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GENTLEMEN:

WHEN CALLING ON ONE OF OUR VENEZUELAN CUSTOMERS SOME TIME AGO I OBSERVED A SMALL SIGN ON HIS DESK THAT READ: "I AM ONLY CONCERNED ABOUT THE FUTURE BECAUSE I WILL HAVE TO LIVE IN IT THE REST OF MY LIFE". THE TIME OF WHICH WE DISPOSE TODAY TO SPEAK ABOUT VENEZUELA IS SO LIMITED THAT I AM GOING TO USE THIS GOOD ADVICE AND CONCENTRATE ON ANALYZING THE VENEZUELAN PICTURE IN ITS PROJECTION INTO THE FUTURE RATHER THAN TO REVIEW THE ACHIEVEMENTS OF THE LAST TEN YEARS. WE CANNOT, HOWEVER, DISREGARD THE VAST CHANGES WHICH HAVE TAKEN PLACE SINCE 1950 ALTHOUGH WE SHALL CONCENTRATE MAINLY ON DEVELOPMENTS SUBSEQUENT TO THE JANUARY 1958 REVOLUTION.

MOST OF YOU, LIKE OURSELVES, HAVE BEEN DOING BUSINESS WITH VENEZUELA FOR MANY YEARS THROUGH BRANCHES, SUBSIDIARIES OR AFFILIATED COMPANIES OR BY EXPORTING GOODS OR SERVICES.. WE ARE, THEREFORE, FAMILIAR WITH THE COUNTRY'S METHODS AND HABITS OF DOING BUSINESS. PERHAPS MY ONLY ADVANTAGE OVER YOU IS THE FACT THAT I HAVE JUST ARRIVED FROM CARACAS AND SOME OF THE DEVELOPMENTS AND FIGURES AVAILABLE TO ME MAY HAVE NOT YET REACHED YOU.

SINCE JANUARY OF 1958, VENEZUELA HAS UNDERGONE DRASTIC POLITICAL CHANGES AND NO DOUBT THE CHANGES THAT TOOK PLACE WILL HAVE A VERY IMPORTANT BEARING ON THE FUTURE DEVELOPMENT OF THE VENEZUELAN ECONOMY.

FOLLOWING THE OUSTER OF PRESIDENT PEREZ JIMENEZ 17 MONTHS AGO, VENEZUELA WAS GOVERNED BY A PROVISIONAL JUNTA, SUPPORTED BY A 14-MEMBER CABINET, WITH LIBERAL CIVILIAN REPRESENTATION IN BOTH GROUPS. ROMULO BETANCOURT, A LEFT-OF-CENTER POLITICAL LEADER WHO HAD BEEN IN EXILE SINCE 1948 WHEN HIS REGIME WAS ABRUPTLY ENDED BY A MILITARY COUP, WAS INAUGURATED LAST FEBRUARY, FOLLOWING WHAT WERE PROBABLY THE FREEST ELECTIONS EVER HELD IN VENEZUELA. PRESIDENT BETANCOURT IS EXPECTED TO HELP VENEZUELA BY PROFITING FROM HIS MISTAKES IN THE PAST AND HAS APPOINTED SEVERAL ABLE MEN TO HIS ~~ABOX~~ CABINET. THE NEW CONGRESS, ALSO ELECTED LAST DECEMBER, GIVES THE PRESIDENT'S PARTY A CLEAR MAJORITY IN BOTH HOUSE AND SENATE.

THE MOST FAR-REACHING ACT OF THE PROVISIONAL JUNTA WAS THE INCOME TAX DECREE OF DECEMBER 1958 WHICH RAISED THE TOP-BRACKET TAX FROM 26% to 45%. ALTHOUGH APPLICABLE TO VENEZUELAN AND FOREIGNERS ALIKE, AND STILL MODEST WHEN COMPARED TO TAXES IN MANY OTHER COUNTRIES, IT WAS A RUDE SHOCK TO INDUSTRY AND BUSINESS IN GENERAL. ITS GREATEST IMPACT WAS, OF COURSE, ON THE OIL INDUSTRY, WHICH WAS HARDEST HIT BECAUSE OF ITS PREDOMINANCE IN THE ECONOMY OF THE COUNTRY.

