

Center for Strategic & International Studies

The Venezuelan Economy: Current Situation and Challenge for the Future (A brief inventory of “the warning lights on the dashboard”)

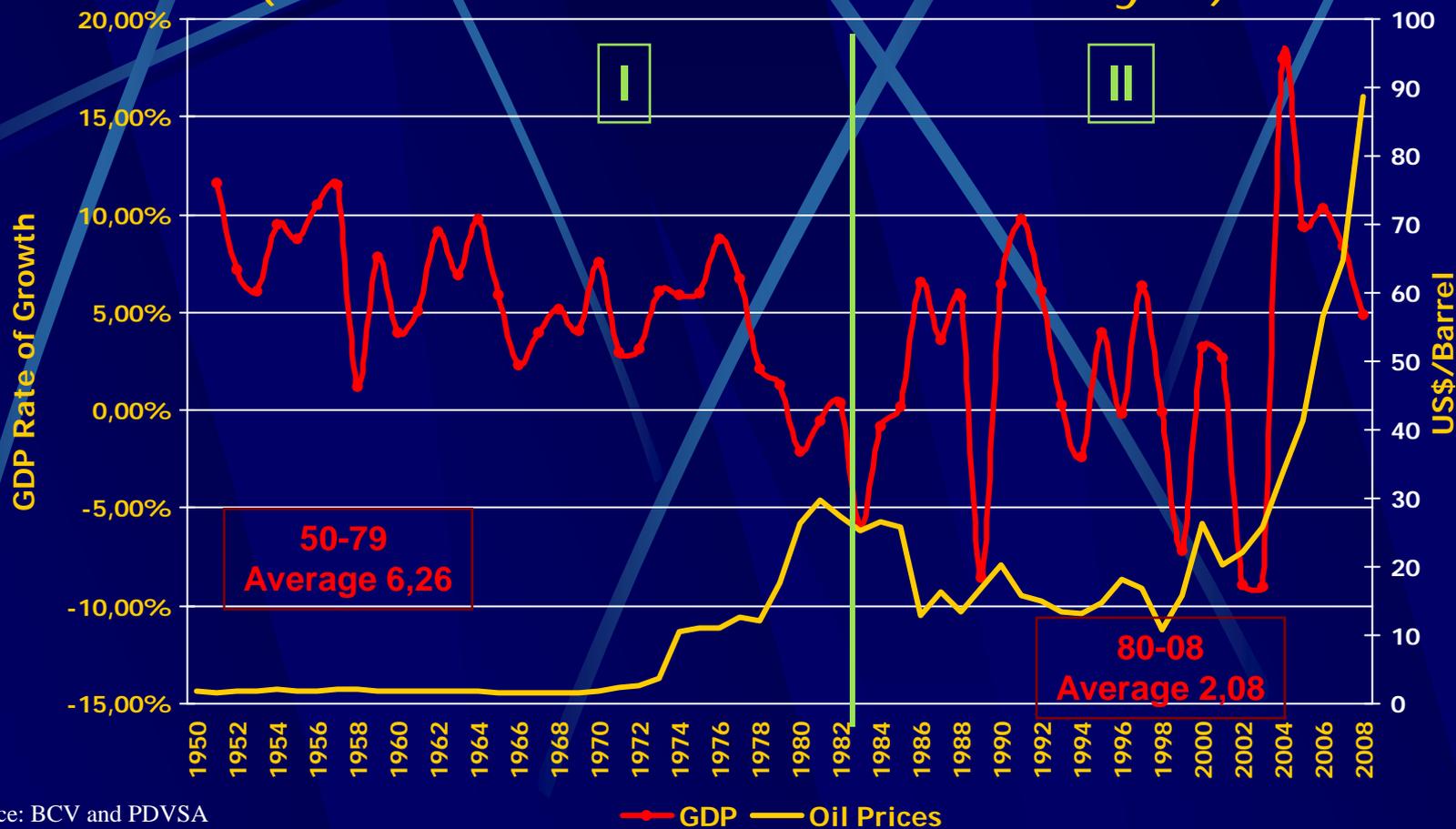
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A brief overview of economic history...

GDP Rate of Growth and Oil Prices 1950 - 2008

(A "montaña rusa" Economy...)



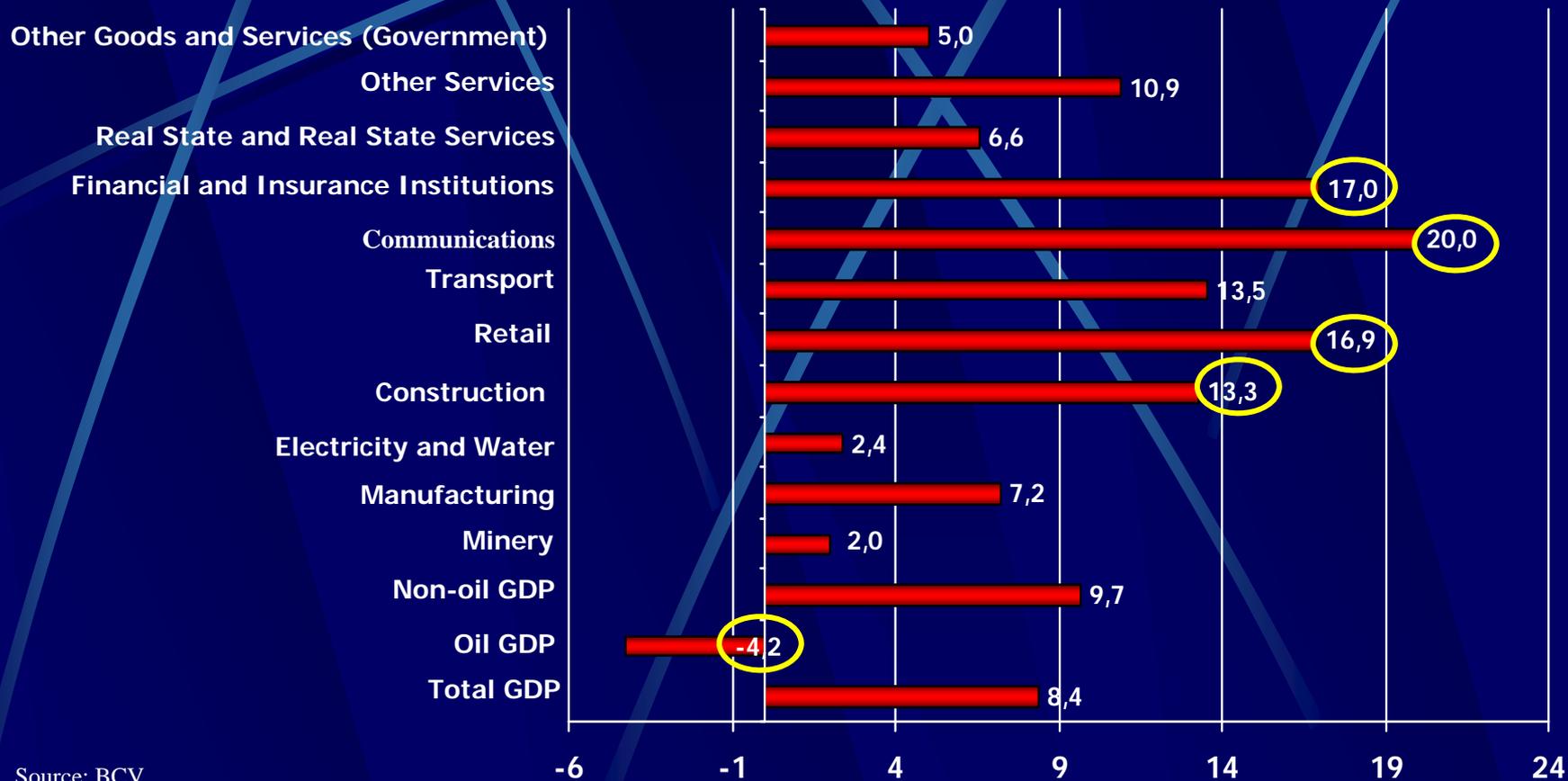
Source: BCV and PDVSA

- Two totally different growth patterns in the last 58 years.
- During the period 1979-2006 the economy did not grow four consecutive years... The average growth rate of GDP is much lower today and highly volatile...



The recent history...

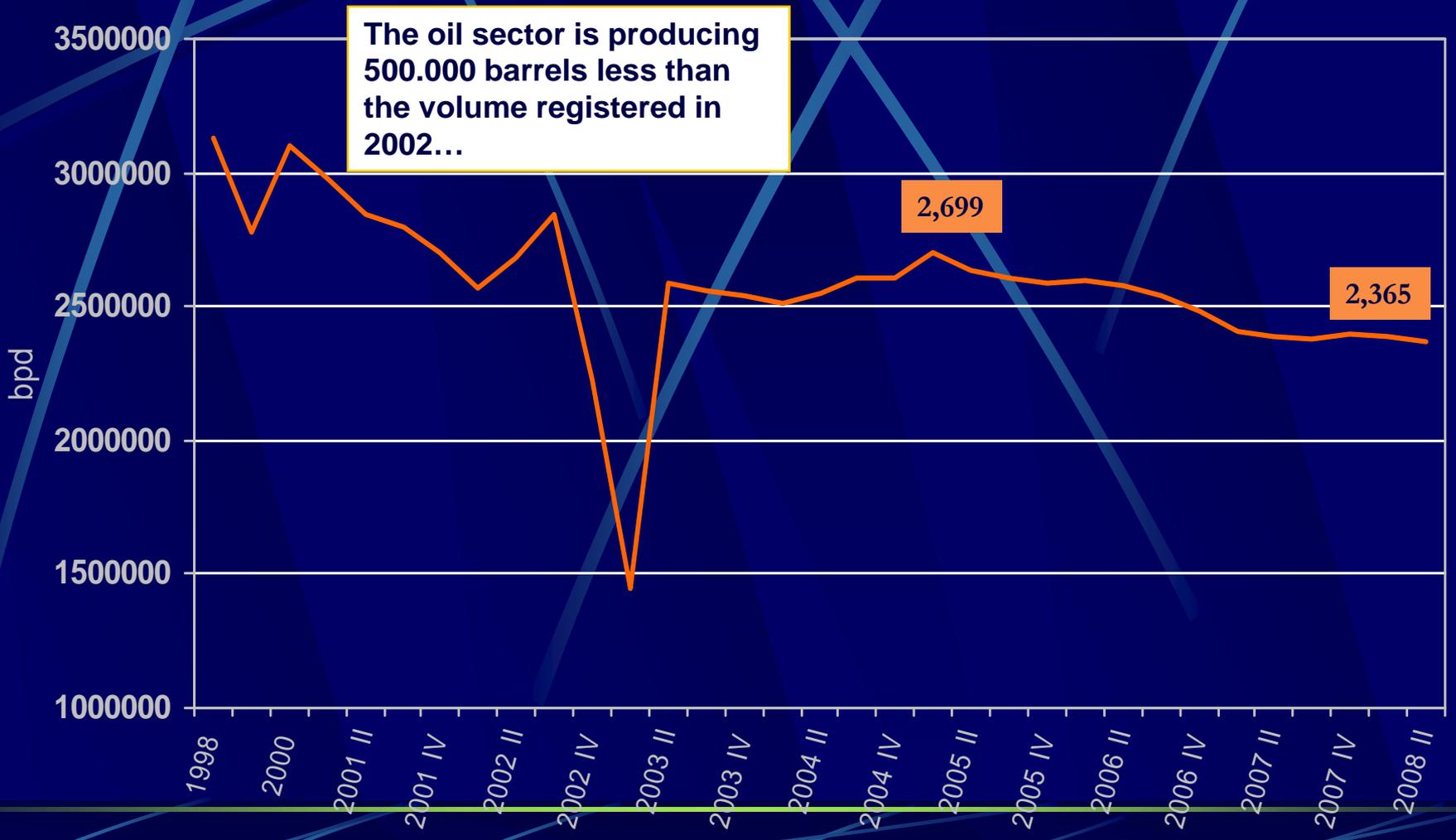
GDP by Economic Sector. 2007



Source: BCV

Given the very high oil prices In the 2007 for a four consecutive year the GDP grew strongly... Particularly, non tradable sectors like financial institutions, construction and communications were sectors with a very high rate of growth. However, oil GDP (oil production) fell again by 4.2%...

Venezuelan Oil Production

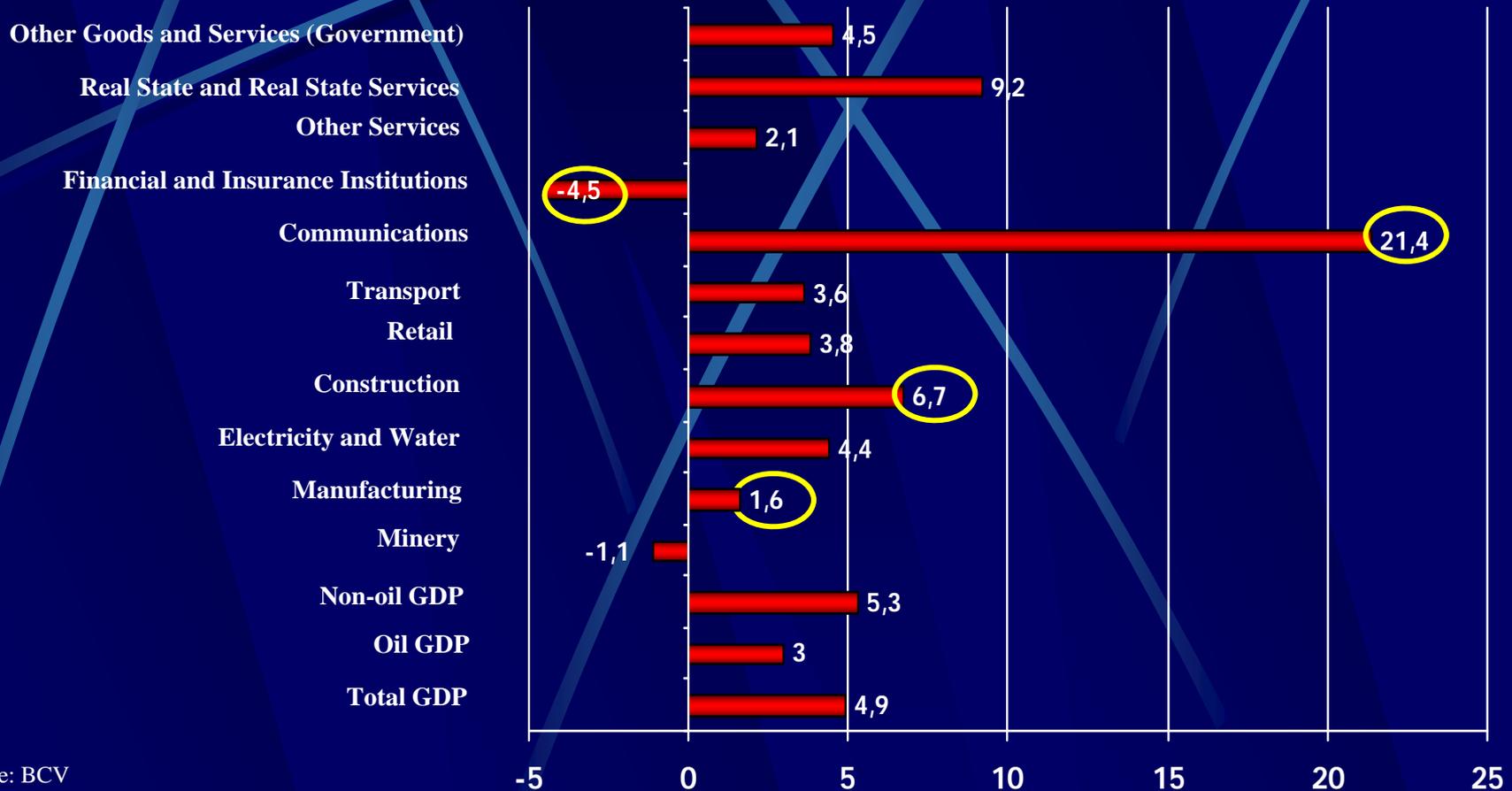


The oil sector is producing 500.000 barrels less than the volume registered in 2002...

