



The Chávez Administration at 10 Years: The Economy and Social Indicators

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February 2009

Center for Economic and Policy Research

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202-293-5380

www.cepr.net

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Acknowledgements

The authors would like to thank Dean Baker and Dan Beeton for their comments, and Jake Johnston, Juan Vazquez and Kunda Chinku for editorial and research assistance.

Executive Summary

This paper looks at some of the most important economic and social indicators during the 10 years of the Chávez administration in Venezuela, as well as the current economic expansion. It also looks at the current situation and challenges.

Among the highlights:

- The current economic expansion began when the government got control over the national oil company in the first quarter of 2003. Since then, real (inflation-adjusted) GDP has nearly doubled, growing by 94.7 percent in 5.25 years, or 13.5 percent annually.
- Most of this growth has been in the non-oil sector of the economy, and the private sector has grown faster than the public sector.
- During the current economic expansion, the poverty rate has been cut by more than half, from 54 percent of households in the first half of 2003 to 26 percent at the end of 2008. Extreme poverty has fallen even more, by 72 percent. These poverty rates measure only cash income, and do not take into account increased access to health care or education.
- Over the entire decade, the percentage of households in poverty has been reduced by 39 percent, and extreme poverty by more than half.
- Inequality, as measured by the Gini index, has also fallen substantially. The index has fallen to 41 in 2008, from 48.1 in 2003 and 47 in 1999. This represents a large reduction in inequality.
- Real (inflation-adjusted) social spending per person more than tripled from 1998-2006.
- From 1998-2006, infant mortality has fallen by more than one-third. The number of primary care physicians in the public sector increased 12-fold from 1999-2007, providing health care to millions of Venezuelans who previously did not have access.
- There have been substantial gains in education, especially higher education, where gross enrollment rates more than doubled from 1999-2000 to 2007-2008.
- The labor market also improved substantially over the last decade, with unemployment dropping from 11.3 percent to 7.8 percent. During the current expansion it has fallen by more than half. Other labor market indicators also show substantial gains.
- Over the past decade, the number of social security beneficiaries has more than doubled.
- Over the decade, the government's total public debt has fallen from 30.7 to 14.3 percent of GDP. The foreign public debt has fallen even more, from 25.6 to 9.8 percent of GDP.
- Inflation is about where it was 10 years ago, ending the year at 31.4 percent. However it has been falling over the last half year (as measured by three-month averages) and is likely to continue declining this year in the face of strong deflationary pressures worldwide.

The current situation and challenges:

Venezuela's most important immediate challenge is, as for most countries, the world economic recession. This affects Venezuela's economy mainly through oil prices, which have fallen about 70 percent from their July peak last year. At oil prices below \$45 per barrel (for Venezuelan oil), Venezuela would begin to run a current account deficit. However, because Venezuela has an estimated \$82 billion in reserves, it could finance a modest current account deficit for some time – e.g. even if oil prices were to remain at their current depressed levels for the next two years. But economists and the futures markets are not predicting oil prices to remain at current levels for that long: futures markets are pricing oil at above \$60 per barrel in December 2010.

With balance of payments constraints unlikely, Venezuela's main challenge in the near future will be to come up with an adequate fiscal stimulus package. Over the intermediate run, it will also want to adjust its exchange rate to a more a competitive level, in order to diversify its economy away from oil. However, because of its ample reserves, the government is unlikely to suffer a forced devaluation in the foreseeable future.

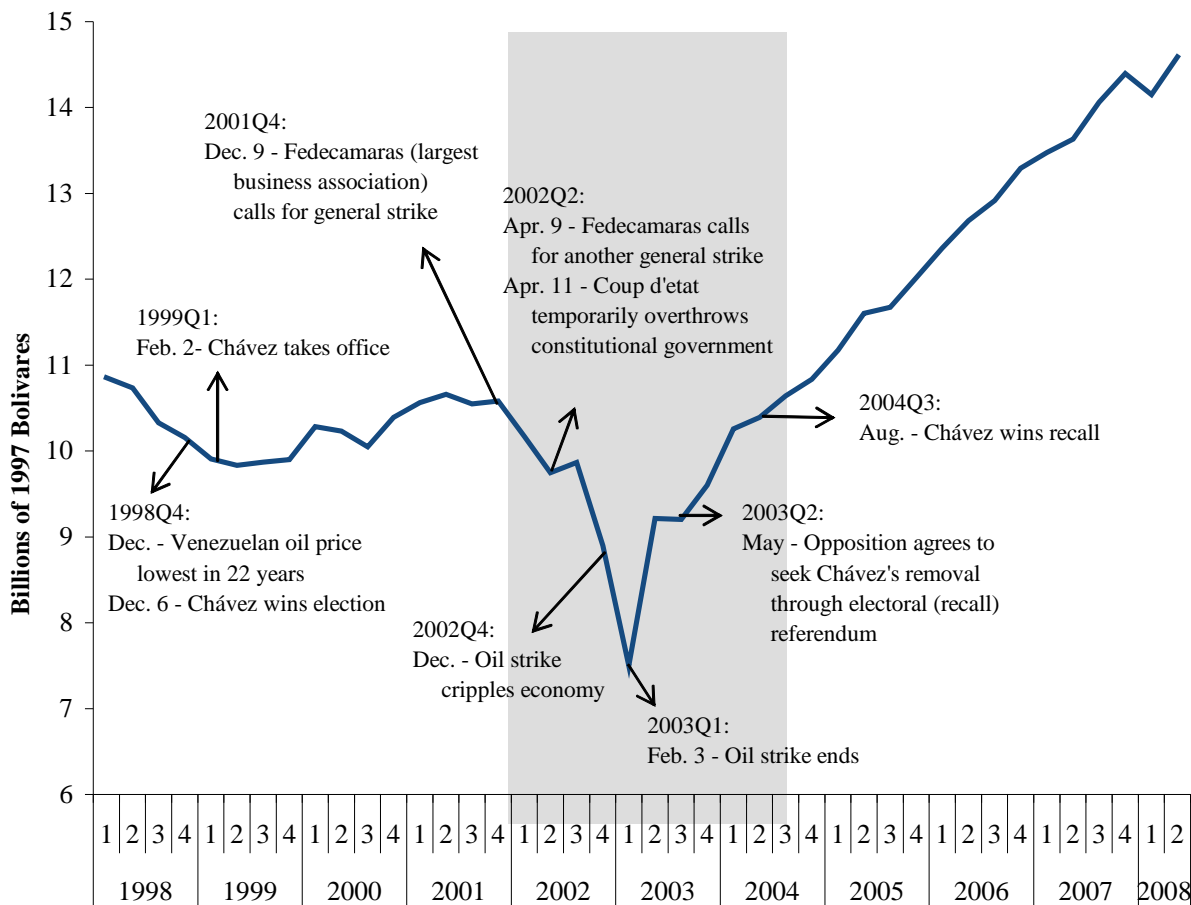
Introduction

Hugo Chávez Frías was first elected president of Venezuela in December 1998 and took office ten years ago, in February of 1999. Chávez is a controversial figure, and most discussion of his tenure is polarized or otherwise ideological, and mostly negative. This paper looks briefly at some of the most important economic and social indicators over the last decade, and also at the current situation and challenges. It relies on data that are not in dispute. Some of the most important data have been largely unreported, although they are publicly available.

Economic Growth

Figure 1 shows Venezuela’s real quarterly GDP from 1998-2008 (second quarter).¹ As can be seen from the graph, growth appears to be heavily influenced by various shocks, including political instability and strikes.

FIGURE 1
Venezuela Real GDP (seasonally-adjusted)



Note: The shaded region indicates the recession and recovery of 2001 – 2004.

Source: Banco Central de Venezuela (BCV), 2009a.

¹ Seasonally adjusted.

There are different ways to evaluate the growth performance of the Venezuelan economy during the Chávez years. One is to simply look at GDP growth since Chávez became president in the first quarter of 1999. The latest (seasonally-adjusted) data available are for the second quarter of 2008. On that basis, the economy has grown 47.4 percent, or 4.3 percent annually over 9.25 years. On a per capita basis, this is about 18.2 percent, or 1.9 percent annually. Although this is a vast improvement over the two decades of economic decline that preceded Chávez, it is modest growth, about the same as the regional average.

However, looking at the entire decade is misleading because the Chávez government did not control the state-owned oil company until the first quarter of 2003. So for the first four years, the state-owned oil company (PDVSA), which at the time accounted for more than half of government revenue and 80 percent of export earnings, was controlled by people who were hostile to the government. Furthermore, the managers of the company actually used their control over these vital resources to destabilize and even topple (temporarily) the government. Under these circumstances there was not much that the government could do to promote economic growth.

