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***IN THE MIDDLE OF THE
BOOM, THE STATE CANNOT
COVER ITS SPENDING***

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The Ministry of Finances recently released the figures for the closing of 2007 fiscal year for both the Restricted Public Sector (RPS) and the Central Government (CG). In the second case, a surplus of 3% of GDP was registered whereas the first one registered a deficit of 2.6% of GDP, meaning that the operational performance of PDVSA and other public non-financial companies are negatively influencing the State's sustainability as a whole. Against this background, the Executive is still advancing its private companies' nationalization policy.

**RPS reflected a
significant drop in
revenues**

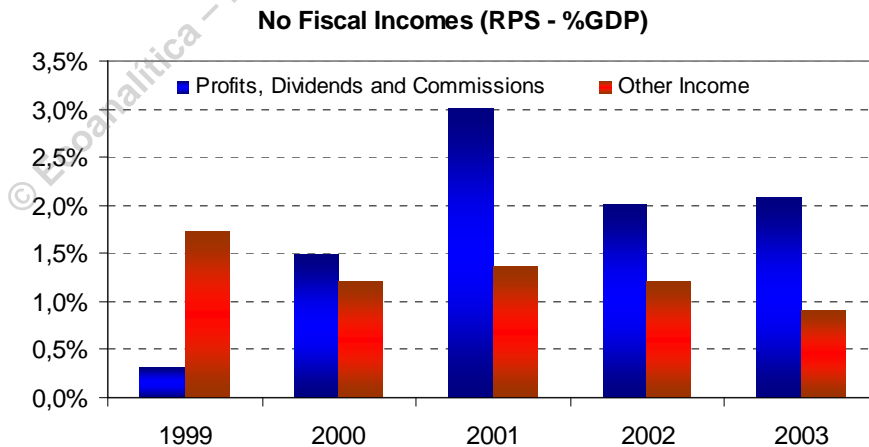
According to the FM numbers, 2007 RPS total revenues totaled 32.9 points of GDP, in comparison with 37.9 points of GDP for the prior year. In fact, 2007 revenues are equivalent to those of 2003. This year-to-year drop of 5% of GDP is exclusively due to non-tax revenues. In the case of PDVSA's share, measured through operational surplus, it fell 1.4%, while the Venezuelan oil basket grew 15,3% between 2007 and 2006. Another factor that deserves mentioning here is that this drop is also related to the high economic

increase and an actual exchange rate appreciation, along with significant production troubles.

The reason lies on non-oil revenues

On their part, non-tax revenues from the non-oil sector dropped 3.5 points of GDP, from 8.4% to 4.9%. It's worth mentioning that this item remained fairly stable between 1999 and 2004, and then substantially grew between 2005 and 2006. According to the information collected by **Ecoanalítica**, these items comprise fees, trade domain, miscellaneous, and extraordinary revenues, which represent a property rent. They are specifically: dividends of companies where the State is a minority stockholder, custom services, land transportation rights, revenue stamps, toll services, harbor's office service, alcoholic beverage sales, social administered services, irrigation and drainage services, National Goods leasing, sales of official publications, interests in arrears, claims by the General Comptroller's Office, fines, property revenues, and BCV profits.

As a consequence, this item's drop is related to multiple factors, especially to the decrease in the delivery of exchange profits by the BCV, payment exemptions for many services rendered by the State, such as tolls.



Sources: Ministerio de Finanzas and Ecoanalítica

Like the shopkeeper, spending also drops

Total spending shrank 3.8%, equally distributed between current and capital spending. Numbers show that the deficit was financed by a net 1.5% decrease of liabilities on the domestic market and a 4.6%

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increase on the international market. As mentioned in our prior report, “the paper storm is increasing risk-country,” released on April 18, 2008, public sector is trying to pay debt by issuing papers on the international markets in order to increase cash flow to finance the swap exchange rate.

Consequently, RPS wasn't larger because the State cut back its spending, something that was already perceived in the General Comptroller's Office figures that the BCV regularly releases. If the Executive would have kept spending at the levels of 39% of GDP, RPS deficit would be on the order of 6.1% of GDP. With these results, we confirm our thesis that the Executive is pragmatic concerning its fiscal policy, expanding or shrinking spending, as the case may be.

