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# Venezuela's Macroeconomic Environment ¿Where are we heading?

Ecoanalítica  
July 2009

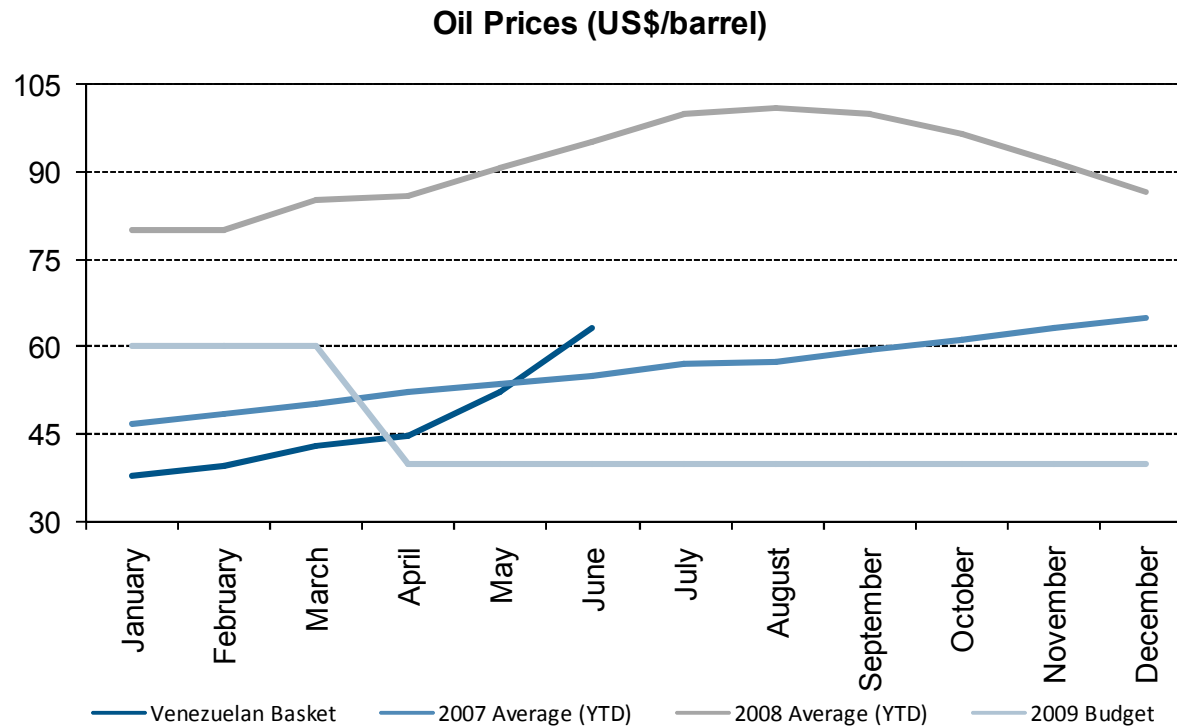


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# **PART I**

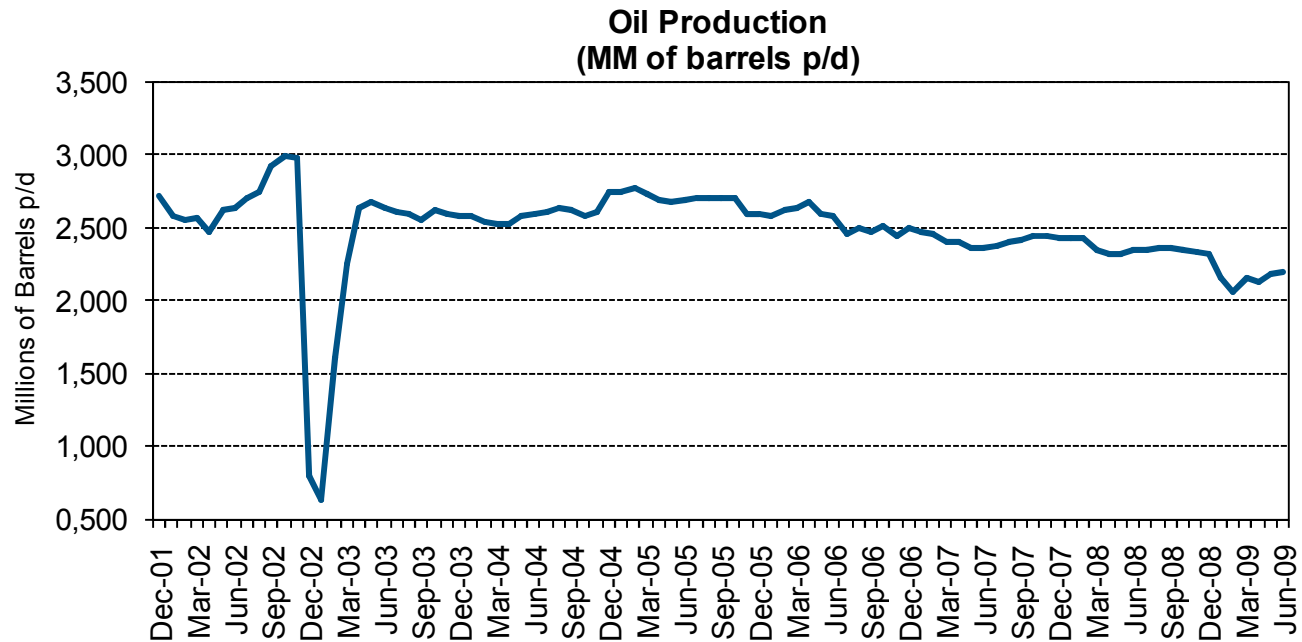
