



Economist Intelligence Unit

**The
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COUNTRY REPORT

Highlights

Outlook for 2008-09

- Mr Chávez's defeat in the December 2007 referendum on constitutional reform will give a boost to the beleaguered opposition. However, internal divisions and a lack of influence over policy remain significant challenges.
- The government will continue to use the state's wealth of energy resources as leverage to deepen diplomatic and commercial relations with countries it considers "friendly" within and outside the region.
- The government is unlikely to move towards full state control of the economy, but concerns about further nationalisation will curb private-sector investment.
- The central government deficit is forecast to widen, as non-oil revenue falls, but the true fiscal position will be worse, as an increasing burden of expenditure will be placed on PDVSA and Fonden.
- Deficiencies in the policy environment and a stabilisation of fiscal revenue will combine to produce a deceleration of GDP growth in the forecast period.
- Assuming that oil prices remain high, the authorities are unlikely to devalue the bolívar until 2009. Sales of dollar-denominated assets will increase, but the gap between the premium and official exchange rates will remain large.

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Monthly review

- On December 2nd 2007, the electorate rejected a government-sponsored reform of the constitution, which would have significantly enhanced Mr Chávez's powers. This result marked a major political defeat for the president.
- The authorities launched a new currency, the bolívar fuerte (BsF, or "strong" bolívar), on January 1st. It will facilitate financial transactions but is extremely unlikely to stem rising inflation, as claimed by the government.
- The government passed legislation prohibiting references to the parallel exchange rate. Although media authorities appear to have complied with the legislation, there will remain a captive market for foreign exchange.
- The finance ministry eased price controls on milk, sugar and cooking oil. However, this is unlikely to address fully the problem of shortages, as the new prices still remain lower than the market price in neighbouring countries.
- The National Assembly approved additional spending in mid-December, taking the 2007 budget to Bs143bn, compared with an original estimate of Bs115bn.
- Inflation rose sharply in December, to 22.5% year on year, largely on the back of higher food and drink prices. Money supply growth slowed but remained high and will continue to fuel demand-side price pressures.

Outlook for 2008-09: Domestic politics

The defeat of the president, Hugo Chávez, in the December 2007 referendum on constitutional reform has brought into question the future of his socialist vision. The defeat emphasises that Mr Chávez's support is based on his pro-poor policies and the rise in real incomes in recent years, rather than solid support for "deepening the revolution". The victory of the "no" campaign is also significant as it has shattered the aura of invincibility that Mr Chávez had built up, marking the first time the president has lost a national poll since entering power in 1998. However, Mr Chávez's poll defeat could prove a temporary setback rather than a signal of an imminent political realignment. Much will depend on the ability of the diverse anti-



Chávez elements to use their referendum victory as a springboard to offer a credible electoral alternative. The traditional political parties remain discredited, suffering from a poor reputation and the legacy of corruption in government in previous decades. But the referendum indicated that a "third force" is emerging, including what Venezuelans call "Chavistas light": Chávez supporters who are uncomfortable with some of the more radical elements of the president's programme. General Raúl Baduel emerged as a key advocate of this position in the referendum campaign, but he is unlikely to seek a broader political role in leading the opposition.

In the absence of other high-profile leaders, it will take time for the opposition to overcome internal differences. In addition, Mr Chávez will continue to benefit from complete control over the unicameral National Assembly (after the opposition boycotted the December 2005 legislative election), strong influence over weak and politicised institutions, and enabling legislation which allows him to rule by decree on a wide range of economic and social issues. In this light, spontaneous demonstrations will remain the opposition's most frequent means of expressing discontent with government policy. Although the Economist Intelligence Unit expects these to be contained, the possibility of significant social unrest cannot be discounted.

Outlook for 2008-09: International relations

The Chávez government will continue to use the state's wealth of energy resources as leverage to deepen diplomatic and commercial relations with countries it considers "friendly" within and outside the region. Mr Chávez's increasingly provocative international agenda will continue to fuel some unease within Latin America—reflected in occasional diplomatic and trade disputes with former trade partners in the Comunidad Andina (CAN, the Andean Community) and prospective partners from the Mercado Común del Sur (Mercosur, the Southern Cone customs union)—and outside it, most obviously in the US. Although the US has become less vocal in its criticism of the Venezuelan government recently, spats between the governments are likely to re-emerge. Despite poor diplomatic relations and Venezuela's pursuit of new markets for oil trade and investment, oil supply to the US is expected to be largely unaffected during the forecast period. In spite of



recent tensions with Colombia and Spain, we expect commercial relations to remain sound.

Outlook for 2008-09: Policy trends

Following the government's defeat in the December 2007 referendum on constitutional reform, there has been speculation about whether the president will amend his economic policy goals, which seek to shift the country towards what he calls "21st century socialism". An alarmist view is that Mr Chávez remains committed to moving towards full state control of the economy. The other view is that his defeat will presage a retrenchment, with private-sector enterprises retaining the scope to operate in the space between large state companies in strategic sectors and small-scale co-operatives based on social and communal property. This would still entail many restrictions, including only minority participation in activities deemed to be strategic. Early indications suggest that the second view would appear to correspond more to reality. However, the fear that the first view will ultimately turn out to be correct will continue to curb private-sector investment and foment capital flight. There is therefore no guarantee that the drive towards "21st-century socialism" will come to a halt in the wake of the referendum defeat. Whether or not further nationalisation actually takes place, or is instead used as a bargaining tool to extract concessions, the threat of nationalisation means that contract rights will remain weak and the burden of red tape large, even if outright expropriation is avoided.

Outlook for 2008-09: Fiscal policy

Central government revenue has risen by around 10% of GDP in the past five years, on the back of rising oil prices and oil tax rates. To increase its spending powers on top of this, the government has established "parallel" budgets run by the Fondo Nacional de Desarrollo (Fonden, the national development fund) and by Petróleos de Venezuela (PDVSA, the state oil company). But despite the array of resources at its disposal, management of the central government accounts will become more complicated in the forecast period. Oil revenue will stabilise as a share of GDP in 2008 before moderating to a still-high 15.6% of GDP by 2009, but non-oil revenue will fall more rapidly in the wake of a cut of 5 percentage points in value-added tax (VAT) in mid-2007, from 14% to 9%, and as GDP growth decelerates



more rapidly in 2008-09. Although we expect a gradual decline in public expenditure as a percentage of GDP, this will be insufficient to prevent an increase in the central government deficit, to 2.9% of GDP in 2009. The true fiscal position will be worse, as a rising burden of expenditure will be placed on PDVSA and Fonden.

Outlook for 2008-09: Monetary policy

Faced by government reluctance to cut back spending significantly and a distortionary system of price controls, the Banco Central de Venezuela (BCV, the Central Bank) remains hamstrung in its battle against inflation. The defeat of Mr Chávez's constitutional reform proposals will mean that the BCV retains nominal independence, but it will continue to be heavily influenced by the executive. In the context of fiscal dominance over monetary policy, the money supply has continued to expand rapidly. We expect the pace of monetary expansion to remain rapid during the forecast period and the BCV will continue to pose significant quasi-fiscal losses. The BCV will continue to raise both minimum savings rates and bank reserve requirements in order to slow down credit expansion, but these measures are unlikely to slow credit growth significantly, as deposit rates will remain highly negative.

Outlook for 2008-09: International assumptions

International assumptions summary
(% unless otherwise indicated)

	2006	2007	2008	2009
Real GDP growth				
World	5.3	5.1	4.5	4.6
OECD	3.1	2.5	1.8	2.4
EU27	3.0	2.7	2.1	2.2
Exchange rates				
¥:US\$	116.2	117.5	105.0	96.3
US\$:€	1.256	1.369	1.460	1.328
SDR:US\$	0.680	0.651	0.626	0.648
Financial indicators				
€3-month interbank rate	3.08	4.27	4.20	4.00
US\$ 3-month Libor	5.19	5.23	4.19	4.47
Commodity prices				
Oil (Brent; US\$/b)	65.3	73.3	78.0	72.0



Gold (US\$/troy oz)	604.5	696.7	822.5	706.3
Food, feedstuffs & beverages (% change in US\$ terms)	16.1	26.7	8.1	-1.1
Industrial raw materials (% change in US\$ terms)	49.6	12.8	-3.1	-12.8

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Our baseline forecasts assume that the impact of the financial market turbulence of recent months on the real economy will be relatively contained, producing a modest slowdown in global growth in 2008-09. However, given the close trading ties with the US and reliance on oil revenue, there are significant downside risks to this forecast. The global environment is expected to become less conducive to growth in emerging markets in 2008-09, especially as financing conditions turn less favourable. The repricing of risk that has been spurred by the sub-prime mortgage crisis will lead to less generous borrowing conditions, which will expose weaknesses in some markets. Given its domestic policy uncertainty, Venezuela is particularly vulnerable to changing sentiment in global financial markets. But to its advantage, oil prices are expected to remain extremely high by historical standards; although they will start to fall by 2009, Dated Brent crude will remain above US\$70/barrel throughout the forecast period. Moreover, the sovereign's external debt burden is low and exchange controls limit the possibility of capital flight.

Outlook for 2008-09: Economic growth

Extremely high oil prices have driven double-digit rates of GDP growth in 2004-06, as windfall fiscal revenue has fed through into public-sector consumption and investment, and from there into rapid private-sector spending. Growth has moderated in 2007, but at around 8-9% in the first three-quarters of the year, the pace of expansion has remained firm. However, deficiencies in the policy environment and a stabilisation of fiscal revenue are expected to produce slower growth in 2008-09, of 4.9% and 3.9% respectively. The government's fiscal injection and negative savings rates will boost consumer spending in 2008, but as real wage growth turns negative and unemployment rises, private consumption growth will slow to 4.9% by 2009. As the forecast period progresses, it will become harder for the government to maintain an expansionary fiscal stance as revenue begins to stabilise; this will result in a slowing of public consumption growth to



4.8% by the end of the forecast period. Combined with weaker private investment, it will also contribute to a deceleration of growth of fixed investment. Double-digit investment growth since 2004 has been sustained by the consumer spending boom, but private fixed investment will increasingly suffer from threats to property and contract rights. The external sector will eventually become less of a drag on growth as export volumes recover (assuming some recovery in oil output following a drop in 2007), while the pace of import growth slows in line with domestic demand.