We could therefore measure growth from the time that the government got control over PDVSA, in the first quarter of 2003. This has the disadvantage that part of the growth since that time is a rebound from a deep recession. Nonetheless it is a better measure to evaluate the performance of the Chávez administration than is the whole ten year period. Also, it could be argued that this measure is relevant because even the early part of the recovery was a difficult achievement for the government. This was not a normal business cycle but a deep economic recession that involved considerable sabotage in the oil industry. When the strike ended, analysts quoted in the business press predicted a slow and painful recovery, with much difficulty restoring oil production.

Looking at growth from the first quarter of 2003, real GDP grew by 94.7 percent over 5.25 years, or 13.5 percent annually. This is extremely rapid growth by any historical or international comparison. On a per capita basis, it was 78.8 percent, or 11.7 percent annually.

Finally, another way to measure growth that cancels out the effect of the rebound from the 2002-2003 oil strike is to start from the point where GDP reached its pre-recession peak. This would be the third quarter of 2004. On this basis, GDP grew 37.2 percent over 3.75 years, or 8.8 percent annually. On a per capita basis, this is 28.2 percent, or 6.9 percent annually. This is also very rapid growth by almost any international or historical comparison.

TABLE 1
Venezuelan GDP Growth Rates Across Time Periods

Period	GDP		Years Elapsed	Growth	
	Starting	Ending		Overall	Annualized
<i>Real GDP</i>	<i>(billions of 1997 BF)</i>				
1 st Q 2003 – 2 nd Q 2008	7.50	14.60	5.25	94.7%	13.5%
3 rd Q 2004 – 2 nd Q 2008	10.64	14.60	3.75	37.2%	8.8%
<i>Real GDP Per Capita</i>	<i>(1997 BF)</i>				
1 st Q 2003 – 2 nd Q 2008	292.11	522.26	5.25	78.8%	11.7%
3 rd Q 2004 – 2 nd Q 2008	407.34	522.26	3.75	28.2%	6.9%

Source: Banco Central de Venezuela (BCV), 2009a.

By any reasonable comparison, then, the growth experience of the Venezuelan economy during the Chávez years has been very successful. Of course this is even more true if we compare this to the two decades prior to Chávez's election, when the Venezuelan economy actually suffered a decline in per capita GDP, and one of the worst in the world during this period. From 1978-1998, Venezuela's per capita GDP *declined* by 21.5 percent.

[Figure 1](#) shows some detail about how the economy was influenced by external shocks, especially those related to political instability. Chávez took office with the lowest oil prices in 22 years; the first year was marked by negative growth. This trend reversed by the first quarter of 2000, and the economy grew until the third quarter of 2001, a time of great political instability. In December of 2001 the Venezuelan Chamber of Commerce (FEDECAMARAS) organized a general business strike against the government. This political instability, with much capital flight, continued through April 2002, when the elected government was overthrown in a military coup. The constitutional government was restored within 48 hours, but stability did not return, as the opposition continued to seek to topple the government by extra-legal means. Growth remained negative through the summer and fall of 2002, and then the economy was hit with the opposition-led oil strike of December 2002 – February 2003. This plunged the economy into a severe recession during which Venezuela lost about 24 percent of its GDP. The economy began to recover in the second quarter of 2003 and has grown very rapidly since then, with one dip in the first quarter of 2008.

Components of Economic Growth

As can be seen from [Figure 2](#) and [Table 2](#), the non-oil sector has accounted for the vast majority of the growth during the current expansion. In fact, the oil sector had negative growth for 2005-2007, after a 13.7 percent jump in 2004 after production was restored following the strike. Even in 2004, however, the non-oil sector grew faster than the oil sector.

It is also worth noting that in spite of the expansion of government during the Chávez years, the private sector has grown faster than the public sector. This has also been true throughout the current expansion, with the exception of 2008, where the public sector accounted for almost all of the growth in the first three quarters.

The fastest growing sectors of the economy have been finance and insurance, which has grown 258.4 percent during the current expansion, an average of 26.1 percent annually; construction, which has grown 159.4 percent, or 18.9 percent annually; trade and repair services (152.8 percent, or 18.4 percent annually); transport and storage (104.9 percent, or 13.9 percent annually); and communications (151.4 percent, or 18.3 percent annually). Manufacturing grew 98.1 percent during the expansion, or 13.2 percent per year.

TABLE 2
Venezuela: Sectoral Growth (1998-2007) (real percent change)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^{/a}
Real GDP, total	0.3	-6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3	8.4	5.6
Public	-2.1	-5.2	3.0	-0.6	-11.1	-1.3	12.5	2.8	3.6	7.7	18.8
Private	1.1	-6.9	4.2	4.9	-5.8	-8.9	17.2	12.9	11.9	7.3	0.2
<i>By Economic Activity</i>											
Oil Sector	0.3	-3.8	2.3	-0.9	-14.2	-1.9	13.7	-1.5	-2.0	-4.2	4.1
Non-Oil Sector	-0.1	-6.9	4.2	4.0	-6.0	-7.4	16.1	12.2	11.7	9.5	5.9
Mining	-7.5	-12.1	15.3	2.8	4.3	-4.4	14.2	3.0	2.0	2.0	0.4
Manufacturing	-1.4	-10.1	5.1	3.7	-13.1	-6.8	21.4	11.1	7.2	7.2	2.0
Electricity and Water Supply	0.5	-2.2	4.7	4.8	2.1	-0.5	8.5	11.2	2.4	2.4	3.6
Construction	1.4	-17.4	4.0	13.5	-8.4	-39.5	25.1	20.0	13.3	13.3	7.6
Trade and Repair Services	-1.5	-5.4	5.7	4.6	-13.6	-9.6	28.6	21.0	16.9	16.9	5.4
Transport and Storage	-5.2	-15.3	12.5	-1.3	-10.4	-8.0	24.6	14.7	13.5	13.5	3.5
Communications	8.2	3.6	2.1	8.1	2.5	-5.0	12.9	22.4	20.0	20.0	21.3
Financial and Insurance	0.2	-15.2	-0.7	2.8	-14.5	11.9	37.9	36.4	17.0	17.0	-5.2
Real Estate	0.7	-4.7	0.8	3.5	-0.7	-6.0	11.1	7.9	6.6	6.6	3.2
Community and Personal Services and Non-Profit	0.3	-1.7	0.9	2.1	0.1	-0.3	9.4	8.2	10.9	10.9	9.1
General Government Services	-0.6	-4.8	2.8	2.5	-0.4	4.9	11.1	8.0	5.0	5.0	4.4
Other ^{/b}	3.0	0.5	5.2	1.8	-1.0	-2.9	7.2	12.6	5.1	5.1	5.4
<i>Expenditure-Based</i>											
Government Final Consumption	-3.1	-7.5	4.2	6.9	-2.5	5.7	14.2	10.7	6.7	5.1	5.6
Private Final Consumption	1.8	-1.7	4.7	6.0	-7.1	-4.3	15.4	15.7	17.9	18.7	8.3
Gross Capital Formation	4.4	-10.6	6.7	13.6	-34.0	-35.5	91.3	30.5	31.6	26.6	-1.5
Exports of Goods and Services	3.5	-11.0	5.8	-3.5	-4.0	-10.4	13.7	3.8	-4.5	-5.6	-0.4
Imports of Goods and Services	11.3	-9.3	12.4	14.1	-25.2	-20.9	57.7	35.2	31.1	33.6	3.8

