Financing for small producers is available through the Instituto de Crédito Agrícola (ICA), while financing for medium and large producers is made available with Government funds through Conindustria, a private organization. The Government also expects that increased trade within the Andean Community countries will also help to develop the agricultural sector.

## **Electric Power**

Venezuela's electric power industry is composed of both public and private companies, of which four of the major companies, C.V.G. Electrificación del Caroní, C.A. (EDELCA), C.A. de Administración y Fomento Eléctrico (CADAPE), ENELVEN and ENELBAR, are state-owned. These four companies generate approximately 80% of the total electricity used in Venezuela. Some private companies generate their own electric power. The Government's energy plan contemplates the setting of prices for users of electricity to reflect the costs of power generation. In July 1992, the Government created the Comisión Reguladora de la Energía Eléctrica (CREE) to set electricity tariffs and to analyze plans for the expansion of Venezuela's electricity generating capacity. In October 1992, the Government approved a series of tariff increases covering residential, commercial and industrial subscribers which took effect that same month. The Government's actions in addressing the adverse macroeconomic situation in 1994 and 1995 have delayed the full-scale implementation of market-based tariff systems. The Government recently announced increases in electricity tariffs for the Government-owned electricity producers that range on average from 20% for EDELCA to 79.0% for CADAPE during the period from January to December 1997.

Economic growth in Venezuela will require expansion of the electric sector of the Venezuelan economy to meet both general demand and specific project requirements that contemplate intensive use of electric power, such as planned projects in the aluminum, petroleum and petrochemical areas. The Government estimates that demand for electric power will increase by 3.5% per annum over the period from 1995 to 2010. In order to encourage the most efficient growth of the electricity sector, the Government has set priorities for its direct development expenditures, including an increase in the installed capacity of EDELCA's hydroelectric generating facilities in the Guayana region of Venezuela. With respect to the remainder of the Government-owned generating companies, the Government believes that the privatization of those facilities represents the optimal means toward its electric generation development plans. To that end, the Government has announced its intention to privatize CADAPE's Planta Centro thermo-electric generating facility, ENELVEN and ENELBAR and certain other state-owned electric sector assets. The Government would retain ownership of CADAPE's national transmission system. The Government as part of Agenda Venezuela has taken several steps to improve the efficiency of the electrical sector. The most significant step involves the submission to Congress of a new Electricity Law, which contemplates a division of the electric sector among generating, transmission and distribution activities. The Government anticipates awarding a number of private sector concessions for transmission and distribution activities and the creation of a new Electrical Service Superintendency to oversee such concessions.

The installed capacity of EDELCA is currently 11,317MW. In 1996, EDELCA generated 51,456 GWH, an increase of 3.9% from 1995, and had sales of 49,534 GWH, an increase of 3.9% from 1995. In order to meet such anticipated demand, EDELCA is constructing the Macagua II hydroelectric project on the lower Caroní River in the Guayana region; Macagua II, which is scheduled to be completed and in operation in 1998, has a planned generating capacity of 2,540 MW; other hydroelectric projects are planned for the lower Caroní River region include the Caruachi and Tocoma plants, with projected installed capacities of 2,160 MW each; the Caruachi plant is anticipated to commence operations in 2003.

With respect to transmission of electricity, the Government's plans include the interconnection of utility grids between Venezuela and Colombia, the development of the associated transmission system for Macagua II, and the third stage of an 800 kilowatt transmission system to improve the interconnection system between the Guayana region and the central and western regions of Venezuela.

## FINANCIAL SYSTEM

### **Banco Central de Venezuela**

Banco Central, which is wholly-owned by the Republic is Venezuela's central bank and its currency-issuing bank. The law currently governing the operation of Banco Central was most recently amended on December 4, 1992 (the "Central Bank Law"). Under this law, Banco Central's statutory functions include: acting as depositary and financial agent for the Government; discounting and re-discounting prime commercial paper; conducting open market operations in Government, and other, securities; fixing rates of exchange for foreign currencies; trading in gold and foreign exchange; holding the gold and foreign exchange reserves of the country; setting the minimum reserve requirements for banks and other financial institutions, regulating interest rates charged for loans and paid for deposits and other liabilities by banks and other financial institutions; and acting as a clearinghouse for the banking system and other financial institutions.

### ***Monetary Policy***

Banco Central has conducted an active monetary policy which has supported both the Adjustment Program and, subsequently, Agenda Venezuela. In this regard, Banco Central has utilized open market operations with respect to its own instruments issued initially through the Caracas Stock Exchange and later by means of an auction mechanism. The placement of zero coupon bonds has progressively replaced Banco Central's money desk as a primary mechanism of monetary regulation and has become an efficient means of moderating the increase of monetary aggregates. The use of the rediscount and loan mechanism has been reduced, consistent with Banco Central's role as a lender of last resort and with the greater resources available to the banking system.

In May 1991, Banco Central established a cash reserve requirement of 80% on the deposits and obligations of the public sector held in the banking system. In August 1991, the reserve requirements established for the deposits held by the private sector were raised progressively from 15% to 25%. On September 14, 1992, a revised set of cash reserve requirements was put into place by Banco Central. The revisions, which were phased in over a three-month period, entailed incremental reductions in the base reserve requirement on the deposits of both public and private sector institutions held in the banking system. In response to the financial crisis, Banco Central lowered the cash reserve requirements of the private sector deposits from 15% to 12% and temporarily exempted certain troubled financial institutions from the reserve requirements. Interbank loans increased substantially as those institutions with surpluses made overnight loans to those suffering liquidity shortages. The current cash reserve requirements are 25% for public sector deposits and 17% for private sector deposits.

The amendments to the Central Bank Law promulgated in December 1992 reaffirmed the importance of the monetary policy carried out by Banco Central, made Banco Central more independent and established the level of control by Banco Central of legal reserves within the financial system. The Central Bank Law, as so amended, prohibits Banco Central from making direct loans to the Republic and purchasing notes issued by the Republic, and eliminates Banco Central's fiduciary operations, while maintaining Banco Central's role as financial agent of the Republic.

On March 15, 1993, Banco Central adjusted the maximum level fixed for interest rates from 60% to a variable level that was tied to the average return on Banco Central's zero coupon bonds. In the area of monetary control, Banco Central reserve requirements for bank loans were reviewed and streamlined. Instead of requiring different reserve amounts depending on the type of loan transaction, a single reserve requirement was established.

At the end of 1993, instability in the financial markets became apparent and it was evident that a more restrictive monetary policy was necessary. During the first six months of 1994, however, a dichotomy existed in monetary policy. On the one hand, Banco Central recognized the need for a restrictive

monetary policy and Banco Central increased the frequency of zero coupon bond auctions on the open market. On the other hand, Banco Central, as the "lender of last resort" during the financial sector crisis, granted financing to those financial institutions confronting liquidity or solvency problems, both directly and indirectly through FOGADE. This prevented Banco Central from fulfilling its restrictive autonomous role in the economy and jeopardized its restrictive monetary policy.

By the second half of 1994, Banco Central was able to reestablish the restrictive character of its execution of its monetary policy in an attempt to drain excess liquidity from the market and, as a result of the stabilization of the financial sector, once again became a true "lender of last resort." In addition, the Government, in response to the continuing adverse economic conditions, implemented exchange controls and adopted various price and interest rate controls. See "The Venezuelan Economy—Historical Economic Performance—The Financial Sector Crisis and Economic Performance in 1994."

In 1995, Banco Central temporarily suspended the placement of zero coupon bonds and facilitated the placement of the remaining treasury bonds so that the Republic could refinance in an orderly fashion its external public debt obligations. At the end of January 1995, Banco Central issued Títulos de Estabilización Monetaria Capitalizables ("TEMs"), in substitution for zero coupon bonds, in order to establish the maximum (46%) and minimum (24%) interest rates in the monetary market.

The monetary base contracted in real terms by 3.8% in 1996 despite an increase in international reserves during that year (56.6% in U.S. dollars). See "The Venezuelan Economy—Foreign Trade and Balance of Payments—International Reserves." There was also an increase in fiscal income in 1996 from oil exports and from the devaluation of the exchange rate in April 1996. Moreover, foreign direct investment increased to U.S.\$1.6 billion in 1996 from U.S.\$860 million for 1995 as a result of the opening of the petroleum sector and the increased pace of the privatization program.

The table below sets forth the changes in monetary aggregates for the five-year period ended December 31, 1996:

Year	(M2)		Monetary Base	
	In billions of nominal Bolivars	In billions of 1984 Constant Bolivars	In billions of nominal Bolivars	In billions of 1984 Constant Bolivars
1992	1,321.3	140.1	382.3	40.5
1993	1,660.7	127.5	422.7	32.4
1994	2,570.3	122.7	698.8	33.4
1995	3,548.3	105.9	872.5	26.0
1996	5,623.3	84.0	1,675.8	25.0

Source: *Banco Central de Venezuela*.

Banco Central has continued its restrictive monetary policy through the increased issuance of TEMs. However, the results obtained through these issuances have not had a material impact on the expansionary tendencies in the monetary base referred to above.

As the implementation of Agenda Venezuela proceeds, the expansionary forces on the monetary supply are beginning to recede. The stability of the exchange rate and the large size of Banco Central's international reserves, combined with the perceived overvaluation of the Bolivar, have led to significant demand for foreign exchange for import transactions. These transactions have the effect of removing the Bolivar countervalue used in the transactions from the monetary base. Imports for the first four months of 1997 have increased an estimated 23.3% over the comparable period in 1996. In this regard, Banco Central has increased flexibility for relaxing its policy of reserve accumulation, as reserves have risen to a level of U.S.\$16.7 billion at June 30, 1997.

In addition, the Government has introduced a Special Law in Congress that will permit it to refinance its obligations to Banco Central in the amount of U.S.\$3.7 billion through the issuance of bonds of the Republic to Banco Central. This transaction will strengthen the asset base of Banco Central and will also enable Banco Central to use these newly issued bonds as a powerful tool for restrictive monetary policy which heretofore was not legally available to Banco Central. This in turn will have an impact on interest rates, which were decontrolled in 1996. The bonds will set a benchmark for rates and will assist Banco Central in its goal of promoting positive real interest rates.

The following table sets out Venezuela's interest rates by quarter for the periods indicated:

Year and Quarter	Interest Rates				
	Short-Term (Commercial Banks)	Long-Term (Mortgage Banks)	90 Day CDs Deposit Rate	Central Bank Discount Rate	Basic Inflation Rate <sup>(1)</sup>
	(in percent per annum) <sup>(2)</sup>				
<b>1992</b>					
First Quarter . . . . .	37.18%	35.64%	31.33%	43.00%	27.39%
Second Quarter . . . . .	40.52	31.17	35.34	43.00	34.03
Third Quarter . . . . .	40.04	32.66	33.63	43.00	33.08
Fourth Quarter . . . . .	48.72	40.08	42.56	52.20	33.03
<b>1993</b>					
First Quarter . . . . .	54.32%	39.18%	48.17%	62.40%	36.51%
Second Quarter . . . . .	64.07	36.94	57.59	66.16	41.27
Third Quarter . . . . .	56.70	47.81	49.53	63.40	45.70
Fourth Quarter . . . . .	66.47	49.50	63.09	71.25	61.45
<b>1994</b>					
First Quarter . . . . .	63.87%	39.88%	52.98%	67.00%	42.47%
Second Quarter . . . . .	61.48	33.24	44.97	67.00	96.80
Third Quarter . . . . .	51.18	26.10	27.86	45.00	83.17
Fourth Quarter . . . . .	42.07	28.60	24.26	48.00	65.85
<b>1995<sup>(3)</sup></b>					
First Quarter . . . . .	39.46%	26.98%	21.51%	43.50%	41.07%
Second Quarter . . . . .	36.56	25.83	21.57	49.00	57.60
Third Quarter . . . . .	40.63	23.49	26.94	49.00	43.86
Fourth Quarter . . . . .	42.66	25.44	27.27	49.00	88.11
<b>1996<sup>(3)</sup></b>					
First Quarter . . . . .	42.47%	27.41%	29.78%	51.00%	135.96%
Second Quarter . . . . .	53.58	27.17	40.07	85.00	193.87
Third Quarter . . . . .	34.03	23.94	23.47	85.00	64.36
Fourth Quarter . . . . .	28.02	22.05	20.30	45.00	49.72
<b>1997<sup>(3)</sup></b>					
First Quarter . . . . .	19.61%	25.41%	13.15%	45.00%	29.14%
Second Quarter . . . . .	22.79	24.99	13.92	45.00	33.59

(1) Based on the CPI (Base 1984=100), calculated by annualizing forward cumulative quarterly inflation rates.

(2) Interest rates are calculated using averages during the relevant period.

(3) Preliminary figures.

Source: *Banco Central de Venezuela*.

The following table sets out total outstanding loans and long-term investments (by quarter) by public and private financial institutions for the five years ended December 31, 1996 and for the three-month period ended March 31, 1997:

<u>Year and Quarter</u>	<u>Commercial Bank Credit<sup>(1)</sup></u>	<u>Mortgage Bank Credit<sup>(1)</sup></u>	<u>Other<sup>(2)</sup></u>	<u>Total Credit of the Financial System<sup>(3)</sup></u>	<u>Percentage Change<sup>(4)</sup></u>
	(in billions of nominal Bolivars)				
<b>1992</b>					
First Quarter . . . .	Bs. 588.260	Bs.65.238	Bs.126.447	Bs.779.945	35.28%
Second Quarter . .	639.645	66.511	147.248	853.404	36.14
Third Quarter . . . .	680.299	66.511	167.491	914.301	42.51
Fourth Quarter . . .	746.257	69.455	183.560	999.272	41.41
<b>1993</b>					
First Quarter . . . .	Bs. 781.332	Bs.69.985	Bs.177.877	Bs.1,029.194	31.96%
Second Quarter . .	755.011	73.802	192.663	1,021.476	19.69
Third Quarter . . . .	793.371	78.820	205.217	1,077.408	17.84
Fourth Quarter . . .	836.583	84.718	217.046	1,138.347	13.92
<b>1994</b>					
First Quarter . . . .	Bs. 943.598	Bs.81.011	Bs.185.018	Bs.1,209.627	17.53%
Second Quarter . .	1,070.310	78.565	211.247	1,360.122	33.15
Third Quarter . . . .	1,068.440	84.902	196.583	1,349.925	25.29
Fourth Quarter . . .	765.216	56.779	203.498	1,025.493	(9.91)
<b>1995</b>					
First Quarter . . . .	Bs. 741.369	Bs.55.360	Bs.216.933	Bs.1,013.662	(16.20)%
Second Quarter . .	852.827	58.067	227.459	1,138.353	(16.32)
Third Quarter . . . .	984.692	57.760	275.534	1,317.986	2.37
Fourth Quarter . . .	1,153.143	62.990	283.516	1,499.649	46.24
<b>1996</b>					
First Quarter . . . .	Bs.1,278.175	Bs.65.569	Bs.318.085	Bs.1,661.829	63.96%
Second Quarter . .	1,305.822	66.046	283.991	1,655.859	45.40
Third Quarter . . . .	1,081.362	84.576	333.313	1,499.251	13.81
Fourth Quarter . . .	2,324.303	48.998	255.168	2,628.469	75.31
<b>1997</b>					
First Quarter . . . .	Bs.2,768,584	Bs.40,173	Bs.319,771	Bs.3,128,528	88.26%

(1) Excludes, for the periods subsequent to December 1994, intervened and other state-owned banks.

(2) Includes finance companies, savings and loan institutions, Banco de los Trabajadores de Venezuela and Banco de Desarrollo Agropecuario. Excludes Banco Central.

(3) Excludes Banco Central.

(4) From the corresponding quarter of the previous year.

Source: *Banco Central de Venezuela*.

### Financial Institutions

The Superintendency of Banks is responsible for inspection, supervision and control of banks and credit institutions as well as any individuals, companies or institutions that conduct or purport to conduct, any of the operations which are subject to the prior authorization of the Government under the General Law of Banks and Other Financial Institutions (the "Banking Law"). FOGADE, which was established in 1985, insures deposits up to Bs.4 million per depositor, assists in the recovery and stabilization of financial institutions through lending assistance.

On January 1, 1994, amendments to the Banking Law came into effect. The new Banking Law, the enactment of which was a part of the planned structural reforms of the Adjustment Program, contained

five sets of major amendments to the prior law. Whereas the prior regulatory scheme called for supervision only of the domestic operations of Venezuelan commercial banks, the amended Banking Law permits Government supervision of Venezuelan banks' overseas lending activities. Also, the new Banking Law deregulated financial activity by allowing banks to undertake any transactions unless explicitly prohibited in the Banking Law. Additionally, banks were authorized to include under one entity both commercial banking and other investment activities under the concept of a "universal bank." All entities, including all offshore operations, are required to prepare consolidated financial accounts and are subject to comprehensive regulation by the Superintendency of Banks. The regulatory scheme and standards have been strengthened, and Venezuelan commercial banks were required to meet the Basle Standards of capital adequacy as of December 31, 1995. As of that date 35 out of 39 operating Venezuelan commercial banks met the 8.00% minimum capital adequacy requirements of the Basle Standards. At December 31, 1996, 36 of 37 operating Venezuelan commercial banks were in compliance with the Basle Standards. At June 30, 1997, 32 out of 33 operating Venezuelan commercial banks were in compliance with the Basle Standards. The amended Banking Law also permitted foreign investors to acquire shares in existing financial institutions and to establish new banks and open new branches or representative offices. Finally, the amended Banking Law increased the powers of the Superintendency of Banks and added additional administrative and criminal sanctions for violations of the banking law.

Immediately after the effectiveness of the Banking Law on January 14, 1994, the Government, through FOGADE, officially intervened in and temporarily closed the operations of Banco Latino, the second-largest commercial bank in Venezuela. The temporary closure of Banco Latino caused depositors at several other Venezuelan commercial banks to question the solvency of those institutions. As a result, many Venezuelan banks experienced significant withdrawals of deposits, and an additional eight financial institutions were forced to seek financial assistance from FOGADE during the first six months of 1994. On March 8, 1994, Congress passed special laws that retroactively raised the upper limit on insured deposits from Bs.1 million to Bs.4 million and raised the insurance fees that local banks are required to pay to FOGADE semiannually from 0.25% to 1.0% of a bank's total deposits (excluding deposits of public sector entities). On April 4, 1994, Banco Latino was reopened as a state-owned bank. Under the procedures established for the reopening of Banco Latino, depositors with accounts under Bs.10 million (approximately U.S.\$86,000) had immediate availability of their funds while amounts in excess of that level are being repaid over time at below-market interest rates.

In an effort to prevent the failure of the remaining Venezuelan financial institutions, the Financial Emergency Board was created in June 1994 to coordinate Government actions in the banking sector. The Board was given broad powers to prevent the failure of additional financial institutions, including the powers to hire and dismiss directors and managers; expropriate assets from troubled institutions; and direct and approve the purchase of all shares of a troubled financial institution. See "The Venezuelan Economy—Historical Economic Performance—The Financial Sector Crisis and Economic Performance in 1994." In June 1994, the Government officially intervened the eight financial institutions to which it had been providing liquidity support. Subsequently, the Government acquired Banco de Venezuela and Banco Consolidado, which at that time were Venezuela's second and third largest commercial banks, respectively, and Banco Andino, a small regional bank. On December 13, 1994, Banco Progreso was intervened and closed and its assets were transferred among all the public sector banks. On January 31, 1995, the Financial Emergency Board intervened and closed Banco Italo Venezolano, Banco Profesional and Banco Principal, and distributed certain of their liabilities among the public sector banks. The last bank in which the Financial Emergency Board intervened and closed was Banco Empresarial in August 1995. As a result of the foregoing actions, FOGADE intervened in financial institutions representing approximately 54.6% of the total financial sector deposits. The financial cost of such assistance, which totalled approximately Bs.2,563 billion in nominal terms (approximately U.S.\$16.8 billion), was provided by the Government.

By the third quarter of 1995, the financial sector's position had stabilized. Two foreign banks, ING Bank and ABN AMRO, opened operations in Venezuela in March and October 1995, respectively.

As a result of the intervention by the Government in Banco Latino, a number of Venezuelan financial institutions faced significant outflows of funds as described above and the number of privately owned commercial banks decreased significantly. As of December 31, 1996, the financial system consisted of 101 banking institutions, including two universal banks, 37 commercial banks (six of which were publicly owned), 18 investment banks, six mortgage banks, 16 leasing companies and 21 savings and loan associations, established in accordance with the Banking Law and the Law of Savings and Loans Associations.

In December 1996 FOGADE reprivatized Banco de Venezuela, Banco Consolidado and Banco Tequendama, raising a total of Bs.274.1 billion (U.S.\$581.0 million). FOGADE has also privatized four insurance companies and a number of assets owned by the financial institutions acquired by the Government, raising more than Bs.529 billion. During June 1997, FOGADE sold various assets of Banco Latino, including its branch networks, credit card affiliate and insurance affiliate, for a total of U.S.\$102.8 million and Banco República was reprivatized raising U.S.\$57.5 million. It is expected that assets of other financial institutions will be sold during the second half of 1997.

## **Securities Markets**

### ***Stock Exchanges***

There are three securities markets in Venezuela which are, in order of size, the Caracas Stock Exchange, the Electronic Stock Exchange and the Maracaibo Stock Exchange. The total volume of trading in these three exchanges is composed of trades in stocks and bonds. The Caracas Stock Exchange is the largest of the three, both in stock and in bond trading, accounting for the majority of the stock trading and the overall trading volume. Since its inception in June 1995, the Electronic Stock Exchange has increased its market share in the stock trading volume from 12.5% in 1995 to 18% in 1996, with an overall participation of 13.5% in both stock and bond trading volumes in 1996. The Electronic Stock Exchange offers the possibility of trading and concluding transactions in real time through a high-technology network connected to brokers' offices, transfer agents and clearing agents.