Outlook for 2008-09: Inflation

After falling to 15% in the third-quarter of 2007 on the back of one-off factors, including a sharp cut in the VAT rate, inflation picked up to 22.5% by the end of the year. This upward trend is expected to continue in 2008-09. There is a lack of sufficient capacity in a variety of sectors as a result of inadequate investment. This is only partly offset by rising imports, producing shortages, supply bottlenecks and the sale of regulated goods above the official price. Meanwhile, the effectiveness of the exchange-rate anchor is being undermined by the weakness of the parallel exchange rate. Given the easing of price controls and the impact of a forecast step devaluation of the official exchange rate in 2009, there is likely to be little price relief as the forecast period progresses, even if domestic demand growth slows as forecast. In the absence of a marked fiscal adjustment, price pressures will continue to increase, and inflation will rise to 30% by the end of 2009.

Outlook for 2008-09: Exchange rates

The currency was redenominated in January 2008, knocking three zeroes off the value of the bolívar. Despite much speculation, the authorities did not combine this with a step devaluation of the exchange rate, with the new bolívar "fuerte" (strong bolívar) fixed at a rate of BsF2.15:US\$1. However, the fixed official exchange rate is becoming increasingly overvalued. High oil prices mean that Venezuela is likely to continue to delay devaluation for some time; with no pressing problems on either the balance of payments or fiscal accounts, there is little incentive for the authorities to adjust the official rate. Moreover, under the current policy framework the fixed exchange rate is the main anchor for domestic prices. Assuming that oil



prices remain high, we expect that the government will delay a devaluation until 2009. An unchanged official exchange rate will leave the parallel market premium extremely high, raising the risk that the eventual adjustment will be harsh. Although the government claims not to be worried about the ever-wider premium of the parallel exchange rate over the official rate, we expect additional sales of dollar-denominated assets. However, in the absence of a comprehensive fiscal and monetary adjustment programme, and given the government's anti-market stance, there will be little let-up to capital flight.

Outlook for 2008-09: External sector

The current-account surplus narrowed sharply in the first three-quarters of 2007, to US\$16bn (a 30% year-on-year decline), mainly reflecting strong growth in imports. Notwithstanding a recovery in oil prices since then, the general trend during the forecast period will be for a continued narrowing of the current-account surplus from the 2006 peak, to US\$19.6bn (7.1% of GDP) in 2008 and US\$13.6bn (5% of GDP) in 2009. The reserves position will continue to be distorted by the transfer of assets between the Central Bank, Fonden and PDVSA. There was a sharp drop in Central Bank reserves in 2007, but total public-sector external assets (including US dollars held by Fonden and PDVSA) are much larger than the reserves data indicate. We are forecasting a stabilisation in Central Bank reserves in 2008-09 around current levels of US\$32bn, but the balance-of-payments position will be better than it appears according to this data. Opacity of the data, however, is a growing problem.

Outlook for 2008-09: Forecast summary

Forecast summary

(% unless otherwise indicated)

	2006 ^a	2007 ^b	2008 ^c	2009 ^c
Real GDP growth	10.3	7.8	4.9	3.9
Gross agricultural production growth	5.1 ^b	2.0	2.0	1.5
Unemployment rate (av)	10.0	9.1	9.2	9.6
Consumer price inflation (av)	13.7	18.7	24.0	26.9
Consumer price inflation (year-end)	17.0	22.5	25.7	29.6
Lending interest rate	15.5	17.3	20.0	19.5
Central government balance (% of GDP)	0.0	-1.5	-2.6	-2.9



Exports of goods fob (US\$ bn)	65.2	68.9	75.7	73.2
Imports of goods fob (US\$ bn)	32.2	43.4	48.4	51.1
Current-account balance (US\$ bn)	27.2	21.1	19.6	13.6
Current-account balance (% of GDP)	14.9	9.5	7.1	5.0
External debt (year-end; US\$ bn)	41.4 ^b	46.9	46.4	45.7
Exchange rate Bs:US\$ (year-end)	2,147.0	2,147.0	2,147.0	2,700.0
Exchange rate Bs:¥100 (av)	1,847.4	1,828.0	2,044.8	2,757.3
Exchange rate Bs:€(year-end)	2,833.4	3,166.8	2,984.3	3,496.5
Exchange rate Bs:SDR (year-end)	3,229.9	3,434.4	3,369.4	4,129.1
Parallel exchange rate Bs:US\$ (av)	2,801.3	4,306.0	4,521.9	5,002.4

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

The political scene: Referendum defeat boosts opposition

On December 2nd, the electorate voted to reject a government-sponsored reform of the constitution, which would have significantly enhanced the powers of the president, Hugo Chávez (November 2007, The political scene). The vote was divided into two blocks, the first relating to changes proposed by Mr Chávez and the second to changes proposed by the National Assembly. The result was close; according to the official figures from the Consejo Nacional Electoral (CNE, the electoral authority), the first block was repudiated by 50.7% to 49.3%; the second was rejected by 51.1% to 48.9%. There were several hours of considerable tension before the CNE announced that with 87% of the ballots counted, the result was “irreversible”. Mr Chávez conceded defeat, although there was speculation that this concession might have been wrung from a reluctant president by implicit or explicit threats from elements within the armed forces.

Mr Chávez's defeat can be attributed in large measure to the recent coalescing of a mass student-based opposition movement, combined with the open rebellion of former Chávez allies. A retired general and popular former minister of defence, Raúl Baduel, campaigned strongly against the constitutional changes and urged Venezuelans to come out in force to vote “no”. A small party allied to Mr Chávez, Podemos, also rejected the proposed reforms. The relatively high rate of abstention (45%) also hurt the government's campaign, since many of those who stayed at home were Chávez supporters. This suggests that support for the president rests mostly on his social spending programmes and generally pro-poor policies, rather than on his socialist ideology. A deteriorating economic situation has also



contributed to disillusionment with the government, with price and exchange controls generating shortages of basic goods and rampant inflation (see Economic policy). Outside the economic sphere, there is also growing disillusionment with failure to improve delivery of basic services, such as water and housing, to the poor, which is blamed in large part on corruption and mismanagement of the oil windfall.

This result is a major political and personal defeat for Mr Chávez, as it marks the first time that he has lost a national election since winning the presidency in 1998. Mr Chávez has insisted that his planned reforms have been delayed rather than abandoned. He could use his significant powers, including the ability to legislate by decree under the Ley Habilitante and complete dominance over the National Assembly, to push through some of the proposed changes. However, given the lack of public support this could deepen divisions within his own ranks. Some of the proposed changes would still require a reform of the constitution via a petition by voters, which is unlikely. Much will depend on how the opposition positions itself over the coming months. The victory of the "no" campaign was evidence of the emergence of a "third pole" (as Ismael García, leader of Podemos, calls it), comprising those who have become disillusioned with Mr Chávez but are reluctant to join the ranks of the discredited and unpopular opposition parties. This could be a dangerous development for the president, who has been very successful in presenting his adversaries as belonging to pro-US camp. This places the opposition in a position to reap considerable gains in regional elections due in October, but this will require the traditional and new opposition elements to forge a workable alliance.

The political scene: Mr Chavez condemns US intervention in the region

Given adverse domestic developments, Mr Chávez has remained active on the international front, particularly in condemning the role of the US in the region. The Banco del Sur—a development bank designed to finance infrastructure projects in the region—was inaugurated on December 9th. The brainchild of the Venezuelan president, the bank will have its headquarters in the country's capital, Caracas. The institution will, however, be much weaker than envisaged by Venezuela, which originally proposed an agency to provide emergency financial assistance to rival the International Monetary Fund (IMF). Mr Chávez still hopes that the bank will counter the influence



of the US, which commands significant sway in multilateral financial institutions, although it remains unclear how much influence Mr Chávez's ideology will have over the bank's lending policies. This was followed by further criticism of the US, after the arrest of three Venezuelans and a Uruguayan in Miami in mid-December. This was connected to the arrest in August 2007 of Guido Antonini, who was accused of smuggling around US\$800,000 into Argentina on a PDVSA plane; there had been speculation that the money was destined to finance the presidential campaign of Cristina Fernández. US officials claim that the four men—acting on behalf of the Venezuelan government—were attempting to bribe Mr Antonini into denying any connection with the Chávez regime. Both the Venezuelan and Argentinian governments have described the case as a bid by Washington to denigrate “progressive” regimes in the region and interfere with the alliance between the Venezuelan and Argentinian governments.

Economic policy: National Assembly approves 2007-13 development plan

Following the defeat of Mr Chávez in the December 2nd referendum on constitutional reform, there has been speculation about whether the president will amend his economic policy goals, which seek to shift the country towards what he calls "21st century socialism". The approval of the 'Plan de Desarrollo Económico y Social 2007-13' (a five-year social and economic development plan) by the National Assembly on December 14th shed light on Mr Chávez's medium-term policy intentions. The plan suggests that Mr Chávez is unlikely to moderate his stance, given the similarities between the content of the reform proposals and the development plan. Both have the stated aim of moving the economy further towards the socialist model, involving the creation of new forms of property rights (in line with ensuring that property fulfils the correct "social" purpose), as well as the maximisation of income from oil production. Given that it was the ideological aspects of the constitutional reform proposals that invoked such strong opposition, pushing some policy proposals towards the socialist model could be a risky strategy, as it could strengthen the opposition. However, the government's insistence that the economic proposals contained in the referendum have only been placed on hold "for now", together with



the approval of the six-year development plan, indicate that Mr Chávez could attempt to further radicalise policy.