2,699

2,365

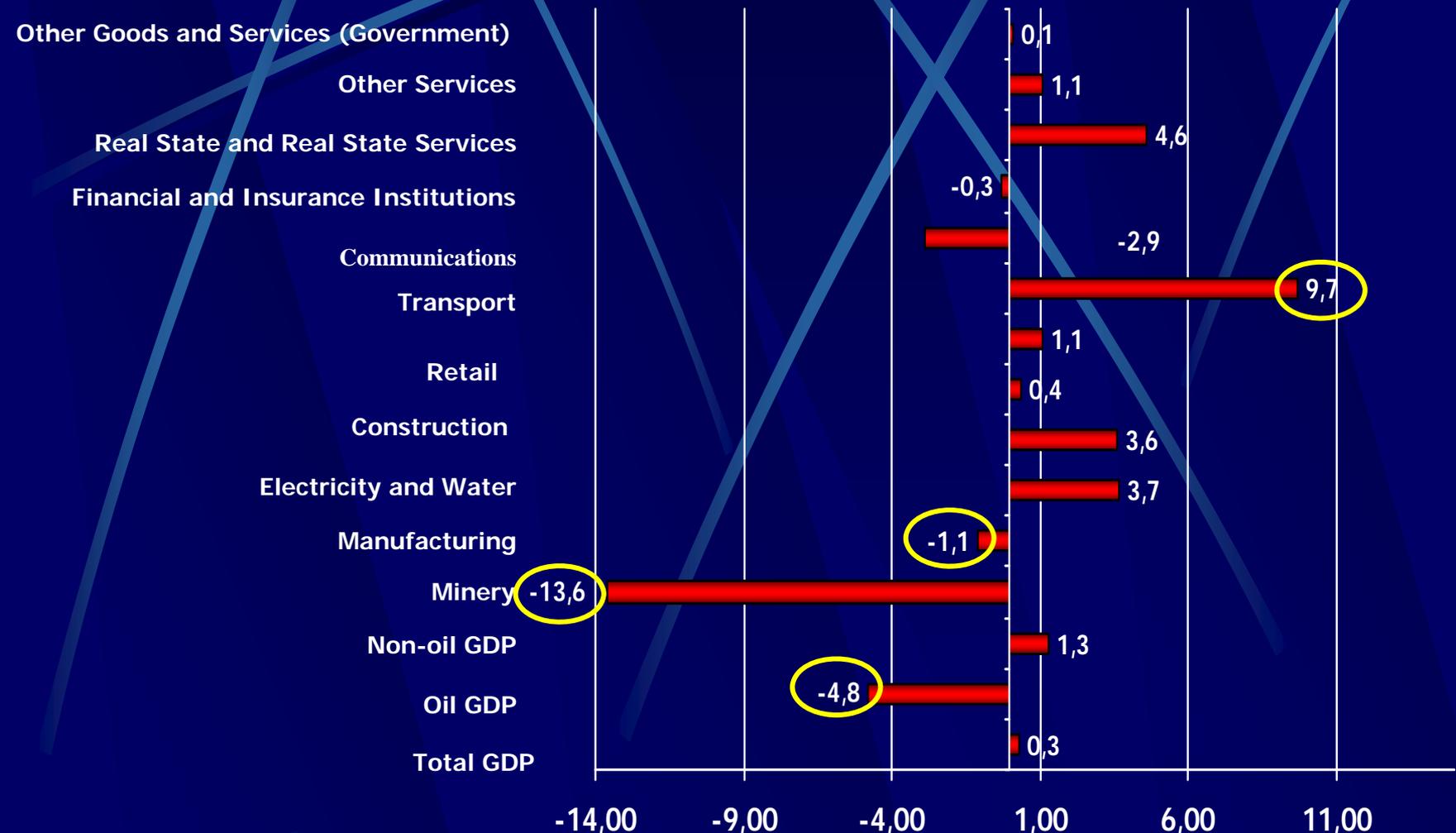
GDP by Economic Sector. 2008



Source: BCV

After 19 consecutive quarters of growth financial institutions suffered a contraction of 4.5% in the 2008 and the rate of growth of manufacturing sector continues to fall (1.6%)...

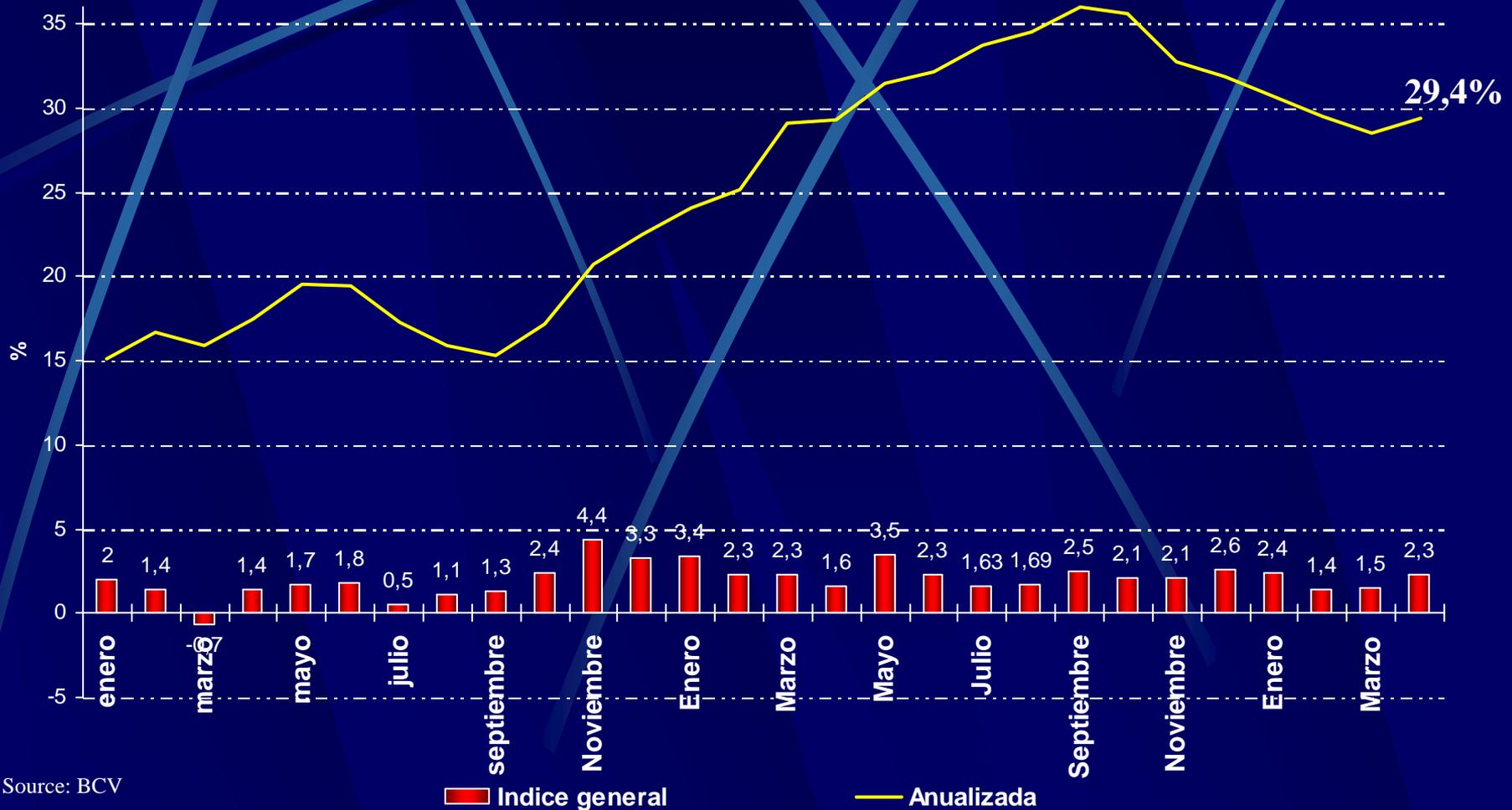
GDP by Economic Sector. I Quarter 2009



During the first quarter, domestic economic activity seems to remain on the slowdown that began in early 2008. Minery, manufacturing and the oil sectors continues to fall...

Inflation

Var. April. 08/ April. 09



Source: BCV

Indice general

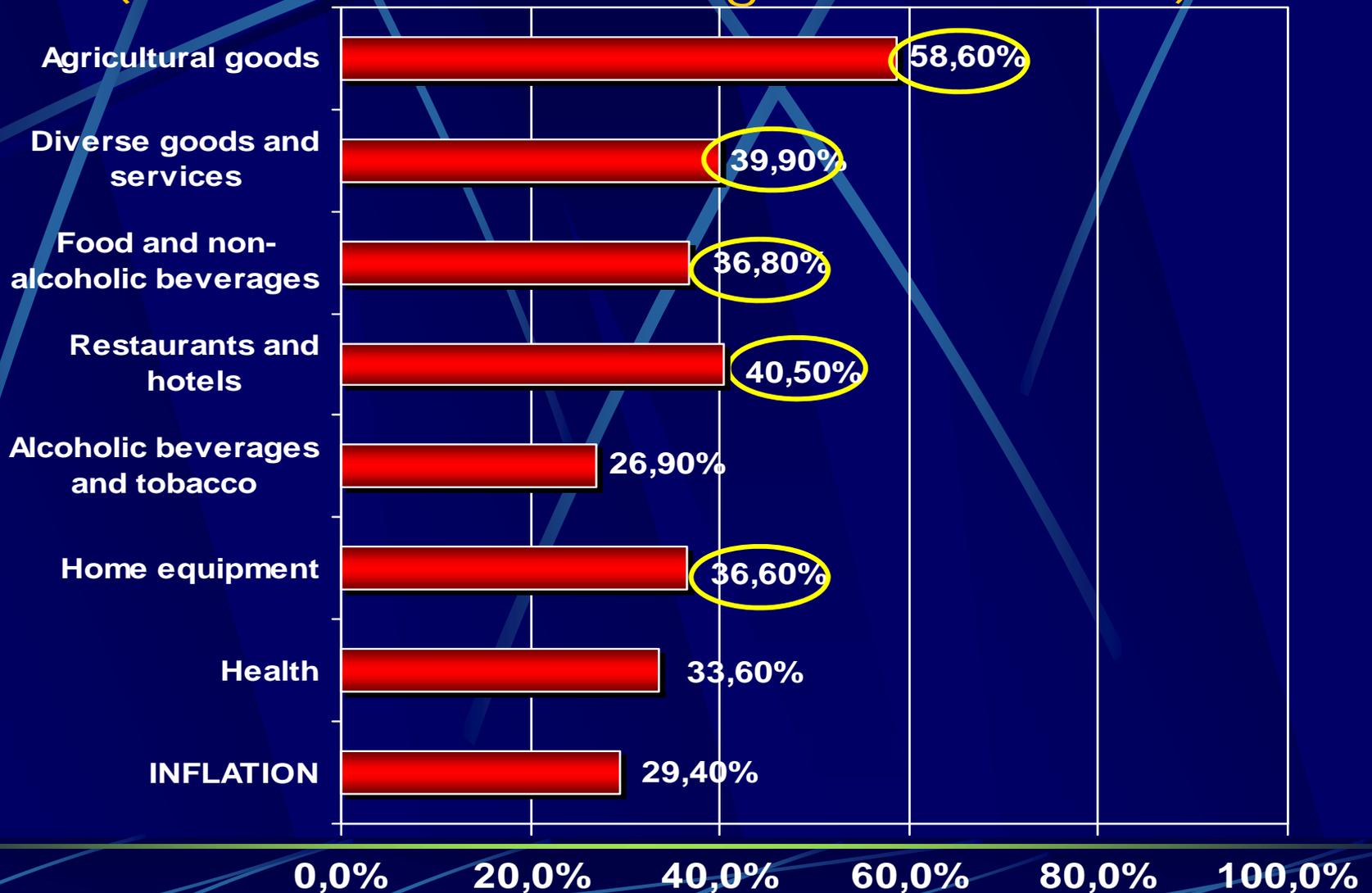
Anualizada

Venezuela has the highest inflation in Latin America and one of the highest in the world...

Inflation

April 2008 – April 2009

(Sectors with the highest inflation)



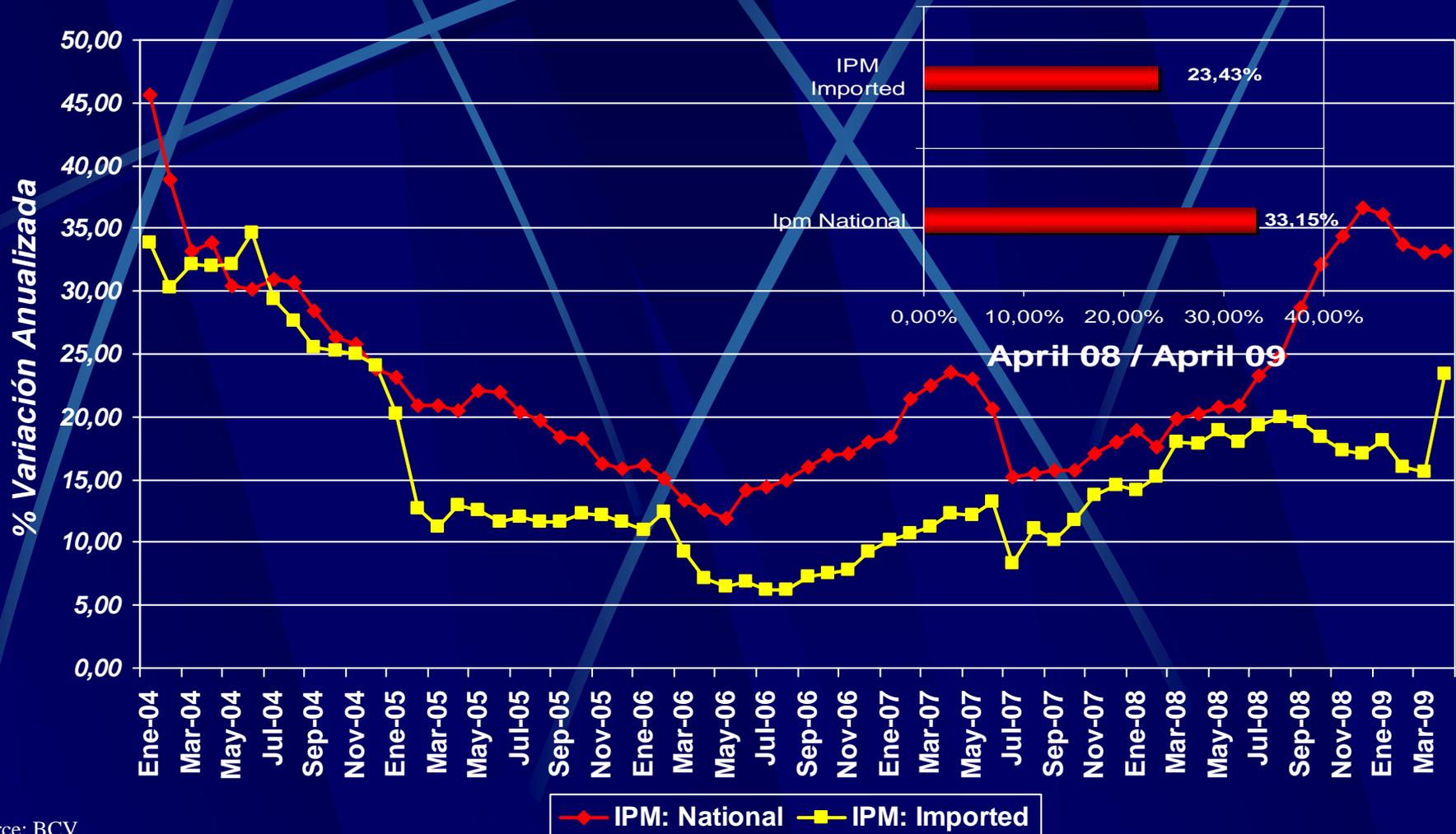
Inflation by Socioeconomic Groups

	2004	2005	2006	2008	April 08/ April 09
Stratum I (25% < Income)	20,66%	14,85%	19,82%	35,7%	30,2%
Stratum II	20,13%	14,92%	19,46%	33,7%	28,7%
Stratum III	18,46%	14,21%	17,27%	32,7%	29,0%
Stratum IV (25% > Income)	19,04%	14,21%	15,85%	30%	29,6%

Source: BCV

Proportionally, the poorest are those who pay most for the high and persistent inflation...

