BANCO CENTRAL DE VENEZUELA

# ECONOMIC REPORT 2009

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# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| Aladi | Latin American Integration Association |
| ALBA | Bolivarian Alternative for the Peoples of our America |
| ASAC | Arab-South American Countries |
| Bandes | Economic and Social Development Bank of Venezuela |
| BCV | Central Bank of Venezuela |
| Cadafe | Compañía Anónima de Administración y Fomento Eléctrico |
| Cadivi | Foreign Currency Administration Commission |
| Cantv | Compañía Anónima Nacional de Teléfonos de Venezuela |
| CEN | Corporación Eléctrica Nacional |
| CMR | Regional Monetary Council |
| CNV | National Securities Commission |
| CPI | Consumer Price Index |
| CPI-CMZ | Consumer Price Index for Caracas Metropolitan Zone |
| CRPS | Consolidated Restricted Public Sector |
| CVP | Corporación Venezolana del Petróleo |
| DC | Deposit Certificates |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| EDC | Electricidad de Caracas |
| Edelca | Electricidad del Caroní |
| EIA | Energy Information Administration |
| Eleval | Electricidad de Valencia |
| Enelven | Energía Eléctrica de Venezuela |
| FCE | Final consumption expenditure |
| FED | Federal Reserve System |
| FEM | Macroeconomic Stabilization Fund |
| FIS | Fixed Interest Securities |
| FOB | Free On Board |
| Fogade | Deposits Guarantee and Bank Protection Fund |
| Fonden | National Development Fund |
| GDP | Gross Domestic Product |
| GFCF | Gross Fixed Capital Formation |
| GVA | Gross Value Added |
| IAS | International Accounting Standards |
| IBC | Caracas Stock Index |
| IDB | Inter-American Development Bank |
| IEA | International Energy Agency |
| IFRS | International Financial Reporting Standards |
| IMF | International Monetary Fund |
| INE | National Statistics Institute |
| IPO | Initial Public Offer |
| IVSS | Venezuelan Institute of Social Security |
| LAC | Latin America and the Caribbean |

| | |
|---|---|
| LOAFSP | Law of General Government Financial Management |
| Mercosur | Common Market of the South |
| MMG | Macroeconomic Monitoring Group |
| MPPPF | People's Ministry for Planning and Finance |
| NCPI | National Consumer Price Index |
| NPO | Non-Profit Organizations |
| OECD | Organization for Economic Cooperation and Development |
| ONCP | National Public Credit Office |
| OPEC | Organization of the Petroleum Exporting Countries |
| Pdvsa | Petróleos de Venezuela, S.A. |
| PLG | Petroleum Liquefied Gas |
| PPI | Producer Price Index |
| PTO | Public Takeover Offer |
| PTT | Peoples' Trade Treaty |
| RAD | Foreign Currrency Administration Regime |
| REER | Real Effective Exchange Rate Index |
| ROA | Return On Assets |
| ROE | Return On Equity |
| SCN | System of National Accounts |
| Seneca | Sistema Eléctrico del Estado Nueva Esparta |
| Sucre | Single Regional Payment Clearing System |
| Sudeban | Superintendecia de Bancos y Otras Instituciones Financieras |
| TICC | Covered Interest and Capital Securities |
| Unasur | Union of South American Nations |
| VAT | Value Added Tax |
| WI | Wage Index |
| WPI | Wholesale Price Index |
| WTI | West Texas Intermediate |

# SYMBOLS

Abbreviations for currencies and measuring units

| | |
|---|---|
| bp | Base point |
| pp | Percentage point |
| Bs. - VEB | Bolivars |
| M1 | Money supply |
| M2 | Monetary liquidity |
| MMBD | Million barrels per day |
| USD | US dollar |
| USD/b | US dollar per barrel |
| TU | Tax units |

# SIGNS

| | |
|---|---|
| 0 | Zero or less of the unit used |
| - | No transaction took place |
| (-) | Data not obtained |
| (*) | Provisional figures |
| * | Rectified figures |
| ( ) | Figures between parentheses represent negative values |

## SUMMARY

The global economic crisis continued to impact in 2009, with its effects on the Venezuelan economy being felt particularly in trade where oil plays a leading role. In fact, despite the oil price recovery since February, the average price of the Venezuelan oil basket decreased 34.1%, from USD86.9/bbl. in 2008 to USD57.08/bbl. in 2009. Energy demand weakness in industrialized countries along with production cuts agreed by OPEC (Organization of the Petroleum Exporting Countries) led to a 7.6% drop in Venezuela's oil exporting volumes over the same period.

These elements brought about adjustments in tax, exchange and trade policies. In fact, the Administration changed its budget premises; specifically reducing Venezuelan oil basket reference price from USD60/bbl. to USD40/bbl., and crude oil production from 3.6 million b/d to 3.2 million b/d; besides compensating for the decrease in oil tax revenue by increasing domestic taxes and long-term public debt. These measures were taken within the context of the decision to act in a countercyclical manner to lessen the negative impact of the crisis on the domestic economic activity. Although capital expenditure of the restricted public sector (RPS) showed a decrease in GDP terms over the last two years, an increased level of execution was observed in 2009, which reflected efforts to counteract the fiscal policy cycle.

However, the Venezuelan economy experienced a 3.3% squeeze in 2009. The productive activity drop was remarkable in the oil sector, with its value added being reduced at a 7.2% yearly rate. The non-oil sector declined at a more moderate rate (2.0%), as a result of the weakening in aggregate demand and the restricted foreign currency supply for imports.

Weakening of the domestic aggregate demand translated into a lower inflation rate that closed the year at 25.1%; down 5.8 percentage points from 2008. Furthermore, this deceleration was the result of government policies in terms of food security and the favorable climate conditions that prevailed during part of the year. These factors limited increase in food prices.

Within the framework of the strategy based on permanently evaluating the economic policy, the Central Bank of Venezuela (BCV) oriented the monetary policy so as to adjust liquidity levels in the banking system to assure that payment systems operate normally and provide greater stimulus to credit intermediation and financing of the country's productive sectors.

Therefore, the BCV actions provided continuity to measures implemented in late 2008, with the entering into force in January of a 300 base point decrease of the marginal legal reserve required from financial institutions. Likewise, the BCV incorporated a series of changes in the interest rates of its monetary policy instruments and in those of the financial system, and decided to establish new maximum and minimum levels for those rates applied to lending and savings operations on the Venezuelan banking system.

In the last two months of the year, some specific liquidity-related episodes occurred in the fund interbank market, expressed in progressive increases in amounts traded through interbank operations and in a higher concentration level of bank reserves. To mitigate this situation and reduce the possibility of eventual risk propagation, the BCV introduced an additional change to the legal bank reserve, applicable to the entire national financial system, which consisted of the reduction of 200 base points in the marginal legal bank reserve rate, to 23%.

The banking sector structure experienced a significant change that was reflected in the number of institutions and the participation attained by State-owned banks. The number of banks dropped from 60 in 2008 to 54 in late 2009, mainly due to the reorganization of the commercial and universal banking system, both public and private, and to the liquidation of two financial entities.

## Basic Indicators

| | Years | | | Variation % | |
|---|---|---|---|---|---|
| | 2009(*) | 2008(*) | 2007(*) | 2009/08 | 2008/07 |
| I. International Economy | | | | | |
| GDP of the major advanced ecobomies[1/] (Base: Year 2000 = 100) | | | | | |
| U.S. | 12,987.4 | 13,312.2 | 13,254.1 | (2.4) | 0.4 |
| Canada | 1,286.4 | 1,321.4 | 1,315.9 | (2.6) | 0.4 |
| Eurozone | | | | | |
| Germany | 2,160.9 | 2,274.0 | 2,246.0 | (5.0) | 1.2 |
| France | 1,607.2 | 1,643.1 | 1,637.9 | (2.2) | 0.3 |
| Italy | 1,207.9 | 1,272.0 | 1,289.0 | (5.0) | (1.3) |
| UK | 1,264.6 | 1,330.1 | 1,322.8 | (4.9) | 0.5 |
| Japan | 525,170. | 553,960. | 560,650. | (5.2) | (1.2) |
| Consumer Price Index of the major advanced economies (Base: Year 2000 = 100) | | | | | |
| U.S. | 124.6 | 125.0 | 120.4 | (0.3) | 3.8 |
| Canada | 120.0 | 119.6 | 116.8 | 0.3 | 2.4 |
| Eurozone | 116.8 | 115.5 | 113.4 | 1.1 | 1.8 |
| Germany | 115.9 | 115.8 | 112.7 | 0.1 | 2.8 |
| France | 118.2 | 118.1 | 114.5 | 0.1 | 3.2 |
| Italy | 122.7 | 121.8 | 117.7 | 0.8 | 3.5 |
| UK | 119.1 | 116.5 | 112.5 | 2.2 | 3.6 |
| Japan | 98.1 | 99.5 | 98.1 | (1.4) | 1.4 |
| Unemployment Rate (percentage) | | | | | |
| U.S. | 9.3 | 5.8 | 4.6 | | |
| Canada | 8.3 | 6.2 | 6.0 | | |
| Eurozone | 9.4 | 7.6 | 7.5 | | |
| Germany | 7.4 | 7.2 | 8.4 | | |
| France | 9.4 | 7.9 | 8.3 | | |
| Italy | 7.8 | 6.8 | 6.1 | | |
| UK | 7.5 | 5.6 | 5.4 | | |
| Japan | 5.1 | 4.0 | 3.8 | | |
| Total advanced economies | 7.9 | 5.8 | 5.4 | | |
| Balance on current account per group of countries (GDP percentage) | | | | | |
| U.S. | (2.9) | (4.9) | (5.2) | | |
| Canada | (2.7) | 0.5 | 1.0 | | |
| Eurozone | (0.4) | (0.8) | 0.3 | | |
| Germany | 4.8 | 6.7 | 7.5 | | |
| France | (1.5) | (2.3) | (1.0) | | |
| Italy | (3.4) | (3.4) | (2.4) | | |
| UK | (1.3) | (1.5) | (2.7) | | |
| Japan | 2.8 | 3.2 | 4.8 | | |

[1/] In billions of each country's currency at prices of the reference year, as reported by the compilers. The IMF changed the base year from 1990 to 2000.

Cont'd.

| | 2009(*) | 2008(*) | 2007(*) | Years 2009/08 | Variation % 2008/07 |
|---|---|---|---|---|---|
| Global crude oil and LPG production (million b/d) | 84.9 | 86.4 | 85.5 | (1.7) | 1.1 |
| OPEC | 28.7 | 31.2 | 30.3 | (8.0) | 3.0 |
| Non-OPEC | 51.5 | 50.8 | 50.9 | 1.4 | (0.2) |
| OPEC PLG Production | 4.7 | 4.4 | 4.3 | 6.8 | 2.3 |
| Global oil demand (million b/d) | 84.8 | 86.0 | 86.4 | (1.4) | (0.5) |
| OECD | 45.5 | 47.6 | 49.2 | (4.4) | (3.2) |
| Non-OECD | 39.3 | 38.4 | 37.2 | 2.3 | 3.2 |
| Main oil price markers | | | | | |
| West Texas Intermediate (WTI) | 61.7 | 99.9 | 72.2 | (38.3) | 38.3 |
| North Sea Brent | 62.4 | 98.5 | 72.6 | (36.7) | 35.7 |
| OPEC basket | 60.7 | 94.5 | 69.1 | (35.7) | 36.7 |
| Exchange rate to USD (Annual average) | | | | | |
| Canada (C$/USD) | 1.142 | 1.076 | 1.075 | 6.1 | 0.1 |
| Eurozone (euro/USD) | 1.393 | 1.462 | 1.371 | (4.7) | 6.6 |
| UK (sterling pound/USD) | 1.565 | 1.832 | 2.002 | (14.6) | (8.5) |
| Japan (yen/USD) | 93.6 | 102.8 | 117.8 | (9.0) | (12.7) |
| Short-term interest rates (End of period) [2/] | | | | | |
| U.S. | 0.2 | 0.1 | 3.2 | | |
| Canada | 3.8 | 0.8 | 3.8 | | |
| Eurozone | 0.3 | 0.9 | 3.7 | | |
| UK | 0.5 | 1.1 | 5.5 | | |
| Japan | 0.2 | 0.2 | 0.6 | | |
| Long-term interest rates (End of period) [3/] | | | | | |
| U.S. | 3.8 | 2.2 | 4.0 | | |
| Canada | 3.613 | 2.7 | 4.0 | | |
| Eurozone | 3.387 | 3.0 | 4.3 | | |
| UK | 4.015 | 3.0 | 4.5 | | |
| Japan | 1.295 | 1.2 | 1.5 | | |
| Commodities price index on international markets (Base: year 2005 = 100) [4/] | | | | | |
| Non-energy products | 122.7 | 151.0 | 140.6 | (18.7) | 7.4 |
| Foodstuffs | 134.0 | 157.0 | 127.3 | (14.6) | 23.3 |
| Beverages | 154.4 | 152.0 | 123.3 | 1.6 | 23.3 |
| Agricultural raw materials | 94.1 | 113.3 | 114.2 | (16.9) | (0.8) |
| Metals | 120.4 | 168.7 | 183.3 | (28.6) | (8.0) |

[2/] Yields of 90-day instruments
[3/] 10-year yield.
[4/] Taken from the IMF; referred to a weighted market price index, excluding oil and precious metals.

Cont'd.

| | 2009(*) | 2008(*) | 2007(*) | Years Variation % 2009/08 | 2008/07 |
|---|---|---|---|---|---|
| II. Venezuelan Economy | | | | | |
| **1. Public Finance** | | | | | |
| Financial management as GDP % | | | | | |
| General Government | (8.2) | (2.7) | (2.9) | | |
| Central Government | (5.1) | (1.2) | 3.1 | | |
| Primary surplus or deficit as GDP % [5/] | | | | | |
| General Government | (6.7) | (1.2) | (1.2) | | |
| Central Government | (3.7) | 0.1 | 4.6 | | |
| Central Government | | | | | |
| Interest payment/current expenditure % ratio | 6.5 | 6.6 | 7.7 | | |
| Non-oil GVA/domestic taxes [6/] % ratio | 18.2 | 18.7 | 21.5 | | |
| Total GDP/capital expenditure % ratio | 5.5 | 5.8 | 5.9 | | |
| **2.Monetary-financial** (Million VEB) | | | | | |
| Monetary Liquidity [7/] | 235,401.5 | 194,550.9 | 153,224.6 | 21.0 | 27.0 |
| Money | 155,268.5 | 124,218.5 | 98,069.5 | 25.0 | 26.7 |
| Quasi money | 80,133.0 | 70,332.5 | 55,155.1 | 13.9 | 27.5 |
| Monetary basis | 98,902.6 | 83,786.7 | 64,177.0 | 18.0 | 30.6 |
| Monetary multiplier | 2,380 | 2,322 | 2,388 | 2.5 | (2.7) |
| Loan operations of the financial system | | | | | |
| Loan portfolio | | | | | |
| Universal and commercial banks | 147,932.5 | 128,429.3 | 102,072.7 | 15.2 | 25.8 |
| Mortgage banks | 24.2 | 25.7 | 26.3 | (5.9) | (2.3) |
| Investment banks | 103.1 | 96.0 | 60.7 | 7.4 | 58.0 |
| Savings and Loans Entities | 2,964.0 | 2,547.7 | 2,260.2 | 16.3 | 12.7 |
| Development banks | 1,032.2 | 738.3 | 364.9 | 39.8 | 102.3 |
| Investment in securities | | | | | |
| Commercial and Universal banks | 62,770.5 | 56,550.5 | 45,274.7 | 11.0 | 24.9 |
| Mortgage banks | 0.0 | 0.0 | 2.4 | 0.0 | (100.0) |
| Investment banks | 3,912.2 | 680.9 | 126.7 | 474.6 | 437.2 |
| Savings and Loans entities | 2,292.7 | 1,189.1 | 915.5 | 92.8 | 29.9 |
| Development banks | 851.4 | 305.0 | 272.8 | 179.1 | 11.8 |

[5/] Total revenue less total expenditure, excluding government debt interest payment
[6/] Non-oil revenue, excluding BCV profits
[7/] Referred to monetary liquidity held by citizens

Cont'd.

| | 2009(*) | 2008(*) | 2007(*) | Years 2009/08 | Variation % 2008/07 |
|---|---|---|---|---|---|
| Financial system savings operations | | | | | |
| Savings deposits | | | | | |
| Commercial and Universal Banks | 52,537.1 | 46,338.9 | 35,773.9 | 13.4 | 29.5 |
| Mortgage banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Savings and Loans entities | 752.0 | 934.5 | 727.4 | (19.5) | 28.5 |
| Development banks | 71.2 | 37.4 | 109.0 | 90.5 | (65.7) |
| Time deposits | | | | | |
| Commercial and Universal Banks | 26,618.2 | 23,978.2 | 19,177.9 | 11.0 | 25.0 |
| Mortgage banks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment banks | 537.1 | 83.1 | 81.7 | 546.1 | 1.7 |
| Savings and Loans entities | 714.3 | 628.3 | 545.8 | 13.7 | 15.1 |
| Development banks | 443.6 | 447.4 | 102.3 | (0.9) | 337.2 |
| Credit Intermediation Index (%) 8/ | | | | | |
| Commercial and Universal Banks 9/ | 58.3 | 61.1 | 61.5 | (4.6) | (0.7) |
| Investment banks 91 | 19.0 | 114.6 | 73.7 | (83.4) | 55.5 |
| Savings and Loans entities 9/ | 76.5 | 67.1 | 74.6 | 13.9 | (10.0) |
| Development banks | 123.2 | 80.2 | 92.4 | 53.5 | (13.1) |
| Interest rates (%) 10/ | | | | | |
| Commercial and Universal Banks 9/ | | | | | |
| Lending | 20.45 | 23.24 | 17.33 | (2.8) | 5.9 |
| Savings | 15.89 | 15.68 | 10.78 | 0.2 | 4.9 |
| Main BCV operation rates 10/ | | | | | |
| Absorption operations 9/ | | | | | |
| Sale with repurchase agreement (DPD) | 6.3 | 6.5 | 8.0 | (0.2) | (1.5) |
| Deposit Certificates | 8.9 | 12.4 | 9.6 | (3.4) | 2.8 |
| Injection operations 9/ | | | | | |
| Purchase with resale agreement (DPD) | 20.3 | 21.5 | 17.6 | (1.3) | 3.9 |
| Purchase with resale agreement (Treasury bills) | 19.8 | 22.0 | 18.5 | (2.2) | 3.6 |
| Deposit Certificates | 22.0 | 22.0 | 18.0 | (0.0) | 4.0 |
| Capital markets | | | | | |
| Stock capitalization index (points) | 55,075.7 | 35,090.1 | 37,903.7 | | |
| Market capitalization (million VEB) | 20,201.7 | 17,668.5 | 21,841.9 | | |
| Total transactions (million VEB) | | | | | |
| Public | 18,774.1 | 3,383.7 | 4,344.4 | | |
| Private | 18,842.8 | 9,002.9 | 9,146.0 | | |
| Country risk indicator for Venezuela (base points) 11/ | 1,033.0 | 1,862.0 | 502.6 | | |

8/ Current credit portfolio / sight, time and savings deposits
9/ Variations correspond to differences in percentage points
10/ Corresponding to weighted average interest rates of payment
11/ Indicator measured through EMBI+ differential associated with emerging country risk

Cont'd.

| | 2009(*) | 2008(*) | 2007(*) | Years 2009/08 | Variation % 2008/07 |
|---|---|---|---|---|---|
| **3. Foreign sector (million USD)** | | | | | |
| Exports | 57,595 | 95,138 | 69,165 | (39.5) | 37.6 |
| Oil | 54,201 | 89,128 | 62,555 | (39.2) | 42.5 |
| Non-oil | 3,394 | 6,010 | 6,610 | (43.5) | (9.1) |
| Imports | 38,442 | 49,482 | 45,463 | (22.3) | 8.8 |
| Public | 9,291 | 10,627 | 7,529 | (12.6) | 41.1 |
| Private | 29,151 | 38,855 | 37,934 | (25.0) | 2.4 |
| Trade Balance | 19,153 | 45,656 | 23,702 | (58.0) | 92.6 |
| Current Account | 8,561 | 37,392 | 20,001 | (77.1) | 87.0 |
| Foreign exchange movement [12/] | | | | | |
| Revenues | 40,581 | 65,988 | 50,924 | (38.5) | 29.6 |
| Expenses | 51,582 | 57,125 | 57,048 | (9.7) | 0.1 |
| Adjustment | 3,702 | (41) | 2,929 | | |
| BCV foreign exchange variation | (7,299) | 8,822 | (3,195) | | |
| International Reserves | | | | | |
| Central Bank of Venezuela | | | | | |
| Gross International Reserves | 35,000 | 42,299 | 33,477 | (17.3) | 26.4 |
| Net International Reserves | 35,830 | 41,522 | 32,885 | (13.7) | 26.3 |
| Macroeconomic Stabilization Investment | 830 | 828 | 809 | 0.2 | 2.3 |
| Nominal exchange rate (Bs/USD) | | | | | |
| Point | 2150.0 | 2150.0 | 2,150.0 | 0.0 | 0.0 |
| Average | 2150.0 | 2150.0 | 2,150.0 | 0.0 | 0.0 |
| Average exchange rate index (Base: Jun. 1997=100) | | | | | |
| Nominal | 405.5 | 389.6 | 409.9 | 4.1 | (5.0) |
| Real | 49.9 | 58.8 | 78.1 | (15.2) | (24.7) |
| Venezuela's oil basket average price (USD/b) | 57.08 | 86.49 | 64.74 | (34.0) | 33.6 |
| **4. Real Sector** | | | | | |
| (Thousand Bs.F. Base: 1997=100) | | | | | |
| Domestic aggregate demand | 69,052,900 | 74,978,276 | 71,056,897 | (7.9) | 5.5 |
| Final consumption expenditure | 49,895,802 | 51,028,101 | 47,680,761 | (2.2) | 7.0 |
| Gross fixed capital formation [13/] | 17,054,881 | 18,568,270 | 19,198,038 | (8.2) | (3.3) |
| Stock variation [14/] | 2,102,217 | 5,381,905 | 4,178,098 | (60.9) | 28.8 |
| Gross Domestic Product | 56,022,729 | 57,927,000 | 55,283,504 | (3.3) | 4.8 |
| Activities | | | | | |
| Tradable | 19,296,646 | 20,343,038 | 19,916,833 | (5.1) | 2.1 |
| Oil | 6,471,409 | 6,974,807 | 6,807,754 | (7.2) | 2.5 |
| Non-oil [15/] | 12,825,237 | 13,368,231 | 13,109,079 | (4.1) | 2.0 |
| Non-tradable | 33,298,603 | 33,678,710 | 32,025,341 | (1.1) | 5.2 |
| Less: indirectly measured financial | 2,688,559 | 2,705,054 | 2,955,047 | (0.6) | (8.5) |
| Net taxes on products | 6,116,039 | 6,610,306 | 6,296,377 | (7.5) | 5.0 |

[12/] Including adjustments
1[3/] Including valuable item purchases
1[4/] Including stock variation and statistical discrepancy
[15/] This category differs from the sum of activities in the agriculture, mining, manufacturing, water and power sectors, because these activities include some non-tradable components, as per the methodology: base year 1997.

Cont'd.

| | Years | | | Variation % | |
|---|---|---|---|---|---|
| | 2009(*) | 2008(*) | 2007(*) | 2009/08 | 2008/07 |
| National income [16/] (thousand Bs. at current prices) | 694,512,697 | 669,471,899 | 491,640,186 | 3.7 | 36.2 |
| Gross Domestic Product | 700,207,518 | 667,997,431 | 486,376,026 | 4.8 | 37.3 |
| Income primary distribution operations with nonresidents, net | (5,694,821) | 1,474,468 | 5,264,160 | (486.2) | (72.0) |
| Available national income (thousand Bs. at current prices) | 658,261,318 | 634,545,257 | 465,777,845 | 3.7 | 36.2 |
| General government final consumption | 92,894,568 | 76,780,089 | 58,140,214 | 21.0 | 32.1 |
| Private final consumption | 449,372,013 | 354,136,474 | 257,434,545 | 26.9 | 37.6 |
| Net savings | 115,994,737 | 203,628,694 | 150,203,086 | (43.0) | 35.6 |
| Workforce (thousand people) | 12,957 | 12,736 | 12,420 | 1.7 | 2.5 |
| Employed | 11,982 | 11,863 | 11,492 | 1.0 | 3.2 |
| Unemployed | 975 | 873 | 928 | 11.7 | (6.0) |
| Unemployment rate (%) | 7.5 | 6.9 | 7.5 | 9.8 | (8.6) |
| Product measured per employed people (Bs.F. at 1997 prices) | 4,676 | 4,883 | 4,811 | (4.2) | 1.5 |
| Activities | | | | | |
| Tradable | 7,073 | 8,043 | 7,894 | (12.1) | 1.9 |
| Non-tradable | 3,598 | 3,608 | 3,571 | (0.3) | 1.1 |
| Prices (December index) | | | | | |
| Domestic (base: 2007=100) | 163,7 | 130,9 | 100,0 | 25.1 | 30.9 |
| Wholesale (base: 1997=100) | 1,449.7 | 1,161.6 | 877.2 | 24.8 | 32.4 |
| Domestic products | 1,531.1 | 1,253.1 | 916.6 | 22.2 | 36.7 |
| Imported products | 1,208.9 | 891.1 | 760.7 | 35.7 | 17.1 |
| Producers | | | | | |
| Manufacturing sector (base:1997=100) | 960.1 | 759.0 | 606.1 | 26.5 | 25.2 |
| GDP implicit deflactor | 1,249.9 | 1,153.2 | 879.8 | 8.4 | 31.1 |
| Oil | 1,677.0 | 2,582.6 | 1,852.6 | (35.1) | 39.4 |
| Non-oil | 1,239.0 | 1,003.2 | 767.2 | 23.5 | 30.8 |

[16/] Excluding net indirect taxes and net current transfers.

# CHAPTER I

## INTERNATIONAL ECONOMIC ENVIRONMENT

### 1. Introduction

World economy dropped 0.6% in 2009, mainly due to the 3.2% contraction in the gross domestic product (GDP) of industrialized countries, which was counteracted in part by the 2.4% growth registered by emerging economies led by China and India.

The U.S. economic crisis was determining in this global behavior, since its global effects were strongly transmitted through trade and financial channels.

Economic activity registered a pronounced decline during the first half of the year; however, recovery signs were observed in the third quarter, which strengthened in the period between September and December. It's worth highlighting China's growth acceleration and the favorable impact of its strong demand for raw materials from emerging economies. Notwithstanding, world trade contracted due to the weakening of private consumption in developed countries and the tightening of credit intermediation.

As a reaction to the weaker aggregate demand, monetary policies in most advanced and emerging countries was expansive, with interest rates that reached unprecedented minimum levels. Likewise, developed countries' central banks enhanced unconventional monetary measures to facilitate recovery of the international financial system.

This substantial monetary support, along with fiscal stimuli for consumption and the immovable property sector, mitigated the negative effects of the financial crisis on the real sector.

The economic activity contraction translated into an increase in unemployment rate worldwide and made it possible to maintain inflation at low levels. This happened within a context in which enhanced coordination of the different countries' macroeconomic policies by the G-20 and the discussion on adjusting to the new realities of regulatory frameworks of financial systems stood out.

Lower risk aversion was also seen at a global level and, as a result, investors increased their holdings in stocks and instruments from emerging nations; this reversed the shelter effect that had favored the US Treasury bills and the US dollar in 2008. As recovery signs emerged, the euro, yen and emerging countries' currencies recovered terrain vis-à-vis dollar.

However, in the last quarter of the year, fears for sovereign debt default by some Eurozone nations due to the worsening of their fiscal problems delayed even more the recovery in the European Monetary Union, as well as in the United Kingdom.

**2. Advanced Economies**

Growth rate deceleration in advanced countries became more pronounced with a 3.2% contraction vs. a 0.5% increase in 2008. This trend that began in 2009 remained in most members of this group and recovery of these economies started to be perceived only from the second half of 2009.

In the **United States**, the GDP began to decline in 2007 and maintained this trend until the second quarter of 2009. Annual contraction of economic activity was 2.4%, its lowest level since 1946. However, the US economy rallied in the two last quarters of the year thanks, among other things, to the replacement of stocks, higher export volumes and a timid reaction of domestic consumption, as well as the support of fiscal stimulus programs for the purchase of cars and homes.

Unemployment rate increased up to 10% and public final consumption represented the only demand determining factor that maintained its growing trend throughout the year, thereby reflecting the fiscal effort to counteract the effects of the crisis.

Current account deficit improved and accounted for 2.9% of GDP in 2009, vs. 4.9% in 2008. This performance was mainly due to the fact that import drop was higher than that of exports.

The Federal Reserve (FED), in turn, maintained interest rates within a target range of 0%-0.25% during the year and continued buying securities to inject liquidity into the money market. As to non-conventional monetary measures, the FED bought USD300 billion worth of US Treasury bills and increased the debt purchase program of federal agencies up to USD 200 billion. The Federal Reserve also increased its purchase of mortgage-backed bonds, from USD 500 billion up to USD 1.25 trillion.

**Canada**, for its part, followed a contracting trend until the third quarter of 2009 to close the year with a 2.6% decline in its GDP, compared to a 0.4% increase in 2008. Although Canada's financial system withhold the impacts of the global banking crisis, its close trade links with the US provoked a determining effect on GDP.

Drop in economic activity and unemployment rate growth up to 8.3% in 2009 (from 6.2% in 2008) led the Canadian monetary authority to cut official reference interest rate to 0.25% for its lowest record level. Furthermore, tax authorities had to implement a countercyclical policy that resulted in the first deficit in public accounts since 2003. Within this context, the 14% appreciation of the Canadian dollar during the year should be underscored, which was favored by the recovery in gold and oil prices.

The **United Kingdom**, in turn, experienced a 4.9% contraction in its economy, the deepest fall since 1949. This performance, along with a low inflation level, led the Bank of England to cut back official interest rate to 0.5%, for its lowest level in more than three centuries.

The British central bank also expanded its non-conventional monetary policy, in this case, through an Asset Purchase Facility Program aimed at increasing domestic money supply and reactivate the credit market[1]. It's worth highlighting that real estate crisis significantly impacted the British financial sector, provoking a substantial intervention of the State in the private banking system.

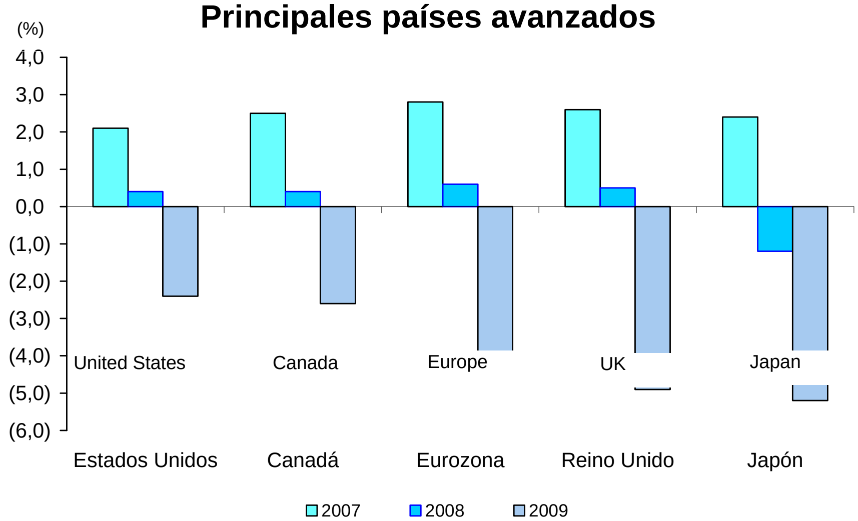
**Japan's** GDP fell 5.2% in 2009, thereby deepening the 2008 1.2% decline. The fragility of its domestic demand prolonged the deflation process, which posed the greatest threat to the recovery of this country. In this context, unemployment rate closed 2009 at 5.1%, its highest level in five years.

Japanese yen strengthened with respect to the US dollar as a result of the mitigation of the shelter effect. In November, exchange rate reached 86.72 JPY:USD, its highest appreciation since July 1995. Government stimulus policies were focused on providing resources for small and middle-sized businesses to promote applications for bank loans and help businesses to maintain their workers' wages. Meanwhile, the Central Bank of Japan maintained the official interest rate at 0.1% throughout the year.

[1] Assets purchase facility program: thanks to this program, the Bank of England increased money supply through the purchase of assets such as corporate bonds and government securities. This policy was known as "quantitative easing." Instead of reducing reference interest rate, the Bank supplied additional money directly. The Bank paid these assets by creating money electronically and through credits into companies' accounts.

**CHART I-1**
**GDP Growth Rate**
**Major Developed Countries**

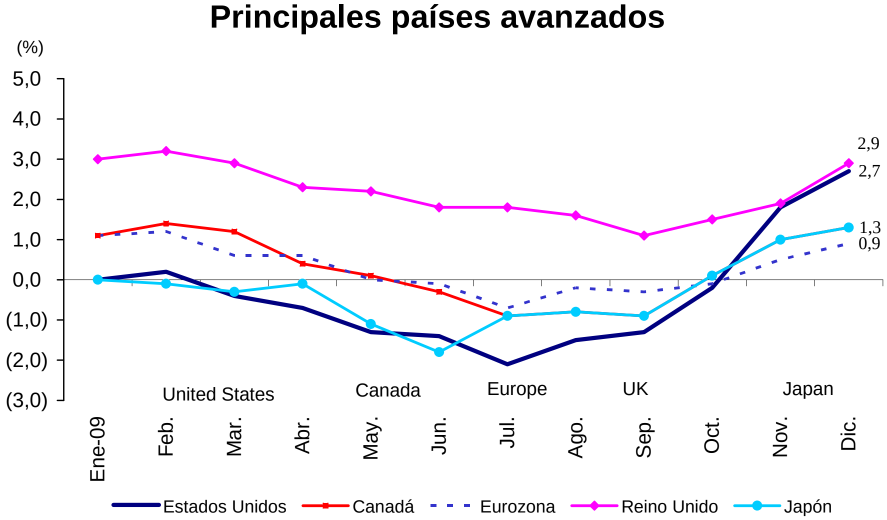
**GRÁFICO I-1**
**Tasa de crecimiento del PIB**
**Principales países avanzados**




Source: IMF, central banks of the different countries

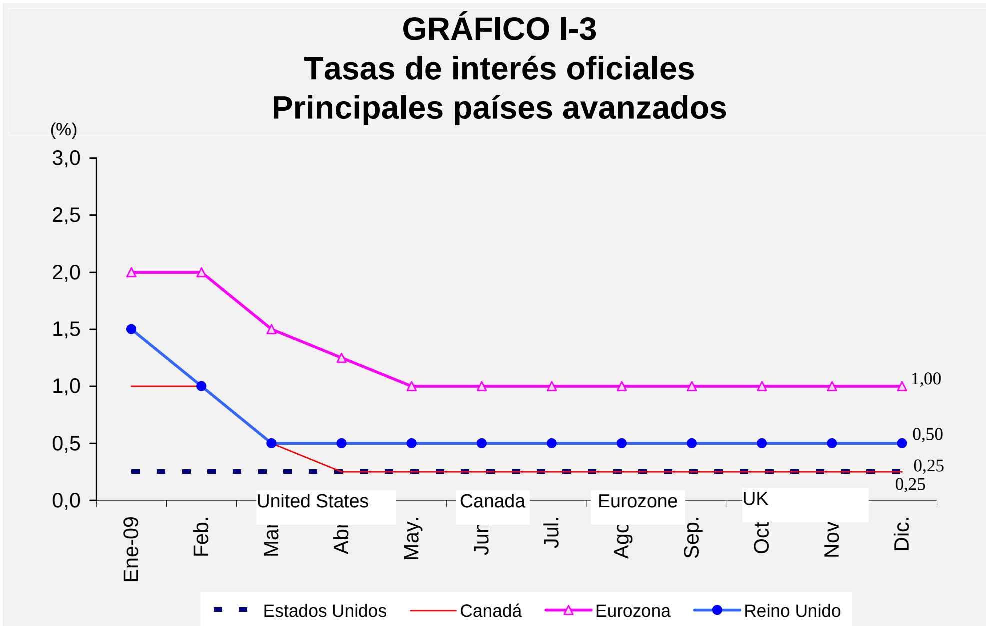
**CHART I-2**
**Annual Inflation Rate**
**Major Developed Countries**

**GRÁFICO I-2**
**Tasa de inflación anual**
**Principales países avanzados**



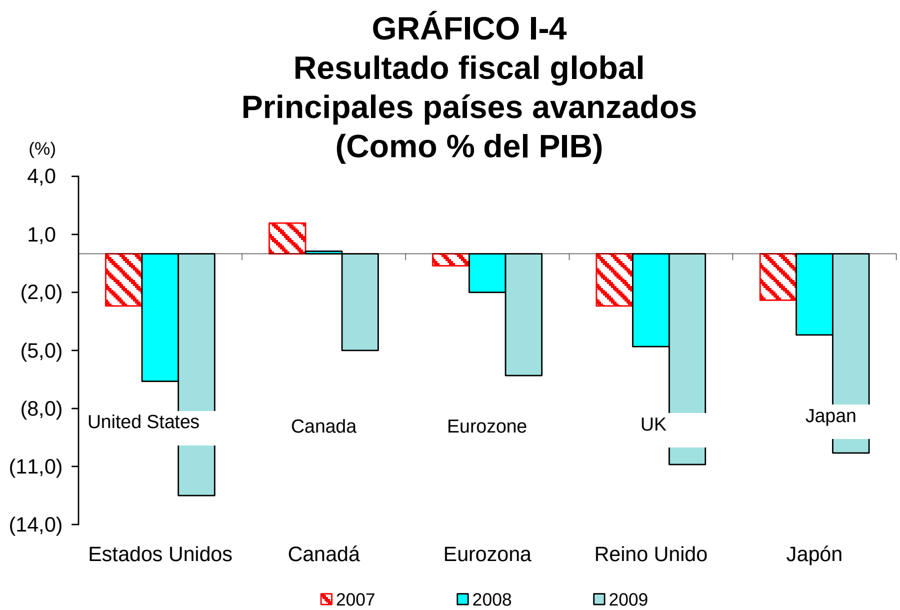

Source: IMF, central banks of the different countries

**CHART I-3**
**Official Interest Rates**
**Major Developed Countries**




Source: IMF, central banks of the different countries

**CHART I-4**
**Global Fiscal Results**
**Major Developed Countries**
**(As GDP %)**




Source: IMF, central banks of the different countries

**Box I-1**

**Eurozone crisis in 2009**

2009 US mortgage crisis was transmitted to the European economy through the international financial market, with effects being felt on its real sector. This was reflected on a strong fall (4.1%) of the Eurozone GDP, as compared to a 0.6% increase posted in 2008.

Unemployment rate also increased in 2009 to 9.4% from 7.6% the prior year. Meanwhile, a remarkable fiscal imbalance along with a 4.3% GDP deficit were recorded in 2009, vs. a negative balance of 2.6% in 2008, as a result of deterioration in the payment capacity in some countries, notably including Ireland, Greece, Portugal and Spain.

The pronounced increase in government debt levels resulting from the fiscal stimulus packages implemented by governments to overcome recession and save their banking systems, as well as the decrease in tax revenue, jeopardized fiscal sustainability of the Eurozone. This revealed the deeper differences between member countries since the launching of the common currency in 1999, which made it necessary to approve urgent reforms to guarantee the future euro viability.

The first country in the Eurozone that applied a fiscal adjustment program was Ireland vis-à-vis the crisis in its financial and immovable property sectors. However, its instability didn’t bring about an immediate contagious effect throughout the region. At the same time, several emerging economies on the periphery of the Eurozone received support from the IMF between November 2008 and July 2009 to implement fiscal adjustments, rescue their banking sectors and apply exchange rate stability programs.

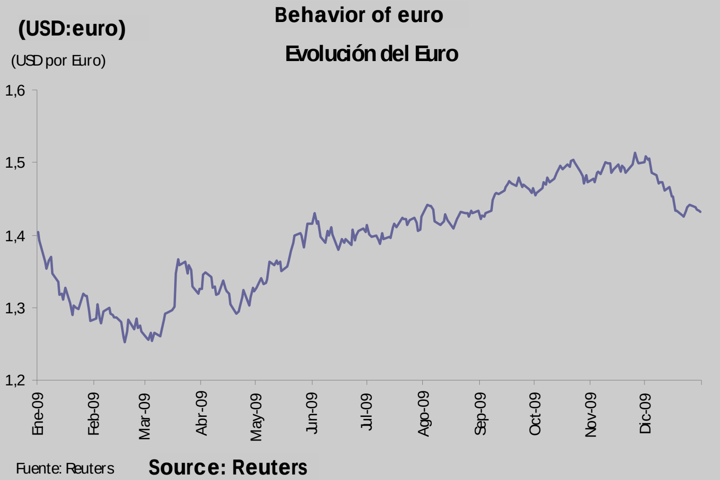
Greece’s case was different, because the new government announced in September 2009 that its fiscal deficit was twice the figures reported up until that moment, at about 13% of GDP. This exacerbated the different economic expectations. Greece’s announcement provoked a contagious effect throughout the region and markets began to evaluate more carefully fiscal sustainability of some countries, such as Portugal, Spain and Italy. Discrimination of its country risk levels with respect to Germany and France rendered its government debt more expensive. At the same time, the euro reflected this global loss of confidence in the Eurozone by taking a depreciation trend against the US dollar since late November.

Greece entered the Eurozone on January 1, 2001, after complying with the theoretical convergence requirements necessary to join the European Monetary Union. Until December 2000, this country had shown stability in prices, and on the exchange and the fixed income markets, as well as fiscal sustainability and debt repayment capacity, which prepared Greece to join the monetary union.

Notwithstanding, the fiscal deficit deepening as GDP percentage in 2008 and 2009, as well as reports of having fixed economic figures to maintain them within an acceptable range for the Eurozone regulating entities, deteriorated authorities’ credibility and increased risk aversion. This materialized in a decrease in Greece’s credit ratings since October 2009, when Fitch reduced rating from A to A- and then to BBB+ in December. Likewise, Standard & Poor’s reduced rating from A- to BBB+, because S&P considered that it will take year of sustained effort to change public finance.

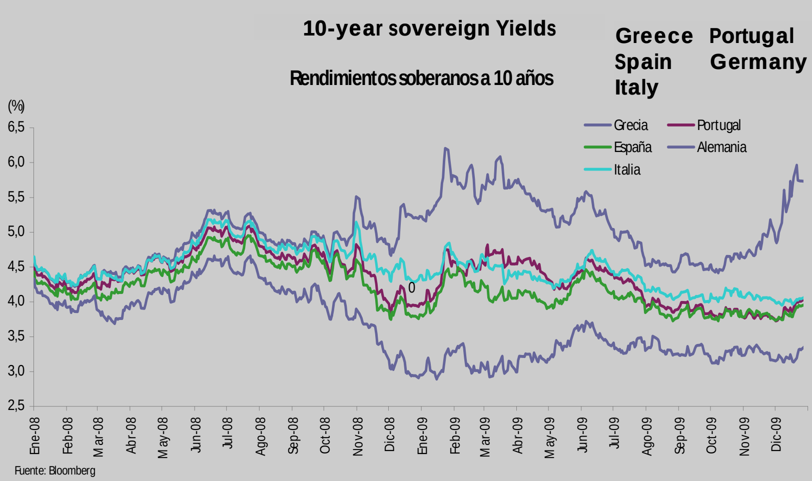
Although Greece only accounted for 2.5% of GDP in the Eurozone, the situation brought about instability in the region financial markets in late 2009, because countries like Italy, Portugal, Ireland and Spain exceeded the allowed top financial deficit of 3%. Consequently, Spain and Portugal credit prospects also worsened in December.

In fact, confidence deterioration of Greece's repayment capacity became the greatest threat to euro in late 2009 with a year-to-year drop of 4.56% in December with respect to the US dollar. Likewise, due to the crisis, the yield differential between Greek government bonds and German 10-year bonds increased up to 333 base points (bp) at the end of 2009 (from 290 bp in late 2008), which rendered Greece's financing on capital markets more expensive.




The severe Greek crisis was a reflection of the consequences of the restrictions of the monetary union, due to which countries lose their power to apply their own monetary and exchange policy; meanwhile, fiscal discipline was conditioned by the Stability and Growth Pact. Policy coordination mechanisms showed high vulnerability, particularly in terms of more oversight over the fulfillment of fiscal goals as well as of effective limitations of automatic stabilizers.

With Greece as the center of attention in this situation, investors were particularly interested in decisions made to correct problems. In this regard, Greek authorities proposed reducing budget deficit to 9.1% of GDP in 2010, from 12.7% in 2009, and decrease that ratio to less than 3% over four years. Difficulties to achieve these goals led Germany and France to consider possible unilateral aid and the financial assistance from the International Monetary Fund.




The financial markets kept track of the economic assistance mechanisms provided for Greece, as well as the fiscal measures taken by Portugal, Italy, Spain and Ireland, which included cuts of the public sector personnel payroll budget and tax increases. Finally, only the European Union's ability and effectiveness to overcome difficulties and reduce divergences among its economies will restore confidence and allow the return of a sustained economic growth.

## 3. Emerging Economies

The global crisis impacted emerging economies in the first half of the year, while a recovery was observed in the last two quarters of the year thanks to the impulse provided by the strong Asian demand in the raw material trade. Emerging economies' GDP grew 2.4% and proved to be less vulnerable to the global economic crisis.

However, some European emerging countries, like: Turkey, Rumania, Hungary, Bulgaria, Latvia, Lithuania and the Commonwealth of Independent States[2], also suffered the consequences of the Eurozone setback and of an internal fiscal crisis. This increased the government debt default risk to such an extent that the IMF had to provide substantial assistance for several countries of the regional periphery.

In this context, economic recovery appeared to be more balanced in the Asian bloc, which exhibited a 6.6% growth underpinned by domestic demand. In the meantime, the Commonwealth of Independent States that was the most affected registered a 6.6% contraction in comparison to the 5.5% expansion of 2008.

At the same time, the balance on current account for emerging countries lost 50.6%, mainly due to the drop in exports. However, the low interest rated in the major advanced countries, together with the recovery of some emerging economies, encouraged substantial capital inflows on their markets, especially in Asia. This brought about an appreciation of the asset prices in those countries, and of their currencies with respect to the US dollar.

On the monetary front, central banks made their policies more flexible by reducing interest rates to record lows in many economies. Likewise, foreign positions were strengthened by means of swap agreements between central banks by obtaining US dollars to finance foreign trade operations mainly.

[2] This classification includes Russia, Armenia, Azerbaijan, Byelorussia, Georgia, Kazakhstan, Moldavia, Mongolia, Kirgizstan, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

**China's** economy led the group of emerging countries with a year-to-year expansion of 8.7% (9.6% in 2008). Economic activity was stimulated by the governmental plan launched in 2008 that was earmarked for job generating sectors. The main improvement signs were seen in household consumption, the manufacturing sector and capital goods investment.

Despite the positive indicators of this Asian nation, its trade surplus worsened due to a higher fall in exports than in imports. Meanwhile, the People's Bank of China applied a flexible monetary policy to support economic growth by reducing interest rates. At the same time, tax were cut and new plans were approved to promote electric power and petrochemical sectors, which included higher reimbursement of export tax and more credit support. Furthermore, a decreasing effect was observed in retail prices until October, which reversed in the last two months of the year and led inflation to close at 1.9%.

**India**, in turn, grew at a slower pace (5.7%) (7.3% in 2008). Notwithstanding, India was the second country with the highest growth rated in the Asian region. To face global recession the government applied stimulus measures during the year, which were based on special tax cuts, and focused expenditure on areas such as export, immovable property, infrastructure and agriculture.

The Reserve Bank of India, for its part, maintained the reference interest rate stable. However, capital inflows multiplied and this, along with the expansive policies, triggered inflationary pressures.

In **Latin America**, the international financial crisis diversely impacted countries in the region in 2009. In Brazil and Mexico, the largest economies of the region, the impact was felt in the real sector especially. Furthermore, unemployment rate increased in most Latin American countries.

However, since the second quarter of 2009, the first signs of recovery were observed in some economies and were more evident during the second half of the year.

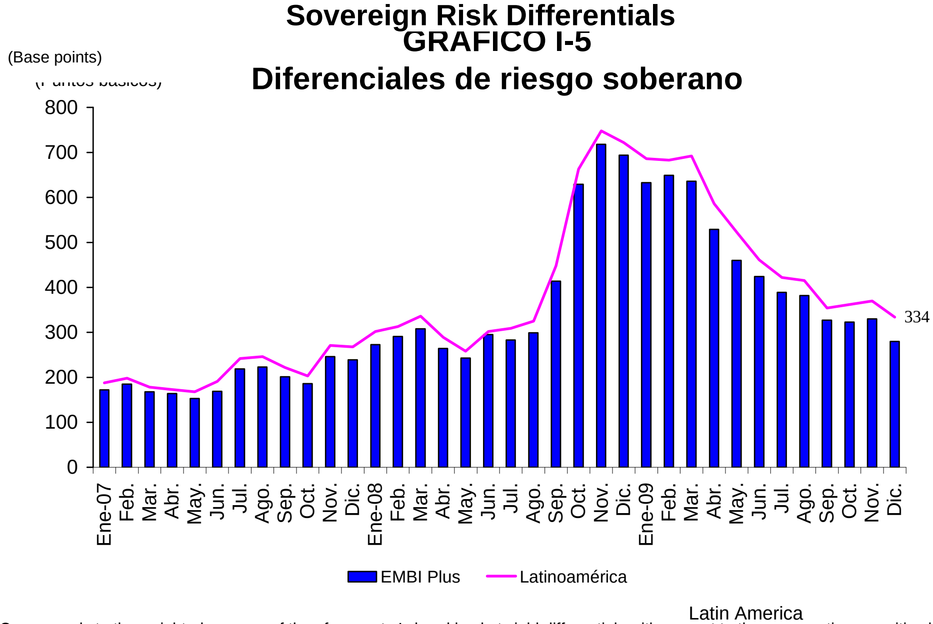
Notwithstanding, after six years of growth in a row, Latin America posted a 1.8% contraction at the end of 2009.

The decline in economy was accompanied with a decrease in inflation, from a regional average of 7.9% in 2008 to 6.0% in 2009. This lower inflation scenario provided Latin American central banks with increased maneuver capacity to reduce reference interest rates with a view to supporting economic activity.

In addition, most local currencies appreciated due to the inflow of capitals into the region, which were looking for higher returns in the context of abundant international liquidity, lower global risk aversion and the need to diversify the portfolios. This encouraged a rise in the emerging financial assets prices and resulted in a decrease in regional country risk perception of 415 bp at the end of 2009.

In this regard, some monetary authorities intervened in the monetary market to avoid an excessive strengthening of their local currencies and accumulate international reserves. Furthermore, these latter grew due to the extraordinary allocation of special drawing rights by the IMF.

**CHART I-5**
**Sovereign Risk Differentials**




1/ Corresponds to the weighted average of the of a country's bond basket yield differentials with respect to the comparative securities basket of the US Treasury, considered of zero risk.
Source: JP Morgan

**Brazil**, for its part, closed the year with a 0.2% contraction, the first negative figure in 18 years, as the result of one of the most unfavorable performances of its industrial sector that decreased through the third quarter of the year, and the drop in foreign trade and foreign direct investment. In this regard, the Brazilian central bank fostered loan operations of public banks and reduced the reference interest rate by 500 bp in the year, 8.75%, its lowest nominal level in more than 20 years.

The Brazilian government supported exporters to refinance debt in foreign currency with international reserves, which remained at a sound level thanks to the inflow of capitals from direct foreign and portfolio investment starting in the second semester. Fiscal policy was expansive, with tax cutbacks for some specific sectors and increase in expenditure, which raised government deficit.

In **Mexico**, GDP shrank throughout the entire year, closing the period with a 6.5% drop (1.5% in 2008). This result was mostly due to the effect of the US economic crisis, a fall in hydrocarbon extraction, a decrease in remittances received and a health crisis related to the H1N1 virus epidemics that affected private final consumption and fiscal expenditure.

In this context, the Mexican Central Bank maintained a lax monetary policy in order to moderate the economic activity fall. At the end of the year, inflation decelerated to 3.5% compared to 6.5% the prior year.

As a consequence of the deterioration of fiscal accounts, Fitch Ratings reduced debt rating from BBB+ to BBB. Notwithstanding, this didn’t affect its investment grade and had little impact on the country risk differential.

**Argentina’s** economy recorded a significant deceleration with a growth rate of 0.9%, far below the previous year (6.8%). Domestic demand decreased mainly due to investment that dropped 10.2% for the year. However, consumption, which accounts for 65% of GDP, gained 1.4%.

Argentina closed the year with a surplus in foreign transactions and fiscal accounts and maintained inflation in one digit. Furthermore, intervention of the Central Bank in the foreign currency market, intended to prevent local currency from appreciating, made it possible to maintain reserves at USD 47.967 billion at the end of 2009.

The Argentinean government financial policy was aimed at strengthening prospects of debt service payment by facing the strong restrictions that limited access to foreign credit. The policy was therefore aimed at controlling obligations to the Paris Club and bond holders that had been excluded from 2005 restructuring, which represented a determining factor in the improvement of the country risk perception.

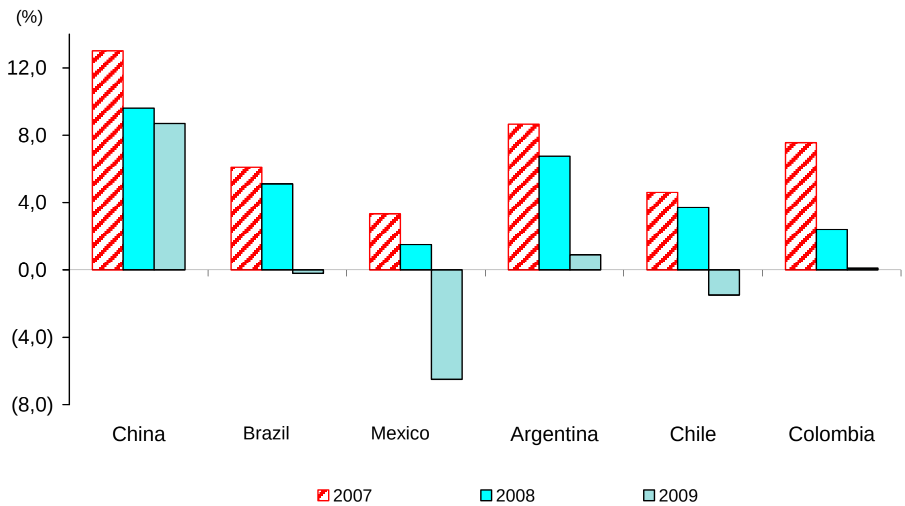
**Colombia**, in turn, registered a deceleration in its economy growing just 0.1% in comparison to 2.4% in 2008, due to a fall in investment levels and exports that was mitigated by a final consumption recovery. This country was affected by the lower average international oil prices compared to those of 2008 and restrictions experienced in its trade exchange with Venezuela. The monetary authority applied expansive measures, taking advantage from the lowest annual inflation rate over the last 54 years (2%).

**Chile** experienced an economic contraction of 1.5% along with a decline of 1.4% in the consumer price index at the end of the year, which hadn't occurred in the country during the last 74 years. Therefore, the Central Bank of Chile decided to maintain the reference rate at a record low of 0.5%. Likewise, the government announced a package of supplementary measures to inject liquidity and expand the monetary base.

In the case of **Central America**, production lost 0.6% in 2009, compared to an increase of 4.3% in 2008. This behavior was due to the contraction in foreign demand, especially from the US markets. At the same time, domestic demand drop due to the loss of jobs and the decline in the amount of remittances from the United States and Spain.

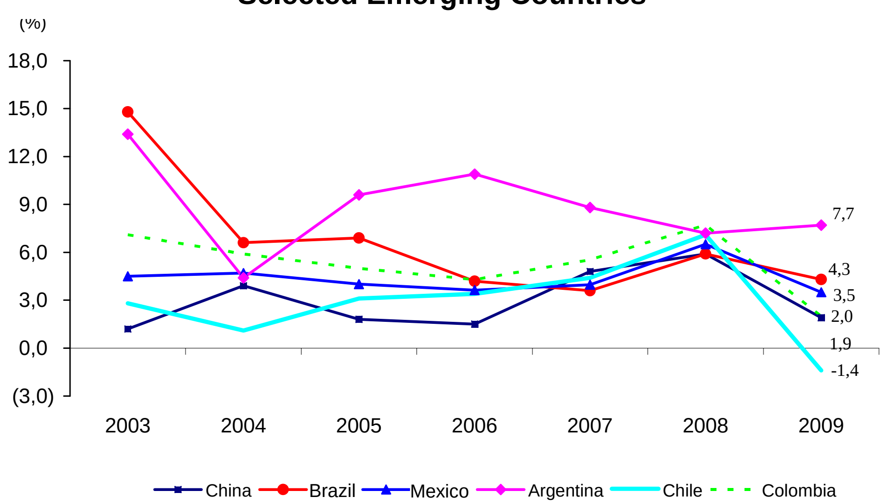
Even though the greatest demand for products produced in this region comes from the US, the current account deficit improved to 2% of GDP (9.1% deficit in 2008). It is also worth highlighting that inflation deceleration intensified in these countries in contrast to 2008. In fact, Guatemala recorded a negative inflation rate of 0.28% in 2009, the first one in 27 years.

**CHART I-6**
**GDP Growth Rate**
**Selected Emerging Countries**



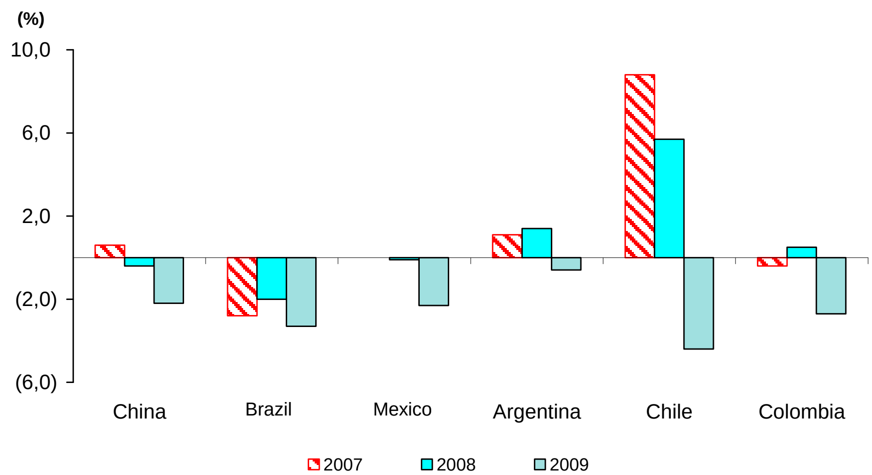

Source: IMF, central banks of the different countries

**CHART I-7**
**Annual Inflation Rate**
**Selected Emerging Countries**



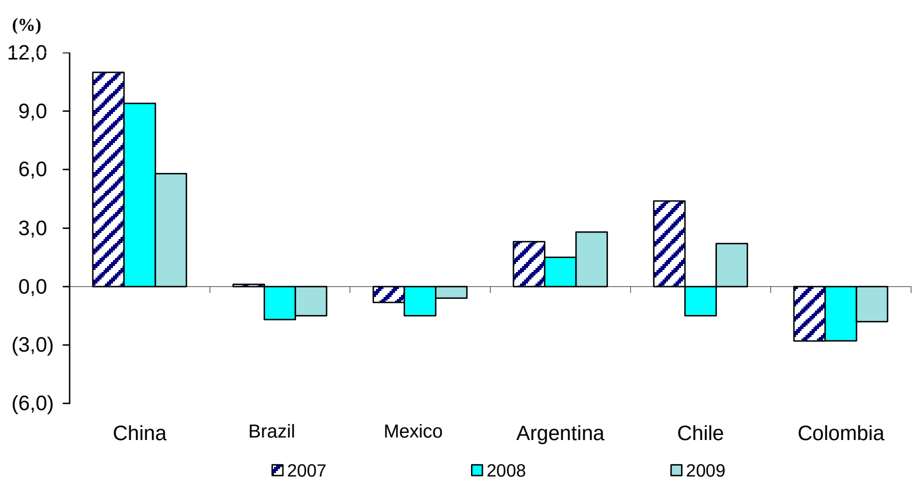

Source: IMF, central banks of the different countries

**CHART I-8**
**Global Fiscal Result**
**Selected Emerging Countries**
**(GDP %)**




Source: IMF, central banks of the different countries

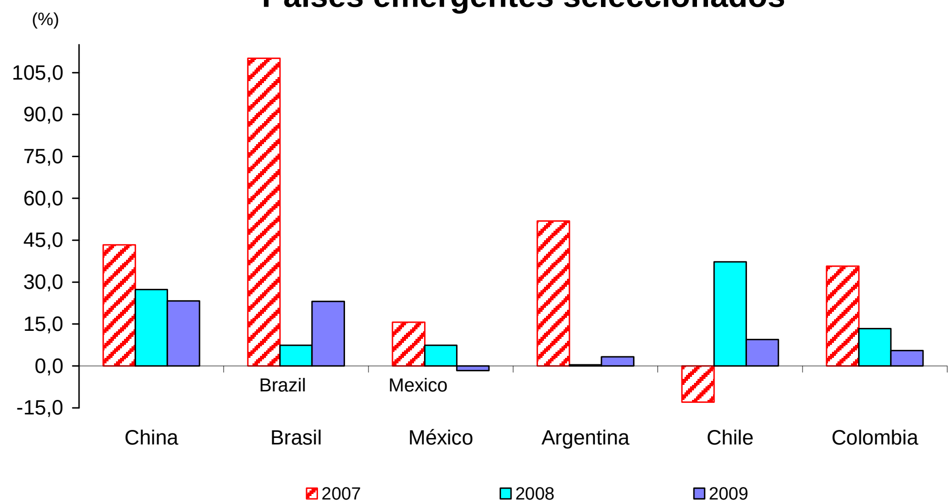
**CHART I-9**
**Current Account Result**
**Major Developed Countries**
**(GDP %)**




Source: IMF, central banks of the different countries

**CHART I-10**
**Annual International Reserve Variation Rate**
**Selected Emerging Countries**

**GRÁFICO I-10**
**Tasa de variación anual de las reservas internacionales**
**Países emergentes seleccionados**




Source: IMF, central banks of the different countries

## 4. International Trade

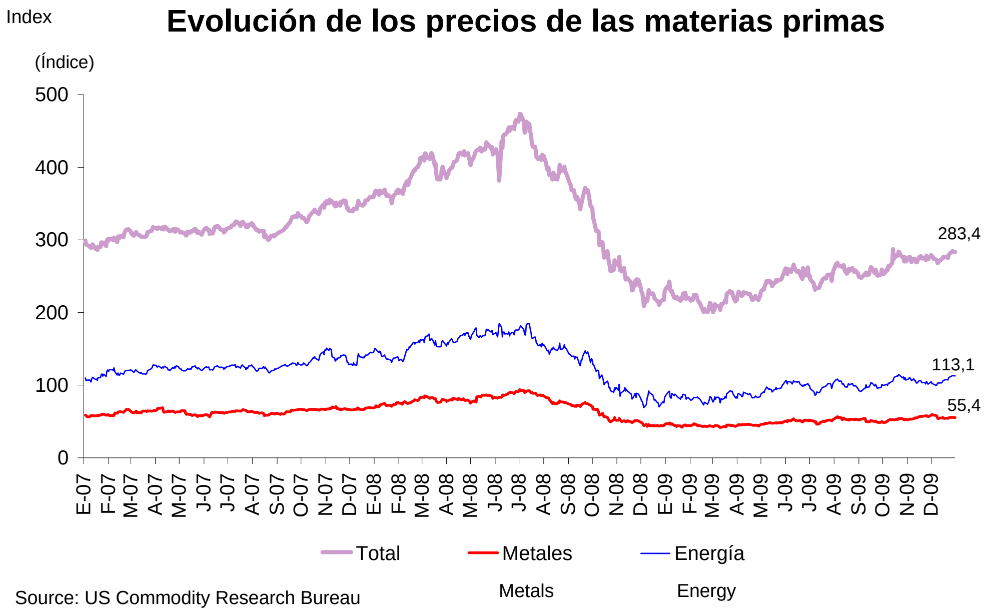
World trade of goods and services declined 12.2%, its worst performance in more than 70 year, as a consequence of the global economic and financial crisis. This fall was more markedly felt in the first part of the year, particularly in advanced countries, because of the direct impact of the US recession.

In this regard, since China and India managed to maintain a high growth pace by means of fiscal and monetary policies that stimulated domestic demand, it was possible to keep the favorable development in international prices of a series of commodities.

From the second half of 2009, when the impacts of expansive policies began to be felt, trade showed signs of recovery. Furthermore, emerging Asian countries contributed to this improvement thanks to their share in foreign trade.

Raw material prices therefore recovered from the second quarter of 2009, despite the global economic crisis. Gold and oil improved and dominated once more the investors' ´preferences in comparison to the US dollar and stock markets.

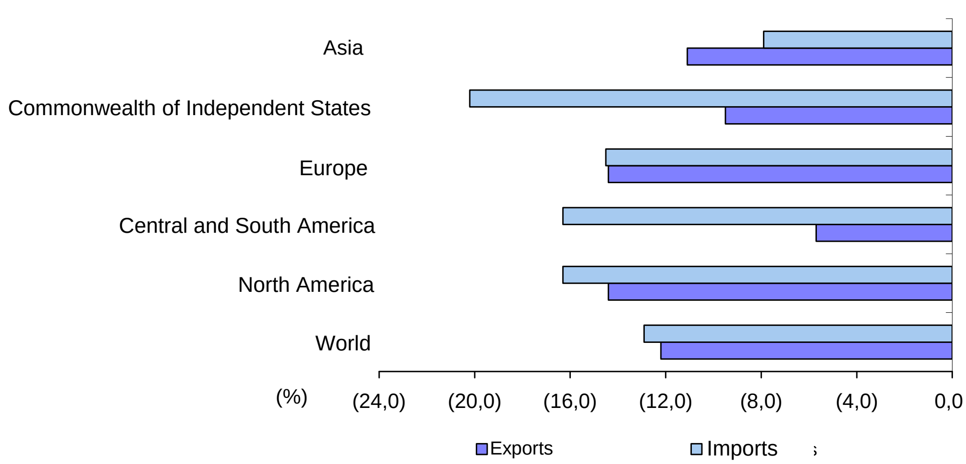
**CHART I-11**
**Behavior of Commodity Prices**
**GRÁFICO I-11**
**Evolución de los precios de las materias primas**




Source: US Commodity Research Bureau

$export volume in emerging countries lost 11.1%, led by Easter Europe; whereas imports decreased 10.3%. Advanced countries, in the meantime, reflected a pronounced 16.2% decline in exports and of 12.6% in imports.

**CHART I-12**
**International Trade Growth Rate**
**Main Regions**




Source: WTO

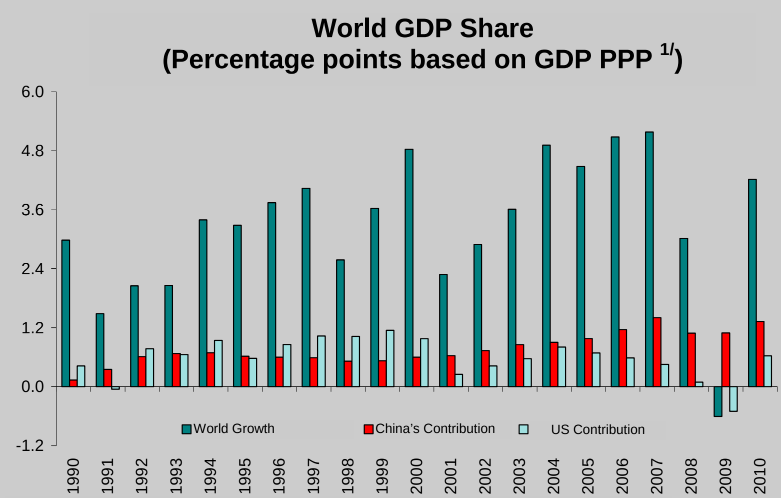
The good relative performance of Asian developing economies, in particular China, prevented world demand from dropping deeper. In fact, contrary to perceptions in most countries, only China increased its imports (2.8%), with this sustaining part of the global and regional trade.

Central America and South America also experienced international trade contractions. Exports dropped 5.7% and imports, 16.3%.

**Box I-2**

**China's rise and its significance in world economy**

China's rise as a determining factor in world economy was clearly evident in 2009, a role, which had been exclusively played by the US and other countries of the Organization for Economic Cooperation and Development (OECD). Hence the multilateral approach observed in debates on the solutions for the financial crisis, given the significance that a certain number of emerging countries, especially in Asia, have been gaining year after year.




1/ Purchase Power Parity
2010 estimates
Source: IMF, World Economic Outlook, April 2010

In fact, China positively contributed to world GDP, thereby mitigating global activity decline. The country rapidly and decisively responded to the consequences of the financial crisis by implementing a USD 586 billion worth fiscal stimulus package in late 2008 and reducing reference interest rates five times.

Chinese GDP closed 2009 with a growth rate over 8%, which the government had set as a goal, and with promising short-term expectations. According to the IMF, the Chinese economy could expand 10% in 2010.

As part of its economy support strategy, in 2009, Chinese authorities applied policies intended to promote purchase of vehicles and household items for rural population. As a result of this policy, more than 13 million vehicles were sold in 2009, with China becoming the leader over the US as the biggest automobile market. Furthermore, restrictions for migration of people from rural to urban areas were made more flexible in order to promote consumption, given the higher wages that prevail in urban areas.

It's worth highlighting that some characteristic aspects of Chinese economy moderated the impact of the global crisis, including the little aperture of the financial system, the low exposure to US risk instruments and the partial currency convertibility. In fact, since this is an administered system, the exchange rate remained practically unchanged to the benefit of the exporting sector.

However, China's important role within world economy is increasingly evident. From 1999, its total export share increased from 3% up to 10% and in 2009, China surpassed Germany as a major exporting country. Likewise, it is the second largest importer and is estimated to surpass Japan as the second largest economy in a very short time.

Its positive performance also favored commodity markets. The higher infrastructure expenditure fostered demand for copper, iron and other metals. In addition, the country has 19.6% of world population what turns it into a voracious mineral resource consumer. In line with its goal of assuring a stable supply in the medium and long term, China made substantial investments in energy projects in Australia, Brazil, Russia, Kazakhstan and Turkmenistan.

Notwithstanding achievements made, the Chinese economy is facing the challenge of overcoming its high dependence on exports and the undervaluation of its currency, which brings about imbalances at the international level and trade tensions. The Asian country's authorities are aiming at a more balance growth, mainly based on domestic consumption.