Economic policy: The bolivar fuerte is launched

The authorities launched a new currency, the bolívar fuerte (BsF, or "strong" bolívar), on January 1st. The new currency is in effect a redenomination of the bolívar (Bs), with the authorities removing three zeroes from the old currency. Although payments and accounts were re-denominated at the beginning of the year, the public will be able to use old bolívars for cash payments until the Banco Central de Venezuela (BCV, the Central Bank) declares the monetary conversion complete, which is likely to be a period of at least six months. Despite speculation that the government might use the opportunity to devalue the currency (previously the rate had been fixed at Bs2,150:US\$1), the bolívar fuerte has been fixed at a rate of BsF2.15:US\$1. The removal of three zeros from the currency is likely to facilitate financial transactions and make the payments system more efficient, but the government's claim that the launch of the bolívar fuerte will help stem rising inflation (which reached 22.5% in December; see Economic performance) and strengthen confidence in monetary policy management is more tenuous. No measures are being taken to protect the value of the currency or tackle rising domestic liquidity, which is at the heart of the price pressures. As such, the black-market premium for dollars is likely to remain wide.

However, the government is seeking to divert attention from this disparity, passing legislation in mid-December prohibiting the mention or publication of any exchange-rate information aside from that related to the official fixed rate. Since then, media agencies which previously published the parallel exchange rate have removed these references from their publications. The government has also taken action to eliminate the extent to which people are taking advantage of the gap between the official and the parallel exchange rates. In December, it announced that all pre-paid credit cards would be cancelled from January, as people had increasingly been selling their US\$3,000 annual quota for internet purchases on the black market. The authorities announced that they would be replaced with conventional cards. Data from Cadivi, the official exchange agency, indicated that monthly credit card expenditure soared from US\$268m in January 2007 to US\$701m by December. Cadivi has also informed 31,000 of the people who made



dollar purchases in October and November that they must supply copies of receipts or invoices, in addition to personal identification, as proof of purchase. Taking further action, at the end of December the government announced that the US\$3000 quota would also be reduced to US\$400 from January, although a US\$5,600 quota was introduced for travel purposes. In spite of these measures, demand for dollars is likely to remain extremely strong, contradicting the government's claims that the new bolívar is a strong currency.

Economic policy: Monetary measures are unlikely to tame inflation

While the introduction of the new currency is unlikely to have any impact in containing price pressures, other monetary measures introduced in early December are in fact likely to boost inflation in the near term. Following growing shortages of many food staples (December 2007, Economic policy), the minister of finance, Rodrigo Cabezas, announced that price controls on UHT milk would be lifted and that controls on fresh milk, sugar and cooking oil would be eased. Food shortages were an important factor in explaining the government's defeat in the December 2nd referendum on constitutional reform (see The political scene), as Mr Chávez's core support base—the poor—has been most seriously affected by the shortages, being unable to afford the inflated black market rates. Goods subject to price controls have become increasingly scarce, as rising production costs have made it unprofitable for manufacturers to sell to the domestic market at the fixed retail price. Instead, these goods have been sold on the black market at a much higher price, or smuggled across the border to Colombia, where the retail price is higher. Mr Cabezas admitted that less than 10% of demand for milk is being met and that less than 40% of demand for nine other staples (including sugar and cooking oil) is being met.

However, it is unlikely that these price adjustments will be sufficient to address the problem of shortages, as the adjusted prices still remain lower than the market price in neighbouring countries. The Cámara Venezolana de la Industria de Alimentos (Cavidea, a private sector think-tank) welcomed the government's decision to adjust price controls, but it also stated that it is necessary to revise the prices of all regulated goods. However, the easing of controls is likely to push up inflation. The price of UHT milk surged by 60% after its price fix was lifted in early December. In common with many



emerging markets, food and beverages account for a significant weighting in the consumer price index.

Economic policy: National Assembly approves last-minute spending in 2007

The authorities have continued to use windfall oil income to fund social spending. With the financial year ending in December and revenue far exceeding budget estimates (owing to an extremely conservative oil price assumption of US\$29/barrel), on December 12th the government approved an additional Bs1.18bn (US\$550,000) in central government spending. Bs669m (US\$312,000) went to cover pensions payments due in December and January; Bs500m was transferred to the Ministry of Energy and Mining to cover spending commitments at the Electrificación del Caroni (Edelca, the main state-owned electricity supplier); the remaining Bs19m went to the Ministry of Finance to cover labour costs in the police service. Including these approvals, extra spending allocations reached Bs28bn in 2007, taking the budget to Bs143bn, compared with the original estimate of Bs115bn. Other major off-budget spending has also continued, financed by the Fondo Nacional del Desarrollo (Fonden, the national development fund). Although there is no detailed monthly information on inflows and outflows, the finance minister has stated that transfers to Fonden reached US\$30bn between the fund's inception in 2005 and November 2007. This was US\$3bn higher than the ministry's last report in April. From the total transferred to Fonden, US\$24bn has been committed to specific projects, of which US\$16.5bn has been disbursed. This is US\$4.6bn higher than the April figure, implying that off-budget spending has been stepped up. Funds from the transfer of international reserves have been spent in part externally (including on military equipment), in an attempt to avoid remonetisation. However, the increase in off-budget spending will nevertheless continue to fuel domestic demand and price pressures.

Economic performance: Inflation rises sharply in December

According to data from the Central Bank, consumer price inflation rose to 22.5% year on year in December, a four-year high. This compares with 20.7% in November and 17% at the end of 2006. The rise was largely owing to higher food and drink prices. Although the prices of many staple goods



are frozen, the price of unregulated substitute goods has risen, as producers seek to ensure overall profitability. This is reflected in the BCV's division of the price index into regulated and unregulated goods; prices for the former rose by 10.7%, compared with a jump of 32.7% for the latter. The price of alcoholic beverages and tobacco increased by 78.1% year on year in December, reflecting the imposition of higher taxes which were announced earlier in 2007. The BCV stated that the introduction of a tax on financial transactions had also contributed to the rise in inflation, as had seasonal price adjustments linked to the Christmas period, implying that these one-off factors could help bring down inflation in the coming months. However, this is unlikely as liquidity remains high. According to the BCV's most recent data, broad money supply rose by around 27% in November. This was a much slower pace of expansion than the 40-50% rates posted in recent months, but will continue to fuel demand-side price pressures.

Negative real interest rates are also placing upward pressure on inflation. Rates have risen but remain lower than consumer price inflation, feeding the ongoing credit expansion. Lending rates averaged 20.6% in December, compared with 19.6% in November and around 15% at the beginning of 2007. There is little incentive to save, with average deposit rates at the six main commercial banks still highly negative. Term deposit rates averaged 11.1% in December, while the rate for instant-access deposits was 10%.

Data and charts: Annual data and forecast

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c
GDP							
Nominal GDP (US\$ bn)	83.5	112.5	144.8	181.9	222.9	277.8	273.0
Nominal GDP (Bs bn)	134,228	212,683	302,643	390,457	478,579	596,466	724,514
Real GDP growth (%)	-7.8	18.3	10.3	10.3	7.8	4.9	3.9
Expenditure on GDP (% real change)							
Private consumption	-4.3	15.4	15.7	17.9	19.3	9.6	4.9
Government consumption	5.7	14.2	10.7	6.7	5.5	5.0	4.8
Gross fixed investment	-37.0	49.7	38.4	26.6	23.2	11.0	6.0
Exports of goods & services	-10.4	13.7	3.8	-4.5	-3.8	2.5	5.3
Imports of goods & services	-20.9	57.7	35.2	31.1	29.3	10.4	5.8
Origin of GDP (% real change)							
Agriculture	-0.4 ^b	4.8 ^b	4.7 ^b	5.1 ^b	2.0	2.0	1.5
Industry	-9.8	17.6	8.5	8.2	5.5	2.2	2.2



Services	-6.7	20.1 ^b	12.2 ^b	12.4 ^b	9.9	7.0	5.2
Population and income							
Population (m)	25.5	26.0	26.5	26.9	27.3	27.8	28.2
GDP per head (US\$ at PPP)	5,080	6,075 ^b	6,790 ^b	7,612 ^b	8,274	8,712	9,156
Recorded unemployment (av; %)	18.0	15.1	12.2	10.0	9.1	9.2	9.6
Fiscal indicators (% of GDP)							
Public-sector revenue	23.4	24.0	27.7	30.0	29.5	28.1	27.3
Public-sector expenditure	27.8	25.9	26.0	30.0	31.0	30.7	30.1
Public-sector balance	-4.4	-1.9	1.6	0.0	-1.5	-2.6	-2.9
Net public debt	47.4	38.8	33.3	24.3	26.0	26.9	28.5
Prices and financial indicators							
Exchange rate Bs:US\$ (av)	1,607	1,891	2,090	2,147	2,147	2,147	2,654
Secondary exchange rate Bs:US\$ (av)	2,423	2,780	2,651	2,801	4,306	4,522	5,002
Consumer prices (av; %)	31.1	21.7	16.0	13.7	18.7	24.0	26.9
Producer prices (av; %)	40.1	28.0	17.3	11.9	16.0	22.9	17.4
Stock of money M1 (% change)	84.4	36.1	51.1	149.9 ^b	17.9	16.8	16.1
Stock of money M2 (% change)	64.1	40.1	52.4	75.4 ^b	22.8	21.6	20.3
Lending interest rate (av; %)	25.2	18.5	16.8	15.5	17.3	20.0	19.5
Current account (US\$ m)							
Trade balance	16,747	22,647	31,780	32,984	25,462	27,366	22,124
Goods: exports fob	27,230	39,668	55,473	65,210	68,886	75,736	73,193
Goods: imports fob	-10,483	-17,021	-23,693	-32,226	-43,425	-48,370	-51,070
Services balance	-2,634	-3,383	-3,866	-4,259	-5,237	-6,489	-6,904
Income balance	-2,337	-3,673	-2,281	-1,512	1,193	-950	-1,484
Current transfers balance	20	-72	-99	-46	-341	-287	-145
Current-account balance	11,796	15,519	25,534	27,167	21,076	19,641	13,591
External debt (US\$ m)							
Debt stock	37,762	39,315	44,201	41,395 ^b	46,866	46,362	45,655
Debt service paid	8,822	7,307	5,567	9,693 ^b	7,899	8,980	8,555
Principal repayments	6,559	5,136	2,780	6,492 ^b	4,773	5,391	4,950
Interest	2,263	2,171	2,787	3,200 ^b	3,126	3,589	3,606
Debt service due	8,825	6,605	5,572	4,993 ^b	7,899	8,980	8,555
International reserves (US\$ m)							
Total international reserves	20,667	23,497	29,637	36,672	33,500	32,304	31,968

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, International Financial Statistics.



