Venezuela

1. General trends

The available data indicate that the recovery of the Venezuelan economy that began in the third quarter of 2003 continued during the first quarter of 2004. In fact, in the first three months of the year, economic activity was up by 29.8% over the first quarter of 2003. This result is strongly influenced by the low base of comparison involved, however, since it includes much of the period (December 2002–early February 2003) during which the economy was brought to a halt by the work stoppage that was called by opposition parties and businesses. The outlook for 2004 as a whole points to growth of somewhat over 10%.

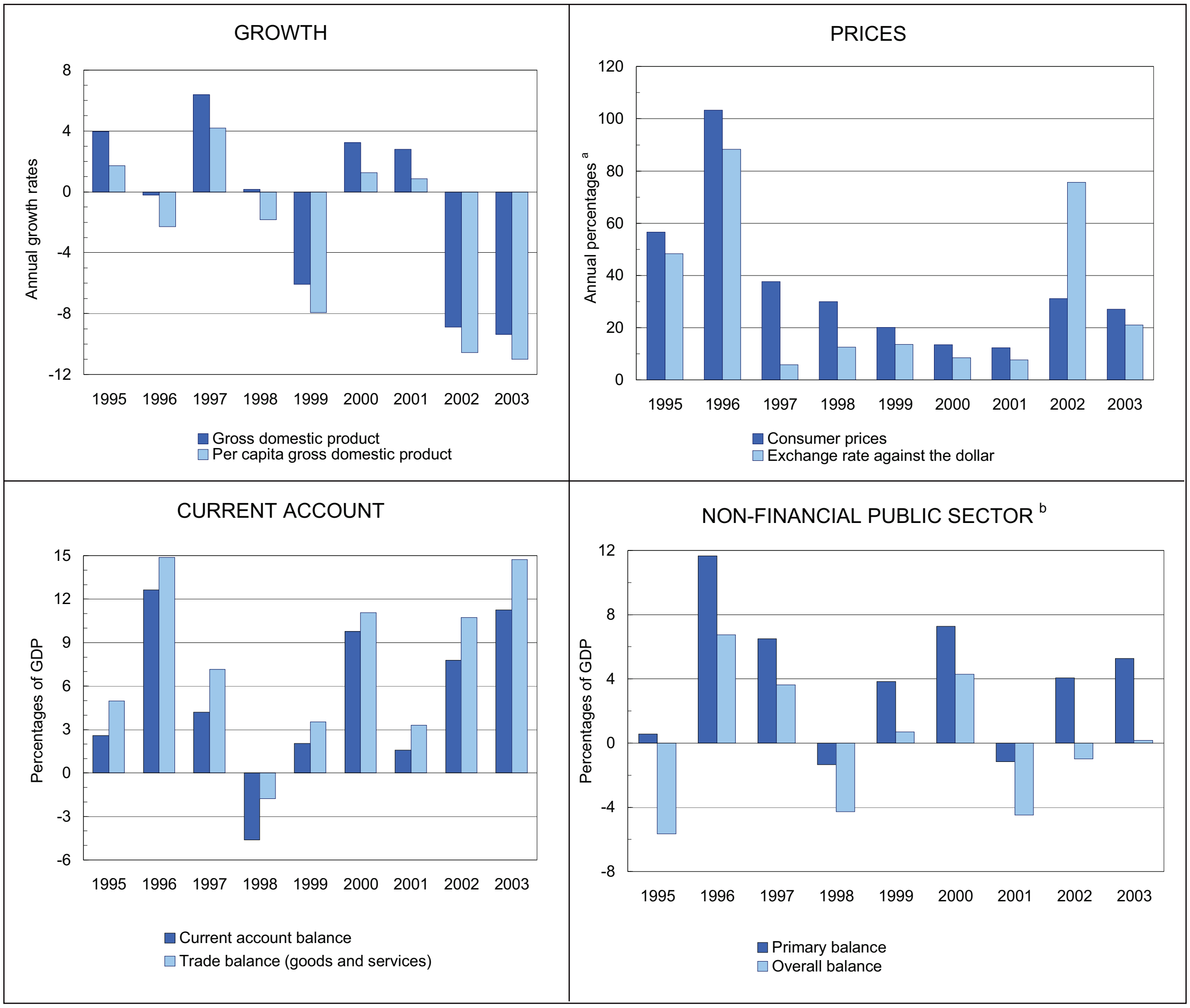
All in all, the complex economic and political situation that existed in the country throughout 2003 is likely to continue in 2004, since a presidential referendum is to be held in August 2004 that will surely influence economic activity in the country during the months that follow.