ALTHOUGH NO IMPORTANT LEGISLATION HAS, AS YET, BEEN ENACTED BY THE NEW CONGRESS, THERE ARE A NUMBER OF PROJECTS IN THE HOPPER WHICH INCLUDE A DRAFT FOR A NEW CONSTITUTION, A NEW AGRARIAN LAW, OTHER LAWS OF SOCIAL BENEFIT AND, IMPORTANTLY, PROPOSALS TO

REWRITE THE LAW OF PUBLIC CREDIT AND THE CENTRAL BANK LAW. THE PRIMARY AIMS OF THE LAST TWO PROPOSALS ARE TO TIGHTEN CONTROLS ON DEBT COMMITMENTS BY ALL BRANCHES OF THE GOVERNMENT AND TO FACILITATE AND IMPLEMENT THE BEGINNINGS OF A "MONEY MARKET" FOR GOVERNMENT PAPER.

THE PRESIDENT IN HIS INAUGURAL SPEECH, WHICH WAS WELL RECEIVED IN MOST QUARTERS, EMPHASIZED THAT:

- 1) NO FURTHER UPWARD ADJUSTMENTS IN THE INCOME TAX LAW ARE CONTEMPLATED;
- 2) THE COMMUNIST PARTY WOULD NOT PARTICIPATE IN THE EXECUTIVE BRANCH OF THE GOVERNMENT;
- 3) VENEZUELA WOULD CONTINUE TO MAINTAIN A FRIENDLY ATTITUDE TOWARD THE UNITED STATES;
- 4) FOREIGN INVESTMENTS WOULD CONTINUE TO BE WELCOME.

SINCE THEN BOTH THE MINISTER OF FINANCE AND THE MINISTER OF DEVELOPMENT HAVE FREQUENTLY REITERATED THEIR INTEREST IN MAINTAINING AN ATMOSPHERE FAVORABLE TO THE ATTRACTION OF FOREIGN CAPITAL, ESPECIALLY FROM THE UNITED STATES.

THIS INDICATION OF GOOD INTENT HAS, UNFORTUNATELY, BEEN SHADOWED SO FAR BY:

- 1) EXAGGERATED DEMANDS OF LABOR UNIONS, MOSTLY COMMUNIST DOMINATED, WHEN NEGOTIATING OR RENEGOTIATING NEW COLLECTIVE CONTRACTS;

- 2) THE INVASION OF LAND, BOTH PRIVATELY AND GOVERNMENT OWNED, BY SQUATTERS TO TAKE POSSESSION BEFORE THE AGRARIAN REFORM BEGINS;
- 3) A CAMPAIGN OF AGITATION IN THE UNIVERSITIES BY LEFTIST ELEMENTS AND LEFTIST INFILTRATION IN NEWSPAPERS, RADIO AND TELEVISION STATIONS;
- 4) INADEQUATE POLICE FORCE AND DISCIPLINE TO SUPPRESS HOODLUMISM AND CRIME;
- 5) A GROWING FEELING OF NATIONALISM.

