Economic Research Department

BBVA

Venezuela

Economic Observatory

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Oil slump depresses current account

- **Negative trade balance (USD –3,724 million) for first time in ten years.**
- **Public capital inflow relieves tension in balance of payments**
- **Greater restrictions expected on allocation of foreign exchange for imports**

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Balance of payments
General summary 2008
(Millions of US $

	2008	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Current account	39.202	-4.497	17.917	16.325	9.457
Goods balance	45.447	-3.724	19.016	18.668	11.487
Exports of goods	93.542	10.604	31.151	29.703	22.084
Oil	87.443	9.581	29.398	28.005	20.459
Non-oil	6.099	1.023	1.753	1.698	1.625
Imports of goods	-48.095	-14.328	-12.135	-11.035	-10.597
Oil	-4.298	-1.019	-1.039	-960	-1.280
Non-oil	-43.797	-13.309	-11.096	-10.075	-9.317
Services balance	-6.397	-1.905	-1.668	-1.488	-1.336
Income balance	707	1.269	639	-691	-510
Goods, serv and income balance	39.757	-4.360	17.987	16.489	9.641
Current transfers	-555	-137	-70	-164	-184
Capital and financial account	-26.180	10.423	-11.768	-12.446	-12.389
Direct investment	-1.041	647	-780	-477	-431
Portfolio investment	2.435	2.443	738	-785	39
Other investment	-27.574	7.333	-11.726	-11.184	-11.997
Errors and omissions	-3.747	-1.312	-564	-956	-915
Transactions balance Current and capital	9.275	4.614	5.585	2.923	-3.847
Reserves	-9.275	-4.614	-5.585	-2.923	3.847

Fuente: BCV

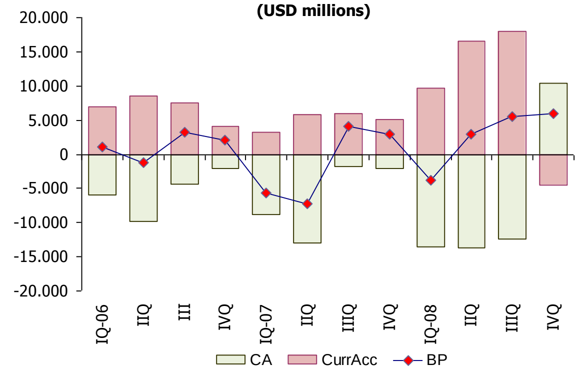
The Balance of Payments figures that the Venezuelan Central Bank (BCV) presented in its fourth-quarter results showed a current account deficit of US$4,497 million, broadly offset by the capital and financial account surplus (US$10,423 million). The sharp fall in oil prices during most of the second quarter of 2008 meant that the trade balance (USD -3,724 million), the primary component of the current account, went into it first deficit in ten years.

With regard to cumulative rates for the fourth quarter, the reference price for the Venezuelan basket fell by 48.2%. This change was brought about by the 45.9% contraction of the value of total exports. Imports showed downward rigidity in spite of the sudden drop in the foreign exchange supply. During the quarter they reached their all-time high of USD 14,328 million, with an emphasis on purchases of machinery and equipment, pharmaceutical products, medicine, and cell phones. The recovery of the balance of revenue (factorial services) during the quarter, especially the direct investment component (USD 834 million), is noteworthy, since this account has always had a negative result in the past, mainly linked to the repatriation of utilities by transnational companies.

This imbalance in the current account was offset by state-owned capital inflows during the period, which led to the aforementioned positive balance in the country's financial account. Foreign currency deposits owned by the Government and public companies and institutions recorded a fall of USD 9,596 million. The sudden accumulation of USD 5,076 million concentrated in the last two days of the year, which is linked to a public sector capital repayment transaction, is remarkable. The net result of the Balance of Payments allows international reserves to rise by USD 4,614 million during the period, closing the year at USD 42,299 million.

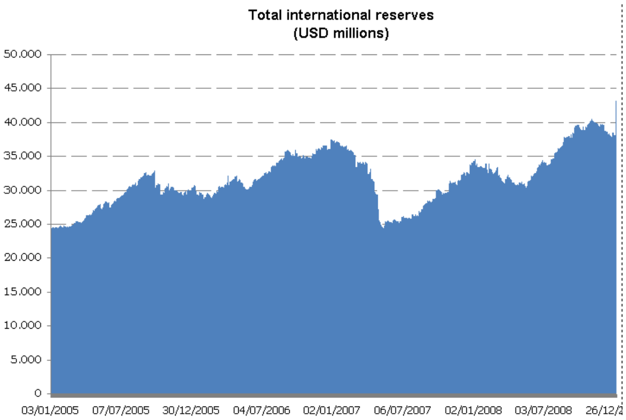
The fourth quarter balance for the foreign sector reflected how the Venezuelan current account depends heavily on the oil market's performance. Despite the significant fall in the value of hydrocarbon exports, they still carry a lot of weight in the export structure (90.4%). Although SEE-BBVA forecast the current account deterioration, this is much worse than expected. Our export fall forecasts were USD 14,590 million, rather conservative in comparison to the actual reduction (USD 19,817 million) of this item in the quarter.

Venezuela. Balance of Payments, Current Account and Capital
(USD millions)



The recent trend in imports is difficult to finance with the fewer foreign revenues, and is consequently unsustainable. The most likely scenario is waiting for significant restrictions on allocation within the foreign exchange management system. The measure to cut the allocation for travelers abroad during December in half is an explicit sign of the intention to reduce it. Our main scenario points to a 31.9% contraction in the level of imports, totaling USD 32,400 million for 2009. This forecast takes both the lower demand due to the economic slowdown and the administrative restrictions imposed due to the deteriorating foreign oil revenue into account. Therefore, we do not expect a repetition of current account balance deficits in 2009, because the changes in import levels will offset the downward trend in the oil sector.

As for the capital and financial account, the positive result for this fourth quarter seems to suggest that 2009 will see the repayment of public capital and, therefore, balanced situations in this balance of payment component. The strong public sector foreign assets position (USD 38,521 million, excluding NIR) at the end of 2008 suggests the stripping of a significant percentage of those foreign assets to offset the lower fiscal revenue. The stripping system will determine the effect on the capital and financial balance and, at the end of the day, on the foreign exchange market. The option of injecting this money through foreign exchange operations in the parallel market would be a way of controlling the currency gap and solving inflationary pressures. This option seems to be plausible. The second alternative would be liquidate resources for the Central Bank, which would boost the Issuing Bank's foreign assets, although the inflation target would be ruled out given the consequent expansion of the monetary aggregates in this system. In both cases, the exchange control regime in place would prevent the changes in the portfolio of private brokers having an unexpected impact on the NIRs, reducing the possibility of a balance of payments crisis.



Fuente: BCV