In 2003, economic activity slumped by 9.4%, with sharp declines in both household consumption and investment (the latter was down by just under 40%). The strike led to steep decreases in oil production and exports, as well as a considerable contraction in the rest of the economy. The downturn was deepest in the first quarter of the year (–27.8%), when activity in the petroleum sector was off by close to 50% compared with the first quarter of 2002.

A recovery from first-quarter lows was seen in the second quarter of 2003, thanks to the impetus provided by a partial reactivation of the petroleum sector. It was the non-oil sectors, however, which showed the strongest growth over the year, as oil production remained relatively flat at levels similar to those seen in the second quarter of 2003, which, in turn, were lower than the figures recorded for 2002. The economy was more robust in the second half of the year, thanks mainly to the recovery of non-oil sectors. Nevertheless, for the year 2003 as a whole, activity in the oil and non-oil sectors diminished by 10.7% and 8%, respectively.

In the labour market, the consequences of this situation have been high levels of unemployment and informality, as well as a significant decline in real wages. The current account surplus was higher than in 2002, owing, above all, to a sharp contraction in imports. In the fiscal sector, although official figures from the Ministry of Finance on the central government's annual balance for 2003 are not yet available, estimates published by the Central Bank of Venezuela point to a fiscal deficit equivalent to 5.8% of GDP (or slightly more than 4%, if the figure is adjusted for gains from differences in the exchange rate).

Figure 1
VENEZUELA: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] December-December variation. [b] Since 1998, refers to a narrow definition of the public sector, which includes the budgetary central government, Petróleos de Venezuela S.A. (PDVSA), a set of non-financial public enterprises, the Venezuelan Social Insurance Institute (IVSS), the Deposits and Bank Protection Guarantee Fund (FOGADE) and the Venezuelan Investment Fund (FIV).

2. Economic policy

(a) Fiscal policy

In 2003, fiscal policy fuelled a sizeable increase in current expenditure in nominal terms. During the first few months of the year, the country's fiscal position rapidly deteriorated as a result of the strike called in late 2002. As a consequence of that strike, oil output was slashed to approximately one fifth of the volumes produced in the preceding months. This, in turn, drove down revenues from crude oil sales, which account for almost one half of total fiscal income. Although oil production recovered faster than originally predicted and amounted to 2.6 million barrels per day by April 2003, it then remained at around that level for the rest of the year. As a result, average output for the year was almost 10% lower than in 2002. Despite this substantial downswing at the beginning of the year, oil revenues recovered in the following months thanks to an increase in the average prices brought by Venezuela's oil export basket, which came to US$ 25.65 per barrel and exceeded the previous year's average price by 16.9%. National budget figures were adjusted at the beginning of 2003 by extending the term of the bank debit tax and modifying the value added tax (VAT). Fiscal revenue thus showed a nominal increase of slightly more than 30% over the figure for 2002.

Current expenditure rose by around 35%, with the bulk of this increase corresponding to transfers to government agencies. Given the substantial increase in public debt (between 1999 and 2003, it jumped from 29.3% to 45.1% of GDP), expenditure in the form of interest payments and public debt repayments has increased sharply since 2001. Public debt denominated in the local currency has more than trebled (from 4.6% to 16.9% of GDP) since 1999 to around 22 trillion bolívares as of the end of 2003, while foreign-currency-denominated debt, measured in dollars, has remained more or less constant (US$ 25 billion) during the same period (although, as a percentage of GDP, it has climbed from 23.6% to 28.1%). Consequently, the service on the domestic public debt, measured in local currency, rose from just under 4% of GDP in 2001 to 7.4% in 2002. In order to reduce interest and amortization payments in 2003, part of the domestic debt was refinanced by swapping securities that were to mature during the year for securities payable in 2004 and 2005; by this means, debt servicing (measured in local currency) was reduced to 5.9% of GDP.

