



# Prospective Report

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Trimeste I

By:  
Asdrubal Oliveros  
Jose Luis Saboin  
*Ecoanalítica's team\**

*Many a slip between 2009  
and 2012*

Edition:  
Argelia Guédez

\*Carlos de Sousa, Ainara Bacaicoa and Luis Pulgar

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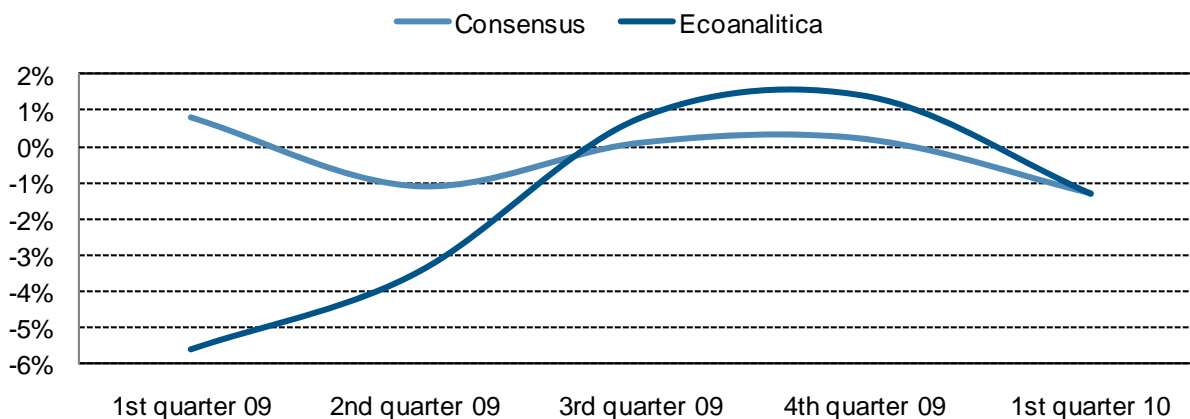


## Economic Outlook 2010 - 2014

Venezuela's is a highly particular economy. Not only is it structurally dependent on oil, which makes forecasting performance somewhat difficult, but, in addition, in recent years, forecasting what will happen with Venezuelan macroeconomic variables has to do with the viability of the President Chávez administration's political project. At *Ecoanalítica*, we are still of the opinion that the economic policy is dependant on maintaining what some call "the revolution."

Up until December last year, the concerns of the majority of analysts focused on how the interventions that affected a small group of banks would impact the economy, besides anticipating that, as this is an election year, there would be a strong expansion in public spending with the attendant impact on economic activity. At the end of last year, the consensus of the main analysts who follow events in Venezuela was that growth for 2010 would be 0.5%.

### 2010 GDP growth forecasts: Consensus vs Ecoanalítica



Sources: Bloomberg and Ecoanalítica

As is wont to happen in Venezuela, at the start of this year the context changed. On the foreign exchange front, the Executive made a substantial change in its policy by establishing a dual system at CADIVI and getting the Central Bank to intervene more directly in the swap market. With this change came a devaluation of the bolivar and a shuffling of the players participating in the market. The electricity crisis imploded with the Executive recognizing that it existed and the establishment of rationing and savings plans.



These two factors are, in essence, the ones that will determine the economy's performance in 2010. In the case of the electricity crisis, it is not easy to determine its impact on the growth of the economy, bearing in mind that there is no clear consensus regarding how this crisis will unfold in the coming months. What is clear is that manufacturing and commerce, the activities that are most affected, account for 25% of GDP and generate 32% of jobs in the formal market.

But things did not end there. In just a matter of months, the Executive decided to merge the ministries of economy and planning; there were important resignations in the cabinet starting with Vice-president Ramón Carrizalez; a series of brokerage houses were intervened; the Éxito-CADA chain was expropriated; PDVSA awarded two blocks in the Carabobo Field; the expropriated Éxito hypermarkets were purchased and an agreement reached with their main owner, the Casino Group; and the Carabobo Field in the Orinoco Oil Belt was put out to bid, among other significant events.

Clearly, in this context, it is not easy to make forecasts with regard to Venezuela and determining any datum is an exercise in daring. It is also clear that the Venezuelan economy is entering a new phase, different from the preceding boom (2004-2008). Everything indicates that the weight of a series of structural factors such as minimal private investment, loss of effectiveness of government spending in generating growth, and new obstacles that will continue in the medium term, as well as the failures in electricity supply and the deterioration of the companies taken over by the State, are starting a cycle of limited expectations as regards economic growth.

At *Ecoanalítica*, we are of the opinion that the Executive is failing in its growth strategy if it takes the increase in public spending as the preponderant factor, as we are in a new phase where structural factors need to be addressed. This new phase is different from the period 2004-2008 in which companies were not using their full capacity and domestic demand grew thanks to government spending, thereby encouraging investment in a context of low interest rates as a result of foreign exchange controls.

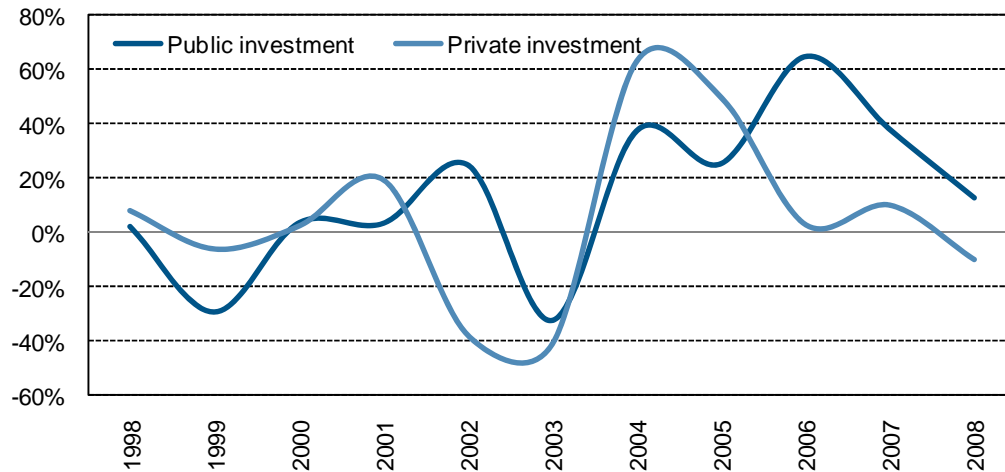
Today, investment for expanding capacity has been scant and, while new purchase orders are starting to come in thanks to public spending, there is not much leeway for increasing production in the short term. According to the Central Bank, the amount allocated to the purchasing of new equipment and to expanding the capacity of production plants has dropped by 11,2% in the past two years. With a private sector





making minimum investments to simply keep operating it is unlikely that the economy will reach levels of potential growth.

**Public and private investment growth**



Source: Ecoanalitica and BCV

From the point of view of economic policymakers in Venezuela, the strategy is designed to guarantee the survival of the *Chavista* model at the 2012 presidential elections, where it is taken for granted that President Chávez will run for reelection. In short, the “Bolivarian revolution” has reached the point where it has to start coming up with effective responses to social demands, and the Executive has to give the sensation of “efficiency.” That is the engine that will be driving measures on the economic front starting in 2010.

The paradox is that improving economic performance implies solving some issues that *Chavismo* finds unpleasant, those that the World Economic Forum has identified as the causes that explain the deterioration in the business environment in Venezuela: exchange controls, political instability, the government’s inefficient bureaucracy, and inflation. Most experts in this area agree that none of these problems will disappear in the short term and they, along with an electricity crisis whose effects will continue beyond 2011, will put a brake on economic expansion.

Then there is also the ideological factor. The President has said on innumerable occasions that it is not a question of his revolutionary model copying what happened in

Russia or Cuba, for example. Twenty-first Century Socialism in Venezuela is developing in accordance with its own parameters.

Nevertheless, some of its key lines clearly run parallel to models of socialism implemented in different parts of the world. The debate over the issue of property in Venezuela heated up when, in 2007, the government proposed reforming the Constitution as, in doing so, it tried to define different types of property and their treatment under the law.

Even though the constitutional reform did not prosper, the Executive has moved ahead to underpin other types of property. Social property has been promoted with instruments such as the Participation and People's Power Law, which fine tunes the building of the communal state.

But restrictions on the field of action of private property are being imposed by other routes as well. For example, in the oil business, private participation is only allowed with a minority shareholding and in partnership with the State via the so-called mixed enterprises. Moreover, with the devaluation of the bolivar implemented in January, two basic exchange rates were established, one at VEF 2.60/US\$ and the other at VEF 4.30/US\$. The first is exclusively for basic items and essentially for imports by the State.

In the next few years, the Executive aims to consolidate the First Socialist Plan 2007-2013, which defines the need to underpin social property as a way for moving ahead in the transition towards the socialist scheme.

While the project does not eliminate private property, it does indicate that it will not be promoted, so starting to give form to the socialist economy model. The idea is that there will be socialist, private, and state-owned companies in equal proportions and that their relationships will be interrelated within the framework of the model that the Executive hopes to implement in the country.

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### **Oil market: between Asia and OPEC**

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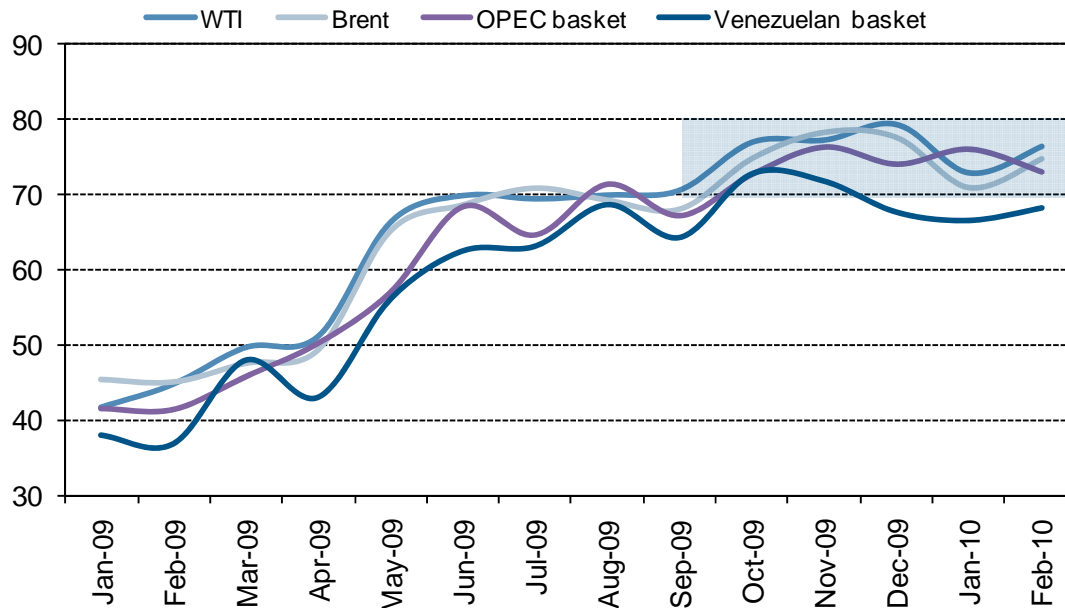
In our last outlook report *"Good News for 2010?"* we commented that the recovery of the oil market was imminent from the third quarter of 2009, when prices were fluctuating in an "established" range of between US\$65-US\$75/bl, whereas in the first quarter the international baskets dropped below US\$50/bl, the annual minimum for 2009.



