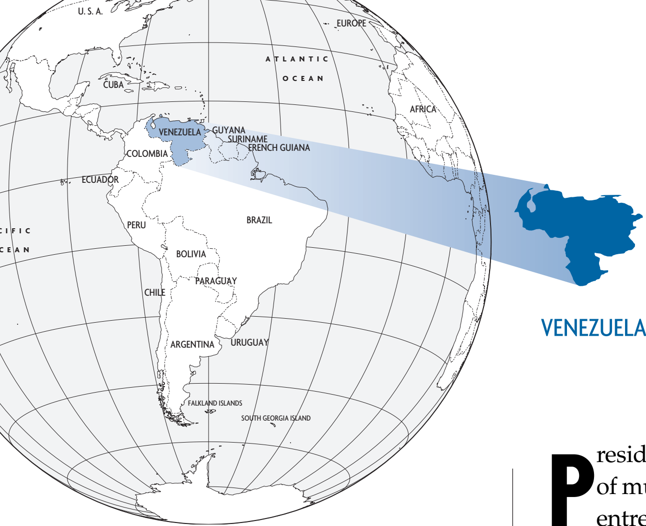
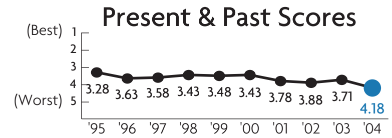


VENEZUELA

Rank: 147

Score: 4.18

Category: Repressed



QUICK STUDY

SCORES

Trade Policy	4
Fiscal Burden	4.3
Government Intervention	3.5
Monetary Policy	5
Foreign Investment	5
Banking and Finance	4
Wages and Prices	4
Property Rights	4
Regulation	4
Informal Market	4

Population: 24,632,000

Total area: 912,050 sq. km

GDP: $82 billion

GDP growth rate: 2.7%

GDP per capita: $3,326

Major exports: petroleum, chemicals, basic manufactures

Exports of goods and services: $24.8 billion

Major export trading partners: US 57.4%, Brazil 4.7%, Canada 3.4%, Spain 3.4%, Colombia 2.8%

Major imports: transport equipment, machinery, construction materials

Imports of goods and services: $23.7 billion

Major import trading partners: US 34.1%, Colombia 10.4%, Italy 4.6%, Brazil 4.5%, Germany 3.1%

Foreign direct investment (net): $2.8 billion

2001 Data (in constant 1995 US dollars)

President Hugo Chávez has succeeded in strangling Venezuela's private sector—the source of much of his opposition. Already weakened by a lengthy national strike that Venezuelan entrepreneurs undertook to force him from power, Chávez retaliated with foreign exchange controls that, combined with the reduction in oil exports when state oil company workers struck in January, could result in a 20 percent economic contraction by the end of 2003. Venezuela reportedly suffered a 35 percent drop in GDP in the first quarter of this year, and Chávez has been advising citizens to plant vegetable gardens to make up for lost food imports. Detractors claim that his ultimate goal is to punish domestic business critics with exchange controls and to replace Venezuela's already debilitated private sector with foreign businesses that will not oppose him. Negotiations continue for a referendum to recall Chávez from office; but despite the requisite number of signatures and encouragement from the Organization of American States, Chávez seems determined to block any attempt at removal, even if it means ignoring the constitution he promulgated in 1999 to help ensure his longevity in power. Venezuela's economic slide also has affected such neighboring countries as Colombia, which used to export up to $2 billion in goods to this troubled nation, and the disappearance of a market economy in Venezuela could depress economies elsewhere in the region. Venezuela's fiscal burden of government score is 0.2 point worse this year; in addition, its government intervention is 0.5 point worse, its monetary policy and banking and finance scores are 1 point worse, and its capital flows and foreign investment score is 2 points worse. As a result, its overall score is 0.47 point worse this year, causing Venezuela to be classified as "repressed."

TRADE POLICY

Score: **4**–Stable (high level of protectionism)

According to the World Bank, Venezuela's weighted average tariff rate in 2000 (the most recent year for which World Bank data are available) was 13.5 percent. The U.S. Department of State reports that Venezuela restricts imports of certain agricultural products (including wheat, grains, rice, pork, poultry, oilseeds, edible oils, oilseed meals, and milk) through the Andean Community's price band mechanism; in addition, the government arbitrarily decides not to allow imports under the tariff-rate quota agreement once the quota is met.

FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **3**–Stable (moderate tax rates)

Score—Corporate Taxation: **4.5**–Stable (very high tax rates)

Score—Change in Government Expenditures: **5**–Worse (very high increase)

Final Score: **4.3**–Worse (high cost of government)

Venezuela's top income tax rate is 34 percent. The top corporate tax rate is 34 percent. Government expenditures as a share of GDP increased more in 2001 (3.7 percentage points to 25.1 percent) than they did in 2000 (2.1 percentage points). As a result, Venezuela's fiscal burden of government score is 0.2 point worse this year.

GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **3.5**–Worse (high level)

The World Bank reports that the government consumed 8 percent of GDP in 2001. In the same year, according to the International Monetary Fund, Venezuela received 42.07 percent of its total revenues from state-owned enterprises and government ownership of property, up from the 33.64 percent reported in the 2003 *Index*. As a result, Venezuela's government intervention score is 0.5 point worse this year.

MONETARY POLICY
Score: 5–Worse (very high level of inflation)

From 1993 to 2002, Venezuela's weighted average annual rate of inflation was 20.06 percent, up from the 15.98 percent from 1992 to 2001 reported in the 2003 *Index*. As a result, Venezuela's monetary policy score is 1 point worse this year.

CAPITAL FLOWS AND FOREIGN INVESTMENT
Score: 5–Worse (very high barriers)

The political and economic changes that have marked the Chávez administration generate uncertainty among prospective investors. The International Monetary Fund reports that mass media, communications, Spanish-language newspapers, and professional services are reserved for national ownership. New investments must be registered with the government. Foreign investment in the petroleum and iron sectors is restricted. A lack of transparency in the regulatory system and government intervention in the economy continue to concern foreign investors. In February 2003, Chávez introduced exchange controls, which the Economist Intelligence Unit reports will "continue to be used as a weapon against the government's opponents in the private sector." The EIU explains the effects of these controls: "Starved of vital inputs and components, many companies have had to curtail their production drastically, while others have had to shut down temporarily and some have been forced out of business altogether." Based on the evidence that the government's exchange controls are making it extremely difficult for foreign and domestic businesses to operate, Venezuela's capital flows and foreign investment score is 2 points worse this year.

BANKING AND FINANCE
Score: 4–Worse (high level of restrictions)

The banking sector is still recovering from the mid-1990s financial crisis, which was caused by lax supervision, directed lending, and poor credit practices and is estimated to have cost Venezuela at least 15 percent of GDP. The government permits 100 percent foreign ownership in banking and financial services. It also is increasing its presence in the banking sector. According to the Economist Intelligence Unit, "Heavy domestic borrowing by the government since 1999–2000 has been crowding out private borrowing in a shallow market." The government influences the allocation of credit. "At the end of April," reports the EIU, "a tripartite agreement was signed between the government, the Central Bank and the banking system. The key feature of the accord is that the banks promise to lend at least Bs500bn (US$300m, representing around 6% of their outstanding loan portfolio) to the private sector over the next year at a preferential interest rate. The preferential rate is set at 85% of the average lending rate of the country's six largest banks. The agreement is a victory for Mr Chávez who had long been demanding sweeping interest rate controls." As a result, Venezuela's banking and finance score is 1 point worse this year.

WAGES AND PRICES
Score: 4–Stable (high level of intervention)

The government has the authority to control most prices. According to the Economist Intelligence Unit, "Venezuela has a long history of using price controls, but had removed many of them between 1996 and 1998. Restrictions remained on a few agricultural products, some medicines, and petrol." The same source notes that "Venezuela put in place sweeping price controls for foodstuffs, toiletries, and a variety of basic services in February 2003. These rules for over 200 items were published in the Official Gazette on February 11th–12th. They set maximum permissible prices that were far below actual market prices, and often under wholesale or import costs. They apply to some 60% of all goods sold in supermarkets, according to industry sources."

PROPERTY RIGHTS
Score: 4–Stable (low level of protection)

Protection of private property in Venezuela is weak. According to the Economist Intelligence Unit, "business groups argue that a land law throws private property rights into question." In addition, "the government still appears prone to back away from inconvenient contractual agreements on populist grounds or to seek more favorable terms, particularly in the oil sector."

REGULATION
Score: 4–Stable (high level)

Regulation can be applied arbitrarily. According to the Economist Intelligence Unit, "investors complain that regulators are often poorly equipped, trained and staffed and that decisions are based on political rather than technical criteria." The U.S. Department of State reports that "Venezuelan laws are complicated, even more so since many activities are regulated, not only by laws, but also by presidential decrees or specific regulations. The bureaucracy and paperwork are often complicated." Labor laws are burdensome, and bureaucratic corruption is extensive.

INFORMAL MARKET
Score: 4–Stable (high level of activity)

Transparency International's 2002 score for Venezuela is 2.5. Therefore, Venezuela's informal market score is 4 this year.