## **Where are we at, right now?**

# The international crisis in Venezuela has struck through the drop in oil prices



Source: Bloomberg, Ministry of Energy and Oil and Ecoanalítica.

# Oil Production: “To be or not to be”



Sources: Bloomberg and Ecoanalítica

## CADIVI (Currencies Administrator)

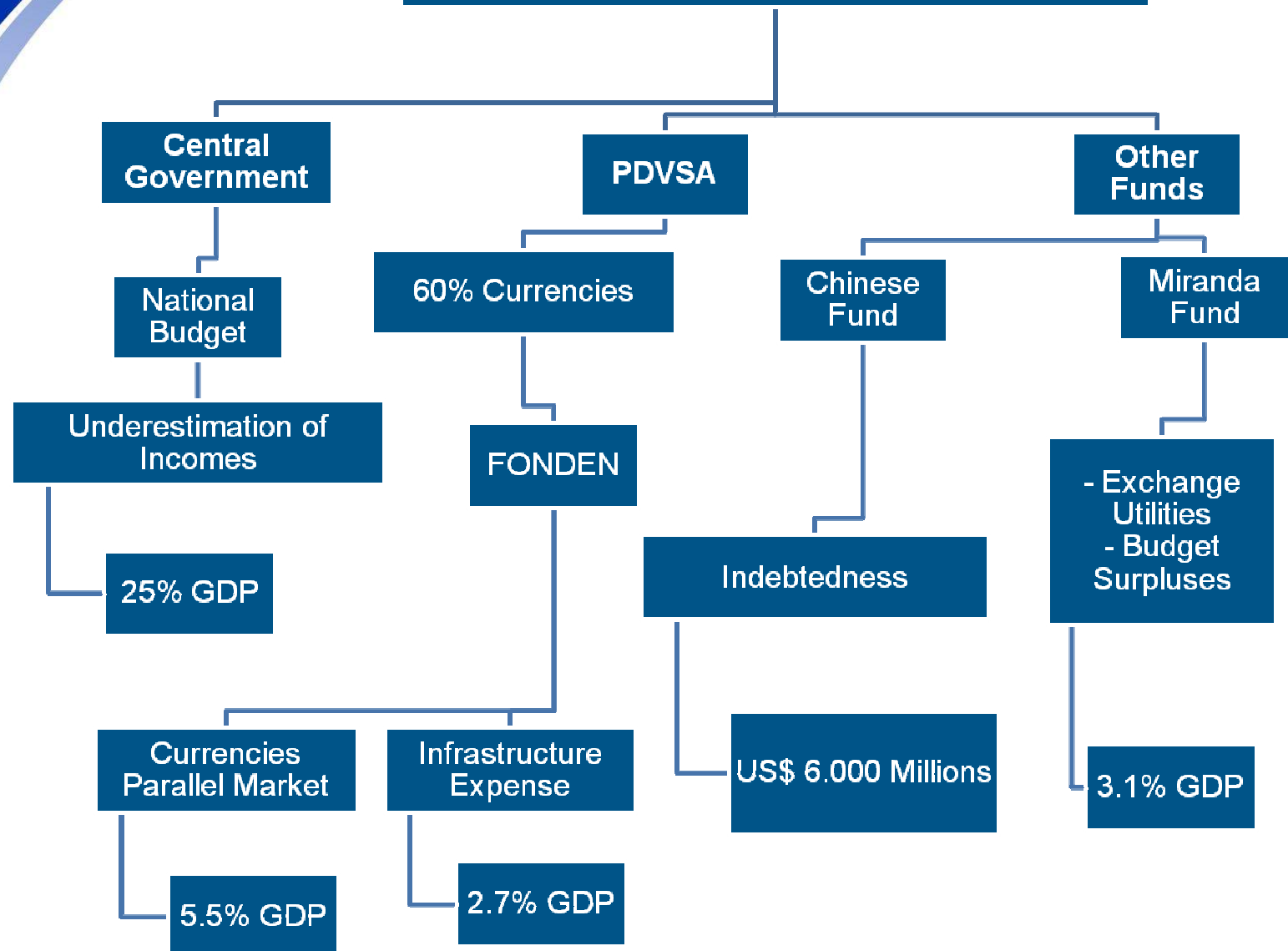
### The Reduction goes with the Oil winds