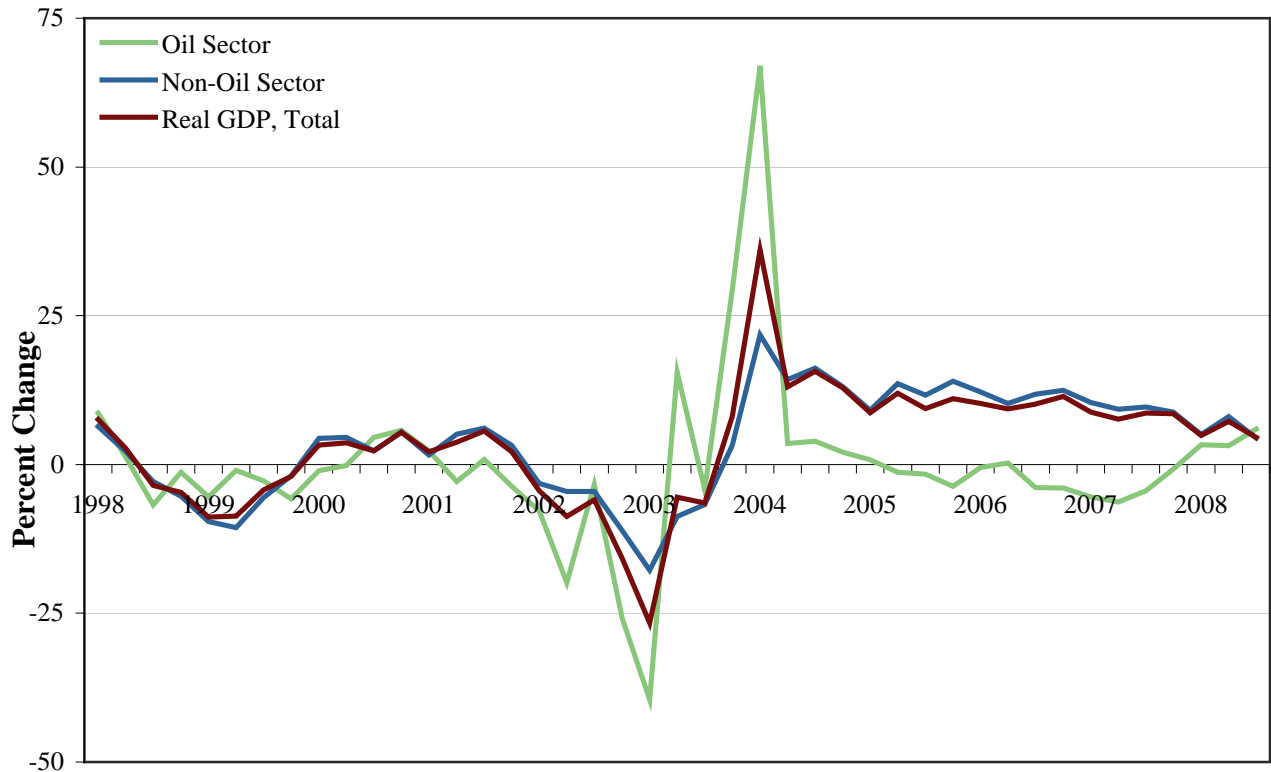
Source: Banco Central de Venezuela (BCV), 2009a.

Notes:

a. Growth in the first three quarters of 2008 compared to the same period in 2007.

b. Includes private agriculture, restaurants, and private hotels and various public sector activities.

FIGURE 2
GDP Growth, Real Percent Change Year over Year, by Sector



Source: Banco Central de Venezuela (BCV), 2009a.

Poverty and Inequality

As can be seen in [Table 3](#), there has been a huge decline in poverty and extreme poverty during the current economic expansion. The percentage of households in poverty declined by more than half, from 54 percent in the first half of 2003, to an estimated 26 percent at the end of 2008. The percentage of households in extreme poverty fell by even more: a 72 percent decline, to seven percent of total households. This is a significant achievement, and puts Venezuela within reach of eliminating extreme poverty altogether. It is worth noting that the United Nations' Millennium Development Goals call for a reduction in extreme poverty by half over the period 1990-2015.

If we take the first half of 1999 as the starting point, the percentage of households in poverty has been reduced by 39 percent, from 42.8 percent to 26 percent. Extreme poverty fell by over half, from 16.6 percent to seven percent.

There has also been a sharp drop in inequality, as measured by the Gini index. Since Chávez's election, the Gini index has dropped by almost six points, from 46.96 to 40.99. In this most recent expansion, the drop has been even greater: over seven points, from 48.11 to 40.99. For a rough idea of the size of such a change in the distribution of income, compare this to a similar movement in the other direction: from 1980-2005, the Gini index for the United States went from 40.3 to 46.9², a period in which there was a large (upward) redistribution of income.

TABLE 3
Poverty, Extreme Poverty, and Inequality, 1995 – 2007

Year	Time Period	Households (% of total declared)		Population (% of total declared)		Inequality
		Poverty	Extreme Poverty	Poverty	Extreme Poverty	Gini index
1995	1st Half	54.70	24.50	.	.	46.78
	2nd Half	53.20	23.80	.	.	47.82
1996	1st Half	70.80	39.50	.	.	48.78
	2nd Half	64.30	32.70	.	.	49.22
1997	1st Half	55.60	25.47	60.90	29.51	46.96
	2nd Half	48.10	19.32	54.50	23.37	48.98
1998	1st Half	49.00	21.01	55.40	24.66	48.65
	2nd Half	43.90	17.06	50.40	20.34	47.02
1999	1st Half	42.80	16.60	50.00	19.86	46.93
	2nd Half	42.00	16.89	48.70	20.15	48.51
2000	1st Half	41.60	16.65	48.30	19.49	47.72
	2nd Half	40.40	14.89	46.30	18.02	45.07
2001	1st Half	39.10	14.17	45.50	17.36	45.73
	2nd Half	39.00	14.04	45.40	16.94	47.72
2002	1st Half	41.50	16.58	48.10	20.13	49.44
	2nd Half	48.60	21.04	55.40	25.03	47.98
2003	1st Half	54.00	25.09	61.00	30.22	48.11
	2nd Half	55.10	25.03	62.10	29.75	46.47
2004	1st Half	53.10	23.46	60.20	28.10	45.50
	2nd Half	47.00	18.60	53.90	22.50	45.40
2005	1st Half	42.40	17.00	48.80	20.30	47.48
	2nd Half	37.90	15.30	43.70	17.80	47.71
2006	1st Half	33.90	10.60	39.70	12.90	44.22
	2nd Half	30.60	9.10	36.30	11.10	43.70
2007	1st Half	27.46	7.63	33.07	9.41	42.37
	2nd Half	28.50	7.90	33.60	9.60	42.11
2008*		26.00	7.00	31.50	9.50	40.99

Source: Instituto Nacional de Estadística (INE), 2009; República Bolivariana de Venezuela and Fundación Escuela de Gerencia Social (FEGS), 2009.

Note: 2008 data is preliminary for the year, and subject to revision.

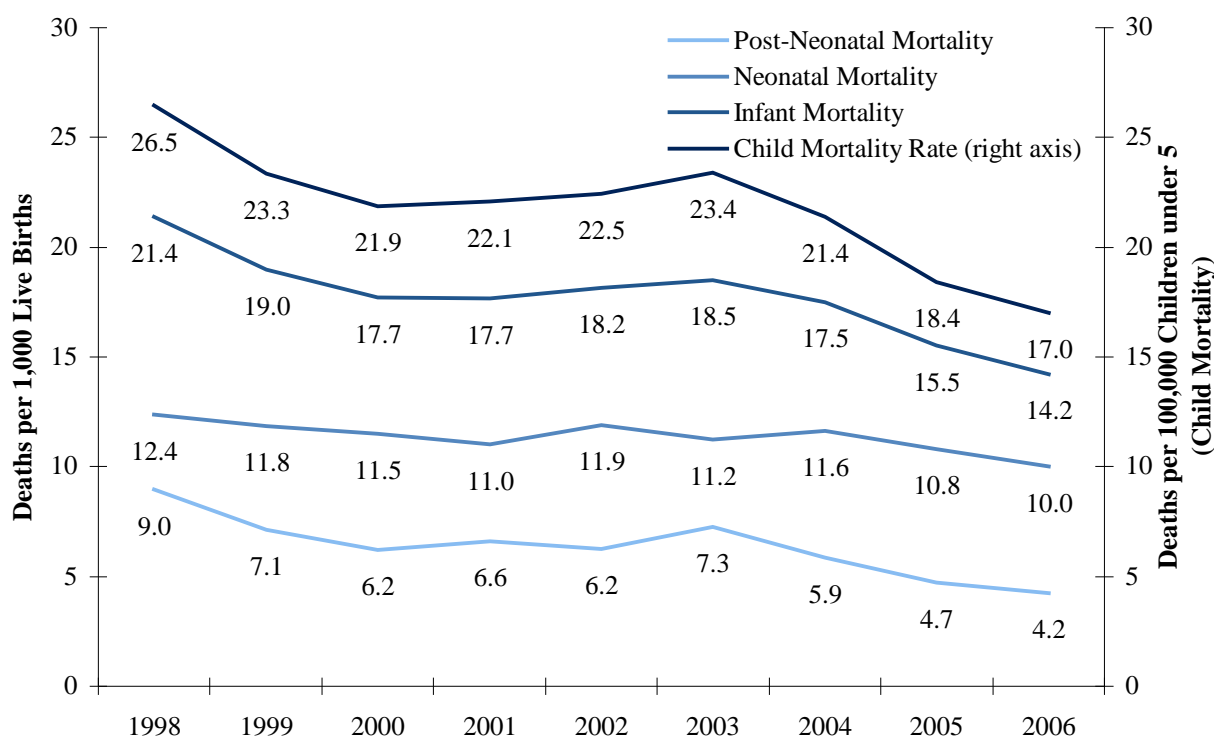
² United States Census Bureau. 2006. "Current Population Survey, 1968 to 2006 Annual Social and Economic Supplements, Table A-3." [http://www.census.gov/hhes/www/income/histinc/p60no231_tablea3.pdf]

Health and Education

Health

Venezuelans, especially children, have benefited from the government's social policies over the past decade through improved health outcomes. As shown in [Figure 4](#), infant mortality has decreased by over one-third, falling from 21.4 to 13.7 deaths per 1,000 live births. Likewise, child mortality has fallen by over one-third, from 26.5 to 17.0 deaths per 1,000 live births. The greatest benefit has been for children between the ages of one and eleven months: postneonatal mortality has been cut by more than half, falling from 9.0 to 4.2 deaths per 1,000 live births.