By the fourth quarter, it was clear that there was a jump within that range on the international markets. The international baskets for the fourth quarter traded within a new range of US\$70-US\$80/bl. So, during the last quarter of 2009, “marker” baskets (WTI and Brent) were traded at an average of US\$75.6/bl. Ecoanalítica’s forecast for the period was US\$75/bl. Based on this annual behavior of the baskets, we can say that 2009 was a year of recovery in the global oil market.

Our oil market outlook analysis for 2010 will be conducted taking this upward trend in oil prices during 2009 as the basis. A review of the performance of the international baskets so far this year reveals a price of US\$77,2/bl for the WTI marker and US\$75.6/bl for North Sea Brent crude. As for the OPEC reference basket, it has posted an average price to date of US\$74.7/bl. Based on these data, we forecast an average price for the first quarter of US\$78/bl. The annual average of the Venezuelan basket so far this year comes to US\$70.3/bl.

**Oil prices (US\$/bl)**



Sources: MENPET and Ecoanalítica

Bearing in mind the foregoing, at **Ecoanalítica**, we forecast that the average price for the second quarter will be nearly US\$80/bl and that the annual average for 2010 will be in the region of US\$83/bl. Our reasoning for making this forecast includes, among other factors, the transition from the US\$70/bl floor to a floor of US\$75/bl in the



second quarter, the former (US\$70/bl) being the minimum sustainable price for maintaining the production capacity of the main producer countries.

We, therefore, consider it unlikely that the prices will drop below an average of US\$75/bl in the short term, basically because prices below the minimum sustainable price would compromise the levels of investment required by the industry, quite apart from the fact that expectations on the futures market indicate a barrel price of US\$100 in 2012.

We can justify these forecasts arguing a strong, sustained growth in demand, which looks as though it will surpass the increases in supply, indicating that the market would seem to be moving between the impressive growth projected for Asia and the marginal contributions from OPEC, to wit:

On the demand side, at *Ecoanalítica*, we forecast growth of 1.1 mb/d compared to 2009. The basis of this premise comes from a positive outlook for the recovery of the world economy (the latest global macroeconomic data supports this), particularly in the emerging markets, which means that, as this recovery consolidates itself, the forecasts for growth could go up.

As for the developed countries, while outside Europe macroeconomic data show clear signs of recovery, the European indicators have lagged behind, mainly due to the fragility of the fiscal situation and its consequent implications for the public debts of Portugal, Italy, Greece, and Spain. It is worth pointing out here that Europe has got lost on the path to economic recovery shown by other regions so far this year, as a result of which, it is to be expected that the region will act as a dissipater in the recovery of the demand for crude in 2010. Bearing this in mind, we estimate that demand in developed countries will decline by 0.1 mb/d.

So, the main engine driving this recovery will be the emerging markets with growth of 1.0 mb/d in 2010, where China, which has projected annual growth of 0.4 mb/d for 2010 (equivalent to 35% of projected global growth), and the Asian market in general will be the fundamental factors that will drive growth in the demand for crude in 2010.

On the supply side, we are of the opinion that the weakening of non-OPEC supply in the past decade, added to the increase in the demand of the emerging markets, will result in the market focusing on OPEC production in the long term (between 2002 and 2007, OPEC production rose by 4.8 mb/d). Based on this premise, at *Ecoanalítica*, we expect the so-called OPEC crude to increase by 0.3 mb/d in 2010.





As for non-OPEC supply, we expect a drop of 0.1 mb/d in 2010, based, mainly, on the reduction in the placement of barrels by countries such as Norway, Mexico, and the United Kingdom and a worse performance in two large countries, to wit Russia and Canada. Nevertheless, these performances have the backing of the flexibility that a significant increase on the demand side generates in suppliers, which is why it is important for them to take advantage of this moment to increase their production capacity.

| Global Supply and Demand (consensus) | 2009        | Annual change | 2010-I      | 2010-II     | 2010-III  | 2010-IV     | 2010        | Annual change |
|--------------------------------------|-------------|---------------|-------------|-------------|-----------|-------------|-------------|---------------|
| <b>Demand</b>                        | <b>84.5</b> | <b>(1.5)</b>  | <b>85.4</b> | <b>84.9</b> | <b>86</b> | <b>86.7</b> | <b>85.8</b> | <b>1.3</b>    |
| OECD Demand                          | 45.5        | (2.1)         | 46.2        | 44.5        | 45.1      | 46.1        | 45.5        | 0             |
| Non-OECD Demand                      | 39          | 0.6           | 39.2        | 40.4        | 40.9      | 40.6        | 40.3        | 1.3           |
| <b>Supply</b>                        | <b>84.5</b> | <b>(1.3)</b>  |             |             |           |             |             |               |
| Non-OPEC Supply                      | 50.9        | 0.6           | 51.5        | 51.3        | 50.9      | 51.4        | 51.3        | <b>0.4</b>    |
| OPEC NGLs + CNC                      | 4.6         | 0.3           | 5.1         | 5.2         | 5.4       | 5.6         | 5.5         | <b>0.8</b>    |
| OPEC crude                           | 29          | -2.2          | 29.2        | 29.5        | 29.5      | 29.6        | 29.5        | <b>0.5</b>    |

Sources: IEA, EIA, OPEC and Ecoanalítica

At *Ecoanalítica*, we believe that the implications this could have for the Venezuelan basket in 2010 (raising our forecast from US\$71/bl to US\$73/bl) are linked, more than ever, to the outlook for OPEC. For PDVSA, it is strictly necessary that the sales price of crude be above US\$70/bl in order to guarantee investments in exploration, extraction, and refining –which has been affected recently–, as well as to generate a good environment for the new (as well as possible potential) investors in the Orinoco Oil Belt and to meet its obligations with the Treasury.

### **Gross Domestic Product: coming up against the electricity crisis**

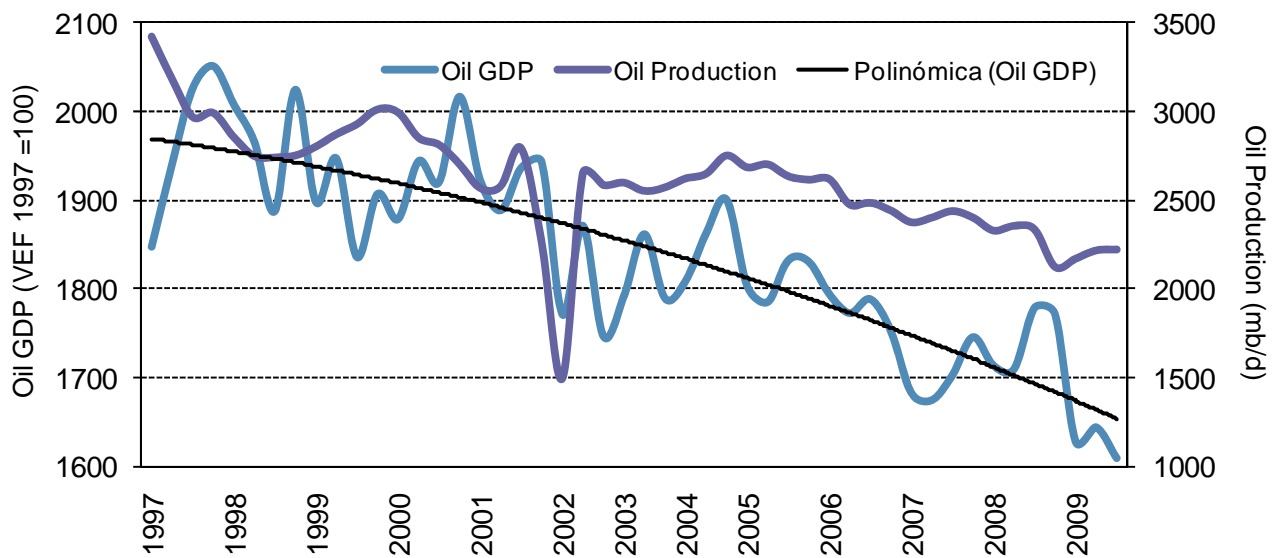
With some days' delay, the Central Bank of Venezuela published the revised GDP figures for the fourth quarter and, consequently, for 2009. Those figures show a bigger drop (3.3%) than initially forecast (2.9%). In the fourth quarter, the drop was 5.8% compared to the same period in 2008. According to the Central Bank, this drop was due to “the global economic crisis, the weakening of oil prices, and the recent cuts agreed within OPEC.” However, the drop in economic activity was also influenced by our internal distortions: lack of private sector confidence, a real reduction in public spending, and distortions in the foreign exchange situation.

By sector, we have a reduction of 0.3% in the public sector GDP in 4Q09 compared to a year ago, whereas private economic activity posted a decline of 7% over the same period. This drop is significant and has a widespread impact, as seven out of every 10 jobs in the formal economy are in the private sector.



Despite PDVSA's aggressive borrowing, production fell by 7.2% during 2009 compared to 2008, which is equivalent to a drop of 200.000 barrels a day. In the fourth quarter alone, this drop was 10.2% compared to 4Q08. The non-oil sector fell by 4% in the fourth quarter for a cumulative drop of 2% for all of 2009 compared to the previous year.

### Oil GDP & PDVSA'S Production



Sources: BCV, Bloomberg and Ecoanalítica

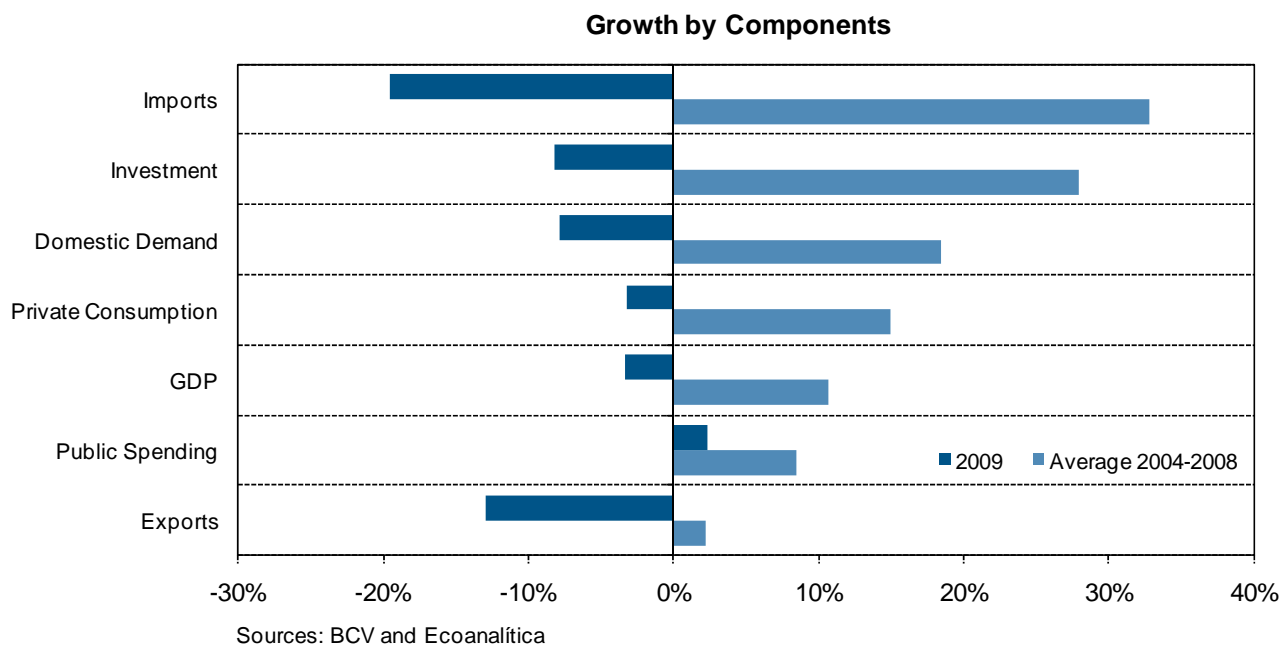
The most notable reductions within the non-oil sector, by type of activity, were in transportation services (-16.9%), commerce (-13.9%), manufacturing (-6.9%), mining (-4.8%), and real estate services (-2.8%). Here, the Central Bank admits "that the reduced availability of inputs of imported origin had an impact on these results." The activities posting growth were communications (+10.5%), electricity and water (+5.5%), general government service producers (+2.8%), and community, social, and personal services (+0.6%). With the exception of communications, the sectors with growth are low impact sectors and closely linked to public sector activities. In fact, the sectors that grew account for 25.5% of total GDP.

