Bolivarian Republic of Venezuela

1. General trends

The Venezuelan economy contracted by 3.3% in 2009, and the rate of inflation was 25.1%. The country's level of economic activity is expected to slow down further in 2010, with real GDP projected to fall by about 3%. It is also expected that inflation will remain high given the limited availability of foreign currency for importing goods and services at the official rates of exchange despite the recovery of oil prices during the second half of 2009 and early 2010. This limited availability is due to an imbalance between supply of and demand for foreign currency.

During 2009 and the first few months of 2010 the government continued its efforts to transform the country's economy into a socialist system. In this connection, the process of nationalizing some companies in the banking, oil, food, manufacturing, commerce and other sectors is worthy of particular note.

2. Economic policy

(a) Fiscal policy

The Bolivarian Republic of Venezuela's fiscal situation deteriorated significantly in 2009 as compared with 2008. The central government's primary deficit was 4% of GDP in 2009; the overall deficit was 5.4% of GDP. These figures contrast with the primary deficit and the overall deficit for 2008, at 0.9% and 2.2% of GDP, respectively.

The increasing central government deficit is due mainly to a drop in government revenues, which fell from 24% of GDP in 2008 to 21.4% of GDP in 2009, owing largely to the decrease in the volume of petroleum exported and the decline of petroleum prices. In April 2009, the government raised the value added tax rate from 9% to 12%.

Despite the decline in revenues, central government expenditure increased from 26.2% of GDP to 26.8% of GDP . The increase in expenditure was attributable entirely to current expenditure, which rose by 1.2% of GDP to reach 21.6% of GDP. This is higher than total central government revenues and 1.5 times more than the central government's non-petroleum revenues (13.8% of GDP). A substantial portion of the rise in current expenditure was due to an increase in public sector wages, transfers to the public and private sectors, and in the minimum wage. On the other hand, capital expenditure decreased from 4.3% of GDP in 2008 to 3.8% of GDP in 2009.

The central government's fiscal deficit was financed in large part by increased domestic borrowing. Domestic public debt went from 4.6% of GDP in 2008 to 7.6% of GDP in 2009, due primarily to the placement of national public debt bonds and, to a lesser extent, of treasury notes. External debt increased as well, going from 9.6% of GDP in 2008 to 10.8% of GDP in 2009.

The National Development Fund (FONDEN) received US$ 12.945 billion in contributions in 2009.

Of this amount, US$ 12.299 billion was from central bank reserves, US$ 619 million was from Petróleos de Venezuela SA (PDVSA) and US$ 27 million was from the petroleum windfall profits tax.

As of May 2010 there were no official figures available on the country's fiscal result for the first five months of 2010.

(b) Monetary policy

In early 2009 the central bank adopted measures to boost bank lending; these included lowering the lending rate ceilings and the minimum borrowing rates for bank deposits. The banks were also required to maintain financing for the industrial manufacturing sector at year-end 2009 at a volume equal to at least 10% of their gross portfolio.

In early 2009 the central bank lowered the reference rates for takeovers. It also decreased the legal reserve applied to the total amount of the marginal balances of financial institutions. Between December 2008 and December 2009 the monetary base expanded by a nominal 18% but declined in real terms because this was less than the rate of inflation. Between December 2009 and April 2010 the monetary base grew by just 1.8%, while cumulative inflation for the period was 11.3%. This signalled a hardening of monetary conditions, as the actual amount of money decreased. It is reflected as well in the growth of the broad money supply (M3): in 2009 this aggregate rose by a nominal 21.2% (less than inflation), and during the first three months of 2010 it increased by only 2.1%.

In 2009 and the early part of 2010, the government intervened in 12 banks and one savings and loan institution. Four of these banks were subsequently closed down. Some of the intervened banks were merged with each other or with other financial institutions. For example, Bicentenario Banco Universal was created as a public bank resulting from the merger of the state-owned Banfoandes with the private banks Banco Confederado, Bolívar Banco, Central Banco Universal and, subsequently, BaNorte. By early June 2010 the National Securities Commission had intervened in 36 stockbroking houses and begun the process of closing down two of them.

(c) Exchange-rate policy

The fixed exchange-rate regime established in 2003 with its strict exchange controls was maintained throughout 2009, and the nominal rate of exchange was held at 2.15 bolivares fuertes (BsF) per United States dollar. Given the high rate of inflation, the effective real exchange rate of the Bolivarian Republic of Venezuela as of December 2009 was 52% below the average for the past 20 years and the lowest appreciation recorded during that period —both of which are indicative of a significant exchange rate gap.

