



Volume 4, Number 11  
Week IV, March 2008

**WITH OR WITHOUT MONEY?  
BEYOND THE INTERACTIVE  
FORUM**

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This past March 4<sup>th</sup>, **Ecoanalítica** held their Interactive Forum on Economic Outlooks. For the third time, in an event such as this, opinions were shared by those attending in real time, especially those opinions which had to do with the future behavior of the main macroeconomic variables. Therefore, we were able to contrast our economic projections with the opinions of the head general managers of a number of Venezuelan companies who were attending the event.

**Half of those attending  
worked in the area of  
finance**

Keep in mind that at this, **Ecoanalítica's** third edition of the forum, 50% of those attending work in the finance area, 12% in Planning, and 11% in Marketing and Sales. The rest (27%), work in production, human resources, technology, and other areas. On the other hand, 26% belong to the Commerce and Services sector, another 26% to the Finance System, 13% to Manufacture, and 9% to Telecommunications and Power (electric). The remaining 26% belong to sectors like oil, health, agro-industry, construction, and real estate, among others.

The information gathered at this forum is very important, since it allows us, along with what has been observed regarding the Venezuelan

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economy during the first quarter of the year, to present economic projections for the rest of the year and the following year and to make comparisons.

## **Political environment: The regional elections and the popularity of President Chávez**

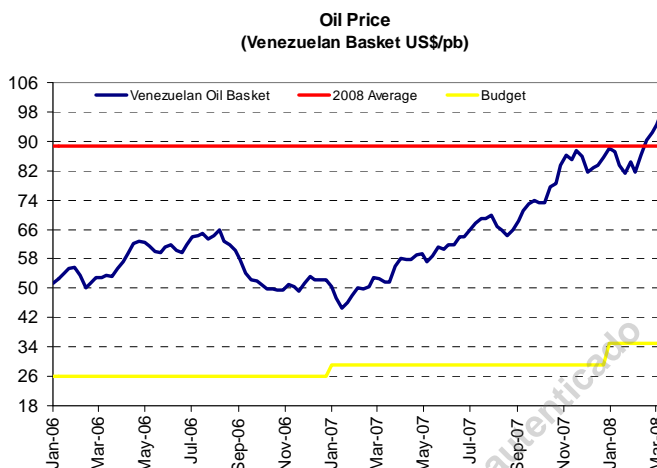
The first step in developing the interactive model gathered the opinion of those attending regarding the upcoming regional elections to be held in November and regarding President Chávez's popularity. Regarding the first point, 53% of those attending consider that the elections will take place as scheduled. 27% consider that they all may be postponed, and the remaining 20% believe that only some of the elections will be postponed.

Regarding the issue of President Chávez's popularity, the average answer of those attending was that it would be around the 30% level for 2008 and that it would drop a little more in 2009 to close the year at around 24%.

## **Outlook for the main macroeconomic variables**

At the beginning and at the end of the forum, those attending were asked about what their expectations were concerning the main macroeconomic variables. The reason for this "before and after questioning process" is to see if the audience, after having heard the speakers and the opinions being exchanged, changed their point of view regarding any of these issues. The final results are included in this report.

With regard to what the price of Venezuelan oil will be in 2008, the average answer shared by the audience pointed to it being around US\$85.0 per barrel, very close to the average accumulate price for the first quarter of the year. The average answer for what the price of oil would be in 2009 remained almost the same (US\$83 per barrel), which is another way of saying that they expect oil prices to remain high and that any affect the recession the U.S. economy is going through will be minimal.



Source: MEM and Ecoanalítica

## Pessimistic regarding inflation

Since the middle of 2007, the Central Bank of Venezuela (BCV) and the Ministry of Finance have actively been taking steps to try to stop and reduce inflation and be able to meet this year's official inflation goal of 11% by the close of the year. The audience expects inflation to close at 30.5% this year. In other words, those who attended don't believe that the Government is implementing credible anti-inflationary policies. What's more, the audience estimates that next year's average inflation rate will be around 26.4%.