According to the Central Bank, aggregate supply contracted by 17.1%, impacted both by the drop in imports (-39.8%) and by the mentioned decline in GDP. The drop in imports is in line with the reduction of more than 40% in CADIVI's disbursements of foreign currency for this sector.





Global demand fell owing to the reductions observed in both domestic and external aggregate demand (-18.2% and -6.6%, respectively). The result for domestic aggregate demand is explained by the reductions in private final consumption spending (-6.7%) and fixed gross investment (-19.6%), whereas public consumption had moderate growth of 2.1%.



In 2010, the two most important determining factors in economic activity will be the electricity crisis and the devaluation of the official exchange rate. In the case of the electricity crisis, it is difficult to specify what impacts it will have on economic performance, but the hardest hit sectors will undoubtedly be commerce, transportation, and manufacturing. In the case of the devaluation, its impact will be felt in the drop in Venezuelans' purchasing power and the negative impact this will have on consumption.

At *Ecoanalítica* we have developed three growth scenarios for Venezuela in 2010 based on the electricity issue:

- **Scenario one – moderate electricity crisis:** This scenario contemplates moderate growth in public spending (5.6% compared to the previous year), a drop in private consumption of 4.2%, and growth in total investment of only 0.9% (driven mainly by the public sector). In this scenario, we would have a drop in economic activity of 1.3%, growth of 1.2% in the oil sector, and a drop of 1.7% in the non-oil sector.



- **Scenario two - Apocalypse now:** Here we assume that the electricity crisis will deepen, as a result of which we would have a drop of 4% in the economy in 2010, despite an expansion of 7.2% in public spending. In this scenario, private consumption falls by 7.4% and investment by 3.8%.
- **Scenario three - putting off the inevitable:** The basic assumption in this scenario is that the impacts of the electricity crisis will be felt most in the medium term, which is why we estimate a contraction in consumption of 4% and an increase in public spending of 6.1% with a 1% drop in investment. This gives us growth in the economy of only 0.2%. The main reason for this is that the private sector will remain stagnant without any permanent stimulus for increasing investment.

The most affected sectors are going to be manufacturing, mining, commerce, transportation and warehousing, and financial institutions and insurance, regardless of the scenario.

|                       | Sceneries (y/y%) |       |       |
|-----------------------|------------------|-------|-------|
|                       | I                | II    | III   |
| <b>Consumption</b>    | -4,2%            | -7,4% | -4,0% |
| <b>Investment</b>     | 0,0%             | -3,8% | 1,0%  |
| <b>Expenditure</b>    | 5,6%             | 7,2%  | 6,1%  |
| <b>Exports</b>        | 0,9%             | 1,0%  | 2,1%  |
| <b>Imports</b>        | -1,6%            | -3,6% | -3,4% |
| <b>Total</b>          | -1,3%            | -4,0% | 0,2%  |
| <b>Oil sector</b>     | 1,2%             | 0,9%  | 2,2%  |
| <b>Non oil sector</b> | -2%              | -3,9% | 0,1%  |

Source: Ecoanalítica

Also in 2010, participation of the public sector in certain areas of the economy will continue to grow (those already defined as “strategic” or to be so defined in the future), although in other areas, interdependence between the public and private sectors will increase, as the private sector has more knowledge of the domestic market. All this will have negative impacts on investment and employment. In short, the outlook is of an economy sustained exclusively by a public sector that grows at a level far below its potential (3.8% a year on average).





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## Employment and wages, a steady decline

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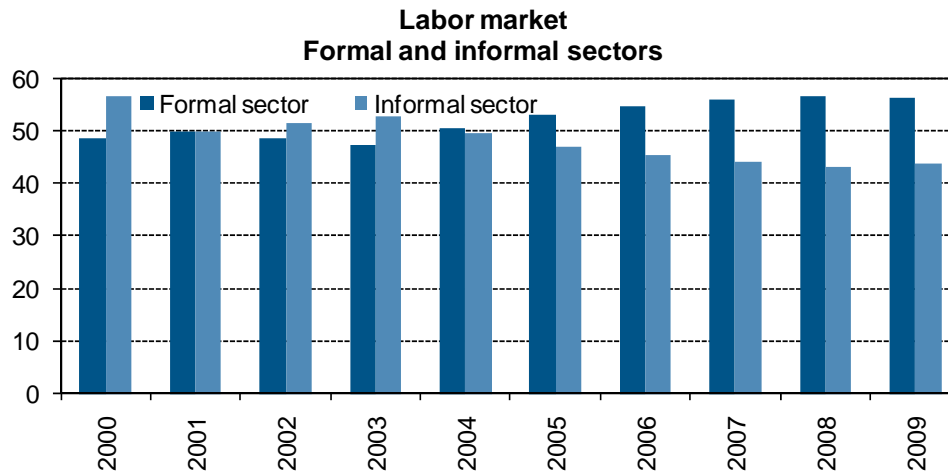
In the matter of jobs and wages, 2010 does not look promising. The effects of the slowing down in economic activity, the electricity crisis, and the devaluation will have a negative impact on the purchasing power of Venezuelan workers. Following a drop of 5.7% in 2009, we estimate a contraction of 12.8% in real wages in 2010. This contraction in wages will not be solved in the medium term, given the context of a slowing down in economic activity and high inflation forecast in our base scenario.

Another element that has to be borne in mind is the legislative agenda, as the National Assembly has been given the task of amending the Labor Law. While approval of the final text may be delayed, the possibility cannot be discarded of the Executive decreeing separately the reduction in the working day and/or the issue of the Workers' Councils and the ban on unjustified dismissals. The issue of the retroactivity of longevity and severance benefits is still under discussion, as its implementation would have serious implications for the public sector given the size of the government services payroll and labor liabilities (VEF 17.6 billion).

In 2010, the Executive seeks to continue on the course embarked on last year: anti-imperialist training courses, greater decision-making power for workers, but also the possibility of equalizing salaries and benefits. The change would be included in a centralized labor administration model that was introduced at the end of 2009, when the Executive created the Presidential Public Sector Labor Policy Commission. This commission will leave a series of matters to the discretion of the President, even including what percentage wage increase should be granted government workers.

As for the unemployment rate, we do not expect significant growth, although the most vulnerable sectors will be construction and manufacturing and the young segment of the population. We estimate that the unemployment rate in 2010 will average 9%. What we do foresee is an increase in informality, a constant in the Venezuelan economy within an economic crisis context. The average rate of informality for 2009 closed at 43.9% and we expect it will rise 3.4 percentage points in 2010 to close at 47.3%.



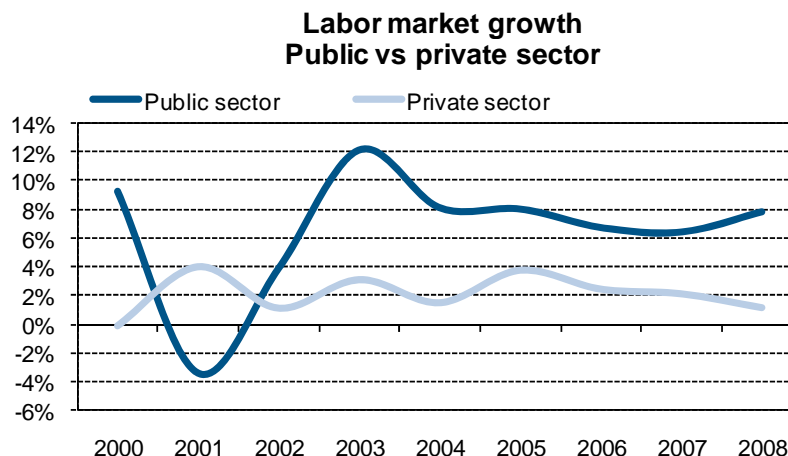


Sources: BCV and Ecoanalítica

These results could be more negative, depending on the impact of the electricity crisis and the electricity savings and rationing plan proposed by the Executive.

One outstanding element in this context of deteriorating labor conditions is the role the State has been playing. In recent years, the public sector's capacity as an employer has expanded enormously through state takeovers and expropriations of industries. However, the results of its performance as an employer have not been very positive.

The state payroll went from 1,625,701 employees in May 2005, when the first expropriations occurred, to 2,411,603 employees in December 2009, according to data from the National Statistics Institute (INE). This means that the number of workers and employees dependent on the State grew by 48.3%.



Sources: INE and Ecoanalítica





The labor explosion following the state takeovers has meant an increase in the size of the State and, therefore, of its financial liabilities. And the direct result of this has been an increase in the number of protests by government workers in the past year.

According to the report "Monitoreo de Conflictividad Laboral 2009," published by the Department of Law at Universidad Católica Andrés Bello, 86% of protests recorded last year involved workers who depend on the State. The study points out that this result was influenced by the reduction in oil revenues and by the expansion in the size of the State following the nationalizations.

But it is not only the protests, the Executive has also started make major changes in the design of the collective employment contracts and worker benefits, a trend that will be reinforced this year. In the matter of contractual issues, the Labor Ministry is being guided by a document drawn up in high government circles to outline labor policy in the context of the transition to socialism.

The plan "Políticas Laborales y Negociación Colectiva" details profound changes in the relationship between workers and their employers, among them wage equality for the public sector payroll as well as the need to give priority to social benefits over economic benefits. This change will also be reflected in the matter of insurance policies, where the plan is to have them handled by a new state-owned insurance company by the end of 2010.

Lastly, the private sector should not neglect the labor issue, as labor disputes, failure by employers to attend to their workers, and the distortion of the functions of the National Institute for Prevention, Health, and Safety in the Workplace are the main elements employed by the government to pave the way for expropriations.

