Bolivarian Republic of Venezuela

It is estimated that the gross domestic product (GDP) of the Bolivarian Republic of Venezuela will grow by 1.2% in 2013 (compared with 5.6% in 2012), mainly driven by communications, commerce and financial services. The upturn in commerce and financial services reflected increases in both real lending and monetary liquidity. Growth of 1% is projected for 2014, as economic activity picks up slightly in sectors that rely on imported inputs, following a possible exchange rate adjustment at the beginning of the year. Inflation rocketed during 2013. In October, the year-on-year inflation rate stood at 54%, a rise of 36 percentage points over the figure recorded in October 2012. The current account surplus narrowed as a result of the shrinking trade surplus.

It is estimated that the central government ran a global deficit of 4.3% of GDP in 2013. However, this represents only part of the actual government deficit. In the 2013 budget, oil revenue was based on a price of US$ 55 per barrel, when in fact the price averaged US$ 103 per barrel during the first 10 months of the year. The difference generated some additional funds for the budget, but most were allocated to the National Development Fund (FONDEN), which gives the government discretional use over these extra resources. A substantial proportion of public spending is enabled through a number of extrabudgetary funds in addition to FONDEN, including the joint Chinese-Venezuelan fund and the long-term large volume fund, which are financed by loans from China that are paid back in oil.

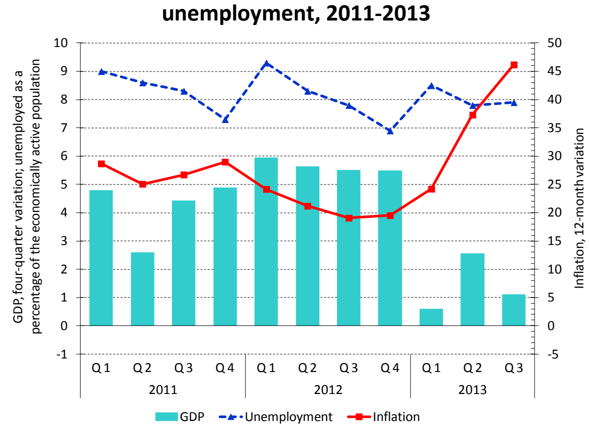
The central government public debt balance remained virtually unchanged in 2013. Domestic debt rose by 2% over the first half of the year to reach a total of US$ 60.355 billion. The debt held by Petróleos de Venezuela (PDVSA) and other State-owned enterprises, through central bank loans, also increased.

Monetary policy was strongly expansionary in the first 10 months of 2013. The M1 and M2 monetary aggregates recorded average year-on-year increases of 64% and 63% respectively, far outpacing average year-on-year inflation of 37% over the same period. This expansion of liquidity was prompted by high public spending and by the central bank funding of State-owned enterprises. Since October, the central bank has taken a number of steps to rein in monetary base growth: (i) it raised the legal reserve requirement from 17% to 19% for existing net liabilities and ceded investments, and to 22% for new ones, and (ii) it stepped up its open market operations.

In November, the President was given the authority to issue decrees with the power of law, which he used to limit companies' profits and to create the National Foreign Trade Corporation. This will manage the entire import process in both the public and private sectors, including the allocation of currency.

In February 2013, the bolívar was devalued from 4.30 to 6.30 bolívares per dollar. However, the gap between the official and parallel exchange rates continued to widen until the parallel rate reached

Bolivarian Republic of Venezuela: GDP, inflation and unemployment, 2011-2013



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

eight times the official rate in November. The Transaction System for Foreign Currency Denominated Securities (SITME) was replaced by another exchange system, the C*omplementary* System for Foreign Currency Administration (SICAD). Its function is to allocate currency, through auctions, to importers that meet formal requirements and whose imports fall within priority categories. Individuals can also participate in these auctions in order to obtain currency for specific needs. However, this mechanism is not meeting the demand for foreign exchange, which is eight times greater than supply. The bolívar remains overvalued, since the real effective exchange rate in September 2013 was 40% below (currency appreciation) the average recorded between 1990 and 2009. International reserves stood at US$ 22.144 billion at the end of October 2013, a 26% decrease over the year to date. About 80% of central bank reserves are in gold, and only US$ 4.50 billion are liquid reserves.

