

# Venezuela: Challenging Outlook Unconventional Policies; Large Macro Imbalances

**Washington, DC, February 11, 2009**

***Hugo Chavez's Petro-Diplomacy***

**American Enterprise Institute for Public Policy Research**

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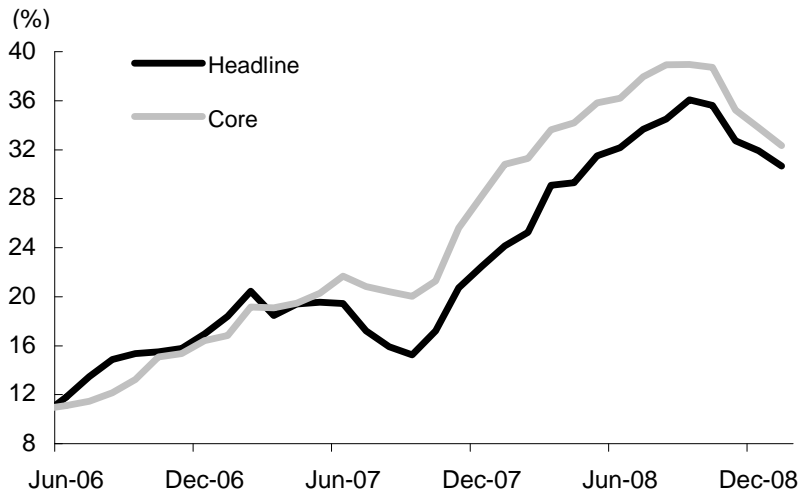
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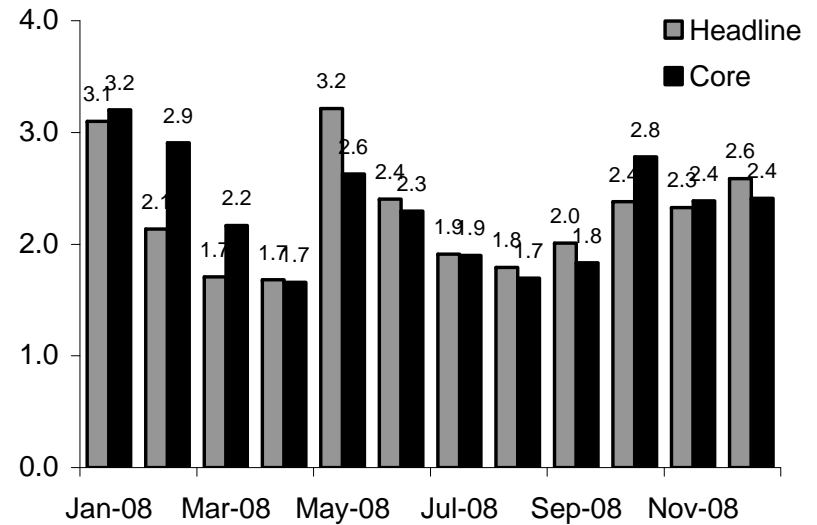
# Entrenched High Inflation Symptom Of Policy Failures (Highly Regressive Tax on the Poor)

**Caracas CPI: Core Inflation Entrenched Above 30%**



Source: BCV and Goldman Sachs

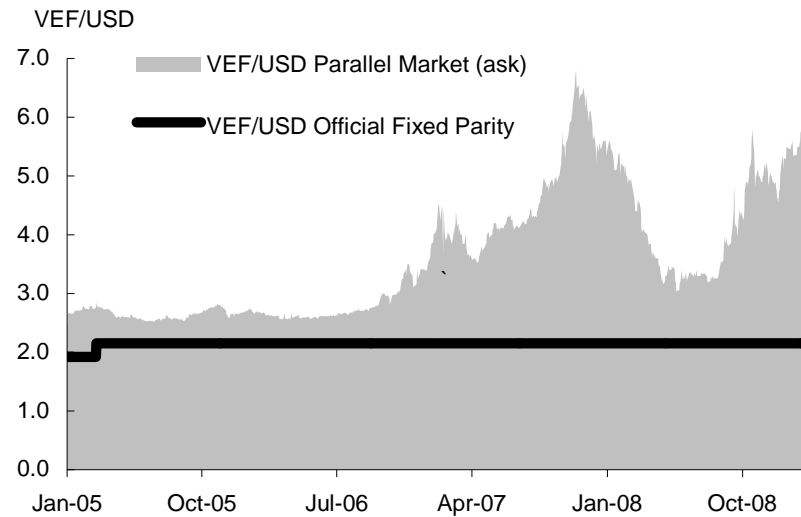
**INPC Inflation Reaches 30.9% in 2008**



