

Bolivarian Republic of Venezuela

The main trends observed in 2005 continued during 2006. Economic activity rose by 10.2% in the first three quarters of the year driven by increased buoyancy in construction, commerce, communications and financial services. The most rapidly expanding components of demand were gross fixed capital formation (31.6%) and private consumption (17.7%). For the year as a whole, growth is estimated to stand at around 10%. As a result of high oil prices, the current account surplus grew again in 2006, to almost 18% of GDP. In elections held in December 2006, the current President was re-elected for a new term (2007-2013).

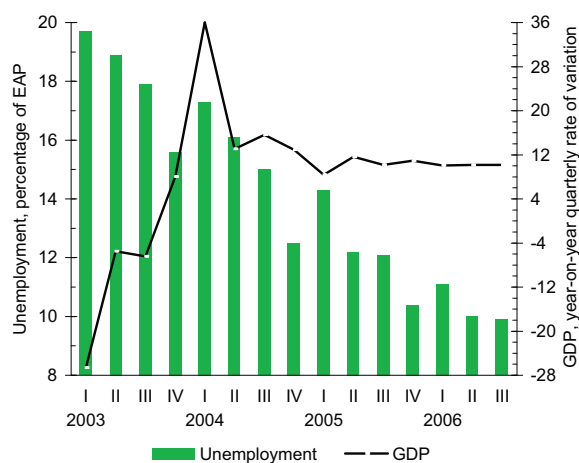
In 2006, there were major changes in regional integration processes involving the Bolivarian Republic of Venezuela. In April, the country announced its intention to leave the Andean Community. In May, it announced its withdrawal from the Group of Three (G-3), which it had formed with Mexico and Colombia, and in July the country formally joined the Southern Common Market (MERCOSUR).

For 2007, the authorities expect GDP growth of between 5% and 6%, average annual inflation of 12% and the maintenance of the exchange rate of 2,150 bolívares to the dollar.

As in 2005, one of the main challenges facing the economic authorities in 2006 was how to handle the significant foreign exchange resources obtained from exports of oil and petroleum products. Together with the significant increase in fiscal expenditure, this has brought about continual rises in domestic liquidity. Up to October 2006, M1 was 52.4% higher than in December 2005.

As for monetary policy, the central bank continued to intervene in the market through absorption measures to offset the constant increases in liquidity. By September 2006, the amount it had issued in certificates of deposit was about the same as the monetary base (1.4 times in July 2006). Up to June 2006, deposits in the banking system had swelled by 22.7%, and bank credit to the private sector was up 20.3% on December 2005. During the year, minimum percentages in the bank loan portfolio continued to be allocated to specific sectors, and the minimum and maximum lending and borrowing rates fixed by the board of governors of the central bank were

Figure 1
BOLIVARIAN REPUBLIC OF VENEZUELA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

also maintained.¹ Up to November 2006, the six main commercial banks had an average lending rate of 14.9% and an average deposit rate of 6.6%.

Fiscal policy remained expansionary. In the first half of 2006, total public expenditure of the central government, in nominal terms, was 74.6% higher than the first six months of 2005, while revenues were up by 26.8%. This resulted in a negative financial balance of just under 1%, compared with the 1.7% surplus recorded in 2005. Higher expenditure was mainly attributable to an increase in current and capital

¹ A maximum of 28% for lending rates and a minimum of 6.56% for savings deposits and 10% for time deposits.

transfers to public agencies. Changes were made in 2006 to some taxes collected by the government. The tax on bank debits was eliminated in February, while the introduction of a tax on oil extraction (33.3% of crude well-head value) was announced in May, so all oil companies operating in the country had to pay the same royalty rate.