The market capitalization as of December 31, 1996 was approximately U.S.\$ 10 billion, representing 15.4% of GDP. Nine companies comprise 69% of the market capitalization of the Venezuelan stock exchanges, and a high proportion of the shares from many Venezuelan companies are held by a relatively small number of persons or entities. The market capitalization relative to GDP has shown a significant improvement, from 8% in 1995 to 15.4% in 1996, after a declining trend during the period from 1992 to 1995. The Government believes that significant potential for additional growth exists in the Venezuelan securities markets as their size relative to GDP has not yet regained the level achieved in 1991. The market size of Venezuela's securities markets relative to other Latin American countries is still quite small. However, the Government believes that recently enacted and proposed capital markets reforms should increase confidence in the Venezuelan securities markets and enable the securities markets to grow. In connection with the initial public offering of CANTV in the fourth quarter of 1996, the Government instituted a program to permit a portion of the CANTV shares being offered to be purchased by Venezuelan citizens through the provision of low-cost loans. The Government anticipates that similar programs aimed at increasing Venezuelan citizens' ownership of newly-privatized Venezuelan companies will be implemented in connection with future privatizations.

The following table provides a comparison of the Venezuelan stock markets with other Latin American stock markets as of December 31, 1996:

Country	Market Capitalization			Volume Traded	
	millions of U.S.\$	% Total	% GDP	millions of U.S.\$	% Total
Argentina . .	\$ 44,679	9.4%	15.6%	\$ 4,382	2.5%
Brazil . . . . .	216,990	45.6	28.9	111,450	64.0
Chile . . . . .	65,940	13.9	87.9	8,443	4.8
Colombia . .	17,137	3.6	20.1	1,518	0.8
Mexico . . . .	106,539	22.4	35.6	43,040	24.7
Peru . . . . .	13,837	2.9	23.4	3,814	2.2
Venezuela . .	10,055	2.1	15.4	1,309	0.7
Total . . . . .	<u>\$475,177</u>	<u>100.0%</u>		<u>\$173,956</u>	<u>100.0%</u>

Source: *International Finance Corporation ("IFC")*.

The stocks listed in the stock exchanges are the same in all three exchanges. Although the regulations of the Caracas Stock Exchange require that settlement of trades occur within 48 hours, a large number of the trades are not settled within the prescribed period and some trades are not settled at all. On the Electronic Stock Exchange, the settlement of trades is contemplated to occur immediately. Presently, some operations can be settled the same day in any of the stock exchanges, but given operating procedures the standard settlement is within 5 days of trading. On August 1, 1996, the Government approved the formation of Cajas de Valores ("Clearing Houses") for the settlement of trades on the Venezuelan stock exchanges. It is expected that the Clearing Houses will improve settlement procedures on the Venezuelan stock exchanges to three-day international standards once the registration at the Clearing Houses of all the issues outstanding in the Venezuelan stock exchanges is concluded.

The Venezuelan stock exchanges post trading information with respect to price, volume and transaction activity for listed securities during trading hours, including the high, low and average sales prices. The Caracas Stock Exchange also publishes three indices for equity securities, with the principal stock index being the *Indice General de Precios de las Acciones Negociadas en la Bolsa de Valores de Caracas* (the "Index"). The Index is based on the share prices of 17 major companies. The Electronic Stock Exchange, given its new presence in the market and the level of trading, has not published an index but is expected to do so by the end of 1997.

The stock exchanges have in the past experienced substantial fluctuations in the market price of listed securities. Factors contributing to such fluctuations include changes in the overall state of the Venezuelan economy and adverse political developments, but such fluctuations are believed to be primarily due to the relatively small size of the Venezuelan stock market. The Caracas and Maracaibo Stock Exchanges have the power to suspend dealing in any listed security if the prices of the security vary by 20% or more from the opening price of the security for that session, and the Electronic Stock Exchange has authority to do so if the prices vary by 10% or more. The duration of any such suspension period is determined by the Exchanges; however, suspension periods in effect at the close of trading generally are not carried over to the next trading day.

### **Market Regulation**

All Venezuelan companies must be authorized by the Comisión Nacional de Valores ("CNV") before they can legally offer equity or debt securities to the public in Venezuela. In order to offer securities to the public in Venezuela, an issuer must meet certain CNV requirements regarding assets, operating history, management and other matters. All outstanding securities of such companies must also be registered with the CNV and approved by the relevant stock exchange. Only securities for which an application of listing has been approved by the CNV may be listed on a stock exchange. Issuers of listed securities are

required to file unaudited quarterly financial statements and audited annual financial statements with the applicable stock exchange and the CNV. In addition, since September 1, 1994, any company issuing debt in Venezuela is required to obtain a rating from two independent rating agencies registered with the CNV.

The Capital Markets Law and the rules issued thereunder by the CNV provide a regulatory structure for the Venezuelan securities industry. In addition to setting standards for brokers, it empowers the CNV to regulate the public offering and trading of securities. A proposal to amend and revise the Capital Markets Law to allow for future modernization of the securities markets and to strengthen the regulatory powers of the CNV is currently being considered by the Congress.

## **PUBLIC FINANCE**

### **General Description of Accounts and Entities**

Responsibility for the preparation of the budget and the administration of Government finances rests with the Ministry of Finance, which is required to submit a proposed budget each year to Congress. Congress may change items in the proposed budget so long as authorized expenditures do not exceed projected revenues, although actual expenditures may exceed revenues in a given year as a result of differences in the timing of receipts and expenditures at year end. The budget must include appropriations in each year for distribution to the states and the federal district in accordance with a prescribed formula. No taxes may be levied, money borrowed or expenditures made unless authorized by law. In addition to budgeted expenditures contained in Congressionally approved budgets, expenditures, including allocations for debt service obligations, may be increased during the course of the year by the Government with Congressional approval, provided that total authorized expenditures at no time exceed actual revenues.

All revenues and expenditures are budgeted and recorded on a cash basis. The collection of public revenues is the responsibility of the Ministry of Finance. Responsibility for the execution of the budget is assigned to the various ministries. Expenditures are made by the respective ministries authorized to do so in the budget. The Comptroller General is charged with the control, supervision and auditing of the national revenues, expenditures and assets and related operations. The Comptroller General is appointed by, and responsible to, the Congress.

The consolidated public sector is divided, in general terms, into two parts: the Central Government and the decentralized state institutions, some of which are established to carry out public functions which lend themselves to decentralized financial and operating management. The decentralized state institutions are corporations which are majority- or wholly-owned by the public sector.

### **Taxation**

The Central Government is the sole entity in Venezuela with authority to tax income. In 1984 Constant Bolívares in 1996 income tax revenues accounted for 70.3% of Central Government revenues (78.6% in 1995) with the petroleum industry providing 42.9% of such income tax revenues (34.4% in 1995). Non-tax revenues accounted for 29.7% of Government revenues in 1996 in 1984 Constant Bolívares (21.4% in 1995), with petroleum royalties providing 74.5% of such non-tax revenues (95.4% in 1995).

Among the greater difficulties in the establishment of a positive balance in the consolidated public sector accounts and in the general stability of the Venezuelan economy as a whole has been the inability of the Government to rely on sources of financing other than petroleum revenues. Because the development of a more diversified economy, with greater capacity for and volumes of nontraditional exports, can only be accomplished in the medium term, the Government has attempted to increase the base of nonpetroleum tax revenues since the commencement of the Adjustment Program.

A new tax code (Código Orgánico Tributario) was approved in 1991 pursuant to which penalties for overdue tax payments were substantially increased and tax avoidance was made a criminal offense. The Ministry of Finance, with World Bank and IADB assistance, developed a tax collection program aimed at decreasing income tax evasion. The number of tax collectors increased from 220 in 1991 to 700 in 1992, with an additional 500 tax collectors added in 1993. As a result of these measures, income tax receipts increased in 1992 and 1993 by 50.0% and 40.0%, respectively, over projected receipts for each respective period.

In September 1993, a value added tax ("VAT"), which had been debated in the Congress since 1989, was adopted. A 10% VAT was implemented at the wholesale level in October 1993, exempting certain exports and certain basic goods. Although it was originally contemplated that the VAT would be applied also at the retail level, this step was never implemented. The introduction of the VAT had a

positive effect on the Government's fiscal accounts during the period that it was in effect. The VAT was replaced on August 1, 1994 by the LWT.

On January 1, 1994, the Government implemented a business assets tax that was intended to act as an alternative minimum tax on all Venezuelan personal and corporate taxpayers that owned tangible assets in Venezuela. The tax, which is assessed on the average yearly balance of tangible assets, is currently set at 1% and is deductible from a taxpayer's income tax obligations. Exemptions from the business assets tax exist for certain taxpayers, including charitable and nonprofit organizations, certain agricultural activities and investments in securities.

The LWT is currently set at 16.5%. Certain goods and services, including residential telephone service, gas, water and electricity, are exempted from the LWT. In May 1994, the Government instituted a temporary tax on bank debits equal to 0.75% of the transaction value. The bank debit tax, which was in place only during 1994, applied to all bank debits (e.g., withdrawals from savings and checking accounts) and resulted in extraordinary revenues to the Government of Bs.111.8 billion (or 6.7% of all Treasury revenues).

Pursuant to new income tax legislation, the income of corporations not engaged in the petroleum industry is subject to a progressive tax ranging from 15.0% on taxable income of up to Bs.10.8 million to 34.0% on income in excess of Bs.16.2 million. Individuals are subject to a progressive income tax ranging from 6% on taxable income of up to Bs.5.4 million to 34% on income in excess of Bs.32.4 million. Such ranges are to be indexed to inflation. The income of private sector corporations engaged in joint ventures and other associations in the petroleum industry will be taxed at the rates for corporations not engaged in the petroleum industry. Income from the petroleum industry is taxed at special rates. See "Principal Sectors of the Venezuela Economy—Petroleum and Natural Gas—Strategic Plan—Investments."

To support the Government's tax collection efforts, the Government reformed the tax code by providing for the establishment in August 1994 of the SENIAT as an independent agency within the Ministry of Finance for the administration of tax and customs collections. The objectives of the SENIAT include: (i) increasing the level of non-oil tax revenues to reach 10% of GDP by the end of 1997; (ii) reducing tax evasion by 0.5% of GDP by year end 1997; (iii) improving customs collection; (iv) promoting the modernization of the Venezuelan tax code system and the development of a "tax culture"; and (v) consolidating the organization of the SENIAT to promote efficiency and collections. SENIAT also is in the process of overseeing modernization of six principal custom offices by the end of 1997 and six more in 1998.

The combination of the LWT, business assets tax and the creation of the SENIAT have had positive effects on the Government's revenues. In 1995, nonpetroleum tax revenues exceeded petroleum tax revenues for the first time in recent history, with such taxes representing 51.6% of total Government revenues. In that year, in nominal Bolivar terms, revenues from the LWT totalled approximately Bs.579 billion (approximately 26.9% of total Central Government revenues) and revenues from income tax increased to Bs.303 billion. In 1996, gross revenues administered by SENIAT represented 9.0% of GDP and 46.6% of ordinary Government revenues. In that year, in nominal Bolivar terms, gross revenues from the LWT totalled Bs.1,327 billion (52.2% of total revenues), income tax revenues increased to Bs.597.5 billion (23.5% of total revenues) and customs duty collections reached Bs.412.0 billion (16.2% of total revenues).

In July 1996, a tax amnesty law was approved. This law allowed taxpayers who in the past had not paid the appropriate taxes to pay such taxes without incurring penalties and interest. All such taxes were to be paid prior to October 31, 1996. A total of Bs.30.3 billion in nominal Bolivars was received in back tax obligations.

Tax incentives for investors and corporations include a five-year exemption from the LWT for capital goods purchased during the start-up phase of major industrial projects, which was approved last year. In the petroleum sector, private sector oil companies engaged in exploration and production agreements with PDVSA have been granted an exemption from municipal taxes.

## Revenues and Expenditures

Between 1992 and 1996, consolidated public sector revenues increased from Bs.131.5 billion to Bs.201.4 billion in 1984 Constant Bolivar terms. Taxes and royalties from the petroleum industry accounted for the major part of this growth.

The consolidated public sector recorded a surplus of Bs.41.2 billion in 1996, in comparison to a deficit of Bs.32.4 billion in 1995, in 1984 Constant Bolivar terms. This increase can be attributed to an increase in both tax and non-tax revenues. See "The Venezuelan Economy—Historical Economic Performance—Economic Performance in 1996."

During the past several years, including 1996, Venezuela's fiscal accounts and results have been positively affected by the receipt of extraordinary noncurrent revenues from privatizations and new initiatives in the petroleum sector. See "The Venezuelan Economy—Privatization Program" and "Principal Sectors of the Venezuelan Economy—Petroleum and Natural Gas—The Opening of the Venezuelan Petroleum Sector."

The following tables set forth the revenues, by source, and expenditures, by sector, of the Central Government and the consolidated public sector for the five years ended December 31, 1996:

	Year Ended December 31,				
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>
	(in billions of 1984 Constant Bolivars)				
<b>Central Government</b>					
Total Revenues	95.723	91.839	93.065	89.010	111.138
Current Revenues	95.723	91.839	93.065	89.010	111.138
Tax Revenues	73.287	72.652	74.134	70.004	78.097
Petroleum Sector	45.802	37.389	28.609	24.066	33.516
Other	27.485	35.263	45.526	45.938	44.581
Non-tax Revenues	22.437	19.187	18.930	19.007	33.041
Petroleum Royalties	19.584	17.845	18.026	18.130	24.601
Dividends	0	0	0	0	7.709
Other	2.853	1.342	905	877	730
Capital Revenues	0	0	0	0	0
Total Expenditures	117.221	109.481	135.493	115.153	108.415
Current Expenditures	87.237	80.647	82.105	84.804	83.096
Operating Expenditures	50.570	46.081	52.504	51.894	40.125
Salaries, etc	27.120	23.273	22.949	19.990	14.554
Interest Payments	18.149	19.771	24.602	26.968	22.384
Purchase of Goods and Services	5.301	3.038	4.953	4.936	3.187
Current Transfers	36.667	34.566	29.601	32.910	42.970
To Rest of Public Sector	27.878	26.393	23.695	28.599	34.638
To Private Sector	8.789	8.173	5.906	4.311	8.332
Quasi-fiscal Operations of Banco					
Central	0	855	11.050	5.832	4.027
Extra-budgetary	1.924	1.738	4.508	550	1.154
Current Account Surplus	8.487	10.336	(91)	(1.625)	24.015
Capital Expenditures	28.061	26.241	37.830	23.969	20.139
Capital Formation	5.136	5.393	3.765	3.380	2.251
Capital Transfers	10.896	10.045	9.148	12.427	9.965
To Public Sector	10.889	10.029	9.139	12.400	9.965
To Private Sector	8	15	9	26	0
Financial Investment	12.029	10.803	24.917	8.162	7.923
Overall Surplus (Deficit)	<u>(21.497)</u>	<u>(17.643)</u>	<u>(42.429)</u>	<u>(26.143)</u>	<u>(2.722)</u>
As percentage of GDP	(3.87)%	(3.16)%	(7.81)%	(4.75)%	(0.49)%

(1) Preliminary figures.

Sources: Central Budget Office ("OCEPRE") and Banco Central de Venezuela.

	Year Ended December 31,				
	1992	1993	1994	1995 <sup>(1)</sup>	1996 <sup>(1)</sup>
(In billions of 1984 Constant Bolivars)					
<b>Consolidated Public Sector</b>					
Total Revenues . . . . .	131.479	136.506	155.356	145.163	201.420
Tax Revenues . . . . .	34.533	40.338	50.833	49.112	47.135
Non-tax Revenues . . . . .	96.946	96.168	104.523	96.051	154.284
Central Government					
PDVSA Operating Surplus . . . . .	85.539	82.799	87.775	77.207	133.406
FIV Interest and Dividend Income . . . . .	3.178	4.904	3.997	3.220	4.612
Non-financial Public Enterprises . . . . .	6.131	4.209	7.463	11.689	10.256
Capital Revenues . . . . .	105	71	98	78	3.217
Other . . . . .	1.994	4.184	5.189	3.857	2.793
Total Expenditures . . . . .	166.247	153.967	231.223	177.571	160.238
Current Expenditures . . . . .	95.863	94.439	102.673	100.944	94.539
Salaries, etc . . . . .	29.138	25.168	25.007	21.941	16.053
Purchases of Goods and Services . . . . .	8.047	5.394	6.552	6.101	3.968
Interest Payments . . . . .	21.528	27.201	29.427	33.703	28.859
Transfers to Private Sector . . . . .	12.698	11.689	8.585	6.535	9.857
Central Government (Extra-Budgetary) . . . . .	1.924	1.738	4.508	550	1.154
Central Government Transfers to					
Unconsolidated Entities . . . . .	24.403	24.050	21.941	26.823	31.640
Other <sup>(2)</sup> . . . . .	49	937	11.161	5.841	4.162
Capital Expenditures . . . . .	68.460	57.789	124.042	76.078	64.545
Capital Formation . . . . .	51.627	44.298	44.114	48.666	52.152
Other (Including Transfers to Unconsolidated Entities) . . . . .	16.834	13.491	79.928	27.412	12.393
Overall Surplus (Deficit) . . . . .	(34.768)	(17.461)	(75.867)	(32.408)	41.182
<b>(As percentage of GDP)</b>					
Total Revenues . . . . .	23.6%	24.5%	28.6%	26.4%	36.6%
Total Expenditures . . . . .	29.9	27.6	42.6	32.3	29.1
Overall Surplus (Deficit) . . . . .	(6.3)	(3.1)	(14.0)	(5.9)	7.5

(1) Preliminary figures.

(2) Includes other expenditures, exchange losses and quasi-fiscal losses of Banco Central.

Sources: OCEPRE and Banco Central de Venezuela.

## The 1997 Budget

Venezuela's current preliminary 1997 consolidated public sector budget in 1984 Constant Bolivars contemplates total revenues of Bs.130.5 billion and total expenditures of Bs.8,272.4 billion. The budget contemplates that tax and non-tax revenues from the petroleum sector will account for approximately 56% of total revenues. Expenditures are budgeted at Bs.118.6 billion and include current expenditures of Bs.97.1 billion and capital expenditures of Bs.21.5 billion. The preliminary budget contemplates an overall surplus of Bs.12.0 billion, or approximately 2.0% of estimated GDP for 1997.

The main objective of Venezuela's preliminary 1997 budget is to consolidate Agenda Venezuela. Key elements include the maintenance of a fiscal surplus (2% of GDP) and the continued reduction of inflation. The Government estimates that inflation can be reduced to 35%-40% in 1997, compared to 103.2% in 1996. The budget contemplates a transfer of resources to the States in order to reinforce the decentralization process and to create additional employment in rural areas. The 1997 budget is designed to enable Venezuela to cover its debt service obligations in a timely fashion.

The 1997 preliminary budget contemplates increased salary and severance payment obligations of Bs.15.3 billion in 1984 Constant Bolivars in respect of the increases in minimum wages and severance payments described under "The Venezuelan Economy—Employment and Labor." The budget contemplates that such increased obligations will be covered by increased revenues resulting from the extraordinary income received as a result of the recent bidding contracts in the Government's marginal fields initiative in the petroleum sector described above under "Principal Sectors of the Venezuelan Economy-Petroleum and Natural Gas—The Opening of the Venezuelan Petroleum Sector" and by increased tax revenues resulting from an increase in the domestic price of gasoline which was raised by an average of 25.5% on July 31, 1997.

The following table sets forth the major components of the Government's preliminary consolidated public sector 1997 budget, expressed in 1984 Constant Bolivars and as a percentage of estimated 1997 GDP:

**(in billions of 1984 Constant Bolivars and percentage of GDP)**

Total Revenues . . . . .	Bs. 130.5	22.2%
Petroleum Sector . . . . .	59.3	10.1
Other Tax Revenues . . . . .	56.9	9.7
PDVSA Dividend . . . . .	14.3	2.5
Total Expenditures . . . . .	Bs. 118.6	20.3%
Current Expenditures . . . . .	97.1	16.6
Capital Expenditures . . . . .	21.5	3.7
Overall Surplus (Deficit) . . . . .	Bs. 12.0	2.04%

Sources: *OCEPRE and Ministry of Finance.*

The following table sets forth the principal assumptions as to key indicators upon which the 1997 consolidated public sector budget is based:

Average Export Price of Oil (per barrel) . . . . .	U.S.\$15.00
Imports (in millions) . . . . .	U.S.\$12,044
LWT rate . . . . .	16.50%
Exchange Rate, year-end . . . . .	Bs.490.00=U.S.\$1.00

Source: *OCEPRE.*

## PUBLIC DEBT

The Public Credit Law, first enacted in 1976, provides for the creation and issue of public debt through prior authorization and registration. Public debt for the purposes of the Public Credit Law is defined to include: (i) public issues of bonds and treasury notes in Venezuela and abroad; (ii) domestic and foreign direct indebtedness; (iii) contracts providing for payments extending beyond the then current fiscal year; (iv) guarantees; and (v) modifications of existing indebtedness. The types of entities subject to regulation include: (i) the national, state and municipal governments; (ii) decentralized state institutions; (iii) autonomous government institutions and other public entities; (iv) corporate entities controlled directly or indirectly by the public sector; and (v) nonprofit organizations under Government control. The Ministry of Finance is required to maintain a current registry of all external public debt, including transactions which are exempt from the authorization requirements of the law.