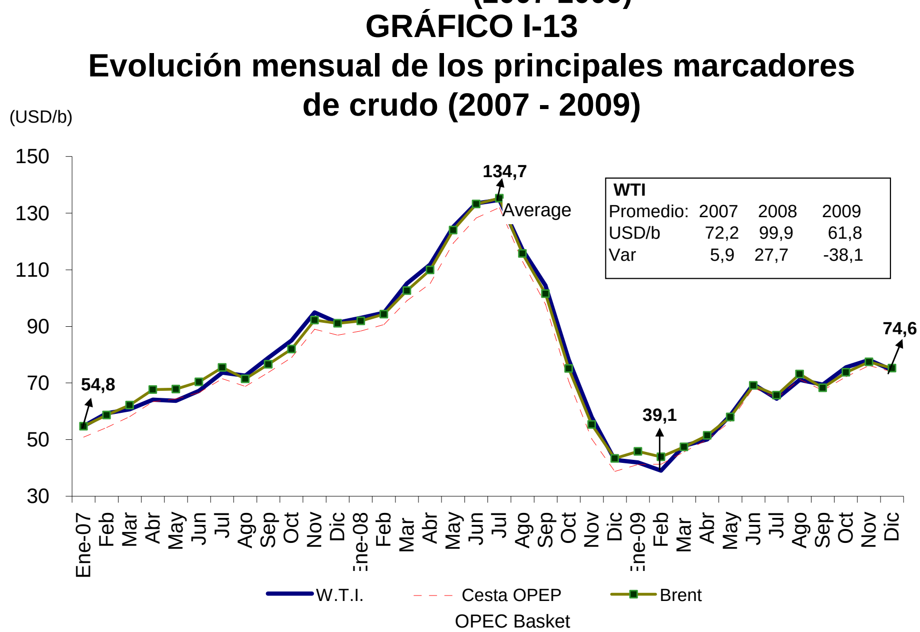
## 5. International Oil Market

### 5.1 Global Panorama

In the recessive global context, international oil market characterized by a lower demand in OECD member countries and lower average prices than the previous year. China continued to be the main engine of non-OECD consumption, and, along with India, influenced the demand raise in less developed economies. As to oil supply, it's worth stressing the lower supply from OPEC countries, based on the production cuts agreed upon in late 2008, in contrast to the increase in supply from non-OPEC countries.

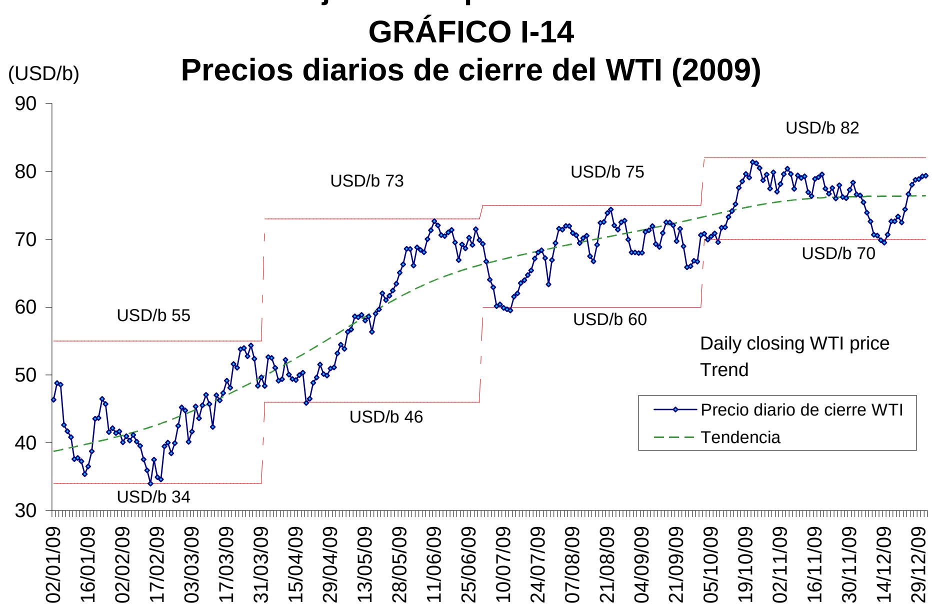
At the end of 2009, the average price of the US marker crude oil West Texas Intermediate (WTI) was USD 61.8/bbl., down USD 38.1/bbl. from 2008. However, year 2009 was characterized by a progressive recovery of this variable, despite the uncertain global economic panorama that led closing price (USD 79.4/bbl.) to be substantially higher than the one posted the previous year.

**CHART I-13**
**Monthly evolution of main crude oil markers**
**(2007-2009)**




Source: Ministry of Energy and Petroleum (Menpet)

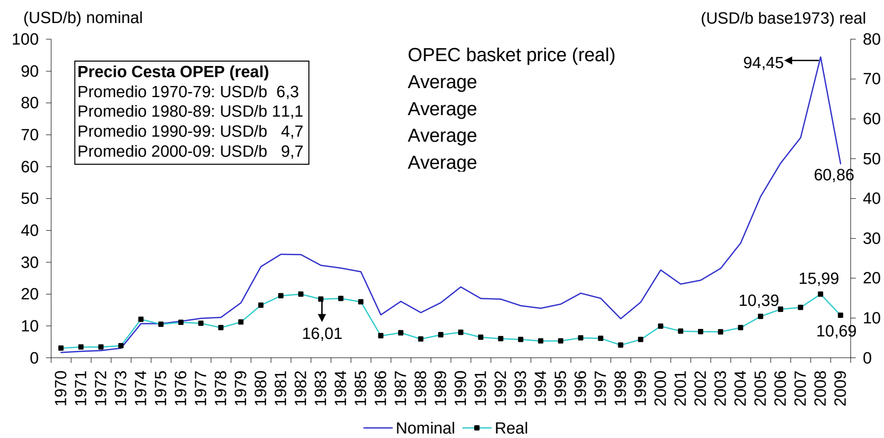
**CHART I-14**
**GDP Growth Rate**
**Major Developed Countries**




Source: Reuters; own calculations

In real terms, the OPEC basket price, taking 1973 as base year and adjusting by inflation and exchange fluctuations, was USD 10.7/bbl., down 5.3 dollars from 2008 and slightly up from 2005 (USD 10.39/bbl.). A comparison of four-decade data shows that the average price for the 2000-2009 period (USD 9.7/bbl.) is higher to the one of the 1970- 1979 period (USD 6.3/bbl.) and 1990-1999 (USD 4.7/bbl.), but lower than the 1980-1989 decade when price averaged USD 11.1/bbl.

**CHART I-15**
**OPEC Basket marker price**
**GRÁFICO I-15**
**Precio del marcador de la cesta OPEP**




Note: The actual price was taken from the combined index calculated by OPEC, which is a combination of exchange rate indices and inflation in several countries.
Source: OPEC

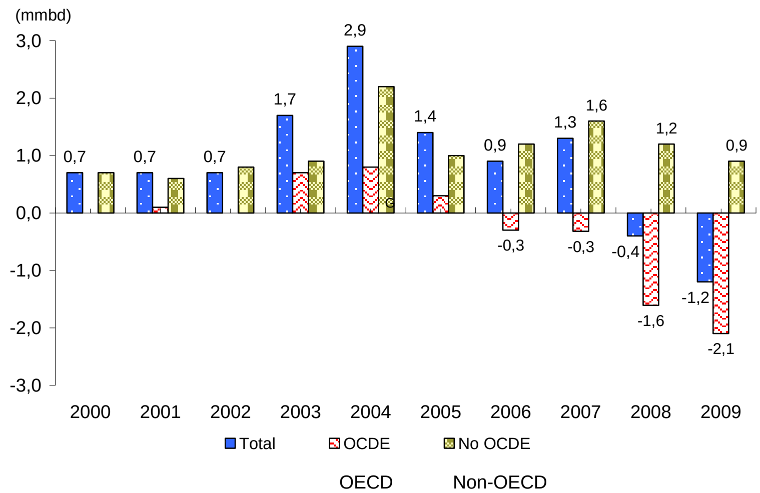
## 5.2 Oil Demand Behavior

Oil demand shrank by 1.3 million b/d (MMBD) due to world economic recession that placed global oil consumption at 84.9 MMBD[3]. It should be mentioned that cumulative reduction in 2008 and 2009 (1,6 MMBD) is very similar to the one seen between 1982 and 1983 (1.7 MMBD), a period of high real oil prices, energy rationing and permanent development of alternative energy sources, amidst a world economic recovery scenario after the 1980 crisis. Demand fall is mainly explained by consumption contraction in OECD countries (.1 MMBD), because demand from non-OECD countries remained rising (0.8 MMBD), although at a slower pace than the one of 2008 (1.3 MMBD) and 2007 (1.6 MMBD).

[3] According to figures released by the International Energy Agency (IEA).

While the behavior of demand in advanced economies in 2009 is basically associated with the global economic crisis, its decline is also part of a structural change process that has been ongoing during the last decade and that is the result of the higher energy efficiency and consumer habit changes in these nations. In fact, 2009 is the fourth year in a row in which OECD countries record a decrease in demand, with a cumulative fall of 4.3 MMBD.

**CHART I-16**
**World Oil Demand Evolution**
**(Absolute variation)**
**GRÁFICO I-16**
**Evolución de la demanda mundial de petróleo**
**(variación absoluta)**



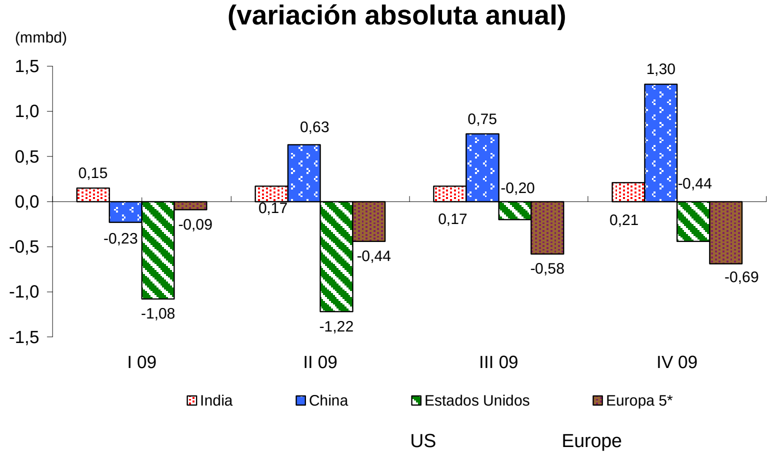

Source: International Energy Agency (IAE)

The evaluation of global demand evolution shows that the decrease was more marked during the first half of the year, when it dropped by 2.5 MMBD with respect to the same period in 2008. Later, the recovery of world economic activity in the second half of 2009 translated into a growth in the consumption of commodities, especially in the last three months of the year, with an increase of 0.54 MMBD.

Within OECD, the weak US demand, which diminished 1.15 MMBD in the first half of the year, was determining for the drop in oil consumption within this group. France, Germany, Italy, Spain and the United Kingdom, which together reduced consumption by 0.64 MMBD, played a remarkable role in the decline experienced in the second half of the year[4].

As to non-OECD countries, it's worth mentioning the fall in China's demand during the first quarter of the year (0.23 MMBD), a behavior that reversed in the following months with an increase of 0.9 MMBD on average during the other three quarters. India's oil consumption, in turn, grew in a sustained fashion throughout the year, thus making it possible to partially compensate for the non-OECD drop in the early months of the year. India's consumption plus the vigorous demand recovery in China underpinned the oil consumption growth within this group in 2009 (0.8 MMBD).

**CHART I-17**
**Demand in OECD and non-OECD Countries**
**(Annual absolute variation)**
**GRÁFICO I-17**
**Demanda de los países OCDE y No OCDE**
**(variación absoluta anual)**




* Europe 5 category corresponds to France, Germany, Italy, Spain and the United Kingdom together.
Source: International Energy Agency (IEA)

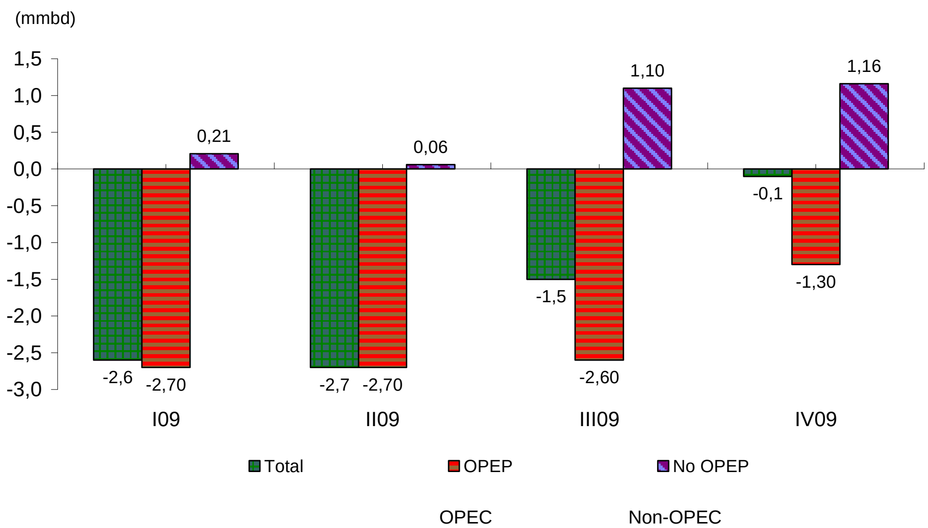
## 5.3 Behavior of Oil Supply

At the close of 2009, world oil supply[5] lost 1.6 MMBD from 2008, to 84.1 MMBD, as a result of the lower crude oil production[6] (2.5 MMBD) by OPEC members due to the

[4] Decreased consumption in the US accounted for 43% of the demand gall in OECD countries during the first half of the year. Furthermore, France, Germany, Italy, Spain and the United Kingdom (ogether) accounted for 42% of the decrease in demand in the second half of the year.
[5] According to OPEC data.
[6] Includes Iraqi production.

OPEC-mandated cut of 4.2 MMBD with respect to September 2008 level (29.05 MMBD)[7]. This measure was taken as a response to deterioration in global economic situation that weakened world oil demand and resulted in an increase in stocks. At the different meetings held in 2009, OPEC members were cautious about the soundness of global economy recovery and, in this regard, they reiterated the production agreements reached in year-end 2008 mad emphasized the commitment to production quotas individually agreed upon with each member country.

**CHART I-18**
**World Oil Supply**
**(Annual absolute variation)**
**GRÁFICO I-18**
**Oferta mundial de petróleo**
**(variación absoluta anual)**



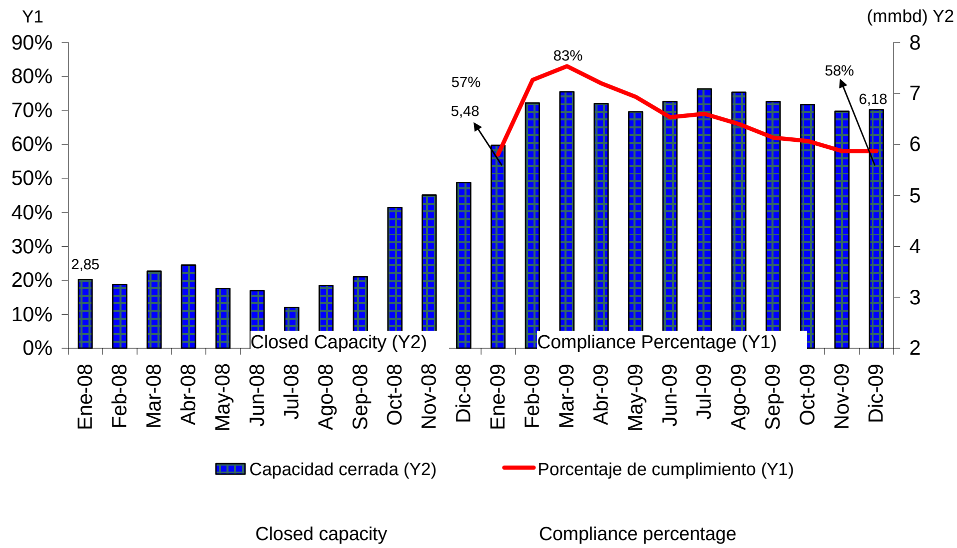

Source: Organization of the Petroleum Exporting Countries (OPEC).

Therefore, the OPEC's closed capacity[8] progressively increased in 2009, reaching 6.3 MMBD on average, a level clearly higher than the one recorded in 2008 (3.2 MMBD), with Saudi Arabia concentrating more than 50% of the total, with 3.2 MMBD.

[7] It's worth stressing that the 4.2 MMBD cut that was agreed on December 17, 2008 and entered into force on January 1, 2009, reiterates the prior production quota agreements reached when deterioration of global economic environment and demand weakening became evident.
[8] According to IEA, closed capacity is defined as the difference between the sustainable production capacity, which is the one that can be reached over a 30-day period and can be sustained for 90 days, and the production level in the current month.

In January production cuts were not fully met; however, starting in February, compliance by the Organization members considerably increased reaching its highest level in March (83%). Notwithstanding, as demand recovery prospects improved, producers progressively relaxed as to their fulfillment of the quotas and compliance averaged 69% throughout the year.

**CHART I-19**
**OPEC: Closed Capacity and Production Quota Compliance**
**GRÁFICO I-19**
**OPEP: Capacidad cerrada y cumplimiento de la cuota de producción**



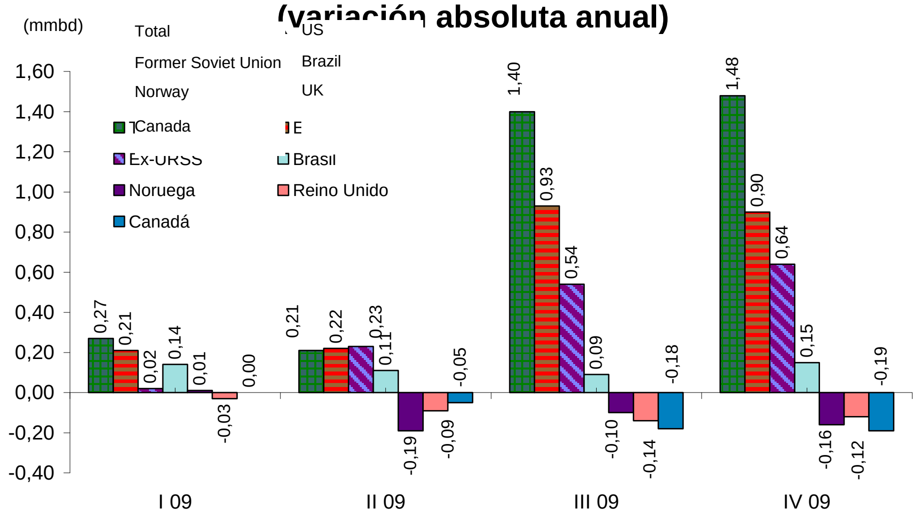
Source: International Energy Agency (IEA)

Drop in OPEC's production level was partially counteracted by the higher supply from non-OPEC countries (0.6 MMBD). The higher US production (0.57 MMBD), which accelerated starting in the third quarter, as well as the increase (0.36 MMBD) in production of countries of the former Soviet Union, especially Russia, Kazakhstan and Azerbaijan, largely explained the higher supply. In Latin America, increases in production from Brazil (0.12 MMBD) and Colombia (0.08 MMBD) had an impact on the final result. .

Among the countries that counteracted this increase in non-OPEC supply, Mexico (0.19 MMBD) and Canada (0.11 MMBD) stand out in North America. Likewise, the lower production in Norway (0.11 MMBD), the United Kingdom (0.1 MMBD) and Denmark (0.02 MMBD) reflected the decline of wells in the North Sea.

**CHART I-20**
**Non-OPEC Supply**
**(Annual absolute variation)**

**GRÁFICO I-20**
**Oferta No OPEP***
**(variación absoluta anual)**




Source: Organization of the Petroleum Exporting Countries (OPEC)
* Includes OPEC's Natural Gas Liquid and non-conventional crude oil production

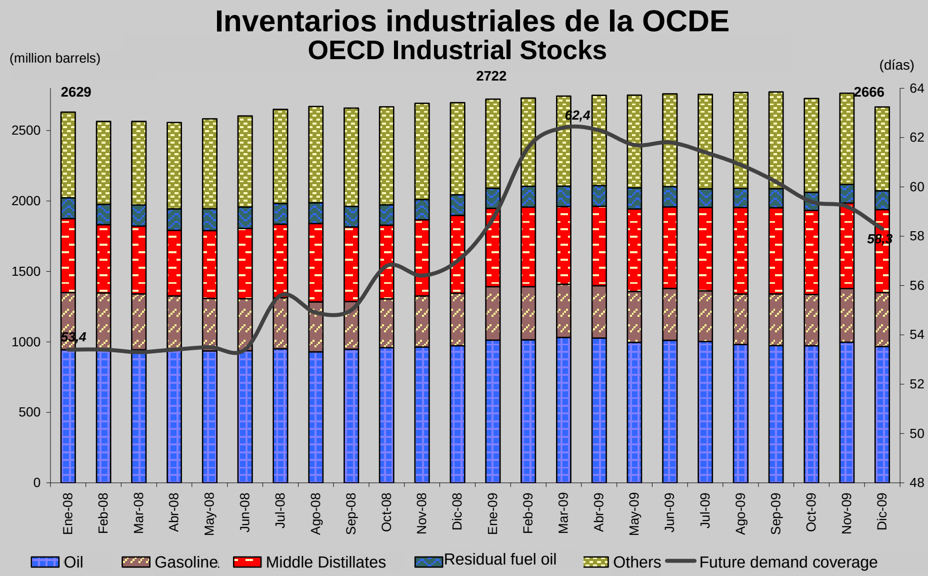
**Box I-3**

**Some considerations about oil stocks**

Stocks are a fundamental variable that, since it is reflection of the interaction between supply and demand, has a bearing on prospects development as to future behavior of the oil market. In this regard, they are relevant for the price formation process.

Variation in *crude oil* stocks is closely related to the refining industry. Therefore, when refiners increase their production of by-products to meet market demand, they consume more oil and stocks decrease. On the contrary, if they decide to produce less, stocks expand.

Furthermore, variation in stocks of the wide range of by-products reveals the relative strength or weakness in final consumption of very diverse sectors of the economy. *Petroleum liquefied gases* (PLG) are used in heating and cooling systems and stoves, as well as in car combustion systems. *Naphtas*, which are mainly used as raw material for the production of high octane gasoline, are also employed in the petrochemical industry to produce fuel for lighters and portable stoves. Conventional or reformulated *automotive gasoline*, as well as components used for its production, is the most important byproduct. *Kerosene* and *jet fuel* find use in the scientific field, as well as in civil and commercial aviation. *Diesel*, besides being used as car fuel, also has a wide range of industrial uses, such as sea and military vessels. Natural gas and *residual fuels*, besides some of the by-products already mentioned, are used in power generation plants.




Source: International Energy Agency (IEA)

Additionally to the breakdown per product mentioned before, participants in the oil market are also interested in the behavior of this variable in the main consumer countries[1/]. In particular, the most reliable and transparent information is the one published by the International Energy Agency (IEA) with regard to OECD countries and by the Energy Information Administration (EIA), on the US. Likewise, a distinction is made between stocks stored on dry land and those kept offshore and in oil tankers, and also between industrial stocks, stored for commercial purposes, and strategic stocks that government keep for contingencies.

The previous chart shows the behavior of OECD industrial stocks in 2008 and 2009. These stocks, which completely consist of stocks kept on dry land, are broken down into crude oil and several types of by-products, according to how the IEA reports them. While total levels provide relevant information, future demand coverage expressed in days is even more illustrative, because it allows for determining the time in which stocks would exhaust, as per foreseen future demand. Therefore, in the middle of the global economic recession that impacted world oil demand, these stocks went from 53.4 days of coverage in early 2008 to up to 62.4 days in March, closing at 58 days in December 2009.

It's also worth stressing the reasons that oil market players have to maintain stocks. For one part, refineries need to assure oil supply availability to produce by-products, and marketers require enough supply to cover demand from the different marketing networks. This first reason is known as hedging. However, there is also a financial consideration that influences the number of stocks being kept, either for speculative or purely commercial purposes: the difference between the price registered at the earliest point of the future curve vs. that recorded at the latest point, i.e. time spread. The Energy Intelligence Group estimates that a contango of at least USD 0,8 is required so that maintaining oil stocks be profitable. In the case of a backwardation[2/] situation in the future curve, incentives to keep stocks would be dramatically reduced, and they could completely disappear.

1/ OPEC, for instance, usually refers to future demand coverage (measured in days) as the justification to increase production targets.

2/ Contango is defined as the situation in which future prices in the contract curve are progressively higher than current ones. Backwardation, in turn, is the situation in which future prices are lower than current ones.

### 5.4 Structural Factors

In recent years, and based on the price cycle experienced from 2002 to 2009, oil analysts have followed two different trends to explain oil price fluctuations.

One group claims that the reason relies on the physical market fundamentals. They allege that the price expansive cycle is justified by a prolonged period of low investment levels, along with the lower non-OPEC supply, combined with a reduced closed capacity and the higher demand from emerging countries like China and India.

The other group attributes the market dynamics to distortions introduced by a higher level of speculative investments in the futures and derivatives market, characterized by a lack of governmental regulation.

While both stances are sustained on enough empirical evidence, it is difficult to accept one explanation or the other completely. Therefore, it is crucial to recognize the influence of oil dual nature as a material good and a financial asset, as well as the speculation impact, the relation between short-term and long-term prices and interaction among market players.

In particular, the price increasing trend recorded during the first half of 2009 is attributable to the progressive improvement in terms of the global economic recovery sentiment and to the signs that international entities such as IEA and IMF sent in this regard, which were determining in the development of expectations about world economic growth and oil demand. Consequently, and despite the evident weakness in demand, as fears about a long recession disappeared, commodities prices began to recover.

As expectations about world economy recovery developed, agents were concerned about the impact that credit contraction and the lower price environment could have on the decrease in investment flows in this sector, which could limit future growth possibilities inside and outside OPEC. In recent years, the perception that the industry cannot properly operate in an environment of relatively low prices has spread among the market players.

Therefore, it the aim is preventing a crisis from happening, prices should recover from the levels registered at the end of 2008.

In the second half of 2009, oil prices stabilized within a range of USD 60-75/bbl. in the third quarter and later between USD 70-8[2/]bbl. A possible explanation can be found in the process of formation of expectations in a system in which market players have tended to create theirs based on qualified opinions. In this regard, the article co-written by the British Prime Minister, Gordon Brown, and the French President, Nicolas Sarkozy, stated that it was necessary to have prices that are not so high as to destroy the prospects of economic growth, but so low as to lead to a slum in investment in the oil industry[9]. In an even more precise manner, Saudi Arabia’s King Abdullah clearly expressed his preference for a price around USD 75/bbl.[10] Likewise, the Minister of Energy of Saudi Arabia, Alí Al-Naimi, said in September 2009 that the current price was fair for producers and consumers[11].

[9] Gordon Brown and Nicolas Sarkozy (July 8, 2009). Oil Prices Need Government Supervision. *Wall Street Journal*.
[10] Reuters (December 26, 2009). *Oil price might rise “reasonably”- Saudi King in paper.*
[11] Bloomberg (December 5, 2009). *Saudi Arabia’s Al-Naimi says Oil Price is perfect.*

## Statistical Appendix: International Economic Environment

**TABLE I-1**
**GDP Growth Rates**
**Selected Countries**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| U.S. | (2.4) | 0.4 | 2.1 |
| Canada | (2.6) | 0.4 | 2.5 |
| Eurozone | (3.4) | 0.7 | 2.4 |
| Germany | (5.0) | 1.2 | 2.5 |
| France | (2.2) | 0.3 | 2.3 |
| Italy | (5.0) | (1.3) | 1.5 |
| UK | (4.9) | 0.5 | 2.6 |
| Japan | (5.2) | (1.2) | 2.4 |
| **Total advanced economies** | **(3.2)** | **0.5** | **2.8** |
| China | 8.7 | 9.6 | 13.0 |
| India | 5.7 | 7.3 | 9.4 |
| Argentina | 0.9 | 6.8 | 8.7 |
| Brazil | (0.2) | 5.1 | 6.1 |
| Mexico | (6.5) | 1.5 | 3.3 |
| Colombia | 0.1 | 2.4 | 7.5 |
| Chile | (1.5) | 3.7 | 4.6 |
| **Total emerging economies** | **2.4** | **6.1** | **8.3** |
| **Total global economy** | **(0.6)** | **3.0** | **5.2** |

Source: IMF, central banks and statistics offices of the different countries.

## TABLE I-2
## Average Yearly Inflation Rate
## Selected countries

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| U.S. | (0.3) | 3.8 | 2.9 |
| Canada | 0.3 | 2.4 | 2.1 |
| Eurozone | 0.3 | 3.3 | 2.1 |
| Germany | 0.1 | 2.8 | 2.3 |
| France | 0.1 | 3.2 | 1.6 |
| Italy | 0.8 | 3.5 | 2.0 |
| UK 1 | 2.2 | 3.6 | 2.3 |
| Japan | (1.4) | 1.4 | 0.0 |
| **Total advanced economies** | **0.1** | **3.4** | **2.2** |
| China | (0.7) | 5.9 | 4.8 |
| India | 10.9 | 8.3 | 6.4 |
| Argentina | 6.3 | 8.6 | 8.8 |
| Brazil | 4.9 | 5.7 | 3.6 |
| Mexico | 5.3 | 5.1 | 4.0 |
| Colombia | 4.2 | 7.0 | 5.5 |
| Chile | 1.7 | 8.7 | 4.4 |
| **Total emerging economies** | **5.2** | **9.2** | **6.4** |
| **Total global economy** | **2.4** | **5.9** | **4.0** |

Source: IMF, central banks and statistics offices of the different countries.

## TABLE I-3
## Average Unemployment Rate
## Selected Countries

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| U.S. | 9.3 | 5.8 | 4.6 |
| Canada | 8.3 | 6.2 | 6.0 |
| Eurozone | 9.4 | 7.6 | 7.5 |
| Germany | 7.4 | 7.2 | 8.3 |
| France | 9.4 | 7.9 | 8.3 |
| Italy | 7.8 | 6.8 | 6.2 |
| UK | 7.5 | 5.6 | 5.4 |
| Japan | 5.1 | 4.0 | 3.8 |
| **Total Advanced Economies** | **8.0** | **5.8** | **5.4** |
| | | | |
| **Emerging Economies** | | | |
| China | 4.3 | 4.2 | 4.0 |
| India | n.a. | n.a. | n.a. |
| Argentina | 8.4 | 7.3 | 7.5 |
| Brazil | 7.2 | 6.8 | 9.4 |
| Mexico | 4.8 | 4.3 | 3.4 |
| Colombia | 11.3 | 10.6 | 9.9 |
| Chile | 9.7 | 7.8 | 7.1 |

1/ Urban unemployment rate

Source: IMF, ECLAC, central banks and statistics offices of the different countries.

**TABLE 1-4**
**Balance on current account of the different Countries**
(As GDP %)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| U.S. | (2.9) | (4.9) | (5.2) |
| Canada | (2.7) | 0.5 | 1.0 |
| Eurozone | (0.4) | (0.8) | 0.4 |
| Germany | 4.8 | 6.7 | 7.6 |
| France | (1.5) | (2.3) | (1.0) |
| Italy | (3.4) | (3.4) | (2.4) |
| UK | (1.3) | (1.5) | (2.7) |
| Japan | 2.8 | 3.2 | 4.8 |
| **Total Advanced Economies** | **(0.4)** | **(1.3)** | **(0.9)** |
| China | 5.8 | 9.4 | 11.0 |
| India | (2.1) | (2.2) | (1.0) |
| Argentina | 2.8 | 1.5 | 2.3 |
| Brazil | (1.5) | (1.7) | 0.1 |
| Mexico | (0.6) | (1.5) | (0.8) |
| Colombia | (1.8) | (2.8) | (2.8) |
| Chile | 2.2 | (1.5) | 4.4 |
| **Total Emerging Economies** | **1.8** | **3.7** | **4.2** |

Source: IMF, statistics offices of the different countries.

## TABLE 1-5
## Average nominal Exchange Rate
## Selected Countries

| | 2009 | 2008 |
|---|---|---|
| **Advanced Economies** | | |
| Canada (CAD/USD) | 1,142 | 1,076 |
| Eurozone (euro/USD) | 1,393 | 1,462 |
| UK (GBP/USD) | 1,565 | 1,832 |
| Japan (yen/US$) | 93.61 | 102.84 |
| **Emerging Economies** | | |
| China (yuan/US$) | 6,831 | 6,949 |
| India (rupee/US$) | 48.29 | 43,42 |
| Argentina (AR$/USD) | 3,726 | 3,165 |
| Brazil (BRL/USD) | 2,000 | 1,854 |
| Mexico (MXN/USD) | 13,494 | 11,269 |
| Colombia (COP/USD) | 2,154.0 | 1,978.7 |
| Chile (CLP/USD) | 558.98 | 525.84 |

Source: IMF, Bloomberg.

## TABLE 1-6
## Short-term Interest Rates 1/
## Industrialized Countries
(End of period in yearly percentage)

| | 2009 | 2008 |
|---|---|---|
| U.S. | 0.2 | 0.1 |
| Canada | 3.8 | 0.8 |
| Eurozone | 0.3 | 0.9 |
| UK | 0.5 | 1.1 |
| Japan | 0.2 | 0.2 |

1/ 90-day securities yield. Source: Reuters.

## TABLE 1-7
## Long-term Interest Rates 1/
## Industrialized Countries
(End of period in yearly percentage)

| | 2009 | 2008 |
|---|---|---|
| U.S. | 3.8 | 2.2 |
| Canada | 3.6 | 2.7 |
| Eurozone | 3.4 | 3.0 |
| UK | 4.0 | 3.0 |
| Japan | 1.3 | 1.2 |

1/ 10-year yield. Source: Reuters

## TABLE 1-8
## Emerging sovereign risk differentials 1/
(Yearend in base points)

| | 2009 | 2008 |
|---|---|---|
| Argentina | 664 | 1.709 |
| Brazil | 197 | 431 |
| Colombia | 201 | 502 |
| Ecuador | 775 | 4.732 |
| Chile | 95 | 343 |
| Mexico | 167 | 380 |
| Panama | 176 | 544 |
| Peru | 169 | 513 |
| Philippines | 203 | 542 |
| Russia | 190 | 747 |
| Turkey | 200 | 537 |
| Venezuela | 1,033 | 1,867 |
| Bulgaria | 174 | 678 |

1/ Corresponding to yield differential weighted average of a country's bond basket with respect to a comparative basket of US Treasury bills considered with zero risk.
Source: J.P. Morgan.

## CHAPTER II

## NATIONAL ECONOMIC POLICY: INSTITUTIONAL FRAMEWORK

### 1. Introduction

Economic policies implemented in 2009 were intended to alleviate the effects of the global financial and economic crisis, assure a normal development of the financial system and continue to encourage the country's economic activity, all within a context in which national economy entered a contraction phase and inflation somehow decelerated with respect to 2008. Likewise, the BCV acted in a coordinated fashion with the Administration in the design and follow-up of the economic measures announced in late 2009.

As far as fiscal policy is concerned, the administration had to reformulate the national budget and implement tax and financial changes intended to partially compensate for lower oil revenues. These changes notably included VAT increase from 9% to 12% and the increase in the Republic's borrowing limit. Additionally, the Administration took measures to cut expenditure, especially in connection with sumptuary and unnecessary expenses, always with a view to minimizing the impact of lower income on social policies. Furthermore, the National Development Fund (Fonden) and the Joint China-Venezuela Fund continued to finance in 2009 investment projects in productive sectors, especially public works and housing, energy and petroleum, basic industries and mining, agriculture and lands, among others[12].

The BCV, for its part, adjusted interest rates of its monetary policy instruments downward, as well as the financial system rates, in order to provide domestic credit earmarked for the different productive sectors with increased dynamism and thereby control the decline of economic activity. Precisely for this purpose, the National Assembly passed a partial amendment of the Law of the Central Bank of Venezuela, at end-2009, which expanded the

[12] Based on the total amount of resources earmarked for each ministry presented in the 2009 Annual Report of the People's Ministry for Economy and Finance.

Bank's powers to provide financing for programs considered a priority for the country by the Executive.

The BCV measures were also intended to overcome the lack of liquidity in the short-term monetary market, which required not only making conditions and financing terms more flexible, but also a reducing the bank legal reserve. In this regard, the Bank, along with Sudeban and the National Securities Commission, implemented different measures to reorganize, rehabilitate and, in some cases, liquidate troubled financial institutions.

Concerning the exchange sector, the Foreign Currency Administration Regime remained unchanged and the official exchange rate was maintained at the level set in 2005. In this regard, and considering the impact of the global financial and economic crisis on the Venezuelan economy, the Bank authorized a total amount of available foreign currency significantly lower than the one approved in 2008, even as Cadivi expanded the list of goods that require the National Certificates of Non-Production or of Insufficiency to be imported.

At the same time and in order to curb upward pressures on prices, a lower number of adjustments for price-controlled goods were decreed, minimum wage was raised 20% and actions were taken to promote and support fundamental economic sectors, especially manufacturing and agriculture. All this measures were taken within a policy framework characterized by a more proactive role of the State in the economy so as to diversify and make the national productive apparatus more dynamic.

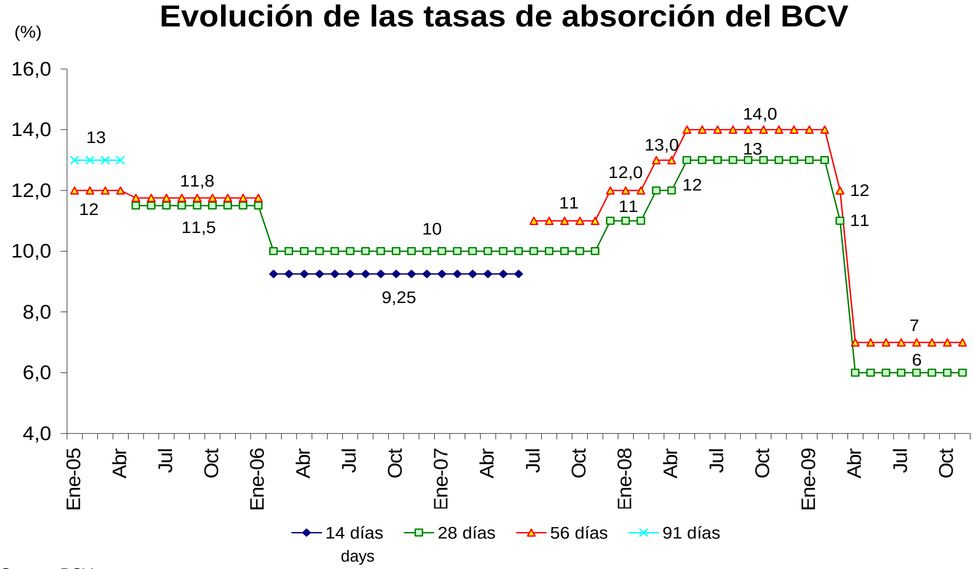
**2. Monetary Policy**

The monetary policy general guidelines were oriented toward the adjustment of liquidity levels of the banking system so as to guarantee the normal operation of payment systems and provide greater stimulus to credit intermediation and financing of the country's productive sectors, all within a policy strategy designed to mitigate adverse impacts of the international economic crisis.

In this context, actions taken by the Central Bank of Venezuela, such as the implementation of a reduction of 300 base points in the marginal legal reserve requirement for financial institutions (from 30% to 27%)[13], provided continuity to measures implemented at end-2008. Later, in March, the BCV decided a further downward adjustment of 200 base points of the marginal legal reserve rate, to 25%[14], so as to overcome the lack of liquidity in the short-time monetary market.

During the first half of the year, the BCV carried out a number of adjustments in the interest rates of its monetary policy instruments and in those of the financial systems. In fact, between March and April, the Bank reduced rates of its absorption instruments by 700 base points, three times, taking them from 13% to 6%, for 28-day operations and from 14% to 7% for 56-day operations. Likewise, the BCV cut by 200 base points the rate charged for its credit assistance operations, to 31.5%, and 85% for those rates related to assistance for the agricultural sector[15].

**CHART II-1**
**BCV Absorption Rate Behavior**
**GRÁFICO II-1**
**Evolución de las tasas de absorción del BCV**




Source: BCV

[13] BCV Resolution No. 08-12-02, published in the Official Gazette No. 39089 dated 30 de December de 2008.
[14] BCV Resolution No. 09-03-01, published in the Official Gazette No. 39130 dated March 3, 2009.
[15] BCV Resolution No. 09-03-02, published in the Official Gazette No. 39150 dated March 31, 2009.

As to interest rates of the financial system, in accordance with the new levels of absorption operation rates, the BCV decided to establish new legal maximum and minimum levels for rates applied to lending and savings operations in the Venezuelan banking system. To this end, the Bank cut the minimum savings rate for both savings accounts and time deposits by 100 base points, to 14% and 16%, respectively[16] and reduced the top rate that banks can charge for lending operations, by 200 bp (from 28% to 26%) and for credit card operations (from 33% to 31%).

Likewise, to continue to stimulate loans for strategic sectors, the BCV maintained unchanged at 19% the highest rate that commercial and universal banks are allowed to charge for credits granted to companies in the manufacturing sector, and maintained the requirement for banks to earmark, at year-end, funds for this activity, which are equivalent to at least 10% of their portfolio as of March 31, 2009[17].

Before the end of the first six months of the year, the BCV Board, within the framework of its strategy of permanently evaluating economic policy, considered that it was necessary to perform a new downward revision in the interest rate structure of the financial system[18] so as to encourage greater credit intermediation toward the productive activity. The top lending rate was cut 200 base points, as well as the minimum and maximum rate for credit card operations, from 26% to 24% and 31% to 29%, respectively, with a minimum level of 15%[19]. Top limits for minimum savings rates, for their part, were reduced by 150 base points, and rates for savings and liquid assets accounts were set at 12.5% and rate for time deposit and participations was fixed at 14.5%.

At the same time, the BCV consistently adjusted rates for injection operations and credit assistance, with a 200 bp cut being approved for these instruments. In this regard, the new levels of rates and terms were set at 20%-7 days, 21%-14 days, and 22%-28 days. Interest

[16] BCV Resolution No. 09-06-02, published in the Official Gazette No. 39193 dated June 4, 2009, which replaces Resolution No. 09-03-03, published in the Official Gazette No. 39150 dated March 31, 2009.
[17] Idem.
[18] BCV Resolution No. 09-06-02, published in the Official Gazette No. 39193 dated June 4, 2009.
[19] Official Statement, published in the Gazette No. 39193 dated June 4, 2009.

rates to be charged for credit assistance operations, such as discount, rediscount, advances and repos, were set at 29.5%, and an interest rate of 85% of this level was fixed for the placement of funds in the agricultural sector[20].

To provide greater liquidity and promote credit in entities that finance public and private micro-financial activities, the Bank further reduced the legal reserve for development banks and set a minimum legal reserve for these entities, corresponding to 12% of the total amount of their reserve requirements and marginal balance[21], provided they are able to achieve an intermediation index over 70%.

Moreover, the BCV changed policies concerning financing of tourism activities in Venezuela, within the framework of the enactment bay the President of the Tourism Sector Credit Law[22]. In this regard, the Central Bank established a legal top of 16% for the rate applied to placements in the tourism sector by financial entities, with a maximum preferential level of 13% for the financing of tourism activities of those entities that (1) express their willingness to reinvest part of their profits in communities where they perform their activities; (2) develop projects in areas with tourism potential and/or areas of tourism endogenous development; and (3) provide services in a proportion not less than 40% of their installed capacity.

The National Assembly passed partial reforms of the Law of the Central Bank of Venezuela[23], including the possibility of fixing especial conditions for terms and interest rates in discount, rediscount, advance and repo operations, when they are derived from the financing of programs prioritized by the Administration, related to agrarian, manufacturing, construction, and agro-alimentary sectors and projects with exporting capacity, as well as those earmarked for the formation of monetary and non-monetary gold.

[20] BCV Resolution No. 09-06-01, published in the Official Gazette No. 39193 dated June 4, 2009.
[21] BCV Resolution No. 09-07-01, published in the Official Gazette No. 39223 dated July 17, 2009.
[22] Published in the Official Gazette No. 39251 dated August 27, 2009.
[23] Published in the Official Gazette No. 39301 dated November 6, 2009.

In addition, the Central Bank will be able to discount and rediscount bills of exchange, promissory notes and other instruments from special programs established by the Executive branch, which were issued with relation to the aforementioned programs. The reform also provides for that the Bank Board will approve the yearly amount for the financing of productive sectors.

In the last two months of 2009, some specific episodes of lack of liquidity on the interbank fund market occurred and were expressed in progressive increases in the amounts negotiated for interbank operations and a higher level of concentration of bank reserves. To mitigate this situation and curb an eventual propagation of risk, the BCV changed the legal reserve policy once again. This change was binding for the entire domestic financial system, and reduced the marginal legal reserve rate to 200 base points, to 23%[24].

In this same period, the Bank also changed injection operation rates, cutting them 100 base points to 19%, 20% and 21% for time operations at 7, 14 and 21 days, respectively[25]. Later, in order to provide more alternatives for this kind of operations, two new terms were included, i.e. 56 and 90 days, with instruments being negotiated at rates of 21.25% and 21.5%, respectively[26].

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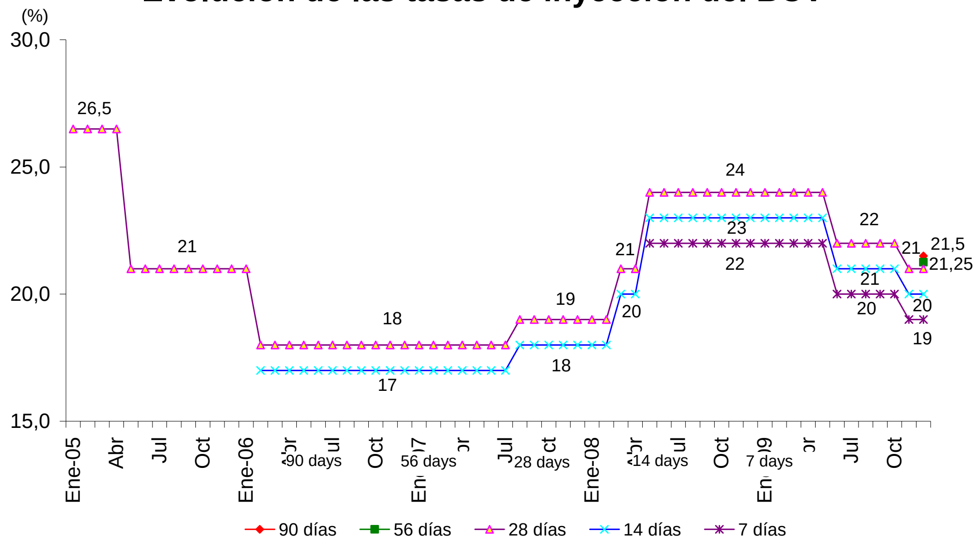
[24] BCV Resolution No. 09-11-02, published in the Official Gazette No. 39315 dated November 26, 2009.
[25] In force since November 27th.
[26] In force since December 3rd.

**CHART II-2**
**BCV Injection Rate Behavior**
**GRÁFICO II-2**
**Evolución de las tasas de inyección del BCV**




Source: BCV

Finally, the Central Bank modified conditions for absorption operations, by establishing limitations as to the participation of financial institutions in the sense that they could not maintain absorption paper positions higher than balances recorded for each term as of November 27, 2009.

**TABLE II-1**
**Summary of measures taken by the BCV in year 2009**

| Area | Item | Term / Operation Type | Measure |
|---|---|---|---|
| **Open Market Operations** | Absorption rate | 28 days<br>56 days | ▼ 7pp to 6%<br>▼ 7pp to 7% |
| | Injection rate | 7 days<br>14 days<br>28 days | ▼ 3pp to 19%<br>▼ 3pp to 20%<br>▼ 3pp to 21% |
| | Injection operations | 56 days<br>90 days | A new term is added with a 21.25% rate<br>A new term is added with a 21,5% rate |
| | Absorption operations | 28 days and 56 days | Banks are not allowed to maintain balances in CD (for each term) higher than their position as of 11/27/2009 |
| **Credit Assistance** | Loan rate assistance | - | ▼ 4pp to 29,5% |
| **Legal Reserve** | Banking system legal reserve | Marginal legal reserve | ▼ 7pp to 23% |
| | Development Bank legal reserve | Reserve obligation legal requirement | Set at 12%, for development Banks with intermediation levels of 70% |
| **Financial System Interest Rates** | Lending rates | Credit Cards<br>other operations | ▼ 4pp to 29% (maximum) and 15% (minimum)<br>▼ 4pp to 24% (maximum) |
| | | Financing for the tourism sector | 16% (maximum)<br>13% (preferential) |
| | Savings rates | Saving accounts<br>Time deposits | ▼ 2.5pp to 12.5% (minimum)<br>▼ 2.5pp to 14.5% (minimum) |
| **Administered Portfolios** | Lending rate | Tourism sector | 16% (maximum)<br>13% (preferential) |
| | Financing | Manufacturing sector | Commercial and universal banks must earmark 10% of their gross portfolio as of 03/31/2009 for the financing of the manufacturing industry. |

Sources BCV.
[2/] Exchange Agreement No. 2, Official Gazette No. 38138 dated March 2, 2005.

## 3. Exchange Policy

The Foreign Currency Administration Regime (RAD, for its initials in Spanish) that has been in force since February 2003 was maintained in 2009. In this regard, the BCV, jointly with the Administration, determined the level of the official exchange rate, which remained at Bs.2.1446 per US dollar for purchase operations and Bs.2.1500 per US dollar for sales and payment of foreign government debt, as established on March 1, 2005[27].

The Central Bank monitored the development of the global economic crisis and its impacts on the Venezuelan economy, so as to timely guarantee the supply of foreign currency

[27] Exchange Agreement No. 2, Official Gazette No. 38138 dated March 2, 2005

required by the different economic sectors of the country and sustain a sensible level of international reserves. For these purposes and considering the 34.1% decrease recorded in the price of the Venezuelan oil basket from previous year, the BCV authorized a total foreign currency availability of USD 34.276 billion, below that approved in 2008. Of this amount, the liquid part was at USD 31.256 billion, 37.8% less than the prior year.

The most part of liquid foreign currency (68.1%) was earmarked for the private sector through exchange operators, for a total of USD 21.290 million, down 39.8% from 2008. Of this amount, the sectors that posted the highest participation were imports of goods and services (70.1%) and credit card expenses (15.7%). The share of the alloted amount for foreign investment fell from 4.3% in 2008 to 2.5% in 2009.

Foreign currency allocations corresponding to imports carried out through the Agreement on Reciprocal Credits and Payments of Aladi, which account for 20.2% of the total, contracted 46.2%, reaching USD 6.306 million. Allocations for the public sector, excluding operations related to letters “a” and “h” of the Exchange Agreement No. 11[28], and those carried out by Bandes and Pdvsa, increased 16.8% to USD 3.660 billion, with their share of the total amount of allocated foreign currency going up to 11.7%, from 6.2% in 2008.

The Foreign Currency Administration Commission (Cadivi), for its part, performed some adjustments in its policy to approve foreign currency applications. In this regard, a resolution was issued that expanded the list of goods that require the Certificate of Insufficiency or of Non Domestic Production to be imported[29].

Furthermore, withdrawals of cash foreign currency through ATMs in cities abroad which are located at the border with the Bolivarian Republic of Venezuela[30] were regulated, so

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[28] Official Gazette No. 39178 dated May 14, 2009.
[29] Joint Resolution published in the Extraordinary Attachment No. 5921 to Official Gazette No. 39178, May 14, 2009
[30] Joint Resolution-Provision issued by Sudeban and Cadivi, published in the Official Gazette No. 39100 dated January 16, 2009.

that these withdrawals were limited to a fourth (1/4) of the total monthly amount of foreign currency that may be withdrawn from ATMs, as authorized by Cadivi.

### 4. Fiscal Policy

The implementation of fiscal policy in 2009 was significantly affected by the adverse impact of the global economic crisis on the behavior of international oil prices and, therefore, on the country's public finance.

In this regard, the Administration took a number of fiscal adjustment measures in early 2009 with the aim of mitigating the effect of oil revenue fall on public finances. Budgeted public expenditure cut was intended to eliminate unnecessary expenses and to continue to strengthen social investment. Therefore, it is worth highlighting the increase in real and nominal terms of investment expenditure by Fonden and the Joint China-Venezuela Fund during 2009. In particular, since its inception in 2005, Fonden has earmarked the largest part of its resources for the financing of projects in public works and housing, energy and petroleum, basic industries and mining, agriculture and lands, among others[31].

As to income, the 2009 National Budget was reformulated, notably including the modification of assumptions as to crude oil. In this regard, the reference price of the Venezuelan oil basket, on which oil revenue estimates were based, was decreased from USD 60/bbl. to USD 40/bbl., whereas crude oil production was adjusted from 3.6 to 3.2 million b/d.

To compensate for this reduction in public resources, the Administration increased VAT aliquot from 9% to 12%, a measure that entered into force on April 1, 2009. Likewise, the top borrowing limit was raised by Bs.25.0 billion, to Bs.37.243 billion. For this purpose it was necessary to partially reform the Law of Public Financial Administration (LOAFSP for its initial in Spanish)[32]. Another amendment of this legal instrument was published in April

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[31] Based on the total amount of resources earmarked for each ministry presented in the 2009 Annual Report of the People's Ministry for Economy and Finance.
[32] These changes were published in the Official Gazette No. 39147 dated March 26 , 2009.

to allow entities authorized by the President of the Republic at Ministerial Council to perform public credit operations when it is considered necessary for national interest reasons[33].

These amendments resulted in a reduction of 4.5% in the Republic's expenditure budget, or Bs.7.5 billion, which put the total amount of planned expenditure at Bs.159.97 billion. To implement this cut, a Presidential Order was issued that eliminated sumptuary or unnecessary expenses in the national public sector[34]. This instrument called for the restriction of the purchase of determined goods and services, established maximum limits in remuneration of high-level personnel and standardized fees for contracting professional and technical counseling services.

Notwithstanding the budget adjustment, authorities approved supplementary appropriations amounting to Bs.37.1 billion, down 32.5% from 2008. Consequently, expenditure agreed at end-2009 for the Central Government increased 20.4% with respect to the amount provided for in the reformulated law (Bs. 159.97 billion) and 2.4% in comparison to expenditure in 2008[35].

As far as expenditure per sector is concerned, budget allocations were mostly oriented toward the areas of infrastructure, education, communication, housing, health, roads and highways, environment, tourism and agriculture. However, the different missions and the support to projects undertaken by community councils continued to consider social policy a priority area through It is worth noting the creation of the "Niño Jesús" Mission, attached to the People's Ministry for Health, intended to reduce mother and child mortality. Moreover, in August, the Central Planning Commission assumed the direction, coordination, planning, orientation and supervision of social missions.

[33] Official Gazette No. 39164 dated April 23, 2009. The last change of the tax provisions was published in August and repealed 408 of the 433 articles of the Organic Law of the national Public Finance, because they were included in LOAFSP. The 25 articles that are in force refer to public goods.
[34] Decree No. 6649 published in the Official Gazette No. 39146 dated March 25, 2009.
[35] Source: 2009 Annual Report of the People's Ministry for Economy and Finance.

Meanwhile, the Law for Decentralization, Delimitation and Transfer of Powers from the Public Administration was amended[36]. This modification called for the possibility of transferring powers from states, for strategic reasons, merits, opportunity or convenience. Furthermore, activities of conservation, administration and use of national roads, highways and bridges, as well as commercial ports and airports, which were before exclusive competences of states, now require the coordination of the Administration that will establish guidelines and lead this activity[37].

## 5. Trade Policy

General trade guidelines established in 2008 to streamline administrative procedures to obtain foreign currency for productive and transforming sectors of the country were maintained and some procedures for imports of goods and inputs considered a priority to complement domestic supply were made more flexible.

In May, Cadivi published List No. 1 that included goods that do not require certificate of insufficiency or non domestic production and later, List No. 2 of goods that do require this documents[38]. As a result, the number of items that do not apply for preferential foreign currency was reduced. This time, various goods that were in the first list were transferred to the second one[39].

[36] Official Gazette No. 39140 dated March 17 , 2009.

[37] As a consequence of this process, Bolivariana de Puertos (BP) and Bolivariana de Aeropuertos (BA) were created as State-owned companies, as per Official Gazette No. 39146 dated March 25, 2009.

[38] Official Gazette No. 39178, dated May 14, 2009 and Extraordinary Gazette No. 5921, same date.

[39] Notably including goods such as ginger, turmeric, thyme, wheat for sowing, oregano and castor oil, among others; certain types of copper, nickel, cobalt, lead, zinc, titanium and silver metals; various reagents and dyes; materials for some photographic printing; chemicals and reagents; acids and alcohols; personal deodorants, a wide range of polymers, resins and rubber; seals and washers; paper, cardboard and paper pulp for industrial and commercial use, printing and labeling inks and chemicals for graphic arts; synthetic textile materials; fibers and their dyes; different types of hardware pieces and tools; machinery parts and spare parts and automotive components, among others.

The same month, Cadivi issued a resolution that presented a new list with imports worth up to USD 50.000 of capital goods, raw materials and inputs, for which procedures to obtain foreign currency will be streamlined[40].

As to economic integration and in the framework of a strategy to diversify and increase trade partners, the Law approving the Protocol Amendment[41] between the Government of the Bolivarian Republic of Venezuela and the Government of the People's Republic of China was passed, in connection with the agreement between both countries concerning the Joint Financing Fund. This amendment provided for expanding the Fund from USD 6.00 billion up to USD 1.0 billion. The increase will consist of an additional USD 4.0 billion loan to be granted by the Development Bank of the People's Republic of China to Venezuela's Bandes, plus the amount of USD 2.0 billion contributed as an investment by the National Development Fund (Fonden). As part of the bi-national agreement, Venezuela must deliver 100,000 b/d of oil over a period of three years.

The Memorandum of Understanding between the Government of the Bolivarian Republic of Venezuela and the Government of the Islamic Republic of Iran for the transfer of technology and cooperation for the manufacture of industrial units for drug production also entered into force.

The Treaty creating the Single Regional Payment Clearing System was signed in October as a cooperation, integration and economic and financial complementation mechanism, aimed at the promotion of the integral development of the Latin American and Caribbean region. States that signed this treaty include the Plurinational State of Bolivia, the Republic of Cuba, the Republic of Ecuador and the Republic of Nicaragua.

[40] Resolution No. 2314, published in the Official Gazette No. 39187, dated May 27, 2009. Replaced the resolution, published in the Official Gazette No. 39009 dated September 4, 2008.
41 Official Gazette No. 39183 dated May 21, 2009.

## 6. Price and Wage Policies

In 2009, the Administration continued with the price administration and control policy that was launched in February 2003. Throughout the year, this policy was characterized by making price adjustments for a lower number of price-controlled products and decreeing cuts in the value of products such as powdered milk, sandwich bread and pasta. Price increases were authorized for products like sugar, pasteurized milk, cheese, corn oil, white rice, precooked corn flour and coffee.

**TABLE II-2**
**Adjustments in the price control and administration policy – 2008**

| Official Gazette No. | Date | Subject |
|---|---|---|
| 39160 | Apr 17 | The maximum retail price (MRP) for all classes, presentations, modalities and trademarks of powdered milk was established. |
| | | MRP of white corn, yellow corn, regular white sandwich wheat bread and pasta based on wheat blends, was fixed. |
| 39205 | Jun 22 | MRP for sugar in all its different presentations was established. |
| | | MRP of pasteurized milk in all its presentations, modalities and trademarks was set. |
| | | MRP of hard, semi-hard and pasteurized white cheese in all its modalities, presentations and trademark was fixed. |
| | | The MRP of corn oil, blend-based oil, sunflower oil and canned sardines was fixed. |
| 39208 | Jun 26 | MRP of white rice and precooked corn flour was set. |
| 39254 | Sep 01 | MRP of ketchup, fresh sardines, coffee beans and ground coffee in (all presentations) |

MRP: Maximum Retail Price
Source: Official Gazettes

Concerning administered services, public transportation rates were adjusted 25%[42]. Furthermore, the increase allowed for private school's tuition fees and monthly payments was established at a maximum limit of 20% for the 2009-2010 school year[43]. Rent freeze policy implemented in May 2004 was maintained throughout 2009, through two six-month extensions[44], until May 2010.

Concerning the labor sector, the Government decreed two increases of the minimum monthly wage for workers at the public and private sectors. The adjustment was

[42] Official Gazette No. 39168 dated April 29, 2009.
[43] Official Gazette No. 39187 dated May 27, 2009.
[44] Official gazettes Nos. 39168 dated April 29, 2009, and 39295 dated October 29, 2009.

implemented in two trenches: 10% since May 1, which took minimum wage up to Bs. 879.30, and another 10% since September 1 that increased minimum wage up to Bs.967.50, up 21% from 2008. The decree covered urban and rural workers, maids and janitors, independently of the number of workers in the company. The policy was similar for teenage apprentices and minimum wage at the close of the year was Bs. 719.40[45].

**TABLE II-3**
**Minimum Wages**
(in Bs.)

| Descripci6n | 2008 1/ | 2009 2/ | |
|---|---|---|---|
| | May 1st | May 1st | September 1st |
| Public and private sector rural and urban workers | 799.23 | 879.30 | 967.50 |
| Teenagers and apprentices | 599.43 | 659.40 | 719.40 |

1/ Official Gazette No. 38921 dated April 30, 2008
2/ Official Gazette No. 39153 dated April 3, 2009

The executive authorities extended firing freeze in favor of public and private workers until December 31, 2009[46]. This measure did not include employees at directive posts, non-union employees, workers with less than three months in the company, as well as part-time, free-lance and occasional workers and those who were earning a monthly basic wage higher than three minimum wages as of the date of the decree.

## 7. Financial Policy

Financial policy measures applied in 2009 were mainly oriented toward preserving the stability of the financial system, vis-à-vis the risks identified in some banks and associated brokerage houses. In this regard, the BCV, together with Sudeban, (the entity that oversights banks and other financial institutions), the CNV (National Securities Commission) and Fogade (Deposits Guarantee and Bank Protection Fund) implemented a number of actions aimed at reorganizing, rehabilitating and, in some cases, liquidating troubled financial institutions.

[45] Official Gazette No. 39153 dated April 3, 2009.
[46] Official Gazette No. 39090 dated January 2, 2009.

Within this context, supervising authorities intervened 10 banks belonging to the commercial, universal, investment and development subsystems. As a result of this process, two banks were liquidated, four were rehabilitated and merged and the others remained intervened.

**TABLE II-4**
**Summary of Financial Institutions Intervention process**

| Official Gazette | Date | Institution | Type of Procedure | Subsystem |
|---|---|---|---|---|
| 39123 | Feb-18-09 | Stanford Bank | Intervention with cessation of financial intermediation | Commercial Bank |
| 39177 | May-13-09 | Industrial | Intervention without cessation of financial intermediation | Commercial Bank |
| 39193 | Jun-04-09 | Stanford Bank | Merger of Stanford Bank with the Banco Nacional de Crédito, C.A. | Commercial Bank |
| 39310 | Nov-11-09 | Canarias<br>Bolivar Banco<br>Confederado<br>Banpro | Intervention without cessation of financial intermediation | Universal Bank<br>Commercial Bank<br>Commercial Bank<br>Universal Bank |
| 39316 | Nov-27-09 | Canarias<br>Banora | Liquidation | Universal Bank |
| | | Bolivar Banco<br>Confederado | Rehabilitation with cessation of financial intermediation | Commercial Bank |
| 39321 | Dec-04-09 | Central<br>Banco Real<br>Baninvest | Intervention with cessation of financial intermediation | Universal Bank<br>Development Bank<br>Investment Bank |
| 39326 | Dec-11-09 | Banorte | Intervention with cessation of financial intermediation | Commercial Bank |
| | | Bolivar Banco<br>Confederado<br>Central | End of the rehabilitation regime | Commercial Bank<br>Commercial Bank<br>Universal Bank |
| 39329 | Dec-16-09 | Confederado<br>Bolivar Banco<br>Central | Merger with Banfoandes and creation of Banco Bicentenario (public bank) | Commercial Bank<br>Commercial Bank<br>Universal Bank |

Source: Official Gazettes

This reorganization led to the creation of Banco Bicentenario, which emerges from merging banks Bolivar BC, Central BU and Confederado BC, which were absorbed by Banfoandes BU. It is worth highlighting that this process, along with the nationalization of Banco de Venezuela in July, resulted in a significant expansion of the participation of public banks in the banking sector. Vis-à-vis the expansion of the number of public banks, the Administration created the Corporación de la Banca Pública[47] (Public Bank Corporation), which was entrusted with coupling, rationalizing, optimizing and streamlining the National Public Financial System and rendering it more effective and sustainable.

[47] Published in the Official Gazette No. 39267 dated September 18, 2009.

As a consequence of the process described above, Sudeban applied a number of measures oriented toward strengthening the sector, regulating the bank liquidation mechanisms, fostering mergers, increasing the minimum capital limits for bank creation and operation, modifying the equity/assets and contingent operation ratio, as well as improving accounting records.

As a consequence of the liquidation process of Banco Canarias and Banpro, in December, the Deposits Guarantee and Bank Protection Fund (Fogade) published regulations for the liquidation of financial institutions and non-financial associated companies[48].

As to the conditions to facilitate merger processes in the banking sector, Sudeban issued a aresolution[49] that provided for two incentives: the first one is related to the surplus value amortization term[50], that is, the financial institution resulting from the merger could amortize its surplus value in 20 years (vs. five before). The second incentive was associated with disbursements of financial institutions during mergers, such as, software adjustments, advertising and marketing expenses and stationary and equipment expenses. The provision rose the term to amortize these expenses from four to five years.

For its part, Sudeban changed and updated regulations to determine the equity to assets and contingent operations ratio, at end-July[51], by introducing changes in the risk weighting criteria and maintaining the minimum level of equity adjustment unchanged (12%).

With relation to the minimum capital for creation and operation of banks, savings and loan firms, brokerage houses, other financial institutions and other businesses governed by the General Law of Banks and other Financial Institutions, Sudeban approved a resolution[52] that increased the required levels to be reached in the first half of 2010.

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[48] Official Gazette No. 39320 dated December 3, 2009. This measure repealed the provision published in the Extraordinary Official Gazette No. 5871, January 1, 2008.
[49] Official Gazette No. 39325 dated December 10, 2009.
[50] Every merging process implies that the bank supervising entity guarantees that valuations on which merges and their accounting treatment are based be sensible. Therefore, Sudeban sets surplus value amortization terms, as well as other items that in Sudeban's opinion should result from the merging process.
[51] Published in the Official Gazette No. 39230 dated July 29, 2009.
[52] Published in the Official Gazette No. 39236 dated August 3, 2009.

As a result of all changes in banking system regulation, Sudeban modified the Accounting Manual for Banks, Other Financial Institutions and Savings and Loan firms[53], to expand and adjust it to the new requirements in the financial sector.

In late 2009, the National Assembly passed the Law for the Partial Amendment of the Decree-Law on Banks and Other Financial Institutions[54], which called for the following: authorization by Sudeban for the acquisition of shares between financial institutions, the modification of Fogade organizational structure, and the increase in the amount of deposit guarantee from Bs. 10,000 to Bs.30,000. It is worth noting that this guarantee was extended for deposits held by savings funds and social prevention institutions, and included a provision according to which these deposits may be paid with assets-backed instruments. Other relevant element is the change of priorities at the time of paying guarantees by providing for the payment of deposits held by children, adolescents and individuals over 55 years of age (vs. 60 years before).

Other measures for the banking sector were oriented toward regulating administered portfolios and organizing operations of the financial system by regulating advertising, adapting electronic systems to facilitate access to the elderly, and regulating administrative processes related to the issuance and use of credit, debit and prepaid cards and other financing or electronic payment cards.

In matters related to mandatory portfolios, regulations for the tourism sector were published in September[55]. Concerning micro-credits, the reform of the General Law of Banks, published at end-2009[56], maintained the 3% level. Therefore, the compliance percentage at the end of the year (21% agriculture, 10% mortgages, 10% manufacturing, 3% tourism, and 3% micro-credits) remained unchanged from 2008.

[53] Published in the Official Gazette No. 39194 dated June 4, 2009.
[54] Extraordinary Official Gazette No. 5947 dated December 23, 2009.
[55] Published in the Official Gazette No. 39270 dated September 23, 2009.
[56] Published in the Extraordinary Official Gazette No. 5947 dated December 23, 2009.

It is worth mentioning that in August the National Assembly passed the new Law of Credits for the Tourism Sector[57], maintaining the same percentage that commercial and universal banks have to earmark for financing granted to this sector (minimum 2.5% and maximum 7%). However, it incorporates a new rule that provides for that 75% of this percentage will be earmarked for applicants that are new in this activity or for those tourism service providers with gross revenue below 5,000 tax units (TU)[58].

Another regulated portfolio that was changed was mortgage[59]. Loan granting was based on the family monthly income: from Bs. 2,800 to Bs. 7,000 in the case of short-term loans, and from Bs. 7,000 to Bs. 23,000 for long-term loans or acquisition of main home.

Additionally, this provision established the financial conditions under which mortgages will be granted. In fact, top monthly quotas were fixed between 5% and 30% of the family monthly income; the maximum financing term of the main home will be 30 years; preferential rates will be fixed according to the family monthly income, and a direct subsidy will be granted to families earning below Bs.2,600, granting loans of up to 10% of the main home value.

**Table II-5**
**Mortgage Portfolio Distribution – 2009**

| | |
|---|---|
| **4% for mortgage earmarked for home construction** | 50% for families earning more than Bs.2,800.0.<br>50% for families earning between Bs.2,800.0 and a maximum of Bs.7,000.0 |
| **6% for families with monthly income below Bs.3,000 for main home acquisition** | 37% for families with monthly income equal to or lower than Bs.7,000;<br>37% for families with monthly income higher than Bs.7,000; and<br>37% for families with monthly income higher than Bs. 7,000. |

[57] Published in the Official Gazette No. 36251 dated August 27, 2009.
[58] The following segments were included in the applicant categories: 1) segment A: tourism service providers that invoice less than 20,000 TU (40% of the portfolio) per fiscal year; 2) segment B: service providers earning betwein 20,000 TU and 100,000 TU (35% of the portfolio); and, 3) segment C: applicants whose earnings are equal to or higher than 100,000 TU (25% of the portfolio).
[59] Published in the Official Gazette No. 39093 dated January 7, 2009.

In February, Sudeban approved the new provisions that will rule procedures for the issuance and use of credit, debit and prepaid cards and other financing and electronic payment cards[60]. This resolution prohibits applying interests on interest, fixing a single formula for the calculation of financing interest rates, regulation of the information data contained in cards, promotion use conditions, extension of security levels against fraud in ATM and sale points, and the adjustment of at least 33% of ATMs so as to facilitate its use for disabled people and the elderly. In this regard, Sudeban published a number of rules in May[61] to improve the physical configuration of ATM screens and keyboards for the use of the elderly[62].

As to commissions, the BCV agreed in August an adjustment for those related to operations with ATMs[63]. In this sense, commissions charged for cash withdrawal operations from third-bank ATMs were adjusted upward by 30% to Bs.3.25, while commissions for operations (balance, rejection for causes attributable to the user, withdrawal and transfers) at ATMs of the bank where users have their accounts were increased 50% to Bs.0.75.