Liquidated amount (US\$MM)			
	4M08	4M09	Var(%)
Imports	6,920.7	4,441.4	-35.8
Students	71.9	71.1	-1.1
Special Cases	37.1	26.7	-28.1
Airlines	376.3	282.4	-25.0
Private Foreign Debt	194.0	23.2	-88.0
Consulates and Embassies	17.2	42.2	145.9
Assurances and Reinsurances	29.2	60.3	106.5
Foreign investment	987.0	199.9	-79.7
Pensioners	14.8	16.5	11.3
Remittances	359.8	258.6	-28.1
Credit Cards	2,113.0	1,667.5	-21.1
Cash for Travel	85.3	87.3	2.3
Services	5.1	7.5	45.9
Telecommunications	19.7	16.4	-16.9
<b>Total</b>	<b>11,231.1</b>	<b>7,201.0</b>	<b>-35.9</b>

Sources: CADIVI and Ecoanalítica

# What exactly is Venezuela's fiscal policy?

## Venezuela's Fiscal Management (2008)





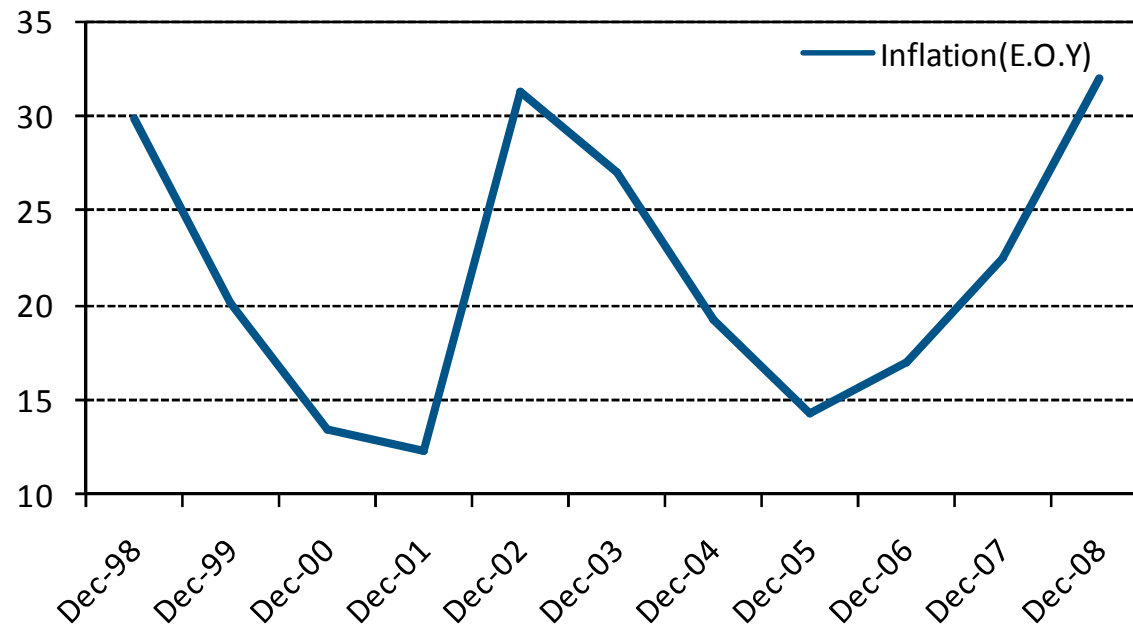
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## PART II

