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Oil price collapse slams Venezuela

by David Ramonet

The "Asia crisis" not only shook the Venezuelan stock market, as it did stock markets around the world, but the economic depression that is ravaging Southeast Asia, has now taken root in Venezuela. The collapse of international oil prices, in particular, has exposed the enormous vulnerability of the Venezuelan economy: its total dependency on oil revenues.

Last year, the Rafael Caldera government had prepared a 1998 budget based on an anticipated price of $15.20 per barrel of Venezuelan crude. However, the price has been systematically falling since last November, such that in January of this year, the average price per barrel had already declined to $13.05. The result is that the net income for crude oil exports in January 1998 was $910 million, $565 million less than the monthly average of 1997, based on a $15.20 per barrel price.

The resolution chosen by the president of the state oil company Petróleos de Venezuela, S.A. (Pdvsa), to raise the cap on oil production, has only exacerbated the problem. In February, the average price for a barrel of Venezuelan crude collapsed still further, to $12.80 per barrel, and since Feb. 25, has fluctuated between $11.30 and $11.60 per barrel. At the same time, the April futures contracts for higher quality Brent crude are being set at around $13, which prefigures a still worse disaster for Venezuelan crude.

Budget cutbacks

Last year, total oil income was $17.709 billion, of which three-fourths went straight into the government's budget revenues—making oil 60% of total government revenues. If the situation gets no worse during the rest of 1998, the fall in oil income could amount to some $6.789 billion, meaning a $5 billion reduction in tax revenue for this year's budget. However, Treasury and Pdvsa authorities are projecting that the average price of crude this year will end up at $14.20 per barrel, and have recalculated the budget from February onward, on this basis.

Already, the Finance Ministry has announced a cutback in public expenditures equivalent to $1.3 billion, which added to the $1 billion reduction in Pdvsa's budget and another $200 million in cutbacks in the budgets of other state companies, adds up to a $2.5 billion shrinkage in the national budget. The 1998 budget was originally slated at 12 billion bolivars (equivalent to some $21.5 billion).

But this nearly 10% cutback in state expenses was still not enough for the credit rating firm Moody's, which on Feb. 13 lowered its ratings on Venezuelan financial instruments on the world market, because of what it stated was "Venezuela's limited administrative ability to provide an adequate political response to the situation of the world oil market."

Finance Minister Freddy Rojas Parra hastened to respond, and three days later, appeared on national radio and television to present a recessive plan for dealing with the situation. In addition to detailing the budget cutbacks already announced, he announced a freeze on salaries of public sector employees, and the accelerated sell-off of the state's aluminum industrial complex. He also explained that he was coordinating with the Venezuelan Central Bank (BCV) a restrictive policy to "combat inflation." Small and medium-sized industry, along with farmers and ranchers, immediately understood this as a death sentence.

Interest rates shoot up

Also starting last month, the BCV abandoned its usual instruments for absorbing banking liquidity (that is, subsidizing the banks by offering them greater yields for their deposits held in reserve), and opened up its own "financial placement window" to sell certificates of deposit. BCV certificates pushed interest rates up drastically, by 10% in one blow, which has terrified many bankers.

The goal is to push interest rates paid by banks to their depositors above the expected inflation rate. BCV paid the banks 33.6% for their 30-day CDs, forcing the banks to raise their passive rates from 6% to 28%, and their active rates to as much as 45%.

The president of the National Industries Council (Conindustria), Luis Henrique Ball, complained that the higher rates will put Venezuelan industrialists in an even greater bind, given that they already have to compete with Asian imports which are being sold at bargain bazaar prices all over the world.

Venezuelan farmers held a demonstration on March 5 to block oil operations, for the purpose of putting a spotlight on their conflict with the agroindustrialists, who are refusing to pay for last year's corn harvest, which has led the farmers either to refuse to plant their new crop until they are paid for the old one, or, alternatively, to hock all their earthly possessions just to keep operating.

Not surprisingly, inflation has failed to recede. In fact, the February price index registered a 2.2% increase, which took even Finance Minister Rojas Parra by surprise. He told reporters that people shouldn't be so nervous: "We're inventing things," he told them. "We're going to have to take a tranquilizer, or drink soothing tea, or something, to calm our nerves."

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