Data and Charts

Data and charts: Quarterly data

	2005		2006			2007		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Central government finance (Bs m)								
Ordinary revenue	22,119	23,248	24,707	27,653	35,038	22,349	32,220	31,721
Extraordinary revenue	6,778	2,355	2,121	10,583	7,249	2,591	368	1,866
Ordinary expenditure	26,821	24,359	28,809	24,155	37,798	27,413	30,204	28,395
Extraordinary expenditure	2,413	4,296	3,357	1,510	2,596	5,499	2,063	702
Ordinary balance	-4,702	-1,112	-4,102	3,498	-2,760	-5,065	2,016	3,325
Overall balance	-337	-3,053	-5,337	12,572	1,892	-7,973	321	4,489
Output								
GDP at constant 1997 market prices (Bs bn)	12,749	11,607	12,432	13,091	14,208	12,605	13,401	14,232
Real GDP (% change, year on year)	11.1	10.3	9.4	10.2	11.4	8.6	7.8	8.7
Prices								
Consumer prices (1997=100)	521.1	530.1	545.1	580.0	604.8	631.3	651.2	673.5
Consumer prices (% change, year on year)	15.2	12.6	11.2	14.6	16.1	19.1	19.5	16.1
Producer prices (1997=100)	472.6	485.0	499.2	515.4	530.8	552.4	575.2	598.7
Producer prices (% change, year on year)	14.8	13.6	10.6	11.2	12.3	13.9	15.2	16.2
Venezuelan crude basket (US\$/barrel; spot)	48.8	53.2	60.8	60.5	51.2	50.1	60.2	68.6
Venezuelan crude basket (% change, year on year)	37.5	38.8	46.1	15.7	4.9	-5.9	-1.1	13.5
Financial indicators								
Exchange rate Bs:US\$ (av)	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147
Exchange rate Bs:US\$ (end- period)	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147
Deposit rate (av; %)	11.2	10.6	10.2	10.2	10.1	10.1	10.1	11.0
Lending rate (av; %)	16.2	15.8	15.4	15.2	15.5	15.8	16.3	17.2
3-month money market rate (av; %)	3.6	4.0	4.8	5.9	6.3	3.7	7.4	9.8
M1 (end-period; Bs bn)	39,193	44,919	54,009	63,887	72,035	78,874	81,505	90,420
M1 (% change, year on year)	55.8	60.0	75.0	80.0	83.8	75.6	50.9	41.5
M2 (end-period; Bs bn)	65,921	74,669	86,944	99,012	111,520	120,825	125,464	140,349
M2 (% change, year on year)	53.3	53.6	65.9	65.4	69.2	61.8	44.3	41.7
BVC index (av; Dec)	20,004	26,625	30,826	34,193	41,527	48,716	42,913	40,063



1993=1,000)								
BVC index (% change, year on year)	-40.2	-20.4	28.0	67.5	107.6	83.0	39.2	17.2
Sectoral trends								
Crude oil production (m barrels/day)	n/a	2.6	2.6	2.5	2.5	2.4	2.4	2.4
Aluminium production ('000 tonnes)	156.6	147.3	155.0	154.6	150.8	151.7	150.2	n/a
Aluminium production (% change, year on year)	-1.3	-2.1	2.2	-1.1	-3.7	3.0	-3.1	n/a
Foreign trade ^a & payments(US\$ m)								
Exports fob	14,893	15,534	18,332	16,945	14,399	13,927	16,820	n/a
Petroleum & products	12,963	13,896	16,628	15,176	12,738	12,148	15,092	n/a
Imports fob	-6,443	-6,205	-7,854	-8,510	-9,657	-9,187	-10,894	n/a
Merchandise trade balance	8,450	9,329	10,478	8,435	4,742	4,740	5,926	n/a
Services balance	-1,040	-841	-1,134	-1,076	-1,208	-1,118	-1,363	n/a
Income balance	-555	-1,467	-803	38	720	63	636	n/a
Net transfer payments	-1	-17	-3	-10	-16	-39	-73	n/a
Current-account balance	6,854	7,004	8,538	7,387	4,238	3,646	5,126	n/a
Reserves excl gold (end-period)	23,919	24,934	23,846	27,230	29,417	23,909	16,797	21,207

^a Balance of payments basis.

Source: IMF, International Financial Statistics.

Data and charts: Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Bs:US\$ (av)												
2005	1,918	1,918	1,918	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147
2006	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147
2007	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	2,147	n/a
Deposit rate (av; %)												
2005	13.3	12.1	12.0	12.3	11.6	11.6	11.3	10.9	10.8	11.1	11.2	11.2
2006	10.9	10.6	10.3	10.2	10.2	10.2	10.2	10.2	10.1	10.1	10.1	10.1
2007	10.0	10.1	10.2	10.1	10.1	10.2	10.8	11.1	11.1	11.2	11.7	n/a
Lending rate (av; %)												
2005	18.3	17.4	17.1	15.7	17.2	17.0	17.2	17.2	16.1	16.9	16.3	15.5
2006	15.8	15.9	15.7	15.7	15.2	15.2	15.5	15.4	14.7	15.4	15.5	15.7
2007	16.3	15.9	15.3	16.6	16.4	15.8	16.7	17.2	17.6	17.6	19.6	n/a
M1 (% change, year on year)												
2005	35.2	26.3	18.0	18.9	23.0	28.6	29.8	66.0	62.1	68.0	57.1	51.1
2006	48.5	48.2	57.5	60.0	65.2	59.5	98.1	92.4	108.9	116.6	125.6	149.9



2007	144.6	149.7	146.5	139.6	118.6	121.3	62.0	60.8	49.1	n/a	n/a	n/a
M2 (% change, year on year)												
2005	39.7	32.2	28.1	27.9	30.2	32.5	34.3	58.3	58.0	61.9	54.5	52.4
2006	51.4	52.2	57.1	59.4	62.5	62.2	50.7	47.6	57.8	62.9	69.0	75.4
2007	71.8	74.6	73.6	68.8	59.0	58.7	57.8	57.2	48.0	n/a	n/a	n/a
BVC index (31/12/1993=1,000)												
2005	29,603	29,805	30,251	26,761	23,568	21,926	21,322	19,020	20,901	19,974	20,124	19,912
2006	23,332	26,839	29,706	31,173	30,752	30,555	32,451	34,998	35,129	37,163	40,153	47,267
2007	48,551	47,817	49,781	47,961	41,631	39,147	41,066	40,702	38,422	37,935	38,290	n/a
Consumer prices (av; % change, year on year)												
2005	18.5	16.9	15.8	15.8	17.4	15.9	15.3	14.9	16.0	16.0	15.3	14.4
2006	13.1	12.5	12.1	11.4	10.4	11.8	13.5	14.9	15.3	15.5	15.8	17.0
2007	18.4	20.4	18.5	19.4	19.5	19.4	17.2	15.9	15.3	17.2	20.7	22.5
Producer prices (av; % change, year on year)												
2005	26.1	21.0	18.3	18.2	17.1	16.4	16.5	16.1	15.9	15.4	14.6	14.3
2006	14.3	14.8	11.9	10.8	10.5	10.4	10.6	11.2	11.6	12.0	12.3	12.7
2007	12.6	13.9	15.3	15.4	15.3	15.0	16.0	16.0	16.5	17.1	18.9	19.7
Foreign-exchange reserves excl gold (US\$ m)												
2005	18,767	19,112	19,928	21,592	22,320	23,080	24,712	26,358	24,734	24,426	23,374	23,919
2006	21,845	22,505	24,934	23,738	22,263	23,846	25,618	27,638	27,230	27,054	28,412	29,417
2007	28,346	25,100	23,909	18,686	16,698	16,797	17,922	19,446	21,207	21,684	n/a	n/a
Unemployment rate (% of the labour force)												
2005	15.5	14.0	13.5	12.1	12.6	11.8	12.6	12.1	11.5	11.4	10.9	8.9
2006	12.9	10.7	10.1	10.2	10.2	9.7	9.6	10.5	9.5	8.9	8.8	8.4
2007	11.1	10.9	9.5	8.8	8.0	8.3	8.8	8.6	8.3	7.2	6.3	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

COUNTRY FORECAST – UpDate

Venezuela at a glance: 2008-09

OVERVIEW

Since taking office for a third term in January 2007, the president, Hugo Chávez, has pressed ahead with a controversial drive towards what he calls "21st-century socialism". However, defeat in the December 2007 referendum on constitutional reform revealed a lack of public support for "deepening the revolution". The opposition has the potential to capitalise on this, but parties will have to overcome long-standing internal divisions. Mr Chávez will benefit from complete control over the legislature and weak



institutions, but rising economic distortions will become a growing challenge. The gradual decline of fiscal revenue and a downturn in private investment will slow GDP growth, but inflation will remain high on the back of still-firm credit growth. This will be exacerbated by a forecast step devaluation of the exchange rate in 2009. As the forecast period progresses, the current-account surplus will narrow; both import and export growth will slow, but export growth will slow more rapidly.

Key changes from last month

Political outlook

Mr Chávez's defeat in the December 2007 referendum was a significant political blow, signalling a lack of public support for his socialist vision. Although the opposition will be boosted by the result, it still lacks cohesion, as well as any formal channel for expressing discontent with government policy. These will be formidable obstacles to overcome.

Economic policy outlook

The bolívar "fuerte" was introduced on January 1st. Contrary to official indications, the new currency will not help stem inflation, nor narrow the gap with the parallel exchange rate. Instead, the Economist Intelligence Unit expects inflation to rise further in 2008-09.

Economic forecast

There have been no significant alterations to our economic forecast since the December report.