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### **Inflation. Its not coming down soon.**

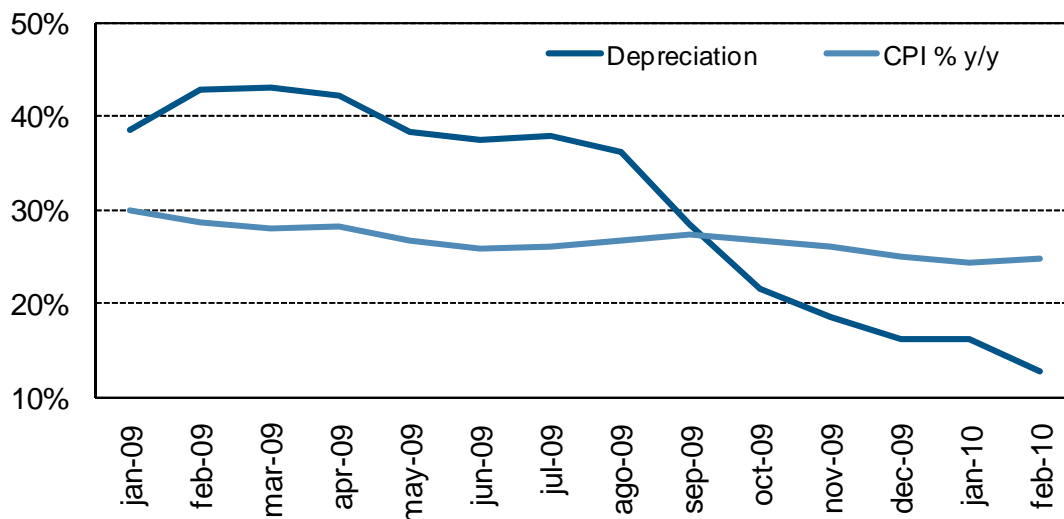
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The high inflation in Venezuela has become the main headache for the Executive on the economic front. Since the reduction achieved between 1996 and 2001, the present administration has not managed to come up with the correct strategy for achieving a structural reduction of inflation. Not only that, the policies tried thus far, particularly the exchange and price controls, have generated more pressure on prices and worsened shortages. What happened in 2009 is emblematic: while the economy posted a drop of 3.3%, as reported recently by the Central Bank, inflation in Venezuela closed at above 25%.



In 2010, the main determining factor for inflation will undoubtedly be the devaluation of the official exchange rate and the adjustments in the foreign exchange market. Central Bank studies point out that the impact of the foreign exchange disruptions is greater on the prices of goods than on the prices of services. In addition, they stress that the pass-through is not complete in either of the two price aggregates (goods and services) owing to the presence of non-tradable goods in the economy that are adjusting slowly.

### Inflation vs Real exchange rate depreciation



Sources: BCV and Ecoanalítica

Moreover, and bearing in mind expectations, the effect of the behavior of oil prices is relevant when it comes to the impact of the devaluation on inflation. In point of fact, the pass-through of a foreign exchange disruption is less (greater) when starting off with a situation of rising (falling) oil prices. This translates into higher oil prices increasing the Executive's capacity to release foreign currency at the official exchange rate and this, in turn, has an impact on the anchoring of the exchange rate of which Minister Giordani is so fond.

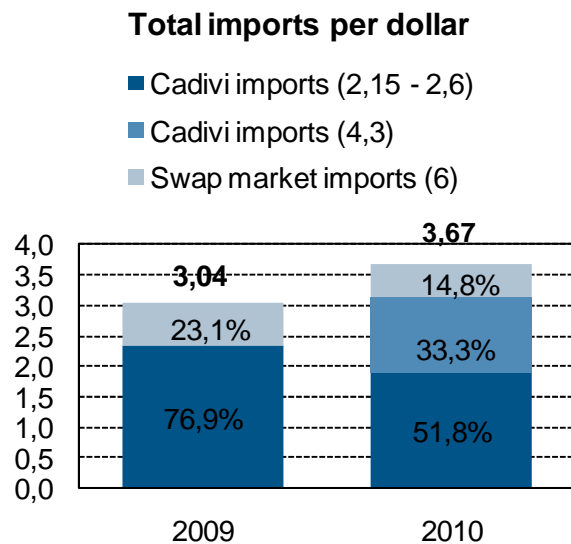
The proportion of imports financed at the swap or black market rate has been increasing since the end of 2008. So, the impact of the devaluation on inflation will be affected by the structure of imports prevailing today in Venezuela.

At *Ecoanalítica*, we disagree with the calculations that have been done regarding the magnitude of the devaluation. While significant, it is not as sizeable as commented in

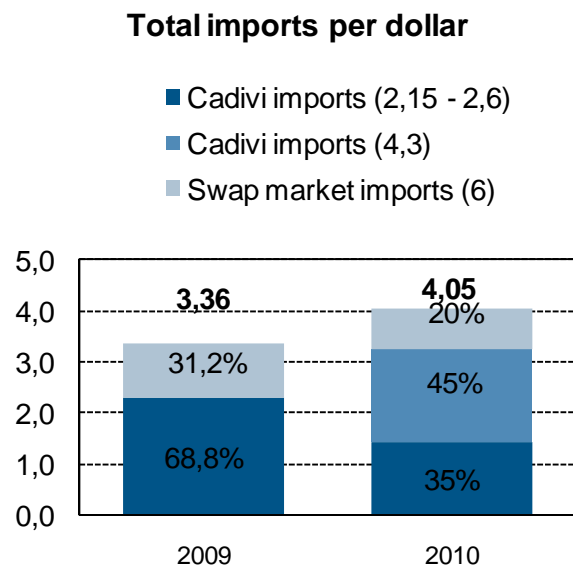


the main media. We have said repeatedly that the government had already implemented a covert devaluation during 2009 by restricting disbursements of foreign currency for imports at the official exchange rate and forcing a series of sectors to go to the parallel market.

Based on the total import figures published in the end-of-year message by the president of the Central Bank and the preliminary figures published by CADIVI, *Ecoanalítica* did a series of calculations to obtain the average exchange rate for private sector imports in 2009, which came to VEF 3.4/US\$, and based on the new foreign exchange scheme, the average exchange rate for private sector imports in 2010 will be VEF 4.1/US\$. So, the average devaluation the private sector will face will be 20.6%, which is substantially lower than the figure arrived at by some analysts. This lower effective devaluation will result in less pressure on prices.



Sources: Cadivi, BCV and Ecoanalitica



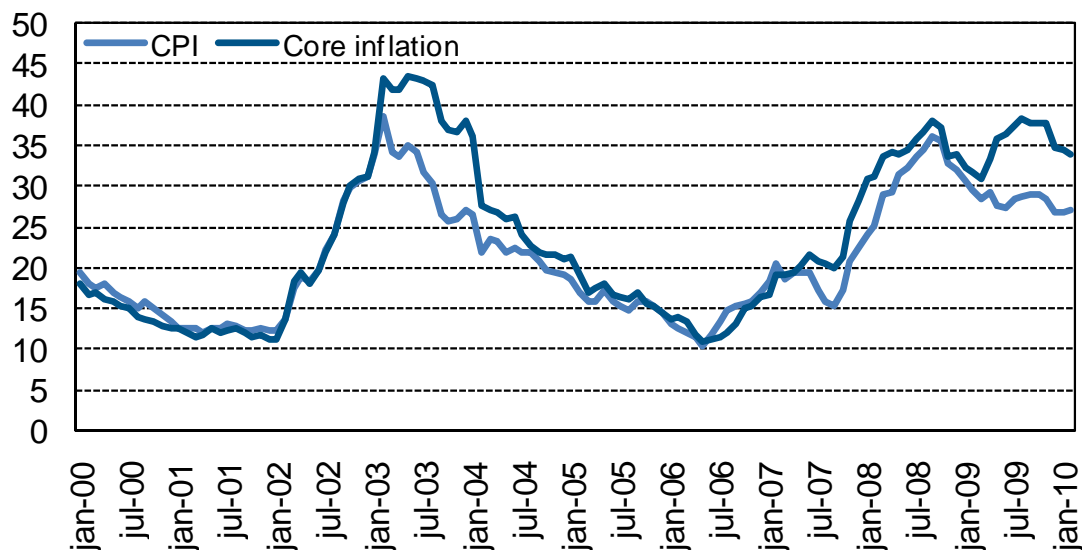
Another factor that could contribute to mitigating the impact on prices, albeit to a lesser degree, is that some of the companies and sectors that migrated to the parallel exchange rate last year will start to receive dollars at the VEF 4.3/US\$ rate under the new scheme. In view of this, possible price adjustments in those sectors should not be large.





Taking into account the new changes in the foreign exchange situation, plus the effects of the price control policies, the drop in private investment, and the role of the Central Bank in financing (directly and indirectly) the fiscal deficit, we have put our inflation estimate for 2010 at 34.5%. This time, we have included an estimate for core inflation, which isolates seasonal impacts and the effects of controls, estimating that it will close at 43.7%.

**CPI vs Core inflation**



Sources: Ecoanalítica and BCV

In addition, we forecast that the percentage of imports financed at the parallel rate will fall from 29.7% of total imports in 2009 to 20% in 2010. Ultimately, how far the government manages to control the inflationary impact of the devaluation will depend on how successful it is in controlling and keeping stable the parallel exchange rate and rapidly increasing the amount of official dollars allocated to the private sector. Inflation will be higher or lower depending on the complementary measures the government takes, although on this matter we are not optimistic.

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### **Interest rates and monetary policy: the Central Bank has much to do**

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In a post-devaluation context with major inflationary pressures and in a context of increasing fiscal spending, Central Bank's task on the monetary front is not an easy one. Generally speaking, inflation studies on the Venezuelan economy reveal no statistically significant effect between a monetary aggregate and prices when using



high-frequency data. However, studies have determined that, while monthly variations of monetary aggregates might not directly affect the variation in prices, contractions in monetary liquidity could cushion the impact of devaluations on prices; hence the importance of the design of the monetary policy.

However, we are not optimistic in this regard. The Central Bank's brief communiqué on the guidelines for the monetary policy in 2009 stresses: "The Central Bank of Venezuela, in coordination with the Executive, will act in the foreign exchange and monetary spheres to improve the conditions that stimulate credit for the productive sectors of the country and, consistent with the policies of the Executive, action will be taken seeking to achieve lower inflationary pressures and maintain the good functioning of the national system of payments."

So, from the monetary point of view, the Central Bank's role will be to avoid a deepening of the economic recession. In fact, the communiqué points out, "the institute [Central Bank] will take the policy actions required to maintain adequate levels of liquidity that will permit a normal performance of the economy and the national system of payments."

Given the dynamic of an election year, at *Ecoanalítica*, we expect a sizeable expansion in money supply in nominal terms, but not in real terms. Money supply will grow by 34% in nominal terms in 2010 and by -0.4% in real terms.

So we expect that the lending rate in 2010 will average 20.9%, and it could reach 22.5% by the end of the year.

In a context of high inflation and with these interest rate levels, it is clear that interest rates will continue to be below inflation, as a result of which incentives for saving will continue to be absent and borrowing in bolivars cannot be discarded.