So that goods could be imported at the official exchange rate of BsF 2.15 per United States dollar, the Foreign Exchange Administration Commission (CADIVI) had to issue foreign currency purchase authorizations allowing potential importers to acquire foreign currency for imports of priority goods, such as food and medicine. Owing particularly to the declining supply of foreign currency from oil exports, the daily average sales of foreign currency authorized by CADIVI at the official exchange rate and effectively surrendered by the central bank were, on average, 39.3% lower than in 2008. This exerted intense pressure on the exchange rate in a context of excess demand for dollars.

As a result, in January 2010 the government set up a dual exchange rate system allowing the purchase of dollars at the rate of BsF 2.6 per United States dollar for certain goods, chiefly food, medicine, goods for education, and machinery and equipment.[1] The rate for imports of other goods, as well as for the proceeds of PDVSA oil exports, is BsF 4.3 per United States dollar. In certain cases, a certificate of insufficient production or a certificate of no domestic production issued by the relevant authority must be submitted to obtain dollars from CADIVI at one of the two official exchange rates.

Despite the devaluation of the bolívar fuerte, which led to an 87% devaluation of the real effective exchange rate between December 2009 and January 2010, pressure on the exchange rate intensified in early 2010. To alleviate this pressure, the central bank was authorized to buy and sell foreign-currency denominated securities. To this end, during the first four months of 2010, 11 auctions of Venezuelan foreign exchange bonds with a maturity of 90 days (for a total of US$ 521 million) took place in order to reduce pressure on the official exchange rate.[2] Nevertheless, in view of the continuing excess demand for dollars and its impact on the parallel exchange rate, the law on illegal currency transactions was amended in May to restrict trading in dollar-denominated securities. Like the purchase and sale of foreign currency in cash, such transactions are centralized by the central bank.

As a result of the exchange policy and the transfer of reserves to FONDEN, central bank reserves fell from US$ 42.299 billion (13.6% of GDP) in December 2008 to US$ 35.000 billion (10.7% of GDP) in December 2009 and stood at US$ 28.356 billion in March 2010.

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1 This exchange rate also applies to outward family remittances, payments to pensioners abroad and some other transactions.

2 The bonds issued in January 2010 matured in April 2010, so this amount is the gross issue volume, not the net issue volume.

3. The main variables

(a) Economic activity

The 3.3% drop in the Bolivarian Republic of Venezuela's GDP in 2009 was not limited to the petroleum sector, which posted a 7.2% decline over 2008; the level of activity in the rest of the economy fell as well (by 2%). In the non-petroleum sector, there was a notable 6.4% decline in the manufacturing sector and an 8.3% drop in commerce and repair services. The government goods and services sector grew by 2.4%, less than in 2008 because the government had fewer available resources. On the expense side, investment dropped off sharply, with gross fixed capital formation declining by 8.2% and private consumption and exports falling by 3.2% and 12.9%, respectively. The contraction of aggregate private sector demand, the limited fiscal stimulus and uncertainty in the private sector as to the government's policies for transforming the economy had a negative impact on the country's economic growth.

In the fourth quarter of 2009 there were serious electricity and water supply problems caused by the drought that hit the country (which, among other things, reduced power generating capacity at the Guri dam) and by a growing demand for electricity that outstripped supply. The demand for electricity had already far outpaced supply for several years, with peak demand on the national electric system increasing faster than the installed capacity. This continued to be the case until the third quarter of 2009, when the government began to address the power shortage by implementing measures geared to reduce demand. These measures included electric power rationing for the companies Alcasa (58 MW), Venalum (300 MW) and Sidor (200 MW).

According to data from the Organization of Petroleum Exporting Countries (OPEC), petroleum output in the Bolivarian Republic of Venezuela fell by an average 7% between 2008 and 2009. During this period the natural decline of the older PDVSA oil wells (such as Maracaibo Lake, which accounts for a substantial portion of PDVSA output) continued and the level of investment is not sufficient to increase the extraction rate. As evidence of this, Baker Hughes has indicated that the number of operating drilling rigs fell by an average of 22.1% between 2008 and 2009. The number of drilling rigs during the first four months of 2010 was 7.2% lower than during the same period in 2009. In addition, at year-end 2008 OPEC cut output quotas for all of its members, including the Bolivarian Republic of Venezuela.

GDP is expected to fall by another 3% in 2010 after shrinking 5.8% during the first quarter of 2010 as compared with the same period in 2009, owing especially to the decline in the manufacturing and commerce sectors. Despite the relative recovery of petroleum prices from their low in early 2009, the country's economy is projected to continue contracting. The lack of private sector investment, coupled with uncertainty, power shortages, a sluggish petroleum industry and the foreign exchange market situation with a substantial excess demand for foreign currency at the official exchange rate, all point to challenges that the economy of the Bolivarian Republic of Venezuela will face in 2010.

