

Bolivarian Republic of Venezuela

The GDP of the Bolivarian Republic of Venezuela rose by an estimated 4.2% in 2011, driven above all by the expansion of public spending on the back of high oil prices. Inflation remained high, while unemployment and the activity ratio both fell.

The central government deficit for 2011 was somewhat smaller than in 2010: the overall deficit went from 3.6% of GDP in 2010 to 3.5% of GDP in 2011, and the primary deficit dropped from 2.2% of GDP in 2010 to 1.4% of GDP in 2011.¹ Central government revenues slid from 19.6% of GDP in 2010 to 19.4% of GDP in 2011. Total central government spending (including net lending) contracted from 23.1% of GDP in 2010 to 22.9% of GDP in 2011. There has been a marked increase in the wage bill, with wages going up in real terms, while an upsurge in borrowing has led to higher interest and fee payments. Current transfers declined; capital transfers increased slightly.

The central government represents only a fraction of fiscal activity in the Bolivarian Republic of Venezuela. Two extrabudgetary funds account for a substantial proportion of public spending execution: the National Development Fund (FONDEN) and the joint Chinese-Venezuelan fund. The former is funded by contributions from Petróleos de Venezuela, S.A. and by excess central bank reserves (in 2011, the central bank contributed US\$ 3.5 billion to FONDEN). The latter is funded by loans from official Chinese entities (in particular, the China Development Bank), which are paid back in oil shipments.

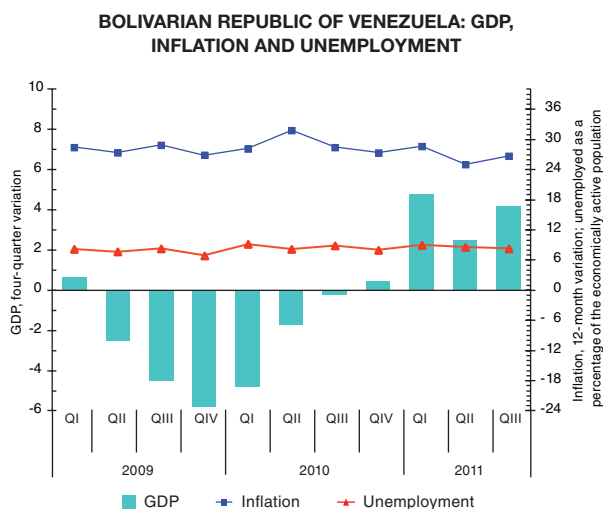
Public debt increased in 2011. Domestic debt rose by 53.4% between December 2010 and June 2011, increased from 8.8% of GDP to 10.3% of GDP. Central government external debt (excluding Petróleos de Venezuela, S.A.) decreased slightly in nominal terms during the same period, to US\$ 36.4 billion as of June 2011 (11.7% of GDP). These external debt figures do not include bonds sold in the second half of 2011, specifically the sovereign bond issue maturing in 2026 (US\$ 3 billion) and the sovereign bond issue due in 2031 (US\$ 4.2 billion). In part, these bonds were issued because of the rise in public spending during the year to finance, for example, the Gran Misión Vivienda Venezuela housing programme and the Gran Misión AgroVenezuela agricultural programme under the

special act on additional borrowing for the 2011 fiscal year, passed in June 2011. Increased disposable funds in the joint Chinese-Venezuelan fund, swelled the foreign liabilities of the Economic and Social Development Bank of Venezuela (BANDES), which owed the equivalent of US\$ 17.6 billion as of June 2011.

Monetary policy continued to be markedly expansionary in 2011, with a view to stimulating economic recovery. In the first nine months of the year, monetary aggregates M1 and M2 went up by 40.3% and 29.5%, respectively, outpacing inflation.

The annual rate of inflation in October 2011, as measured by the national consumer price index, was 26.9%. Food and non-alcoholic beverages saw the highest price increases during this period, climbing by 32.3% because of food supply problems.

On 1 January 2011, the government set a standard exchange rate of 4.3 bolívares fuertes to the dollar, doing away with the 2.6 bolívares fuertes per dollar rate.



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

¹ According to official estimates reflected in the 2012 budget bill.