To adapt the securities market to international standards, the CNV published a resolution in late January, urging firms that present securities public offers to prepare and submit their financial statements as per the International Accounting Standards (IAS) and the International Financial Reporting Standards (NIIF). Furthermore, the CNV took measures oriented toward regulating the acquisition of share packages of insurance and reinsurance firms. For this purpose, it published the rules governing the acquisition of shares through Initial Public Offer (IPO) or Public Takeover Offer (PTO)[64].

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[60] Published in the Official Gazette No. 39112 dated February 3, 2009.
[61] Published in the Official Gazette No. 39206 dated June 29, 2009.
[62] This measure supplements the one taken in 2008 concerning preferential treatment and fitting of facilities for physically-challenged people, elderly and pregnant women.
[63] Published in the Official Gazette No. 39251 dated August 27, 2009.
[64] Official Gazette No. 39.301 dated November 6, 2009.

## 8. Sector Policy

In line with the increased State's participation and its development plans, the Administration maintained the nationalization policy it has been applying since 2007 concerning activities deemed strategic, through the announcement of other companies to be acquired and the completion of other process that were being negotiated. In fact, diverse companies in the sectors of iron and steel, tourism, finance and agroindustry[65], were nationalized throughout the year, after the negotiation process for the acquisition of Sidor was completed in May with the payment agreement reached with Ternium.

### Oil Sector

The Organic Law that reserves for the State goods and services associated with the following primary activities which are covered by the Organic Law of Hydrocarbons[66] (water, steam or gas injection, gas compression and those carried out in Lake Maracaibo (boats, tug boats, vessel maintenance, etc.)) entered into force in May, thereby allowing the State to acquire some strategic companies of this sector.

Throughout 2009, the Venezuelan State executed relevant projects to expand short-term production potential, through the certification, quantification and development of the resources at the Orinoco Oil Belt. In this regard, Pdvsa, through CVP (Corporación Venezolana del Petróleo), promoted the creation of mixed companies with foreign oil companies as part of the energy cooperation agreements signed with countries like Russia, China, Spain and Japan.

[65] Nationalized iron and steel companies were Venezolana de Pre-reducidos del Caroní C.A. (Venprecar), Complejo Siderúrgica de Guayana S.A. (Comsiga), Orinoco Iron, Materiales Siderúrgicos S.A. (Matesi) and Tubos de Acero de Venezuela S.A. (Tavsa); tourism sector: Hotel Complex Margarita Hilton & Suites and the Marina and Aeropostal Airlines,; agro-industrial sector: Fama de América C.A., Cafea, C.A Café Instantáneo, a sea food canning plant and some rice processing plants property of Cargill and Alimentos Polar; and financial sector: Banco de Venezuela.

[66] Official Gazette No. 39173 dated May 7, 2009.

In May, the National Assembly authorized the mixed company Petrolera BieloVenezuela S.A., to develop primary activities provided for in the Organic Law of Hydrocarbons, in the areas of Oritupano Norte and Ostra, Anzoátegui state, and in Block II in Lagunillas, Zulia state.

The Organic Law for the Development of Petrochemical Activities[67] was passed in June. This law governs the petrochemical sector in the national territory, including those industrial activities oriented toward the chemical or physical transformation of raw materials based on gas and liquid hydrocarbons and mineral substances that are used as inputs.

**Mining Sector**

The BCV Resolution that provides for the rules for the new commercialization regime for gold and its alloys entered into force in June. This Resolution repealed the one issued in April 2009[68].

The legal framework is oriented to encourage productive investment, the creation of new jobs in the gold mining sector, as well as the development of the transforming sector, thereby making those projects of mercantile companies, in which the Republic or public entities have a direct or indirect participation equal to or higher than fifty percent (50%) of the capital and that are devoted to gold mining, viable.

Likewise, at least fifty percent (50%) of the total gold production must be earmarked for the domestic market. In this regard, 25% must be offered for sale to the BCV and the other 25% to the domestic transforming sector; the other 50% may be exported. Within this context, it is established that export operations with gold and its alloys will be authorized or

[67] Official Gazette No. 39203 dated June 18, 2009.
[68] Provisions on Gold and Alloys Commercialization Regime. BCV Resolution No. 09-06-03 published in the Official Gazette No. 39201 dated June 16, 2009, that replaces Resolution No. 09-04-03 contained in the Official Gazette No. 39169 dated April 30, 2009.

rejected by the BCV, in accordance with policies and priority regimes as determined by the Board of the Bank.

The Declaration of 2010 as the Year of Gold was intended to enhance the BCV's presence in the domestic gold market and stimulate gold domestic production, based on a view of sustainable development that minimizes impacts of gold mining on the environment. For this purpose, the Bank implemented a strategic plan.

To attain the goals set, the Exporter and Supplier Registry and the Exchange Agreement No. 12[69] were implemented. This latter provides for that foreign currency from gold exports be mandatory sold to the BCV, except those obtained from exports by mercantile companies in which the Republic or public entities have a direct or indirect participation equal to or higher than 50% of the capital.

**Manufacturing Sector**

To guarantee food security and sovereignty, measures were taken to regulate certain activities of the agroindustrial sector, from production to commercialization. Furthermore, procedures for imports of goods and inputs considered essential to complement domestic supply were made more flexible.

In this context, the resolution[70] that ruled the mobilization of products and inputs of vegetal origin, as well as finished food products for human and animal consumption was issued in February. At the same time, the validity of the list that includes those items required for the production of foodstuffs that are submitted to the temporary measures aimed at making their production, import and marketing more flexible was extended until March 30, 2009.

[69] Decree No. 6761, published in the Official Gazette No. 39207, dated June 25, 2009.
[70] Published in the Official Gazette No. 39113 dated February 4, 2009.

The resolution[71] that established the guidelines for the mobilization, follow-up and control of finished food products earmarked for commercialization in border states (Apure, Táchira and Zulia), as well as the guide for follow-up and control of finished food products for commercialization throughout the national territory was passed in March.

Concerning administered portfolios, the BCV issued a resolution that provides for that commercial and universal banks are not allowed to decrease the portion they have reserved, as of March 31, 2009, from their gross credit portfolios for the financing of credits earmarked for manufacturing companies, which must not be below 10%.

In May, the application of an agroindustrial financing program under the joint Resolution issued by the People's Ministries for Alimentation and Economy and Finance[72] was extended for an additional year. This Resolution provides for that those industries of the national agroindustrial sector that produce oleaginous products may obtain credit facilities through the State-owned banks and financial institutions, so as to allow them to purchase raw materials for the production of oil and its derivatives for agroindustrial production and the supply of the domestic market.

**Agricultural Sector**

The Administration focused on directly encouraging domestic production, particularly that corresponding to the production of agricultural goods, through: 1) the application of the subsidy policy for the production of some agricultural products; and 2) the approval of the Exceptional Development Plan for the Construction, Rehabilitation and Consolidation of Rural Agrarian Infrastructure and Agricultural Promotion throughout the national territory during 2009 fiscal year.

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[71] Published in the Official Gazette No. 39141 dated March 18, 2009.
[72] Published in the Official Gazette No. 39186 dated May 26, 2009.

As to the agricultural administered portfolio, some changes were introduced to the placement structure[73], as well as to the minimum levels required for the first six months of the year. These new rules favored priority items by increasing the minimum percentage between 49% and 70%, and add other elements related to financing conditions for these items (terms, period of grace, number of installments and installment periodicity).

**TABLE II-6**
**Agrarian Credit Portfolio**
Minimum required percentage

| | 2009 | 2008 |
|---|---|---|
| February | 16% | 14% |
| March | 16% | 14% |
| April | 17% | 15% |
| May | 17% | 18% |
| June | 18% | 18% |
| July | 18% | 18% |
| August | 18% | 18% |
| September | 19% | 19% |
| October | 19% | 19% |
| November | 20% | 20% |
| December | 21% | 21% |

Source: Official Gazettes.

**TABLE II-7**
Agricultural Portfolio Regulation

| **Year 2008** | | | |
|---|---|---|---|
| Financing for: | Item | | Minimum % |
| Primary agricultural production | Priority items | | 49% |
| | Non-priority items | | 21% |
| Agroindustry and commercialization | Priority items | Agroindustrial investment | 10.5% |
| | | Commercialization | 4.5% |
| | Non-priority items | Agroindustrial investment | 4.5% |
| | | Commercialization | 4.5% |
| Total agricultural Portfolio | | | 100% |

Source: Official Gazette No. 38862

| **Year 2009** | | |
|---|---|---|
| Financing for: | Activity | Percentage |
| Priority items | Primary agricultural production | 49% to 79% |
| | Agroindustrial investment | 10.5% to 15% |
| | Commercialization | 10.5% to 15% |
| Non-priority items | Primary agricultural production | Maximum 21% |
| | Agroindustrial investment | Minimum 4.5% |
| | Commercialization | Minimum 4.5% |
| Total agrarian portfolio | | 100% |

Source: Official Gazette No. 39118

A relevant aspect concerning the agrarian sector was the placement of domestic government debt bonds for the financing of the Project for the Agricultural Development Integral Plan 2009-2010[74]. This issue was intended to contribute to the reactivation of the agricultural productive apparatus and facilitate compliance by banks with the required

[73] Published in the Official Gazette No. 39118 dated February 11, 2009.
[74] Published in the Official Gazette No. 39152 dated 2 de April de 2009.

minimum levels, by allowing banks to allocate to these securities up to a maximum of 15% of their mandatory agricultural portfolio[75].

[75] Article 4 of Resolution DM No. 0071 published in the Official Gazette No. 39282, October 9, 2009, provides for that, upon approval by the Agrarian portfolio Follow-up Committee, the set value of 15% could be increased up to 30% of the total administered portfolio for banks that so request and meet the established requirements, according to the Resolution published in the Official Gazette No. 39166 dated April 27, 2009.

## CHAPTER III

## REAL SECTOR

### 1. Introduction

After a five-year long expansion phase, the Venezuelan economy contracted 3.3% in 2009. The productive activity decline was evident in the oil sector and registered a value added drop of 7.2%, mainly due to the OPEC-mandated production cuts. The non-oil sector contracted at a more moderate pace (2.0%), due to the weaker aggregate demand, the restricted supply of foreign currency for imports and the chaining up with the oil sector.

In a complex environment, it is important to highlight the sustained growth maintained by sectors such as communication, electric electricity and water and community, social and personal services. General government services' growth decelerated, due to the fall experienced by tax revenue for the period.

The manufacturing industry was one of the less dynamic non-oil activities and its decline intensified the decreasing trend exhibited by its participation in GDP over recent years. Trade and transportation and storage services also went back, reducing their production at rates that were even higher to the one observed in the country´s oil sector. Value added of financial institutions and mining also dropped for the second year in a row, especially the latter one, which impacted on the development of associated activities such as construction.

On the demand side, private consumption decreased 3.2%, related to lower real income. Investment expenditure fell at an 8,2% rate, which intensified the decrease registered the prior year and reflected the impact of lower foreign currency supply. Public consumption, in turn, gained 2.3%, a behavior that was associated with the sustaining of final expenditure in education and health by the Central Government.

The weaker aggregate demand translated into a lower inflation rate, which closed the year at 25.1%, down 5.8 percentage points from 2008. This deceleration was due to alimentary security government policies and to the favorable climate conditions that prevailed throughout the year, factors that together limited increases in food prices. However, it should be noted that underlying inflation, measured through core inflation, showed a less pronounced drop that revealed the persistence in the increasing movement of consumer prices.

## 2. Aggregate Supply

### 2.1 Global Analysis

Global supply of goods and services recorded an 8.5% drop in 2009, due to the decline in both its national and imported components. In this regard, GDP feel at a 3.3% annual rate as a consequence of a decrease in the oil sector (7.2%) and the non-oil sector (2.0%). Imports, in turn, contracted 19.6%.

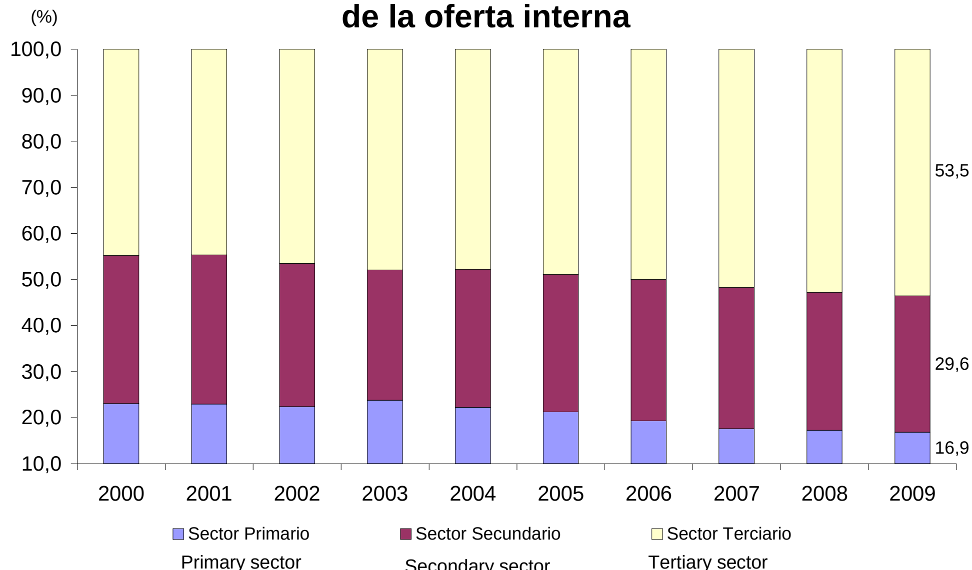
**TABLE III-1**
**Global Supply**
**(thousand bolivars)**

| | At 1997 prices | | | Variation % | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2009/2008** | **2008/2007** |
| **Global Supply** | 78,009,310 | 85,258,994 | 81,626,455 | -8.5 | 4.5 |
| Gross Domestic Product | 56,022,729 | 57,927,000 | 55,283,504 | -3.3 | 4.8 |
| Oil | 6,471,409 | 6,974,807 | 6,807,754 | -7.2 | 2.5 |
| Non-oil | 43,435,281 | 44,341,887 | 42,179,373 | -2.0 | 5.1 |
| Import Rights | 1,277,262 | 1,600,438 | 1,608,189 | -20.2 | -0.5 |
| Net taxes on products | 4,838,777 | 5,009,868 | 4,688,188 | -3.4 | 6.9 |
| Imports of goods and services | 21,986,581 | 27,331,994 | 26,342,951 | -19.6 | 3.8 |

Source: BCV

Concerning the economic sector-based composition of domestic supply, it is worth highlighting that the gross value added of the financial sector lost 1.4% with respect to 2008 and accounted for 53.5% of the total for a record high. From the point of view of its marketability, the decline pace in productive activities of tradable goods (5.1%) was higher than that of non-tradable goods (1,1%).

**CHART III-1**
**Economic sector-based Composition of Domestic Supply**
**GRÁFICO III-1**
**Composición por sectores económicos de la oferta interna**

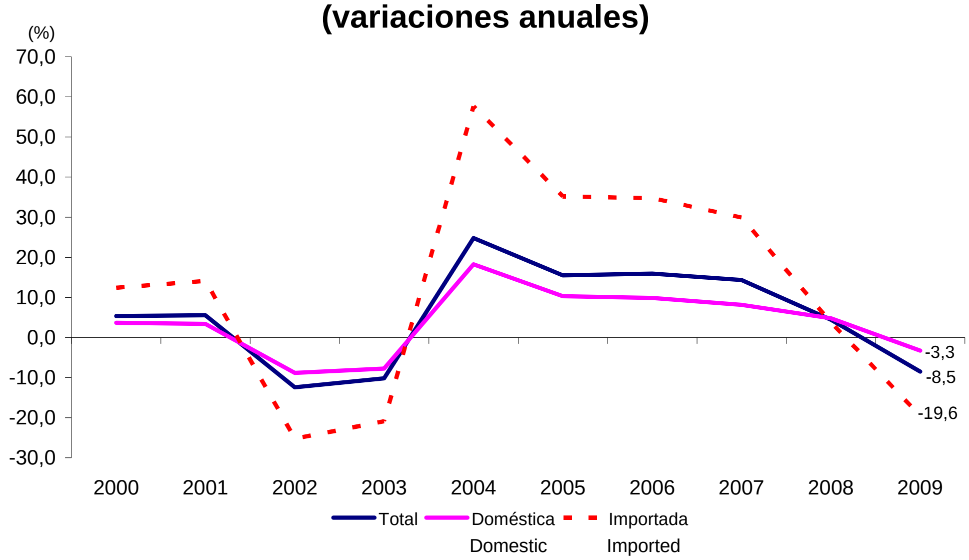



Source: BCV and own calculations

One of the factors that most influenced import behavior was the contraction in foreign currency allocations, due to a more austere policy for the administration of the existing resources, vis-à-vis the decline in the country's export revenues. Consumption and investment decline also played a significant role and translated into a lower demand of foreign goods. Only the variation rate of capital goods imported by the public sector exhibited a positive behavior.

The imported supply share in global supply decreased to 28.2%. However, this percentage was higher than the average observed over the last 10 years (24.4%), which reflects the high dependence on imports that has being observed over recent years.

**CHART III-2**
**Global Supply and its Components**
(yearly values)
**GRÁFICO III-2**
**Oferta global y sus componentes**
**(variaciones anuales)**




Source: BCV and own calculations

## 2.2 Sector-based Analysis

### 2.2.1 Oil Activities[76]

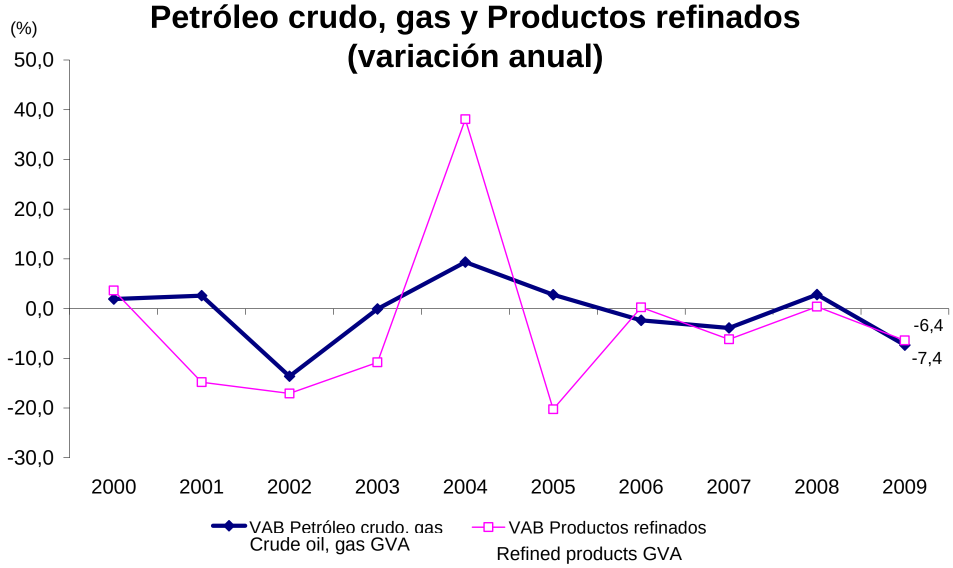
The oil activity behavior in 2009 exhibited a contraction as a result of the compliance with the OPEC-mandated crude oil production cuts in late 2008. The implementation of diverse preventative maintenance programs, the execution of the project for the increase of conversion load at the El Palito refinery and some operational problems influenced this result.

In this context, after having exhibited a recovery in 2008 (2.5%), the gross value added of the oil sector decreased 7.2% due to the drop of 7.4% in crude and natural gas extraction and of 6.4% in refining activities.

[76] The analysis presented in this section was prepared mainly based on 2009 preliminary information reported by Pdvsa.

**CHART III-3**
**Gross Value Added (GVA) of oil activity, crude oil, gas and refined products**
(yearly variation)

**GRÁFICO III-3**
**VAB de la actividad petrolera, Petróleo crudo, gas y Productos refinados**
**(variación anual)**




Source: BCV and own calculations

Per institutional sector, public oil activity (which currently represents 94.5 of oil business) recorded a year-to-year contraction of 7.3%. Services related to oil extraction activities, in turn, shrank 6.1% due to the shutdown, in early year, of activities in some upgraders located in the Orinoco Oil Belt.

Refining activity's drop was associated with the lower levels of crude oil extracted, as well as the shutdown of operations in the major refineries in the country, due to maintenance programs, and the increase in crude oil volumes shipped to countries such as Spain, Ecuador and Petrocaribe members. In response to lower refining levels, Pdvsa raised product imports to cover the 3.8% increase in domestic demand for refined products, such as low sulphur-content fuel oil (56.8%), gas oil and distillates (2.3%) and gasoline (1.1%). Foreign sales of refined products also fell (1.6%), specifically gasoline and naphtas (17.4%), distillates (16.3%) and kerosene (7.8%).

The decline in oil extraction and in the refining activity led to a 7.6% drop (220,000 b/d) in Pdvsa's exports, which averaged 2.7 million b/d throughout the year. North America, the Caribbean (including Petrocaribe agreements), Asia and Europe remained as the main destinations for Venezuelan crude exports.

As to Pdvsa investment, more resources were earmarked for the construction of new refineries, the purchase of heavy and extra-heavy crude upgraders and for the maintenance of plants and equipment. However, the State-owned oil industry made fewer investments in upstream activities, specifically exploration (14.6%) and production (29.4%).

In 2009, proven reserves reached 211.173 billion barrels[77], up 22.5% from 2008, thanks to the certification of 39.949 billion barrels obtained from the traditional oil zones in Barcelona, Maracaibo, Maturín, Barinas and Cumaná, and the Orinoco Oil Belt, specifically from Block Junín, Boyacá and Ayacucho, within the framework of the Orinoco Magna Reserva Socialist Project.

### 2.2.2 Non-oil Activities

The non-oil sector recorded a 2.0% fall, after a higher number of activities entered a contraction phase throughout 2009. Factors that influenced this result included the weaker aggregate demand, the strategic treatment of foreign currency for imports and the lower investment levels. The drop in the non-oil sector was basically related to contractions in manufacturing (6.4%), trade and repair services (8.3%), and transportation and storage (8.5%).

[77] According to la Resolution published in the Official Gazette No. 39388 dated March 17, 2010.

## TABLE III-2
## Gross Value Added of non-oil Activity
(variation percentage)

| Weight % | | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|
| **77.5** | **Non-oil GVA** | **-7.4** | **16.1** | **12.2** | **10.9** | **9.6** | **5.1** | **-2.0** |
| 0.5 | Mining | -4.4 | 14.2 | 3.0 | 7.2 | 1.5 | -4.2 | -11.2 |
| 15.4 | Manufacturing | -6.8 | 21.4 | 11.1 | 8.3 | 7.4 | 1.4 | -6.4 |
| 2.3 | Electricity and water | -0.5 | 8.5 | 11.2 | 4.9 | -1.5 | 5.7 | 4.2 |
| 6.9 | Construction | -39.5 | 25.1 | 20.0 | 30.6 | 15.5 | 3.7 | 0.2 |
| 10.2 | Trade and repair services | -9.6 | 28.6 | 21.0 | 15.7 | 16.7 | 4.6 | -8.3 |
| 3.6 | Transportation and storage | -8.0 | 24.6 | 14.7 | 14.3 | 13.3 | 3.8 | -8.5 |
| 5.5 | Communications | -5.0 | 12.9 | 22.4 | 23.5 | 19.8 | 18.2 | 9.8 |
| 4.5 | Financial institutions and insurance | 11.9 | 37.9 | 36.4 | 47.2 | 16.4 | -4.6 | -2.4 |
| 9.6 | Real estate, business and rental services | -6.0 | 11.1 | 7.9 | 8.6 | 5.8 | 2.7 | -2.0 |
| 5.9 | Community, social and personal services and production of non-profit private services | -0.3 | 9.4 | 8.2 | 16.5 | 10.9 | 9.5 | 3.1 |
| 11.8 | Production of services of the general Government | 4.9 | 11.1 | 8.0 | 3.0 | 5.7 | 5.3 | 2.4 |
| 6.1 | Others [1/] | -2.9 | 7.2 | 12.6 | 3.7 | 5.0 | 5.6 | -0.3 |
| 4.8 | Less IMFIS [2/] | 17.5 | 38.0 | 37.9 | 45.3 | 13.2 | -8.5 | -0.6 |

1/ Comprising agriculture, restaurants and hotels.
[2/] IMFIS: indirectly measured financial intermediation services
Source: BCV.

Construction registered a slight increase of 0.2%, a result that was favored by the significant rise exhibited by private home construction during the fourth quarter of the year (17.0% on a year-to-year basis). One of the elements that influenced this behavior was the entering into force of Decree 39197, which prohibited the adjustment, based on the variation of the Consumer Price Index (CPI), of installments paid for the purchase of homes under construction, a measure that encouraged construction companies to more rapidly complete works that were being executed.

Factors that limited the expansion of the construction sector in 2009 included the stagnation in the execution of infrastructure works by public entities and the shortage of basic inputs such as non-flat iron and steel products and concrete aggregates, where Sidor’s production drop and troubles experienced by the mining activity played a role.

The accelerated growth rate of the communication sector (9.8%) as well as advances experienced by electricity and water (4.2%), social and personal community services (3.1%) and general Government service producers (2.4%) deserve particular mention.

The dynamism exhibited by the communication sector was basically driven by the 15.2% expansion of the public sector in terms of this activity, whereas the private sector grew 3.7%. This sector's growth was largely due to the expansion of networks and services offered by CANTV, which favored greater access of homes to fixed and cell phone services, as well as to the broadband service. Furthermore, a significant increase in the number of new customers and in the total minutes invoiced was observed.

For its part, rise in electricity and water activities was due to the increase in thermal power generation by Cadafe and La Electricidad de Caracas. However, this increase was dimmed by the drop in hydropower generation by Edelca.

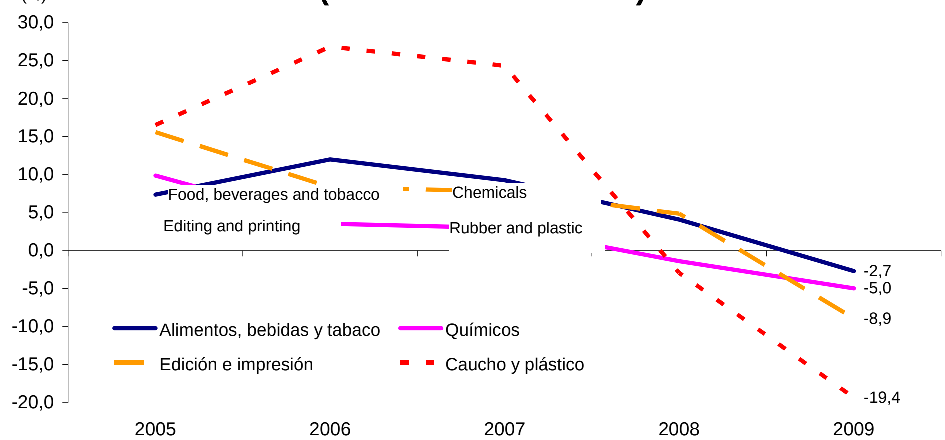
Community, social and personal services also continued to rise (3.1% in 2009), whereas the Central Government services grew 2.4%. Although these activities managed to sustain their growth rated, these latter were lower than those recorded since 2004.

However, the main activities that entered a contraction phase in 2009 included manufacturing and trade, which accounted for 15.4% and 10.2% of GDP, respectively. It is worth highlighting that both activities had been registering positive growth rates since 2004.

In the manufacturing sector, the most affected production areas were those associated with mining, specifically, the production of common metals (38.7%), as well as non-metallic minerals (37.4%). Moreover, drops in production of food, beverages and tobacco were recorded (2.7%), as well as in the areas of chemicals, editing and printing and rubber and plastic. Manufactures that increased production were paper (4.5%) and electric equipment (1.3%).

**CHART III-4**
**Manufacturing Activity Production Volume Index**
(yearly variations)

**GRÁFICO III-4**
**Índice de volumen de producción de las actividades manufactureras**
**(variaciones anuales)**




Source: BCV and own calculations

With regard to wholesale trade, sales of materials for construction contracted due to the stagnation experienced for this activity. Concerning detail trade, sales of food, beverages and tobacco lost 12.6%, but vehicle sales experienced the highest drop due, among other things, to the lower availability of foreign resources to import inputs for assembly plants and finished vehicles.

Financial institutions proceeds shrank 2.4% for the second year in a row. Deceleration in aggregate demand translated in a decrease in domestic credit demand and, therefore, in a lower level of credit intermediation throughout 2009.

**Box III-1**

**Methodological aspects related to the general Government services**

Measurement of economic impacts of governmental activity and its incidence on the population wellbeing have been a reason for concern and posed a challenge for national accounting. According to guidelines of National Account Manuals, methodologies have been developed to measure governmental services within the framework of a country's macroeconomic accounts.

*General Government Sector*

The National Account System 1993 (SCN93) defines the general Government as the set of "institutional units that, besides complying with their political responsibilities and with their role in economic regulation, mainly produce non-market services (and possibly goods) for individual or collective consumption and redistribute income and wealth.

The Government provides services of collective nature, such as general government, defense and activities related to social security plans. Likewise, it provides individual services for homes, associated with education, health and recreation, cultural and sports activities. These services have a direct impact on the population wellbeing and are provided free of charge or at economically insignificant prices, for social policy reasons. This production is known as non-market production in the SCN.

*Valuation*

Contrary to economic agents' production, it is not easy to find suitable markets which prices can be used to value the Government non-market production. In general, this production is valued by its costs, i.e. the sum of the mean consumption of goods and services, remuneration of wage-earning people, consumption of fixed capital and other taxes on production. The net operation surplus, that is, capital remuneration, is assumed at zero.

*The Government as a producer*

When the government unit decides to intervene in the production sphere, it can do it through the following modalities:

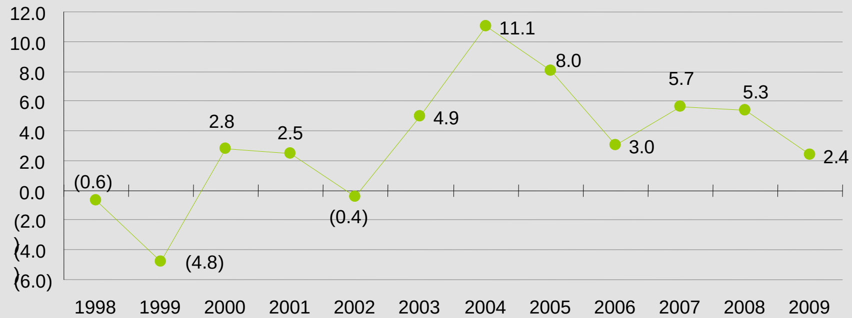
a) Create a public company.
b) Establish a non-profit organization (NPO) fully or mostly controlled and financed by the unit.
c) Produce goods and services by itself.

If a governmental unit decides to produce goods and services by itself, it charges economically significant prices[1/]. Regardless of the fact that it is led and managed as a firm and has a full set of counts that make it possible to separately identify and measure its surplus, savings, assets and liabilities, etc., it should be treated as a company and, therefore, it should be part of the public firm sector and not of the general Government sector.

*Role of General Government service producers in the economy*

It is necessary to point out that activities developed by the general Government service producers are one of the most important ones from the point of view of their share in GDP generation at constant prices. In fact, it accounted for 11.8% in 2009, which together with manufacturing and oil represent the three main economic activities in the country.

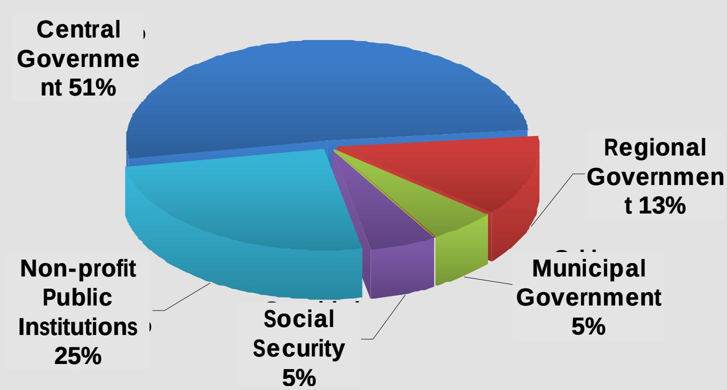
**Chart 1**
**Gross Value Added of Service Producers of the Central Government at constant prices**
**Point Variations (%)**




Source: BCV

From the institutional perspective, 51% of the gross value added was produced by the Central Government in 2009, whereas non-profit public institutions contributed 25%. A significant part of these institutions are attached to ministries, therefore, it can be stated that general government represents a little more than 70% of the Central Government estimates (chart 2).

**Chart 2**
**GROSS VALUE ADDED AT CONSTANT PRICES**
**GENERAL GOVERNMENT STRUCTURE**
**Year 2009**




Source: BCV

As to classification broken down by economic activities, Table 1 shows that the provision of general government and defense services[2/], with a 50.4% share, influences the general variation rate (2.4%) by 1.6%. Second, educational services, with a weight of 38.2%, contribute 0.5%. Meanwhile, health services (8.4%) contribute with 0.2% in the global result. Finally, social security, entertainment and recreation services together have a weight of 3% and account for 0.1%.

**Table 1**
**Gross Value Added**
**General Government Service Producers**
**Year 2009**
**Percentage (%)**

| | Structure | Contribution |
|---|---|---|
| Total | 100.0 | 2.4 |
| General government and Defense | 50.4 | 1.6 |
| Education | 38.2 | 0.5 |
| Health | 8.4 | 0.2 |
| Social Security | 2.0 | 0.0 |
| Entertainment and Recreation | 1.0 | 0.0 |

Source: BCV

*Final consumption expenditure of the general Government service producers*

Efforts deployed to improve the analysis and economic visualization of the impact of the governmental activities on the population include the incorporation into the National Account System 1993 of the redistribution process of income in kind, by means of the mechanism of social transfers in kind to households. This mechanism shows that the effective final consumption of families is higher than their expenses in an amount equal to transfers in kind received from governmental units and non-profit institutions that serve families.

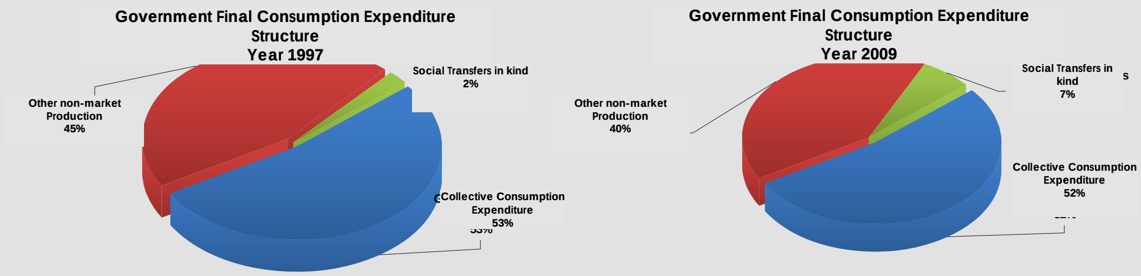
According to a methodological definition, the Government final consumption expenditure (FCE) is equivalent to the production for own use of the general Government service producers plus social transfers in kind (third-party production) that the Government provides for households. The individual consumption expenditure comprises those goods and services that, in principle, go to families or their individual members, such as education and health expenditure. Collective expenditure, on the contrary, benefit the community in general, and include street lighting and defense expenditure. Therefore, final consumption expenditure is divided into individual and collective.

• *Individual final consumption expenditure* is obtained by adding production for own consumption of establishments providing individual services plus social transfers in kind.

• *Collective final consumption expenditure* is equivalent to the non-market production for own consumption of establishments producing collective services.

Chart 3 describes how Government final consumption expenditure maintains its structure over time: individual final consumption expenditure (47%) and collective final consumption expenditure (53%). However, it is worth stressing the restructuring experienced by individual final consumption expenditure, as a result of the 5 percentage point increase in social transfers in kind, from % in base year 1997 up to 7% in 2009. This behavior is largely due to the implementation of social programs starting in 2003, including the so-called Missions.

Chart 3




Source: BCV

These transfers comprise goods and services produced by third parties that the Government directly delivers to households, including delivery of medicines and health services through the Barrio Adentro and the Milagro Missions, school uniforms and materials, inputs for food providing entities, book donations in the framework of the "Cultura" Mission and energy saving bulbs. All these missions are intended to meet basic needs of the population's most vulnerable sectors.

1/ "Prices are considered to be economically significant when they have a significant influence on the amounts that producers are willing to supply and in the amounts that buyers desire to buy". Sistema de Cuentas Nacionales 1993. Chapter IV. Paragraph 4.24.

2/ Includes administrative functions performed by the Head of State, the parliament, ministries and other entities and agencies of the central, state and local power, as well as the administration and oversight of financial and fiscal matters, defense services, public finance administration, customs, among others.

**Box III-2**

## The Venezuelan electric power sector

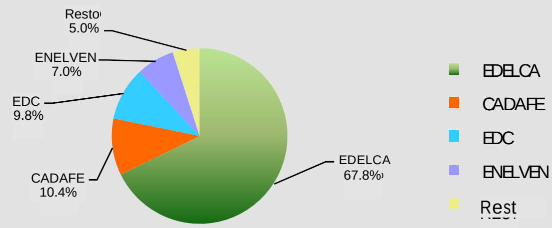
Industrial and economic development and advancements of modern society are inextricably linked to a favorable behavior in the electric power generation process. Therefore, the study of the electric sector is vitally important, since this is a good with a significant influence and presence in cost structures of businesses and in the composition of household expenditure.

Therefore, the behavior of this sector has an effect on medullar areas such as health, education, teaching, security and the productive process itself, even entertainment and recreation activities. Hence the importance of identifying the main characteristics of the electricity service, which are related to generation, transmission and distribution to final consumers, as well as the participation of public companies and private businesses.

In our country, decisions have been recently made that have modified the institutional structure of the Venezuelan power sector, in particular, from year 2007, after nationalization of the major private companies: La Electricidad de Caracas, Electricidad de Valencia (Eleval) and Sistema Eléctrico del Estado Nueva Esparta (Seneca); as well as the creation of the Corporación Eléctrica Nacional (CEN), responsible for policies and guidelines of this sector.

Today, public sector companies are responsible for 99% of the electricity generated in the country (chart 1). The main companies in order of importance include Electricidad del Caroní (Edelca), Compañía Anónima de Administración y Fomento Eléctrico (Cadafe), La Electricidad de Caracas (EDC) and Energía Eléctrica de Venezuela (Enelven). In addition, 94% of the electric power in Venezuela is distributed by public companies, mainly Cadafe.

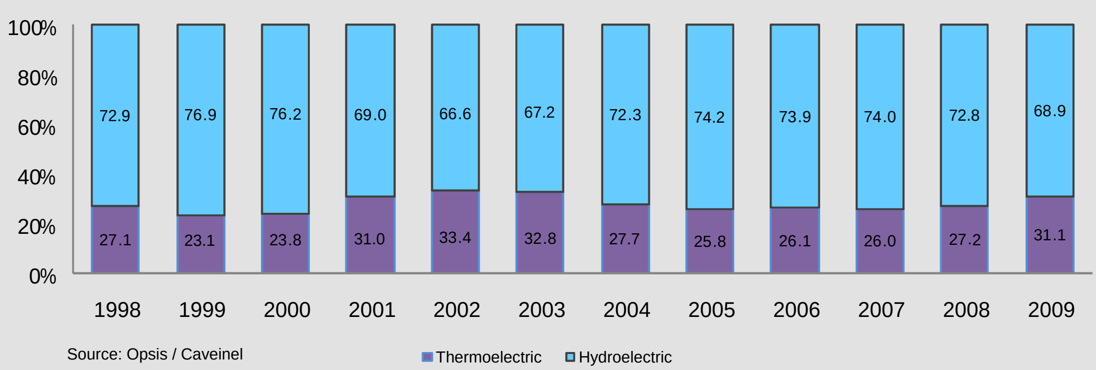
CHART 1
ELECTRIC POWER GENERATION
PERCENTAGE SHARE
YEAR 2009
GWh




Source: Opsis

The electric power is mainly generated from hydroelectric sources (chart 2). It is worth underscoring the reorganization that took place in 2009, when as a result of the long dry season, hydroelectric generation accounted for 68.9% of the total electric power, down 3.9 percentage points from the prior year. Therefore, generation through thermoelectric plants increased its share up to 31.1%.

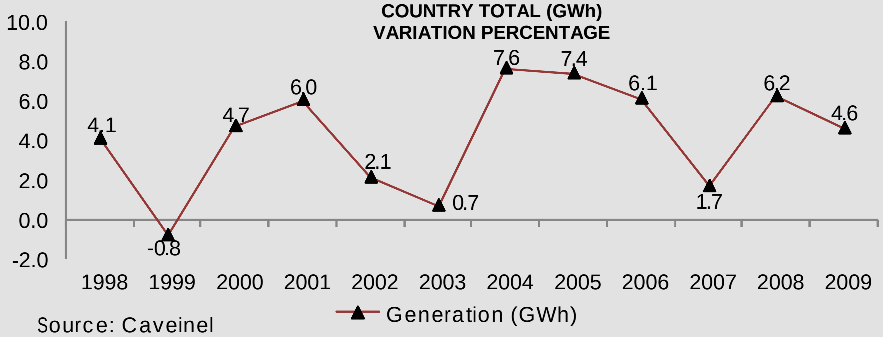
CHART 2
ELECTRIC POWER GENERATION
GWh
1998-2009 SERIES




Source: Opsis / Caveinel

Decisions as to economic planning include taking measures to guarantee sustainability of the electric power generation process. In this regard, chart 3 shows that power generation has characterized over the last 11 years by exhibiting a sustained but irregular increase lower than that of GDP.

CHART 3
ELECTRIC POWER GENERATION
COUNTRY TOTAL (GWh)
VARIATION PERCENTAGE

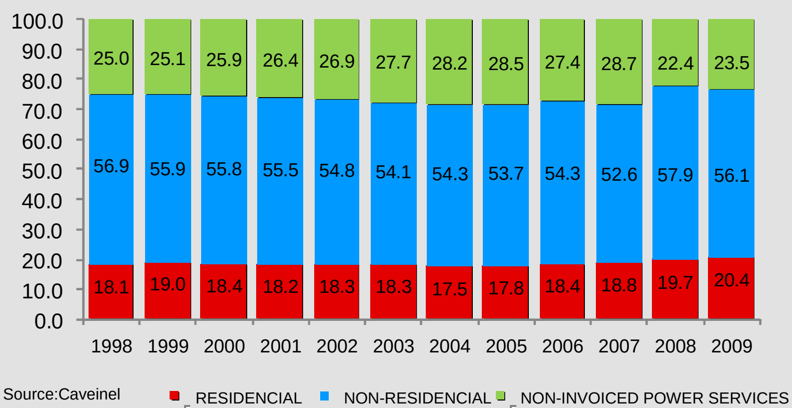



Source: Caveinel

The commissioning of a series of thermoelectric generation plants have influenced this behavior. However, it is worth noting that the most part of these generating plants are equipment very old, which has limited the immediate response capability to the growing energy demand. Likewise, besides institutions restructuring, the number of companies of the electric sector has remained practically unchanged.

Finally, concerning production destination, it should be noted that more than 50% of power demand come from non-residential sector (public and private companies and Government), whereas about 20% is consumed by households and a percentage close to 30 results from loss due to transmission and power service robbery.

CHART 4
ENERGY CONSUMPTION
PERCENTAGES
GWh



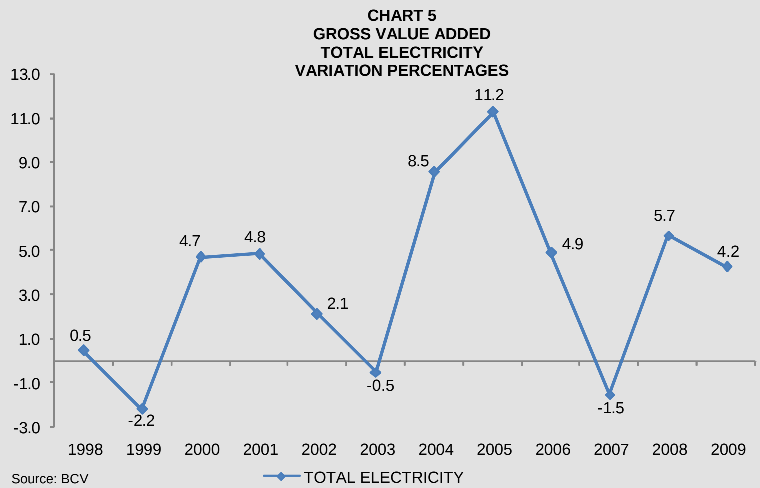

Source:Caveinel

## Behavior of Gross Value Added (GVA)

The 4.2% increase in electric power GVA in 2009 was bolstered by the higher generation levels by public companies, mainly Cadafe and Enelven, 44.1% and 20.3%, respectively. These results are related to the commissioning of the Josefa Camejo generating plant the Paraguaná Peninsula, Falcón state, and the Termozulia II thermoelectric power plant, in Zulia state. Edelca, in turn, reported a 3.1% decrease due to the lower water levels in the Guri dam.

Public electric sector GVA grew 4.3% in 2009 as a result of the 10.8% growth recorded by Cadafe and of 4.1% by EDC, which was dimmed by Edelca's contraction (3.1%).

While this activity is strategic, the direct GVA contribution from the electric sector in the generation of the country's gross domestic product accounted for 2% in 2009.




According to Table 1, Edelca is the most important company of the electric sector in terms of electric power generation (68% of the country's electricity consumption), with a 30.4% share in 2009 and an impact of 0.9% on total GVA of the public electric sector, due to the contraction of its value added. EDC, in turn, has a weight of 25.4% and contributes 1.0%, whereas Cadafe, with a weight of 25.%, contributes with 2.7% in the general result. Enelven comes in the last place, with an incidence of 0.7%, with a participation of 7.3% of GVA of the public electric activity.

TABLE 1
PUBLIC ELECTRICITY
GROSS VALUE ADDED AT CONSTANT PRICES
YEAR 2009
PERCENTAGE (%=

| | Point Variation | Structure | Incidence |
|---|---|---|---|
| **TOTAL** | **4.3** | **100.0** | **3.5** |
| EDELCA | -3.1 | 30.4 | -0.9 |
| CADAFE | 10.8 | 25.2 | 2.7 |
| EDC | 4.1 | 25.4 | 1.0 |
| ENELVEN | 9.3 | 7.3 | 0.7 |

1/ GVA at constant prices is obtained from the sales constant value (upon deducting purchases), less intermediate inputs employed in the production process. Sales at constant prices are obtained by multiplying the sold volume, per type of customer, at prices of the base year. The value prices of purchases at constant are obtained by multiplying the purchased volume by the base price.

## 3. Aggregate Demand

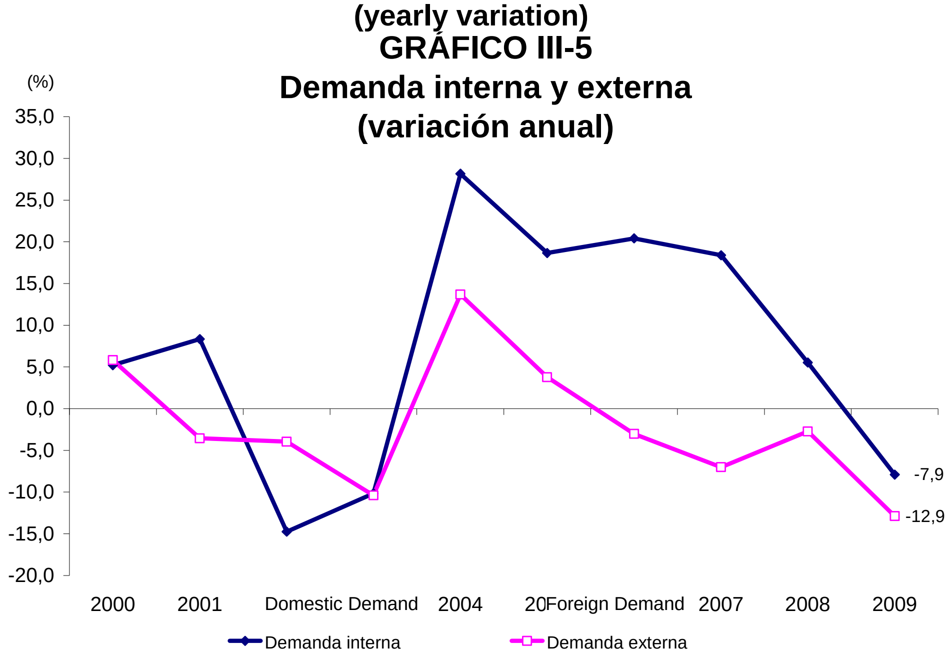
The aggregate demand weakening in 2009 was reflected in the contraction in both the private final consumption expenditure (3.2%) and in the gross fixed capital formation (8.2%), which together account for 73.8% of global demand. The Government final consumption, in contrast, maintained its growing trend, albeit at a more moderate pace.

**TABLE III-3**
**Global Demand**
(thousand bolivars)

| | At 1997 prices | | | Variation % | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2009/2008** | **2008/2007** |
| **Global Demand** | 78,009,310 | 85,258,994 | 81,626,455 | -8.5 | 4.5 |
| Domestic Aggregate Demand | 69,052,900 | 74,978,276 | 71,056,897 | -7.9 | 5.5 |
| Government final consumption expenditure | 9,374,173 | 9,165,267 | 8,590,870 | 2.3 | 6.7 |
| Private final consumption expenditure | 40,521,629 | 41,862,834 | 39,089,891 | -3.2 | 7.1 |
| Gross fixed capital formation [1/] | 17,054,881 | 18,568,270 | 19,198,038 | -8.2 | -3.3 |
| Stock variation [2/] | 2,102,217 | 5,381,905 | 4,178,098 | | |
| Foreign Demand | 8,956,410 | 10,280,718 | 10,569,558 | -12.9 | -2.7 |

[1/] Includes net valuable item acquisitions
[2/] Comprises statistical discrepancy
Source: BCV.

**CHART III-5**
**Domestic and Foreign Demand**
**(yearly variation)**



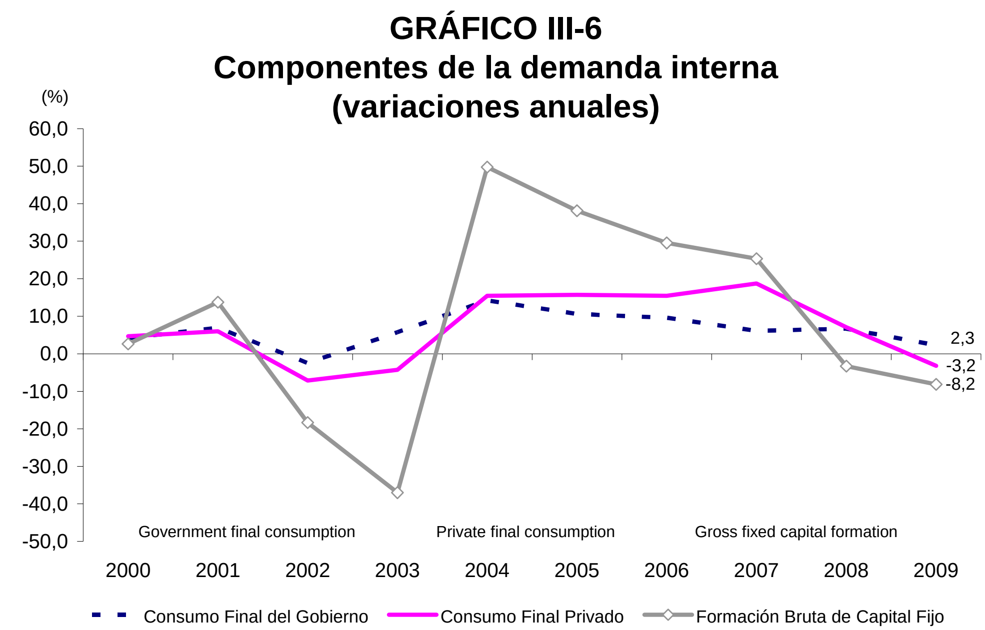

Source: BCV

Household expenditure dropped at a yearly rate of 3.2%, due, among other factors, to the lower real income.

Gross fixed capital formation, (GFCF), in turn, grew for the second year in a row, due to the worse expectations about macroeconomic performance and the intensification of restrictions for the delivery of official foreign currency. This factor substantially impacted the investment imported component. Restrictions imposed on automobile imports, which had an effect on investment expenditure in transportation equipment throughout the period also played a role.

Government final consumption posted a 2.3% increase in 2009, lower than growth in the prior year (6.7%), due to the impact of drop in oil tax revenue.

**CHART III-6**
**Domestic Demand Components**
**(yearly variations)**




Source: BCV

A strong decline was observed in foreign demand (12.9%), which not only was reflected in the decrease in foreign oil sales, but also in a contraction of the country’s non-oil exports.

## 4. Labor Market and Prices

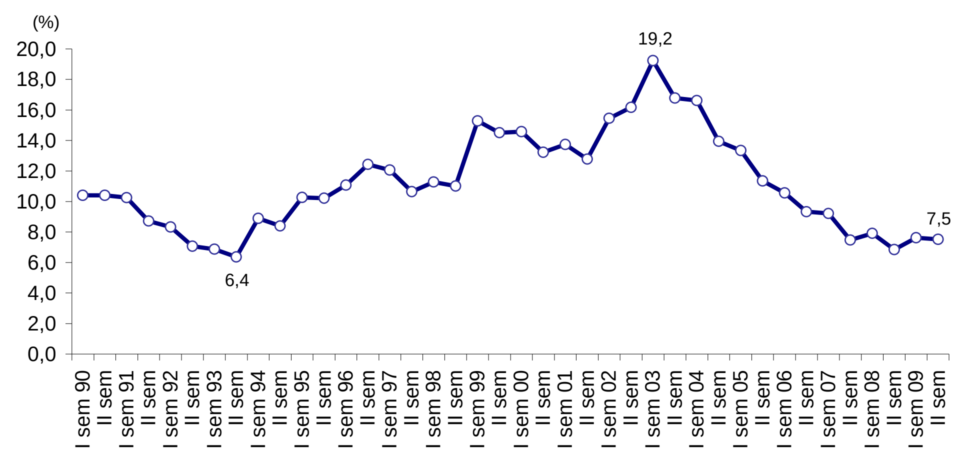
### 4.1 Labor Market

The lower level of non-oil economic activity in 2009 was accompanied with a slight increase in unemployment rate for the first time since 2003. Likewise, the real minimum wage and real remunerations, measured through the wage index (WI) prepared by the BCV, experienced year-to-year drops in 2009. Notwithstanding, minimum wage in real terms had grown 16.2% over the last 10 years.

In fact, according to official figures from the National Statistics Institute (INE), unemployment rate was at 7.5% in the second half of 2009, up 0.7 percentage points (101,995 people) from that recorded in the same period of 2008. This increase was due to the loss of dynamism in the demand for jobs, which cannot absorb the rise in active population.

**CHART III-7**
**Unemployment Rate**

**GRÁFICO III-7**
**Tasa de desocupación**




Source: BCV

An analysis revealed that unemployment rate grew regardless of gender and age groups. Female unemployment was at 8.1%, for a 0.8 percentage point rise (47,873 women);

whereas male unemployment (7,1%) gained 0.6 percentage points (54,122 men). Per age group, the highest increase took place in people between 15 and 24 years of age (2.4 percentage points); this group also recorded the highest unemployment rate (16%). However, this level is still lower than the average level throughout the decade (20.7%). Population between 45 and 64 years of age showed the lowest unemployment rate (4.3%), down from the prior year.

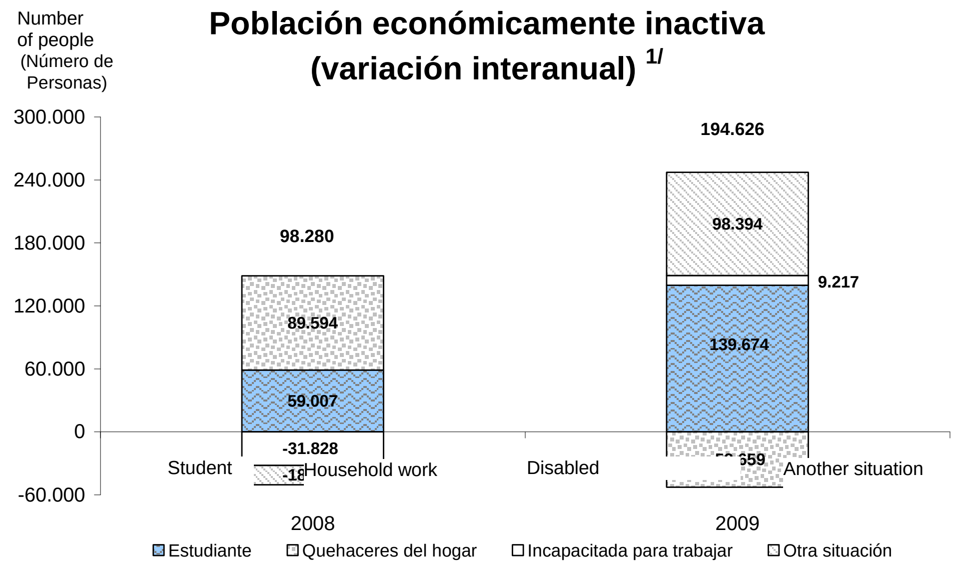
**TABLE III-4**
**Unemployment and Inactivity Rates [1/]**

| | Unemployment Rate (%) | | Inactivity Rate (%) | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Per gender** | | | | |
| Men | 7.1 | 6.5 | 20.7 | 20.0 |
| Women | 8.1 | 7.4 | 49.2 | 49.4 |
| **Per age group** | | | | |
| 15 - 24 | 16.0 | 13.6 | 57.5 | 54.7 |
| 25 - 44 | 6.5 | 6.1 | 17.6 | 18.1 |
| 45 - 64 | 4.3 | 3.9 | 27.5 | 28.6 |
| 65 and more | 5.8 | 4.0 | 72.7 | 73.1 |
| **Total** | 7.5 | 6.9 | 35.0 | 34.8 |

1/ Corresponding to second semesters of each year.
Source: INE.

In addition, a slight 0.2 percentage point increase was observed in the economically inactive population in 2009, as compared to 2008 (34.8%) or 194,626 people; this was explained by the rise observed in students (139,674) and in people in “other situation”, pensioned and retired people and rent-earning people (98,394). This rise was compensated for, in part, by the decline in the number of people devoted to household work (52,659 people less than the previous year). For its part, men inactivity rate gained 0.7 percentage points, mainly due to the higher number of male students. .

**CHART III-8**
**Economically Inactive Population**
**(year-to-year variation) 1/**
**GRÁFICO III-8**
**Población económicamente inactiva**
**(variación interanual) 1/**

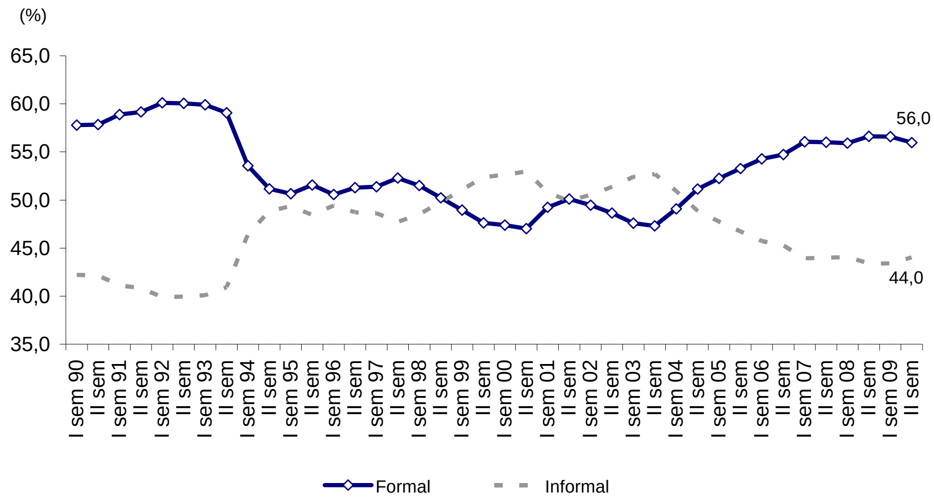



1/ Variation in the II semester of 2009 from the II semester of 2008
Source: INE

Concerning the structure of labor market, employment increase was centered in the informal economic sector, for a 0.7 percentage points rise in informality rate (44%), the first one since 2003 (when it reached 52.7% of working population). This increase is mainly due to the concentration registered in the non-oil GDP, mainly in mining, transportation and storage, trade and manufacturing activities. Employment in the formal sector recorded 11,275 jobs less than the previous year, which implied a decrease in formality rate of 0.7 percentage points (56% of total employment).

**CHART III-9**
**Labor Market Structure**

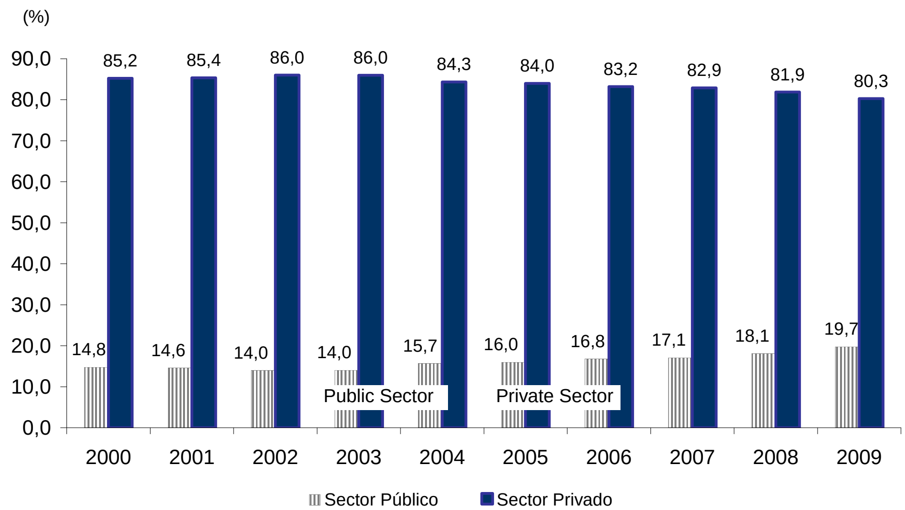
**GRÁFICO III-9**
**Estructura del mercado laboral**




Source: INE

Per industrial sector, 219,561 new jobs were created in the public sector, for an increase of 1.7 percentage points in the share of this sector within the total occupied population, which reached 19.7%. This increase in public employment was due, in part, to nationalization process that took place throughout the year. Meanwhile, the private sector lost 100,837 jobs.

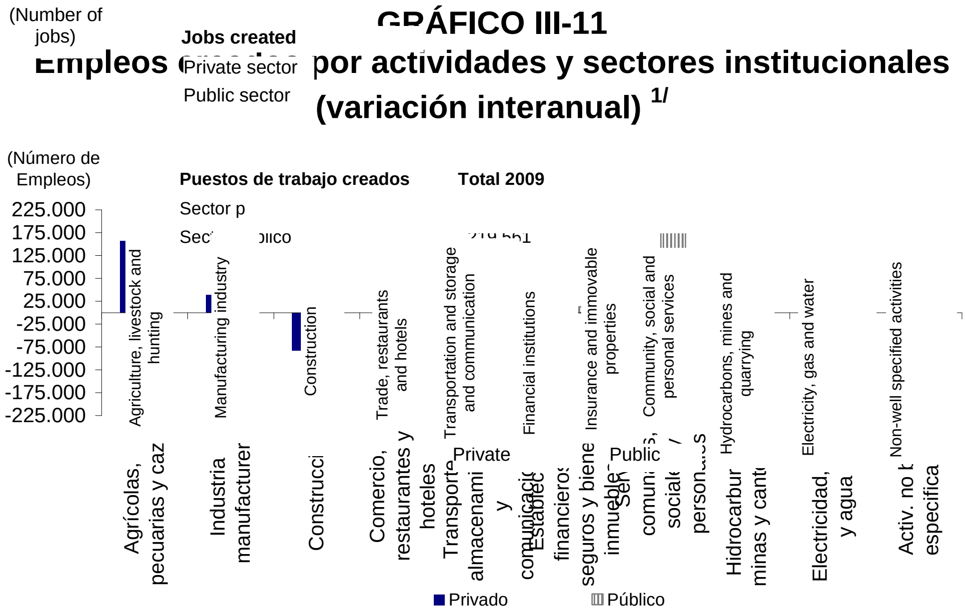
**CHART III-10**
**Employment Structure per Institutional Sectors**
**GRÁFICO III-10**
**Estructura del empleo por sectores institucionales**




Source: INE

The main job-generating activities in the economy were community, social and personal services (173,810 people) and agriculture, livestock and hunting (159,885), two sectors which had a job demand that was significantly higher in 2008 than the average in 1999 and 2008 (111,775 and 12,524, respectively). A moderate number of jobs (42,147) were created in the manufacturing sector and in financial institutions, insurance and immovable properties (47,366). On the contrary, job loss was centered in trade, restaurants and hotels (206,659), and construction (81,187).

**CHART III-11**
**Jobs created per activities and institutional sectors**
**(year-to-year variation)** 1/

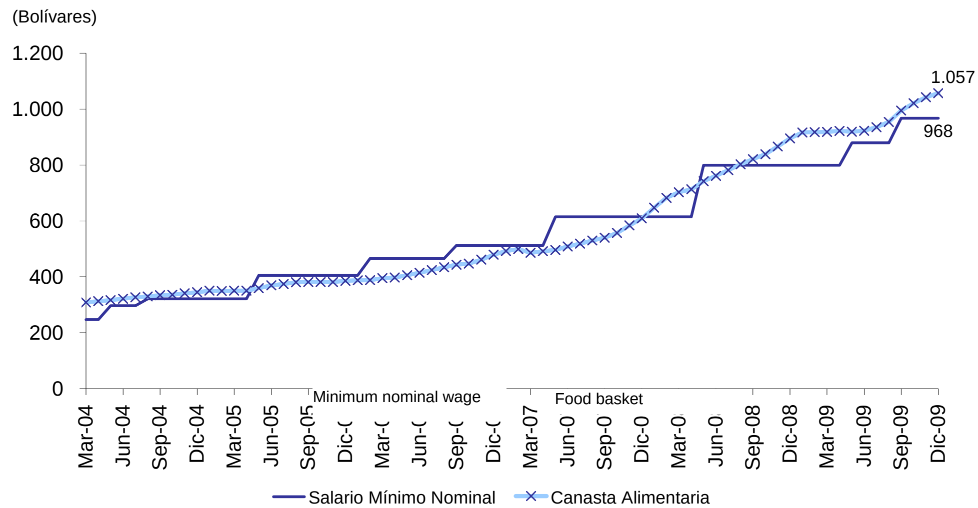



[1] Variation in 2S09 as compared to 2S08
Source: UBE

With regard to wages, the Administration decreed a minimum wage rise, which was implemented in two trenches. This rise put at 21.1% the nominal effective increase at end-2009. In real terms, although the minimum wage lost 4.6% in comparison to 2008, it has experienced a 16.% growth over the last 10 years.

**CHART III-12**
**Minimum Wage and Food Basket Value**

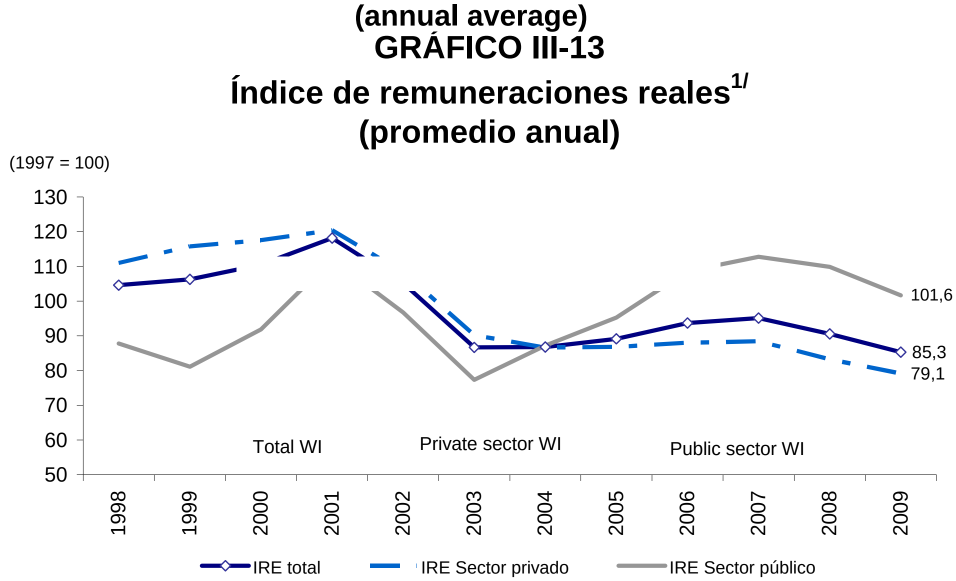
**GRÁFICO III-12**
**Salario mínimo y valor de la canasta alimentaria**




Source: INE and official gazettes

At the end of the fourth quarter 2009, wage index (WI) posted a nominal 23.1% increase on a year-to-year basis. Broken down per institutional sectors, private sector wages grew 23.9%, whereas public sector wages grew at an annual rate of 21.6%. This was the first time since 2003 that private wages increased at a higher rate than public ones. Real-term total WI lost 3.9%.

**CHART III-13**
**Real Wage Index [1/]**
**(annual average)**

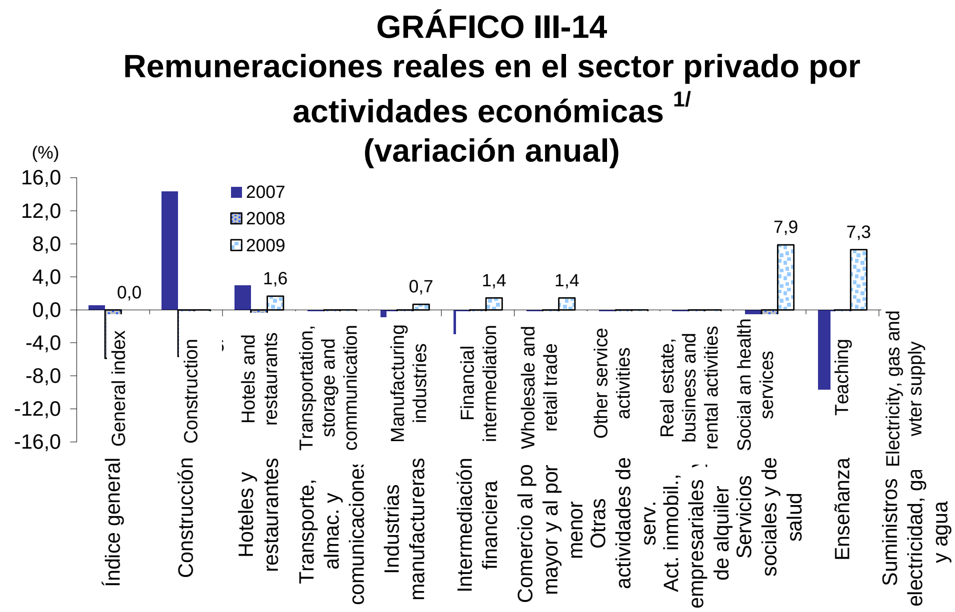



1/ Calculated as the quotient between the Wage Index (WI) and the Consumer Price Index of the Caracas Metropolitan Area (CPI-CMA)
Source: BCV

In the private sector of the economy, activities that posted the greatest nominal and real average wage increases were social and health services (31.5% and 7.9%, respectively) and teaching (31.4% and 7.3%, respectively). The increase in teachers' wages is attributable to the 30% adjustment in the framework of the 5th collective bargaining contract signed with the Venezuelan teachers[78].