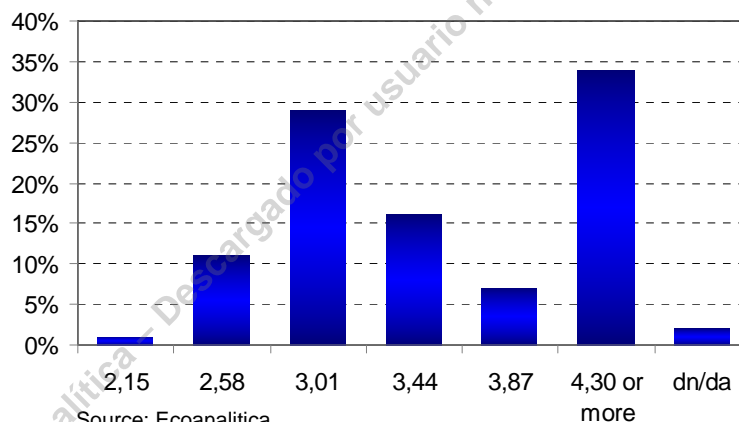
Lowering inflation down to a single digit is an impossible goal as long as the control instruments are still in place, and the exchange market is in constant imbalance, and there is no private investment worth mentioning. As long as this continues, inflation will continue to be the Achilles' heel of this Administration.

## Slight adjustment in the exchange rate

With regard to the official exchange rate in 2008, the average answer turned in by the audience says that it will be around VEF2.44, in other words, the consensus of those attending is that the official exchange rate will probably be devaluated by around 13.5%. However, it's important to point out that 72% of the audience was of the same opinion as *Ecoanalítica* that the exchange rate will remain at VEF2.15 for the rest of the year. The remaining 28% expected there to be a devaluation though they differed on how much.

With regard to 2009, opinion changed quite a bit. The average answer submitted by the audience of the forum put the exchange rate at VEF3.38 per US-dollar, which equals a 57% devaluation compared to the current VEF2.15. This significant devaluation contradicts what the audience said it expected inflation to be (26%) in 2009. The breakdown of the answers submitted are as follows: 26% said 2009 will close with an exchange rate of around VEF4.30 per US-dollar, 23% said it would close at VEF3.01 per US-dollar, 19% said VEF2.58 per US-dollar, and only 5% said that the exchange rate would remain at its current rate. It's important to point out here that these estimates all hinge heavily on the price of oil.

**Official Exchange rate 2009  
(VEF/US\$)**



## Getting more expensive to go in debt

In order to avoid prices continuing to increase and indirectly lower non-official market prices, the BCV has been taking steps which have increased interest rates.

However, the exchange control has generated a perverse incentive: people prefer to spend or go into debt rather than save, since savings interest rates don't even cover inflation.

This situation is not going to change very much in the short term. Those attending the forum estimate that lending interest rates this year will average around 29.4%. This supposes that the BCV will adjust the current 28% ceiling for transactions that primarily deal with personal consumption, but will not include credit cards. Interest rates could increase even more during the following year and settle around 32%.

## Growth rate slows down

The former Minister of Planning, Jorge Giordani, has pointed out that the Venezuelan economy is guaranteed to keep on growing. However, the opinion at the *Ecoanalítica* forum is a bit different. Growth will continue for a few more years (probably until 2010) sustained mainly by high oil prices, elevated fiscal spending, exchange controls, and the consumer boom. In this regard, the average answer submitted by the audience is that growth will be around 3.8% for 2008 and 3.2% for 2009. It worth mentioning that all those attending the forum were quite pessimistic, which seems to be a bit contradictory when you are forecasting a scenario of high oil prices for the future. This perception ratifies one of the fundamental statements that we have been making for quite some time now, that one of the more serious problems facing Venezuela at the moment is the lack of confidence. The forum's audience considers that it doesn't matter how high oil prices get, that if the Government doesn't correct current economic policies and doesn't make some key adjustments, growth will not continue, and what's worse, it will not be sustainable over time.