The implicit rate of 5.3 bolívares fuertes per dollar was maintained in the Transaction System for Foreign Currency Denominated Securities (SITME) for transactions that were not eligible for the 4.3 bolívares fuertes per dollar rate authorized by the Foreign Exchange Administration Commission (CADIVI). Nevertheless, high inflation during the period caused the real effective exchange rate in October to be 35.8% lower (currency appreciation) than the average recorded between 1999 and 2009.

During the first nine months of 2011, the GDP of the Bolivarian Republic of Venezuela grew by 3.8%; it is expected to expand by 4.2% for the year as a whole. In terms of overall demand, both private consumption and public consumption saw robust growth. However, gross fixed capital formation stagnated despite the uptick in public spending. The best performing sectors during the period were commerce and services, government services and the manufacturing sector. Fewer power-supply problems and greater availability of foreign currency supplied by CADIVI to various sectors are likely to have contributed to improved growth during this period.

According to figures from the Organization of the Petroleum Exporting Countries (OPEC), crude oil production in the Bolivarian Republic of Venezuela rose by an average of 4.2% in the first three months of 2011 with respect to the same period in 2010. Investment in extraction activities picked up in 2011—as indicated by the 27.4% increase in the number of drilling rigs between 2010 and 2011—in response to the 41% rise in crude oil prices in the first 10 months of 2011.

The unemployment rate stabilized in the first half of the year and fell in the second half, to 8.3% in the third quarter (lower than the 8.9% observed in the same period in 2010). Unemployment came down in relation to the year-earlier period for both men and women, although to a lesser extent for the latter. While the economically inactive population increased by 0.6 percentage points, the number of unemployed persons dipped only slightly. Wages went up by 36.5% in the first three quarters of the year. Private-sector wages rose by 27.2%, while public-sector wages shot up by 58.6%. A significant factor in this increase was a 25% two-step minimum wage hike, with a 15% increase on 1 May and a 10% increase taking effect on 1 September.

The balance-of-payments current account posted a surplus in 2011 thanks to high oil prices, despite the upturn

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-3.2	-1.5	4.2
Per capita gross domestic product	-4.8	-3.0	2.6
Consumer prices	26.9	27.4	28.9 ^b
Real average wage	-6.6	-5.2	3.0 ^c
Money (M1)	20.4	23.0	51.4 ^d
Real effective exchange rate ^e	-24.1	52.0	-12.0 ^f
Terms of trade	-27.2	18.9	19.8
Annual average percentages			
Open unemployment rate	7.8	8.6	8.4 ^g
Central government overall balance / GDP	-5.0	-3.6	-3.5
Nominal deposit rate ^h	15.6	14.7	14.8 ⁱ
Nominal lending rate ^j	20.6	18.0	17.7 ⁱ
Millions of dollars			
Exports of goods and services	59 830	67 602	92 012
Imports of goods and services	50 370	49 661	59 668
Current account balance	6 035	12 071	25 127
Capital and financial balance ^k	-16 834	-20 010	-23 736
Overall balance	-10 799	-7 939	1 391

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 2011.

^c Estimate based on data from January to September.

^d Twelve-month variation to October 2011.

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

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

^g Estimate based on data from January to October.

^h 90-day deposits, average of the country's six major commercial and universal banks.

ⁱ January-November average.

^j Lending rate, average of the country's six major commercial and universal banks.

^k Includes errors and omissions.

in imports as economic activity recovered. In the first nine months of the year, exports rose in value by 45% compared with the same period in 2010, reflecting a 41.5% increase in the price of Venezuelan crude oil. Imports expanded by 21.3%, with direct imports by public institutions and State-owned companies accounting for a significant proportion of that figure.

The financial account balance deteriorated in 2011 in comparison with 2010; the resulting deficit may be attributed to substantial Venezuelan public sector accumulation of foreign-currency assets in cash and deposits, the acquisition of liquid assets abroad (despite strict foreign exchange controls) and increased debt held by non-residents.

In the first nine months of 2011, the balance-of-payments deficit was US\$ 3 billion (1% of GDP); it is likely to close the year with a small deficit.