



VENEZUELA'S ECONOMY

Myths and Facts

MYTH: The Venezuelan economy is heading towards a “bust.”

FACT: According to current economic indicators, there is nothing that suggests that Venezuela would go through an economic “bust” in the foreseeable future. With a stabilization of the country’s political situation, the country has experienced an economic expansion with a GDP growth (inflation-adjusted) of 76% since 2003.

Additionally the country’s revenues have increased faster than spending – from 17.4% to 30% of GDP from 1998 to 2006 – which has allowed the government to have a balanced budget for 2006 and accrue international reserves surpassing \$25.2 billion. It is estimated that the Venezuelan government has another \$14-\$19 billion in offshore accounts, which is in FONDEN¹ (National Development Fund). With its low foreign and public debt – 14.6% and 23.8% of GDP, respectively – the government can also have access to international credit markets.

Goldman-Sachs² projects a further decline of total debt to 20% of GDP, despite their projection of a growth slowdown from 10.3% to 7% of GDP; the Inter-American Bank projected 8% for 2005³ ranking Venezuela as the country with major growth in the region. Also, total interest payments on the public debt, foreign and domestic, summed to a relatively small 2.1% of GDP in 2006.

Even if there is a decrease in the government’s revenues – prompted by a decrease in the prices of oil, for example – the large current account surplus and the accumulation of reserves have given the government considerable insurance to prevent a recession from happening. In fact, with oil prices

predicted to remain high or even increase, the Venezuelan economy is projected to grow consistently over the next years. The July 10 short-term outlook of the US Energy Information Agency projects oil prices at \$65.56 per barrel for 2007 and \$66.92 for 2008.

MYTH: The Venezuelan economy highly depends on international oil prices.

FACT: Venezuela has large reserves and other accounts to face an oil price decline before it affects its finances. A decline of 20% or more in oil prices could be absorbed by accumulations of reserves and by accessing international credit markets. The Venezuelan government budget has planned conservatively with respect to oil prices – the 2007 budget assumed oil prices of \$29 per barrel, 52% under the average \$60.20 dollars per barrel that Venezuelan crude sold for last year.

MYTH: Despite of the increase in social expenditures poverty has not been significantly reduced in Venezuela.

FACT: The Central Government’s per capita social expenditure was significantly increased from 8.2% in 1998 to 13.6 % of GDP in 2006. In

addition, PVDSA’s social expenditure was 7.3% of GDP in 2006. With this included, the total government social expenditure *was 20.9% of GDP in 2006*, at least 314% more than in 1998 (per capita).

The poverty rate has decreased from 55.1% in 2003 to 30.4% at the end of 2006 (in 1998 the poverty rate was 43.9%). However, this poverty rate includes only cash incomes; it does not include the value of the people’s brad access to health care, education which improves their quality of life.

Furthermore, according to the World Bank statistics the percentage of population suffering from extreme poverty has decreased from 23.4% in 1997 to 17.8% in

Key Indicators

Economic Growth
18.3 percent (2004)
10.3 percent (2005)
10.3 percent (2006)

Unemployment
15 percent (1999)
8.3 percent (2007)

Social Expenditures
8.2 percent (1998)
13.6 percent (2006)

Poverty Rate
55.1 percent (2003)
30.4 percent (2006)

¹ <http://www.fonden.gob.ve/dat>

² Goldman Sachs, Latin America Economic Analyst, Issue N07/10, May 18, 2007

³ http://www.iadb.org/countries/indicators.cfm?language=English&id_country=VE&pLanguage=ENGLISH&pCountry=VE&parid=8#



2005 and for those in moderate poverty from 55.1% in 1997 to 30.6% by 2005 on “moderate poverty”.⁴

Below are some statistics on area of social spending in Venezuela:

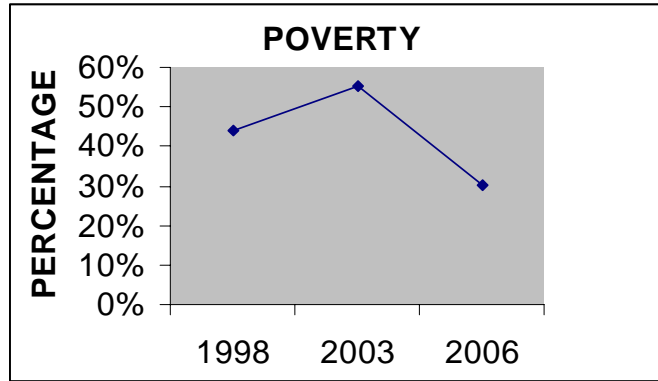
Health Care: In 1998 there were 1,628 primary care physicians for a population of 23.4 million, now there are 19,571 for a population of 27 million. Since 2004, 399,662 people have had eye operations that restored vision. In 1999 there were 335 HIV patients in treatment, now there are 18,538.

Food Supply: In 2006 there were 15,726 government-owned stores offering food at subsidized prices (with average savings of 27% and 39% compared to the market prices). In addition, there are special programs for extremely poor people benefiting an average of 67% and 43% of the population in 2005 and 2006, respectively. These do not include the 1.8 million children participating in school lunch programs in 2006, compared to 252,000 children in 1999.