## Other aspects relevant to economic policies

During the macroeconomic environment presentation, a number of questions were put to the audience in order to get to know their opinions about different issues concerning current economic policies:

1. First, we wanted to know what they thought was the main economic problem in Venezuela today. 54% considered that it was inflation; 13% said it was the fiscal situation; 12% pointed to the exchange rate; and 11% believed it was the industrial panorama. Only 1% believed that the main problem with the economy was the increase in interest rates.
2. With respect to the controversial change that was made to the CPI base year (from 1997 to December 2007), a little over half of the audience (51%) considered that this was all just a means of manipulating data in order to lower inflation; 31% said that the base was changed in order to have less inflation; and only 10% believes that it was done for purely technical reasons.
3. 34% of those attending the forum believe that the interest rate increase corresponds to a BCV decision to stop consumption. 28% think that it has to do with a combination of a number of factors including reducing liquidity and problems facing the financing system, among others.
4. Continuing with monetary issues, it's important to point out that 37% of the audience stated that they would not continue to go into debt in 2008 and that they would liquidate loans. 34% said

that they would continue to go into debt. However, when a number of sectors were added together then the results showed that 71% would not continue to get new loans.

5. With regard to the issue of confidence, it's important to keep in mind that 70% of those attending the forum bought US-dollars last year. Only 14% sold US-dollars.
6. About to the fiscal situation, 54% are convinced that the Government is in the midst of a fiscal crisis which translates to serious cash flow problems. 31% consider that the Government is desperate to accumulate resources in preparation for adverse conditions. Only 4% believe that there is a fiscal bonanza that has been inherited from previous years.
7. With regard to the collapse of the current economic model, 29% point to it happening in 2009, almost the same percentage says that it will happen in 2010. 12% believe that the collapse won't come until 2013. Only 8% think that it will happen this year. Once again, the key that it all hinges on is oil prices.

## Economic Tips

**Will remain the same.** The President, Hugo Chávez, assured that there are no plans to raise the price of gasoline, despite what he himself said a year ago and the campaign that was developed and launched by the Government to explain to people the need there was to adjust the price. With regard to the exchange control which has now been in place for five years, Chávez reaffirmed that it would remain in place. The President also defended the lowering of the quota allowed for internet purchases, explaining that these kinds of purchases had increased to the point of being unmanageable last year.

**Quite a lot.** A greater injection of resources through social contribution made by PDVSA throughout last year allowed the social Missions to receive 20% more financing than they did during 2006. Between what they were assigned in the budget, contributions from FONDEN and PDVSA, these programs managed a total of VEF26.13 billion. The same total for the previous year was at VEF21.76 billion.

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PDVSA alone contributed around VEF7.40 billion, and even though it was not the highest contributor of resources, it was the one which increased its contributions by the most, registering a 31.2% increase from 2006 when PDVSA contributed VEF5.64 billion.

**Further develop social model.** This year the Government has over US\$13.00 billion available from FONDEN to finance projects that are related to developing the socialist State. The Ministry of Finance 2007 statement already reflects the orientation that this mechanism will have during this fiscal year. It states that for this period, the scheme has to address over 70 projects of real productive investment and to earmark resources for the financing of micro-loans and the development of unattended zones *"according to the guidelines of the President, in accordance with the application of the fourth constituent engine or the new geometry of power, which includes the socialist reordering of the geopolitics of the country."*

**BANDES to increase international financing.** The Ministry of Finance statement shows that BANDES is considering increasing its line of credit abroad. International financing for this year has been programmed at US\$268 million, representing an increase of 98% compared to 2007. There are no details concerning individual projects.

**Full blown Dutch disease.** According to the BCV, during 2007, the non-tradable sector expanded by 11.7% compared to 2006, while the tradable sector only expanded by 2.0%. The non-oil tradable sector grew by 5.6%. Domestic aggregate demand increased by 19.3% compared to 2006, with private consumption expanding by 18.7% and investment at 25.4%.