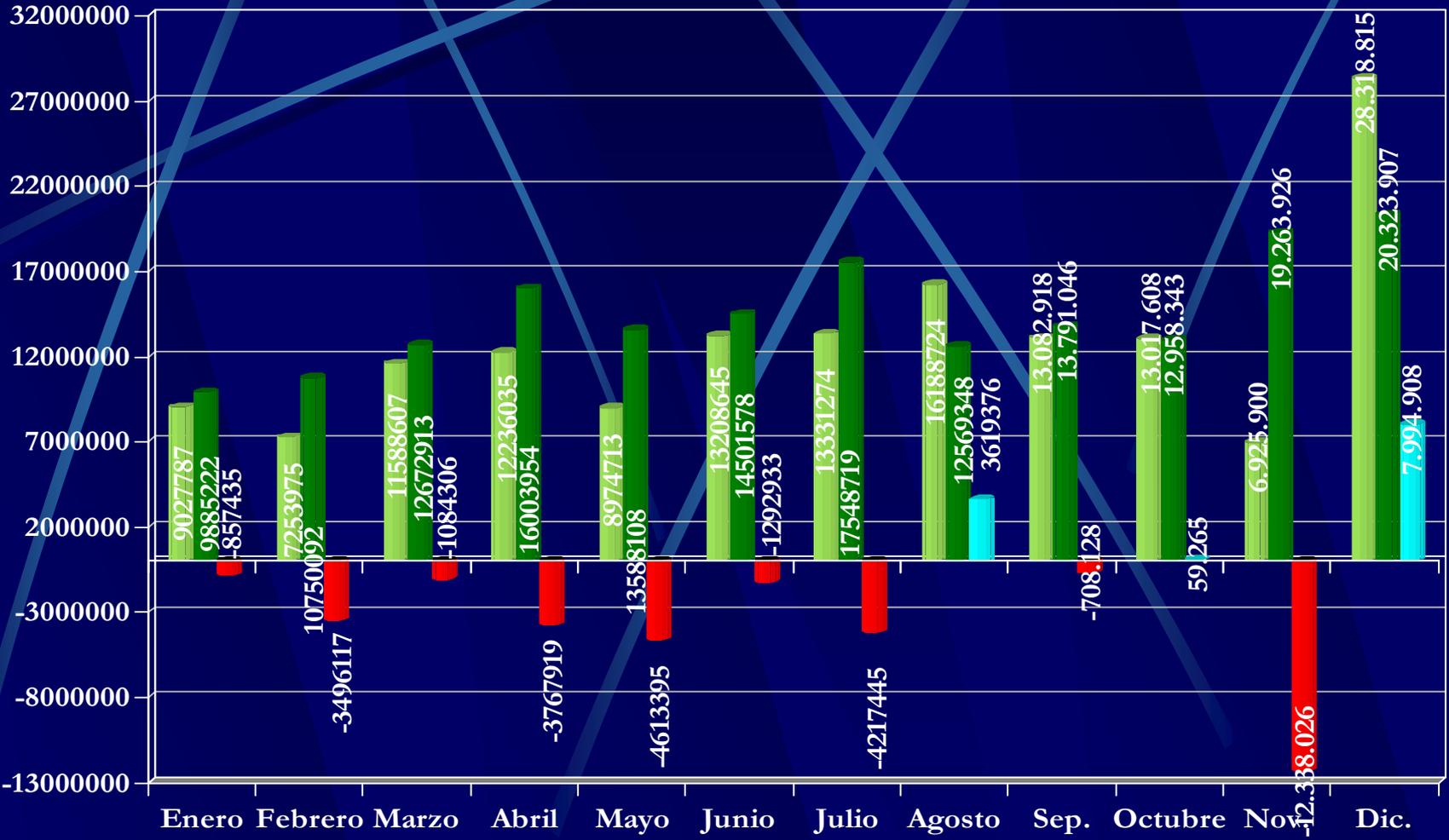
Inflation: National & Imported Products (2004 – April 2009)



Source: BCV

In the last 4 years imported products have become relatively cheaper than those produced in Venezuela, which reflects the gap between international and national rates of inflation and the maintenance of the official exchange rate at US\$ 2.15...

Central Government Fiscal Balance 2008 (Millions of Bolívares)

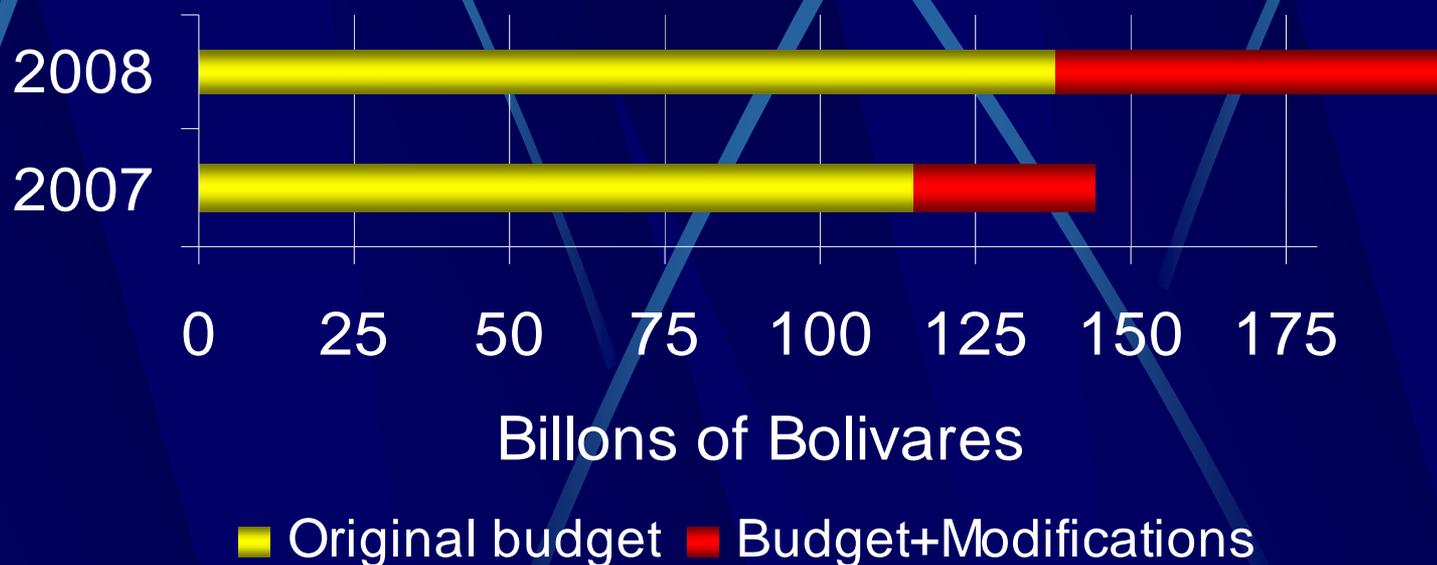


Source: BCV

■ Fiscal Income ■ Expenditures ■ Balance

During the first six months of 2008 the government accumulated a fiscal deficit of 20,7 billions of bolivares... For this year the Central Bank has not yet reported the Central Government Balance. There is a serious problem of transparency and accountability...

A very expansionary fiscal policy...



Source: ONAPRE

The government was having a very expansionary fiscal policy...

The high growth of the past was not attributable to higher production but to consumption financed by a high fiscal (and cuasi-fiscal) spending, expansion of lending and high levels of money supply....

Cuasifiscal Spending (The "other" budget)

Just some numbers to give an idea of the magnitude of the "parallel" budget...

ANUAL TRANSFERS TO "FONDEN" (DEVELOPMENT FUNDS) (Millions of US\$)

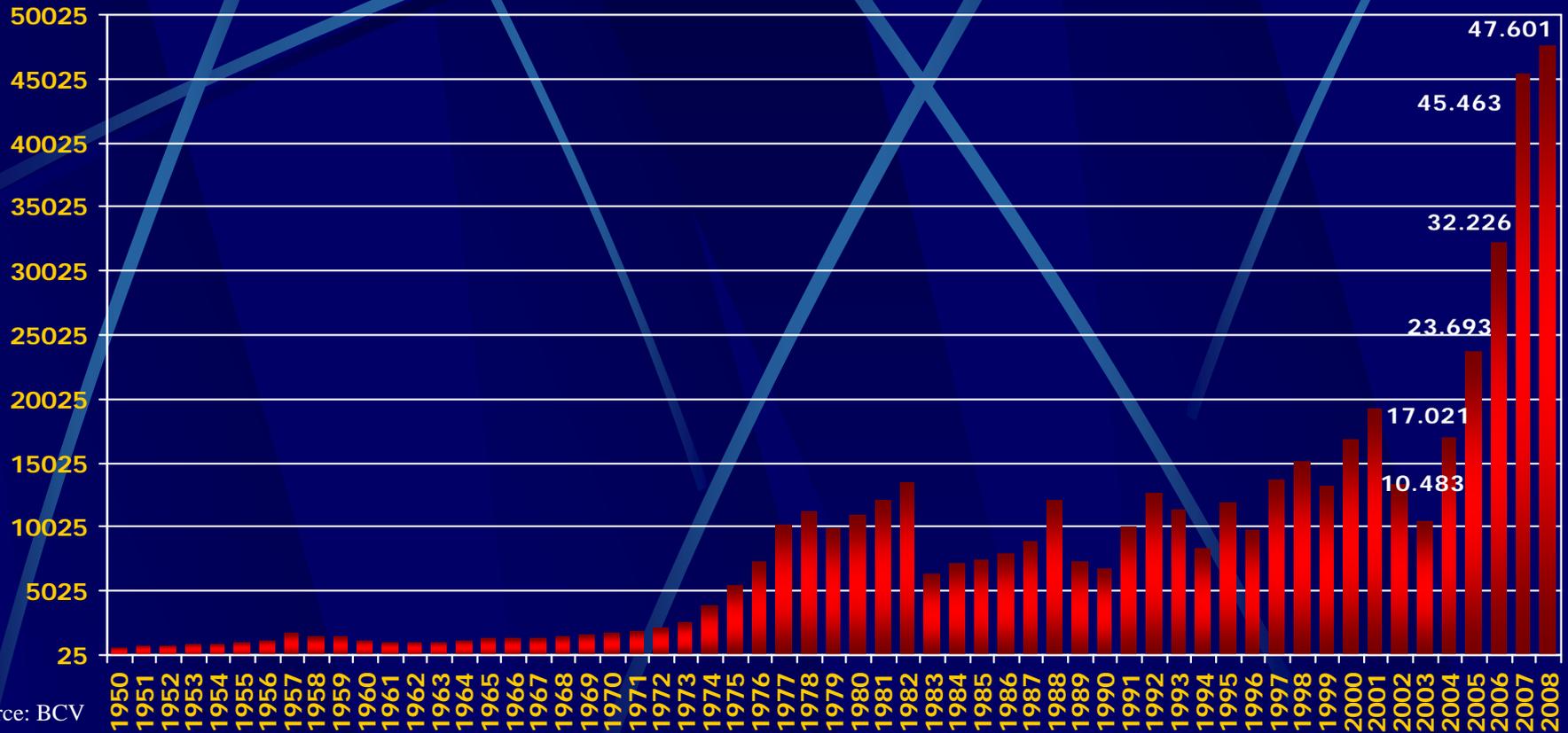
Source	2005	2006	2007	TOTAL
BCV	6.000,00	4.275,00	6.770,00	<u>17.045,00</u>
PDVSA	1.525,00	6.855,48	3.340,00	<u>11.720,48</u>
TOTAL	<u>7.525,00</u>	<u>11.130,48</u>	<u>10.110,00</u>	<u>28.765,48</u>

Source :Fonden

Source: MF

The "quasifiscal" (discretionary funds) expenditure averaged 3.5 points of GDP during the last four years...

Imports 1950-2008



An important part of public expenditure has filtered out of the economy as imports. In 2008 Venezuela had a “boom” of US\$ 47.601 millions (almost five times greater than that of 2003...)

Balance of payment IV Quarter 2008

(US \$ Millions)

IV Trim 2008

Current Account	(4.497)
Balance on goods	(3.724)
Export of goods f.o.b.	10.604
Oil	9.581
Non Oil	1.023
Imports of goods f.o.b.	(14.328)
Oil	(1.019)
Non Oil	(13.309)
Balance on goods, services and income	(4.360)
Current Transfers	(137)

Source: BCV

This is the first deficit in the current account in last 10 years. An excess of imports over exports of US\$ 4.360...

High levels of imports combined with the deterioration of the exports of PDVSA, the balance of payments could be seriously compromise in the near future...

Balance of payment I Quarter 2009

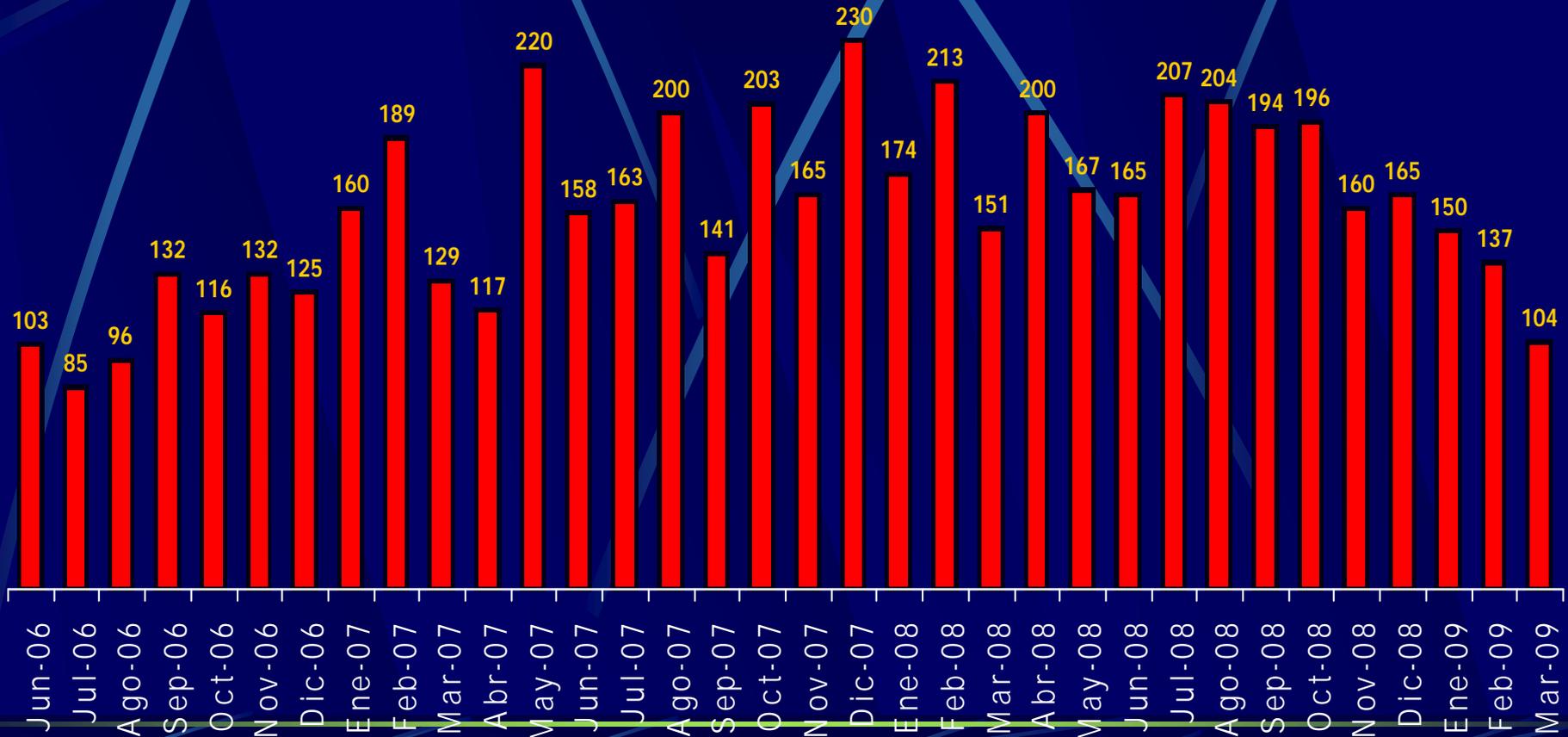
(US \$ Millions)

Current Account	(3.533)
Balance on goods	(1.442)
Exports. of goods f.o.b.	9.829
Oil Exports	9.111
Non Oil Exports	718
Imports of goods f.o.b.	(11.271)
Balance on services	(967)
Balance on income	(10.304)
Current Transfers	(3.400)
	(10.522)
Capital and financial account 2/	
	(1.206)
Errors and omissions	
Balance Transaction	
Current and capital	(15.261)