Source: BCV and Goldman Sachs

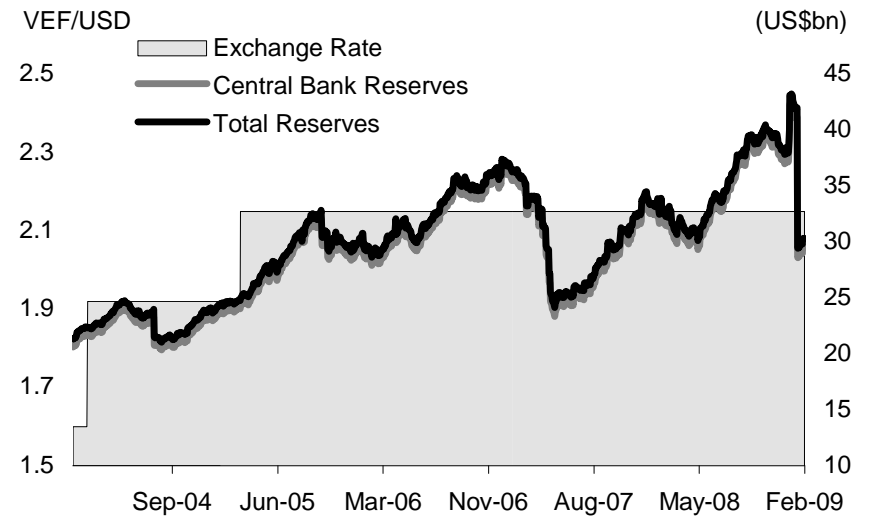
# Impaired Central Bank Independence Much Weaker Parallel-Market FX Rate

## Bolivar Weakens in the Non-Official Market



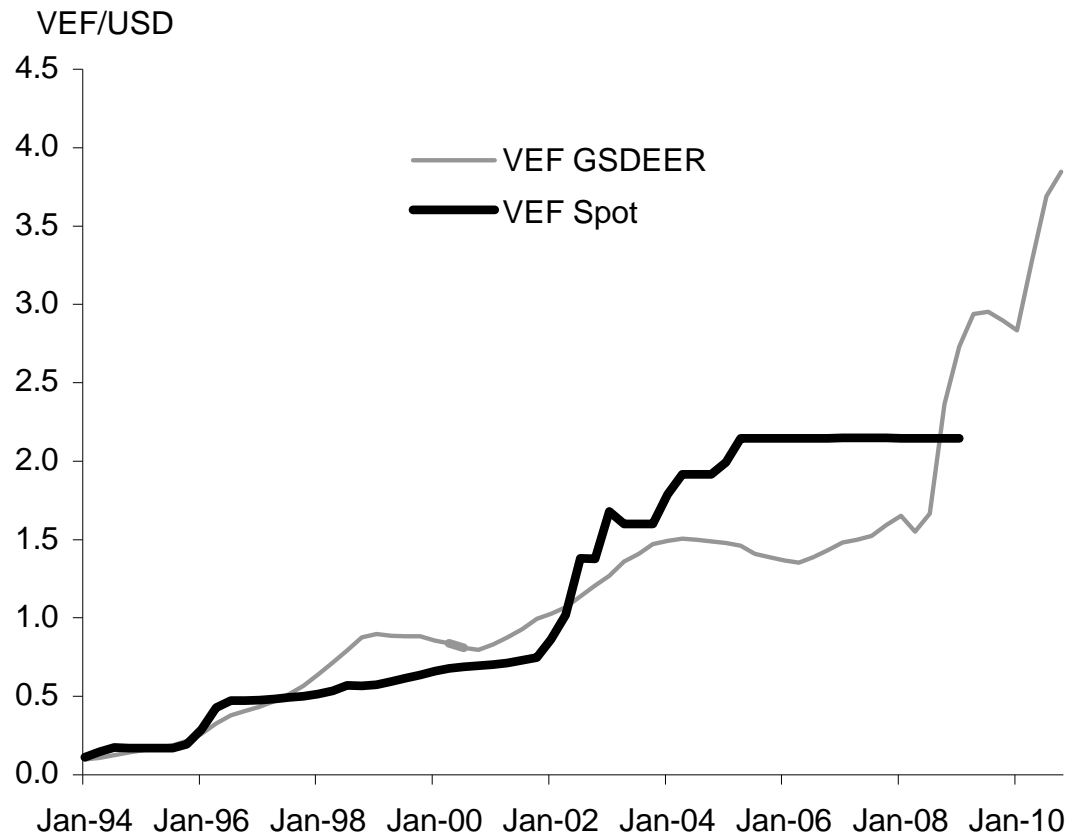
Source: Goldman Sachs

## Central Bank Reserves



Source: Central Bank of Venezuela.