**The Administration is reviewing the Financial Transaction Tax (ITF).** The Ministry of Finance, the SENIAT, the BCV, and the National Assembly are carrying out a study on the affects this Tax is having and one of the aspects being considered is a reduction of said Tax which is currently at 1.5%. Official sources say that though it's true that a reduction is being considered, it's also being considered how much of a reduction would be viable. The budget for this year establishes that the Financial Transaction Tax Fuentes is supposed to be responsible for VEF12.0 billion of taxes collected.

**International reserves.** On the third week of March, international reserves were at US\$30.19 billion, continuing the drop registered by the previous weeks. So far this month, international reserves have dropped by 6.756%.

**Monetary liquidity.** During the first week in March, monetary liquidity was at VEF149.30 billion, down by 1.89% compared to the last week in February.

**Interest rates.** The lending rate of the six main banks in the country averaged 22.46% during the first week of March, down by almost 1% compared to February. Term deposits increased by 2% compared to February showing an average of 14.18% so far in March, settling very close to the new minimum value required by the BCV.

## OIL TIPS

**Freeze lifted.** The Supreme Court Justice of England ordered that the freeze of up to US\$12.0 billion of PDVSA assets be lifted. The Court ordered Exxon to immediately pay PDVSA £380,000 for court costs. The Venezuelan oil company still has to face the Dutch Court next week.

**PDVSA started to collect in Euros.** Rafael Ramírez announced that PDVSA has begun to demand payment for some of their oil and fuel contracts in Euros in an effort to offset the depreciation of the US-dollar on domestic oil revenues.

**2007 Exports down by 6.4%.** Official figures reflect that oil exports dropped by 192,000 b/d during 2007, averaging 2.78 million b/d. PDVSA direct exports dropped by 5.9% compared to 2006, while the Orinoco Oil Belt mixed companies dropped their exports by 8.5%.

**Total production also dropped.** Domestic crude oil production averaged 3.14 million b/d, down by 103,000 b/d (-3.1%) compared to 2006. PDVSA balance sheets explain the drop as being due to high drill costs, the increased worldwide demand for production equipment, and the *“wide gaps in knowledge, due to the fact that more than 60% of the personnel has less than five years experience.”*

**Production down on the Orinoco Oil Belt.** According to International Energy Agency figures, Orinoco Oil Belt crude oil production in February was at 555,000 b/d, down by 6% compared to the month of January. According to the same source, the average domestic production for the month of February was at 2.44 million b/d.

**Chalmette crude oil to be sent to China.** The Minister of Energy and Petroleum, Rafael Ramírez, announced that PDVSA has continued to send crude oil shipments to the Chalmette refinery which it owns jointly with Exxon Mobil, but the latter *“doesn’t want this crude oil.”* The Minister stated then that said crude oil will be sent to the Chinese state-run company, Petrochina.

**PDVSA to increase its contributions to the State.** During 2007, the company made fiscal and social contributions adding up to US\$42.33 billion (64% of its total revenues), up by 7.9% compared to 2006. Total contributions are mainly divided up between royalties (39%), Income Tax 20%, contributions from Fonden (16%), social programs (15%). Company dividends increased by 95% compared to 2006 settling at US\$ 2.57 billion.

**OPEC Funds approves resources for Nicaragua.** The main governor of the OPEC Fund, Rafael Isea, announced that financing for the amount of US\$60.7 million was approved for the construction of road on the border between Nicaragua and Costa Rica.

**Honduras approves Petrocaribe agreement.** The Honduran Congress approved the measure which allows them to begin to purchase 200,000 b/d of ordinary oil from Venezuela, within the framework of the Petrocaribe agreement. This allows Honduras pay for 60% of each shipment within 90 days and the other 40% within 25 year with a two year grace period at 1% annual interest.