Source: BCV

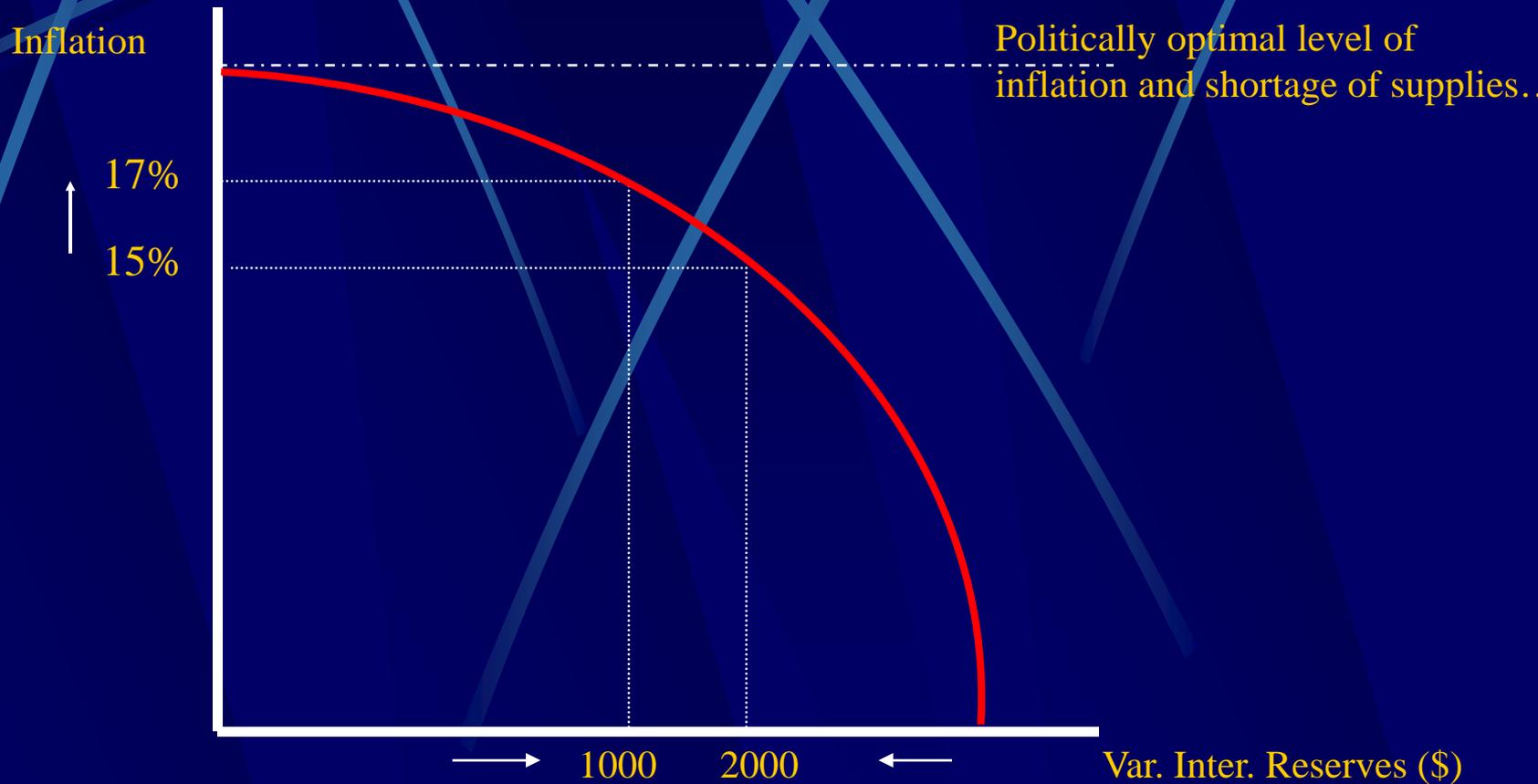
For the first quarter of 2009 the balance of payment presents a deficit of US\$ 15.261...

Daily average foreign currency approved by CADIVI (Mill. US\$) July 2006-March 2009



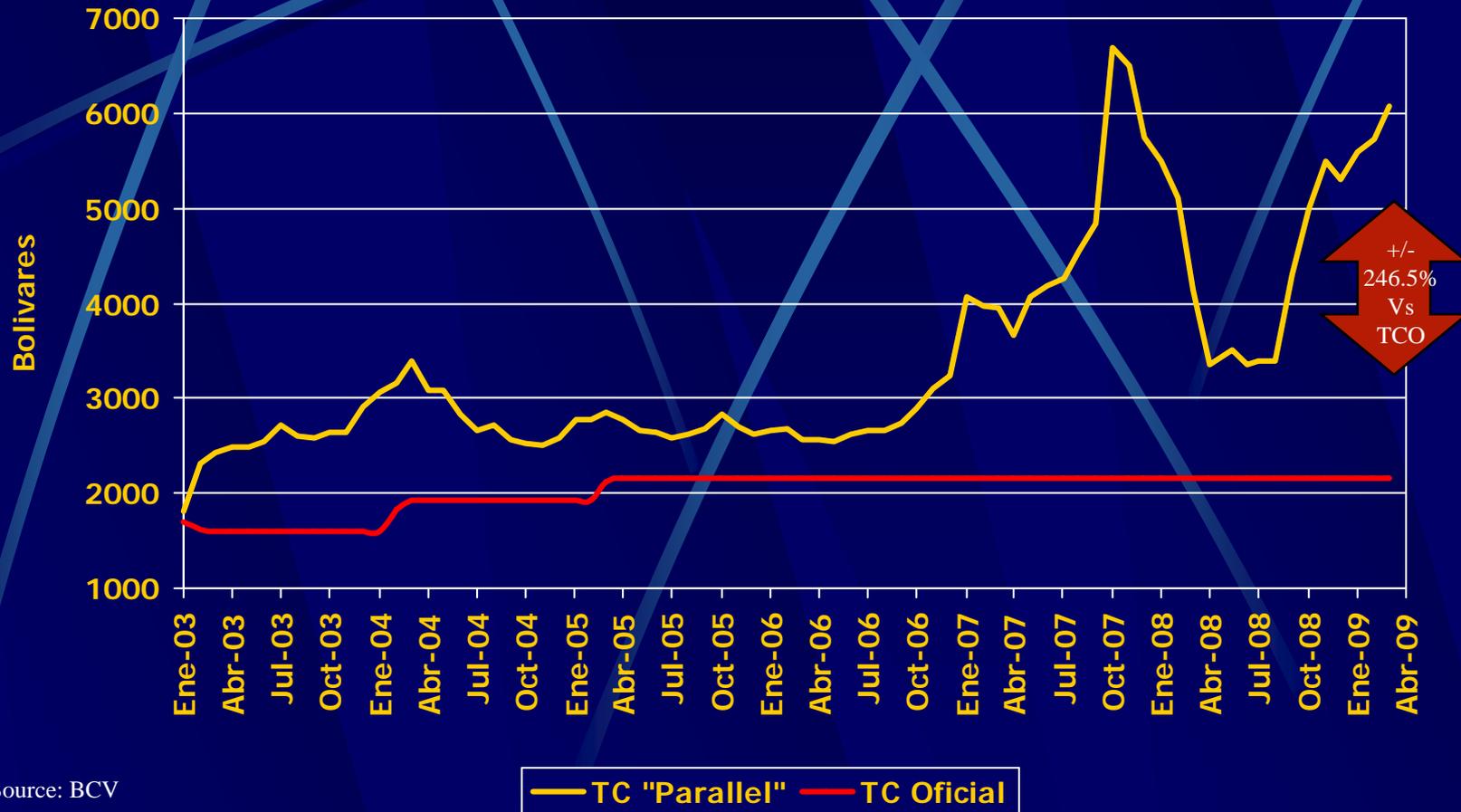
Source: CADIVI

Trade-off Between Inflation and International Reserves(\$)



... There is a trade-off between the level of Inter. Reserves and Inflation...

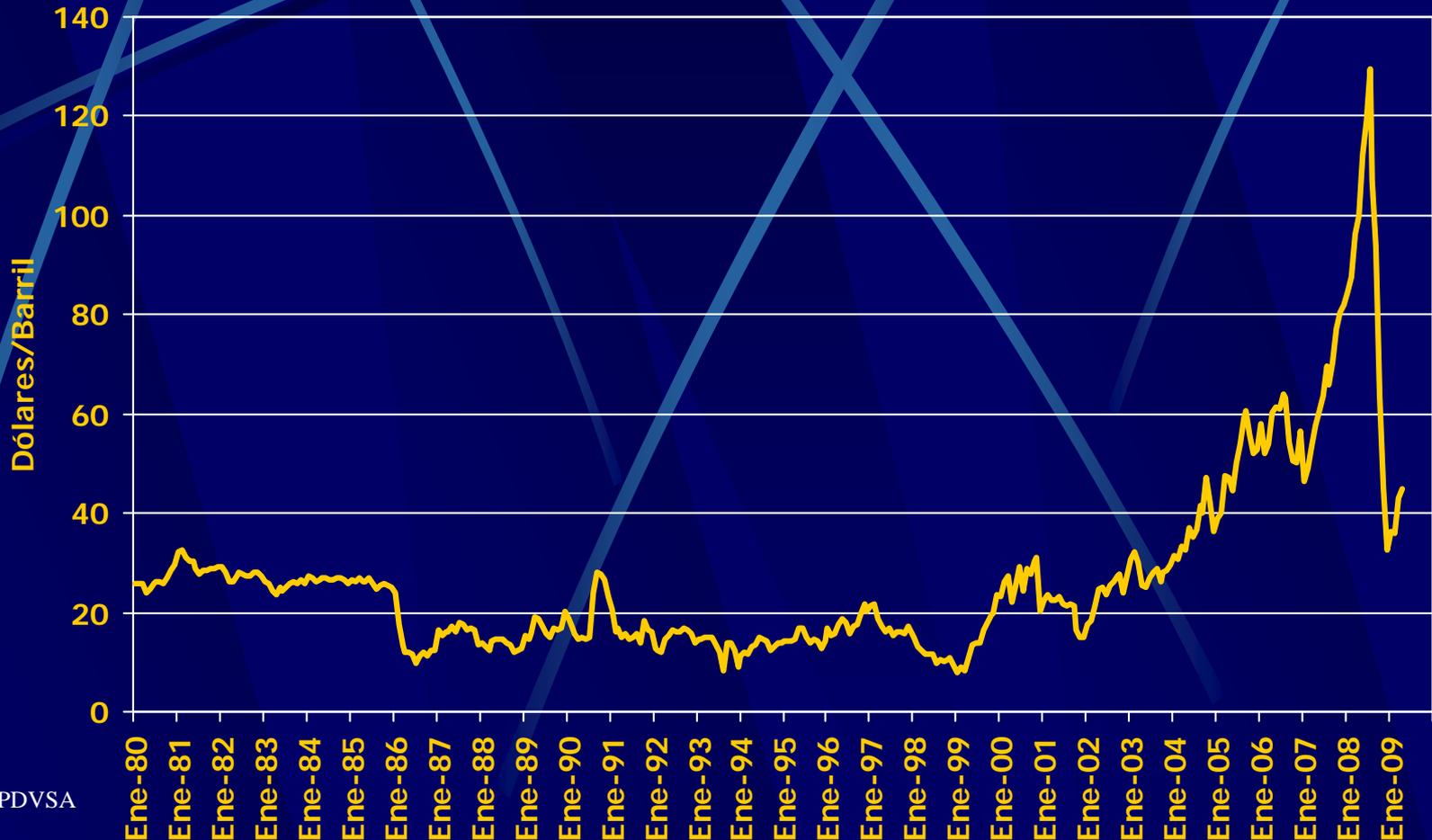
Official and "Parallel" Exchange Rate 2003 - April 2009



Source: BCV

The "parallel" exchange rate almost triple the official exchange rate. The exchange policy is buoying the import boom by keeping the Bolívar artificially high against the US dollar on the foreign exchange market...

Evolution of the Venezuela Oil Basket. January 1980 - April 2009



Source: PDVSA

In July the average of Venezuelan Oil basket was US\$ 129,54 but the average between January and April 2009 was only US\$ 41,38...

An interesting point about the preceding economic indicators...

- **All of this... in the context of very high oil prices (average of more than 40 US\$/barrel) and oil exports of US\$ 452.000 million in the last 10 years...**
- **... Only in 2008 with an average price of 86,81 US\$/barrel the total oil income was US\$ 92.927 million...**

To summarize:
A list of "warning lights on the dashboard"

(Key variables for monitoring the economy in order to know what could happen in the future...)

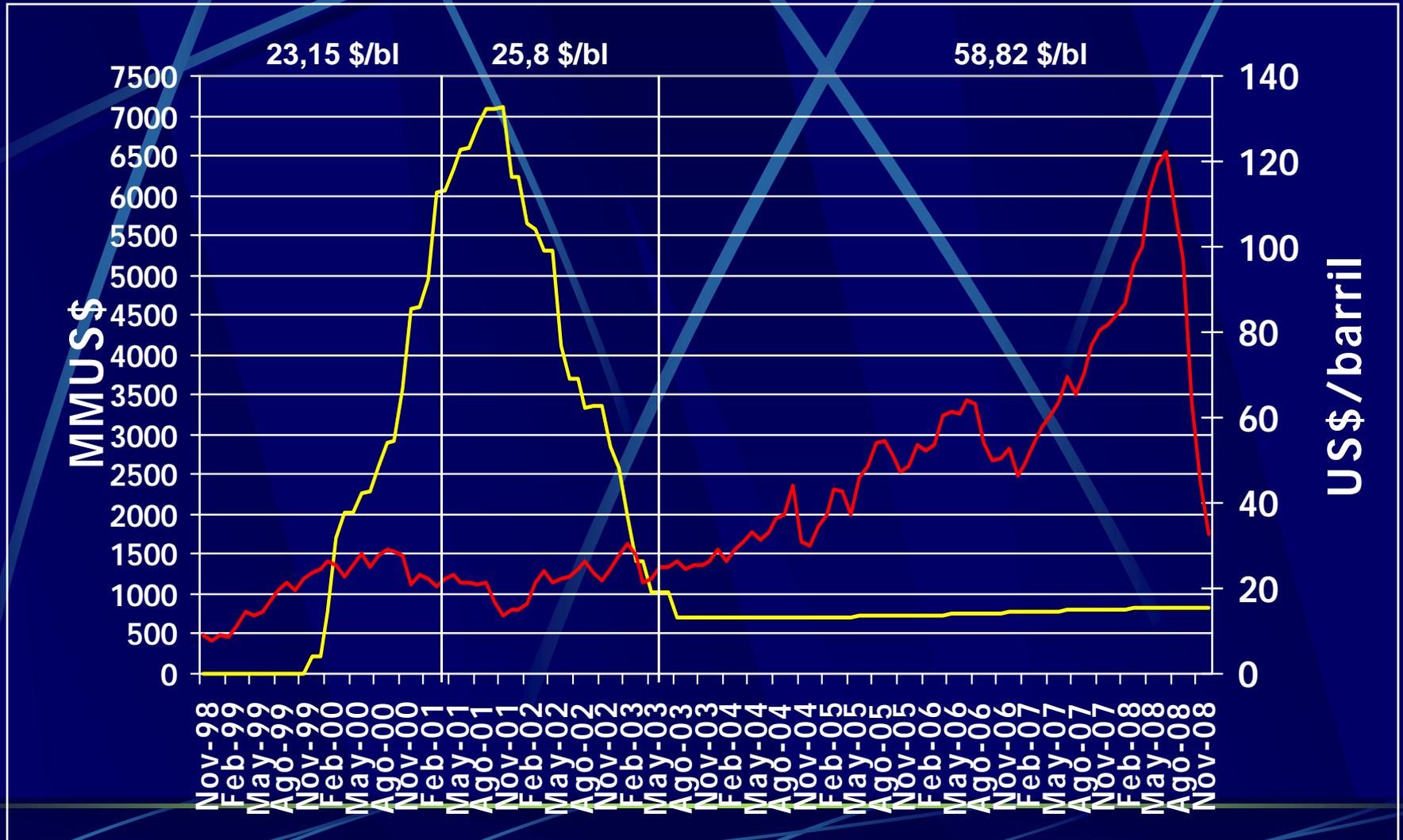
- 1. High and persistent inflation**
- 2. Imbalances in the external sector**
- 3. Vulnerability in the oil sector**
- 4. Imbalances in the fiscal area**