FIGURE 4
Infant and Child Mortality Rates during the Chávez Administration



Source: Sistema de Indicadores Sociales de Venezuela (SISOV), 2009.

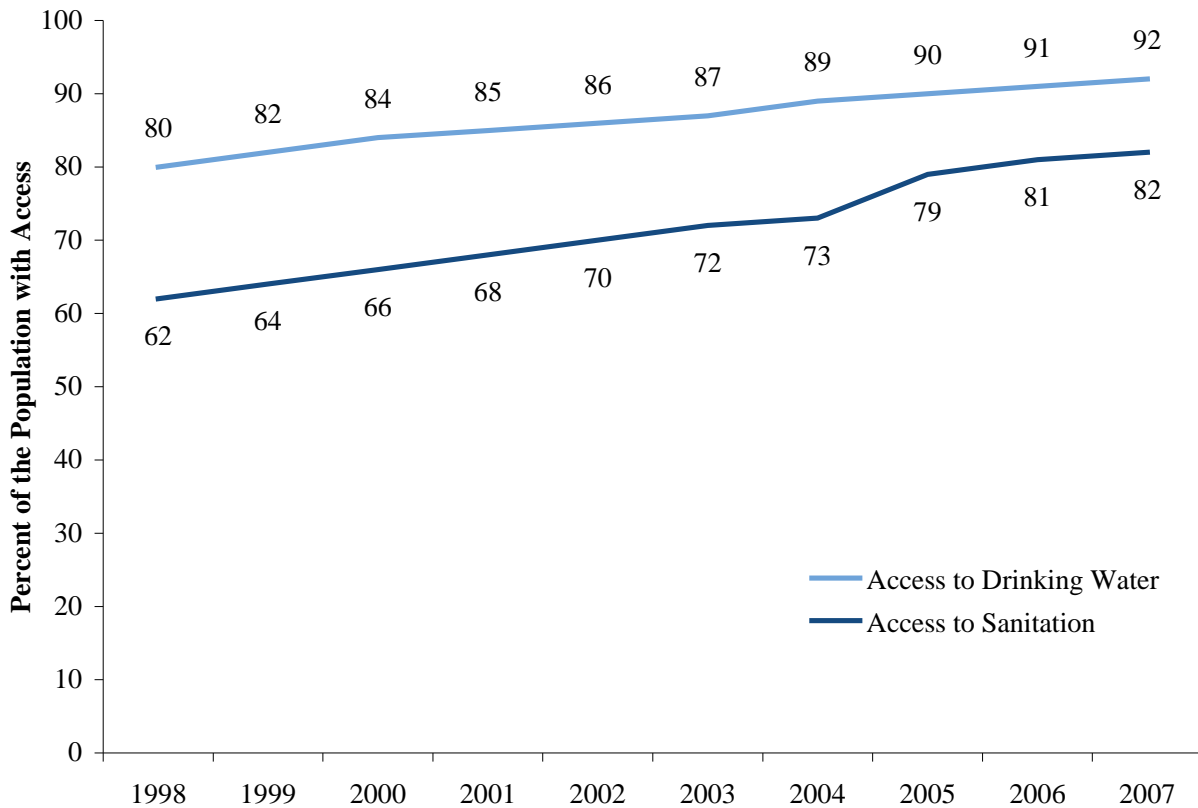
Note: Infant mortality concerns children under age one, neonatal mortality concerns children under one month of age, postneonatal mortality concerns children between one and eleven months of age, and child mortality concerns children under age five.

Venezuelans have seen a similar improvement in food security. Average caloric intake has risen from 91.0 percent of the recommended levels in 1998 to 101.6 percent in 2007. Even more importantly, malnutrition-related deaths have fallen by more than 50 percent, from 4.9 to 2.3 deaths per 100,000 in population between 1998 and 2006. Two new programs have helped reach this goal. First, the Programa Alimenticio Escolar (PAE) school-feeding program, which provides a free breakfast, lunch, and snack, began in 1999, serving a quarter-million students and rising to over four million students in 2008. Secondly, the Mercal network of government food stores began in 2003

selling 45,662 metric tons of deeply discounted food and rising to a level of 1.25 million metric tons in 2008.³

A third improvement in health outcomes has seen potable water and sanitation accessible to many more Venezuelans than before Chávez's election. As [Figure 5](#) shows, in 1998, 80 percent of Venezuelans had access to drinking water and 62 percent had access to sanitation. In 2007, 92 percent had access to drinking water and 82 percent had access to sanitation. Compared to 1998, then, roughly four million more Venezuelans now have access to clean drinking water, and over five million more Venezuelans now have access to sanitation.

FIGURE 5
Access to Clean Water and Sanitation, 1998-2007



Source: Sistema de Indicadores Sociales de Venezuela (SISOV), 2009.

These achievements have been facilitated by a large expansion in access to medical care. From 1999 to 2007, the number of primary care physicians in the public sector increased more than twelve times, from 1,628 to 19,571, providing health care to millions of poor Venezuelans who previously did not have access to health care. In 1998 there were 417 emergency rooms, 74 rehab centers and 1,628 primary care centers compared to 721 emergency rooms, 445 rehab centers and 8,621 primary care centers (including the 6,500 neighborhood clinics, usually in poor neighborhoods) by February 2007. These new community healthcare centers have had over 250 million healthcare consultations: nearly 37,000 each since the program began. Since 2004, 399,662 people have had eye operations

³ SISOV (2009).

that restored their vision. In 1999, there were 335 HIV patients receiving antiretroviral treatment from the government, compared to 18,538 in 2006.⁴

Education

Improvements in education are visible for both young and non-traditional age students. Traditional-age enrollment has risen significantly, as shown in [Figure 7](#). Net enrollment at the basic (grades 1-9) level has risen from 85 percent to 93.6 percent, and secondary enrollment has risen even more, from one-fifth to over one-third of the population.

The increase in basic education enrollment represents 8.6 percent of children age 5 through 14, or nearly a half-million children in school who would otherwise be without education. For secondary education, the increase means that 14.7 percent of children ages 15 through 19, or nearly 400,000 children, have been able to stay in school as a direct result of improved social investment.⁵

The largest gains have been seen in higher education: from the 1999-2000 school year to 2006-2007, enrollment increased by 86 percent; estimates for the 2007-2008 school year put the increase at 138 percent from the 1999-2000 base.⁶

The Chávez administration has also initiated the Ribas Mission to provide secondary education for returning adult students. The Ribas Mission began in 2003 and its first students graduated in 2005. In its first three years of operations, the program has graduated over half a million students – about three percent of the country’s adult population.⁷ The government also carried out a large scale literacy training program, Mision Robinson.⁸

⁴ Ministerio del Poder Popular para la Salud, 2007. “Logros de la Misión Barrio Adentro I al 16 de febrero de 2007” (As of February 16, 2007).

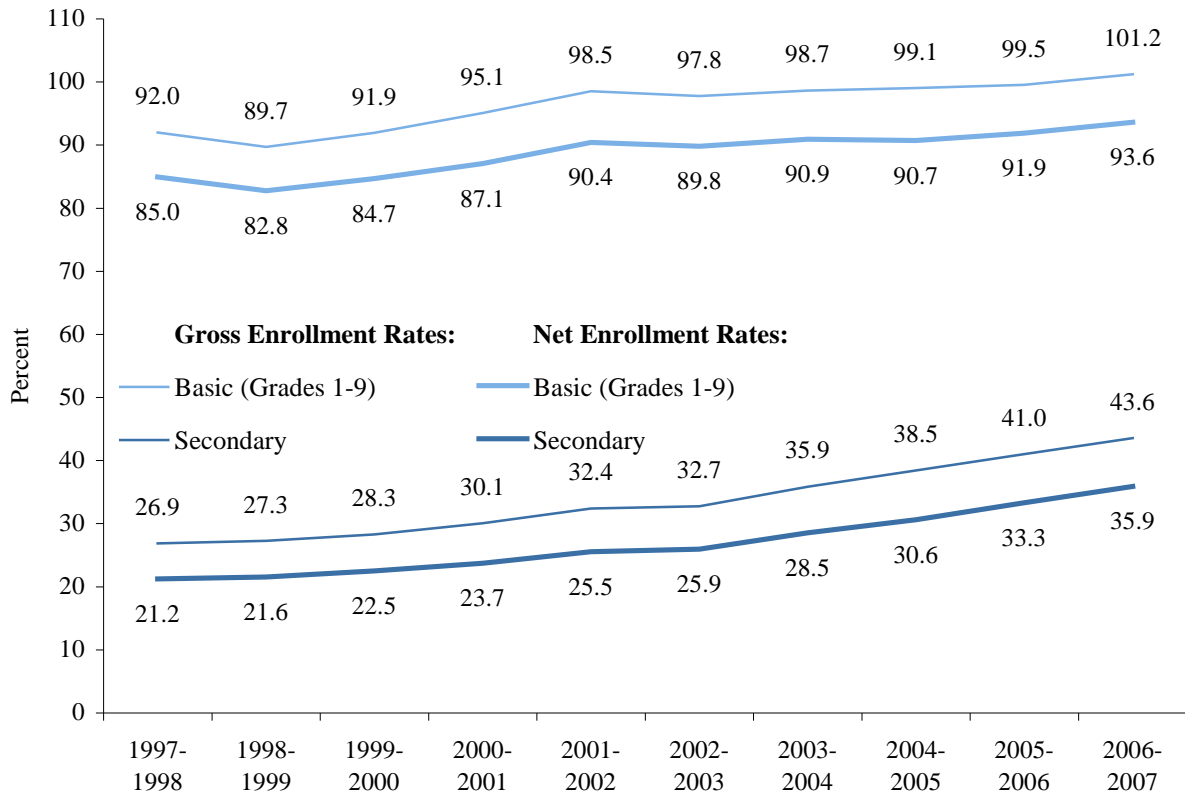
⁵ These estimates use the Instituto Nacional de Estadísticas (INE) population estimates by age for 2008: 5,522,489 children ages five through 14, and 2,703,056 children ages 15 through 19. (INE, 2009).