**PDVSA debt with Total and Statoil refinanced.** PDVSA announced the refinancing of the US\$1.42 billion Petrocedeño mixed company debt it has jointly with Total and Statoil to exploit crude oil on the Orinoco Oil Belt. Before the mixed company migration, the debt consisted in bank loans for US\$620 million and PDVSA, Total, and Statoil loans for US\$1.34 billion.

## BUSINESS SECTOR TIPS

**CANTV profits drop in 2007.** The company’s financial statements reveal that CANTV generated net profits for a little over VEF1.0 billion in 2007, down 9.5% compared to what was registered in 2006. According to President Hugo Chávez, VEF100 million of

the company's profits will be invested in Metropolitan Health System and another VEF300 million in Mission Sucre projects.

**Loan portfolios continue to increase.** During the month of February, the loan portfolio granted by the national financing system increased to VEF104.43 billion, up 1.4% compared to January. Cumulative total loans have increased by 63% in the last year, with the biggest increase being in tourism loans (+113%) and mortgage loans (+89%).

**Mortgage quota modified.** The Ministry of Housing published a resolution which says that 60% of the mortgage loan quota that banks are required to offer (10% of the total loan portfolio by the close of 2007) must be earmarked for loans to purchase houses and the other 40% for loans to build houses. The proportions used to be 50% each.

**Revenue distribution was also modified.** The same resolution points out that where it concerns to home loans, banks must earmark 40% of those loans to families that have income equal to or less than 150 Tax Units and 60% of those loans for families that have income between 150 Tax Units and 500 Tax Units.

**SUDEBAN suggests looking at Credit Card rates.** The Bank Superintendents Office and Other Institutions (SUDEBAN) suggest that credit card loan interest rates be adjusted to 30%, according to Trino Alcides Díaz. He brushed aside certain indicators which suggest that increasing interest rates (especially credit card rates which had their ceiling increased by four percentage points going from 20% to 32%) would be a factor which could lead to a banking crisis.

**BIV in the red.** During the first two months of the year, the BIV has registered losses for around VEF20.5 million, in contrast to the rest of the system which has posted profits over 60%. The assets over loans index is at 3.9%, when Sudeban regulations require that it be kept at a minimum of 8%.

**Pasta industry adjusts its products.** In October 2006, The Ministries of Food and Light Industry and Commerce published a resolution whereby they ordered that wheat be substituted for domestic cereal grains to make pasta for human consumption. According to AVEPASTAS, two of the 24 pasta industry plants are already these varieties, while the others are still adjusting their infrastructure in order to produce them.

**Mercal investment to increase.** The Minister of Food announced the incorporation of 24 trucks and 14 mobile refrigeration containers for the Logicsa Company which is in

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charge of distributing to CASA for the Mercal network. The investment made was of VEF18.38 million with another VEF62 million projected to be invested.

**Government nationalizes two companies.** President Chávez announced that two companies were nationalized through purchase, *Lácteos Los Andes* (a dairy company) and *Centro de Almacenes Congelados* (CEALCO) (a refrigeration company). Both will be absorbed by PDVAL in order to increase their distribution capacity.

**Another Mission.** A new Mission created by the Government will focus on offering help to people with disabilities and genetic diseases. It's to be called, "*Misión José Gregorio Hernández*" and it has an assigned budget of VEF592 million.

**Automobile spare parts shortages increasing.** The National Chamber for Auto Parts Commerce announces that there are over 4 million automobiles with order requesting for parts. The Chamber argues that it is due to CADIVI delays with the foreign currency authorization process and import restrictions by the MILCO that are causing all the delays.

**Strikes have caused considerable losses at Sidor.** Calculations indicate that losses due to the partial strikes that Sidor has been suffering add up to US\$71.5 million. Ternium Sidor has had to abandon the production of around 107,761 tons of steel due to strikes.

**FONCREI to promote the agro-industry and tourism sector.** During the last three years, FONCREI has contributed with more than VEF250 million for the financing of 620 tourist sector projects, among them, projects for small and medium sized entrepreneurs. This year the entity expects to finance agro-industry and tourism projects for VEF100 million and VEF50 million respectively.