RESTRICTED PUBLIC SECTOR (% GDP)	2005	2006	2007	Dif. 07-05
Total Revenue	37,80%	37,87%	32,88%	-4,9%
Tax Income	12,15%	12,56%	12,73%	0,6%
Non Tax Income	25,66%	25,31%	20,15%	-5,5%
Total Expense	33,69%	39,37%	35,22%	1,5%
Current expenditure	21,43%	24,23%	22,29%	0,9%
Capital Expense	11,52%	14,33%	12,83%	1,3%
Extra-budgetary Expenditure	0,74%	0,81%	0,11%	-0,6%
Total Result	4,11%	-1,50%	-2,63%	0,0%

Sources: Ministerio de Finanzas and Ecoanalítica

Public figures will continue to deteriorate in 2008

We expect actual exchange rate appreciation for 2008 to continue, with a substantial increase in public spending due to the governor and mayor elections scheduled for next November. In this scenario, fiscal accounts will continue to deteriorate, with the possibility of a devaluation of the official exchange rate being considered for early 2009. The deterioration of the fiscal management will mainly result from a much higher increase of spending in comparison with revenues.

With 2007 results, we have changed our estimates for 2008, cutting total RPS income back from 38.7% of GDP to 34.2% of GDP, whereas spending will be at 38.1% of GDP, slightly under our preliminary estimate of 39.9% of GDP. Therefore, RPS will register a deficit equaling 3.9% of GDP, higher than the preliminary estimate of 1.2% of GDP. For this year we sustain our thesis that spending will be financed by prioritizing foreign borrowing over the domestic one.

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RESTRICTED PUBLIC SECTOR (% GDP)	2008
Total Revenue	34,20%
Tax Income	12,00%
Non Tax Income	22,20%
Total Expense	38,10%
Current expenditure	24,60%
Capital Expense	12,80%
Extra-budgetary Expenditure	0,70%
Total Result	-3,90%

Sources: Ministerio de Finanzas and Ecoanalítica

Deterioration will last beyond 2008

Recent actions taken by the Government, with the announcement of the nationalization of cement companies and Sidor, besides the acquisition of other companies, make us think that RPS will be larger in the future. However, this increase will be mainly reflected on spending rather than on revenues.

In other Latin American countries, since the '90s, public sector companies, organized in last decades as part of a development strategy that promoted higher intervention by the State in the economy, are being downsized and modernized in accordance with current adjustments that favor market mechanisms and the private sector. The reason is very simple: losses provoked by public companies became a heavy burden on the fiscal budget, especially when their activities included sectors that private companies would probably operate in a more efficient and competitive fashion. One of the main reasons for this situation is that state-owned companies are exposed to excessive political interference, which will eventually set standards and goals that are very distant from economic efficiency.

It was more than evident in 2007 that the Central Government (that doesn't include non-financial public companies' management) closes with a surplus of 3% of GDP, whereas RPS registers a deficit of 2.6% of GDP. This figure looks more dramatic if we see it proportionally, because the Central Government accounts for 75% of RPS, therefore 25% was quite inefficient.

The problem in the future is that a large part of these deficiencies will result from governmental restrictions imposed on the management of companies and not from their dependence on State. An institutional framework that allows margin for a freer management, with less

political intervention and more focused on performance indicators, can allow institutions to be more efficient concerning their activities as long as they stay in the public sector.

The setting of coordination policies cannot be postponed

Therefore, the Executive has to define an institutional framework for reforms and public companies' future activities. It's generally centralized on a single institution and must have enough political level to make decisions and technical capability to work with companies.

Economic Tips

New debt issue. The Ministry of Finance finally announced the conditions of the awaited debt issue. On this occasion, this is a combo consisting of two different Sovereign Bond issues for a minimum amount of US\$ 1.5 billion each and maturing in 2023 and 2028, respectively. It's worth mentioning that the issue amount surpassed the amount the market was expecting (between US\$ 1.9 and US\$ 2.2 billion).

