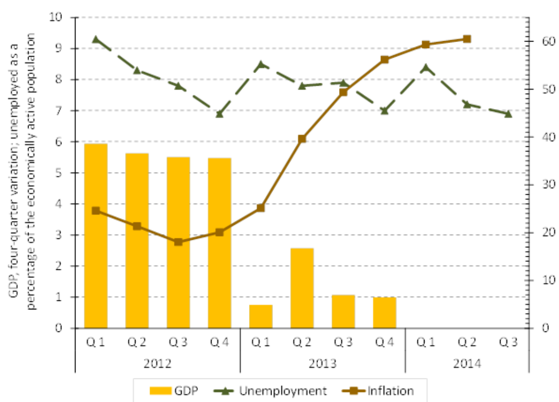
Bolivarian Republic of Venezuela[1]

In 2014 the central bank did not publish official data on GDP. However, based on partial, unofficial data, ECLAC estimates that private consumption, gross fixed capital formation, and exports and imports (including the inputs required for domestic production) all diminished, resulting in an estimated 3.0% contraction in GDP in 2014, (compared with 1.3% growth in 2013). Year-on-year inflation surged to 63.4% in August 2014, compared with a year-on-year variation of 45.4% in August 2013.

Central government expenditure, which in the 2014 Budget Act was set at 553 billion bolívares, rose by 94% thanks to extra loans received in exchange for oil exports, and amounted to 1.071 billion bolívares by November (equal to 26.0% of GDP, compared with 25.9% of GDP between January and December 2013). However, these data give only a partial picture of the country's fiscal policy. A substantial proportion of public income and spending is channelled through the National Development Fund (FONDEN) —which is financed with contributions from Petróleos de Venezuela S.A. (PDVSA) and the Central Bank of Venezuela (BCV)—, joint Chinese-Venezuelan funds (financed with loans from China that are repaid in oil exports), and central bank lending to PDVSA. PDVSA contributions to FONDEN (equivalent to 2.6% of GDP in 2013) are expected to have fallen during 2014, given that oil prices tumbled in the second half of the year. According to its own data, the central bank increased its lending to State-owned enterprises by the equivalent of 5.9 percentage points of GDP (from 17.3% of GDP in October 2013 to 23.2% of GDP in October 2014).

Monetary policy was expansionary during the first nine months of 2014. The M1 and M2 monetary aggregates posted average year-on-year growth of 73% and 72% respectively, outstripping the average year-on-year inflation rate of 61%. The increase in liquidity is attributable to public spending and the funding of State-owned enterprises via loans from the central bank. In an attempt to rein in monetary base growth, between October 2013 and April 2014 BCV gradually raised the legal reserve requirement from 17% to 21.5% for existing net liabilities and ceded investments, and to 31% for new ones.

Bolivarian Republic of Venezuela: GDP, Inflation and unemployment, 2012-2014



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

On the foreign exchange front, a number of adjustments were made in 2014. Exchange Rate Agreement No. 25, which was issued and entered into force in January, stipulated that the exchange rate for most private-sector transactions would be set using the Complementary System for Foreign Currency Administration (SICAD). The exchange rate for most categories of imported goods and services was thus raised from 6.30 bolívares to the dollar to 11.30 bolívares to the dollar. At the time of writing (November 2014), the SICAD exchange rate stood at 12 bolívares to the dollar (90% higher than the

[1] At the time of writing, many of the data needed to analyse the economic development of the Bolivarian Republic of Venezuela were not available. The latest available data on the balance of payments are from the third quarter of 2013; those on shortage, from January 2014; those on GDP, from the fourth quarter of 2013; and those on wages, from December 2013. No data had been published on public income and expenditure in 2014, or on the 2015 budget. The following data only became available with a significant delay: inflation (the most recent data are from August 2014); international trade in goods (most recent, June 2014) and public debt (most recent, March 2014).

exchange rate of 6.30 bolívares to the dollar).

In March 2014, the government introduced a third foreign-exchange system, the Alternative Foreign Currency System (SICAD II); the exchange rate under this system has remained stable at almost 50 bolívares to the dollar (seven times the 6.30 bolívares per dollar rate). SICAD II has been helped by the repeal of the Illegal Currency Transactions Act and the entry into force of the new Currency Administration System and Illegal Currency Transactions Act, which means that State-owned public companies, including PDVSA, the central bank, private companies and individuals can now bid for dollars in cash or bonds. Following the introduction of SICAD II, use of the two pre-existing systems was confined to specific priority areas. The official exchange rate (6.30 bolívares to the dollar) covers only basic necessities, namely medicines, food, housing and education. There are no permanently predefined priority areas for SICAD I, which means that the government can change the sectors to which it applies according to its requirements. The remaining segments of the economy and individuals must resort to SICAD II or the parallel market, where in December 2014 the currency traded at more than three times the SICAD II rate.