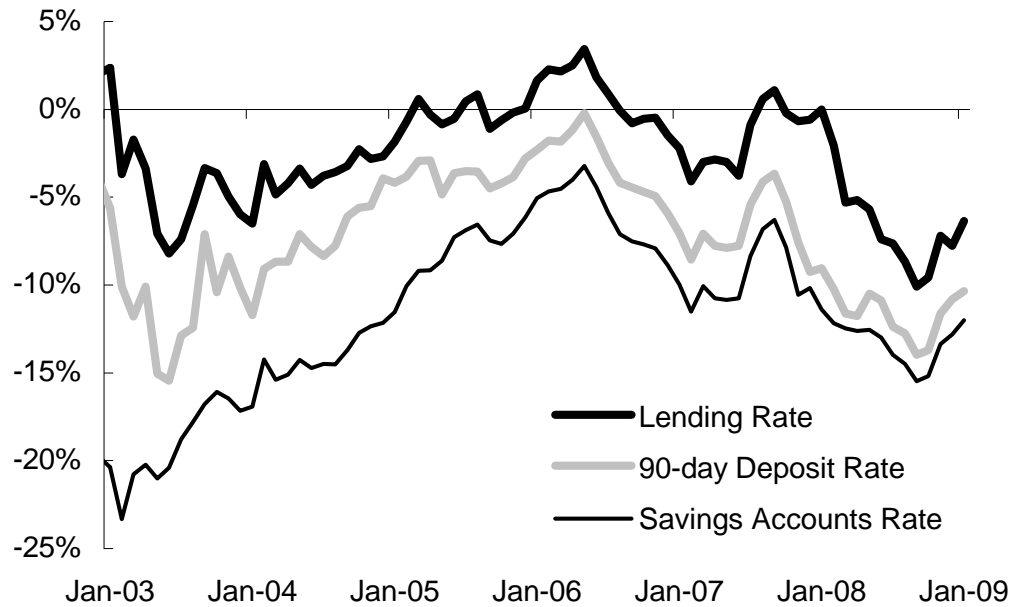
## GSDEER and the VEF



Source: Goldman Sachs.

