



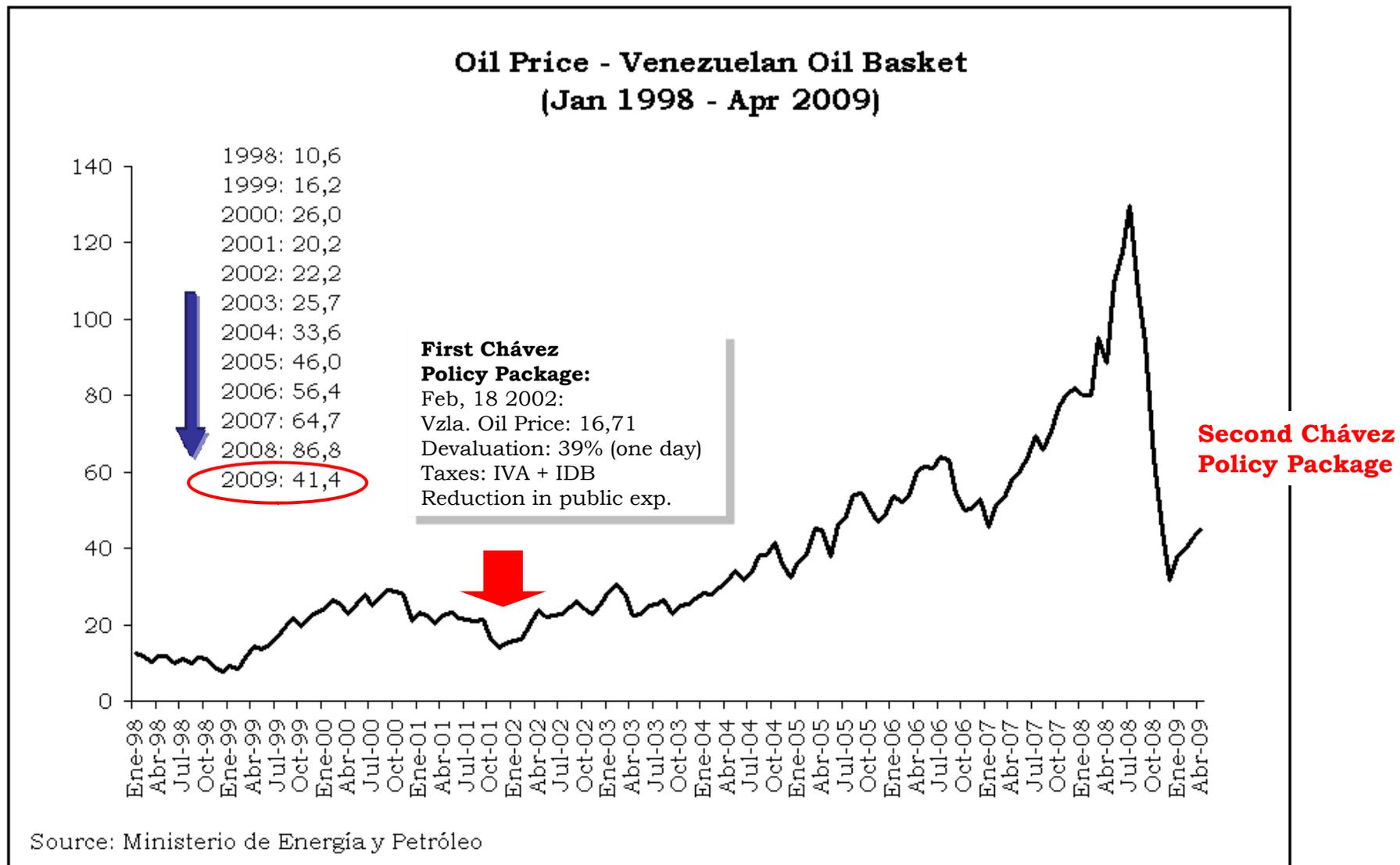
Outlook for Venezuela's Economy: 2009 and Beyond

Center for Strategic and International Studies / Program Americas

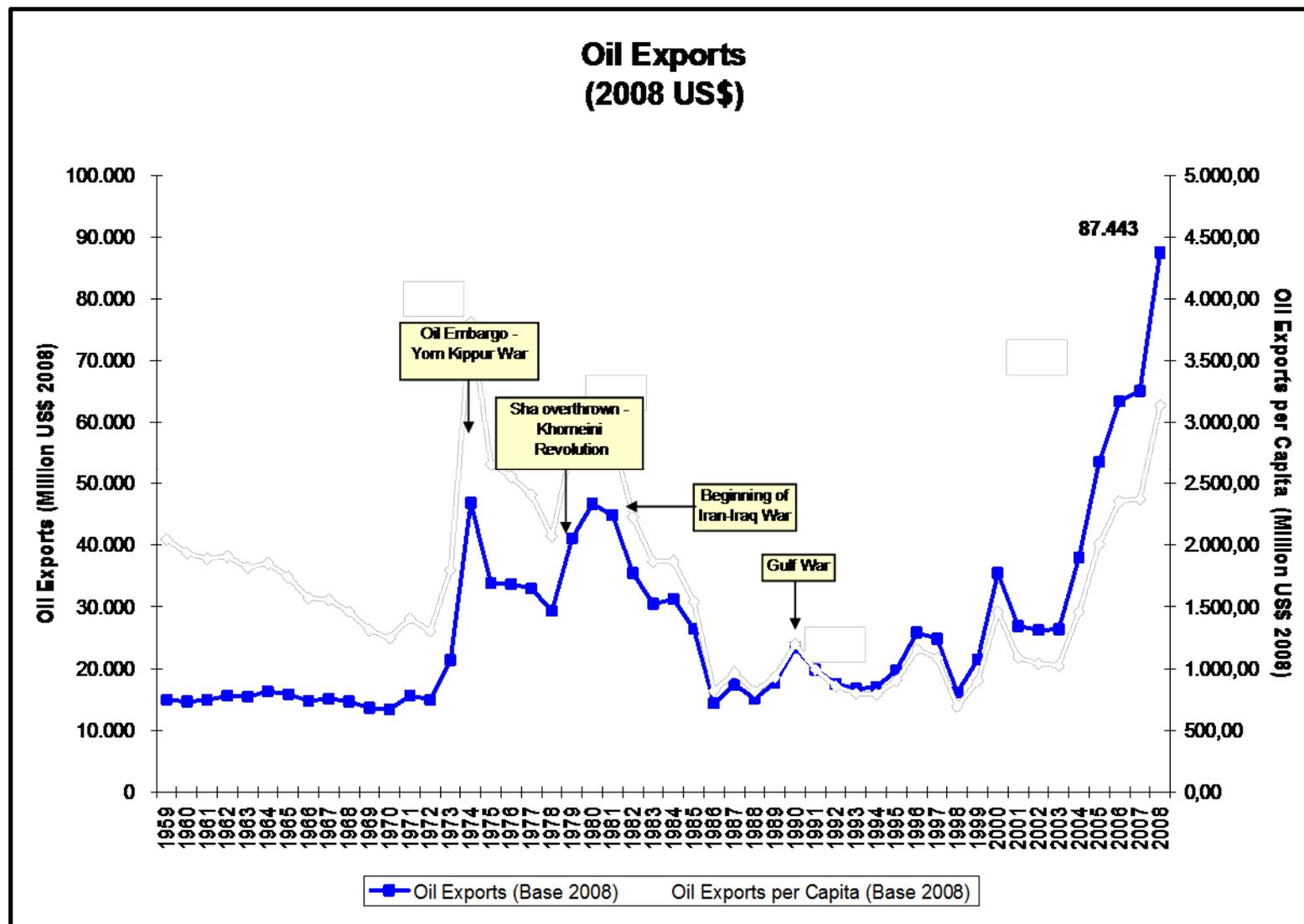
May, 2009

Miguel Ángel Santos
Adjunct Professor, Center of Finance, IESA
www.miguelangelsantos.blogspot.com

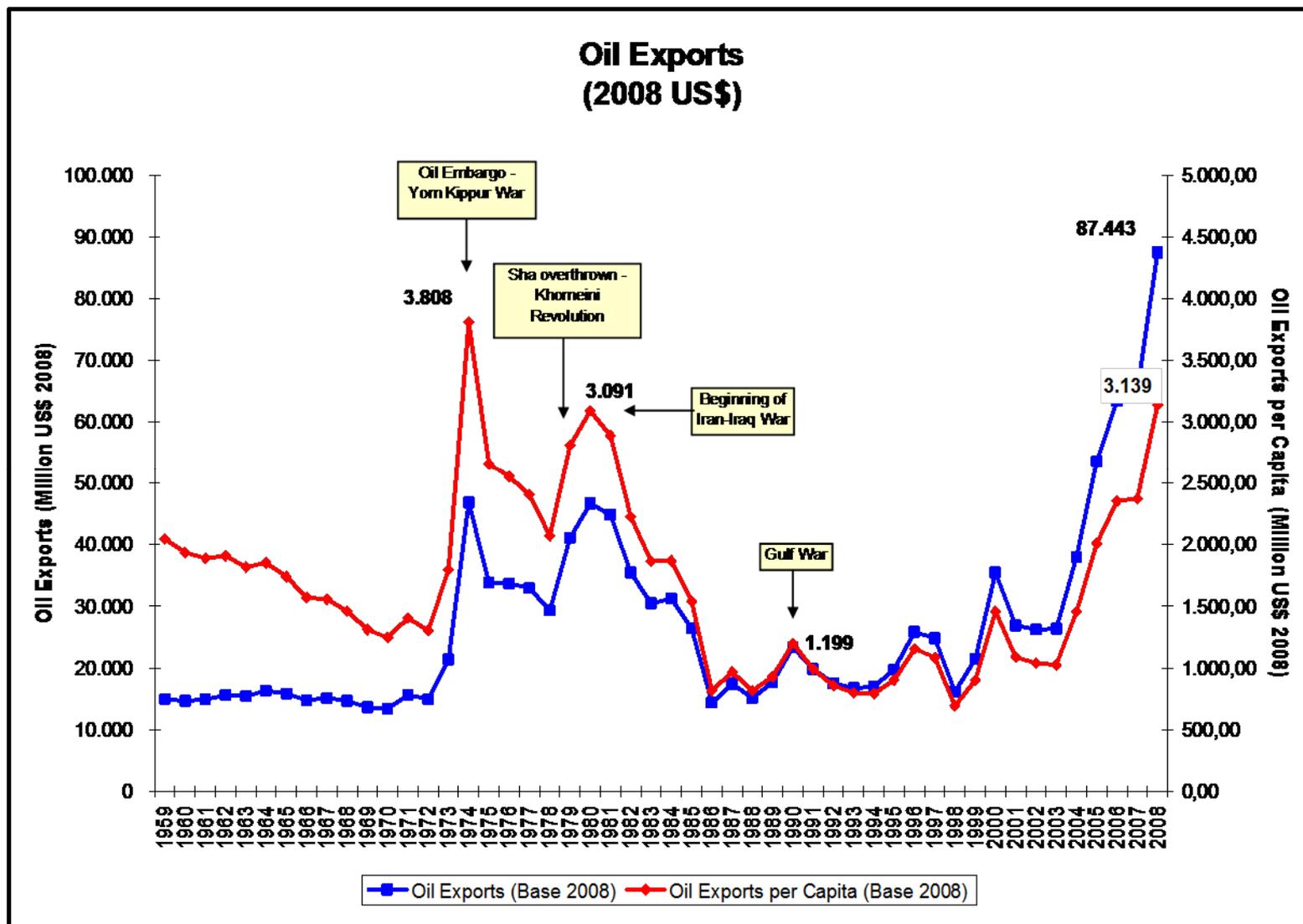
After five years of sustained increase in oil price, the Venezuelan oil basket plummeted, closing Jan-Apr 53.7% below same period 2008 ...



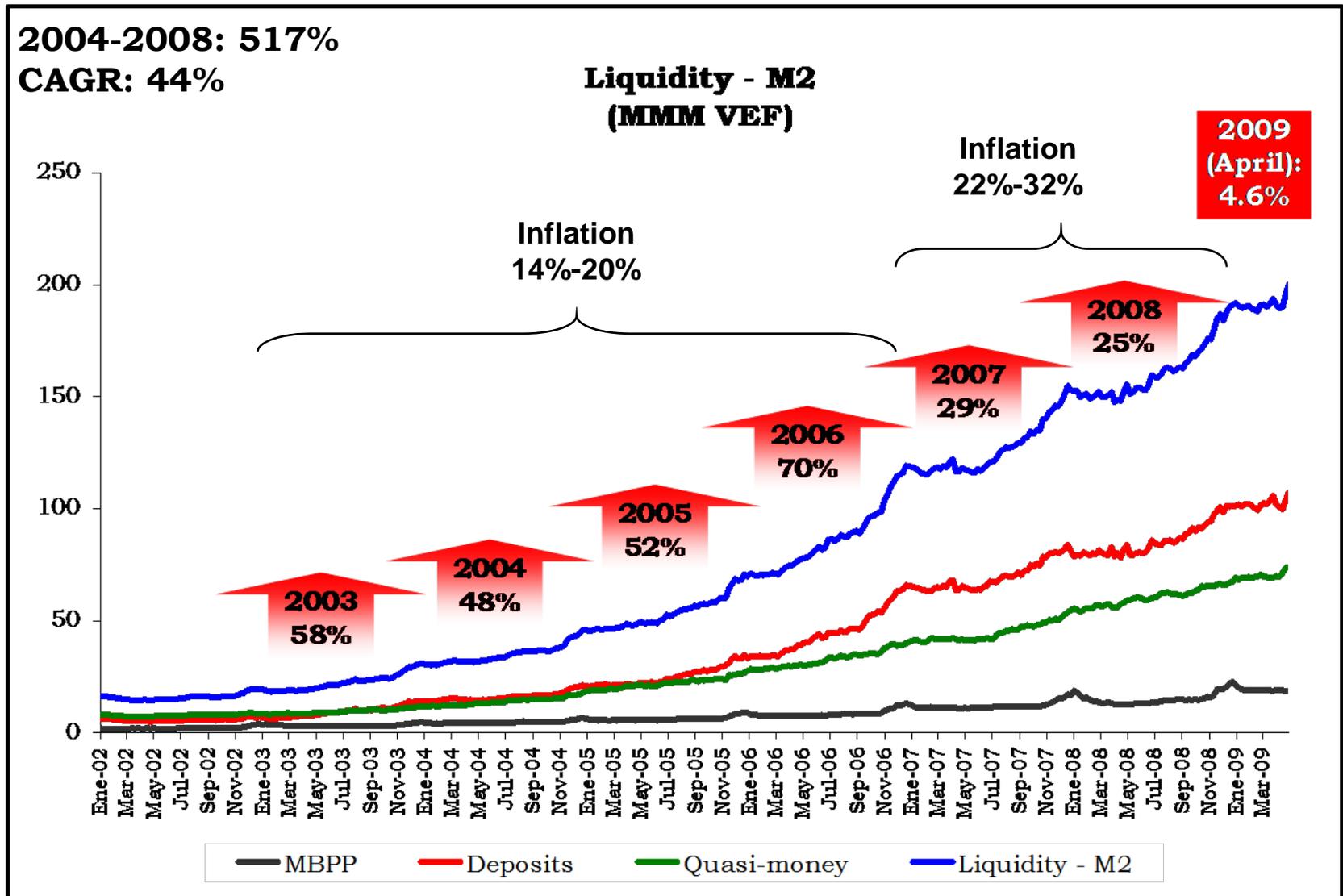
Starting 2005, oil exports in real terms have been the highest in Venezuelan history, reaching a peak in 2008 at US\$87.443 billion