⁶ The estimates for enrollment in higher education for the 2006-2008 period are from Ministerio del Poder Popular para la Planificación y Desarrollo, 2008, “Logros de la Revolución en un país de 28 millones de habitantes”, October, Caracas, Venezuela. Population estimates are from the Instituto Nacional de Estadísticas (INE).

⁷ SISOV (2009).

⁸ There has been some debate over the size and effectiveness of Mision Robinson –see Rodríguez, Francisco and Daniel Ortega. 2006. “Freed from Illiteracy? A Closer Look at Venezuela’s *Robinson* Literacy Program.” Middletown, CT: Wesleyan University, Department of Economics and Rosnick, David and Mark Weisbrot. 2008. “Illiteracy? Revisited: What Ortega and Rodríguez Read in the Household Survey”. Center for Economic and Policy Research, Washington, D.C.

Figure 7
Gross and Net Enrollment Rates, Basic and Secondary School



Source: Sistema de Indicadores Sociales de Venezuela (SISOV) , 2009.

Note: Gross enrollment measures enrollment as a percentage of the total school-age population. Net enrollment measures school-age enrollment as a percentage of the school-age population. Thus, gross enrollment can exceed 100%, but net enrollment cannot. The two measures can differ inasmuch as non-traditional age students are enrolled.

Labor Market and Social Security

Labor Market

Venezuelan workers face a substantially better labor market than a decade ago, as shown in [Table 4](#). There are now 2.9 million more jobs than in 1998, which represents a one-third increase. The unemployment rate has dropped from 11.3 percent to 7.8 percent; it rose to 19.2 percent in 2003, but has fallen by over half since that time. There has also been a significant increase in job quality, as measured by formal sector employment. Over half of the labor force – 51.8 percent – is now employed in the formal sector, up from 45.4 percent in 1998. Most of the job growth has been in the private sector, but both sectors have outpaced the growth in the labor force: the decade has seen a 47.2 percent increase in public-sector jobs and a 30.6 percent increase in private-sector jobs.

Also, the rate of employment (employed as a percentage of the labor force) has increased enormously during the current expansion, from 80.8 percent to 92.2 percent. Measured from 1999 it is much less but still substantial, increasing from 88.7 percent. In sum, the labor market indicators, by any comparison, all show substantial improvement during the Chávez administration. These are consistent with the reduction in poverty as measured by cash income.

TABLE 4
Employment and Unemployment, 1998 - 2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>In Thousands:</i>											
Labor Force	9,699.3	10,259.2	10,163.9	10,576.0	11,369.0	11,793.5	12,036.3	11,936.5	12,056.5	12,211.8	12,433.9
Total Employed	8,605.1	8,691.4	8,682.7	9,123.5	9,611.7	9,524.8	10,035.7	10,344.1	10,783.2	11,092.1	11,469.6
<i>By Sector:</i>											
Public	1,402.6	1,348.2	1,352.8	1,378.4	1,364.8	1,371.3	1,491.7	1,633.6	1,804.8	1,930.0	2,064.5
Private	7,202.5	7,343.3	7,329.9	7,745.1	8,246.9	8,153.4	8,544.0	8,710.6	8,978.4	9,162.1	9,405.1
<i>By Economy:</i>											
Formal	4,403.9	4,253.7	4,110.9	4,491.9	4,752.5	4,528.8	4,923.2	5,387.1	5,853.4	6,222.7	6,445.9
Informal	4,147.4	4,435.0	4,565.7	4,630.1	4,856.1	4,988.4	5,108.8	4,924.2	4,929.7	4,869.4	5,023.7
<i>% of Total Labor Force</i>											
Labor Force	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Employed	88.7	84.7	85.4	86.3	84.5	80.8	83.4	86.7	89.4	90.8	92.2
<i>By Sector:</i>											
Public	14.5	13.1	13.3	13.0	12.0	11.6	12.4	13.7	15.0	15.8	16.6
Private	74.3	71.6	72.1	73.2	72.5	69.1	71.0	73.0	74.5	75.0	75.6
<i>By Economy:</i>											
Formal	45.4	41.5	40.4	42.5	41.8	38.4	40.9	45.1	48.6	51.0	51.8
Informal	42.8	43.2	44.9	43.8	42.7	42.3	42.4	41.3	40.9	39.9	40.4
Unemployment	11.3	15.3	14.6	13.7	15.5	19.2	16.6	13.3	10.6	9.2	7.8

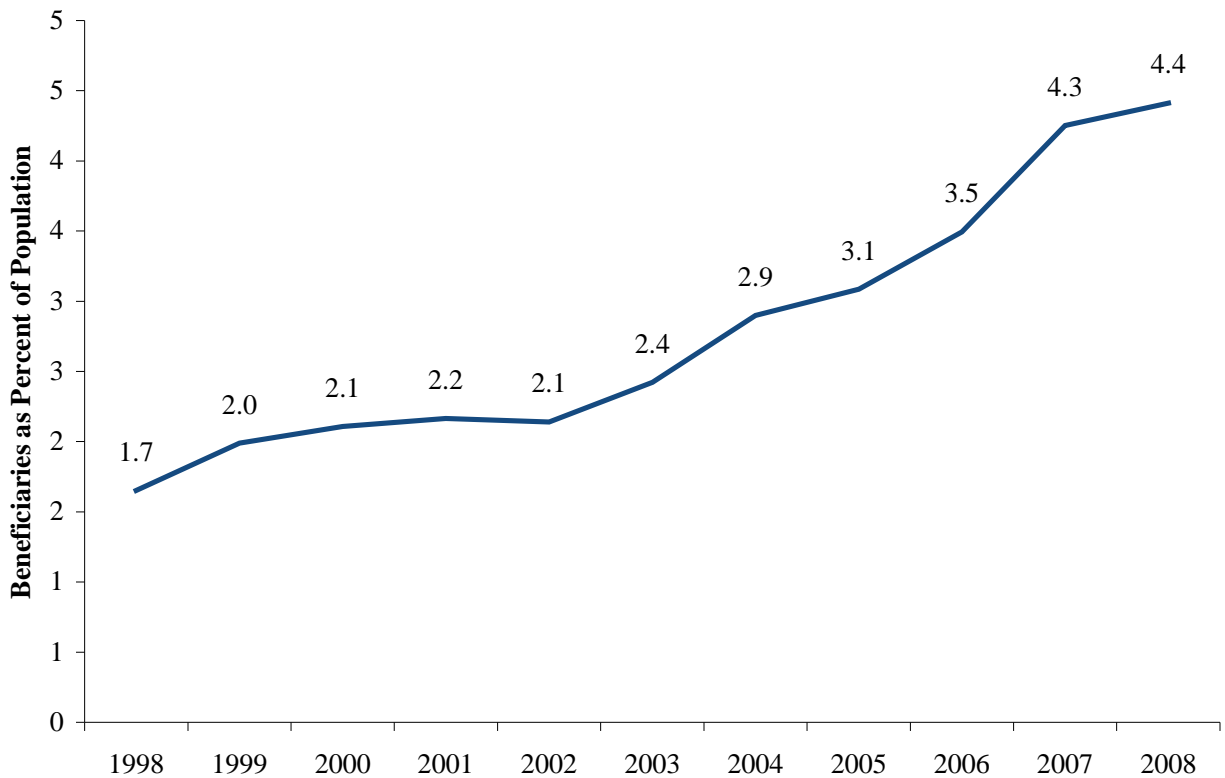
Source: Instituto Nacional de Estadística (INE), 2009; República Bolivariana de Venezuela, 2009.

