THE BROOKINGS INSTITUTION

FALK AUDITORIUM

POST-CHÁVEZ VENEZUELA:
A ROADMAP FOR RECONSTRUCTION

Washington, D.C.

Tuesday, October 18, 2016

PARTICIPANTS:

Introductory Remarks:

TED PICCONE
Senior Fellow, Foreign Policy Latin America Initiative
The Brookings Institution

Panelists:

DANY BAHAR, Moderator
Fellow, Global Economy and Development
The Brookings Institution

RICARDO HAUSMANN
Director, Center for International Development
Harvard University

MIGUEL ÁNGEL SANTOS
Senior Research Fellow, Center for International Development
Harvard University

FRANCISCO RODRIGUEZ
Chief Economist
Torino Capital LLC

LUISA PALACIOS
Head of Latin America, Medley Global Advisors,
LLC
Fellow, Center on Global Energy Policy,
Columbia University

* * * * *

P R O C E E D I N G S

MR. PICCONE: Good afternoon, everyone. Can you hear me? Great, I'm Ted Piccone. I'm a Senior Fellow with the Foreign Policy Program, our Latin America Initiative, and on behalf of our program and the Global Economy and Development Program, our special partnership with a think tank in Uruguay, CERES, we gathered here together to talk about Venezuela. Welcome. We're here to talk about a country that's facing a particular -- what I would even call a perfect storm of events, a political crisis that's rooted in a deterioration of democratic governance and human rights, and an economic crisis rooted in a variety of complex factors that you're going to hear more about today, and together, this has led to a really severe humanitarian crisis that is driving the world's attention on this country. We're very lucky today to hear from four top economists who have been well versed in issues regarding Venezuela for many, many years, and I'm going to just briefly introduce them and then turn the baton over to our moderator.

We're first going to hear from Miguel Ángel Santos, an economist and Senior Research Fellow at Harvard University’s Center for International Development since 2014. I believe you all should have their bios, so I'm not going to read all of it, but it's striking his combination of work on development research, an advisor to then-presidential candidate Henrique Capriles and also his many years of experience in the corporate sector. We will then hear from Luisa Palacios. She is the head of Latin America Macro and Energy Research at Medley Global Advisors and also a Fellow at the Global Energy Policy at Columbia University. She also brings great private sector banking expertise, as well as work with the Japan Bank for international cooperation, and at The World Bank. Our third panelist is Francisco Rodriguez -- is a Chief Economist at Torino Capital LLC and before that at Bank of America Merrill Lynch. He has significant experience in Venezuela. He headed the Venezuelan Congressional Budget Office, and also interestingly did some work at U.N. Development Program heading research for the

Human Development Report. And then, finally, we welcome Ricardo Hausmann, who is the Director of Harvard Center for International Development and the Professor of Practice of Economic Development at the Kennedy School of Government. He was the first Chief Economist at the Inter-American Development Bank and previously Minister of Planning in Venezuela.

We have an enormous amount of brain power with us today. So, I will now turn the moderating job over to Dany Bahar. Dany is a Fellow here in the Global Economy and Development Program. He is also associated with the Harvard Center for International Development. He had various experiences consulting at the Inter-American Development Bank, The World Bank, and in the corporate sector including at Intel, and I ask you to turn off your cell phones and look forward to the discussion. Dany.

MR. BAHAR: Thank you, Ted. Welcome, everyone. I'm delighted to welcome you here to the Brookings Institution for a very timely topic. As Ted said, my name is Dany Bahar. I'm a Fellow here at the Global Economy and Development Program. I'll be moderating this discussion for the next hour-and-a-half. So I want to thank you for joining us. We have some of the most brilliant minds thinking about the Venezuelan economy these days, and thank you all for coming.

I want to start by -- for all of us to be on the same page -- by sharing some facts about the situation that Venezuelans are going through. I'm sure most of you know Venezuela's going through probably the worst humanitarian crisis in its modern history, probably one of the worst humanitarian crises in the history of America, which was triggered by a sharp drop in oil prices a couple of years ago. This has generated a scarcity of foreign currency in the country, which is reflected in the price of the black market rate of the U.S. dollar which is about a hundred times the official -- the price of the lowest official exchange rate in the country.

Before this happened, there was the longest and largest oil boom that the country experienced in its modern history, and during those years, the external debt of the country was increased by a factor of five. Which means that Venezuela today is effectively cut off from global financial markets, so it's impossible for the country to roll over its debt for future periods. Because of this imports have dropped by half approximately, and this generated shortages of food, basic goods, and medicines, as you've seen in many reports out there. And in the absence of other sources of financing, the government engaged in a huge monetary expansion to cover a fiscal deficit that is estimated to be around 20 percent of GDP. And this has brought the country to brink of hyper-inflation, which is being seen today in Venezuela.

As if this wasn't enough, this is all in the context of a private sector that is unable to perform and to function because it's been through more than a decade of controls, price controls, regulation. Nowadays, firms not only have to face these regulations, they also cannot import raw materials and therefore -- and they also have to obey the controlled prices, so they -- that makes their activities non-profitable. And this generates a shrinkage of economy that is estimated this year at about 10 percent after a longer period of shrinkage.

Poverty rates are back to the pre-Chavez levels, and all this, of course, is in the midst of a very deep political crisis that the country's undergoing. We are actually going to try, in this panel, to stick to the economics of it all. And I want to actually turn right away to our panelists, and I think what we want to do is to start by giving each one of them a few minutes to do some introductory remarks, and given that the title of the talk today is about the future and the roadmap for reconstruction, what I would like you to do from your perspective is to tell us a little bit about what, in your sense, are the key ingredients for this roadmap for this reconstruction. And I think we're going to do it in the order that we're sitting. So we'll start with Miguel.

MR. SANTOS: Well, thank you very much, Dany. Thank you for the invite. Thank you all for coming. It's always good to see so much interest on Venezuela. Unfortunately, it's a right thing for the wrong reasons, but talking about where the country is today, we all know that macroeconomic figures, give or take, the deficit and the balance of payments, country risk and so on, so even though Dany started by warning that we will not go into the political, when everybody asks me about the “day after” -- when someone organizes an event to talk about the day after -- when I'm thinking is the day before. Because if you don't do anything on the day before, there will hardly be any day after -- not that we will be around.

So, to implement the type of things that Venezuela needs to get out of the black hole, I think we most -- we will agree on 90 percent of the things that are needed and differing a little. To implement that, in my opinion, you need either one or two things. You need a very strong authoritarian government that has a very strong mandate to implement a policy package and make some of these huge political chaos, and as Dany mentioned, humanitarian crisis and desperation. Or if not that, then you need a government with a solid political base that came to power with a very clear program that is not only clear and efficient and has any chance of addressing the problems, but also is shared among not the entirety of the country, which it will not be, but at least shared among a majority or a large majority and that has been sort of explained in advance.

That sort of government, in my opinion, that type of legitimacy -- it's the type of legitimacy you get from an election. It's the type of legitimacy that Macri won in Argentina – not by much, 2.6 percent -- lots of people working a year in advance together in the Pensar think tank. They are, with 1000th of disequilibria of Venezuela, still having a very rough time to bring the country ahead. So what we need to implement whatever we're going to agree here we need to implement, first we need to have either one of those two things. As I don't know anything about the first, I am all the time betting on the second, which I'm not sure will be possible under the current circumstances.

