

## Bolivarian Republic of Venezuela

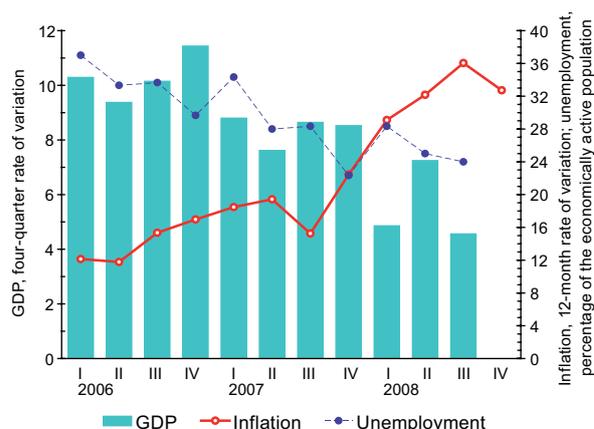
In 2008 there was a change in the trend of a number of variables that had been driving economic performance in the Bolivarian Republic of Venezuela since 2003. Aggregates such as gross fixed capital formation, monetary liquidity and bank lending fell in real terms, while public spending also posted a considerable real decline. This was in addition to the sharp fall in oil prices in the last quarter, which limited the continued accumulation of government revenue from that source. Consequently, economic growth slowed in 2008 compared to previous years and GDP is expected to post an expansion rate of close to 5.0% for the year overall. One of the economic authorities' main concerns in 2008 has been to check inflation, whose yearly rate is calculated to rise above 30%. Growth projections for 2009 are lower, owing to the drop in oil revenues,<sup>1</sup> and the government has announced that the exchange rate will be maintained at 2,150 bolívares to the United States dollar.

GDP increased by 5.6% during the first three quarters of 2008, compared to the same period of 2007, thanks to growth in both petroleum and non-petroleum sectors (4.1% and 5.9%, respectively). The strongest sectors were construction (7.6%), communications (21.3%) and community and personal services (9.1%). Financial services, which had posted double-digit growth since 2003, contracted by 5.2%. Domestic demand slackened sharply in this period, since gross fixed capital formation fell by 1.5%<sup>2</sup> and private consumption rose only moderately (8.3%). The volume of goods and services exports continued to decline (-0.4%), and goods and services imports were up just 3.8% by volume, after chalking up annual rates of over 30% between 2004 and 2007.

In April 2008, the government announced the nationalization of the cement companies operating in the country and of a large metallurgy firm, in the framework of the special powers granted to the President under the enabling law.<sup>3</sup> On 31 July the President announced the nationalization of Banco de Venezuela and issued 26

decrees with the force of law in the areas of labour, food production and supply, defence, economic planning, loans to the agricultural and tourism sectors, and development of what is termed the “popular economy”. The executive branch and the cement companies failed to reach agreement by the August deadline on the price to be paid for the

**BOLIVARIAN REPUBLIC OF VENEZUELA: GDP, INFLATION AND UNEMPLOYMENT**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>1</sup> In the period January–November 2008, the average price of the Venezuelan crude oil basket rose by 43% compared with the average for 2007.

<sup>2</sup> This aggregate had been expanding at rates of over 20% since the first quarter of 2004.

<sup>3</sup> This legislation was adopted in January 2007 and remained in force until 31 July 2008.

nationalization, and the executive branch proceeded to expropriate the firms.<sup>4</sup>

The government continued to supply oil to a number of countries within the framework of the Bolivarian Alternative for Latin America and the Caribbean, the Petrocaribe energy cooperation agreement, Petrosur, and bilateral agreements signed with a number of countries.

In April 2008, legislation was adopted on the special contribution derived from extraordinary prices in the international hydrocarbon market. This law stipulates that oil companies must pay a special tax to the State when oil prices rise above US\$ 70 per barrel of Brent crude. The tax operates at two rates: 50% of the price difference per barrel of crude when the barrel price rises above US\$ 70 and 60% when it exceeds US\$ 100. This tax must be paid in foreign exchange, not in bolívares, and the proceeds are deposited in the National Development Fund (FONDEN). In June, the government announced the elimination of the tax on financial transactions.

In the first seven months of 2008, the central government's ordinary income increased by 14.9%; the slower rate of increase may be attributed to a fall in income tax receipts (from both oil and non-oil sectors) and lower growth in VAT collection following the rate cut implemented in 2007. This lower rate of income growth was also despite a significant rise in takings from petroleum royalties. Operating costs increased by 40.1% in those seven months. As a consequence, during the first semester the central government is estimated to have run a deficit of almost 1%.