In the last quarter of 2003, the government announced the award of a special bonus for public employees. It also relied less on the Macroeconomic Stabilization Investment Fund (FIEM) as a source of financing in 2003, as FIEM resources were dwindling and were not being replenished. In November 2003, the Macroeconomic Stabilization Fund (FES) was set up to smooth out fluctuations in ordinary fiscal revenues and to ensure stability in government expenditure. The initial contributions to the FES were drawn from the FIEM (which was eliminated by the law that established the FMS). Future contributions will come from additional revenues obtained by Petróleos de Venezuela, S.A. (PDVSA), proceeds from privatization and strategic partnerships that have not been used for purposes of public liabilities management, special contributions from the nation's executive branch and proceeds from the administration of FMS resources. For 2003 as a whole, the fiscal deficit was equivalent to over 4% of GDP. In order to finance this deficit, the government relied mainly on increased domestic borrowing and the growing exchange-rate profits generated by international reserves.

The Republic of Venezuela's 2004 budget provides for an increase in both total revenue and expenditure in nominal terms. Fiscal revenues are expected to rise more than projected, however, thanks to the brisker pace of economic activity and the rise in the price brought by the basket of Venezuelan crude; fiscal expenditure, on the other hand, is expected to remain at budgeted levels. Available data for the first four months of 2004 show a strong surge in the government income generated by these two factors. The year-on-year comparison is somewhat misleading because of the very low base of comparison provided by the relevant period in 2003, but there has also been significant growth in relation to the fourth quarter of 2003. In addition to these factors, it appears that receipts from customs duties have climbed and tax evasion has declined. The authorities are also looking into the possibility of implementing a number of economic measures designed to boost tax revenues, such as: the levying of an excise tax, the revision of public utility rates and the amendment of provisions in the state public treasury act relating to the transfers made by the central government to state governments. It is hoped that such measures will succeed in cutting the fiscal deficit to 3% of GDP for 2004.

Table 1
VENEZUELA: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
					Annual growth rates [b]				
Gross domestic product	4.0	-0.2	6.4	0.2	-6.1	3.2	2.8	-8.9	-9.4
Per capita gross domestic product	1.7	-2.3	4.2	-1.8	-7.9	1.3	0.9	-10.6	-11.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.5	2.0	2.4	0.6	-2.1	2.4	2.6	-1.7	-2.2
Mining	6.1	8.2	9.8	1.9	-9.5	4.7	1.1	-12.3	-8.2
Manufacturing	8.0	-3.0	5.1	-3.9	-6.4	2.1	-0.4	-11.2	-13.5
Electricity, gas and water	2.6	1.2	4.7	1.3	1.1	2.2	3.8	1.8	1.0
Construction	-5.0	1.1	17.2	-0.3	-16.5	-2.7	13.5	-19.8	-37.4
Wholesale and retail commerce, restaurants and hotels	1.3	-7.2	4.1	-3.0	-9.6	4.0	3.4	-10.9	-11.4
Transport, storage and communications	3.3	1.7	9.0	5.9	1.6	8.1	8.8	-3.8	-3.5
Financial institutions, insurance, real estate and business services	0.4	-3.3	3.0	1.0	-3.3	2.2	2.4	-3.5	-4.8
Community, social and personal services	1.0	-1.5	-0.5	1.3	0.4	2.2	1.8	-1.1	-1.4
Gross domestic product, by type of expenditure									
Consumption	1.2	-4.9	5.0	0.1	-3.2	3.9	5.0	-5.8	-3.9
General government	2.6	-7.6	4.2	1.4	3.0	5.0	6.4	-2.5	-1.3
Private	0.9	-4.4	5.1	-0.1	-4.3	3.7	4.7	-6.4	-4.4
Gross domestic investment	36.5	-11.0	34.0	1.4	-15.1	9.3	13.7	-43.4	-47.3
Exports (goods and services)	6.3	7.8	9.4	4.2	-10.8	5.5	-0.9	-7.8	-12.3
Imports (goods and services)	23.9	-11.2	33.9	9.4	-14.6	15.4	11.0	-26.7	-19.6
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	18.1	16.6	21.0	21.9	18.1	17.2	19.7	13.8	9.2
National saving	21.4	29.7	24.8	18.5	22.0	28.2	22.8	22.8	21.3
External saving	-3.2	-13.1	-3.8	3.3	-3.9	-11.0	-3.1	-9.0	-12.1
					Millions of dollars				
Balance of payments									
Current account balance	2 014	8 914	3 732	-4 432	2 112	11 853	1 987	7 423	9 624
Merchandise trade balance	7 013	13 770	8 954	952	6 471	16 664	7 460	13 034	15 043
Exports, f.o.b.	19 082	23 707	23 871	17 707	20 963	33 529	26 667	26 656	25 750
Imports, f.o.b.	12 069	9 937	14 917	16 755	14 492	16 865	19 207	13 622	10 707
Services trade balance	-3 165	-3 269	-2 608	-2 649	-2 839	-3 253	-3 305	-2 792	-2 442
Income balance	-1 943	-1 725	-2 517	-2 534	-1 453	-1 388	-2 020	-2 654	-2 975
Net current transfers	109	138	-97	-201	-67	-170	-148	-165	-2
Capital and financial balance [d]	-3 458	-2 676	-641	1 027	-1 050	-5 895	-3 818	-11 853	-4 170
Net foreign direct investment	894	1 676	5 645	3 942	2 018	4 180	3 479	-241	1 388
Financial capital [e]	-4 352	-4 352	-6 286	-2 915	-3 068	-10 075	-7 297	-11 612	-5 558
Overall balance	-1 444	6 238	3 091	-3 405	1 062	5 958	-1 831	-4 430	5 454
Variation in reserve assets [f]	1 907	-6 271	-2 641	3 854	-612	-5 449	2 028	4 430	-5 454
Other financing [g]	-463	33	-450	-449	-450	-509	-197	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	150.4	181.7	144.1	117.5	103.2	100.0	95.0	124.6	139.3
Terms of trade for goods (index: 1997=100)	90.2	104.3	100.0	72.1	96.6	142.0	118.9	126.7	136.6
Net resource transfer (% of GDP)	-7.6	-6.2	-4.1	-2.0	-2.9	-6.4	-4.8	-15.2	-8.4
Total gross external debt (millions of dollars)	37 537	34 117	33 710	31 457	33 723	32 786	32 437	32 290	32 000
Total gross external debt (% of GDP)	48.5	48.4	38.0	32.8	32.6	27.0	25.7	33.8	37.4
Net profits and interest (% of exports) [i]	-9.2	-6.7	-10.0	-13.2	-6.5	-4.0	-7.2	-9.6	-11.1

