Bolivarian Republic of Venezuela

According to projections, GDP in the Bolivarian Republic of Venezuela contracted by 2.3% in 2009 mainly as a result of the economic impact of lower international oil prices. The country continued to have the highest inflation rate in Latin America, as well as a fiscal deficit, and access to foreign currency at the official exchange rate became more restricted.

Public finances deteriorated significantly between 2008 and 2009, largely because of the drop registered in public revenue. This led to an expansion of aggregate demand, although the effect was less pronounced than in previous years. In the first quarter of 2009, the public sector (narrowly defined) had an overall deficit equivalent to 0.9% of annual GDP. The sector's revenue declined by the equivalent of 3.8% of GDP, year-on-year, while outlays (including lending) fell by a mere 1.6%. Projections based on available data indicate that the overall deficit of the public sector (narrowly defined) will be equivalent to about 4.0% of GDP for all of 2009.

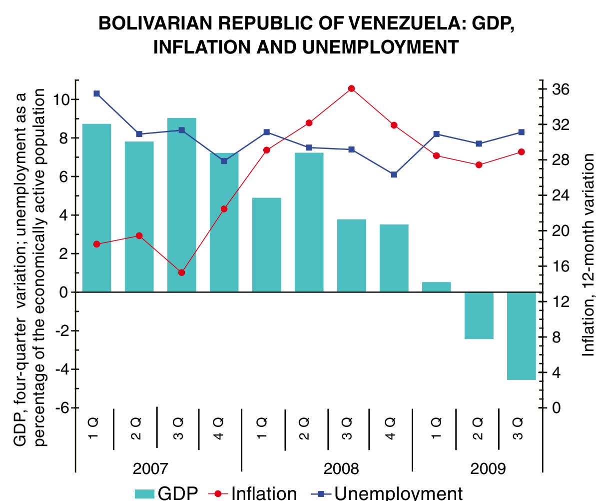
The worsening fiscal situation was due largely to lower petroleum revenue, the elimination of the financial transaction tax and declining income tax receipts, especially from petroleum. Capital expenditures (including those related to the National Development Fund projects) shrank, reflecting the reduction in capital transfers and, to a lesser extent, cutbacks in the acquisition of fixed assets.

To bring down the deficit, the government raised the value added tax rate from 9% to 12% in March 2009 and increased public sector wages by less than inflation. In the future, changes may be expected in the accounts of the State enterprise sector following the nationalizations decreed in 2009, most notably, the nationalization of goods manufacturers and service providers involved in upstream gas and petroleum activities, in May; of the Banco de Venezuela and of steel-sector companies involved in iron production, in July; and of two coffee roasting plants, in November.

The public debt balance increased, along with the deficit, in 2009. In June, the foreign debt stood at US$ 29.894 billion and the domestic debt at 43.950 billion bolivares. If the US$ 4.99 billion in international sovereign bonds maturing in 2019 and 2024 that were issued on 28 September 2009 are included, total public debt at the official exchange rate of 2.15 bolivares fuertes per United States dollar, is equivalent to 14% of GDP. The State-owned oil company, Petróleos de Venezuela S.A. (PDVSA), also issued debt in 2009.

Year-on-year inflation in the Bolivarian Republic of Venezuela, as measured by the national consumer price index, reached 26.7% in October 2009, while cumulative inflation for the first ten months of the year was 20.7%. In part, this reflects the impact of the decreased availability of hard currency at the official exchange rate of BsF 2.15 per United States dollar in 2009, which led the private sector to meet its needs for importing goods by purchasing dollars on the parallel market, at a significantly higher exchange rate. The amount of foreign currency that the Foreign Exchange Administration Commission (CADIVI) authorized for sale at the official exchange rate decreased by 49.9% between the second quarter of 2008 and the same period in 2009. The effective real exchange rate appreciated by an average of 26% in the first nine months

BOLIVARIAN REPUBLIC OF VENEZUELA: GDP, INFLATION AND UNEMPLOYMENT



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

of 2009, mainly as a result of the confluence of high inflation and a fixed exchange-rate regime.