# Extremely Lax Monetary Policy Stance

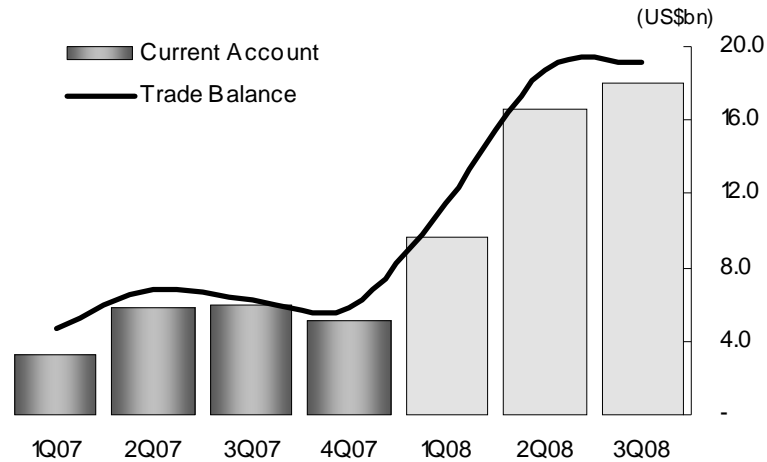
## Negative Real Loan and Deposit Rates



Source: BCV and Goldman Sachs

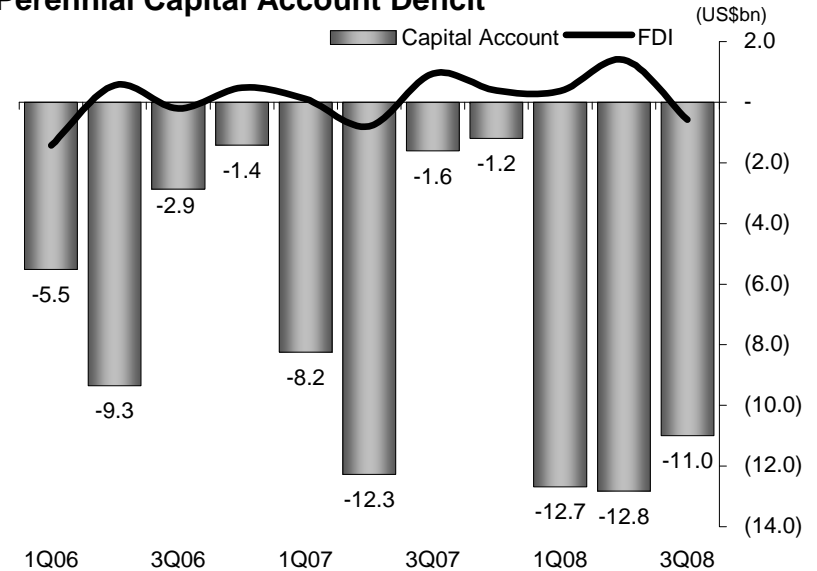
# Significant Capital Flight Despite Plethora of Capital and Foreign Exchange Controls

### Record Current Account Surplus 3Q2008



Source: Central Bank of Venezuela.

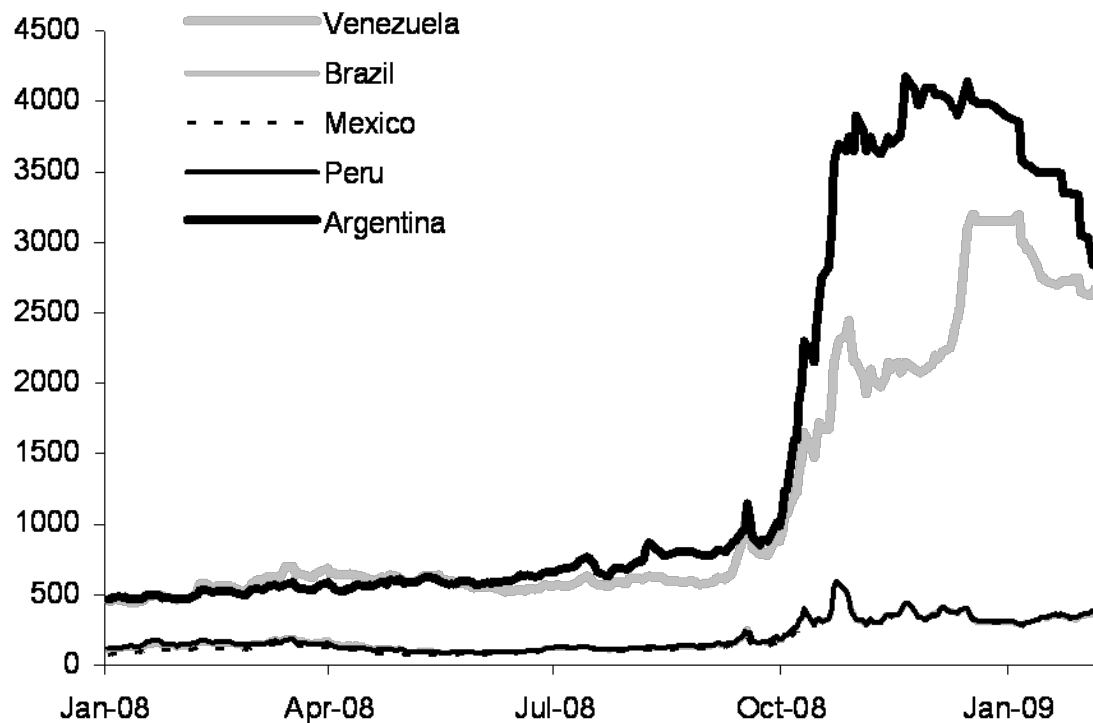
### Perennial Capital Account Deficit



Source: Central Bank of Venezuela.

# Deteriorating Credit Story

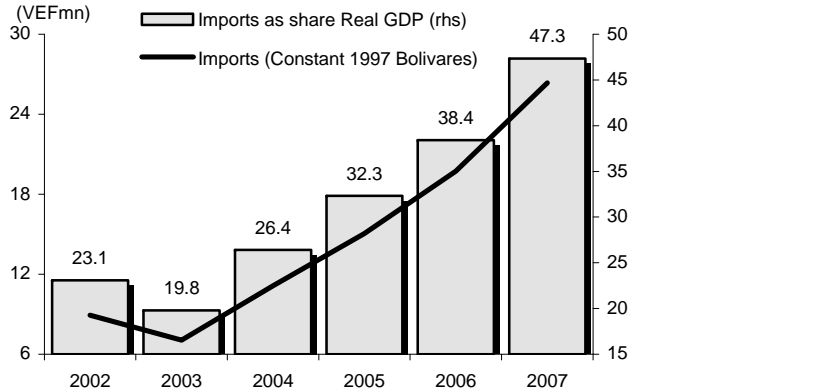
## Regional 5y CDS



Source: Goldman Sachs.