The reasons for our perception of the behavior of M2 are as follows:

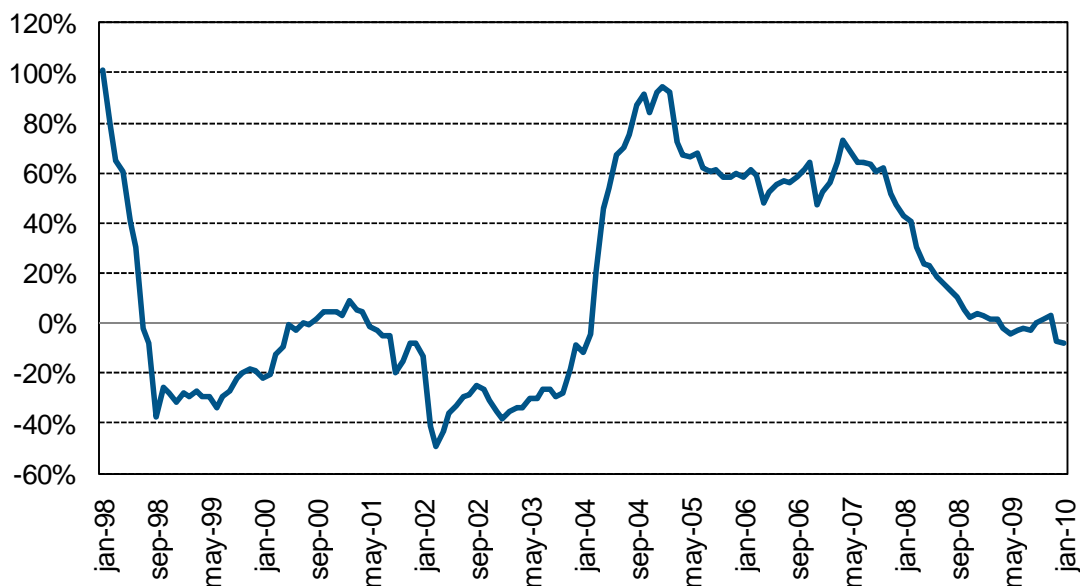
1. The government will continue with the process of migrating public deposits from the private financial system to the public system, which will have a bigger impact on small and medium-size banks;
2. Amidst the slowing down of economic activity, the growth in credit demand will be very limited, driven almost exclusively by the mandatory credit portfolios. The



banks will be extremely conservative to avoid a significant increase in the default rate and, consequently, a greater deterioration of the portfolio.

3. Operations on the open market by the Central Bank will be subordinated to fiscal actions (placement of domestic public debt) by the Executive;
4. We estimate that releases of foreign currency will be maintained at levels similar to those in 2009, but they will increase in bolivar terms as a result of the devaluation; and
5. The government and PDVSA estimate that they will issue papers in dollars and payable in bolivars in the order of US\$ 6 billion, which is a fairly large sum given the levels of surplus liquidity in the system.

**Credit Crunch**



Sources: Ecoanalítica and Sudeban

In addition, the new role that the Central Bank will start to play will not help to control inflation either, as the purpose behind the latest amendment to the Central Bank of Venezuela Law is to make resources available for credits. In order to increase the flow of money towards financing for given sectors, the Central Bank could perform credit operations backed by public papers as well as discount and rediscount operations so that the banks can channel more funds to loans for the agricultural, manufacturing,

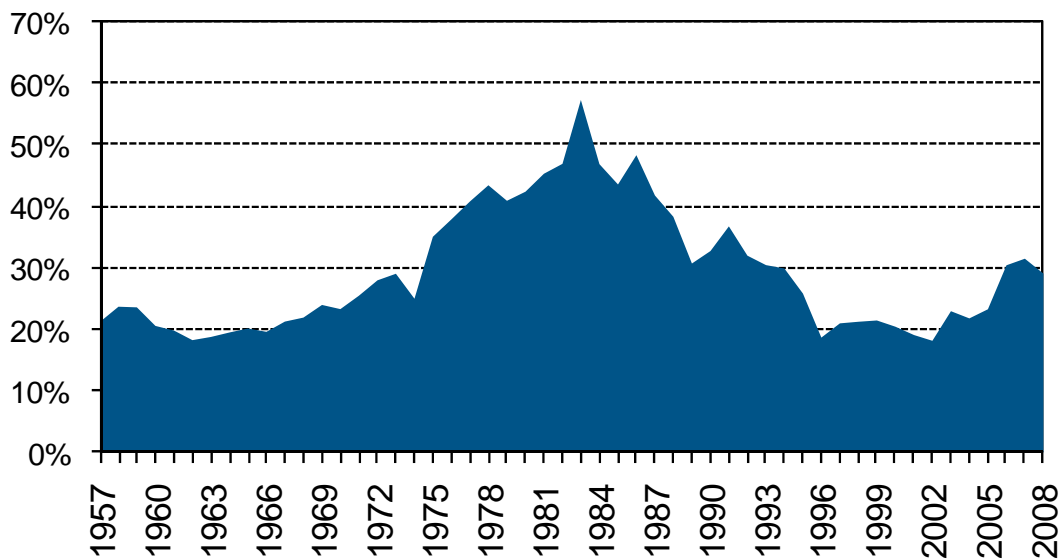


construction, and agribusiness sectors. In our opinion, this weakens the role of the Central Bank in controlling inflation.

Lastly, we wish to stress that reducing inflation in this monetary context is more complex. The increase in money supply in recent years has caused an increase in the ratio of money supply to GDP, known as “money demand.”

That said, we can see that, at the start of the 80s, this indicator reached high levels (above 40%). However, with the economic crisis that broke after “Black Friday,” money demand started a downward trend that became more acute with the 1994 financial crisis, bottoming out at below 20%. Put simply, the Venezuelan economy started a process of demonetization, in which Venezuelans and foreign residents maintained a minimal proportion of their assets in local currency. In recent years, given the presence of exchange controls and the expansion of economic activity, this indicator has been recovering.

### M2/PIB



Sources: BCV and Ecoanalítica

For that reason, the increase in our economy’s levels of monetization as a result of fiscal expansion, exchange controls, and the transfer of international reserves will continue to have an impact on the inflation rate in the next few years.





## Balance of Payments. All depends on oil

Along with the GDP figures, the Central Bank also published the balance of payments figures for 2009. These figures continue to show that the economic model implemented by the present administration is not sustainable over time. There are three elements that warrant highlighting: first, the significant reduction in the surplus on the current account, which went from US\$ 37.39 billion in 2008 to US\$ 8.56 billion in 2009; second, a public sector posting a capital account with a surplus; and last, a significant increase in the outflow of private sector capital in a year of contracting economic activity.

In 2009, total imports fell by 22% compared to 2008. On top of that, the contraction in the oil sector and the drop in oil prices caused a 39% drop in oil exports. Moreover, non-oil exports fell by 44%.

This situation resulted in a drop of 77% in the surplus on the current account. In addition, the outflow of capital increased, which has translated into the balance on the balance of payments going from a surplus of US\$ 9.28 billion in 2008 to a significant deficit of US\$ 10.26 billion in 2009.

| <b>BALANCE OF PAYMENTS<br/>(US\$ million)</b> | <b>2008</b> | <b>2009</b> | <b>Var(%)</b> |
|---|-------------|-------------|---------------|
| <b>Current Account</b>                        | 37.392      | 8.561       | -77,1%        |
| <b>Goods</b>                                  | 45.656      | 19.153      | -58,0%        |
| <b>Oil Exports</b>                            | 89.128      | 54.201      | -39,2%        |
| <b>Non-Oil Exports</b>                        | 6.010       | 3.394       | -43,5%        |
| <b>Import of goods f.o.b.</b>                 | -49.482     | -38.442     | -22,3%        |
| <b>Services</b>                               | -8.354      | -7.617      |               |
| <b>Others</b>                                 | 90          | -2.975      |               |
| <b>Capital Account</b>                        | -28.117     | -18.823     |               |
| <b>Public Sector</b>                          | -9.716      | 9.023       |               |
| <b>Private Sector</b>                         | -18.401     | -27.846     |               |
| <b>Reserves Variation</b>                     | 9.275       | -10.262     |               |
| <b>Capital Account</b>                        | -28.117     | -18.823     |               |
| <b>Public Sector</b>                          | -9.716      | 9.023       |               |
| <b>Private Sector</b>                         | -18.401     | -27.846     |               |
| <b>Reserves Variation</b>                     | 9.275       | -10.262     |               |

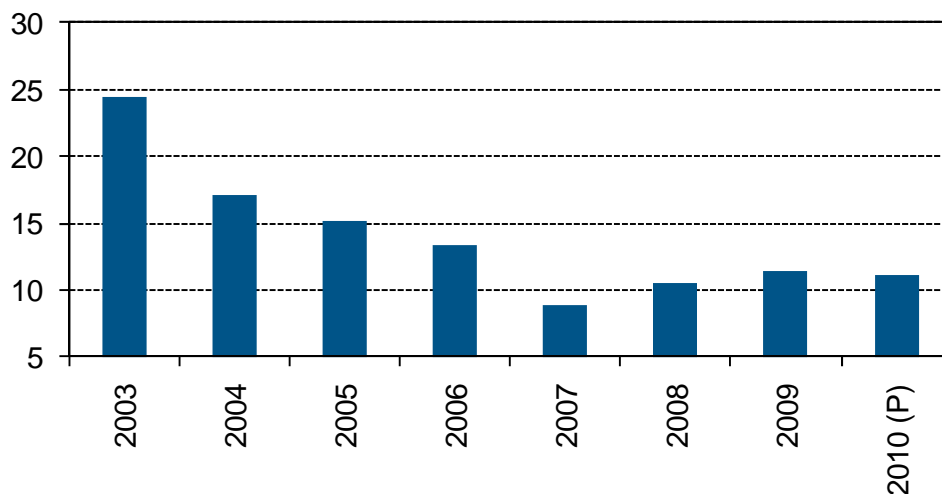
Sources: BCV and Ecoanalítica





This reduction in the international reserves and the colossal increase in imports in recent years, a product of the subsidy represented by the exchange controls, has been deteriorating our coverage position (measured as a ratio of international reserves to months of imports). In fact, in 2003, when the exchange control was implemented, the reserves represented 24 months of imports and, in 2009, that figure was reduced to 11. A country such as Venezuela, which depends on such a volatile commodity as oil, should have coverage in the range of 18-24 months.

### Reserves in months of imports (Coverage Index)



Sources: BCV and Ecoanalítica

While the Central Bank has still not presented detailed balance of payments figures, our estimates point to the biggest distortions in the capital account being reflected in the private sector of the economy. Two facts stand out in the figures supplied by the Central Bank. First, during 2009, the outflow of private sector capital increased significantly, going from US\$ 18,4 billion in 2008 to US\$ 22.4 billion in 2009; in other words, an increase of 21.7%.

Second, foreign investment in the country continues in the doldrums. The net flow last year was negative and came to US\$ 3.5 billion. This is the worst performance since 1997, when data started to be made available to the public at the Central Bank.

One important point is that, according to Central Bank figures and our own calculations, the country's net foreign asset position reached the level of some US\$34.8 billion at the close of 2009, an increase of 16.3% compared to the previous year's final balance.



Our projections for the balance of payments in 2010 highlight the following:

- Import levels similar to those of 2009, as a result of the foreign exchange subsidy granted via CADIVI; and CADIVI will continue to be selective in handing over foreign currency. We expect imports to be in the region of US\$ 39,0 billion.
- Increase in the balance on the current account of some US\$ 21,5 billion, mainly as a result of an increase in the levels of oil exports owing to a recovery in oil prices. The projected level of imports also contributes to this increase.
- Reduction in the outflow of capital, of both the public and private sectors. The deficit on the capital account will be in the region of US\$ 21,4 billion, a reduction of US\$ 6,1 billion compared to the close of 2009.
- The international reserves will close at levels similar to those of 2009. We expect contributions to FONDEN from the international reserves to be lower this year, in the region of US\$ 7 billion, as pointed out by the Central Bank itself.