Country forecast overview: Highlights

- The Economist Intelligence Unit's forecast is based on the assumption that the president, Hugo Chávez, will stay in power throughout the outlook period. Victory in the December 2006 election extends his term of office to 2012, but the opposition have the potential to capitalise upon its victory in the December 2007 referendum on constitutional reform. This will keep the political environment



polarised, particularly in the context of government policy radicalisation, which also has the potential to intensify conflicts within the broad government alliance. In the medium term, these factors could combine to reduce support for the president and erode political stability and governability.

- The radical economic policy agenda of the government, which is centred on expanding the state-led development model, will exacerbate deficiencies in the business environment, and Venezuela will remain a challenging place in which to invest. Investment in most sectors is unlikely to thrive against a background of distortionary macroeconomic policy (with price and exchange controls expected to be retained), rising threats to property and contract rights, unpredictable state intervention, and a growing bureaucratic burden. Even in the dominant energy sector, foreign investment will be below potential, as a result of legal uncertainty and an emerging emphasis on links with investors from “friendly” countries. The burden of oil investment will fall increasingly on the public sector, but here there are questions over efficiency and technical capacity.
- Fiscal oil revenue will stabilise in the medium term, and non-oil revenue will fall, but the rise in essentially permanent spending commitments makes a fiscal retrenchment unlikely. The result will be a widening fiscal deficit and a rise in the public debt stock (although this is from modest levels by regional standards). The long-standing structural problems of oil dependency (which requires a comprehensive reform of the non-oil tax system) and an inefficient and costly public bureaucracy (which would require large-scale redundancies to reverse) are unlikely to be tackled within the forecast period.
- Venezuela is at the peak of another oil-fuelled boom. In the past, these have been followed by spectacular crashes in the wake of oil-price falls. However, with world oil prices expected to remain high for a prolonged period, the economic cycle is likely to prove to be more drawn out. Our assumption of a stabilisation of oil prices, combined with an unfavourable climate for private enterprise, implies a gradual fall in investment growth and of the fiscal stimulus. Real GDP growth will slow to around 3% over the medium term as a result. Our oil



price forecast also implies yearly step devaluations of the bolívar from 2009.

Country forecast overview: Key indicators

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	7.8	4.9	3.9	2.9	3.0	2.9
Consumer price inflation (av; %)	18.7	24.0	26.9	26.9	14.3	13.7
Budget balance (% of GDP)	-1.5	-2.6	-2.9	-2.7	-2.8	-2.7
Current-account balance (% of GDP)	9.5	7.1	5.0	1.3	0.7	0.4
Commercial banks' prime rate (%; av)	17.3	20.0	19.5	17.0	16.0	15.0
Exchange rate Bs:US\$ (av)	2,147.0	2,147.0	2,653.9	3,066.7	3,558.3	4,058.3
Exchange rate Bs:€(av)	2,939.0	3,134.6	3,523.1	3,917.7	4,483.5	5,072.9

Country forecast overview: Business environment rankings

Value of index ^a		Global rank ^b		Regional rank ^c	
2003-07	2008-12	2003-07	2008-12	2003-07	2008-12
4.97	4.36	69	81	11	12

^a Out of 10. ^b Out of 82 countries. ^c Out of 12 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Mexico, Peru and Venezuela.

- Venezuela was among the least attractive investment locations of the 82 economies included in our business environment rankings for the historical period (2003-07), and a further deterioration is expected in the forecast period (2008-12). Although the energy sector will continue to attract some investment, the general business climate will be poor, given unpredictable state interventionism and inadequate legal security.

Country forecast overview: Venezuela's business environment at a glance

Policy towards private enterprise and competition

2008-09: Nationalisation of a number of utilities marks a significant further deterioration in the environment for businesses already hit by aggressive land reform and unilateral public-sector contract revisions.



2010-12: Unpredictable interventionism and acceleration of the state-led development model restricts freedom of businesses to operate. There is a risk that more sectors, such as food production, become targets for nationalisation.

Policy towards foreign investment

2008-09: Government states that it will welcome investment in some sectors, but foreign investors face the same risks as the domestic private sector. Favouritism towards investment from, and trade with, “friendly” countries.

2010-12: Interest of foreign investors in industries outside hydrocarbons remains limited, as confidence in the rule of law is weak. Political risk continues to complicate project finance.

Foreign trade and exchange controls

2008-09: Exchange controls remain in place and possibly tightened as oil prices decline, limiting capital flight.

2010-12: Closer ties with the Mercado Común del Sur (Mercosur, the Southern Cone customs union), but Venezuela remains an unreliable trade partner. There are periodic protectionist measures and the chance of rising tariff and non-tariff barriers.

Taxes

2008-09: Following adjustment of the tax regime for foreign energy companies to maximise fiscal revenue from hydrocarbons, non-oil tax regime is adjusted. Ad hoc tax adjustments, depending on level of fiscal oil revenue.

2010-12: The tax system remains complicated and unpredictable. Assuming oil prices begin to trend downward, collection becomes more aggressive, rates increase and new “temporary” taxes are implemented.



Financing

2008-09: Exchange controls enforce a deepening of domestic capital markets, but long-term finance remains in short supply, reflecting lack of confidence on the part of both banks and business. Lending requirements distort credit markets.

2010-12: Economic deceleration combined with investor uncertainty make banks more reluctant to lend and businesses and consumers less willing to borrow. Long-term investment finance remains scarce.

The labour market

2008-09: High non-wage costs, skills shortages and regulatory rigidities render the labour market unattractive.

2010-12: US-dollar wage costs moderate, but labour market rigidities worsen.

Infrastructure

2008-09: Policy focus on public investment in neglected transport infrastructure, but spending will be inefficient.

2010-12: In the absence of transparent regulation, private-sector investment is limited. Threat of electricity shortages.

Fact sheet

Annual data	2006 ^a Historical averages (%)	2002-06
Population (m)	26.9	Population growth 1.8
GDP (US\$ bn; market exchange rate)	181.9	Real GDP growth 3.9
GDP (US\$ bn; purchasing power parity)	204.7 ^b	Real domestic demand growth 6.9
GDP per head (US\$; market exchange rate)	6,764	Inflation 20.8
GDP per head (US\$; purchasing power parity)	7,612 ^b	Current-account balance (% of GDP) 13.7
Exchange rate (av) Bs:US\$	2,147	FDI inflows (% of GDP) 1.2

^a Actual. ^b Economist Intelligence Unit estimates.



Background: From 1958 until the mid-1990s, two parties, Acción Democrática (AD) and the Comité de Organización Política Electoral Independiente (COPEI), alternated in power in Venezuela. Frequent economic crises and endemic corruption eventually led to a collapse in their support, culminating in the 1998 election of a former lieutenant-colonel and leader of a failed coup in 1992, Hugo Chávez, with a mandate for radical political reform. Mr Chávez's policy programme has exacerbated political polarisation, but his hold on power is secure. He survived an attempted coup in 2002 and a revocatory referendum in 2004, and was comfortably re-elected to a third term in December 2006. In the wake of an opposition boycott of the 2005 legislative election, the president has total control of the 167-seat unicameral National Assembly.

Political structure: Political alienation is widespread and state institutions lack credibility. The 1999 constitution permits one consecutive presidential re-election, and all elected officials can be subjected to revocatory referendums half-way through their terms. The executive, elected by direct vote, dominates the other branches of government: the National Assembly, the judiciary, the Republican Moral Council (an ombudsman) and the National Electoral Council. Constitutional reform (currently before Congress) could further concentrate power in the executive.

Policy issues: Political radicalisation has been reflected in increasingly heterodox economic policymaking in recent years, for example through the imposition of exchange and price controls in 2003 to arrest capital flight and control inflationary pressures. Both have been maintained since then, but consumer price inflation remains at double-digit levels, owing mainly to the expansionary fiscal stance, which is facilitated by high oil prices. The public finances remain over-reliant on oil revenue, which entrenches cycles of economic boom and bust. High oil prices have increased the disincentives to undertake structural reforms, and facilitated the government's policy goal of expanding the state-led development model.

Taxation: The top corporate tax rate is 34% for non-oil companies and 50% for oil companies. A maximum royalty rate of 30% applies to oil extraction. Following cuts in 2007, from 14%, the value-added tax (VAT) rate now stands at 9%. A financial transactions tax, originally introduced in 2002 for a one-year period, was eliminated in 2006 but reinstated in 2007.



Foreign trade: Exports of US\$65bn and imports of US\$32bn led to a goods trade surplus of US\$33bn in 2006. The current-account surplus reached US\$27.2bn (14.9% of GDP).

Major exports 2006	% of total	Major imports 2006	% of total
Oil & gas	89.6	Raw materials & intermediate goods	41.5
Other	10.4	Consumer goods	22.9
		Capital goods	30.4
Leading markets 2006	% of total	Leading suppliers 2006	% of total
US	53.5	US	29.2
Netherlands Antilles	8.8	Colombia	9.6
China	3.7	Brazil	7.9

Outlook for 2008-09: Domestic politics

The defeat of the president, Hugo Chávez, in the December 2007 referendum on constitutional reform has brought into question the future of his socialist vision. The defeat emphasises that Mr Chávez's support is based on his pro-poor policies and the rise in real incomes in recent years, rather than solid support for "deepening the revolution". The victory of the "no" campaign is also significant as it has shattered the aura of invincibility that Mr Chávez had built up, marking the first time the president has lost a national poll since entering power in 1998. However, Mr Chávez's poll defeat could prove a temporary setback rather than a signal of an imminent political realignment. Much will depend on the ability of the diverse anti-Chávez elements to use their referendum victory as a springboard to offer a credible electoral alternative. The traditional political parties remain discredited, suffering from a poor reputation and the legacy of corruption in government in previous decades. But the referendum indicated that a "third force" is emerging, including what Venezuelans call "Chavistas light": Chávez supporters who are uncomfortable with some of the more radical elements of the president's programme. General Raúl Baduel emerged as a key advocate of this position in the referendum campaign, but he is unlikely to seek a broader political role in leading the opposition.