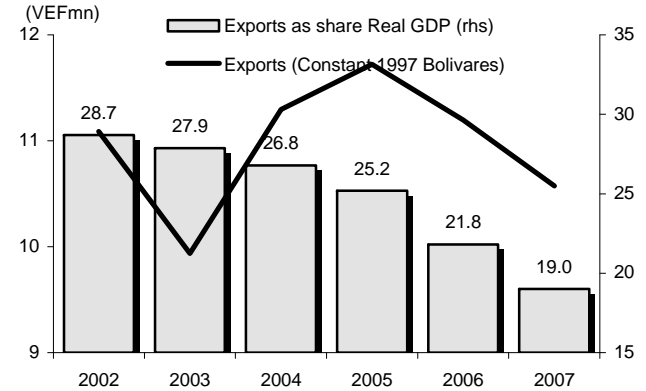
# The Revolution in Being Imported (I)

**Unsustainable Import Growth Trend**



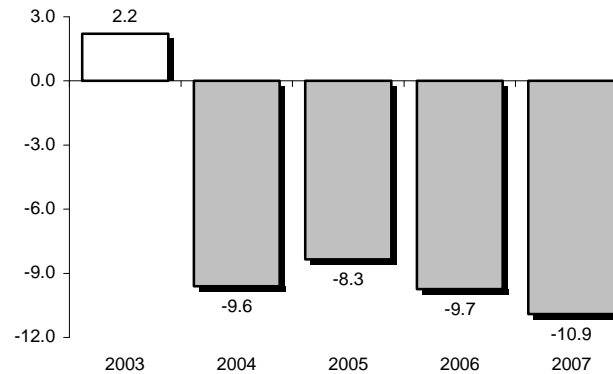
Source: Haver Analytics.

**Real Export Performance Deteriorating**



Source: Haver Analytics.

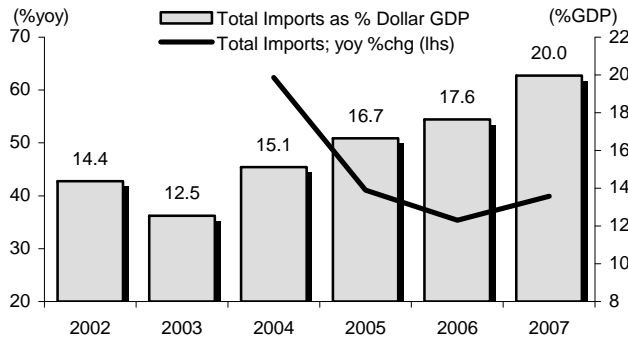
**Significant Drag From Net Exports on Growth**



Source: Goldman Sachs

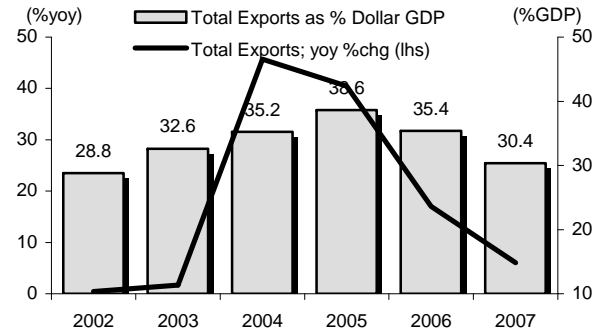
# The Revolution in Being Imported (II)

## Major Surge in Imports



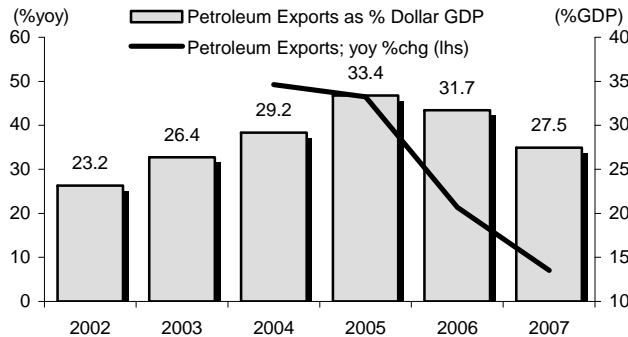
Source: Haver Analytics.