To summarize

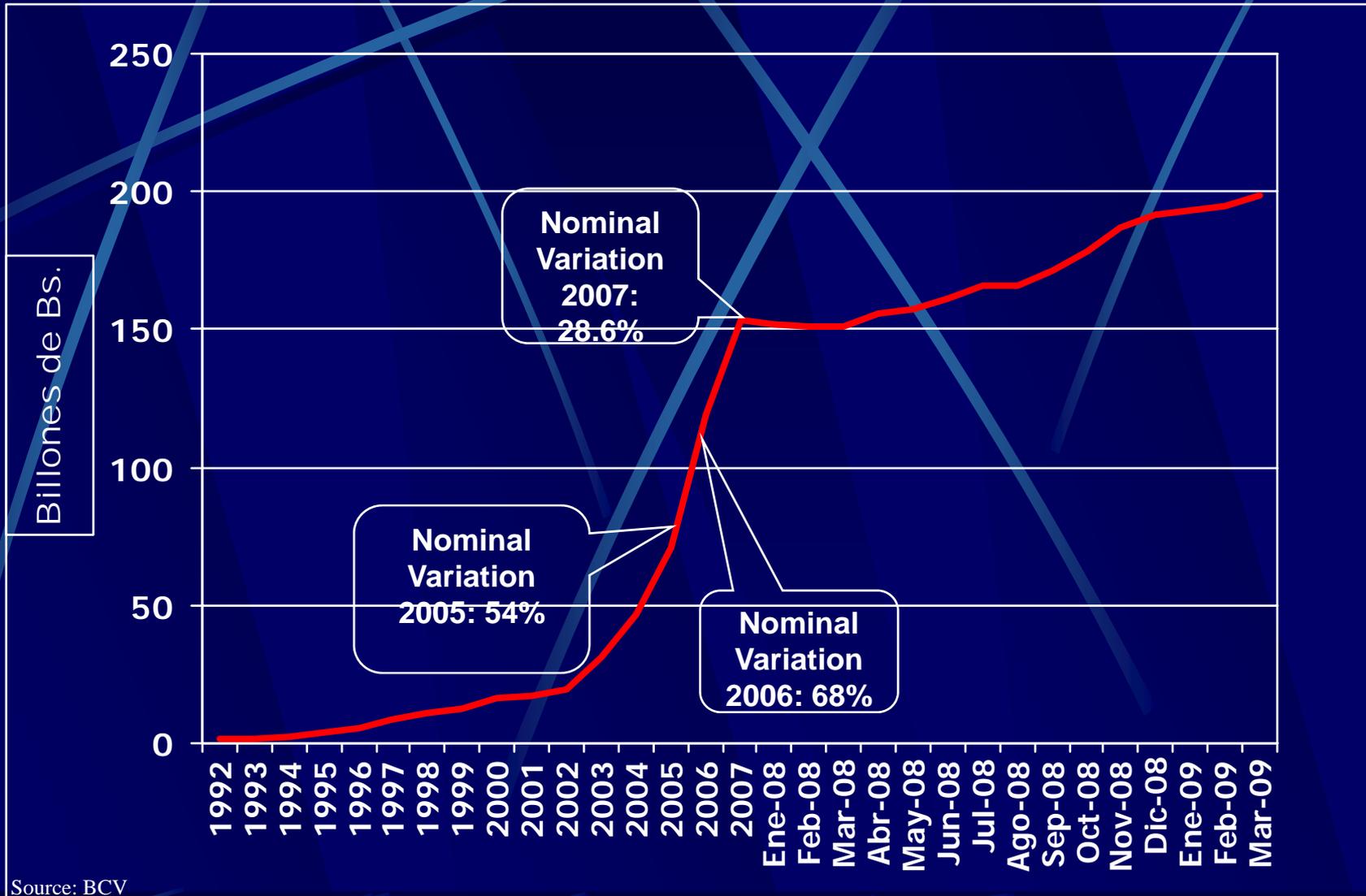
- The key point is sustainability...
- The expansionary trend in the Venezuela economy is not sustainable. It is not possible to maintain a growth model stimulated by increased consumption which is not supported by higher production and private investment.
- Everything is/was “link” to the oil boom. If oil prices are low, the country simply will be unable to continue importing to meet rising demand, maintain the exchange rate, the expansionary fiscal policy and in general maintain this “illusion of harmony” ...

Macroeconomic Stabilization Fund 1998-2008

(El mundo al revés...)

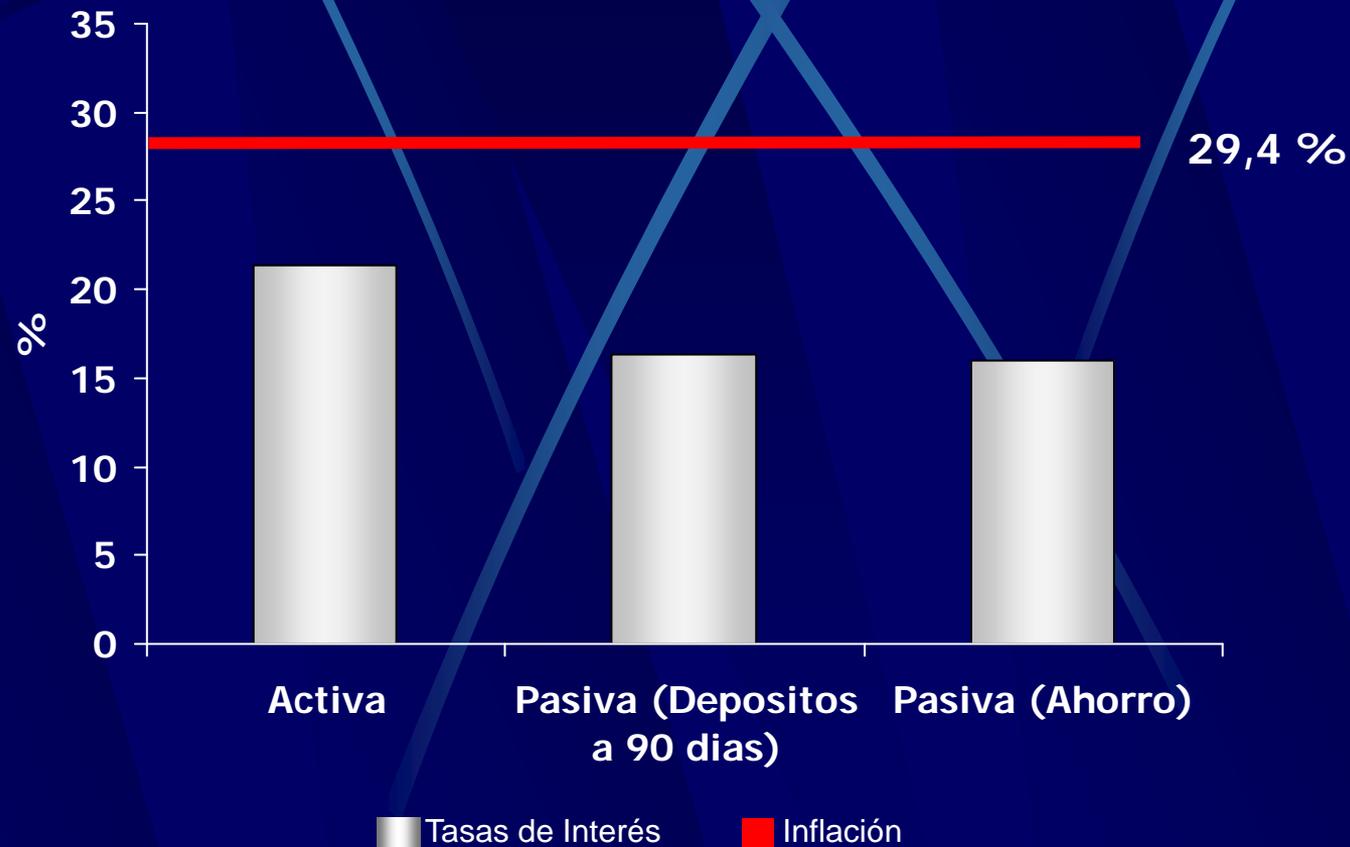


Liquidity (M2) 1992- March 2009



Source: BCV

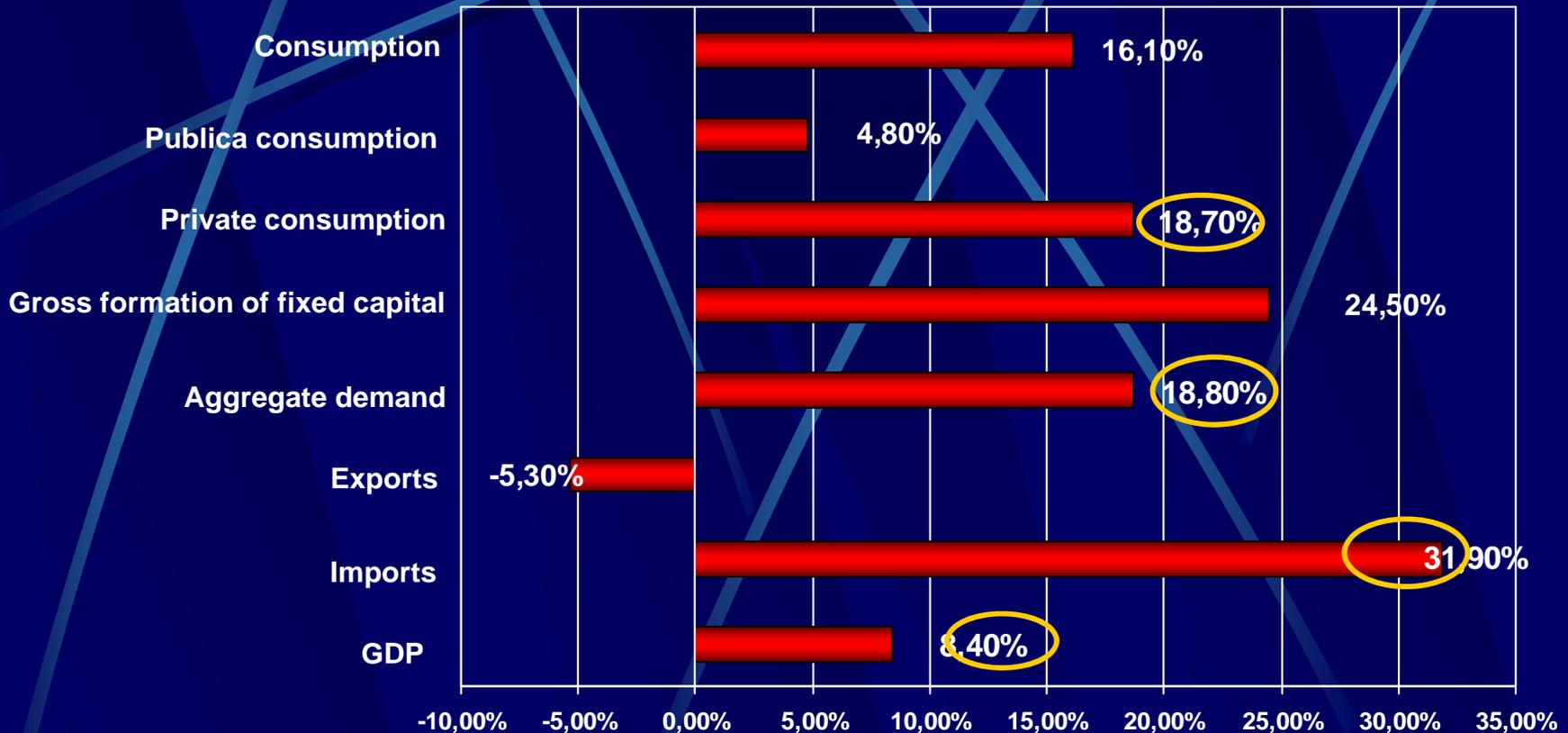
Negative Real Interest Rates (Interest rates far below inflation...)



Source: BCV

**Interest rate on deposits are at 16%, far below inflation...
In Venezuela the money is a "hot potato"...**

Aggregate Demand Var. % 2007

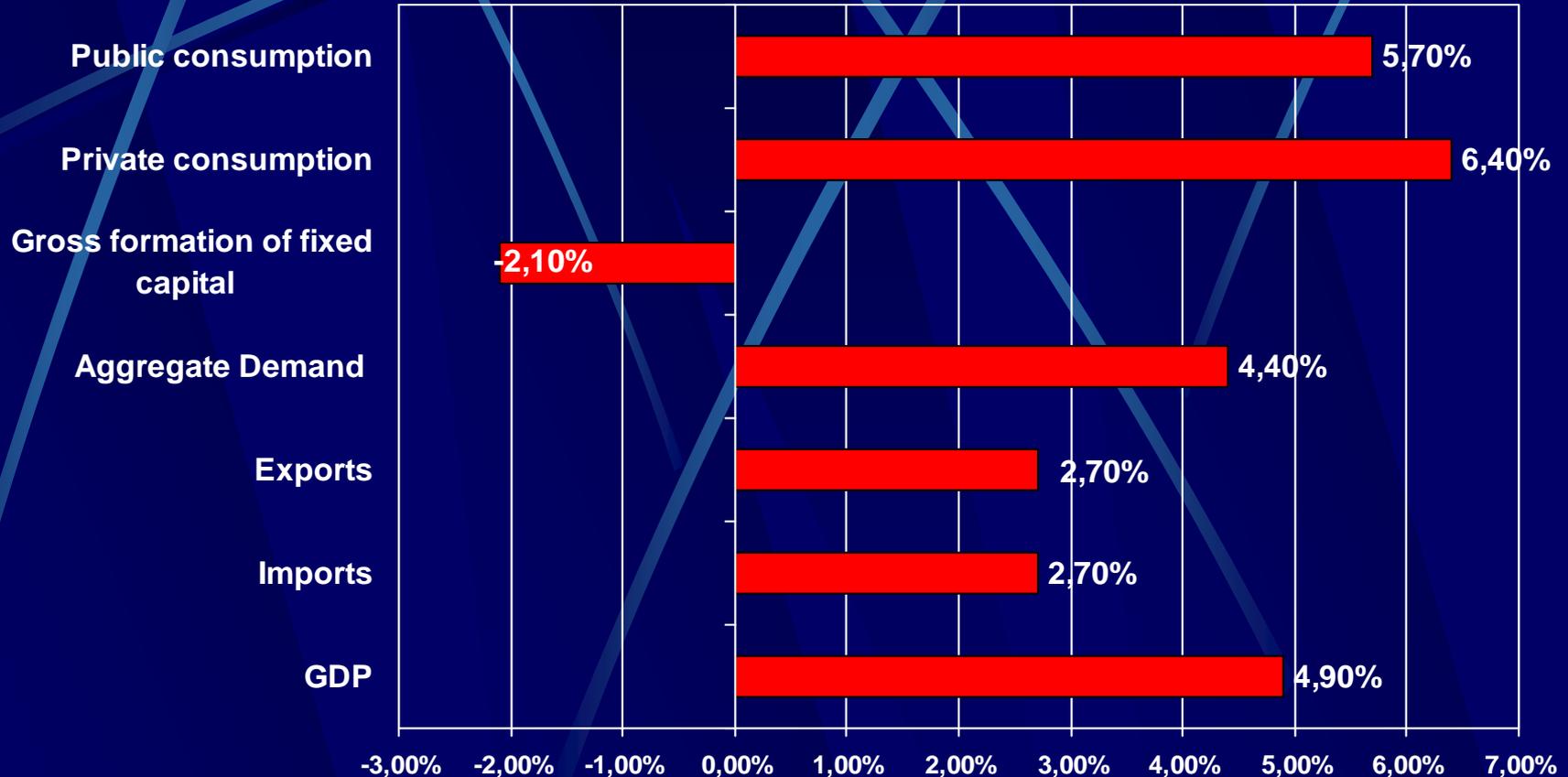


Source: BCV

Aggregate demand grew 18.8% and private consumption 18.7%, but production, measured in terms of manufacturing GDP, increased only 8.4%...

Given the lack of private investment, the gap between production and consumption is essentially cover by the import boom... For a long time now domestic industry has been unable to satisfy state-subsidized domestic demand...