In 1992 Congress enacted a set of reforms to the Public Credit Law which, among other things, established a process for setting annual limits on public sector indebtedness, both on a commitment and disbursement basis. Pursuant to these amendments, the Government is authorized to incur new indebtedness in any calendar year only to the extent that such new indebtedness, less scheduled amortizations of existing indebtedness during such year, does not exceed at the end of the year, an aggregate amount agreed by the Congress. In addition, the reforms prohibited the issuance by the Central Government of new guarantees on debt of state-owned entities and decentralized institutions and eliminated future use of off-budget debt instruments.

### Summary of External Debt

As of December 31, 1996, total external public debt was estimated at approximately U.S.\$25.4 billion. The following tables set out the composition of external public debt outstanding as of December 31, 1992 through 1996 at the nominal principal amount of such debt and the scheduled amortizations for external public debt for each of the years indicated:

	Outstanding as of December 31,				
	1992	1993	1994	1995	1996 <sup>(1)</sup>
	(In millions of U.S. dollars)				
Commercial Bank External					
Public Sector Debt . . . . .	\$ 664.6	\$ 462.3	\$ 272.9	\$ 240.6	\$ 130.4
Other External Public Sector Debt . . .	25,985.0	26,345.0	26,708.5	26,661.3	25,312.7
Bonds . . . . .	19,970.3	20,372.1	20,250.8	20,289.9	19,992.9
Nonrestructured <sup>(2)</sup> . . . . .	2,419.0	2,898.3	2,692.2	2,613.0	2,384.8
1990 Financing Plan Bonds . . . . .	17,551.3	17,473.8	17,558.6	17,676.9	17,608.1
Suppliers and Contractors . . . . .	1,416.7	804.5	716.7	516.7	220.8
Multilateral Agencies . . . . .	2,714.6	2,817.1	2,954.6	3,052.8	2,816.0
Bilateral Agencies . . . . .	1,883.4	2,351.3	2,786.4	2,801.9	2,283.0
Total External Public Sector Debt . . . .	<u>\$26,649.6</u>	<u>\$26,807.3</u>	<u>\$26,981.4</u>	<u>\$26,901.9</u>	<u>\$25,443.2</u>

(1) Preliminary figures.

(2) Of these amounts, U.S.\$854 million was held as of June 30, 1997 by other public sector agencies of the Republic, including Banco Industrial de Venezuela, Banco Nacional de Ahorro y Préstamo, Banco Central and FIV. Pursuant to an agreement among the Republic and these agencies, these bonds are scheduled to be amortized between 1998 and 2003 as follows: June 1998-2003—U.S.\$115 million. These amounts are not included in the Republic's balance of payments calculations. In addition, the amounts reflected under this heading represent the then outstanding amount of Venezuela's bonds and notes issued in external capital markets other than the 1990 Financing Plan Bonds. See "—Capital Market Issues of Public External Debt" for a summary of outstanding issues of such bonds and notes as of June 30, 1997.

Source: *Ministry of Finance*.

**Scheduled Amortizations<sup>(1)</sup>**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002 and thereafter</u>
	(in millions of U.S. dollars)					
Commercial Bank External						
Public Sector Debt . . . . .	\$ 56.9	\$ 101.8	\$ 75.5	\$ 71.0	\$ 62.3	\$ 121.5
Other External Public Sector Debt . . .	1,368.1	2,404.3	1,793.9	1,970.8	1,811.2	19,015.7
Bonds . . . . .	585.8	1,537.6	887.9	1,081.0	887.9	14,068.0
Nonrestructured <sup>(2)</sup> . . . . .	0.0	649.7	0.0	193.1	0.0	585.3
1990 Financing Plan Bonds . . . . .	585.8	887.9	887.9	887.9	887.9	13,482.7
Suppliers & Contractors . . . . .	42.8	39.0	53.7	48.3	42.5	133.2
Multilateral Agencies . . . . .	335.2	398.9	431.7	453.1	520.1	3,537.4
Bilateral Agencies . . . . .	404.4	429.3	420.5	388.3	360.6	1,276.9
<b>Total External Public Sector Debt . . . .</b>	<b>\$1,425.0</b>	<b>\$2,506.1</b>	<b>\$1,869.3</b>	<b>\$2,041.7</b>	<b>\$1,873.5</b>	<b>\$19,137.2</b>

(1) Assumes subsequent disbursements from credit facilities entered into as of December 31, 1996.

(2) Of these amounts, U.S.\$854 million was held as of June 30, 1996 by other public sector agencies of Venezuela, including Banco Industrial de Venezuela, Banco Nacional de Ahorro y Préstamo, Banco Central and FIV. Pursuant to an agreement among the Republic and these agencies, these bonds are scheduled to be amortized between 1998 and 2003 as follows: June 1998-2003—U.S.\$115 million. These amounts are not included in the Republic's balance of payments calculations.

Source: *Ministry of Finance.*

**Internal Public Debt**

In addition to Venezuela's external public debt, the internal public debt of the Republic as of March 31, 1997 totalled approximately Bs.2,088 billion in nominal terms (U.S.\$4.4 billion). See "Supplementary Information." The table below sets forth a summary of Venezuela's internal public debt as of March 31, 1997:

<u>Type of Debt</u>	<u>Amount Outstanding</u> (in millions of U.S.\$)
Treasury Bills (Letras del Tesoro) . . . . .	116
Treasury Bonds (Bonos del Tesoro) . . . . .	276
DPN FOGADE Bonds . . . . .	941
Commercial Bank Bonds . . . . .	13
Social Security Institute Bonds . . . . .	45
Debt with Banco Central de Venezuela . . . . .	2,442
National Public Debt Bonds . . . . .	588
Other . . . . .	1
<b>Total Internal Debt of the Republic of Venezuela . . . . .</b>	<b>4,421</b>
Internal Debt Issued by Public Entities and Guaranteed by the Republic . . . . .	20
<b>Total . . . . .</b>	<b>4,441</b>

Source: *Ministry of Finance.*

**Multilateral Borrowings and Subscriptions**

In 1989, in connection with this Adjustment Program the Government entered into an Extended Fund Facility (the "EFF") with the IMF covering the years 1989 to 1992 for Special Drawing Rights

("SDR") 3.7 billion (U.S.\$4.8 billion) and used its first credit tranche of SDR 343 million (U.S.\$443 million). Through the date of expiration in March 1993, Venezuela's total purchases under the EFF amounted to SDR 2.0 billion (U.S.\$2.7 billion). In July 1996, as part of Agenda Venezuela the Government entered into a standby agreement with the IMF for SDR 976 million (U.S.\$1.4 billion) covering the years 1996 to 1997, of which SDR 350 million (U.S.\$509 million) was disbursed during the availability period therefor and was outstanding on June 30, 1997. The Government is currently in discussions with the IMF regarding an 18-month extension of the standby facility.

Beginning in the early 1980s, the Government initiated discussions with the IADB to increase the use of the IADB as a source of financing. Between 1983 and 1996, the IADB entered into loan agreements with the Republic and certain public sector enterprises for a total of U.S.\$3.4 billion, of which U.S.\$1.4 billion was outstanding as of December 31, 1996. These agreements cover current projects in agriculture, small- and medium-sized industry, communications, tourism, environmental protection, electrical power transmission, water supply and bauxite. The Government anticipates that it will continue to seek financing from the IADB for public sector investment projects.

The Republic also has received financing from the World Bank. Between 1989 and 1996, the Government and the World Bank entered into 19 loan agreements totalling U.S.\$2.6 billion, of which U.S.\$1.7 billion was outstanding as of December 31, 1996. These agreements cover a wide spectrum of initiatives, including structural adjustment, public sector reform, education, health, infrastructure enhancements and the environment. Among the most significant loans are a U.S.\$402 million structural adjustment loan and a U.S.\$353 million trade policy loan.

Venezuela is one of the founding members of the IMF and its current subscription to the IMF (which corresponds to its quota) is SDR 2.0 billion (U.S.\$2.8 billion). Venezuela's subscription to the capital of the World Bank is U.S.\$2.4 billion. Of this amount, U.S.\$167.2 million has been paid in as of July 31, 1997. The balance of Venezuela's subscription is callable only if required by the World Bank to meet its obligations for funds borrowed or loans guaranteed by it and is payable at the option of Venezuela in either gold, U.S. dollars or the currency required to discharge the obligations for which the call is made. In addition, Venezuela is a member of the World Bank affiliates, International Finance Corporation and the Multilateral Investment Guaranty Agency ("MIGA"), with subscriptions of U.S.\$20.6 million and U.S.\$15.4 million, respectively. Venezuela's subscription to the capital of the IADB is U.S.\$5.8 billion, one of the largest subscriptions of the bank's Latin American members. Of this amount, U.S.\$196.0 million had been paid in cash as of June 30, 1997, and the balance is callable if required to meet the bank's obligations. Venezuela's contribution to the IADB's Fund for Special Operations is U.S.\$433.1 million.

## **The Debt Crisis 1983-1988**

### ***The Debt Crisis***

At the beginning of 1983, Venezuela was faced with a number of macroeconomic imbalances, including deficits in the consolidated public sector fiscal accounts and the capital account and a decline in the level of international reserves, which were exacerbated by a decline in international oil prices. The consolidated public sector deficit reached 5% of GDP and the capital account deficit grew to U.S.\$3.4 billion. These pressures led to large scale capital flight, promoted by ceilings on domestic interest rates, which in an environment of free convertibility provided significant differentials with U.S. dollar time deposits. In addition, the profile of maturities on Venezuelan public sector debt was such that over 50% of the total outstanding debt of U.S.\$29.2 billion was due by December 31, 1983. Following Mexico's declaration of a moratorium on external debt payments in 1982, Venezuela was no longer able to achieve regular periodic rollovers of those short-term maturities.

In early 1983, the Government initiated a number of policy measures, including a devaluation of the Bolivar against the U.S. dollar within the context of a new multiple exchange rate system. The Government proposed three-month deferrals of amortization payments and commenced negotiations with

commercial banks for the restructuring of the external public debt. In early 1984, additional policy measures were adopted to reestablish macroeconomic equilibrium, including reducing public sector spending, doubling domestic prices for petroleum products and a second devaluation through the multiple exchange rate system. These measures were largely successful in reestablishing macroeconomic equilibrium and led to significant surpluses in the balance of payments and the fiscal accounts in 1984 and 1985.

At the end of 1985, the Government instituted an expansionary fiscal policy and relaxed its restrictive domestic credit policy. However, this policy decision coincided with a drop in international oil prices of 52% which drop caused a strong external shock. Thus, although the nonpetroleum sectors of the economy reacted to the fiscal policy with a recovery in growth rates, the balance of payments registered a deficit of 7.8% of GDP in 1986, 2.1% in 1987, and 8.5% in 1988. In 1986, the Government signed multi-year rescheduling agreements with respect to medium- and long-term public sector commercial bank debt owing by the Republic and certain of its public sector enterprises.

Between 1986 and 1988, the Government reacted to the deterioration in fiscal and external accounts through increased economic controls, including generalized price controls, maintenance of interest rate ceilings and increases in exchange rate and export subsidies. After a brief recovery in 1987, international oil prices declined 15% in 1988 causing a marked deterioration in macroeconomic indicators, including a consolidated public sector deficit of 8.6% of GDP and a current account deficit of 10.4% of GDP.

### ***External Commercial Bank Debt Restructuring***

The Republic began discussions in 1983 with a bank advisory committee of creditor banks to seek an orderly restructuring of the public sector external debt. As noted above, on February 26, 1986, 13 restructuring agreements covering the restructurable debt of the public sector of Venezuela (approximately U.S.\$21.1 billion) were executed.

Shortly thereafter, the Republic experienced a sharp and unexpected drop in petroleum prices which prompted Venezuela and its creditor banks to execute an amendment to the restructuring agreements. On September 18, 1987, the parties agreed that the amortization schedule would be modified in accordance with the then existing expectations as to the external income of Venezuela. The restructured debt bore interest at a margin of  $\frac{7}{8}$  of 1% over selected funding rates. The amendment became effective on November 13, 1987.

On December 30, 1988, at the request of the Government, representatives of the Government met with Venezuela's bank advisory committee. The Republic presented its major lines of economic and financial plans and its intentions regarding its external financing over the next several years. Successive interim proposals were delivered by the Republic beginning on December 30, 1988. Pursuant to such proposals, in 1989 the Republic implemented a re-timing program for interest payments, whereby certain interest payments on "Eligible Debt," defined to include all debt outstanding under the restructuring agreements and certain other medium-term commercial bank debt disbursed prior to March 22, 1983, was paid on a semiannual, rather than a quarterly, basis through the third quarter of 1990.

### **1990 Financing Plan**

In June 1990, after a period of constructive negotiations, the Government and its bank advisory committee announced the principal terms of a financing plan that would provide for the exchange of medium-term commercial bank debt for a variety of options featuring debt and debt service reduction or new money, including collateralized short-term notes, collateralized bonds and new money bonds. The 1990 Financing Plan, structured along the bases of the Brady initiative, contemplated that all Eligible Debt would be exchanged for one or more of the options. Funds for the acquisition of collateral for the options came from the IMF and the World Bank, other external sources and Venezuela's own resources.

The 1990 Financing Plan was consummated on December 18, 1990. Pursuant to the 1990 Financing Plan, holders of Eligible Debt exchanged such debt for one or more of the options offered under the 1990 Financing Plan. The options under the 1990 Financing Plan included: (i) a New Money Option; (ii) a Collateralized Short-Term Notes Option; (iii) Collateralized Principal Options; and (iv) a Front-Loaded Interest Reduction Option.

The bonds were issued in different currencies as follows: New Money Bonds and Debt Conversion Bonds: U.S. dollars, Deutsche marks and Pounds sterling; Short-Term Notes: U.S. dollars; Par Bonds: U.S. dollars, Deutsche marks, French francs, Italian lire and Swiss francs; Discount Bonds: U.S. dollars and Deutsche marks; and Front-Loaded Interest Reduction Bonds: U.S. dollars, Deutsche marks, Swiss francs and Pounds sterling. All of the bonds other than those denominated in Deutsche marks are listed on the Luxembourg Stock Exchange, and bonds denominated in Deutsche marks are listed on the Frankfurt Stock Exchange. All of the bonds other than the Short-term Notes and the New Money Bonds, Series B were issued by Venezuela, and the Short-term Notes and New Money Bonds, Series B were issued by Banco Central.

The following table sets out a summary of the main features of the obligations issued by Venezuela and Banco Central pursuant to the 1990 Financing Plan:

Option	Interest Rate	Tenor	Collateral	Discount	Debt Allocated <sup>(1)</sup>	
Short-Term Notes <sup>(2)</sup> . . . .	13-Week U.S. Treasury Bill Rate	91 days <sup>(3)</sup>	100% face value of notes collateralized with U.S. Treasury Bonds	55%	U.S.\$1,411	7.2%
Discount Bonds <sup>(4)</sup> . . . .	LIBOR + 13/16%	30 yrs	Principal-zero coupon bond; interest-14 months in escrow	30%	U.S.\$1,810	9.2%
Par Bonds <sup>(4)</sup> . . . .	6.75%	30 yrs	Principal-zero coupon bond; interest-14 months in escrow	None	U.S.\$7,457	37.8%
	<u>Years</u>	<u>%</u>				
Front-Loaded Interest Reduction Bonds <sup>(4)</sup> . . . .	1 & 2 3 & 4 5 6-17	5% 6% 7% LIBOR + 7/8%	17 yrs 7 yrs grace	12 months interest in escrow until 1995	None	U.S.\$3,028 15.3%
New Money Bonds						
Series A: . . . .	LIBOR + 1%	15 yrs 7 yrs grace		None	U.S.\$480	n.a.
Series B <sup>(2)</sup> : . . . .	LIBOR + 7/8%	15 yrs 7 yrs grace		None	U.S.\$720	n.a.
Debt Conversion Bonds . . . . .	LIBOR + 7/8%	17 yrs 7 yrs grace		None	U.S.\$6,033	30.5%

(1) Expressed in millions of U.S. dollars and as a percentage of Eligible Debt as of the effective date of the 1990 Financing Plan in 1990.

(2) Issued by Banco Central.

(3) Matured on January 17, 1991.

(4) Interest rates and interest collateral for the Par and Discount Bonds are with respect to U.S. dollar denominated bonds. Interest rates for Front-Loaded Interest Reduction Bonds are with respect to U.S. dollar denominated bonds.

n.a.: Not applicable.

Sources: *Ministry of Finance and Banco Central de Venezuela.*

#### Capital Market Issues of Public External Debt

Over the past 35 years, despite the debt crisis that prompted the restructuring of its commercial bank debt, Venezuela has paid on a current basis in accordance with the terms of the relevant agreements the full amount of principal and interest due on all publicly issued bonds and notes in the international capital markets. Prior to the consummation of the 1990 Financing Plan (see "—1990 Financing Plan"), the percentage of Venezuela's external debt represented by obligations issued in the

international capital markets was very small (approximately 5.6% at December 31, 1989). The change in Venezuela's debt structure as a result of the 1990 Financing Plan has shifted such that international capital market obligations now constitute the major portion (78.5% at December 31, 1996) of Venezuela's total external debt.

The following table sets out a summary of the principal features of the Republic's currently outstanding bonds and notes publicly issued in external capital markets other than the bonds issued pursuant to the 1990 Financing Plan, the main features of which are set forth under "—1990 Financing Plan" above.

Security	Currency	Original Issue Size	Principal Outstanding	Interest Rate <sup>(1)</sup>	Issue Date	Maturity Date	Target Market
		(Millions)					
ROV—FRN'98 . . . . .	U.S.\$	167	167	LIBOR + 1½%	Dec. 88	Dec. 98	Euromarket
ROV—FRN'03 . . . . .	U.S.\$	167	167	LIBOR + 1½%	Dec. 88	Dec. 03	Euromarket
ROV—DM-10.25% . . . . .	DM	250	250	10.25%	May 93	May 98	Germany
ROV—DM-8.75% . . . . .	DM	300	300	8.75%	Oct. 93	Oct. 00	Germany
ROV—DM-10% . . . . .	DM	500	500	10.00%	Dec. 95	Dec. 98	Germany
ROV—DM-10.25% . . . . .	DM	650	650	10.25%	Sept. 96	Sept. 03	Germany
ROV—9.125% . . . . .	U.S.\$	315	315	9.125%	June 97	June 07	Euromarket

(1) Interest is paid on a semi-annual basis except on the DM denominated issues on which interest is paid annually.

Source: *Ministry of Finance*.

#### External Private Sector Debt

In addition to the restructuring of the external public sector debt in 1986, the Government implemented a plan for the repayment of external private sector debt. After discussions with its creditor banks, the Government adopted Exchange Agreement No. 2 in 1986 establishing the Government's policies with respect to access by private sector companies to foreign exchange purchases for external debt servicing obligations.

Exchange Agreement No. 2 permitted private sector companies to purchase foreign exchange over an eight-year period in increasing amounts for principal amortizations. Under Exchange Agreement No. 2, private sector companies were eligible to purchase foreign exchange for the payment of principal at the rate of Bs.14.50=U.S.\$1.00. In addition to the general program of access, private sector companies were given the option of obtaining access to foreign exchange for the payment of principal at a guaranteed rate of Bs.7.50=U.S.\$1.00 upon the payment of a premium. Finally, upon the payment of an additional premium, private sector companies were entitled to obtain foreign exchange at the rate of Bs.7.50=U.S.\$1.00 for the payment of certain amounts of interest.

Exchange Agreement No. 2 was conceived in order to alleviate the excessive burden incurred by the private sector represented by the financial cost of servicing external debt contracted prior to February 1983. The implied losses under the unified foreign exchange regime adopted in 1989 made it impossible to maintain Exchange Agreement No. 2, and consequently its effects were suspended. See "The Venezuelan Economy—Historical Economic Performance—Structural Adjustment Program, 1989-1993."

On November 28, 1990, the Government adopted Decree No. 1,307 to provide for the delivery of foreign exchange for the payment of external private sector debt covered by exchange rate guarantees under Exchange Agreement No. 2. Pursuant to Decree No. 1,307, Banco Central was authorized to deliver foreign exchange in an amount equal to 35% of the net unpaid balance of such debt in cases where the total outstanding debt did not exceed U.S.\$10 million or equivalent or where a private sector company renounced any rights to obtain foreign exchange with respect to amounts exceeding U.S.\$10

million. With respect to private sector companies whose unpaid debt exceeded U.S.\$10 million or equivalent, Decree No. 1,307 provided that Banco Central would deliver negotiable, foreign currency denominated registered bonds for up to 70% of the unpaid balance. Such bonds are repayable in twenty equal, consecutive annual installments and bear interest at a rate of 4% per annum. In addition to the delivery of foreign exchange or foreign exchange denominated bonds for the repayment of principal, Banco Central was authorized, with respect to the delivery of foreign exchange for the repayment of unpaid overdue interest or private sector debt covered by exchange rate guarantees, to deliver negotiable, foreign currency denominated registered bonds for 70% of such overdue unpaid interest. Such bonds are repayable in eight equal, consecutive annual installments and do not bear interest.

Delivery of any amounts of foreign exchange and/or foreign currency denominated bonds contemplated by Decree No. 1,307 was effected upon the delivery by the private sector companies of the Bolivar countervalue of the outstanding principal amount of the net registered debt or total unpaid overdue interest of such companies at the rates contemplated by Exchange Agreement No. 2. Pursuant to Decree 1,307, principal bonds in the amount of U.S.\$706 million and interest bonds in amount of U.S.\$333 billion were issued, and foreign currency in the amount of U.S.\$479 million was delivered, to participating debtors.