In the absence of other high-profile leaders, it will take time for the opposition to overcome internal differences. In addition, Mr Chávez will continue to benefit from complete control over the unicameral National



Assembly (after the opposition boycotted the December 2005 legislative election), strong influence over weak and politicised institutions, and enabling legislation which allows him to rule by decree on a wide range of economic and social issues. In this light, spontaneous demonstrations will remain the opposition's most frequent means of expressing discontent with government policy. Although the Economist Intelligence Unit expects these to be contained, the possibility of significant social unrest cannot be discounted.

Outlook for 2008-09: International relations

The Chávez government will continue to use the state's wealth of energy resources as leverage to deepen diplomatic and commercial relations with countries it considers "friendly" within and outside the region. Mr Chávez's increasingly provocative international agenda will continue to fuel some unease within Latin America—reflected in occasional diplomatic and trade disputes with former trade partners in the Comunidad Andina (CAN, the Andean Community) and prospective partners from the Mercado Común del Sur (Mercosur, the Southern Cone customs union)—and outside it, most obviously in the US. Although the US has become less vocal in its criticism of the Venezuelan government recently, spats between the governments are likely to re-emerge. Despite poor diplomatic relations and Venezuela's pursuit of new markets for oil trade and investment, oil supply to the US is expected to be largely unaffected during the forecast period. In spite of recent tensions with Colombia and Spain, we expect commercial relations to remain sound.

Outlook for 2008-09: Policy trends

Following the government's defeat in the December 2007 referendum on constitutional reform, there has been speculation about whether the president will amend his economic policy goals, which seek to shift the country towards what he calls "21st century socialism". An alarmist view is that Mr Chávez remains committed to moving towards full state control of the economy. The other view is that his defeat will presage a retrenchment, with private-sector enterprises retaining the scope to operate in the space between large state companies in strategic sectors and small-scale co-operatives based on social and communal property. This would still entail many



restrictions, including only minority participation in activities deemed to be strategic. Early indications suggest that the second view would appear to correspond more to reality. However, the fear that the first view will ultimately turn out to be correct will continue to curb private-sector investment and foment capital flight. There is therefore no guarantee that the drive towards “21st-century socialism” will come to a halt in the wake of the referendum defeat. Whether or not further nationalisation actually takes place, or is instead used as a bargaining tool to extract concessions, the threat of nationalisation means that contract rights will remain weak and the burden of red tape large, even if outright expropriation is avoided.

Outlook for 2008-09: Fiscal policy

Central government revenue has risen by around 10% of GDP in the past five years, on the back of rising oil prices and oil tax rates. To increase its spending powers on top of this, the government has established “parallel” budgets run by the Fondo Nacional de Desarrollo (Fonden, the national development fund) and by Petróleos de Venezuela (PDVSA, the state oil company). But despite the array of resources at its disposal, management of the central government accounts will become more complicated in the forecast period. Oil revenue will stabilise as a share of GDP in 2008 before moderating to a still-high 15.6% of GDP by 2009, but non-oil revenue will fall more rapidly in the wake of a cut of 5 percentage points in value-added tax (VAT) in mid-2007, from 14% to 9%, and as GDP growth decelerates more rapidly in 2008-09. Although we expect a gradual decline in public expenditure as a percentage of GDP, this will be insufficient to prevent an increase in the central government deficit, to 2.9% of GDP in 2009. The true fiscal position will be worse, as a rising burden of expenditure will be placed on PDVSA and Fonden.

Outlook for 2008-09: Monetary policy

Faced by government reluctance to cut back spending significantly and a distortionary system of price controls, the Banco Central de Venezuela (BCV, the Central Bank) remains hamstrung in its battle against inflation. The defeat of Mr Chávez's constitutional reform proposals will mean that the BCV retains nominal independence, but it will continue to be heavily influenced by the executive. In the context of fiscal dominance over



monetary policy, the money supply has continued to expand rapidly. We expect the pace of monetary expansion to remain rapid during the forecast period and the BCV will continue to pose significant quasi-fiscal losses. The BCV will continue to raise both minimum savings rates and bank reserve requirements in order to slow down credit expansion, but these measures are unlikely to slow credit growth significantly, as deposit rates will remain highly negative.

Outlook for 2008-09: International assumptions

Our baseline forecasts assume that the impact of the financial market turbulence of recent months on the real economy will be relatively contained, producing a modest slowdown in global growth in 2008-09. However, given the close trading ties with the US and reliance on oil revenue, there are significant downside risks to this forecast. The global environment is expected to become less conducive to growth in emerging markets in 2008-09, especially as financing conditions turn less favourable. The repricing of risk that has been spurred by the sub-prime mortgage crisis will lead to less generous borrowing conditions, which will expose weaknesses in some markets. Given its domestic policy uncertainty, Venezuela is particularly vulnerable to changing sentiment in global financial markets. But to its advantage, oil prices are expected to remain extremely high by historical standards; although they will start to fall by 2009, Dated Brent crude will remain above US\$70/barrel throughout the forecast period. Moreover, the sovereign's external debt burden is low and exchange controls limit the possibility of capital flight.

Outlook for 2008-09: Economic growth

Extremely high oil prices have driven double-digit rates of GDP growth in 2004-06, as windfall fiscal revenue has fed through into public-sector consumption and investment, and from there into rapid private-sector spending. Growth has moderated in 2007, but at around 8-9% in the first three-quarters of the year, the pace of expansion has remained firm. However, deficiencies in the policy environment and a stabilisation of fiscal revenue are expected to produce slower growth in 2008-09, of 4.9% and 3.9% respectively. The government's fiscal injection and negative savings rates will boost consumer spending in 2008, but as real wage growth turns



negative and unemployment rises, private consumption growth will slow to 4.9% by 2009. As the forecast period progresses, it will become harder for the government to maintain an expansionary fiscal stance as revenue begins to stabilise; this will result in a slowing of public consumption growth to 4.8% by the end of the forecast period. Combined with weaker private investment, it will also contribute to a deceleration of growth of fixed investment. Double-digit investment growth since 2004 has been sustained by the consumer spending boom, but private fixed investment will increasingly suffer from threats to property and contract rights. The external sector will eventually become less of a drag on growth as export volumes recover (assuming some recovery in oil output following a drop in 2007), while the pace of import growth slows in line with domestic demand.

Outlook for 2008-09: Inflation

After falling to 15% in the third-quarter of 2007 on the back of one-off factors, including a sharp cut in the VAT rate, inflation picked up to 22.5% by the end of the year. This upward trend is expected to continue in 2008-09. There is a lack of sufficient capacity in a variety of sectors as a result of inadequate investment. This is only partly offset by rising imports, producing shortages, supply bottlenecks and the sale of regulated goods above the official price. Meanwhile, the effectiveness of the exchange-rate anchor is being undermined by the weakness of the parallel exchange rate. Given the easing of price controls and the impact of a forecast step devaluation of the official exchange rate in 2009, there is likely to be little price relief as the forecast period progresses, even if domestic demand growth slows as forecast. In the absence of a marked fiscal adjustment, price pressures will continue to increase, and inflation will rise to 30% by the end of 2009.

Outlook for 2008-09: Exchange rates

The currency was redenominated in January 2008, knocking three zeroes off the value of the bolívar. Despite much speculation, the authorities did not combine this with a step devaluation of the exchange rate, with the new bolívar "fuerte" (strong bolívar) fixed at a rate of BsF2.15:US\$1. However, the fixed official exchange rate is becoming increasingly overvalued. High oil prices mean that Venezuela is likely to continue to delay devaluation for



some time; with no pressing problems on either the balance of payments or fiscal accounts, there is little incentive for the authorities to adjust the official rate. Moreover, under the current policy framework the fixed exchange rate is the main anchor for domestic prices. Assuming that oil prices remain high, we expect that the government will delay a devaluation until 2009. An unchanged official exchange rate will leave the parallel market premium extremely high, raising the risk that the eventual adjustment will be harsh. Although the government claims not to be worried about the ever-wider premium of the parallel exchange rate over the official rate, we expect additional sales of dollar-denominated assets. However, in the absence of a comprehensive fiscal and monetary adjustment programme, and given the government's anti-market stance, there will be little let-up to capital flight.

Outlook for 2008-09: External sector

The current-account surplus narrowed sharply in the first three-quarters of 2007, to US\$16bn (a 30% year-on-year decline), mainly reflecting strong growth in imports. Notwithstanding a recovery in oil prices since then, the general trend during the forecast period will be for a continued narrowing of the current-account surplus from the 2006 peak, to US\$19.6bn (7.1% of GDP) in 2008 and US\$13.6bn (5% of GDP) in 2009. The reserves position will continue to be distorted by the transfer of assets between the Central Bank, Fonden and PDVSA. There was a sharp drop in Central Bank reserves in 2007, but total public-sector external assets (including US dollars held by Fonden and PDVSA) are much larger than the reserves data indicate. We are forecasting a stabilisation in Central Bank reserves in 2008-09 around current levels of US\$32bn, but the balance-of-payments position will be better than it appears according to this data. Opacity of the data, however, is a growing problem.