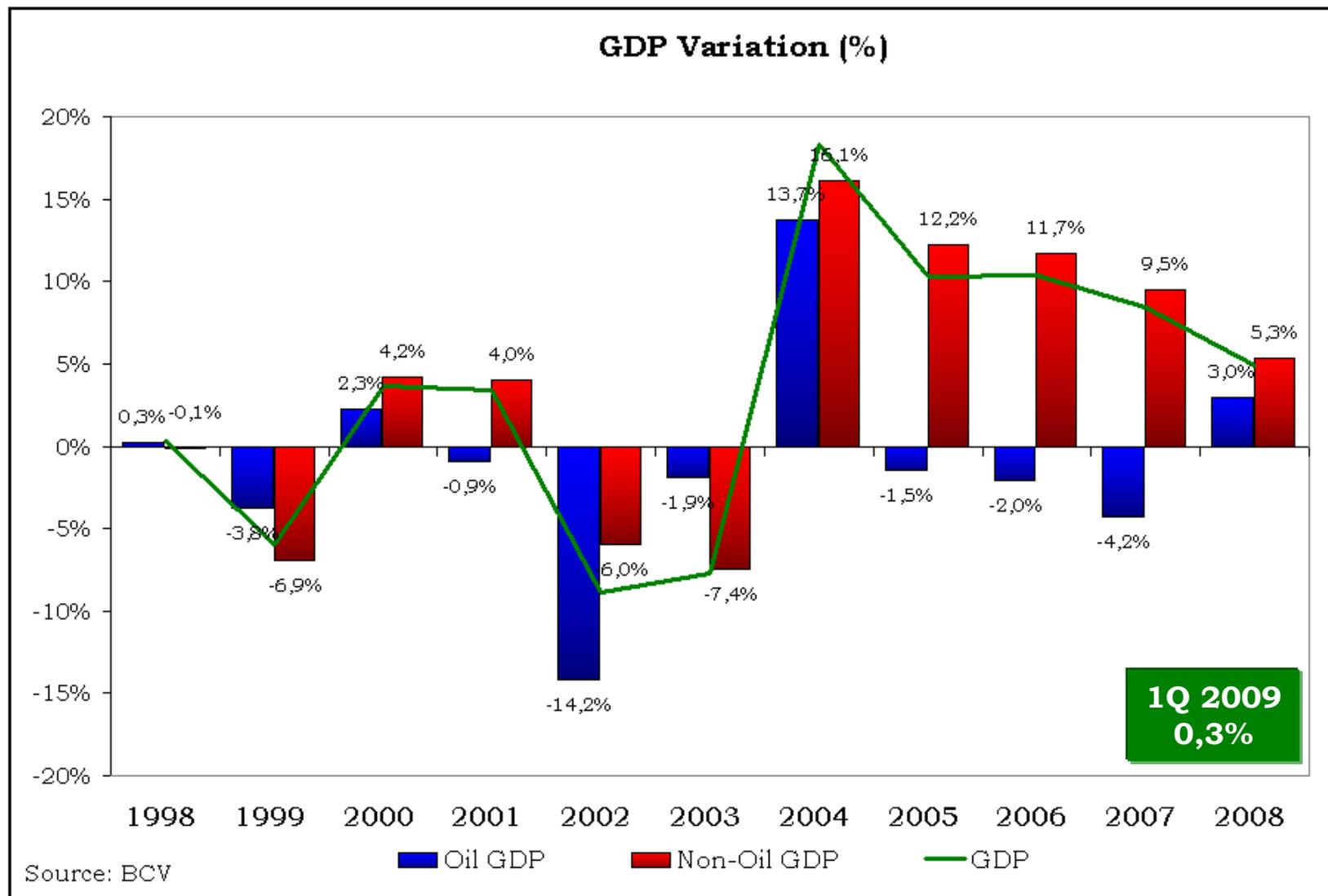
On a per capita basis, however, real oil exports are still 18% below their peak (1974)



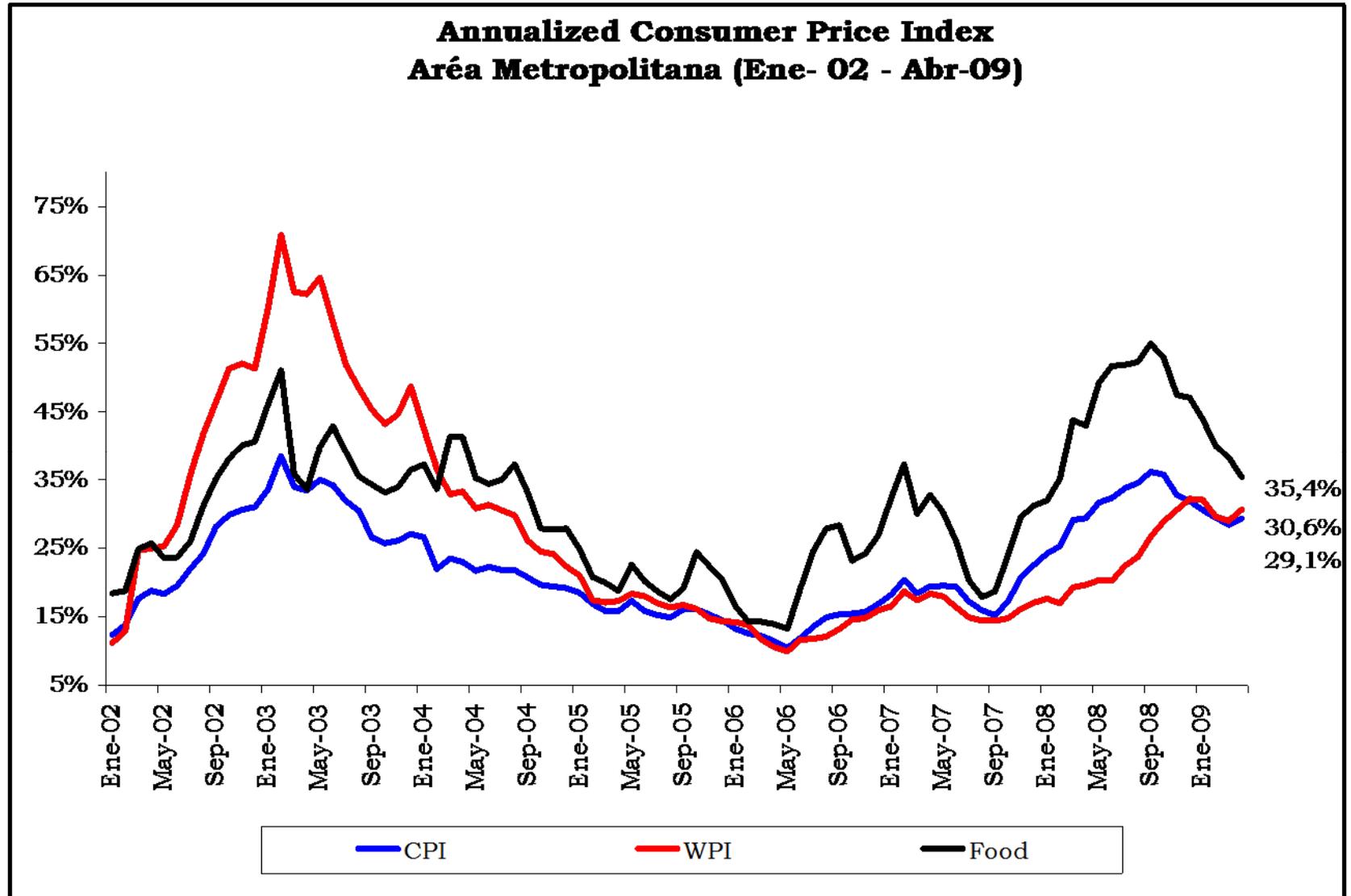
Oil revenues were translated into public expenditure, causing a massive increase of liquidity...



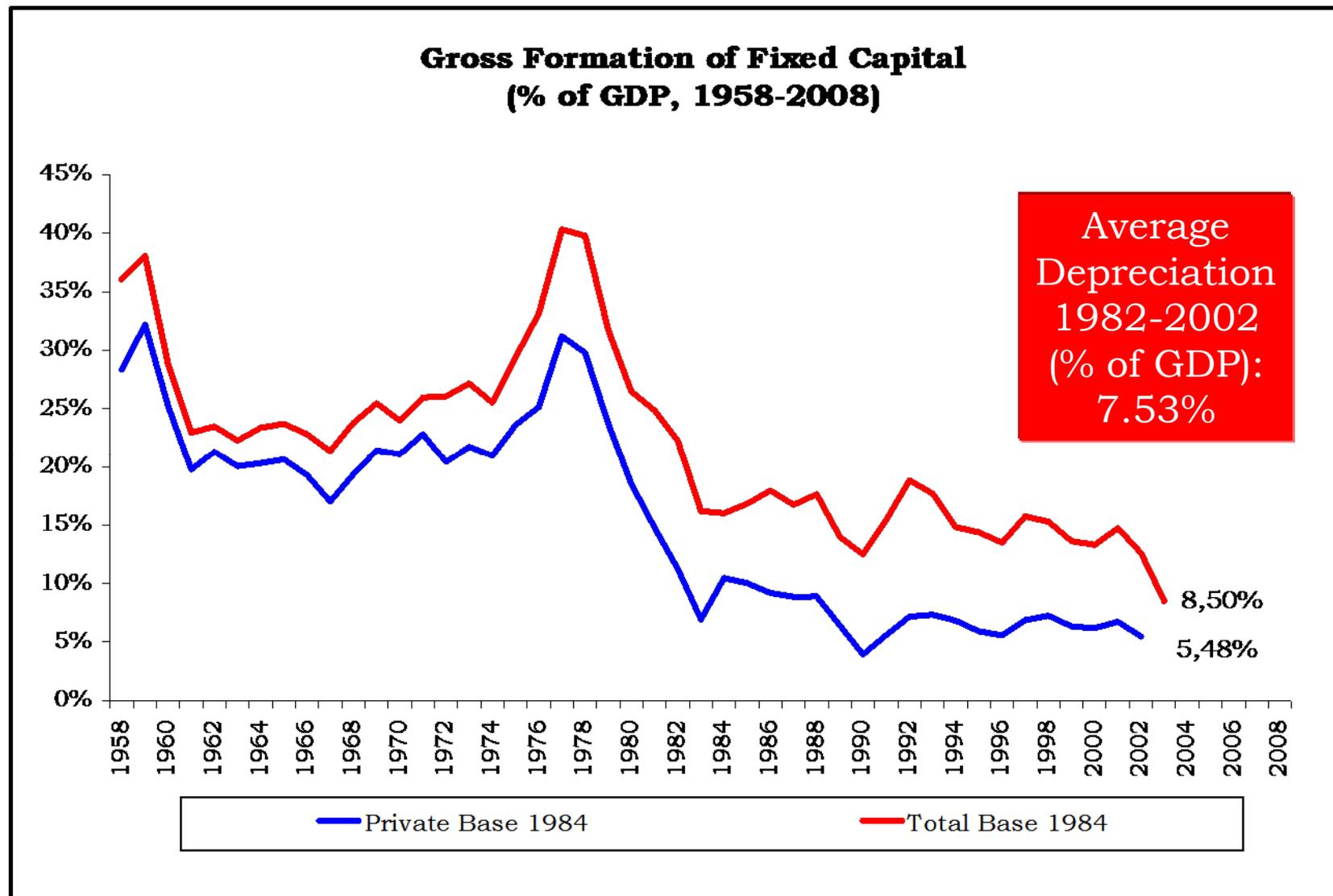
GDP growth registered a 63.8%+ increase between 2004-2008, but it was already decelerating at a fast pace before oil prices came down...



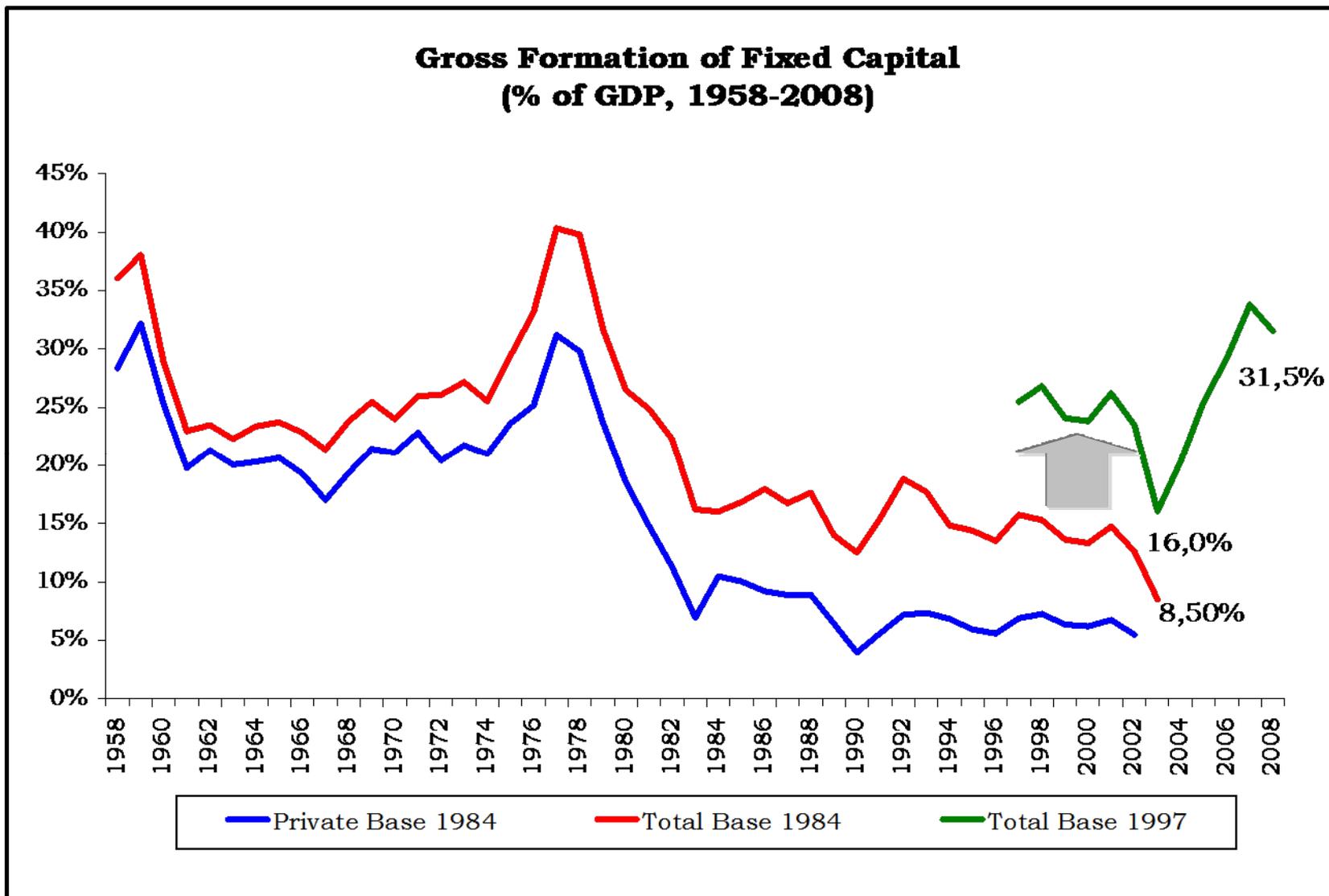
The inflation rate reported does not correlate with the large difference between M2 and GDP growth...



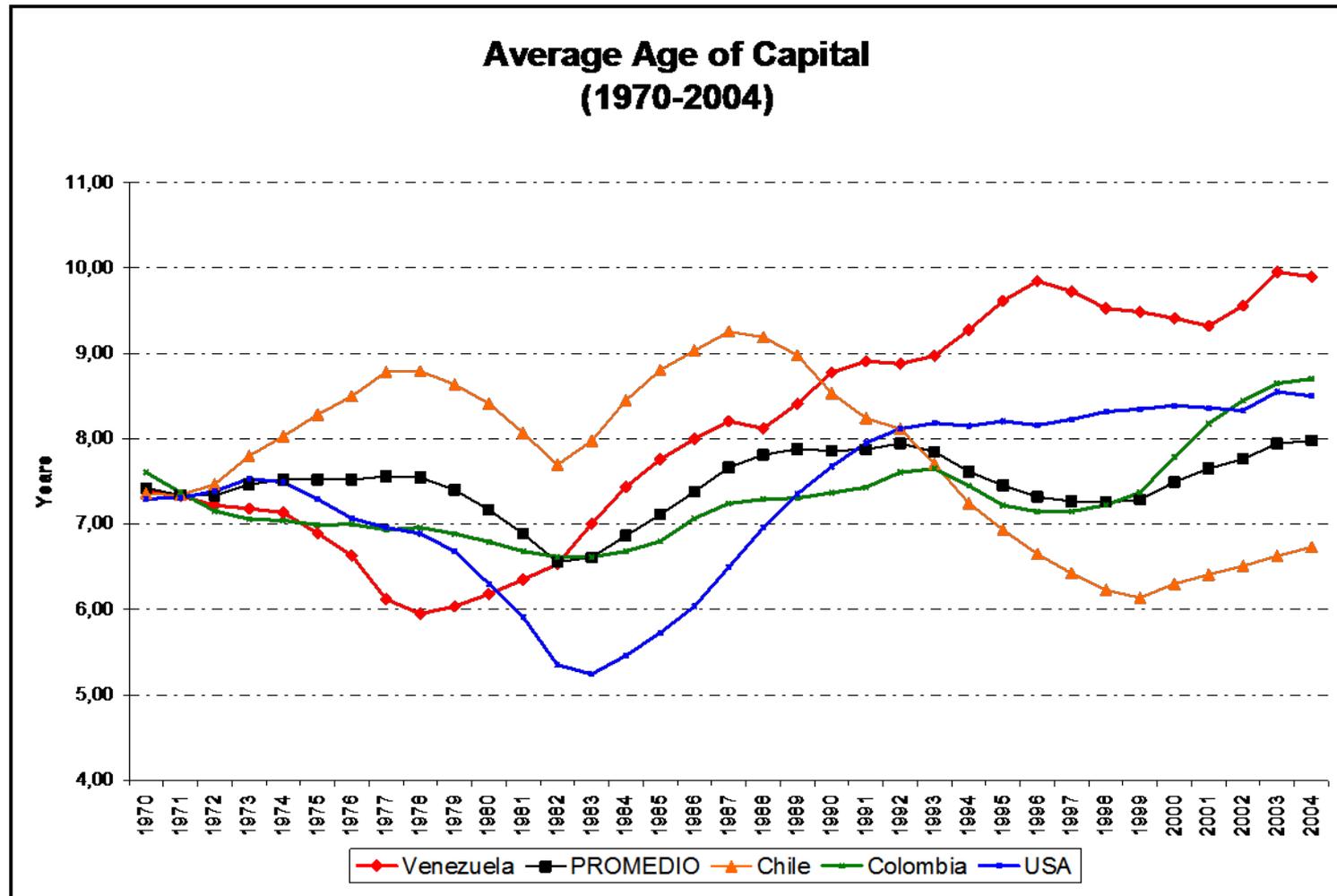
Before the Central Bank changed the base year and the methodology of estimation, investment (public and private) were at historic lows...