So -- also, another thing I want to mention at the beginning is, this is not a crisis you get out of by changing Excel files. There is a temptation to tell policy makers in Venezuela that this is not going to be that hard. You don't really need to go to the IMF, man. That's *a raya*, like we say in Venezuela. Don't even go there. That's bad publicity. And you don't even need to default or restructure. This is going to be easy. You just have to unify the exchange rate, create some political goodwill and you will get ahead. Because, you know, you're sitting on the greatest oil reserves in the world, so this is going to be relatively easy. And I'm really afraid of that scenario. I'm really afraid of Venezuelans thinking in the event of a transition, having a government coming in communicating “It is not that hard”. Because it's not that it's going to be extremely hard. I mean, we are going through all the hardships Argentina didn't go and because of that Macri needs a lot more explanatory capacity to tell Argentina what they just missed. But in our case, we already went through the hell. What we need to change, what Venezuela needs is not a change in the Excel file, it's not the unification of the exchange rate. Venezuela, it's producing now less oil barrels than in 1965. Like, if you were to give away barrels and not dollars, you will be giving away 84 percent less. So, of course, we have to leverage our oil. That's our main source of foreign currency. Of course, we need to leverage our oil. But oil is not taken Venezuela out of the whole. That's what I think. And because of that, we need to diversify the economy. Now, you start talking in a room about diversifying, no, Venezuela needs to diversify and then people walk away immediately. So, like, no, man. That's so not going to happen. Well, that's exactly what we need.

We need to find a way to leverage our oil to solve our crisis of foreign currency that has forced the government to reduce imports by 71 percent per capita since the year we lost the elections in 2012. Imports per capita 71 percent down, so we need to address that, but at the same time we need to be thinking on a different way, on a different social contract, on a different agreement on what the government will do for the people, and what the people will do for the government and for themselves. So it's the failure of our way of thinking about development. That's the failure of Venezuela. It's not the failure of Maduro or Chavez or X or Y, because they are around for a reason. So that's what I think we need.

MR. BAHAR: Luisa.

MS. PALACIOS: Well, thank you so much, as well. It's an honor to be here along my fellow panelists. I am going to use some of what Miguel just said. I do agree completely with him. I think how Venezuela gets out of this mess, one of the most important components will be the political landscape in which economic policy decisions take place, period. But I'm going to leave that aside as well. And I'm going to mention two other things that I think are as relevant.

One is completely exogenous to the Venezuelan case, which is -- well, maybe that's not completely true -- is oil prices. So, where oil prices are will determine a lot how we restore our dollar liquidity position. And from somebody that works a lot with oil markets, I can tell that there is a debate in oil markets whether 60 is the new normal or whether the outside risk is more 70 and 80, and it matters a lot for Venezuela because Venezuela is not an expensive oil producer, but it is migrating towards an expensive oil producer because the marginal oil in Venezuela is much more expensive than it was 10 years ago or when you were talking about. We produce a very expensive type of oil. Not very expensive type of oil, but it's in the mid-range of the comparisons about break-evens.

So, the oil price is a factor. A $10 increase in oil prices increases the revenues of Venezuela by $7 billion annually, so it does matter. It helps. But what I would say as well is that the oil production outlook and the oil export outlook matters a lot, as well. And I think here I want to take on a point Miguel Angel Santos said. In order to think about how you leverage oil is that the oil sector is not the leading indicator here. The oil sector -- the investment cycle in the oil sector is a 12-month to 18-month horizon. You are not going to export your way out of this crisis. Oil prices are going to help, but at this level of oil prices, a hundred thousand barrels per day decline in oil exports represents about $1.5 billion in lost revenues annually. A higher oil price will represent a higher loss.

So, this matters a lot. And unfortunately, the dire situation of PdVSA's cash flow means that the decisions or the lack of decisions taken today are going to affect Venezuela in a 12 to 18-month horizon. So, this situation where Venezuela is one of the worst performing oil producing countries in the planet -- by the way, it's one of the worst in OPEC, only surpassed by Nigeria, which is in the middle of a civil war, and by the U.S., which is undergoing its own dynamics. So, this is not an easy situation when you're facing 300,000 barrels per day of oil production declines. Which now, we're seeing, are also affecting oil exports. Oil exports, which in the first half of the year were not obviously declining at the same pace because of the collapse of world demand, are starting to see also important declines.

And so -- and this is not going to be fixed tomorrow. This -- again, what we're seeing about the rig count talking about also things that we have not seen before, the rig count today in Venezuela, which is a forward-looking indicator of investment is as low as it was in the oil price shock of 2013, and I have to go back to 2002 to see oil rig counts at these levels. So that tells us that whatever decisions we're going to make in Venezuela about what needs to be done, one has to be aware that we're going to make them in a situation where the oil production and the oil export outlook could even be worse.

So, that doesn't mean that the oil industry is not at the heart of whatever's going to happen on Venezuelan reconstruction. It's going to be at the heart. But tough decisions will have to be made, as well, on the oil sector, and from somebody that looks at what other national companies in Latin America have done, this will supply a significant outsourcing of the capex capacity of Venezuela and it will imply a significant, addressing the cash flow situation of the country, and it will probably imply an important rebalancing of the role of PdVSA and the private sector in the oil -- in the oil sector in

Venezuela. I stop there.

MR. BAHAR: Francisco.

MR. RODRIGUEZ: Hi. Well, first of all, I'd like to thank Brookings, I'd like to thank Dany, Ernesto Talvi who can't be here with us, and I think it's a great idea to get us together and to have this type of opportunity to talk about the hard work ahead for Venezuela, to find common ground, and also to explore our differences. I think there's nothing wrong with differences. Many of us have been in academia for certain times of our lives and we know that differences of opinion are actually normal, natural, and it's how you learn, discussing with people who think differently from you.

I'm very happy to see -- very happy to see Moisés Naím in the audience because Moisés' book about Venezuelan adjustments in the 1990s really taught me a lot about how to think about the process of reform, and I think it's something that we have to read in order to try to understand the type of discussion that we're having right now. Moisés comes up with this really nice metaphor where he talks about the process of reform as being a constantly shifting maze filled with menacing beasts, and you don't know whether the beast that you're running up into is a paper tiger, it goes away, or if it's a Minotaur. And what you think is a Minotaur turns out to be a paper tiger, and sometimes what you think is a paper tiger turns out to be a Minotaur. So that's the hard part.

I mean, there's this sense in which I think that we're going to have near 100 percent consensus on where we want to take the country, what type of economy we want Venezuela to be. Where we're going to have differences is in how to get there, and I think that those differences have to do with our assessment of the risks, and our attitude towards different types of risks. So for example, lifting exchange controls. You know, lifting of exchange controls is something that many people think it's a Minotaur, and I actually think that that might turn out to be a paper tiger, because I think that if you look carefully at what's happening in Venezuela -- you look, for example, at how the exchange rate has depreciated in the black market by so much. Venezuela's minimum wage at the black market rate right now is $55. It's about $100 at the SIMADI rate, which is a highly intervened public sector rate. That's less than half the minimum wage of Haiti, which is the second lowest in the region. It's very hard for me to think that that's an equilibrium level of wages for Venezuela. And if it's not an equilibrium level of wages, then that means that it's very difficult to think about a situation where that level of wages is going to be even lower when you lift capital controls -- because I think what's happening with capital controls in Venezuela is that the Venezuelan government has generated the economic equivalent of the Hotel California. That's the reason why you don't get FDI into Venezuela, because you can't take the money out. And the discussion about lifting capital controls is a discussion among the managers of the Hotel California who are asking, "How many padlocks should we put on the exit gate to the Hotel California?" When really, I mean, if you can imagine the Hotel California, you should take the padlocks out of the exit gate, open it up and kind of clean up the rooms a little bit and rent them for a bit more than what you're doing it now, because it's essentially -- because right now you don't have anybody staying at the Hotel California.

I think another example of the type of paper tigers -- and again, these are ideas, and we're facing uncertainty, and maybe it does turn out that this isn't a paper tiger, this is a Minotaur. Miguel Angel has very much raised the point, which I think is very valid, about, well what happens -- what do you do with interest rates and that process and the transition if you -- if you lift capital controls. The -- and I think that that's something that we have to take seriously. I also think that we have an economy that's basically dis-intermediated, so I'm not sure that the -- that the output effects of even the worst scenarios that one could imagine at that level would necessarily be that serious.

