

Bolivarian Republic of Venezuela

ECLAC estimates that the GDP of the Bolivarian Republic of Venezuela will have contracted by 1.8% in 2010, although it is expected to recover in 2011. A serious energy crisis during the first half of the year was compounded by declining investment and private consumption. GDP contracted in a context of high inflation and rising unemployment.

The central government fiscal account deficit was lower than in 2009 because the decline in revenue, in real terms, was less than the drop in spending.¹ The central government overall deficit went from 5.1% of GDP in 2009 to 4.4% of GDP in 2010, while the central government's primary deficit fell from 3.7% of GDP in 2009 to 2.8% of GDP in 2010. Total central government revenue declined from 21.6% of GDP in 2009 to 19.7% of GDP in 2010. The main reason was lower income tax collections and, to a lesser extent, falling oil revenue. Nevertheless, extraordinary income from the Independence Fund (1.6% of GDP) and from the exchange rate differential (0.6% of GDP) was up. Total central government spending (including net lending) fell from 26.7% of GDP in 2009 to 24.1% of GDP in 2010. Although the proportion of compensation, interest and fees paid increased, current transfers and capital transfers to the public sector were down. The central bank transferred US\$ 6.500 billion to the National Development Fund (FONDEN) during the period

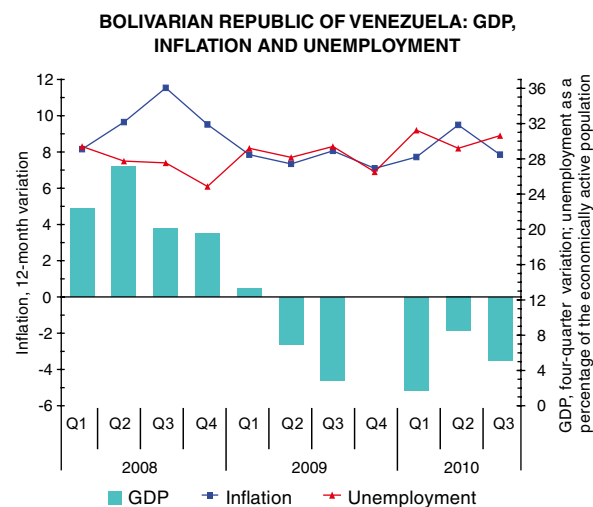
To finance the fiscal deficit and provide dollar-denominated bonds to the Transaction System for Foreign Currency Denominated Securities, it raised the public debt balance in 2010. Late in the third quarter, the external public debt balance was equal to 10.8% of GDP, and the domestic debt balance was 9.3% of GDP.

The nationalization of some companies in various sectors continued in 2010, including food and agricultural inputs (Agroisleña), packaging (Owen Illinois) and textiles (Silka).

The government devalued the bolívar fuerte (BsF) in January 2010 and established two exchange rates: BsF 2.6 and BsF 4.3 per dollar. Following the creation of the Transaction System for Foreign Currency Denominated Securities (SITME) in June 2010, the implicit exchange

rate for this system held at about 5.3 bolívares fuertes per dollar. SITME allows the purchase of dollars for certain operations that are not eligible for the exchange rate of BsF 2.6 (especially for authorized imports of food and medicine) or for the rate of BsF 4.3 per dollar for other imports authorized by the Foreign Exchange Administration Commission (CADIVI). Because of high inflation, the real effective exchange rate as of September 2010 was 23.5% below the average for the past 20 years.

The country's GDP growth began to slow in the second quarter of 2008 and turned negative in the first quarter of 2009, but the rate of decline moderated in the second quarter of 2010. ECLAC therefore estimates that GDP will have contracted by 1.8% in 2010. Sectors like manufacturing, commerce and services were particularly affected by restrictions on electricity consumption (including power rationing) starting in the third quarter



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

¹ According to official estimates in the budget bill for 2011.

of 2009, in addition to problems in obtaining dollars to pay for imports and the decline in real worker wages amidst high inflation.² On the overall demand side, exports, private consumption and gross fixed capital formation contracted while government consumption rose slightly. The electricity situation began to improve in the second half of 2010 as water levels in the Guri reservoir rose. Nevertheless, power distribution problems have persisted.