The new methodology incorporates imports of durable goods (among other changes) as gross formation of capital...

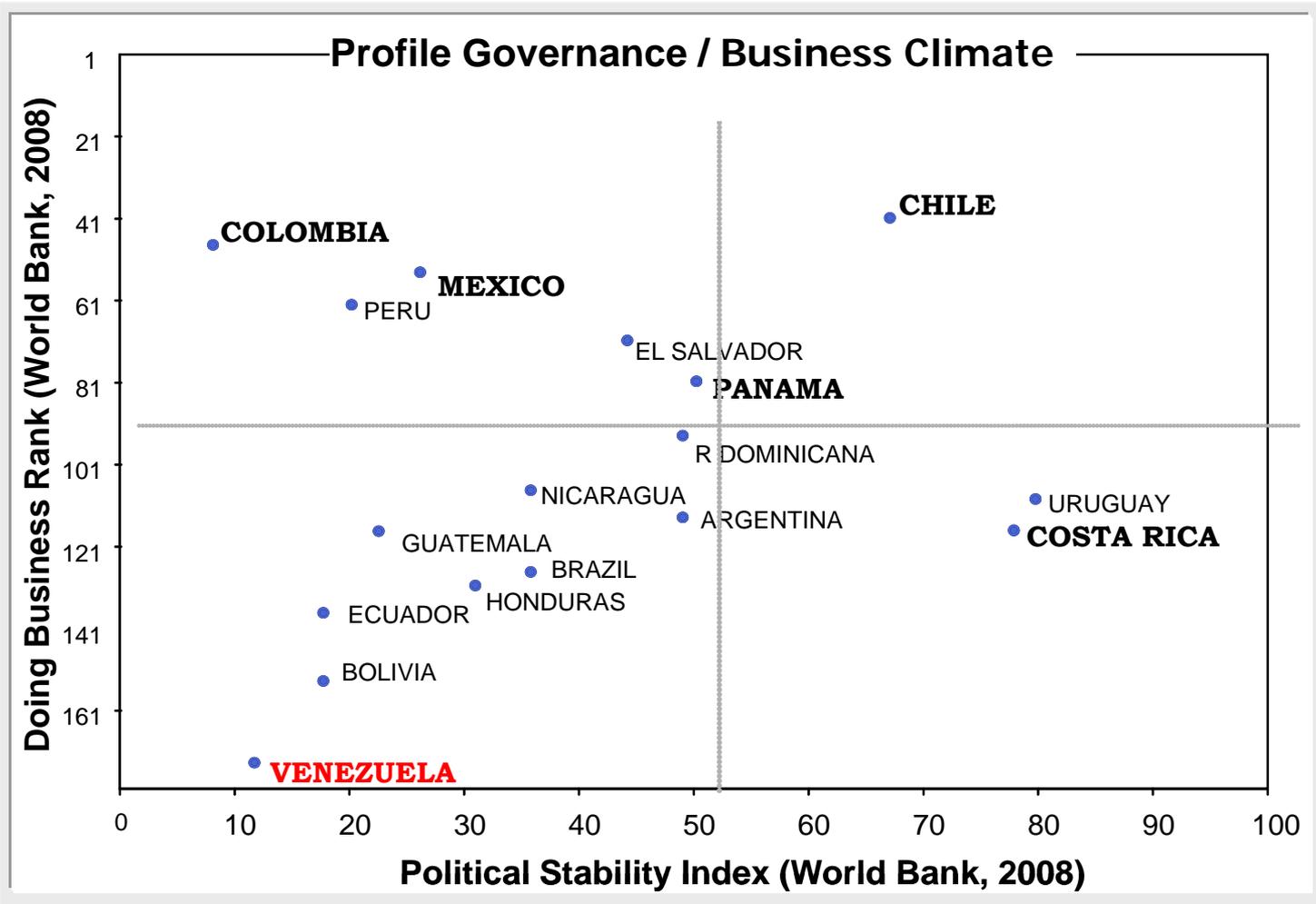


By 2004 the average age of the Venezuelan capital was 67% higher than Chile, 25% higher than Latin America ...



If we start investing twice as much as Chile, by 2025 we may expect to catch up in terms of technology and age of capital

Venezuela is currently the worst destination for private capital in Latin America... That can not be changed by decree ...

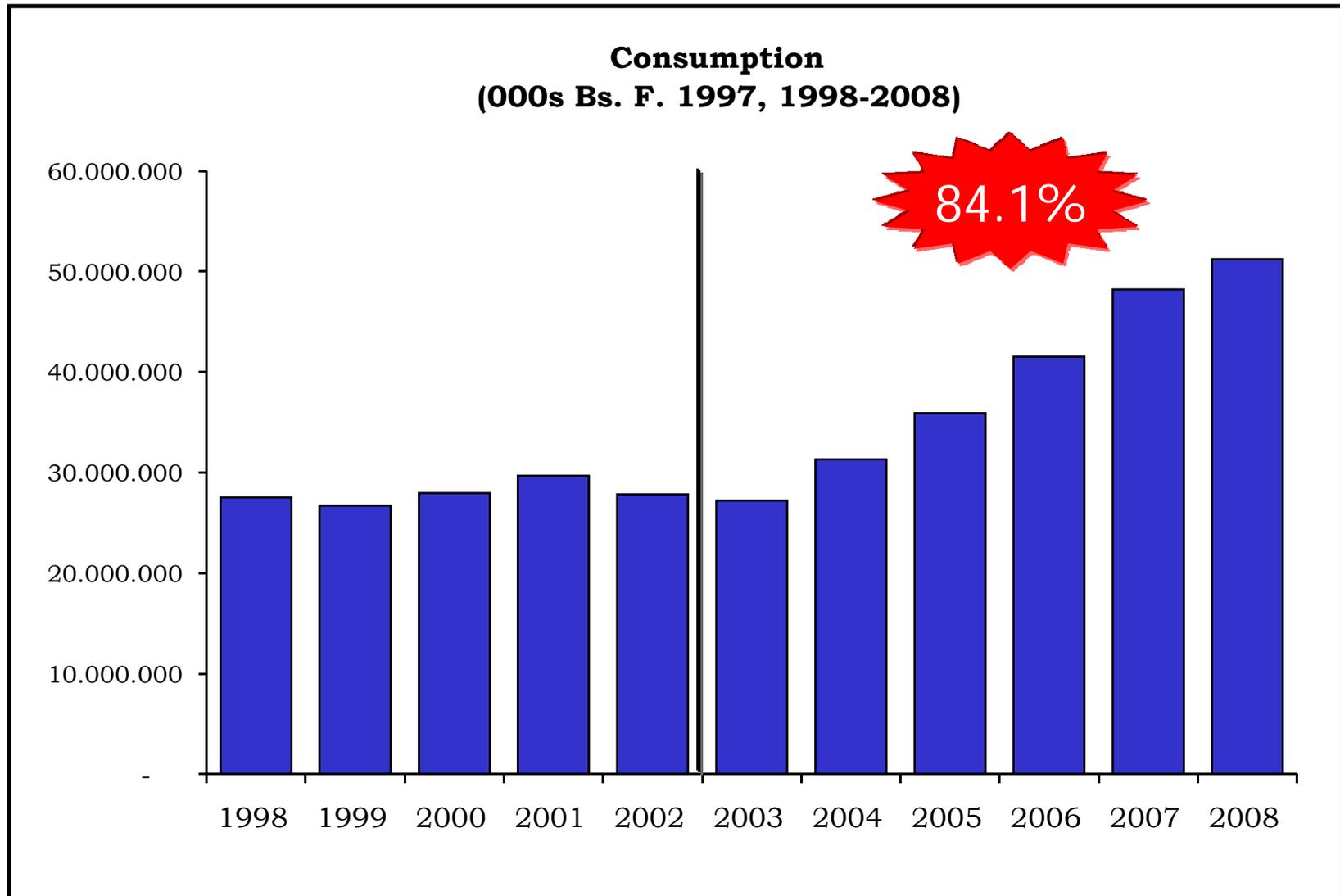


- In ease of doing business Venezuela is only above Chad, Sao Tomé, Burundi, Republic of Congo, Guinea-Bisseau, Central Africa y Democratic Republic of Congo
- It is a lot easier to do business in Sudán, Irak, Haití, Zimbabwe y Afganistán

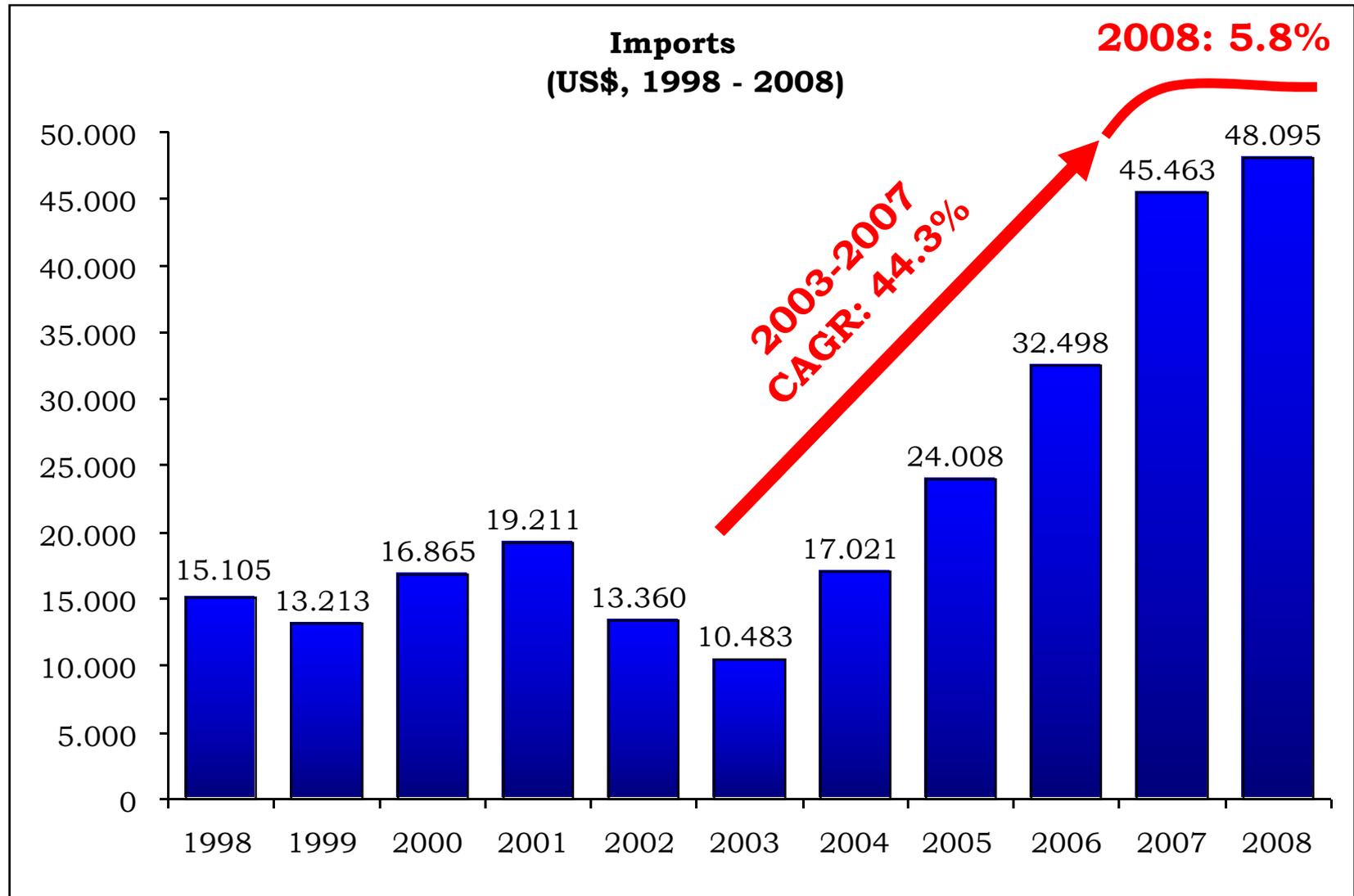
First set of ideas...

- The Venezuelan growth experience was based on a combination of idle capacity, and oil fueled-public expenditure
- With net investment in fixed capital close to zero, increases in public expenditure had less effect on growth and more in prices
- Had oil prices remained high, inflation (demand driven) would have been even higher, but there would have been more room to keep on increasing consumption through cheap imports ...

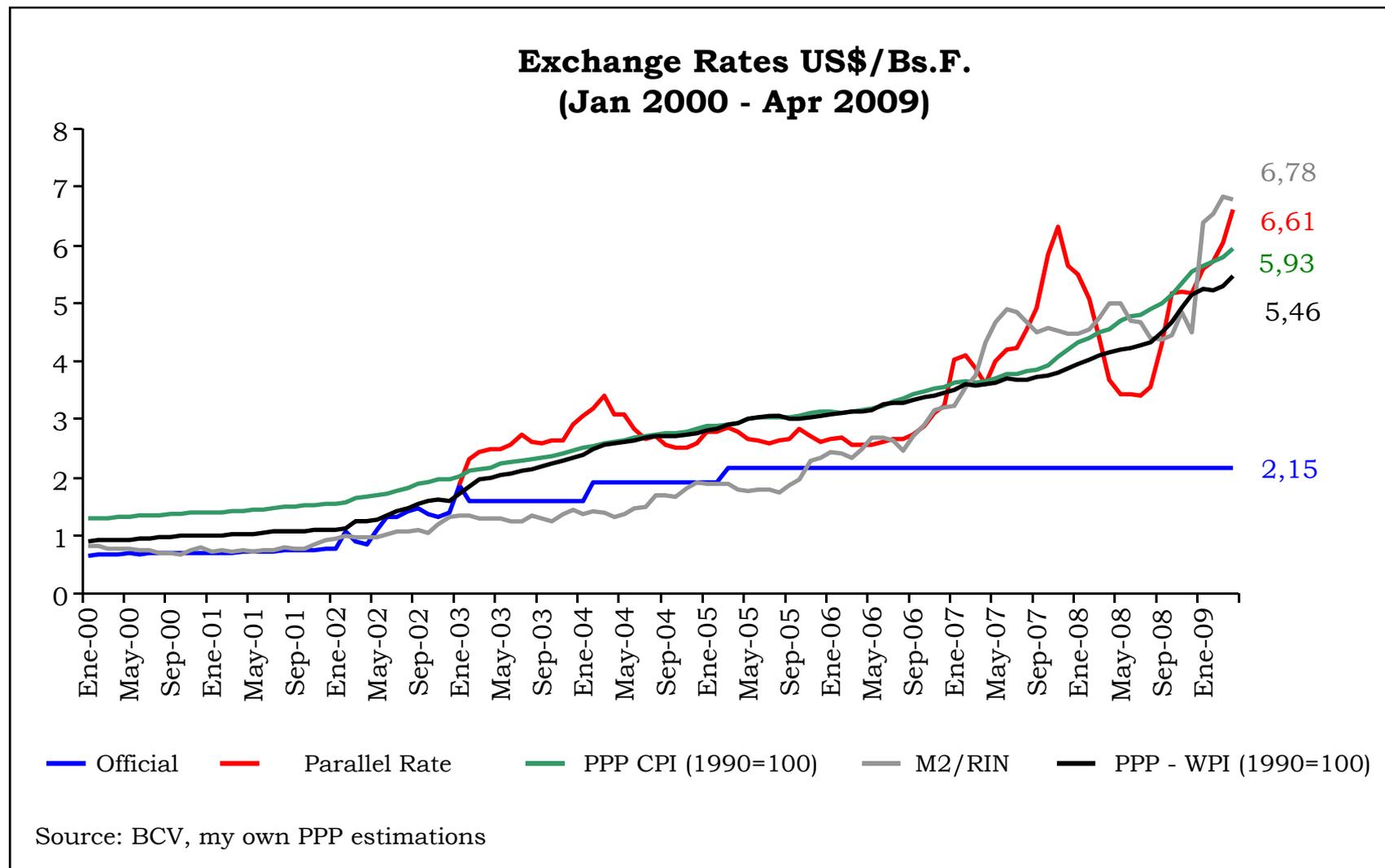
If GDP grew at 63.8% between 2004-2008, consumption grew at an even higher rate: 84.1% (equivalent to 66.3% per capita)