From March 1989 to July 1994, private sector entities were not required to register their foreign currency denominated indebtedness and the Government had no official records of any inflows or outflows of private sector indebtedness. Upon the implementation of foreign exchange controls in July 1994, the Government established a procedure for private sector entities to register their foreign currency indebtedness and apply for access to foreign exchange. Commencing in the third quarter of 1994, private sector entities were permitted to register their outstanding foreign currency debt with the Unidad de Registro de la Deuda Externa Privada ("UDE") and thereafter the Oficina Técnica de Administración Cambiaria (OTAC). As of November 1995, UDE estimated that total private external debt was U.S.\$5.0 billion. On April 15, 1996 the Government announced the elimination of exchange controls, and private sector entities no longer need to obtain governmental authorization to obtain foreign currency.

#### **USE OF PROCEEDS**

The issuance of the Global Bonds is intended to provide a liquid, long-term sovereign risk benchmark for the Republic. In addition, the Global Bond Offering is part of a broader program of the Republic to manage its external liabilities. The Republic will not receive any proceeds from the sale of the Global Bonds. The proceeds of the sale of collateral released upon the retirement of the Brady Bonds exchanged in connection with the Global Bond Offering are expected to be used by the Republic for general purposes, including without limitation for the retirement of indebtedness of the Republic to Banco Central incurred in connection with the original acquisition of the collateral in 1990 at the time of issuance of the Brady Bonds.

## DESCRIPTION OF THE GLOBAL BONDS

The Global Bonds are to be issued under a fiscal agency agreement between Venezuela and The Chase Manhattan Bank, as fiscal agent (the "Fiscal Agent"), dated as of September 3, 1997 (the "Fiscal Agency Agreement"). Copies of the Fiscal Agency Agreement and the form of Global Bond have been filed as exhibits to the Registration Statement relating to the Global Bonds of which this Prospectus is a part. The following description summarizes certain terms of the Global Bonds and the Fiscal Agency Agreement. Such summary does not purport to be complete and is qualified in its entirety by reference to such exhibits. Wherever particular defined terms of the Fiscal Agency Agreement are used and not otherwise defined herein, such defined terms are incorporated herein by reference.

The Global Bonds will bear interest from September 18, 1997 at a rate per annum equal to 9.25%. Interest on the Global Bonds will be payable semi-annually in arrears in equal installments on March 15 and September 15 of each year, commencing March 15, 1998, to the persons in whose names the Global Bonds are registered at the close of business on the preceding February 15 or August 15 as the case may be. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months. The Global Bonds are not redeemable prior to maturity and are not entitled to the benefit of any sinking fund. The Global Bonds will constitute a separate series of debt securities issued under the Fiscal Agency Agreement, which provides for the issuance of debt securities in one or more series as may be authorized from time to time by Venezuela.

The Global Bonds will mature at par on September 15, 2027.

Venezuela may replace the Fiscal Agent at any time, subject to the appointment of a replacement fiscal agent. The Fiscal Agent is not a trustee for the holders of the Global Bonds and does not have the same responsibilities or duties to act for such holder as would a trustee. Venezuela may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Fiscal Agent.

### Status of the Global Bonds

The Global Bonds will be direct, unsecured, general and unconditional obligations of Venezuela. The Global Bonds will rank *pari passu*, without any preference among themselves. The payment obligations of Venezuela under the Global Bonds will at all times rank at least equally with all other payment obligations of Venezuela relating to External Public Debt.

### Negative Pledge

Venezuela will undertake, for so long as any Global Bond remains outstanding, that if any Lien on Oil or Accounts Receivable (other than a Permitted Lien) is created after the date hereof by Venezuela, Banco Central or any Governmental Agency to secure External Public Debt, Venezuela will cause such Lien to equally and ratably secure the obligations of Venezuela under the Global Bonds. For the purposes of the foregoing, the following terms have the following meanings:

"*Accounts Receivable*" means accounts payable to Venezuela, Banco Central or any Governmental Agency in respect of the sale, lease or other provision of Oil, whether or not yet earned by performance or scheduled to be documented in the future pursuant to a contract in existence on the relevant date.

"*Bond Currencies*" means U.S. dollars, Deutsche marks, Pounds sterling, French francs, Italian lire and Swiss francs.

"*Debt*" means, with respect to any Person, the following (whether outstanding on the date hereof or at any time thereafter): (a) all indebtedness of such Person for borrowed money, or for the deferred purchase price of property or services if and to the extent that the obligation to pay such purchase price is evidenced by an instrument; (b) all reimbursement obligations of such Person under or in respect of

letters of credit or banker's acceptances; (c) all obligations of such Person to repay deposits with or advances to such Person; (d) all obligations of such Person (other than those specified in clauses (a) and (b) above) evidenced by bonds, debentures, notes or other similar instruments; and (e) all direct or indirect guarantees, endorsements and similar obligations of such Person in respect of, and all obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of any other Person specified in clause (a), (b), (c) or (d) above.

"*Export*" means any sale of Oil by any Person, including any sales to Persons owned or controlled, directly or indirectly, by any such seller, (i) in connection with which such Oil is transported from Venezuela or from storage facilities for Oil held for Export by any such Person outside of Venezuela, and (ii) which has not been preceded by any sale of such Oil which constitutes an Export hereunder.

"*External Debt*" means any Debt which is denominated or payable, or which at the option of the holder thereof may be payable, in a currency other than Bolivars.

"*External Public Debt*" means, at any time, the External Debt of the public sector entities referred to in Article 2 of the Organic Law of Public Credit of the Republic of Venezuela, as in effect on the date hereof, including principal, interest and other amounts payable in connection therewith.

"*Governmental Agency*" means each agency, department, ministry, authority, statutory corporation or other statutory body or juridical entity of Venezuela or any political subdivision thereof or therein, now existing or hereafter created, and any bank, corporation or other legal entity 51% or more of the capital or voting stock or other ownership interest of which is now or hereafter owned or controlled, directly or indirectly by Venezuela, but excluding Banco Central.

"*Lien*" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance on or with respect to, or any preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligation with or from the proceeds of, any asset or revenues of any kind.

"*1990 Financing Plan*" means The Republic of Venezuela 1990 Financing Plan dated June 25, 1990, distributed to the international banking community.

"*Oil*" means hydrocarbons, their products and derivatives, in each case produced in Venezuela, provided; however, that "Oil" shall not include Orimulsion®, products from Orimulsion®, natural gas, coal and petrochemicals.

"*Operating Reserves*" means, at any time, the value (determined in accordance with the second sentence of this definition) of all of the following assets owned by Banco Central at such time to the extent denominated in units of exchange other than the lawful currency of Venezuela (excluding from such assets any assets which are subject to a Lien): (a) currencies other than the lawful currency of Venezuela (excluding Special Drawing Rights in the IMF and all funds received from the IMF); (b) deposits and credit balances with commercial financial lending institutions, central banks of non-Venezuelan governments or multilateral lending institutions which are payable in any of the Bond Currencies or currencies that are readily convertible into any of the Bond Currencies; and (c) marketable bonds, notes, certificates of deposit and other obligations issued by commercial financial institutions, non-Venezuelan governments or multilateral lending institutions which are payable in any of the Bond Currencies or currencies that are readily convertible into any of the Bond Currencies. For the purposes of this definition: (i) the value of an amount of any currency other than the lawful currency of Venezuela at any time is the equivalent in U.S. dollars of such amount at such time determined in accordance with the consistently applied accounting practices of Banco Central; (ii) the value of a deposit or credit balance referred to in clause (b) above at any time is the equivalent in U.S. dollars of the face amount of such deposit or credit balance at such time determined in accordance with the consistently applied accounting practices of Banco Central; and (iii) the value of a bond, note, certificate of deposit or other obligation

referred to in clause (c) above at any time is the equivalent in U.S. dollars of the fair market value of such obligation at such time determined in accordance with the consistently applied accounting practices of Banco Central.

"Orimulsion®" means a liquid fuel consisting of (i) a natural bitumen of 7-10° API, (ii) water and (iii) a surfactant which is added to stabilize the bitumen in the water emulsion.

"Permitted Lien" means a Lien on Oil or Accounts Receivable, if at the time of the creation of such Lien (the "New Lien"):

(i) Operating Reserves are greater than the sum of (a) two months of imports into Venezuela of goods and services (including interest payments with respect to External Public Debt) and (b) two months of principal payments with respect to all of the bonds issued to implement the 1990 Financing Plan and any other External Public Debt held by commercial lending institutions (measured in each case on the basis of imports and interest and principal payments during the preceding six months) (the availability of sufficient Operating Reserves to be certified by Banco Central);

(ii) the aggregate principal amount of all External Public Debt secured by Liens on Oil or Accounts Receivable (including the External Public Debt to be secured by the New Lien and other External Public Debt to be simultaneously secured by Liens on Oil or Accounts Receivable) paid, due or scheduled to fall due in the current calendar year, and the aggregate outstanding principal amount of all such External Public Debt scheduled to fall due in each subsequent calendar year, is in each such year less than an amount equivalent to 17.5% of the aggregate revenues from the Export of Oil during the 12-month period preceding the creation of the New Lien (the amount of such External Public Debt to be certified by Banco Central and the amount of such reserves to be certified by Venezuela); and

(iii) the aggregate outstanding principal amount of all External Public Debt secured by Liens on Oil or Accounts Receivable (including the External Public Debt to be secured by the New Lien and other External Debt to be secured by Liens on Oil or Accounts Receivable) is less than an amount equivalent to 55% of the aggregate revenues from the Export of Oil during the 12-month period preceding the creation of the New Lien (the amount of such External Public Debt to be certified by Banco Central and the amount of such revenues to be certified by Venezuela);

*provided*, that no New Lien will constitute a Permitted Lien if such New Lien is created while there is a default in the payment of principal or interest on the Global Bonds or any bonds issued to implement the 1990 Financing Plan unless the proceeds of the financing secured by such New Lien are used to make or secure on a ratable basis interest and principal payments due with respect to the Global Bonds; *provided further* that, notwithstanding the foregoing, a New Lien will constitute a Permitted Lien if (a) such New Lien arises pursuant to an order of attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, provided that such New Lien is released or discharged within one year of its imposition, or (b) such New Lien arises by operation of law (and not pursuant to any agreement) and has not been foreclosed or otherwise enforced against the Oil or Accounts Receivable to which such New Lien applies.

"Person" means any individual, corporation, partnership, association, joint stock company, joint venture, trust, unincorporated organization or other entity, or a sovereign state or government or any agency or political subdivision thereof.

#### **Form, Denomination and Registration**

The statements set forth in this under this subsection and "—Definitive Global Bonds" and in the section entitled "Global Clearance and Settlement" include summaries of certain rules and operating

procedures of DTC, Euroclear and Cedel Bank that affect transfers of interests in the Book-Entry Security (as defined below).

The Global Bonds will be issued in fully registered form, without coupons. Each Global Bond will be issued in book-entry form and represented by one or more global securities (collectively, the "Book-Entry Security") registered in the name of Cede & Co. ("Cede"), as the nominee of DTC, for the accounts of its accountholders. The Book-Entry Security will be held by the Fiscal Agent as custodian for DTC.

The Book-Entry Security may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor. So long as Cede is the registered owner of the Book-Entry Security representing the Global Bonds, Cede will be considered the sole owner or holder of the Global Bonds represented by the Book-Entry Security for all purposes under the Fiscal Agency Agreement.

Except as described below under "—Definitive Global Bonds", definitive Global Bonds will not be issued in exchange for beneficial interests in the Book-Entry Security.

Euroclear and Cedel Bank will initially hold Global Bonds on behalf of their accountholders through their respective depositaries, which are accountholders in DTC. Transfers within DTC, Euroclear and Cedel Bank will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Global Bonds through DTC and investors who hold or who will hold Global Bonds through Euroclear and Cedel Bank will be effected in DTC through the respective depositaries of Euroclear and Cedel Bank, subject to certain restrictions. The Chase Manhattan Bank ("Chase Manhattan") will initially act as depositary for Euroclear and Citibank N.A. ("Citibank") will initially act as depositary for Cedel Bank. See "Global Clearance and Settlement".

Upon the issuance by Venezuela of the Global Bonds, DTC will credit, on its book-entry system, the respective principal amounts of the Global Bonds represented by the Book-Entry Security to the appropriate accounts of DTC's accountholders (the "DTC Accountholders") designated by each participant. Purchases of Global Bonds under the DTC system must be made by or through Direct Accountholders (as defined below). Owners of beneficial interests in the Book-Entry Security may hold Global Bonds directly through DTC in the United States or through Euroclear or Cedel Bank in Europe, if they are accountholders in such systems, or indirectly through organizations which are accountholders in such systems. Such beneficial interests will be in denominations of U.S. \$1,000 and integral multiples thereof. Owners of beneficial interests in the Book-Entry Security will not receive written confirmation from DTC of their purchase, but each beneficial owner is expected to receive written confirmation providing details of the transaction, as well as periodic statements of its holdings, from DTC (if such beneficial owner is a Direct or an Indirect Accountholder (each as defined below)) or the Direct or Indirect Accountholder through which such beneficial owner entered into the transaction (if such beneficial owner is not a Direct or Indirect Accountholder). Transfers of ownership interests in Global Bonds are expected to be effected by entries made on the books of DTC Accountholders acting on behalf of beneficial owners. The deposit of Global Bonds with DTC and the registration of such Global Bonds in the name of Cede or another nominee of DTC will not effect any change in beneficial ownership. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the Global Bonds.

"Direct Accountholders" include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Accountholder, either directly or indirectly ("Indirect Accountholders"). The rules applicable to DTC and its accountholders are on file with the Commission.

Venezuela expects that conveyance of notices and other communications by DTC to Direct Accountholders, by Direct Accountholders to Indirect Accountholders and by Direct Accountholders

and Indirect Accountholders to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. In addition, neither DTC nor Cede will consent or vote with respect to the Global Bonds. Venezuela has been advised that DTC's usual procedure is to mail an omnibus proxy to Venezuela as soon as possible after the record date with respect to such consent or vote. The omnibus proxy would assign Cede's consenting or voting rights to those Direct Accountholders to whose accounts the Global Bonds are credited on such record date (identified in a listing attached to the omnibus proxy).

Euroclear or Cede Bank, as the case may be, will take any action permitted to be taken by a holder under the Fiscal Agency Agreement or the Global Bonds on behalf of a Euroclear or Cede Bank accountholder only in accordance with its relevant rules and procedures and subject to its depository's ability to effect such actions on its behalf through DTC.

Venezuela has been advised that DTC will credit the accounts of Direct Accountholders with payment in amounts proportionate to their respective holdings in principal amount of interests in the Book-Entry Security as shown on the records of DTC. Venezuela has been advised that DTC's practice is to credit Direct Accountholders' accounts on the applicable payment date unless DTC has reason to believe that it will not receive payments on such date. Venezuela expects that payments by Direct Accountholders and Indirect Accountholders to beneficial owners of the Global Bonds will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers. Such payments will be the responsibility of such Direct Accountholders and Indirect Accountholders.

#### **Further Issues**

Venezuela may from time to time without the consent of holders of the Global Bonds create and issue further notes, having terms and conditions the same as those of the Global Bonds, or the same except for the amount of the first payment of interest and the issue price, which may be consolidated and form a single series with the Global Bonds.

#### **Payment**

Payment of principal of and interest on the Global Bonds will be made to Cede, the nominee for DTC, as the registered owner. The principal of and interest on the Global Bonds will be payable in U.S. dollars or in such other coin or currency of the United States of America as at the time of payment is legal tender for the payment therein of public and private debts.

Upon receipt of any payment of principal of or interest on the Global Bonds, DTC will credit DTC Accountholders' accounts with payment in amounts proportionate to their respective beneficial interests in the principal amount of the Global Bonds as shown on the records of DTC. Payments by DTC Accountholders to owners of beneficial interests in the Global Bonds held through such accountholders will be the responsibility of such accountholders, as is now the case with securities held for the accounts of customers registered in "street name." Neither Venezuela nor the Fiscal Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

If any date for payment in respect of any Global Bond is not a business day, the holder thereof shall not be entitled to payment until the next following business day. In this paragraph "business day" means a day, other than a Saturday or a Sunday, on which banking institutions in The City of New York and at the applicable place of payment are not authorized or obligated by law or executive order to be closed. No further interest shall be paid in respect of any such delay in payment.

Any moneys held by the Fiscal Agent in respect of the Global Bonds and remaining unclaimed for two years after such amount shall have become due and payable shall be returned to Venezuela, and the

holder of such Global Bond shall thereafter look only to Venezuela for any payment to which such holder may be entitled. The Global Bonds will become void unless presented for payment within five years after the maturity date thereof (or such shorter period as may be prescribed by applicable law).

The Fiscal Agent will not impose any fees in respect of the Global Bonds, other than fees for the replacement of lost, stolen, mutilated or destroyed Global Bonds. However, owners of beneficial interests in the Global Bonds may incur fees payable in respect of the maintenance and operation of the book-entry accounts in which such interests are held with the clearing systems.

Until the Global Bonds are paid or payment thereof is duly provided for, Venezuela will, at all times, maintain a paying agent in The City of New York (the "Paying Agent"). Venezuela has appointed The Chase Manhattan Bank to serve as Paying Agent. An office of the Paying Agent in The City of New York for all purposes relating to the Global Bonds is located at the date hereof at 450 West 33rd Street, New York, New York 10001. In addition, for so long as any Global Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange shall so require, Venezuela shall maintain a paying agent in Luxembourg (the "Luxembourg Paying Agent") and a transfer agent in Luxembourg (the "Luxembourg Transfer Agent"). Venezuela has appointed Chase Manhattan Bank Luxembourg S.A., 5 Rue Plaetis, L-2338, Luxembourg, to serve as Luxembourg Paying Agent and Luxembourg Transfer Agent.

### **Definitive Global Bonds**

If DTC notifies Venezuela that it is unwilling or unable to continue as depository for the Book-Entry Security or ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") at a time when it is required to be and a successor depository is not appointed by Venezuela within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, or if an event of default with respect to the Global Bonds shall have occurred and be continuing as described under "—Default; Acceleration of Maturity" below, Venezuela will issue or cause to be issued Global Bonds in definitive form in exchange for the Book-Entry Security. Venezuela may also at any time and in its sole discretion determine not to have any of the Global Bonds represented by the Book-Entry Security, and, in such event, will issue or cause to be issued Global Bonds in definitive form in exchange for the Book-Entry Security. Global Bonds issued in definitive form will be issued only in fully registered form, without coupons, in denominations of U.S.\$1,000 and integral multiples thereof. Any Global Bonds so issued will be registered in such names, and in such denominations, as DTC shall request. Such Global Bonds may be presented for registration of transfer or exchange at the office of the Fiscal Agent in The City of New York, and principal thereof and interest thereon will be payable against surrender or presentation, as the case may be, of the certificate or certificates representing such Global Bonds in definitive form at such office of the Fiscal Agent, provided that interest thereon may be paid by check mailed to the registered holders of the definitive Global Bonds. Such Global Bonds may also be surrendered or presented, as the case may be, for payment or registration of transfer or exchange, and any such definitive Global Bonds so issued shall be available for exchange, at the office of the Luxembourg Paying Agent and Luxembourg Transfer Agent. With respect to any transfer or exchange of all or a portion of a Global Bond issued in definitive form, the transferor and the transferee will be entitled to receive, at the office of the Fiscal Agent, the Luxembourg Paying Agent and the Luxembourg Transfer Agent, a new Global Bond in definitive form representing the principal amount retained by the transferor or the principal amount received by the transferee, as the case may be, after giving effect to such transfer.