(b) Prices, wages and employment

In 2009, the annual rate of inflation, measured using the national consumer price index (INPC), was 25.1%. Inflation accelerated during the first four months of 2010, for an annual rate of 30.4% in April 2010 and a cumulative rate of 11.3% for the first four months of the year.

In this inflationary context, and with several components of the basic basket subject to price controls, there have been some food product shortages and price increases. In response, in February 2010 the National Assembly passed a partial reform of the Act on the protection of people's access to goods and services, which expands the government's ability to monitor and punish violations of this Act.

The average unemployment rate increased during the period, from 7.3% in 2008 to 7.8% in 2009, as the level of economic activity deteriorated. There was a substantial worsening in the second half of 2009. The quality of employment also deteriorated between 2008 and 2009, as the number of formal jobs dropped significantly and informal jobs were created. Formal employment fell by an average of 0.7% during the last two quarters of 2009 compared with the same period in 2008, with informal employment rising by 5.1%.

Lastly, despite nominal wage increases in 2009, including an increase in the minimum wage, real wages fell by 6.6% because of high inflation during the period.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product [c]	3.4	-8.9	-7.8	18.3	10.3	9.9	8.2	4.8	-3.3
Per capita gross domestic product [c]	1.5	-10.5	-9.4	16.2	8.4	8.0	6.3	3.0	-4.9
Gross domestic product, by sector [c]									
Agriculture, livestock, hunting, forestry and fishing	2.0	-0.8	-1.3	4.4	9.8	1.0	...	...	...
Mining and quarrying	2.6	-12.9	-0.3	9.6	2.8	-1.9	...	...	...
Manufacturing	0.3	-13.7	-7.4	23.9	-6.9	8.3	7.4	1.4	-6.4
Electricity, gas and water	4.8	2.1	-0.5	8.5	11.2	4.9	-1.5	5.7	4.2
Construction	13.5	-8.4	-39.5	25.1	20.0	30.6	15.5	3.7	0.2
Wholesale and retail commerce, restaurants and hotels [d]	4.2	-12.4	-9.8	28.1	7.5	15.7	16.7	4.6	-8.3
Transport, storage and communications	2.8	-4.4	-6.5	18.7	18.4	18.9	16.6	11.4	1.8
Financial institutions, insurance, real estate and business services	3.4	-3.1	-3.3	15.9	13.9	18.3	9.2	0.2	-2.1
Community, social and personal services	2.4	-0.2	3.4	10.6	8.1	6.9	7.3	6.7	2.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.2	-6.2	-2.3	15.2	14.6	14.3	16.2	7.0	-2.2
Government consumption	6.9	-2.5	5.7	14.2	10.7	9.6	6.1	6.7	2.3
Private consumption	6.0	-7.1	-4.3	15.4	15.7	15.5	18.7	7.1	-3.2
Gross capital formation	13.6	-34.0	-35.5	91.3	30.3	36.5	23.0	2.5	-20.0
Exports (goods and services)	-3.5	-4.0	-10.4	13.7	3.8	-3.0	-7.0	-2.7	-12.9
Imports (goods and services)	14.1	-25.2	-20.9	57.7	35.2	34.8	29.9	3.8	-19.6
					Percentages of GDP				
Investment and saving [e]									
Gross capital formation	27.5	21.2	15.2	21.8	23.0	26.9	29.2	25.9	24.8
National saving	29.2	29.5	29.6	35.9	40.8	41.6	37.3	38.1	27.4
External saving	-1.6	-8.3	-14.4	-14.1	-17.8	-14.7	-8.1	-12.2	-2.6
					Millions of dollars				
Balance of payments									
Current account balance	1 983	7 599	11 796	15 519	25 447	26 462	18 063	37 392	8 561
Goods balance	7 456	13 421	16 747	22 647	31 708	31 995	22 979	45 656	19 153
Exports, f.o.b.	26 667	26 781	27 230	39 668	55 716	65 578	69 010	95 138	57 595
Imports, f.o.b.	19 211	13 360	10 483	17 021	24 008	33 583	46 031	49 482	38 442
Services trade balance	-3 305	-2 909	-2 634	-3 383	-3 997	-4 410	-6 952	-8 354	-7 617
Income balance	-2 020	-2 756	-2 337	-3 673	-2 202	-1 045	2 467	698	-2 652
Net current transfers	-148	-157	20	-72	-62	-78	-431	-608	-323
Capital and financial balance [f]	-3 812	-12 027	-6 342	-13 364	-20 023	-21 558	-23 420	-27 936	-19 360
Net foreign direct investment	3 479	-244	722	864	1 422	-2 032	978	-924	-4 939
Other capital movements	-7 291	-11 783	-7 064	-14 228	-21 445	-19 526	-24 398	-27 012	-14 421
Overall balance	-1 829	-4 428	5 454	2 155	5 424	4 904	-5 357	9 456	-10 799
Variation in reserve assets [g]	2 027	4 428	-5 454	-2 155	-5 424	-4 904	5 357	-9 456	10 799
Other financing	-198	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	95.3	125.1	141.2	139.0	142.2	132.5	118.7	96.8	73.4
Terms of trade for goods (index: 2000=100)	82.2	87.6	98.7	118.1	154.4	184.4	202.1	249.5	181.7
Net resource transfer (millions of dollars)	-6 030	-14 783	-8 679	-17 037	-22 225	-22 603	-20 953	-27 238	-22 012
Total gross external debt (millions of dollars)	35 398	35 460	40 456	43 679	46 427	44 735	53 361	49 087	63 580
					Average annual rates				
Employment									
Labour force participation rate [i]	66.5	68.7	69.3	68.5	66.3	65.4	64.9	64.9	65.3
Open unemployment rate [j]	13.3	15.8	18.0	15.3	12.4	10.0	8.4	7.3	7.8
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9
Variation in wholesale prices (December-December)	10.2	49.4	48.4	23.1	14.2	15.9	17.2	32.4	24.8
Variation in nominal exchange rate (annual average)	6.5	60.5	38.7	17.0	11.8	1.9	0.0	0.0	0.0
Variation in average real wage	6.9	-11.0	-17.6	0.2	2.6	5.1	1.2	-4.5	-6.6
Nominal deposit rate [k]	14.7	28.8	17.2	12.6	11.7	10.1	10.6	16.0	15.6
Nominal lending rate [l]	24.8	38.4	25.7	17.3	15.6	14.6	16.7	22.8	20.6