But I think that's an issue of cost and benefits and it's an issue of how you face different types of uncertainty. I think that, also, when people think about adjustment they go back to thinking of 1989. And one thing about 1989 is that 1989, is the type of adjustment that you have when the economy is living beyond its means and then all of a sudden the government has to come in and say, "Oh we can't continue living beyond our means. We have to live within our means. And that means we have to import less." And one way to tell people that they have to import less is by making imported goods more expensive. I don't think that that's what happening in Venezuela right now. I think that Venezuela is actually – at least for a country that carries out some basic economic policy reforms -- it's probably living below its means.

I think that this makes the nature of the problem different. I don't -- I don't want to -- I mean, I do think that there are very relevant issues and problems that we have to tackle and to what happens when those relative prices come closer to equilibrium. What are the distributive consequences? But it's different from the type of situation in which you have when you tell the economy, "you have to as an aggregate lower your level of consumption".

So, those are two examples of what I think are paper tigers and hopefully the next round we'll get talk a bit more talking about minotaurs.

MR. BAHAR: Thank you. Ricardo.

MR. HAUSMANN: Thank you. Thank you for inviting me. I hope Ernesto Talvi has a quick recovery. Thank you for the opportunity to see so many old friends in the room and for the opportunity to talk about this topic.

I'm going to concentrate on what to do more concretely. And I'm happy to hear a lot of consensus. I am going to agree with Francisco that the exchange rate unification is probably not going to be a minotaur, it's more of a paper tiger. We've been tracking prices in Venezuela as close as we can. We've been tracking fifty-nine prices that are informed to us by Cendas, which is an organization of the Teacher's Federation. And we take those prices and we take similar prices in Barranquilla. We divide the ones in Barranquilla by the Colombian exchange rate and we divide one by the other and that gives us sort of like a purchasing power parity per product. That number in January was at around 400 Bolivars to a dollar, even though food was supposedly imported at 650. That number today is around 1500 Bolivars to a dollar when the black-market rate is really like 1200. So, that means that at the black-market today Venezuela is expensive.

In these basic food items, including some prices like rice, sugar, cooking oil, and black beans that are between 4,000 and 7,000 Bolivars per dollar P.P.P. Okay? So, its significantly more expensive than the black-market rate which means that people are unable to arbitrage foreign goods with domestic goods. So, if you just unified the exchange rate, opened up to trade, these prices would be equalized at the international rate.

Now, the question is what's going to happen to the exchange rate and how much you will be able to import? Here it's very important to understand one thing that is happening. We are observing the biggest collapse in output that we have ever seen in any country. And that collapse in output is due to the fact that that the government administratively reduced imports. Government decided not to restructure the debt. The government had no access to finance. So, the adjusting variable was cutting imports. They decided to concentrate the cut in imports on intermediate inputs in order to increase final good consumption and that brought down enormously output and to concentrate the cut in the private sector and not in the public sector. But because of that this cut in imports has been extremely inefficient, and is bringing down with it output galore.

So, we estimate that GDP is something like a hundred billion dollars, maybe? And the foreign public external debt is a hundred and fifty billion dollars. That is completely off the charts for any country in the world. If you try and take the debt to export ratio in Venezuela, it's the biggest in the world. Depending on what you count as public debt, it's about six years of exports -- five to six years of exports. The next country in line has like 3.7 years of exports as external debt – that’s Sao Tome and Principe. So, you have a country that is grossly over indebted and unable to service its debt. So, I think that Venezuela will inevitably have to face a restructuring of its foreign debt.

It shouldn't try in the process of restructuring the foreign debt and so on to try to tap financial markets. It has to go to the international financial community for assistance so that it is able to bring its finances in line. But we should seek what is called in the jargon of the IMF “extraordinary access” to the IMF. If Venezuela got similar treatment to Greece in the extraordinary access -- that's 15 times quota -- that would be $78 billion. That means that from a technical point of view the IMF has enough gun powder to address the situation. And that will go hand in hand with the restructuring of the debt because investors will be much happier to negotiate with a government that has capacity to put financing on the table.

So, I think that what will be really, really important to recover Venezuela quickly is to relax this enormous constraint in imports by reducing debt service and increasing international financial support. And that I think is going to be a fundamental piece in the process of recovering the economy. Without that, we are going to see something like what we are seeing this year, which is, they've -- they moved the exchange rate a lot. They've cut -- they've liberalized quite a bit of prices that has gone with the collapse in output and an acceleration of inflation. We need to address the balance of payments crisis and I don't see a way of doing that without this combination of international financial support and debt restructuring. Thank you.

MR. BAHAR: Thank you. So, I think that what I would like to do now is to stay in that topic especially today which for I think the third time the debt swap deal has been extended by PdVSA. And I know that all of you have thought about this extensively.

So, let me start with Miguel, and I think you've argued in a number of op-eds that, in the same line as Ricardo said, that in order to alleviate the humanitarian crisis the first thing you will have to do is to bring the level of imports back up to be able to get food into the country and medicines and so on. And for that you say “well the quickest way to do this or the most effective way is to get assistance from international organizations", say, the IMF for example, or any other financial source or multilateral source. Can you tell us a little bit about what is the size of this assistance you are thinking of? What is your train of thought to arrive to this conclusion?

MR. SANTOS: On the exchange, at least today in the morning is a call with investors that totally clarified that they don't have any idea how to do to pay their service from now until next year. I mean the question of how much Venezuela needs is a -- if anything, one thing has become simple in Venezuela and that is to forecast the flow of foreign exchange. Because you only have oil, certain production and exports as Luisa said that's not going to change anytime soon. If anything, it will keep on decreasing as we've seen since 1999. And with some more steep slope lately. And you have price assumptions, and then you have imports and then you have goods that (inaudible) freight and insurance and then there's some services and that's pretty much it. You have debt service.

So, the key variable there is how much Venezuela needs to import. And we have done some work on looking at what other countries say they export to Venezuela given the fact that what Venezuela says that they import from other countries is totally rigged. That is really rigged. And so, the figure that is coming out if you look only at food, equipment, materials -- things you would assume will need to recover. Like the private sector today, that has to provide -- which is not much -- is operating at 34 percent capacity. It's not that they are going to go to a hundred without imports. They are going to go to a hundred if you give them parts, if you give them equipment, if you give them raw materials. So, when I say imports I don't mean imports of final goods to get to the humanitarian crisis. Which we do need -- we need that. We also need to start importing things we haven't been importing in a while. So, the number I'm coming with, extremely conservative, it's like 34 to 36 billion of imports. If we do the number of how much is that per capita, that will be equivalent of bringing imports down to the level we were in the early 2000s. Don't think I'm going back to 2012. I'm still 40 percent below in per capita terms in 2012 levels. So this is pretty modest. So, if you plug in your flow of foreign currency, that number, you get a deficit of around $20 billion. So, where are those going to come from?. Debt service is around 10, so you default on two (inaudible) service, you get 10, still 10 to go, so -- and then, this is where it becomes interesting because you either decide that you're to keep on cutting imports, in which case, I agree with Ricardo. That's this economy. We already have an idea how that looks.

Now, if you do need those imports and I do think there's all the signs you need to understand that foreign currency is the most binding constraint in Venezuela nowadays, then you need to come up with $18 to $20 billion. So, there's no way you're getting off, you're taking off without the IMF. Now, we've been doing some numbers on imports because some people think we can bounce back without imports. Venezuela has never in its whole life had a GDP -- when we knew the GDP -- higher than six times imports. And most of the time it's around 4.5. And lately, it's around four. The reason being is we now import a lot more consumption goods and a lot less equipment. So the relationship between GDP and imports has shrunk, and if you look at last year it was already below four. So, to me, it’s as easy as you give me your import number and I multiply that by five and I get my GDP figure for Venezuela, which is very far away from the $15,000 per capita that the World Economic Outlook is reporting today. And it'll end up being more or less around $4 to $5,000 per capita. That's the country I think we are. So, we do need external assistance if we want to bounce back -- if we want to seriously bounce back.