## Total Dollar Exports Declining as Share of GDP Despite Higher Oil Prices



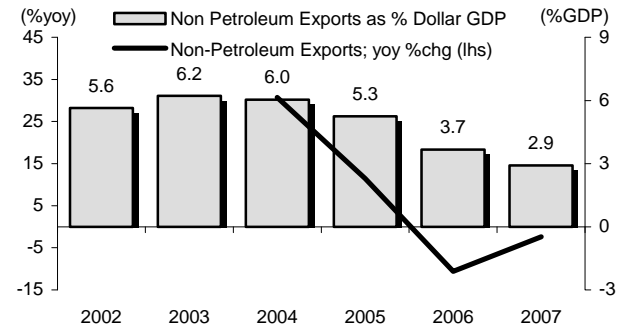
Source: Haver Analytics.

## Oil Exports Proceeds Affected by Declining Volumes



Source: Haver Analytics.

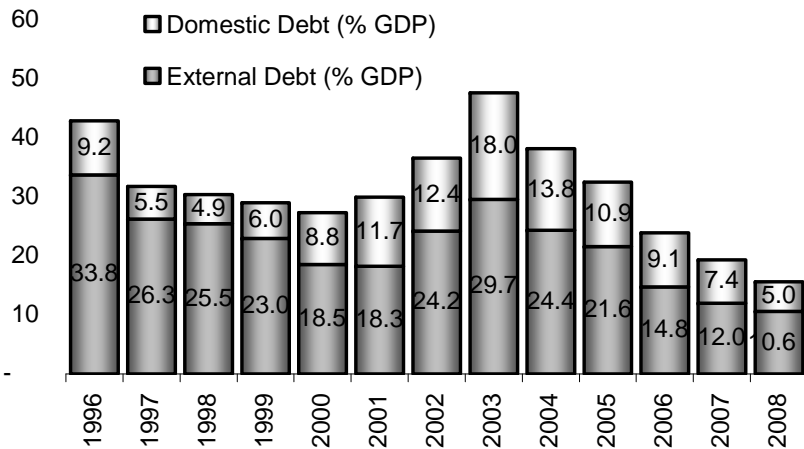
## Non-Oil Exports Struggling



Source: Haver Analytics.

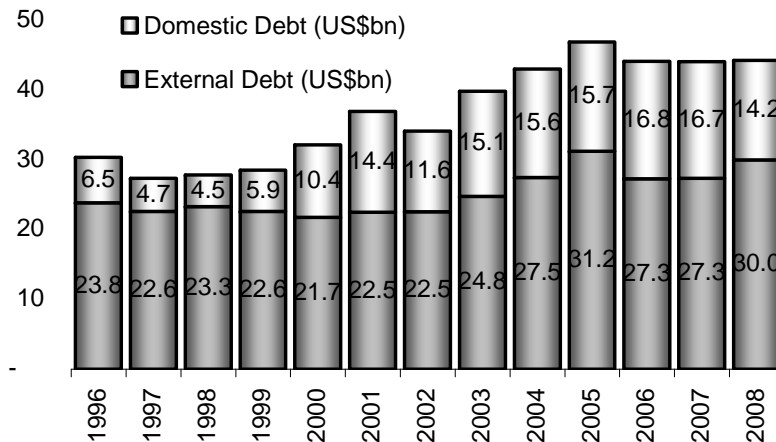
# Still Moderate Debt Load ... But Picture is Changing