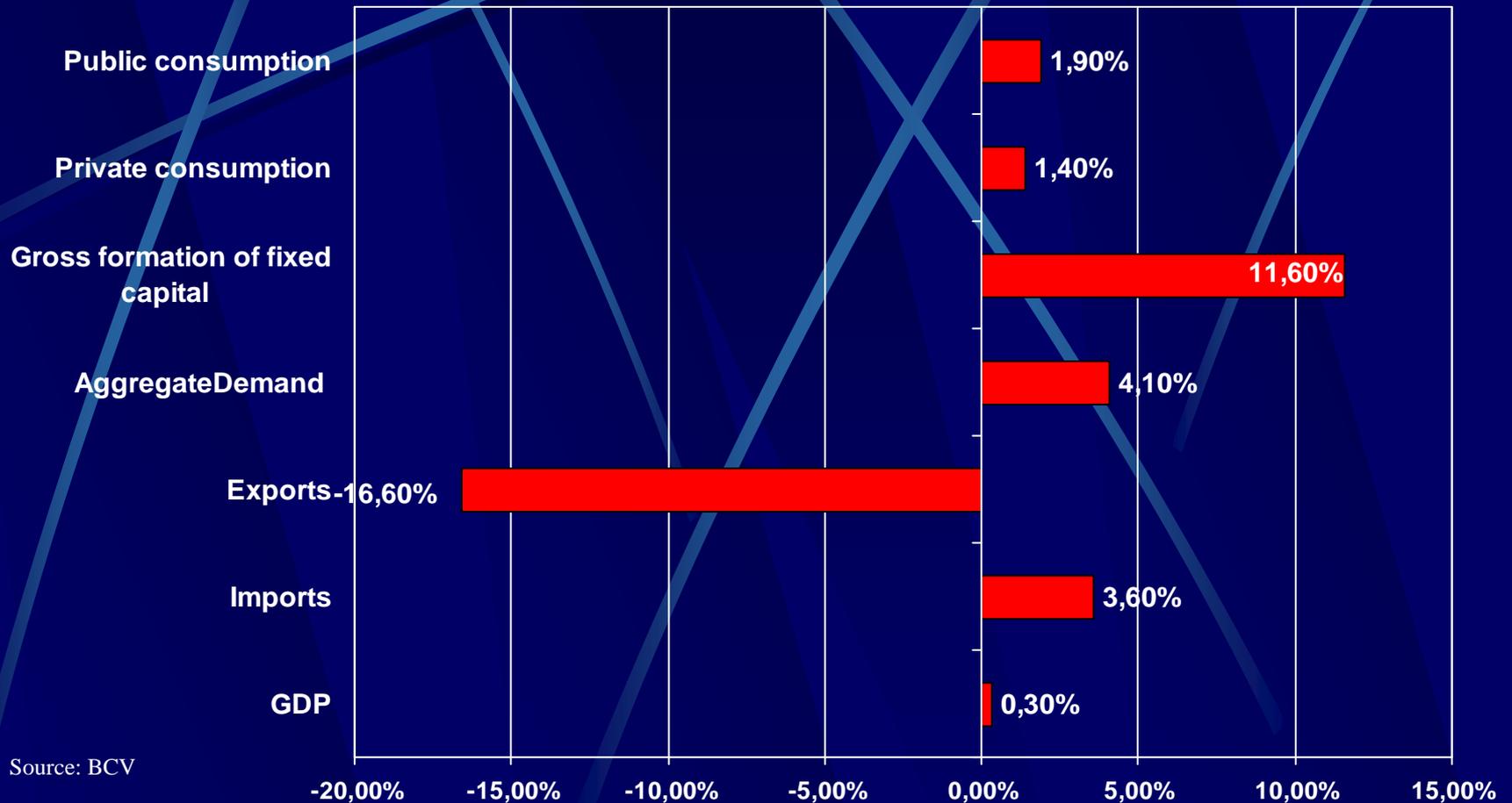
Aggregate Demand 2008



Source: BCV

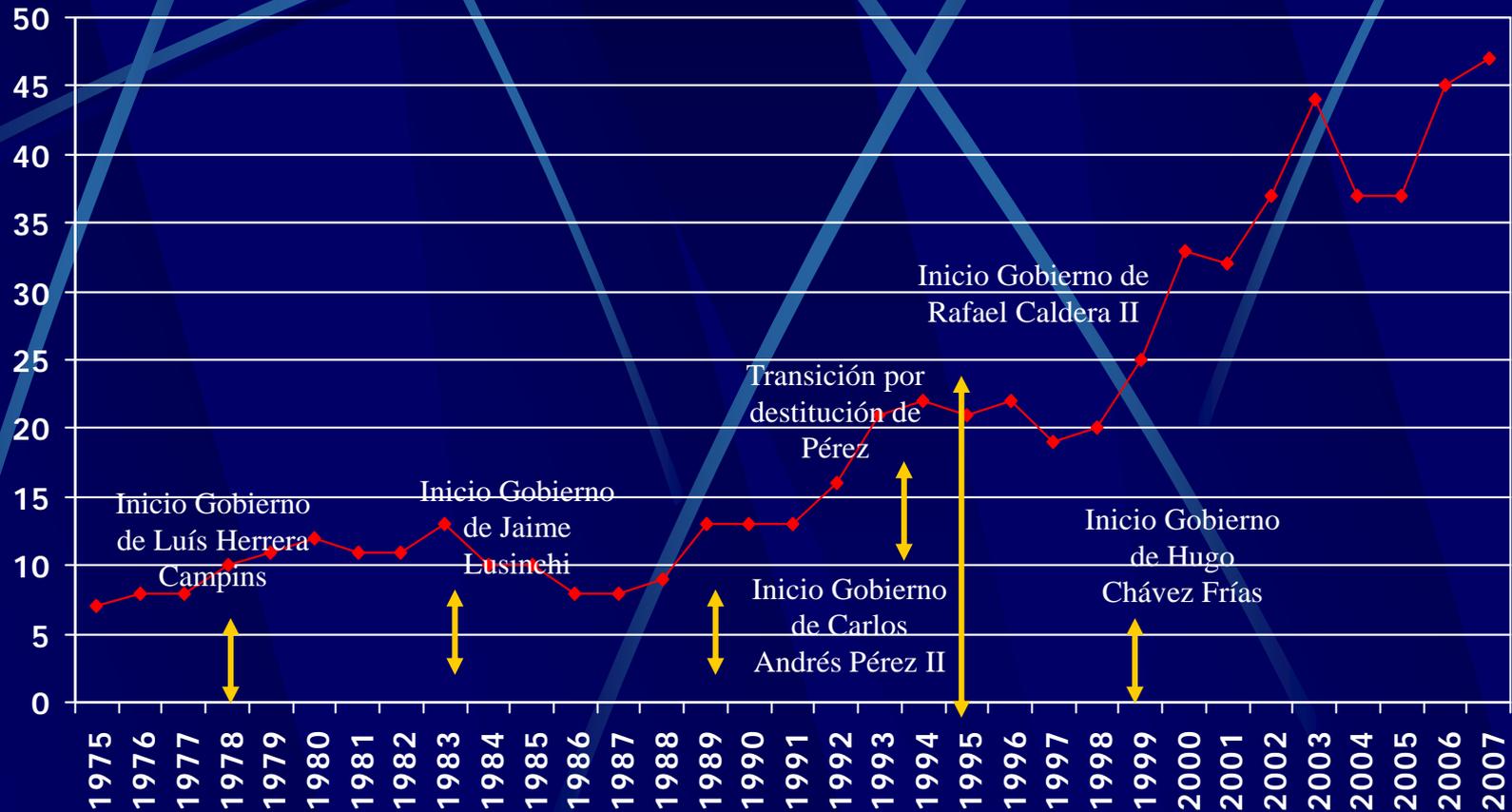
Importan moderation of growth, private consumption and the level non oil exports....

Aggregate Demand I Quarter 2009



Source: BCV

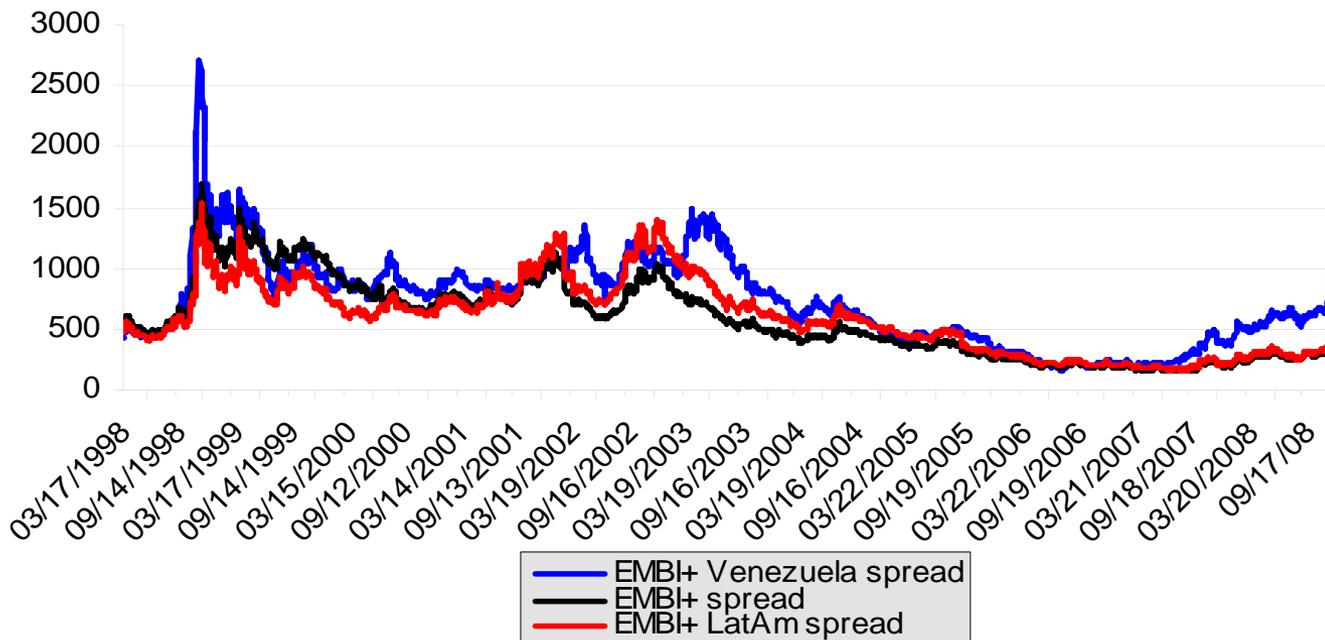
Venezuela: Homicides per 100,000 inhabitants



Source: Patricia Monteferrante and Plan 180°, Alcaldía de Chacao

In Venezuela the probability of being killed is unequally distributed: this probability is much higher in the poorest areas...the result of inconsistent economic and social policies combined with the deterioration of state capacity...

Country Risk EMBI+



Oil prices “were” really high but the country risk too... In the last year the Venezuelan country risk has been one of the highest in Latin America...

Balance of Payment 2008

(US \$ Millions)

Current Account	45.971
Balance on goods	52.322
Exports. of goods f.o.b.	99.923
Oil Exports	92.927
Non Oil Exports	6.996
Imports of goods f.o.b.	(47.601)
Balance on services	(6.234)
Balance on income	387
Current Transfers	(504)
Capital and financial account 2/	(37.906)
Errors and omissions	(3.909)
Balance Transaction	
Current and capital	4.156

Source: BCV

At the end of 2008, the balance of payments continues to reflect a disproportionate increase in imports, while oil revenue decreased. Moreover non oil exports fell and capital outflow increased...

High levels of imports combined with the deterioration of the exports of PDVSA, the balance of payments could be seriously compromise in the near future...

Foreign Direct Investment (US\$)

Latinamerica & Caribe	US\$ 125.800
Argentina	US\$ 2.900
Brasil	US\$ 37.700
Chile	US\$ 15.300
Colombia	US\$ 8.200
México	US\$ 36.700
Venezuela	US\$ 600

Source: Conferencia de la Naciones Unidas sobre Comercio y Desarrollo (UNCTAD)

Inflation

Latin American Countries

Var. April 08/ April 09

Country	April - 2009	Last 12 months
Venezuela	1,8%	28,3%
Mexico	0,35%	6,17%
Colombia	0,32%	5,73%
Uruguay	-0,04%	7.13%
Peru	0,02%	4,64%

Venezuela has the highest inflation in Latin America and one of the highest in the world...

Saldo de Deuda Pública Directa. 1996 - 2008

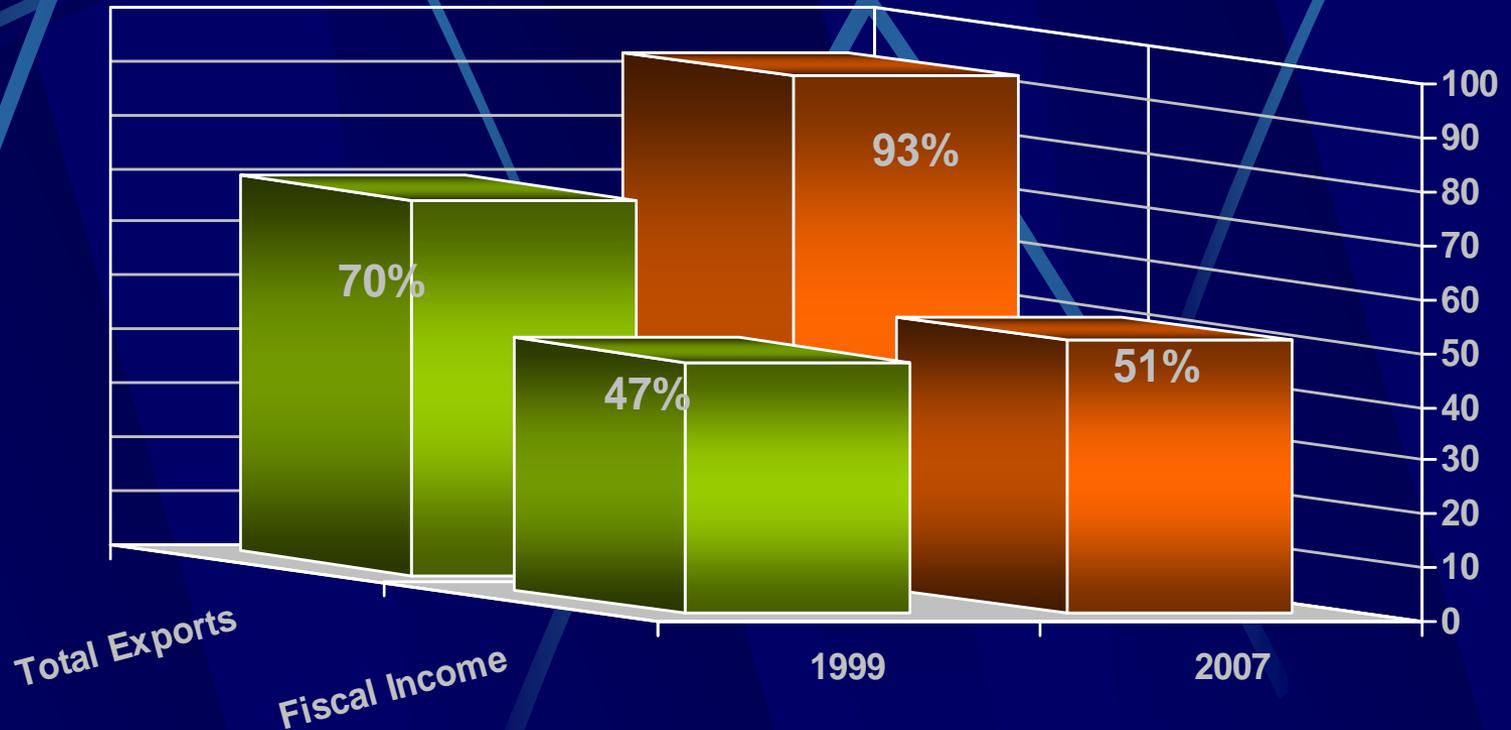
Años	Interna (MM Bs.F)	Externa (MM \$)
1996	3.090	21.997
1997	2.381	21.109
1998	2.490	21.917
1999	3.783	21.404
2000	7.237	20.851
2001	10.996	21.762
2002	16.186	21.929
2003	24.046	24.365
2004	29.801	27.237
2005	33.712	31.139
2006	33.220	27.254
2007	35.991	27.316
2008	30.514	29.858

What will be the end result in 2008?

End 2008	
GDP	5-6%
Inflation	30%
Bs. US\$ (Official / “parallel” exchange rate)	2150 / 5400 Bs / US \$
International Foreign Reserves (US \$ MM) + FIEM	30
Venezuela oil basket (Average 2008)	98 US \$

At least for 2008 the “illusion of harmony” continues...