Preference for priority State sectors. 50% of the issue will be earmarked exclusively for companies in the food, health and capital goods sectors. The remaining 50% will be allocated to natural and legal persons from other sectors. The FM should clarify allocation methods. We, at **Ecoanalítica**, don't understand why if these three sectors are Cadivi's priorities, they aren't receiving foreign exchange regularly and have to find dollars at a higher exchange rate than the official one.

Characteristics. Bonds will be denominated in dollars and payable in bolivars, at the official exchange rate. The price fixed by the FM is 115% and the minimum investment is US\$ 4,000. The "2003 International Sovereign Bond" has a 9% coupon and the "2028 International Sovereign Bond", 9.25%, both payable every six months, on May 7th and November 7th every year, until maturity.

Results. The allocation results will be released on next March 28th and settlement will be effective from May 7th on. From this date, bonds can be traded on the international market. It's estimated that the implicit exchange rate at which investors will be buying dollars is VEF 2.9 per US\$.

Will this be worth the while? The Macroeconomic Coordination Commission was formally installed this week, made up by the BCV, the People's Ministry for Finance, the People's Ministry for Planning and Development, and the People's Ministry for Energy and Petroleum. The BCV explained in a statement that "this entity will permanently monitor exchange, fiscal and monetary policy, as well as the behavior of variables such as public debt, international reserves and inflation, in order to guarantee that measures intended to preserve macroeconomic balance are taken."

2008-2013 National Statistics Plan (NSP) was launched. The National Statistics Institute (INE) launched the project of the National Statistics Plan (NSP) for 2008-2013. This plan will serve to develop statistics to measure socioeconomic, political and production changes that are currently being developed in the country. The Plan includes the calculation of indicators on microfinance and Social Production Enterprises (SPE), distribution networks, consumption, supply, hydrocarbon, petrochemistry, new geometry of power and territorial distribution, and finance and social issues, among others.

New IDB credit. The chairman of the NA Finance Commission, Ricardo Sanguino, announced that the Commission approved the financial conditions for a public credit operation with the Inter-American Development Bank (IDB), for up to VEF 30.1 million. Sanguino explained that these resources will be earmarked for the partial financing of the project "Sustainable Management of the Caroní River Basin" in Bolívar state, through the Ministry of the Environment.

Tax on Financial Transactions to be reviewed. Representative Sanguino also referred to the Tax on Financial Transactions and said that they will soon meet with Conindustria representatives, who will submit a study which explains the increase in their cost structure, resulting from the implementation of this tax.

Another debt. The AN Finance Commission has plans to resume the review of labor liabilities. To this end, changes to the legal framework would be contemplated. The Commission also plans to move forward the reform of the Public Sector Financial Administration Law so that payment of debts owed to former public administration workers are included in annual budgets of each ministry and national entity. The last estimates prepared by the National Executive concerning these liabilities were at VEF 16.0 billion (but the figure was being reviewed because local governments and municipalities hadn't finished the debt consolidation process).

International reserves. International reserves averaged US\$ 30.91 billion for the third week of April. However, on Friday, April 18th, reserves at the BCV fell below US\$ 30.0

billion. The main reason is the foreign debt service payment, which is high between the second half of March and the first half of April.

Interest rates. Lending rates of the country's six major banks was at 23.16% on the second week of the month, up almost one point from the previous week. Interest rate for time deposits was at 14.14%.

Monetary liquidity. Monetary liquidity increased by 0.86% for the week ending on April 11th, to VEF 148.9 billion.

OIL TIPS

Venezuelan crude price hits a new all-time high. Venezuelan crude gained US\$ 3.77 to US\$ 101.11 on the week from April 14th-18th, and broke for the first time the US\$100 mark. The average for the year-to-date of the Venezuelan oil barrel was US\$ 90.7, up US\$ 25 from last year's full-year average.

OPEC's barrel also at an all-time high. OPEC's Secretary General informed that the Organization's crude oil barrel gained US\$ 0.12 to US\$ 107.75 and mark its fifth all-time high.