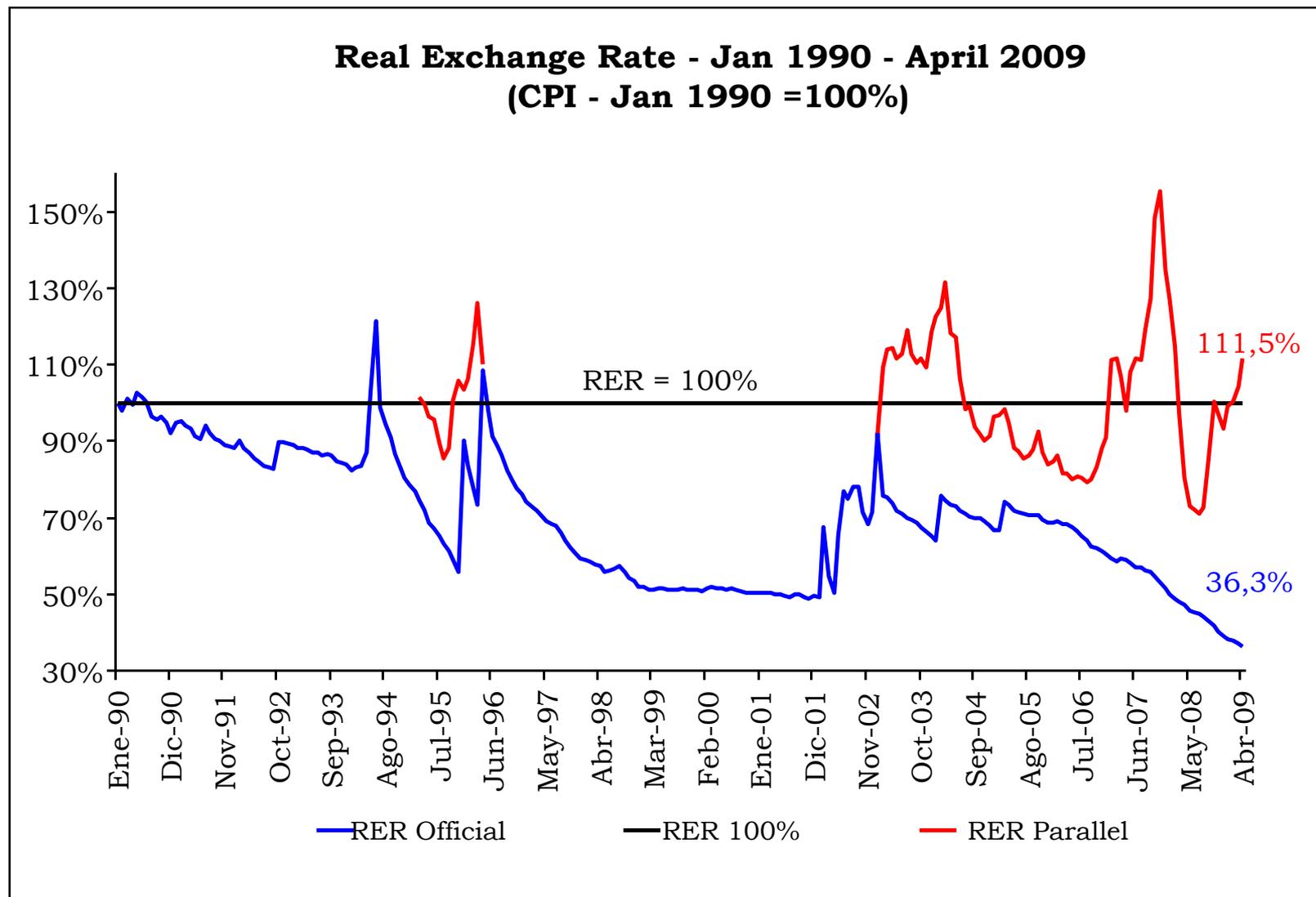
The gap between production and consumption was bridged through a massive inflow of imports ...



Cheap imports were eased by massively overvaluing domestic currency...

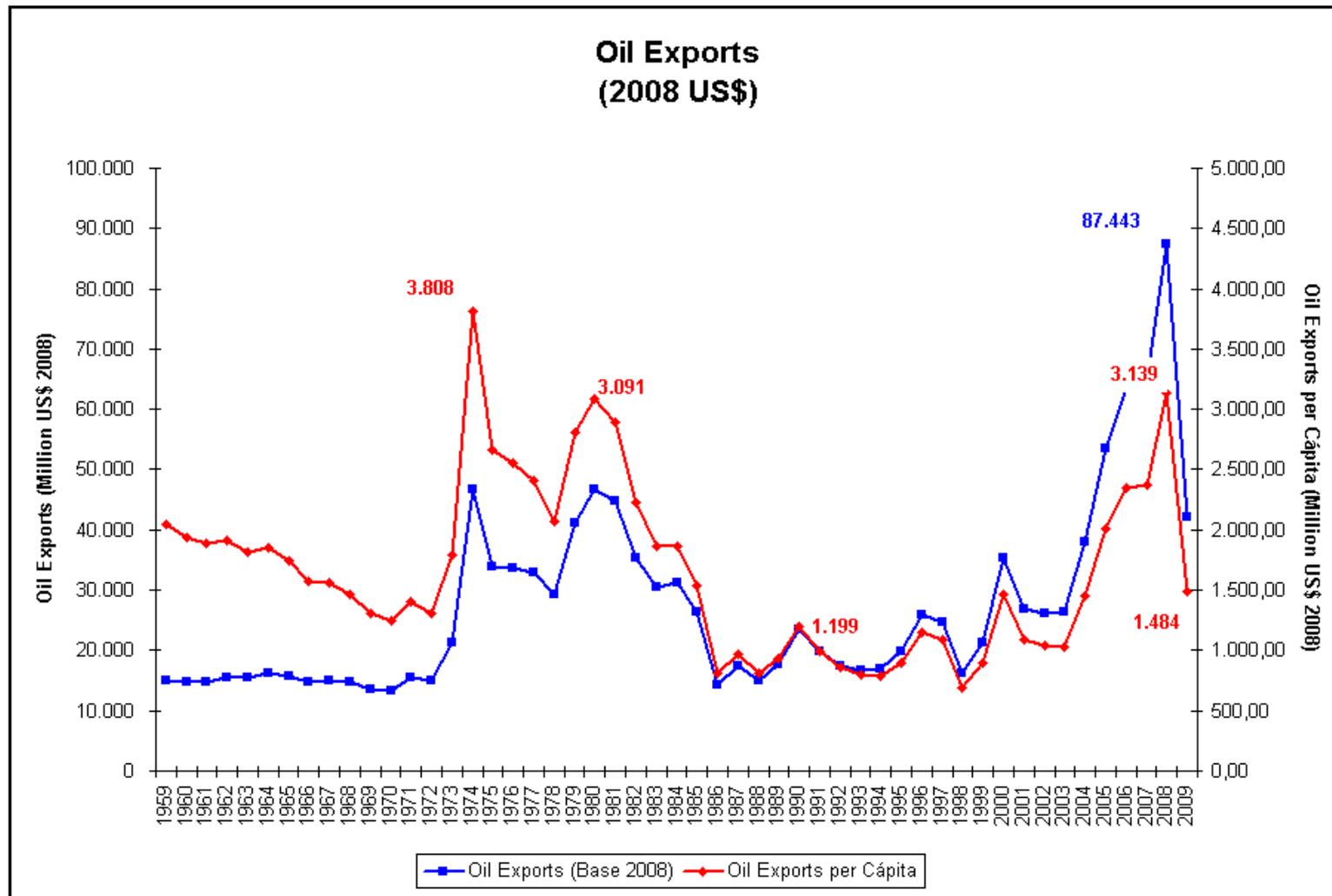


Cheap imports were eased by massively overvaluing domestic currency...

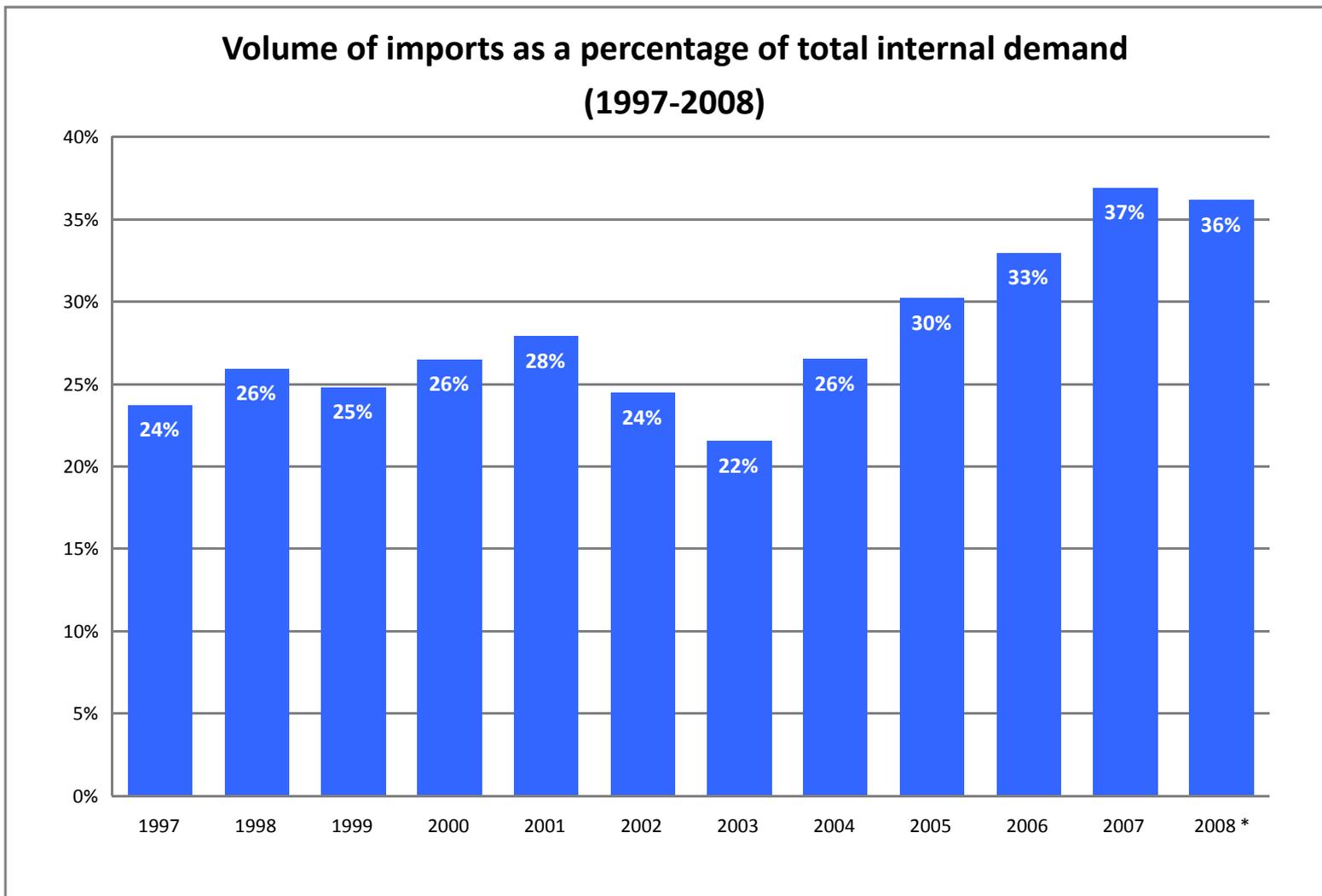


And then oil prices came down... the future is not what it used to be ...

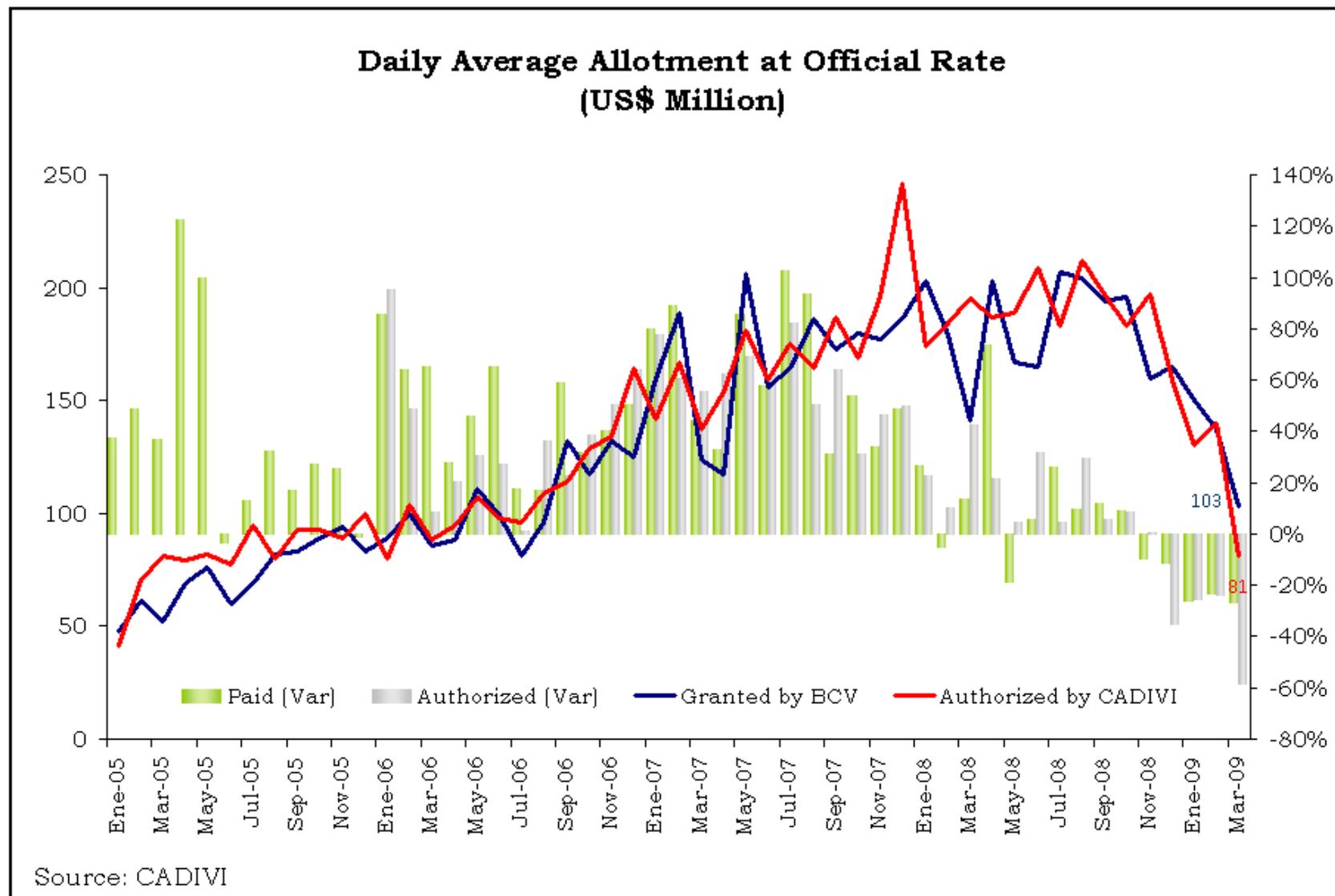
At US \$45 per barrel, oil exports per capita would fall 53% when compared to 2008 ...



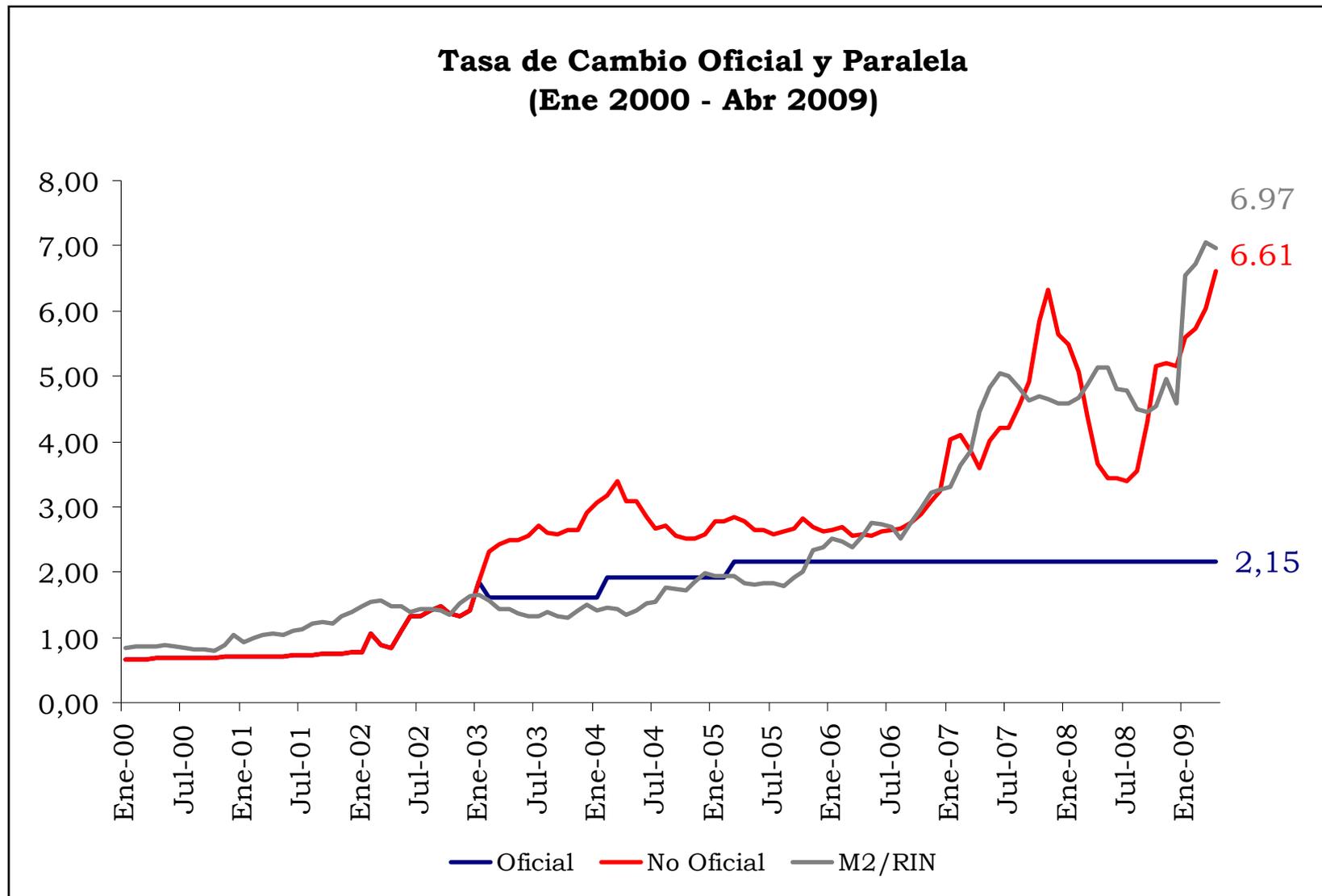
We need to cut down sharply in imports at a point when our dependence of imports is very high: 36-37% of total internal demand



Total US\$ granted at official rate (2.15) fell by 29% in Jan and Feb, 59% in March, sending importers to the parallel market ...