THE NEW FEDERAL GOVERNMENT HAS BEEN IN POWER ONLY 3-1/2 MONTHS AND THE FULL WEIGHT OF ITS INFLUENCE HAS NOT YET BEEN FELT. THERE IS NO DOUBT, HOWEVER, THAT THE PRESIDENT'S ATTITUDE IS ONE OF MODERATION AND THAT HE WISHES TO FIND EQUITABLE SOLUTIONS TO ALL THE PRESENT PROBLEMS. IT IS STILL PREMATURE TO JUDGE HIS POSITION AND STRENGTH, BUT IN THE NEXT FEW MONTHS WE SHALL BE IN A BETTER POSITION TO APPRAISE HOW STRONG IS HIS LEADERSHIP. I REFER PARTICULARLY TO THE RENEGOTIATION OF THE COLLECTIVE CONTRACT OF THE OIL INDUSTRY WITH THEIR UNIONS WHICH COMES UP FOR REVISION NEXT OCTOBER. THE GOVERNMENT CAN INFLUENCE NEGOTIATIONS INDIRECTLY. IT HAS MUCH AT STAKE AND IT IS HOPED THAT IT WILL EXERCISE DUE RESTRAINT ON LABOR DEMANDS IN VIEW OF PRESENT WORLD OVERSUPPLY OF OIL AND DECLINING PRICES.

LET ME COMMENT NOW BRIEFLY ON THREE OF THE MOST IMPORTANT COMPONENTS OF THE VENEZUELAN ECONOMY, NAMELY, THE BUDGET, PETROLEUM AND THE FOREIGN EXCHANGE POSITION.

1) BUDGET

AS YOU KNOW, VENEZUELA'S PROSPERITY AND HIGH PER-CAPITA INCOME STEMS DIRECTLY FROM ITS WISE POLICY IN THE PAST IN PERMITTING FOREIGN CAPITAL TO PLACE IT AMONG THE WORLD'S TOP PRODUCERS OF OIL. THE GOVERNMENT'S FISCAL POLICY IS, THEREFORE, LARGELY DEPENDENT ON THE OIL INDUSTRY.

SINCE 1953 GOVERNMENT REVENUES HAVE INCREASED STEADILY EACH YEAR AND MORE THAN DOUBLED, BUT DISBURSEMENTS HAVE SHOWN AN EVEN SHARPER RISE. NO BUDGETARY DEFICIT WAS REPORTED, HOWEVER, IN ANY FISCAL YEAR DURING THE PREVIOUS REGIME AS ONLY ACTUAL PAYMENTS WERE REPORTED AND PAST DUE OBLIGATIONS WERE OFTEN OMITTED. IN 1953 REVENUES TOTALLED BS.2,533 MILLION AGAINST EXPENDITURES OF BS.2,404 MILLION; THIS COMPARES WITH ESTIMATED REVENUE AND EXPENDITURES OF BS.5,208 MILLION AND BS.7,193 MILLION, RESPECTIVELY, FOR FISCAL YEAR ENDING THIS MONTH. THE DEFICIT, IN SPITE OF HIGHER RECEIPTS FROM THE NEW INCOME TAX LAW, WAS BROUGHT ABOUT BY THE PAYMENT OF A LARGE PART OF THE PREVIOUS GOVERNMENT'S EXTRA-BUDGETARY OBLIGATIONS.

NEXT YEAR'S BUDGET - NOW BEFORE CONGRESS - PLACES REVENUES AT BS.5,069 MILLION, OF WHICH 40% WILL COME FROM INCOME TAXES, LARGELY FROM THE OIL INDUSTRY, 26% FROM OIL ROYALTIES AND TAXES AND MORE THAN 10% FROM CUSTOMS DUTIES. IN ADDITION TO BUDGETING A LIKE TOTAL FOR

DISBURSEMENTS, WHICH INCLUDE SOME CAPITAL EXPENDITURES, THERE IS AN ADDITIONAL "SPECIAL" EXPENSE BUDGET OF BS. 1,065 MILLION FOR PUBLIC WORKS WHICH, IF DISBURSED, WILL BE FINANCED BY MEANS OF TREASURY BILLS AND OTHER FORMS OF INTERNAL AND EXTERNAL BORROWING.

