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17 December 1974

MEMORANDUM FOR: Mr. Raymond J. Albright  
Vice-President, Research and Planning  
Export-Import Bank of the United States  
SUBJECT : Venezuelan Investment Institutions and  
Policies

The attached memorandum is in response to your request for information on the foreign investment institutions and policies of Venezuela for Mr. Casey's use during his upcoming visit to Caracas. Should you require any further information on this or related matters, please call 

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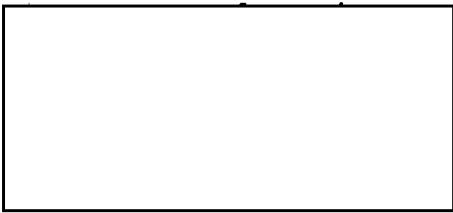
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MAURICE C. ERNST  
Director  
Economic Research

Attachment:  
As stated

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## INVESTMENT INSTITUTIONS

Venezuela's official foreign assets are the largest of any Latin American country. At the end of 1973, they totaled almost \$2.4 billion (see Table 1). Official holdings should reach \$8 billion by year's end. They will then rival those of every European nation, except West Germany.

The reserve build-up is a relatively new phenomenon. Only since 1971 have increases on oil earnings substantially outstripped the economy's demand for foreign exchange.

### Institutions in Flux

The President of Venezuela, Carlos Andres Perez,  STAT

STAT  has ultimate responsibility for government investment policy. He does not participate in day-to-day investment decisions, but does set guidelines. Perez wants to use Venezuela's new found wealth to enhance his country's -- and his personal -- power and prestige, particularly with his Latin American neighbors.

A small group of Cabinet members serve as key advisors to Perez. Gumersindo Rodriguez is probably the most powerful minister in the government and Perez's closest economic advisor. He directs the Central Office of

TABLE 1

## Venezuela's Official Foreign Assets, End of Year

	(million US \$)				
	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u> <sup>1/</sup>
TOTAL	1,020	1,481	1,657	2,366	8,000
Central Bank Foreign Reserves	1,020	1,481	1,657	2,356	5,000
Of which:					
Gold	384	391	391	472	472
Reserve Position in IMF	164	211	229	248	500
Foreign Exchange	472	886	1,037	1,646	4,028
Venezuelan Investment Fund	---	---	---	---	3,000

<sup>1/</sup> Projected.

Coordination and Planning. Hector Hurtado, Minister of Finance, also plays a key role in formulating government economic policy.

The Central Office of Coordination and Planning (COORDIPLAN) has the responsibility for formulating Venezuela's overall economic program. COORDIPLAN's role in economic planning has been greatly strengthened since Rodriguez became head of the office. While not participating in individual investment decisions, COORDIPLAN has considerable influence over investment policy.

Although the Ministry of Finance has formal responsibility for managing Venezuela's official foreign assets, it has delegated this responsibility of two major investment institutions -- the quasi-public central bank (Banco Central) and the newly established Venezuelan Investment Fund (FIV). The ministry directly controls the investment fund and holds a majority of the stock of the central bank.

The Banco Central until recently had operational control over essentially all government foreign assets. It is expected, however, that in the future official holdings that do not qualify as international reserves will be held by other institutions. The bank, a quasi-public semi-autonomous institution, is headed by Alfredo Lafee. He is assisted by a small cadre of

experienced personnel. Their investment decisions are subject only to loose guidelines established by the government.

The Venezuelan Investment Fund, established by President Perez in June 1974, will probably ultimately replace the central bank as the principal investment institution for Venezuela's official foreign assets. The importance President Perez attaches to the fund is evidenced by the fact that the fund's president, Carlos Rangel, holds Cabinet rank. The degree of independence that Rangel and the fund's staff of 16 professionals will have, however, remains to be seen.

Foreign banks and institutions will probably be frequently called upon by the fund for advise. As a new organization with little investment experience, the FIV is looking for assistance. It intends to establish a panel of bankers, investment brokers, and economists to aid the staff in selecting profitable investments.

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## INVESTMENT POLICIES

Venezuela has followed a very conservative investment policy. The reserve build-up is relatively new, and Caracas has consequently tended to keep its foreign holdings liquid to cover unexpected payment requirements. Venezuelans also realize that with declining oil reserves, future development will depend on a steady stream of investment earnings. Officials have therefore sought secure and non-speculative investment outlets.

### Investment Composition

About 70% of the Venezuelan central bank's foreign asset holdings are in bank deposits (see Table 2). Time deposits, most with maturities of 90 days, account for about 65% of the total. Between 1 January and 30 September, holdings in time deposits increased about \$1.7 billion. Highly liquid sight deposits still account for 5% of Caracas' wealth, although their share has declined since the beginning of the year.

The new investment fund will eventually replace the central bank as the major conduit for Venezuelan foreign investment. The fund's portfolio -- at least in the short term -- will closely resemble that of the central bank.