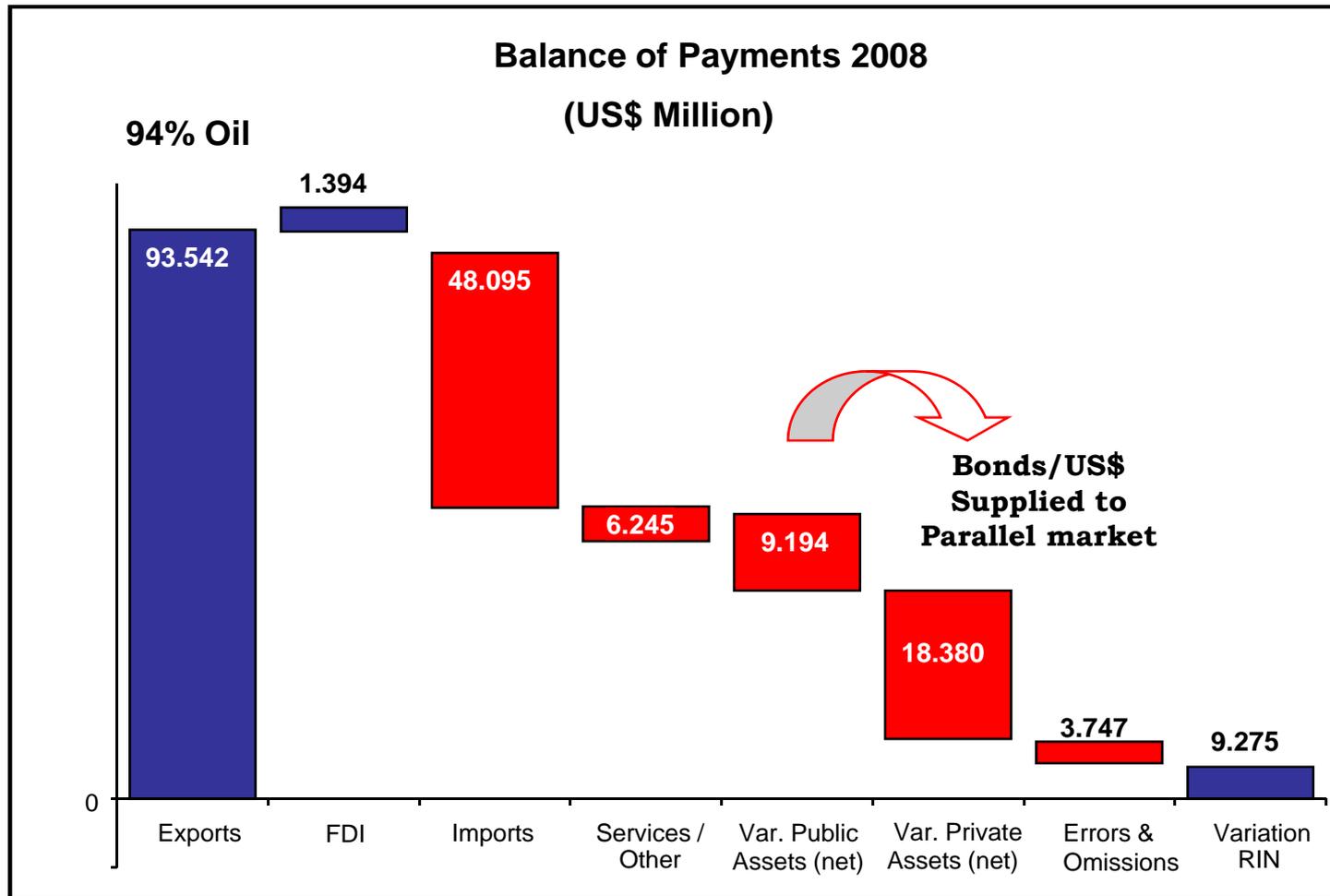


... where the prevailing exchange rate is 200% higher!

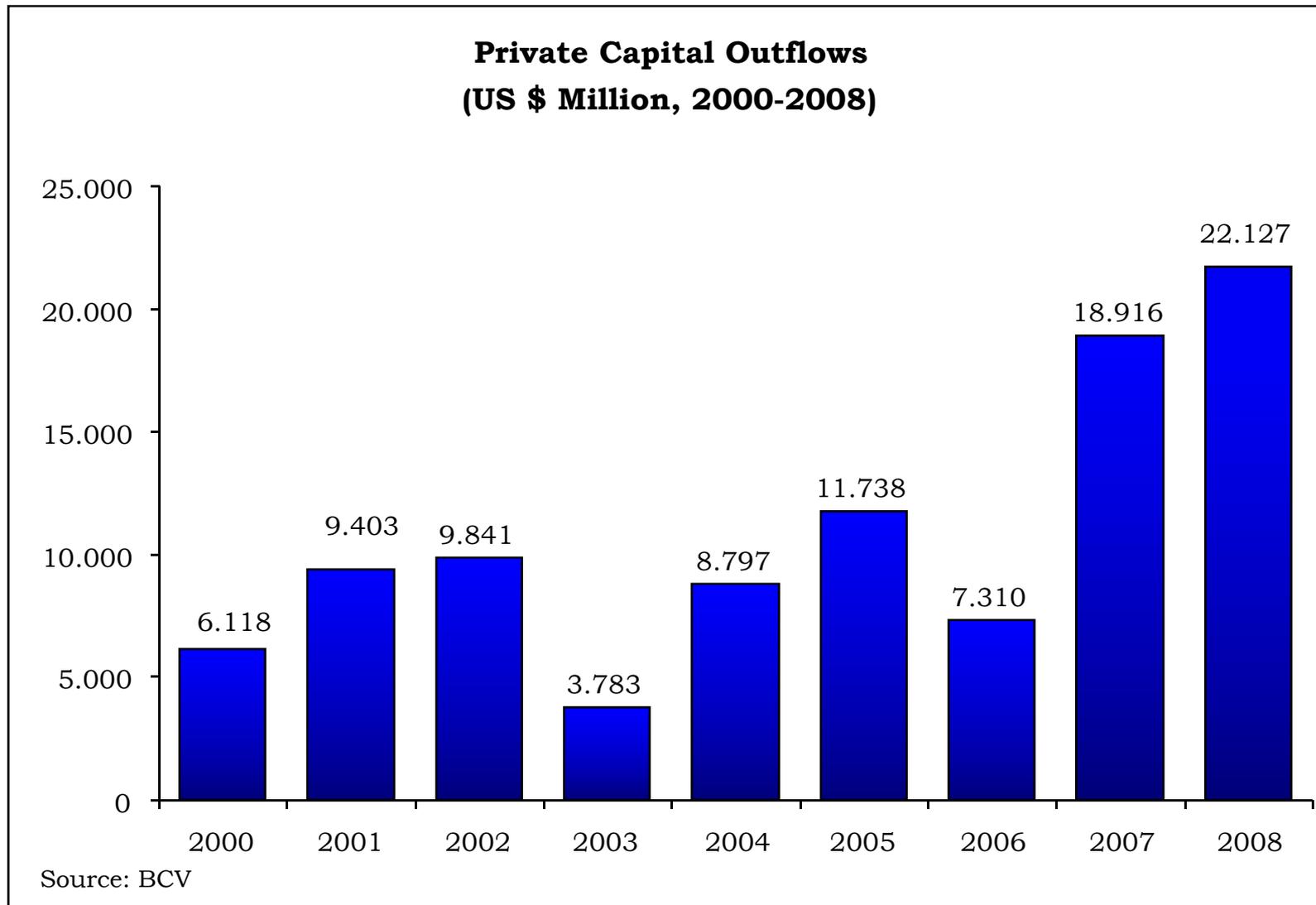


What have we done with the US\$ coming from the oil bonanza?

In 2008, with the average Venezuelan barrel at US \$88.6 and oil exports at US \$87.433 billion net accumulation of foreign reserve was US\$9.275 billion ...

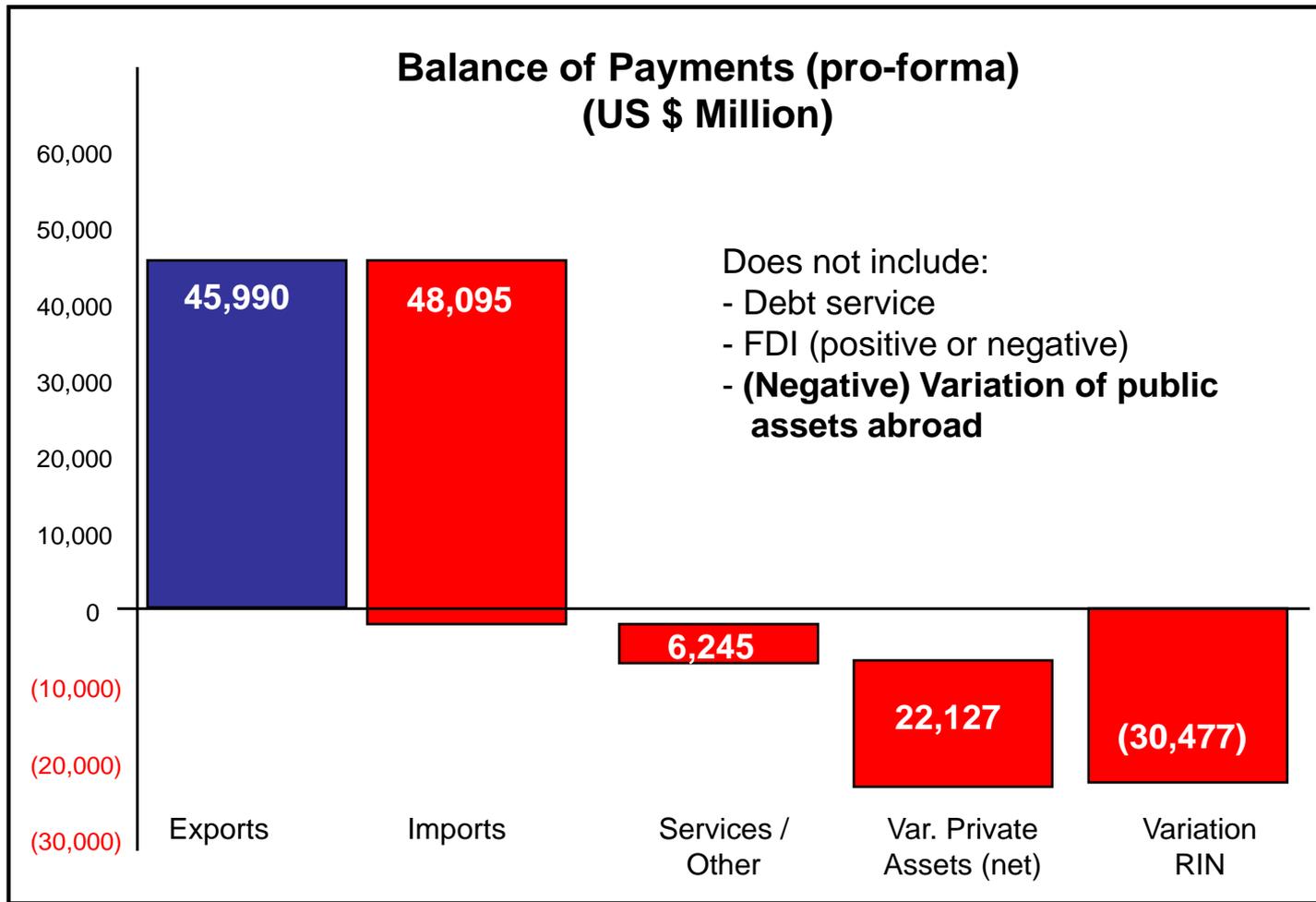


Given the fears and expectations fueled by the government, to keep the parallel market stable means to finance a large private capital outflow



At run rate, to keep imports and private outflows (parallel market) at the same pace implies losing US\$30.5 billion of international reserves ...

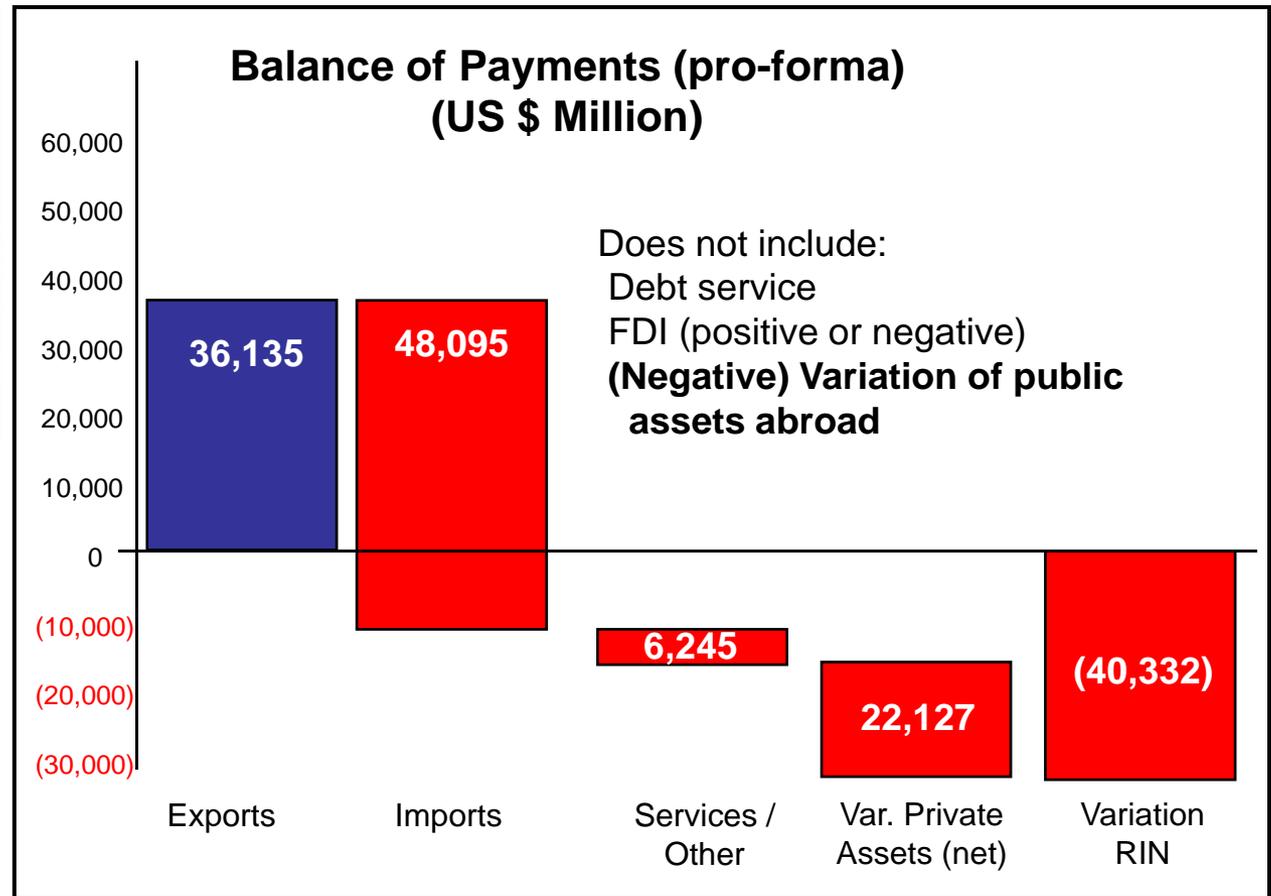
Assuming oil exports at **2.8 MBD (official figure)** at US \$45 per barrel ...