Note: Data correspond to the first half of every year (from INE's biannual Household Survey).

Social Security

For those beyond employment age, widowed, orphaned, or unable to work due to a disability, the social security programs have vastly expanded their protection, as shown in [Figure 8](#). The reach of old age, disability, and survivors benefit programs has more than doubled since 1998. Among the entire population, this figure has risen from 1.7 percent receiving benefits to 4.4 percent. As is the case for other indicators, social security's performance was slow at the beginning of Chávez's term, actually fell slightly during the oil strike, and has grown very rapidly since 2003, when Venezuela recovered from the oil strike and the government gained control over the oil sector.

FIGURE 8
Percent of Population Receiving Old-Age, Disability, and Survivor Benefits



Source: Sistema de Indicadores Sociales de Venezuela (SISOV), 2009.

Government Finance and Current Account

Government revenues have benefited enormously from the rising price of oil until last year; world oil prices rose from an average of \$19.3 per barrel in 1999 to \$99.7 per barrel in 2008.⁹ However, it is worth noting that non-oil revenue also increased significantly as a percentage of GDP over the decade, from 11.7 percent of GDP in 1998 to 14.2 percent of GDP in 2007. This was due to improved tax collection.

Revenue and spending are shown in Table 5. As can be seen, revenue increased from 17.4 percent of GDP in 1998 to 28.7 percent of GDP in 2007. Spending also increased, from 21.4 to 25.7 percent of GDP over this period. The government ran a fiscal surplus of 3 percent of GDP for 2007; there are still no official figures available for 2008.

It is important to note that not all government spending is included in these figures for central government finances. Much of the government's spending has, in recent years, been carried out directly from PDVSA, the state oil company. For example, in the first three quarters of 2008 (January through September) PDVSA had \$13.9 billion, or 6.1 percent of GDP in public expenditures.

It is also worth noting that real (inflation-adjusted) social spending per person more than tripled from 1998-2006.¹⁰

Over the decade, the government's total public debt has fallen from 30.7 to 14.3 percent of GDP. The foreign public debt has fallen even more, from 25.6 to 9.8 percent of GDP.

TABLE 5
Central Government Finances (in percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Revenue	17.4	18.0	20.2	20.8	22.2	23.4	24.0	27.7	30.0	28.7
Total Expenditure and Net Lending	21.4	19.8	21.8	25.1	26.1	27.8	25.9	26.0	30.0	25.7
Current Expenditure	16.7	16.4	17.5	19.3	19.1	20.8	19.6	19.1	22.2	19.5
Capital Expenditure	4.0	3.0	3.3	4.4	5.1	5.5	5.0	5.8	6.7	5.8
Off-Budget Expenditure and Net Lending	0.7	0.4	1.0	1.5	2.0	1.5	1.3	1.1	1.1	0.4
Primary Balance	-1.4	1.0	0.9	-1.5	0.6	0.3	1.8	4.6	2.1	4.5
Overall Balance	-4.0	-1.7	-1.7	-4.4	-4.0	-4.4	-1.9	1.6	0.0	3.0
Financing	4.0	1.7	1.7	4.4	4.0	4.4	1.9	-1.6	0.0	-3.0
Domestic Financing	2.8	2.8	4.0	4.0	3.1	3.3	-0.7	-2.5	-1.3	-1.4
Financing Abroad	1.2	-1.1	-2.3	0.3	0.9	1.1	2.6	0.9	1.3	-1.6

Source: Ministerio del Poder Popular para las Finanzas (MF), República Bolivariana de Venezuela.

Note: Latest data available. Subject to revision.

⁹ These prices refer to WTI oil, according to U.S. Energy Information Agency data.

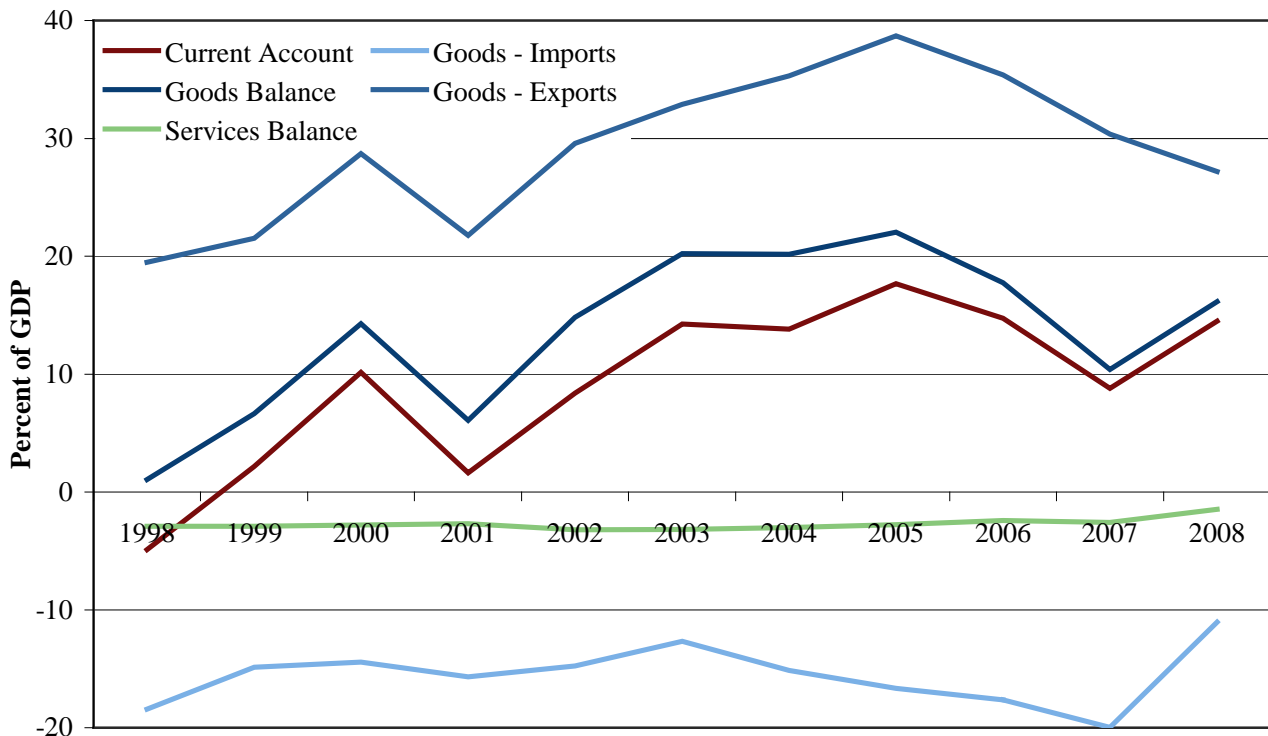
¹⁰ Real per capita social spending in Venezuela increased by 218.3 percent over the 1998-2006 period. This calculation includes social spending by both the central government and PDVSA, deflated by the Caracas Consumer Price Index. Data for central government social spending are from SISOV and for PDVSA from the company's financial statements. Consumer price data are from the Banco Central de Venezuela.

TABLE 6
Current Account and Gross Public Debt, as a Percentage of GDP

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Current Account	-4.9	2.2	10.1	1.6	8.4	14.2	13.8	17.7	14.7	8.8	14.5
Trade balance in goods	1.0	6.6	14.3	6.1	14.8	20.2	20.2	22.0	17.8	10.4	16.2
Exports, fob	19.5	21.5	28.7	21.8	29.6	32.9	35.3	38.7	35.4	30.4	27.2
Oil	13.4	17.2	23.9	17.7	23.8	26.6	29.3	33.4	31.7	27.5	25.5
Non-Oil	6.1	4.3	4.8	4.0	5.8	6.3	6.0	5.3	3.7	2.9	1.7
Imports, fob	-18.4	-14.9	-14.4	-15.7	-14.8	-12.7	-15.1	-16.7	-17.6	-20.0	-11.0
Oil	-1.6	-1.5	-1.5	-1.5	-1.4	-1.6	-1.6	-1.7	-1.5	-1.9	-1.1
Non-Oil	-16.8	-13.4	-13.0	-14.2	-13.3	-11.0	-13.6	-15.0	-16.1	-18.1	-10.0
Trade balance in services	-2.9	-2.9	-2.8	-2.7	-3.2	-3.2	-3.0	-2.8	-2.4	-2.6	-1.5
Gross Public Debt											
Total	30.7	29.6	27.7	30.7	39.9	47.8	38.5	32.8	23.9	19.3	14.3
Foreign	25.6	23.2	18.6	18.4	24.9	29.9	24.4	21.7	14.8	12.0	9.8
Domestic	5.1	6.5	9.1	12.4	15.0	17.9	14.0	11.1	9.1	7.4	4.5