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
				Average annual rates					
Employment									
Labour force participation rate [j]	61.6	62.2	63.8	65.1	66.3	64.6	66.5	68.7	69.2
Unemployment rate [k]	10.3	11.8	11.4	11.3	15.0	13.9	13.3	15.8	18.0
Informal sector [l]	48.4	48.7	47.7	49.8	52.4	53.0	50.3	51.0	52.6
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	56.6	103.2	37.6	29.9	20.0	13.4	12.3	31.2	27.1
Variation in wholesale prices	43.6	105.8	17.3	23.3	13.6	15.8	10.2	49.4	48.4
Variation in nominal exchange rate (December-December)	48.3	88.3	5.9	12.6	13.6	8.5	7.7	75.6	21.0
Variation in average real wage	...	...	...	...	...	1.5	2.3	-10.0	-16.7
Nominal deposit rate [m]	...	...	14.5	28.4	20.6	14.9	14.7	28.8	17.2
Nominal lending rate [n]	...	...	22.0	38.3	31.3	24.5	24.8	38.4	25.7
				Percentages of GDP					
Public sector, narrowly defined [o]									
Current income	27.2	33.8	29.1	23.0	25.4	31.6	26.5	28.7	31.6
Current expenditure	18.1	16.3	17.5	17.3	17.2	19.0	20.4	20.2	21.6
Current balance	9.1	17.6	11.6	5.6	8.2	12.6	6.2	8.5	10.0
Net capital expenditure	10.7	10.2	6.9	9.6	7.2	7.2	9.3	8.1	8.6
Primary balance	0.6	11.7	6.5	-1.3	3.8	7.3	-1.2	4.1	5.3
Overall balance	-5.7	6.8	3.6	-4.3	0.7	4.3	-4.5	-1.0	0.2
Debt of non-financial public sector	…	39.5	30.0	27.6	26.3	25.5	28.3	34.0	43.2
Domestic	…	3.4	3.0	3.1	4.3	7.5	10.5	10.4	14.9
External	…	36.2	27.0	24.5	22.1	18.0	17.8	23.6	28.3
Interest payments (% of current income)	22.9	14.5	9.9	12.8	12.3	9.4	12.5	17.7	16.1
Money and credit [p]									
Domestic credit [q]	14.2	9.7	9.8	11.9	11.1	11.0	12.3	11.4	9.9
To the public sector	4.9	2.8	1.4	1.1	1.4	2.1	2.4	2.8	2.9
To the private sector	9.4	6.9	8.4	10.7	9.6	8.9	9.8	8.7	7.1
Liquidity (M3)	...	14.4	15.3	17.4	17.2	16.3	16.9	14.7	16.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant 1984 prices. [c] Based on figures in local currency at current prices. [d] Includes errors and omissions. [e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [f] A minus sign (-) denotes an increase in reserves. [g] Includes the use of IMF credit and loans and exceptional financing. [h] Annual average, weighted by the value of merchandise exports and imports. [i] Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. [j] Economically active population as a percentage of the working-age population; nationwide total. [k] Unemployed population as a percentage of the economically active population; nationwide total. [l] Population employed in the informal sector as a percentage of the total employed population. [m] 90-day deposits. [n] Average lending by the country's six major commercial and universal banks. [o] The narrowly-defined public sector is composed of the budgetary central government, Petróleos de Venezuela, S.A. (PDVSA), a set of non-financial public enterprises, the Venezuelan Social Insurance Institute (IVSS), the Deposits and Bank Protection Guarantee Fund (FOGADE) and the Venezuelan Investment Fund (FIV) [p] The monetary figures are annual averages. [q] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