At *Ecoanalítica* we continue sustaining the thesis that the vulnerability of the present economic model is more clearly reflected in the external sector figures. In an environment of contraction in the real sector of the economy, all that is guaranteeing the sustainability of the external accounts are the high oil prices. But this situation cannot be sustained indefinitely, which means that the government will be forced to take the necessary corrective measures. This could happen sooner or later, depending on whether oil production is reduced or increased and on whether oil prices come down or go up. Given the high volatility of these variables, it is wise to assume a conservative scenario.

| <b>BALANCE OF PAYMENTS<br/>(General Summary)</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Current Account</b>                           | 21.487      | 12.694      | 20.188      | 23.740      | 23.787      |
| <b>Exports</b>                                   | 64.292      | 62.294      | 74.388      | 80.840      | 87.387      |
| <b>Import of goods f.o.b.</b>                    | -39.000     | -43.600     | -49.000     | -50.900     | -57.600     |
| <b>Services</b>                                  | -3.805      | -6.000      | -5.200      | -6.200      | -6.000      |
| <b>Capital Account</b>                           | -21.400     | -19.400     | -24.100     | -22.600     | -24.100     |
| <b>Direct foreign investment</b>                 | 600         | 900         | 800         | 1.500       | 1.500       |

Sources: BCV and Ecoanalítica





In our first Outlook report, two years ago, we wrote the following: “The majority of people ask themselves, given the serious distortions, how can the present economic system be maintained until 2010? An approximate answer to this question has to do with the fact that the government has an enormous amount of resources abroad. This almost unhealthy tendency to accumulate funds abroad is a strategy for coping with adverse scenarios. As the situation deteriorates (2009 and 2010), the government will start to repatriate those resources to avoid the inevitable. The sad part of all this is that those resources are “lost” and do not constitute savings for the Nation in a scenario of correcting the economic policy.”

Unfortunately, that prophesy has come true and the Executive has used a large amount of extraordinary resources to avoid a collapse. However, from 2010 onwards the situation will be different and, in a scenario of moderate oil prices, the Executive needs to change direction.

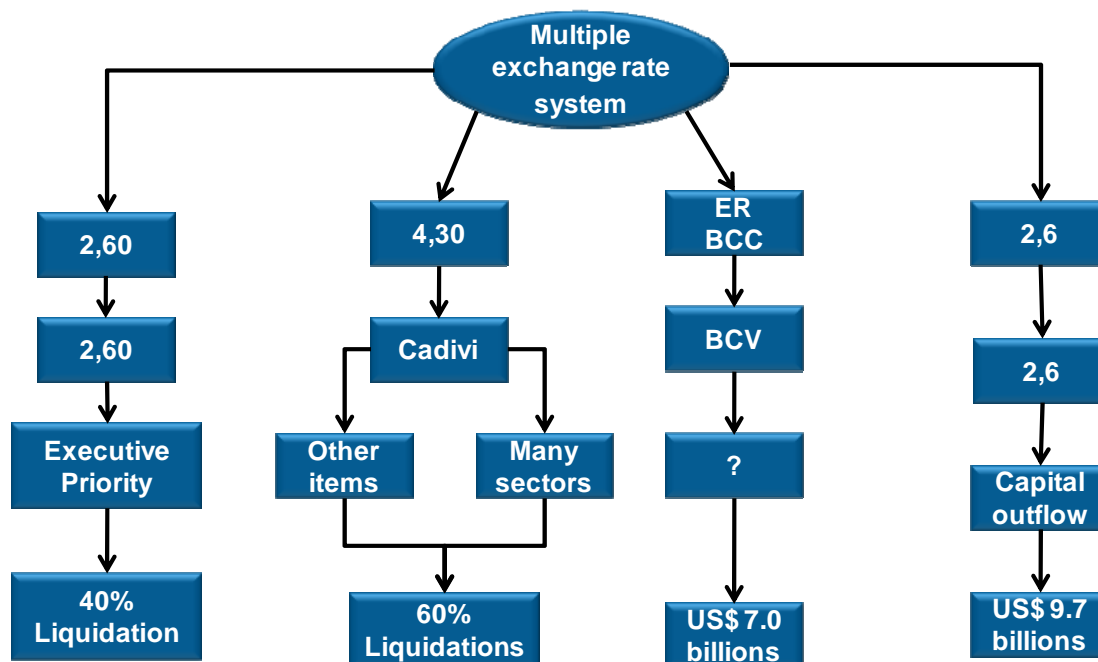
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### **Foreign exchange policy: devaluation and radical change**

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At the start of the year, the Executive radically changed its foreign exchange policy by devaluing the official exchange rate and implementing a multiple exchange rate system. The devaluation implies much more than going from an unofficial dual exchange rate (VEF 2.15/US\$ and the parallel rate) to an officially recognized multiple rate. The other factor requiring consideration is that the poles of power in the foreign exchange market have been inverted. It is no longer PDVSA that is the main player but the Central Bank that will set the pace from now on.





The Executive bought the idea of the devaluation as, not only does it allow it to obtain additional fiscal revenue, but it also gives it a breather with regard to PDVSA’s financial situation. It established a dual system, and now, in our opinion, PDVSA will sell 69% of its foreign currency at VEF 4.30 and 31% at VEF 2.60. However, with this shuffle, PDVSA loses the ability to participate in the swap market at its discretion; no more, no less. With the new foreign exchange scheme, there is no justification for PDVSA to intervene. Now that the Central Bank is to enter this market, the orders are to reorganize it and reduce the “traditional” market of PDVSA, the brokerage houses, and broker-dealers to the minimum. The Central Bank comes out strengthened: now PDVSA will sell a larger proportion of its foreign currency and the mechanism of Fonden selling foreign currency at VEF 4.30/US\$ will be institutionalized.

So far, the Central Bank has been selling dollars on the swap market using a quasi-weekly mechanism, in which a wide variety of economic agents, from private individuals to large companies, have taken part. To date, the Central Bank has sold US\$ 308 million at a total of 7 auctions. So far this year, the swap rate has gone down by 4.1%. In this context, the Central Bank’s exchange bonds are extremely attractive, given that the explicit exchange rate of those bonds is VEF 4,9/US\$.





Many analysts consider that the Central Bank has failed with its strategy. We do not share that opinion. We believe that it is premature to evaluate the role the Central Bank is playing in the foreign exchange market and that it should be taken in context: on the one hand, CADIVI was operating with serious deficiencies in the first weeks of the year, while the new operating system for the dual system was being set up, and on the other, the only “official” supply for the swap market has been coming from the Central Bank, given the marked absence of other entities, such as the National Treasury and PDVSA.

On top of that, the Central Bank has to improve the instrument, and to do that, it needs to work on three areas in particular, according to *Ecoanalítica*: first, increasing the amounts allocated weekly via these new bonds. According to our calculations, initially, it should auction between US\$ 130 million and US\$ 150 million and then stabilize the amounts at around US\$ 120 million a week. Second, the auctions should be aimed exclusively at the corporate or business segment (including S&MEs) or, failing that, this segment should be the main beneficiary (with an allocation criterion of 80%, minimum). Third, and last, the Central Bank should make public both the allocation criteria and the sectors that have been favored.

At the Central Bank, the plan for the first half of 2010 is to improve the daily releases of CADIVI dollars, stabilizing them at around US\$ 115 million a day and to continue with the allocations of exchange bonds on a weekly basis, raising the amounts by small increments. In fact, the Central Bank continues to maintain the thesis that only between US\$ 5 billion and US\$7 billion are needed to stabilize the foreign exchange market this year.

As commented in previous reports, *Ecoanalítica* is of the opinion that this amount should be increased to US\$ 12 billion, stabilizing the exchange rate at around VEF 6/US\$, equivalent to a difference of 40% compared to the oil exchange rate of VEF 4.3/US\$.

| <b>Currency flow 2010 (US\$ million)</b> |               |
|--|---------------|
| BCV Income (Export)                      | 50.000        |
| Sales to Fonden                          | 7.000         |
| <b>Balance</b>                           | <b>57.000</b> |
| Cadivi and SDE                           | (43.000)*     |
| <b>Final Balance</b>                     | <b>14.000</b> |
| Operative reserves                       | 20.000**      |

Sources: BCV and Ecoanalítica



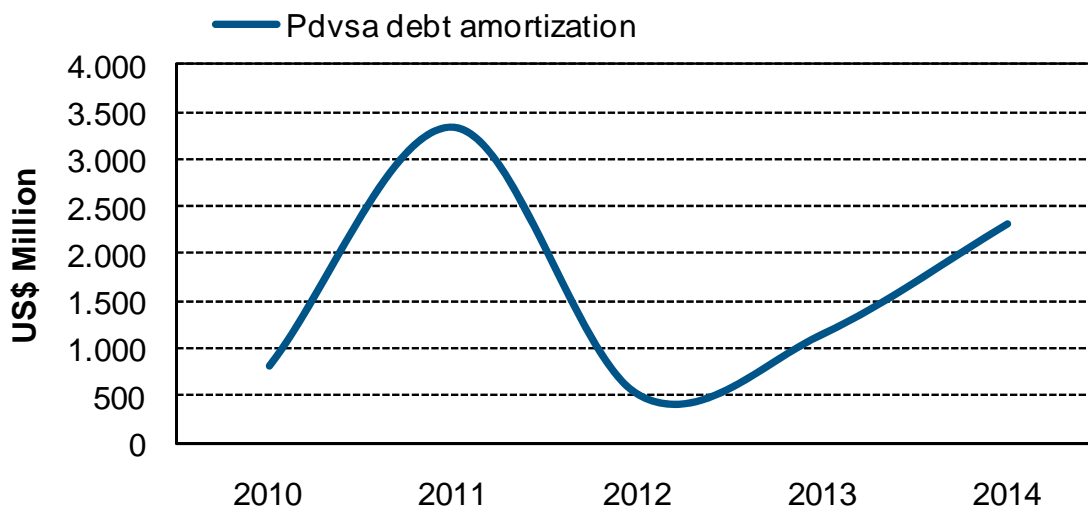


- \*Taking as assumption that Cadivi will paid its debt to the private sector of 2009
- \*Excluding transfer to Fonden expected in 2010

We do not see the issuing of foreign debt on the horizon in the medium term. A total reorganization of the Public Credit Office is underway at the Ministry of Planning and Finance, which, in our opinion, will delay any decision in this regard. Apart from that, Minister Giordani is not particularly convinced of the need to issue debt in dollars to calm the appetite of the foreign exchange market and has made his authority felt in public finances by pointing out that any decision that implies Central Government borrowing has to go through him.

So that leaves PDVSA, which, this year, has considerable financial needs. PDVSA's financial technicians have said that the company could issue medium-term dollar-denominated debt (a bond maturing in two to three years) to cover part of its liabilities. The amount to be borrowed could be between US\$ 2.5 billion and US\$ 3 billion.

### Pdvsa debt amortization



Source: Pdvsa and Ecoanalitica

It is important to point out that there is a clear division of responsibilities as regards matters economic within the cabinet: Giordani is the man in charge of fiscal management, public debt, and the functioning of CADIVI, while Merentes is the man responsible for stabilizing the foreign exchange market. Each has a margin of maneuver in his respective area.