### **Default; Acceleration of Maturity**

If any of the following events (each an "Event of Default") shall occur and be continuing with respect to the Global Bonds:

- (a) the Republic shall fail to pay the principal amount of any Global Bond when due and such failure continues for a period of 30 days; or

(b) the Republic shall fail to pay interest or other amounts due on any Global Bond when due and such failure continues for a period of 30 days; or

(c) the Republic shall fail to duly perform or observe any term or obligation contained in the Global Bonds or the Fiscal Agency Agreement (other than those specified in paragraphs (a) or (b) above) and such failure shall continue unremedied for 90 days after written notice thereof shall have been given to the Republic at the specified office of the Fiscal Agent by any holder; or

(d) Banco Central shall fail to duly perform or observe any of its obligations contained in the Banco Central Undertaking (as defined herein) to remit (as and to the extent provided therein) U.S. dollars in the amount of each payment of principal of, and interest on, the Global Bonds upon payment by the Republic to Banco Central of the necessary Bolivar amount to make such payments, as provided in the Banco Central Undertaking, or on the occurrence and continuation of such a failure, Banco Central shall make any withdrawal of any amounts held on deposit with any Bondholder or the Fiscal Agent that has notified Banco Central of its intention to set-off from such amounts any amounts owed to such Bondholder or the Fiscal Agent, and any such failure shall continue unremedied for 30 days after written notice thereof shall have been given to Banco Central and the Republic by the Fiscal Agent or any Bondholder at the office of the Fiscal Agent; or

(e) Banco Central shall fail to duly perform or observe any term or obligation contained in the Banco Central Undertaking or the Fiscal Agency Agreement on its part to be performed or observed (other than those specified in paragraph (c) above), and such failure shall continue unremedied for 90 days after written notice thereof shall have been given to the Republic and Banco Central at the specified office of the Fiscal Agent by any Bondholder; or

(f) as a result of any default or event of default contained in any agreement or instrument related to any Public Issue of External Debt (other than the Global Bonds) of the Republic, Banco Central or any Governmental Agency guaranteed by the Republic, any party to such agreement or instrument accelerates or declares to be due and payable any such Public Issue of External Debt prior to the stated maturity thereof; or

(g) the Republic or Banco Central fails generally to pay or perform its obligations under Public Issues of External Debt as they become due, or a moratorium on the payment or performance of such obligations shall be declared by the Republic or Banco Central; or

(h) there shall have been entered against the Republic or Banco Central a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be or is taken, for the payment of money in excess of U.S.\$100,000,000 and 30 days shall have passed since the entry of any such order without it having been satisfied or stayed; or

(i) the Republic shall cease to be a member of the IMF or ceases to be eligible to use the general resources of the IMF; or

(j) the validity of the Global Bonds, the Fiscal Agency Agreement or the Banco Central Undertaking shall be contested by the Republic, Banco Central or any legislative, executive or judicial body or official of the Republic authorized in each case by law to do so, or the Republic or Banco Central shall deny any of its obligations thereunder to any of the Bondholders (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), or any constitutional provision, treaty, convention, law, regulation, official communique, decree, ordinance or policy of the Republic, or any final decision by any court in Venezuela having jurisdiction, shall purport to render any provision of the Global Bonds, the Fiscal Agency Agreement or the Banco Central Undertaking invalid or unenforceable or shall purport to prevent or delay the performance or observance by the Republic or Banco Central of any of their respective obligations thereunder to any of the holders; or

(k) any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, license or other authority necessary to enable the Republic or Banco Central to make or perform its obligations under the Global Bonds, the Fiscal Agency Agreement or the Banco Central Undertaking (as the case may be), or for the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect, or shall be modified in a manner which adversely affects, or may reasonably be expected to affect adversely, any rights or claims of any of the holders;

then holders of 25% or more in aggregate outstanding principal amount of the Global Bonds may, by written demand to the Republic at the office of the Fiscal Agent, declare such Global Bonds immediately due and payable whereupon the entire unpaid principal amount of such Global Bonds, all interest accrued and unpaid thereon and all other amounts payable in respect of such Global Bonds shall become and be forthwith due and payable, without the holder's presentation, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Republic. Upon such declaration, the Fiscal Agent shall give notice thereof in the manner provided in the Fiscal Agency Agreement to the Republic (by facsimile, with transmission confirmed) and to the holders of such Global Bonds in accordance with the provisions described under "Notices" below. After any such declaration, if all amounts then due with respect to such Global Bonds are paid (other than amounts due solely because of such declaration) and all other defaults with respect to such Global Bonds are cured, such declaration may be annulled and rescinded by holders of more than 50% in aggregate outstanding principal amount of such Global Bonds (or such other percentage required at a meeting of holders in accordance with the provisions described under "Meetings and Amendments" below) by written notice thereof to the Republic at the specified office of the Fiscal Agent.

For purposes hereof, the term "Public Issue of External Debt" shall mean any External Debt issued in a public offering or private placement of securities or other instruments of a type offered in the capital markets, including, without limitation, any bonds, floating rate notes, commercial paper, certificates of deposit, debentures or other evidence of indebtedness.

#### **Notices**

Notices to the holders of the Global Bonds will be deemed to be validly given upon publication at least once in a leading daily newspaper in the English language of general circulation in London and New York and, so long as the Global Bonds are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require, in a daily newspaper of general circulation in Luxembourg or, if publication in either London or Luxembourg is not practicable, in Europe. It is expected that notices in London, New York and Luxembourg will be published in the *Financial Times*, the *Wall Street Journal* and the *Luxemburger Wort*, respectively. In the case of the Book-Entry Security, notices also will be sent to DTC or its nominee, as the holder thereof, and DTC will communicate such notices to DTC Accountholders in accordance with its standard procedures.

Such notices will be deemed to have been given on the date of such publication or, if published in such newspapers on different dates, on the date of the first such publication. Neither the failure to give notice nor any defect in any notice given to any particular holder of a Global Bond shall affect the sufficiency of any notice with respect to any other Global Bonds.

#### **Purchase of Global Bonds by Venezuela**

Venezuela may at any time purchase any of the Global Bonds in any manner and at any price. All Global Bonds which are purchased by or on behalf of Venezuela may be held, resold or surrendered for cancellation.

## **Meetings and Amendments**

A meeting of holders of Global Bonds may be called, as set forth below, at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Global Bonds to be made, given or taken by holders of Global Bonds or to modify, amend or supplement the terms of the Fiscal Agency Agreement, the Banco Central Undertaking or the Global Bonds as hereinafter provided. Venezuela may at any time call a meeting of holders of Global Bonds for any such purpose to be held at such time and at such place as Venezuela shall determine. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given as provided in the terms of the Global Bonds, not less than 30 nor more than 60 days prior to the date fixed for the meeting (provided that, in the case of any meeting to be reconvened after adjournment for lack of a quorum, such notice shall be given not less than 10 nor more than 60 days prior to the date fixed for such meeting). In case at any time Venezuela or the holders of at least 10% in aggregate principal amount of the Outstanding (as defined in the Fiscal Agency Agreement) Global Bonds shall, after the occurrence and during the continuance of any Event of Default under the Global Bonds, have requested the Fiscal Agent to call a meeting of the holders of Global Bonds for any such purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof.

To be entitled to vote at any meeting of holders of Global Bonds, a person shall be a holder of Outstanding Global Bonds or a person duly appointed by an instrument in writing as proxy for such holder. The persons entitled to vote a majority in principal amount of the Outstanding Global Bonds shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of the holders, be dissolved. In any other case, the meeting may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in the preceding paragraph, except that such notice need be given only once. Notice of the reconvening of an adjourned meeting shall state expressly the percentage of the principal amount of the Outstanding Global Bonds which shall constitute a quorum. Subject to the foregoing, at the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25% in principal amount of the Outstanding Global Bonds shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any meeting of holders of Global Bonds at which a quorum is present may be adjourned from time to time by a vote of a majority in principal amount of the Outstanding Global Bonds represented at the meeting, and the meeting may be held as so adjourned without further notice.

The Fiscal Agent may make such reasonable and customary regulations as it shall deem advisable for any meeting of holders of Global Bonds with respect to the proof of the holding of Global Bonds, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. The Fiscal Agent shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by Venezuela or the holders of Global Bonds as provided above, in which case Venezuela or the holders of Global Bonds calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the persons entitled to vote a majority in principal amount of the Outstanding Global Bonds represented and voting at the meeting. The chairman of the meeting shall have no right to vote, except as holder of Global Bonds or proxy. A record, at least in duplicate, of the proceedings of each meeting of holders shall be prepared,

and one such copy shall be delivered to Venezuela and another to the Fiscal Agent to be preserved by the Fiscal Agent.

With (a) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of holders entitled to vote the lesser of (i) a majority in principal amount of the Outstanding Global Bonds or (ii) 66⅔% in aggregate principal amount of the Outstanding Global Bonds represented and voting at a meeting duly called and held as specified above, or (b) the written consent of the holders of a majority in aggregate principal amount of the Outstanding Global Bonds, Venezuela, Banco Central and the Fiscal Agent may modify, amend or supplement the terms of the Fiscal Agency Agreement, the Banco Central Undertaking or the Global Bonds and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement, the Banco Central Undertaking or the Global Bonds to be made, given or taken by holders of Global Bonds; *provided, however*, that no such action may, without the consent or affirmative vote of the holder of each Global Bond affected thereby, (A) change the due date for the payment of the principal of, or any installment of interest on, any Global Bond, (B) reduce the principal amount of any Global Bond, or the portion of such principal amount which is payable upon acceleration of the maturity of such Global Bond or the interest rate thereon, (C) change the coin or currency in which payment with respect to interest, any premium or principal in respect of any Global Bond is payable, (D) reduce the proportion of the principal amount of the Global Bonds the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement, the Banco Central Undertaking or the terms and conditions of the Global Bonds or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, or (E) change the obligation of Venezuela to pay Additional Amounts (as defined in "Taxation" below). Any such modification, amendment or supplement shall be binding on all holders of the Global Bonds.

Venezuela, Banco Central and the Fiscal Agent may, upon agreement among themselves, without the vote or consent of any holder of Global Bonds, modify, amend or supplement the Fiscal Agency Agreement, the Banco Central Undertaking or the Global Bonds for the purpose of (i) adding to the covenants of Venezuela for the benefit of the holders of Global Bonds, (ii) surrendering any right or power conferred upon Venezuela, (iii) securing the Global Bonds pursuant to the requirements of the Global Bonds or otherwise, (iv) curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement, the Banco Central Undertaking or in the Global Bonds, or (v) amending the Fiscal Agency Agreement, the Banco Central Undertaking or the Global Bonds in any manner which the Republic, Banco Central and the Fiscal Agent may determine, provided, that such amendment shall not adversely affect the interest of any holder of Global Bonds in any material respect.

#### **Jurisdiction and Waiver of Immunity**

Venezuela has agreed that any suit, action or proceeding against it or its properties, assets or revenues with respect to the Global Bonds (a "Related Proceeding") shall be brought exclusively in the Supreme Court of the State of New York, County of New York; in the United States District Court for the Southern District of New York; in the courts of England that sit in London; or in the courts of Venezuela that sit in Caracas, as the person bringing such Related Proceeding may elect in its sole discretion, provided that if none of the courts specified above located in the country in which such person has elected to bring such Related Proceeding is a court that has jurisdiction of the subject matter or is otherwise competent under applicable law to hear and determine such proceeding, such Related Proceeding may be brought in such other court located in such country as shall have jurisdiction of the subject matter or be otherwise competent under applicable law to hear and determine such Related Proceeding, or if such Related Proceeding seeks relief or a judgment that is enforceable only against any of its properties, assets or revenues that are subject to the jurisdiction of any other court located in the countries listed above and is limited to the value of such properties, assets or revenues, such Related

Proceeding may be brought in any such court (all such courts described in this sentence being called herein "Specified Courts"). Venezuela also has agreed that any judgment obtained in any of the Specified Courts arising out of any Related Proceeding may be enforced or executed in any Specified Court or any other court of competent jurisdiction whatsoever, and any judgment obtained in any such other court as a result of such enforcement or execution may be enforced or executed in any such other court of competent jurisdiction (all courts other than Specified Courts being herein called "Other Courts"), by means of a suit on the judgment or in any other manner provided by law. Venezuela hereby irrevocably submits to the exclusive jurisdiction of each of the Specified Courts for the purpose of any Related Proceeding and, solely for the purpose of enforcing or executing any judgment referred to in the preceding sentence (a "Related Judgment"), of each Specified Court and each Other Court. The agreement made by Venezuela with respect to jurisdiction is made solely with respect to Related Proceedings and the enforcement or execution of Related Judgments and under no circumstances shall it be interpreted as a general agreement by Venezuela with respect to proceedings unrelated to the Global Bonds.

Venezuela has agreed that service of all writs, process and summonses in any Related Proceeding or any suit, action or proceeding to enforce or execute any Related Judgment brought against it in the State of New York may be made upon the Consul General of the Republic of Venezuela or, in his or her absence or incapacity, any official of the Consulate of Venezuela, presently located at 7 East 51st Street, New York, New York 10022, U.S.A. (the "New York Process Agent"), and service of all writs, process and summonses in any Related Proceeding or any suit, action or proceeding to enforce or execute any Related Judgment brought against it in England may be made upon the person in charge of consular affairs at the Embassy of the Republic of Venezuela, presently located at One Cromwell Road, London SW7 2HW, England (the "London Process Agent" and, together with the New York Process Agent, the "Process Agents"), and Venezuela has irrevocably appointed each Process Agent as its agent to receive such service of any and all such writs, process and summonses, and has agreed that the failure of any of the Process Agents to give any notice to it of any such service of process shall not impair or affect the validity of such service or of any judgment based thereon. Venezuela has agreed to maintain at all times an agent with offices in New York to act as its New York Process Agent, and an agent with offices in London to act as its London Process Agent as aforesaid (each such agent to be appointed by an irrevocable power of attorney granted before a Venezuelan notary public). Nothing herein shall in any way be deemed to limit the ability to serve any such writs, process or summonses in any other manner permitted by applicable law.

Venezuela has irrevocably consented to and waived any objection which it may now or hereafter have to the laying of venue of any Related Proceeding brought in any of the Specified Courts or to the laying of venue of any suit, action or proceeding brought solely for the purpose of enforcing or executing any Related Judgment in any of the Specified Courts or Other Courts, and further has irrevocably waived, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any Related Proceeding or any such suit, action or proceeding in any such court.

To the extent that Venezuela or any of its revenues, assets or properties shall be entitled, with respect to any Related Proceeding at any time brought against Venezuela or any of its revenues, assets or properties in any jurisdiction in which any Specified Court is located, or with respect to any suit, action or proceeding at any time brought solely for the purpose of enforcing or executing any Related Judgment in any jurisdiction in which any Specified Court or Other Court is located, to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, Venezuela has irrevocably agreed not to claim and irrevocably waived such immunity to the fullest extent permitted by the laws of such jurisdiction (including, without limitation, the Foreign Sovereign Immunities Act of 1976 of the United States) and consented generally for the purposes of the State Immunity Act

of 1978 of the United Kingdom to the giving of any relief or the issue of any process in connection with any Related Proceeding or Related Judgment, provided that such agreement and waiver, insofar as it relates to any jurisdiction other than a jurisdiction in which a Specified Court is located, was given solely for the purpose of enabling the holder of the Global Bonds to enforce or execute a Related Judgment. In addition, to the extent that Venezuela or any of its revenues, assets or properties shall be entitled, in any jurisdiction, to any immunity from set-off, banker's lien or any similar right or remedy, and to the extent that there shall be attributed, in any jurisdiction, such an immunity, Venezuela has irrevocably agreed not to claim and irrevocably waived such immunity to the fullest extent permitted by the laws of such jurisdiction with respect to any claim, suit, action, proceeding, right or remedy arising out or in connection with the Global Bonds.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due under the Global Bonds to the holder of Global Bonds in one currency into another currency, Venezuela has agreed, to the fullest extent that it may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such holder could purchase the first currency with such other currency in the city which is the principal financial center of the country of issue of the first currency two business days which shall be business days in New York and in such principal financial center, preceding the day on which final judgment is given.

#### **Taxation; Additional Amounts**

Any and all payments by Venezuela under the Global Bonds or in respect thereof shall be made free and clear of and without deduction for any present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties or other liabilities with respect thereto, imposed or levied at any time, excluding (i) in the case of each holder, taxes imposed on or measured by its income or capital by the jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) under the laws of which such holder is organized, (ii) in the case of each holder, taxes imposed on or measured by its income or capital by the jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) in which the principal place of business or residence (as the case may be) of such holder is located, including, without limitation, any jurisdiction in which such holder is, through an office or fixed place of business, deemed to be doing business or maintaining a permanent establishment under any income tax treaty and (iii) all other taxes imposed by any jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) outside of Venezuela except such taxes which arise as a result of action taken by Venezuela (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being herein called "Taxes"). If Venezuela shall be required by law to deduct any Taxes from or in respect of any sum payable under the Global Bonds or in respect thereof to any holder, (a) Venezuela shall pay such additional amounts ("Additional Amounts") as may be necessary so that after making all required deductions for Taxes (including deductions applicable to Additional Amounts payable hereunder) such holder receives an amount equal to the sum it would have received had no such deductions been made, (b) Venezuela will make such deductions and (c) Venezuela will pay the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law.

Except as otherwise provided in the Global Bonds, Venezuela will pay (i) all stamp or other documentary taxes or duties, if any, which may be imposed by Venezuela or the United States of America or any state or political subdivision thereof or taxing authority therein with respect to the original issue of the Global Bonds or the exchange of interests in the Book-Entry Securities for definitive registered Global Bonds and (ii) all other excise or property taxes, charges or similar levies which arise in any jurisdiction from any payment made hereunder or from the execution or delivery of, or otherwise with respect to, the Global Bonds, the Fiscal Agency Agreement, the Banco Central Undertaking or any other

document or instrument referred to herein or in the Fiscal Agency Agreement, excluding (in the case of the preceding clause (ii)) any such taxes imposed by any jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) outside of Venezuela except those resulting from, or required to be paid in connection with, the enforcement of the Global Bonds, the Fiscal Agency Agreement, the Banco Central Undertaking or any such other document or instrument following the occurrence of an Event of Default (all such non-excluded taxes, charges or levies described in clauses (i) and (ii) above being herein called "Other Taxes").

Venezuela will reimburse each holder for the full amount of Taxes or Other Taxes (including without limitation, any Taxes or Other Taxes imposed on amounts payable under the Global Bonds paid by such holder or any liabilities (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Each holder which wishes to claim reimbursement hereunder for any such Taxes, Other Taxes or liabilities arising therefrom or with respect thereto will notify Venezuela (through the Fiscal Agent) of its intention to pay the same as promptly as practicable and, if possible, prior to the date of such payment (such notice to describe such Taxes, Other Taxes or liabilities in reasonable detail). Such reimbursement shall be made within 30 days from the date such holder makes demand therefor.

Within 30 days after the date of any payment of Taxes (but in no event later than the date 45 days after the date such Taxes become due), Venezuela will furnish to the Fiscal Agent the original (or a certified copy) of a receipt evidencing payment thereof.

Without prejudice to the survival of any other obligation of Venezuela hereunder, the obligations of Venezuela with respect to Additional Amounts shall survive the payment of the Global Bonds.

Whenever in the Global Bonds there is mentioned, in any context, the payment of the principal or interest on, or in respect of, Global Bonds, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to these provisions, and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

#### **Judgment Currency**

Venezuela has agreed that if a judgment given or made by any Specified Court or Other Court for the payment of any amount in respect of any Global Bond is expressed in a currency (the "judgment currency") other than U.S. dollars (the "denomination currency") Venezuela will pay any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the date of actual payment thereof. This obligation will constitute a separate and independent obligation from the other obligations under the Global Bonds, will give rise to a separate and independent cause of action, will apply irrespective of any waiver or extension granted from time to time and will continue in full force and effect notwithstanding any judgment for a liquidated sum or sums in respect of amounts due in respect of the relevant Global Bond or under any such judgment.

#### **Listing**

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange.

#### **Governing Law**

The Fiscal Agency Agreement, the Banco Central Undertaking and the Global Bonds will be governed by and interpreted in accordance with the laws of the State of New York without regard to any conflicts of laws principles thereof that would require the application of the laws of a jurisdiction other than the State of New York, and except that all matters governing the authorization and execution by Venezuela or Banco Central, as the case may be, will be governed by the laws of Venezuela.

## THE BANCO CENTRAL UNDERTAKING

The Republic has irrevocably and unconditionally agreed that each payment to be made by the Republic under the Global Bonds shall be effected through Banco Central, and for that purpose, has instructed Banco Central to execute and deliver an undertaking in favor of the holders of the Global Bonds from time to time, the Fiscal Agent and each paying agent (the "Banco Central Undertaking") and to remit (as and to the extent provided in the Banco Central Undertaking) U.S. dollars in the amount of each payment of principal of, and interest on, the Global Bonds at the time and place and in the manner provided in the Global Bonds. In this regard, the Republic has irrevocably and unconditionally agreed to deposit, from time to time, at Banco Central, in the accounts specially established for this purpose, the Bolivars required for each payment prior to the date such payment is required to be made and to deliver in a timely fashion to Banco Central the authorizations necessary for it to effect the required conversions of Bolivars into U.S. dollars. The Republic has agreed that no such deposit of funds with Banco Central shall be deemed to constitute payment to any holder of the Global Bonds of any amount payable to such holder. The Banco Central Undertaking will be governed by the law of the State of New York.

Pursuant to the Banco Central Undertaking, upon the deposit by the Republic at Banco Central of the Bolivars required for a payment due under the Global Bonds and receipt by Banco Central of the authorizations necessary for it to effect the required conversions of the Bolivars into U.S. dollars, Banco Central shall have a separate and independent obligation to remit U.S. dollars to the Fiscal Agent provided that Banco Central shall not be obliged to make any remittance of U.S. dollars if such remittance would constitute a breach of Banco Central's obligation under Article 89 of the Central Bank Law to provide, on a priority basis, the foreign currency demanded from time to time by PDVSA to meet its needs for U.S. dollars in accordance with the foreign exchange budget prepared by PDVSA.

Banco Central has irrevocably agreed that any suit, action or proceeding against it or its properties, assets or revenues with respect to the Banco Central Undertaking (a "Banco Central Proceeding") shall be brought exclusively in the Supreme Court of the State of New York, County of New York, in the United States District Court for the Southern District of New York; in the High Court of Justice, England; or in the courts of Venezuela that sit in Caracas, as the person bringing such Banco Central Proceeding may elect in its sole discretion (or in such other court as shall have jurisdiction or be otherwise competent to hear and determine such Banco Central Proceeding, but only in the circumstances specified in the Banco Central Undertaking), all as more fully set out in the Banco Central Undertaking.

Banco Central has irrevocably waived any objection which it may have to the laying of venue of any Banco Central Proceeding brought in any of the courts referred to above or to the laying of venue of any suit, action or proceeding brought solely for the purpose of enforcing or executing any judgment obtained in a Banco Central Proceeding and has further irrevocably waived, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any Banco Central Proceeding or any such suit, action or proceeding.

To the extent that Banco Central or any of its revenues, assets or properties shall be entitled, with respect to any Banco Central Proceeding at any time brought against it or any of its revenues, assets or properties in any jurisdiction in which any court specified above is located, or with respect to any suit, action or proceeding at any time brought solely for the purpose of enforcing or executing any judgment obtained in a Banco Central Proceeding in any jurisdiction in which any of the courts referred to above is located, to any immunity from suit, from the jurisdiction of any such court, from attachment in aid of execution of judgment from execution of a judgment or from any other legal or judicial process or remedy (except for certain processes and remedies more fully described in the Banco Central Undertaking), and to the extent that in any such jurisdiction there shall be attributed to itself or any of its revenues, assets or properties such an immunity, Banco Central has irrevocably agreed not to claim and has irrevocably waived such immunity to the fullest extent permitted by the laws of such jurisdiction, all as more fully set out in the Banco Central Undertaking.