IEA: High prices are not a favorable trend. The Director of the International Energy Agency (IEA) pointed out that high oil prices are bad for everyone due to the "risks for world's economy" at this time and the increase in food prices and believes that these price levels can increase the risk of a world economic recession. IEA expects that more reserves and surpluses appear in order to avoid market volatility.

Oil windfall profits contribution is defended. The chairman of the Energy and Mining Committee of the National Assembly, Ángel Rodríguez, defended the Special Contribution on Extraordinary International Hydrocarbon Market Prices Law, explaining that it's more efficient than the Income Tax since it "levies the difference between revenues and costs, that is, it depends on the company's efficiency to maximize its profits," and allows the Executive to directly administrate the resources.

Ministers concerned about oil prices. Energy ministers of the oil consuming and producing countries expressed their concern about the increase and volatility of hydrocarbon prices at the three-day summit held in Rome.

Ramírez's optimism. The Venezuelan Ministry of Energy and Petroleum, Rafael Ramírez, declared in Rome that "it's unlikely that oil prices will fall below the US\$90/bbl. barrier." According to Minister Ramírez, increases in oil prices, which have multiplied fivefold since 2002, aren't related to a low supply or geopolitical tensions, but to dollar weakness.

Venezuela will denounce the Netherlands Investment Protection Agreement. According to Ramírez, many oil transnational companies have misused this agreement, in particular companies like CNCP, Eni and ExxonMobil.

President Chávez will visit refinery construction site in Ecuador. The President of Ecuador announced that the Venezuelan president will visit Ecuador next July to "lay the foundation stone of the new refinery in the Pacific Ocean," which will be located in the Province of Manabí. The refinery will cost close to US\$ 5.0 billion and will be the "largest of the Pacific Ocean."

More oil agreements. Within the ALBA framework, the National Assembly enacted the "Approving Law," which authorizes three direct oil supply agreements to Bolivia, Haiti and Nicaragua, totaling 1.48 million bbl./month. The agreements will have special payment conditions, including an annual interest rate of 20%. The supply will be implemented through a mixed company organized between PDVSA and the signatory country's state-owned oil company. The law was published in the Official Gazette No. 38,910, dated April 15.

Official figure: 99,377 million of crude oil reserves. According to April 18th Official Gazette, the Ministry of Energy and petroleum made the inclusion of 748.46 million bbl. into the Venezuela's proven reserves official. The same Gazette informed that natural gas reserves are at 170,860 million of cubic feet. These figures will be used to develop future oil policies.

BUSINESS SECTOR TIPS

Techint expects to receive US\$ 3.6 billion. Sidor majority stakeholder has estimated that the Venezuelan government should pay US\$ 3.6 billion for its stake in the

company, which account for 60%. However, the Government hasn't announced yet the compensation amount. The Minister of Basic Industries and Mining, Rodolfo Sanz, pointed out that Ternium, owned by Techint, was proposed to keep 10% of the stockholding. According to our estimates, 60% of Ternium should be on the order of US\$2.34 billion.

20% increase in foreign currency authorizations in IQ-2008. Cadivi's president announced that at the closing of the first half of the year, foreign currency authorizations increased 20% in comparison with the last year's same period, to US\$ 11.04 billion. He also pointed out the foreign currency allocations are at the same pace as the domestic economy and that one of the major allocation component corresponds to food sector (US\$ 1.2 billion).

More restrictions. Since Wednesday, April 16th until April 29, 2008, Cadivi will put for public consultation the draft provision which sets forth the requirements and procedure to obtain foreign currencies for remittances for relatives living abroad. The project that will be submitted to consultations establishes that remittances will be made once a month for a maximum monthly amount per user of US\$ 1,800 or the equivalent amount in other currencies. Beneficiaries abroad will receive up to US\$ 300 a month. The current provision doesn't establish any ceiling per user. It only points out that the monthly maximum amount allowed per user is US\$ 300.