# “The paradoxes of the Chávez economy”

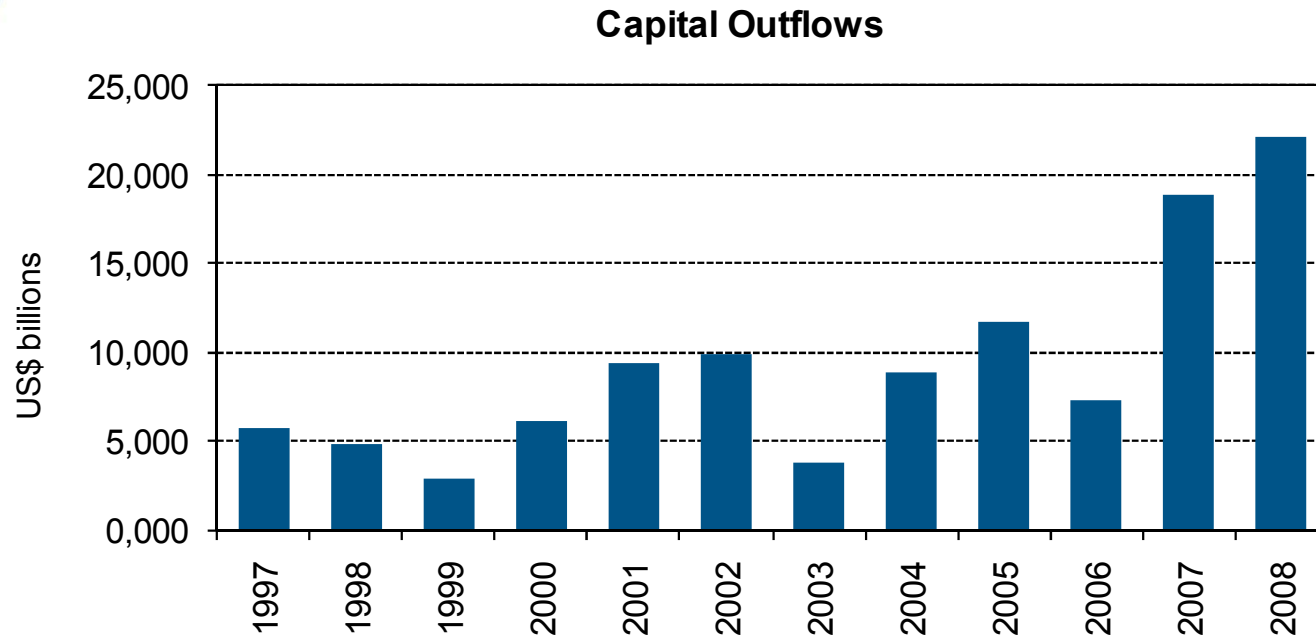
## Government for the poor, but highly inflation"

Inflation (end of the year)



Sources: BCV and Ecoanalítica.

## Exchange control and unprecedented with capital outflows



Sources: BCV and Ecoanalítica.

## Accumulation of funds and an aggressive increase in public debt

Government Resources	May-09 (US\$ MMM)
<b>Cash</b>	<b>43.3</b>
<b>In VEF</b>	<b>24.0</b>
BANDES	0.1
BDT	-
Deposits in the financial system	15.2
Fondo Miranda	3.5
National Treasury	3.2
FONDEN	2.0
<b>In USD</b>	<b>19.3</b>
FONDEN	11.3
Other Funds	7.4
PDVSA	0.6
<b>Total</b>	<b>43.3</b>