II) PETROLEUM

AFTER 1945, THE VENEZUELAN GOVERNMENT DID NOT GRANT ANY NEW PETROLEUM CONCESSIONS UNTIL RECENT GRANTS MADE IN 1956 AND 1957. INTEREST IN OBTAINING THESE CONCESSIONS WAS SO KEEN THAT VERY LARGE PREMIUMS, OVER AND ABOVE THE MINIMUM PAYMENTS SPECIFIED BY LAW, WERE OFFERED BY THE SUCCESSFUL BIDDERS, WITH THE RESULT THAT THE GRANTING OF CONCESSIONS REPRESENTED A VERY SIGNIFICANT SOURCE OF GOVERNMENT INCOME IN THOSE YEARS. INITIAL PAYMENTS MADE FOR THOSE CONCESSIONS TOTALED ALMOST \$700 MILLION. THE NEWLY ELECTED GOVERNMENT HAS MADE IT CLEAR THAT THEY DO NOT CONTEMPLATE GRANTING NEW CONCESSIONS IN THE FORESEEABLE FUTURE.

DURING THE FIRST THREE MONTHS OF 1959 THE DAILY AVERAGE OIL PRODUCTION PER MONTH PASSED THE 3 MILLION MARK BUT BY THE END OF MAY HAD SETTLED BACK TO ABOUT 1958'S AVERAGE OF 2.7 MILLION BARRELS. AS YOU ARE PROBABLY AWARE, SINCE THE BEGINNING OF APRIL, THE U.S. GOVERNMENT IMPOSED OBLIGATORY QUOTAS ON OIL IMPORTS. IN ANTICIPATION OF THESE RESTRICTIONS, IMPORTATIONS WERE HEAVY EARLY IN THE YEAR; HOWEVER, THESE RESTRICTIONS, THE END OF THE WINTER, AND THE GENERAL OVERSUPPLY OF OIL ACCOUNT FOR THE RETURN OF THE VENEZUELAN PRODUCTION TO MORE NORMAL LEVELS.

III) FOREIGN EXCHANGE

AS A RESULT OF THE HISTORICAL STABILITY OF THE BOLIVAR AS A MONETARY UNIT, ITS TRANSFERABILITY AND CONVERTIBILITY INTO OTHER CURRENCIES, THE COUNTRY ENJOYS AN EXCEPTIONALLY FREE EXCHANGE MARKET, UNEQUALLED IN RECENT YEARS IN OTHER LATIN AMERICAN COUNTRIES.

EXCEPT IN 1947, 1950, 1954 AND 1958 VENEZUELA HAS HAD FAVORABLE BALANCE OF PAYMENTS AND HAS ACCUMULATED SUBSTANTIAL INTERNATIONAL MONETARY RESERVES, GOLD RESERVES ARE THIRD LARGEST AMONG THE NATIONS OF THE WESTERN HEMISPHERE, AFTER U.S.A. AND CANADA, AND RANK TENTH AMONG THE NATIONS OF THE FREE WORLD. AS OF THE END OF FEBRUARY OF THIS YEAR (LATEST FIGURES AVAILABLE) GOLD RESERVES ALONE AMOUNTED TO ALMOST \$600 MILLION AND EXCEEDED TOTAL BANK NOTES IN CIRCULATION BY \$136 MILLION. TO THIS FIGURE SHOULD BE ADDED NET FOREIGN CURRENCY HOLDINGS IN FOREIGN BANKS OF SOME \$221 MILLION.

SINCE 1950, PURCHASES AND SALES OF FOREIGN EXCHANGE BY THE CENTRAL BANK OF VENEZUELA HAVE STEADILY INCREASED, MORE OR LESS COMMENSURATE WITH INCREASED OIL PRODUCTION.