The government has also continued to work on refinancing and restructuring the national public debt in accordance with article 7 of the special debt legislation passed for fiscal year 2004. This act authorizes the national executive to conduct public credit operations involving up to 5.34 trillion bolívares during the fiscal year. To this end, 6.4 billion bolívares in debt instruments (corresponding to 58% of the borrowing requirements for the year) were issued in local and foreign currencies in the first few months of 2004. The cost of this financing has diminished significantly (17% as of April 2004). Approximately 33% of the total public debt maturities for 2004 correspond to domestic debt instruments scheduled to mature during the first quarter. Through the refinancing and restructuring programme announced at the end of March, the Ministry of Finance has redeemed approximately 2.3 trillion bolívares in public debt, of which 1.4 trillion were maturities corresponding to the first quarter of the year and 879.5 billion were bonds maturing at some other point in 2004.

Table 2
VENEZUELA: MAIN QUARTERLY INDICATORS

	2002				2003 [a]				2004 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	-3.8	-9.1	-5.6	-16.7	-27.8	-9.5	-7.5	8.6	29.8	...
Merchandise exports, f.o.b. (millions of dollars)	5 584	6 637	8 307	6 128	4 319	6 575	7 172	7 684	8 236	...
Merchandise imports, c.i.f. (millions of dollars)	3 767	3 640	3 235	2 980	2 222	2 098	2 812	3 575	3 338	...
International reserves (millions of dollars)	15 029	15 142	14 826	14 861	15 142	17 959	19 184	21 366	23 262	23 226
Real effective exchange rate (index: 2000=100) [c]	103.8	115.2	145.2	134.1	149.1	141.7	135.3	131.2	140.9	145.0
Unemployment rate	15.3	15.6	16.3	16.0	19.7	18.9	17.9	15.5	17.3	...
Consumer prices (12-month percentage variation)	17.6	19.6	28.2	31.2	34.1	34.2	26.6	27.1	23.6	22.3
Average nominal exchange rate (bolívares per dollar)	864	1 013	1 387	1 380	1 624	1 598	1 598	1 598	1 784	1 918
Average real wage (variation from same quarter of preceding year)	-3.5	-7.5	-12.7	-16.5	-19.4	-20.0	-15.7	-10.8	-5.7	...
Nominal interest rates (annualized percentages)										
Deposit rate [d]	30.5	33.6	24.4	26.7	23.1	16.1	15.6	14.1	11.8	12.8
Lending rate [e]	48.3	40.7	31.5	33.2	34.1	25.9	22.6	20.1	18.0	17.8
Interbank interest rate [f]	43.0	26.6	19.1	27.4	28.3	9.1	7.2	8.0	1.5	2.6
Sovereign bond spread (basis points)	886	1 115	1 156	1 118	1 419	997	831	567	658	629
Stock price index (in dollars, June 1997=100)	31.8	24.5	22.4	24.6	20.6	34.3	41.2	28.1	32.1	35.8
Domestic credit [g] (variation from same quarter of preceding year)	4.9	16.3	20.8	11.9	15.6	-3.0	3.0	9.8	41.7	75.2
Non-performing loans as a percentage of total loans [h]	7.3	7.1	7.3	6.6	7.9	7.1	5.8	3.7	3.4	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant prices. [c] Quarterly average, weighted by the value of merchandise exports and imports. [d] 90-day deposits. [e] Average lending by the country's six major commercial and universal banks. [f] Monetary policy benchmark rate. [g] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. [h] Refers to total credit extended by the banking system.