According to figures from the Organization of Petroleum Exporting Countries (OPEC), oil production by the Bolivarian Republic of Venezuela has stabilized after falling an average 1.2% during the first nine months of 2010 compared with the same period in 2009. Production is holding at about the same levels as at year-end 2009. After hitting a low in December 2009, investment in upstream petroleum operations will have begun to recover slowly in 2010, as shown by the Baker Hughes drilling count. This rise in investment would be due in part to the 32.2% increase in the price of the country's basket of crude oil during the first three quarters of 2010 compared with the same period in 2009.

Measured by the national consumer price index, the annual rate of inflation was 27.5% in October 2010. Accumulated inflation for the first 10 months of the year was 23%. Inflation has slowed in the second half of 2010 after peaking at an annual rate of 31.3% in June. The broad money supply in the economy increased by 10.9% between September 2009 and September 2010.

Unemployment rose as economic activity fell; the unemployment rate climbed in each of the first three quarters of the year compared with the same period in 2009. The average unemployment rate was 8.9% in the third quarter of 2010 (versus 8.3% in the third quarter of 2009 and 7.2% in the third quarter of 2008). Unemployment rose during the period for both men and women, albeit to a greater extent for men. While worker wages increased by 21.7% in nominal terms between the third quarter of 2009 and the third quarter of 2010, they were down in real terms owing to high inflation, which averaged 31.2% over the same period. This was especially marked in the government sector, where wages rose by 9.9% in nominal terms. Private sector wages rose by 27.4%.

It is estimated that the balance-of-payments current account of the Bolivarian Republic of Venezuela will end 2010 with a surplus, owing principally to improved oil

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	4.8	-3.3	-1.6
Per capita gross domestic product	3.0	-4.9	-3.2
Consumer prices	31.9	26.9	26.9 ^b
Average real wage	-4.5	-6.6	-21.2 ^c
Money (M1)	26.5	25.2	36.8 ^d
Real effective exchange rate ^e	-18.5	-24.1	52.4 ^f
Terms of trade	23.4	-27.2	19.0
Annual average percentages			
Urban unemployment rate	7.3	7.8	8.6 ^g
Central government			
overall balance / GDP	-1.2	-5.1	-4.4
Nominal deposit rate	16.0	15.6	14.7 ^h
Nominal lending rate	22.8	20.6	18.0 ^h
Millions of dollars			
Exports of goods and services	97 300	59 600	67 034
Imports of goods and services	59 998	48 064	47 257
Current account	37 392	8 561	16 096
Capital and financial account ⁱ	-27 936	-19 360	-31 096
Overall balance	9 456	-10 799	-15 000

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 2010.

^c Estimate based on data from January to September.

^d Twelve-month variation to October 2010.

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

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

^g Estimate based on data from January to October.

^h Average from January to October.

ⁱ Includes errors and omissions.

prices compared with 2009 and a slowdown in imports during the recession that affected the economy during the year. Exports for the first nine months of 2010 were up 17.6% in value terms compared with the same period in 2009, boosted by the rising price of Venezuelan crude. Imports were off by 8.6%, resulting in a current account surplus of US\$ 11.300 billion (3.3% of GDP for the year) during the period.

Unlike the current account, the capital and financial account posted a negative balance of US\$ 15.500 billion (4.5% of GDP). This is a deterioration over the same period in 2009. As in 2009, the foreign direct investment flow was negative in 2010, although foreign divestment in the country slowed and direct investment abroad increased. Portfolio investment in the Bolivarian Republic of Venezuela also fell during the period.

Lastly, the balance of payments was a negative US\$ 7.300 billion for the first nine months of 2010 (2.1% of GDP for the year) and is expected to end the year with a deficit.

² This weighed especially on basic industries in Guyana, such as Sidor, Venalum and Alcasa.