[78] To be conducted in two parts: the first one in May, 15%, and the other in September, the remaining 15%.

**CHART III-14**
**Real wages in the private sector per economic activities** [1/]
**(annual variation)**



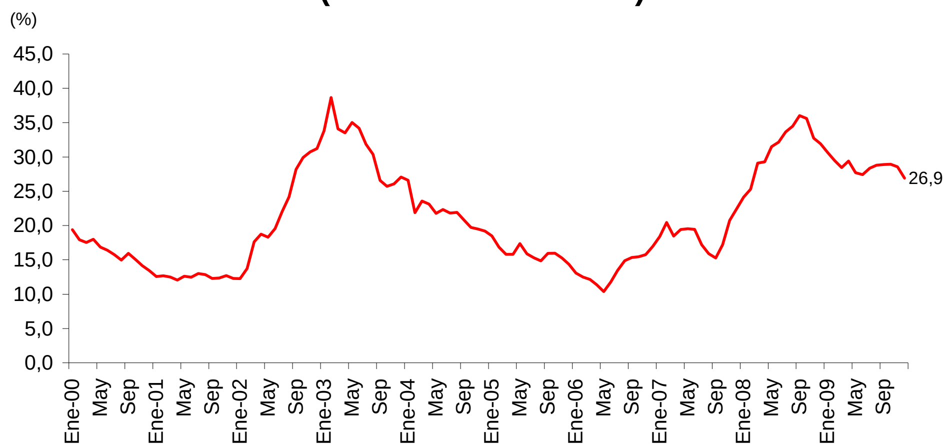

1/ Real wages were calculated as the quotient of WI by the CPI of the Caracas Metropolitan Area (1997 base year)

## 4.2 Prices

In 2009, inflation measured through the National Consumer Price Index (NCPI) showed a year-to-year variation of 25.1%, for a deceleration of 5.8 percentage points with respect to the level observed in the previous year.

**CHART III-15**
**Consumer Price Index**
**Caracas Metropolitan Area**
**(year-to-year variation)**

**GRÁFICO III-15**
**Índice de precios al consumidor**
**del área metropolitana de Caracas**
**(variación interanual)**




Source: BCV

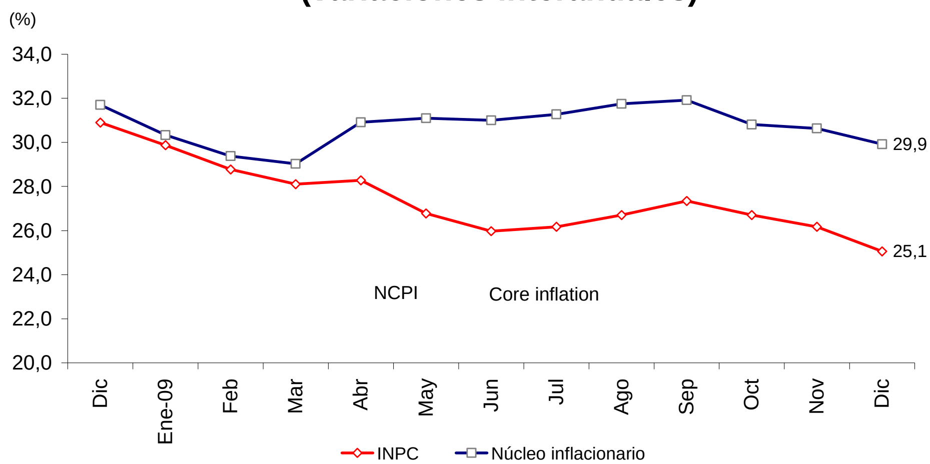
Price growth deceleration is attributable to the loss of dynamism of domestic aggregate demand, food security government policies and favorable climate conditions, which limited the increase in food prices that are one of the main components of NCPI. These elements made it possible to counteract the upward effect that exchange band expansion, contraction in domestic supply and the punctual VAT increase had on prices,

The Administration maintained, for the sixth year in a row, its policy of price control and administration implemented in February 2003 and, in 2009, carried out a lower number of adjustments in prices of controlled goods and decreed cuts in price of some products (powdered milk, sandwich bread and pasta).

Analyzing the evolution of underlying inflation, measured through core inflation[79], a less pronounced deceleration than that of NCPI was observed. In fact, this indicator recorded a year-to-year variation rate of 29.9%. i.e. 1.8 percentage points less than in 2008, which reveals a persistent increasing trend in prices.

**CHART III-16**
**National Consumer Price Index and Core Inflation**
**(year-to-year variations)**

**GRÁFICO III-16**
**Índice nacional de precios al consumidor y núcleo inflacionario**
**(variaciones interanuales)**



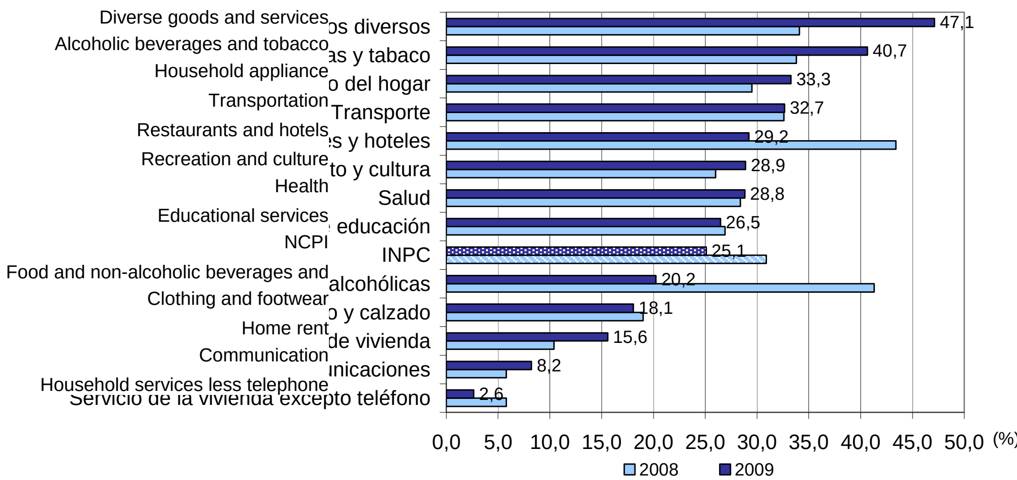

Source: BCV and INE

According to the NCPI broken down per groups, the highest annual growth rate was exhibited by the following categories: diverse goods and services (from 34,1% to 47.1%), alcoholic beverages and tobacco (from 33.8% to 40.7%) and household appliances (from 29.5% to 33.3%). On the contrary, groups that exhibited the largest deceleration were foods and non-alcoholic beverages (from 41.3% to 20.2%) and restaurants and hotels (from 43.4% to 29.2%); this latter was favored by the lower grow in food products.

---

[79] Indicator that isolates from NCPI basket those goods and services which prices are highly volatile (agricultural goods) and goods and services with administered prices.

**CHART III-17**
**National Consumer Price Index**
**classified per groups**
**(year-to-year variations)**
**GRÁFICO III-17**
**Índice nacional de precios al consumidor**
**clasificado por grupos**
**(variaciones interanuales)**

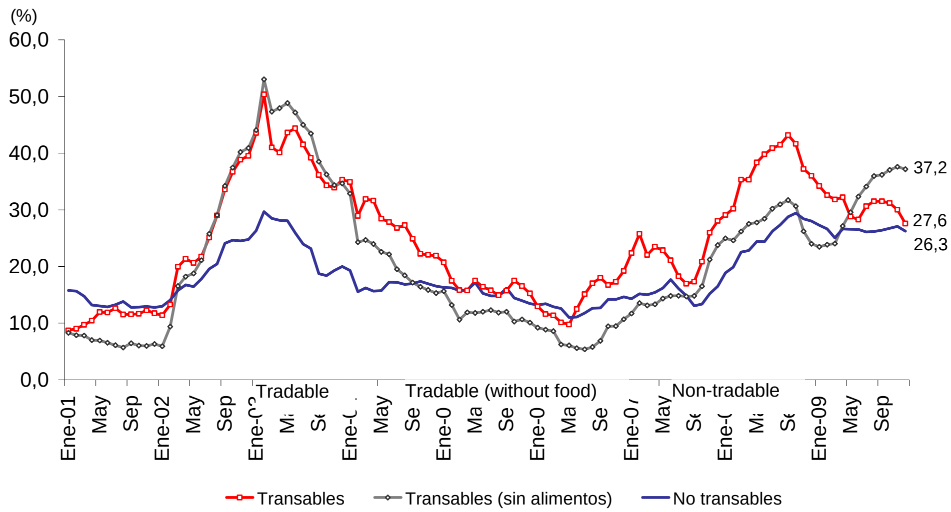



Source: BCV and INE

Tradable and non-tradable goods recorded similar inflation rates (24.9% and 25,1%, respectively) at end-2009, which were lower than the previous year (33.9% and 26.8%). However, it is important to highlight that when the food component is excluded from the group of tradable goods, an important expansion in the gap between prices of both goods was observed. This is a result that reflects the impact of the decline in allocation of foreign currency for the private sector (monthly average of USD .691 billion in 2009, vs. USD 4.185 billion in 2008) and the behavior of the gap in the nominal exchange rate.

**CHART III-18**
**Consumer Price Index: tradable and non-tradable goods**
**(year-to-year variation)**

**GRAFICO III-18**
**Índice de precios al consumidor: transables y no transables**
**(variaciones interanuales)**

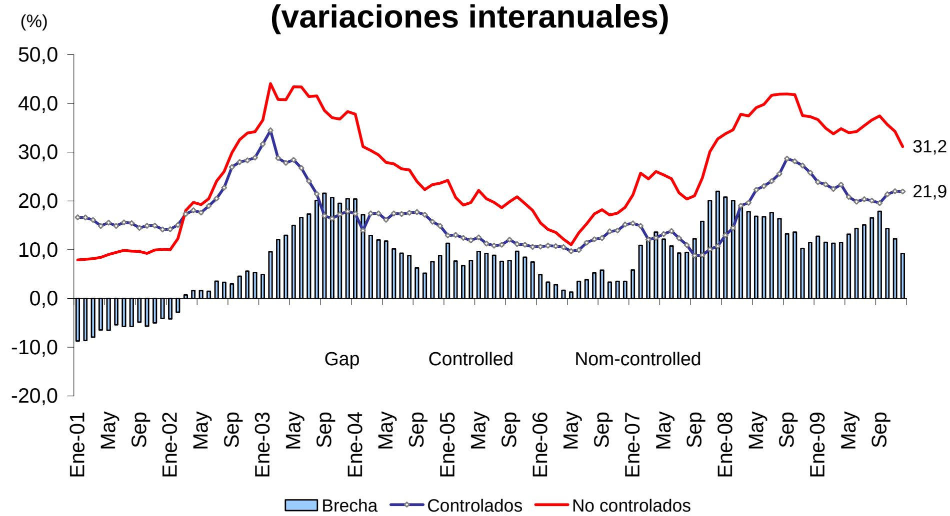



Source: BCV

Controlled goods and services exhibited an annual inflation of 20.9%, below the one observed in 2008 (26.1%) and to the 28.1% level reported by non-controlled products.

**CHART III-19**
**Consumer Price Index: controlled and non-controlled products**
**(year-to-year variations)**

**GRÁFICO III-19**
**Índice de precios al consumidor: controlados y no controlados**
**(variaciones interanuales)**



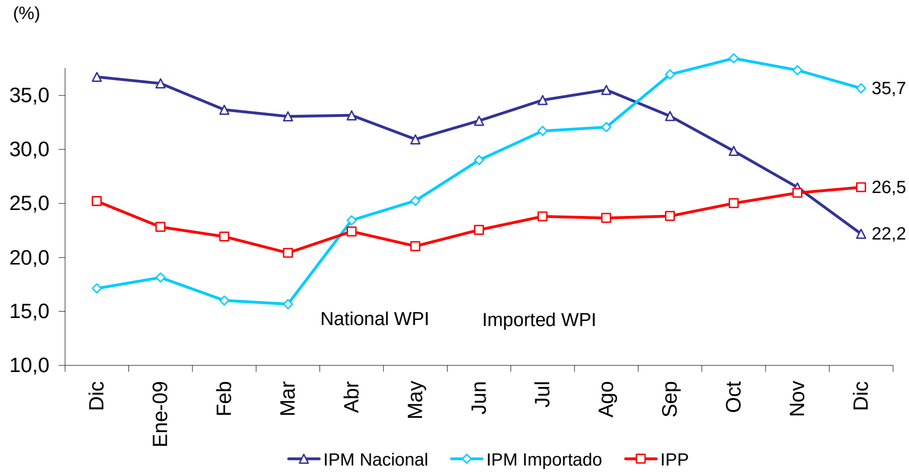

Source: BCV

Other price indicators for middle levels of the commercialization chain exhibited a mixed behavior. The Wholesale Price Index (WPI) rose by 24.8%, a growth pace slower than the one observed in 2008 (32.4%). This result was mainly due to the lower increase in prices of the domestic component of this index, which had a year-to-year variation of 22.2% (14.5 percentage points below the previous year). Imported goods, in turn, recorded a 35.7% inflation (18.5 percentage points over the prior year).

Producer Price Index (PPI), for its part, accelerated 1.3 percentage points in its year-to-year variation rate in 2009, which went up to 26.5%, for its largest annual variation since October 2008.

**CHART III-20**
**Wholesale and Retail Consumer Price Index**
**(year-to-year variations)**

**GRÁFICO III-20**
**Índice de precios al mayor e índice de precios al productor**
**(variaciones interanuales)**



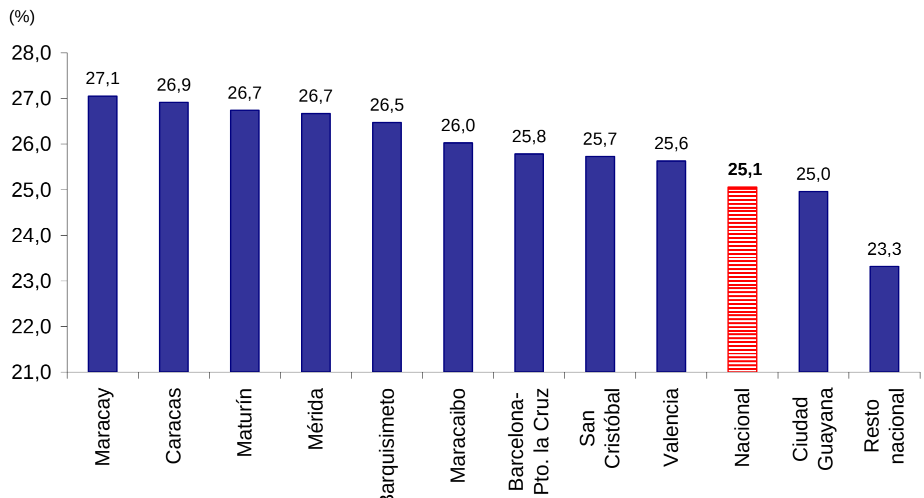

Source: BCV

The analysis of the inflation behavior per study domains showed that the city with the highest price increases was Maracay, with an annual inflation rate of 27.1%, and the domain with the lowest inflation rate was the national rest[80], with a variation of 23.3%.

[80] This domain that groups middle-sized and small cities and rural zones in the country has the highest penetration into the NCPI (45.0%).

**CHART III-21**
**NCPI per study domains**
**(annual variation)**

**GRÁFICO III-21**
**INPC por dominios de estudio**
**(variación anual)**




Source: BCV and INE

**Box III-3**

**How long does a consumer price last in the Caracas Metropolitan Area?**

The study on price duration provides relevant information to understand the chronic or inertial inflation phenomenon and, therefore, plays a significant role in the design of the economic policy. Price duration refers to the period in months during which prices do not change; the more frequently a price changes, the shorter its duration.

In this regard, a study was carried out to research the duration of prices of products included in the consumer price index basket of the Caracas Metropolitan Area (CPI-CMA). Figures used for the study were taken from the price database with which the index is calculated. This database contains the prices that consumers, in this area of the country, pay for goods and services they buy on the market, which are recorded monthly at the different outlets. The analyzed period covers from December 1999 until December 2007.

Goods and services with prices or rates directly administered by the Administration or any local or regional authority were excluded from the study. These correspond to household services (trash collection, water, electricity, etc.), gasoline and land public transportation (extraurban, urban, intercity routes, etc.). The home rent group and the insurance subgroup are not included in this study because imputations are used to calculate their respective indices.

The most relevant results of the study show that a price lasts a little more than two months and a half on average. However, price duration distribution is quite asymmetric, which can be attributed to the fact that median is lower than the mean. In more specific terms, in more than the half of items included in the CPI-CMA, prices are adjusted at least every two months (Table 1).

As stated before, not all price maintain the same duration. In fact, a fourth part of the items have a duration lower than or equal to 1.4 months, whereas in the case of another fourth the duration is of 2.9 months, as a minimum.

**TABLE 1**
**Duration in months of consumer prices**
**(2000-2007)**

| | |
|---|---|
| Mean | 2.7 |
| Median | 2.0 |
| 5$^{th}$ percentile | 0.9 |
| 25$^{th}$ percentile | 1.4 |
| 75$^{th}$ percentile | 2.9 |
| 95$^{th}$ percentile | 9.4 |

Source: BCV, own calculations

Prices of administered goods and services show the highest average duration (a little more than three and a half months), followed by those of non-administered goods, which tend to last about one month less than the previous ones.

A factor that appears to be associated with how fast a price changes is exchange rate. Industrial goods, many of which come from abroad or are manufactured with imported inputs, exhibit the second duration in ascending order (one months and a half). As expected, prices of non-prepared food, which include fruits and vegetables, are the ones that most frequently change, because they vary from month to month (Table 2).

**TABLE 2**
**Duration in months based on product nature**
**(2000-2007)**

| Nature | Duration | |
|---|---|---|
| | Average | Median |
| Prepared food | 1.95 | 1.68 |
| Non-prepared food | 1.09 | 1.00 |
| Industrial goods except food and textile | 1.49 | 1.15 |
| Administered goods and services | 3.62 | 2.22 |
| Non-administered services | 2.61 | 2.35 |
| Textile and apparel | 2.03 | 2.08 |

Source: BCV, own calculations

A more detailed analysis of duration behavior shows that the five subgroups with the greatest rigidity in price setting correspond to high school education (11 months), higher education (9 months), preschool and basic education (8 months and a half), hospital (6 months) and social services (4 months and a half).

Some subgroups with a lower average duration are affected by seasonal factors, which is the case of foodstuffs (one month and a half). Relation to exchange rate is another flexibility factor in price setting, because subgroups with the least durations are household textile products (one month and a half), telephone and telefax equipment, vehicles and vacation packages (these latter have a duration of one month) (Table 3).

**TABLE 3**
**Duration in months per subgroup**
**(2000-2007)**

| Subgroups | Duration: Average | Duration: Median |
|---|---|---|
| Highschool education | 11.21 | 12.13 |
| Higher education | 9.05 | 9.44 |
| Preschool and basic education | 8.72 | 9.41 |
| Hospital services | 6.06 | 6.58 |
| Social services | 4.39 | 4.39 |
| … | … | … |
| Food | 1.63 | 1.45 |
| Household textile products | 1.39 | 1.14 |
| Telephone and telex equipment | 1.18 | 1.18 |
| Vehicles | 1.15 | 1.15 |
| Vacation packages | 0.80 | 0.80 |

Source: BCV, own calculations

Not all price variations are necessarily increases; prices also decrease, at least temporarily. However, the likelihood of a price decreasing is estimated at 8%, with all other factors remaining constant, in contrast with the likelihood of a price increasing (30%). This result allows us conclude that a downward price rigidity is observed in Venezuela.

In comparative terms, prices in Venezuela tend to adjust more rapidly than in the US and Europe, but not in Brazil. In the case of the former ones, prices take between 7 and 13 months, whereas in Brazil, prices only last two and a half months. This difference can be basically explained by the fact that inflation rate is higher in Venezuela than in Europe and the US. It is important to note that a high inflation rate is associated with the higher price adjustment frequency in the economy. Another explanation for this difference in price duration is the variability of wages and prices of other inputs, especially in an economy where imported inputs have an important (direct or indirect) share in costs. Factors such as exchange rate and international prices therefore have a significant effect on price variations.

**TABLE 4**
**Duration in months of consumer price episodes**
**International comparison**

| | **Average duration** | **Median** | **Average** |
|---|---|---|---|
| Brazil [1/] | 2.7 | 2.1 | 1996-2006 |
| US [2/] | | 7.7 | 1998-2005 |
| US [3/] | 6.7 | 4.6 | 1995-2002 |
| Europe [4/] | 13.0 | 10.6 | Several studies |
| France [5/] | 8.4 | 6.2 | 1994-2003 |

[1/] Gouvea Solange; *Price Rigidity in Brazil: Evidence from CPI Micro Data*," Banco Central do Brasil, Working Paper Series 143, September 2007.

[2/] Nakamura, Emy and Steinsson, Jón: "*Five Facts about Prices: A reevaluation of Menu Cost Models*." The Quarterly Journal of Economics, November 2008.

3/ Bils, Mark and Klenow, Peter: “*Some Evidence on the Importance of Sticky Prices*.” Journal of Political Economy, 2004, vol. 112, No. 3.

4/ Álvarez, Luis et al.: “*Sticky Prices in the Euro Area, A Summary of New Micro-Evidence*.” Journal of the European Economic Association, April-May 2006.

5/ Baudry, Laurent et al.: “*What do Thirteen Price Records have to say about Consumer Price Rigidity?*.” Oxford Bulletin of Economics and Statistics, 69, 2 (2007).

## Statistical Appendix: Real Sector

**TABLE III-1**
**Gross Domestic Product**
**(variation percentage)**
(at 1997 prices)

| | 2009/2008 | 2008/2007 |
|---|---|---|
| **Oil activities** | (7.2) | 2.5 |
| **Non-oil activities** | (2.0) | 5.1 |
| Tradable [1/] | (5.1) | 2.1 |
| Non-tradable | (1.1) | 5.2 |
| Less Sifmi | (0.6) | (8.5) |
| Other net taxes on products | (7.5) | 5.0 |
| **Total** | (3.3) | 4.8 |

[1/] This category is different to the sum of activities in agriculture, mining, manufacturing and electricity and water, because these activities include non-tradable components, as per methodology of base year 1997
Source: BCV

## TABLE III-2

## Gross Domestic Product

(thousand bolivars)

| | At 1997 prices | | | Variation % | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2009/2008** | **2008/2007** |
| **Oil activity** | 6,471,409 | 6,974,807 | 6,807,754 | (7.2) | 2.5 |
| Crude oil and natural gas | 5,512,147 | 5,950,013 | 5,786,851 | (7.4) | 2.8 |
| Refining | 959,262 | 1,024,794 | 1,020,903 | (6.4) | 0.4 |
| **Non-oil activity** | 43,435,281 | 44,341,887 | 42,179,373 | (2.0) | 5.1 |
| Mining | 307,405 | 346,124 | 361,347 | (11.2) | (4.2) |
| Manufacturing | 8,633,861 | 9,221,059 | 9,091,0 | (6.4) | 1.4 |
| Electricity and water | 1,292,918 | 1,240,229 | 1,173,52 | 4.2 | 5.7 |
| Construction | 3,890,801 | 3,884,314 | 3,745,07 | 0.2 | 3.7 |
| Trade and repair services | 5,687,689 | 6,204,345 | 5,929,40 | (8.3) | 4.6 |
| Transportation and storage | 2,009,334 | 2,196,369 | 2,115,96 | (8.5) | 3.8 |
| Communications | 3,083,205 | 2,807,613 | 2,375,9 | 9.8 | 18.2 |
| Financial institutions and insurance | 2,500,822 | 2,561,406 | 2,685,8 | (2.4) | (4.6) |
| Immovable and entrepreneurial services | 5,376,451 | 5,488,240 | 5,346,2 | (2.0) | 2.7 |
| Community, social and personal services and non-profit institutions that proved household services | 3,292,830 | 3,193,912 | 2,916,723 | 3.1 | 9.5 |
| General government service producers | 6,610,700 | 6,455,064 | 6,127,6 | 2.4 | 5.3 |
| Rest | 3,437,824 | 3,448,266 | 3,265, | (0.3) | 5.6 |
| Less Sifmi* | 2,688,559 | 2,705,054 | 2,955,047 | (0.6) | (8.5) |
| **Other taxes** | 6,116,039 | 6,610,306 | 6,296,377 | (7.5) | 5.0 |
| **Total Gross Domestic Products** | 56,022,729 | 57,927,000 | 55,283,504 | (3.3) | 4.8 |

[1/] Includes agriculture, restaurants and hotels.

* Sifmi: Indirectly measured intermediation financial services

Source: BCV.

## TABLE III-3

### Gross Domestic Product

### (thousand bolivars)

| | At 1997 prices | | | Variation % | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2009/2008** | **2008/2007** |
| **Tradable goods** | 19,296,646 | 20,343,038 | 19,916,833 | (5.1) | 2.1 |
| Oil activity | 6,471,409 | 6,974,807 | 6,807,754 | (7.2) | 2.5 |
| Non-oil activity [1/] | 12,825,237 | 13,368,231 | 13,109,079 | (4.1) | 2.0 |
| **Non-tradable good and services** | 33,298,603 | 33,678,710 | 32,025,341 | (1.1) | 5.2 |
| Less Sifmi* | 2,688,559 | 2,705,054 | 2,955,047 | (0.6) | (8.5) |
| Other net taxes on products | 6,116,039 | 6,610,306 | 6,296,377 | (7.5) | 5.0 |
| Gross Domestic Product | 56,022,729 | 57,927,000 | 55,283,504 | (3.3) | 4.8 |

[1/] This category is different to the sum of activities in agriculture, mining, manufacturing and electricity and water, because these activities include non-tradable components, as per methodology of base year 1997

Source: BCV.

## TABLE III-4

### Global Demand
### (thousand bolivars)

| | At 1997 prices | | | Variation % | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2009/2008** | **2008/2007** |
| **1) Consumption** | 49,895,802 | 51,028,101 | 47,680,761 | (2.2) | 7.0 |
| 1.1 Public | 9,374,173 | 9,165,267 | 8,590,870 | 2.3 | 6.7 |
| 1.2 Private | 40,521,629 | 41,862,834 | 39,089,891 | (3.2) | 7.1 |
| **2) Gross fixed capital formation** [1/] | 17,054,881 | 18,568,270 | 19,198,038 | (8.2) | (3.3) |
| **3) Stock variation** [21] | 2,102,217 | 5,381,905 | 4,178,098 | (60.9) | 28.8 |
| **4) Aggregate demand** | | | | | |
| **Domestic (1 + 2 + 3)** | 69,052,900 | 74,978,276 | 71,056,897 | (7.9) | 5.5 |
| **5) Net exports** | -13,030,171 | -17,051,276 | -15,773,393 | (23.6) | 8.1 |
| 5.1 Exports | 8,956,410 | 10,280,718 | 10,569,558 | (12.9) | (2.7) |
| 5.2 Less imports | 21,986,581 | 27,331,994 | 26,342,951 | (19.6) | 3.8 |
| **6) Global demand (4 + 5.1)** | 78,009,310 | 85,258,994 | 81,626,455 | (8.5) | 4.5 |

[1/] Includes net acquisitions of valuable items
[2/] Also comprises statistical discrepancy
Source: BCV.

## TABLE III-5
### Labor Market
### (Indicators)

| | **2009** | **2008** | **2007** |
|---|---|---|---|
| **Economically active population (variation%)** | 1.7 | 2.5 | 1.3 |
| **Unemployment (%)** | 7.5 | 6.9 | 7.5 |
| **Informality rate (%)** | 44.0 | 43.4 | 44.0 |
| **Mean product per occupation (variation %)** | (4.2) | 1.5 | 4.6 |
| **Real wage index (variation%)** [1/] | 1.5 | 5.1 | 2.7 |

[1/] Calculated by means of the quotient between the REI (real employment index) and the CPI of Caracas metropolitan Area; both indices are produced by the BCV and corresponds to each year's average variation with respect to the year average.
Source: INE, household surveys per sampling corresponding to the second half of each year and BCV.

## TABLE III-6

## Total, inactive, active and employed population

## (people)

| | 2009 | 2008 | 2007 | Variation % 2009/08 | Variation % 2008/07 |
|---|---|---|---|---|---|
| **Total population** | 28,298,170 | 27,849,360 | 27,404,667 | 1.6 | 1.6 |
| **Population over 15 years of age [1/]** | 19,941,706 | 19,526,361 | 19,112,242 | 2.1 | 2.2 |
| **Inactive** | 6,984,977 | 6,790,351 | 6,692,071 | 2.9 | 1.5 |
| **Active** | 12,956,729 | 12,736,010 | 12,420,171 | 1.7 | 2.5 |
| **Employed** | 11,981,789 | 11,863,065 | 11,491,941 | 1.0 | 3.2 |
| Formal | 6,705,411 | 6,716,686 | 6,436,314 | (0.2) | 4.4 |
| Private sector | 4,340,849 | 4,571,685 | 4,469,901 | (5.0) | 2.3 |
| Public sector | 2,364,562 | 2,145,001 | 1,966,413 | 10.2 | 9.1 |
| Informal | 5,275,685 | 5,145,855 | 5,055,220 | 2.5 | 1.8 |
| Non-professional independent workers | 3,501,171 | 3,350,185 | 3,196,066 | 4.5 | 4.8 |
| Employers | 346,295 | 367,130 | 370,138 | (5.7) | (0.8) |
| Employees and workers | 1,351,584 | 1,288,665 | 1,391,842 | 4.9 | (7.4) |
| Non-remunerated family assistants | 76,635 | 139,875 | 97,174 | (45.2) | 43.9 |
| **Non-classifiable [2/]** | 693 | 524 | 407 | 32.3 | 28.7 |
| **Unemployed** | 974,940 | 872,945 | 928,230 | 11.7 | (6.0) |
| Laid off | 896,316 | 797,549 | 841,536 | 12.4 | (5.2) |
| LFJFFT [3/] | 78,624 | 75,396 | 86,694 | 4.3 | (13.0) |
| **Unemployment rate (%)** | 7.5 | 6.9 | 7.5 | 9.8 | (8.3) |

Note: Total private sector employment consists of private formal, informal and non-classifiable jobs.
[1/] Working-age population.
[2/] Did not declare any of the variable that make it possible to classify them as employed in the formal or informal sector of the economy.
[3/] Looking for job for the first time.
Source: INE, household surveys per sampling corresponding to the second half of each year.

## TABLE III-7

## Consumer Price National Indicators

## (annual variation)

| | 2009 | 2008 |
|---|---|---|
| **Consumer Price Index (CPI)** | | |
| **General** | 25.1 | 30.9 |
| Food and non-alcoholic beverages | 20.2 | 41.3 |
| Alcoholic beverages and tobacco | 40.7 | 33.8 |
| Closing and footwear | 18.1 | 19.0 |
| Home rent | 15.6 | 10.4 |
| Housing services, except telephone | 2.6 | 5.8 |
| Home equipment | 33.3 | 29.5 |
| Health | 28.8 | 28.4 |
| Transportation | 32.7 | 32.6 |
| Communications | 8.2 | 5.8 |
| Recreation and culture | 28.9 | 26.0 |
| Educational services | 26.5 | 26.9 |
| Restaurants and hotels | 29.2 | 43.4 |
| Diverse goods and services | 47.1 | 34.1 |
| **Sector of origin** | | |
| Goods | 24.9 | 33.9 |
| Services | 25.1 | 26.8 |
| **Diffusion indicator (percentage)** [1/] | 67.3 | 71.0 |
| **Tradable/non-tradable ratio** | -0.1 | 5.6 |

1/ Year average
Source: BCV

## TABLE III-8
## National Price Indicator
(month-to-month variations in 2009)

| | Months | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | January | February | March | April | May | June | July | August | Septemb | October | Novembe | Decembe |
| **Consumer Price Index (CPI)** | | | | | | | | | | | | |
| **General** | 2.3 | 1.3 | 1.2 | 1.8 | 2.0 | 1.8 | 2.1 | 2.2 | 2.5 | 1.9 | 1.9 | 1.7 |
| Food and non-alcoholic beverages | 3.0 | 0.2 | 0.1 | 0.0 | 0.2 | 1.0 | 2.3 | 2.8 | 3.3 | 2.1 | 2.0 | 1.6 |
| Alcoholic beverages and tobacco | 2.1 | 0.4 | 3.8 | 3.1 | 3.3 | 3.8 | 3.0 | 5.3 | 3.2 | 2.0 | 3.3 | 1.3 |
| Clothing and footwear | 0.5 | 1.0 | 0.7 | 1.7 | 1.2 | 2.0 | 1.1 | 1.4 | 1.3 | 1.4 | 2.5 | 1.9 |
| Home rent | 1.0 | 0.4 | 1.7 | 1.1 | 1.3 | 1.3 | 1.6 | 1.7 | 1.1 | 0.8 | 1.0 | 1.6 |
| Household services, except telephone | 0.2 | 0.4 | 0.8 | 0.0 | 0.3 | 0.2 | 0.3 | -0.1 | -0.1 | 0.4 | 0.0 | 0.4 |
| Home equipment | 2.5 | 3.4 | 1.8 | 2.7 | 3.9 | 2.5 | 2.0 | 1.9 | 2.7 | 2.3 | 2.0 | 1.4 |
| Health | 3.6 | 2.8 | 2.9 | 2.1 | 2.3 | 2.2 | 1.5 | 1.6 | 1.6 | 2.0 | 1.8 | 1.1 |
| Transportation | 1.7 | 2.2 | 1.8 | 4.6 | 5.9 | 2.8 | 2.3 | 1.8 | 1.1 | 1.1 | 1.0 | 2.3 |
| Communications | 0.6 | 0.9 | 0.5 | 2.8 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 1.1 | 0.3 |
| Recreation and culture | 2.3 | 1.5 | 1.5 | 2.9 | 2.9 | 2.1 | 2.2 | 3.1 | 2.7 | 1.5 | 1.1 | 1.9 |
| Educational services | 1.7 | 1.5 | 2.6 | 1.3 | 0.5 | 0.5 | 2.4 | 1.1 | 9.1 | 2.7 | 0.4 | 0.2 |
| Restaurants and hotels | 2.8 | 2.6 | 1.3 | 2.9 | 2.5 | 2.0 | 1.7 | 2.2 | 2.0 | 2.2 | 2.3 | 1.4 |
| Miscellaneous goods and services | 2.3 | 3.0 | 2.5 | 4.3 | 4.2 | 3.3 | 3.3 | 2.9 | 3.5 | 3.6 | 3.3 | 3.2 |
| **Origin sector** | | | | | | | | | | | | |
| Goods | 2.4 | 0.9 | 0.9 | 1.3 | 1.3 | 1.8 | 2.5 | 2.7 | 2.9 | 2.1 | 2.1 | 1.6 |
| Services | 2.0 | 1.9 | 1.6 | 2.5 | 2.9 | 1.7 | 1.5 | 1.6 | 2.0 | 1.6 | 1.4 | 1.9 |
| **Tradable/non-tradable ratio** | 0.4 | -1.0 | -0.6 | -1.2 | -1.5 | 0.1 | 1.0 | 1.1 | 0.9 | 0.5 | 0.7 | -0.3 |
| **Diffusion index (percentage)** | 64.4 | 65.5 | 63.3 | 74.3 | 64.6 | 67.7 | 66.3 | 65.7 | 69.9 | 71.3 | 70.4 | 64.4 |

Source: BCV.

# CHAPTER IV

# FOREIGN SECTOR

## 1. Introduction

Foreign accounts of the Venezuelan economy were affected by the international context that prevailed in 2009, particularly, in terms of the incidence of the global energy demand weakness on oil prices.

The decline in crude oil prices favored the deterioration of the net terms of trade (47.7%), its first contraction in 12 years. In fact, export unit value plummeted 29.0% while import's gained 36.0%.

Domestic economy demanded an increasing amount of goods and services from the rest of the world, therefore imports of final consumption goods, intermediate goods and capital goods dropped 34.9%, 18.1% and 16.6%, respectively.

Regarding capital and financial accounts, private sector operations, which posted USD -18,990 billion, deserve mention. Public oil sector operations, such as the allocation of special drawing rights (SDR) within the framework of the International Monetary Fund agreement, the loan granted by the Bank of China to the Joint China-Venezuela Fund and other commitments assumed by the Republic to international investors also stand out.

As to exchange operations, the bolivar appreciated in real terms throughout 2009 within a context of a fixed parity vs. dollar. This behavior was related to the higher domestic inflation rate as compared to the major trade partners.

## 2. Balance of Payments

Balance of Payments closed with a deficit of USD 10.262 billion and gross international reserves (BCV-FEM) of USD 35.830 billion. This result was associated with outlays from the financial account, which express the local demand for foreign assets and the contraction of the current account surplus.

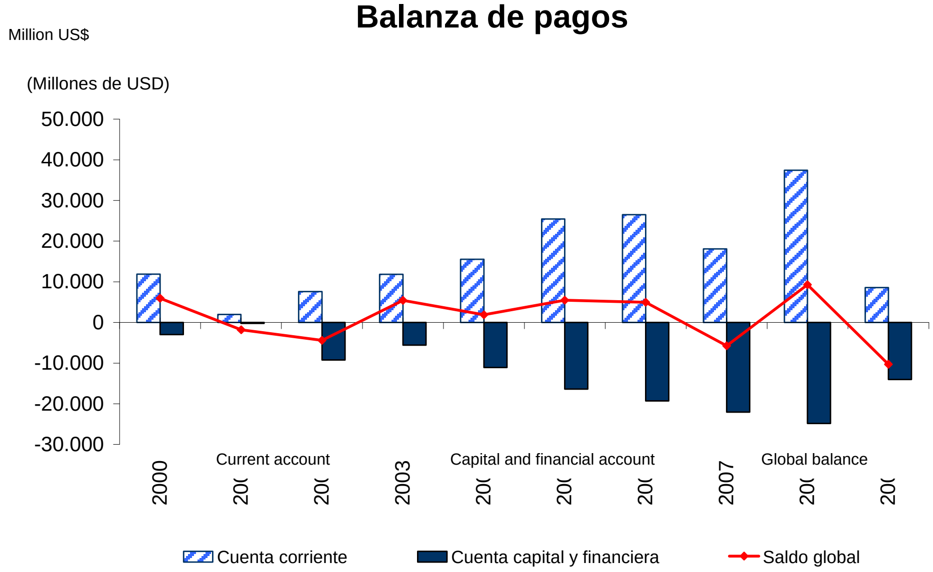
Current account recorded a favorable balance of USD 8.561 billion, a surplus that accounted for 4.3% of GDP and was determined by the total export volume (USD 57.595 billion), This made it possible to cover imports of goods and services, foreign investment rent and current transfers. However, the result of this account shows a USD 28.831 billion surplus drop in comparison to 2008, mainly due to the decrease in oil export revenues (USD 34.927 billion).

**TABLE IV-1**
**Balance of Payments [1/]**
**Summary**
(million US$)

| | 2009(*) | 2008(*) | Abs. variation |
|---|---|---|---|
| **Current account** | 8.561 | 37.392 | (28.831) |
| Balance in merchandise | 19.153 | 45.656 | (26.503) |
| FOB exports | 57.595 | 95.138 | (37.543) |
| Oil | 54.201 | 89.128 | (34.927) |
| Non-oil | 3.394 | 6.010 | (2.616) |
| FOB Imports | (38.442) | (49.482) | 11.040 |
| Public sector | (9.291) | (10.627) | 1.336 |
| Private sector | (29.151) | (38.855) | 9.704 |
| Balance in services | (7.617) | (8.354) | 737 |
| Transportation | (3.331) | (4.111) | 780 |
| Trips | (780) | (867) | 87 |
| Insurance | (446) | (530) | 84 |
| Others | (3.060) | (2.846) | (214) |
| Balance in rent | (2.652) | 698 | (3.350) |
| Current transfer | (323) | (608) | 285 |
| **Capital and financial accounts** | (14.040) | (24.820) | 10.780 |
| Capital account | | | |
| Financial account | (14.040) | (24.820) | 10.780 |
| Direct investment | (4.939) | (924) | (4.015) |
| Portfolio investment | 8.931 | 3.046 | 5.885 |
| Other investment | (18.032) | (26.942) | 8.910 |
| Commercial credit | (4.207) | (336) | (3.871) |
| Loans | 2.891 | (682) | 3.573 |
| Currency and deposits | (16.034) | (18.075) | 2.041 |
| Others | (682) | (7.849) | 7.167 |
| **Errors and omissions** | (4.783) | (3.297) | (1.486) |
| **Current account, capital and financial accounts** | (10.262) | 9.275 | (19.537) |
| **Reserves [2/]** | 10.262 | (9.275) | 19.537 |
| Central Bank of Venezuela [3/] | 10.264 | (9.256) | 19.520 |
| Assets | 10.801 | (9.437) | 20.238 |
| Liabilities | (537) | 181 | (718) |
| FEM (assets) | (2) | (19) | 17 |

1/ Prepared according to guidelines of the fifth edition of the *Manual of Balance of* Payments.
2/ A plus sign means a drop in assets or an increase in liabilities
3/ Excluding valuation changes due to fluctuations of Exchange rate and prices.
Source: BCV.

**CHART IV-1**
**Balance of Payments**
**GRÁFICO IV-1**
**Balanza de pagos**




Source: BCV

## 2.1 Current Account and Terms of Trade

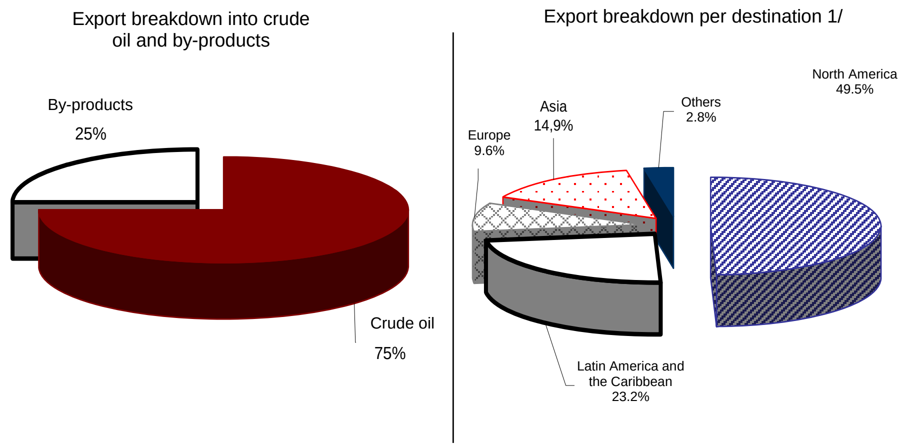
### 2.1.1 Current Account

Balance on current account was determined by the lower oil export level. In this sense, the decline in oil exports responded to the decrease in prices (34.1%) and in exported volumes (7.6%).

According to the information provided by Pdvsa, the main destination of oil exports, in terms of volume, was North America (including the United States[81], Saint Croix and Canada), which received 49.5% of total exports; of the remaining 50.5%, 23.2% went to Latin America and the Caribbean, Asia received 14.9%, Europe and Africa got 9.6% and 0.3%, respectively, and the other 2.5% went to other destinations.

[81] The United States received 32.3% of total exports in terms of volume.

**CHART IV-2**
**Oil Exports: Composition and Destination**
**(percentage structure)**




1/ Estimated based on volumes in million b/d (MBD)
Source: Pdvsa and BCV

Non-oil exports also recorded lower levels than in 2008, with a 43.5% drop. Broken down per institutional sectors, the public sector fell 21.1% and the private sector, 54.8%. It is worth noting that this result is influenced by the reorganization experienced by non-oil exports as a result of 2009 nationalization process.

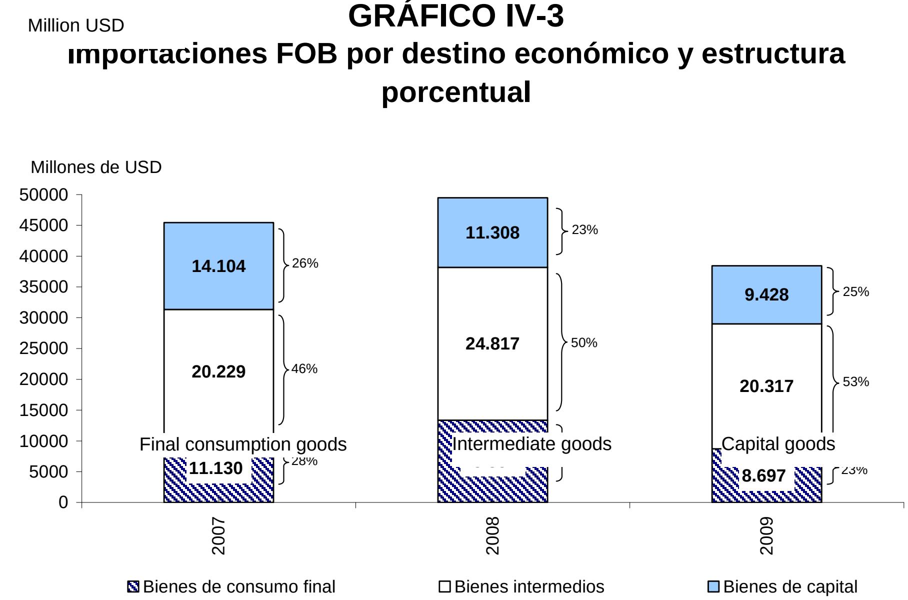
Non-oil exports declined in most of its components: chemicals (74.4%), semi-finished iron or steel products (51.5%) and flat aluminum products (53.3%), which have a relevant share within total exports. Furthermore, non-oil export concentration also increased: with five items representing 56.1% of total exports, up 3.8 percentage points from 2008.

The US and Colombia, which represent 37.9% of total non-oil exports, continue to be the main destination countries. China as Venezuela's third major trade partner deserves particular mention, because percentage share of the Asian country increased by 13.4%$ (8.3 percentage points) in 2009 in comparison to 2008.

Venezuelan imports lost 22.3% from 2008, amidst a less dynamic domestic economic activity and the lower foreign currency availability. The three main categories of economic destination that represent total exports experienced drops in 2009: final consumption

(34.9%), intermediate consumption (18.1%) and capital goods (16.6%). The two last categories had an effect on product contraction throughout the year, due to their high share in total imported goods and services (52.9% and 24.5%, respectively).

**CHART IV-4**
**FOB imports per economic destination and percentage structure**




Source: BCV

**TABLE IV-2**
**Final consumption goods exports**
**2009**

| Description | Million USD | Variation % 2009/2008 | Share % |
|---|---|---|---|
| **Total** | 8,697 | (34.9) | 100.0 |
| Fresh, refrigerated or frozen beef | 845 | (18.8) | 9.7 |
| Apparel, except furs | 599 | (51.4) | 6.9 |
| Cleaning and polishing soaps and detergents, perfumes and cosmetics | 587 | (13.4) | 6.7 |
| Home appliances n.c.p | 467 | (36.8) | 5.4 |
| Pharmaceutical products, drug chemical substances and botanical products | 456 | (75.3) | 5.2 |
| Canned, salty and smoked fish and crustaceans | 414 | 14.4 | 4.8 |
| Powdered milk | 391 | (42.9) | 4.5 |
| Footwear | 317 | (42.4) | 3.6 |
| Others | 4,621 | (25.7) | 53.1 |
| **Final goods's share in total imports** | | | 22.6 |

Source: INE

Foreign purchase of intermediate goods reached USD 20.317 billion. This component increased its chare by 2.7 percentage points with respect to 2008. Activities that recorded the highest demand for imported goods included those related to chemicals and pharmaceutical products (USD 4.832 billion). It should be especially mentioned the case of basic chemicals imports, with a variation of 100.5% in comparison to 2008.

**TABLE IV-3**
**Intermediate Goods Imports**
**2009**

| Description | Million USD | Variation % 2009/2008 | Share % |
|---|---|---|---|
| **Total** | 20.317 | (18.1) | 100.0 |
| Basic chemicals | 2.985 | 100.5 | 14.7 |
| Pharmaceutical products, medical chemicals and botanical product | 1.847 | (5.2) | 9.1 |
| Other chemical products n.e.c. | 771 | (19.4) | 3.8 |
| Animal and vegetal origin oils and grease | 762 | (22.5) | 3.8 |
| Other types of machines for general purposes, its parts and spare parts | 722 | (65.2) | 3.6 |
| Other metal manufactured products | 677 | (38.6) | 3.3 |
| Parts and accessories for motor vehicles | 594 | (22.9) | 2.9 |
| Wood, paper and cardboard pulp | 553 | (12.2) | 2.7 |
| Others | 11.406 | (23.3) | 56.1 |
| **Intermediate goods' share in total imports** | | | **52.9** |

Source: INE

Meanwhile, capital good category recorded a 16.6% drop to USD 9.428 billion. Five products accounted for 52.0% of the total, including rest of machinery and equipment for special purposes, engines, turbines, pumps and compressors, medical instruments and equipment and automatic data processing equipment. It is worth highlighting that these products declined with respect to the previous year, except machinery and equipment for special purposes, which increased 3.3%.

**TABLE IV-4**
**Capital Goods Imports**
**2009**

| Description | Million USD | Variation % 2009/2008 | Share |
|---|---|---|---|
| **Total** | 9,428 | (16.6) | 100.0 |
| Rest of machinery and equipment for special purposes | 1,616 | (11.6) | 17.1 |
| Engines, turbines, pumps and compressors | 1,420 | (1.9) | 15.1 |
| Medical instruments and equipment for measuring, testing, checking and other purposes, parts, spare parts and accessories | 729 | (42.9) | 7.7 |
| Automatic data processing equipment | 657 | (45.0) | 7.0 |
| Machinery for mining and quarrying and for construction works | 479 | (62.2) | 5.1 |
| Bovine cattle | 461 | 7.2 | 4.9 |
| Rest of motor vehicles | 273 | (71.1) | 2.9 |
| Vessels and ships | 238 | 17.8 | 2.5 |
| Others | 3,555 | 30.8 | 37.7 |
| **Capital goods' share in total imports** | | | **24.5** |

Source: INE

With respect to the origin of imported goods, trade flow was centered on four partners: US, Colombia, Brazil and China, which together supplied 57.3% of the total (60.3% in 2008). China continued to improve its share in comparison to the other three partners and it is very close to Colombia’s position. Other countries such as Mexico, Chile and Peru lost ground as suppliers of goods for Venezuela during 2009.

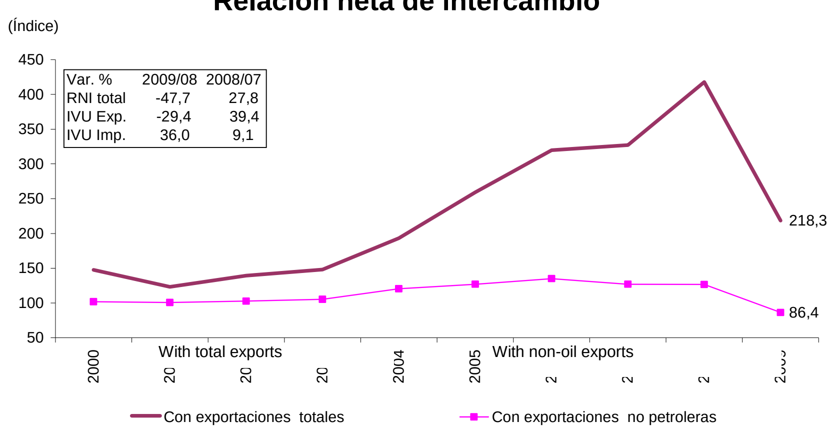
In term of balance on services, the USD 7.617 billion deficit posted in 2009 was lower than 2008 level, due to a decrease in the payment of freights and imported goods transportation service and in sales of international travel tickets.

It is worth highlighting the higher deficit in balance rent, especially due to the lower interests accrued by the assets held abroad, within a context of low international interest rates, and also to the lower revenues obtained by the State-owned oil industry from dividend paid by its companies abroad.

### 2.1.2 Terms of Trade

The drop in non-oil exports and the deceleration in oil price growth resulted in a 17.7% contraction in net terms of trade[82]. Considering only oil exports, terms of trade fell 51.5% and non-oil exports lost 31.8%, its lowest level over the last 10 years.

**CHART IV-4**
**Net Terms of Trade**
**GRÁFICO IV-4**
**Relación neta de intercambio[1/]**



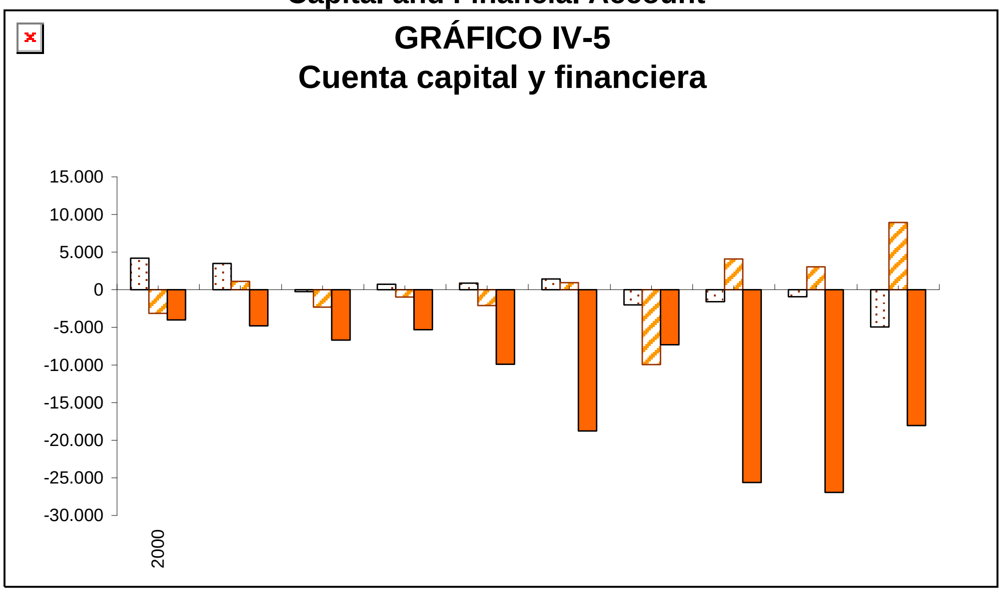

1/ Calculated as the ratio between unit value indices of exports (IVU Exp.) and imports (IVU Imp.), in bolivars
Source: BCV

[82] Net terms of trade are the result of the export unit value index to the import unit value index ratio.

## 2.2 Capital and financial accounts

Capital and financial transactions with the rest of the world exhibit a deficit of USD 14.040 billion, equivalent to 7.2% of GDP, a significantly lower level in comparison to 2008 deficit (USD 24.820 billion). This result was determined by the negative balances in other investment and direct investment accounts. These balances were partially counteracted by a positive balance in portfolio investment.

**CHART IV-5**
**Capital and Financial Account**




In this context, balance in direct investment account (USD -4.939 billion) resulted from the decrease in public sector liabilities as compared to foreign investors, after the acquisition of iron and steel companies in Guayana, as well as the increase in Pdvsa's assets, especially, short-term commercial credits to its affiliate companies abroad. Meanwhile, the non-financial private sector reduced its liabilities to foreign investors by USD 860 million, corresponding to short-term commercial credits.

The deficit flow in other investment account (USD -18.032 billion) was determined by the rise in foreign deposits of the non-financial private sector. Moreover, Pdvsa recorded higher assets (USD 2.749 billion) resulting from its short-term account receivable from its non-related debtors.

Portfolio investment account recorded a negative balance of USD 8.931 billion, which is related to foreign currency securities issued by the public sector, which were in hands of local residents and were negotiated on the international securities market. Active balances in securities of the Government and private financial institutions also diminished.

### 2.3 International Investment Position

International net investment position closed 2009 with a positive balance of USD 132.824 billion, up 1.0% from 2008. This allowed the country to maintain a net creditor position vis-à-vis the rest of the world. This behavior resulted from a 7.0% increase in the country's total foreign assets, which amounted to USD 227.320 billion, whereas liabilities were at USD 94.496 billion. However, this last figure reflects a 16.8% rise with respect to 2008.

The private sector drove the increase in the country's net foreign position, because its assets in foreign institutions went up to USD 113.498 billion. Public sector assets, in turn, amounted to USD 107.402 billion, with drops being reported in international reserves and government assets due to the lower oil revenues and the execution of expenditure related to local investment and international cooperation programs. Notwithstanding, direct investment assets corresponding to Pdvsa's account receivable from its foreign affiliate companies reported higher figures.

Liabilities private component shrank (estimated at USD 37.10 billion) and the public component grew to USD 57.394 billion. In terms of public balance, debt bonds stand out with a variation of 70.5% as well as other investment with 40.5%. Liabilities of the private sector were lower in the three investment categories (direct, portfolio and other investment).

## 3. Foreign Exchange Movement and International Reserves

### 3.1 Foreign Exchange Movement

In 2009, the balance of foreign exchange movement regular operations of the BCV was negative by USD 11.001 billion, as a consequence of the significant drop in revenues, which amounted to USD 40.581 billion, down USD 25.407 billion (38.5%) from 2008. Expenditure, in turn, was moderated and posted USD 51.582 billion, equivalent to a decrease of USD 5.543 billion (9%).

**TABLE IV-5**
**Foreign Exchange Movement**
**Central Bank of Venezuela**
(million USD)

| | | | Absolute variation | |
|---|---|---|---|---|
| | **2009(*)** | **2008(*)** | **2009** | **2008** |
| **I. Opening gross reserves** | 42,299 | 33,477 | 8,822 | (3,195) |
| **II. Revenues** | 40,581 | 65,988 | (25,407) | 15,064 |
| Net Pdvsa operations | 23,168 | 42,079 | (18,911) | 10,836 |
| Controlled market (foreign exchange operators) | 5,061 | 15,506 | (10,445) | 2,112 |
| Others revenues | 12,352 | 8,403 | 3,949 | 2,116 |
| **III. Expenditure** | 51,582 | 57,125 | (5,543) | 77 |
| Controlled market (foreign exchange operators ) | 21,290 | 35,353 | (14,063) | 3,366 |
| ALADI Imports | 6,306 | 11,730 | (5,424) | 1,149 |
| General government | 17,522 | 5,951 | 11,571 | (1,986) |
| Other expenditures | 6,464 | 4,091 | 2,373 | (2,452) |
| **IV. Regular operation balance (II-III)** | (11,001) | 8,863 | (19,864) | 14,987 |
| **V. Adjustments** | 3.702 | (41) | 3.743 | (2.970) |
| **VI. Closing gross reserves (1+IV+V)** | 35,000 | 42,299 | (7,299)<br>0 | 8,822 |

Source: BCV

Lower revenues are attributable to the decrease in Pdvsa's net operations and the resources from the controlled market, which lost USD 18.911 billion (45%) and 10.445 billion (67%), respectively, in comparison to 2008.

The decline in foreign currency sales by the Venezuelan State-owned oil company to the BCV totaled USD 23.168 billion. Revenues obtained by foreign exchange operators, in turn, plummeted to USD 5.061 billion in 2009, mainly provoked by the drop in non-oil exports of goods and services.

The decline in expenditure, albeit more moderate than that of revenues, is attributable to the lower volume of imports in the framework of the Aladi agreement, as well as the decrease in foreign currency sales to foreign exchange operators. With respect to the last item, goods and services imports (70%) and credit card expenditure (16%) stood out the most and determined the decline referred to above.

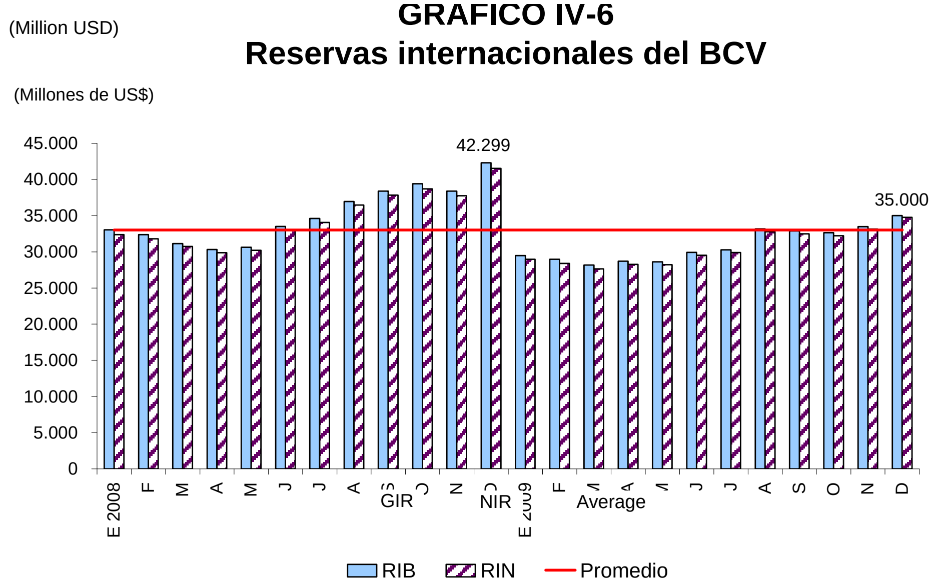
In early 2009, the BCV made contributions to Fonden totaling USD 12.299 billion, as agreed upon with the Administration and taking into account estimates about the suitable level of the country's international reserves.

### 3.2 International Reserves

At end-2009, gross international reserves of the BCV amounted to USD 35.000 billion, the highest level of the year, after reaching their lowest level of the year in March. Upon deduction of reserve liabilities (USD 241 million), net reserves resulted in USD 34.579 billion.

Measured in months of imports, international reserve balance as of December 2009 was equivalent to 10.9 months. Operational reserves, in turn, lost USD 14.895 billion, from de USD 32.177 billion in 2008 to USD 17.282 billion in 2009. Adding the Fund for Macroeconomic Stabilization (FEM) (USD 830 billion), Venezuela's net reserves reached USD 35.589 billion.

**CHART IV-6**
**International Reserves of the BCV**



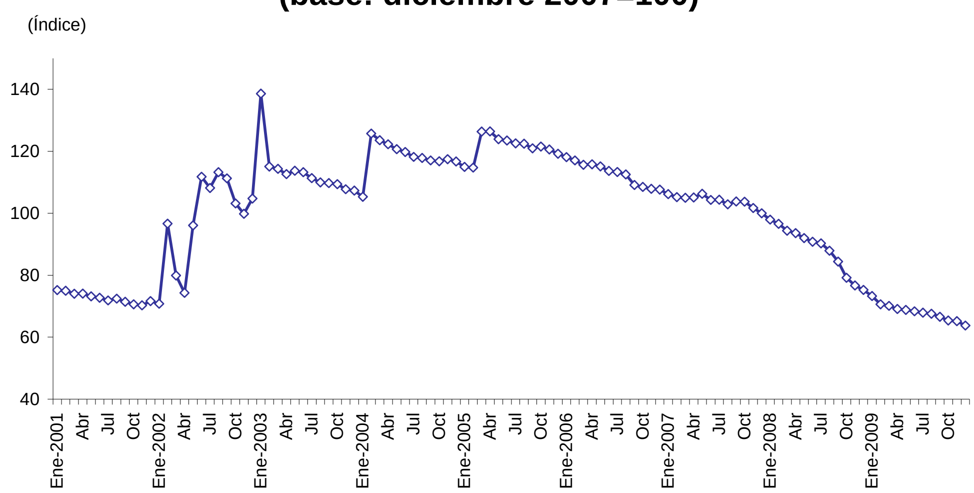

Source: BCV

## 4. Exchange Rate

Official exchange rate remained unchanged throughout 2009, at Bs.2.1446 for USD purchase operations and Bs.2 .150 for USD sales and foreign debt payment.

Venezuela's real exchange rate in relation to its main trade partners, measured through the Real Effective Exchange Rate Index (REER), appreciated 15.3%, as reflected by the indicator drop in chart IV-12. However, 2009 appreciation was lower than that of 2008 (24.7%). The result is explained by the relatively higher inflation in Venezuela with respect to its main trade partners. The variation of the second one is attributable to the stability of the bolivar vis-à-vis the dollar and the weakening of this currency in comparison to other currencies used to calculate the indicator. In fact, all currencies used to calculate the indicator, except the Japanese yen, appreciated with respect to the US currency.

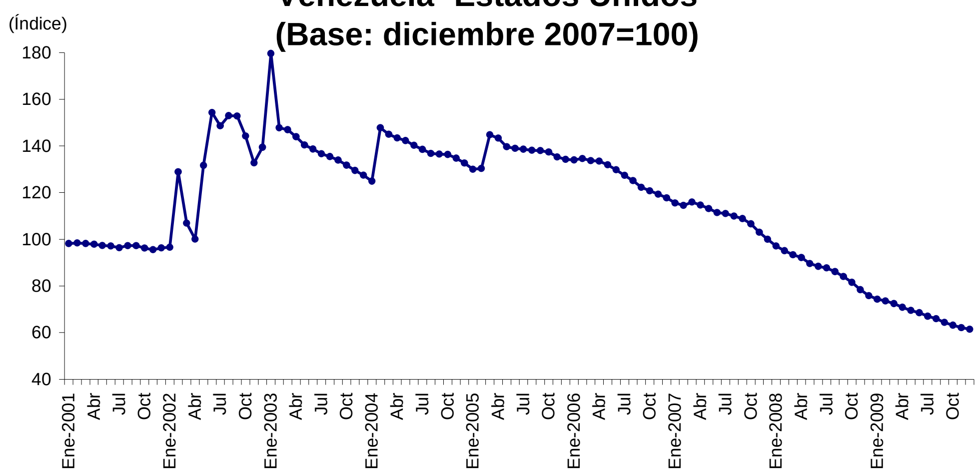
**CHART IV-7**
**Real Effective Exchange Index**
**(base: December 2007=100)**
**GRÁFICO IV-7**
**Índice real de cambio efectivo**
**(base: diciembre 2007=100)**




Source: BCV

Venezuela-US bilateral real exchange rate strengthened by 19% in 2009, equivalent to an appreciation of 5 percentage points lower than the one corresponding to 2008. Like with the rest of trade partners, Venezuela's relatively higher price variation in comparison to the United States explains the result of the indicator.

**CHART IV-8**
**Venezuela-US bilateral real Exchange Rate Index**
**(Base: December 2007=100)**
**GRÁFICO IV-8**
**Índice de tipo de cambio real bilateral**
**Venezuela- Estados Unidos**
**(Base: diciembre 2007=100)**




Source: BCV

Bilateral real exchange rate with Colombia appreciated 11.5%. However, and as a consequence of a nominal appreciation of the Colombian peso with respect to the US dollar, the Venezuelan currency depreciated during the most part of the year, which reversed toward the end of the year. The differential between monthly inflation rates of both countries directly contributed to the final result.

# TABLE IV-1-A
## Balance of Payments
## International Transactions per Sector [1/]
## Year 2009(*)
(million USD)

| | Public Sector | | | Private Sector | | | |
|---|---|---|---|---|---|---|---|
| | Oil Activity [2/] | Other Activities | Subtotal | Financial | Non-financial | Subtotal | Total |
| **Current account** | 48,724 | (7,291) | 41,433 | (764) | (32,108) | (32,872) | 8,561 |
| Merchandise balance | 50,231 | (3,732) | 46,499 | | (27,346) | (27,346) | 19,153 |
| FOB exports | 54,201 | 1,589 | 55,790 | | 1,805 | 1,805 | 57,595 |
| FOB imports | (3,970) | (5,321) | (9,291) | | (29,151) | (29,151) | (38,442) |
| Balance on services | (1,905) | (1,613) | (3,518) | 2 | (4,101) | (4,099) | (7,617) |
| Transportation | (211) | (545) | (756) | | (2,575) | (2,575) | (3,331) |
| Travels | (49) | (136) | (185) | | (595) | (595) | (780) |
| Insurance | (101) | (68) | (189) | 2 | (279) | (277) | (446) |
| Communications | | 3 | 3 | | (194) | (194) | (191) |
| Government services NIE | - | (199) | (199) | - | | 0 | (199) |
| Others | (1,544) | (668) | (2,212) | - | (458) | (458) | (2,670) |
| Income balance | 435 | (2,100) | (1,665) | (766) | (221) | (987) | (2,652) |
| Wages and salaries | (5) | (26) | (31) | | 22 | 22 | (9) |
| Investment rent | 440 | (2,074) | (1,634) | (766) | (243) | (1,009) | (2,643) |
| Direct | 892 | | 892 | (923) | (848) | (1,771) | (879) |
| Portfolio | (322) | (1,823) | (2,145) | 54 | (84) | (30) | (2,175) |
| Other investment | (130) | (251) | (381) | 103 | 689 | 792 | 411 |
| Unilateral transfers | (37) | 154 | 117 | - | (440) | (440) | (323) |
| **Capital and financial account [3/]** | (3,243) | 8,193 | 4,950 | 1,716 | (20,706) | (18,990) | (14,040) |
| Capital account | | - | - | - | - | _ | - |
| Financial account [3/] | (3,243) | 8,193 | 4,950 | 1,716 | (20,706) | (18,990) | (14,040) |
| Direct investment | (1,805) | (2,268) | (4,073) | (275) | (591) | (866) | (4,939) |
| Foreign | (1,805) | (28) | (1,833) | 79 | (80) | (1) | (1,834) |
| Domestic | | (2,240) | (2,240) | (354) | (511) | (865) | (3,105) |
| Portfolio investment | 2,182 | 5,241 | 7,423 | 1,368 | 140 | 1,508 | 8,931 |
| Assets | | 2,541 | 2,541 | 1,368 | 19 | 1,387 | 3,928 |
| Equity securities | | (13) | (13) | (1) | (35) | (36) | (49) |
| Debt bonds | - | 2,554 | 2,554 | 1,369 | 54 | 1,423 | 3,977 |
| Liabilities | 2,182 | 2,700 | 4,882 | 0 | 121 | 121 | 5,003 |
| Equity securities | E | | - | - | 121 | 121 | 121 |
| Debt bonds | - | 4,882 | 4,882 | | - | 0 | 4,882 |
| Other investment | (3,620) | 5,220 | 1,600 | 623 | (20,255) | (19,632) | (18,032) |
| Assets | (2,629) | (2,955) | (5,584) | 708 | (19,608) | (18,900) | (24,484) |
| Commercial credits | (2,749) | (194) | (2,943) | 2 | 133 | 135 | (2,808) |
| Loans | - | (206) | (206) | - | - | 0 | (206) |
| Currency and deposits | 120 | 2,900 | 3,020 | 709 | (19,741) | (19,032) | (16,012) |
| Others | - | (5,455) | (5,455) | (3) | | (3) | (5,458) |
| Liabilities | (991) | 8,175 | 7,184 | (85) | (647) | (732) | 6,452 |
| Commercial credits | (634) | (40) | (674) | 20 | (745) | (725) | (1,399) |
| Loans | (430) | 3,508 | 3,078 | (79) | 98 | 19 | 3,097 |
| Currency and deposits | | 4 | 4 | (26) | | (26) | (22) |
| Others | 73 | 4,703 | 4,776 | - | - | 0 | 4,776 |
| **Errors and omissions [4/]** | (20,035) | (11,801) | (31,836) | (1,089) | 28,142 | 27,053 | (4,783) |
| **Balance on current, capital and financial account** | 25,446 | (10,899) | 14,547 | (137) | (24,672) | (24,809) | (10,262) |
| **Reserves** | (25,446) | 10,899 | (14,547) | 137 | 24,672 | 24,809 | 10,262 |
| Central Bank of Venezuela [5/] | (25,446) | 10,901 | (14,545) | 137 | 24,672 | 24,809 | 10,264 |
| Assets | (25,446) | 11,438 | (14,008) | 137 | 24,672 | 24,809 | 10,801 |
| Liabilities | | (537) | (537) | | | | (537) |
| FEM (assets) | | 2) | (2 | | | | 2) |

[1/] Prepared as per guidelines of the IMF *Balance of Payments Yearbook* fifth edition.
[2/] Includes Bitor
3/ A positive sign indicates a decrease in assets or an increase in liabilities. A negative sign indicates an increase in assets or decrease in liabilities.
4/ Errors and omissions item reflects discrepancies resulting from the use of multiple sources and possible calculation errors and omissions. Methodologically, based on sectors (public and private), this item also includes the balancing entry of operations recorded on the current and financial account, which imply the transfer of foreign currency resources in these sectors that did not bring about international reserve movements.
5/ Excludes adjustments due to variations in exchange rate and prices.
Source: BCV.

