



Embassy of the Bolivarian Republic of Venezuela to the United States

Economic Measures to Counter the Global Crisis

Due to the toll the financial crisis is having on economies around the world, **on March 21st President Hugo Chávez announced a series of economic measures designed to better protect Venezuela from the global turndown.** In a message to the nation, the President said the plan is to implement “counter-crisis actions to . . . safeguard, protect, care for what we have been achieving over the last 10 years.”¹

Contrary to reports from opposition media outlets, this set of measures does not contemplate any currency devaluation, increase in gasoline taxes or cutting in social spending. Finance Minister Alí Rodríguez discarded the idea of devaluation, noting that Venezuela is “an import country. We basically only export oil. Devaluation at this time would automatically make imports more expensive at a time when we have to save every dollar due to the fall in oil prices.”²

In fact, the measures being applied are markedly different from neoliberal reforms used by prior administrations during times of economic hardship, reforms that, as President Chávez put it, “were a burden on the people.”³ The clearest difference is that **there will be no cuts in social spending or programs**—the government will continue to fully fund its important social ‘*misiones*’ that have led to significant gains in health, education and poverty reduction.

The measures announced by President Chávez include the following:

- A 6.7% decrease in the 2009 national budget, equivalent to around \$7 billion.
- A 20% increase in the minimum wage.
- A 3% increase in the value added tax (IVA).

- An increase in government domestic borrowing.
- \$100 billion in public investments over the next four years, in addition to \$125 billion over four years for oil industry investments.

2009 National Budget

The 2009 national budget was initially based on oil price projections of \$60/barrel. One of the consequences of the global economic turndown has been a decline in oil prices. With this in mind, the government considered it prudent to revise the 2009 budget and base it on an oil price of \$40/barrel. This new baseline will require a 6.7% cut in spending; the budget will decline from approximately \$77.9 billion to \$72.7 billion.

The spending cuts will be achieved, in part, through the elimination of government spending considered to be luxurious or superfluous such as executive vehicles, government building acquisitions and renovations, and bonuses for high level officials.⁴ On March 25th, President Chávez signed a decree eliminating this type of public spending. In doing so, he reminded public officials that “every last Bolívar should be used to help resolve our many problems originating from the great social gap left to us by the neoliberal capitalist past.”⁵ The decree also sets a salary limit and the end of high bonuses for upper level public officials.⁶

Minimum Wage Increase

Venezuela, which already has the highest minimum wage in Latin America, will see a 20% increase of minimum salaries over the coming year.⁷ The minimum wage is being increased to roughly offset projected inflation for the year.



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The minimum wage is slated to increase by 10% in May 2009, from \$372 a month to \$409/month. In September of 2009, the wage will increase by another 10% to \$450/month. Over 2.6 million people, 9% of the population, will benefit from this increase.⁸

This wage does not include subsidized food allocations received by many workers. As of March 2009, these food tickets (known as 'Cesta Ticket') are worth \$186 a month; their value will increase to \$297/month in May 2009.⁹ When added to the minimum wage, salaried workers will then receive \$747/month as of September 2009. The next highest minimum wage in Latin America is Argentina's, at \$310/month. Including subsidized food allocations, Venezuelan minimum salary workers earn more than double the minimum salary of other regional workers.

Value Added Tax

In order to raise revenues, Venezuela's value added tax (IVA) will rise from 9% to 12%, which will bring in nearly \$4.2 billion. It is important to put this tax into context. First, it is lower than in many other countries in the world, including Argentina (21%), Chile (19%), Peru (19%), Colombia (16%), Mexico (15%), France (19.6%), Spain (16%), and Italy (20%).¹⁰

Second, even at 12%, the IVA is still lower than it was in the late 90's; in 1998 the IVA was 16.5%. As President Chávez noted, "when we had high oil prices we reduced the IVA from 14% to 9%, now we will put a prudent increase into place."¹¹ Finally, it is important to note there is no IVA on items of primary necessity, such as most food products, transportation, fuel, medical services, books, newspapers, and utilities. As such, the tax increase should not negatively affect the poor.

Domestic Borrowing

To cover the decline in oil prices, the government plans to borrow and increase the domestic debt from \$5.6 billion to \$15.8 billion during 2009. Although this sounds high, Venezuela's public debt as a percentage of GDP is comparatively low, in 2008 it was 14.3%.¹² The United States' 2007 public debt as a percentage of GDP is 60.8%.¹³ According to the latest U.S. government estimates, Venezuela's public debt is the 98th lowest in the world out of 126 countries measured.¹⁴ Moreover, the public debt is not only low compared to other countries, it is also low in comparison to Venezuela's history: in 1988 public debt was 73.5% of GDP, and in 1998 it was 30.6%.¹⁵

Investments

In February 2009, the Washington D.C.-based Center for Economic and Policy Research indicated that "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 . . . Venezuela could make infrastructure and other public investments that will increase productivity in the years that follow."¹⁶

This same idea is guiding the 2009-2013 Investment Plan, which will count on \$100 billion in funds in order to continue the country's economic and social development. This plan will fund non-oil projects related to infrastructure, agriculture, basic and medium industry, and mining.¹⁷ Another \$125 billion will go towards investments in the energy and oil industries.