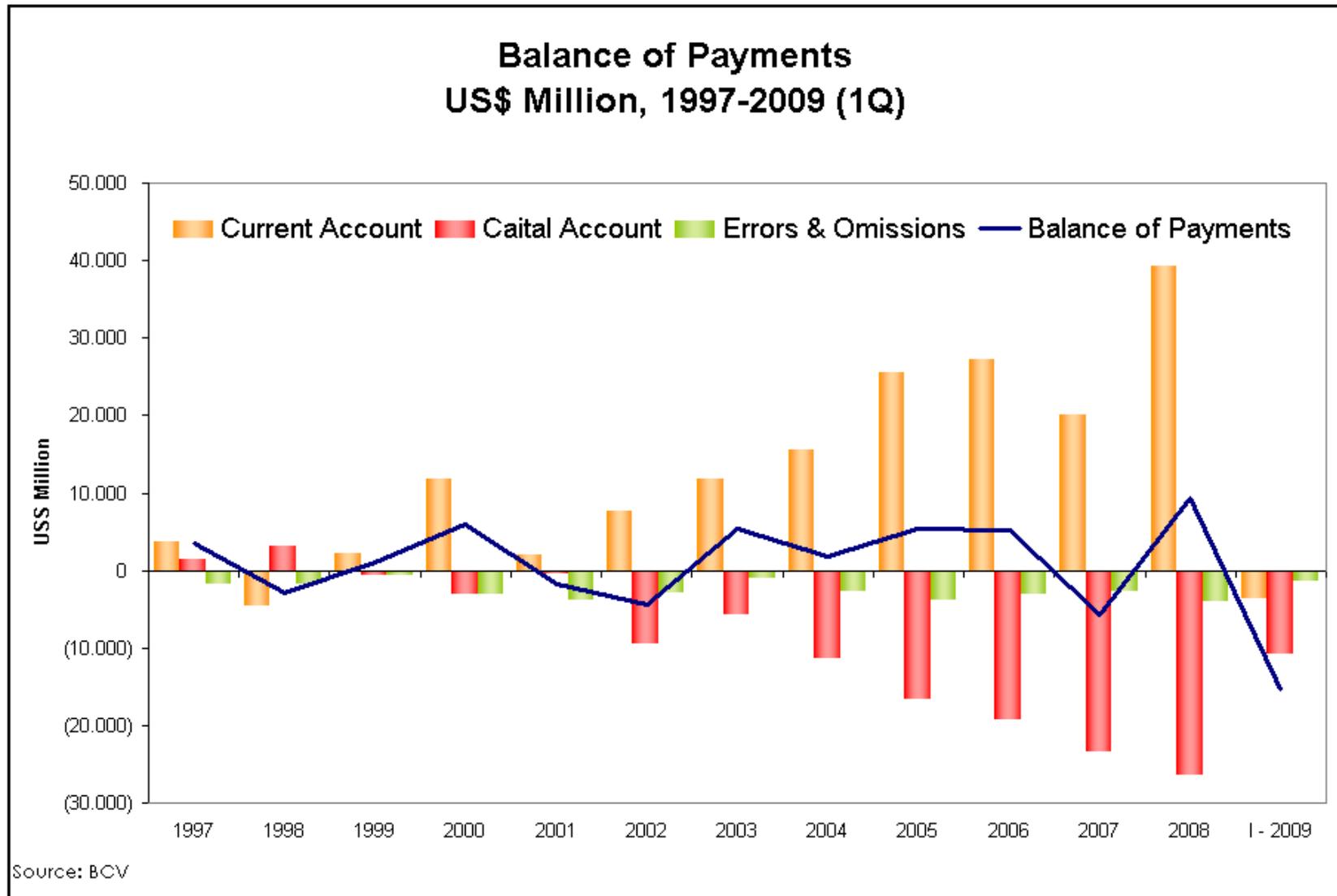
If, instead of official figures, we use the Venezuelan oil exports reported by international sources (2.2 MBD) ...



“Toto, I don’t think we are in Kansas anymore”



1Q Balance of Payments: A deficit of US \$15.261 Million ...



How much US\$ does the government has to face the crises?

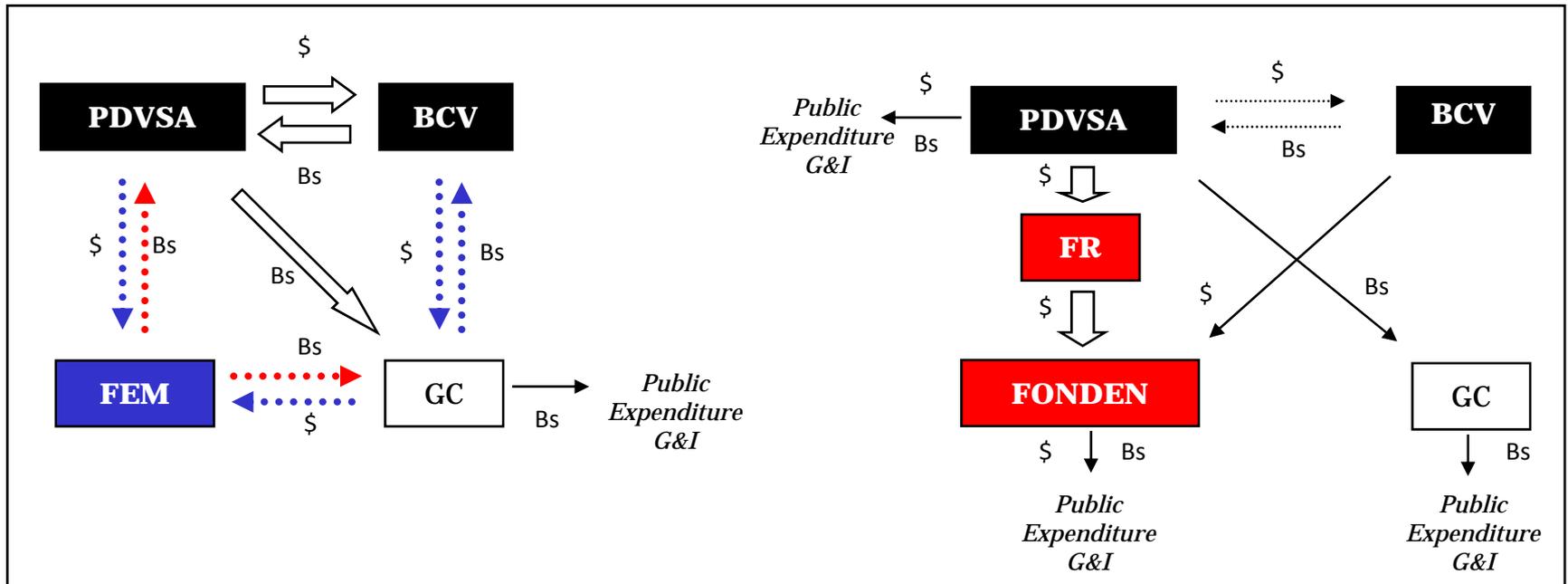


- ❑ **US\$ 29.555 million of international reserves**
- ❑ **Other funds** accumulated abroad and neither reported formally anywhere and nor subject to any mechanism of accountability (FONDEN, FONDESPA, BANDES, Fondo Chino, Fondo Miranda)
- ❑ **According to the government:**
 - **US\$ 27.811 million**
 - **14 months of imports, 10 months of imports + private capital account**
- ❑ **Other private sources:**
 - US 8.000 million
 - **9 months of imports, 6 months of imports + private capital account**

Accounting for the fiscal and balance of payments gap have become an art since the approval of the Central Bank Law (2005)

Before 2005 ...

2005 onwards ...



Oil forecasts point (very volatile) out to a slow (but steady) recovery ...

GRAB ComdtyCPFC

Right click on summary data or analyst estimates for historical price graph

95) Chart | 96) Contributors | 97) Histogram | Page 1/3 | Commodity Price Forecast

NYMEX WTI | As Of 05/11/09 | Ticker Type Actual

			2009	2010	2011	2012
Current Price 58.5	Median		50.00	62.50	85.50	95.00
	Mean		51.00	66.84	86.82	100.57
	Bloomberg Wgt Avg		51.69	65.86	85.05	98.37
	High		75.25	110.00	136.00	189.00
	Low		35.70	40.00	65.00	70.00
	Current Fwd		57.84	67.70	71.58	73.39
Firm	35 Analyst(s)	As Of	2009	2010	2011	2012
1) UBS Securities LLC	D. Brebner	11/17/08	60.00	75.00	136.00	156.00
2) ANZ Banking Group Ltd/Melbourne	M. Pervan	11/18/08	43.13	54.13	66.50	71.63
3) HSH Nordbank AG	A. Sommer	12/11/08	75.25			
4) Goldman Sachs Group Inc/The	J. Currie	12/11/08	45.00			
5) Merrill Lynch & Co Inc	F. Blanch	12/16/08	50.00	70.00		
6) Economist Intelligence Unit	C. Bain	01/30/09	35.70	51.00		
7) UniCredit Markets & Investment Ban	J. Hitzfeld	02/06/09	55.00	75.00		
8) Erste Bank AG/Austria	R. Stoeferle	02/18/09	55.00	85.00	110.00	189.00
9) Landesbank Baden-Wuerttemberg	F. Schallenberger	03/02/09	53.00	72.00		
10) Raymond James & Associates Inc	M. Adkins	03/03/09	43.00	65.00		
11) Fortis Bank	H. Padilla	03/03/09	45.50	55.80		
12) Raiffeisen Zentralbank Osterreich AG	H. Loacker	03/10/09	54.00	71.00	93.00	

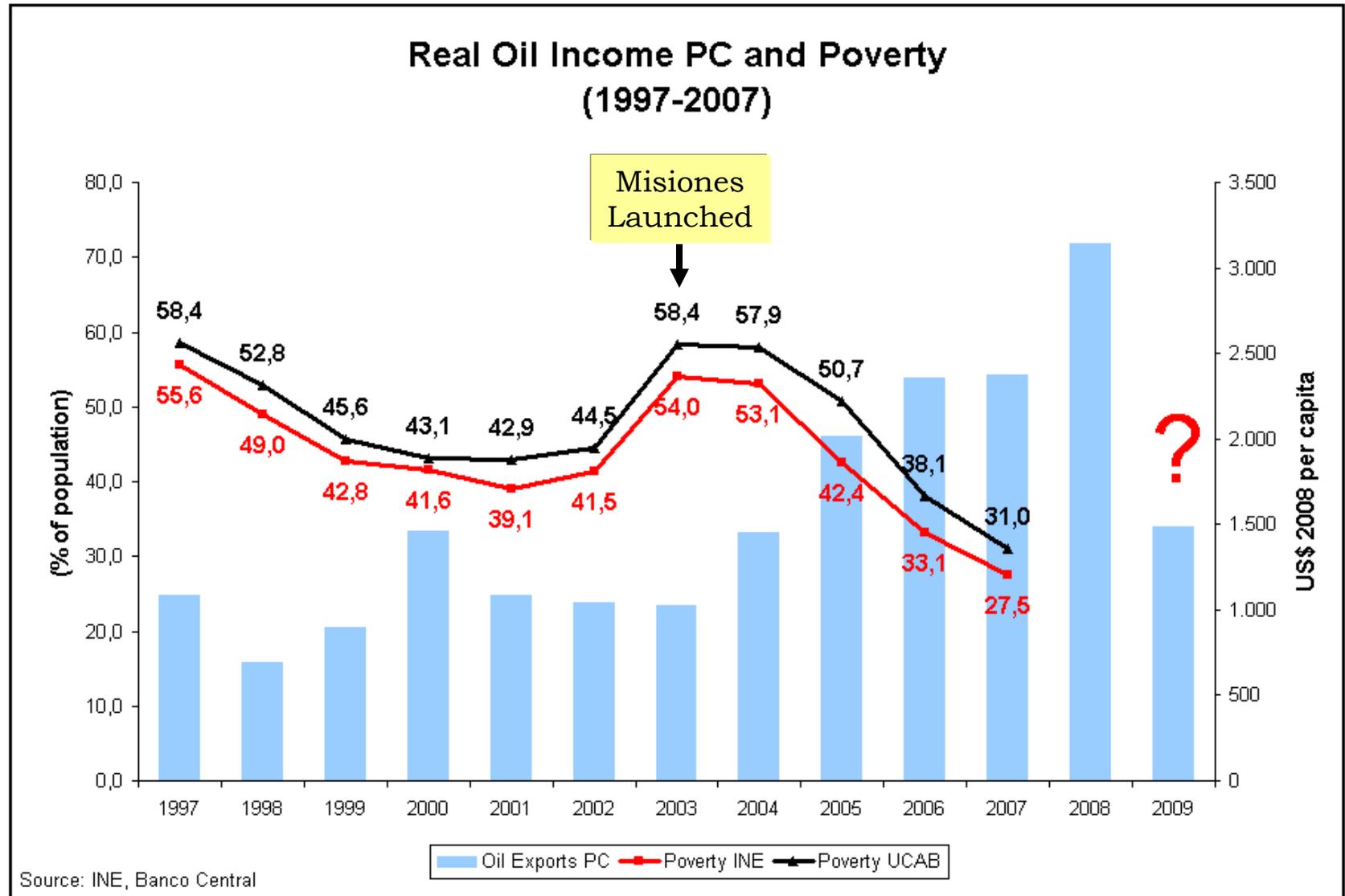
41) Quarterly Forecast | 42) Yearly Forecast

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
 0 11-May-09 18:28:08

What has been the policy package so far?

Fiscal	Exchange/BOP	Monetary
<p>Implemented:</p> <ul style="list-style-type: none">□ Increase VAT from 9% to 12%□ Increase base for calculating Income Tax by 19%, with inflation running at 32%□ Increase minimum wage by 10% May + 10% September (a sharp reduction of real minimum wage)□ Sell more dollars in the parallel market, enjoy the benefits of depreciation without devaluation□ Finance fiscal gap by issuing domestic debt <p>In the making:</p> <ul style="list-style-type: none">□ Luxury tax	<p>Implemented:</p> <ul style="list-style-type: none">□ Sharp reduction in the allotment of dollars at official rate□ Transfer international reserves to funds abroad (without absorbing liquidity)□ Allow large depreciation of currency in the parallel market (100% YOY) <p>In the making:</p> <ul style="list-style-type: none">□ Dual exchange rate system?□ Sincere / formalize parallel market?	<p>Implemented:</p> <ul style="list-style-type: none">□ Decrease reserve requirements for banks□ Decrease maximum interest rate (from 28% to 26%)□ Reduce the growth of liquidity (M2) by selling less dollars to the Central Bank and more to the parallel market <p>In the making:</p> <ul style="list-style-type: none">□ Nationalization of the banking system?

Just a word on oil revenues and poverty (income-measured)...



Venezuela: 2009 ...

- With oil revenues 55% lower than 2008, the government will restrict imports, focusing official allotment of dollars to food and medicines (31% of basic consumption basket)
- GDP and consumption will fall (1%-3%), with inflation above 40% (and the government introducing “new inflation indexes”)
- Devaluation will be delayed at least one more year, but access to the official rate will be restricted (depreciation of parallel market used to finance fiscal gap)
- Expropriations/Nationalizations will continue, with the government paying in bolivares-denominated public bonds (trying to get short-term gains / political capital)
- An “effort / collaboration” will be demanded to the private sector, production will be commoditized and profit margins forced down
- The government does not have fuel to continue being the big employer of the Venezuelan economy ...
- How will the government cope with the economic results in the short-to-medium term if oil prices do not recover?

... and
beyond?

Thanks!

“Net accumulation of foreign public assets abroad” may be a way to conceal the over-estimation of oil exports ...

	2006	2007	2008
Oil Exports (US\$ Million – BCV)	58.438	62.555	87.443
Average Venezuelan Basket Price (US\$ per barrel – MENPET)	56,4	64,7	88,7
Implicit Volume (MBD)	2,84	2,65	2,70
Domestic Consumption (MBD)	0,5	0,5	0,5
Total Implicit Volume of Oil Production (Venezuela)	3,34	3,15	3,20

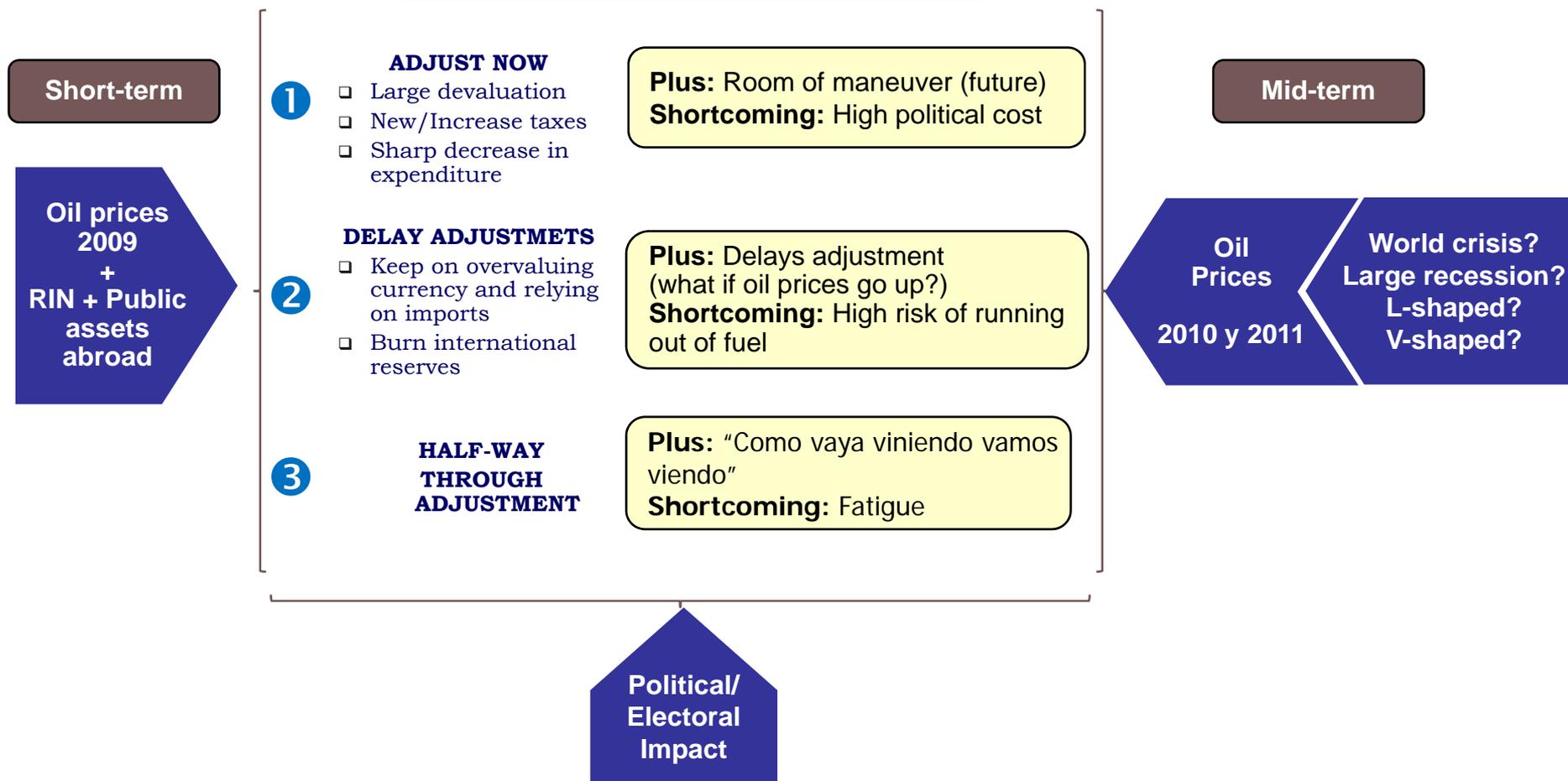


How much is the over-estimation of oil exports?