Automotive sector will be authorized to import with dollars at the swap rate. MILCO authorized automotive companies to import vehicles with dollars at the swap rate, which will allow them to nationalize thousands of units that are in transit status and have remained at the Puerto Cabello customs office for more than three months. This quota is independent of the annual allocations established by MILCO for car assemblers and importers in the country. To import with swap dollars, companies have to request before the Finance Ministry (FM) a Legal Origin Certificate of the foreign currency they will use.

Vis-à-vis the crisis, the State intervenes. Given the situation of the Banco Industrial de Venezuela (VEF 13.3 billion loss at the close of March), the Executive is developing a plan to merge this institution with the rest of the State-owned banks. The plan is aimed at getting the accounts into shape and being freed from the burden of having to cover the losses of an institution that has more than 10 unions and multiple administrative troubles.

Increased trade with Chile. At the close of 2007, trade between Venezuela and Chile grew by 76%, reaching more than US\$ 1.0 billion. The Southern country exported US\$ 865 million to Venezuela, of which, 30% corresponded to foodstuffs. Those sectors

showing a different trend were cocoa, candies and mill products. Bi-national trade balance has been favorable to Chile during 8 years.

Bizarre law. The jump in automobile prices will be analyzed by the representatives at the NA, who believe that the behavior of the market needs to have some limits set. Representative Elvis Amoroso along with other representatives is considering developing a legal framework to prevent automobile prices from increasing excessively. According to the legal instrument, car dealers should reimburse those people who already bought cars the amounts that were paid in excess. According to the representative, the draft law will be defined in five months and preliminary studies are currently being carried out.

Housing Ministry puts forward plan vis-à-vis problems with supply. The Housing Ministry pointed out that the Ministry is reviewing the construction material supply process. Vis-à-vis the difficulties encountered, a supply plan will be devised that will cover the construction of input collection centers and the organization of a product distribution network for the main housing works. The Minister admitted problems with stone and sand supply. Concerning the supply of cement and steel products, the minister assured that there are no difficulties and that supply has been taking place smoothly.

The Socialist model continues to move forward. MILCO revealed that 66 factories will be assigned to the Corporación de Industrias Intermedias de Venezuela, which will start operating by the end of 2008 with the aim of establishing a state-run industrial network and advance the application of the socialist property model. According to the Ministry, 56 draft projects have already been submitted for the socialist factories.

Aircrafts grounded. INAC (National Civil Aviation Institute) ordered operation of some aircrafts of the major airlines in Venezuela (Aserca, Santa Barbara, Laser, Rutaca, Aerotuy, Aeropostal, among others) be suspended because they don't have all the avionics and safety equipment required, according to the certification process developed for each company.

Another mixed company. The Cuban Fishing Industry Minister pointed out that Cuba and Venezuela are working jointly to resume fishing activity in the Pacific and Atlantic Oceans. In consequence, a mixed company is being organized in order to expand fresh fish supply for the population, following the guidelines of a bilateral commercialization and industrialization agreement signed by Elías Jaua a few months ago.

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Partial reactivation. 70% of the fishing boats that use trawling resumed activities after four weeks. In Puerto La Cruz, trawling activities are being restarted progressively, although all boats are authorized. In the case of Falcón state, only 29% of the fishing fleet restarted operations because the rest have not received their licenses. However, the sector's spokespersons believe that 100% of the fleet should be operating again over the next few weeks.

Important secondary market. According to Organización Akros' numbers at last year's end, most of the purchase and sales operations were used housings. The firm highlights that the primary apartment market accounted for 9% of the total sales, so that 91% of the real estate transactions took place on the secondary market.

They haven't received what they were promised to. A report by the Autonomous national Fund Service for Communal Councils reveals that of the VEF 3.7 billion authorized for the 2007 budget, VEF 2.8 billion was transferred to a trust fund administered by the Banco del Tesoro and of this amount, only VEF 761.8 million reached 9,736 organizations, i.e. only 20% of the financing received were transferred to community councils. This proves that only a small part of the resources in this fund was executed last year.