Minister Giordani is responsible for speeding up the handing over of foreign currency by CADIVI and clarifying the situation with regard to the dividend repatriation policy, both for old debt (up until 2009) and the rules that will apply from this year onwards. Merente's role is more interesting: he has to generate confidence in the swap market to get it to stabilize -since the Central Bank cannot take the place of CADIVI- using complementary non-excluding strategies.

If the Planning and Finance Ministry and the Central Bank do not manage to fine tune strategies, the upward pressure on the swap market will be maintained. Confidence is the key. A fair amount has already been gained with the Central Bank's taking control of the swap market and the fact that PDVSA and the National Treasury are no longer relevant players. This is a big step, but not sufficient on its own.

Lastly, we refer to the swap exchange rate. If the Central Bank implements an adequate strategy, the swap exchange rate could stabilize at around VEF 6.5/US\$ by the end of 2010 (in line with the real exchange rate model). If, on the contrary, the strategy fails and economic agents do not have confidence in what is being done from the Central Bank, the exchange rate on the swap market could go as high as VEF 9/US\$ by year end, in line with the implicit exchange rate based on the M2/international reserves ratio.

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### **Fiscal policy, the least of possible evils**

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It is clear that, since Venezuela is an oil country, the devaluation generates additional revenues for the Treasury. However, given the presence of the parallel foreign currency market and the institutional shifts on the fiscal side, it is not that easy to calculate how much additional revenue the Executive will obtain.

According to the country's recent history, the reasons for devaluing the official exchange rate in Venezuela tend to be the need to implement fiscal correction measures rather than the justifications that other Latin American countries that have resorted to such measures may have used. In the past few years, the Executive has been putting off implementing a measure of this type because its fiscal needs were not pressing. Moreover, the implementation of exchange controls had become a costly foreign exchange subsidy (imports and capital outflows), and failure to devalue would have created serious imbalances in the foreign accounts and the real sector of the economy. In fact, it was precisely because a foreign exchange corrective measure was not taken in 2009 that the performance of the private sector was negatively affected,



while the public sector aggressively increased its borrowing and the use of extraordinary funds. So, the devaluation, rather than an inevitable measure, was a necessary correction.

It is difficult to summarize all the distortions that the implementation of exchange controls has brought to the Venezuelan economy. Here we refer to PDVSA's role, and therefore, to the issue of fiscal administration. Since 2004, legal and institutional changes have been introduced that have had three consequences: (1) a weakening of the Central Bank's autonomy; (2) the conversion of PDVSA into an entity with a significant degree of foreign exchange autonomy; and (3) greater opacity in the fiscal accounts. PDVSA did not hand over all its foreign currency to the Central Bank, and the amounts it retained were used to set up a number of different funds, in addition to Fonden.

In view of how harmful anchoring the official exchange rate at VEF 2.15/US\$ was for its cost structure, PDVSA handed over an increasingly smaller proportion of its foreign currency to the Central Bank, increased its borrowing, and, directly or indirectly, drained foreign currency to the so-called parallel market, taking advantage of the higher exchange rate.

Not only did these distortions make difficult for the Executive to design mechanisms to avoid the parallel exchange rate from climbing, but they were also fairly costly.

At *Ecoanalítica* we have studied the flows (supply and demand) involved in the parallel market in 2009 in order to determine the implicit exchange rate for the National Treasuring last year. Many might think that this exchange rate was official at the time, but that was not the case, given PDVSA's role in the parallel market. As a result, the fiscal effect of the devaluation for the Executive is less, given that it had been benefiting from an exchange rate that was higher than the official rate since 2009.

So, on the side of net treasury revenues, 75.8% of those revenues were based on the official rate of VEF 2.15/US\$, which were simply payments of PDVSA's fiscal contribution made via the Central Bank. The remaining 24.2% corresponded to interventions by PDVSA in the swap market at an approximate exchange rate of VEF 4.5/US\$. This means that the so-called "fiscal exchange rate" in 2009 was VEF 2.7/US\$.

This year the situation has changed significantly. The new adjustments to the exchange rate bring with them a number of substantial changes. The most relevant, in our



opinion, is that PDVSA is handing over 69% of its foreign currency to the Central Bank at a rate of VEF 4.3/US\$ and the remainder at VEF 2.6/US\$, thereby significantly reducing the incentive for PDVSA to participate in the swap market. In fact, PDVSA's participation in that market will continue for payments to contractors, suppliers, and partners, while the company's so-called direct sales will probably practically disappear.

Therefore, from the fiscal point of view, the proportions would be 17.2% for the parallel market (Central Bank and PDVSA), 57.5% for the "oil" exchange rate of VEF 4.3/US\$, and 25.2% for the VEF 2.6/US\$ rate. Based on those percentages and weighting them, we obtain an implicit exchange rate of VEF 4/US\$, which would give a fiscal devaluation of 48.2%.

| 2009  | Weights | T/C        |
|---|---------|------------|
| Pdvsa to BCV                                | 75.8%   | 2,15       |
| Pdvsa to the parallel market                | 24.2%   | 4.5*       |
| <b>Weighted average E/R (Fiscal Dollar)</b> |         | <b>2,7</b> |

| 2010  | Weights | T/C        |
|---|---------|------------|
| Public funds to the parallel market         | 17.2%   | 5.0*       |
| Pdvsa to BCV                                | 57.5%   | 4.3        |
| Pdvsa to BCV                                | 25.2%   | 2.6        |
| <b>Weighted average E/R (Fiscal Dollar)</b> |         | <b>4.0</b> |

Sources: Cadivi, BCV and Ecoanalítica

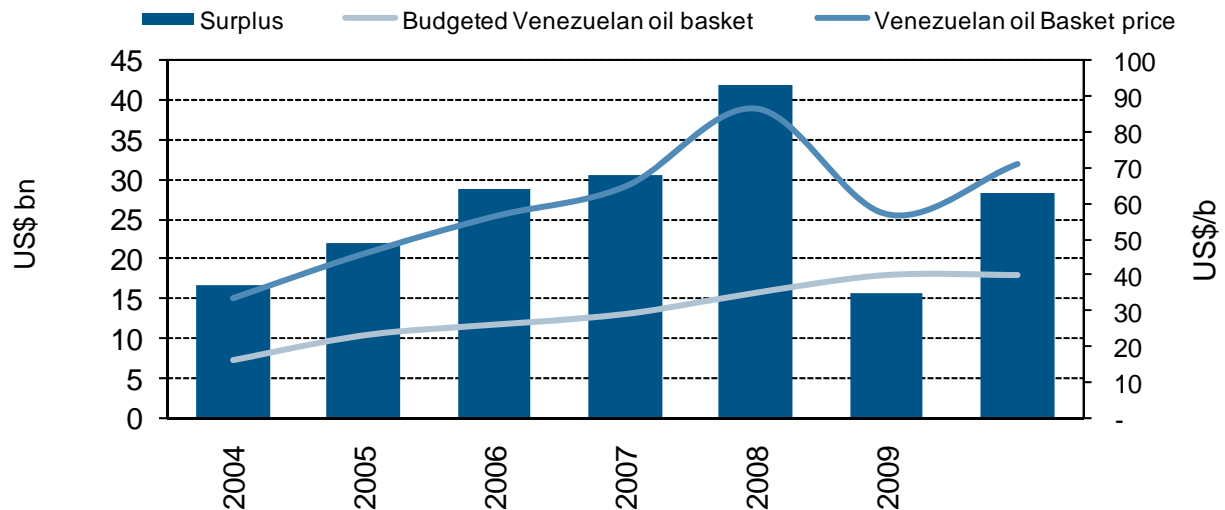
\*Exchange rate used by Pdvsa and public funds to sell currency to the parallel market

Once the impact of the parallel market on the fiscal accounts has been determined, it is possible to obtain a more precise calculation of the extraordinary revenues Central Government will obtain as a result of the devaluation. So, the net effect in 2010 is VEF 73.77 billion. This represents 34% of total spending we estimate will be incurred by the Executive in 2010 (VEF 220 billion). In addition, payment of foreign exchange profits to the National Treasury by the Central Bank is not included.





### Surplus Resources of the Restricted Public Sector

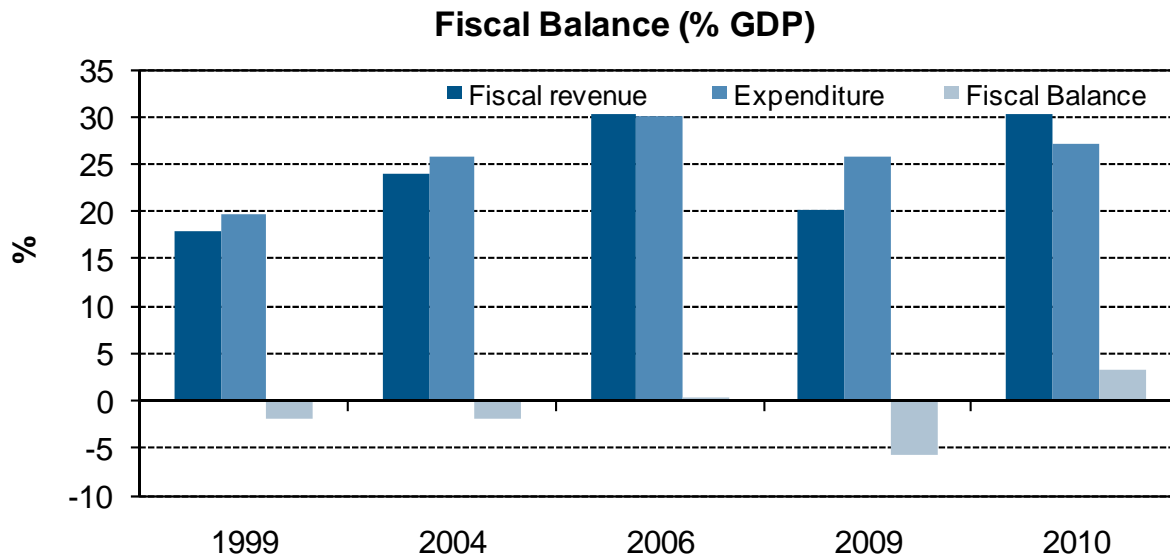


Sources: ONAPRE and Ecoanalítica

Lastly, it does no harm to mention something that is common knowledge: with the devaluation, the Executive significantly reduces its fiscal gap. For that reason, we reduced our estimate for the deficit, going from an initial figure of -2.6% of GDP to 3.2% of GDP.

In 2010, we estimate that total spending will be in the order of 27.1 percentage points of GDP, which represents a nominal increase of some VEF 27,2 billion. The main justification for this increase is that 2010 is a crucial year for the government politically and electorally. An expansive fiscal policy will be the main instrument the State will use to improve levels of efficiency and to try to increase acceptance of government performance.





Sources: BCV, ONT and Ecoanalítica

In conclusion, the fiscal situation does not pose a major problem for the government in the medium term. In Venezuela, devaluation is the fiscal correction mechanism par excellence, given that the lion's share of the State's revenues is generated in foreign currency. As a result, when it raises the exchange rate, the government receives extraordinary revenues automatically, almost by art of magic. In other words, while not admitting it, the government knows that the situation could become difficult in the future and would seem to be getting ready for such an eventuality.