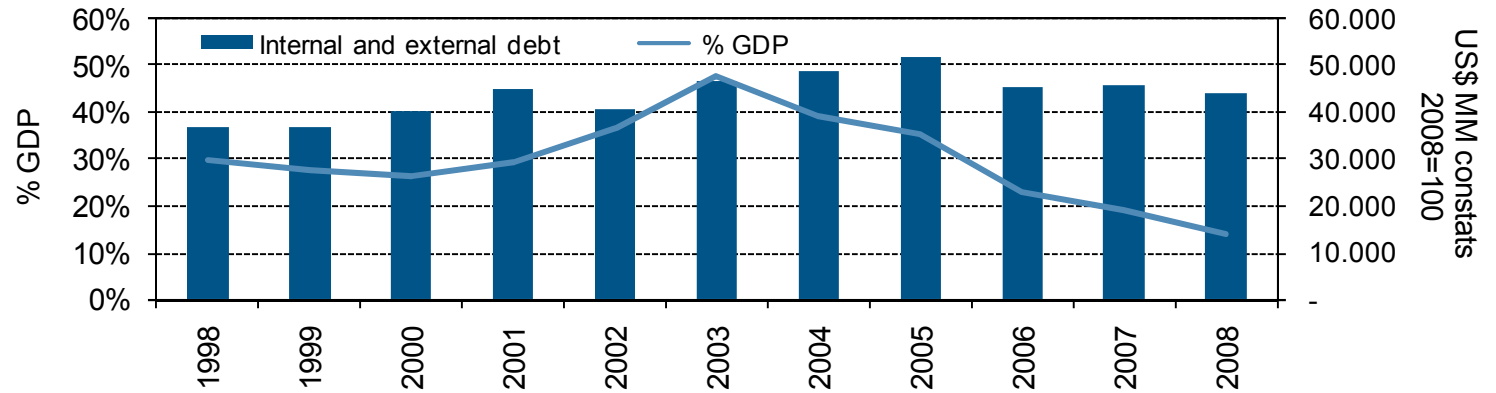
Source: Ecoanalítica

Debt 2009	
<b>New Debt - 1S09</b>	
Issuance of bonds (DPN, TICC, TIF and Agricultural Bond)	6,302
Treasury Bills	1,753
Loans from China	4,000
Loans from Japan	1,200
Issuance of Petrobonos	3,000
<b>Gross Debt at First Semester (US\$ millions)</b>	<b>16,255</b>
<b>Debt - 2S09</b>	
<b>Internal Debt</b>	
Issuance of bonds and Treasury Bills	11,000
<b>External Debt</b>	
Ministry of Finance	2,000
CORPOELEC	1,500
CVG	1,200
PDVSA	3,000
BNDES Brazil	1,500
China	4,000
Japan	1,200
<b>Gross Debt at the end of 2009 (US\$ millions)</b>	<b>41,655</b>

Sources: MF, BCV and Ecoanalítica

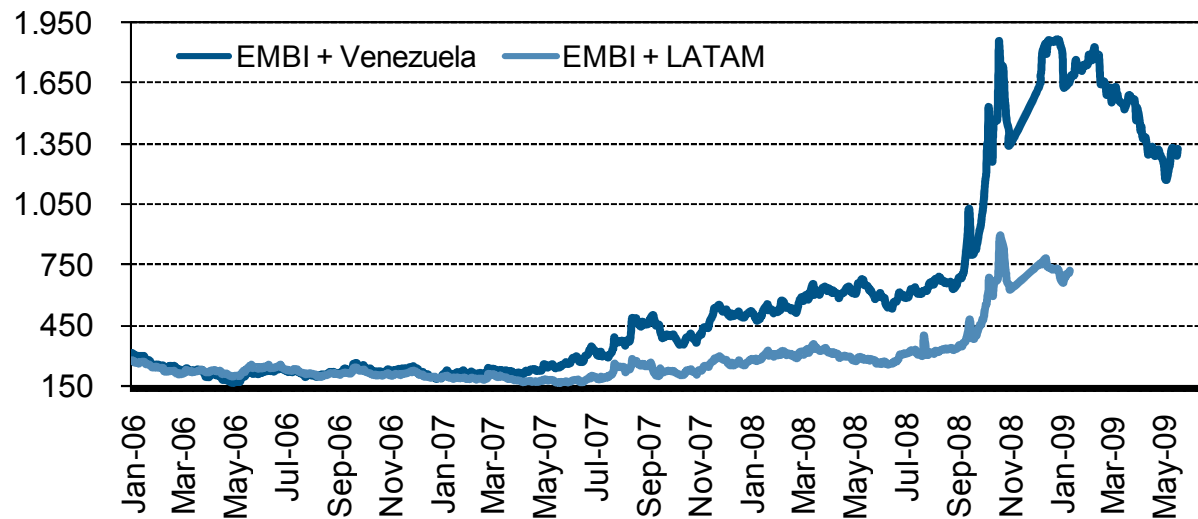
# High country risk for one with a low level of indebtedness

**Total Debt - Central Government**



Sources: MF and Ecoanalítica

**EMBI+**



Sources: Cbonds and Ecoanalítica.