Now, on the issue of default, if you export $35 billion and you need to pay ten in debt, you're left with $25. But I mean, if you import $25, you're going to have to import goods by $20 because those imports you need to transport them and pay for insurance and so on. The country with $20 billion imports, we know that country. That's this year's Venezuela. And the efficiency effects of rising the exchange controls can be high. You can say, "Man, there's a lot of smuggling right now. There's a lot of over invoicing." I've done papers on over invoicing. And on the wildest year, it never went beyond $15, $20 billion. A lot of money, granted, but nowadays when you're importing probably $21 billion by the end of the year, I don't think you unify the exchange rate. All of a sudden you realize "Oh my God, I can import 30 in goods of value with that same money." I don't think that's going to happen.

MR. BAHAR: I do want Francisco to jump in, but before that, I want to ask Luisa a question about the oil sector because this discussion about the intensive margin, if we may call it that -- of how large this help should be. It's like if society will completely depend on the price of oil and which we shouldn't talk about that because it's out of our control, but what is an important question, a policy question is what is the actual capacity of PdVSA or of the country to increase in the short run production in a best case scenario that could actually make Venezuela less reliable in the short-term of foreign assistance?

MS. PALACIOS: I think that is actually a very difficult question because high oil prices are a necessary but not sufficient condition for oil production to stabilize. Venezuela saw oil production declines when oil prices were a hundred. And the experience of Brazil with Petrobras also tells you that you have to fix the macroeconomic situation first. So, there is a to-do list before even you can think that the PdVSA and the oil production situation is going to stabilize, let alone increase. Because as I just mentioned, the investment cycle in the oil sector -- even in Venezuela that is on-shore and does not need the very long-term investment cycle of off-shore -- you still have to take into account that this is a 12-month to 18-month turnaround, which means in your best possible scenario, given what is going on with the country, in a 12 to 18-month horizon you're stabilizing oil production and stabilizing exports. So I don't -- I don't this is --

MR. HAUSMANN: At 1.9 million barrels or --

MS. PALACIOS: No, you're going to end the year probably at between 2.1 to 2.2 of crude oil production, not the totality of oil production that Venezuela includes in its figures.

MR. RODRIGUEZ: You're starting from the assumption that it's 2.3 now.

MR. PALACIOS: I'm starting from the assumption that it's 2.3 now, which is the OPEC monthly monitor confirmed by the Ministry of Energy, so that's crude oil. They add another 100,000 barrels per day of condensates, which for some reason surprisingly is totally stable. Everything is falling, but condensates, which is a very light oil, is stable at a hundred thousand barrels per day (inaudible). So, I'm not even taking that into account. But then they include NGLs which could be, is part of our gas and everything. So, all of that tells you a different number. So, just use crude oil just because gas you cannot export right now. You're going to be able to export it in the future and that's going to be relevant for the dollar liquidity position of the country, but right now, what is relevant is crude oil.

And so what I see is that you're seeing 10 percent declines year-on-year on oil production. More relevant is that this oil production is becoming more oil import dependent and so when we're talking about imports, 25 percent of your imports are now oil. What is up with that? So, everything is -- all the imports of everything is declining, , but oil exports even with oil exports declining are increasing. So, what that tells you is that for Venezuela to export oil, it has to import. It's $5.8 billion in oil imports last year. It's really amazing. I think that part of that has to be Capex, it cannot just be oil imports because that tells me if I use the average oil price of WTI last year, that's 300,000 barrels per day of oil imports. So, that's way too much and so I think Capex gets involved into the equation.

So, realistically speaking, what I can see about Latin American oil countries, is we always think some governments are always too optimistic about when oil production is coming online and when they can stabilize oil production and the fact of the matter is that Latin America is part of the oil supply adjustment and this is some multi-year process. So, I see that Venezuela pretty much in 2017 continues to have downside risks for oil production. Once you stabilize the macroeconomic situation and you outsource Capex, you have to restore the Capex level. It's very interesting. Del Pino in a recent interview, I could not believe what he was saying. He said the following -- he was comparing Venezuela to shale and he said, "No, because shale has a natural rate of decline of 70 percent." What that means is that if you invest zero, what will be the production decline that will happen in a given year? And he said 70 percent for share, but Venezuela is 30 percent. That is super high.

Thirty percent is 700,000 barrels per day of oil production. That's -- actually, I think he was wrong. He was not talking about Venezuela as a whole because not even the most negative of all the oil analysts believes it's 30 percent. They believe it's 20 to 25. Twenty to 25 is about 600,000 barrels per day of oil production if Capex is zero. So it's not easy solution. So, you -- there -- you -- there needs to be – we have to address a capital flow situation of PdVSA first and foremost. For -- to have any possibility to stabilize oil production. And since given the dollar liquidity position of the country right now, which is a function of the dire cash flow situation of the country I don't see how that's going to happen without outsourcing a significant amount of capex to the private sector. When you look at PdVSA balances, Venezuela's operational losses last year were in the order of ten billion dollars in this national sector; in refining a loan it had a ten billion dollars' loss. I mean -- and so Venezuela's attached to the cash flow situation of PdVSA, and that is the cash flow of PdVSA: it's actually having losses. So in order to start to build the dollar liquidity position of the country, I mean, you clearly need significant financing.

The extent to which you have to do debt restructuring will then depend on oil prices and your ability to generate your cash flow on your own which is now being -

- it’s a difficult proposition at this moment.

MR. BAHAR: Great. Francisco, I want to turn to you. You wrote in an op-ed on Bloomberg.com about two months ago this phrase which is "Venezuela is not insolvent. Venezuela is poorly run." You seemed to suggest that, I think in your introductory remarks, that maybe by fixing the problem in market distortions that are there such as the foreign exchange controls, the price controls, and so on, it could actually improve the situation such that the country could be solvent without the need to go get foreign assistance -- so I was hoping you could share with us a little bit about your assumptions and why they differs from what Ricardo said before.

MR. RODRIGUEZ: Okay. So yeah, I think that -- when we think about Venezuela right now the problem with doing the exercise of thinking about what a transition would be like and what would a new set of policies be like is that we're using variables that tell us about an economy without those policy changes, and one key variable there is market access, for example the country’s high credit risk. So if we start out by looking at the fact that markets are closed to Venezuela -- markets aren't lending to Venezuela -- and therefore we have a very high debt service ratio because we actually have to pay for all of that amortization, because normal state of affairs when you do have open capital markets is that you're able to maintain at the very least constant debt ratios -- for example you're able to issue to cover your amortization. But no, Venezuela has to pay for its amortization and that's because international capital markets are closed. Now, are international capital markets closed because Venezuela is over indebted or are international markets closed because they have looked at the country and said “wow *these* guys can't possibly pay their debts”? I think that's the essential question. I think that the reason international capital markets have been closed is because really nobody in their right mind would lend money to a country that is being run in the way in which Venezuela is being run right now, because it's very clear that with the economy being run the way it is the country is ultimately not going to be able to pay its debts. But that's not the questions that were asking.