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## Conclusions

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So far this year, the dynamics of the economy has worsened owing to the devaluation of the bolivar and the deepening of the electricity crisis. On the political front, the dynamics look no better, in particular for the Executive and President Chávez. This means that Chavismo has to guarantee not only its triumph at the upcoming parliamentary elections in September but also the viability of the political project with a view to the presidential reelection in 2012.

As far as the economy is concerned, this requires a change in direction and in the model that is currently being implemented in Venezuela. The economic crisis is a



reflection of the situation in the country and of a lowering of the population's expectations. This is reflected in an unfavorable performance in the majority of economic sectors, in particular manufacturing, commerce, and transportation, which account for 30% of GDP.

This "Dante's Inferno" scenario bodes no good for 2010, much less for the presidential reelection in 2012, in particular because, right now, the most serious crisis facing Chavismo is the inability to renew the promise or, what comes to the same thing, a break with expectations. While it is true that President Chávez still enjoys acceptable levels of popularity (around 40%), there are some important shifts in people's perception. The first is that there is an increasingly large percentage of Venezuelans who hold President Chávez responsible for the country's main problems. This is an important change, as, up until now, what has been operating has been the perception that "the government is very bad but Chávez isn't" ("Teflon effect"). The second change has to do with the Venezuelan population's growing pessimism with regard to the future, exacerbated by the economic crisis.

The challenge facing Chávez is not a minor one. Not only does he have to increase his popularity, but he also has to give people hope and the sensation that things are going to improve with him in power; that the alternative is chaos. On the side of the opposition, while there have been major advances, they have still not managed to come up with a discourse that connects with the majority, not to mention their serious leadership problems. This is slowing down any deterioration of Chavismo as an alternative.

The outlook on the political front points to the President using all his political capital to continue maintaining his model of society, alongside fiscal expansion and the intensive use of oil revenues with distributive criteria, a strategy that has allowed him to build up a large-scale clientelist network. This will be accompanied by a system of carrots and sticks to ensure the loyalty of his political followers, buy the sympathies of ambivalent groups, and punish his adversaries. The only thing, as we have already pointed out here, is that a revision of the model is now needed in order to guarantee the project's viability. The key question vis-à-vis the future is whether the President is sufficiently pragmatic to take that step.





|  | 2008   | 2009F  | 2010F | 2011F | 2012F | 2013F | 2014F |
|--|--------|--------|-------|-------|-------|-------|-------|
| <b>National Accounts</b>                           |        |        |       |       |       |       |       |
| Real GDP Growth (% Annual)                         | 4.8    | -0.5   | -1.3  | 2.5   | 1.4   | 1.5   | 1.6   |
| Oil Sector   | 3.2    | -7.8   | 1.2   | 2.0   | 2.0   | 2.1   | 2.5   |
| Non Oil Sector                                     | 5.1    | 0.8    | -1.8  | 2.8   | 1.4   | 1.5   | 1.6   |
| Consumption (% Annual)                             | 6.8    | -1.7   | -2.6  | 2.8   | 3.9   | 2.4   | 2.1   |
| Public Consumption (% Annual)                      | 5.7    | 1.1    | 5.6   | 1.4   | 8.2   | 2.5   | 5.1   |
| Private Consumption (% Annual)                     | 7.1    | -2.3   | -4.2  | 3.1   | 3.0   | 2.4   | 1.5   |
| Investment (% Annual)                              | -2.4   | 0.2    | 0.0   | 4.2   | 0.9   | 1.9   | -2.1  |
| Exports (% Annual)                                 | -2.8   | 5.4    | 0.9   | 2.0   | 2.1   | 2.3   | 3.1   |
| Imports (% Annual)                                 | 3.8    | -18.2  | -1.6  | 4.5   | 6.6   | 3.9   | 0.0   |
| GDP (US\$ MMM)                                     | 313.4  | 321.8  | 213.9 | 174.6 | 199.3 | 234.6 | 261.3 |
| GDP per Capita (US\$)                              | 11,252 | 11,370 | 7,463 | 6,001 | 6,748 | 7,828 | 8,588 |
| Population (MM)                                    | 27.9   | 28.3   | 28.7  | 29.1  | 29.5  | 30.0  | 30.4  |
| <b>Inflation, Exchange and Interest Rates</b>      |        |        |       |       |       |       |       |
| CPI Inflation-National (end of year) (%)           | 30.9   | 28.5   | 34.5  | 31.7  | 34.8  | 28.4  | 25.0  |
| CPI Inflation (end of year) (%)                    | 31.9   | 29.0   | 35.8  | 31.9  | 33.7  | 29.1  | 25.6  |
| WPI Inflation (end of year) (%)                    | 23.2   | 32.8   | 42.0  | 33.6  | 40.9  | 32.1  | 30.0  |
| Official Exchange Rate (end of year)               | 2.2    | 2.2    | 2.6   | 2.6   | 2.6   | N/A   | N/A   |
| Official Exchange Rate (Average)                   | 2.2    | 2.2    | 2.6   | 2.6   | 2.6   | N/A   | N/A   |
| TAM Interest Rate (end of year) (%)                | 22.1   | 19.0   | 22.5  | 24.2  | 26.1  | 28.4  | 30.0  |
| TAM Interest Rate (Average) (%)                    | 23.2   | 20.6   | 20.9  | 23.4  | 25.2  | 27.3  | 29.2  |
| Lending Rate (end of year) (%)                     | 16.2   | 13.9   | 14.0  | 15.0  | 16.2  | 19.1  | 22.0  |
| M2 (end of year) (VEB Trillions)                   | 194.3  | 242.0  | 335.0 | 435.0 | 600.0 | 790.0 | 990.0 |
| M2 (% Annual)                                      | 24.5   | 24.6   | 34.0  | 29.9  | 37.9  | 31.7  | 25.3  |
| <b>Fiscal Policy Indicators</b>                    |        |        |       |       |       |       |       |
| Fiscal Revenue (% of the GDP)                      | 24.7   | 22.0   | 30.3  | 30.9  | 27.1  | 23.8  | 24.9  |
| Oil Revenue (% of the GDP)                         | 12.2   | 11.4   | 16.9  | 18.1  | 15.6  | 14.5  | 15.8  |
| Non Oil Revenue (% of the GDP)                     | 12.4   | 10.4   | 10.9  | 10.5  | 9.0   | 7.8   | 7.5   |
| Foreign Exchange Profits and Others (% of the GDP) | 0.1    | 0.2    | 2.5   | 2.3   | 2.5   | 1.5   | 1.6   |
| Total Expenditure (% of the GDP)                   | 25.8   | 25.5   | 27.1  | 30.2  | 32.0  | 28.2  | 27.4  |
| Primary Expenditure (% of the GDP)                 | 24.5   | 23.5   | 23.8  | 26.3  | 27.8  | 24.0  | 23.2  |
| Interest (% of the GDP)                            | 1.3    | 2.0    | 3.3   | 3.9   | 4.2   | 4.2   | 4.2   |
| Fiscal Balance (% of the GDP)                      | -1.2   | -3.5   | 3.2   | 0.7   | -4.9  | -4.4  | -2.5  |
| Primary Fiscal Balance (% of the GDP)              | 0.1    | -1.5   | 6.5   | 4.6   | -0.7  | -0.2  | 1.7   |
| Amortization (% of the GDP)                        | -1.0   | 2.4    | 3.5   | 4.2   | 4.5   | 4.5   | 5.5   |
| Government Financing Requirements (% of the GDP) a | 0.2    | 5.9    | 0.3   | 3.5   | 9.4   | 8.9   | 8.0   |
| Quasi-fiscal Expenditure (% of the GDP)            | 6.0    | 2.5    | 3.6   | 3.1   | 3.6   | 2.0   | 2.0   |
| Non - oil Quasi-fiscal Balance (% of the GDP)      | -19.4  | -17.4  | -17.3 | -20.5 | -24.1 | -20.9 | -20.3 |
| <b>Debt Profile</b>                                |        |        |       |       |       |       |       |
| Foreign Exchange Reserves (US\$ MMM)               | 43.2   | 34.1   | 35.9  | 29.2  | 25.3  | 26.4  | 26.1  |
| Total Public Debt (US\$ MMM)                       | 58.2   | 83.5   | 72.2  | 78.3  | 85.5  | 85.6  | 90.6  |
| Domestic Debt (US\$ MMM)                           | 14.2   | 25.2   | 15.1  | 18.1  | 19.9  | 22.6  | 25.0  |
| Foreign Debt (US\$ MMM)                            | 44.0   | 58.3   | 57.1  | 60.2  | 65.6  | 63.0  | 65.6  |
| Total Debt (% of the GDP)                          | 18.6   | 26.0   | 33.8  | 44.8  | 42.9  | 36.5  | 34.7  |
| Total Foreign Debt (% of Exports)                  | 44.0   | 111.6  | 88.8  | 96.6  | 88.2  | 77.9  | 75.1  |
| Net Debt (US\$ MMM)                                | -53.0  | -38.6  | -42.3 | -39.2 | -33.8 | -36.4 | -33.8 |
| Debt Service Rate b                                | 3.1    | 6.0    | 15.6  | 16.1  | 13.5  | 12.4  | 11.5  |
| <b>Balance of Payments</b>                         |        |        |       |       |       |       |       |
| Oil Price (Brent)                                  | 99.5   | 61.0   | 81.5  | 80.0  | 94.3  | 98.9  | 106.0 |
| Oil Price (Venezuelan Basket)                      | 86.8   | 53.4   | 71.2  | 66.3  | 79.4  | 84.6  | 90.1  |
| Current Account (% of the GDP)                     | 14.6   | 2.7    | 10.0  | 7.3   | 10.1  | 10.1  | 9.1   |
| Current Account (US\$ MMM)                         | 45.9   | 8.8    | 21.5  | 12.7  | 20.2  | 23.7  | 23.8  |
| Balance of Trade (US\$ MMM)                        | 52.3   | 12.8   | 25.3  | 18.7  | 25.4  | 29.9  | 29.8  |
| Exports (US\$ MMM)                                 | 99.9   | 52.3   | 64.3  | 62.3  | 74.4  | 80.8  | 87.4  |
| Imports (US\$ MMM)                                 | -47.6  | -39.5  | -39.0 | -43.6 | -49.0 | -50.9 | -57.6 |
| Services & Income Balance (US\$ MMM)               | -6.4   | -4.0   | -3.8  | -6.0  | -5.2  | -6.2  | -6.0  |
| Capital Account (US\$ MMM)                         | -26.2  | -17.9  | -21.4 | -19.4 | -24.1 | -22.6 | -24.1 |
| Foreign Direct Investment (US\$ MMM)               | 1.7    | 0.7    | 0.6   | 0.9   | 0.8   | 1.5   | 1.5   |
| <b>Labor Markets</b>                               |        |        |       |       |       |       |       |
| Unemployment (%)                                   | 6.8    | 8.2    | 9.0   | 8.9   | 8.8   | 8.8   | 8.1   |
| Real Wage (% Annual)                               | -4.9   | -7.5   | -12.8 | -9.1  | -1.6  | 1.2   | 3.6   |

(a) (Amort + Fiscal Deficit). (b) (Amort+External Debt Interest)/Exports of good and services.

Sources: Ministry Finance, ONAPRE, Venezuelan Central Bank, National Institute of Statistics and Ecoanalítica