**Total Public Debt (External + Internal)**



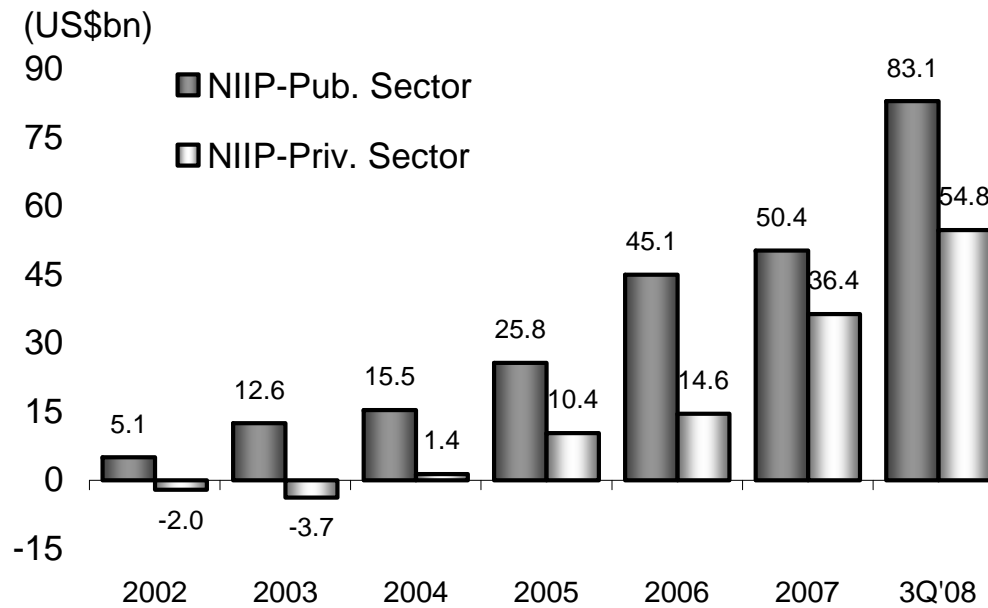
Source: Goldman Sachs

**Total Public Debt (External + Internal)**



Source: Goldman Sachs

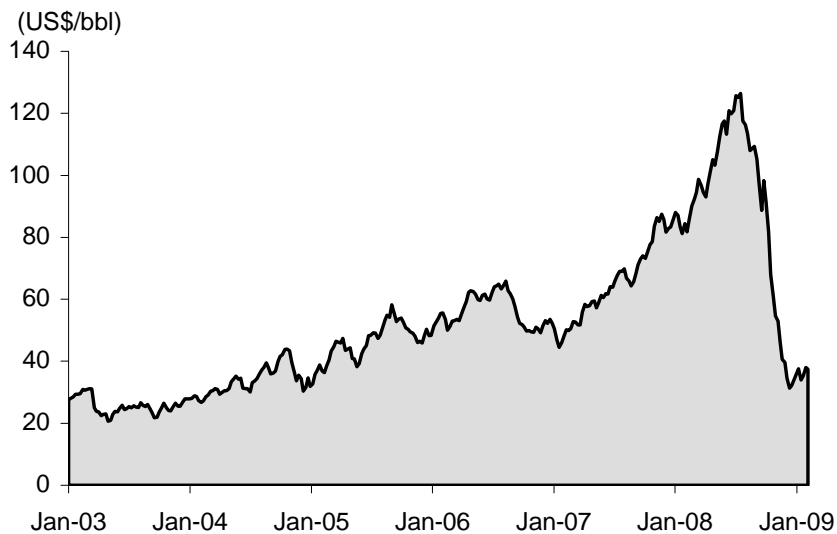
## Strong Net International Investment Position



Source: Central Bank of Venezuela and Goldman Sachs

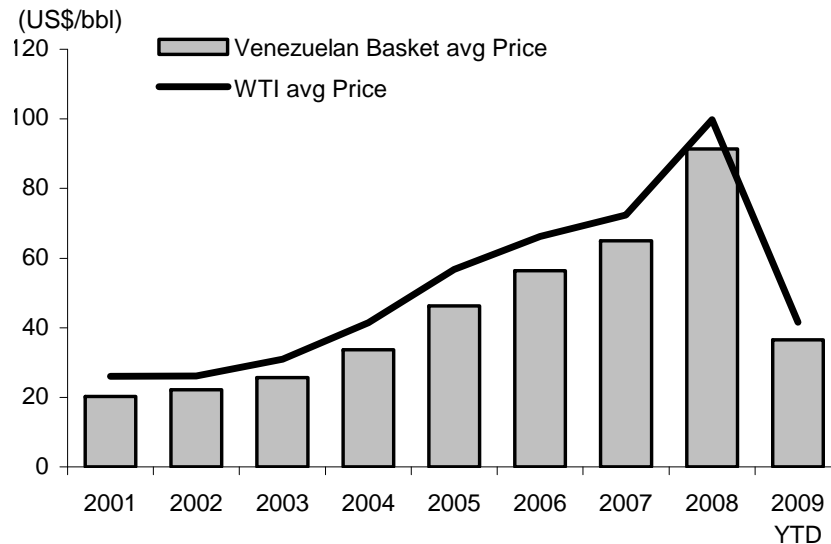
# Oil Price Bonanza Has Ended

## Venezuelan Basket



Source: Bloomberg.