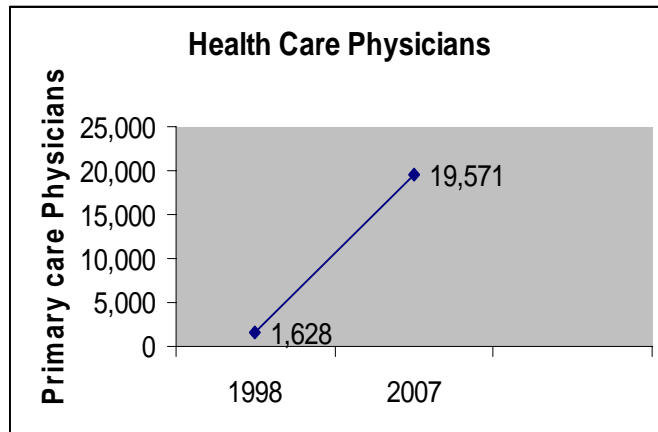
Education: The number of students in primary school increased from 271,593 in 1999 - 2000 to 1,098,489 in 2006. Additionally, more than 1 million people participated in adult literacy programs.

MYTH: Instead of creating sustainable and long-term employment, the Venezuelan government has only provided a direct transfer of capital to its poor citizens (through its social programs).

FACT: Unemployment rates in Venezuela have dropped substantially to 8.3% as of June 2007, its lowest level in more than a decade, as compared to 15% in June 1999 and 18.4% in June 2003. Formal employment has also increased substantially since 1998, from 44.5% to 49.4% of the labor force.



More importantly, employment in the formal sector has increased to 6.06 million (2006), from 4.41 million in 1998 and 4.72 million in 2003. As a percentage of the labor force, formal employment has increased significantly since 1998, from 44.5% to 49.4%.



About 1.9 million jobs have been created in the private sector and 478 thousand in the public sector since 1998. Employment as a percentage of the labor force has increased 1.5% since 1998. Private employment was a slightly larger percentage of the labor

force (75.2%) in 2006 as compared to 1998 (74.9%). However, both of these indicators understate the improvement in the labor market since the number of people who were out of the labor force for education – as access to education was increasing – rose by 3.4%, relative to the labor force during in the same period.

MYTH: The Venezuelan Government's economic policy aims to eliminate the private sector.

FACT: The private sector has grown faster than the public sector over the last eight years, and therefore the private sector has a bigger share of the economy in 2007 before President Chávez took office in 1998. The fastest growing sectors between 2003 and 2007 have been finance and insurance companies (240%),

⁴ World Bank : “Poverty at a Glance” -Venezuela
http://iris37.worldbank.org/domdoc/PRD/Other/PRDDContainer.nsf/WB_ViewAttachments?ReadForm&ID=85256D2400766CC7852572BB0050D4B3&



trade and repair services (127.5%), communications (99.5%), transport and storage (87%), and manufacturing 91%. These rates demonstrate a move towards a diversification away from the dependence on oil.

Even the recent nationalizations of the electric and telecommunications sectors should not be looked as a desire from the Venezuelan government to constrain the private sector – rather, they are aimed at making basic services more widely available to all citizens. For example the decision to nationalize the telecommunications company CANTV⁵, was based on eliminating the monopoly on land lines and expanding access to the Internet. In Venezuela, Internet access remains below average for the region, with 125 users per 1000 people, as compared to 156 per 1000 for Latin America.

Similarly with respect to the nationalization of the oil fields, Venezuela is one of the only major oil-producing states in the development world that allows foreign investment in oil production – even U.S. allies such as Mexico and Saudi Arabia do not allow foreign investment in such sector.

MYTH: The Venezuelan government is solely responsible for the future of the country's economy.

FACT: Recent developments have demonstrated that political instability in Venezuela was significantly responsible for the country's economic downswing in 2003, which directly affected all Venezuelans, regardless of their socioeconomic status. After a military coup that temporarily toppled the constitutional government in April 2002, followed by a devastating oil strike from December 2002-February 2003, the economy went into a severe recession during which Venezuela lost 24% of its GDP. Additionally, during this time there was a sharp spike in the poverty rates to a peak of 55.1% right after the opposition oil strike in 2003. There is little doubt that poverty would be even lower today in Venezuela if not for the enormous economic damage caused by this strike. Similarly, during this period, unemployment increased to 18.4% from 16.2% in 2002; inflation increased to a 40% annual rate from

12% in January 2002, generating major supply shortages; and gross fixed capital collapsed by 57%.

The future of Venezuela lies in the hands of its entire population, and it is the responsibility of all of the country's major political, economical and social players to provide the stability needed to attract investment and forge rapid and sustained economic growth. The government's mission for inclusion involves working in joint cooperation with the private sector and its political opposition to create a healthy economic environment that would be able to provide a better standard of living for all of its citizens.

⁵ The telecommunications and electricity sectors were nationally owned and then privatized in the 1990s.