I think the questions that we want to ask in this setting is: if tomorrow you have a group of competent professional people directing public finances in Venezuela and you have a government that has political backing (I agree totally with Miguel that political issues are very important) and if you have someone like Luisa Palacios managing PdVSA and you have someone like Miguel Angel Santos as finance minister who is not going to mess with the independence of PdVSA and you have someone like Ricardo Hausmann as central bank president who is not going to print a Bolivar in order to finance PdVSA -- just as long as Ricardo doesn't go around telling Luisa that she has to declare bankruptcy, I think that international markets would lend to this team. So then the question is, why in the world do you want to get in the trouble of actually going into a restructuring when capital markets will lend to you? There I do have some significant differences with Ricardo in terms of some of the numbers -- whether Venezuela is highly indebted or not depends on, for example, whether Venezuelan GDP is $100 billion or $200 billion. Also when we are asking the question of what Venezuelan GDP is, we really want to ask the question of what Venezuelan GDP will be once the country has at least had the (inaudible) to undertake some significant economic reforms. Because I'm not even sure that the concept of GDP is well defined with the current set of administrative price and exchange controls because it's not -- because GDP is a measure of the market value of the production of the value added in an economy. So what -- so here we go again to the issue of identifying what's the minotaur, and I think that basically what I'm saying, "Hey look, this might be a minotaur and maybe it's not and maybe Ricardo is right then you sit down with bond holders and you play tough and you tell them ‘hey I'm going to declare PdVSA in bankruptcy and I'm going to take away the monopoly of PdVSA to produce and sell Venezuelan oil and they're going to get scared and they're going to sit down at the table and they're going to negotiate with you and they're going to say ‘ok I'll take 30 cents on the dollar for my bonds.'" Maybe he's right. And I'll say he is right, but maybe he's wrong. And I think that the question we want to ask ourselves in the midst of this uncertainty is, what is the cost of being wrong with different policy choices? Because I can tell you that maybe if we try what I'm proposing – let’s put forward a coherent policy plan, a macroeconomic stabilization program, a set of reforms intended to create conditions that will enable lifting production in PdVSA -- it's clear that that takes time, it’s clear that that's going to take time. That's what capital markets are for. Look, PdVSA has 15 cents of financial debt for every barrel of reserves, Petrobras has $10 of debt for every barrel of reserves. So it's clear that capital markets are willing to lend to different companies that are producing oil based on their expectations of their prospects of being able to extract that oil. And that's essentially what I think we want to pose to capital markets and maybe, maybe you guys are right and they don't take it and they say no, no, no, I don't believe in you guys. You guys talk nice but you're Venezuelans anyway, and the last Venezuelans that I lent money to it was really a problem.

So there, I think that the way that we should start thinking about this is “ok we have our plan A and we have our plan B.” And our plan A would be to try the market reforms and try to convince international capital markets to lend to Venezuela. I think that plan B might be a restructuring, but I'm not sure that I wanna go and take restructuring as my plan A because the cost of getting that one wrong for a country that has assets in the US, for a country that has receivables that can be attached, for a country that has to start navigate this politically very difficult process of convincing Venezuelan leaders that you should take PdVSA – I mean, this is like selling national football team for Venezuelans – and have it declare bankruptcy. If you really, really want to go that route you're running a lot of risks, and I'm just saying, "Hey, there might be a minotaur there and I know that sometimes there’s people that get really fired up when they see a minotaur and they say I'm Theseus and I want to slay this minotaur.” I can tell you that if you go back to the minotaur fable you'll see that there are dozens Athenian kids that died trying to slay the minotaur before Theseus came along. So Theseus might have been heroic, he might have gone down in the mythology books. I don't think that he was necessarily doing the smart thing.

MR. BAHAR: Good so, I want Ricardo to jump in before we go to get some Q and A but wait so -- so you mentioned, Ricardo, in your most recent Project Syndicate piece. you said "One way or another Venezuela will need to restructure its existing debt". So Francisco just said that you might be right or you might be wrong but you seem to be very convinced that you are right. So the question is, is this an issue of credibility of the markets? That if actually -- what's behind your thoughts? Is it a matter of credibility of the markets -- that actually if the right people are in place then Venezuela could in fact access financial markets again, or is it a structural problem that there's no way out of it besides actually going to this assistance?

MR. HAUSMANN: Well, I think there are many minotaurs but essentially there's a group of people out there who bought Venezuela at 30 cents on the dollar, 40 cents on the dollar -- and you know, if they go out with 50 cents on the dollar they think that they've made a lot of money. Francisco suggested that if we don't pay them 100 cents on the dollar all hell will break loose. And how do you pay them 100 cents on the dollar? Well you know, you have to depress economic output, you have to depress imports. And there are other minotaurs that might come out and feel a little bit pissed off that there's no medicine, that there's no stuff, but these guys are being made whole. The other thing he's asking us to believe is that, you know, we have 7 billion dollars coming up from PdVSA only in the next 15 months. And I'm going to be more generous. I'm going to put Francisco in charge of the Central Bank, of the Ministry of Finance and of PdVSA. And I'm going to ask a question. So you are now in charge of everything and you are going to go and tell the markets “You know, we are not the bad guys that we were before. And we are now different, we have a vision and so on.” And the market is going to say “we really, really like Francisco but we don't know how long he's going to last. We would like to put money in Venezuela but Venezuela is not investable. I can't put money in electricity because it's not investable. I cannot put money in oil because it's still not investable. I cannot put money in a bunch of sectors because they're still not investable. I like Francisco and so on and I don't know his longevity -- I haven't seen his x-rays. Right? So, I'm not going to lend to Venezuela at 28 per cent or 32 per cent yield. I'm going to lend to Venezuela at 12 per cent or 15 per cent yield." If we borrow at 12 per cent or 15 per cent, we're dead. We're dead. It's not just that we have a high debt. It's that we have an extremely expensive debt. Our average coupon is 8 per cent. You know, I'm advising our government of Albania who has an IMF program, and their most expensive debt is 5.2 per cent. We're talking about an extremely expensive debt that we would be rolling over, not at 30 per cent like now the gov- -- no, the bank -- no, the market is unwilling to rollover PdVSA's debt guaranteed with Citgo at 21 per cent. Okay, they are now willing to do that with a guarantee, with collateral. Right? So I'm going to give them, you know, 12 per cent. We cannot go there. We cannot go there.

Spain didn't do it that way. It went to the ECB. It went to the European Union. You are taken out by the public sector so that you don't have to roll over these debts in the market. And since we need money to recover stuff, I think we have no other way but restructuring. That's what the market is expecting, and what we should be thinking about is how to protect Venezuela's assets, PdVSA's assets so that we don't get into a disorderly default and seizing of assets. That we get protections so that the company has enough time to restructure so we get the judges on our side to protect the company as it presents a plan on how it's going to get out of this mess. I agree with -- I love Luisa's term of outsourcing capex. What I would -- I think you mean is that if Venezuela is to recover, you cannot expect it to recover oil production by asking PdVSA to recover oil production. PdVSA is a mess. It's a managerial mess. It's a technical mess. It's a financial mess. It's a corruption mess. Right?

So if you want to recover Venezuela's oil production, you will have to find a way of producing oil in Venezuela without PdVSA. Because if you wait to recover PdVSA, you will be a very slow process. It will probably be a really slow process. But if you're going to put other people's money at play. Yeah, you're going to generate more oil exports, and that is going to go to finance those investments -- not PdVSA, not the old creditors of PdVSA. So you want the creditors of PdVSA to believe that, you know, all the other guys Conoco, Exxon and so on who are going to come back, yhat they're going to be paying the old debt of PdVSA? I think we're going to have to be serious and we're going to have to be consistent. And we have to look the animal in the eye. We have a hold out problem. We have to deal with the hold outs. We have to protect the assets. But we will have to face a restructuring of the debt. It will be litigious. But I think that we have to think about how to do it because if we don't think about how to do it, there's plenty of other minotaurs who are going to be suffering a hell of a lot for this decision.

MR. BAHAR: Good, so it's really fun to keep the discussion here. I'm having a lot of fun, but I think we should open it up for Q and A. So I think there are a few microphones going on so let's take a few questions at a time. Let's take three and the definition of a question is a statement that ends with a question mark. So please identify yourself when you speak.