DOLLAR BALANCES SHRANK BY SOME \$396 MILLION IN 1958. THIS WAS DUE PRIMARILY TO PAYMENT OF DEBTS CONTRACTED BY THE FORMER REGIME, PLACED AT SOME \$570 MILLION OF WHICH ROUGHLY 60% WAS REMITTED ABROAD, TO HEAVY IMPORTATIONS LARGELY FOR PUBLIC WORKS IN 1957, AND TO SOME FLIGHT OF CAPITAL WHICH IS UNDERSTANDABLE IN THE FACE OF POLITICAL CHANGES AND UNSETTLED CONDITIONS. EVEN SO,

VENEZUELA STILL HAD, AT THE YEAREND, GOLD AND FOREIGN EXCHANGE RESERVES EQUAL TO THOSE AT THE END OF 1956.

FOR THE FIRST FIVE MONTHS OF THIS YEAR, DOLLAR PURCHASES BY THE CENTRAL BANK OF VENEZUELA HAVE EXCEEDED SALES PRODUCING A FAVORABLE BALANCE OF ABOUT \$32 MILLION AS COMPARED WITH AN UNFAVORABLE BALANCE OF \$191 MILLION FOR THE SAME PERIOD IN 1958.

ALTHOUGH 16 AMERICAN AND CANADIAN BANKS APPROVED LAST NOVEMBER A LOAN COMMITMENT FOR VENEZUELA OF UP TO \$225 MILLION AVAILABLE THROUGH APRIL 30 OF THIS YEAR, IT WAS NOT REQUIRED LARGELY DUE TO COOPERATIVE ACTION BY THE CENTRAL BANK AND BY THE OIL COMPANIES WHO PAID AHEAD OF SCHEDULE SOME OF THEIR 1958 TAX OBLIGATIONS.

LET ME NOW TURN TO GENERAL CONDITIONS AND THE FUTURE OUTLOOK. AT THE PRESENT TIME CONSUMER GOODS ARE MOVING AT HIGH LEVELS, RETAIL SALES ARE HOLDING UP VERY WELL, PARTICULARLY IN THE FEDERAL DISTRICT. THE AUTOMOBILE DEALERS ARE DOING A SIZEABLE BUSINESS IN 1959, BUT HEAVY TRUCKS ARE MOVING SLOWLY AND HEAVY CONSTRUCTION EQUIPMENT IS ALMOST AT A STANDSTILL, REFLECTING THE DEPRESSED STATE OF THE BUILDING TRADE; HOWEVER, IT IS EXPECTED THAT WITH THE INITIATION OF NEW PUBLIC WORKS WHICH, ACCORDING TO THE NEW PROPOSED BUDGET, WILL HAVE AN ALLOCATION OF ALMOST \$600 MILLION, THESE SECTIONS OF THE ECONOMY WILL ALSO IMPROVE.

THE IMMEDIATE OUTLOOK IS, THEREFORE, ONE OF ENCOURAGEMENT, ADMITTEDLY, THERE ARE SOME DARK CLOUDS ON THE ECONOMIC FRONT.

I REFER IN PARTICULAR TO THE INCREASING INFILTRATION OF COMMUNISM WHICH IS CAPITALIZING ON THE CONFUSED POLITICAL PICTURE AND UNSETTLED ECONOMIC CONDITIONS, TO THE WORLD OVERSUPPLY OF OIL AND RESULTING DECLINE IN PRICES, TO A GROWING NATIONALISTIC TREND AND TO THE THROTTLING DEMANDS OF LABOR. HOWEVER, THESE FACTORS ARE NOT INSURMOUNTABLE OBSTACLES TO THE FUTURE GROWTH AND DEVELOPMENT OF THE COUNTRY. SOME ARE THE NORMAL LABOR PAINS IN THE TRANSITION FROM A CLOSELY CONTROLLED ECONOMY TO ONE OF RELATIVE FREEDOM AND CAN BE OVERCOME BY AN UNDERSTANDING AND ENLIGHTENED GOVERNMENT WHICH THE PRESENT ONE HAS EVERY APPARENT INTENTION OF BECOMING. THE OIL PICTURE IS AN ECONOMIC ONE AND, WHILE SERIOUS, IT IS BY NO MEANS CRITICAL TO THE ECONOMIC LIFE OF VENEZUELA AS PRODUCTION CAN BE CURTAILED STILL CONSIDERABLY MORE BEFORE AUSTERITY IN FISCAL POLICY AND DEPRESSION IN BUSINESS BECOME NECESSARY.