Source: Banco Central de Venezuela

FIGURE 9
Current Account

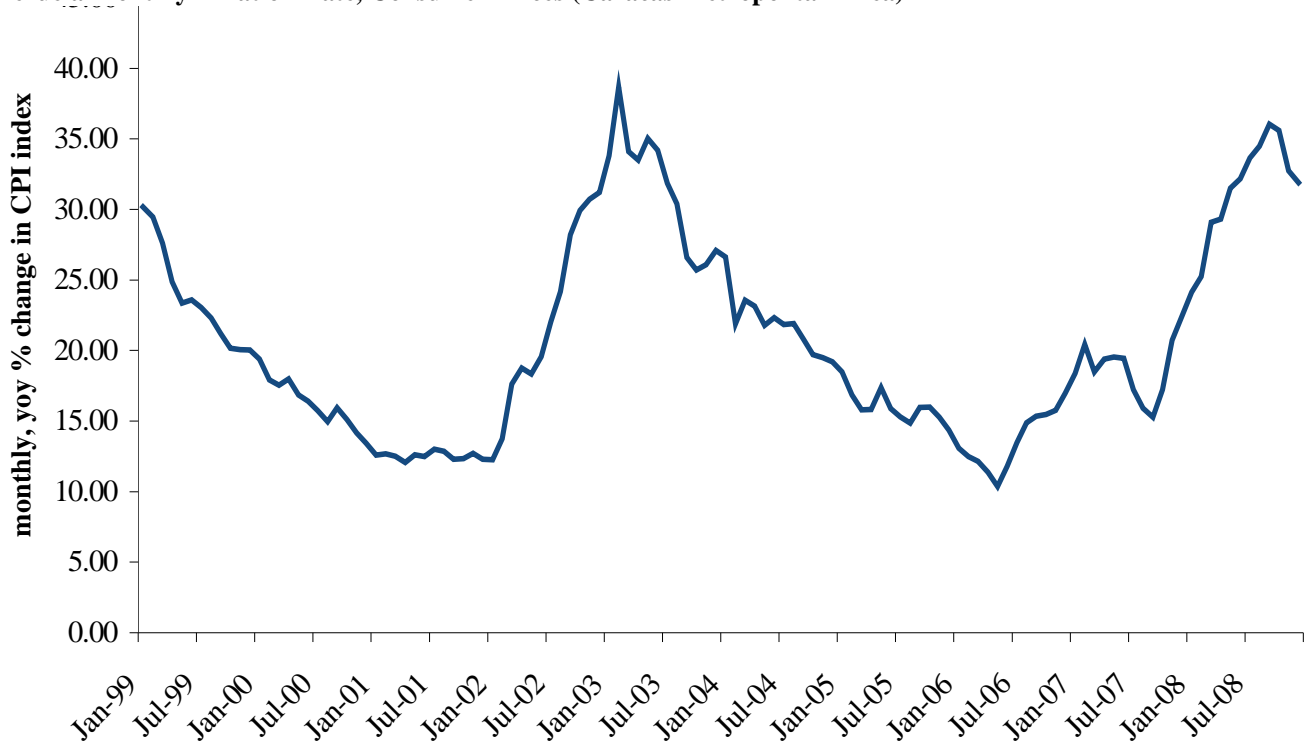


Source: IMF World Economic Outlook, October 2008

Inflation and the Exchange Rate

Figure 10 shows the monthly year-over-year inflation over the past decade, as measured by changes in the Caracas Consumer Price Index. President Chávez took office with inflation at 29.5 percent. This dropped to 12.3 percent over the next three years, then soared to a peak of 38.7 percent in February of 2003 as a result of the economic destruction caused by the oil strike at that time. After the strike ended in that month, the economy grew very rapidly while inflation declined sharply to a low of 10.4 percent in May of 2006. It then began an upward climb that, except for a dip from February-December 2007, brought inflation to a peak of 36 percent in September of 2008, from which it has since declined to 32 percent.

FIGURE 10
Venezuela Monthly Inflation Rate, Consumer Prices (Caracas Metropolitan Area)



Source: Banco Central de Venezuela (BCV), 2009a.

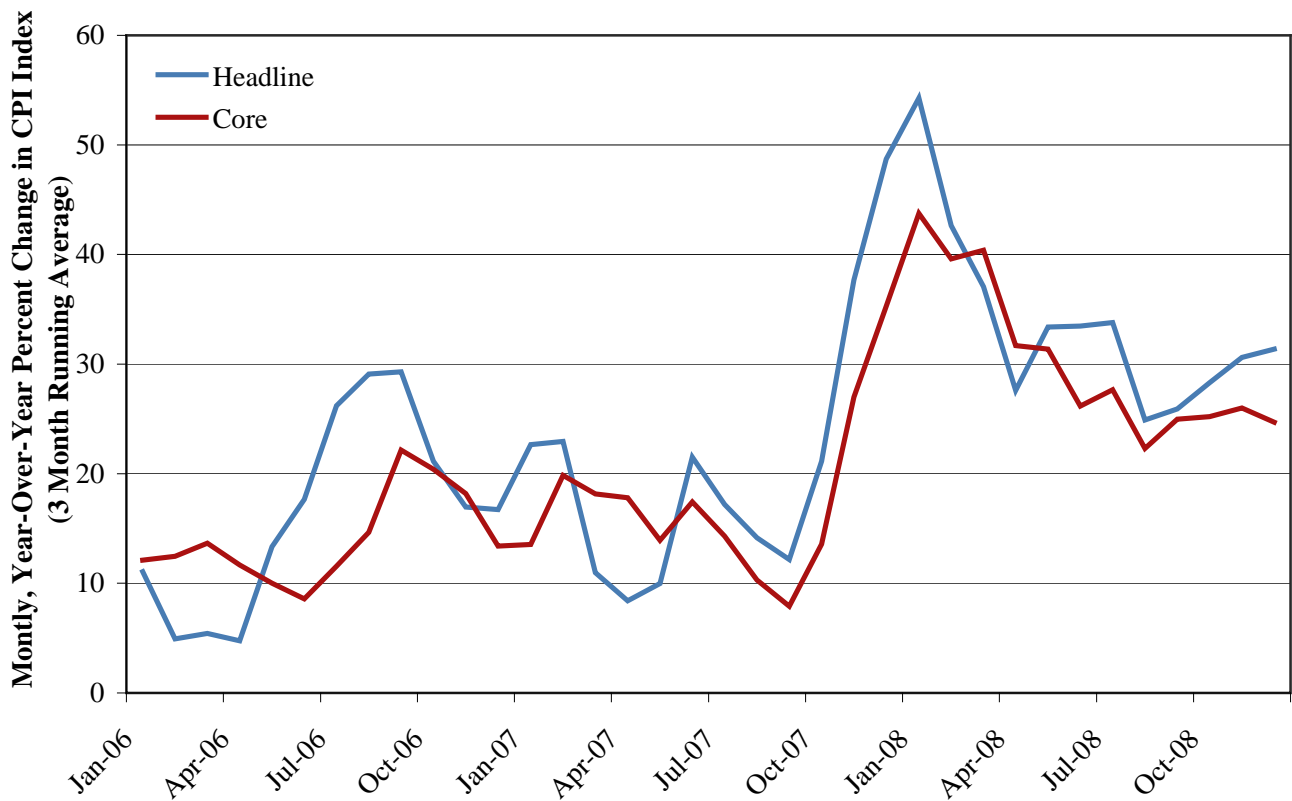
However, the year-over-year numbers give only a rough picture of current trends. For a more detailed picture, it is better to look at three-month intervals and separate out the core (excluding food and energy) from headline inflation. This is especially important because food and energy prices surged worldwide in the 15 months from April 2007 to July 2008, and then fell back sharply.

As can be seen in Figure 11, headline inflation in Venezuela during the year ending July 2008 averaged 33.7 percent with core inflation averaging 28.7 percent over the same period. Both figures are significantly higher than they were in the two previous years — 17.2 and 16.5 percent, respectively. However, recent inflation has been concentrated in the first half of 2008 and has abated considerably in the second half. The three-month average headline inflation peaked in January at 54.3 percent and for the three months ending in December ran only 31.4 percent. Core inflation also peaked at 43.8 percent in the three months ending in January, but now stands at 24.7

percent. While this rate of inflation is still much higher than the previous couple of years (although still low by Venezuela's historical standards) the considerable deceleration of inflation during 2008 does not appear to be cyclical, but rather the passing of temporary price shocks.

Given the trajectory of the regional and world economy, inflation is likely to continue declining this year, in the absence of unanticipated events and/or serious shortages. Inflation itself, then, does not seem to be a direct threat to economic growth in Venezuela, although the government will want to bring it down over time.¹¹

FIGURE 11
Headline and Core Inflation, 2006-2008



Source: Rosnick and Weisbrot, 2009.