Data summary

Global outlook

Global outlook	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
International assumptions										
World GDP growth (%)	2.7	4.1	3.5	4.0	3.7	3.2	3.4	3.5	3.5	3.4
US GDP growth (%)	2.5	3.6	3.1	2.9	2.1	1.5	2.4	2.8	2.9	2.8
Latin America growth (%)	2.2	5.9	4.3	5.3	4.9	4.3	4.1	3.9	3.8	3.8
World trade growth (%)	6.3	10.9	7.5	10.0	7.5	7.1	7.4	7.6	7.8	7.7
US CPI (%)	2.3	2.7	3.4	3.2	2.7	2.1	2.2	2.4	2.4	2.4
EU CPI (%)	1.9	2.0	2.1	2.1	2.1	2.1	2.0	1.9	1.8	1.8
Industrial raw materials export price (%)	13.0	21.0	10.2	49.6	12.8	-3.1	-12.8	-5.1	-5.4	-2.9
Oil price (Brent; US\$/b)	28.8	38.5	54.7	65.3	73.3	78.0	72.0	66.0	69.0	73.0
US\$ 3-month commercial paper rate (%)	1.1	1.5	3.4	5.0	5.1	4.0	4.3	4.8	4.8	4.8
US\$:€(av)	1.13	1.24	1.25	1.26	1.37	1.46	1.33	1.28	1.26	1.25
¥:€(av)	131.06	134.43	137.13	145.93	160.78	153.30	127.77	119.45	115.66	114.74

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Gross domestic product, current market prices

Gross domestic product, at current market prices	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Expenditure on GDP (Bs trn at current market prices)										
GDP	134.22	127.30	102.6	390.5	478.65	596.57	24.58	50.81	100.31	118.49
Private consumption	73.5	104.71	142.6	188.6	248.93	316.13	87.24	59.75	31.8	615.3
Government consumption	17.3	25.4	32.1	44.3	62.1	87.1	120.21	65.42	05.5	253.7
Gross fixed investment	20.8	39.0	61.2	87.9	121.31	161.41	93.92	26.62	65.9	315.2
Exports of goods & services	45.4	77.0	120.1	143.0	153.81	169.42	06.82	36.42	96.0	365.8
Imports of goods & services	22.4	40.8	60.6	81.9	116.91	144.71	190.12	44.63	04.6	375.0
Stockbuilding	-0.3	7.4	7.2	8.6	9.4	7.1	6.4	7.4	8.5	9.8
Domestic demand	111.21	76.52	43.2	329.3	441.75	571.77	07.88	59.01	111.71	194.0



Expenditure on GDP (US\$ bn at current market prices)										
GDP	83.5	112.5	144.8	181.9	222.9	277.8	273.0	277.4	281.9	292.0
Private consumption	45.8	55.3	68.3	87.8	115.9	147.2	145.9	149.9	149.5	151.6
Government consumption	10.8	13.4	15.4	20.6	28.9	40.6	45.3	53.9	57.7	62.5
Gross fixed investment	12.9	20.6	29.3	40.9	56.5	75.2	73.1	73.9	74.7	77.7
Exports of goods & services	28.3	40.7	57.5	66.6	71.6	78.9	77.9	77.1	83.2	90.1
Imports of goods & services	14.0	21.6	29.0	38.1	54.5	67.4	71.6	79.8	85.6	92.4
Stockbuilding	-0.2	3.9	3.5	4.0	4.4	3.3	2.4	2.4	2.4	2.4
Domestic demand	69.2	93.3	116.4	153.4	205.7	266.3	266.7	280.1	284.3	294.2
Economic structure (% of GDP at current market prices)										
Private consumption	54.8	49.2	47.1	48.3	52.0	53.0	53.4	54.0	53.0	51.9
Government consumption	12.9	12.0	10.6	11.3	13.0	14.6	16.6	19.4	20.5	21.4
Gross fixed investment	15.5	18.3	20.2	22.5	25.3	27.1	26.8	26.6	26.5	26.6
Stockbuilding	-0.3	3.5	2.4	2.2	2.0	1.2	0.9	0.9	0.8	0.8
Exports of goods & services	33.9	36.2	39.7	36.6	32.1	28.4	28.5	27.8	29.5	30.9
Imports of goods & services	16.7	19.2	20.0	21.0	24.4	24.3	26.2	28.8	30.4	31.6
Memorandum items										
Oil production ('000 b/d)	2,684	3,022	2,694 ^b	2,554 ^b	2,398	2,520	2,625	2,705	2,775	2,825
National savings ratio (%)	29.3	35.6	40.2	39.6	36.8	35.3	32.6	28.9	28.0	27.8
^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.										

Gross domestic product, at constant prices

Gross domestic product, at constant prices										
	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Real expenditure on GDP (Bs bn at constant 1984 market prices)										
GDP	35,653	42,172	46,524	51,338	55,357	58,068	60,361	62,142	64,028	65,903
Private consumption	21,345	24,642	28,514	33,627	40,118	43,964	46,099	47,911	49,682	51,308
Government consumption	5,845	6,676	7,387	7,879	8,312	8,728	9,147	9,558	9,969	10,388
Gross fixed investment	5,716	8,559	11,847	15,000	18,480	20,513	21,744	22,831	24,201	25,895
Exports of goods & services	9,936	11,296	11,722	11,197	10,774	11,043	11,633	12,195	12,737	13,195
Imports of goods & services	7,060	11,131	15,045	19,718	25,489	28,130	29,761	31,854	34,061	36,383
Stockbuilding	-129	2,130	2,098	3,353	3,162	1,950	1,500	1,500	1,500	1,500
Domestic demand	32,777	42,008	49,847	59,859	70,072	75,155	78,490	81,800	85,352	89,091
Real expenditure on GDP (% change)										



GDP	-7.8	18.3	10.3	10.3	7.8	4.9	3.9	2.9	3.0	2.9
Private consumption	-4.3	15.4	15.7	17.9	19.3	9.6	4.9	3.9	3.7	3.3
Government consumption	5.7	14.2	10.7	6.7	5.5	5.0	4.8	4.5	4.3	4.2
Fixed investment	-37.0	49.7	38.4	26.6	23.2	11.0	6.0	5.0	6.0	7.0
Exports of goods & services	-10.4	13.7	3.8	-4.5	-3.8	2.5	5.3	4.8	4.4	3.6
Imports of goods & services	-20.9	57.7	35.2	31.1	29.3	10.4	5.8	7.0	6.9	6.8
Stockbuilding (% contribution to GDP growth)	0.7	6.3	-0.1	2.7	-0.4	-2.2	-0.8	0.0	0.0	0.0
Domestic demand	-10.2	28.2	18.7	20.1	17.1	7.3	4.4	4.2	4.3	4.4
Real contribution to growth (%)										
Private consumption	-2.5	9.2	9.2	11.0	12.6	6.9	3.7	3.0	2.8	2.5
Government consumption	0.8	2.3	1.7	1.1	0.8	0.8	0.7	0.7	0.7	0.7
Gross fixed investment	-8.7	8.0	7.8	6.8	6.8	3.7	2.1	1.8	2.2	2.6
External balance	1.8	-7.6	-8.3	-11.2	-12.1	-4.3	-1.8	-2.5	-2.7	-2.9

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Gross domestic product by sector of origin

Gross domestic product by sector of origin

	2003 ^a	2004 ^b	2005 ^b	2006 ^b	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Origin of GDP (Bs bn at constant 1984 prices)										
GDP at factor cost	35,653	42,172 ^a	46,524 ^a	51,338 ^a	55,357	58,068	60,361	62,142	64,028	65,903
Agriculture	1,703 ^b	1,785	1,870	1,964	2,004	2,044	2,074	2,105	2,137	2,169
Industry	15,141	17,807 ^a	19,315 ^a	20,899 ^a	22,049	22,535	23,040	23,667	24,463	24,990
Services	18,808	22,580	25,339	28,474	31,304	33,490	35,247	36,370	37,428	38,743
Origin of GDP (real % change)										
Agriculture	-0.4 ^b	4.8	4.7	5.1	2.0	2.0	1.5	1.5	1.5	1.5
Industry	-9.8	17.6 ^a	8.5 ^a	8.2 ^a	5.5	2.2	2.2	2.7	3.4	2.2
Services	-6.7	20.1	12.2	12.4	9.9	7.0	5.2	3.2	2.9	3.5
Origin of GDP (% of factor cost GDP)										
Agriculture	4.8 ^b	4.2	4.0	3.8	3.6	3.5	3.4	3.4	3.3	3.3
Industry	42.5	42.2 ^a	41.5 ^a	40.7 ^a	39.8	38.8	38.2	38.1	38.2	37.9
Services	52.8 ^b	53.5	54.5	55.5	56.6	57.7	58.4	58.5	58.5	58.8

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.



Growth and productivity

Growth and productivity	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^b	2010 ^b	2011 ^b	2012 ^b
Growth and productivity										
Labour productivity growth (%)	-9.1	13.3	7.6	5.7	4.2	2.8	2.4	1.7	1.8	1.7
Total factor productivity growth (%)	-7.5	19.5	7.7	5.1	2.6	0.5	0.1	-0.6	-0.4	-0.5
Growth of capital stock (%)	-3.5	2.8	3.0	6.6	8.4	8.7	8.3	7.9	7.6	7.5
Growth of potential GDP (%)	-6.1	21.0	8.2	8.6	7.2	4.9	4.2	3.4	3.4	3.2
Growth of GDP (%)	-7.8 ^c	18.3 ^c	10.3 ^c	10.3 ^c	7.8	4.9	3.9	2.9	3.0	2.9
Growth of GDP per head (%)	-9.6 ^c	16.2 ^c	8.3 ^c	8.7 ^c	6.1	3.2	2.4	1.4	1.5	1.5

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Economic structure, income and market size

Economic structure, income and market size	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Population, income and market size										
Population (m)	25.5	26.0	26.5	26.9	27.3	27.8	28.2	28.6	29.0	29.5
GDP (US\$ bn at market exchange rates)	83.5	112.5	144.8	181.9	222.9	277.8	273.0	277.4	281.9	292.0
GDP (US\$ bn at parallel exchange rate)	55.4	76.5	114.1	139.4	111.1	131.9	144.8	162.4	180.0	200.9
GDP per head (US\$ at market exchange rates)	3,272	4,327	5,469	6,764	8,155	10,003	9,682	9,693	9,705	9,910
GDP per head (US\$ at parallel exchange rate)	2,170	2,944	4,311	5,184	4,066	4,749	5,137	5,675	6,196	6,820
Private consumption (US\$ bn)	45.8	55.3	68.3	87.8	115.9	147.2	145.9	149.9	149.5	151.6
Private consumption (US\$ bn at parallel exchange rate)	30.3	37.7	53.8	67.3	57.8	69.9	77.4	87.8	95.4	104.3
Private consumption per head (US\$)	1,790	2,130	2,580	3,270	4,240	5,300	5,180	5,240	5,150	5,150
Private consumption per head (US\$ at parallel exchange rate)	1,189	1,449	2,032	2,504	2,115	2,517	2,746	3,066	3,285	3,542
GDP (US\$ bn at PPP)	129.7	157.9 ^b	179.8 ^b	204.7 ^b	226.1	242.0	258.1	272.6	287.7	303.4
GDP per head (US\$ at PPP)	5,080	6,080 ^b	6,790 ^b	7,610 ^b	8,270	8,710	9,160	9,520	9,900	10,300
Personal disposable income (Bs trn)	113.9	153.8	156.8	184.5 ^b	226.8	268.8	305.4	329.3	342.1	357.9