Bolivarian Republic of Venezuela: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	4.2	5.6	1.2
Per capita gross domestic product	2.6	4.0	-0.3
Consumer prices [b]	27.6	20.1	54.3 [c]
Real average wage	3.0	5.9	-4.4
Money (M1)	44.8	62.0	69.1 [c]
Real effective exchange rate [d]	-12.3	-16.5	6.3 [c]
Terms of trade	20.2	1.0	-2.8
	Annual average percentage		
Open urban unemployment rate	8.3	8.1	7.8
Central government			
Overall balance / GDP	-4.0	-4.9	-3.4
Monetary policy rate	6.4	6.4	6.2 [e]
Nominal lending rate [f]	17.4	16.2	15.6 [c]
	Millions of dollars		
Exports of goods and services	94 666	99 545	91 019
Imports of goods and services	62 365	77 503	73 374
Current account balance	24 387	11 016	6 644
Capital and financial balance [g]	-28 419	-12 012	-15 236
Overall balance	-4 032	-996	-8 592

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Nationwide coverage.
[c] Figures as of October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Figures as of September.
[f] Average rate for loan operations for the six major commercial banks.
[g] Includes errors and omissions.

In the first nine months of 2013, the GDP of the Bolivarian Republic of Venezuela grew by 1.4% year on year on the back of private consumption. Investment, the main driver of growth during 2012, made a smaller contribution. The best performing sectors in the economy were financial institutions and insurance (which gained 24.5%), communications (6.5%) and commerce (3.5%). Financial institutions saw an upturn in activity owing to increases in the volume of loans and monetary liquidity. Commerce expanded thanks to greater liquidity and the bringing forward of credit-financed private consumption (credit-card financing was up 14% year-on-year in real terms). The communications sector was boosted by increased demand for services and by investments in technological infrastructure. Other major sectors recorded sluggish or negative growth, as was the case with the oil sector (up 1.0%), manufacturing (up 0.1%) and construction (down 3.5%). Manufacturing was affected by a shortage of foreign currency for importing inputs, and construction contracted amid lower public investment and a lack of materials. Only offices and shopping malls recorded increased construction activity as a result of investment by multinational corporations that have not been able to repatriate their profits for several years.

Figures published by the Organization of Petroleum Exporting Countries (OPEC) revealed that crude oil production fell slightly (by 0.6%) over the first nine months of 2013. Investment in crude oil production was 5% higher than in the previous year, according to the Baker Hughes rig count. Of the 2.5 million barrels of oil that are exported every day, about 0.8 million barrels do not generate foreign currency directly because they are used to pay off the debt incurred by the Chinese funds or are exported to Cuba and the Petrocaribe countries in exchange for food and services.

Year-on-year inflation spiralled to 54% in October and reached 72% for food and beverages, which are basic goods. The government attempted to control prices and address shortages, and also used strategic food reserves to reduce inflationary pressure. In October the scarcity index stood at 22.4%.

In the first nine months of 2013, the average urban unemployment rate dropped 0.4 percentage points compared with the year-earlier period, to 7.9%. Meanwhile, the participation rate edged up 0.3 percentage points to 64.3%. Real wages, pushed down by high inflation, fell by 4.8% year on year in the first nine months, dropping 4.4% in the private sector and 5.7% in the public sector.

It is estimated that the balance-of-payments current account surplus narrowed in 2013, reflecting a 9% slide in goods exports, combined with a 7% decline in imports. The value of oil exports fell by 8%, largely owing to lower export volumes and, to a lesser extent, a dip in prices.

The capital and financial account deficit stood at US$ 7.796 billion during the first nine months of 2013 (as against US$ 13.563 billion in the same period in 2012), thanks to a reduction in the public-sector acquisition of currency and deposits. Net foreign direct investment was positive, thanks to several investments in oil joint ventures.

The balance of payments deficit amounted to US$ 3.305 billion for the first nine months of 2013 (compared with a deficit of US$ 4.283 billion in the year-earlier period).