Q: You have talked a lot about Pedevesa and the oil industry. I have to ask at least once at about other industries in Venezuela, for example the mining industry. I think Francisco Sucre from the opposition said that the mining industry produces less than 1 per cent of the GDP of the country and that there are so many unexploited resources in Bolivar (e.g. iron, gold). So what is the future of these industries? Is the problem that if PdVSA is not fixed, no investments can come to any industries in Venezuela, or can investors invest in something else besides the oil industry? Thank you.

MR. BAHAR: Are you directing that to somebody specific?

Q: I have some family that ended up in Venezuela so I know a little bit about it, very little. I came here with wrong expectations of a more politically directed look forward. Everybody here seems to assume that post-Chavez Venezuela is going to make rational choices. What about the possibility that post-Chavez Venezuela will be Cuba-Castro like Venezuela?

Q: Thank you very much, Isaac Maya, to go along with that same question. Are all these measures and suggestions you've made with the revolution party or with somebody else?

MR. BAHAR: Luisa, you want to take me for the first question?

MS. PALACIOS: Yeah, let me -- let me take the first question. We're talking about PdVSA because all exports represent 95 percent of -- 94, 95 percent of total exports, so it's -- of the country, which pretty much is also all the liquidity that the country receives because it doesn't issue -- it doesn't have FDI, so -- and this is the only thing they export. So, this is extremely relevant, whether we can develop other sectors is clearly something that is possible in the future, but right now, what really is the bread and butter of Venezuela is PdVSA. So, I want to just take one minute to answer one of the things that Ricardo was saying.

One of the problems that Venezuela has at this moment is that the current government made the oil legislation much more nationalistic and what that means is that PdVSA needs to have more than 50 percent in everything -- in any upstream project that Venezuela has. Not only that, PdVSA or the state has to control all of the external trade. And so when you're thinking about how is Capex going to come. One of the things I'm looking at is how Petrobras which was almost at the brink of default resolved the situation. And how Petrobras resolved the situation is it started selling a lot of assets downstream and upstream. It changed the current legislation so that Petrobras doesn't have to have a specific level of participation in the current oil fields that it has and it eliminated the requirement that Petrobras has to be the operator.

So, when you're looking at selling assets and outsourcing your Capex – that is, that Capex is not coming from you but from the private oil sector, how do you do that? How have others done it in this oil price environment? That is what has happened. Petrobras has had to completely change the regulation, which means that a complete change in the (inaudible) between the national oil company and the private oil sector in a country where, in the case of Brazil, 90 percent of the production of the country is Petrobras. In Venezuela, it's a hundred percent.

So, are you going to be able to leverage PdVSA by selling assets when you're going from 60 to 51 percent when you have no control over the operational capacity of those joint ventures? It's a tough one. It's a tough environment because this is the environment when you have a busting oil prices. It's an environment when all the oil production companies are giving you much better deals in terms of the regulatory regime and the sort of fiscal regime. So, you're actually just selling a part of your -- or selling some of the joint ventures that Venezuela has, which is 60 percent PdVSA or 40 percent the private oil company or the state -- or the other oil company doesn't seem to me that, that's the way you're going to be able to leverage your oil industry. You will have to rethink the role of PdVSA in the -- in the oil sector and for that, you have to change laws that are organic laws that need two-thirds of Congress to change them.

And so, let me just mention one other thing is that this is why we started saying -- Miguel started saying and I completely agree. I think all of us agree that the political landscape in which this economic policy decisions take place is extremely relevant for how I think the country's going to go forward.

MR. BAHAR: We said we were not really going to get very much into politics, but I don't know if one of you wants to take those two questions that are more politically oriented, quickly and then we can move to more economics.

MR. RODRIGUEZ: I'll be happy to, but I don't think it's possible to talk about the Venezuelan economy without talking about politics, so I do think that we have to address them. You know, there's something interesting happening right now with mining. The Venezuelan government has -- is trying to do an opening up of the mining sector and is trying to invite international companies and it turns out that many of these companies are looking at the Venezuelan constitution and saying, well, the -- these agreements, these national public interests or contracts, it appears that they have to be approved by the National Assembly and furthermore, the National Assembly actually denied permission for those contracts. It repudiated the mining art decree and it also passed a law effectively -- explicitly requiring National Assembly approval and that law was deemed unconstitutional by the Supreme Court, but right now when international investors go out and look at that, they say, "Well, how can we be sure that in the future these contracts that the government is presenting right now are going to be honored by a future administration given that the opposition is claiming that they are unconstitutional and were carried out in flagrant violation of the constitution?"

So, therefore, this government might appear as if it has all the power, but it can't really give out these mining concessions at least in the way in which it's trying to do it. And you have a similar problem. Interestingly with the PdVSA swap, this was not a problem because the National Assembly did not claim that it -- that it needed to authorize a swap, but if we go into 2017, the government has just authorized a national indebtedness law that does create a lot of problems -- a lot of legal problems for any type of new debt. Not just an issuance, but a -- but even a local issue, so even just a loan taken out by the government given how questionable this authorization is by a law that has not been approved by the National Assembly.

So, the point that I'm trying to make is that like, right now, we can look at this and say, "Okay, so the only thing that has to change is then Chavismo, because then we're going to have people who are going to be respecting the laws." Well, interestingly enough, if we do get that, we get a recall referendum or we get a presidential election, it's at least, unless there's major wholesale institutional change, most likely most of the members of the current judiciary are going to remain in place. And the judiciary -- you think that the local judiciary is going to be one of these minotaurs because then actually, questions about Venezuelan law again are going to become relevant again. And it's not going to be just -- well, the law is whatever the Supreme Court says and so whatever the government tells the Supreme Court is legal. It's going to have a whole lot more to do with how do you actually take out these discussions before judges and have judges ruling in different ways.

So there's also a political issue which I think is going to be quite problematic if you don't have some level of consensus in the future. So -- and I want to go back to an even kind of deeper kind of political question. We have a very unpopular government right now, I believe, a very high likelihood that this government is going to lose either a recall referendum or it's going to lose re-election in 2018 and therefore, that will have the mood going into government. Maduro has 22 percent approval ratings, Chavez has 52 per cent approval ratings. So, what are the politics of the country that you're going to have to deal with where majority of Venezuelans still do believe that Chavez was a good president, that he did a good job for the country. I think that, that's very complex politics to navigate and that's why I think the way that has the most probability of being successful is here is one that searches for consensus around both sides of the aisle and as always, reaching for -- trying to reach consensus with people, not only whom you disagree with, but you might dislike, it's not something that is easy. But not doing it might be a lot harder.

MR. BAHAR: Ricardo, you want to add something.

MR. HAUSMANN: Yeah, I think it's hard to think of what will be the mindset of Venezuelans in the context of a political transition. I think that there will be no political transition with this Supreme Court. So, I don't imagine -- I mean, first question. Is this debate relevant if there is no political transition? I'd say, no. We're wasting our time. We're thinking about, you know, if there's a future like Cuba's future, we are just talking about a parallel universe. So, but if there is a political transition, it won't be with this Supreme Court, and this Supreme Court was unconstitutionally appointed. It's done -- you know, it's run amok with the constitution. It has -- it would be unacceptable for the opposition. They've just decided that the National Assembly should not approve the national budget, that they would approve the national budget. The budget is obviously an occasion for the government to have to negotiate with the opposition. This government doesn't want to negotiate with the opposition, so they don't want to give the National Assembly the power to approve the budget. And so -- and that's what the Supreme Court has just announced. It's also run amok with a recall referendum, so I cannot imagine the transition with this Supreme Court.

But the most important thing, I think, is that we have to get into the minds of how traumatic this year is for Venezuelans. How traumatic this year is for Venezuelans. My parents went through the Holocaust and, you know, the Holocaust for them lasted a couple of years -- three years or so. And in those three years, there was a period in which they went hungry, and to this day, they never forgot about going hungry. Venezuelans are going hungry. There are not enough calories in the country for people to eat. Venezuelans are going hungry, so this is going to be -- if managed well, what you might call a teaching moment. Venezuelans will remember this period forever, and how this period is framed, what failed in this period, what are the things that we're never going to go back to is going to be defined by the next -- by the next administration.