Personal disposable income (US\$ bn)	70.9	81.3	75.0	85.9 ^b	105.6	125.2	115.1	107.4	96.1	88.2
Growth of real disposable income (%)	0.0	9.5 ^b	-13.5 ^b	5.0 ^b	11.1	2.3	-2.8	-5.6	-6.9	-6.6
Memorandum items										
Share of world population (%)	0.41	0.41	0.41	0.41	0.42	0.42	0.42	0.42	0.42	0.43
Share of world GDP (%; market exchange rates)	0.23	0.27	0.33	0.38	0.42	0.48	0.45	0.44	0.42	0.41
Share of world GDP (%; PPP)	0.25	0.28 ^b	0.29 ^b	0.31 ^b	0.32	0.32	0.32	0.31	0.31	0.30
Share of world exports (%)	0.35	0.42	0.52	0.53	0.49	0.48	0.45	0.41	0.40	0.40

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Fiscal indicators

Fiscal indicators

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Fiscal indicators (% of GDP)										
Government expenditure	27.8	25.9	26.0	30.0	31.0	30.7	30.1	28.9	28.6	28.3
Interest	4.7	3.7	3.0	2.1	1.8	2.0	2.2	2.3	2.3	2.2
Non-interest expenditure	23.1	22.3	23.1	27.9	29.2	28.7	27.9	26.6	26.3	26.1
Government revenue	23.4	24.0	27.7	30.0	29.5	28.1	27.3	26.2	25.8	25.6
Budget balance	-4.4	-1.9	1.6	0.0	-1.5	-2.6	-2.9	-2.7	-2.8	-2.7
Primary balance	0.3	1.8	4.6	2.1	0.3	-0.6	-0.6	-0.4	-0.5	-0.5
Government debt	47.4	38.8	33.3	24.3	26.0	26.9	28.5	30.0	31.2	31.5

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Monetary indicators

Monetary indicators

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Monetary indicators										
Exchange rate Bs:US\$ (av)	1,607.01	1,891.32	1,089.82	1,147.02	1,147.02	1,147.02	653.93	1,066.73	1,558.34	1,058.3
Exchange rate Bs:US\$ (year-end)	1,598.01	1,918.02	1,147.02	1,147.02	1,147.02	1,147.02	700.03	1,100.03	1,600.04	1,100.0
Parallel exchange rate Bs:US\$ (av)	2,423.02	2,779.72	2,651.32	2,801.34	3,306.04	5,211.95	2,002.45	2,237.75	2,573.65	2,897.1
Exchange rate Bs:€(av)	1,817.22	2,351.52	2,603.32	2,695.92	2,939.03	1,334.63	523.13	917.74	1,483.55	1,072.9



Exchange rate Bs:€(year-end)	2,015.72	596.62	532.62	833.43	166.82	984.33	496.53	921.54	518.05	133.7
Real effective exchange rate (av) CPI- based	105.7	103.2	101.1	107.5	116.7	137.8	142.7	155.0	149.8	146.2
Real effective exchange rate (av) PPI-based	87.8	88.6	89.0	93.0	101.1	118.1	113.2	112.0	108.9	107.7
Real effective exchange rate (av) ULC- based	128.0	108.8	105.2	113.2	117.2	127.2	117.0	110.3	100.0	92.3
Purchasing power parity Bs:US\$ (av)	1,035.21	347.11	683.31	907.82	116.32	465.22	806.63	120.93	486.83	905.8
Money supply (M2) growth (%)	64.1	40.1	52.4	75.4 ^b	22.8	21.6	20.3	18.3	15.9	20.6
Domestic credit growth (%)	-14.6	57.5	71.0	93.5 ^b	34.0	20.5	19.5	17.6	15.3	19.6
Commercial banks' prime rate (%; av)	25.2	18.5	16.8	15.5	17.3	20.0	19.5	17.0	16.0	15.0
Deposit interest rate (%; av)	17.2	12.6	11.6	10.3	10.6	11.8	12.5	13.0	13.5	13.5
Money market interest rate (%; av)	13.2	4.4	2.6	5.3	8.7	8.2	9.0	8.0	7.0	6.0

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Employment, wages and prices

Employment, wages and prices

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
The labour market (av)										
Labour force (m)	12.0	12.1	12.0	12.2	12.5	12.8	13.0	13.2	13.5	13.7
Labour force (% change)	4.0	0.8	-0.8	1.8	2.6	2.0	1.9	1.9	1.7	1.7
Employment (m)	9.8	10.2	10.5	11.0	11.4	11.6	11.8	11.9	12.0	12.2
Employment (% change)	1.5	4.4	2.5	4.4	3.5	2.0	1.5	1.2	1.2	1.2



Unemployment (m)	2.2	1.8	1.5	1.2	1.1	1.2	1.2	1.4	1.4	1.5
Unemployment rate (%)	18.0	15.1	12.2	10.0	9.1	9.2	9.6	10.2	10.6	11.0
Wage and price inflation (%)										
Consumer prices (av)	31.1	21.7	16.0	13.7	18.7	24.0	26.9	26.9	14.3	13.7
Consumer prices (year-end)	27.1	19.2	14.4	17.0	22.5	25.7	29.6	15.5	13.7	13.7
Producer prices (av)	40.1	28.0	17.3	11.9	16.0	22.9	17.4	15.3	14.7	14.8
GDP deflator (av)	34.9	34.0	29.0	16.9	13.7	18.8	16.9	14.1	14.4	14.8
Private consumption deflator (av)	33.0	23.3	17.8	12.1	10.6	15.9	16.8	14.2	11.6	12.0
Government consumption deflator (av)	16.5	28.9	14.1	29.3	32.9	33.6	31.6	31.7	19.1	18.5
Fixed investment deflator (av)	39.5	25.4	13.4	13.4	12.0	19.9	13.4	11.3	10.7	10.8
Average nominal wages	8.5	22.0	19.1	19.3	19.0	18.0	16.0	13.0	10.0	10.0
Average real wages	-17.2	0.2	2.7	5.0	0.3	-4.9	-8.6	-11.0	-3.8	-3.2
Unit labour costs (Bs-based)	19.4	7.7	10.7	12.9	14.2	14.7	13.3	11.1	8.0	8.2
Unit labour costs (US\$-based)	-13.7	-8.5	0.2	9.9	14.2	14.7	-8.4	-3.9	-6.9	-5.2
Labour costs per hour (Bs)	3,1913,8944,6385,5356,5877,7729,01610,18811,20712,328									
Labour costs per hour (US\$)	2.0	2.1	2.2	2.6	3.1	3.6	3.4	3.3	3.1	3.0

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Current account and terms of trade

Current account and terms of trade

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
Current account (US\$ bn)										
Current-account balance	11.8	15.5	25.5	27.2	21.1	19.6	13.6	3.7	1.8	1.2
Current-account balance (% of GDP)	14.1	13.8	17.6	14.9	9.5	7.1	5.0	1.3	0.7	0.4
Goods: exports fob	27.2	39.7	55.5	65.2	68.9	75.7	73.2	70.3	75.0	81.5
Goods: imports fob	-10.5	-17.0	-23.7	-32.2	-43.4	-48.4	-51.1	-57.4	-63.0	-69.2
Trade balance	16.7	22.6	31.8	33.0	25.5	27.4	22.1	12.9	12.0	12.3
Services: credit	0.9	1.1	1.4	1.5	1.6	1.9	1.9	2.2	2.3	2.4
Services: debit	-3.5	-4.5	-5.2	-5.7	-6.8	-8.4	-8.8	-9.2	-9.7	-10.1
Services balance	-2.6	-3.4	-3.9	-4.3	-5.2	-6.5	-6.9	-6.9	-7.3	-7.7
Income: credit	1.7	2.1	4.2	7.5	6.8	5.2	4.8	4.4	4.0	3.6
Income: debit	-4.1	-5.7	-6.4	-9.0	-5.6	-6.1	-6.2	-6.5	-6.8	-7.0
Income balance	-2.3	-3.7	-2.3	-1.5	1.2	-0.9	-1.5	-2.1	-2.8	-3.4
Current transfers: credit	0.3	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Current transfers: debit	-0.2	-0.3	-0.3	-0.3	-0.6	-0.7	-0.5	-0.5	-0.4	-0.4
Current transfers balance	0.0	-0.1	-0.1	0.0	-0.3	-0.3	-0.1	-0.1	0.0	0.0
Terms of trade										



Share of world inward direct investment flows (%)	0.41	0.24	0.30	-0.05	-0.06	0.11	0.16	0.16	0.16	0.16
Share of world inward direct investment stock (%)	0.53	0.47	0.47	0.40	0.35	0.33	0.32	0.31	0.29	0.29

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External debt

External debt	2003 ^a	2004 ^a	2005 ^a	2006 ^b	2007 ^b	2008 ^c	2009 ^c	2010 ^c	2011 ^c	2012 ^c
External debt										
Total external debt (US\$ bn)	37.8	39.3	44.2	41.4	46.9	46.4	45.7	47.5	49.2	51.3
Total external debt (% of GDP)	45.2	35.0	30.5	22.8	21.0	16.7	16.7	17.1	17.4	17.6
Total external debt (% of GDP, at parallel exchange rate)	68.2	51.4	38.7	29.7	42.2	35.1	31.5	29.3	27.3	25.5
Debt/exports ratio (%)	126.5	91.7	72.3	55.8	60.6	56.0	57.1	61.8	60.5	58.5
Debt-service ratio, paid (%)	29.5	17.1	9.1	13.1	10.2	10.8	10.7	11.3	10.9	10.4

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.