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Central government									
Total revenue	20,8	22,2	23,4	24,0	27,5	29,8	29,1	24,9	21,6
Tax revenue	11,4	10,6	11,3	12,7	15,3	15,7	16,2	13,6	13,5
Total expenditure [m]	25,1	26,1	27,8	25,9	25,9	29,8	26,0	26,1	26,7
Current expenditure	20,3	20,3	22,1	20,4	19,6	22,6	20,0	20,0	20,8
Interest	2,9	4,6	4,7	3,7	2,9	2,1	1,5	1,3	1,3
Capital expenditure	4,4	5,1	5,5	5,0	5,8	6,7	5,9	5,8	5,5
Primary balance	-1,5	0,6	0,3	1,8	4,6	2,1	4,6	0,1	-3,7
Overall balance	-4,4	-4,0	-4,4	-1,9	1,6	0,0	3,1	-1,2	-5,1
Central-government debt	30,4	42,4	46,3	38,1	32,8	24,1	19,5	14,2	18,4
Domestic	12,4	15,1	17,8	14,0	11,1	9,2	7,4	4,6	7,6
External	18,0	27,3	28,4	24,2	21,7	14,9	12,1	9,6	10,8
Money and credit [n]									
Domestic credit [o]	15,9	15,0	18,9	19,1	20,8	33,6	32,7	29,0	...
To the public sector	3,3	4,1	4,0	4,5	3,3	6,3	4,4	2,4	...
To the private sector	11,6	9,6	8,6	10,7	12,7	16,5	23,1	21,1	...
Others	1,0	1,3	6,3	3,9	4,7	10,8	5,2	5,5	...
Liquidity (M3)	19,1	18,2	23,0	21,8	23,3	30,4	31,5	29,1	33,6

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 1997 prices.
[c] As of 2007, figures were estimated on the basis of the quarterly figures at constant 1997 prices, published by the Central Bank of Venezuela.
[d] As of 2007 does not include restaurant and hotel activities, which are included in total GDP.
[e] Based on figures in local currency expressed in dollars at current prices.
[f] Includes errors and omissions.
[g] A minus sign (-) denotes an increase in reserves.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, nationwide total.
[j] Percentage of the economically active population, nationwide total.
[k] 90-day deposits.
[l] Average lending rate of the country's six major commercial and universal banks.
[m] Includes extraordinary expenditure and net lending.
[n] The monetary figures are end-of-year stocks.
[o] Refers to domestic credit of the country's six major commercial and universal banks.