# TABLE IV-1-B
## Balance of Payments
## International Transactions per Sector [1/]
## Year 2008(*)

(million USD)

| | Public Sector | | | Private Sector | | | |
|---|---|---|---|---|---|---|---|
| | Oil Activity [2/] | Other Activities | Subtotal | Financial | Non-financial | Subtotal | Total |
| **Current account** | 85,562 | (6,658) | 78,904 | (51) | (41,461) | (41,512) | 37,392 |
| Merchandise balance | 84,866 | (4,351) | 80,515 | | (34,859) | (34,859) | 45,656 |
| FOB exports | 89,128 | 2,014 | 91,142 | | 3,996 | 3,996 | 95,138 |
| FOB imports | (4,262) | (6,365) | (10,627) | | (38,855) | (38,855) | (49,482) |
| Balance on services | (1,787) | (1,670) | (3,457) | 2 | (4,899) | (4,897) | (8,354) |
| Transportation | (123) | (728) | (851) | | (3,260) | (3,260) | (4,111) |
| Travels | (45) | (117) | (162) | | (705) | (705) | (867) |
| Insurance | (103) | (76) | (179) | 2 | (353) | (351) | (530) |
| Communications | | 4 | 4 | | (145) | (145) | (141) |
| Government services NIE | | (284) | (284) | | - | 0 | (284) |
| Others | (1,516) | (469) | (1,985) | - | (436) | (436) | (2,421) |
| Income balance | 2,519 | (783) | 1,736 | (53) | (985) | (1,038) | 698 |
| Wages and salaries | (4) | (24) | (28) | | 20 | 20 | (8) |
| Investment rent | 2,523 | (759) | 1,764 | (53) | (1,005) | (1,058) | 706 |
| Direct | 3,222 | 2 | 3,224 | (591) | (3,360) | (3,951) | (727) |
| Portfolio | (249) | (969) | (1,218) | 450 | (80) | 370 | (848) |
| Other investment | (450) | 208 | (242) | 88 | 2,435 | 2,523 | 2,281 |
| Unilateral transfers | (36) | 146 | 110 | | (718) | (718) | (608) |
| **Capital and financial account [3/]** | (8,607) | (3,128) | (11,735) | 3,752 | (16,837) | (13,085) | (24,820) |
| Capital account | - | - | - | - | - | - | - |
| Financial account [3/] | (8,607) | (3,128) | (11,735) | 3,752 | (16,837) | (13,085) | (24,820) |
| Direct investment | (1,782) | (325) | (2,107) | 4413 | 735 | 1,183 | (924) |
| Foreign | (849) | (323) | (1,172) | (21) | (80) | (101) | (1,273) |
| Domestic | (933) | (2) | (935) | 469 | 815 | 1,284 | 349 |
| Portfolio investment | (1,167) | 189 | (978) | 3,507 | 517 | 4,024 | 3,046 |
| Assets | - | (1,274) | (1,274) | 3,511 | 510 | 4,021 | 2,747 |
| Equity securities | - | (4) | (4) | (22) | 266 | 244 | 240 |
| Debt bonds | - | (1,270) | (1,270) | 3,533 | 244 | 3,777 | 2,507 |
| Liabilities | (1,167) | 1,463 | 296 | (4) | 7 | 3 | 299 |
| Equity securities | | - | - | (4) | 7 | 3 | 3 |
| Debt bonds | - | 296 | 296 | | | 0 | 296 |
| Other investment | (5,658) | (2,992) | (8,650) | (203) | (18,089) | (18,292) | (26,942) |
| Assets | (4,439) | (6,650) | (11,089) | 79 | (18,353) | (18,274) | (29,363) |
| Commercial credits | (2,532) | (639) | (3,171) | 62 | 131 | 193 | (2,978) |
| Loans | | (529) | (529) | - | - | 0 | (529) |
| Currency and deposits | (1,907) | 2,294 | 387 | 17 | (18,484) | (18,467) | (18,080) |
| Others | | (7,776) | (7,776) | - | - | 0 | (7,776) |
| Liabilities | (1,219) | 3,658 | 2,439 | (282) | 264 | (18) | 2,421 |
| Commercial credits | 1,587 | 514 | 2,101 | 53 | 488 | 541 | 2,642 |
| Loans | (2,683) | 3,083 | 400 | (329) | (224) | (553) | (153) |
| Currency and deposits | - | 11 | 11 | (6) | | (6) | 5 |
| Others | (123) | 50 | (73) | | - | 0 | (73) |
| **Errors and omissions [4/]** | (28,760) | 8,702 | (20,058) | (3,701) | 20,462 | 16,761 | (3,297) |
| **Balance on current, capital and financial account** | 48,195 | (1,084) | 47,111 | | (37,836) | (37,836) | 9,275 |
| **Reserves** | (48,195) | 1,084 | (47,111) | | 37,836 | 37,836 | (9,275) |
| Central Bank of Venezuela [5/] | (48,195) | 1,103 | (47,092) | | 37,836 | 37,836 | (9,256) |
| Assets | (48,195) | 922 | (47,273) | | 37,836 | 37,836 | (9,437) |
| Liabilities | | 181 | 181 | | | - | 181 |
| FEM (assets) | ,, | (19) | (19) | | | | (19) |

1/ Prepared as per guidelines of the IMF *Balance of Payments Yearbook* fifth edition.
2/ Includes Bitor
3/ A positive sign indicates a decrease in assets or an increase in liabilities. A negative sign indicates an increase in assets or decrease in liabilities.
4/ Errors and omissions item reflects discrepancies resulting from the use of multiple sources and possible calculation errors and omissions. Methodologically, based on sectors (public and private), this item also includes the balancing entry of operations recorded on the current and financial account, which imply the transfer of foreign currency resources in these sectors that did not bring about international reserve movements.
5/ Excludes adjustments due to variations in exchange rate and prices.
Source: BCV.

## TABLE IV-2
## Merchandise Balance
(million USD)

| | 2009(*) | 2008* | Variation % | | Structure % | |
|---|---|---|---|---|---|---|
| | | | 2009/2008 | 2008/2007 | 2009 | 2008 |
| **FOB exports** | 57,595 | 95,138 | (39.5) | 37.9 | 100.0 | 100.0 |
| **Public sector** | 55,790 | 91,142 | (38.8) | 70.0 | 96.9 | 95.8 |
| Oil | 54,201 | 89,128 | (39.2) | 72.5 | 94.1 | 93.7 |
| Iron | 341 | 373 | (8.6) | 28.6 | 0.6 | 0.4 |
| Steel | 420 | 0 | | | | |
| Gold | 0 | 0 | | | 0.0 | 0.0 |
| Aluminum | 393 | 905 | (56.6) | (18.8) | 0.7 | 1.0 |
| Chemicals | 413 | 716 | (42.3) | 37.2 | 0.7 | 0.8 |
| Others | 22 | 20 | 10.0 | 0.0 | 0.0 | 0.0 |
| **Private sector** | 1,805 | 3,996 | (54.8) | (74.1) | 3.1 | 4.2 |
| Oil | 0 | 0 | 0.0 | (100.0) | 0.0 | 0.0 |
| Others | 1,805 | 3,996 | (54.8) | (9.7) | 3.1 | 4.2 |
| **FOB imports** | 38,442 | 49,482 | (22.3) | 7.5 | 100.0 | 100.0 |
| **Public sector** | 9,291 | 10,627 | (12.6) | 20.7 | 24.2 | 21.5 |
| **Private sector** | 29,151 | 38,855 | (25.0) | 4.4 | 75.8 | 78.5 |
| **Merchandise balance** | 19,153 | 45,656 | (58.0) | 98.7 | | |

Source: INE, Pdvsa, Ferrominera Orinoco, other State-owned companies and BCV.

## TABLE IV-3
## Non-oil Export main products [1/]
(million USD)

| | 2009(*) | 2008* | Variation % 2009/08 | Structure % 2009 | Structure % 2008 |
|---|---|---|---|---|---|
| Iron and steel semi-manufactured products | 496 | 1,023 | (51.5) | 20.8 | 18.5 |
| Aluminum flat products | 349 | 748 | (53.3) | 14.7 | 13.6 |
| Basic chemicals | 115 | 450 | (74.4) | 4.8 | 8.2 |
| Iron or steel flat products | 284 | 518 | (45.2) | 11.9 | 9.4 |
| Coal | 15 | 296 | (94.9) | 0.6 | 5.4 |
| Alumina | 49 | 151 | (67.5) | 2.1 | 2.7 |
| Vessels and other ships | 52 | 189 | (72.5) | 2.2 | 3.4 |
| Fertilizers and nitrogen-containing compounds | 60 | 165 | (63.6) | 2.5 | 3.0 |
| Iron and steel non-flat products | 61 | 88 | (30.7) | 2.6 | 1.6 |
| Aluminum non-flat products | 92 | 149 | (38.3) | 3.9 | 2.7 |
| Rest of motor vehicles | 21 | 40 | (47.5) | 0.9 | 0.7 |
| Cement | 7 | 6 | 16.7 | 0.3 | 0.1 |
| Other metal manufactured products | 35 | 103 | (66.0) | 1.5 | 1.9 |
| Parts, spare parts and accessories for motor vehicles and their engines | 14 | 28 | (50.0) | 0.6 | 0.5 |
| Other chemicals n.e.c. | 34 | 74 | (54.1) | 1.4 | 1.3 |
| Passenger cars | 7 | 24 | (70.8) | 0.3 | 0.4 |
| Shielded wires and cables | 13 | 49 | (73.5) | 0.5 | 0.9 |
| Rest of iron or steel products, n.e.c. | 61 | 75 | (18.7) | 2.6 | 1.4 |
| Plastics in primary forms and synthetic rubber (polymers) | 11 | 32 | (65.6) | 0.5 | 0.6 |
| Other types of transportation equipment n.e.c. | 14 | 42 | (66.7) | 0.6 | 0.8 |
| Medical instruments and equipment for measuring, testing, checking and other purposes; parts, spare parts and accessories | 29 | 34 | (14.7) | 1.2 | 0.6 |
| Canned, salty and smoked fish and crustaceans | 14 | 28 | (50.0) | 0.6 | 0.5 |
| Tires and rubber chambers | 5 | 39 | (87.2) | 0.2 | 0.7 |
| Major metallic structures and constructions | 8 | 34 | (76.5) | 0.3 | 0.6 |
| Others | 534 | 1,131 | (52.8) | 22.4 | 20.5 |
| **Total** | 2,380 | 5,516 | (56.9) | 100.0 | 100.0 |

[1/] Excludes iron ore and oil
Note: Total does not coincide with the Balance of Payments, because it only takes into account the information provided by INE. The new presentation is the result of adopting the classification known as Venezuela Product Code (VPC)
Source: INE.

## TABLE IV-4
## FOB imports
## Main Countries of Origin
(million USD)

| | 2009(*) | | 2008* | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| US | 10,029 | 27.0 | 12,430 | 27.5 |
| Colombia | 4,373 | 11.8 | 6,813 | 15.1 |
| Brazil | 3,106 | 8.4 | 4,060 | 9.0 |
| Mexico | 1,428 | 3.8 | 2,107 | 4.7 |
| People's Republic of China [2/] | 3,763 | 10.1 | 3,931 | 8.7 |
| Panama | 1,366 | 3.7 | 1,661 | 3.7 |
| Japan | 536 | 1.4 | 596 | 1.3 |
| Argentina | 1,078 | 2.9 | 1,375 | 3.0 |
| Germany | 1,023 | 2.8 | 1,215 | 2.7 |
| Italy | 865 | 2.3 | 1,081 | 2.4 |
| Spain | 744 | 2.0 | 904 | 2.0 |
| Chile | 858 | 2.3 | 1,187 | 2.6 |
| Canada | 552 | 1.5 | 709 | 1.6 |
| Peru | 425 | 1.1 | 938 | 2.1 |
| France | 352 | 0.9 | 380 | 0.8 |
| UK | 340 | 0.9 | 360 | 0.8 |
| Others | 6,316 | 17.0 | 5,379 | 11.9 |
| **Total** | 37,154 | 82.3 | 45,126 | 100.0 |

[1/] Excludes iron ore and oil
[2/] Includes the Province of Macao, Continental China, China Taiwan and Hong Kong
Note: The total does not coincide with the balance of payments because it only takes into account the information provided by INE.
Source: INE and BCV

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## TABLE IV-5
## Exports per Customs Office [1/]
(million USD)

| | 2009(*) | 2008* | Structure % | |
|---|---|---|---|---|
| | | | 2008 | 2009 |
| Matanzas | 785 | 1,468 | 26.6 | 33.0 |
| Puerto Cabello | 308 | 919 | 16.7 | 12.9 |
| San Félix | 74 | 81 | 1.5 | 3.1 |
| Guanta-Pto. La Cruz | 142 | 389 | 7.1 | 6.0 |
| Maracaibo | 202 | 611 | 11.1 | 8.5 |
| La Guaira | 42 | 144 | 2.6 | 1.8 |
| San Antonio del Táchira | 121 | 241 | 4.4 | 5.1 |
| Others | 706 | 1,663 | 30.1 | 29.7 |
| **Total** | 2,380 | 5,516 | 100.0 | 100 0 |

1/ Excludes iron ore and oil
Note: The total does not coincide with the balance of payments because it only takes into account the information provided by INE.
Source: INE and BCV

**TABLE IV-6**
**FOB imports**
**per Economic Destination**
(million USD)

| | 2009(*) | 2008* | Variation % 2009/2008 | Percentage structure 2009 | Percentage structure 2008 |
|---|---|---|---|---|---|
| Final consumption goods | 8,697 | 13,357 | (34.9) | 22.62 | 27.0 |
| Intermediate goods | 20,317 | 24,817 | (18.1) | 52.85 | 50.2 |
| Capital goods | 9,428 | 11,308 | (16.6) | 24.53 | 22.9 |
| **Total** | 38,442 | 49,482 | (22.3) | 100.0 | 100.0 |

Source: INE, Pdvsa and BCV.

## TABLE IV-7
## FOB imports main Products
(million USD)

| | 2009(*) | 2008* | Variation % 2009/2008 | Structure % 2009 | Structure % 2008 |
|---|---|---|---|---|---|
| Passenger cars | 109 | 1,226 | (91.1) | 0.3 | 2.7 |
| Radio and TV transmitters and fixed telephone and telegraph equipment; parts and spare parts | 1,336 | 2,194 | (39.1) | 3.6 | 4.9 |
| Rest of motor vehicles | 225 | 931 | (75.8) | 0.6 | 2.1 |
| Other types of machineries for general purposes, their parts and spare parts | 1,617 | 1,927 | (16.1) | 4.4 | 4.3 |
| Pharmaceutical products, medicinal chemical substances and botanical products | 2,405 | 1,847 | 30.2 | 6.5 | 4.1 |
| Basic chemicals | 1,103 | 1,422 | (22.4) | 3.0 | 3.2 |
| Rest of machinery and equipment for special purposes | 1,867 | 1,666 | 12.1 | 5.0 | 3.7 |
| Automatic data processing equipment | 809 | 1,187 | (31.8) | 2.2 | 2.6 |
| Engines, turbines, pumps and compressors | 993 | 1,048 | (5.2) | 2.7 | 2.3 |
| Radio and TV receivers, recording equipment, audio and video players and related products | 592 | 827 | (28.4) | 1.6 | 1.8 |
| Vessels and other ships | 152 | 201 | (24.4) | 0.4 | 0.4 |
| Medical equipment and instruments for measuring, testing, checking and other purposes; parts, spare parts and accessories | 1,071 | 1,197 | (10.5) | 2.9 | 2.7 |
| Other chemicals n.e.c. | 745 | 819 | (9.0) | 2.0 | 1.8 |
| Other metal manufactured products | 847 | 1,042 | (18.7) | 2.3 | 2.3 |
| Animal and vegetal oils and grease | 761 | 982 | (22.5) | 2.0 | 2.2 |
| Apparel, except furs | 603 | 1,232 | (51.1) | 1.6 | 2.7 |
| Parts, spare parts and accessories for motor vehicles and their engines | 577 | 715 | (19.3) | 1.6 | 1.6 |
| Home appliances n.e.c. | 515 | 739 | (30.3) | 1.4 | 1.6 |
| Machinery for mining, quarrying and construction works | 492 | 1,053 | (53.3) | 1.3 | 2.3 |
| Plastics in primary forms and synthetic rubber | 472 | 721 | (34.5) | 1.3 | 1.6 |
| Wood, paper and cardboard pulp | 564 | 627 | (10.0) | 1.5 | 1.4 |
| Iron or steel non-flat products | 175 | 346 | (49.4) | 0.5 | 0.8 |
| Other cereals | 415 | 726 | (42.8) | 1.1 | 1.6 |
| Cleaning and polishing soaps and detergents, perfumes and cosmetics | 622 | 676 | (8.0) | 1.7 | 1.5 |
| Other transportation equipment n.e.c. | 239 | 317 | (24.6) | 0.6 | 0.7 |
| Others | 17,848 | 19,458 | (8.3) | 48.0 | 43.1 |
| **Total** | 37,154 | 45,126 | (17.7) | 100.0 | 100.0 |

Note: Total does not coincide with the Balance of Payments, because it only takes into account the information provided by INE. The new presentation is the result of adopting the classification known as Venezuela Product Code (VPC)
Source: INE.

**TABLE IV-8**
**Total FOP Imports**
**Main Countries of Origin**
(million USD)

| | 2009(*) | | 2008* | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | **Amount** | **Percentage** |
| US | 10,029 | 27.0 | 12,430 | 27.5 |
| Colombia | 4,373 | 11.8 | 6,813 | 15.1 |
| Brazil | 3,106 | 8.4 | 4,060 | 9.0 |
| Mexico | 1,428 | 3.8 | 2,107 | 4.7 |
| People's Republic of China [1/] | 3,763 | 10.1 | 3,931 | 8.7 |
| Panama | 1,366 | 3.7 | 1,661 | 3.7 |
| Japan | 536 | 1.4 | 596 | 1.3 |
| Argentina | 1,078 | 2.9 | 1,375 | 3.0 |
| Germany | 1,023 | 2.8 | 1,215 | 2.7 |
| Italy | 865 | 2.3 | 1,081 | 2.4 |
| Spain | 744 | 2.0 | 904 | 2.0 |
| Chile | 858 | 2.3 | 1,187 | 2.6 |
| Canada | 552 | 1.5 | 709 | 1.6 |
| Peru | 425 | 1.1 | 938 | 2.1 |
| France | 352 | 0.9 | 380 | 0.8 |
| UK | 340 | 0.9 | 360 | 0.8 |
| Others | 6,316 | 17.0 | 5,379 | 11.9 |
| **Total** | 37,154 | 82.3 | 45,126 | 100.0 |

[1/] Includes the Province of Macao, Continental China, China Taiwan and Hong Kong
Note: The total does not coincide with the balance of payments because it only takes into account the information provided by INE.
Source: INE and BCV

**TABLE IV-9**
**Foreign Debt Service** [1/]
(million USD)

| | 2009 (*) | 2008 (*) | Absolute Variation 2009/2008 | Absolute Variation 2008/2007 |
|---|---|---|---|---|
| **Public** | (4,964) | (10,538) | 5,574 | (5,048) |
| Principal | (2,068) | (7,520) | 5,452 | (4,431) |
| Interests | (2,896) | (3,018) | 122 | (617) |
| **Private** | (70) | (443) | 373 | 835 |
| Principal | (47) | (394) | 347 | 542 |
| Interests | (23) | (49) | 26 | 293 |
| **Total** | (5,034) | (10,981) | 5,947 | (4,213) |

(*) Provisional figures

1/ Referred to payment of principal and interests of medium and long-term debt of all institutional sectors of the country, except the financial sector. Short-term debt includes payments for loans of the public oil sector and non-financial private sector. Data concerning liabilities of the financial sector and the rest of short-term liabilities are only available in terms of net flows.
Source: Minister of Finance, PDVSA, non-Oil and non-Financial Public Companies and BCV.

## TABLE IV-10
## Direct Investment [1/]
(million USD)

| | 2009 (*) | 2008 (*) | Absolute Variation 2009/2008 | Absolute Variation 2008/2007 |
|---|---|---|---|---|
| **Direct Investment abroad (asset)** | (1,834) | (1,273) | (561) | (1,243) |
| Shares and other equity | 92 | (114) | 206 | (14) |
| Reinvested units | (440) | (450) | 10 | 29 |
| Other equity | (1,486) | (709) | (777) | (1,258) |
| **Direct investment in the country (liability)** | (3,105) | 349 | (3,454) | (659) |
| Shares and other equity | (2,329) | 504 | (2,833) | 1,514 |
| Reinvested units | 55 | 600 | (545) | (1,147) |
| Other equity | (831) | (755) | (76) | (1,026) |

(*) Provisional figures

1/ A positive sign indicates a decrease in assets or an increase in the corresponding liabilities. A negative sign indicates an increase in assets or decrease in the corresponding liabilities.
Source: BCV.

## TABLE IV-11
### International Investment Position
### per public and private sectors, investment categories and instruments
(million USD)

| | 2009 (*) | 2008 (*) | Variation (%) 2008/009 |
|---|---|---|---|
| **Net position (assets-liabilities)** | 132,824 | 131,567 | 1.0 |
| **Assets** | 227,320 | 212,494 | 7.0 |
| Public sector | 107,402 | 109,091 | (1.5) |
| Direct investment [1/] | 14,153 | 12,075 | 17.2 |
| Shares and other equity | 4,681 | 4,448 | 5.2 |
| Reinvested units | 7,045 | 6,685 | 5.4 |
| Other equity | 2,427 | 942 | 157.6 |
| Portfolio investment | 7,974 | 10,655 | (25.2) |
| Shares and other equity | 333 | 313 | 6.4 |
| Debt Instruments | 7,641 | 10,342 | (26.1) |
| Bonds and promissory notes | 7,566 | 10,267 | (26.3) |
| Money market instruments | 75 | 75 | 0.0 |
| Other investment | 49,445 | 43,234 | 14.4 |
| Commercial credits | 13,700 | 10,688 | 28.2 |
| Loans | 905 | 706 | 28.2 |
| Currency and deposits | 16,689 | 19,144 | (12.8) |
| Others | 18,151 | 12,696 | 43.0 |
| Reserve assets | 35,830 | 43,127 | (16.9) |
| Private sector | 119,918 | 103,403 | 16.0 |
| Direct investment [1/] | 3,517 | 3,759 | (6.4) |
| Shares and other equity | 2,557 | 2,879 | (11.2) |
| Reinvested units | 960 | 880 | 9.1 |
| Other equity | 0 | 0 | - |
| Portfolio investment | 2,360 | 4,387 | (46.2) |
| Shares and other equity | 135 | 123 | 9.8 |
| Debt Instruments | 2,225 | 4,264 | (47.8) |
| Bonds and promissory notes | 813 | 2,552 | (68.1) |
| Money market instruments | 1,412 | 1,712 | (17.5) |
| Other investment | 114,041 | 95,257 | 19.7 |
| Commercial credits | 117 | 301 | (61.1) |
| Loans | 0 | 0 | |
| Currency and deposits | 113,498 | 94,533 | 20.1 |
| Others | 426 | 423 | 0.7 |
| **Liability** | 94,496 | 80,927 | 16.8 |
| Public sector | 57,394 | 40,269 | 42.5 |
| Direct investment [1/] | 9,941 | 9,255 | 7.4 |
| Shares and other equity | 446 | 10 | 4360.0 |
| Reinvested units | 7,945 | 7,945 | 0.0 |
| Other equity | 1,550 | 1,300 | 19.2 |
| Portfolio investment | 21,918 | 12,836 | 70.8 |
| Shares and other equity | 31 | 0 | - |
| Debt Instruments | 21,887 | 12,836 | 70.5 |
| Bonds and promissory notes | 21,887 | 12,836 | 70.5 |
| Money market instruments | 0 | 0 | - |
| Other investment | 25,535 | 18,178 | 40.5 |
| Commercial credits | 4,198 | 4,729 | (11.2) |
| Loans | 14,939 | 11,799 | 26.6 |
| Currency and deposits | 32 | 28 | 14.3 |
| Others [2/] | 6,366 | 1,622 | 292.5 |
| Private sector | 37,102 | 40,658 | (8.7) |
| Direct investment [1/] | 31,273 | 34,269 | (8.7) |
| Shares and other equity | 10,648 | 12,482 | (14.7) |
| Reinvested units | 13,492 | 13,427 | 0.5 |
| Other equity | 7,133 | 8,360 | (14.7) |
| Portfolio investment | 741 | 700 | 5.9 |
| Shares and other equity | 741 | 700 | 5.9 |
| Debt Instruments | 0 | 0 | - |
| Bonds and promissory notes | 0 | 0 | |
| Money market instruments | 0 | 0 | - |
| Other investment | 5,088 | 5,689 | (10.6) |
| Commercial credits | 3,518 | 4,386 | (19.8) |
| Loans | 1,515 | 1,222 | 24.0 |
| Currency and deposits | 34 | 60 | (43.3) |
| Others | 21 | 21 | 0.0 |

(*) Provisional figures.
[1/] Direct investment reflects negative and positive net balances, which, in the case of assets (investment abroad) result from subtracting liabilities to affiliate companies from assets; liabilities (investment in the country) are obtained by subtracting liabilities to foreign investors from assets.
[2/] Includes reserve liabilities
Source: Central Bank of Venezuela

## TABLE IV-12
### Foreign Exchange Movement
### Central Bank of Venezuela
(million USD)

| | 2009(*) | 2008 (*) | Absolute Variation 2009 | Absolute Variation 2008 |
|---|---|---|---|---|
| **I. Opening Gross Reserves** | 42,299 | 33,477 | 8,822 | (3,195) |
| **II. Revenues** | 40,581 | 65,988 | (25,407) | 15,064 |
| II.1.1 Public Sector | 35,505 | 50,466 | (14,961) | 12,941 |
| II.1.1 General Government | 63 | 394 | (331) | (2,047) |
| II.1.2 Non-financial public companies | 23,981 | 42,775 | (18,794) | 10,729 |
| Pdvsa | 23,168 | 42,079 | (18,911) | 10,836 |
| Others | 813 | 696 | 117 | (107) |
| II.1.3 Financial public companies | 6,210 | 6,932 | (722) | 4,801 |
| Bandes | 252 | 395 | (143) | (141) |
| Banco del Tesoro | 5,900 | 6,473 | (573) | 4,955 |
| Others | 58 | 64 | (6) | (13) |
| II.1.4 BCV | 5,251 | 365 | 4,886 | (542) |
| II. 2 Private sector | 5,076 | 15,522 | (10,446) | 2,123 |
| II.2.1 Exchange operators | 5,061 | 15,506 | (10,445) | 2,112 |
| II.2.2 Others 1/ | 15 | 16 | (1) | 11 |
| **III. Expenses** | 51,582 | 57,125 | (5,543) | 77 |
| III. 1 Public Sector | 23,986 | 10,042 | 13,944 | (4,438) |
| III.1.1 Central Government | 17,522 | 5,951 | 11,571 | (1,986) |
| Foreign Government debt 2/ | 17 | 26 | (9) | (175) |
| Oficina Nacional del Tesoro (ONT) 3/ | 4,871 | 3,784 | 1,087 | 3,256 |
| Fondo de Desarrollo Nacional (Fonden) 4/ | 12,299 | 1,538 | 10,761 | (5,232) |
| Others | 335 | 603 | (268) | 165 |
| III.1.2 Non-financial public companies | 1,996 | 2,401 | (405) | (3,147) |
| PDVSA 5/ | 0 | 307 | (307) | (4,193) |
| Others | 1,996 | 2,094 | (98) | 1,046 |
| III.1.3 Financial public companies | 2,696 | 1,242 | 1,454 | 730 |
| Bandes | 1,032 | 203 | 829 | (42) |
| Others | 1,664 | 1,039 | 625 | 772 |
| III.1.4 BCV | 1,772 | 448 | 1,324 | (35) |
| III. 2 Private sector | 27,596 | 47,083 | (19,487) | 4,515 |
| III.2.1 Exchange operators | 21,290 | 35,353 | (14,063) | 3,366 |
| III.2.2 Others 1/ | 6,306 | 11,730 | (5,424) | 1,149 |
| **IV. Regular operations balance (11411)** | (11,001) | 8,863 | (19,864) | 14,987 |
| **V. Appreciation adjustment 6/** | 3,702 | (41) | 3,743 | (2,970) |
| **VI. Closing Gross Reserves (1+IV+V)** | 35,000 | 42,299 | (7,299) | 8,822 |

1/ Includes operations through Aladi agreement

2/ Includes payments made by the BCV into the Republic and other decentralized entities account

3/ Includes framework agreement and foreign exchange for foreign government debt refinancing

4/ includes foreign currency resources allocated to Fonden and maintained in the BCV General Balance

5/ Referred to operations for issued bond

6/ Referred to valuation changes due to variations in market prices, exchange rates and other adjustments.

Source: BCV.

## TABLE IV-13
## International Reserves
(million USD)

| | 2009 (*) | 2008 * | Absolute Variation 2009 | Absolute Variation 2008 |
|---|---|---|---|---|
| **Central Bank of Venezuela** | | | | |
| Gross reserves | 35,000 | 42,299 | (7,299) | 5,627 |
| Liabilities from reserves | 241 | 777 | (536) | 575 |
| Net reserves | 34,759 | 41,522 | (6,763) | 5,052 |
| Operative reserves | 17,282 | 32,177 | (14,895) | 3,969 |
| **Macroeconomic Stabilization Fund (FEM)** | 830 | 809 | 21 | 36 |

Source: BCV

## TABLE IV-14
## Exchange Rate
(Bs./USD)

| | Nominal Exchange Rate | | | | REER [1/] (Base: June 2007=100) | |
|---|---|---|---|---|---|---|
| | Point | Average | Variation percentage Point | Variation percentage Average | Index | Variation Percentage |
| **2007** | 2,150.0 | 2,150.0 | 12.0 | 11.9 | 106.2 | (10.1) |
| **2008** | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 75.3 | (29.1) |
| **2009** | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 63.8 | (15.3) |
| January | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 73.3 | (1.2) |
| February | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 70.6 | (3.6) |
| March | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 70.1 | (0.7) |
| April | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 69.1 | (1.5) |
| May | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 68.8 | (0.4) |
| June | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 68.4 | (0.7) |
| July | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 67.9 | (0.7) |
| August | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 67.6 | (0.5) |
| September | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 66.6 | (1.4) |
| October | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 65.4 | (1.8) |
| November | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 65.2 | (0.3) |
| December | 2,150.0 | 2,150.0 | 0.0 | 0.0 | 63.8 | (2.1) |

[1/] Real effective exchange rate. Estimate referred to Venezuela's imports with its main trade partners, comprising a foreign currency basket with the respective countries.
A positive variation of this indicator is interpreted as depreciation and vice versa.
Source: BCV

# CHAPTER V

# PUBLIC FINANCE

## 1. Introduction

2009 fiscal management was affected by the negative impact of the global financial crisis on oil prices, in response of which, the authorities took measures to correct the decrease in oil tax revenue and compensate for it through the increase in domestic tax collection and long-term public borrowing.

Furthermore, these measures were taken in the context of a decision to act in a countercyclical manner to mitigate the negative impact of the crisis on the domestic economic activity.

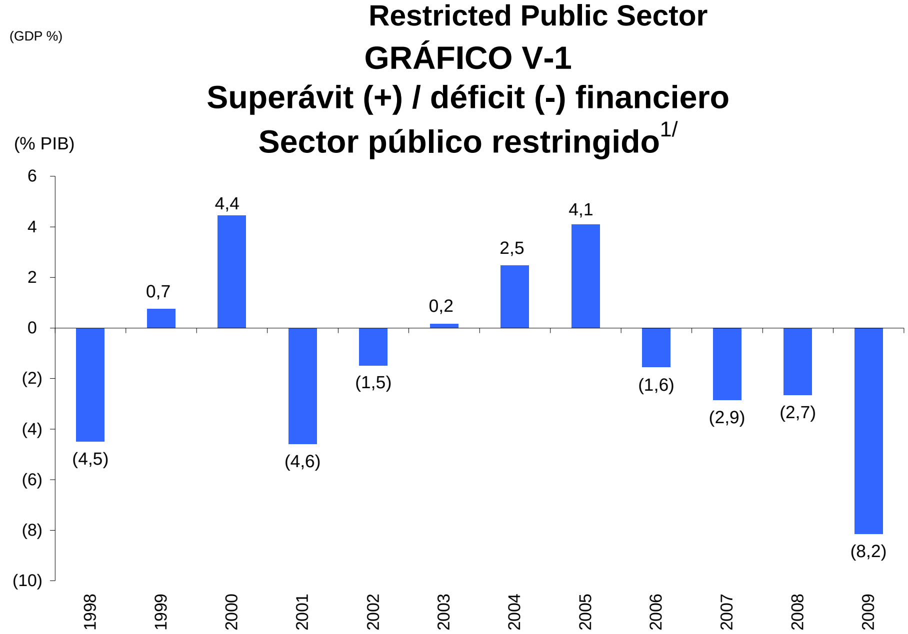
2009 deficit management of the public sector was basically determined by the negative results of the Central Government and Pdvsa. The drop in prices of the Venezuelan oil basket since late 2008 and the level recorded throughout 2009 which was below the average of the last four years became the factor that determined the decline in Pdvsa operational balance. Consequently, the authorities amended the Budget and Borrowing Laws and maintained a countercyclical fiscal policy, which translated into a substantial increase in the Central Government deficit.

## 2. Financial Management of the Restricted Public Sector (CRPS)

According to preliminary figures released by the People's Ministry for Planning and Finance related to the 2009 financial management results, revenues and expenditure of the restricted public sector exhibited a behavior contrary to that of 2009. Given the previous year's expansion (30.6%), revenues recorded a year-to-year nominal contraction of de 17.6%. This situation had not occurred since 1998, when oil price averaged USD 10.57/bbl. For its part, total expenditure reflected a significant deceleration, increasing just 0.9% with respect to 2008 (30.4%). In real terms[83], drop in revenues and expenditure of this institutional sector was 35.9% and 21.5%, respectively; whereas in relation to GDP, it fell 6.8 percentage points in the case of revenues and 1.3 percentage points in the case of expenditure.

The behavior of revenues and expenditure in real and nominal terms caused CRPS to record a financial deficit for the fourth year in a row. In GDP terms, this variable jumped from 2.7% to 8.2%, for an increase of 5.5 percentage points in 2009. From the point of view of the institutional structure, CRPS financing requirements multiplied due to the performance of the Central Government, which posted a deficit balance equivalent to 5.1% of GDP (1.2% in 2008), and to Pdvsa operational results which evidenced a contraction of 9.5percentage points of GDP, because the other entities of this sector reported improvement in their operational results.

**CHART V-1**
**Financial Surplus (+) / Deficit (-)**
**Restricted Public Sector**




1/ Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance

[83] Calculations in real terms were performed by deflacting variables based on the CPI.

## 2.1 Revenues of the Restricted Public Sector

The decrease of 7.6 percentage points of GDP in non-tax revenue, which intensified the decreasing trend registered by this indicator since 2007, played a determining role in revenues of the restricted public sector, which share in GDP fell from 31.6% in 2008 to 24.9T in 2009. This behavior was related to the drop in the average price of the Venezuelan oil basket in comparison to 2008.

These lower revenues with relation to the previous year and GDP was evidenced in the following items: Pdvsa operational surplus went down from 13.9% to 4.4%; profits, dividends and commissions were 1.5 percentage points lower, going from 2.4% to 0.9%; and other revenues dropped from 3.% to 2.9%; only the item related to interests improved its share of GDP, which was reflected in an increase of 3.6 percentage points with respect to its 2008 level. This behavior can be attributed, in part, to revenues from primes for government debt placements.

Tax revenue, in turn, exhibited a slightly better behavior than the previous year, because their share in GDP gained 0.8 percentage points. An analysis of the structure of this variable shows that this result had a similar effect on its different components. With respect to 2008 and in terms of GDP, Income Tax rose from 3.% to 3.5%; Social Security contribution ratio went from 0.8% up to 1.0%; and other tax revenue expanded from 7.6% to 7.9%.

## 2.2 Expenditure of the Restricted Public Sector

The slight nominal growth and the drop in real terms of total expenditure of the restricted public sector can be attributed to the adjustments made to the 2009 Budget Law, decided in March by the Administration, due to the lower collection of oil tax revenue. This deceleration was equally reflected in the most part of expenditure components (current, capital and net loan granting).

With this result, total expenditure as a GDP share accumulated a decrease of 6.1 percentage points since 2007, which was exclusively recorded in primary expenditure (drop of 1.3 percentage points), because the burden of government debt interest with respect to GDP did not vary in relation to 2008, as a consequence of the slight nominal increase of 5.7%.

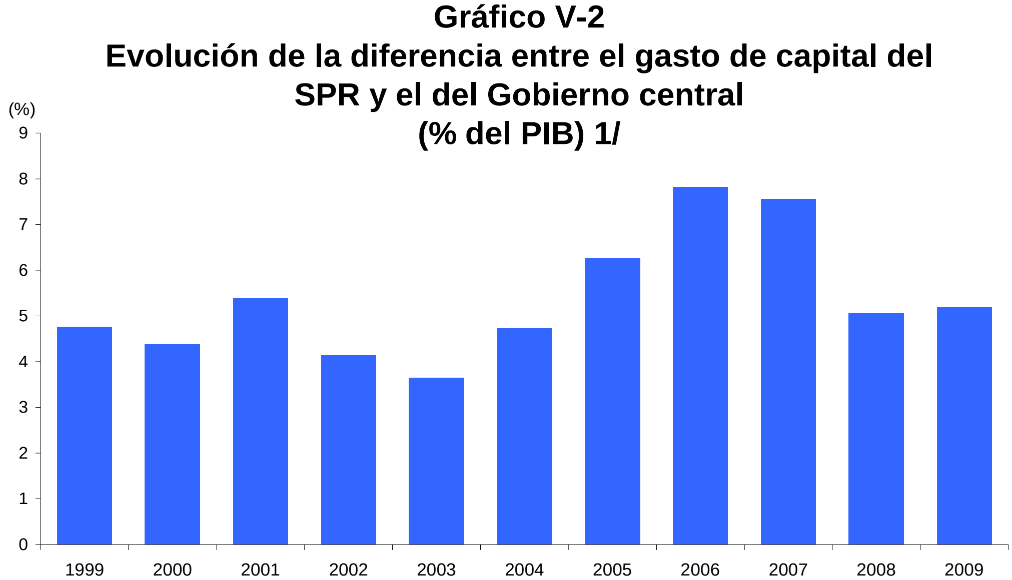
For its part, expenditure economic structure did not experience significant variations as to 2008 results. Current and capital expenditure reduced their share in GDP by 1.0 and 0.1 percentage points, respectively. In the first case, the result was associated with the net effect of the transfer drop of 1.6 percentage points of GDP, especially in the transfer to public sector item since it depends on ordinary revenues and represents almost 40% of total current expenditure. This reduction did not counteract the increase of 0.8 percentage points of GDP in the labor remuneration item, determined by the increase in the minimum wage and of employment in the public sector.

Capital expenditure behavior was almost invariable in terms of GDP in 2008, due to the net effect of the increase in resources earmarked for the acquisition of fixed capital assets and the decrease in transfers to the public sector (both by 2.5 percentage points).

The behavior of the difference between CRPS and Central Government capital expenditure, that is, the investment expenditure of the rest of the public sector[84], exhibited an important growth from 2004 to 2007. Although this expenditure registered a decrease in terms of GDP over the last two years, it perceived a higher execution level in 2009, which reflected the countercyclical effect of the fiscal policy.

[84] Includes Pdvsa, a sample of non-financial public companies, the IVSS and Fogade. These figures do not include payments made by national funds for this item.

**CHART V-2**
**Behavior of the Difference between Capital Expenditure of RPS and the Central Government (% of GDP) [1/]**



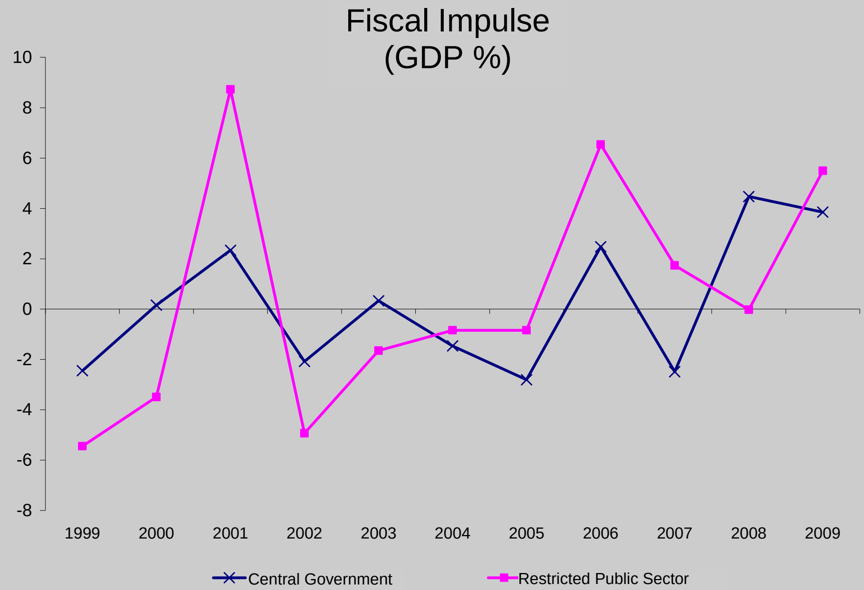

1/ Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance

**Box V-1**

## Fiscal Impulse

Fiscal impulse is a measurement of the change in the orientation of the fiscal policy with respect to that o the economic activity cycle; that is, it is a measurement of the degree in which changes in fiscal policy intensify or mitigate pressure of aggregate demand.

There are several ways to estimate the fiscal impulse; however, the most intuitive one is considering the difference between the primary deficit of the current period and that of the previous period. A positive (negative) fiscal impulse measured in this way, indicates that fiscal policy is expansive (contractive). This means that for a drop in real terms in public expenditure to imply a contractive fiscal policy, the decrease in the real value of tax revenue must be proportionally lower. Contrary to this, in a context of higher revenues and fiscal expenditure, fiscal policy will be expansive, only if the first one grows less proportionally than the second one [1/].




Source: Statistics of the People's Ministry for Planning and Finance

For the Venezuelan case, given the characteristic dependence on oil tax revenue and these latter's volatility, an indicator that takes into account this condition should identify the effect of the oil cycle. Likewise, to identify the impact of discretional fiscal policies on financial management of the public sector, it is convenient to estimate the influence of the cycle on physical variables (revenues and expenditure).

1/ A study on the different fiscal impulse measures can be found in Heller, P., Haas, R. and Mansur A. (1986). "A Review of the Fiscal Impulse Measure". *International Monetary Fund*. Washington D. C.

Concerning extra-budgetary matters, even though expenditure nominally increased by more than 80%, its magnitude continues to be insignificant in the total CRPS expenditure. On the contrary, net loan granting not only registered a nominal decrease of 20.% with respect to 2008, but maintained its share in GDP at levels below 1%.

**TABLE V-1**
**Restricted Public Sector 1/ 2/**
**Revenues and Expenditure**
(thousand bolivars)

| | 2009 | 2008 | 2007 | As percentage of GDP 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Total Revenues** | 174,145,408 | 211,409,993 | 161,831,832 | 24.9 | 31.6 | 33.3 |
| **Current Revenues** | 174,145,408 | 211,409,993 | 161,831,832 | 24.9 | 31.6 | 33.3 |
| Taxes | 86,636,297 | 77,106,939 | 62,661,504 | 12.4 | 11.5 | 12.9 |
| Income Tax, domestic activities | 24,711,579 | 21,123,503 | 17,200,071 | 3.5 | 3.2 | 3.5 |
| Contributions to IVSS | 6,739,640 | 5,084,675 | 4,217,611 | 1.0 | 0.8 | 0.9 |
| Others | 55,185,077 | 50,898,761 | 41,243,822 | 7.9 | 7.6 | 8.5 |
| Non-tax | 87,509,111 | 134,303,054 | 99,170,329 | 12.5 | 20.1 | 20.4 |
| Pdvsa operative surplus | 31,143,151 | 92,838,472 | 74,902,513 | 4.4 | 13.9 | 15.4 |
| Epnf operative surplus | 2,009,930 | 1,142,734 | 106,880 | 0.3 | 0.2 | 0.0 |
| Interests | 27,899,609 | 2,647,342 | 1,432,972 | 4.0 | 0.4 | 0.3 |
| Profits, dividends and commissions | 5,985,788 | 16,252,571 | 8,159,405 | 0.9 | 2.4 | 1.7 |
| Others revenues | 20,470,633 | 21,421,935 | 14,568,559 | 2.9 | 3.2 | 3.0 |
| Revenues from transfers | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| **Capital revenues** | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| Sales of assets | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| IVSS capital revenues | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| **Total expenditure and net loan granting** | 231,240,156 | 229,114,342 | 175,738,340 | 33.0 | 34.3 | 36.1 |
| **Total expenditure** | 226,863,090 | 223,630,916 | 174,283,337 | 32.4 | 33.5 | 35.8 |
| **Current expenditure** | 153,308,287 | 153,187,341 | 109,739,015 | 21.9 | 22.9 | 22.6 |
| Operative expenditure | 51,514,718 | 43,510,131 | 31,000,226 | 7.4 | 6.5 | 6.4 |
| Wages | 37,476,089 | 30,537,529 | 20,852,896 | 5.4 | 4.6 | 4.3 |
| Purchase of goods and services | 11,581,130 | 10,914,095 | 8,341,237 | 1.7 | 1.6 | 1.7 |
| Others | 2,457,498 | 2,058,507 | 1,806,092 | 0.4 | 0.3 | 0.4 |
| Interests and commissions | 10,355,976 | 9,800,170 | 8,036,717 | 1.5 | 1.5 | 1.7 |
| Government debt interests and commissions | 10,355,976 | 9,800,170 | 8,036,717 | 1.5 | 1.5 | 1.7 |
| Internal | 4,191,234 | 3,412,609 | 2,564,601 | 0.6 | 0.5 | 0.5 |
| External | 6,164,742 | 6,387,561 | 5,472,116 | 0.9 | 1.0 | 1.1 |
| BCV quasi-fiscal losses | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| Transfers | 90,687,275 | 97,268,827 | 69,867,003 | 13.0 | 14.6 | 14.4 |
| Transfers to the public sector | 60,605,758 | 72,178,930 | 53,456,723 | 8.7 | 10.8 | 11.0 |
| Transfers to the private sector | 29,889,060 | 24,809,482 | 16,248,503 | 4.3 | 3.7 | 3.3 |
| Others | 192,457 | 280,415 | 161,777 | 0.0 | 0.0 | 0.0 |
| Others | 750,319 | 2,608,213 | 835,070 | 0.1 | 0.4 | 0.2 |
| Other expenditure not imputable to operation | 750,319 | 2,608,213 | 835,070 | 0.1 | 0.4 | 0.2 |
| **Capital expenditure** | 73,036,234 | 70,170,555 | 64,025,719 | 10.4 | 10.5 | 13.2 |
| Acquisition of fixed capital assets | 35,145,152 | 16,656,194 | 25,422,670 | 5.0 | 2.5 | 5.2 |
| Capital transfers | 37,891,082 | 53,514,361 | 38,603,049 | 5.4 | 8.0 | 7.9 |
| Transfers to the public sector | 37,733,894 | 53,332,892 | 38,547,461 | 5.4 | 8.0 | 7.9 |
| Transfers to the private sector | 157,188 | 181,469 | 55,588 | 0.0 | 0.0 | 0.0 |
| Other financial expenditure | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| **Extra-budgetary expenditure** | 518,569 | 273,020 | 518,603 | 0.1 | 0.0 | 0.1 |
| **Net loan granting** | 4,377,066 | 5,483,427 | 1,455,003 | 0.6 | 0.8 | 0.3 |
| Domestic | 4,332,434 | 5,454,363 | 1,434,332 | 0.6 | 0.8 | 0.3 |
| Foreign | 44,632 | 29,064 | 20,671 | 0.0 | 0.0 | 0.0 |
| **Current surplus or deficit (-)** | 20,837,121 | 58,222,652 | 52,092,817 | 3.0 | 8.7 | 10.7 |
| **Global surplus or o deficit (-)** | (57,094,748) | (17,704,349) | (13,906,508) | (8.2) | (2.7) | (2.9) |

1/ Includes Central Government, Pdvsa, simple of non-financial public companies, IVSS and Fogade
2/ Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance.

## 2.3 Financing of Restricted Public Sector

In 2009, deficit of the restricted public sector was mainly financed by resources from the domestic market through the issuance of public bonds. In fact, the balance of the domestic government debt went from 4.6% up to 7.6% of GDP, in comparison to the lower increase in foreign government debt (9.6% to 10.8% of GDP), as an evidence of the composition of the Domestic Government debt portfolio, which reduces the effect of exchange risk. The most part of these placements were made by the Central Government by means of weekly auctions and a special offer of dollar-denominated bonds payable in local currency, maturing in 2019 and 2024. Following this same mechanism, Pdvsa issued the so-called Petrobonos which mature in 2011, 2014, 2015 and 2016.

**TABLE V-2**
**Restricted Public Sector**
**Net Financing**
(thousand bolivars)

| | 2009 | 2008 | 2007 | As percentage of GDP 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Financing** | 57,094,748 | 17,704,349 | 13,906,508 | 8.2 | 2.7 | 2.9 |
| **Domestic** | 39,391,814 | 12,655,746 | (6,358,369) | 5.6 | 1.9 | (1.3) |
| Monetary authority | 1,764,711 | 4,285,298 | (11,534,536) | 0.3 | 0.6 | (2.4) |
| Rest of the Financial System | 21,173,889 | (3,439,425) | 7,440,496 | 3.0 | (0.5) | 1.5 |
| Variation of deposits | (1,165,486) | 1,677,854 | 3,090,799 | (0.2) | 0.3 | 0.6 |
| Net Loans | 19,737,143 | (5,464,356) | 356,584 | 2.8 | (0.8) | 0.1 |
| Disbursements | 24,794,477 | 3,164,584 | 8,816,874 | 3.5 | 0.5 | 1.8 |
| Amortizations | (3,361,833) | (6,370,972) | (5,091,536) | (0.5) | (1.0) | (1.0) |
| Redemption and refinancing | (1,695,500) | (2,257,968) | (3,368,753) | (0.2) | (0.3) | (0.7) |
| Bill placement | 2,536,528 | (49,635) | (1,256,213) | 0.4 | (0.0) | (0.3) |
| Others | 65,703 | 396,712 | 5,249,325 | 0.0 | 0.1 | 1.1 |
| Other domestic | 16,453,214 | 11,809,874 | (2,264,329) | 2.3 | 1.8 | (0.5) |
| **Foreign** | 17,702,934 | 5,048,603 | 20,264,877 | 2.5 | 0.8 | 4.2 |
| Variation of deposits | (6,345,478) | (4,808,480) | 906,736 | (0.9) | (0.7) | 0.2 |
| Net loans | 25,616,471 | 5,475,747 | 27,305,353 | 3.7 | 0.8 | 5.6 |
| Disbursements | 27,581,997 | 14,249,540 | 32,588,232 | 3.9 | 2.1 | 6.7 |
| Amortizations | (1,316,495) | (4,152,643) | (2,882,897) | (0.2) | (0.6) | (0.6) |
| Redemption and refinancing | (649,031) | (4,621,151) | (2,399,982) | (0.1) | (0.7) | (0.5) |
| FIEM | - | - | - | 0.0 | 0.0 | 0.0 |
| Others | (1,568,060) | 4,381,335 | (7,947,212) | (0.2) | 0.7 | (1.6) |

Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance.

## 3. Central Government Financial Management

The results of the Central Government financial management reflect a countercyclical approach that is consistent with the trend observed in international fiscal policies, which were formulated to face the negative impact of the global economic crisis. This was evidenced in the lower real contraction of expenditure (16.4%), in comparison to that of revenues (29.1%).

In fact, despite the adjustment measures adopted by the Administration in early 2009, fiscal expenditure exhibited a slight increase in its share of GDP (0.7 percentage points). Given a significant drop in revenues, this explains the negative financial result of 5.1% of GDP, the highest over the last 10 years.

### 3.1 Central Government Revenues

The budget adjustment program decreed in March 2009[85] included measures to adjust oil revenue estimates downward and compensate for that fall with the increase of domestic ordinary revenues.

The results of revenues management in 2009 declined in nominal terms (8.8%) with respect to the previous year, as a proportion of GDP (3.2%), and from the point of view of its real values (29.1%). This contraction can be basically attributed to the drop in oil revenues, which was not counteracted by the relatively lower performance of domestic tax revenue.

According to all measurement methodologies, oil revenues fell between 2008 and 2009: 35.4% in nominal terms, 49.8% in real terms and 4.7 percentage points of GDP. This decline was also observed in the collection of Income Tax and oil royalties. In terms of GDP, the former one went from 2.7% in 2008 to 1.8% in 2009; whereas the latter moved from 9.0% to 5.1% in the same period. Dividends, in turn, did not experienced significant variations with respect to product. Drop in oil prices, the worst from 1988 to 2009 and contraction in export volumes (7.6%) had a substantial effect on these results.

[85] See Chapter II, section II.4, Fiscal Policy.

**TABLE V-3**
**Central Government Financial Management**
(thousand bolivars)

| | 2009 | 2008 | 2007 | As percentage of GDP 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| **Total revenues** | 151,525,494 | 166,098,284 | 141,333,36 | 21.6 | 24.9 | 29.1 |
| Current | 151,525,494 | 166,098,284 | 141,333,362 | 21.6 | 24.9 | 29.1 |
| Oil | 53,230,829 | 82,432,206 | 71,583,050 | 7.6 | 12.3 | 14.7 |
| Income Tax | 12,944,054 | 17,834,247 | 19,958,537 | 1.8 | 2.7 | 4.1 |
| Royalties | 35,986,775 | 60,297,959 | 46,092,513 | 5.1 | 9.0 | 9.5 |
| Pdvsa dividend | 4,300,000 | 4,300,000 | 5,532,000 | 0.6 | 0.6 | 1.1 |
| Non-oil | 98,294,665 | 83,666,078 | 69,750,311 | 14.0 | 12.5 | 14.3 |
| Income Tax, domestic activities | 26,022,205 | 21,797,872 | 17,605,655 | 3.7 | 3.3 | 3.6 |
| Value Added Tax | 41,611,046 | 31,396,222 | 27,895,386 | 5.9 | 4.7 | 5.7 |
| Regular imports | 6,408,894 | 7,266,985 | 7,573,354 | 0.9 | 1.1 | 1.6 |
| Bank debit/ Financial transactions | 0 | 6,131,758 | 2,609,656 | 0.0 | 0.9 | 0.5 |
| Tax on alcoholic beverages | 1,764,659 | 1,322,500 | 908,145 | 0.3 | 0.2 | 0.2 |
| Tax on tobacco | 4,204,548 | 3,246,492 | 1,364,058 | 0.6 | 0.5 | 0.3 |
| Oil by-products | 755,853 | 1,173,880 | 703,930 | 0.1 | 0.2 | 0.1 |
| BCV's profits | 151,083 | 442,379 | 71,279 | 0.0 | 0.1 | 0.0 |
| Other revenues | 17,376,377 | 10,887,989 | 11,018,849 | 2.5 | 1.6 | 2.3 |
| Capital | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| **Total expenditure and net loan granting** | 187,134,605 | 174,132,756 | 126,462,056 | 26.7 | 26.1 | 26.0 |
| **Total expenditure** | 184,161,339 | 172,691,540 | 125,937,257 | 26.3 | 25.9 | 25.9 |
| Current | 143,752,684 | 132,262,766 | 95,950,715 | 20.5 | 19.8 | 19.7 |
| Wages | 34,583,213 | 28,062,462 | 19,196,047 | 4.9 | 4.2 | 3.9 |
| Purchases of goods and services | 6,150,426 | 6,781,494 | 4,247,166 | 0.9 | 1.0 | 0.9 |
| Others | 2,429,268 | 1,957,507 | 1,785,919 | 0.3 | 0.3 | 0.4 |
| Government debt interests and commissions | 9,406,802 | 8,770,230 | 7,402,441 | 1.3 | 1.3 | 1.5 |
| Domestic | 4,191,234 | 3,412,609 | 2,564,601 | 0.6 | 0.5 | 0.5 |
| Foreign | 5,215,568 | 5,357,621 | 4,837,840 | 0.7 | 0.8 | 1.0 |
| Subsidies and transfers | 91,182,975 | 86,691,073 | 63,319,143 | 13.0 | 13.0 | 13.0 |
| To the public sector | 78,450,786 | 75,805,000 | 55,519,306 | 11.2 | 11.3 | 11.4 |
| To the private sector | 12,666,784 | 10,792,191 | 7,703,859 | 1.8 | 1.6 | 1.6 |
| To the foreign sector | 65,405 | 93,882 | 95,978 | 0.0 | 0.0 | 0.0 |
| Capital | 38,186,968 | 38,843,994 | 28,623,969 | 5.5 | 5.8 | 5.9 |
| Gross capital formation | 412,962 | 972,283 | 715,875 | 0.1 | 0.1 | 0.1 |
| Transfers | 37,774,006 | 37,871,711 | 27,908,094 | 5.4 | 5.7 | 5.7 |
| To the public sector | 37,616,818 | 37,690,242 | 27,852,506 | 5.4 | 5.6 | 5.7 |
| To the private sector | 157,188 | 181,469 | 55,588 | 0.0 | 0.0 | 0.0 |
| Extra-budgetary expenditure | 2,221,687 | 1,584,780 | 1,362,573 | 0.3 | 0.2 | 0.3 |
| Loan granting | 2,973,266 | 1,441,216 | 524,799 | 0.4 | 0.2 | 0.1 |
| Domestic | 2,928,634 | 1,412,152 | 504,128 | 0.4 | 0.2 | 0.1 |
| Foreign | 44,632 | 29,064 | 20,671 | 0.0 | 0.0 | 0.0 |
| **Current surplus or deficit (-)** | 7,772,811 | 33,835,518 | 45,382,646 | 1.1 | 5.1 | 9.3 |
| **Primary surplus or deficit (-)** | (26,202,309) | 735,757 | 22,273,747 | (3.7) | 0.1 | 4.6 |
| **Global surplus or deficit (-)** | (35,609,111) | (8,034,473) | 14,871,306 | (5.1) | (1.2) | 3.1 |

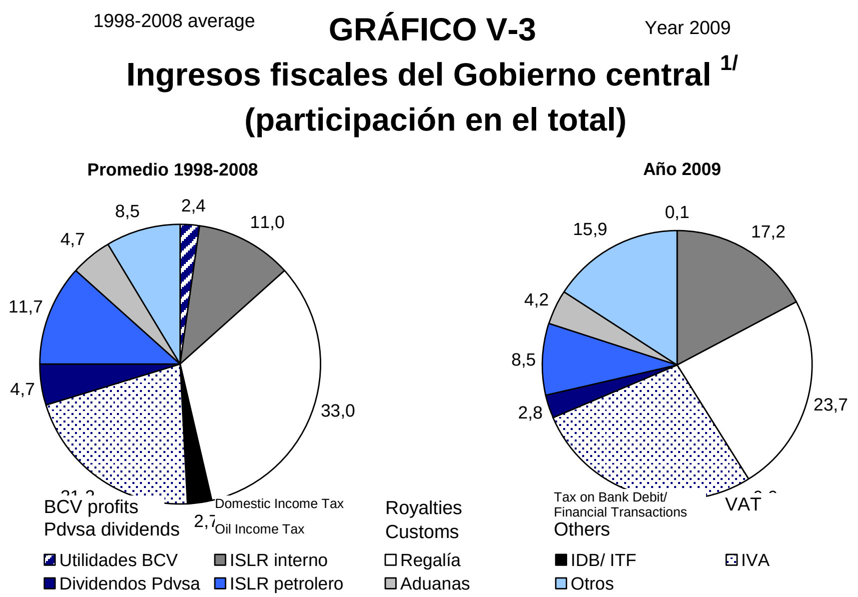
1/ Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance.

Non-oil tax revenue was better than oil tax revenue, but only in nominal terms and as GDP share, because based on its real measurement, the variation was negative. Nominal growth was 17.5% in 2008-2009, whereas in GDP terms, it rose from 12.5% to 14%. Factors that influenced this result were VAT, which increased by 1.2 percentage points, Income Tax on domestic activities, which grew by 0.4 percentage points, and finally, taxes on alcoholic beverages and tobacco, which also increased (by 0.1 percentage point each). Other revenue went from 1.6% up to 2.5% of GDP[86].

In real terms, non-oil revenue collection was better in 2009 than in 2008. This lower collection was reflected in telecommunication tax (from a 13.2% growth to a 42.3% contraction), in taxes on gambling (casinos and bingos) (after an increase of 137.5%, it lost 7.3%) and regular import tax (down 31.4%). In this last case, the 22.3% decline in imports of goods and services played a determining role.

In terms of non-tax non-oil revenue, BCV profits, royalties on minerals and rates also experienced real-term falls (73.4%, 50.0% and 10.4%, respectively). However, these results were compensated for by the real increase of 3.1% in Value Added Tax collection and by the other revenues item which gained 33.5%.

**CHART V-3**
**Central Government Tax Revenue [1/]**
**(share in the total)**




[1/] Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance.

[86] This item has been substantially increasing over recent years. It is assumed that the item includes bonds from the dollar-denominated debt placement on the domestic market.

Non-oil tax structure of Central Government shows that indirect tax share continued to decrease (67.8%), as well as its proportion in non-oil GDP (10.2%). This reflects a lower regression degree in the Venezuelan tax system, since indirect taxation takes less into account taxpayers' economic capacity.

**TABLE V-4**
**Structure of non-oil tax revenue of the Central Government [1/]**

| Years | Percentage of non-oil tax revenue | | As percentage of non-oil GDP | |
|---|---|---|---|---|
| | Indirect | Direct | Indirect | Direct |
| 1998 | 80.3 | 19.7 | 10.8 | 2.6 |
| 1999 | 81.4 | 18.6 | 11.4 | 2.6 |
| 2000 | 80.6 | 19.4 | 9.7 | 2.3 |
| 2001 | 77.2 | 22.8 | 8.8 | 2.6 |
| 2002 | 78.2 | 21.8 | 10.4 | 2.9 |
| 2003 | 79.8 | 20.2 | 11.2 | 2.8 |
| 2004 | 80.6 | 19.4 | 13.5 | 3.2 |
| 2005 | 79.0 | 21.0 | 15.0 | 4.0 |
| 2006 | 73.2 | 26.8 | 13.9 | 5.1 |
| 2007 | 70.0 | 30.0 | 12.8 | 5.5 |
| 2008 | 69.9 | 30.1 | 11.5 | 4.9 |
| 2009 | 67.8 | 32.2 | 10.2 | 4.9 |

[1/] Classified into revenue obtained from direct and indirect taxes.
Source: People's Ministry for Planning and Finance.

Given the variations experienced by oil and non-oil revenue, the tax revenue economic structure reflected a change in favor of non-oil revenue, which went from 50.4% in 2008 up to 64-9% in 2009, whereas oil revenue declined from 49.6% to 35.1% in the same period.

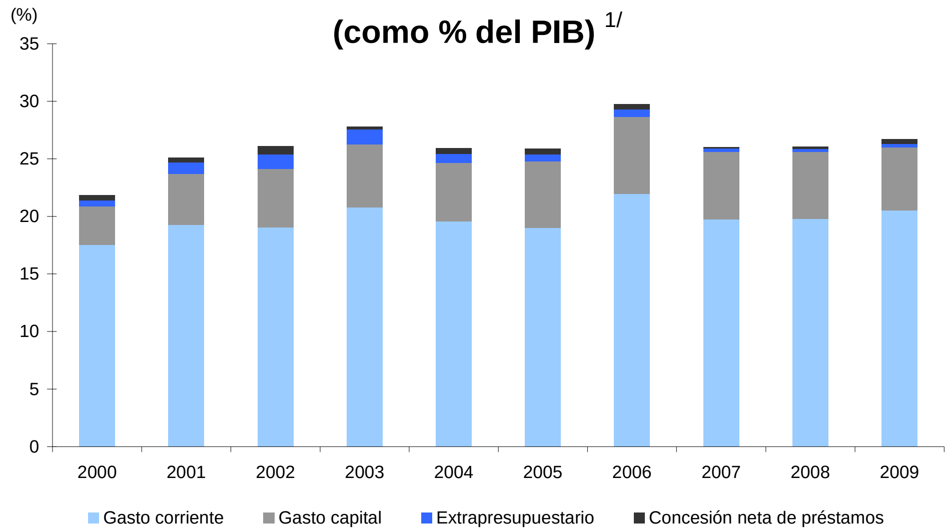
In a comparative analysis with Latin America and according to preliminary figures of ECLAC and the People's Ministry for Planning and Finance, tax burden in Venezuela was at 13.6% of GDP in 2009, i.e. about 1.4 percentage points below the average reported for the whole region[87] (15-0% of GDP).

[87] These figures correspond to the simple average among 19 Latin American and Caribbean countries, referred to Central Government, except for the Plurinational State of Bolivia, which coverage corresponds to the general government.

## 3.2 Central Government Expenditure

Orientation of fiscal expenditure management in 2009 was determined by the corresponding Budget Law, the budget adjustment program decreed in March 2009 and by the approval of supplementary appropriations that resulted in an increase in expenditure of the Central Government.

**CHART V-4**
**Total Central Government Expenditure**
**(as percentage of GDP) 1/**
**GRÁFICO V-4**
**Gasto total del Gobierno central**
**(como % del PIB) 1/**




1/ Cifras preliminares. Sujetas a revisión.
Fuente: Ministerio del Poder Popular de Planificación y Finanzas.

Current expenditure Capital expenditure Extra-budgetary expenditure Net loan granting

1/ Preliminary figures. Subject to review
Source: People's Ministry for Planning and Finance

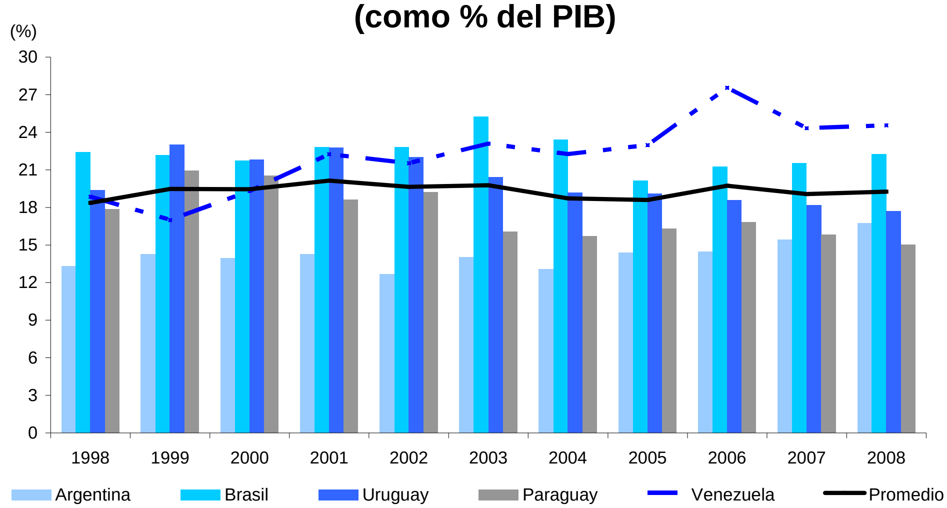
In nominal terms, the 7.5% increase in total expenditure was lower than the level reached in 2008, when this variable grew 37.7% on a year-to-year basis. Likewise, in terms of GDP, expenditure shows a slight gain of 0.7 percentage points between 2008 and 2009. On the contrary, from the point of view of its real mediation, this variable exhibited a substantial contraction (16.4%). Primary expenditure and interests on Central Government debt exhibited the same variations in all measurements considered. The behavior of current expenditure played a determining role in these results, because capital expenditure contracted 1-7% in nominal terms and (23.5% in real terms.

In nominal terms, the items which grew the most fell into the category of current expenditure: wages (23.2%), other operative expenditure (24.1%), interests on domestic debt (22.8%), current transfers to the private sector (17%) and extra-budgetary expenditure (40.2%). Only in this last case, the increase was higher than the one reported in 2008; however its significance was marginal due to its low weight in total expenditure (about 1% of GDP).

The increase in wages and current transfers to the private sector was basically attributed to the rise in the minimum wage decreed for the year and its incidence on payments to pensioned and retired workers of the National General government and the IVSS; whereas the increase in interests resulted from the effect of the accumulation of borrowing from previous years and the important expansion it experienced this year. Items that declined include those classified as capital expenditure: gross capital formation (57.5%) and capital transfers to the private sector (13.4%). As to current expenditure, a lower nominal drop is observed in purchases of goods and services (9,3%) and interests on foreign debt (2.7%).

In real terms, all items lost ground, except interests on domestic debt and extra-budgetary expenditure. In general, the little year-to-year variation of the share in GDP of the different expenditure categories suggests the existence of a certain level of downward rigidity of this variable.