The foregoing description of the Banco Central Undertaking is a summary of, and does not purport to be complete and is qualified in its entirety to the detailed provisions of, the Banco Central Undertaking. A copy of the Banco Central Undertaking has been filed as an exhibit to the Registration Statement relating to the Global Bonds of which this Prospectus is a part.

### **GLOBAL CLEARANCE AND SETTLEMENT**

Arrangements have been made with each of DTC, Euroclear and Cedel Bank to facilitate initial issuance of the Global Bonds. See "Description of the Global Bonds—Form, Denomination and Registration." Transfers within DTC, Euroclear and Cedel Bank will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Global Bonds through DTC and investors who hold or will hold Global Bonds through Euroclear and/or Cedel Bank will be effected in DTC through the respective depositaries of Euroclear and Cedel Bank.

Upon the issuance of the Global Bonds, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by the Book Entry Security to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in the Global Bonds will be limited to persons who have accounts with Direct Accountholders, including Euroclear and Cedel, or Indirect Accountholders. Ownership of beneficial interests in the Global Bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of Direct Accountholders) and the records of Direct Accountholders (with respect to interests of Indirect DTC Accountholders).

Euroclear and Cedel Bank will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Cedel Bank on the books of their respective depositaries, which in turn will hold such positions in customers' securities accounts in such depositaries' names on the books of DTC.

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be on the desired value date. Although DTC, Euroclear and Cedel Bank have agreed to the following procedures in order to facilitate transfers of interests in the Book-Entry Security among participants of DTC, Euroclear and Cedel Bank, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither Venezuela nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Cedel Bank or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

**Trading between DTC Accountholders.** Secondary market trading of Global Bonds represented by the Book Entry Security between DTC Accountholders will trade in DTC's Settlement System and will therefore settle in same-day funds.

**Trading between Cedel Bank and/or Euroclear participants.** Secondary market trading between Cedel Bank participants and/or Euroclear participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

**Trading between DTC seller and Cedel Bank or Euroclear purchaser.** When interests are to be transferred from the account of a DTC Accountholders to the account of a Cedel Bank participant or a Euroclear participant, the purchaser will send instructions to Cedel Bank or Euroclear through a Cedel Bank or Euroclear participant, as the case may be, at least one business day prior to settlement. Cedel Bank or Euroclear will instruct its respective depositary to receive such interest against payment. Payment will include interest accrued on such beneficial interest in the Global Bonds from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the

depository to the DTC Accountholder's account against delivery of the interest in the Global Bonds. After settlement has been completed, the interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Cedel Bank participant's or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest of the Global Bonds will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Cedel Bank or Euroclear cash debit will be valued instead as of the actual settlement date.

Cedel Bank participants and Euroclear participants will need to make available to the respective clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement either from cash on-hand or existing lines of credit, as such participants would for any settlement occurring within Cedel Bank or Euroclear. Under this approach, such participants may take on credit exposure to Cedel Bank or Euroclear until the interests in the Global Bonds are credited to their accounts one day later.

As an alternative, if Cedel Bank or Euroclear has extended a line of credit to a Cedel Bank or Euroclear participant, as the case may be, such participant may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Cedel Bank participants or Euroclear participants purchasing interests in the Global Bonds would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the Global Bonds were credited to their accounts. However, interest on the Book Entry Security would accrue from the value date. Therefore, in many cases the investment income on the interest in the Global Bonds earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since the settlement is taking place during New York business hours, DTC Accountholders can employ their usual procedures for transferring Global Bonds to the respective depositories of Cedel Bank or Euroclear for the benefit of Cedel Bank participants or Euroclear participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to DTC Accountholders, a cross-market sale transaction will settle no differently from a trade between two DTC Accountholders.

**Trading between Cedel Bank or Euroclear seller and DTC purchaser.** Due to time zone differences in their favor, Cedel Bank and Euroclear participants may employ their customary procedures for transactions in which interests in the Global Bonds are to be transferred by the respective clearing system, through its respective depository, to a DTC Accountholder, as the case may be, at least one business day prior to settlement. In these cases, Cedel Bank or Euroclear will instruct its respective depository to deliver the interest in the Global Bonds to the DTC Accountholder's account against payment. Payment will include interest accrued on such beneficial interest in the Global Bonds from and including the last interest payment date to and excluding the settlement date. The payment will then be reflected in the account of the Cedel Bank participant or Euroclear participant the following day, and receipt of the cash proceeds in the Cedel Bank or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Cedel Bank or Euroclear participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Cedel Bank or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Cedel Bank or Euroclear to purchase interests in the Global Bonds from DTC Accountholders for delivery to Cedel Bank participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

1. borrowing through Cedel Bank or Euroclear for one day (until the purchase side of the day trade is reflected in their Cedel Bank or Euroclear accounts) in accordance with the clearing system's customary procedures;
2. borrowing the interests in the United States from a DTC Accountholder no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Cedel Bank or Euroclear account in order to settle the sale side of the trade; or
3. staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Accountholder is at least one day prior to the value date for the sale to the Cedel Bank participant or Euroclear participant.

The information in this section concerning DTC, Euroclear and Cedel Bank and their book-entry system has been obtained from sources Venezuela believes to be reliable, and Venezuela makes no representation or warranty with respect thereto, other than that such information has been accurately extracted and/or summarized from such sources.

Although DTC, Euroclear and Cedel Bank have agreed to the foregoing procedures to facilitate transfers of interests in the Global Bonds among participants in DTC, Euroclear and Cedel Bank, they are under no obligation to perform or to continue to perform such procedures and such procedures may be discontinued at any time. Neither Venezuela nor the Fiscal Agent will have any responsibilities for the performance by DTC, Euroclear or Cedel Bank or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

## TAXATION

### General

An exchange pursuant to the Invitation may be a taxable transaction under the laws applicable to a Bondholder. Each Bondholder or prospective investor is urged to consult its own tax advisor to determine its particular tax consequences in respect of the exchange of Brady Bonds pursuant to the Invitation or the purchase, ownership or sale of Global Bonds.

### Venezuelan Taxation

The following is a summary of certain aspects of Venezuelan federal income taxation that may be relevant to non-Venezuelan holders of Brady Bonds that offer such Brady Bonds for exchange pursuant to the Invitation and to non-Venezuelan holders of Global Bonds in connection with the holding and disposition of such Global Bonds. The summary is based on Venezuelan laws, rules and regulations now in effect, all of which are subject to change.

This summary is not intended to constitute a complete analysis of the income tax consequences under Venezuelan law of the exchange of Brady Bonds for Global Bonds pursuant to the Invitation or the receipt, ownership or disposition of the Global Bonds, in each case by non-residents of the Republic, nor to describe any of the tax consequences that may be applicable to residents of the Republic.

The exchange of Brady Bonds for Global Bonds pursuant to the Invitation, by non-residents of the Republic, and the receipt of such Global Bonds pursuant thereto, will not result in any withholding or other Venezuelan taxes being applicable. The exchange of Brady Bonds for Global Bonds pursuant to the Invitation will not be subject to any stamp or other similar Venezuelan taxes.

Under existing laws and regulations in Venezuela, interest payments made by Venezuela may be subject to Venezuelan income tax as follows: (i) if the recipient of the interest is a bank or other financial institution not domiciled in Venezuela, at a flat rate of 4.95% payable through withholding by Venezuela, (ii) if the recipient of the interest is a corporation which is not a bank or other financial institution and which is not domiciled in Venezuela, at maximum rate of 34% for the portion of accumulated net earnings of the corporation exceeding 3,000 Tax Units at the time of the interest payment, 22% for the portion of accumulated net earnings of the corporation exceeding 2,000 Tax Units but less than or equal to 3,000 Tax Units at the time of the interest payment and 15% for earnings less than or equal to 2,000 Tax Units at the time of the interest payment, payable through withholding by Venezuela, or (iii) if the recipient of the interest is an individual non-resident in Venezuela, at a flat rate of 34% regardless of income, fully payable through withholding by Venezuela. As of June 4, 1997, the Tax Unit is equivalent to Bs. 5,400. Under current Venezuelan tax laws and regulations, so long as the Global Bonds are registered in the name of DTC or its nominee, as contemplated under "Global Clearance and Settlement" above, the applicable withholding tax rate with respect to the Global Bonds will be that described under clause (i) above.

Capital gains resulting from any trades of Global Bonds effected between or in respect of accounts maintained by or on behalf of non-residents of the Republic will not be subject to Venezuelan income or other Venezuelan taxes where such non-residents have no connection with the Republic other than as holders of an interest in the Global Bonds.

*Prospective sellers of Brady Bonds and purchasers of the Global Bonds should consult their own tax advisers in determining the Venezuelan tax consequences to them of the exchange of Brady Bonds and/or the purchase, ownership and disposition of the Global Bonds.*

## **United States Federal Income and Estate Taxation**

THE FOLLOWING IS A SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS THAT MAY BE RELEVANT TO THE EXCHANGE OF BRADY BONDS PURSUANT TO THE INVITATION AND TO THE PURCHASE, OWNERSHIP AND SALE OF GLOBAL BONDS. THIS SUMMARY DEALS ONLY WITH HOLDERS THAT HOLD THE BRADY BONDS AND GLOBAL BONDS AS CAPITAL ASSETS AND DOES NOT ADDRESS TAX CONSIDERATIONS APPLICABLE (I) TO INVESTORS WHO DO NOT ACQUIRE THE GLOBAL BONDS PURSUANT TO THE INVITATION OR (II) TO SPECIAL CLASSES OF HOLDERS, SUCH AS DEALERS IN SECURITIES, COMMODITIES OR CURRENCIES, TRADERS IN SECURITIES OR COMMODITIES, BANKS, TAX-EXEMPT ORGANIZATIONS, LIFE INSURANCE COMPANIES, PERSONS THAT HOLD BRADY BONDS OR GLOBAL BONDS AS A HEDGE (OR HEDGED AGAINST) CURRENCY OR INTEREST RATE RISKS OR THAT ARE PART OF A STRADDLE OR CONVERSION TRANSACTION, OR PERSONS WHOSE FUNCTIONAL CURRENCY IS NOT THE U.S. DOLLAR. THIS SUMMARY IS BASED ON LAWS, REGULATIONS, RULINGS AND DECISIONS IN EFFECT ON THE DATE OF THIS PROSPECTUS (OR, IN THE CASE OF CERTAIN U.S. TREASURY REGULATIONS, IN PROPOSED FORM ON SUCH DATE), ALL OF WHICH ARE SUBJECT TO CHANGE, POSSIBLY WITH RETROACTIVE EFFECT. NO ASSURANCES CAN BE GIVEN THAT ANY SUCH CHANGES WILL NOT AFFECT THE ACCURACY OF THE DISCUSSION SET FORTH HEREIN.

**Bondholders and prospective purchasers of Global Bonds should consult their own tax advisors in determining the tax treatment of the exchange of Brady Bonds pursuant to the Invitation and of the purchase, ownership and sale of Global Bonds, including the application to their particular circumstances of the tax considerations discussed below and of any relevant state, local or other tax laws.**

As used herein, the term "United States Holder" means a holder of Brady Bonds or Global Bonds who or that is (i) a citizen or resident of the United States, (ii) a domestic corporation or partnership, (iii) an estate the income of which is subject to regular U.S. federal income taxation regardless of its source, or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust.

### **United States Holders**

#### ***Exchange of Brady Bonds for Global Bonds***

A United States Holder will be required to allocate the Global Bonds received in exchange for Brady Bonds, as well as the amount of cash received as a result of rounding the aggregate amount of Global Bonds receivable downward to the nearest U.S. \$1,000, between the Par Bonds or Discount Bonds, as the case may be, and the Oil Obligations surrendered in the exchange, based upon the relative value of such Par Bonds or Discount Bonds and of such Oil Obligations.

**Exchange of Par Bonds or Discount Bonds for Global Bonds.** An exchange of Par Bonds or Discount Bonds for Global Bonds will be considered to be a modification of such Par Bonds or Discount Bonds. The tax consequences of such a modification will depend on whether the modification is considered to be significant. As discussed below, in general, if the modification is significant, the exchange will be a taxable transaction ("Taxable Exchange"). If it is not significant, the exchange will not be taxable, except with respect to the receipt of accrued interest and, as discussed below, with respect to cash received as a result of rounding the principal amount of Global Bonds receivable downward to the nearest U.S. \$1,000.

Under the applicable U.S. Treasury regulations, the determination as to whether a modification is significant is a complex factual analysis. As discussed below, an exchange of Par Bonds for Global Bonds and an exchange of Discount Bonds for Global Bonds should be deemed to result in a significant

modification of the Par Bonds or of the Discount Bonds, as the case may be. HOWEVER, BECAUSE SUCH A DETERMINATION WILL AFFECT BOTH THE TAX CONSEQUENCES OF AN EXCHANGE OF PAR BONDS OR DISCOUNT BONDS FOR GLOBAL BONDS AND THE SUBSEQUENT TAX TREATMENT OF THE GLOBAL BONDS, HOLDERS OF PAR BONDS OR DISCOUNT BONDS ARE URGED TO CONSULT THEIR TAX ADVISORS TO MAKE THEIR OWN DETERMINATION AS TO WHETHER AN EXCHANGE OF SUCH BONDS FOR GLOBAL BONDS WILL RESULT IN A SIGNIFICANT MODIFICATION OF THE PAR BONDS OR DISCOUNT BONDS.

In general, the determination as to whether a modification is significant will be made separately as to Par Bonds or Discount Bonds and the following principles will apply. An exchange of Par Bonds or Discount Bonds for Global Bonds will be treated as a significant modification if the yield of the Global Bonds received that are allocable to such exchange (determined based upon the holder's adjusted issue price in the Par Bonds or Discount Bonds) varies from the annual yield of the Par Bonds or Discount Bonds (determined based upon the holder's adjusted issue price and the payments provided for under the Par Bonds or Discount Bonds as of the Settlement Date) by more than the greater of one quarter of one percent or five percent of the annual yield of such bonds. The difference between the yield of the Global Bonds received in exchange for Par Bonds and the annual yield of the Par Bonds will be more than the greater of one quarter of one percent or five percent of the annual yield of such bonds, assuming that the portion of the Global Bonds allocable to the Oil Obligations (as defined herein) tendered together with the Par Bonds (such portion determined as described above under "United State Holders—Exchange of Brady Bonds for Global Bonds") does not exceed 5% of the Global Bonds issued in exchange for the Par Bonds and Oil Obligations surrendered therewith. Because the Republic believes that such an assumption is reasonable, an exchange of Par Bonds for Global Bonds should be deemed to result in a significant modification of the Par Bonds. The difference between the yield of the Global Bonds received in exchange for Discount Bonds and the annual yield of the Discount Bonds (determined as of September 15, 1997) will also be more than the greater of one quarter of one percent or five percent of the annual yield of such bonds, assuming that the portion of the Global Bonds allocable to the Oil Obligations tendered together with the Discount Bonds (such portion determined as described above under "United State Holders—Exchange of Brady Bonds for Global Bonds") does not exceed 5% of the Global Bonds issued in exchange for the Discount Bonds and Oil Obligations surrendered therewith. Because the Republic believes that such an assumption is reasonable, an exchange of Discount Bonds for Global Bonds should also be treated as a significant modification of the Discount Bonds, assuming the rate of interest on the Discount Bonds (equal to the sum of (i)  $1\frac{3}{8}\%$  plus (ii) six-month LIBOR) determined as of September 15, 1997 is the same as such rate determined as of the Settlement Date. If the portion of the Global Bonds received that is allocable to the Oil Obligations tendered together with the Par Bonds or the Discount Bonds, as the case may be (such portion determined as described above under "United State Holders—Exchange of Brady Bonds for Global Bonds"), were to exceed 5% of the Global Bonds issued in exchange for the Par Bonds or Discount Bonds together with the Oil Obligations surrendered therewith, it is possible that the yield of the Global Bonds allocable to an exchange of Par Bonds or Discount Bonds for Global Bonds would not vary from the annual yield of the exchanged Par Bonds or Discount Bonds by more than the greater of one quarter of one percent or five percent of the annual yield of such bonds and thus it is possible that the exchange would not be deemed to be a significant modification of the Par Bonds or Discount Bonds, as the case may be (see discussion below).

In addition, an exchange of Par Bonds or Discount Bonds for Global Bonds will also be treated as a significant modification if the removal of the collateral that previously secured payments on the Par Bonds or Discount Bonds substantially impairs the Republic's capacity to meet its payment obligations under the Global Bonds and such capacity was adequate prior to the exchange and is primarily speculative after the exchange. Furthermore, an exchange of Par Bonds or Discount Bonds for Global Bonds will be treated as a significant modification if it results in the material deferral of scheduled payments under the Par Bonds or Discount Bonds. The U.S. Treasury regulations provide a safe harbor

under which the deferral of one or more scheduled payments on a debt instrument will not be treated as a significant modification if such payment is deferred for (and is unconditionally payable no later than the end of) a period equal to the lesser of five years or fifty percent of the original term of the debt instrument. Because the maturity of the Global Bonds is approximately seven years later than the maturity of the Par Bonds and Discount Bonds, the change in timing of payments under the Par Bonds and Discount Bonds does not fall within the above safe harbor. The U.S. Treasury Regulations provide that the materiality of a deferral which does not fall within the safe harbor, shall depend on all the facts and circumstances, including the length of the deferral, the original term of the instrument, the amounts of the payments that are deferred, and the time period between the modification and the actual deferral of payments. Any other differences between the terms of the Par Bonds or Discount Bonds and the terms of the Global Bonds (including any acceleration of scheduled payments) may also constitute a significant modification if, based on all the facts and circumstances, the legal rights or obligations of the holders of such bonds that are altered and the degree to which they are altered are economically significant.

Because the exchange of Par Bonds or Discount Bonds should be deemed to result in a Taxable Exchange, (assuming the rate of interest on the Discount Bonds determined as of September 15, 1997 is the same as such rate determined as of the Settlement Date and assuming the portion of the Global Bonds received that is allocable to the Oil Obligations tendered together with the Par Bonds or Discount Bonds, as the case may be, does not exceed 5% of the principal amount of Global Bonds issued in exchange for the Par Bonds or the Discount Bonds, as the case may be, together with the Oil Obligations surrendered therewith) a United States Holder will realize gain or loss that will be taxable. Except to the extent of the receipt of accrued interest or to the extent attributable to accrued market discount, gain or loss recognized by a United States Holder on the exchange of Par Bonds or Discount Bonds will be capital gain or loss. The ability of a United States Holder to offset capital losses against ordinary income is limited. The Taxpayer Relief Act of 1997 generally reduces tax rates on capital gains recognized by individuals in respect of capital assets held for more than 18 months. U.S. Holders are advised to consult their own tax advisors as to the consequences of the Taxpayer Relief Act of 1997 in their particular circumstances. Gain attributable to the receipt of accrued interest and gain attributable to market discount will be taxed as ordinary income. Any gain recognized by a United States Holder on the exchange of Par Bonds or Discount Bonds generally will be treated as income from sources within the United States for United States federal income tax purposes. Losses on the exchange or other disposition of Par Bonds or Discount Bonds by a United States Holder may be required to be reported as foreign source losses. Bondholders should consult their own tax advisors with respect to the sourcing of such losses.

In addition, a United States Holder of Par Bonds or Discount Bonds will be required to include as ordinary income in the taxable year of the exchange of such Par Bonds or Discount Bonds an amount equal to the sum of the daily portions of the original issue discount ("OID"), if any, for each day during such taxable year on which such holder held such Par Bonds or Discount Bonds. The holder's adjusted basis in the Par Bonds or Discount Bonds will be increased by the amount of OID included in income. The amount of such OID required to be included in income may be reduced in the case of a United States Holder who has purchased the Par Bonds or Discount Bonds after their original issuance at an acquisition premium.

The amount of any recognized gain or loss will be equal to the difference, if any, between the holder's adjusted basis in such Par Bonds or Discount Bonds (after taking into account OID that has accrued in the year of the exchange, if any) and the amount realized by the holder on the exchange. The amount realized by such United States Holder will be equal to the issue price (determined as described below) of the Global Bonds received by such holder in exchange for Par Bonds or Discount Bonds (with the amount of such Global Bonds determined as described above under "United States Holder—Exchange of Brady Bonds for Global Bonds" as a result of an allocation of the Global Bonds received in exchange for Brady Bonds between the Par Bonds and Discount Bonds, as the case may be, and the Oil

Obligations), increased by any amount of cash received as a result of rounding the aggregate principal amount of such Global Bonds receivable downward to the nearest U.S.\$1,000. The issue price per U.S. \$1,000 principal amount of Global Bonds issued in a Taxable Exchange or pursuant to New Cash Offers should be the Global Bond Exchange Price (as defined under "Dealer Managers, Underwriters and Exchange Agent; Plan of Distribution").

If the exchange of Par Bonds or Discount Bonds were not deemed to result in a significant modification, a United States Holder would not be required to recognize gain or loss on the exchange, except with respect to the receipt of accrued interest (which would be taxable as ordinary income) and, as described below, in connection with the receipt of cash as a result of rounding the aggregate principal amount of Global Bonds receivable downward to the nearest U.S.\$1,000. The basis of the Global Bonds received in exchange for Par Bonds or Discount Bonds in the hands of such United States Holder would be the same as its basis in the Par Bonds or Discount Bonds, as the case may be, immediately before the exchange (reduced, as discussed below, in connection with the payment of cash as a result of rounding down the principal amount of Global Bonds) and the holding period of such Global Bonds would include the holding period of the exchanged Par Bonds or Discount Bonds. The payment of cash as a result of rounding the principal amount of Global Bonds receivable downward to the nearest U.S. \$1,000 would be treated as a payment in retirement of a portion of the Par Bonds or Discount Bonds, which may result in gain or loss to the holder, in an amount equal to the difference, if any, between the holder's adjusted basis in the portion of the Par Bonds or Discount Bonds treated as retired and the cash received. The gain or loss on the portion of the Par Bonds or Discount Bonds treated as retired would be taxable as described above.