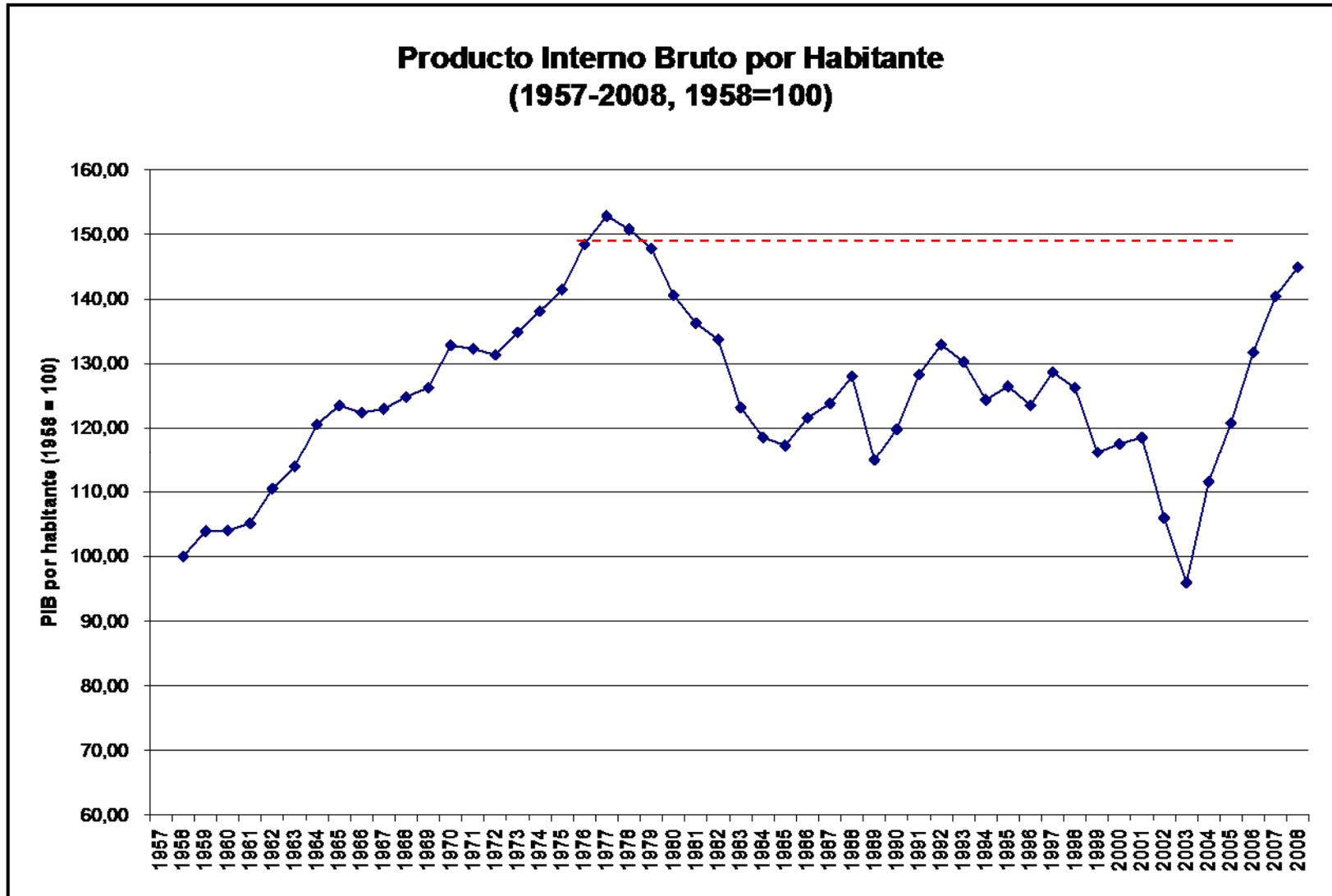
	2006	2007	2008
Total Production (Venezuela) MBD	2,70	2,40	2,40
Oil-Derivatives (included in oil exports but not in estimates of international sources) MBD	0,3	0,3	0,3
Total production + derivatives (MBD)	3,00	2,7	2,7
Domestic Consumption (MBD)	(0,5)	(0,5)	(0,5)
Oil Exports (MBD)	2,5	2,2	2,2
Average Venezuelan Basket Price (US\$ per barrel – MENPET)	56,4	64,7	88,7
Oil Exports (US\$ Million)	51.465	51.594	71.226
Oil Exports (US\$ Million – BCV)	58.438	62.555	87.443
Over-estimation of oil exports (MM US\$)	6.973	10.961	16.217

Chávez second economic depends on: 1) Short-term needs, 2) oil prices outlook in the medium term (recovery of the world economy)

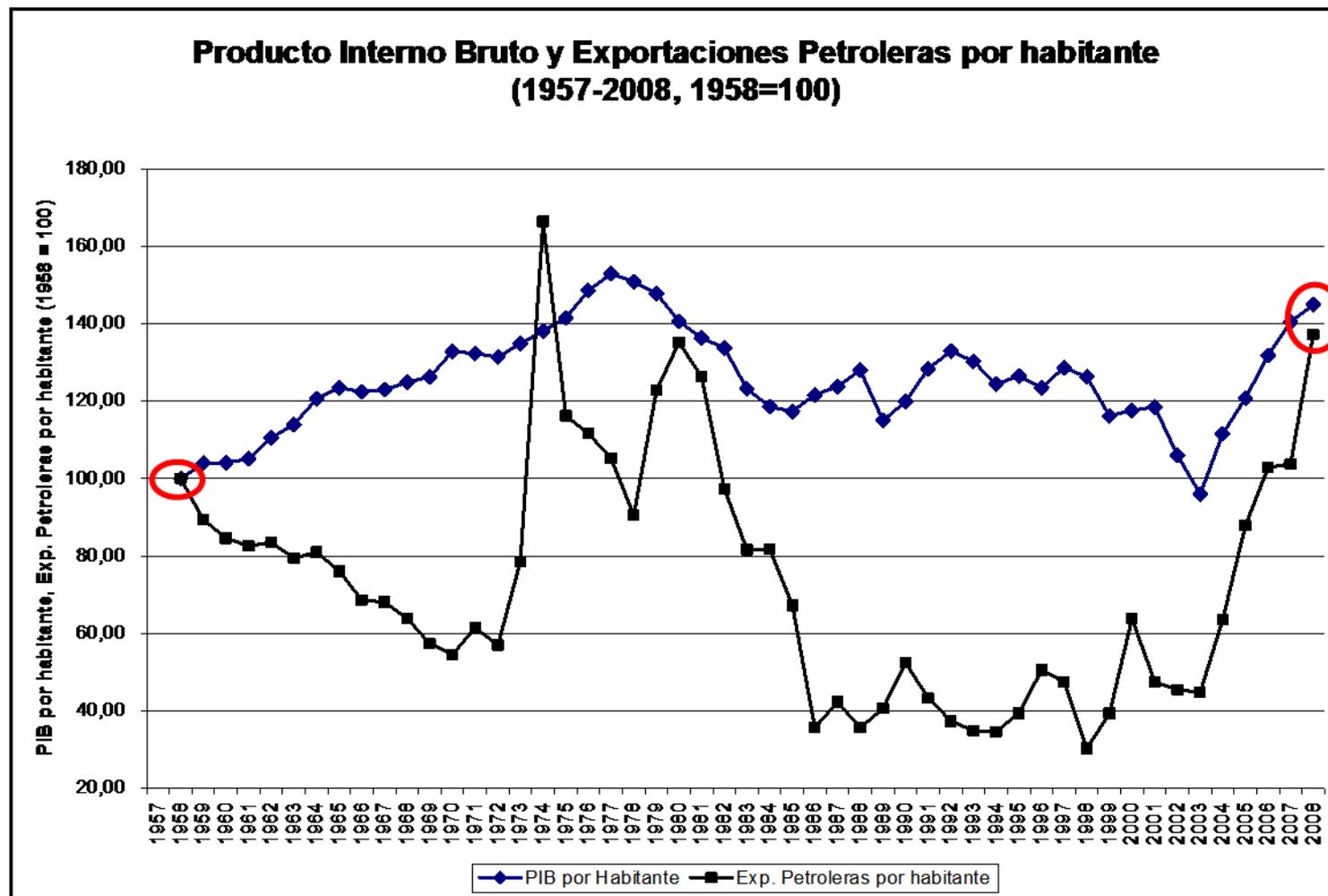
Alternatives of economic policy / Adjustment



En términos de crecimiento por habitante, 2008 fue uno de los puntos más altos de nuestra historia, aún por debajo del quinquenio 1974-1978 (*and will be short lived*)



En el período 1958-2008, el crecimiento del PIB por habitante es idéntico al crecimiento de las exportaciones petroleras por habitante ...



En estos cincuenta años la tasa de crecimiento registrado en el PIB por habitante es de 0,74% anual, muy parecida a la registrada por las exportaciones petroleras por habitante (0,64%)

Los resultados económicos del modelo Chávez sin dinero (1999-2003) y con dinero (2004-2008) tienen un contraste muy marcado ...

Tabla I. Resumen Indicadores Macroeconómicos

Presidente	Período	Promedios Aritméticos						Exp. Petrol US\$ 2008	Exp. Petrol per Cap. US\$ 2008
		Crecimiento PIB (%)	Volatilidad PIB (%)	Crecimiento per Cap. (%)	Inflación VZLA (%)	Inflación USA (%)	Devaluación Oficial (%) Paralelo (%)		
Betancourt	1959-1963	6,6%	1,9%	2,7%	1,6%	1,2%	0,0%	15.093	1.919
Leoni	1964-1968	5,4%	2,4%	1,9%	1,4%	2,6%	7,6%	15.330	1.636
Caldera I	1969-1973	5,0%	2,2%	1,6%	3,0%	5,0%	-0,7%	15.767	1.413
Pérez I	1974-1978	6,0%	2,1%	2,3%	8,2%	8,0%	0,0%	35.318	2.699
Herrera	1979-1983	-1,2%	2,5%	-3,9%	13,2%	8,9%	0,0%	39.698	2.576
Lusinchi	1984-1988	3,4%	3,0%	0,8%	18,4%	3,5%	33,6%	20.891	1.200
Pérez II *	1989-1993	3,0%	6,2%	0,5%	45,8%	4,1%	59,7%	19.001	954
Caldera	1994-1998	1,6%	3,1%	-0,6%	61,3%	2,4%	42,7%	20.693	925
Chávez I	1999-2003	-3,3%	5,3%	-5,2%	21,2%	2,4%	25,9%	27.249	1.102
Chávez II	2004-2008	10,5%	4,4%	8,7%	21,1%	3,6%	6,4%	61.510	2.266
Chávez	1999-2008	3,6%	8,4%	1,7%	21,1%	3,0%	16,2%	44.379	1.684

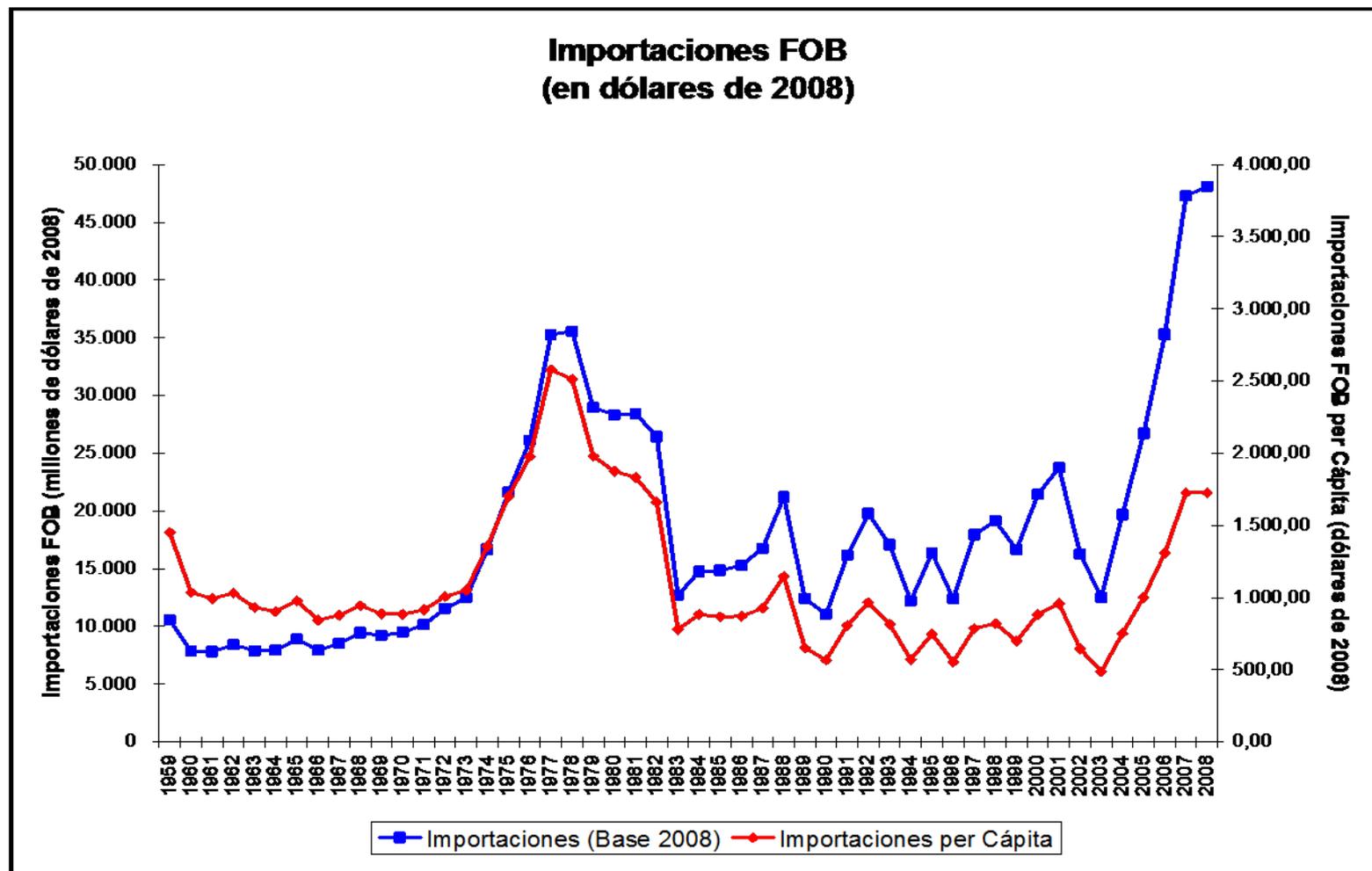
En conjunto, estos últimos diez años están **cabeza a cabeza con los peores gobiernos venezolanos**, muy **lejos del desempeño registrado en las primeros gobiernos de la democracia**, a pesar de disponer de ingresos sustancialmente mayores ...