(b) Monetary and foreign-exchange policy

Heavy capital outflows during 2002 and the work stoppage in the oil sector resulted in a shortage of foreign exchange, which in turn triggered a sharp devaluation of the bolívar in early 2003. In response, in February 2003 the authorities introduced strict exchange control measures: the exchange rate was set at 1,600 bolívares to the dollar, and tight restrictions were placed on the purchase of foreign exchange in the country. The outcome was the emergence of an unauthorized parallel market in which the dollar fetched around 50% more than the official rate throughout the year. In February 2004, the authorities announced a devaluation of the local currency and set the rate at 1,920 bolívares to the dollar.

The recovery in oil production and exports, together with these exchange controls, boosted the country's international reserves from US$ 14 billion to US$ 21 billion between the beginning and end of 2003. In May 2004, reserves –including the resources available in the FMS (US$ 703 million)– stood at US$ 24.7 billion, but by June they had dwindled to US$ 23.5 billion. This decline is attributable to the authorities' decision to hand over PDVSA profits directly to the government. Throughout 2003 and thus far in 2004, the Foreign Exchange Administration Commission (CADIVI) –the government entity responsible for the supply of foreign exchange– has been gradually loosening the limits placed on the amount of foreign exchange made available to economic agents that need to meet external commitments (mainly payments for imports).

In 2003, real interest rates fell considerably, in line with the expansionary monetary policy adopted by the authorities. Nevertheless, this drop in rates was not reflected in an increase in the credit extended by financial institutions, which has remained flat in nominal terms. Since April 2004, domestic credit to the private sector has shown signs of a slight recovery in nominal terms, but in real terms it has continued to diminish.

The authorities have used the abundant liquidity existing on the financial market to finance government expenditure. In addition, given the impossibility of investing in the foreign exchange market and the sluggishness of credit operations, banking institutions have been investing quite heavily in government securities. Consequently, the banks' private-sector loan portfolio has declined to less than 30% of the assets held by commercial and universal banks, compared with 40% at the beginning of 2003 and 42.5% in August 2002. In contrast, investments in securities issued by the government and the Central Bank of Venezuela account for close to 40% of the banking system's assets, whereas they amounted to just 20% in August 2002 and early 2003. The central bank has had to adopt a costly policy of absorbing excess liquidity in order to mitigate its potentially negative effects on the market. As a result, the parallel exchange rate has remained at around 50% above the official exchange rate.

3. The main variables

(a) Economic activity

During 2003, economic activity in both the oil and non-oil sectors contracted substantially (–9.4%). The strike called at the beginning of the year triggered sharp decreases in oil production and exports, as well as the other sectors of the economy. Consequently, GDP plunged by 27.6% in the first quarter; thereafter, however, the economy began to make steady progress.

Oil production strengthened throughout 2003, without, however, regaining its pre-strike levels; the outcome was a 10.7% decline in this industry, which directly accounts for approximately 25% of total economic activity. During the year, non-oil activities were influenced by price and exchange controls, as the shortage of foreign exchange had a serious dampening effect on private-sector activity, which was down by 8% compared with 2002.

The most severely affected non-oil sectors were construction, commerce and manufacturing, which experienced year-on-year declines of 37.4%, 12% and 10.6%, respectively, in 2003. These figures reflect a depressed level of domestic demand, as private consumption was down by over 3.5% and investment contracted by around 40% with respect to 2002.

GDP growth for 2004 is expected to be just over 10%. This apparently sharp expansion in the economy incorporates a considerable statistical effect, however, since the first quarter of 2003 constitutes such a low base of comparison. This factor strongly influences the year-on-year growth figures for the first quarter of 2004, which show a 29.8% increase in economic activity (72.5% and 18.9% for activity in the oil and non-oil sectors, respectively).