Table 2

Composition of Venezuela's Official Foreign Assets:  
Banco Central, 30 September 1974

	<u>Percent</u>
Gold and Reserve Position in the IMF	15
Other Foreign Reserves	85
Bank Deposits	70
Highly Liquid (current and call accounts)	5
Relatively Liquid (time account and certificates of deposit)	65
Treasury Stocks and Bonds	.5
Selected Notes, Loans, and Bonds	negl.
Other Foreign Assets	10 (million US\$)
<b>TOTAL FOREIGN ASSETS</b>	<b>4,733</b>

The bulk of this year's \$3 billion allotment and most of the next year's proposed \$3.5 billion commitment will probably be held in time deposits and call accounts until suitable alternatives can be found.

Caracas is diversifying its foreign holdings as the reserve build-up accelerates. The central bank held virtually no foreign assets other than gold and bank deposits at the beginning of the year. By 30 September, however, the bank had acquired \$119 million in foreign treasury securities and \$66 million in foreign bonds, including \$24 million in IBRD bonds, \$18 million in Inter-American Development Bank bonds, and \$2 million in Andean Development Corporation bonds. During September, \$86 million was also lent to the IMF oil facility. An additional \$45 million was provided for the oil facility in October and \$100 million in treasury issues were purchased.

A small but growing portion of the investment fund's assets also will be held in foreign treasury issues, foreign bonds and other foreign assets. The fund has already loaned \$500 million to the World Bank and agreed to contribute \$60 million to the Central American Bank for Regional

Integration. It is expected the fund will also make loans to other regional organizations such as the Inter-American Development Bank, the Caribbean Development Bank, and the Andean Development Corporation.

Investment Location

About 80% of Venezuela's foreign assets are located in the United States (see Table 3). This concentration reflects longstanding economic ties, the continuing influence of US financial experts and institutions, and the fact that almost all oil payments are made in dollars in the United States. About 5% of Venezuela's foreign assets are located in other countries -- mainly West Germany, the United Kingdom, and Guatamala.

The central bank is increasing the size of its holdings outside the United States. While the bulk of concessionaire oil payments continue to be placed in US financial markets, some maturing time deposits have been transferred to London branches of US banks.

Nevertheless, the bulk of Venezuela's petrodollars will probably continue to be invested in the United States. Concern over the Eurocurrency market's ability to absorb additional petrodollar flows and the limited size and depth of other

TABLE 3

Location of Venezuela's Official Foreign Assets:  
Banco Central, 30 September 1974

	<u>Percent</u>
Gold and Reserve Position in the IMF	15
United States	80
Other (including Germany, the UK, and Guatamala)	5
International and Regional Organizations	negl
TOTAL FOREIGN ASSETS	(million US \$) 4,733

non-US financial centers limits Caracas' ability to geographically diversify its investments.

Currency Composition

Over 80% of Venezuela's official foreign holdings are in dollar-denominated assets (see Table 4). Less than 5% are in other currencies -- mainly Deutschemarks. There is no indication that Venezuela is attempting to diversify the currency composition of its holdings.

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TABLE 4

Currency of Venezuela's Official Foreign Assets:  
Banco Central, 30 September 1974

	<u>Percent</u>
Gold and Reserve Position in the IMF	15
Dollars	80
Others (mainly Deutschemarks)	5
TOTAL FOREIGN ASSETS	(million US \$) 4,733

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It is not clear how closely the fund will adhere to these guidelines. With a current capital stock of \$2.5 billion, the present investment ceiling is only about \$125 million. In its first transaction -- a \$500 million loan to the World Bank -- the FIV exceeded its proposed funding limit. Continuing flexibility, especially when a high rate of return is possible, is likely.

The fund has also formulated a broad outline of geographic preferences in investment. To the extent possible under the investment guidelines, the FIV will concentrate its investments in:

- ° Selected industries in the domestic economy.
- ° Regional projects in Central and South America.
- ° National projects in Latin America.
- ° Projects in other less developed economies.

The fund is expected to devote substantial resources to financing the foreign exchange cost of investment projects of major domestic industries. Industries of primary interest include iron and steel, hydrocarbons (including petrochemicals), shipbuilding, shipping (particularly oil tankers), and agriculture. It is expected that the FIV's next major investment will be in a Venezuelan project -- perhaps Sidor, the national steel company.

Regional and national projects in Latin America will also receive priority. Investment in Latin America is seen as a way to support Venezuela's foreign political, commercial, and economic policy. The government recognizes the opportunity afforded by its new wealth to assume a leadership role in Latin American affairs. Caracas hopes that its oil dollars will allow Venezuela to replace Argentina, Brazil, and Mexico as the major powers in Central and South America.

The fund is particularly interested in helping Latin American countries ease their oil-induced payments problems. The fund plans to concentrate its investment in export industries, particularly in manufacturing and mining. The projects discussed include: refinery facilities, pulp and paper mills, sugar mills, fertilizer plants, and natural resource exploitation. The FIV seems particularly attracted to poorer Latin American countries such as Bolivia, Costa Rica, Guyana, Haiti, and Honduras, although investment in more developed neighbors is also likely.

The FIV is also interested in loans to regional and international organizations. This is probably, however, a short-term phenomenon. The fund's first major transaction, the World Bank loan, was widely criticized for not adequately advancing Venezuela's national interests.

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