As George Orwell said, "He who controls the past, controls the future. Who controls the present, controls the past." So what did this mean? What did this catastrophe mean? What are the things that we should never do again, so that we end up here? Look at what that trauma did to Germany. Look at what trauma did to Peru. Peru went through a hyperinflation in Alan Garcia I and, you know, it wasn't as traumatic as what we are going through right now. It was much smoother and much shorter actually, and even though they don't have political institutions, they don't have stable political parties, they don't have anything. On the macro front, there are a bunch of things that they don't do again. Some things that remind them of something that they would never do again.

So I don't know what people’s affections are today about Chavez. I think that in the context of a transition, people will be very clear that there's something that they don't want to go back to. And that, I think, is going to also order the options of a future administration.

MR. BAHAR: Good, let’s take some more questions.

Q: The Black Pope -- the Venezuelan Pope -- Arturo Sosa, said today that the problem in Venezuela is that the State is the one who provides the resources and should be the other way around. The citizens -- in that case, the Venezuelans -- are the ones who should provide the resources. That creates a very strange situation for democracy because instead of the State being subordinated to the citizens, the citizens are subordinated to the State. I would like to know if you agree with that and if so, what can we do in order to reverse this trend? Thank you.

Q: I had one question for Miguel, but I think after listening to Francisco, I'll just ask a quick question to Francisco. What do you think Chavismo means, because if we are going to govern with Chavismo, as you're saying that we have to, what exactly does that mean? What -- you know, is that -- is that a political philosophy? Is that a series of red lines? Is that a set of myths? Because it's quite important along the lines of what Ricardo said, to understand that if you immediately set yourself up to govern with somebody based on a myth, you're going to actually end up very hand-tied. Miguel, in terms of what you've done, going around the country presenting the work your team has done, what have you found in the political leadership in terms of understanding and willingness to turn this into the learning moment that Ricardo was talking about? Because at the end of the day, the whole conversation is where is the political leadership that's going to go forward, tell the people what the issues are, describe why we had to take a path and then execute it? But somehow sitting around a bunch of really good economists doesn't really give me anything when I'm not seeing this debate happening anywhere in the political circles in Venezuela. It's -- it just simply is not happening.

Q: Hello, good afternoon. My name is Armando Armas, I'm the Vice Chairman of the Securities and Defense Committee of the National Assembly of Venezuela. And I would like to excuse me for my English. It's a very rusty these days, but I try -- I'm going to try to pose the question. So Miguel Angel talked about two very large figures -- $35 billion for the takeover. And I think Francisco or Professor Hausmann talked about $120 or -- between $120 and $150 billion of total debt of Venezuela. Yet the largest figure that we're managing nowadays Venezuela within the National Assembly is $3,500 billion. I mean, $350 billion of foreign capitals that flew away from the country because of corruption. So my question is, presenting alternatives for financing the development -- in the future government -- don't you think that it is critical for us to recover those capitals, to bring up an alternative? I mean, not a long term alternative. I'm a tell you, Freddy Guevara, which is the President of the Oversights Committee on Anti-corruption Initiative, he has detected -- actually detected and pretty clearly -- and clearly tracked $10,000 billion or something like that -- about that -- and we're -- we are in this initiative with some institutes all over the world. So that was one of my questions about the alternative and the political alternative of this economic crisis. Thank you.

MR. BAHAR: Why don't you start, Miguel.

MR. SANTOS: Yeah, well, thank you for the question. And welcome, as a member of the Venezuelan National Assembly with us today. I'll refer to Pedro’s because I think it's like this. We went around Venezuela on July. We, a group of economists, most of them Venezuelans living in Venezuela, and met with all political parties of the opposition. Not much reception in the government. When we met with their teams of representatives and with the leaders. Basically, we representing a diagnostic and then trying to put forward some of the implications that has for the future.

Some were more technical than others. We sat down with PowerPoint presentations for four hours. Others resisted a PowerPoint and preferred to sit down with a drink for hours too. I'll say most of them were very, very receptive. What I can tell you is that I see an evolution of these people using words that four or five years ago were totally forbidden. Because for good or bad, I've been -- I mean, I work with Miguel Rodriguez at a bad time, then I work with (indiscernible), I pass onto Rosales campaign and then I work with Henrique Capriles so I've sort of been around -- not necessarily successfully around. (laughter) But the fact is that privatization is a word coming forward very often now. Lifting price controls, total agreement, lifting the exchange control, total agreement. So there are words and policies that the politicians have, sort of, seep in what the peoples is already sensing -- this is not going to work. On sequencing, they were sort of confused. Like the question came up, like do we do this all at once? What happened to these guys in '89? And we keep on telling them, man, '89 was 2012. This is not '89. Had we won the election in 2012, that was an 89 moment. This is not an 89 moment. It happened. But I what I see that I don't see awareness, is that there is a lot of claims on Venezuela. There's a bondholder perspective that Francisco portrays very well. Lots of people with Venezuelan instruments waiting to be paid and threatening that, as Ricardo say, "Hell will break loose." Then you have the private sector that's totally ruined and technologically obsolete with a $30 billion debt on CADIVI arrears. Some of those guys sold their products at a price that implied a cost structure of 2-4 Bolivares per dollar. So they did sell those products, although the airlines -- they charge the price they wanted, so they run the risk. So you cannot take all those 30, but you cannot forget about it. Then you have the people that Ricardo was saying when we're -- I mean, we never mention that PdVSA has been defaulting on their pension funds. Like the pension fund of the workers of PdVSA had bonds last year, entitled to 1.5 billion payments and they got 800. What about the rest? A promissory note of 10 percent renewable at the discretion of the company. Where are these guys in the speeches that we were having? Where do they come up? Who's defending them? That’s just to mention the financial stakeholders, and then you have the people, and the people that it's waiting there for something to happen. So the moment you win, what we've seen that Venezuela owes -- the list Ricardo did -- $180 billion is the tip of the iceberg. The moment you get there -- the moment you start – your door starts knocking with people with claims. And then you have all these claims and you have no money, and the IMF is going take a while in showing up. So -- and then you will have to establish priorities on things, and it will be good to start planning for that. And at the same time, I understand that planning for that with time and making that public pose a risk for these politicians. This is something that has somehow to be addressed. And with respect to the people, I had a concejal that told me, “hey, why don't you come with me and let's explain to a group of 50 people from one of the largest slums in Venezuela, what do you guys want to do?” So I went there, and what I found is that people are like political orphans. They understand this didn't work. They understand this went totally wrong, but they had a lot of hope into this and now they are left behind. They have no idea what's coming. They know this doesn't work. They understand that perfectly. They understand price controls do not work. They understand that the nationalizations were terrible. They are there -- price controls all there. But the questions that I got there were, "What's my role in that process? Who's going to protect me?" Very simple question, very simple question an average Venezuelan will ask. And then another guy that I'll never forget told me something that was “Yeah, I understand what you're saying. That we need to -- the State needs to focus on poly goods and then we need to bring foreign investment. And for that to happen, we need to sort of clean this and make it this very attractive. But man, we have treated these people badly. What if they don't come?” It's a great question. So what I'm telling you is besides all these mechanics, of the exchange rate and all the details that Ricardo has worked out on the default, there's a challenge of the leadership. To understand the situation on one side, I don't think we are that far. But then on bridging what needs to be done to the population and tell them this is going to be hard -- not because there's going to be a lot of hardship. There might be, but what is hard is accepting a new thing that they're telling you is going to work out better than what you had, and you have no idea. But you just went through very rough times, and they are concerned that the reform will be even rougher times. So I think this is the challenge. We talk a lot about economics and in the end, we all agree. I mean, pretty different guys coming from different backgrounds. We know what needs to be done. Who's the leader who is going to do that? What's the platform? What's the national agreement? And how is that communicated to people so they feel part of it, and there's a narrative that explains to people, as Ricardo was saying, "Let me explain to you what happened over these previous 10 years." You thought you were great by 2006, 8, 10, 12 -- you weren't. So let me explain this to you, so that you understand what happened to you in the light of my narrative, and then you'll feel -- you are taken into account and what it's coming. And in this last bit is where I see that we are -- we're missing, and as Ricardo was saying at lunch, of course these politicians are trying to solve a very complex situation to work in 24 by 7. So the fact that I'm saying that there are things to be addressed, doesn't mean that they don't think they're important. They are just collapsed, as I'm sure you will be very much aware.