**Industry growth low.** Between last year and 2006, industry production volume registered an increase of 6.9%, which reflects slowdown in growth compared to the 10.1% registered between 2005 and 2006. In fact, industry production volumes for December 2007 are down by 2.51% compared to December 2006 are compared, a tendency that if not stopped will affect formal sector jobs, will affect inflation due to limited supplies, and diversifying the economy becomes more difficult.

**Producers report problems with access to fertilizers.** Agriculture producers say that despite the agreements that exist between the authorities and producers, obtaining fertilizers and other requirements for planting has become very complicated to the point that many agricultural associations have simple not been able to get access to these supplies or have been over charged to purchase them.

**86% mobile telephone penetration.** According to CONATEL statistics, by the close of the fourth quarter 2007, the mobile telephone client base increased by 26.8%, which translates to a total of 23.82 million active lines and an 86.76% penetration in the market.

**DIGITEL gains market shares.** CONATEL figures show that mobile phone operator, DIGITEL, increased its market share by 1.7% during the fourth quarter of 2007 to settle at 20.5%, while Movilnet and Movistar control 39.9% and 39.6% of the market respectively.

**Fixed telephone lines also increased.** 2007 fourth quarter figures also show that the number of new fixed telephones lines increased by 865,419 (+20.52%) compared to the same figure in 2006, thereby increasing its market share by 18.51%; in other words, 19 fixed lines for every 100 people.

**Everyday more people sign up for pay TV.** During the fourth quarter of 2007, 99,351 new clients signed up for pay TV which represents an increase of 21.75% compared to 2006. Approximately, 25 of every 100 Venezuelan homes is subscribed to pay TV.

**Internet users increase.** The number of people subscribed to internet service increased by 32.4%. Market penetration during the same period was at 20.83%, up by 59.63%.

**Banco del Tesoro signed a trust agreement with CASA.** The *Banco del Tesoro* signed a trust agreement with CASA for VEF50 million aimed at streamlining the required resources to distribute the different food products that the *Corporación CASA Mercal* supply.

**State contributions to power companies is considerable.** Due to the fact that rates have been frozen, Venezuelan electric power companies like EDC, Enelven, Enelbar, and Cadafe, have not been able to increase their profits and be able to cover their operational costs. Therefore, they have received financing from the state for over US\$2.40 billion in order to fulfill their obligations.

**CADIVI import delays favor textile industry.** During 2007, textile industry production increased by 15% taking its market share to 35%. Bootleg products and legal imports cover 65% of the market. This growth is due in part to the complications that importing companies are having importing clothes due to CADIVI delays in authorizing foreign currency.

**Administration wants to shutdown bingos and casinos.** The Minister of Tourism, Olga Cecilia Azuaje, announced yesterday that bingos and casinos don't fit in the project that the National Government has for the country, and therefore they wish to shut them down so that tourism will focus on creating services like bed-and-breakfast type businesses or focus on improving roads and means of transportation (land, air, and by sea). The Ministry of Tourism recently published a resolution, which has already come out in the *Gaceta Oficial* N° 38.982, that orders the National Casino Commission not to renew installation permits and casino, bingo, and slot machine licenses. This measure would be in effect for the next three years.

## Political Tips

**New head of the Ministry of Housing and Habitat.** Edith Gómez has been appointed as the new Minister of Housing and Habitat replacing Jorge Pérez Prado, who held the office for two months. Gómez has been the Office vice-minister since 2005.

**And the.** The former superintendent of Foreign Investments, Miriam Aguilera de Blanco, was appointed a general director of the Multilateral Financing Office of the Ministry of Planning and Development.

**The Finance Minister has finally assembled his team.** According to the *Gaceta Oficial* 38.891 dated March 14<sup>th</sup>, President Chávez appointed Rosalba Aristimuño Ramírez as vice-minister of Regulations and Control of the Ministry of Finance.