High inflation was caused not only by the passthrough effect of the rising bolivar price of imports but also by the strong expansion of monetary aggregates in 2009. Broad money (M3) expanded as of the first quarter of 2009, reaching a 33.4% year-on-year rate in the third quarter. Although greater liquidity was accompanied by increased term deposits in commercial banks in 2009, lending remained flat, reflecting the lack of economic growth in the country during the year.

In the banking sector, the critical situation in terms of finances and assets at Banco Industrial de Venezuela led to government intervention in May 2009 (although it continued to conduct financial intermediation activities). In November, the government also took over Bolívar Banco, Banco Confederado, Banco Canarias de Venezuela and Banpro. The latter two, which, between them, held the savings of 750,000 depositors, were subsequently liquidated.

GDP is estimated to have fallen by 2.3% in 2009. The hardest-hit sectors were manufacturing, petroleum and commerce. Growth in the communications, construction and government services sectors was insufficient to counteract the economic slowdown. In terms of overall demand, the contractions in private consumption, investment and exports were only partially offset by government consumption. In the fourth quarter, drought and the inability of supply to keep up with demand, led to problems with the electricity and water supply.

According to the Organization of Petroleum Exporting Countries (OPEC), petroleum output in the Bolivarian Republic of Venezuela fell by 100,000 barrels per day between the fourth quarter of 2008 and the third quarter of 2009. The drop in production may be due to the fact that investments by PDVSA in exploration and development have failed to make up for the declining output of the oldest oil wells operated by the company. The fact that the Baker Hughes company points to a sharp reduction in the number of drilling rigs, from 81 in the fourth quarter of 2008 to only 54 in the third quarter of 2009, seems to support this explanation.

As a result of the economic downturn, the unemployment rate rose to 8.1% in October 2009 from 7.2% a year earlier. Average real wages (in the first three quarters of the year) declined, on a year-on-year basis, by 5.5% in the private sector and by 8.2% in the public sector.

The surplus of the balance-of-payments current account plummeted from the equivalent of 13.5% of GDP in the first nine months of 2008 to 0.7% in the same period in 2009, as falling oil prices slashed the value of petroleum exports by 51.7%. Goods imports decreased by only 13.6%, however, and the merchandise trade balance surplus therefore shrank from 15.9% of GDP terms in the first nine months of 2008 to only 2.8%. The current account is projected to end 2009 with a surplus.

The capital and financial account ran a negative balance (2.8% in GDP terms) for the first nine months of 2009. In the first quarter of the year, aside from the accounting transfer of US$ 12.299 billion of international reserves to the National Development Fund, the other main event was the increase in the liabilities of the public sector (in particular, the US$ 4.0 billion loan from the Bank of China to a joint Chinese-Venezuelan fund) and the decline of assets of the public sector. The balance between outward and inward FDI was negative, with the former exceeding the latter by US$ 4.432 billion, or 1.1% of GDP.

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	8.2	4.8	-2.3
Per capita gross domestic product	6.3	3.0	-3.9
Consumer prices	22.5	31.9	28.9 [b]
Average real wage	1.2	-4.5	-5.5 [c]
Money (M1)	24.6	26.5	22.2 [b]
Real effective exchange rate [d]	-10.5	-18.6	-25.5 [e]
Terms of trade	9.6	23.4	-28.3
	Annual average percentages		
Urban unemployment rate	8.4	7.4	8.0 [f]
Central government overall balance/GDP	3.0	-1.2	-5.5
Nominal deposit rate	10.6	16.0	15.7 [g]
Nominal lending rate	16.7	22.8	21.0 [g]
	Millions of dollars		
Exports of goods and services	70 683	97 005	56 746
Imports of goods and services	54 656	59 703	46 344
Current account balance	18 063	37 392	7 986
Capital and financial account balance [h]	-23 805	-28 117	-17 686
Overall balance	-5 742	9 275	-9 700

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Estimate based on data from January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Estimate based on data from January to October.
[g] Average from January to October, annualized.
[h] Includes errors and omissions.