MR. BAHAR: We have a few minutes left. I don't know Ricardo and Francisco want to jump into this?

MR. RODRIGUEZ: Well, I mean, I wanted to answer (inaudible) question which I think is quite interesting, and it's not one that I'm sure I have a good answer to. I think that Chavismo is like – Albert Hirschmann said that underdevelopment is like a giraffe. You don't very well how to define it, but you know it when you see it. Well, this is the same thing with Charismo. I'm not quite sure what it is. I do know that at least 63 percent of Venezuelans voted for Chavez at a certain moment. I know that 52 percent of them claim that they continue to like the guy. And by the way, this can't be fear because, you know, if you -- if you were afraid of, hey, you know, the government then -- then you'd say, okay, I support Maduro. Maybe the first 22 percent is fear. You know, the other 30 percent can't be fear. You can't be saying, yeah, Maduro is very bad, but you know, I'm afraid so I'm going to say that Chavez is good. So first, I think that we have a phenomenon over all of Latin America which is that we have an electorally competitive left in Latin America, and this left has come to government in different places. And in some places it's done very poorly in managing the economy, and in some places it's done better, in some places they get re-elected more, in some places they get voted out of office, but they still continue being electorally competitive. And Ricardo's story about Peru is actually quite interesting because you actually had -- well then, first of all, that guy who caused the hyper-inflation actually got re-elected at some moment. But then, you also -- interestingly, now we have Pedro Pablo Kuczynzski as President, but Pedro Pablo Kuczynski basically got into the second round by a very small percentage of votes with which he beat Veronica Mendoza who was a leftist candidate. And Mendoza was actually polling better and had to get ahead of Keiko Fujimori.

So we could be effectively seeing almost a coincidence where, you know, if things had evolved in somewhat of a different way, we could actually get a leftist having been voted in Peru which was this -- another example that Ricardo was putting. Chavismo in itself, I think is partly -- it's this leftist political movement and partly it's a hypocrisy. I think I agree -- we all agree that there's a very strong kleptocratic element to some of the people who are governing the country right now. And I think that -- but at another level, I think that the reason that the left has gained this persistent appeal in Latin America is that somehow in some way it captures people's demand for participation, demand for feeling that they are actually included. And it might seem like a paradox because then we say, hey, these end up being very authoritarian governments, and they end up being very -- very top down governments. But there is a sense in which people feel that at least these movements promise them participation. Then I think we have a phenomenon that's, kind of, like Peronism. I mean, maybe it has some elements of knowing when to die at the right time. I mean, just like Peron, you know, everybody -- I mean, right now we're thinking that -- and you know, I take Ricardo's point about a teaching moment. Many people thought that the government of Isabelita Peron was going to be a teaching moment, and Isabelita Peron is still alive and doesn't even participate in Argentina politics. But Peronism is there and it has become many things, so the point that I'm trying to make is that I'm still not sure that I have the answer to the question. I'm still not sure that I know what it is, but I feel that we're going to have to live with it for quite some more time.

MR. BAHAR: We have a very few minutes left, so I don't know -- I want to give you the chance, then Ricardo can jump in, and then --

MS. PALACIOS: Yeah, I'm just going to say a couple of things. I do think that there's a link between political cycles and commodity boom cycles. So yes, I do understand than that's a point well taken about the leftist platform. But the leftist platform in Latin America grows from 30 percent to 60 percent, in part because the leftist regimes are about redistribution, and when the commodity cycle goes into bust normally, you have had these kinds of changes in government to more center and center-right. So it has happened historically, so there is a -- and I think what's going on in Brazil and in Argentina, it's very interesting because what we're seeing with the local election in Brazil is that the PT that at some point used to represent 60, 65 percent of Brazilians has fallen to even lower than they were previous to the oil boom, or the commodity boom. So you've seen the presence of the left and the presence of the right is not completely independent to the commodity boom cycles which are pretty much linked to business cycles. So what I would say is that there's some linkage there and the relevance of the left or the right, depend as well. We're not completely independent of those things. The second thing is that one of the interesting things about this process in Latin America, is that we don't know yet what Chavismo going to be post -- once they get out of office. We actually have no idea. One of the things that we're seeing, as well, is that there's going to be a redefinition of the left in Brazil. There's already definition of the left in Argentina. So we don't know what Chavismo going to be once he gets out of office. And my impression is that there's going to be a division of Chavismo, like it also happened in Mexico. Once you are out of office, there's a redefinition of political forces and that has lead, in some cases, to the rationalization of the left, and in some cases, it has meant, you know, more leftist groups, or more center right groups. It's not very clear. And we have seen that in the history of political parties. It's the history Accion Democratica, it's the history of APRA in Peru. So I mean, we -- that story has not been written yet, and so I'm not sure exactly what kind of Chavismo we're going to have. I mean --

MR. BAHAR: Ricardo?

MR. HAUSMANN: Well, I just think that the red lines are not fixed. That part of political leadership is not about, you know, being aware of the things that are politically unfeasible but of making politically feasible the things that are necessary and good, right? So I think -- I think, you know, we've nationalized a significant chunk of the economy. How are we going to re-privatize it -- if at all? What are going to be the forms of ownership? Popular capitalism, just, you know -- voucher capitalism, capitalization a la Bolivia or some -- there is going to be significant issues about, you know, what is the nature of these issues like control of production, that the future will want and I think that there's an open debate on that. What I think is going to be challenging -- I mean, there are some things that are unnecessarily complicated. Truly unnecessarily complicated. For example, the fact that the government went on a campaign demonizing the IMF. So people think that the IMF is some kind of private group that is out there to make money, and that it's not part of the international community. That is, sort of, like the expression of the political leadership of the countries of the world. They think that -- well, there's the IMF and there are other institutions, as if there's plenty of other institutions that deal with macroeconomic crises. You know, it's a -- you know, one will say, well, you know there's a European Union, or there's IDB, or CAF. You know, in the IMF we were talking about tens of billions of dollars for Venezuela. In the IDB, you talk $10 billion for 26 countries in Latin America. They're just not the same size. So the fact that people are putting, sort of, like, vetoes on going to IMF, they don't have a clue as to what it means socially. The kind of difficult adjustment that's going to be -- the kind of expensive debt that you would have issue. The weaknesses that you would imposing on the recovery of the country if you don't go to the IMF. The fact that it is even in discussion is disappointing. So let alone think about, you know, the issues we were going to deal with -- you know, with private investment in oil that will have to be addressed. And there are some red lines that I think we need to -- we need to brush aside, or we need to paint, or we need re-define. We need to -- we need to reframe, and I think that as, you know, as a government starts finding out what it's options are, what it's costs and benefits are, it should figure out how to articulate why it's doing what's it's doing, why it's doing it in the best interest of the people that they are trying to rule and to protect.

MR. BAHAR: Well, thank you so much. I do want to say that I think the most important conclusion is the fact that we should not take for granted that we can have an educated, informed discussion about policies in Venezuela which is, unfortunately, not the case in Venezuela right now. So I really want to thank you and please join me in thanking the panel for their time.

(Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016