**Latest Datos survey.** According to the latest Datos survey, the reach of the official Missions has dropped. There is evidence that shows, in the survey taken between February 15 and February 24<sup>th</sup> that 14% of those that formerly benefited from the Administration's social missions have ceased to do so since 2006. When Datos carried out a survey during the beginning of 2006, 59% of those interviewed said that they had been helped by social programs. However, in 2007, that percentage dropped to its lowest point ever, 43%. This year the percentage of people that say they have benefited from the help of the missions is up slightly at 45%. Datos pointed out that this year there are more people that have not been helped by the Government missions

than those who have: 55% of those surveyed said that they had not benefited from the missions, and less than half, 45%, answered that they had.

**Mercal is the leader.** The Mercal Mission is the one that continues to have the largest market share penetration according to public opinion. 71% of those that have benefited by missions said that they have been to a Mercal, 43% said that they have gone to a *Barrio Adentro* Mission module, 28% said that they have studied in the Sucre Mission program, 9% with the Robinson Mission program, and 7% said that they have worked with the Vuelvan Caras Mission.

**The NI-NI (neither-nor's) rule.** Datos points out that political party militancy is down. Datos survey clearly reflects that 75% of those surveyed assure that they are not militants of any political party and 23% say they are. One of the most revealing pieces of information that the survey provided was that among the non-militant population, 11% sympathized with the Government's party, PSUV. *Un Nuevo Tiempo* is the opposition party that got most of the sympathy vote, with only 3%.

## Other Tips

**FED cuts rates again.** The U.S. Central Bank (FED), during its latest ordinary meeting held March 18<sup>th</sup>, cut the federal funds rate by 75 basic points leaving it at 2.25%. A few days earlier, the FED fixed the rediscount rate at 3.25%, cutting it 25 basic points (the rate charged to FED loans to commercial banks).

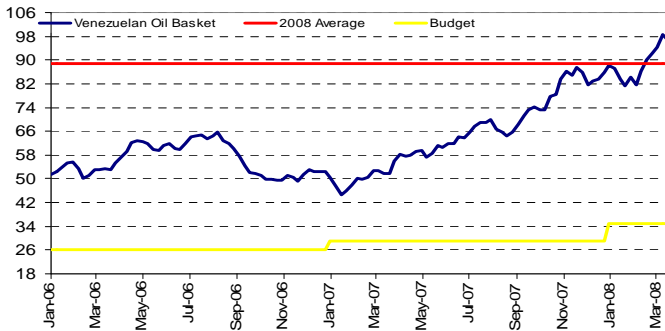
**Standard & Poor's lowers U.S. bank classification.** Standard & Poor's, has given a negative classification to 2 important U.S. financial institutions, Goldman Sachs, and Lehman Brothers Holding, which have both been affected by the mortgage crisis. It is also considering lowering Morgan Stanley's classification and Merrill Lynch's classification remains negative.

**New CADIVI list out.** A new CADIVI list has been released on their website with the name of 60,013 people on it. Citizen's whose *cédula* (Venezuelan identification card) numbers are on it have 15 working days to present their bills and receipts that prove how they spent the foreign currency that was authorized.

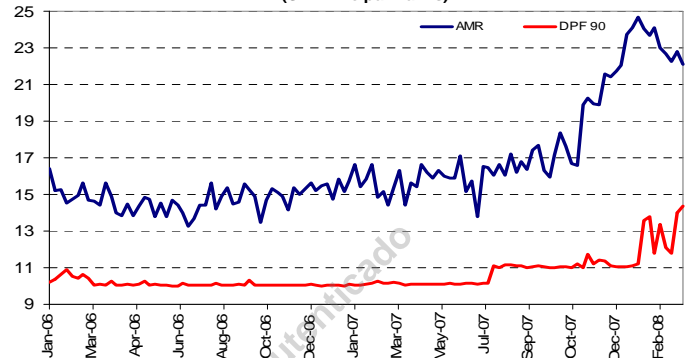
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## ECONOMIC OVERVIEW

