Oil Price Drop May Affect Venezuela

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Lower oil prices threaten spending in Venezuela. (AP Images)

Falling commodity prices worldwide have sounded financial alarms in Latin America given the region's heavy reliance on exports. In particular, oil's spectacular price drop from $145 per barrel in July to less than $64 per barrel on October 24 **raises concerns** among analysts about Venezuela's financial panorama, given that its economy revolves around oil revenue for approximately 50 percent of government earnings and 95 percent of its total export gains.

A broad range of financial experts forecast that Venezuela will see growth slow in 2009 but disagree on which oil price should be the bottom line before President Hugo Chávez's government runs short on cash. The Economist Intelligence Unit says that Caracas' **2009 budget is calculated** based on a conservative estimate of $60 per barrel but foresees a public spending increase of 23 percent. It also notes Chávez' determination to stimulate domestic growth using spending but warns that such a move will fuel the already volatile inflation rate, which surpassed 35 percent this year. *El Universal* reports Deutsche Bank analysis **forecasting** that Venezuela's economy requires an average oil price at around $95 per barrel for the country to maintain a balanced budget. Others **suggest** the price must be even higher.

The *New York Times* emphasizes that some of Chávez's signature policy initiatives—such as heavy domestic subsidies, modernization of the Venezuelan military through $3 billion in **arms purchases from Russia**; and selling cheap oil to Latin American allies—**could face cuts**. As an example, a well-trumpeted oil refinery announced by Chávez and his Nicaraguan counterpart Daniel Ortega more than a year ago **remains at the drawing board**. "Chávez's days as the ultimate benefactor could be coming to a close," the *Christian Science Monitor* explains.

Chávez has **dismissed** such omens, saying, "Venezuela has conditions to withstand any oil price fluctuations." In a recent speech, he said that large international reserves stand at approximately $80 billion, represented half in cash and the other half in joint investment funds with China, Russia, and Iran. As a member of the Organization of Petroleum Exporting Countries (OPEC) and **in sync** with other members such as Libya and Algeria, Venezuela **proposed to curb oil production** by at least one million barrels per day. On October 24, OPEC members **announced plans** to cut oil production by at least 1.5 million barrels a day starting November 1 arguing that "oil prices have witnessed a dramatic collapse—unprecedented in speed and magnitude. Still, **oil futures fell** to $63 per barrel, the lowest price in 17 months.

Like oil, copper has suffered a **steep price drop**, declining 57 percent since July of this year. Such loss has prompted Chile to reduce its copper output by 2 percent over last year. Still, while U.S. demand has declined, **China's remain solid**; current low prices may be a good opportunity to supply Chinese stockpiles.

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