The Share of Oil in the Economy

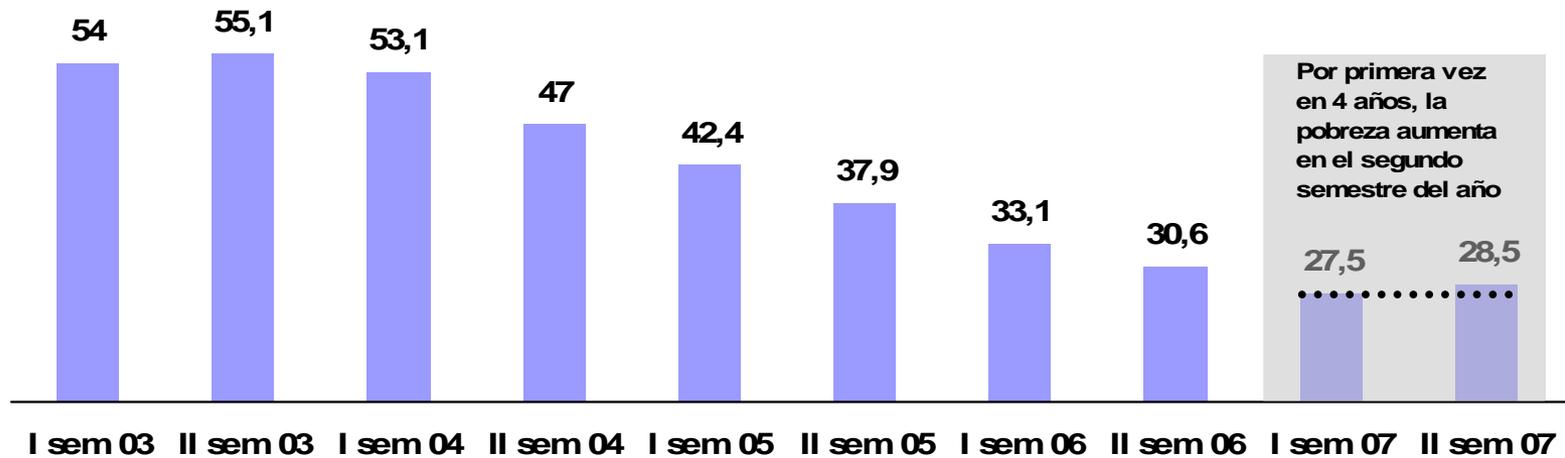


■ 1999 ■ 2007

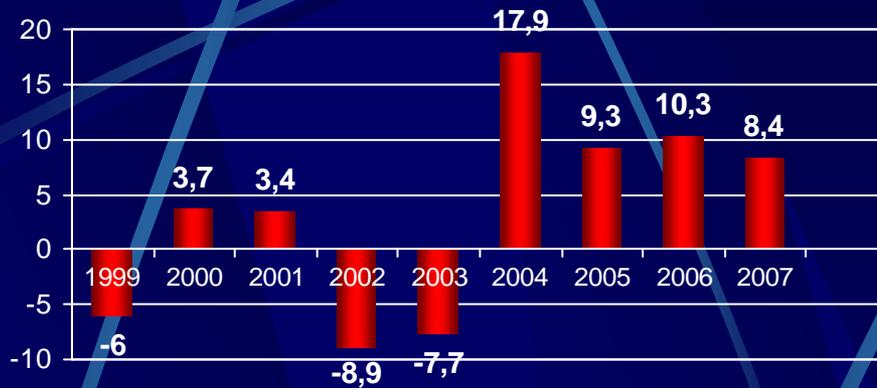
The challenges for the future...

- Reversing the tendency of the last 30 (22+8) years is possible but it will require considerable time and effort. There are no simple, easy, and quick solutions...
- A return to a high and “sustained” rate of growth and a “progressive redistribution” of wealth is important for two main reasons:
 - It is part of the ethical imperative to promote the general well-being of the population
 - It constitutes a fundamental condition for consolidating the political and social stability necessary to sustain future reforms
- Achieving these results is the most important challenge of the Venezuelan leadership for the next decades...

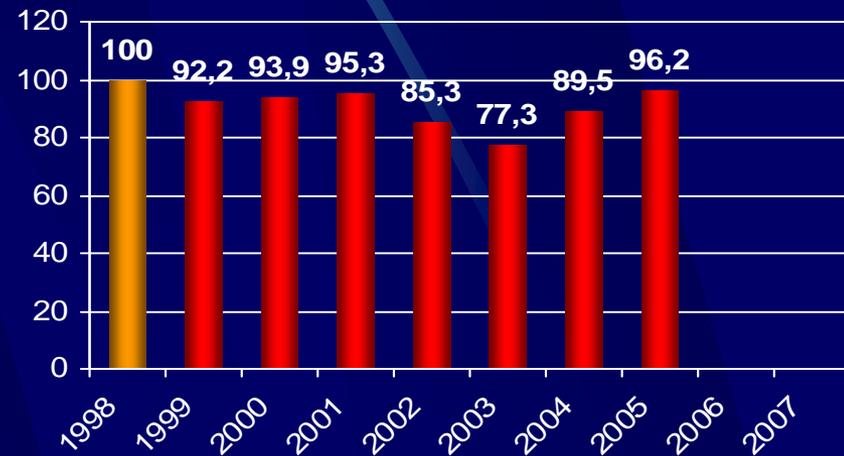
Households under poverty conditions



GDP Growth. 1999-2009* (%)



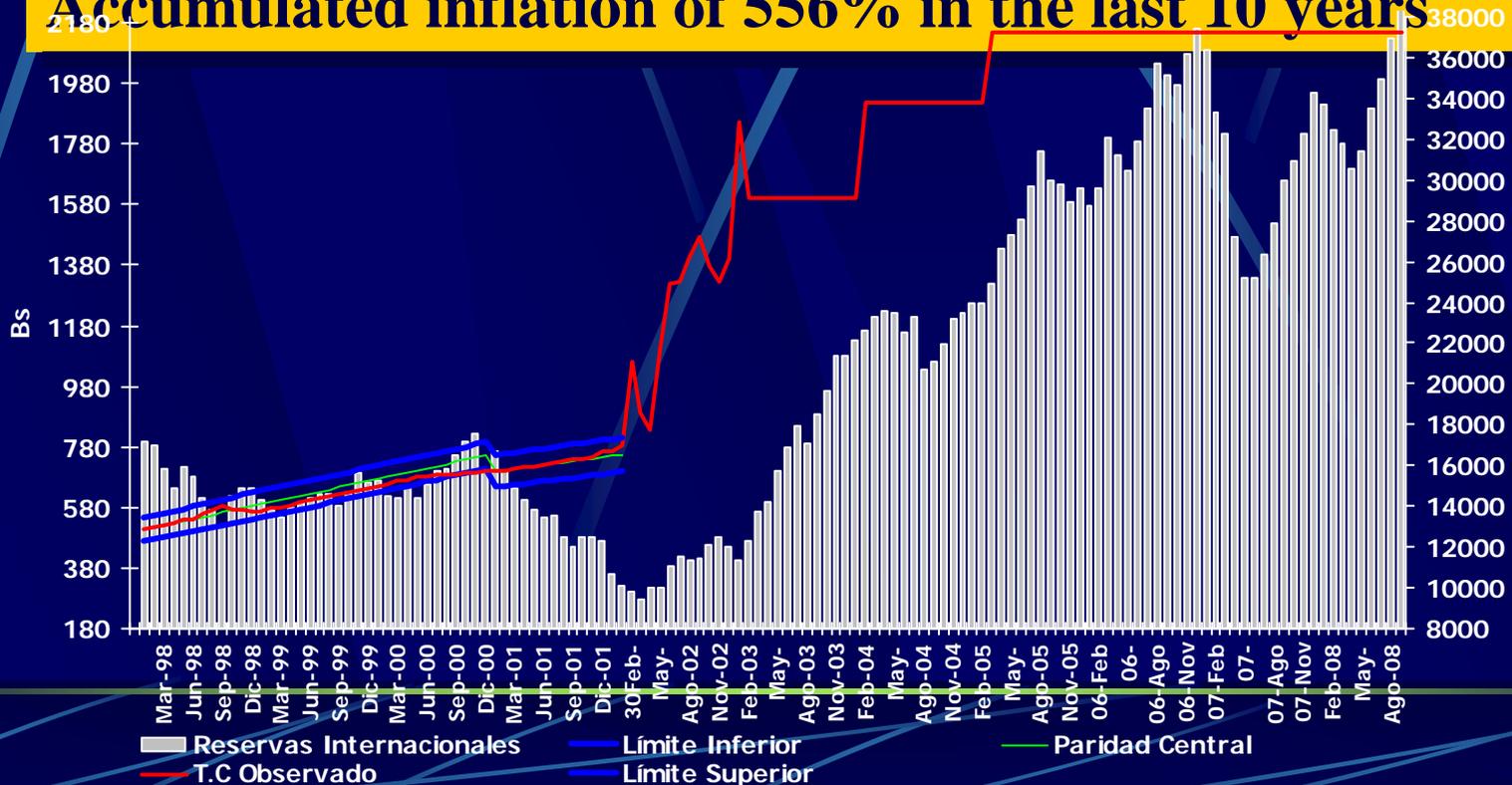
GDP per Cápitá. 1998-2007. 1998 = 100



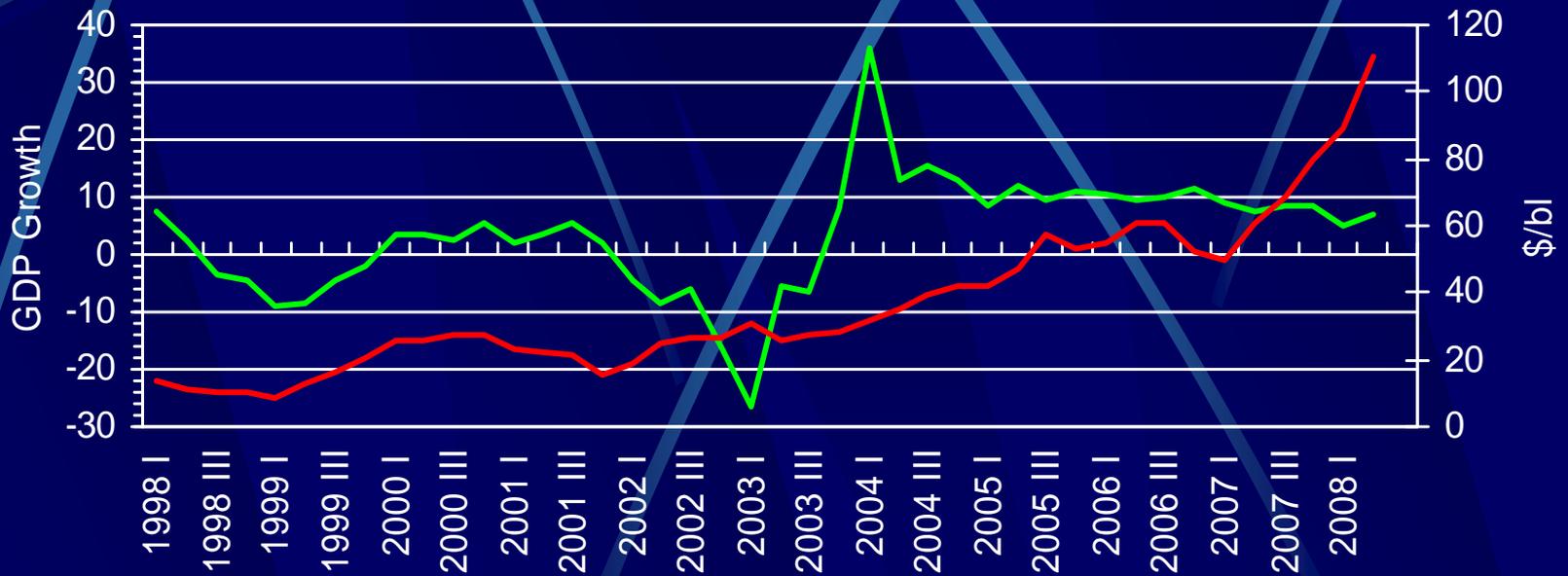
Exchange Rate and International Foreign Reserves (Julio 1996 – December 2008)

**Depreciation of the exchange rate of more than 400%
577Bs/\$ in Feb. 1999 and 2150/\$ in January 2003
(parallel market US\$ 5700)**

Accumulated inflation of 556% in the last 10 years



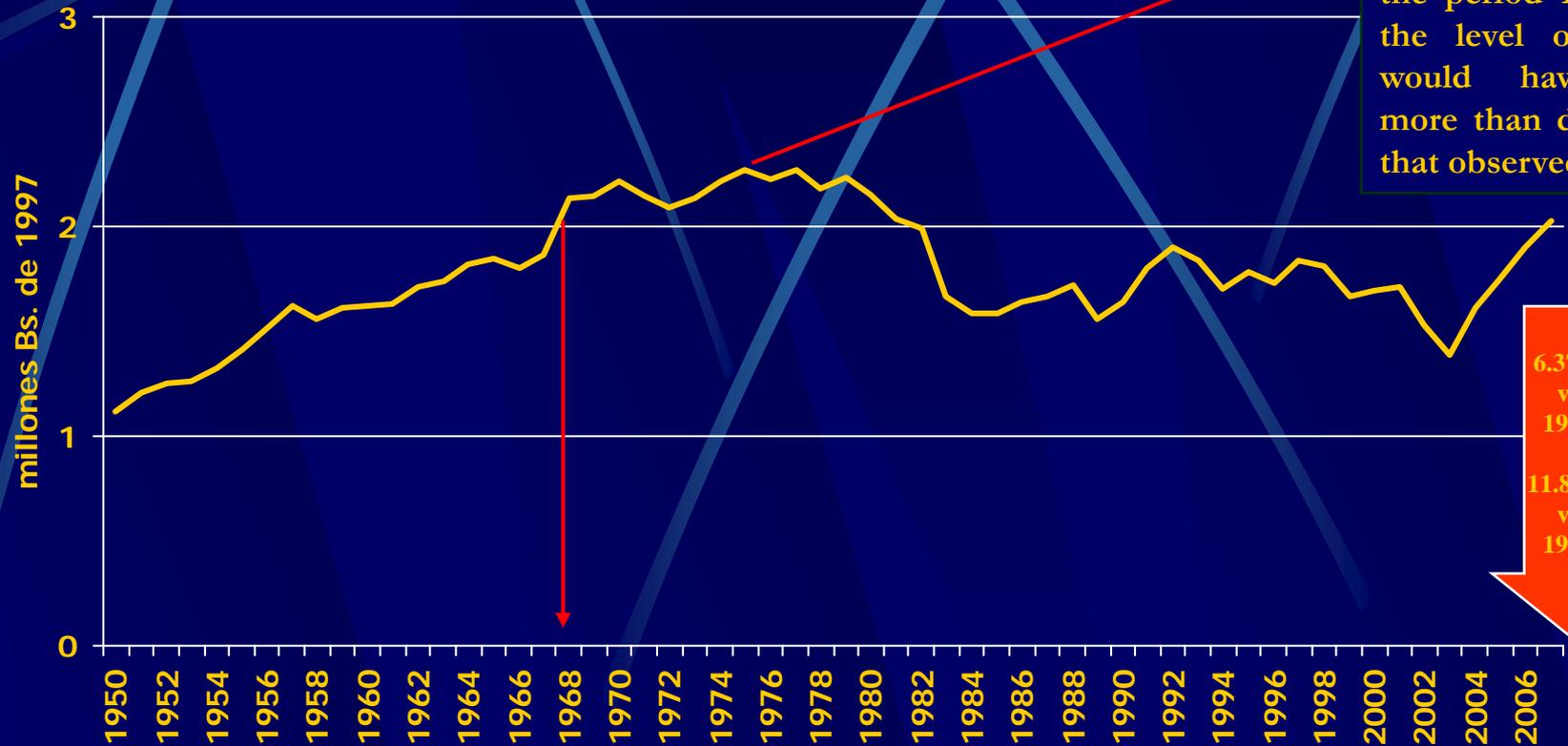
Oil Price and Quarterly Real GDP (1998-2008)