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## **PART III**

# **Where are we heading?**

## The sieve-like “strategic” concept for the Government of Chávez

Nationalizations Cost		
Year	Sector	Amount (US\$ MM)
2006	Oil (Birth of mixed companies)	11,050
2007	Energy and Telecommunications	3,100
2008	Metallurgical and Cement	4,900
2009	Venezuelan Corporation of Guayana (CVG) and Oil C	3,250
<b>Total</b>		<b>22,300</b>

Source: Ecoanalítica

## What does the government expect of the private sector?

- The State is the only maker of the social transformation.
- The private initiative is destined for a limited number of activities.
- The company must look for the collective well-being (including workers) and **MUST NOT** take the profit as an absolute purpose.
  - Profit Control
  - Workers's Participation
  - Limited Action Range

## What does the government expect of the private sector?

- Mass-production - Products for all
- People in front of the State
- Foreign to the politics



SENIAT  
CADIVI  
IVSS  
INCE  
CONAVI  
MT  
MUNICIPIOS

## Top Ten Companies of the Country

Company	Property
EMPRESAS POLAR	Private
MOVISTAR	Private
SIEMSA	Private
SIDOR	Nationalized
CANTV	Nationalized
CEMEX	Nationalized
ELECTRICIDAD DE CARACAS	Nationalized
PDVSA	State
PEQUIVEN	State
CVG EDELCA	State
CVG VENALUM	State
CVG FERROMINERA	State
CVG BAUXILUM	State

Sources: América Economía y Ecoanalítica

## Supposing the State has money, what will happen?

Socialism of the XXI Century with State capitalism.

- ✓ Public moderate investment
- ✓ Raised social expense
- ✓ Strong helps in the international plane
- ✓ Stimulus in the new economy

Radicalization

- ✓ Midle Public investment.
- ✓ Raised use of economic incentives for the transition.
- ✓ Social Expense.
- ✓ Tax pressure on the private company and a decrease of its role.

Hibrid Model

- ✓ High public investment
- ✓ Disloyal Competition of the State
- ✓ Moderate social expense

## Projections for the Venezuelan economy

	2007	2008	2009F	2010F	2011F
<b>National Accounts</b>					
Real GDP Growth (% Annual)	8.4	4.8	(0.5)	0.8	1.2
Oil Sector	(5.3)	3.2	(7.8)	2.5	2.0
Non Oil Sector	9.7	5.1	0.8	0.5	1.1
Consumption (% Annual)	16.1	6.8	(1.7)	2.2	2.8
Public Consumption (% Annual)	4.8	5.7	1.1	2.4	2.7
Private Consumption (% Annual)	18.7	7.1	(2.3)	2.2	3.0
Investment (% Annual)	24.5	(2.4)	0.2	1.4	0.9
<b>Inflation and Exchange</b>					
CPI Inflation-National (end of year) (%)	22.5	30.9	28.5	37.8	40.5
Official Exchange Rate (end of year)	2,150	2.15	2.15	3.3	4.3
Official Exchange Rate (Average)	2,150	2.15	2.15	3.2	4.2
<b>Fiscal Policy Indicators</b>					
Fiscal Balance (% of the GDP)	3.1	(1.2)	(3.5)	0.0	(0.3)
Government Financing Requirements (% of the GDP) a	(1.8)	3.9	5.9	3.6	4.2
Service of the Debt(% of the GDP)	2.8	4.0	4.4	7.0	7.5
Quasi-fiscal Expenditure (% of the GDP)	6.7	6.0	2.5	3.1	2.7
<b>Balance of Payments</b>					
Current Account (% of the GDP)	8.8	12.3	2.7	7.3	5.0
Capital Account (% of the GDP)	(10.2)	(11.9)	(5.5)	(6.3)	(5.2)
Foreign Exchange Reserves (US\$ MMM)	33.5	43.2	34.1	36.9	36.1
<b>Labor Markets</b>					
Unemployment (%)	8.6	6.8	8.4	11.0	10.8
Real Wage (% Annual)	(1.0)	(4.9)	(7.5)	(15.2)	(14.9)

(a) (Amort+Fiscal Deficit).Forecast.

Source: Finance Ministry, Budget Office, Central Bank and Ecoanalítica



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