(c) The external sector

The current-account surplus for 2009 was the equivalent of 2.6% of GDP; this is significantly lower than the surplus of 12% of GDP posted in 2008. The first quarter of 2009 saw a balance of goods deficit as falling petroleum prices led the value of petroleum exports to plummet. However, starting in the second quarter the balance of goods posted a surplus and gradually improved in subsequent months as petroleum prices recovered, to end the year with a surplus equivalent to 5.9% of GDP. The balance of goods surplus was still substantially lower than the surplus of 14.7% of GDP recorded in 2008.

The value of goods exports fell by 39.5% in 2009 compared with the previous year, going from 30.6% of GDP in 2008 to 17.7% of GDP in 2009. The value of petroleum exports declined by 39.2%, from 28.7% of GDP in 2008 to 16.6% of GDP in 2009. This was because of the decline in the price of Venezuelan petroleum (which was, on average, 34.1% lower than in 2008) and the fall in crude output. The value of non-petroleum exports contracted by 43.5%. Imports of goods dropped by 22.3%, going from 15.9% of GDP in 2008 to 11.8% in 2009. Private sector imports fell by 25%. Behind the decline in imports is not only the decrease in demand caused by a decline in GDP but also, above all, the lower availability of foreign exchange from CADIVI at the official exchange rate.

The balance of services deficit was smaller in 2009 (2.3% of GDP) than in 2008 (2.7% of GDP), owing especially to lower shipping expenses. However, the income balance also deteriorated, going from a surplus equivalent to 0.2% of GDP in 2008 to a 0.8% deficit in 2009, because of rising interest payments on portfolio investment, including public debt.

The capital and financial account posted a deficit equal to 4.3% of GDP for 2009. As a result of the nationalization of some companies by the Venezuelan governmentthe country's foreign direct investment surplus, equal to 0.1% of GDP in 2008, became a deficit of 0.1% of GDP in 2009. As for portfolio investment, the increase in public liabilities resulting from the issuance of dollar-denominated public debt securities in the amount of US$ 4,991,900,000 (equivalent to 1.5% of GDP) in October 2009 is worthy of note. Other investments include the equivalent of US$ 3.484 billion (1.1% of GDP) in Special Drawing Rights allocated by the International Monetary Fund (IMF) in the third quarter of 2009, which increased public sector liabilities. Non-financial private sector deposits increased as well, which led to a decrease in public sector assets upon the sale of debt securities equivalent to 5.8% of GDP on the secondary market in 2009

Table 2

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4,9	7,2	3,8	3,5	0,5	-2,6	-4,6	-5,8	-5,8	...
Goods exports, f.o.b. (millions of dollars)	22 341	30 310	31 760	10 727	9 840	14 560	16 445	16 750	16 424	...
Goods imports, f.o.b. (millions of dollars)	10 909	11 408	12 425	14 740	11 155	10 055	8 822	8 410	6 883	...
Gross international reserves (millions of dollars)	31 946	34 335	39 206	43 127	28 992	30 750	33 697	35 830	29 186	28 801
Real effective exchange rate (index: 2000=100) [c]	105,6	102,1	96,0	83,6	77,4	75,2	72,2	69,0	120,2	114,6 [d]
Unemployment rate	8,9	7,8	8,0	6,9	7,9	8,3	7,5	6,9	7,6	...
Consumer prices (12-month percentage variation)	29,1	32,2	36,0	31,9	28,5	27,4	28,9	26,9	28,2	32,0 [d]
Average nominal exchange rate (bolívares per dollar)	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	4 090	4 295
Average real wage (variation from same quarter of preceding year)	-3,4	-2,3	-3,5	-8,9	-5,4	-8,7	-5,1	-4,0	-1,6	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	2,9	2,8	2,5	4,6	4,3	4,0	3,9	3,8	3,6	3,7 [d]
Lending rate [f]	23,0	23,0	22,9	22,5	22,5	21,1	19,4	19,4	18,6	17,9 [d]
Sovereign bond spread (basis points) [g]	638	591	930	1 862	1 567	1 186	884	1 017	881	1 230
Stock price index (national index to end of period, 31 December 2000 = 100)	514	546	556	514	640	653	738	807	855	954
Non-performing loans as a percentage of total credit	1,5	1,7	2,0	1,8	2,4	2,5	2,8	3,3	…	…

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 1997 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] 90-day deposits.
[f] Average lending rate of the country's six major commercial and universal banks.
[g] Measured by JP Morgan's EMBI+ index to end of period.