Chávez SIN dinero: Caída en el PIB, pérdida ingreso por habitante, **inflación**, depreciación acelerada del bolívar, fuertes restricciones cambiarias, inestabilidad política, económica y social

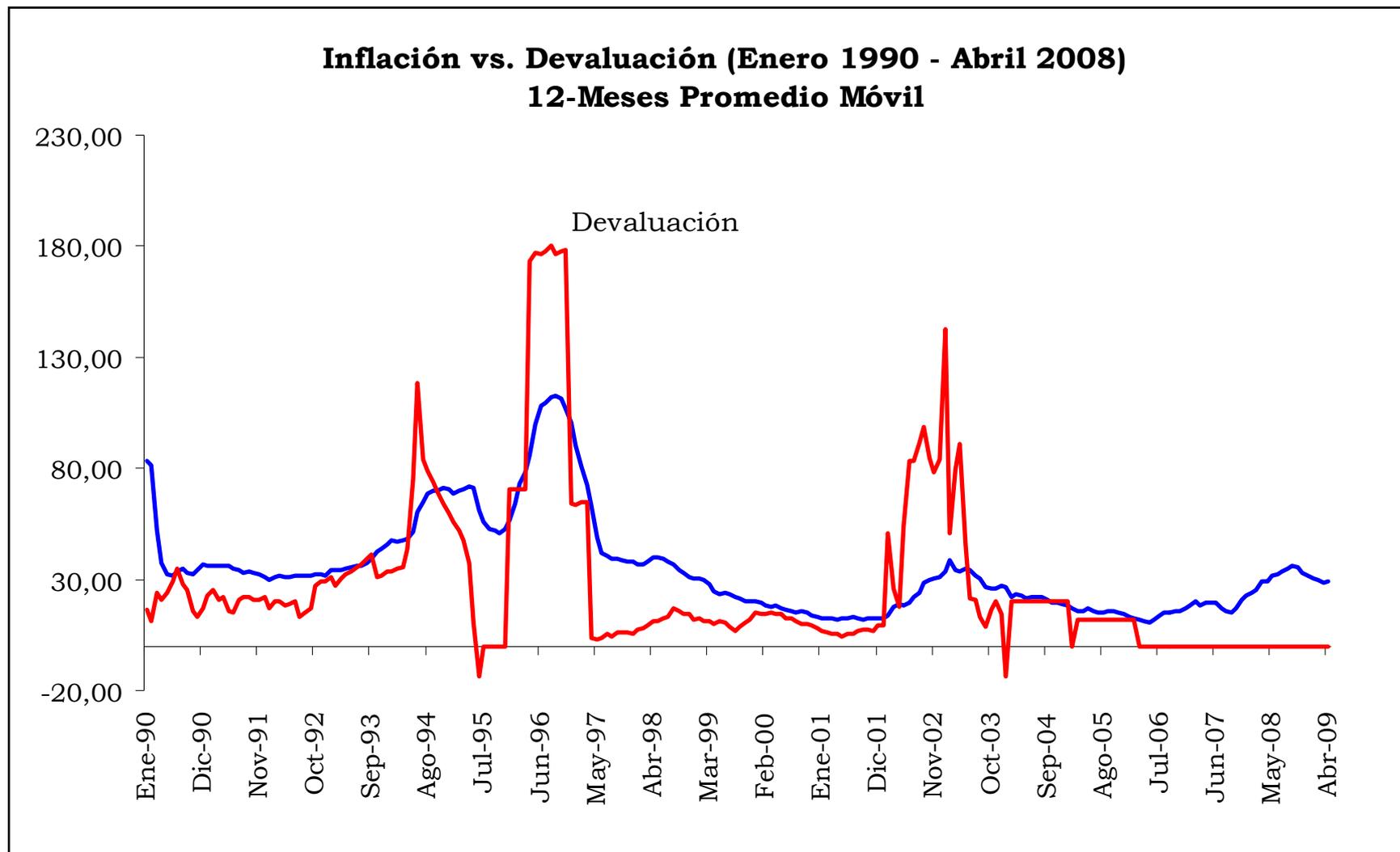
Chávez CON dinero: Crecimiento, **inflación**, menor depreciación, control es un dispositivo político pero en la práctica reparte dólares oficiales a manos llenas ...

¿Qué capacidad tienen nuestras cuentas externas de absorber semejante *shock*?

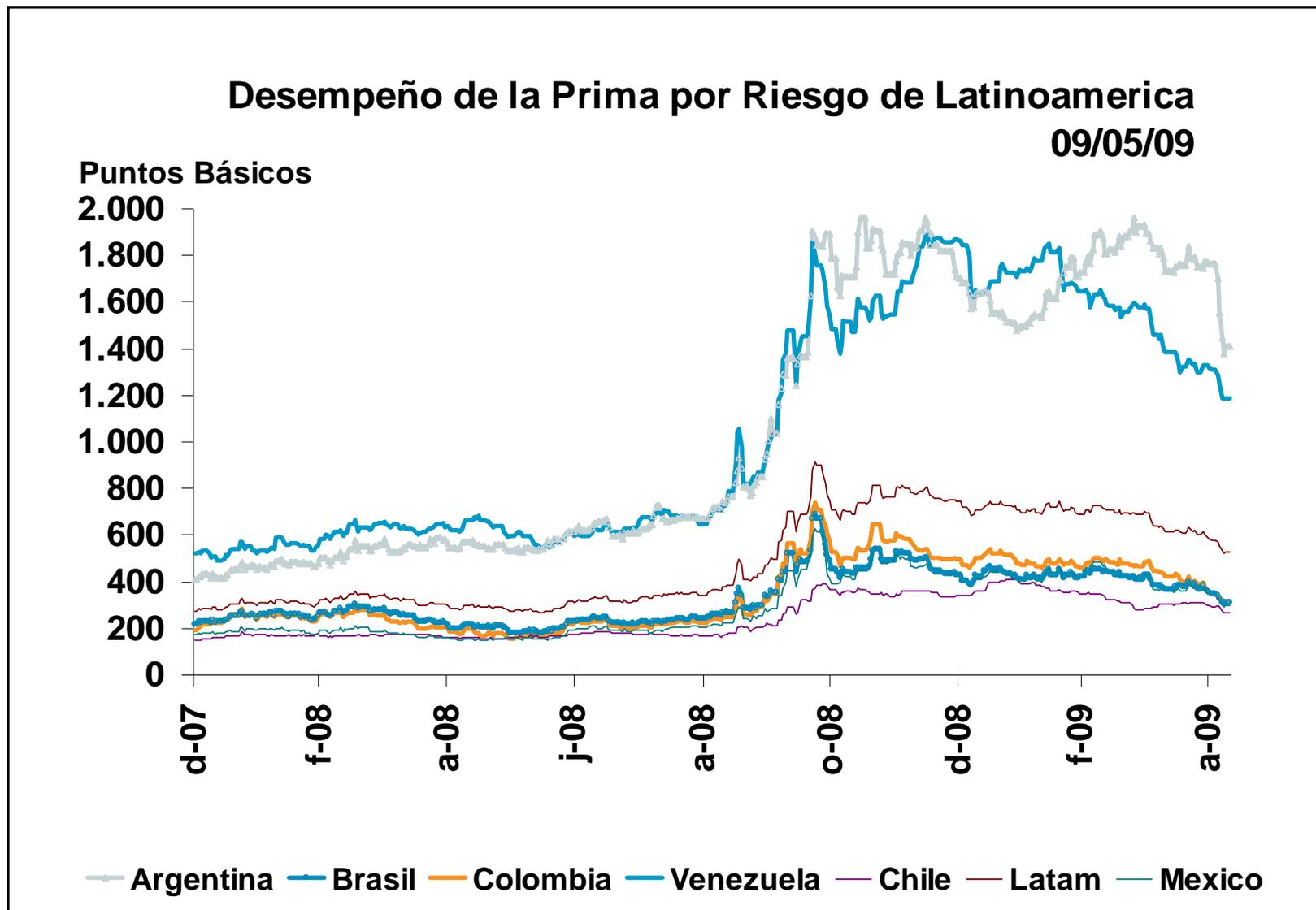
Las importaciones en términos reales están en su punto más alto de la historia, en términos por habitante en el punto más alto de los último 27 años



Desde un punto de vista histórico, el sesgo existente entre la tasa de cambio oficial (devaluación) y la inflación doméstica, está próximo a revertirse ...

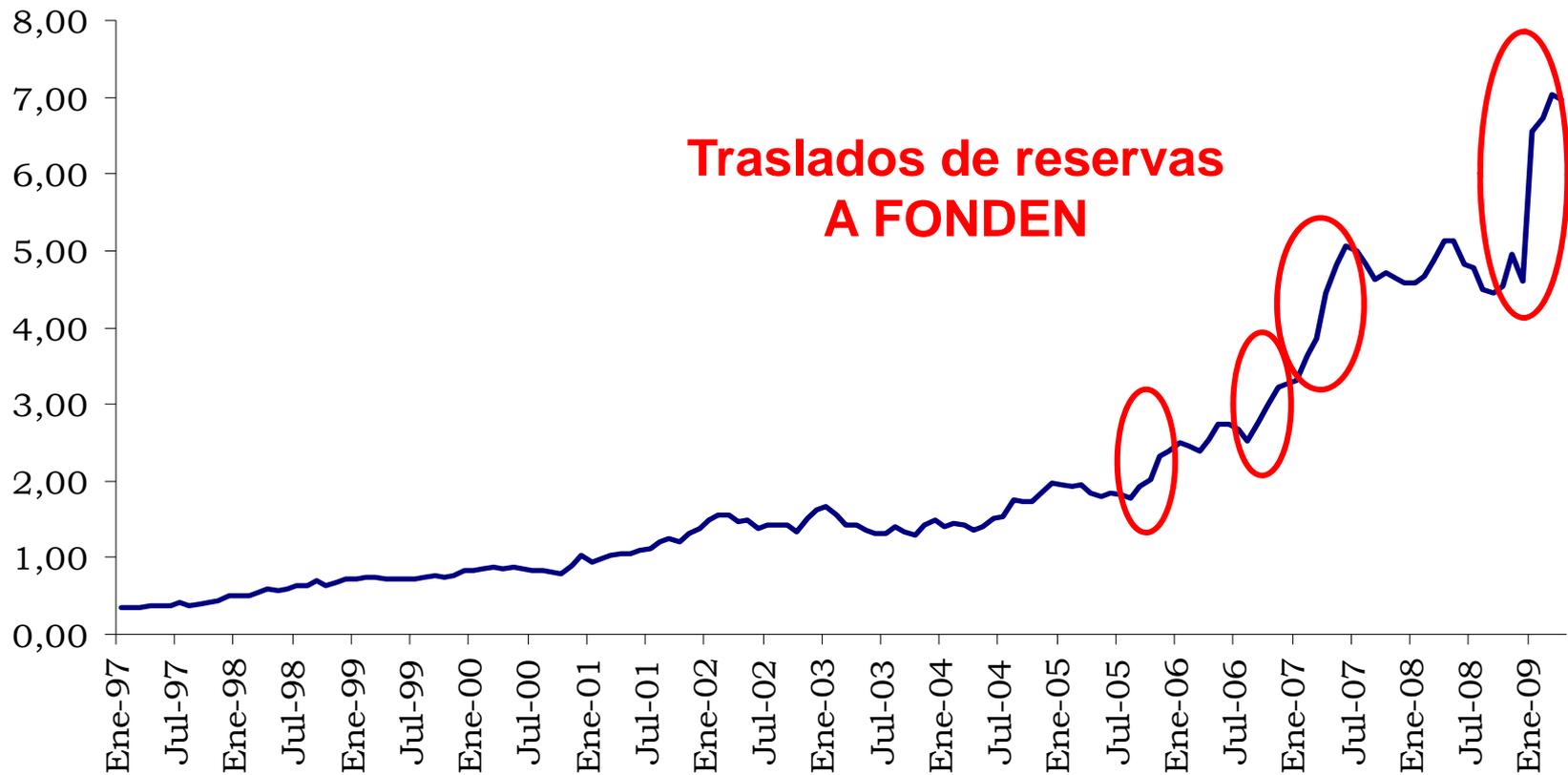


Venezuela y Argentina son de los mayores riesgos de América Latina



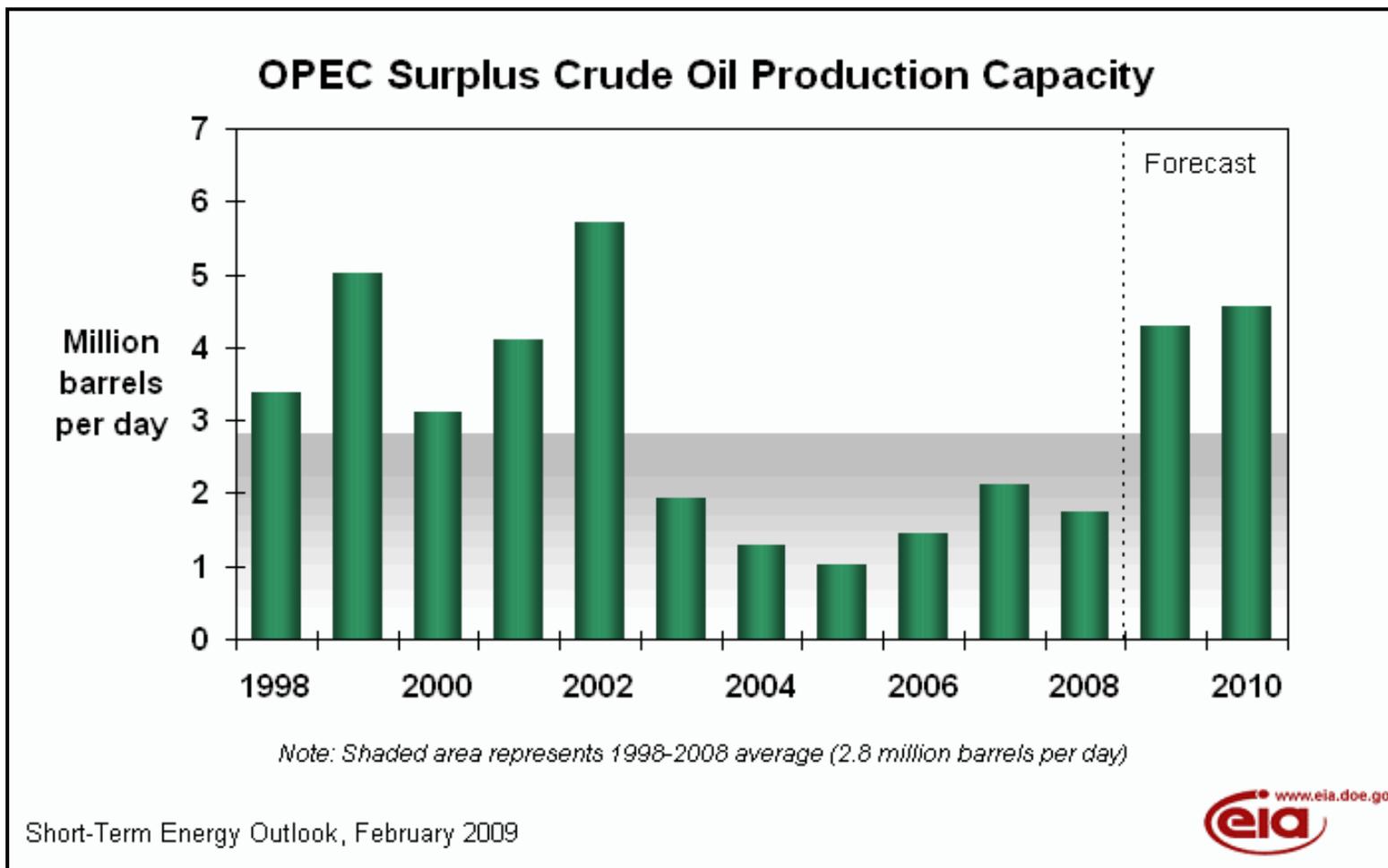
Con el nuevo traslado de reservas a FONDEN, la tasa de cambio implícita M2/RIN se deterioró 42,5% en un solo día ...

**Tipo de cambio implícito
(Liquidez Monetaria/Reservas Internacionales)**



Fuente: BCV

La caída en la demanda genera un diferencial positivo entre la capacidad de producción y la producción efectiva de los países OPEP



En términos de inflación, a pesar de la tendencia, hay algunos atenuantes que podrían contribuir ...

El abaratamiento de los alimentos a nivel mundial permitirá economizar divisas y reducir el subsidio en las ventas de Mercal...

		Promedios trimestrales						Promedios anuales			Ene2009 - 2008
		IV-2007	I-2008	II-2008	III-2008	IV-2008	Ene-2009	2007	2008	Ene-2009	2008
Crude oil, avg, spot	\$/bbl	88	95	121	116	56	44	71	97	44	-55%
Palm oil	\$/mt	928	1,156	1,198	928	512	534	780	949	534	-44%
Barley	\$/mt	195	217	239	217	130	121	172	201	121	-39%
Maize	\$/mt	172	220	259	245	168	173	164	223	173	-23%
Rice, Thailand, 5%	\$/mt	344	478	855	703	564	580	326	650	580	-11%
Sorghum	\$/mt	173	219	247	215	151	153	163	208	153	-26%
Wheat, Canada	\$/mt	415	622	484	390	322	340	300	455	340	-25%
Wheat, US, HRW	\$/mt	342	412	347	318	228	239	255	326	239	-27%
Sugar, world	¢/kg	23	28	27	31	26	28	22	28	28	-2%
Cotton A Index	¢/kg	153	168	166	168	127	126	140	157	126	-20%
Cotton Memphis	¢/kg	155	174	172	170	130	135	143	161	135	-16%
DAP	\$/mt	522	860	1,192	1,154	663	351	433	967	351	-64%
Phosphate rock	\$/mt	98	234	368	409	371	265	71	346	265	-23%
Potassium chloride	\$/mt	231	368	511	635	767	853	200	570	853	50%
TSP	\$/mt	425	715	1,036	1,108	762	n.a.	339	905	n.a.	
Urea	\$/mt	365	358	576	745	292	263	309	493	263	-47%
Aluminum	\$/mt	2,444	2,743	2,940	2,787	1,821	1,413	2,638	2,573	1,413	-45%
Copper	\$/mt	7,188	7,796	8,443	7,680	3,905	3,221	7,118	6,956	3,221	-54%

Fuente: Banco Mundial