Coeficiente de Correlación: **0.403749**



GDP Per cápita 1950 - 2007

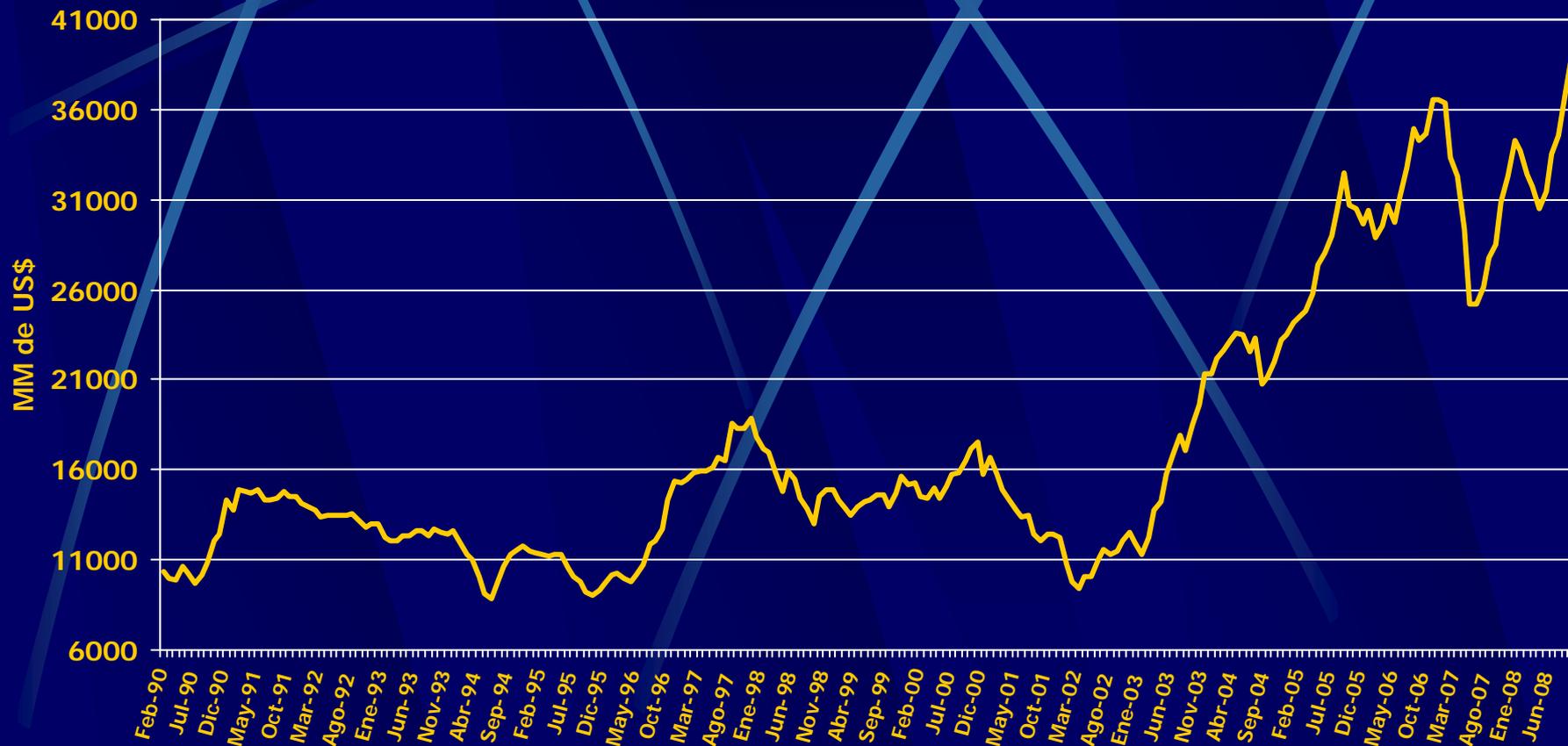


If the per capita GDP followed the same growth rate as the period 1950-1979, the level of 2007 would have been more than double of that observed today...

6.37%
vs.
1992

11.89%
vs.
1998

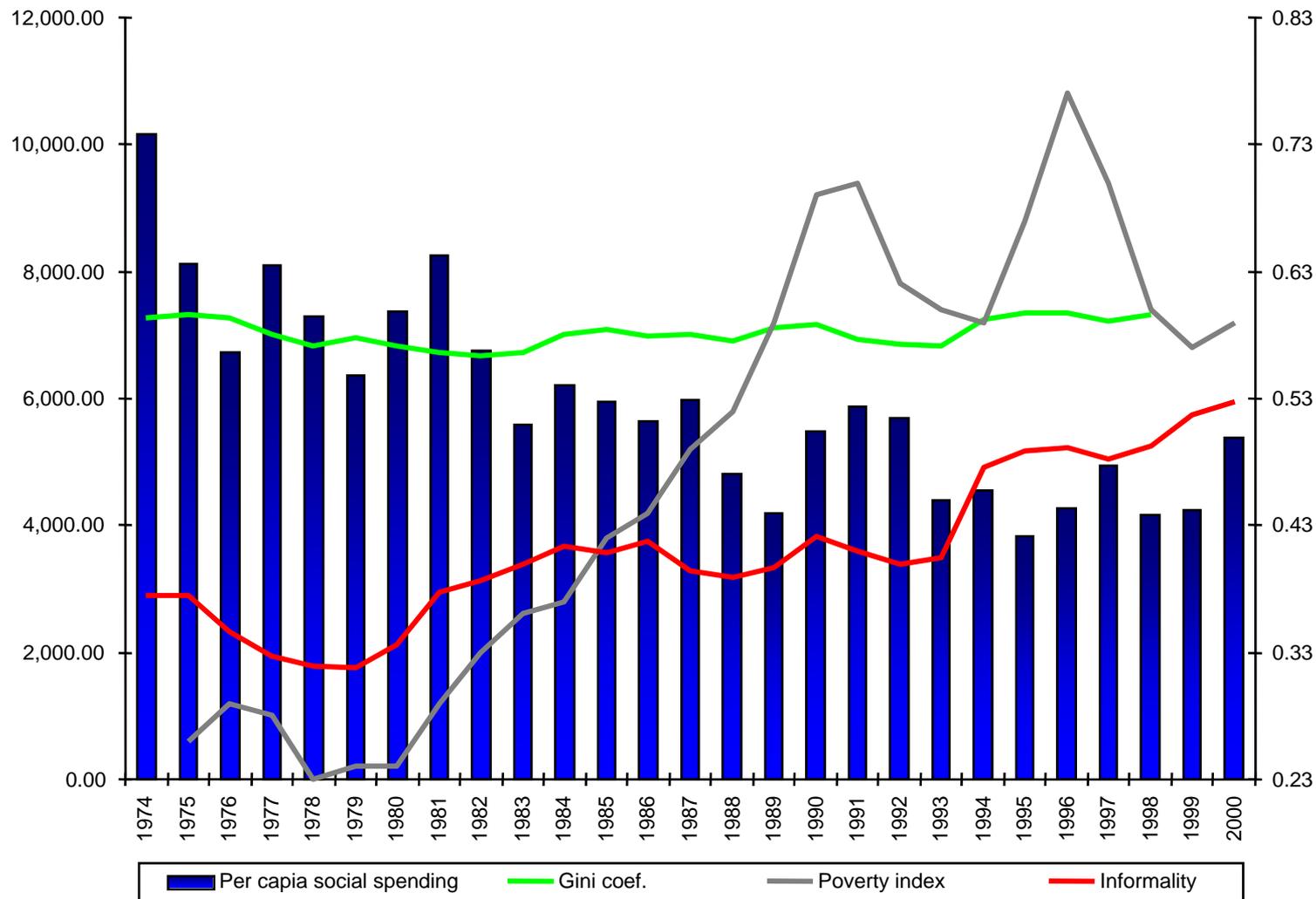
Foreign Exchange Reserves January 1991 – October. 2008



World Champions? 1950-1979

COUNTRY	PERIOD	INFLATION	GDP
Venezuela	50-79	3,1%	5,8%
Alemania Occidental	53-79	3,1%	4,6%
Suiza	53-79	3,2%	3,3%
Estados Unidos	50-79	3,8%	3,4%
Canadá	50-79	4,0%	4,7%
Singapore	63-79	4,2%	4,2%
Japón	63-79	5,7%	8,0%
Costa Rica	60-79	5,7%	5,9%
Francia	50-79	6,0%	4,0%
Italia	50-79	6,1%	4,5%
Reino Unido	51-79	6,2%	2,5%
Tailandia	65-79	6,2%	7,8%
Portugal	53-78	7,5%	5,1%
México	50-78	7,8%	8,9%
España	54-79	9,1%	5,2%
Colombia	50-79	11,7%	5,1%
Corea	53-79	15,0%	7,4%
Perú	60-79	16,1%	4,5%
Brasil	63-79	29,9%	8,6%
Argentina	69-79	72,8%	3,1%
Chile	70-79	89,1%	2,9%

Per capita Social Spending, Poverty, Inequality and Informality in Venezuela. 1974-2000



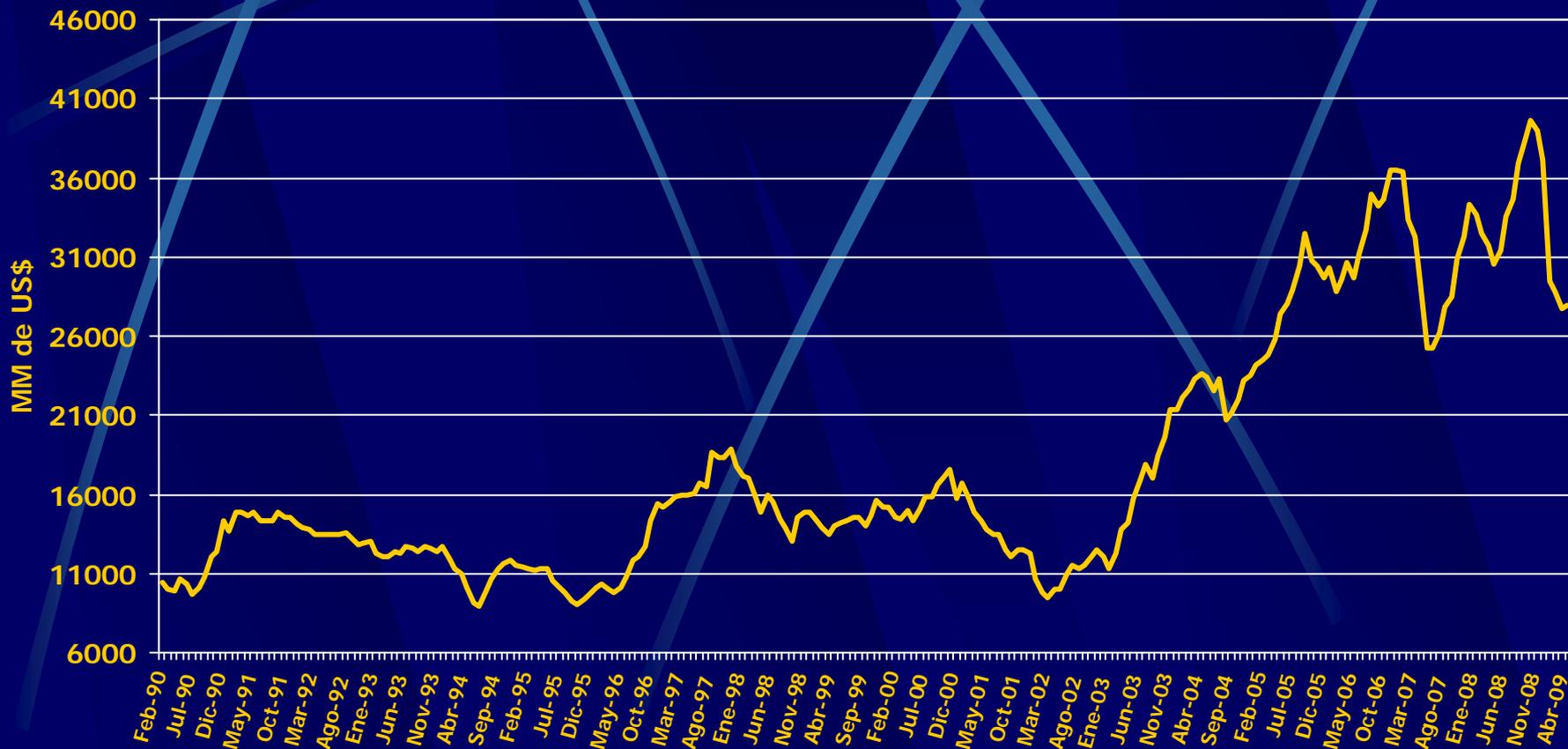
The consequences of the poor economic performance...

- More than 25 years of very negative economic performance not only contributed to Venezuela's poverty increase, but also social inequality with a high level of unemployment and more than half of the work force in the informal sector...
- The political consequences of the poor economic performance of the last three decades are less clear than the social consequences:
 - Social discontent and problems of governance in Venezuela have been largely the result of the decline in socio-economic conditions...

Sin embargo, el Gobierno todavía tiene
“con que...”

- A pesar de los “múltiples desequilibrios macroeconómicos” que continúan agudizándose el gobierno cuenta con activos externos acumulados que le “podrían” permitir posponer “ajustes dramáticos” en una primera etapa y trasladar la “arruga” hacia el futuro...

Reservas Internacionales Enero 1991 – Abril 2009



Gasto Cuasifiscal (El otro Presupuesto)

Algunas cifras para tener una idea de la magnitud los recursos con los que cuenta el Gobierno...

APORTES ANUALES REALIZADOS AL FONDEN AL 19-07-07 (Expresado en MM USD)

Fuente	2005	2006	2007	TOTAL
BCV	6.000,00	4.275,00	6.770,00	17.045,00
PDVSA	1.525,00	6.855,48	3.340,00	11.720,48
TOTAL	7.525,00	11.130,48	10.110,00	28.765,48

Fuente :Fonden

DISTRIBUCION DE LOS RECURSOS FINANCIEROS ADMINISTRADOS POR EL FONDEN (EXPRESADO EN DOLARES AMERICANOS)

Instrumento	Recursos Líquidos Disponibles	Recursos Invertidos	Total
Efectivo	7.299.142.321,2		7.299.142.321,2
OVERNIGHT	1.993.831.772,1		1.993.831.772,1
Certificado de Garantía	1	500.000.000,0	500.000.000,0
Productos Estructurados		5.351.000.000,0	5.351.000.000,0
Bono Soberano (Ecuador)		25.000.000,0	25.000.000,0
Fondos de inversion		9.200.000,0	9.200.000,0
Total	9.292.974.093,3	5.885.200.000,0	15.178.174.093,3

Fuente: FONDEN

El gasto "cuasifiscal" (fondos discrecionales del Ejecutivo) han promediado 4 puntos del PIB en los últimos 4 años...

Fondos "paralelos", que podrían servir como "amortiguadores", al menos por un tiempo...

FONDEN	9.6
BANDES	3.6
TESORERIA (BCV Y MONEDA EXTRANJERA)	1.3
PDVSA	0.9
FONDO SÚBITO	2.3
FONDOS MIRANDA	0.1
FONDO CHINO	3.0
Otros Fondos Binacionales (Irán, Rusia, Bielorrusia)	1.5
Otros Fondos (ALAN, Proyectos Sociales Especiales, etc.)	2.0
Depósitos en el sistema financiero	5.3
FONDOS PARALELOS TOTALES	29.6

Además de US\$ 17.000 millones que se van a emitir en deuda interna durante el 2009...



...Y finalmente, un poco de “astrología” ...
(El cierre del 2008 y “tres posibles” escenarios
para el 2009...)

¿Como cerró el 2008?

Final 2008	
PIB	4.9%
PIB Petrolero	3%
PIB No Petrolero	5.3%
Tasa de Inflación	31.9%
Bs. US\$ (oficial al final del 2008)	2150* Bs US \$
Reservas Internacionales (US \$ MM)	37
Balance Fiscal Gobierno Central (% del PIB)	-1.5
Cesta Petrolera Venezolana (Promedio para el 2008)	86.81 US \$

Escenario Macroeconómico 2009 I

("Lo mejor que puede pasar" ...)

Final 2009	
PIB	2-3%
PIB Petrolero	-1-2%
PIB No Petrolero	3-4%
Tasa de Inflación	33-35%
Bs. US\$ (oficial al final del 2009)	2,15* Bs US \$
Reservas Internacionales (US \$ MM)	27
Balance Fiscal Gobierno Central (% del PIB)	-3%
Cesta Petrolera Venezolana ("Promedio" para el 2009)	60 US \$

Escenario Macroeconómico 2009 II

("Trasladando la arruga" ...)

Final 2009	
PIB	0-1%
PIB Petrolero	-4-5%
PIB No Petrolero	2-3%
Tasa de Inflación	38-40%
Bs. US\$ (oficial al final del 2009)	2,15* Bs US \$
Reservas Internacionales (US \$ MM)	25
Balance Fiscal Gobierno Central (% del PIB)	-5%
Cesta Petrolera Venezolana ("Promedio" para el 2009)	38 US \$

Escenario Macroeconómico 2009 III

("Explota la bomba" ...)

Final 2009	
PIB	-2-3%
PIB Petrolero	-2-3%
PIB No Petrolero	-1-0%
Tasa de Inflación	45-50%
Bs. US\$ (oficial al final del 2009)	3,5* Bs US \$
Reservas Internacionales (US \$ MM)	20
Balance Fiscal Gobierno Central (% del PIB)	-5%
Cesta Petrolera Venezolana ("Promedio" para el 2009)	35-50 US \$