**CHART V-6**
**Central Government Primary Expenditure**
**(as % of GDP)**
**GRÁFICO V-6**
**Gasto primario del Gobierno central**
**(como % del PIB)**




Fuente: Cepal y Ministerio del Poder Popular de Planificación y Finanzas.

Argentina Brazil Uruguay Paraguay Venezuela Average

Source: IMF, central banks of the different countries

According to the international comparative analysis, primary expenditure of the Central Government maintained in 2008 the trend it has followed since 2004, which continues to reflect a higher level (24.8% of GDP) as compared to the average in some Latin American countries (19.3% of GDP). Capital expenditure remained higher (5.8% of GDP) than the average recorded by all countries in the Latin American region (4.3% of GDP).

### 3.3 Financial Result and Financing of the Central Government

Financial management of the Central Government closed 2009 with a deficit of 5.1% of GDP, due to the reduced tax revenue vis-à-vis a slightly higher expenditure level in comparison to the prior year. Similarly, primary and current balance deteriorated in relation to 2008. Current savings, which measures the capacity to finance investment expenditure, was at 1.1% of GDP (5.1% of GDP in 2008), whereas primary deficit accounted for 3.7% of GDP (surplus of 0.1% of GDP in 2008).

Fiscal management financing was based not only on the sources originally established in the 2009 Budget Law, but also on the approval of the complementary Government debt Bill that was intended to address the increase in financing requirements resulting from the downward adjustment of oil tax revenue estimates.

Deficit of the financial management of the Central Government in 2009 was mostly financed by new debt, mainly domestic. To complete this process, the People's Ministry for Planning and Finance (MPPPF) published a schedule of quarterly auctions that made it possible to maintain an active placement of instruments throughout the year, including Vebonos[88], TICC[89], FIS[90] and a new instrument known as Agricultural Bond. Maturities of the issued bonds range from 2010 to 2017. To supplement these periodical placements, the Administration launched a new USD 4.992 billion worth foreign government debt issue in October, which was placed on the domestic market. This issue consisted of instruments maturing in 2019 and 2024 and fixed coupons of 7.75% and 8.25%, respectively.

**TABLE V-5**
**Central Government [1/]**
**Net Financing**
(thousand bolivars)

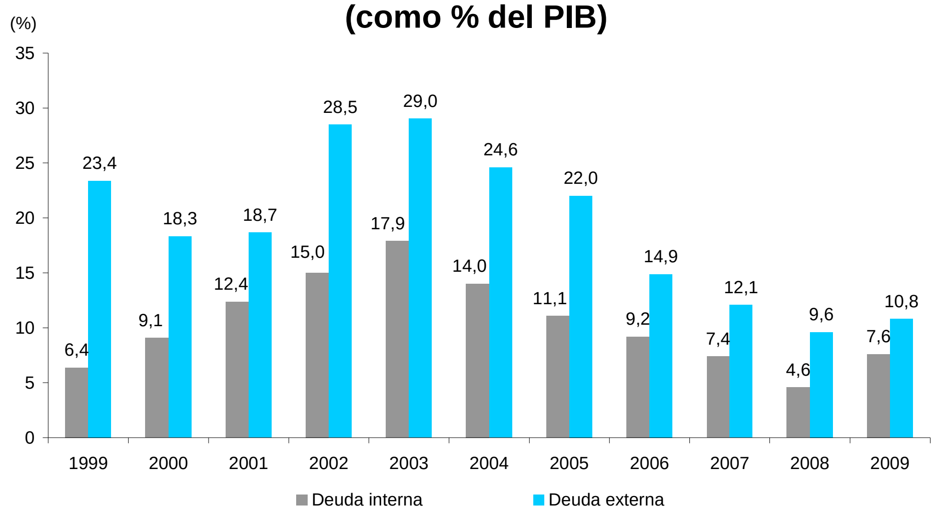
| | 2009 | 2008 | 2007 | As percentage of GDP | | |
|---|---|---|---|---|---|---|
| | | | | 2009 | 2008 | 2007 |
| **Financing** | 35,609,111 | 8,034,473 | (14,871,306) | 5.1 | 1.2 | (3.1) |
| **Domestic** | 25,812,348 | (1,776,476) | (6,827,255) | 3.7 | (0.3) | (1.4) |
| Central Bank | 3,548,269 | 3,450,750 | (10,113,646) | 0.5 | 0.5 | (2.1) |
| d/c Treasury deposits – BCV | 3,480,480 | 3,365,744 | (7,668,318) | 0.5 | 0.5 | (1.6) |
| Rest of the Financial System | 22,339,375 | (5,117,279) | 4,888,483 | 3.2 | (0.8) | 1.0 |
| Disbursement | 24,794,477 | 3,164,584 | 8,816,874 | 3.5 | 0.5 | 1.8 |
| Amortization | (3,361,833) | (6,370,972) | (4,552,751) | (0.5) | (1.0) | (0.9) |
| Redemption and refinancing | (1,695,500) | (2,257,968) | (3,368,753) | (0.2) | (0.3) | (0.7) |
| Net bill placement | 2,536,528 | (49,635) | (1,256,213) | 0.4 | (0.0) | (0.3) |
| Others | 65,703 | 396,712 | 5,249,325 | 0.0 | 0.1 | 1.1 |
| Others domestic | (75,296) | (109,947) | (1,602,092) | (0.0) | (0.0) | (0.3) |
| **Foreign** | 9,796,764 | 9,810,948 | (8,044,051) | 1.4 | 1.5 | (1.7) |
| Disbursement | 13,045,847 | 10,337,951 | 4,214,286 | 1.9 | 1.5 | 0.9 |
| Amortization | (1,031,993) | (287,188) | (1,911,144) | (0.1) | (0.0) | (0.4) |
| Redemption and refinancing | (649,031) | (4,621,151) | (2,399,982) | (0.1) | (0.7) | (0.5) |
| Fiem | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| **Others** | (1,568,060) | 4,381,335 | (7,947,212) | (0.2) | 0.7 | (1.6) |

[1/] Preliminary figures. Subject to review.
Source: People's Ministry for Planning and Finance.

[88] Vebonos are papers issued by the Venezuelan State to meet payment and investment commitments in the public sector.
[89] Covered Interest and Capital Bonds.
[90] Fixed Interest Securities.

Therefore, net domestic debt grew for the first time since 2005, to 2.8%of GDP, as a result of disbursement increase from 0.5% in 2008 up to 3.5% in 2009, whereas amortization decreased, from 1.3% to 0.7% of GDP. Foreign debt, in turn, was higher (1.6 % of GDP) than in 2008 (0-8%), because disbursements accounted for 1.9% of GDP and amortization represented 0.2% of GDP, 0.5 percentage points less than the previous year.

**CHART V-7**
**Domestic and Foreign Direct Government debt Balance [1/]**
**(as % of GDP)**
**GRÁFICO V-7**
**Saldo de deuda pública directa interna y externa[1/]**
**(como % del PIB)**



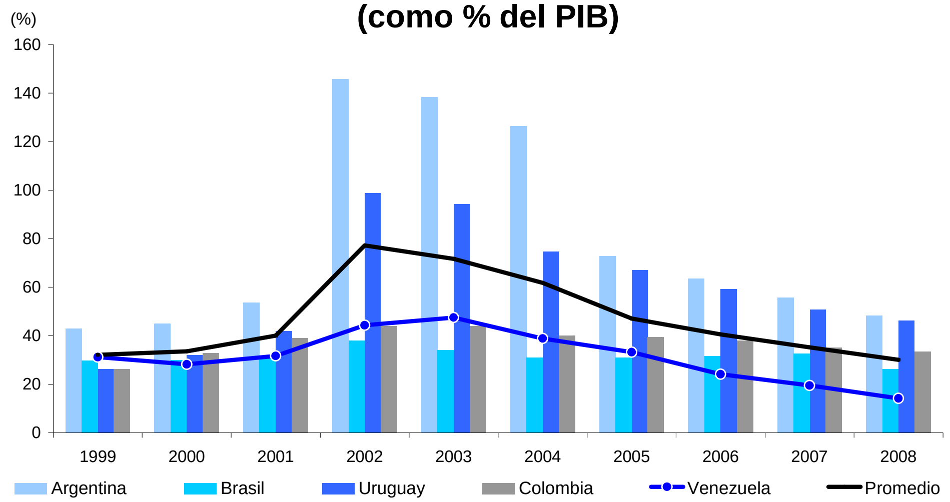

1/ Cifras provisionales sujetas a revisión.
Fuente: Ministerio del Poder Popular de Planificación y Finanzas.

Domestic debt Foreign debt

Source: IMF, central banks of the different countries

The balance of total direct government debt of the Central Government expanded 4.2 percentage points, closing the year at 18.4% of GDP, one of the lowest values within the group of emerging economies. In this case, foreign government debt represented 10.8%of GDP (USD 35.168 billion) and domestic government debt, 7.6% of GDP (Bs 53.168 billion).

**CHART V-8**
**Government debt Balance [1/]**
**(as % of GDP)**
**GRÁFICO V-8**
**Saldo de la deuda pública[1/]**
**(como % del PIB)**




1/ Para todos los países corresponde al saldo de la deuda bruta del Gobierno central. A 2008 son cifras preliminares.
Fuente: Cepal y Ministerio del Poder Popular de Planificación y Finanzas.

Argentina Brazil Uruguay Colombia Venezuela Average

[1/] For all countries, it corresponds to the balance of Central Government gross debt. Preliminary figures for 2008.
Source: ECLAC and People's Ministry for Planning and Finance.

However, debt decreasing trend remains when this indicator is compared to other economies in the region and continues to be lower than the Latin American average.

**Box V-2**

**A few comments on government debt**

Government debt is an instrument of economic policy and constitutes one of the main financing sources of fiscal deficit. Governments can barrow to invest in human and physical capital and in case of extraordinary situations or conjunctures such as financial crises, variations in international prices of commodities, and natural disasters, among others. Apart from emergency situations, borrowing intended to finance current expenditure is not efficient due to intertemporal fiscal unsustainability.

Destination of resources obtained from borrowing may play different roles in the economy of a country. On the one hand, resources to finance capital expenditure help to increase productivity and, therefore, to long-term growth. Furthermore, if they are obtained from the issuance of government bonds, the development of the capital market is promoted and investors are provided with a reference yield curve. On the contrary, recurring financing of expenditure that do not generate future revenues (such as wage and salary payments) may bring about a displacement of private investment, as well as a heavy debt service burden (payment of principal and interests), which commits fiscal resources for the upcoming years.

**Government debt statistics in Latin America**

The IMF *Government Finance Statistics Manual (*2001) defines government debt as follows:

Debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future.” Based on this definition, statistics for the region are very heterogeneous. Therefore, the objective of measuring government debt in a comparable fashion in these countries requires considering the following methodological aspects[1/]:

- *Debt classification*. Although debt is commonly classified as foreign and domestic, there are at least three possible definitions of foreign debt.

  The first focuses on the currency in which the debt is issued (with external debt defined as foreign currency debt).

  The second focuses on the residence of the creditor (external debt is debt owed to non-residents). Furthermore, foreign debt is officially accepted by the main entities that compile these statistics. In this regard, they state: “Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy.”[2/].

  While it is important to distinguish between residents and nonresidents to understand the effects of debt variations on revenue, in the practice, it is difficult to implement in countries where the most part of debt consist of bonds, to the detriment of loans granted by multilateral organisms or by other governments (bilateral).

  The third focuses on the place of issuance and the legislation that regulates the debt contract (external debt is debt issued in foreign countries and under the jurisdiction of a foreign court)[3/].

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- *The level of government considered*. It is necessary to determine whether a country´s statistics include or exclude sub-national entities, assets and liabilities of central banks and the role plaid by State-owned companies’ liabilities. Another aspect that deserves consideration is the consolidation of liabilities and assets among institutions (for instance, among social security funds and the Central Government).

- *Gross and net debt*. Many countries estimate the amount of net debt to obtain a more accurate measurement of their debt level. However, nota all of them apply the same methodology.

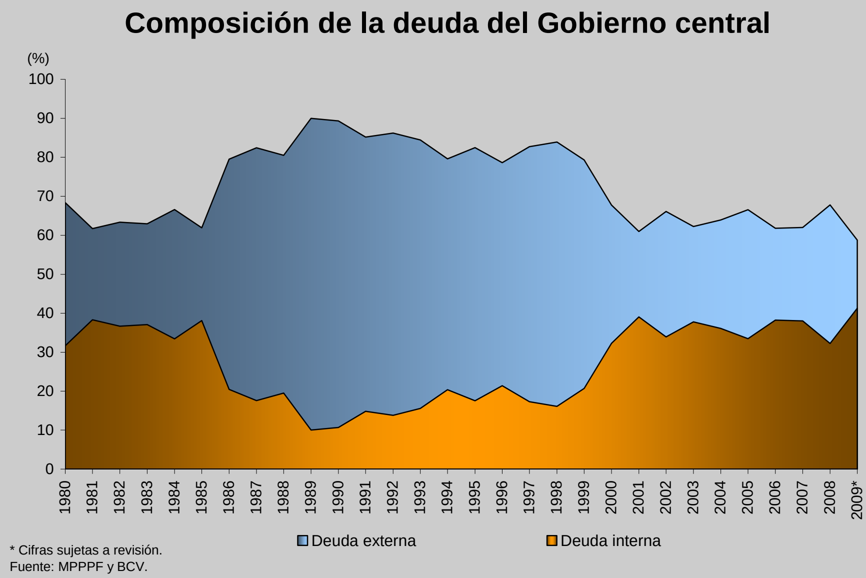
A more thorough analysis of government debt, apart from including foreign and domestic debt levels (*balance*), should consider different types of vulnerabilities referred to the debt financial conditions, such as: maturity, currency of issuance and the type of indexation (based on price index or interest rates).

**The Venezuelan Case**

In Venezuela, government debt statistics are published by the National Public Credit Office(ONCP) attached to the People’s Ministry for Planning and Finance (MPPPF). These figures reflect contractual financial liabilities derived from public credit operations by the Central Government (direct debt), and by decentralized agencies or non-financed public companies backed by the Government (indirect debt)[4/].

These statistics are classified into foreign and domestic debt, depending on the debtor's residence criterion[5/] and the legislation regulating the contract[6/]. The evolution of this disaggregation since 1980 reflects the predomination of foreign debt as a major financing source. However, the policy of development and democratization of the capital market implemented by the MPPPF since 2001, based on the issuance of domestic debt bonds, has led to a significant change in the structure of debt in favor of the latter.

**Central Government Debt Composition**




Foreign Debt Domestic Debt

*Figures subject to review.
Source: MPPPF and BCV

**Foreign debt composition per type of debtor – Year 2009***


* Figures subject to review.
Source: MPPPF

According to preliminary figures at end-2009, foreign debt has the following features as to its structure and compositions:

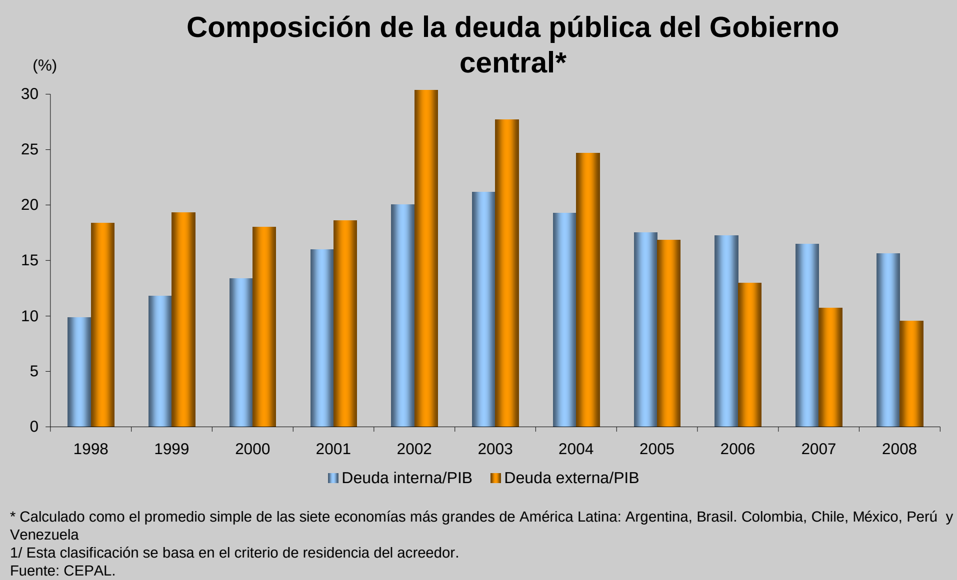
The main debtors (85%) are bond holders.
The maturity profile shows that 27% of these liabilities matures from 2010 to 2014 (annual payments do not exceed USD 2.500 billion), whereas 49% matures between 2020 and 2038.
88.4% has fixed interest rates and 95% is denominated in US dollars.

The most outstanding characteristics of domestic debt include: 94% consists of bond and 6% of Treasury Bills; 56% is at fixed rate and 81% is denominated in bolivars. The maturity profile is concentrated in the following five years (70% of the total amount), whereas the instrument at the longest term matures in 2020.

**Behavior of government debt in Latin America for the 1990-2009 period**

The behavior of the debt/GDP ratio for Latin America during the 1990-2009 period has been unstable. In fact, this indicator considerably expanded from 1997 to 2002, as a consequence of the financial crisis and debt worldwide (Eastern Asia in 1997; Russia in 1998; Brazil in 1999; and Argentina in 2001); after this period and until 2008, this indicator substantially decreased and, according to figures estimated by the Inter-American Development Bank(IDB) for 2009, this value increased from the previous year to the same level as 1998 on average[7/].
Based on the origin of debt-obtained resources, most developing countries resorted to foreign debt in the '70s and '80s to supplement the scarce domestic savings and finance their fiscal deficit. However, this composition started to change in the middle '90s, when countries implemented aggressive domestic debt policies, thereby generating a decrease in the foreign debt/GDP ratio.

**Composition of government debt of the Central Government**




Domestic debt/GDP Foreign debt/GDP

* Estimated as the simple average among the largest seven economies in Latin America: Argentina, Brazil, Colombia, Chile, Mexico, Peru and Venezuela.
[1/] This classification is based on the debtor's residence criterion.
Source: ECLAC

The growing interest in issuing domestic government debt was mainly due to three factors. The first is related to learning from crises that occurred over the last 15 years, which revealed the risks associated with depending on foreign financing when foreign credit supply is restricted and local debt sources are not sufficient. The second incentive is related to the lower costs of issuance in comparison to foreign debt and its historical records. Finally, this policy stimulates the development of the domestic capital market and offers greater investment opportunities for domestic agents.

According to a report presented by the Bank for International Settlements[8/], the main characteristics of domestic debt markets in Latin America in 2006 were as follows:

Their sizes are very varied.
Public sector issuers prevail in this kind of markets.
Variable interest and inflation-indexed securities continue to represent a large proportion

of the current total domestic government debt.

The maturity structure of fixed-interest government debt denominated in local currency has been gradually extended.

Increase in operations with bonds on the secondary market (liquidity indicator); however, it is still low in comparison to more consolidated markets.

Although government debt derivatives are not still actively negotiated in the region, the development of Brazil and Mexico in this market stands out.

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1/ Contrary to the case in Latin America, the European Union methodology points out as follows: "'Government debt' means the total gross debt at nominal value outstanding at the end of the year of the sector of 'general government' (S.13), with the exception of those liabilities the corresponding financial assets of which are held by the sector of 'general government'." Regulation (EC) No 475/2000.

2/ Taken from: *External Debt Statistics, Guide for Compilers and Users*, jointly published by the Bank of International Settlements, the Work Bank, the UN Conference on Trade and Development (Unctad), the IMF, the OECD, the Secretariat of the Paris Club and the Secretariat at of the Commonwealth.

3/ Using this definition, the IDB compiled a database on which its report: *Living with debt* (2006) is based.

4/ Excluding obligations of oil, financial (monetary authority, public and private institutions) and the non-financial private (oil and non-oil) sectors, because this information is prepared and published by the BCV, as per the methodology of the fifth edition of the IMF *Balance of Payments Manual*, in order to estimate international investment position.

5/ An example of this classification is the case of Covered Interest and Capital Securities(TICC), which are traded only in Venezuela and are governed by local laws; therefore, they are recorded as domestic debt, even though they are denominated in dollars.

6/ This is the case of dollar-denominated instruments that have been acquired by local investors and paid in local currency. These bonds can be traded abroad, because they are quoted in stock exchanges outside the country and, as such, they are classified as foreign debt.

7/ This figure corresponds to the seven largest economies that account for 93% of GDP in the region: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

8/ Jeanneau, S. y Tovar, C. (2006). *Los mercados de deuda interna en América Latina: logros y retos*. BIS quarterly report.

## CHAPTER VI

## MONETARY AGGREGATES AND INTEREST RATES

### 1. Introduction

In 2009, monetary aggregate reflected positive nominal growths that were lower than those observed in the previous year. In real terms, however, all aggregates exhibited negative variations at the end of year.

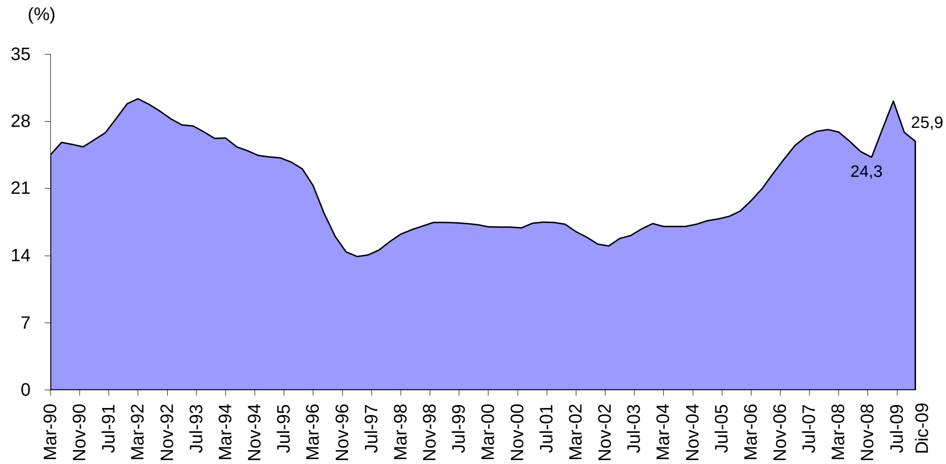
Money supply of fiscal origin fell by 31% with respect to 2008, with Bandes and Pdvsa expansive operations being the main sources of creation of money. At the same time, demonetization of resources through foreign currency allocations authorized by Cadivi also decreased.

Open market operations implemented with deposit certificates (DC) of the BCV had an expansive effect, contrary to the situation in 2008. This result was influenced by the drop in absorption operation rates. Furthermore, the BCV provided for that financial institutions could not hold deposit certificate positions for amounts greater than the balance they had at end-November 2009, so as to maintain suitable liquidity levels.

The 700 base point cutback of the marginal reserve coefficient to be held by financial entities brought about a drop of 6 percentage points in the effective reserve coefficient and led to an increase in money multiplier of 2.7 percentage points.

Notwithstanding the results exhibited monetary aggregates, the degree of monetization of the economy (liquidity/GDP ratio) registered a slight increase to 25.9%, on average, at the end of the year, higher than the one observed in 2008.

**CHART VI-1**
**Monetization Degree of the Economy [1/]**
**GRÁFICO VI-1**
**Grado de monetización de la economía [1/]**




1/ M2 promedio / PIB nominal.
Fuente: BCV.

[1/] Average M2 / nominal GDP
Source: BCV

Concerning monetary policy instruments, the BCV implemented actions tending to guarantee the liquidity required for the normal development of the system of settlements and to promote a higher supply of lendable resources. In this regard, the BCV cut interest rates charged for absorption operations by 700 base points, rates applied to injection operations by 300 base points and the rate to be charged for loan assistance by 400 base points.

With regard to the evolution of savings instruments with respect to monetary liquidity, share of time deposits in M2 lost 0.5 percentage points from previous year, closing at 11.5%. The same trend was evidenced in savings deposit balance, which accounted for 22.5% of M2 in 2009, as compared to 24.1% in 2008.

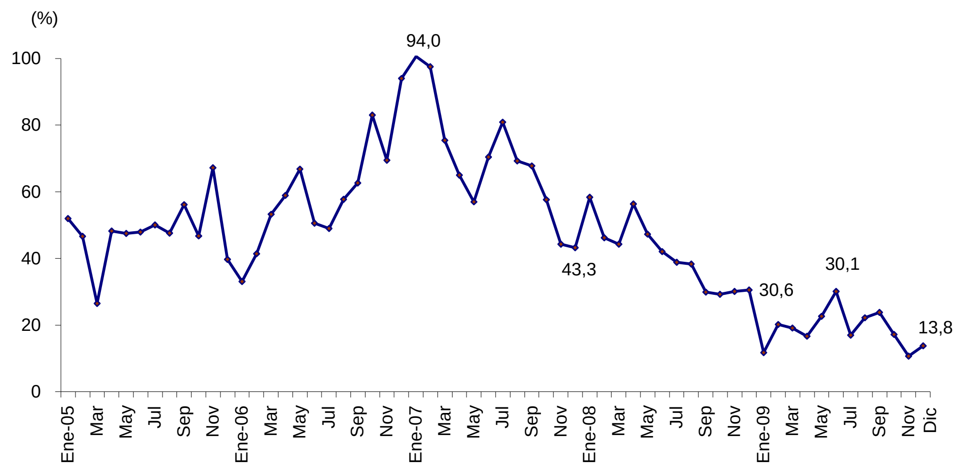
As to interest rates, the BCV, by virtue of its capacity of regulating entity of the financial system and in the framework of a policy intended to bolster credit activity, implemented new cuts in the structure of the minimum and maximum legal rates. In fact, the Bank reduced the maximum lending rate by 200 base points, as well as the minimum and maximum rates applicable to credit card operations, and fixed the ceilings that banks may charge for financing earmarked for the manufacturing and tourism sectors. In terms of banks' savings operations, the minimum interests paid by savings and time deposits was reduced by 250 base points.

## 2. Monetary Aggregates

In 2009, the monetary base growth rate kept the deceleration trend it followed since 2007, closing the year with a 18.0% growth, 12.1 percentage points lower than its previous year-to-year variation (30.6%).

**CHART VI-2**
**Monetary Base**
**(Nominal annual variation)**

**GRÁFICO VI-2**
**Base monetaria**
**(variación anual nominal)**



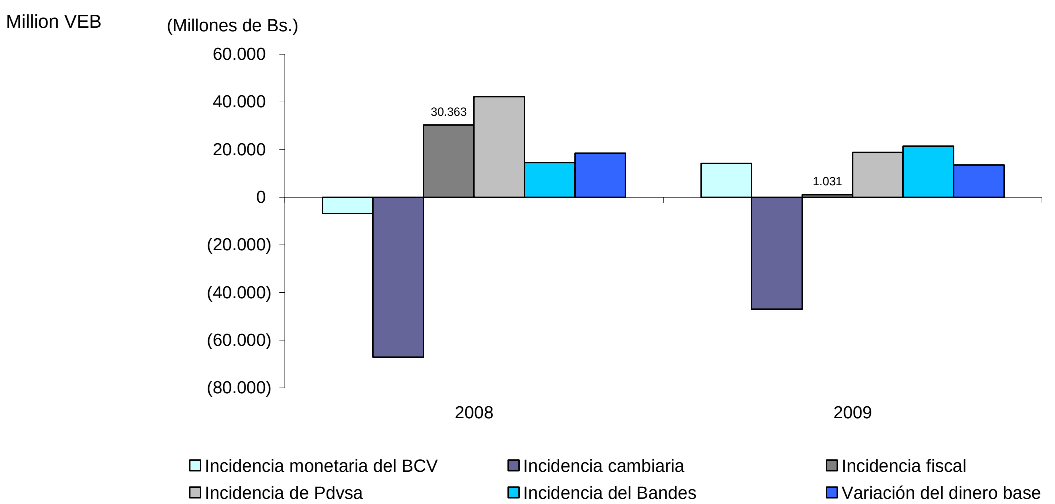

Fuente: BCV.

Source: BCV

In general terms, this result was due to the lower expansive impact of the Central Government and Pdvsa, related to debt issues implemented by both entities during the second half of the year. In this regard, the primary money creation through operations of the public sector amounted to Bs. 74.783 billion (9.4% of GDP)[91], below the one observed in the previous year (15.9% of GDP). Of these resources, Bs. 18.843 billion were provided through Pdvsa's operations (2.4% of GDP).

**CHART VI-3**
**Main Variation Sources of Monetary base**

**GRÁFICO VI-3**
**Principales fuentes de variación del dinero base**




Fuente: BCV.

BCV monetary incidence Foreign exchange incidence Fiscal incidence
Pdvsa's incidence Bandes' incidence Monetary base variation

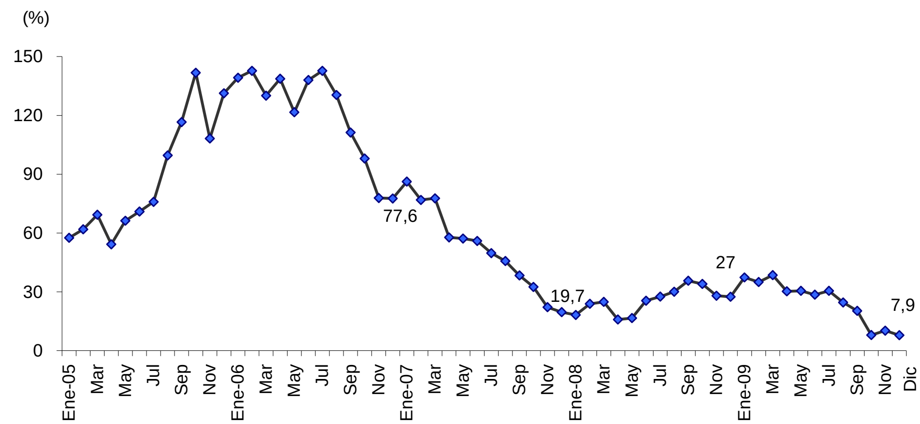
Source: BCV

In terms of the adjustments introduced by the BCV for absorption and injection operations in 2009, outstanding balance of deposit certificates (DC) fell to 7.9% of monetary base (27.5% in 2008). As a result of the reduced position in DC, and contrary to 2009, the Bank's operations had a positive incidence equal to Bs. 14.178 billion on the monetary base (1.8% of GDP).

[91] Includes impact on base money, Central Government, Pdvsa, Bandes, Fogade, Fides, state governor's offices, autonomous institutes, universities, foundations, public companies and Banco del Tesoro.

**CHART VI-4**
**Deposit Certificates**
**(as monetary base %)**

**GRÁFICO VI-4**
**Certificados de depósitos**
**(como % de la base monetaria)**




Fuente: BCV.

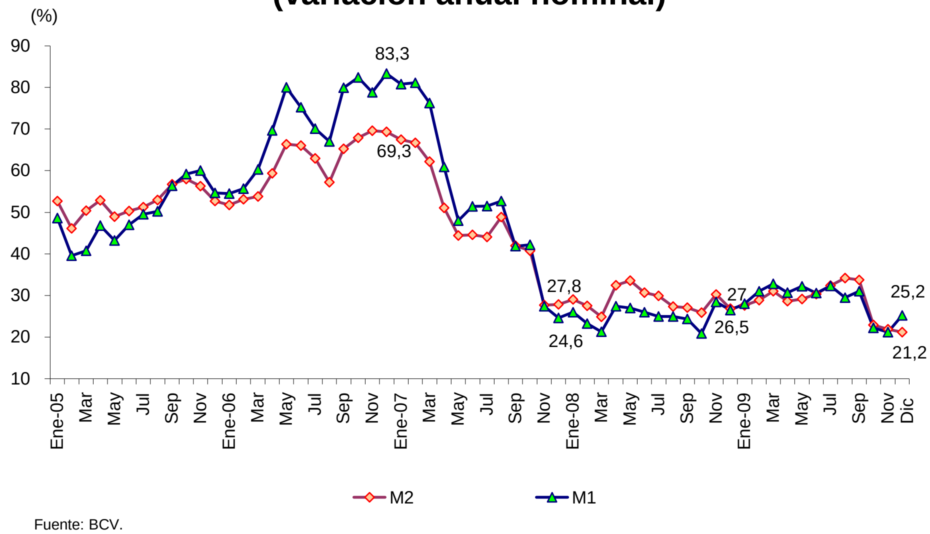
Source: BCV

In this context and like the previous year, foreign exchange operations became the main mechanism for the demonetization of resources, with a contracting impact of Bs. 46.993 billion on the primary money levels (5.9% of GDP).

As a result of the slower growth pace of the monetary base, the expansion rate of the more broad aggregates contracted in 2009, after money supply (M1) and liquidity (M) reported year-to-year increases of 25.2% and 21.2%, respectively, lower than those observed in 2008.

**CHART VI-5**
**Broad Monetary Aggregates**
**(Nominal annual variation)**

**GRÁFICO VI-5**
**Agregados monetarios amplios**
**(variación anual nominal)**



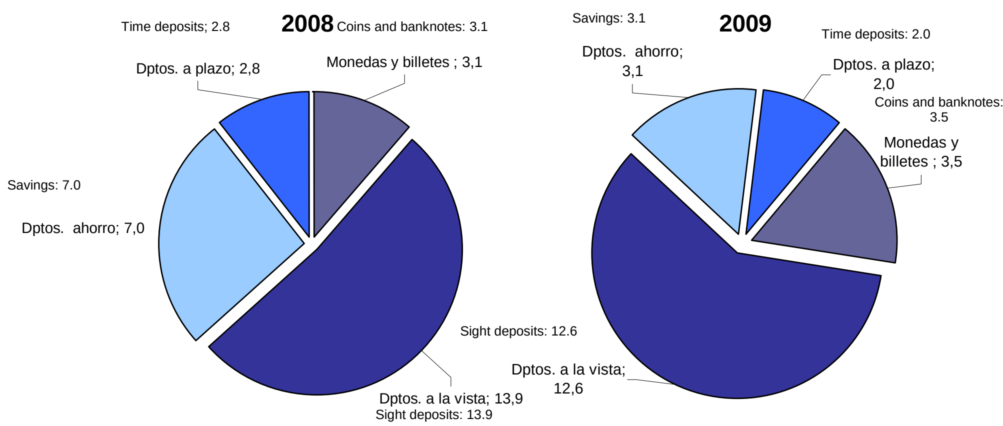

Source: BCV

Broader monetary aggregates' deceleration revealed greater preference of agents for immediate availability resources (cash and/or sight deposits), which led to higher restrictions to secondary money creation[92]. In this regard, cash and sight deposits, as components of monetary liquidity, maintained a similar share as that exhibited in 2008 (15.7 percentage points), to the detriment of quasi money. This latter contributed 5.1 percentage points to monetary aggregate growth in 2009, less than the 9.8 percentage points in the previous year.

[92] It is worth mentioning that in the secondary money creation process, when economic agents increase (reduce) their preference by circulating cash; banks' capability to create money decreases (grows).

**CHART VI-6**
**Nominal Monetary Liquidity**
**(contributions to annual variation per components)**

**GRÁFICO VI-6**
**Liquidez monetaria nominal**
**(aportes a la variación anual por componentes)**




**Variación anual de M2: 26,8%** **Variación anual de M2: 21,2%**
**M2 annual variation: 26.8%** **M2 annual variation: 21.2%**

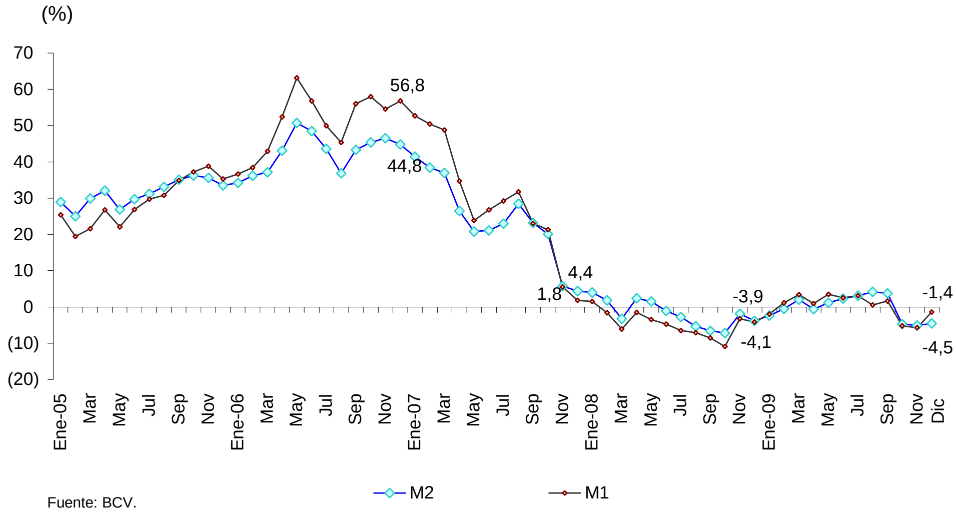
Fuente: BCV.

Source: BCV

In real terms. Money supply and liquidity registered year-to-year variations of 0.2% and -0.1%, respectively, on average. Notwithstanding, at the end of the year, both aggregates declined by 1.4% and 4.5%, in each case.

**CHART VI-7**
**Broad Monetary Aggregates**
**(Real annual variation)**

**GRÁFICO VI-7**
**Agregados monetarios amplios**
**(variación anual real)**

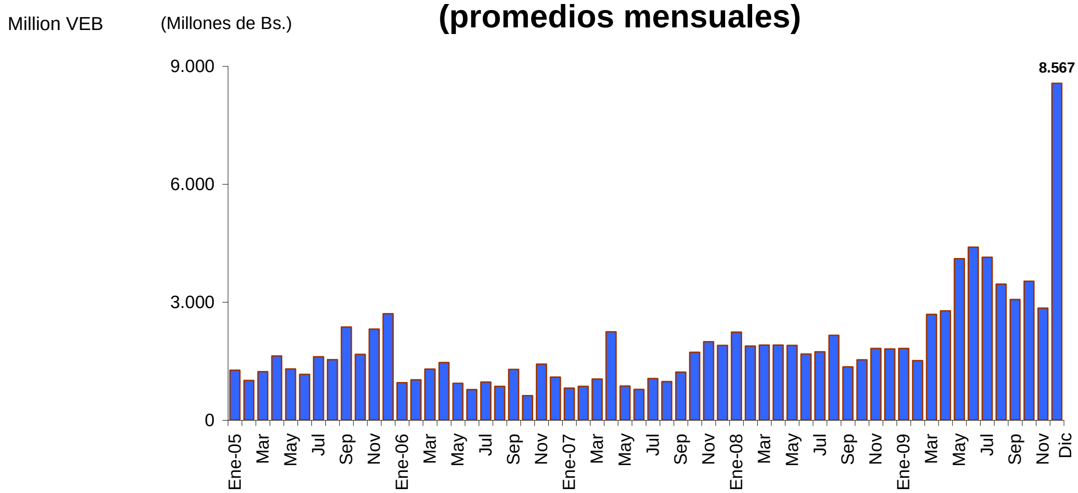



Source: BCV

Concerning the fund interbank market, the growth in surplus reserves as a consequence of the expansive position of monetary policy (reduction of the marginal reserve and interest rates for open market operations) stood out. These reserves rallied in the last month of the year not only due to the flexibilization of the BCV's policies, but also to the stress situation in the national banking sector and the decision to limit positions in BCV instruments. In this regard, these resources averaged Bs. 3.603 billion in 2009 and in the fourth quarter amounted to Bs. 4.985 billion, which are significantly higher values than the 2008's level (Bs. 1.82e billion).

**CHART VI-8**
**Surplus Bank Reserves**
**(monthly average)**

**GRÁFICO VI-8**
**Reservas bancarias excedentes**
**(promedios mensuales)**



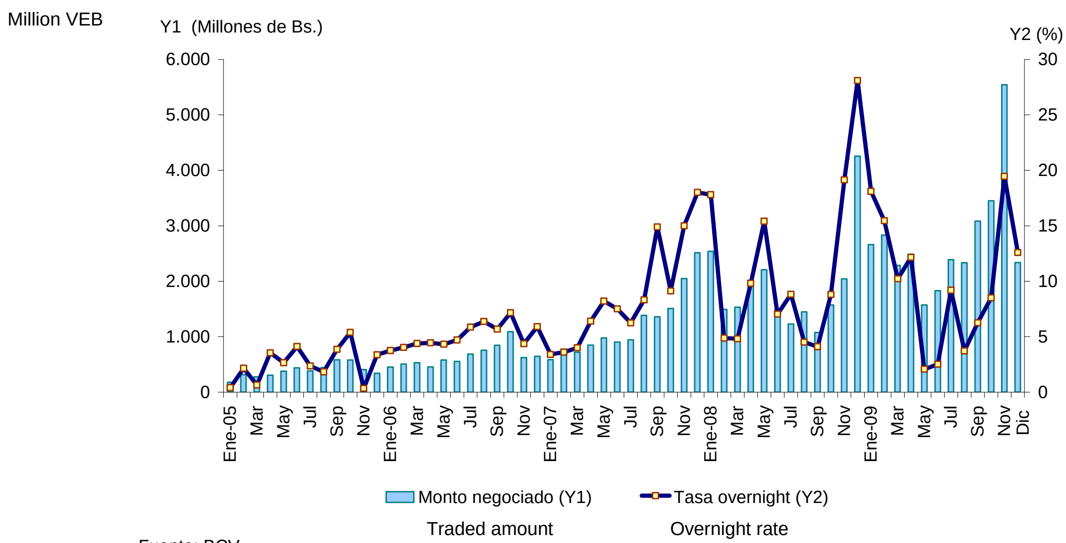

Fuente: BCV.

Source: BCV

Under these circumstances, an increased in activity in the fund interbank market was observed, with the monthly traded amount grew 43.3% from 2008, to Bs. 2.733 billion. However, the (overnight) rate applied to interbank funds dropped 2.7 percentage points with relation to the previous year, to 11.3% in 2009.

**CHART VI-9**
**Traded Amounts and average Overnight Rate**

**GRÁFICO VI-9**
**Montos negociados y tasa *overnight* promedio**




Fuente: BCV.

Source: BCV

### 3. Interest Rates

Interest rates were adjusted to the new legal ceilings established by the BCV in 2009, for both market rates as well as yield associated with monetary policy instruments. In this regard, average rate applied to lending operations of the national banks closed the year with a drop of 3 percentage points, to 19.1%. Likewise, average interests for savings and time deposits in universal and commercial banks closed at 12.6% and 15.0%, respectively, i.e. less 2.4 and 2.5 percentage points less in each case. Like in 2008, these changes in the interest rate structure did not significantly affect banks' effective gains for credit intermediation, for which spread between implicit lending and savings rates[93] fell to 4.1% (from 4.7% in 2008) in 2009.

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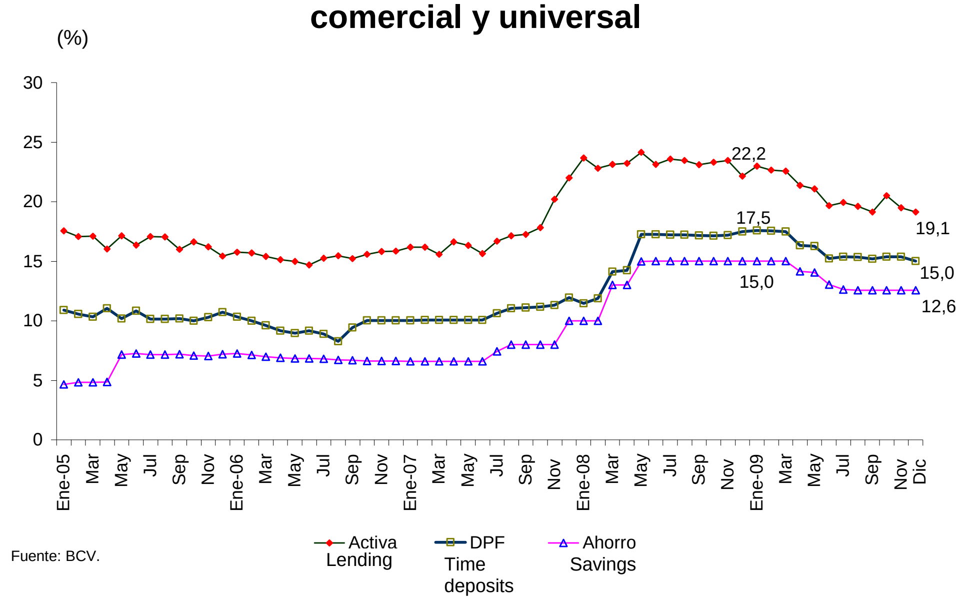
[93] The implicit lending rate is represented by revenues obtained by commercial and universal banks for the collection of interest on loans granted, expressed in terms of average credit volume. The implicit savings rate is defined as cash expenses of this sector for the rising of funds with respect to average interest-bearing deposits.

**CHART VI-10**
**Nominal Interest Rates**
**Commercial and Universal Banks**

**GRÁFICO VI-10**
**Tasas de interés nominales de la banca comercial y universal**

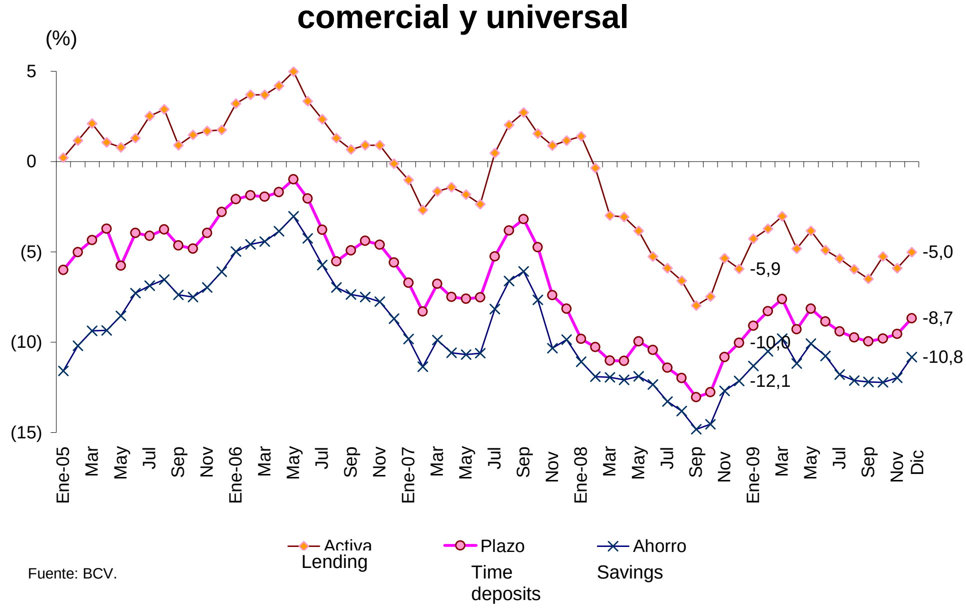



Source: BCV

In real terms, deceleration experienced by inflation in 2009 allowed interest rates to grow slightly, from -5.9% to -5.0%, in the case of real lending rates, and -12.1% to -10.8% and -10.0% to -8.7% for savings and time deposits, respectively.

**CHART VI-11**
**Real Interest Rates**
**Commercial and Universal Banks**

**GRÁFICO VI-11**
**Tasas de interés reales de la banca comercial y universal**




Source: BCV

Per sector of the economy, interest rates behaved consistently with rate cuts. It is worth noting drops occurred in negotiated rates for operations of the electricity, gas and water sector (from 27.4% to 23.1%), and vehicle purchase (from 27.2% to 23%). Rates established for loans earmarked for strategic sectors did not recorded any detectable change, except for mortgage average rate, which decreased 3.4 percentage points with respect to 2008.

**TABLE VI-1**
**Interest rates per economic destination**
**Commercial and Universal Banks**

| | As of December | | | Absolute Variation | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009/2008 | 2008/2007 |
| Agriculture | 12.8 | 13.0 | 15.9 | (0.1) | (3.0) |
| Industry [1/] | 18.4 | 20.3 | 24.5 | (1.8) | (4.2) |
| Commerce | 22.4 | 25.8 | 23.8 | (3.4) | 2.1 |
| Services | 22.9 | 24.7 | 21.1 | (1.8) | 3.7 |
| Mortgage | 12.3 | 15.7 | 17.6 | (3.4) | (2.0) |
| Transportation | 23.1 | 27.4 | 22.0 | (4.3) | 5.4 |
| Tourism | 16.5 | 17.1 | 22.0 | (0.6) | (4.9) |
| Communications | 23.1 | 26.8 | 26.3 | (3.7) | 0.5 |
| Home purchase | 23.0 | 27.2 | 22.3 | (4.2) | 4.9 |
| Other private sectors | 22.1 | 25.1 | 22.8 | (2.9) | 2.3 |
| Mining and quarrying | 23.4 | 27.2 | 25.0 | (3.8) | 2.2 |
| Electricity, gas and water | 22.9 | 28.0 | 25.5 | (5.1) | 2.5 |
| Credit cards | 28.6 | 30.5 | 26.4 | (1.9) | 4.1 |

[1/] Includes regulated and non-regulated loans
Source: BCV.

**Box VI-1**

**International responses of monetary policy to the 2009 financial crisis**

The international financial crisis revealed the need to reflect on the liquidity provision and lender of last resort mechanisms by central banks and, in general, on the financial crisis management.

In fact, decrease in prices of homes and shares during the crisis reduced the value of collaterals held by banks, whereas many debtors preferred to give devaluated assets back rather than paying loan granted. This led to a higher assets liquidation, which affected liquidity and payment capacity of financial institutions and, at the same time, restricted the supply of new credits.

This deterioration of the financial environment preceded deceleration of global consumption and increase in idle capacity of businesses, which, along with restrictions imposed to financing, led world economy to go through a global deflation process, further threatening stability of international markets.

In this framework, central banks decided to provide financial institutions with resources and prevent their quality assets from being liquidated in an intent to find these resources. To this end, non-conventional little orthodox measures were taken, in the context of a countercyclical policy. Taking extraordinary decisions regarding instruments for monetary control.

In this regard, provisions were developed, such as: 1) cutting in interest rates to levels close to zero so as to offer the possible strongest monetary stimulus, in a context in which inflation was not a problem; 2) extension of permanent liquidity facilities[1/] and emergency liquidity[2/]; and 3) modification of mechanisms to implement their function as lender of the last resort with the financial system, which included extending the kind of collateral that banks could use to resort to the central bank. Such measures were ultimately intended to improve access to financing by banks, families and non-financial businesses.

In 2009, efforts by central banks worldwide were focused on mitigating the consequences of the international financial crisis by implementing heterodox measures, based on lessons learnt from that situation. For monetary authorities, this represented the need to devote greater efforts to strengthen macroprudential oversight and monitoring of the financial system; whereas for emerging countries it evidenced the advantages of maintaining low inflation rates and applying fiscal discipline so as governments, in an attempt to safeguard depositors' funds, do not absorb debt levels that may jeopardize the attainment of growth and inflation goals.

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[1/] Referred to counters where banks can go to obtain immediate liquidity, provided they comply with the established requirements.
[2/] Operations discretionally carried out by the central bank as lender of the last resort.

## Statistical Appendix: Monetary Aggregates and Interest Rates

# TABLE VI-1
## Main sources of base money variations 1/
(million VEB)

| | 2008 | 2009 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | January | February | March | April | May | June | July | August | September | October | November | December | Total |
| **1. Base Money balance at the beginning of the period** | **62,824** | **81,355** | **75,062** | **75,191** | **74,620** | **75,627** | **75,508** | **80,757** | **77,718** | **81,019** | **81,322** | **78,746** | **84,127** | **81,355** |
| **2. Base Money variation(3+4)** | **18,531** | **(6,294)** | **129** | **(571)** | **1,007** | **(119)** | **5,249** | **(3,039)** | **3,301** | **303** | **(2,577)** | **5,382** | **9,814** | **12,586** |
| 3. Base Money supply variation (3.1+3,2+3.3+3.4+3,5+3.6) | 85,439 | (735) | 4,223 | 3,251 | 4,009 | 3,015 | 8,210 | 336 | 7,085 | 5,448 | 1,489 | 9,228 | 13,961 | 59,519 |
| 3.1. Tax incidence | 30,340 | 238 | 3,349 | 3,969 | (6,474) | (2,089) | (2,088) | 603 | (1,653) | (256) | (1,066) | 2,072 | 4,425 | 1,031 |
| Planned domestic payments | 142,033 | 6,355 | 8,472 | 12,371 | 8,902 | 11,056 | 10,810 | 14,482 | 11,670 | 11,954 | 18,003 | 18,538 | 16,831 | 149,443 |
| Planned domestic revenue | (111,693) | (6,117) | (5,123) | (8,403) | (15,375) | (13,145) | (12,898) | (13,878) | (13,323) | (12,210) | (19,068) | (16,466) | (12,406) | (148,412) |
| 3.2. Pdvsa's net incidence | 42,214 | 1,602 | 207 | 2,214 | 2,350 | 2,557 | 2,935 | (798) | 594 | 969 | (2,288) | 3,704 | 4,796 | 18,843 |
| 3.3. Fogade's incidence | (616) | 188 | (473) | (325) | (28) | 57 | 56 | 28 | 77 | 81 | 411 | (396) | 391 | 68 |
| 3,4. Bandes' incidence | 14,574 | 2,036 | 1,468 | 1,374 | 1,364 | 2,666 | 1,807 | 2,246 | 3,741 | 1,001 | 2,482 | 1,685 | (360) | 21,509 |
| 3.5. BCV's monetary incidence | (6,491) | (7,289) | 88 | (1,850) | 5,071 | (740) | 1,673 | (2,304) | 3,891 | 4,370 | 10,736 | (1,755) | 2,353 | 14,265 |
| Expansive incidence | 224,730 | 23,846 | 19,108 | 21,334 | 22,813 | 16,490 | 20,124 | 22,195 | 17,622 | 15,841 | 19,388 | 22,256 | 27,638 | 248,654 |
| Contractive incidence | (231,221) | (31,115) | (19,021) | (23,184) | (17,742) | (17,230) | (18,451) | (24,499) | (13,730) | (11,471) | (8,651) | (24,010) | (25,285) | (234,389) |
| 3.6. Other sources 2/ | 5,418 | 2,470 | (417) | (2,130) | 1,725 | 564 | 3,826 | 561 | 435 | (717) | (8,787) | 3,917 | 2,356 | 3,804 |
| 4. Net foreign currency sales | (66,908) | (5,558) | (4,094) | (3,822) | (3,001) | (3,134) | (2,961) | (3,375) | (3,784) | (5,145) | (4,065) | (3,846) | (4,147) | (46,933) |
| **5. Closing base money balance (1+2)** | **81,355** | **75,062** | **75,191** | **74,620** | **75,627** | **75,508** | **80,757** | **77,718** | **81,019** | **81,322** | **78,746** | **84,127** | **93,942** | **93,942** |

1/ Similarity between base Money (BM) and monetary base (MB) makes it possible to homologate these two monetary concepts without affecting their analytical relevance. Basically, the difference between both money measures is that uses of the monetary base includes citizens' special deposits, whereas the concept used in BM is that of conversion-based deposits.
2/ Includes state and city governments, Fides, financial firms, brokerage houses, autonomous institutes, national universities, Banco del Tesoro, among others.
Sources BCV.

TABLE VI-2
Monetary base (million VEB)

| | 2008 | 2009 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **December** | **January** | **February** | **March** | **April** | **May** | **June** | **July** | **August** | **September** | **October** | **November** | **December** |
| **Sources:** | 83,787 | 77,251 | 77,530 | 77,298 | 78,327 | 78,770 | 84,117 | 81,089 | 84,789 | 85,653 | 84,732 | 88,456 | 98,903 |
| **Net International Reserves** | 89,048 | 62,155 | 60,900 | 59,267 | 60,604 | 60,531 | 63,315 | 64,110 | 70,306 | 69,702 | 69,088 | 71,059 | 74,544 |
| Assets | 90,715 | 63,252 | 62,123 | 60,399 | 61,556 | 61,340 | 64,169 | 64,919 | 71,156 | 70,488 | 69,970 | 71,805 | 75,061 |
| Liabilities | (1,667) | (1,097) | (1,224) | (1,133) | (952) | (809) | (854) | (809) | (850) | (787) | (882) | (746) | (517) |
| **Other net assets/liabilities in foreign currency** | 7,047 | 6,138 | 6,200 | 6,522 | 6,233 | 6,593 | 6,146 | 6,221 | (238) | (1,184) | (1,099) | (1,068) | 1,797 |
| Other assets in foreign currency | 15,984 | 14,740 | 14,661 | 15,145 | 14,870 | 14,926 | 15,127 | 15,179 | 15,412 | 15,544 | 15,681 | 15,929 | 18,437 |
| Other liabilities in foreign currency | (8,937) | (8,602) | (8,462) | (8,623) | (8,637) | (8,333) | (8,981) | (8,958) | (15,650) | (16,729) | (16,780) | (16,997) | (16,640) |
| **Net public sector** | (7,202) | (7,118) | (5,949) | (1,381) | (8,458) | (7,826) | (4,597) | (7,596) | (7,465) | (7,742) | (17,690) | (11,789) | (8,660) |
| Central Government | (6,534) | (6,481) | (3,261) | (741) | (7,346) | (7,597) | (3,455) | (6,630) | (5,713) | (7,154) | (11,715) | (6,283) | (803) |
| Government investment in securities | 3,937 | 2,437 | 2,266 | 2,367 | 996 | 326 | 1,807 | 492 | 336 | 1,073 | 1,524 | 1,993 | 3,473 |
| Treasury Bills | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 148 | 144 | 100 |
| National government debt bonds | 3,783 | 2,299 | 2,127 | 2,227 | 856 | 185 | 1,666 | 350 | 194 | 930 | 1,233 | 1,705 | 3,229 |
| Debt reduction programs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other government investments | 138 | 139 | 139 | 140 | 140 | 141 | 141 | 142 | 142 | 143 | 143 | 144 | 144 |
| Net National Treasury agenda | (9,474) | (7,976) | (4,597) | (2,279) | (7,532) | (7,140) | (4,393) | (6,399) | (5,317) | (7,430) | (12,511) | (7,528) | (3,488) |
| Other government accounts | (1,051) | (996) | (985) | (882) | (864) | (837) | (922) | (776) | (786) | (850) | (783) | (801) | (842) |
| Conversion of debt into investment securities | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| Other government entities | (667) | (637) | (2,688) | (640) | (1,112) | (229) | (1,142) | (967) | (1,752) | (588) | (5,975) | (5,506) | (7,857) |
| Petróleos de Venezuela, S.A. and subsidiaries | (351) | (375) | (2,412) | (465) | (907) | (97) | (197) | (311) | (1,605) | (309) | (5,762) | (4,639) | (6,091) |
| Fondo de Garantia de los Depositos, net | (5) | (4) | (2) | (3) | (1) | (3) | (3) | (3) | (3) | (4) | (2) | (2) | (1,373) |
| Banco de Desarrollo Económico y Social de Venezuela | (105) | (87) | (107) | (95) | (85) | (129) | (935) | (653) | (88) | (275) | (150) | (727) | (391) |
| Fonda de Desarrollo Nacional (FONDEN) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Banco del Tesoro | (206) | (171) | (166) | (77) | (119) | (1) | (7) | (0) | (55) | (1) | (60) | (137) | (3) |
| Other investment placements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Financial sector** | 161 | 336 | 81 | 65 | 2 | 126 | 127 | 3 | 13 | 9 | 34 | 5 | 3 |
| Commercial and universal banks | 161 | 336 | 80 | 64 | 1 | 125 | 126 | 2 | 13 | 8 | 33 | 4 | 2 |
| Investment in securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rediscount, advances and repos | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other accounts | 161 | 336 | 80 | 64 | 1 | 125 | 126 | 2 | 13 | 8 | 33 | 4 | 2 |
| Rest of the banking sector | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| **Non-financial private sector** | 295 | 348 | 352 | 357 | 362 | 367 | 375 | 380 | 386 | 392 | 399 | 402 | 428 |
| **BCV's credit instruments** | (23,041) | (28,847) | (27,167) | (29,816) | (23,750) | (24,061) | (24,028) | (24,781) | (20,862) | (17,364) | (6,799) | (9,062) | (7,563) |
| National currency | (23,029) | (28,837) | (27,160) | (29,809) | (23,742) | (24,054) | (24,021) | (24,774) | (20,855) | (17,357) | (6,792) | (9,055) | (7,557) |
| Foreign currency | (12) | (10) | (7) | (7) | (7) | (7) | (7) | (7) | (7) | (7) | (7) | (7) | (5) |
| **Other net accounts** | 31,163 | 58,269 | 58,120 | 56,301 | 55,791 | 58,737 | 57,747 | 57,885 | 58,078 | 57,812 | 57,547 | 57,394 | 57,246 |
| Funds transferred to FONDEN | 30,271 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 | 56,648 |
| Others | 892 | 1,621 | 1,472 | 1,654 | 2,143 | 2,089 | 1,099 | 1,237 | 1,430 | 1,164 | 899 | 746 | 598 |
| **Equity** | (13,685) | (14,030) | (15,006) | (16,017) | (15,457) | (15,697) | (14,967) | (15,132) | (15,429) | (15,971) | (16,748) | (18,486) | (18,892) |
| **Uses:** | 83,787 | 77,251 | 77,530 | 77,298 | 78,327 | 78,770 | 84,117 | 81,089 | 84,789 | 85,653 | 84,732 | 88,456 | 98,903 |
| Cash held by citizens | 28,318 | 24,114 | 24,280 | 23,661 | 23,737 | 23,326 | 23,422 | 24,038 | 24,291 | 24,167 | 24,613 | 29,188 | 36,412 |
| Citizens' special deposits | 842 | 717 | 824 | 1,076 | 1,093 | 835 | 887 | 997 | 1,458 | 1,963 | 1,128 | 1,062 | 1,530 |
| Bank reserves | 54,627 | 52,421 | 52,426 | 52,561 | 53,497 | 54,608 | 59,808 | 56,054 | 59,041 | 59,522 | 58,991 | 58,205 | 60,960 |

Source: BCV.

## TABLE VI-3
### Monetary liquidity and its components in nominal terms
(million VEB)

| | Cash | Sight Deposits | Money Supply | Savings Deposits | Time Deposits 1/ | Quasi-money | Monetary Liquidity |
|---|---|---|---|---|---|---|---|
| 2008 | 21,660 | 102,376 | 124,036 | 46,887 | 23,351 | 70,238 | 194,275 |
| 2009 | | | | | | | |
| January | 18,792 | 104,020 | 122,812 | 46,563 | 24,082 | 70,645 | 193,457 |
| February | 19,063 | 104,340 | 123,403 | 46,133 | 25,439 | 71,571 | 194,974 |
| March | 18,296 | 108,915 | 127,211 | 45,542 | 25,678 | 71,220 | 198,430 |
| April | 18,788 | 107,511 | 126,299 | 45,787 | 28,090 | 73,877 | 200,176 |
| May | 18,870 | 107,853 | 126,723 | 46,321 | 30,163 | 76,484 | 203,207 |
| June | 18,270 | 113,224 | 131,493 | 46,769 | 31,985 | 78,755 | 210,248 |
| July | 19,779 | 115,929 | 135,707 | 49,511 | 34,032 | 83,542 | 219,250 |
| August | 19,308 | 115,535 | 134,843 | 49,601 | 38,642 | 88,242 | 223,085 |
| September | 18,495 | 122,711 | 141,207 | 49,427 | 38,262 | 87,689 | 228,896 |
| October | 19,239 | 117,625 | 136,864 | 47,681 | 34,786 | 82,467 | 219,331 |
| November | 22,185 | 126,537 | 148,722 | 52,148 | 30,849 | 82,997 | 231,719 |
| December | 28,401 | 126,867 | 155,269 | 52,957 | 27,176 | 80,133 | 235,401 |
| Variation % | | | | | | | |
| Dec. 08/ Dec. 07 | 27.9 | 26.2 | 26.5 | 29.7 | 22.9 | 27.3 | 26.8 |
| Dec. 09/ Dec. 08 | 31.1 | 23.9 | 25.2 | 12.9 | 16.4 | 14.1 | 21.2 |

1/ Including debentures
Source: BCV.

## TABLE VI-4
## Monetary Liquidity and its components in real terms
(million VEB)
(Base: 2007=100)

| | Cash | Sight Deposits | Money Supply | Savings Deposits | Time Deposits 1/ | Quasi-money | Monetary Liquidity |
|---|---|---|---|---|---|---|---|
| 2008 | 16,422 | 77,617 | 94,038 | 35,547 | 17,704 | 53,251 | 147,289 |
| 2009 | | | | | | | |
| January | 13,910 | 76,995 | 90,904 | 34,466 | 17,825 | 52,291 | 143,196 |
| February | 13,914 | 76,161 | 90,075 | 33,674 | 18,568 | 52,242 | 142,317 |
| March | 13,163 | 78,356 | 91,519 | 32,764 | 18,473 | 51,237 | 142,756 |
| April | 13,212 | 75,606 | 88,818 | 32,199 | 19,754 | 51,953 | 140,771 |
| May | 12,996 | 74,279 | 87,275 | 31,901 | 20,773 | 52,675 | 139,950 |
| June | 12,328 | 76,399 | 88,727 | 31,558 | 21,582 | 53,141 | 141,868 |
| July | 13,038 | 76,420 | 89,458 | 32,637 | 22,434 | 55,071 | 144,528 |
| August | 12,473 | 74,635 | 87,108 | 32,042 | 24,962 | 57,004 | 144,112 |
| September | 11,647 | 77,274 | 88,921 | 31,125 | 24,095 | 55,220 | 144,141 |
| October | 11,861 | 72,518 | 84,380 | 29,397 | 21,446 | 50,843 | 135,222 |
| November | 13,429 | 76,596 | 90,025 | 31,567 | 18,674 | 50,240 | 140,266 |
| December | 16,966 | 75,787 | 92,753 | 31,635 | 16,234 | 47,869 | 140,622 |
| Variation % | | | | | | | |
| Dec. 08/ Dec. 07 | (3.0) | (4.3) | (4.1) | (1.7) | (6.8) | (3.5) | (3.9) |
| Dec. 09/ Dec. 08 | 3.3 | (2.4) | (1.4) | (11.0) | (8.3) | (10.1) | (4.5) |

1/ Including debentures
Source: BCV.

## TABLE VI-5
## Main Monetary Aggregates
(million VEB)

| | Monetary Liquidity(M2) | | Monetary Base | | Multiplier (K1) | | r | | c | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Variation % | Amount | Variation % | Value | Variation % | Value | Variation % | Value | Variation % |
| 2008 | 194.275 | 26.8 | 83,787 | 30.6 | 2.319 | (2.5) | 0.357 | 3.4 | 0.116 | 2.7 |
| 2009 | | | | | | | | | | |
| January | 193.457 | (0.4) | 77.251 | (7.8) | 2.504 | 8.0 | 0.332 | (6.9) | 0.101 | (13.0) |
| February | 194.974 | 0.8 | 77.530 | 0.4 | 2.515 | 0.4 | 0.329 | (0.8) | 0.102 | 1.1 |
| March | 198.430 | 1.8 | 77.298 | (0.3) | 2.567 | 2.1 | 0.323 | (1.7) | 0.098 | (4.3) |
| April | 200.176 | 0.9 | 78.327 | 1.3 | 2.556 | (0.4) | 0.324 | 0.2 | 0.099 | 1.7 |
| May | 203.207 | 1.5 | 78.770 | 0.6 | 2.580 | 0.9 | 0.322 | (0.7) | 0.097 | (2.4) |
| June | 210.248 | 3.5 | 84.117 | 6.8 | 2.499 | (3.1) | 0.340 | 5.6 | 0.091 | (6.0) |
| July | 219.250 | 4.3 | 81.089 | (3.6) | 2.704 | 8.2 | 0.304 | (10.6) | 0.095 | 3.9 |
| August | 223.085 | 1.7 | 84.789 | 4.6 | 2.631 | (2.7) | 0.316 | 4.1 | 0.093 | (1.8) |
| September | 228.896 | 2.6 | 85.653 | 1.0 | 2.672 | 1.6 | 0.313 | (1.2) | 0.089 | (4.0) |
| October | 219.331 | (4.2) | 84.732 | (1.1) | 2.589 | (3.1) | 0.323 | 3.4 | 0.093 | 3.9 |
| November | 231.719 | 5.6 | 88.456 | 4.4 | 2.620 | 1.2 | 0.313 | (3.3) | 0.100 | 8.0 |
| December | 235.401 | 1.6 | 98.903 | 11.8 | 2.380 | (9.1) | 0.336 | 7.3 | 0.127 | 26.9 |
| Variation % Dec. 09/ Dec. 08 | | 21.2 | | 18.0 | | 2.7 | | (5.9) | | 9.8 |

Source: BCV.

## TABLE VI-6
## Average Interest Rates
(%)

| | Commercial and Universal Banks [1] | | | |
|---|---|---|---|---|
| | Lending [2] | | Savings [3] | |
| | Nominal | Real | Nominal | Real |
| 2008 | | | | |
| **Annual Average** | **23.3** | | **15.8** | |
| 2009 | | | | |
| January | 23.0 | (4.3) | 17.6 | (9.1) |
| February | 22.7 | (3.7) | 17.6 | (8.3) |
| March | 22.5 | (3.0) | 17.5 | (7.6) |
| April | 21.4 | (4.8) | 16.3 | (9.3) |
| May | 21.1 | (3.8) | 16.3 | (8.1) |
| June | 19.7 | (4.9) | 15.2 | (8.9) |
| July | 19.9 | (5.4) | 15.4 | (9.4) |
| August | 19.6 | (6.0) | 15.4 | (9.7) |
| September | 19.1 | (6.5) | 15.2 | (10.0) |
| October | 20.5 | (5.3) | 15.4 | (9.8) |
| November | 19.5 | (5.9) | 15.4 | (9.5) |
| December | 19.1 | (5.0) | 15.0 | (8.7) |
| **Annual Average** | **20.7** | | **16.0** | |

[1] National coverage.
[2] Corresponding to the weighted percentage of promissory notes, loans and discounts.
[3] Corresponding to the weighted average of time deposits.
[4] Calculated based on the Consumer Price Index (CPI), Metropolitan Area , base 2007
Source: BCV

## TABLE VI-7
### Rates for the main operations of the BCV as monetary authority
(%)

| | Absorption Operations | | | | Injection Operations | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Purchase with resale | | | | | |
| | Sale with repurchase agreement (NGD) | | Deposit Certificates | | NGD Bond | | Treasury Bills | | Deposit Certificates | |
| | Nominal | Real | Nominal | Real | Nominal | Real | Nominal | Real | Nominal | Real |
| 2008 | | | | | | | | | | |
| **Annual average** | **6.5** | | **12.4** | | **21.5** | | **22.0** | | **22.0** | |
| 2009 | | | | | | | | | | |
| January | - | - | 13.0 | (13.0) | 22.2 | (5.0) | 22.0 | (5.2) | - | - |
| February | - | - | 13.5 | (11.8) | 23.0 | (3.4) | - | - | - | - |
| March | - | - | 12.1 | (12.3) | 22.0 | (3.6) | - | - | - | - |
| April | 6.7 | (17.4) | 7.0 | (17.2) | 22.5 | (3.8) | 22.0 | (4.2) | 22.0 | (4.2) |
| May | 6.0 | (16.9) | 6.5 | (16.5) | 22.0 | (3.0) | - | - | - | - |
| June | 6.3 | (16.5) | 6.5 | (16.3) | - | - | - | - | - | - |
| July | 6.6 | (16.8) | 6.5 | (16.9) | 20.2 | (5.1) | 20.0 | (5.3) | - | - |
| August | 6.1 | (17.5) | 6.6 | (17.1) | 20.0 | (5.6) | - | - | - | - |
| September | 6.1 | (17.6) | 6.6 | (17.2) | 20.0 | (5.7) | - | - | - | - |
| October | 6.3 | (17.4) | 6.7 | (17.1) | 20.0 | (5.8) | 19.8 | (5.9) | - | - |
| November | 6.1 | (17.4) | 6.3 | (17.2) | 19.9 | (5.6) | 19.8 | (5.6) | - | - |
| December | 6.1 | (16.3) | 6.3 | (16.1) | 19.5 | (4.6) | 19.3 | (4.9) | - | - |
| **Annual average** | **6.3** | | **8.9** | | **20.3** | | **19.8** | | **22.0** | |

Sources BCV.