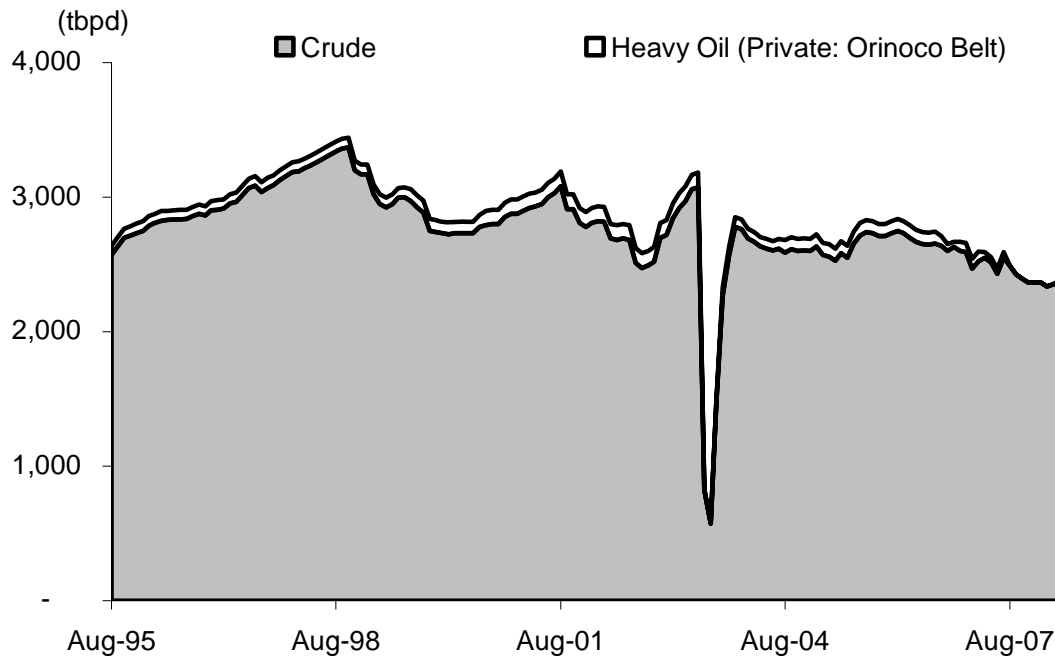
## WTI and the Venezuelan Basket



Source: Bloomberg.

# Oil Production Likely to Continue to Decline

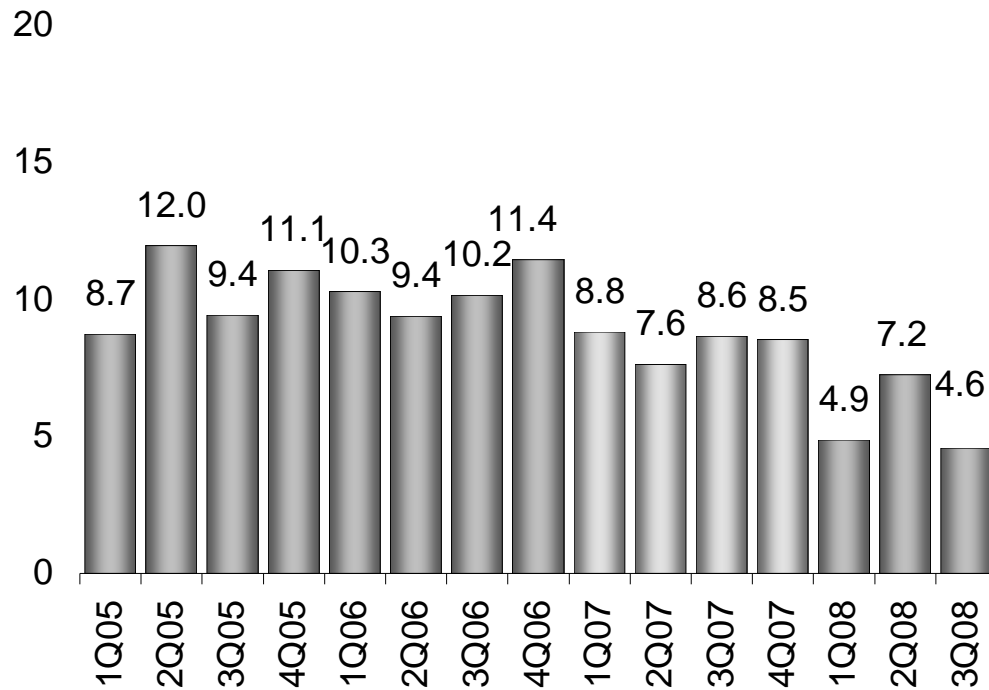
## PdVSA Unable to Increase Oil Production



Source: International energy agency and Goldman Sachs

# The Economy is Starting to Underperform Large Devaluation Looming in the Horizon (Stagflation: High Inflation and Mediocre Growth)

## Real GDP Up 4.6% YoY During 3Q2008



Source: Central Bank of Venezuela.

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# Disclosures

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