**Exchange of Oil Obligations for Global Bonds.** A United States Holder will recognize gain or loss on the exchange of Oil Obligations for Global Bonds in an amount equal to the difference, if any, between the United States Holder's adjusted basis in such Oil Obligations and the amount realized by such holder on the exchange. The amount realized by such United States Holder will be equal to the issue price (as determined above under "—Exchange of Par Bonds or Discount Bonds for Global Bonds") of the Global Bonds received by such holder in exchange for Oil Obligations (with the amount of such Global Bonds determined as described above under "United States Holders—Exchange of Brady Bonds for Global Bonds" as a result of an allocation of the Global Bonds received in exchange for Brady Bonds between the Par Bonds and Discount Bonds, as the case may be, and the Oil Obligations), increased by any amount of cash received as a result of rounding the aggregate principal amount of such Global Bonds receivable downward to the nearest U.S.\$1,000.

Gain or loss recognized by a United States Holder on the exchange of Oil Obligations for Global Bonds should be capital gain or loss and should be taxed as described above under "—Exchange of Par Bonds or Discount Bonds for Global Bonds."

The basis of Global Bonds received in exchange for Oil Obligations will be equal to their issue price (as determined above under "—Exchange of Par Bonds or Discount Bonds for Global Bonds").

### ***Taxation of Global Bonds***

***Interest on the Global Bonds.*** Interest on the Global Bonds will not be exempt from United States taxation generally. Except as described below under "—OID on the Global Bonds", such interest (including Additional Amounts paid in respect of taxes withheld in Venezuela except as described below under "Effect of Venezuelan Withholding Taxes") will be taxable to a United States Holder as ordinary income at the time it accrues or is received in accordance with the United States Holder's method of accounting for tax purposes.

Such interest will be treated as foreign source income for United States federal income tax purposes, and, will generally constitute, for U.S. foreign tax credit purposes, "passive income" (or, in the

case of certain holders, "financial services income") or "high withholding tax interest" if a Venezuelan withholding tax is imposed at a rate of at least 5% on such gross income.

**OID on the Global Bonds.** It is anticipated that the Global Bonds will not be issued with OID. However, if the exchange were not considered to be a Taxable Exchange, a United States Holder of Par Bonds or Discount Bonds who was required to include accrued OID in income with respect to such bonds may be required to continue to include OID in income (subject to reduction in the case of a United States Holder who has purchased the Par Bonds or Discount Bonds after their original issuance at an acquisition premium) as it accrues after the exchange of such bonds for Global Bonds. In such a case, in general, payments under the Global Bonds issued in exchange for Par Bonds or Discount Bonds may be treated partly as a payment of interest and OID and partly as a payment of principal and, if such Global Bonds have market discount, a United States Holder may elect to include market discount in income as it accrues. Holders of such Global Bonds are urged to consult their tax advisors with regard to (i) the treatment of such payments and (ii) the effect of such payments on the basis of the Global Bonds.

**Disposition of the Global Bonds.** A United States Holder will generally recognize gain or loss on the sale or retirement of Global Bonds equal to the difference between the amount realized on such sale or retirement and the adjusted basis of the Global Bonds. In general, (i) a United States Holder's basis in Global Bonds issued in exchange for Par Bonds or Discount Bonds in a transaction not considered to be a Taxable Exchange will be determined as discussed above under "United States Holders—Exchange of Brady Bonds for Global Bonds—Exchange of Par Bonds or Discount Bonds for Global Bonds" and will be adjusted to reflect accrued OID, accrued market discount (if the holder so elects) and payments other than payments of qualified stated interest (as defined in U.S. Treasury regulations), if any, to the date of disposition and (ii) a United States Holder's basis in Global Bonds issued pursuant to the New Cash Offering or in a Taxable Exchange will be equal to the issue price of such bonds determined as discussed above under "United States Holders—Exchange of Brady Bonds for Global Bonds—Exchange of Par Bonds or Discount Bonds for Global Bonds".

Except to the extent attributable to accrued but unpaid interest or accrued market discount, gain or loss recognized by a United States Holder on the sale or retirement of Global Bonds will be capital gain or loss. Such capital gains and losses will be taxable as described above under "United States Holders—Exchange of Brady Bonds for Global Bonds—Exchange of Par Bonds or Discount Bonds for Global Bonds."

#### **Effect of Venezuelan Withholding Taxes**

The Venezuelan withholding tax should qualify as an "income tax" for United States federal income tax purposes, provided, among other factors, that the amount of such tax is not considered used by the Republic to provide a subsidy by any means to a United States Holder, a related person, or any party to the transaction or to a related transaction. If any such subsidy is considered provided to any such person, a United States Holder should not be required to include the Additional Amount paid in respect of Venezuelan withholding tax in income and would not be allowed to claim a foreign tax credit or a deduction for such Venezuelan withholding tax. If the Venezuelan withholding tax qualifies as an "income tax" for United States federal income tax purposes (*i.e.*, if, among other factors, no such subsidy is considered provided), a United States Holder will be required to include the Additional Amounts paid in respect thereof in income and may be entitled to claim a U.S. foreign tax credit for and in the amount of such Venezuelan taxes against such holder's United States federal income tax liability with respect to amounts attributable to interest on the Global Bonds, subject to certain limitations. Alternatively, a United States Holder may be entitled to deduct such amounts. The calculation and availability of a tax credit or a deduction for Venezuelan taxes involve the application of complex rules that depend upon the United States Holder's particular circumstances. United States Holders should consult their own tax advisors with respect to the availability and calculation of such credit or deduction.

## **Non-United States Holders**

### ***Exchange of Brady Bonds for Global Bonds***

***Gain Characterized as Capital Gain.*** Subject to the discussion of backup withholding below, a holder that is not a United States Holder (a "Non-United States Holder") will not be subject to United States Federal income tax on any capital gain realized on any Taxable Exchange of Par Bonds or Discount Bonds for Global Bonds and on any capital gain realized on an exchange of Oil Obligations for Global Bonds, unless (i) such gain or income is effectively connected with the conduct by such holder of a trade or business within the United States, or (ii) in the case of a Non-United States Holder who is an individual, such holder is present in the United States for a total of 183 days or more during the taxable year in which such gain or income is realized and either (A) such gain or income is attributable to an office or fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States.

***Gain Characterized as Interest Income.*** Subject to the discussion of backup withholding below, a Non-United States Holder will not be subject to United States Federal income tax, including withholding tax, on income attributable to accrued but unpaid interest, accrued market discount or accrued OID unless: (i) the holder is an insurance company carrying on a United States insurance business to which the interest is attributable within the meaning of the United States Internal Revenue Code, or (ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is received by a corporation the principal business of which is in trading stocks or securities for its own account and certain other conditions exist.

### ***Taxation of Global Bonds***

***Interest on the Global Bonds.*** Except as discussed above under "Non-United States Holders—Exchange of Brady Bonds for Global Bonds—Gain Characterized as Interest Income", and subject to the discussion of backup withholding below, a Non-United States Holder will not be subject to United States Federal income tax, including withholding tax, on payments of interest or accrual of OID, if any, on the Global Bonds.

***Disposition of the Global Bonds.*** Except as discussed above under "Non-United States Holders—Exchange of Brady Bonds for Global Bonds—Gain Characterized as Capital Gain", and subject to the discussion of backup withholding below, a Non-United States Holder will not be subject to United States federal income tax on any capital gain realized on the sale or exchange of Global Bonds (to the extent gain is attributable to accrued but unpaid interest, see the discussion above under "Non-United States Holders—Taxation of Global Bonds—Interest on the Global Bonds").

In addition, the Global Bonds will be deemed to be situated outside the United States for purposes of the United States federal estate tax and thus will not be includible in the gross estate for purposes of such tax in the case of a nonresident of the United States who was not a citizen of the United States at the time of death.

### **Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to payments in respect of the Global Bonds within the United States to non-corporate United States Holders, and backup withholding at a rate of 31% will apply to such payments if the United States Holder fails to provide an accurate taxpayer identification number or is notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its federal income tax return.

Under current U.S. Treasury regulations, backup withholding and information reporting will not apply to payments made by the Republic or any agent thereof (acting in such capacity) to a holder of Global Bonds that is a Non-United States Holder so long as either (i) the beneficial owner of the Global Bonds certifies to the Republic or its agent, under penalties of perjury, that such holder is not a United States Holder and provides the name, address and taxpayer identification number of such holder or (ii) the holder has otherwise established an exemption, and provided that neither the Republic nor its agent has actual knowledge that the holder is a United States Holder or that the conditions of any exemption are not in fact satisfied.

On April 22, 1996, the Internal Revenue Service proposed regulations (the "Proposed Regulations"), which, if enacted in their current form, could affect the procedures to be followed by a Non-United States Holder in establishing that such holder is not a United States Holder for the purposes of the backup withholding rules. Prospective investors should consult their tax advisors concerning the potential adoption of such Proposed Regulations and the potential effect on their ownership of Global Bonds.

Similar rules requiring information reporting and, in certain circumstances, backup withholding will apply with respect to sales of Global Bonds by United States Holders and Non-United States Holders through certain brokers. The exchange of Brady Bonds for Global Bonds through the Exchange Agent will be subject to information reporting but will not be subject to backup withholding.

## DEALER MANAGERS, UNDERWRITERS AND EXCHANGE AGENT; PLAN OF DISTRIBUTION

### The Invitation

The Republic has entered into a Dealer Managers Agreement, dated September 3, 1997, with Chase Securities Inc. and Goldman, Sachs & Co. (collectively, the "Dealer Managers") pursuant to which (a) the Republic has retained the Dealer Managers to act, directly or through affiliates, on behalf of the Republic as dealer managers in connection with the Invitation, (b) the Republic has agreed to pay the Dealer Managers a fee equal to 0.70% of the aggregate principal amount of Global Bonds issued pursuant to Exchange Offers, excluding those Brady Bonds exchanged by FIV and other Venezuelan Governmental Agencies, and to reimburse the Dealer Managers for certain of their out-of-pocket expenses in connection with the Global Bond Offering, (c) the Republic has agreed to indemnify the Dealer Managers against certain liabilities, including liabilities under the Securities Act and (d) the Republic has agreed that, except as otherwise permitted by the Dealer Managers, it will not sell any U.S. denominated indebtedness with a maturity of ten years or more from the date hereof until the date thirty days after the Settlement Date.

U.S.\$4,000,000,000 in aggregate principal amount of Global Bonds are expected to be issued pursuant to the Invitation. Of this amount, approximately U.S.\$3,696,617,000 in aggregate principal amount are expected to be issued in exchange for Par Bonds, including approximately U.S.\$491,598,000 to be issued to FIV, and approximately U.S.\$303,383,000 in aggregate principal amount are expected to be issued in exchange for Discount Bonds. (FIV has agreed to sell to the Underwriters named in "—The New Cash Offering" below, for sale by them pursuant to the New Cash Offering, all U.S.\$491,598,000 in aggregate principal amount of Global Bonds that FIV receives pursuant to the Invitation.)

For purposes of the Invitation, the Global Bonds have been assigned an exchange value per U.S.\$1,000 principal amount equal to U.S.\$935.01 (the "Global Bond Exchange Price"). The Global Bond Exchange Price was determined so as to result in a yield to maturity on September 18, 1997 (the "Settlement Date") of 9.933%, which is equal to the sum of (i) 6.683% (i.e., the yield to maturity (calculated in accordance with standard market practice) corresponding to the bid-side price for the U.S. Treasury 6% Bond due February 15, 2027, as reported in the Cantor Fitzgerald Securities 3:00 P.M. Composite Quotation Service on September 10, 1997 (such rate, the "UST Benchmark Rate")) plus (ii) 3.25%.

Pursuant to the modified Dutch auction contemplated by the Invitation, the Republic selected 1.70% as the clearing spread (the "Clearing Spread") for the Par Bonds, resulting in exchange values for purposes of the Invitation of U.S.\$835.73 per U.S.\$1,000 principal amount of Par Bonds, Series A, and U.S.\$835.68 per U.S.\$1,000 principal amount of Par Bonds, Series B (collectively, the "Brady Bond Exchange Prices" for the Par Bonds). The Brady Bond Exchange Prices for the Par Bonds were determined so as to result in a yield to maturity on the Settlement Date of 8.383%, which is equal to the sum of (i) the UST Benchmark Rate plus (ii) the Clearing Spread. The Republic will issue U.S.\$893.82 or U.S.\$893.77, respectively, in principal amount of Global Bonds for each U.S.\$1,000 in principal amount of Par Bonds, Series A, or Par Bonds, Series B, as the case may be, exchanged (which amounts are equal to U.S.\$1,000 multiplied by the respective Brady Bond Exchange Prices for the Par Bonds divided by the Global Bond Exchange Price).

In addition, pursuant to the modified Dutch auction, the Republic selected U.S.\$930.00 as the clearing price (the "Clearing Price") for the Discount Bonds, resulting in an exchange value for purposes of the Invitation of U.S.\$930.00 per U.S.\$1,000 principal amount of Discount Bonds (the "Brady Bond Exchange Price" for the Discount Bonds). The Republic will issue U.S.\$994.64 in principal amount of Global Bonds for each U.S.\$1,000 in principal amount of Discount Bonds exchanged (which is equal to U.S.\$1,000 multiplied by the Brady Bond Exchange Price for the Discount Bonds divided by the Global Bond Exchange Price).

Each Bondholder exchanging Brady Bonds for Global Bonds will also receive in cash on the Settlement Date accrued but unpaid interest on the Brady Bonds of such Bondholder being exchanged to (but not including) the Settlement Date plus an amount equal to (a) the decrease in the aggregate principal amount of Global Bonds issuable to such Bondholder as a result of rounding such aggregate principal amount downward to the nearest U.S.\$1,000 *times* (b) the Global Bond Exchange Price, *divided* by (c) U.S.\$1,000.

Approximately U.S.\$3,299,185,000 in aggregate principal amount of Par Bonds, Series A, \$836,827,000 in aggregate principal amount of Par Bonds, Series B, U.S.\$226,994,000 in aggregate principal amount of Discount Bonds Series A, and U.S.\$78,050,000 in aggregate principal amount of Discount Bonds, Series B are expected to be exchanged pursuant to the Invitation. The Republic accepted each properly submitted Exchange Offer which specified a maximum spread at or above the Clearing Spread for the Par Bonds or a minimum price at or below the Clearing Price for the Discount Bonds, as the case may be, that the Bondholder submitting such Exchange Offer would be willing to accept as the Clearing Spread or the Clearing Price, as the case may be, for such Exchange Offer (any such maximum spread or minimum price specified for an Exchange Offer, the "Offer Spread" or "Offer Price," as the case may be, for such Exchange Offer), and each properly submitted Exchange Offer which did not specify any Offer Spread or Offer Price. The Republic did not accept any Exchange Offers specifying an Offer Spread below the Clearing Spread for the Par Bonds or specifying an Offer Price above the Clearing Price for the Discount Bonds, as the case may be.

Pursuant to the Invitation, the Dealer Managers were permitted to submit "noncompetitive" Exchange Offers (i.e., Exchange Offers not specifying Offer Spreads or Offer Prices) to exchange Brady Bonds for Global Bonds.

Each of the Dealer Managers expects to receive pursuant to the Invitation approximately the principal amount of Global Bonds set forth opposite its name below:

<u>Dealer Managers</u>	<u>Principal Amount of Global Bonds</u>
Chase Securities Inc. . . . .	U.S.\$376,364,500
Goldman, Sachs & Co. . . . .	376,364,500
Total . . . . .	<u>U.S.\$752,729,000</u>

Under the terms of the Invitation, the Dealer Managers are committed to take such Global Bonds and deliver Brady Bonds in exchange therefor on the Settlement Date.

The Dealer Managers may sell any or all of the Global Bonds they acquire pursuant to the Invitation from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices to be determined at the time of sale. Any such Global Bonds may be offered to the public either through underwriting syndicates represented by one or both of the Dealer Managers or directly by the Dealer Managers. Any public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

After the Invitation, approximately U.S.\$1,638,515,000 billion in aggregate principal amount of Par Bonds, Series A, U.S.\$719,573,000 in aggregate principal amount of Par Bonds, Series B, U.S.\$741,606,000 in aggregate principal amount of Discount Bonds, Series A, and U.S.\$133,050,000 in aggregate principal amount of Discount Bonds are expected to remain outstanding. A more detailed discussion of the Invitation and the modified Dutch auction may be found in the Prospectus dated September 3, 1997 filed with the Commission.

As used herein, the terms "Par Bonds," "Discount Bonds" and "Brady Bonds" refer in each case to the applicable bonds together with the oil-indexed payment obligation certificates (the "Oil Obligation Certificates") originally attached to such Brady Bonds upon their original issuance, whether or not they

have since been detached, or Oil Obligation Certificates representing an equivalent number of oil-indexed payment obligations (the "Oil Obligations").

The Republic has retained Morgan Guaranty Trust Company of New York, London, to act as Exchange Agent in connection with the Invitation. The Republic has agreed to pay the Exchange Agent customary fees for its services, and to reimburse the Exchange Agent for its out-of-pocket expenses in connection with the Invitation. The Republic has also agreed to indemnify the Exchange Agent against certain liabilities and expenses in connection with the Invitation, including liabilities under U.S. Securities Act of 1933, as amended.

### **The New Cash Offering**

The Republic, FIV and the Underwriters named below have entered into an Underwriting Agreement dated September 11, 1997 relating to the Global Bonds being offered pursuant to the New Cash Offering. Subject to the terms and conditions of the Underwriting Agreement, FIV has agreed to sell to each of the Underwriters named below, and each of such Underwriters has severally agreed to purchase from FIV at a price equal to the issue price set forth on the cover page of this Prospectus (which is equivalent to the Global Bond Exchange Price determined for the purpose of the Invitation), U.S.\$491,598,000 in aggregate principal amount of Global Bonds. Chase Securities Inc. and its affiliates agreed to purchase U.S.\$245,799,000 in aggregate principal amount of Global Bonds, and Goldman, Sachs & Co. and its affiliates agreed to purchase U.S.\$245,799,000 in aggregate principal amount of Global Bonds. Under the terms of the Underwriting Agreement, the Underwriters are committed to take and pay for all of such Global Bonds, if any are taken.

The Underwriters propose to offer the Global Bonds in part directly to the public at an initial public offering price equal to the issue price set forth on the cover page of this Prospectus (which is equivalent to the Global Bond Exchange Price determined for the purpose of the Invitation) and in part to certain securities dealers at such price less a concession of 0.50% of the principal amount of the Global Bonds. The Underwriters may allow, and such dealers may reallow, a concession not to exceed 0.25% of the principal amount of the Global Bonds to certain brokers and dealers. After the Global Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriters. The Republic has agreed to pay the Underwriters a fee equal to 1.00% of the aggregate principal amount of Global Bonds purchased by them in connection with the New Cash Offering.

The Republic has agreed to indemnify the Underwriters and FIV against certain liabilities, including liabilities under the Securities Act of 1933.

### **The Global Bond Offering**

Settlement of the Global Bond Offering is scheduled for September 18, 1997. Settlement of the Global Bonds issued pursuant to the Invitation is not conditioned on settlement of the Global Bonds sold pursuant to the New Cash Offering.

The Global Bonds are a new issue of securities with no established trading market. The Republic has been advised by the Dealer Managers that they intend to make a market in the Global Bonds but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Global Bonds. The price at which the Global Bonds will trade in the secondary market is uncertain.

The Dealer Managers or the Underwriters may purchase and sell the Global Bonds or Brady Bonds in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Dealer Managers or the Underwriters (for themselves or a syndicate, if there is a syndicate) in connection with the Global Bond Offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the

market price of the securities; and short positions created by the Dealer Managers or the Underwriters (for themselves or a syndicate, if there is a syndicate) involve the sale by the Dealer Managers or the Underwriters of a greater number of securities than they own or have a right to purchase. The Dealer Managers or the Underwriters may also impose a penalty bid, whereby selling concessions allowed to other broker-dealers (including members of a syndicate, if there is a syndicate) in respect of the securities sold in the Global Bond Offering may be reclaimed by the Dealer Managers or the Underwriters if such securities are repurchased by the Dealer Managers or the Underwriters (for themselves or a syndicate, if there is a syndicate) in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Global Bonds or Brady Bonds which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected on the Luxembourg Stock Exchange, in the over-the-counter market or otherwise.

## JURISDICTIONAL RESTRICTIONS

The distribution of the Global Bond Offering materials and the transactions contemplated thereby may be restricted by law in certain jurisdictions. Persons into whose possession the Global Bond Offering materials come are required by the Republic to inform themselves of and to observe any such restrictions. The Global Bond Offering materials do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. In any jurisdiction in which the Global Bond Offering is required to be made by a licensed broker or dealer and in which any Dealer Manager or any affiliate thereof is so licensed, it shall be deemed to be made by such Dealer Manager or such affiliate on behalf of the Republic.

### Belgium

The Global Bond Offering has not been notified to or approved by the *Commission bancaire et financière/Commissie voor het Bank- en Financiewezen* or by the Minister of Finance. Accordingly, the Global Bond Offering may not be advertised, the Global Bonds may not be offered or sold, and no prospectus, information circular, brochure or similar document may be distributed, directly or indirectly, to any persons in Belgium other than the National Bank of Belgium, the *Institut de Réescompte et de Garantie/Herdisconteringen Waarborginstituut*, or authorized, licensed or registered credit institutions, securities firms, portfolio managers, collective investment institutions, insurance companies and pension funds, all such institutions acting for their own account.