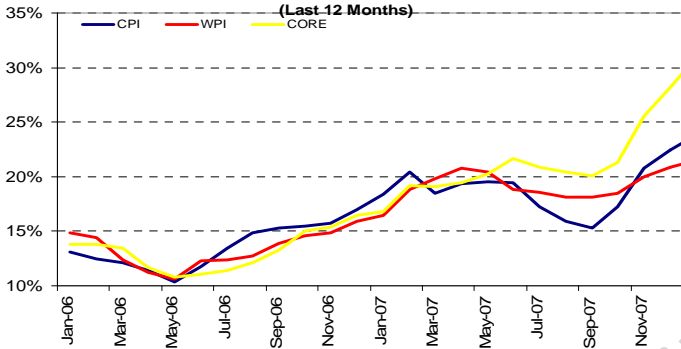
**Oil Price**  
(Venezuelan Basket US\$/pb)



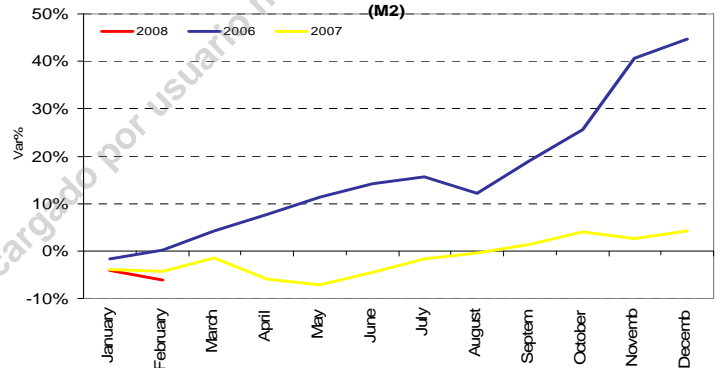
**Interest Rate**  
(Six Principal Banks)



**Inflation**  
(Last 12 Months)



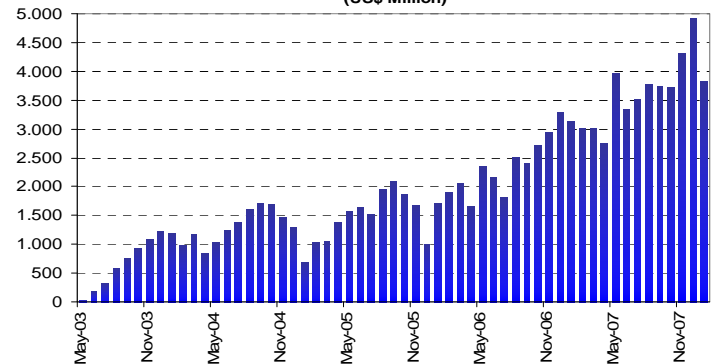
**Real Expansion**  
(M2)



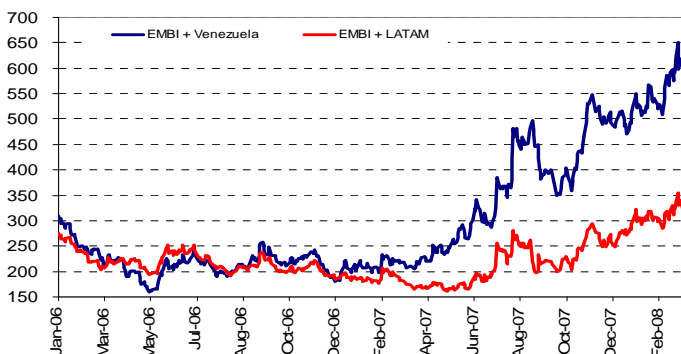
**Fx Reserves - BCV**  
(US\$ Million)



**Disbursement**  
(US\$ Million)



**EMBI**



**Central Government**  
(VEB Billion)

