

THE GLOBAL CRISIS OF 2008 AND ITS IMPACT ON THE VENEZUELAN

ECONOMY

Presentation of Pedro A. Palma at the Annual Independence Day Dinner

The Anglo-Venezuelan Society

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- THE VENEZUELAN ECONOMY IS AN OIL DEPENDENT ONE ⇒ OIL PRICE DECLINE DUE TO INTERNATIONAL CRISIS WILL HAVE THE MOST DIRECT IMPACT ON THE ECONOMY
- DURING THE HIGH OIL PRICES PERIOD (2004-JULY 2008):
 - HIGH AND FAST GROWING GOV. EXPENDITURE (INJECTION OF ADDITIONAL OIL RESOURCES INTO THE ECONOMY)
 - PDVSA AND CENTRAL BANK FINANCING GOV. EXPENDITURE (FONDEN)
 - SOLID EXPANSION OF MONEY SUPPLY
 - HIGHER INTERNAL DEMAND (PRIVATE CONSUMPTION)
 - NEGATIVE REACTION OF PRODUCTIVE SECTORS (HIGH GDP GROWTH BUT LESS INTENSE THAN DEMAND GROWTH)
 - HIGHER IMPORTS (INSUFFICIENT INTERNAL SUPPLY & OVERVALUATION OF THE CURRENCY (EXPLAIN THE EXCHANGE CONTROLS & FIXED OFFICIAL EXCHANGE RATE))
 - HIGH INFLATION (DEMAND PULL & HIGHER COMMODITY PRICES IN SPITE OF THE OVERVALUATION OF THE CURRENCY)
- HOWEVER, FAINTNESS OF THAT MODEL WAS OBVIOUS DURING THE FIRST SEMESTER OF 2008 WHEN OIL PRICES WERE REACHING UNTHINKABLE HIGH LEVELS (GROWTH DECELERATION)
- LOWER OIL PRICES ARE AFFECTING THE BALANCE OF PAYMENTS:
 - LOWER EXPORTS ⇒ LESS \$ AVAILABILITY ⇒ RESTRICTED ACCESS TO PREFERENTIAL \$ ⇒ MIGRATION OF EXTERNAL TRANSACTIONS TO THE FREE FX MARKET (IMPLICIT DEVALUATION IN SPITE OF LEAVING THE OFFICIAL RATE UNCHANGED)
 - IMPORT RESTRICTIONS (DEVALUATION & OFFICIALLY IMPOSED)
 - CAPITAL FLIGHT IN RESPONSE TO LOWER OIL PRICES

- LOWER OIL PRICES AFFECT THE PUBLIC FINANCES
 - LOWER OIL FISCAL REVENUE
 - HEAVY LOCAL BORROWING
 - HIGHER TAXES (VAT)
 - THEREFORE, NO MORE LOCOMOTIVE EFFECT OF PUBLIC EXPENDITURE EVEN IF OIL PRICES REASSUME THEIR UPWARD TENDENCY
- INTERNAL DEMAND WILL CONTRACT
 - PARTICULARLY PRIVATE INVESTMENT
 - IMPOSITION OF A RADICAL SOCIALIST ECONOMIC SYSTEM, VERY DIFFERENT FROM THOSE IMPLEMENTED IN CHILE AND BRAZIL, AND CLOSER TO THE TOTALITARIAN CUBAN ONE (REJECTED BY MORE THAN 80% OF VENEZUELAN)
 - INTIMIDATION AND PERSISTENT INTERVENTION OF FIRMS
 - FORCED ABSORPTION OF PRIVATE FIRMS BY THE STATE
 - CONFISCATION OF FARMS
 - PROMOTION OF SOCIALIST PRODUCTIVE UNITS (COOPERATIVES, PEASANT FARMS)
 - EXCESSIVE PRICE AND PRODUCTION CONTROLS
 - PRIVATE CONSUMPTION
 - LOWER REAL DISPOSABLE INCOME
 - HIGHER UNEMPLOYMENT
 - EQUITY LOSSES BECAUSE OF THE GLOBAL CRISIS
 - CREDIT RESTRICTIONS
- GDP CONTRACTION FOR 2009 AND 2010.
- HIGH INFLATION WITH RISING EXPECTATIONS IN THE COMING MONTHS
 - INCREASED RESTRICTIONS TO ACCESS PREFERENTIAL DOLLARS FOR IMPORTS
 - IMPLICIT DEVALUATION
 - PRICES BASED ON EXPECTED REPLENISHMENT COSTS
 - RESTRICTIONS ON IMPORT VOLUMES
 - REDUCED ABILITY OF LOCAL PRODUCTIVE APPARATUS TO REACT

- REDUCED SUPPLY DUE TO STRICTER PRICE & PRODUCTION CONTROLS
- INCREASED LABOR COSTS (NEW LABOR LAW IN 2010?)
- HIGHER INDIRECT TAXES (VAT) (?)

HOWEVER, THE GLOBAL DROP IN COMMODITY PRICES, AND THE LOWER PURCHASING POWER OF CONSUMERS WILL MITIGATE INFLATIONARY PRESSURES

- **CONCLUSION:** VENEZUELA IS NOT IN THE RIGHT TRACK. IT IS NECESSARY THE IMPLEMENTATION OF A **GLOBAL AND SUSTAINABLE LONG TERM NATIONAL DEVELOPMENT PLAN** WITH THE MAIN OBJECTIVE OF ELIMINATING POVERTY & THE ACHIEVEMENT OF SOCIAL INCLUSION. IT SHOULD BE BASED ON A GLOBAL SOCIAL AGREEMENT, WITH THE ACTIVE PARTICIPATION OF ALL MEMBERS OF THE SOCIETY.