## CHAPTER VII

## FINANCIAL SYSTEM

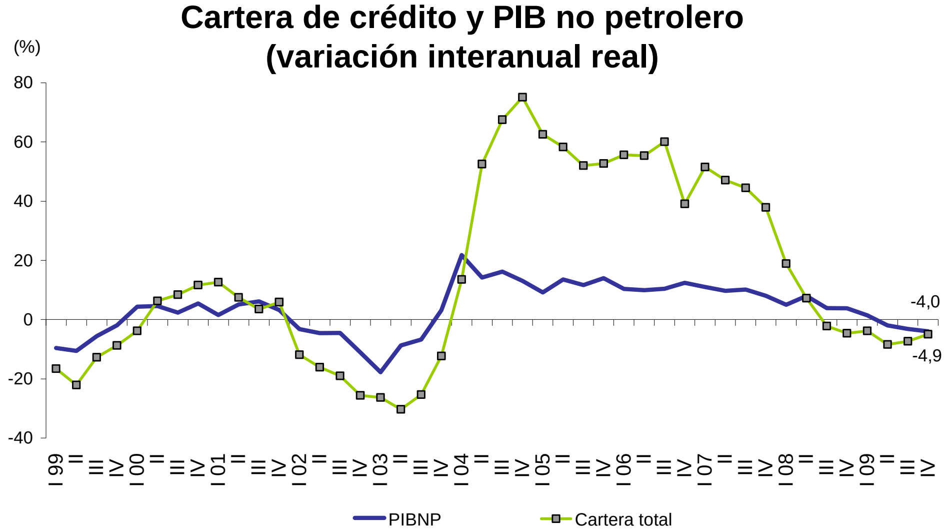
### 1. Introduction

The financial system reported a mixed behavior, because the banking sector activity continued to reflect lower growth rates than those seen in previous periods; whereas capital market, contrary to 2008, exhibited a better behavior backed by the greater dynamism in negotiations on primary and secondary markets.

During the last quarters, the banking sector have been adapting to the recessive phase of the economic cycle, which was evidenced in a less dynamic loan portfolio. This responded, in part, to the drop in GDP and savings. All this was expressed in a lower intermediation index as compared to the previous year.

**CHART VII-1**
**Commercial and Universal Banks**
**Loan Portfolio and Non-Oil GDP**
**(Real year-to-year Variation)**

**GRÁFICO VII-1**
**Banca comercial y universal**
**Cartera de crédito y PIB no petrolero**
**(variación interanual real)**




Fuente: Sudeban y cálculos propios.

GDP Total Portfolio

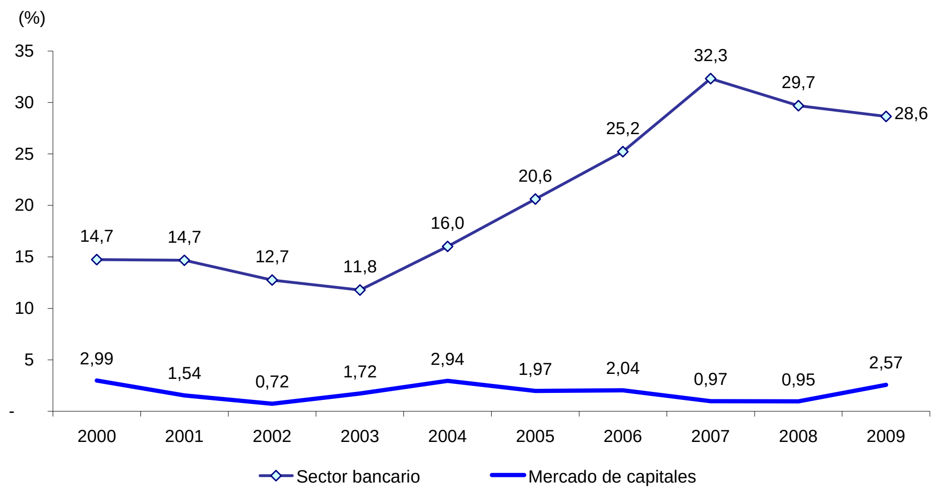
Source: Sudeban and own calculations

In 2009, the banks were also exposed to liquidity focalized problems on the interbank market, which had been felt already over the last two years. However, this time entities of the financial security network had to intervene and liquidate some financial institutions when problems related to the lack of payment capacity were identified.

In the case of the capital market, the placement of national government debt bonds and instruments issued by other public entities prevailed in the primary market. Meanwhile, operations on the secondary market were stimulated by the considerable increase in transactions with variable-income instruments.

These factors contributed to the growth and recapitalization of the domestic stock market, with traded amounts reaching levels never seen over the last 10 years. Consequently, this sphere appeared to be deeper, in terms of non-oil GDP, and showed a greater capitalization degree with respect to 2008. Notwithstanding, at the regional scale, stock market activity in Venezuela did not have a better performance than the main South American markets.

**CHART VII-2**
**Index of Financial Deepening [1/]**
**GRÁFICO VII-2**
**Índice de profundización financiera[1/]**




1/ Medido como la relación entre cartera de crédito bruta/PIB no petrolero y transacciones totales del mercado de capitales / PIB no petrolero.
Fuente: BVC, Sudeban y BCV.

Banking sector Capital Market

[1/] Measured as the gross loan portfolio/non-oil GDP ratio and total transactions on the capital market/non-oil GDP ratio.
Source: BCV and Sudeban.

## 2. Banking Sector

The banking sector structure experienced a significant change in 2009, which was expressed through the number of institutions and the participation of State-run banks. The universe of banks reduced from 60 in 2008 to 54 at the end of the year, basically due to the restructuring seen in the commercial and universal bank subsystem at public and private bank level, and by the liquidation of two financial institutions.

**TABLE VII-1**
**Number of private and State-owned banks and other financial institutions per subsystem**

| SUBSYSTEM | Private | | State-owned | | Total | |
|---|---|---|---|---|---|---|
| | Dec-08 | Dec-09 | Dec-08 | Dec-09 | Dec-08 | Dec-09 |
| Universal Banks [1/] | 21 | 18 | 3 | 4 | 24 | 22 |
| Commercial Banks | 15 | 11 | - | - | 15 | 11 |
| Banks ruled by special laws [2/] | - | - | 4 | 4 | 4 | 4 |
| Development Banks [3/] | 6 | 6 | 1 | 1 | 7 | 7 |
| Investment Banks | 3 | 3 | 1 | 1 | 4 | 4 |
| Mortgage Banks | 1 | 1 | - | - | 1 | 1 |
| Capital Lease Firms | - | - | 1 | 1 | 1 | 1 |
| Savings and Loan Entities | 2 | 2 | - | - | 2 | 2 |
| Money Market Funds | 2 | 2 | - | - | 2 | 2 |
| TOTAL | 50 | 43 | 10 | 11 | 60 | 54 |

[1/] Including the following State-owned banks: Bicentenerio, Banco del Tesoro and Banco Agrícola de Venezuela.
[2/] Corresponding to Banco Industrial de Venezuela, Instituto Municipal de Crédito Popular, Banco Nacional de Vivienda y Habitad and Banco de Comercio Exterior.
3/ Corresponding to Banco Gente Emprendedora, Banco Real, Banco del Sol, Bancrecer, Mi Banco. Bancamiga and Banco de desarrollo Económico y Social de Venezuela.
Source: Sudeban.

This reorganization allowed State-owned banks to expand their footprint on the market by absorbing banks Bolívar, Confederado and Central, and acquiring in the month of July Banco de Venezuela, which at that moment accounted for 9.7% of loan and 10.7% of deposits. In this sense, at the end of the year, public banks closed with a share of more than 25% in total loans and deposits of commercial and universal banks (12% of loans and 11,8% of savings, for 2008).

It is worth mentioning that as of October 2009, liquidated banks (Canarias and Banora) kept a 5.9% share in total loans and 2.7% in total deposits; whereas entities that were merged with Banfoandes to later create Banco Bicentenario together represented 4.9% and 4.1%, respectively.

The information published by Sudeban at the end of the year for general statements and result report did not include the liquidated banks. In the case of Banorte, figures are available only until November, because this bank was intervened with cessation of financial intermediation operations.

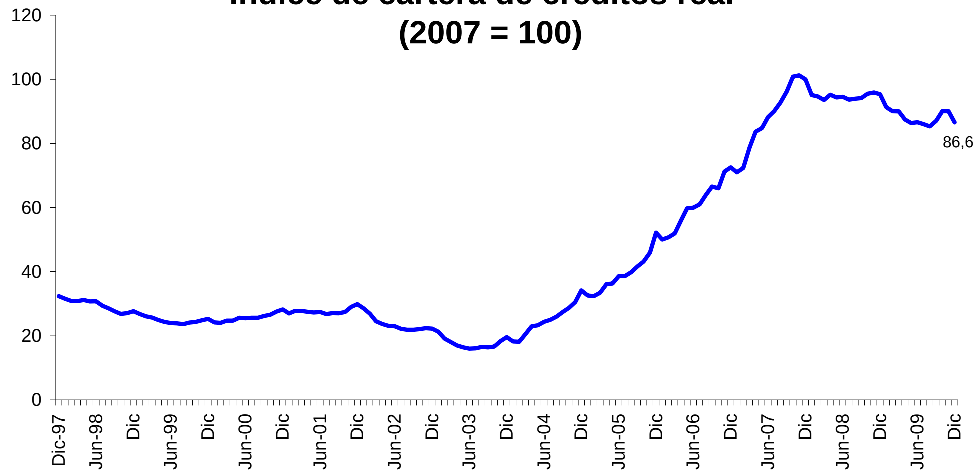
Furthermore, the main indicators of commercial and universal banks showed similar results to those of 2008, especially, those measuring capitalization, administrative activities and liquidity. In contrast, indicators related to delinquency, profitability and intermediation recorded lower values.

It should be noted that in the universe of entities belonging to the banking sector in Venezuela, commercial and universal banks represent about 95% of total loans and 97% of total deposits of the national banking system. Furthermore, statements of this subsystem showed lower annual increases in the main assets accounts, 15.2%, 11% and 11.5% for loan portfolio, investment in securities and availabilities, respectively (25.8%, 24.9% and 29% in 2008, respectively).

Concerning bank loans, even though they reflected constant growth since early 2004, this trend began to change in October 2007, when they started to record lower annual growth. This result could be associated with the lower economic activity basically reported in those users or economic sectors that resort to loan financing offered by banks.

**CHART VII-3**
**Commercial and Universal Banks**
**Real Loan Portfolio Index [1/]**
**(2007 = 100)**

**GRÁFICO VII-3**
**Banca comercial y universal**
**Índice de cartera de créditos real[1/]**
**(2007 = 100)**




1/ Se cálculo con base al índice de cartera año base 1997 y se reexpresó a 2007, consistente con el año base del IPC.
Fuente: Sudeban y cálculos propios.

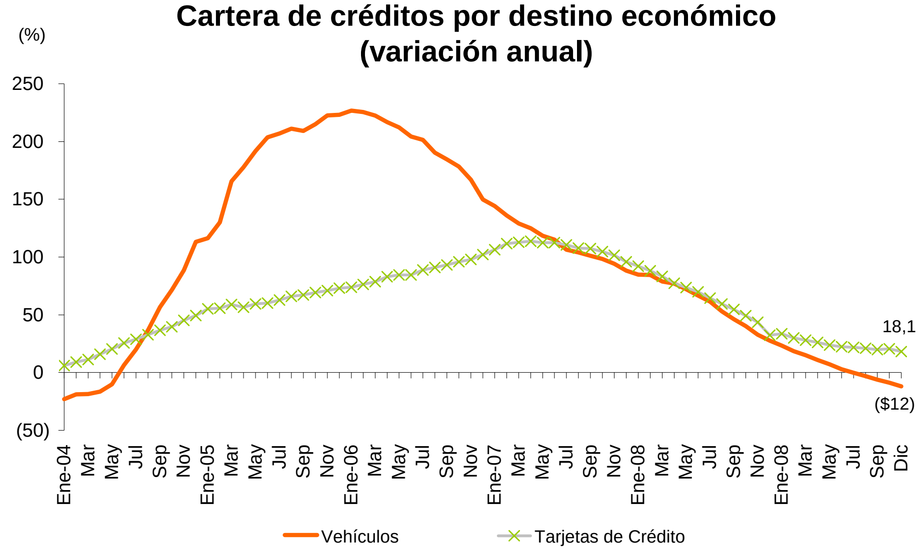
[1/] Calculated based on the portfolio index for base year 1997 and re-expressed for 2007, consistent with the CPI base year.
Source: Sudeban and own calculations.

When credits are broken down per economic destination[94], those oriented toward consumption[95] showed a quite lower annual increase (5.3%) vs. 2008 (30.3%). This behavior was determined by two factors: the first one is associated with the fact that card holders resorted to credit card financing in a lesser degree, despite the lower interest rates applied to these instruments; the second factor was provoked by the drop in loans for car purchases[96], which is closely related to the decrease in national and imported automobile sales since May 2008.

[94] Classified in commercial, consumption, mortgage, agricultural, tourism and industry credits and micro-credits.
[95] Includes credits for the car purchase and credit cards.
[96] The share of this portfolio in the total credits accounted for 7.6% at the end of the year (10% in 2008).

**CHART VII-4**
**Commercial and Universal Banks**
**Credit Portfolio per economic Destination**
**(annual variation)**

**GRÁFICO VII-4**
**Banca comercial y universal**
**Cartera de créditos por destino económico**
**(variación anual)**




Fuente: Sudeban.

Vehicles Credit Card

Source: Sudeban

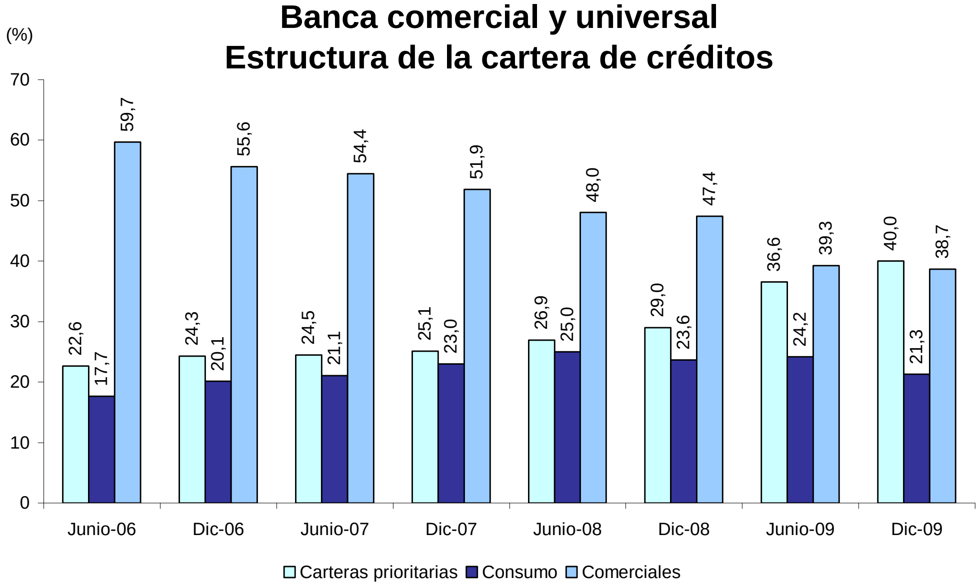
Commercial credits, which gathered the remaining portfolios per economic activity[97], experienced an annual decline of 4.7%, which reduced their total share from 47.4% in 2008 to 38.7% in 2009. An element that has influenced the loss of significance of this portfolio is that it no longer includes credits that have been granted to priority sectors.

With respect to financing granted by banks to activities that are considered a priority [98], it could be seen that they have gained increasing relevance in the total gross credit portfolio, with 40% as of December, i.e. 11 percentage points over 2009. This result could be determined by requirements to comply with the established minimum percentages and also by the decrease in preferential interest rates enjoyed by these sectors.

[97] Includes non-preferential manufacturing industry, electrical power, gas and water; transportation, storage and communications; mining and roads; trade, wholesale and detail trade; restaurants and hotels; hunting and fishing; other non-specified activities and personal, communal and social services.
[98] Corresponds to credits earmarked for agriculture, tourism, manufacturing industry, micro-businesses and mortgages.

**CHART VII-5**
**Commercial and Universal Banks**
**Credit Loan Structure**

**GRÁFICO VII-5**
**Banca comercial y universal**
**Estructura de la cartera de créditos**




Fuente: Sudeban y cálculos propios.

Priority Portfolios Consumption Commercial

Source; Sudeban and own calculations.

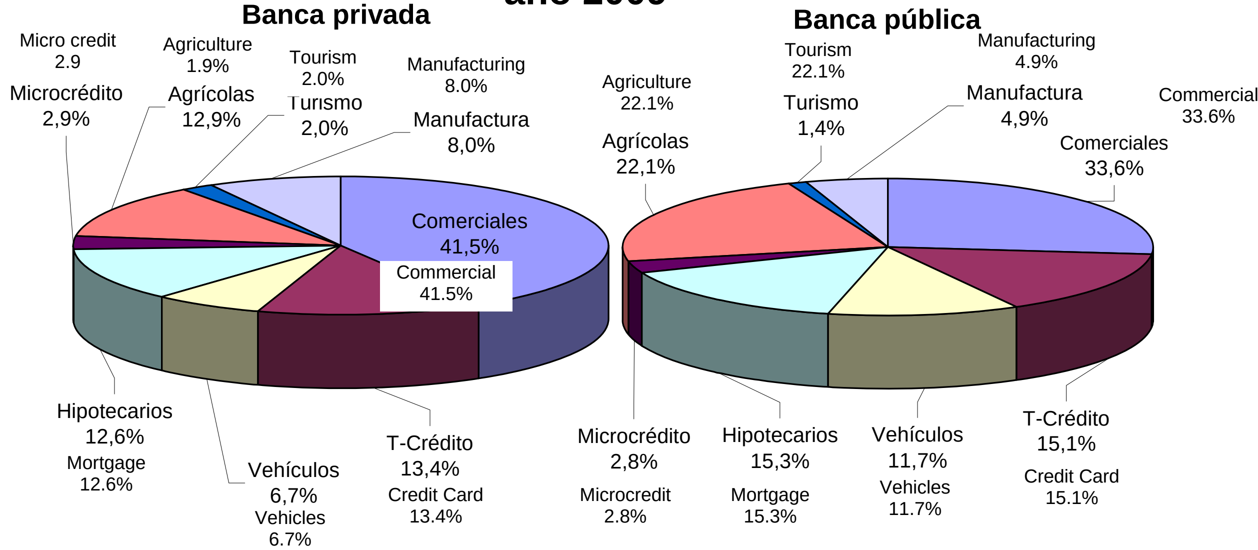
In 2009, administered portfolios for priority sectors surpassed the minimum required compliance level, especially, mortgage, microcredits and agriculture[99]; whereas manufacturing portfolio was quite close to the set limits (10%), reaching 8.7% of the gross portfolio as of March 2009, and tourism that reached 2.3%, with 3% being the minimum.

A comparison of the behavior of private bank loans to public bank loans showed that the former earmarked 41.5% of their gross resources for the financing of economic activities that are included in the commercial portfolio, 38.4% for priority sectors and 20.1% for consumption, Public banks, in turn, applied 46.5% for priority activities, 26.7% for commercial loans and 26.8% to consumption. It is worth underscoring that private banks kept 82.6% of the total loan portfolio and public banks kept 17.4%.

[99] Compliance percentage calculated based on credits granted to the sector and agricultural bonds placed in May in 2009.

**CHART VII-6**
**Commercial and Universal Banks**
**Composition of credit loan per economic destination**
**Year 2009**

## GRÁFICO VII-6
## Banca comercial y universal
## Composición de la cartera de créditos por destino económico
## año 2009




Fuente: Sudeban y cálculos propios.

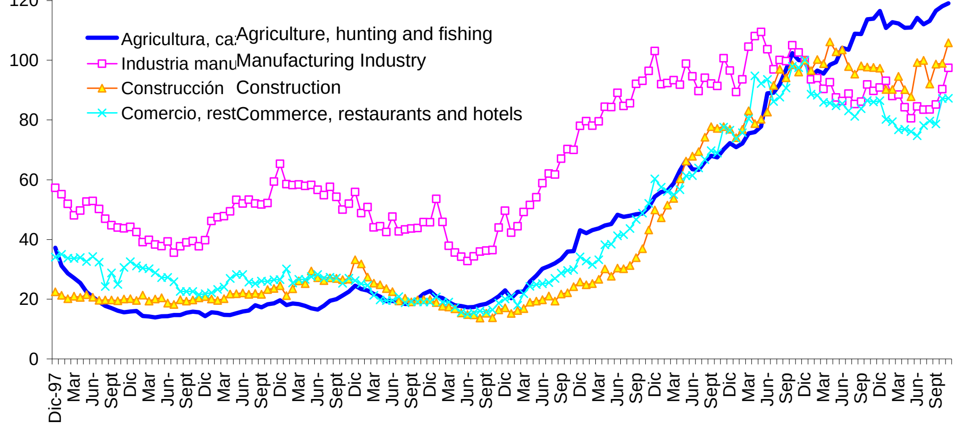
Source: Sudeban and own calculations

An analysis of this portfolio from the perspective of economic sectors, based on figures as of November 2009, shows that annual growth rates reported by the main portfolios (total manufacturing industry[100], agriculture, hunting and fishing, construction and wholesale and retail commerce, and restaurants and hotels) recorded increases over 30% which were higher than those reported by total portfolio in the same month (22%). In terms of the real index, growth in agriculture, hunting and fishing sectors was characterized by a constant increase since late 2003, whereas the other portfolios exhibited a behavior that was quite similar to that of the total portfolio, that is, they decelerated starting in the last quarter of 2007.

[100] Includes non-regulated and preferential portfolios.

**CHART VII-7**
**Commercial and Universal Banks**
**Real Credit Portfolio Index [1/]**
**(2007 = 100)**

**GRÁFICO VII-7**
**Banca comercial y universal**
**Índice de cartera de créditos real [1/]**
**(2007 = 100)**




1/ Se reexpreso el índice de cartera del año 1997, a 2007 conforme con el IPC.
Fuente: Sudeban y cálculos propios.

[1/] The 1997 portfolio index was reexpressed based on 2007 CPI.
Source: Sudeban and own calculations

In terms of assets quality, the indicator that measures the portfolio delinquency level[101] deteriorated upon gaining 1.1 pp with respect to 2008 (1.8%). This indicator, which is calculated based on the type of credit, showed that microcredits reflected the highest delinquency levels; however, toward yearend, the indicator started to follow a decreasing trend until reaching 6% in December (5.1% in 2008). Expanding the total portfolio delinquency indicator by including restructured loans, an increase is seen to 3.5% (2.2% in 2008).

The provisioning level of the total credit portfolio[102] grew from 2008, from 2.8% to 4% in 2009. Immobilized portfolio coverage, in turn, wend down from 1.49 times the portfolio to 1.37; however, the level remains to be acceptable, because it covers more than 100%, which is the minimum level required by Sudeban.

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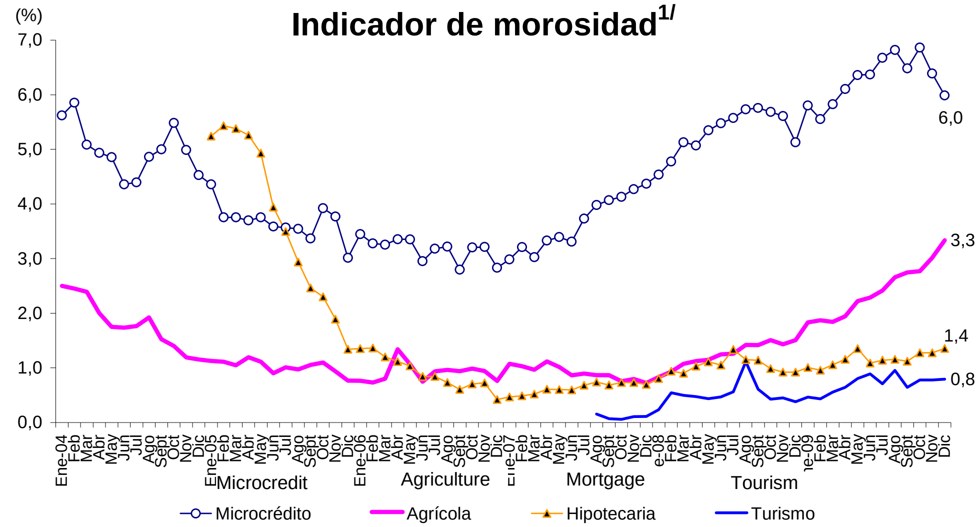
[101] Measured as the ratio between matured and litigated loans and the total gross credit portfolio.
[102] Measured as the ratio between provisions and gross credit portfolio.

**CHART VII-8**
**Commercial and Universal Banks**
**Delinquency Indicator 1/**

**GRÁFICO VII-8**
**Banca comercial y universal**
**Indicador de morosidad1/**




1/ Medido como la relación entre cartera vencida + litigio/ cartera bruta, para cada sector.
Fuente: Sudeban.

1/ Measured as the matured + in-litigation portfolio/gross portfolio ratio, for each sector.
Source: Sudeban.

Expansion of the investment in securities portfolio was partly due to the participation of banks in the new bond issues launched by the government throughout the year: Venebonos, Treasury bills and Pdvsa bonds in foreign currency, according to the borrowing strategy defined by the Administration. All this brought about an increase in banks' investment in government instruments (15.3%), higher than that of private instruments (0.9%), amounting to a share in the total level of 19.6% (21.2% in 2008).

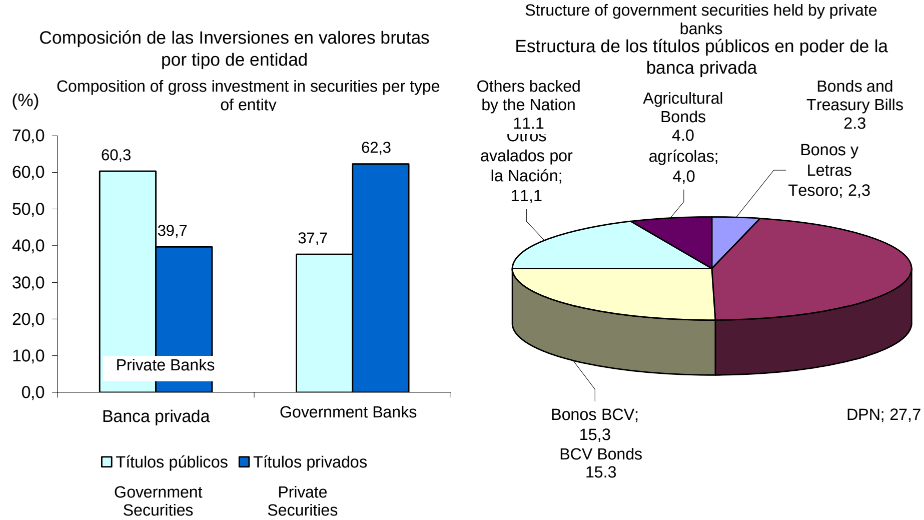
Of the total gross investment in securities, private banks acquired 65.9%, whereas the rest is placed in government banks (34.1%). Likewise, based on the type of instrument, government securities[103] were mainly found in private banks (60.3%) and 37.7% in

[103] Includes Treasury bills and bonds, NPD, securities issued by the BCV and bonds issued and guaranteed by the Nation.

government banks. The opposite occurred as to the trend of private securities, where the share of government banks surpassed that of private banks, 62% and 37.7%, in each case.

**CHART VII-9**
**Commercial and Universal Banks**
**Gross Investment in Securities**

**GRÁFICO VII-9**
**Banca comercial y universal**
**Inversiones en valores brutas**



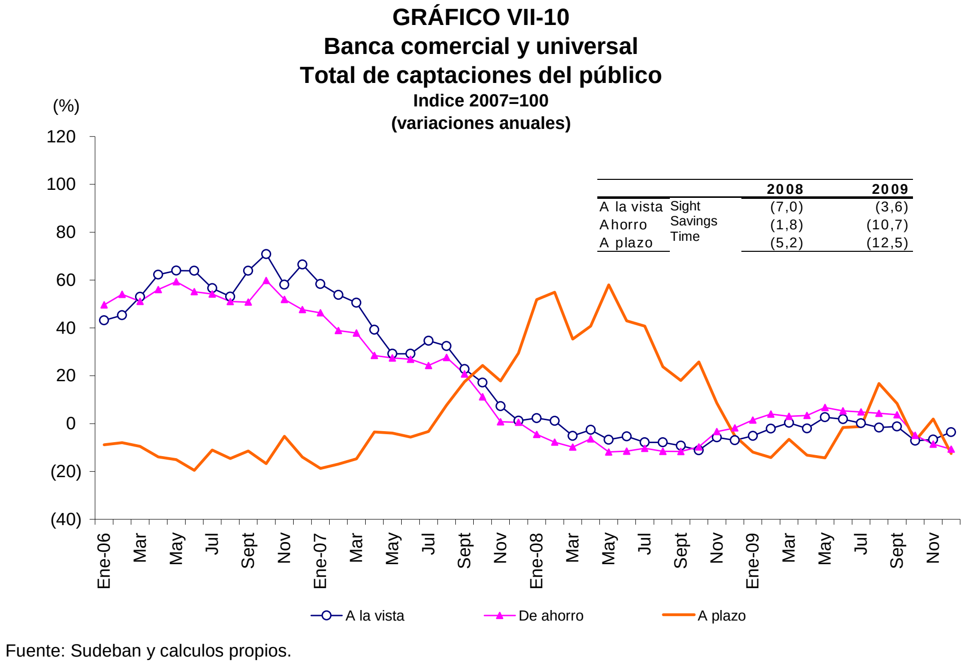

Fuente: Sudeban y cálculos propios.

Source: Sudeban and own calculations.

On the savings side, total deposits in commercial and universal banks maintained a behavior similar to the prior year, with a decrease in the annual nominal variation rate (20.8%) and real (4.8%), with respect to 2008 (26.7% and 3.9%, respectively).

Savings and time deposits had greater incidence on this results, which could be associated, among other things, with the cut in savings interest rate for the second quarter of the year and the greater preference by banks users for sight instruments that are easy to liquidate.

**CHART VII-10**
**Commercial and Universal Banks**
**Total Deposits**
**Index 2007 = 100**
**(annual variations)**



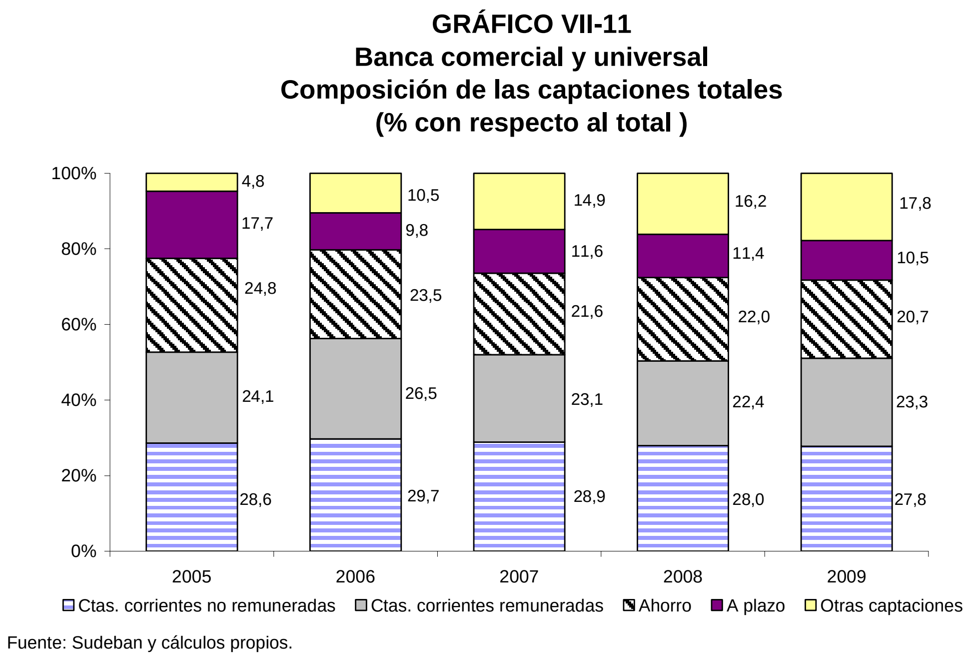

Sight Savings Time

Source: Sudeban and own calculations

Deposits in interest-bearing current account reported a slower deceleration in real terms, 1.1% vs. 6.9% in 2008, and reached a higher share in the total deposits (23.3%). Other deposits[104], which comprises rights and participations on securities, maintained its share in the total at a level very similar to the prior year, going from 16.2% up to 17.8%, and became the only item of total deposits with a positive real variation (4.7%).

[104] Includes other financing obtained and liabilities to Banap.

**CHART VII-11**
**Commercial and Universal Banks**
**Composition of Total Deposits**
**(% with respect to total)**




Non-interest bearing current accounts Interest-bearing current accounts Savings Time Other deposits

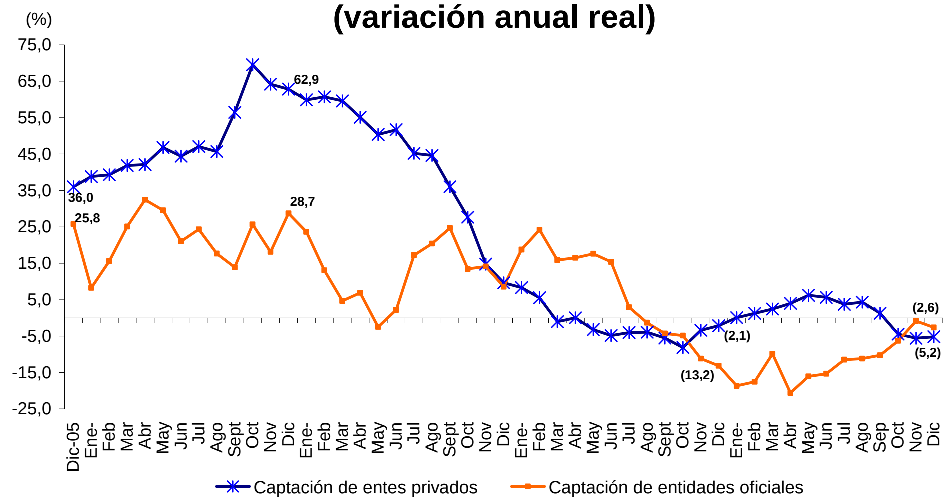
Source: Sudeban and own calculations.

Based on the origin of the money, total deposits from government entities[105] registered a nominal increase of 23.6% and lost 2.6% in real terms, in comparison to 2008. Deposits from private sector, individuals and legal persons reflected a decrease in their nominal and real annual variation (20.3% and 5.2%, respectively). Notwithstanding this drop, this sector continued to hold the largest share in savings (84.9%).

[105] Central administration, general government at the regional and municipal levels and the Capital District, as well as decentralized entities and other entities with special regime.

## CHART VII-12
## Commercial and Universal Banks
## Deposit Structure per institutional Sector
## (real annual variation)

## GRÁFICO VII- 12
## Banca comercial y universal
## Estructura de captaciones por sector institucional
## (variación anual real)




Fuente: Sudeban y cálculos propios.

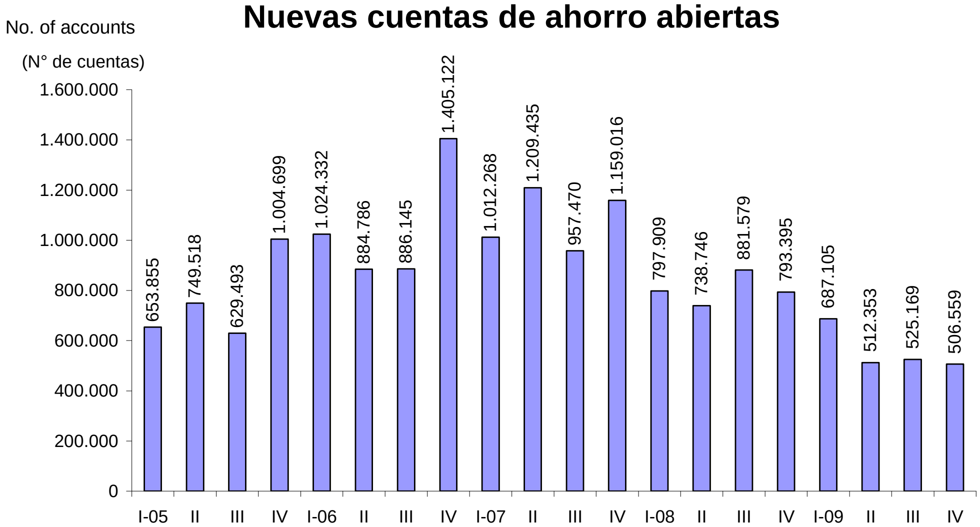
Private entities deposits Government entities deposits

Source: Sudeban and own calculations.

It should be noted that the number of new savings accounts open throughout the year followed a decreasing trend, going from 249,761 in January to 121,817 in the month of December, due to the preference of users for more liquid and short-term instruments.

**CHART VII-13**
**Commercial and Universal Banks**
**New Savings Accounts**

**GRÁFICO VII-13**
**Banca comercial y universal**
**Nuevas cuentas de ahorro abiertas**



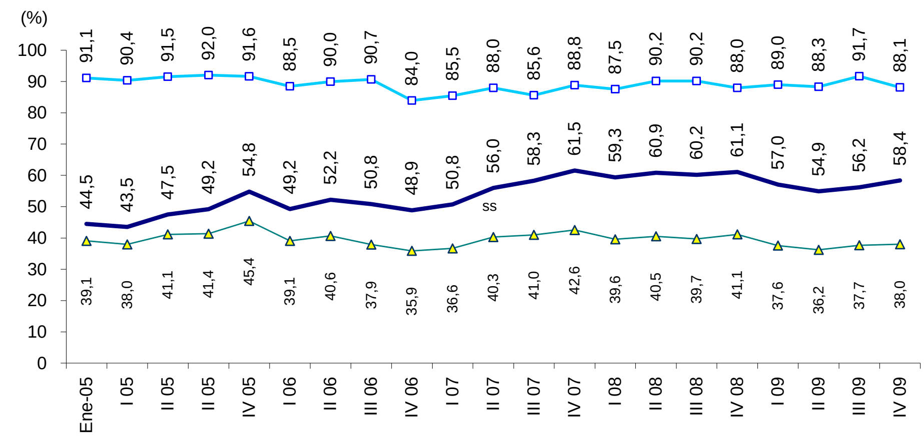

Fuente: BCV

Source: BCV

In this context, credit intermediation closed at 58.3%, (41.5% from government banks), after the incorporation of Banco de Venezuela to the universe of State-owned banks and the creation of Banco Bicentenario; private banks, meanwhile, reached 62.2%. Productive intermediation, which does not include consumption and housing portfolios, remained stable averaging 39.6% since 2005 (private banks 41.3% and government banks 22.8%).

**CHART VII-14**
**Commercial and Universal Banks**
**Credit 1/, financial 2/ and productive 3/ Intermediation**

**GRÁFICO VII-14**
**Banca comercial y universal**
**Intermediación crediticia1/, financiera2/ y productiva3/**



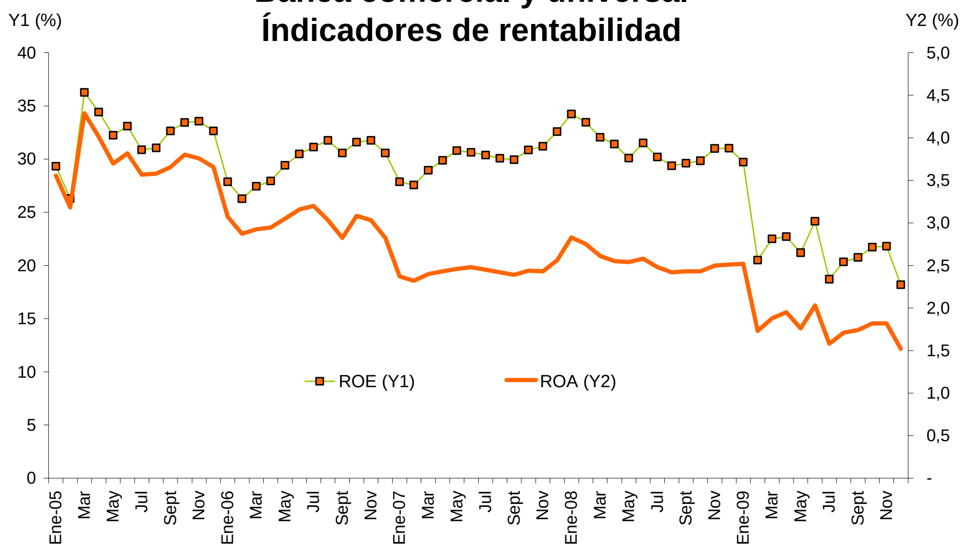

1/ Crediticia = cartera de crédito total/depósitos totales.
2/ Financiera = cartera de créditos + inversiones en valores / depósitos totales.
3/ Productiva = cartera de créditos total-consumo e

1/ Credit = total credit portfolio/total deposits. Financial Credit
2/ Financial = credit portfolio + investment in securities / total deposits
3/ Productive = total credit portfolio-consumption (DATOS INCOMPLETOS EN GRÁFICO ORIGINAL)

Banks' net benefit was under that of 2008, which an annual drop of 2.8%, after having grown 32.8% in 2008, due to the lower yield perceived by credit portfolio (variation of 12% in 2009 vs. 84.3% in 2008), as well as the low operative revenue obtained from commissions (variation of 1.3% in 2009 vs. 17.6% in 2008). Consequently, indicators that measure profitability of the system with respect to assets (ROA) and equity (ROE) continued to show a decreasing trend.

**CHART VII-15**
**Commercial and Universal Banks**
**Profitability Indicators**

**GRÁFICO VII-15**
**Banca comercial y universal**
**Índicadores de rentabilidad**




Fuente: Sudeban y cálculos propios.

Source: Sudeban and own calculations.

## 3. Capital Market

In 2009, the capital market exhibited higher activity levels with respect to the previous year. In this sense, the volume of funds negotiated in this sector reached Bs. 37.617 billion, up 203.7% from previous figures. This behavior set a new record high with relation to transactions with government and private securities over the last 10 years.

During this period, stock exchange activity was favored by the higher supply of securities on the primary market, which was at Bs. 23.760 billion, as well as by the higher number of high-value operations carried out on the secondary market, with the traded volume amounting to Bs. 13.857 billion. Therefore, resources traded on each market grew 191.7% and 226.7%, respectively, in comparison to the previous year.

**CHART VII-16**
**Capital Market**
**Total Amount of Operations per Sector**

**GRÁFICO VII-16**
**Mercado de capitales**
**Monto total de operaciones por estrato**

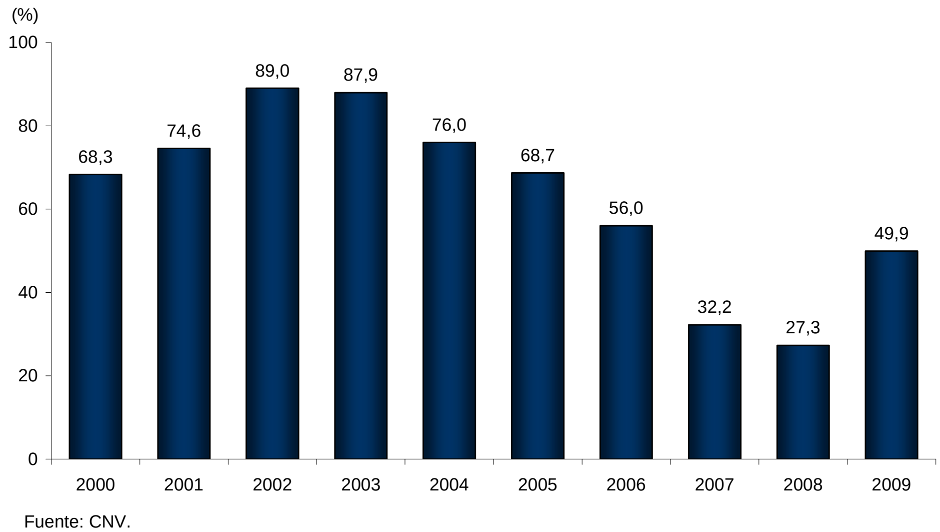

Fuente: CNV y BVC.

Source: CNV and BCV

Deposits from government entities prevailed in the primary market (77.9% of offered resources), associated with the issuance of national government debt and Pdvsa bonds, which resulted in an extension of government securities supply of up to Bs. 18.500 billion, equivalent to 4.5 time the volume traded by the same sector in 2008. While these results allowed operations with government securities to reach an important percentage of the total operations on the securities market (49.9%), public sector transactions on the capital markets were lower with respect to volume traded from 2000 to 2006.

**CHART VII-17**
**Capital Market**
**Percentage of Government Securities traded**

**GRÁFICO VII-17**
**Mercado de capitales**
**Porcentaje de títulos públicos negociados**




Source: CNV

Similarly, and opposite to 2008, the new private sector issues rose 10% and were basically focused on placements of commercial papers and obligations (66% of the total). These latter increased by 55.7% and 6.9% in each case, reaching Bs. 1.871 billion and Bs. 1.632 billion at end-2009.

Private sector stock supply, in turn, lost Bs. 530.9 billion (37.7%) as compared to 2008, thereby leading its share to decline to 16.6% of the total. Both results reveal that investors preferred to acquire debt issued by private business in 2009 instead of buying shares in them.

In general, primary market securities exhibited a higher yield with respect to those of the national banking system deposit instruments. Furthermore, coupons offered by obligations issued by businesses were set at a lower level than loan interest rates, which, in comparative terms, rendered financing by businesses cheaper and contributed to the growth in transactions on the stock market.

**CUADRO VII-2**
**Tasas de interés operaciones primarias y tasas de mercado**
**(porcentaje)**

| Año [1/] | Emisiones primarias | | | Tasas de mercado | |
|---|---|---|---|---|---|
| | **Obligaciones** | **Participaciones** | **Papeles comerciales** | **Activa (créditos ofrecidos)** | **Pasiva (depósitos a plazo)** |
| 2007 | 13,2 | 12,0 | 11,9 | 21,7 | 11,2 |
| 2008 | 17,8 | 19,1 | 20,8 | 21,7 | 17,0 |
| 2009 | 16,1 | 15,9 | 16,1 | 18,9 | 14,5 |

1/ Registro de cierre a diciembre de cada año.
Fuente: CNV, BCV.

**TABLE VII-2**
**Interest Rates on primary Operations and Market Rates**
**(percentage)**

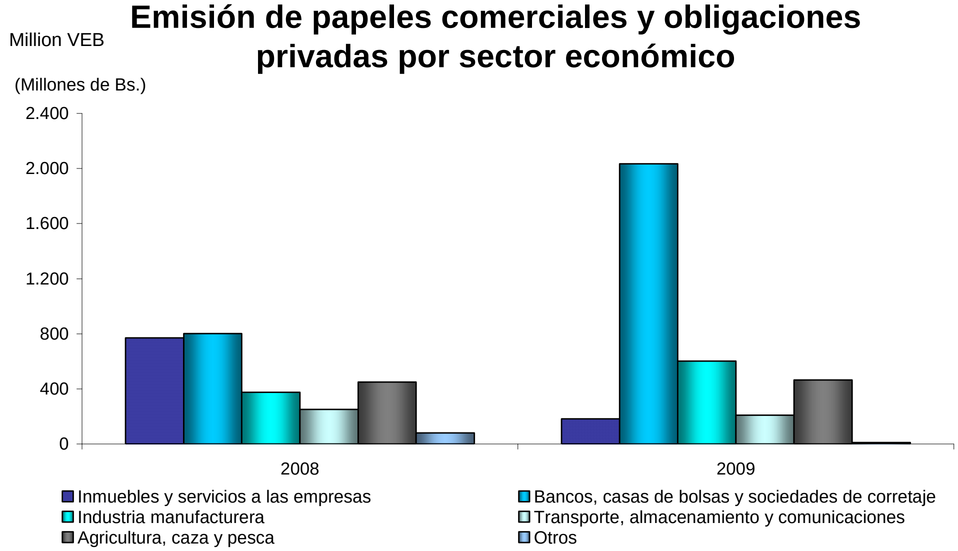
| Year [1/] | Primary Issues | | | Market Rate | |
|---|---|---|---|---|---|
| | **Obligations** | **Participations** | **Commercial Papers** | **Lending (offered loans)** | **Savings (time deposits)** |
| 2007 | 13.2 | 12.0 | 11.9 | 21.7 | 11.2 |
| 2008 | 17.8 | 19.1 | 20.8 | 21.7 | 17.0 |
| 2009 | 16.1 | 15.9 | 16.1 | 18.9 | 14.5 |

1/ Closing record as of December of each year.
Source: CNV, BCV.

Per economic sectors, financial institutions (banks, brokerage houses and brokerage firms) and the manufacturing industry performed the most part of primary issues (75.2% of total obligations and commercial papers), by offering a total of Bs.2.065 billion and Bs. 602 million, respectively, throughout the year.

**CHART VII-18**
**National Securities Commission**
**Issuance of private Commercial Papers and Obligations per economic Sector**

**GRÁFICO VII-18**
**Comisión Nacional de Valores**
**Emisión de papeles comerciales y obligaciones privadas por sector económico**




Fuente: CNV

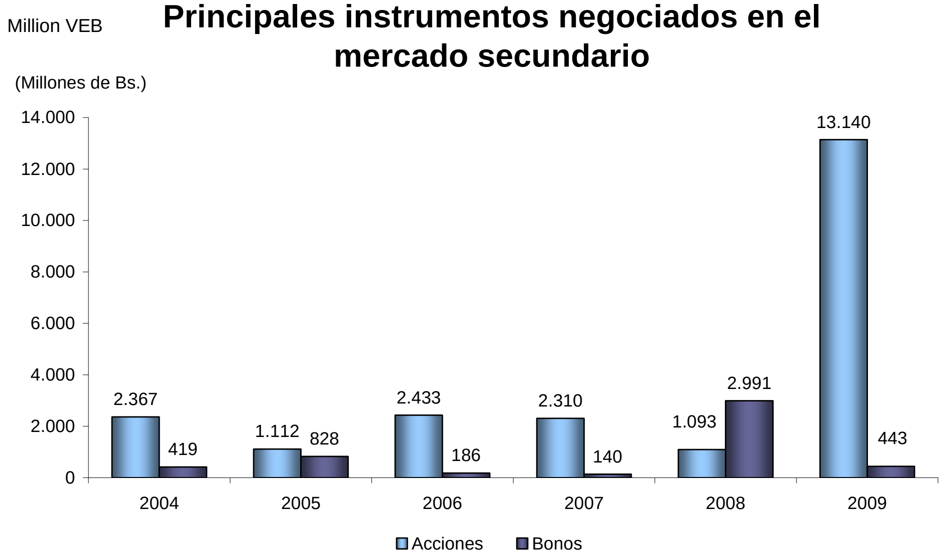
Real estate and business services
Banks, brokerage houses and brokerage firms
Manufacturing industry
Transportation, storage and communications
Agriculture, hunting and fishing
Others

Source: CNV

Unlike the behavior of primary issues, growth in operations on the secondary market was fostered by the higher number of transactions with private papers, which rose by 221.8% with respect to the results reported in 2008. These operations mobilized about 98% of moneys traded on this marked, with Bs. 13.140 billion worth of variable-income instruments (shares) traded. In contrast, the amount of transactions with private bonds lost 85.2%, with only Bs. 442.9 million being traded in fixed-income operations.

**CHART VII-19**
**Caracas Stock Exchange**
**Main Instruments traded on the Secondary Market**

**GRÁFICO VII-19**
**Bolsa de Valores de Caracas**
**Principales instrumentos negociados en el mercado secundario**




Fuente: BCV.

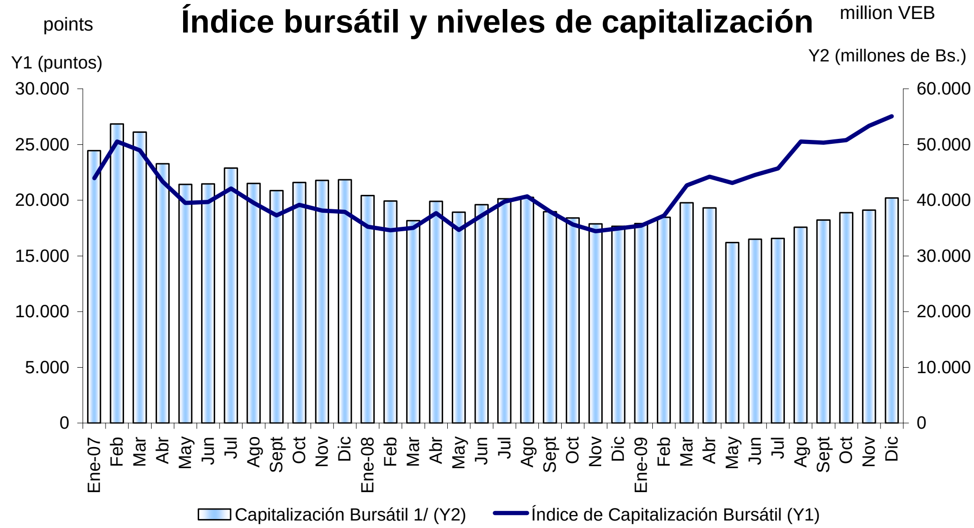
Source: BCV

The largest part of operations with shares was carried out during the second half of the year (Bs.10.314 billion, or 79.1% of the negotiated amount). In this period, shares of a number of financial institutions (Canarias and Confederado banks), which were later intervened by Sudeban, were sold in special sessions, as well as shares of Banco de Venezuela derived from the takeover process of this entity by the State.

By virtue of the favorable environment for negotiations within the domestic market, stock markers associated with the performance of the secondary market in 2009 rallied with respect to their record values. In this regard, the Caracas Stock Index (IBC) went from a year-to-year variation of -7.4% in 2008 to an increase of 57% at end-2009, thus reaching 55.076 points. Similarly, the financial stock index gained 60.4%, after dropping 34.9% the previous year; the industrial index, in turn, speed up its growth pace up to a rate of 53.2% (31.8% in 2008).

**CHART VII-20**
**Caracas Stock Exchange (BVC)**
**Stock Index and Capitalization levels**

**GRÁFICO VII-20**
**Bolsa de Valores de Caracas**
**Índice bursátil y niveles de capitalización**



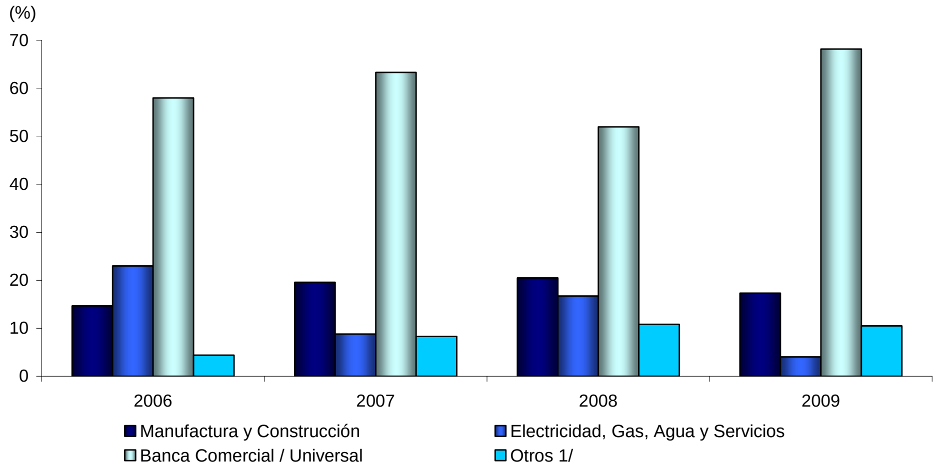

1/ Número de acciones en circulación por el precio.
Fuente: BVC.

1/ Number of outstanding shares per price.
Source: BVC

This expansion in stock activity entailed an appreciation of operations on the market, which was expressed through an increase in their nominal value. In fact, the capitalization level (shares valued at their price) recorded a progressive growth throughout 2009, to close at Bs. 20.202 billion, for an increase of 14.3% as compared with the stock market performance in 2008. This was the response to the better results in negotiations of the national banking system, which mobilized Bs.13.769 billion in nominal terms (68.2% of the total amount), for a 50.0% rise in stock capitalization with respect to 2008.

**CHART VII-21**
**Capital Market**
**Secondary Market Capitalization per Sector**

**GRÁFICO VII-21**
**Mercado de Capitales**
**Capitalización del mercado secundario por sectores**




1/ Incluye Agricultura, Pesca y Alimentos; Otros Establecimientos Financieros; Compañias de Seguros y Bienes Inmuebles; Comercio y Hoteles.
Fuente: BVC y CNV.

Manufacturing and construction — Electricity, gas, water and services
Commercial/Universal banks — Others [1/]

[1/] Including agriculture, fishing and food; other financial institutions; insurance firms and immovable goods; commerce and hotels.
Source: BCC and CNV

Manufacturing and construction businesses, in turn, accounted for a substantial share within market capitalization (17.2% of the total); however, the nominal value of its shares did not show relevant changes on a yearly basis in comparison to 2008.

Even though the secondary market revealed higher capitalization levels at the end of the year, its growth decelerated during the second half of 2009, unlike the higher increase exhibited by stock capitalization index. This behavior was favored by the drop in the value of shares of companies of the electricity, gas, water and service sector, which brought about a temporary decline in the value of share in the segment of the capital market.

## TABLE VII-3
## Caracas Stock Exchange
## Market Capitalization Levels

| | Stock Market Capitalization [1/] (million VEB) | Capitalization Commercial and Universal Banks (million VEB) | Capitalization Electricity, gas and water companies (million VEB) |
|---|---|---|---|
| **2008 Average** | **19,193** | **10,627** | **2,903** |
| **2009 Average** | **18,232** | **11,006** | **1,854** |
| January | 17,921 | 9,622 | 2,825 |
| February | 18,471 | 9,883 | 3,204 |
| March | 19,785 | 9,598 | 4,935 |
| April | 19,320 | 9,724 | 4,362 |
| May | 16,191 | 10,142 | 972 |
| June | 16,495 | 10,299 | 972 |
| July | 16,576 | 10,577 | 882 |
| August | 17,591 | 11,140 | 842 |
| September | 18,237 | 11,954 | 816 |
| October | 18,886 | 12,619 | 814 |
| November | 19,114 | 12,742 | 813 |
| December | 20,202 | 13,769 | 814 |
| **Var % Dec.09/Dec.08** | **14.3** | **50.0** | **(72.4)** |

[1/] Number of outstanding shares per price.
Source: Caracas Stock Exchange.

For their part, multilateral funds registered greater expansion in 2009, to Bs. 546.0 million, 14.8% more than the position seen in 2008. The dynamic of these operations was a consequence of the increase in the holding of fixed-income instruments, which reached Bs. 452 million (up 21% from 2008) and accounted for 82.8% of total funds. On the contrary, mutual funds consisting of variable-income instruments (0.3% of the total) only gained 1.9% in 2009.

## TABLE VII-4
## Behavior of Mutual Funds

| | Equity (Million VEB) | | Percentage share | | Variation percentage | Annual profitability | |
|---|---|---|---|---|---|---|---|
| **Mutual Funds** | **2009** | **2008** | **2009** | **2008** | **2009/08** | **2009** | **2008** |
| Fixed income | 452.0 | 373.7 | 82.8 | 78.6 | 21.0 | 10.9 | -0.2 |
| Variable income | 1.5 | 1.4 | 0.3 | 0.3 | 1.9 | 7.4 | 1.9 |
| Mixed | 35.8 | 37.6 | 6.6 | 7.9 | (4.9) | 10.2 | 11.4 |
| Foreign currency [1/] | 56.7 | 62.6 | 10.4 | 13.2 | (9.5) | 21.6 | -620.2 |
| **TOTAL** | **546.0** | **475.4** | **100.0** | **100.0** | **14.8** | | |

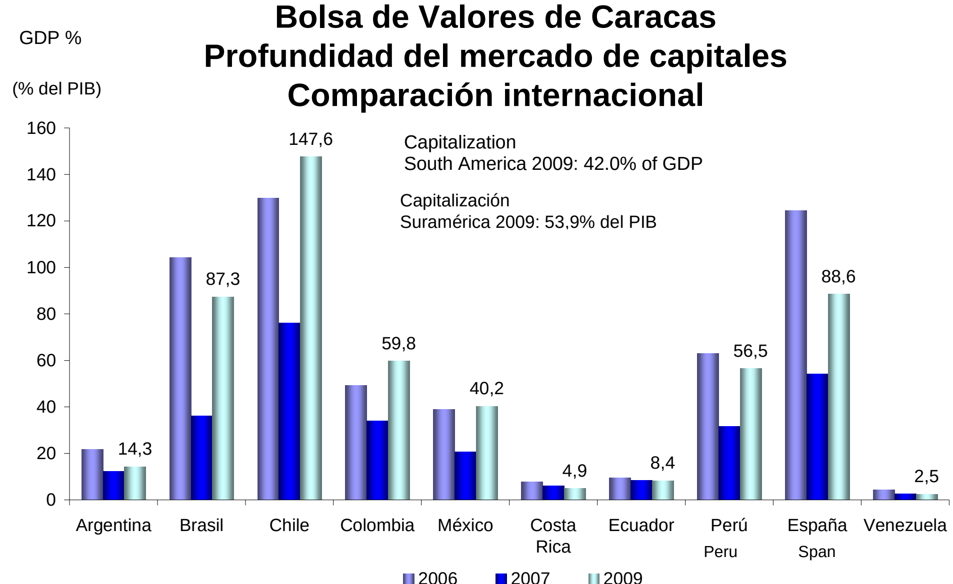
(*) Provisional figures
[1/] Exchange rate used for years 2007 and 2008 was 2,144.6, (APARENTEMENTE FALTA UN DATO EN EL ORIGINAL) respectively.
Source: Asociación Venezolana de Sociedades Administradoras de Fondos Mutuales (AVAF).

Profitability of fixed and variable-income mutual fund expanded 11.1 and 5.5 percentage points, respectively, in the year. In the same period, Mercantil and Provincial banks were the main administrators of this investment, holding together 84.9% of the position in mutual funds at the close of the year.

Despite these results, the domestic market did not show any improvement in terms of scale, as compared to the size of the major Latin American stock markets. In this sense, while the securities market deepened in 2009 by representing 2.6% of non-oil GDP (with respect to 0.9% in 2008), most Ibero-American markets (except for Ecuador and Costa Rica) reached higher capitalization levels once the effects of the international financial crisis were overcome. In South America, levels reached by the Chilean, Brazilian and Colombian markets, which increased average capitalization in the region up to 53.9% of GDP, stood out.

**CHART VII-22**
**Caracas Stock Exchange**
**Depth of the Capital Market**
**International Comparison**

**GRÁFICO VII-22**
**Bolsa de Valores de Caracas**
**Profundidad del mercado de capitales**
**Comparación internacional**




(*) Cifras provisionales
Fuente: Economic Inteligence Unit, BVC.

(*) Provisional figures.
Source: Economic Intelligence Unit, BVC

# TABLE VII-1
## Banking System
## Summary Balance Sheet
## Assets
(million VEB)

| | Commercial and Universal Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 (*) | 2008 | 2007 | 2009 (*) | 2008 | 2007 | 2009 (*) | 2008 | 2007 | 2009 (*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| **Total assets** | **320,930.6** | **267,203.2** | **209,149.4** | **3,012.4** | **1,763.6** | **847.3** | **13.9** | **26.8** | **29.8** | **4,530.6** | **916.2** | **269.7** | **6,373.5** | **4,964.8** | **4,086.6** | **336,518.1** | **278,271.8** | **217,025.8** |
| Availability [1/] | 71,407.5 | 64,043.3 | 49,656.8 | 359.1 | 329.9 | 126.2 | 9.1 | 1.4 | 0.1 | 206.8 | 47.3 | 37.6 | 687.9 | 1,043.2 | 80.6 | 72,784 | 65,864.3 | 51,121.0 |
| Credit portfolio | 147,932.5 | 128,429.3 | 102,072.1 | 1,032.2 | 738.3 | 364.9 | 24.2 | 25.7 | 26.3 | 103.1 | 96.0 | 60.7 | 2,964.0 | 2,547.7 | 2,260.2 | 152,573 | 132,278.2 | 105,032.0 |
| Current | 148,741.5 | 129,186.9 | 102,735.0 | 1,037.0 | 741.1 | 370.7 | 25.0 | 26.3 | 26.7 | 102.6 | 103.2 | 61.2 | 2,978.4 | 2,559.8 | 2,281.2 | 153,202 | 132,975.5 | 105,713.7 |
| Restructured | 884.8 | 457.2 | 278.6 | 2.9 | 0.7 | 0.1 | 0.0 | 0.0 | 0.0 | 0.6 | 0.6 | 1.2 | 0.3 | 0.3 | 0.4 | 1.088 | 533.5 | 280.3 |
| Loans (matured + in litigation) | 4,528.9 | 2,441.3 | 1,235.9 | 36.3 | 26.3 | 5.7 | 0.1 | 0.1 | 0.6 | 28.0 | 9.9 | 6.3 | 78.6 | 53.7 | 26.6 | 4,713.1 | 2,563.5 | 1,304.0 |
| Less: | | | | | | | | | | | | | | | | | | |
| Provision for loan portfolio | 6,222.7 | 1,656.1 | 2,176.7 | 44.0 | 29.8 | 11.6 | 1.0 | 0.7 | 1.0 | 28.0 | 17.1 | 8.0 | 93.2 | 66.1 | 48.1 | 6.431 | 3,794.3 | 2,266.1 |
| Investment in securities | 62,770.5 | 56,550.5 | 45,274.7 | 851.4 | 305.0 | 272.8 | 0.0 | 0.0 | 2.4 | 3912.2 | 680.9 | 126.7 | 2,292.7 | 1,189.1 | 915.5 | 70,753 | 61,234.6 | 48,426.4 |
| Placements on the BCV and interbank operations | 22,584.6 | 28,563.1 | 14,317.6 | 469.4 | 229.7 | 28.2 | 0.0 | 0.0 | 0.0 | 16.8 | 27.3 | 26.0 | 31.0 | 525.9 | 33.5 | 23,606 | 30,781.3 | 14,762.5 |
| Securities for negotiation | 559.7 | 438.9 | 710.7 | 305.5 | 10.6 | 17.9 | 0.0 | 0.0 | 0.0 | 1748.8 | 598.7 | 89.6 | 0.0 | 14.0 | 0.0 | 2,829 | 1,239.2 | 1,046.1 |
| Securities available for sale | 19,034.8 | 5,279.7 | 5,508.6 | 55.0 | 40.8 | 115.3 | 0.0 | 0.0 | 2.4 | 0.0 | 10.7 | 5.0 | 746.0 | 94.8 | 350.7 | 19,958 | 5,647.0 | 6,051.1 |
| Securities held to maturity | 13,216.5 | 13,585.8 | 18,548.5 | 21.2 | 23.5 | 51.5 | 0.0 | 0.0 | 0.0 | 45.4 | 44.2 | 6.2 | 247.0 | 528.2 | 485.3 | 13,596 | 14,879.1 | 19,509.3 |
| Restricted availability | 6,376.4 | 6,665.6 | 5,352.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1075.2 | 0.0 | 0.0 | 628.7 | 3.7 | 13.5 | 8,118 | 6,692.6 | 5,366.4 |
| Other securities | 4,205.9 | 2,451.9 | 884.0 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1026.0 | 0.0 | 0.0 | 640.1 | 22.5 | 32.5 | 5,872 | 2,474.8 | 916.5 |
| Less: | | | | | | | | | | | | | | | | | | |
| Provision for investment in securities | 3,207.4 | 434.5 | 47.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3,225 | 479.4 | 47.7 |
| Interest and commissions receivable [2/] | 3,346.4 | 3,370.2 | 2,148.0 | 29.3 | 18.4 | 7.3 | 0.4 | 0.4 | 0.5 | 97.6 | 30.1 | 3.9 | 96.9 | 60.0 | 34.4 | 3,591 | 3,513.1 | 2,223.0 |
| Investment in businesses (affiliate, subsidiary and branches abroad) [3/] | 6,277.7 | 2,655.3 | 2,428.9 | 463.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.2 | 5.2 | 2.4 | 2.3 | 6,746 | 2,657.7 | 2,444.3 |
| Other assets [4/] | 29,195.9 | 12,154.7 | 7,668.2 | 277.1 | 362.0 | 76.0 | 0.2 | 0.3 | 0.6 | 210.8 | 61.9 | 20.6 | 326.7 | 122.4 | 73.6 | 30,070 | 12,724.0 | 7,779.1 |

Note: Information for year 2009 is taken from the published consolidated statement as of December (preliminary).

[1/] Referred to net availability.

[2/] Including yields receivable for: availability, investment in securities, credit loan and other account receivable, as well as commission receivable account and its respective provision.

[3/] Including: participation in other institutions, investment in branches abroad and their respective provisions.

[4/] Including: realizable goods, use goods and other assets.

Source: Sudeban.