Similarly to 2005, in 2006 the government invested dollars in the purchase of foreign bonds, which were mainly sold to financial institutions in the country.² The government also set up foreign exchange funds abroad and has carried out an intense renegotiation programme for its external debt, with a view to obtaining longer terms and lower rates. Domestic debt was also restructured to improve the yield curve for government bonds and, in the first half of 2006, the government repurchased all outstanding Brady bonds for just under US\$ 4.4 billion. In November, the Ministry of Finance publicly advertised US\$ 1 billion worth of “Southern Bonds”.³

As for foreign-exchange policy, the authorities maintained the currency regime in existence since 2003 and the same restrictions on capital outflows. The exchange rate remained fixed at 2,150 bolívares to the dollar.

In November 2006, cumulative inflation as measured by the consumer price index (CPI) stood at 14.9% in relation to December 2005. The largest increases were recorded in the prices of food and beverages, restaurants and hotels, and education services—despite price controls for a significant group of products in the CPI basket. The wholesale price index increased by 14.1% (with prices of national products up by 16.2% and those of imported products by 7.6%).

During the first three quarters of 2006, wages (measured by the general wage index) were 22.1% higher than the average recorded in 2005 (17.3% in the private sector and 33.8% in the public sector). The minimum wage was raised by 15% from 1 February. In April, the government decreed an additional rise of 10%, to be effective as from 1 September. The improved economic growth was reflected in falling unemployment, down from 10.4% in December 2005 to 8.9% in October 2006. In terms of the annual average, the unemployment rate was 10.2% in 2006 (January to October), compared with the 2005 figure of 12.2%.

Owing to high oil prices, high growth was recorded in the first three quarters of the year, in the value of merchandise exports (25.6%) and imports (31.3%). The trade surplus continued to swell (US\$ 28.323 billion in this period compared with the year-earlier US\$ 23.330

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA:
MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	17.9	9.3	10.0
Consumer prices	19.2	14.4	15.8 ^b
Average real wage	0.2	2.6	4.6 ^c
Money (M1)	61.5	50.0	69.0 ^d
Real effective exchange rate ^e	4.5	0.1	-5.0 ^d
Terms of trade	19.6	30.8	22.3
Annual average percentages			
Unemployment rate	15.3	12.4	9.8 ^f
Central government			
overall balance/GDP	-1.9	1.7	1.0
Nominal deposit rate	12.6	11.7	10.2 ^g
Nominal lending rate	17.3	15.6	14.5 ^g
Millions of dollars			
Exports of goods and services	40 766	56 807	70 849
Imports of goods and services	21 502	28 893	36 186
Current account	15 519	25 534	31 293
Capital and financial account	-13 619	-20 077	-27 593
Overall balance	1 900	5 457	3 700

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

^a Preliminary estimates.

^b Twelve-month variation to November 2006.

^c Estimate based on data from January to September.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Estimate based on data from January to October.

^g Average from January to October, annualized.

billion), and the current-account surplus also expanded from US\$ 18.680 billion in the first half of 2005 to US\$ 22.884 billion in the first six months of 2006.

Despite considerable foreign-exchange revenues from oil exports, there has been no significant increase in the international reserves of the central bank. At the beginning of November 2006, reserves stood at US\$ 34.0 billion, compared with US\$ 29.6 billion at the end of 2005. This is mainly attributable to the elimination of the obligation on *Petróleos de Venezuela* (PDVSA) to sell its foreign exchange to the central bank, and to the latter's US\$ 4.2 billion transfer from international reserves to the National Development Fund (FONDEN), following a decision taken by the National Assembly on the basis of a legal reinterpretation.⁴ According to declarations from the economic authorities, the resources in this fund reached US\$ 17.7 billion in September 2006.

External debt stood at US\$ 43.077 billion in the third quarter of 2006 (25.3% of GDP), compared with the US\$ 47.233 billion recorded in the fourth quarter of 2005.

² Argentine government bonds (BODEN12) and bonds from the Government of Ecuador.

³ Combined offer of 15-year bonds worth US\$ 500 million from the Government of the Bolivarian Republic of Venezuela and bonds from the Government of Argentina for the same amount (BODEN12 for US\$ 300 million and BODEN15 for US\$ 200 million).

⁴ Partial reform of the Central Bank Act, *Gaceta Oficial*, No. 38,232 of 20 July 2005.