IN VENEZUELA THERE IS HARDLY ANY INDUSTRIAL FIELD IN WHICH OPPORTUNITIES MAY NOT BE PRESENT, PARTICULARLY SINCE POPULATION IS INCREASING AT A VERY RAPID RATE. THERE ARE CERTAIN INDUSTRIES MORE DEVELOPED THAN OTHERS SUCH AS THOSE PRODUCING TEXTILES, PAINTS, TIRES, CEMENT, SUGAR, BEER, CIGARETTES, SOAP AND DETERGENTS AND, RECENTLY, FLOUR, BUT THERE IS STILL AN ENDLESS LIST OF GOODS IMPORTED IN LARGE QUANTITIES WHICH THE GOVERNMENT WOULD LIKE TO SEE PRODUCED IN THE COUNTRY. TARIFF PROTECTION, WHERE JUSTIFIED, IS BEING GRANTED TO YOUNG INDUSTRIES.

OUR BANK HAS BEEN IN BUSINESS IN VENEZUELA FOR 42 YEARS AND OPERATES FOUR CONVENIENTLY LOCATED BRANCHES WHERE WE PROVIDE PRACTICALLY EVERY REGULAR BANKING SERVICE TO WHICH YOU ARE ACCUSTOMED IN THIS COUNTRY. AS OUR CAPITAL AND OTHER FINANCIAL RESOURCES IN VENEZUELA HAVE BEEN STEADILY INCREASING, WE HAVE BEEN ABLE TO PROVIDE OUR CLIENTS WITH THEIR FINANCIAL NEEDS AND AT RATES WHICH, ALTHOUGH MODERATELY HIGHER THAN NEW YORK RATES, NEVERTHELESS COMPARE FAVORABLY WITH THOSE IN OTHER COUNTRIES OF SOUTH AMERICA.

AS AN INDICATION OF OUR FAITH IN VENEZUELA'S FUTURE, WE HOPE TO INAUGURATE IN 1960 A MODERN BANK BUILDING IN DOWNTOWN CARACAS, NEAR THE CENTRAL BANK, FOR WHICH BUILDING CONTRACTS HAVE ALREADY BEEN ENTERED INTO. PLANS ARE ALSO IN THE BLUEPRINT STAGE FOR ANOTHER BUILDING TO SERVICE BETTER OUR CUSTOMERS IN THE EASTERN PART OF THE EVER-GROWING AND EXPANDING CITY OF CARACAS.

SUMMING UP, I SHALL CLOSE BY SAYING THAT DESPITE THE ABRUPT CHANGE OF GOVERNMENT THAT TOOK PLACE LAST YEAR, THE SUBSTANTIAL LOSS IN ITS INTERNATIONAL RESERVES AND THE PRESENT "WAIT AND SEE" ATTITUDE ON THE PART OF PRIVATE CAPITAL, THERE ARE STILL MANY ELEMENTS WHICH FAVOR LOOKING TO THE FUTURE WITH OPTIMISM. IF THE GOVERNMENT THROUGH ITS ACTIONS IN THE NEXT FEW MONTHS RESTORES AN ATMOSPHERE OF CONFIDENCE, THE SPIRIT OF ENTERPRISE

WHICH FOR SEVERAL YEARS HAS PREVAILED IN VENEZUELA WILL SURGE FORWARD AGAIN IN HIGH GEAR.

I CANNOT CLOSE WITHOUT THANKING YOU FOR YOUR ATTENTION AND CORDIALITY AND WITHOUT EXPRESSING MY APPRECIATION FOR THIS OPPORTUNITY TO EXCHANGE IDEAS ON MATTERS OF MUTUAL INTEREST.