# TABLE VII-1A
## Banking System
## Summary Balance Sheet
## Assets
(variation percentage)

| | Commercial and Universal Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 (*) | 2008 | 2007 | 2009 (*) | 2008 | 2007 | 2009 (*) | 2008 | 2007 | 2009 (*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| **Total assets** | **20.1** | **27.8** | **41.7** | **71.8** | **107.0** | **41.6** | **26.7** | **(10.2)** | **(81.1)** | **394.5** | **252.7** | **62.1** | **28.4** | **21.5** | **38.1** | **20.9** | **28.2** | **43.4** |
| Availability [1/] | 11.5 | 29.0 | 44.4 | 8.9 | 161.3 | 93.4 | 2.115.0 | 442.1 | (97.7) | 337.5 | 25.8 | 152.5 | (34.1) | 30.3 | 25.9 | 10.5 | 28.8 | 45.0 |
| Credit portfolio | 15.2 | 25.8 | 68.5 | 39.8 | 102.3 | 694.8 | (5.9) | (2.3) | 37.6 | 7.4 | 58.0 | 7.5 | 16.3 | 12.7 | 67.5 | 15.3 | 25.9 | 69.3 |
| Current | 15.1 | 25.7 | 67.5 | 39.9 | 99.9 | 744.6 | (4.9) | (1.5) | 37.4 | (0.7) | 68.7 | 7.2 | 16.4 | 12.2 | 67.5 | 15.2 | 25.8 | 68.4 |
| Restructured | 93.5 | 64.1 | 164.0 | 288.2 | 598.1 | 2.200.0 | (7.0) | (6.5) | 43.8 | (0.7) | (52.3) | 305.2 | (19.7) | (21.6) | (72.3) | 104.0 | 90.3 | 161.2 |
| Loans (matured + in litigation) | 85.5 | 97.5 | 123.5 | 38.0 | 359.9 | (60.9) | 0.0 | (62.2) | 83.7 | 181.3 | 57.1 | 175.8 | 46.5 | 101.4 | (70.5) | 83.9 | 96.6 | 93.6 |
| Less: | | | | | | | | | | | | | | | | | | |
| Provision for loan portfolio | 70.2 | 68.0 | 54.7 | 47.4 | 157.2 | 32.6 | 0.3 | (27.9) | 2.7 | 57.7 | 122.7 | 133.6 | 41.1 | 37.5 | (63.1) | 69.5 | 67.4 | 46.8 |
| Investment in securities | 11.0 | 24.9 | 3.9 | 179.1 | 11.8 | (100.0) | 0.0 | (100.0) | | 474.6 | 437.2 | 113.4 | 92.8 | 29.9 | 3.3 | 15.5 | 26.4 | 7.9 |
| Placements on the BCV and interbank operations | (20.9) | 99.5 | (23.8) | 104.4 | 715.3 | (100.0) | 0.0 | 0.0 | (98.2) | (38.4) | 5.3 | (14.4) | (94.1) | 1.469.8 | (92.5) | (23.3) | 108.5 | (24.1) |
| Securities for negotiation | 27.5 | (38.3) | (51.7) | 2,773.6 | (40.6) | (100.0) | 0.0 | 0.0 | (100.0) | 192.1 | 568.1 | 898.3 | (100.0) | 100.0 | (100.0) | 128.2 | 18.5 | (29.4) |
| Securities available for sale | 260.5 | (4.2) | (53.5) | 34.7 | (76.7) | 120.6 | 0.0 | (100.0) | | (99.8) | 114.7 | (8.3) | 687.1 | (73.0) | 1.710.5 | 253.4 | (6.7) | (49.4) |
| Securities held to maturity | (2.7) | (26.8) | 183.7 | (9.8) | (54.4) | 0.0 | 0.0 | 0.0 | (94.6) | 2.8 | 613.2 | (56.9) | (53.2) | 8.8 | 26.3 | (8.6) | (23.7) | 178.4 |
| Restricted availability | (4.3) | 24.5 | 52.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (100.0) | 0.0 | 0.0 | (100.0) | 16.996.9 | (72.7) | 4.0 | 21.3 | 24.7 | 49.7 |
| Other securities | 71.5 | 177.4 | 22.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (100.0) | 0.0 | 0.0 | 0.0 | 2.741.8 | (30.7) | 296.5 | 137.3 | 170.0 | 21.6 |
| Less: | | | | | | | | | | | | | | | | | | |
| Provision for investment in securities | 638.2 | 811.5 | (8.3) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 572.7 | 905.8 | (8.3) |
| Interest and commissions receivable [2/] | (0.7) | 56.9 | 70.6 | 59.0 | 151.5 | 117.3 | 10.1 | (16.8) | (73.7) | 223.9 | 672.3 | 146.4 | 61.3 | 74.6 | 61.3 | 2.2 | 58.0 | 72.6 |
| Investment in businesses (affiliate, subsidiary and branches abroad) [3/] | 136.4 | 9.3 | 1.1 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (100.0) | 24.4 | 115.4 | 7.4 | 777.9 | 153.8 | 8.7 | 1.4 |
| Other assets [4/] | 140.2 | 60.6 | 39.7 | (23.4) | 376.3 | (38.3) | (33.7) | (45.3) | (54.3) | 240.5 | 200.4 | 4.7 | 166.9 | 66.4 | 12.3 | 136.3 | 63.6 | 41.3 |

Note: Information for year 2009 is taken from the published consolidated statement as of December (preliminary).

[1/] Referred to net availability.

[2/] Including yields receivable for: availability, investment in securities, credit loan and other account receivable, as well as commission receivable account and its respective provision.

[3/] Including: participation in other institutions, investment in branches abroad and their respective provisions.

[4/] Including: realizable goods, use goods and other assets.

Source: Sudeban.

**TABLE VII-2**
**Universal and Commercial Banks**
**Loan portfolio Distribution per Destination**
(million VEB)

| Item | Amounts | | | Percentage Variation | |
|---|---|---|---|---|---|
| | 2009(*) | 2008 | 2007 | 2009/2008 | 2008/2007 |
| Commercial Loans | 59,622 | 62,664 | 54,091 | (4,9) | 15,8 |
| Consumer Credits | 32,860 | 31,202 | 23,955 | 5,3 | 30,3 |
| Vehicles | 11,660 | 13,254 | 10,385 | (12,0) | 27,6 |
| Credit Cards | 21,200 | 17,948 | 13,571 | 18,1 | 32,3 |
| Mortgages | 20,279 | 14,404 | 9,669 | 40,8 | 49,0 |
| Micro-business Loans | 4,504 | 4,208 | 3,918 | 7,0 | 7,4 |
| Agricultural Loans | 22,543 | 17,699 | 11,510 | 27,4 | 53,8 |
| Tourism | 2,869 | 1,908 | 1,106 | 50,3 | 72,6 |
| Manufacture | 11,478 | | | 100,0 | - |
| Supplies | 6,223 | 3,656 | 2,177 | 70,2 | 68,0 |
| Total net Loan portfolio | 147,932 | 128,429 | 102,073 | 15,2 | 25,8 |

Note: Information for 2009 is taken from the published December (preliminary) monthly bulletin.
Source: Sudeban

# TABLE VII-3
## Banking System
## Liability and Equity
## Balance Sheet
(million VEB)

| | Universal and Commercial Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| **Total Liabilities** | **294,303.0** | **244,422.0** | **191,701.2** | **2,746.3** | **1,484.7** | **764.1** | **6.0** | **7.2** | **9.6** | **4150.398** | **796.9** | **196.9** | **6,084.0** | **4,630.6** | **3,755.8** | **307,856.6** | **263,796.6** | **188,088.3** |
| Total Deposits | 253,894.9 | 212,181.2 | 165,883.9 | 837.7 | 920.0 | 395.0 | 0.0 | 0.1 | 0.1 | 542.2 | 83.8 | 82.4 | 3,875.1 | 3,795.3 | 3,030.2 | 259,590 | 217,281 | 170,892.6 |
| Demand | 129,579.0 | 105,871.2 | 86,262.7 | 180.7 | 348.6 | 122.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2,231.0 | 2,096.7 | 1,634.8 | 132,376 | 108,443.2 | 88,112.8 |
| Savings | 52,537.1 | 46,338.9 | 35,773.9 | 71.2 | 37.4 | 109.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 752.0 | 934.5 | 727.4 | 53,365 | 47,314.5 | 36,614.0 |
| Time | 26,618.2 | 23,978.2 | 19,177.9 | 443.6 | 447.4 | 102.3 | 0.0 | 0.0 | 0.0 | 537.1 | 83.1 | 81.7 | 714.3 | 628.3 | 545.8 | 28,315 | 25,138.2 | 19,908.1 |
| Other deposits from the public [5/] | 45,160.5 | 33,992.9 | 24,669.4 | 142.3 | 86.6 | 60.9 | 0.D | 0.1 | 0.1 | 5.1 | 0.6 | 0.7 | 177.8 | 135.8 | 122.2 | 45,534.7 | 36,385.0 | 26,257.6 |
| Liabilities to other credit institutions | 24,068.7 | 20,590.3 | 16,835.6 | 1.760.6 | 465.6 | 339.0 | 5.7 | 6.9 | 8.9 | 3.532 | 695.8 | 107.8 | 1967 | 640.5 | 390.1 | 31,418.6 | 22,497.1 | 17,387.9 |
| Liabilities to BCV | 543.1 | 87.9 | 13.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | • | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 543.2 | 87.9 | 13.0 |
| Liabilities to other institutes [6/] | 23,525.6 | 20,502.4 | 16,822.6 | 1.760.6 | 465.6 | 339.0 | 5.7 | 6.9 | 8.9 | 3.531.7 | 695.8 | 107.8 | 1,966.5 | 640.5 | 390.1 | 30,875.5 | 22,409.1 | 17,374.9 |
| Interests and commissions payable [7/] | 918.1 | 843.7 | 443.2 | 22.5 | 14.9 | 4.3 | 0.1 | 0.0 | 0.0 | 32.4 | 6.9 | 2.1 | 16.0 | 3.2 | 1.5 | 989.3 | 912.4 | 467.2 |
| Other payments [8/] | 15,421.2 | 12,806.7 | 8,907.5 | 124.5 | 84.1 | 25.8 | 0.3 | 0.2 | 0.5 | 44.1 | 10.4 | 4.5 | 226.4 | 91.4 | 334.0 | 15,859.1 | 13,015.0 | 9,253.5 |
| **Equity** | **28,627.5** | **22,781.2** | **17,448.2** | **287.1** | **268.9** | **83.2** | **27.9** | **19.6** | **20.3** | **380.1** | **119.3** | **62.8** | **289.6** | **434.4** | **330.7** | **28,661.6** | **24,666.3** | **18,937.0** |

Note: Information for year 2009 is taken from the published (preliminary) consolidated balance sheet as of December.

[5/] Includes other demand liabilities, liabilities for money desk operations, securities issued by the institution, restricted public deposits, and titles and participations on securities.

[6/] Includes liabilities to Banap and other financing obtained.

[7/] Includes interest and commissions payable (expenses payable for public deposits, liabilities to the BCV, liabilities to Banap, other financing obtained, other liabilities for financial intermediation, liabilities convertible into capital and subordinated liabilities).

[8/] Includes other liabilities from financial intermediation, subordinated liabilities and liabilities convertible into capital and other liabilities.

Source: Sudeban,

# TABLE VII-3A
## Banking System
## Summary of Liability and Equity
## Balance Sheet
(Variation %)

| | Universal and Commercial Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| **Total Liabilities** | 20.4 | 27.5 | 42.1 | 84.9 | 94.3 | 162.9 | (15.9) | (24.3) | (92.9) | 420.8 | 304.8 | 74.1 | 34.3 | 20.0 | 32.7 | 21.3 | 28.1 | 43.1 |
| Total Deposits | 20.8 | 26.7 | 34.1 | (89) | 132.9 | 255.3 | (25.5) | (40.7) | (99.9) | 547.3 | 1.6 | 85.3 | 2.1 | 25.2 | 11.1 | 19.5 | 27.1 | 34.5 |
| Demand | 22.4 | 22.7 | 23.9 | (48.2) | 183.8 | 969.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.4 | 28.3 | 16.4 | 22.1 | 23.1 | 24.1 |
| Savings | 13.4 | 29.5 | 23.2 | 90.5 | (65.7) | 512.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (19.5) | 28.5 | (3.5) | 12.8 | 29.2 | 22.8 |
| Time | 11.0 | 25.0 | 58.5 | (0.9) | 337.2 | 41.3 | 0.0 | 0.0 | (100.0) | 546.1 | 1.7 | 84.5 | 13.7 | 15.1 | (1.8) | 12.6 | 26.3 | 54.8 |
| Other deposits from the public [5] | 32.9 | 37.8 | 90.0 | 64.2 | 424 | 544.4 | (25.5) | (40.7) | 62.3 | 704.1 | (10.9) | 255.8 | 30.9 | 11.2 | 823.5 | 25.1 | 38.6 | 96.4 |
| Obligations to other credit institutions | 16.9 | 22.3 | 232.1 | 278.1 | 37.4 | 107.3 | (18.1) | (22.3) | (80.6) | 407.6 | 545.5 | 71.0 | 207.0 | 64.2 | 790.5 | 39.7 | 29.4 | 232.2 |
| Obligations to BCV | 517.7 | 575.5 | 124.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 517.7 | 575.5 | 124.6 |
| Obligations to other institutes [6] | 14.7 | 21.9 | 232.2 | 278.1 | 37.4 | 107.3 | (18.1) | (22.3) | (80.6) | 407.6 | 545.5 | 71.0 | 207.0 | 64.2 | 790.5 | 37.8 | 29.0 | 232.3 |
| Interests and commissions to be paid [7] | 8.8 | 90.4 | 41.1 | 50.6 | 246.0 | 156.9 | 275.0 | (51.5) | (93.8) | 366.9 | 226.8 | 145.4 | 397.2 | 115.7 | (21.0) | 8.4 | 95.3 | 37.3 |
| Other payments [8] | 20.4 | 43.8 | 55.6 | 48.1 | 226.1 | 80.9 | 34.1 | (56.9) | 33.7 | 324.8 | 129.4 | (4.3) | 147.7 | (72.6) | 479.3 | 21.9 | 40.7 | 59.8 |
| **Equity** | 16.9 | 30.6 | 37.6 | (0.7) | 223.2 | 49.3 | 42.3 | (3.6) | (18.3) | 218.6 | 89.7 | 33.5 | (33.3) | 31.3 | 158.9 | 16.7 | 29.7 | 46.6 |

Note: Information for year 2009 is taken from the published (preliminary) consolidated balance sheet as of December.

[5] Includes other demand liabilities, liabilities for money desk operations, securities issued by the institution, restricted public deposits, and titles and participations on securities.

[6] Includes liabilities to Banap and other financing obtained.

[7] Includes interest and commissions payable (expenses payable for public deposits, liabilities to the BCV, liabilities to Banap, other financing obtained, other liabilities for financial intermediation, liabilities convertible into capital and subordinated liabilities).

[8] Includes other liabilities from financial intermediation, subordinated liabilities and liabilities convertible into capital and other liabilities.

Source: Sudeban,

# TABLE VII-4
## Banking System
## Summary of Profits and Loss Statement
(million VEB)

| | Universal and Commercial Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| Financial Income | 37,390.4 | 33,277.4 | 19,306.5 | 369.3 | 174.3 | 76.5 | 4.2 | 4.7 | 2.5 | 322.9 | 79.2 | 14.7 | 977.0 | 746.6 | 462.6 | 39,300.8 | 34,601.6 | 20,007.2 |
| Loans | 27,912.2 | 25,836.4 | 14,020.7 | 216.0 | 141.2 | 55.0 | 4.2 | 4.1 | 2.3 | 25.1 | 30.9 | 8.8 | 666.4 | 615.0 | 384.9 | 28,857.4 | 26,657.9 | 14,481.1 |
| Investment in securities | 7,555.3 | 6,123.4 | 4,173.2 | 1332 | 31.2 | 20.5 | 0.0 | 0.0 | 0.2 | 292.9 | 44.6 | 4.6 | 250.0 | 111.9 | 67.5 | 8,433.8 | 6,599.0 | 4,400.7 |
| Others | 1,923.0 | 1,317.6 | 1,112.7 | 20.1 | 1.9 | 1.1 | 0.0 | 0.0 | 0.0 | 4.9 | 3.7 | 1.3 | 60.6 | 19.6 | 10.1 | 2009.6 | 1,344.7 | 680.2 |
| Financial expenses: | 19,140.0 | 16,701.8 | 7,155.9 | 309.2 | 109.3 | 34.5 | 1.0 | 1.1 | 0.4 | 4767 | 84.8 | 9.1 | 648.6 | 424.6 | 172.0 | 20,708.3 | 17,601.7 | 7,468.6 |
| Deposits | 15,444.2 | 5,852.1 | 3,446.0 | 112.0 | 54.6 | 15.5 | 0.0 | 0.0 | 0.0 | 38.2 | 6.8 | 2.4 | 368.3 | 306.4 | 87.7 | 16,066.6 | 13,973.4 | 6,078.5 |
| Others | 3,695.8 | 1,0849.7 | 3,709.9 | 197.2 | 54.7 | 19.0 | 1.0 | 1.1 | 0.4 | 440.5 | 78.0 | 6.8 | 280.3 | 118.3 | 84.3 | 4,641.7 | 3,628.3 | 155.4 |
| Gross financial margin | 18,250.5 | 16,575.6 | 12,150.6 | 60.2 | 65.0 | 42.0 | 3.2 | 3.1 | 2.1 | (155.8) | (5.6) | 5.6 | 328.4 | 321.9 | 290.5 | 18,592.5 | 16999.9 | 12,538.6 |
| FAR Income [1/] | 474.6 | 333.4 | 244.5 | 2.9 | 0.5 | 0.3 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 6.6 | 6.2 | 1.3 | 488.3 | 350.0 | 246.5 |
| Expenses for I and FAD [2/] | 3,742.9 | 2,757.9 | 1,346.0 | 47.9 | 36.1 | 10.8 | 0.2 | 0.2 | 0.0 | 15.3 | 3.5 | 3.1 | 97.9 | 38.4 | 36.1 | 3,936.0 | 2,858.0 | 1,409.1 |
| Net Financial Margin | 14,982.2 | 14,151.0 | 11,049.0 | 15.2 | 29.4 | 31.5 | 3.1 | 2.9 | 2.1 | (170.9) | (9.0) | 2.6 | 237.1 | 289.8 | 265.7 | 15,144.8 | 14,491.9 | 11,3759 |
| Other Operative Income | 9,288.8 | 8,150.0 | 5,657.9 | 191.0 | 191.7 | 57.0 | 0.0 | 1.2 | 0.1 | 383.9 | 73.4 | 29.4 | 8.6 | 98.6 | 72.1 | 10,503.0 | 8,759.0 | 5,843.7 |
| Other Operative Expenses [3/] | 4,124.9 | 2,600.1 | 1,852.8 | 50.4 | 59.4 | 6.1 | 0.0 | 0.0 | 0.0 | 185.9 | 17.6 | 0.5 | 195.8 | 18.5 | 20.0 | 4,836.7 | 2,841.3 | 1,890.8 |
| Financial Intermediation Margin | 20,144.1 | 19,700.9 | 14,854.2 | 155.8 | 161.6 | 82.4 | 3.1 | 4.1 | 2.1 | 27.0 | 46.5 | 31.5 | 155.2 | 369.9 | 307.9 | 20,811.1 | 20,409.6 | 15,328.8 |
| Transformation Expenses: | 14,668.8 | 12,666.1 | 9,069.4 | 245.6 | 156.7 | 74.9 | 2.4 | 3.5 | 1.8 | 70.7 | 21.3 | 33.3 | 343.9 | 256.9 | 192.6 | 15,431.9 | 13,229.5 | 9,436.7 |
| Personnel Expenses | 6,778.2 | 5,706.9 | 4,041.5 | 125.3 | 86.9 | 44.9 | 0.0 | 0.0 | 0.3 | 7.3 | 6.0 | 10.7 | 150.1 | 105.7 | 80.0 | 7,129.3 | 5,982.3 | 4,204.9 |
| Operative Expenses | 6,713.3 | 5,980.7 | 4,230.9 | 115.0 | 66.9 | 28.9 | 2.4 | 3.4 | 1.5 | 51.0 | 14.4 | 22.4 | 173.9 | 135.7 | 99.5 | 7,091.5 | 6,241.5 | 4,414.4 |
| Contributions to Fogade | 889.5 | 724.9 | 602.7 | 3.4 | 1.9 | 0.7 | 0.0 | 0.0 | 0.0 | 0.8 | 0.5 | 0.1 | 13.5 | 10.5 | 10.1 | 911.3 | 743.3 | 818.8 |
| Contributions to Sudeban | 287.8 | 253.7 | 194.4 | 1.8 | 0.9 | 0.4 | 0.0 | 0.0 | 0.0 | 1.6 | 0.3 | 0.1 | 6.4 | 5.0 | 3.0 | 299.9 | 262.4 | 1,966 |
| Gross Operative Margin | 5,475.2 | 7,034.8 | 5,784.8 | (89.7) | 5.0 | 7.4 | 0.7 | 0.7 | 0.3 | (43.7) | 25.3 | (1.7) | (188.7) | 113.0 | 115.3 | 5,379.1 | 7,180.2 | 5,892.2 |
| Other Income [4/] | 873.2 | 837.1 | 408.4 | 25 | 0.8 | 0.6 | 0.0 | 0.1 | 0.0 | 383.9 | 0.4 | 5.8 | 22.7 | 12.2 | 0.5 | 987.0 | 853.3 | 419.6 |
| Other Expenses [5/] | 1,237.2 | 1,081.2 | 892.2 | 15.4 | 10.5 | 2.0 | 0.1 | 0.0 | 0.0 | 185.9 | 0.5 | 0.4 | 29.6 | 6.8 | 16.9 | 1,288.3 | 1,070.2 | 911.6 |
| Business Margin | 5,111.2 | 6,790.7 | 5,301.0 | (80.4) | (4.9) | 6.1 | 0.6 | 0.7 | 0.3 | 154.2 | 24.5 | 3.7 | (195.6) | 118.0 | 702.8 | 5,077.9 | 6,932.5 | 5,400.1 |
| Extraordinary Income | 360.4 | 191.4 | 74.1 | 43.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2911 | 0.0 | 0.5 | 12.1 | 22 | 0.5 | 445.2 | 193.8 | 77.3 |
| Extraordinary Expenses | 334.7 | 295.0 | 195.4 | 0.2 | 0.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.8 | 9.8 | 1.2 | 342.1 | 305.5 | 198.9 |
| Gross Year Result before Income Tax | 5.136.9 | 6,687.1 | 5,179.6 | (37.2) | (5.0) | 5.7 | 0.6 | 0.7 | 0.3 | 46.0 | 24.5 | 4.2 | (188.3) | 110.4 | 102.1 | 5,181.0 | 5,820.8 | 5,280.5 |
| Income Tax | 653.8 | 736.3 | 698.4 | 1.1 | 7.8 | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 0.0 | 0.8 | 4.5 | 854.9 | 739.5 | 705.2 |
| Net Results | 4,483.0 | 5,950.8 | 4,481.3 | (38.2) | (6.9) | 3.0 | 0.5 | 0.7 | 0.3 | 48.0 | 23.9 | 4.2 | (188.3) | 109.6 | 97.6 | 4,526.0 | 6,081.2 | 4,575.3 |

Note: Information for year 2009 is taken from the published (preliminary) consolidated balance sheet as of December.

[1/] Corresponding to recovery of financial assets.

[2/] Corresponding to expenses for: irrecoverability and depreciation of financial assets.

[3/] Including expenses for service commissions, expenses for exchange differences and derivative operations, expenses for investment in affiliate and subsidiary companies.

[4/] Including income from realizable goods, special financing programs and miscellaneous operative income.

[5/] Including expenses for realizable goods, depreciation, amortization and devaluation of various goods and miscellaneous operative expenditure.

Source: Sudeban.

# TABLE VII-4A
## Banking System
## Summary of Profits and Loss Statement
(Variation %)

| | Universal and Commercial Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| Financial Income | 12.4 | 72.4 | 63.5 | 111.9 | 127.8 | 202.8 | 1.8 | 65.0 | (55.9) | 307.7 | 437.3 | (207) | 30.9 | 61.4 | 65.0 | 13.6 | 72.9 | 65.2 |
| Loans | 80 | 84.3 | 823 | 52.9 | 156.9 | 145.8 | 2.6 | 79.2 | 105.7 | (18.6) | 251.2 | (22.4) | 8.4 | 59.8 | 98.4 | 8.3 | 84.1 | 83.4 |
| Investment in securities | 23.4 | 46.7 | 15.8 | 326.6 | 52.4 | 1596.1 | (100.0) | (84.6) | (95.0) | 556.6 | 860.2 | (28.4) | 123.5 | 65.7 | (12.7) | 27.8 | 50.0 | 19.2 |
| Others | 45.9 | 18.4 | 115.8 | 954.3 | 75.2 | (49.4) | 3.6 | 460.0 | (37.5) | 31.7 | 185.6 | 71.7 | 208.2 | 93.9 | 12.7 | 49.4 | 97.7 | 29.5 |
| Financial expenses: | 14.6 | 133.4 | 72.3 | 182.8 | 216.7 | 332.3 | (9.8) | 153.2 | (88.2) | 464.6 | 828.3 | (1.5) | 52.7 | 146.9 | 64.6 | 17.6 | 135.7 | 74.9 |
| Deposits | 163.9 | 69.8 | 0.0 | 105.2 | 252.2 | 223.4 | (100.0) | 100.0 | (100.0) | 461.6 | 186.7 | (59.7) | 20.2 | 249.2 | (11.8) | 15.0 | 129.9 | 71.1 |
| Others | (659) | 192.5 | 424.7 | 260.3 | 187.8 | 495.8 | (96) | 153.3 | (69.7) | 464.9 | 1,053.3 | 99.5 | 138.9 | 40.4 | 1,591.1 | 27.9 | 2,235.4 | (78.3) |
| Gross financial margin | 10.1 | 38.4 | 58.7 | (7.4) | 54.7 | 143.1 | 5.8 | 46.9 | (0.1) | (2,695.6) | (199.3) | (39.8) | 2.0 | 10.8 | 65.2 | 9.4 | 35.6 | 59.9 |
| FAR Income [1/] | 42.4 | 36.4 | 20.3 | 507.7 | 43.0 | 62.0 | 15.4 | 0.0 | (100.0) | (15.5) | 106.4 | (85.6) | 6.3 | 382.6 | 54.8 | 39.5 | 42.0 | 20.5 |
| Expenses for I and FAD [2/] | 35.7 | 104.9 | 70.7 | 32.5 | 233.8 | 185.5 | 30.7 | 795.0 | (90.0) | 330.1 | 15.3 | 85.8 | 155.1 | 6.2 | 182.8 | 37.7 | 102.8 | 75.5 |
| Net Financial Margin | 5.9 | 28.1 | 56.2 | (48.2) | (6.9) | 130.1 | 4.5 | 42.8 | (0.5) | (1,794.8) | (449.6) | (67.7) | (18.2) | 13.3 | 56.0 | 4.5 | 27.4 | 57.0 |
| Other Operative Income | 13.9 | 44.0 | 27.5 | (0.3) | 238.5 | 302.8 | (100.0) | 1.639.1 | (93.1) | 423.3 | 149.2 | 56.6 | (93.3) | 36.7 | 33.3 | 19.9 | 49.9 | 29.5 |
| Other Operative Expenses [3/] | 58.6 | 40.3 | 255.9 | (15.1) | 871.3 | 1.328.5 | 0.0 | 0.0 | (100.0) | 945.4 | 3748.9 | (55.3) | 959.3 | (7.4) | 59.6 | 70.2 | 50.3 | 253.8 |
| Financial Intermediation Margin | 2.2 | 32.6 | 35.2 | (3.6) | 96.2 | 200.5 | (25.8) | 94.6 | (22.4) | (42.0) | 47.5 | 22.5 | (58.0) | 20.2 | 49.8 | 2.0 | 33.1 | 36.6 |
| Transformation Expenses: | 15.8 | 39.7 | 29.2 | 56.7 | 109.0 | 208.5 | (31.2) | 94.1 | (21.5) | 232.8 | (36.1) | 41.3 | 33.9 | 33.4 | 39.5 | 16.6 | 40.2 | 31.4 |
| Personnel Expenses | 18.8 | 41.2 | 32.6 | 44.2 | 93.4 | 199.6 | (100.0) | (87.5) | (62.0) | 21.7 | (43.6) | 0.9 | 41.9 | 32.2 | 43.2 | 19.2 | 42.3 | 35.0 |
| Operative Expenses | 12.2 | 41.4 | 24.6 | 71.9 | 131.6 | 221.3 | (30.7) | 133.7 | 3.1 | 324.8 | (35.8) | 76.8 | 28.2 | 36.4 | 33.9 | 13.6 | 41.4 | 26.7 |
| Contributions to Fogade | 22.7 | 20.3 | 35.3 | 79.2 | 156.1 | 245.6 | 0.0 | 0.0 | (100.0) | 53.4 | 365.5 | (41.1) | 28.0 | 4.6 | 72.1 | 22.6 | 20.1 | 37.1 |
| Contributions to Sudeban | 13.4 | 30.5 | 51.2 | 93.9 | 143.0 | 356.6 | (5.9) | 142.9 | 18.7 | 370.4 | 292.0 | (9.3) | 29.8 | 63.7 | 53.8 | 14.3 | 32.1 | 52.0 |
| Gross Operative Margin | (22.2) | 21.6 | 45.7 | (1,205.9) | (33.2) | 137.7 | 2.2 | 97.4 | (26.6) | (272.9) | (1.574.8) | (177.6) | (267.0) | (2.0) | 70.8 | (25.1) | 21.9 | 45.8 |
| Other Income [4/] | 4.3 | 105.0 | 27.5 | 3.824.1 | 10.3 | 185.5 | (100.0) | 0.0 | 0.0 | 0.0 | (93.5) | 15,247.4 | 85.2 | 2509.5 | 20.5 | 15.7 | 103.4 | 1,218.5 |
| Other Expenses [5/] | 14.4 | 21.2 | 53.9 | 47.3 | 435.6 | 189.2 | 0.0 | 0.0 | 0.0 | 36,566.9 | 35.9 | 0.0 | 332.8 | (59.5) | 93.9 | 20.4 | 17.4 | 55.0 |
| Business Margin | (24.7) | 28.1 | 42.8 | (1,550.0) | (180.6) | 128.2 | (21.6) | 118.8 | (25.8) | 530.3 | 553.5 | 73.8 | (265.8) | 14.8 | 65.9 | (26.8) | 28.4 | 43.0 |
| Extraordinary Income | 88.3 | 158.4 | 735.9 | 96,377.8 | 200.0 | 0.0 | 0.0 | 0.0 | (100.0) | 80,830.6 | (92.8) | 52.9 | 455.4 | 380.5 | 20.5 | 129.8 | 150.6 | 140.8 |
| Extraordinary Expenses | 13.5 | 51.0 | 50.6 | (8.6) | (45.3) | 3.280.0 | 0.0 | 0.0 | (100.0) | (20.0) | 66.7 | (83.9) | (51.2) | 747.5 | 50.4 | 12.0 | 55.2 | 50.8 |
| Gross Year Result before Income Tax | (23.2) | 29.1 | 43.4 | (841.6) | (187.6) | 115.6 | (21.2) | 118.8 | (25.3) | 87.9 | 478.3 | 74.6 | (270.7) | 8.1 | 65.8 | (24.0) | 29.2 | 43.6 |
| Income Tax | (11.2) | 5.4 | 160.4 | (42.6) | (32.2) | 241.4 | 0.0 | 0.0 | 0.0 | (99.8) | 3,942.9 | 133.3 | (100.0) | (82.2) | 0.0 | (11.4) | 4.9 | 162.9 |
| Net Results | (24.7) | 32.8 | 34.0 | (458.1) | (327.2) | 62.0 | (27.7) | 118.8 | (25.3) | 92.4 | 466.8 | 74.5 | (271.9) | 12.3 | 55.5 | (25.6) | 32.9 | 34.2 |

Note: Information for year 2009 is taken from the published (preliminary) consolidated balance sheet as of December.

[1/] Corresponding to recovery of financial assets.

[2/] Corresponding to expenses for: irrecoverability and depreciation of financial assets.

[3/] Including expenses for service commissions, expenses for exchange differences and derivative operations, expenses for investment in affiliate and subsidiary companies.

[4/] Including income from realizable goods, special financing programs and miscellaneous operative income.

[5/] Including expenses for realizable goods, depreciation, amortization and devaluation of various goods and miscellaneous operative expenses.

Source: Sudeban.

# TABLE VII-5
# Banking System
# Financial Indicators
(percentages)

| | Universal and Commercial Banks | | | Development Banks | | | Mortgage Banks | | | Investment Banks | | | Savings and Loan Firms | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 | 2009(*) | 2008 | 2007 |
| Credit Intermediation [1/] (%) | 58.3 | 61.1 | 61.5 | 92.4 | 80.2 | 123.2 | 0.0 | 0.0 | 0.0 | 19.0 | 114.6 | 73.7 | 76.5 | 67.1 | 74.6 | 58.8 | 60.9 | 61.5 |
| Capital Adequacy [2/] (%) | 8.3 | 8.5 | 8.3 | 9.8 | 15.3 | 8.9 | 82.2 | 73.2 | 68.2 | 8.4 | 13.0 | 24.2 | 4.5 | 8.7 | 8.1 | 8.5 | 8.8 | 8.7 |
| Non-interest bearing Assets [3/] (%) | 32.2 | 29.5 | 28.4 | n.a. | 37.0 | 33.6 | (Q6) | 0.2 | 2.0 | 10.4 | 13.0 | 24.1 | 17.0 | 24.2 | 21.5 | 31.5 | 29.2 | 28.3 |
| Non-performing Portfolio [4/] (%) | 2.9 | 1.8 | 1.2 | 1.5 | 3.4 | 3.4 | 0.4 | 0.4 | 2.2 | 21.3 | 8.7 | 9.2 | 2.6 | 2.1 | 1.2 | 3.0 | 1.9 | 1.2 |
| Portfolio Provision [5/] (%) | 4.0 | 2.8 | 2.1 | 3.1 | 3.9 | 4.1 | 3.8 | 2.8 | 3.8 | 21.3 | 15.6 | 11.6 | 3.0 | 2.5 | 2.1 | 4.0 | 2.8 | 2.1 |
| Provision for loan portfolio/non-performing loan portfolio (%) | 137.4 | 149.8 | 176.1 | 203.0 | 113.5 | 121.3 | 906.6 | 699.1 | 172.2 | 100.0 | 178.5 | 125.8 | 118.6 | 123.2 | 180.4 | 136.4 | 148.0 | 173.8 |
| Loan Portfolio/assets (%) | 46.1 | 48.1 | 48.8 | 43.1 | 42.1 | 34.3 | 71.2 | 95.9 | 88.2 | 2.3 | 1015 | 23.4 | 46.5 | 51.3 | 55.3 | 45.3 | 47.5 | 48.4 |
| Investment in Securities/Assets (%) | 19.6 | 21.2 | 21.6 | 32.2 | 17.4 | 28.3 | 0.0 | 0.0 | 8.2 | 86.4 | 74.3 | 48.8 | 36.0 | 23.9 | 22.4 | 21.0 | 22.0 | 22.3 |
| Administration [6/] (%) | 6.7 | 7.0 | 12.3 | n.a. | 19.4 | 12.2 | 8.9 | 12.4 | 10.9 | 2.1 | 411 | 41.7 | 6.6 | 6.8 | 6.5 | 6.7 | 7.0 | 6.7 |
| Gross Financial Margin [7/] (%) | 6.3 | 7.0 | 7.0 | n.a. | 5.8 | 2.2 | 12.0 | 10.9 | 12.6 | (4.3) | (0.9) | 5.4 | 0.2 | 6.8 | 8.4 | 6.1 | 6.8 | 7.0 |
| Other operative Income/average Assets [9/] (%) | 3.5 | 3.8 | 3.5 | n.a. | 17.2 | 7.8 | 0.0 | 4.5 | 0.6 | 12.4 | 12.3 | 29.5 | 5.1 | 2.4 | 2.2 | 3.8 | 3.9 | 3.5 |
| Net Results/Average Capital (%) | 18.2 | 31.0 | 32.6 | n.a. | (5.0) | (14.3) | 2.5 | 3.9 | 3.3 | 18.2 | 33.4 | 9.6 | (41.6) | 29.9 | 40.3 | 16.9 | 29.4 | 32.4 |
| Net Results/Average Assets (%) | 115 | 2.5 | 2.6 | n.a. | (0.6) | (1.4) | 1.9 | 2.7 | 2.7 | 1.3 | 4.0 | 2.7 | (3.0) | 2.3 | 3.0 | 1.5 | 2.5 | 2.5 |
| Immediate Liquidity [10/] (%) | 34.2 | 36.3 | 35.2 | 37.8 | 39.6 | 51.6 | 0.0 | 0.0 | 0.0 | 38.5 | 56.9 | 46.0 | 18.6 | 28.5 | 27.5 | 34.0 | 36.4 | 35.3 |
| Borrowing [11/] | 76 | 7.7 | 8.1 | 4.0 | 3.1 | 2.6 | 0.0 | 0.0 | 0.0 | 1.4 | 0.7 | 1.3 | 12.8 | 8.4 | 8.8 | 7.5 | 7.4 | 7.6 |
| Computable Capital/Assets and Operations Risk-based weighted Contingencies [12/] | 14.6 | 13.4 | 12.9 | 13.1 | 21.9 | 23.5 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | (58.7) | 15.5 | 13.1 | 13.9 | 13.4 | 13.5 |
| [Equity + Operative Management] / Total Assets [13/] | 9.1 | 9.0 | 9.2 | 10.9 | 15.9 | 10.1 | 82.2 | 73.2 | 68.2 | 13.7 | 38.2 | 37.0 | 5.3 | 9.9 | 9.2 | 9.2 | 9.4 | 9.2 |
| Deposit Composition (%) | | | | | | | | | | | | | | | | | | |
| Demand | 51.0 | 50.4 | 52.0 | 31.1 | 37.9 | 21.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 57.6 | 55.2 | 54.0 | 51.0 | 49.9 | 51.6 |
| Savings | 20.7 | 22.0 | 21.6 | 27.6 | 4.1 | 8.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.4 | 24.6 | 24.0 | 20.6 | 21.8 | 21.4 |
| Time | 10.5 | 11.4 | 11.6 | 25.9 | 48.6 | 53.0 | 0.0 | 0.0 | 0.0 | 99.1 | 99.2 | 99.1 | 18.4 | 16.6 | 18.0 | 10.9 | 11.6 | 11.6 |
| Other Liabilities | 17.8 | 16.2 | 14.9 | 15.4 | 9.4 | 17.0 | 100.0 | 100.0 | 100.0 | 0.9 | 0.8 | 0.9 | 4.6 | 3.6 | 4.0 | 17.5 | 16.7 | 15.4 |

1/ Loan Portfolio/Total Deposits.
2/ Equity/Total Assets.
3/ Non-interest bearing assets/Total assets. The value corresponding to the total financial system is the single average of the four subsystems expressed. The system total index also includes the subsystems of financial lessors and monetary market funds.
4/ (Past-due loan portfolio and loan portfolio in litigation)/Gross loan portfolio.
5/ Provision of loan portfolio/gross loan portfolio.
6/ Personnel and operative expenses/average interest-bearing assets.
7/ Gross financial margin/average Assets.
8/ Financial intermediation margin/average Assets.
9/ Other operative income/average Assets. Other operative income includes: commissions for services, income from exchange differences and derivative operations. Income from realizable goods, other income for sales of securities, income for affiliate and subsidiary companies, for investment in branches, for special programs, profits in investment in securities and miscellaneous operative income.
10/ Availability/(demand, savings and time deposits).
11/ (Demand, savings and time deposits)/Equity.
12/ A minimum of 12% is established in the Official Gazette No. 35736, dated 07-02-1999.
13/ A minimum of 8% is established in the Official Gazette No. 38439 dated 05-18-2006, with Treasury Bills and National Government debt Bonds and Obligations, Securities issued or endorsed by the Nation being excluded from Assets.
Source: Sudeban.

**TABLE VII-6**
**Gross flow of Transactions on the Capital Market according to the type of market**
(million VEB)

| Items | 2009 (*) | 2008(*) | Variation | | | |
|---|---|---|---|---|---|---|
| | | | Absolute | | Percentage | |
| | | | 2009/2008 | 2008/2007 | 2009/2008 | 2008/2007 |
| Primary Market | 23,759.8 | 8,144.9 | 15614.9 | (2201.3) | 191.7 | (21.3) |
| Government [1/] | 18,500.1 | 3,363.4 | 15136.7 | (935.8) | 450.0 | (21.8) |
| DPN and DP Bonds | 18,500.1 | 3,363.4 | 15136.7 | (935.8) | 450.0 | (21.8) |
| Private [2/] | 5,259.7 | 4,781.5 | 478.2 | (1265.5) | 10.0 | (20.9) |
| New issues[3/] | 5,259.7 | 4,781.5 | 478.2 | (1265.5) | 10.0 | (20.9) |
| Shares | 875.7 | 1,406.6 | (530.9) | 66.6 | (37.7) | 5.0 |
| Obligations | 1,632.5 | 1,526.5 | 106.0 | (1515.0) | 6.9 | (49.8) |
| Commercial papers | 1,871.5 | 1,202.0 | 669.5 | 30.5 | 55.7 | 2.6 |
| Others [4/] | 880.0 | 646.4 | 233.6 | 152.4 | 36.1 | 30.9 |
| Secondary market [5/] | 13,857.1 | 4,241.7 | 9615.4 | 1098.6 | 226.7 | 35.0 |
| Government | 274.0 | 20.3 | 253.7 | (24.9) | 1252.9 | (55.2) |
| DPN Bonds | 274.0 | 20.3 | 253.7 | (24.9) | 1252.9 | (55.2) |
| Private | 13,583.1 | 4,221.4 | 9361.7 | 1123.5 | 221.8 | 36.3 |
| Shares | 13,140.1 | 1,092.7 | 12047.5 | (1217.1) | 1102.6 | (52.7) |
| Private bonds | 442.9 | 2,991.1 | (2548.3) | 2851.0 | (85.2) | 2034.8 |
| Rights and promissory notes | 0.1 | 7.1 | (7.0) | (127.6) | (98.6) | (94.7) |
| Equity securities | - | 130.5 | (130.5) | (382.8) | (100.0) | (74.6) |
| Total transactions | 37,616.9 | 12,386.5 | 25230.3 | (1102.7) | 203.7 | (8.2) |
| Government securities | 18,774.1 | 3,383.7 | 15390.4 | (960.7) | 454.8 | (22.1) |
| Private securities | 18,842.8 | 9,002.9 | 9839.9 | (141.9) | 109.3 | (1.6) |

1/ Excluding issues and placements of government bonds denominated in foreign currency.
2/ Excluding primary placements of mortgage bonds and financial bonds.
3/ It is possible to assume that new share issues during any year are placed in the same period, given the nature of their source.
4/ Including dividends, participation quotas, equity securities and investment unit.
5/ Referred to transactions carried out in the Caracas Stock Exchange.
6/ Corresponding to Vebonos. These instruments were first quoted on the BCV in March 2002.
Source: National Securities Commission, Caracas Stock Exchange and Central Bank of Venezuela

**TABLE VII-7**
**Capital Market**
**Caracas Stock Exchange**
**Transactions in Securities**
(million VEB)

| Securities | | | Variation | | | | Structure % | |
|---|---|---|---|---|---|---|---|---|
| | | | Absolute | | Percentage | | | |
| | 2009 (*) | 2008 | 2009/2008 | 2008/2007 | 2009/2008 | 2008/2007 | 2009 (*) | 2008 |
| **TOTAL** | **13,857.1** | **4,241.7** | **9,615.4** | **796.7** | **226.7** | **35.0** | **100.0** | **100.0** |
| Obligations | 717.0 | 3,149.0 | (2,432.0) | 814.7 | (77.2) | 277.9 | 5.2 | 74.2 |
| Government | 274.0 | 20.3 | 253.7 | (578.6) | 1,252.9 | (55.2) | 2.0 | 0.5 |
| Government bonds | 274.0 | 20.3 | 253.7 | (578.6) | 1,252.9 | (55.2) | 2.0 | 0.5 |
| Private | 443.0 | 3,128.7 | (2,685.7) | 1,393.3 | (85.8) | 29.,0 | 3.2 | 73.8 |
| Private bonds | 442.9 | 2,991.1 | (2,548.3) | 2,163.5 | (85.2) | 2,034.8 | 3.2 | 70.5 |
| Rights and promissory notes | 0.1 | 7.1 | (7.0) | (767.0) | (98.6) | (94.7) | 0.0 | 0.2 |
| Participation paper | 0.0 | 130.5 | (130.5) | (3.2) | (100.0) | (74.6) | 0.0 | 3.1 |
| Shares | 13,140.1 | 1,092.7 | 12,047.5 | (18.0) | 1,102.6 | (52.7) | 94.8 | 25.8 |

Source: Caracas Stock Exchange.

## TABLE VII-8

Caracas Stock Exchange

| | Stock Capitalization Index (points) | Stock Capitalization 1/ (million VEB) |
|---|---|---|
| 2007 | | |
| December | 37,903.7 | 21,841.9 |
| 2008 | 35,090.1 | 17,668.5 |
| December | | |
| 2009 | | |
| January | 35,441.7 | 17,920.8 |
| February | 37,248.0 | 18,417.3 |
| March | 43,674.3 | 19,784.5 |
| April | 44,239.1 | 19,320.3 |
| May | 43,125.1 | 16,191.4 |
| June | 44,544.0 | 16,494.9 |
| July | 45,702.1 | 16,576.4 |
| August | 50,524.1 | 17,591.4 |
| September | 50,337.0 | 18,237.1 |
| October | 50,791.8 | 18,886.2 |
| November | 53,353.7 | 19,113.9 |
| December | 55,075.7 | 20,201.7 |
| Variation percentage | | |
| Dec.09/Dec.08 | 57.0 | 14.3 |
| Dec.08/Dec.07 | (7.4) | (19.1) |

1/ Number of outstanding shared per price.
Source: Caracas Stock Exchange.

# TABLE VII-9
## Capital Market
## Issuance of shares, obligations, commercial papers and others authorized by the National Securities Commission [1/]

(million VEB)

| | 2009 (*) | 2008 | Variation: Absolute 2009/2008 | Variation: Absolute 2008/2007 | Variation: Percentage 2009/2008 | Variation: Percentage 2008/2007 | Structure % 2009 (*) | Structure % 2008 |
|---|---|---|---|---|---|---|---|---|
| **Shares** | **875.7** | **1,406,6** | **(530.9)** | **66.7** | **(37.7)** | **5.0** | **16.6** | **29.4** |
| Capital increase | 870.7 | 1385,2 | (514,5) | 101,6 | (37,1) | 7,9 | 16,6 | 29,0 |
| Capitalization | 246.7 | 790,1 | (543,4) | (451,3) | (68,8) | (36,4) | 4,7 | 16,5 |
| Liabilities | | - | - | - | - | | - | . |
| Non-distributed profits | 182.9 | 258.2 | (75.3) | 250.3 | (29.2) | 3,179.9 | 3.5 | 5.4 |
| Premium paid over nominal value | - | 0.3 | (0.3) | 0.3 | (100.0) | 100.0 | - | - |
| Discount in the issuance of shares | - | - | - | - | - | - | | |
| Social capital update | - | - | - | (6.0) | - | (100.0) | - | - |
| Reserves for dividends | - | - | - | - | - | - | - | - |
| Surplus for equity share | - | - | - | (6.1) | 100.0 | - | - | - |
| Other capital reserves | - | - | - | | | | - | - |
| Merger [2/] | - | - | - | (5.6) | | (100.0) | - | - |
| Restricted surplus | 63.8 | 138.1 | (74.3) | (637.8) | (53.8) | (82.2) | 1.2 | 2.9 |
| Profits | - | - | - | (118.2) | - | - | - | 0.0 |
| Non-capitalized capital contributions | - | 393.6 | (393.6) | 393.6 | (100.0) | 100.0 | - | - |
| New capital contributions | 624.1 | 595.1 | 28.9 | 552.8 | 4.9 | 1,308.3 | 11.9 | 12.4 |
| Current shareholders | 369.1 | 60.6 | 308.5 | 18.3 | 509.2 | 43.4 | 7.0 | 1.3 |
| New shareholders [3/] | 255.0 | 534.5 | (279.5) | 534.5 | (52.3) | 100.0 | 4.8 | 11.2 |
| Promotion [4/] | - | 10.0 | - | 10.0 | (100.0) | 100.0 | - | - |
| Assignment among shareholders of the group [5/] | - | - | - | - | - | - | - | - |
| Registration of social capital of new companies | 5.0 | 11.4 | (6.4) | (44.9) | (56.0) | (79.8) | 0.1 | 0.2 |
| **Obligations** | **1,632.5** | **1,626.5** | **106.0** | **(1,515.0)** | **6.9** | **(49.8)** | **31.0** | **31.9** |
| **Commercial papers** | **1,871.5** | **1,202.0** | **669.5** | **30.5** | **55.7** | **2.6** | **35.6** | **25.1** |
| **Others** | **880.0** | **646.4** | **233.6** | **152.4** | **36.1** | **30.9** | **16.7** | **13.5** |
| Dividend coupon | - | - | - | - | - | - | - | - |
| Equity securities | 880.0 | 646.4 | 233.6 | 152.4 | 36.1 | 30.9 | 16.7 | 13.5 |
| Equity quotas [6/] | - | - | - | - | - | - | - | - |
| Investment unit | - | - | - | - | - | - | - | - |
| Deposit certificates [7/] | - | - | - | - | - | - | - | - |
| **TOTAL** | **5,259.7** | **4,781.5** | **478.2** | **(1,265.4)** | **10.0** | **(20.9)** | **100.0** | **100.0** |

1/ Calculated at its nominal value.
2/ Capital increase for absorption merger.
3/ Public offer of shares of issuing companies includes third parties.
4/ Companies registered for promotion.
5/ Including public offers of companies registered for the first time in the National Securities Registry and changes in the nominal value of shares, which do not constitute public offer or capitalization increases.
6/ Public offers of investment units from mutual funds.
7/ Instruments regulated by Sudeban and backed by Fogade.
Source: National Securities Commission.

## TABLE VII-10
### Capital Market
### Issuance of shares, obligations, commercial papers and others per economic sector authorized by the National Securities Commission [1/]
(million VEB)

| | | | Variation | | | | Structure % | |
|---|---|---|---|---|---|---|---|---|
| | | | Absolute | | Percentage | | | |
| | 2009(*) | 2008 | 2009/2008 | 2008/2007 | 2009/2008 | 2008/2007 | 2009(*) | 2008 |
| Agriculture, hunting and fishing | 464.5 | 450.0 | 14.5 | (17.5) | 3.2 | (3.7) | 8.8 | 9.4 |
| Manufacturing industries | 755.4 | 494.9 | 260.5 | 50.2 | 52.6 | 11.3 | 14.4 | 10.3 |
| Commerce and hotels | | 35.0 | (35.0) | (70.0) | (100.0) | (66.7) | | 0.7 |
| Construction | 10.0 | | 10.0 | | 100.0 | | 0.2 # # | - |
| Commercial banks | 552.1 | 1.028.5 | (476.4) | (310.3) | (46.3) | (23.2) | 10.5 | 21.5 |
| Mortgage banks | 10.0 | | 10.0 | | | | 0.2 | |
| Investment banks | | | | | | | | |
| Savings and loan entities | | | | | - | - | | |
| Other financial institutions | 2,911.2 | 1,521.3 | 1,389.9 | (673.3) | 91.4 | (30.7) | 55.3 | 31.8 |
| Collective investment entities | | | | | - | | - | |
| Real Estate companies | 155.0 | 704.5 | (549.5) | 93.1 | (78.0) | 15.2 | 2.9 | 14.7 |
| Services provided for businesses | 27.5 | 80.0 | (52.5) | 10.0 | (65.6) | 14.3 | 0.5 | 1.7 |
| Electricity, water and gas | | 45.0 | (45.0) | 45.0 | (100.0) | 100.0 | | 0.9 |
| Transportation, storage and communications | 374.0 | 421.4 | (47.4) | (393.6) | (11.2) | (48.3) | 7.1 | 8.8 |
| Insurance firms | | 1.0 | (1.0) | 1.0 | (100.0) | 100.0 | - | 0.0 |
| **TOTAL** | **5,259.7** | **4,781.5** | **478.2** | **(1,265.5)** | **10.0** | **(20.9)** | **100.0** | **100.0** |

1/ Calculated at nominal value.
Source: National Securities Commission.

# CHAPTER VIII

# LATIN AMERICAN INTEGRATION

## 1. Introduction

Year 2009 for the Latin American and Caribbean (LAC) region was marked by the continuance of the international financial crisis that impacted most countries in the region. However, already in late 2009, a large part of the countries in the region began to show signs of recovery, which meant that LAC started to leave behind the most severe part of the crisis, even before than developed countries.

Furthermore, the new regional financial architecture continues to be a subject for the construction of integration. Within the framework of meetings and declarations, countries that belong to the different regional integration mechanisms tried to reach the consensus required to reformulate the regional financial entities in response to the realities and strategic interest of countries. In this sense, the ALBA-PTT move forward to materialize the implementation of the Single Regional Payment Clearing System (Sucre); whereas Unasur continued with its efforts toward the consolidation of the Bank of the South.

## 2. Regional Integration Mechanisms and other related Topics

### 2.1 Bolivarian Alliance for the Peoples of our America - - Peoples' Trade Treaty (ALBA-PTT)

The evolution of this integration mechanism throughout 2009 was characterized by the increase in its number of members and subject areas and by the development of its organizational structure. In fact, thanks to its higher number of members, ALBA-PTT strengthened relations among South American and Caribbean countries, with the accession of Ecuador, Saint Vincent and the Grenadines and Barbuda, in the framework of the 6$^{th}$ Special Summit held in Maracay on June 24, 2009.

ALBA-PTT exhibited a highly dynamic behavior throughout 2009 that was evidenced in the series of presidential summits that took place in Caracas (February and April), Maracay (June), Cochabamba (October) and Havana (December).

Furthermore, in 2009, ALBA-PTT member countries set up the technical committees that worked on the design of the Single Regional Payment Clearing System (Sucre). A large part of this joint effort by countries that signed the treaty that created Sucre was devoted to the negotiation of the specific characteristics of the system and the instruments required for its implementation, which will make it possible to extend, through a novel settlement system, the set of tools required to increase exchange and strengthen integration among a part of the countries that belong to the Alliance (Bolivia, Cuba, Ecuador, Nicaragua and Venezuela).

Also in the framework of ALBA, the Economic Complementation Council was created and efforts were made to perfect the structure and operation of the Political and Social Councils of the Alliance. It was agreed to start in 2010 negotiations tending to materialize the Peoples' Trade Treaty among the Alliance member countries and as part of the integration proposal, a number of agreements were signed, particularly in the agroalimentary area, to enhance intraregional production and intraregional trade.

Other topics that were dealt with within the scope of activities of ALBA-PTT in 2009 included political developments in Honduras[106], strategies to face the global economic and financial crisis, climate change and the creation of a Latin America and Caribbean Organization to consolidated the region's political and economic independence.

As a preparation for the 5th Summit of the Americas[107], presidents of ALBA-PTT countries held a special meeting in the city of Caracas to agree on a common stance for the Summit,

[106] Honduras developments since June 28, 2009 when President Manuel Zelaya was ousted from office, opened a chapter of political and institutional instability in integrations mechanisms and political harmonization forums. ALBA-PTT, UNASUR, SICA, and the OAS deployed efforts to handle the political crisis.
[107] Port of Spain, Trinidad & Tobago, April 17-19, 2009.

which resulted in the rejection of the US embargo against Cuba. In this sense, the stance of Venezuela, as the leader of the ALBA-PTT group of countries, played a determining role in the preparation and signing of the Summit's final declaration, which expressed the rejection to the economic blockade imposed by the US to the Caribbean island country

Furthermore, with regard to energy integration, the 6$^{th}$ Summit of Petrocaribe took place in the city of Basseterre, Saint Kitts and Nevis, on June 11$^{th}$ and 12$^{th}$. The Summit was attended by presidents and ministers of energy and mining of countries that belonging to the mechanism. This encounter served to review cooperation spheres in the framework of Petrocaribe and bolster planned projects. A total of 18 countries make up this initiative and on this occasion, El Salvador and Costa Rica attended as observers.

The instrument that ratifies the Articles of Agreement of the Bank of ALBA by Venezuela, Cuba and Nicaragua was deposited in July and August 2009, and the Articles entered into force on August 30$^{th}$. This allowed the Bank to advance toward its consolidation as an institution and contributed in 2009 to the construction of the mechanisms required to implement Sucre. Likewise, works on the possible adhesion of the Petrocaribe Fund to the Bank of ALBA, according to the mandate of the 6$^{th}$ Summit held on June 11$^{th}$ and 12$^{th}$, proceeded.

**Box VIII-1**

**Single Regional Payment Clearing System (Sucre)**

Multiple payment mechanisms coexist in Latin America, most of which are associated with the US dollar. This fact has determined the restricted usefulness of the US currency favor savings in foreign currency and intra-zone trade, especially in time of difficulties in the Balance of Payments.

Vis-à-vis the above, Sucre constitutes an alternate multilateral payment mechanism born within the framework of the Bolivarian Alliance for the Peoples of our America and the People's Trade Treaty (ALBA-PTT). Sucre has not been conceived exclusively for ALBA-PTT countries and its use is not mandatory for all trade exchange activities among member countries. The Framework Agreement for Sucre creation was signed in Cumana on April 16, 2009, and the Treaty Constituting Sucre was signed on October 16$^{th}$ the same year in Cochabamba, Bolivia.

The fundamental components of this system are a common account unit, also known as “sucre”, a Central Payment Clearing House and a Commercial Convergence and Reserve Fund.

Account unit means that “sucre” will be initially an electronic or virtual currency that will be used as a means of payment among central banks of the System party States and its value will be determined by a basket of the legal currencies of the mechanism member countries. Similarly to any legal currency, an initial amount of sucres will be issued and allocated to the first countries accessing the Treaty, and could be increased as intra-zone trade increases or new countries enter the System. These allocations will be financially backed by local currency or sovereign bonds denominated in the currency of each country.

The Central Payment Clearing House is the operational unit through which all authorized clearing and settlement operations derived from the administered intra-zone trade exchange, will be channeled. The Bank of ALBA is the agent bank that will operate the unit and its accounts are to be denominated in sucres.

The triad is completed by the Commercial Convergence and Reserve Fund, created with the contributions in domestic or foreign currency, other than the payment of sucre allocations, so as to grant loans to finance temporary deficit resulting from intra-zone trade exchange. The creation of this Fund represents one of the most significant aspects of the contribution of Sucre to the construction of the new regional financial architecture, by allowing for the financing of imbalances associated with productive asymmetries and trade.

Sucre will not compete with the payment systems that exist in the region. On the contrary, it will be an economic-financial complementation and cooperation instrument, oriented toward fostering integral development of the Latin American and Caribbean region, favoring its real integration and the creation of a regional economic complementation zone.

**Benefits of Sucre**

Given the characteristics of this system, multiple benefits are expected, notably including the following:

- Saving foreign currency and reducing the influence of the US dollar on trade operations among its members;
- Favoring the efficiency of national financial systems by streamlining transactions among countries and reducing intermediation costs in part of the intra-zone trade:
- Bolstering the Latin American integration process by financing activities with a higher degree of trade complementariness among member countries.
- Promoting the productive capacity and transformation through financing within our own economies.
- Fostering the presence of a regional financial architecture that will contribute to create better conditions to reduce foreign vulnerability of our economies and the

integration of the regional financial markets.
- Consolidating monetary and financial sovereignty of its members, through payments in currencies of the countries adhered to the system.

**Organization of Sucre**

Sucre is composed of a Regional Monetary Council(CMR) with seat in Caracas plus a Directive Board, an Executive Secretariat, and two operative units: the Central Payment Clearing House and the Commercial Convergence and Reserve Fund, as well as the *ad hoc* committees that the CMR may create to deal with specific topics.

The CMR will materialize its decisions through the Executive Board that will be responsible for the functional, financial, technical and administrative structure of the system and is made up of a representative of each member country. The Board will be chaired following a rotational scheme. The Executive Secretariat is the technical and administrative branch of the CMR and coordinates the committees.

### 2.2. Latin American Integration Association (Aladi)

This integration scheme continued focusing its efforts on the creation of new trade agreements among its member countries and on the accession of new States, such as Panama[108], which expanded the number of member States up to 13: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. For its part, Nicaragua submitted its formal application for its accession as new member of Aladi, on August 13, 2009.

Among the instruments signed by member countries, the entering into force of the Partial Scope Agreement between Venezuela and Paraguay (ALADI/AAP.CE/64), on February 9th deserves mention. Through this Agreement, Venezuela grants Paraguay total tax relief for a number of products from its exportable supply.

The 50th Meeting of the Consultative Committee on Financial and Monetary Affairs of Aladi member countries was held in Montevideo, Uruguay, on October 20-22, 2009, where

[108] Accession of Panama as full member of ALADI was announced on March 31, 2009 and entered into forcé at the XV Meeting of the Ministerial Council, April 29, 2009, Montevideo, Uruguay. See: http://www.aladi.org/nsfaladi/juridica.nsf/pdeclaraciones

topics related to the operation of the Reciprocal Payments and Credits Agreement were dealt with, including proposals for the strengthening of the aforementioned instrument, based on the recommendations made at the Seminar on the Streamlining of Payment Convention and the Use of Local Currency Payment Systems, which took place in April 2009.

It is worth pointing out that this Agreement has been assessed as a payment mechanism among Aladi member countries, and the international economic crisis is precisely the factor that brought about the review of the Agreement's characteristics so as to bolster its possible contribution to foreign currency saving and the strengthening of the region's resistance to foreign-origin crises.

### 2.3. Common Market of the South (Mercosur)

The development and implementation of standards for the administration, advancement and development of the free trade zone and customs unit was a fundamental point in the agenda of the different entities of Mercosur.

In 2009, Mercosur, among other things, devoted its efforts to evaluate its relation with third countries and integration mechanisms. One of the activities developed last year was the 1st Meeting of Foreign Relations of Mercosur (March 3-4, Asunción), where negotiation strategies with third countries and groups, including the cases of Israel, Jordan, the European Union, Russia and Korea, were analyzed and evaluated. On March 17th, the Mercosur-EU Political Dialogue meeting took place to evaluate the scope and magnitude of relations between both blocs.

The international crisis and measures taken were discussed at different levels of the system. In this sense, the macroeconomic policies of countercyclical nature applied by Party and Associated States were revealed. Reports on the functioning of the Local Currency Payment System between Argentina and Brazil were also analyzed and a letter of intent for the implementation of the system between Brazil and Uruguay, with the aim of providing importers and exporters from these countries with an alternative to cut costs and avoid using a third currency (US dollar), was signed on October 23rd. Venezuela that attended as an observer submitted reports on the Sucre Project that was being developed along with Bolivia, Cuba, Ecuador and Nicaragua.

The Mercosur Social Institute, focused on family agriculture and small and middle-sized businesses, was created during that period.

Furthermore, negotiations to complete Venezuela's accession process as full member of Mercosur continued at the highest level, with the Brazilian Congress approving the accession at year end. The only step that is still to be taken for Venezuela to become a full member of the bloc is the approval by the Paraguayan Congress.

Within the framework of the Meetings of Ministers of Economy and Presidents of Central Banks and the Macroeconomic Monitoring Group (MMG), issues related to the harmonization and dissemination of statistics were dealt with; this activities were reflected in the first issue of the *Mercosur Bulletin of Macroeconomic Indicators*. The Working Subgroup No. 4 on Financial Matters of Mercosur discussed in May and November 2009 the follow-up and updating of the regulatory framework related to financial issues of the integration mechanism; analyzed asymmetries concerning financial services related to the national treatment and access to markets; and analyzed exchange regimes and restrictions imposed on capital movements.

### 2.4. Union of South American Nations (Unasur)

In 2009, Unasur had to deploy significant efforts to address and respond to situations derived from a Military Cooperation Agreement signed between the US and Colombia. The 1st Meeting of the South American Defense Council[109] constituted the expression of

[109] I Meeting of the South American Defense Council, created by the Declaration of Santiago. Santiago, Chile, March 9-10, 2009.

Governments to assume the commitment to coordinating their defense plans by means of the implementation of political dialogue and harmonization mechanism.

Vis-à-vis the US-Colombia Military Cooperation Agreement, in August and September, Unasur deployed a great deal of activities through the Councils of Heads of State, and Foreign Affairs and Defense Ministers. The issue was dealt with at the Special Summit of Heads of State, held on August 28, 2009 in Bariloche, Argentina, where Colombia explained in detail the scope of the aforementioned instrument. In this regard, the Final Declaration reaffirmed that South America is a peace zone and the Council of Delegates[110] was convened for September in Quito, to discuss issues such as guarantees and transparency concerning security affairs in the region, as well as measures to promote regional confidence. These subjects were discussed again at the Special Meeting of Ministers of Foreign Affairs and Defense[111].

Later, in November, the South American Defense Council met again and agreed that Unasur Member States will not resort to threats or force or any other kind of aggression against any member; that they will safeguard peace in the region; exchange information on the transfer and acquisition of weapons, technology and other equipment; and that if agreements related to security and defense are to be closed, they should guarantee the respect for sovereignty, integrity and territorial inviolability and no intervention in the domestic affairs of other Member States.

In connection with economic and financial matters, the 6th Meeting of the Working Group on Financial Integration of Unasur[112] discussed the proposal to create the South American Council of Economy and Finance and topics related to multilateral financing for development, regional payment systems and coordination of the administration of international reserves. With the future installation and operation of the council, Unasur would be provided with a new area of action related to financial and economic matters.

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[110] XX Meeting of the Council of delegates. September 14, 2009.
[111] Special meeting of Ministers of Foreign Affairs and Ministers of Defense. Quito, Ecuador, September 15, 2009.
[112] Buenos Aires, Argentina, October 19, 2009.

With regard to the Bank of the South, technical and ministerial meetings took place in 2009, which resulted in the signing of the Articles of Agreement of the Bank, on the occasion of the 2nd Summit of Arab-South American Countries (ASAC)[113]. This institution is principally aimed at financing social the environmental, economic and social development of its member countries, with special emphasis on domestic saving, strengthening regional integration, reducing asymmetries and promoting a equitable distribution of investment level among its members.

## 2.5. Latin America and the Caribbean (LAC)

Parallel to the meeting developed during 2009, the ALBA-PTT countries, on the occasion of the 1st Meeting of the Political Council[114], reiterated their call to work in favor of the creation of the Organization of Latin American and Caribbean States. Later, at the 7th Summit of Heads of State and Government of ALBA-PTT[115], it was agreed to support the creation of a Latin American and Caribbean Organization composed of the independent nations in the region, which contributes to consolidate the political and economic independence of, and promotes integration, cooperation and solidarity among the peoples of the region.

On the occasion of the next meeting of the Rio Group, the Heads of State and Government have agreed to comply with the decisions made at the 1st Special Summit of Latin America and the Caribbean[116] on integration and development, related to the creation of a regional entity that groups the countries of the region, except the US and Canada.

## 3. Behavior or regional Trade

Foreign trade of South American economies exhibited a favorable behavior in 2009, in a context of high international commodities prices during the first half of the year, despite the

[113] Isla de Margarita, Venezuela, September 26, 2009. Signing countries were: Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela.
[114] I Meeting of the Political Council of ALBA-PTT. Quito, Ecuador, August 9, 2009.
[115] VII Summit of Heads of State and Government of ALBA-PTT. Cochabamba, Bolivia, October 17, 2009.
[116] I Extraordinary Summit of Latin America and the Caribbean. Salvador de Bahia, Brazil, December 17,

intensification of the global financial crisis in the second semester of 2009. In 2008, trade within the region accounted for 3.5% of global trade, up 3.1% from 2007.

In current terms, the value of total trade volume of Unasur member countries amounted to USD 982.214 billion in 2008, for an increase of 233.5% over the last decade (1998-2008), whereas in constant terms, the increase was 162.9%. It is worth highlighting the significant export evolution, which constant value grew by 211.5% during the period. Therefore, the most significant growths in foreign sales corresponded to Venezuela, Peru, Bolivia and Ecuador.

It should be mentioned that since countries in South America are mainly exporters of basic products, the behavior of prices of these products in 2008, specifically at early year when they reached record nominal highs, export behavior was determining and, therefore, total trade within the region. In fact, notwithstanding the adverse context in the last quarters of the year due to the global crisis that brought about an export volume similar to that of 2007, the price effect prevailed throughout 2008.

Imports of Unasur economies, in turn, recorded a 122.3 increase during 1998-2008, with increases being observed in all countries of the region, notably Peru (186.5%) and Ecuador (171.2%).

TABLE VIII-1
Foreign Trade
Union of South American Nations
2008
(million USD)

| | Exports | Imports | Total |
|---|---|---|---|
| Argentina | 68,638 | 57,118 | 125,756 |
| Bolivia | 6,948 | 4,979 | 11,927 |
| Brazil | 193,121 | 182,404 | 375,525 |
| Colombia | 37,599 | 39,583 | 77,182 |
| Chile | 66,838 | 56,507 | 123,345 |
| Ecuador | 20,295 | 18,555 | 38,850 |
| Paraguay | 4,383 | 8,989 | 13,373 |
| Peru | 30,424 | 29,838 | 60,263 |
| Uruguay | 5,947 | 8,685 | 14,632 |
| Venezuela | 95,138 | 46,223 | 141,361 |
| **Total Unasur** | **529,331** | **452,883** | **982,214** |

Source: Aladi

TABLE VIII-2
Foreign Trade
Union of South American Nations
1998-2008
(million USD on average)

| | Exports | Imports |
|---|---|---|
| Argentina | 36,307 | 28,266 |
| Bolivia | 2,706 | 2,482 |
| Brazil | 94,188 | 79,928 |
| Colombia | 18,430 | 19,289 |
| Chile | 32,293 | 25,591 |
| Ecuador | 8,608 | 8,413 |
| Paraguay | 1,658 | 3,661 |
| Peru | 13,761 | 12,133 |
| Uruguay | 3,108 | 3,976 |
| Venezuela | 41,812 | 21,156 |
| **Total Unasur** | **252,870** | **204,894** |

Source: Aladi

As to intraregional trade, similarly to recent years, no improvement was evidenced in the integration process within the region, because the share of trade in the South American region with respect to total trade reduced over the 1998-2008 period, going from 28.2% in 1998 to 20.8% in 2008. These results reflected the presence of factors that limited the advance of the integration process among Unasur countries, including the scarce supply in the region of certain products, such as capital goods (electronic products, parts and spare parts, machinery), which were supplied by countries like China.

For its part, export basket of the South American region toward China was focused on raw materials (food, energy, metals and minerals) and their processed products. Therefore, the Asian country has become a strategic trade partner, while terms of trade within the region improved, but to the detriment of a better trade integration process among the countries of the region.

In this context, countries that earmarked the lowest percentages of their total trade for Unasur countries in 2008 were Venezuela and Brazil (15.4% and 17.0%, respectively); whereas the nation with the highest trade toward the region was Bolivia, with a substantial increased over the last decade (60.6% in 2008), followed by Paraguay (55.0%) and Uruguay (49.5%).

The relevance of China as an export market considerably changed within the region. In this regard, the Asian country represented a key market for Chile and Peru, for instance, which in 2008, earmarked 14.7% and 12.2%, respectively, of their exports for that country. As to imports, it is worth highlighting the case of Paraguay, where 27.5% of imports came from China, followed by Argentina (12.4%) and Chile (12.0%).