On 1 January 2008, a redenomination of the bolívar took place. Three zeros were cut from the currency unit, which was renamed the "bolívar fuerte" (Bs.F.) The minimum rates of interest for savings and time deposits were raised as of 1 May 2008, to 15% and 17%, respectively, and a ceiling of 33% was imposed on credit-card interest rates. For January-October, the average lending rate was 22.9%, while deposit rates averaged 13.6% and 15.6% (for savings and time deposits, respectively).

The growth of monetary aggregates slowed considerably in 2008. In September M2 and M1 were up by a nominal 11.7% and 9.9%, respectively, in relation to December 2007 (27% and 24.3% in relation to September 2007). Domestic credit to the private sector behaved in a like manner, with growth of 15.6% in December 2007-September 2008 (73.5% year-on-year at December 2007), reflecting a strong slowdown in business loans (which increased by 6%) and consumer loans (which increased by 28%).

<sup>4</sup> Negotiations to define the sum to be paid for the transaction of these firms' ownership are pending.

#### BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	10.3	8.4	4.8
Per capita gross domestic product	8.5	6.6	3.1
Consumer prices	17.0	22.5	32.7 <sup>b</sup>
Average real wage	5.1	1.2	-4.2 <sup>c</sup>
Money (M1)	83.4	24.6	20.8 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-6.1	-11.0	-17.6 <sup>f</sup>
Terms of trade	19.4	9.6	28.8
<b>Annual average percentages</b>			
Unemployment rate	10.0	8.4	7.4 <sup>g</sup>
Central government			
overall balance / GDP	0.0	3.0	-1.8
Nominal deposit rate	10.1	10.6	15.9 <sup>h</sup>
Nominal lending rate	14.6	16.7	23.0 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	66 782	70 838	95 938
Imports of goods and services	38 503	52 987	55 103
Current account	27 149	20 001	39 635
Capital and financial account	-22 011	-25 743	-36 135
Overall balance	5 138	-5 742	3 500

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Estimate based on data from January to September.

<sup>d</sup> Twelve-month variation to October 2008.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> Estimate based on data from January to October.

<sup>h</sup> Average from January to November, annualized.

International reserves held by the Central Bank of Venezuela (including the resources in the Macroeconomic Stabilization Fund (FEM)) stood at US\$ 40.468 billion in October 2008, and the authorities continued to transfer funds from Bank's international reserves to FONDEN (US\$ 1.538 billion between February and March). A joint China-Bolivarian Republic of Venezuela fund was set up in May with contributions from both governments.<sup>5</sup> The Venezuelan government is also involved in efforts to set up a binational Russian-Venezuelan bank. In March, the government announced its intention to issue US\$ 1.5 billion in structured notes during the year and in April launched a combined offer of US\$ 3 billion in international sovereign bonds maturing in 2023 and 2028. This bond issue finally went ahead for US\$ 4 billion.

The exchange rate remained at 2,150 bolívares to the dollar throughout 2008. Both the currency regime that has been in place since 2003 and restrictions on

<sup>5</sup> This fund is to be used to fund projects in the country and consists of US\$ 6 billion (US\$ 2 billion contributed by the Venezuelan government and US\$ 4 billion by the Chinese government).

capital outflows remained unchanged.<sup>6</sup> A law on foreign exchange offences entered into force on 28 January. As of 23 June, companies registered with the Foreign Exchange Board (CADIVI) prior to 11 June 2008 were exempted from requirements regarding foreign exchange requests, for amounts up to US\$ 50,000 to be used for the importation of goods.

In January 2008, the Central Bank of Venezuela, together with the National Statistical Institute, began to publish a new national consumer price index (NCPI). Between January and October, this index rose by 24.7% in relation to December 2007,<sup>7</sup> driven by a faster rate of increase in the prices of food and drinks, restaurants and hotels, and medical and hospital services. Although price controls have been maintained for a wide range of

goods and services, non-compliance has been on the rise, particularly in non-food segments. The wholesale price index rose by 23.5% during the same period (26.3% for national products and 13.2% for imported goods).

The general wage index showed an average increase of 22.8% in the first three quarters of 2008, in relation to the year-earlier period (21.2% in the private sector and 26.1% in the public sector). Both public sector wages and the minimum wage were raised by 30% as from 1 May. As an annual average, the unemployment rate came down to 7.7% during those three quarters (8.5% in 2007).

The current account surplus stood at US\$ 44.325 billion for the period January-September; goods exports were up by 67.8% and goods imports rose by 6.4% during the same period.

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<sup>6</sup> Throughout 2008, there was a significant increase in the parallel exchange rate, however, which in November stood 137% above the official rate.

<sup>7</sup> The consumer price index for the Caracas metropolitan area rose by 25.8% during the same period (35.6% year-on-year at October 2007). During the same period core inflation rose by 27.2%.