Bolivarian Republic of Venezuela: main economic indicators, 2012-2014

	2012	2013	2014 [a]
	Annual growth rate		
Gross domestic product	5.6	1.3	-3.0
Per capita gross domestic product	4.0	-0.1	-4.4
Consumer prices [b]	20.1	56.2	63.4 [c]
Real average wage	5.9	-4.4	…
Money (M1)	62.0	66.1	71.5 [c]
Real effective exchange rate [d]	-16.4	3.7	…
Terms of trade	1.0	-2.0	-8.4
	Annual average percentage		
Open urban unemployment rate	8.1	7.8	7.2 [e]
Central government			
Overall balance / GDP	-4.9	-2.0	-2.8
Nominal deposit rate	14.5	14.5	14.6 [c]
Nominal lending rate [f]	16.2	15.6	16.8 [c]
	Millions of dollars		
Exports of goods and services	99,545	90,800	83,696
Imports of goods and services	77,503	71,000	57,257
Current account balance	11,016	8,000	15,540
Capital and financial balance [g]	-12,012	-13,000	-16,667
Overall balance	-996	-5,000	-1,128

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 September 2014, Exchange Rate Agreement No. 30 was issued and took effect, stipulating that the sale of foreign currency by PDVSA to BCV in order to provide bolívares to FONDEN for special contributions —triggered when oil prices rise above US$ 60 per barrel— shall be settled at any of the official exchange rates. These contributions were previously made at the rate of 6.30 bolívares to the dollar, but can now be transacted at the SICAD II exchange rate (50 bolívares to the dollar), resulting in greater liquidity for projects financed by FONDEN.

Between January and November 2014, international reserves averaged US$ 21.030 billion, down 14% on the average for the same period in 2013. About 70% of reserves were held in gold (non-liquid reserves). In November, President Nicolás Maduro announced that reserves would be bolstered with US$ 4 billion in proceeds from Chinese fund loans.

No quarterly or annual GDP figures were published for 2014. Based on partial, unofficial data, ECLAC estimates that private consumption, gross fixed capital formation, and exports and imports (including the inputs required for domestic production) all diminished, resulting in a 3.0% contraction in GDP for the year.

Figures published by the Organization of Petroleum Exporting Countries (OPEC) show that crude oil production fell slightly (by 0.9%) over the first 10 months of 2014; investment in production remained flat, according to the Baker Hughes rig count. About 20% of the 2.4 million barrels of oil per day that are exported do not generate new foreign-exchange income because they are used to pay off debt associated with the Chinese funds. Oil is also exported to Cuba and the PetroCaribe countries in exchange for food and services.

Year-on-year inflation quickened to 63.4% in August 2014, with a 91.1% rise in the basic necessity category of food and beverages. The consumer price index methodology was changed in July 2014. The rate of inflation snowballed, despite continued efforts by the government to control prices. Data on the lack of commercially available products (that is, the shortage index) were last published in January 2014, when the index stood at 28%.

During the first nine months of 2014, the average urban unemployment rate fell by 0.6 percentage points against the 2013 average, and stood at 7.3%. The participation rate gained 0.7 percentage points to stand at 65.0%. Since January 2014 the minimum wage has risen twice (in May and December), resulting in a nominal increase of 50%, or a 6% fall in real terms. Armed forces personnel pay was raised by 45% in November.

Quarterly balance of payments data were not published, either for the fourth quarter of 2013 or for 2014. ECLAC estimates that the value of goods exports (mainly oil) slid by 8%, almost exclusively due to an estimated 8.2% drop in the price of the Venezuelan export basket. According to data from the National Institute of Statistics (INE), imports declined by 21.8% in the first half of 2014, compared with the same period in 2013.

In November, ahead of the expiry of the special powers granted under an enabling act, President Nicolás Maduro passed 28 laws, mostly in economic matters. Among other things, they aimed to regulate production and agriculture, encourage foreign investment, increase certain taxes and customs duties and change the way international reserves are accounted for.