Furthermore, sound economic and foreign policy has led Venezuela to access to development fund mechanisms. Some of these include Fonden (Venezuela's National Development Fund), joint binational funds with countries such as China, Russia, and Colombia, and multilaterals including the Bolivarian Alternative for the Americas (ALBA) and the upcoming Bank of the South.



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In addition, recent trade and development agreements with Japan and France, among other countries, will also help bolster Venezuela's development.

Conclusion

The economic measures announced by President Hugo Chávez on March 21st, 2009, guarantee social welfare policies while making necessary adjustments to the national budget in order to manage the global financial crisis and the fall in oil prices. The measures will cut unnecessary government spending, and will increase the internal debt and value added tax without affecting the cost of food or other basic needs. Fortunately, the policies developed by the Bolivarian government over the past 10 years have allowed Venezuela to have access to important funds to overcome the crisis, without making significant cutbacks in spending, thereby guaranteeing the continuity of social policies and optimal levels of government investment.

March 25, 2009

For more news and information about Venezuela, please visit our website: <http://www.embavenez-us.org/>

¹ Presidential Message to the Nation, Announcement of Economic Measures, March 21, 2009.

² "Minister Rodríguez: Economic measures will lead to positive indicators in 2009," Agencia Bolivariana de Noticias (ABN), March 25, 2009. <http://embavenez-us.org/news.php?nid=4925>

³ Presidential Message to the Nation, Announcement of Economic Measures, March 21, 2009.

⁴ Luigino Bracci Roa, "Conozca el decreto firmado por Chávez para la eliminación del gasto suntuario," YVKE Mundial, March 25, 2009. <http://www.radiomundial.com.ve/yvke/noticia.php?21973>

⁵ Ibid.

⁶ Tamara Pearson, "Venezuelan President Chavez: 'I Won't Wear James Bond Suits'," VenezuelaAnalysis, March 28, 2009. <http://www.venezuelanalysis.com/news/4334>

⁷ "En gráficas: El salario mínimo en Venezuela duplicará al de los demás países de Suramérica," YVKE Mundial, March 25, 2009.

<http://www.radiomundial.com.ve/yvke/noticia.php?21983>

⁸ "Gobierno Bolivariano despliega plan anticrisis," Prensa Presidencial, March 22, 2009.

<http://www2.minci.gob.ve/noticiaespanol.asp?num=2070>

⁹ "En gráficas: El salario mínimo en Venezuela duplicará al de los demás países de Suramérica," YVKE Mundial, March 25, 2009.

<http://www.radiomundial.com.ve/yvke/noticia.php?21983>

¹⁰ "IVA venezolano se ubica entre los más bajos del mundo," Venezolana de Televisión, March 28, 2009.

<http://www.vtv.gov.ve/noticias-econ%C3%B3micas/16245>

¹¹ "Venezuela asumió medidas para frenar impacto de crisis mundial," Agencia Bolivariana de Noticias, March 24, 2009.

<http://www.abn.info.ve/noticia.php?articulo=174559&ee=3>

¹² Mark Weisbrot, Rebecca Ray and Luis Sandoval, "The Chávez Administration at 10 Years: The Economy and Social Indicators," Center for Economic and Research Policy, February 2009.

<http://www.cepr.net/index.php/publications/reports/the-chavez-administration-at-10-years-the-economy-and-social-indicators/>

¹³ Country Comparisons - Public debt, Central Intelligence Agency World Factbook (Accessed March 30, 2009) <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html>

¹⁴ Country Comparisons - Public debt, Central Intelligence Agency World Factbook (Accessed March 30, 2009) <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html>

¹⁵ "La deuda pública venezolana ha bajado más de un 50% en los últimos 10 años,"

<http://www.venezueladeverdad.gob.ve/logros-del-gobierno-bolivariano/la-deuda-publica-venezolana-ha-bajado-mas-de-un-50-en-los-ultimos-10-anos-467.html> (Accessed April 28, 2009).

¹⁶ Mark Weisbrot, Rebecca Ray and Luis Sandoval, "The Chávez Administration at 10 Years: The Economy and Social Indicators."

¹⁷ "Gobierno Bolivariano despliega plan anticrisis," Prensa Presidencial, March 22, 2009.

<http://www2.minci.gob.ve/noticiaespanol.asp?num=2070>