The more serious problem posed by Venezuela's inflation is that, due to Venezuela's fixed exchange rate regime, it contributes to a growing and ultimately unsustainable overvaluation of the country's real exchange rate. The bolivar is pegged at 2,150 to the dollar; it was fixed at 1,600 in February 2003 when the government implemented foreign exchange controls. If we assume that the currency was neither overvalued nor undervalued when the exchange controls were implemented – more likely it was already overvalued – we would expect a depreciation to about 4,200 (or 4.2 Bolivares Fuertes) as a result of Venezuela's inflation.¹²

¹¹ See Weisbrot, Mark and Luis Sandoval. 2008. "Update: The Venezuelan Economy in the Chávez Years." Center for Economic and Policy Research, Washington, D.C., p.18.

¹² This is based on the ratio of Venezuela's cumulative consumer price inflation since February 2003, which is 201.4 percent, to U.S. inflation of 14.8 percent.

Thus the Venezuelan currency is at least 49 percent overvalued relative to the dollar. It is worth noting that this is not necessarily overvalued to the extent indicated by the parallel market rate, which fluctuates considerably and is currently at about 5,400 bolivares to the dollar. Nonetheless the currency is still very overvalued. This is something that will have to be remedied if Venezuela is going to pursue a long-term development strategy that diversifies the economy away from oil. An overvalued currency discourages the development of non-oil sectors, exports and import competing sectors, and especially manufacturing. It makes imports artificially cheap and the country's exports more expensive on world markets, thus putting the country's tradable goods at a serious disadvantage in both international and domestic markets. As can be seen from the data on sectoral growth, manufacturing did not grow. This is a serious long-term development problem. There are also distortions and inefficiencies associated with the system of exchange controls and the parallel market.

The overvalued fixed exchange rate, combined with present levels of inflation, thus presents a significant intermediate-term problem. Even if inflation is stabilized and begins to be reduced, so long as it remains at or near current levels and the nominal exchange rate remains fixed, Venezuela's currency will become increasingly overvalued in real terms. This will increasingly squeeze domestic production outside of oil and non-tradables, and would eventually become unsustainable. It is worth noting that the growth in manufacturing has fallen sharply in 2008 (see table 2 above); it is possible that the overvalued exchange rate has contributed to this decline, and very likely that it has limited the overall growth of manufacturing relative to other sectors of the economy (see above) during the current economic expansion.

Nonetheless, Venezuela's overvalued exchange rate does not present the kind of immediate threat that e.g., overvalued exchange rates in Argentina, Mexico, Brazil, or Russia presented in the 1990's, where a sudden and forced devaluation was imminent. The Venezuelan government still has a number of options for bringing the currency to a more competitive level over time. There is no reason to think that the government would be forced to devalue, nor would a devaluation necessarily have to be sudden or drastic.

The Current Situation and Looking Forward

The Venezuelan economy slowed in 2008, to an estimated 4.9 percent growth rate, from 8.4 in 2007. The slowdown was probably at least partly due to government efforts to slow inflation in 2007. From February to September 2007, monthly year-over-year inflation dropped from 20.4 to 15.3 percent (see [Figure 10](#), above), before rising again. Another change that may have contributed to the slowdown in growth was a decline in public sector capital formation. Table 7 shows that public sector capital formation slowed sharply in 2007. It had previously grown quite rapidly throughout the expansion, although not as fast as in the private sector. For 2008, there is not yet a breakdown between public and private capital formation, but total capital formation (public and private) actually declined by 1.5 percent. This is a problem that will have to be addressed if the economy is to continue at a healthy rate of growth; right now it appears likely that the government will address this problem in the near future through a stimulus program that includes public spending on infrastructure and other public investment.

TABLE 7
Venezuela: Gross Fixed Capital Formation (annual real % change)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public	-29.0	3.8	3.6	25.1	-32.1	37.6	25.5	19.9	4.4	.
Private	-6.4	2.0	19.1	-38.1	-41.5	62.7	49.6	31.7	39.9	.
Total	-15.5	2.6	13.8	-18.3	-37.0	49.7	38.1	26.6	25.4	-1.5

Source: Banco Central de Venezuela.

Like almost all developing countries, Venezuela faces a number of challenges in 2009. World economic growth is falling drastically; the IMF has now lowered its estimate for World GDP growth to 0.4 percent, the lowest since World War II and down from an actual GDP growth of five percent in 2007. The International Labor Organization estimates that between 30 and 50 million people will be added to global unemployment. The global financial crisis, which the IMF now estimates will result in \$2.2 trillion in losses in the United States alone, is still not resolved, and it is increasing the cost and reducing the availability of credit in developing countries.

Venezuela does not receive any significant foreign investment from the United States or other countries that have been hard-hit by the financial crisis and economic slowdown. The most important, and practically the only, direct impact of these external events on Venezuela is through oil prices. Petroleum exports are currently about 93 percent of Venezuela's exports.

The relevant question for Venezuela is therefore how far oil prices would have to fall before the country would begin to run an unsustainable current account deficit. This is the binding constraint for developing countries. In other words, the United States, Europe, and Japan will – inasmuch as they choose to do so – pursue expansionary monetary and fiscal policies, including deficit government spending, in order to counteract the current recession. Developing countries can and ideally should do the same, but unlike these rich countries, they face a constraint due to the fact that their national currencies are not “hard” currencies. Therefore they cannot count on being able to borrow nearly as much, relative to GDP, or for so long a period of time, as countries with hard currencies, to cover their import needs. For this reason, the balance of payments – not the central

government budget, which can be covered in local currency – is the most important and binding constraint on developing countries such as Venezuela in the present situation.

Venezuela ran a current account surplus estimated at 13.9 percent of GDP for 2008. This huge current account surplus would fall to zero at about \$45 dollars a barrel for Venezuelan oil. Venezuela's oil is currently at approximately \$38 per barrel, so if oil prices remain at present levels, we would expect a current account deficit by the end of this year. However, this would not cause any balance of payments problems, as Venezuela has approximately \$82 billion, or 25 percent of GDP, in foreign exchange reserves – more than twice what the country needs.¹³ A current account deficit of 2 or 3 percent of GDP, which is what we might expect if oil prices remain at this level, is not significant in the face of such large reserves. This could even continue through next year without posing a significant problem.

Of course, oil industry analysts, as well as futures markets, do not expect oil prices to remain this depressed for very long. The futures price for December 2010 crude (WTI) is over \$60 per barrel. Unless oil prices remain depressed for years longer than anyone is expecting, Venezuela is not likely to have to dip very far into its reserves. Venezuela is also fortunate in that its foreign public debt is low, at about 9.8 percent of GDP. Principal payments for the next four years are about \$1.5 billion a year, which is very modest. Therefore Venezuela could also increase its borrowing internationally if necessary, but it is extremely unlikely to encounter any balance of payments problems.

The main determinant of Venezuelan growth in 2009 and probably 2010 is likely to be the size, speed, and efficacy of a fiscal stimulus. The government has recently announced a major public spending program of about \$12 billion, or 3.6 percent of GDP. As in most other countries in the hemisphere, including the United States, it will be important to move quickly on this program. In the face of strong deflationary pressures, as discussed above, Venezuela's inflation is likely to continue falling in the near future. As in most countries today, the government should not be overly concerned about inflation, so long as it continues falling; nor does it need to worry about adding to the public debt, which is not very high at 14.3 percent of GDP. The challenge is to compensate for falling private demand until the world economy begins to recover, so as to avoid an unnecessary recession. It is worth noting that Peru, Chile, Argentina, Mexico, and other countries in the hemisphere have already announced significant fiscal stimulus programs, some of them comparable to that of the United States, relative to their economies.

The main challenge for Venezuela in the next couple of years will therefore be to implement an effective stimulus package that can keep the economy on a steady growth path. It would be even better if, as the Chinese government did during the Asian crisis ten years ago, Venezuela could make infrastructure and other public investments that will increase productivity in the years that follow.

¹³ This figure refers to the estimated amount of resources (in foreign currency) available to the government from official international reserves and other funds at the end of 2008. These resources include \$43.1 billion in official foreign exchange reserves held at the Central Bank as of Dec. 31, 2008 (see BCV 2009b) and include \$828 million in the Macroeconomic Stabilization Fund; an estimated \$33.6 billion in resources available through the National Development Fund (\$13.1 billion in bonds and deposits abroad), PDVSA (\$5.2 billion in available and restricted cash resources) and the National Treasury and other sources (\$15.3 billion, including accounts held by the Treasury abroad) (see BanCaribe 2008); and \$6 billion in a Joint Chinese-Venezuelan Fund. It must be noted that this figure does not include other resources, such as the funds held at the National Economic and Social Development Bank (Bandes). For example, Palma (2008: 7) estimates the government had \$72.6 billion in official reserves and other funds as of June 30, 2008. However, since then, official international reserves grew by \$8.8 billion by December 31, 2008.

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