Notwithstanding the above, available indicators up to March 2004 point to significant increases in some branches of activity in comparison with the fourth quarter of 2003 (particularly in some branches of manufacturing concerned with the production of machinery and equipment), which may be an indication of a recovery in gross fixed investment levels. A comparison of the other available indicators for the first quarter of 2004 in relation to the corresponding period of 2003 also yields unusually high growth rates for the reasons outlined earlier.

(b) Prices, wages and employment

In February 2003, the authorities supplemented the restrictive measures applied in the foreign-exchange market by placing price controls on basic consumer goods and services, including more than half of the items used to compute the consumer price index (CPI). In some business sectors, the prices that were set were regarded as being too low to permit producers to continue their operations and supply the market (since, they contended, production costs would be higher than sale prices). The government therefore had to step in and become involved in the direct importation and distribution of some staples in order to avoid shortages. Against this backdrop, the consumer price index for January–December 2003 showed a cumulative rise of 27.1%. Nevertheless, the price increase shown by the alternative index computed by the central bank, which measures the prices of goods and services not subject to controls, was 37.9% for the same period. While the controls have thus far been effective in curbing price rises for some products, they have not succeeded in stopping the increases altogether: in December 2003, the prices of controlled products registered a cumulative annual increase of 18.2%, while the price index for uncontrolled products rose by 39.3% during the year.

In the first half of 2004, the cumulative increase in the CPI was 11.1%, while the cumulative variation in the alternative index amounted to 11.9% for the same period. By contrast, the price index for controlled products showed an increase of 6.97% for January-May, while the prices of uncontrolled products rose by 11.27%.

Although there was a year-on-year increase in wages during 2003 in nominal terms, wage levels actually fell considerably in real terms. The general index, which includes both the private and the public sectors, showed a real decrease of 17.6% in the course of the year, while the loss was slightly less in the private sector (-16.7%). The contraction in production activity also had negative effects on unemployment and on the informal economy; although the jobless rate declined throughout the year, in the period January-November 2003 it stood at 18.3% (during 2002 it was 16%), while informal employment accounted for 52% of the total.

At the beginning of 2004, the government announced a 30% increase in the national minimum wage, to be implemented in two phases: a 20% increase starting on 1 May; and an additional 10% of the minimum wage set in October 2003, to take effect on 1 August 2004. Nominal wages of private wage earners showed a 4.8% year-on-year increase in the first quarter of 2004, which translates into real decreases of 1.3% with respect to the preceding quarter and of 5.7% as measured against the corresponding period of 2003.

(c) The external sector

Following the sharp reduction in the volume of oil exports in the first quarter of 2003, these exports made a partial recovery during the second quarter. The improvement was not great enough, however, to forestall a decrease in the total annual volume of exports. Despite a rise in the average prices brought by the basket of Venezuelan crude oil, which has largely offset the drop in export volumes, oil exports (crude oil plus petroleum products) fell by 3.2%. Non-traditional exports declined by 4%, and the total value of exports for 2003 was thus down by 3.4%.[1]

The shortage of foreign exchange, exchange controls and the sharp downturn in domestic demand were reflected in a 28.6% slump in imports in 2003 compared with 2002. Imports of capital goods and of fuels and lubricants were hurt the most, with decreases of over 40%, while imports of consumer goods and raw materials were down by 27.5% and 8.2%, respectively. As a result, the country's trade surplus jumped by US$ 2 billion to US$ 15.034 billion in 2003, while the current account surplus came to US$ 9.624 billion (12.1% of GDP).

Exports are expected to climb in 2004, thanks to an increase in the average price brought by the basket of Venezuelan crude oil and the upswing in average oil output (owing primarily to the effects of using the first quarter of 2003 as a base of comparison). The recovery in economic activity, together with a greater degree of flexibility in the application of exchange controls, will pave the way for an increase in imports of around 25%, and the current account surplus for 2004 is therefore estimated at US$ 10.037 billion (9.3% of GDP).

The available data for the first quarter of 2004 are in line with this analysis: merchandise exports are up by 90.7% over the first quarter of 2003 (oil exports and non-oil exports increased by 104.8% and 40.3%, respectively), while imports rose by 50.2% thanks to a surge in purchases of items other than oil. In addition, in January-May, the average price of the Venezuelan oil basket was US$ 29.92 per barrel, that is, 14.3% more than in the corresponding period of 2003.

1 Crude oil exports account for around 80% of the total value of the country's exports.