### Canada

#### **Language of Documents**

Each investor, by submitting an offer, acknowledges that it is such investor's express wish that all documents evidencing or relating in any way to the sale of the Global Bonds be drawn up in the English language only. *Chaque investeur, par le dépôt d'une offre, reconnaît que c'est à sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des Obligations Globales soient rédigés en anglais seulement.*

#### **Notice to Saskatchewan Residents**

The Securities Act, 1988 (Saskatchewan), as amended (the "Saskatchewan Act"), provides that, subject to certain limitations, where an offering memorandum, together with any amendment to the offering memorandum, or any advertising or sales literature relating to an offering, contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by the offering memorandum or an amendment to the offering memorandum, or that is referred to in the advertising or sales literature, has a right of action for damages against the issuer, the promoters and directors of the issuer, every person or company whose consent has been filed with the offering memorandum or amendment to the offering memorandum but only with respect to reports, opinions or statements that have been made by them, every person who signed the offering memorandum or the amendment to the offering memorandum, and every person who or company that sells securities on behalf of the issuer under the offering memorandum or amendment to the offering memorandum or in the offering with respect to which the advertising or sales literature was disseminated.

Alternatively, where the purchaser purchased the security from the issuer, the purchaser may elect to exercise a right of rescission against the issuer.

In addition, where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or

contemporaneously with the purchase of the security, the purchaser has a right of action for damages against the individual who made the verbal statement.

No action may be commenced to enforce any of the foregoing rights:

(1) in the case of rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; and

(2) in the case of any other action, other than an action for rescission, more than the earlier of  
(a) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, or  
(b) six years after the date of the transaction that gave rise to the cause of action.

These rights are in addition to and do not derogate from any other right the purchaser may have at law.

### **France**

The Global Bonds may not be offered or sold to the public in France. Accordingly, the Global Bond Offering has not been submitted to the *Commission des Opérations de Bourse* for approval. Any documents relating to the Global Bond Offering as well as the information contained in the Global Bond Offering materials may not be supplied to the public in France or be used in connection with any offer for subscription or sale of Global Bonds to the public in France.

### **Hong Kong**

With respect to persons in Hong Kong, the Global Bond Offering is made to and is only capable of acceptance by persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. Each Underwriter has agreed that it has not issued and will not issue any Global Bond Offering materials or advertisements relating to the Global Bonds in Hong Kong (except if permitted to do so by the securities laws of Hong Kong) other than with respect to the Global Bonds which are intended to be disposed of to persons outside of Hong Kong or only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

### **Italy**

None of the Republic, FIV, as selling bondholder or any Underwriter will solicit the public or professional investors in Italy in connection with the Global Bond Offering. Accordingly, no filings have been made with the Italian securities or bank regulatory authorities in connection with the Global Bond Offering and the Global Bond Offering materials and any other documents concerning the Global Bond Offering will not be distributed in Italy.

### **Japan**

The Global Bonds have not been and will not be registered under the Securities and Exchange Law of Japan. The Global Bonds (or any beneficial interests therein) acquired in Japan may not be transferred by the initial owner thereof or any subsequent transferee thereof to any other person unless such Global Bonds (or such beneficial interests therein) and all other Global Bonds (or beneficial interests therein) acquired by such initial owner at the time of issuance of such Global Bonds are transferred in one lot to a single person.

### **Luxembourg**

Each Underwriter has represented and agreed that it will not publicly offer or sell any Global Bonds in the Grand Duchy of Luxembourg, except for Global Bonds listed on the Luxembourg Stock Exchange

through such Exchange and for Global Bonds for which the requirements of Luxembourg law concerning public offerings of securities have been met.

#### **Mexico**

The Global Bonds have not been registered with the National Register of Securities and Intermediaries maintained by the Mexican National Banking and Securities Commission and may not be offered or sold publicly in Mexico. The Invitation may not be publicly distributed in Mexico.

#### **The Netherlands**

The Global Bonds may not be offered, sold, transferred or delivered in or from within The Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international and supranational institutions and other comparable entities, including, *inter alia*, treasuries and finance companies of large enterprises, which regularly, as an ancillary activity, invest in securities). Individuals or legal entities who or which do not trade or invest in securities in the conduct of their trade or business may not participate in Exchange Offers or the New Cash Offering, and this Prospectus may not be considered an offer or the prospect of an offer to sell Global Bonds.

#### **Portugal**

The Global Bond Offering has not been registered with the Portuguese Stock Exchange Commission.

#### **South Korea**

None of the Global Bonds may be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in the Republic of Korea ("Korea") or to any resident of Korea except pursuant to applicable laws and regulations of Korea. For a period of one year from the issue date of the Global Bonds, no holder of the Global Bonds who is in Korea or a resident of Korea may transfer the Global Bonds in Korea or to any resident of Korea unless such transfer involves all of the Global Bonds held by it. In addition, no tender offer for the Brady Bonds in exchange for the Global Bonds may be made, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

#### **Spain**

The Global Bond Offering in Spain has not been registered with the National Securities Market Commission and, therefore, no Global Bonds may be offered, sold or delivered, nor any offer in respect of Brady Bonds made, nor may any prospectus or any other offering or publicity material relating to the Global Bond Offering or the Global Bonds be distributed, in the Kingdom of Spain by the Republic, any Underwriter or any other person on their behalf.

#### **Switzerland**

The Global Bond Offering is made in Switzerland on the basis of a private placement, not as a public offering, and the Global Bonds will not be listed on the Swiss Exchange. This Prospectus does not, therefore, constitute a prospectus in the sense of Art. 1156 of the Swiss Federal Code of Obligations or Arts. 32 ss. of the Listing Rules of the Swiss Exchange.

#### **The United Kingdom**

The applicable provisions of the Financial Services Act of 1986 must be complied with in respect of anything done in relation to the Global Bond Offering in, from or otherwise involving the United Kingdom.

### **VALIDITY OF THE GLOBAL BONDS**

The validity of the Global Bonds will be passed upon for Venezuela by Arnold & Porter, 399 Park Avenue, New York, New York, 10022, United States counsel to Venezuela, and by Lares, Ramos y Ferreira, S.C., Centro Banavén, Oficina C-22, Avenida La Estancia, Chuao, Caracas 1061, Venezuela, Venezuelan counsel to Venezuela, and for the Dealer Managers by Sullivan & Cromwell, 125 Broad Street, New York, New York, 10004, United States counsel to the Dealer Managers, and by Tinoco, Travieso, Planchart, Erminy & Asociados, Avenida Francisco de Miranda, Torre Country Club, Pisos 2 y 3, Chacaíto, Caracas 1050, Venezuela, Venezuelan counsel to the Dealer Managers. As to all matters of Venezuelan law, Arnold & Porter may rely on the opinion of Lares, Ramos y Ferreira, S.C. and Sullivan & Cromwell may rely on the opinion of Tinoco, Travieso, Planchart, Erminy & Asociados. As to all matters of United States law, Lares, Ramos y Ferreira, S.C. may rely on the opinion of Arnold & Porter and Tinoco, Travieso, Planchart, Erminy & Asociados may rely on the opinion of Sullivan & Cromwell. Since certain opinions referred to in this paragraph with respect to Global Bonds to be issued pursuant to the Invitation will be rendered on the Announcement Date rather than the Settlement Date, they will assume, among other things, that such Global Bonds will be issued on the Settlement Date in accordance with the terms of the Invitation and the Fiscal Agency Agreement.

### **AUTHORIZED REPRESENTATIVE**

The Authorized Representative of the Republic of Venezuela in the United States of America is Pedro Luis Echeverría, Ambassador of the Republic of Venezuela, Embassy of the Republic of Venezuela, 1099 30th Street, N.W., Washington, D.C. 20007.

## GENERAL INFORMATION

### Due Authorization

The creation and issue of the Global Bonds have been authorized pursuant to Presidential Decrees dated September 2 and September 11, 1997, enacted pursuant to Article 42 of the Organic Law of Public Credit of the Republic.

### Listing and Listing Agent

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange. The Luxembourg Listing Agent, from whom copies of the Global Bond Offering materials may be obtained in Luxembourg, is Banque Internationale à Luxembourg S.A., 69 route d'Esch, L -1470 Luxembourg (Telephone: 4590-1).

### Litigation

Neither the Republic nor any governmental agency of the Republic is involved in any litigation or arbitration or administrative proceedings relating to claims or amounts which are material in the context of the Global Bond Offering or issue of the Global Bonds and which would materially and adversely affect the Republic's ability to meet its obligations under the Global Bonds and the Fiscal Agency Agreement with respect to the Global Bonds and no such litigation or arbitration or administrative proceedings are pending or, so far as the Republic is aware, threatened.

### Documents Relating to the Global Bonds

Copies of the Fiscal Agency Agreement, the Banco Central Undertaking and the form of Global Bond may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the specified offices of the Fiscal Agent and Paying Agents.

### Information on the Republic

If any Global Bonds are listed on the Luxembourg Stock Exchange, copies of the most recent *Informe Economico Anual del Banco Central de Venezuela* and budget of the Republic for 1994, 1995 and 1996 and each subsequent year, (as or when available), or if any such materials cease to be published, comparable economic information of the Republic may be obtained at the office of the listing agent for the Global Bonds and at the office of the Fiscal Agent during usual business hours on any day (Saturdays, Sundays and public holidays excepted).

### Clearing

The Global Bonds have been accepted for clearance through Euroclear, Cedel Bank and DTC (Common Code: 8013667; ISIN: US922646AS37, CUSIP: 922646AS3).

**TABLES AND SUPPLEMENTARY INFORMATION**

**I. External Direct Debt of the Republic  
(as of March 31, 1997)**

	Interest	Issue Date	Final Maturity	Currency	Principal Amount	
					Issued Amount (Millions of Original Currency) <sup>(1)</sup>	Outstanding Amount (Millions of U.S.) <sup>(2)</sup>
<b>Multilateral Organizations:</b>						
World Bank	6.50%	1992	2006	U.S.\$	160.0	\$ 28.4
	7.27%	1993-1994	2007-2008	U.S.\$	271.4	47.3
	7.50%	1995	2010	U.S.\$	93.0	1.6
	7.73%	1993	2007	U.S.\$	40.0	3.2
	7.75%	1989-1991	2004-2008	U.S.\$	1,569.2	1,148.8
	8.25%	1994	2007-2008	U.S.\$	250.0	18.3
						<u>\$ 1,247.6</u>
Inter-American Development Bank	3.0%	1974-1975	1998	U.S.\$	32.5	3.3
	3.50%	1992	2012	U.S.\$	64.5	7.2
	7.69%	1990-1991	2010-2014	U.S.\$	609.4	522.0
	8.38%	1985-1994	2000-2018	U.S.\$	1,007.1	587.3
	8.88%	1992-1995	2000-2003	U.S.\$	362.5	50.7
						<u>\$ 1,170.4</u>
Corporación Andina de Fomento	Variable	1992-1995	2000-2003	U.S.\$	47.0	\$ 15.7
FIDA	8%	1982-1992	2003-2005	U.S.\$	24.0	\$ 3.8
<b>Bilateral Agencies:</b>						
Various Creditors	Variable	1992-1994	1997-2001	U.S.\$	505.0	\$ 369.0
Various Creditors	6.84%	1992	2004	U.S.\$	30.8	26.0
Various Creditors	6.87%	1992	2003	U.S.\$	22.7	12.9
Various Creditors	7.90%	1991	1999-2005	Yen	48,644.7	286.6
Various Creditors	9.65%	1988-1989	1999-2002	U.S.\$	64.8	27.1
						<u>\$ 720.6</u>
<b>Commercial Banks:</b>						
Various Creditors	Variable	1992-1994	1997-2001	U.S.\$	96.4	\$ 44.9
Various Creditors	Variable	1995	2006	French Franc	38.8	8.7
Various Creditors	Variable	1994	1998	Austrian Schilling	44.8	7.2
Various Creditors	8.25%	1995	2002	Austrian Schilling	179.2	1.2
						<u>\$ 62.0</u>
<b>Suppliers and Contractors:</b>						
Various Creditors	Variable	1992-1994	1999-2000	U.S.\$	33.5	\$ 19.0
<b>Bonds:</b>						
Resident Bonds	11%	1983	1997	U.S.\$	950.0	\$ 793.2
FRN'98	LIBOR + 1½%	1988	1998	U.S.\$	167.0	167.0
FRN'03	LIBOR + 1½%	1988	2003	U.S.\$	167.0	167.0
DM—10.25%	10.25%	1993	1998	DM	250.0	147.8
DM—8.75%	8.75%	1993	2000	DM	300.0	177.4
DM—10%	10.0%	1995	1998	DM	500.0	295.6
DM—9.125%	9.125%	1996	2006	DM	650.0	384.3
Discount—DM	LIBOR + 1½%	1990	2020	DM	130.8	77.2
Discount—U.S.\$ (Series A)	LIBOR + 1½%	1990	2020	U.S.\$	211.1	211.1
Discount—U.S.\$ (Series B)	LIBOR + 1½%	1990	2020	U.S.\$	968.6	968.6
Par—DM	6.66%	1990	2020	DM	507.7	299.7
Par—French Franc	7.71%	1990	2020	FF	321.4	56.3
Par—Lira	11.30%	1990	2020	IL	318,880.0	188.4
Par—Swiss Franc	4.70%	1990	2020	SSF	100,000.0	40.3
Par—U.S.\$ (Series A)	6.75%	1990	2020	U.S.\$	5,072.0	4,937.7
Par—U.S.\$ (Series B)	6.75%	1990	2020	U.S.\$	1,621.5	1,556.4
FLIRB—DM	LIBOR + 7/8%	1990	1997-2007	DM	340.9	191.5
FLIRB—Swiss Franc	LIBOR + 7/8%	1990	1997-2007	SSF	153.3	99.6
FLIRB—Pounds Sterling	LIBOR + 7/8%	1990	1997-2007	STG	37,143.5	57.2
FLIRB—U.S.\$ (Series A)	LIBOR + 7/8%	1990	1997-2007	U.S.\$	1,670.4	1,590.8
FLIRB—U.S.\$ (Series B)	LIBOR + 7/8%	1990	1997-2007	U.S.\$	938.2	869.5
Debt Conversion—DM	LIBOR + 7/8%	1990	1997-2007	DM	208.5	123.0
Debt Conversion—Pounds Sterling	LIBOR + 7/8%	1990	1997-2007	STG	119.4	193.2
Debt Conversion—U.S.\$ (Series DL)	LIBOR + 7/8%	1990	1997-2007	U.S.\$	5,352.8	5,153.2
Debt Conversion—U.S.\$ (Series IL)	LIBOR + 7/8%	1990	1997-2008	U.S.\$	298.7	298.7
New Money—DM (Series A)	LIBOR + 1%	1990	1997-2005	DM	28.8	17.0
New Money—Pounds Sterling (Series A)	LIBOR + 1%	1990	1997-2005	STG	28.2	45.7
New Money—U.S.\$ (Series A)	LIBOR + 1%	1990	1997-2005	U.S.\$	409.6	386.4
Total						<u>\$19,493.8</u>

(1) Expressed in units of original currencies.

(2) Debt incurred in currencies other than U.S. dollars are translated into U.S. dollars at the respective exchange rates as of March 31, 1997.

## II.

**External Guaranteed Debt of the Republic  
(as of March 31, 1997)**

<u>Name of Public Sector Entity</u>	<u>By Type of Creditor and Amount Outstanding</u>			
	<u>Commercial Banks</u>	<u>Bilateral Agencies</u>	<u>Multinational Organizations</u>	<u>Suppliers and Contractors</u>
		(In millions of U.S.\$)		
ALCASA .....	\$ 0.0	\$ 60.8	\$ 0.0	\$ 0.0
BAUXIVEN .....	0.0	48.9	57.8	0.0
CADAFE .....	0.0	141.6	0.0	0.0
CANTV <sup>(1)</sup> .....	0.0	143.2	0.0	0.0
CAMETRO .....	0.0	344.6	0.0	0.0
EDELCA .....	24.1	366.6	382.2	106.3
FERROMINERA .....	0.0	270.9	4.8	0.0
FESILVEN .....	0.0	20.5	0.0	0.0
INAVI .....	0.0	1.3	0.0	0.0
INTERALUMINA .....	0.0	107.6	1.0	0.0
SIDOR .....	42.9	2.8	0.0	0.0
VENALUM .....	0.0	5.6	0.0	0.0
Total .....	<u>\$67.0</u>	<u>\$1,514.4</u>	<u>\$445.8</u>	<u>\$106.3</u>

(1) CANTV was privatized in 1991 but the Republic's guarantee of existing debt to official creditors was not released. Debt is being serviced on a current basis by CANTV.

## III.

**Internal Debt of the Republic**  
**(as of March 31, 1997)**

Internal Direct Debt of the Republic	Interest Rate	Issuance Date	Final Maturity	Issued Amount (Millions of U.S.\$)	Outstanding Amount (Millions of U.S.\$)
<b>Treasury Bills (Letras del Tesoro)</b>					
Decree 1434, Emisión 57°	(1)	August 1996	Up to 180 days	\$ 492	\$ 116
<b>Treasury Bonds (Bonos del Tesoro)</b>				647	276
Decree 440, Emisión 1°	(2)	December 1994	Up to 3 years	334	125
Decree 824, Emisión 2°	(2)	September 1995	Up to 3 years	313	150
<b>DPN FOGADE Bonds</b>				1,254	941
Decree 347, Emisión 128°	(2)	June 1994	June 1999	314	196
Decree 348, Emisión 130°	(2)	September 1994	September 1999	314	188
Decree 436, Emisión 136°	(2)	November 1994	November 1999	209	138
Decree 1391, Emisión 190°	(2)	July 1996	July 1999	418	418
<b>Commercial Bank Bonds</b>	Various	Nov. 91-Dec. 96	Nov. 97-Dec. 01	15	13
<b>Social Security Institute Bonds</b>					
Decree 2674, Emisión 105°	(3)	December 1992	December 1999	83	45
<b>Debt with Banco Central de Venezuela</b>				2,442	2,442
Debt to Equity Conversion Bonds				77	77
Decree 1051, Emisión 2°, 1990	(2)	September 1988	August 2003	24	24
Decree 1398, Emisión 3°, 1990	(2)	December 1991	December 2001	2	2
Decree 2057, Emisión 4°, 1991	(2)	June 1990	June 2000	30	30
Decree 2490, Emisión 1°, 1988	(2)	December 2000	December 2000	1	1
Decree 3120, Emisión 6°, 1993	(2)	August 1993	August 2003	21	21
1990 Financing Plan Collateral Loan		1990	(4)	2,287	2,287
<b>National Public Debt Bonds (Deuda Pública Nacional-DPN)</b>				679	588
Deuda Pública Nacional (DPN)	(2)	1985	12 years	23	2
Deuda Pública Nacional (DPN)	(2)	1986	7-9 years	16	11
Deuda Pública Nacional (DPN)	(2)	1987	10-15 years	8	6
Deuda Pública Nacional (DPN)	(2)	1988	10-12 years	8	7
Deuda Pública Nacional (DPN)	(2)	1989	8 years	20	5
Deuda Pública Nacional (DPN)	(2)	1990	8-12 years	23	8
Deuda Pública Nacional (DPN)	(2)	1991	8 years	3	2
Deuda Pública Nacional (DPN)	(2)	1992	5-10 years	49	46
Deuda Pública Nacional (DPN)	(2)	1993	5-7 years	154	153
Deuda Pública Nacional (DPN)	(2)	1994	5-7 years	21	21
Deuda Pública Nacional (DPN)	(2)	1995	4-6 years	203	193
Deuda Pública Nacional (DPN)	(2)	1996	4-5 years	151	134
<b>Other</b>					1
<b>Total Internal Direct Debt of the Republic</b>				<u>5,613</u>	<u>4,421</u>
<b>Internal Debt of Public Sector Entities</b>					
Guaranteed by the Republic					20
<b>Total Internal Debt</b>				<u>\$5,613</u>	<u>\$4,441</u>

(1) Rate set by Banco Central in accordance with formula established by Decree 1434.

(2) Rate set by Banco Central in accordance with formula established by the decrees pursuant to which the bonds were issued.

(3) Rate set by Banco Central in accordance with Decree 2674.

(4) In process of refinancing.

**THE ISSUER**

**Republic of Venezuela**

Ministerio de Hacienda de la Republica de Venezuela  
Direccion General Sectorial de Finanzas Publicas  
Avenida Mexico  
Edificio Torre Banco La Guaira, Piso 9 y 12  
Caracas, Venezuela

**FISCAL AGENT**

**The Chase Manhattan Bank**  
450 West 33rd Street  
15th Floor  
New York, New York, 10001  
United States

**PAYING AGENT AND TRANSFER AGENT**

**Chase Manhattan Bank Luxembourg S.A.**  
5, Rue Plaetis  
L-2338 Luxembourg  
Luxembourg

**DEALER MANAGERS**

**Chase Securities Inc.**  
One Chase Manhattan Plaza  
New York, New York, 10081  
United States

**Goldman, Sachs & Co.**  
85 Broad Street  
New York, New York 10004  
United States

**EXCHANGE AGENT**

**Morgan Guaranty Trust Company of New York, London**  
60 Victoria Embankment  
London EC4Y 0JP  
England

**LEGAL ADVISORS**

*To the Republic, as to U.S. law:*

**Arnold & Porter**  
399 Park Avenue  
New York, New York 10022  
United States

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