Another registry. Even though SENIAT already has a *vivienda principal* (main residence) registry, the Housing Ministry claims that not everybody is enlisted in the SENIAT's registry. In consequence, the Ministry is undertaking two actions: developing an eligibility system that allows those low-income families that don't own a house to be included in a census and the organization of a single registry for those people that are applying for credits. This registry is intended to track the resources that have been distributed via credits and make sure they have been used for acquiring a main residence.

SENIAT will fine companies that will be nationalized next. SENIAT is set to fine Cemex, Holcim, Lafarge and Ternium Sidor subsidiaries, based on their Income Tax returns, because they reported as a cost the amounts paid for the Tax on Financial Transactions (TFT) of legal persons. According to the TFT law, this cannot be deducted from the Income Tax.

Loan portfolio grows 1.46%. According to SUDEBAN figures, loans granted in the national financial system amounted to VEF 105.95 billion as of the end of March, up 1.46% from February and up 53.52% from the same month last year.

Mercal to be expanded. According to the Minister of Food, Félix Osorio, Mercal is negotiating with Brazil and China to import household appliances that would be sold

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through Mercal network at low prices. Mercal also started sowing rice in the five farms that the Ministry of Agriculture and Lands first seized and then granted the Ministry of Food.

Irregularities with Mercal's beef. The Attorney General's Office charged two managers and an assistant manager of *Automercados* San Diego (supermarket), located in Miranda state, after 2,968 kg of beef from Mercal were seized.

Political Tips

Zero autonomy. President Hugo Chávez dismissed the president of the Autonomous national Fund Service for Communal Councils (Safonac), Yidal Plaza. According to President Chávez, the official was dismissed, among other reasons, because Plaza said that Safonac was autonomous because it's an autonomous institute, to which the President responded: "There's nothing autonomous here; this is a single government. This has to be a single administration."

Changes in the aluminum sector. New appointments in the aluminum industry: César Aguilar, CVG Alcasa, General Carlos Acosta Pérez, CVG Bauxilum, CVG Carbonorca will be chaired by Juan José Moncada.

To the Libertador Mayor's Office. The representative to the National Assembly, Luis Tascón, officially put himself forward as a candidate for the Libertador Mayor's Office, although he doesn't have the PSUV's support. The representative believes that President Chávez is not offering opportunities to all those that are militants of the Revolution.

As good importers. According to the International Institute for Peace Studies in Stockholm, Venezuela imported weapons worth US\$ 887 million in 2007, thus becoming the first weapon importer in Latin America and the ninth in the world.

PSUV is now a political party. The National Electoral Council (CNE) authorized the organization of the Partido Socialista Unido de Venezuela (Unified Socialist Party of Venezuela) (PSUV) as a political party, replacing the former "Movimiento V República." This replacement implies that PSUV will inherit the same rights the MVR had in terms of priority to choose their place in the voting ballot and to administer goods and assets of MVR.

Approved in the first discussion. The NA approved in the first discussion the partial reform of the Organic Law on Power Decentralization, Defining and Transference for the Public Power, which will allow the President of the Republic to decree the intervention of assets and the rendering of public services transferred to the states during the decentralization process, among other aspects.

Other Tips

Increase in food prices is a concern for ECLAC. The steep and persistent increase in international food prices is hitting the poorest population in Latin America and the Caribbean, thus generating a regressive impact, pointed out José Luis Machinea, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC). The Commission is concerned about increases in corn, wheat, rice and oleaginous prices, which surpass 100% in some items.

The fall won't stop. Cemex warned that the US residential market will continue with its decreasing trend for the remaining of the year, at a slower pace, thus being expected a 24% drop. Furthermore, the company forecasted a decrease of about 7% in its cement production volumes for the US industrial and commercial sectors this year.

The Bolivian government is considering nationalizations. The Bolivian President, Evo Morales, threatened with nationalizing soy beam oil producing companies in Bolivia because the product is becoming scarce and its prices are very high. President Morales prohibited exports of this product last month, and as a consequence, transporters and dealers of the sector have reported losses over US\$ 120 million.

New president in Paraguay. The former Bishop, Fernando Lugo, representative of the leftist party Alianza Patriótica para el Cambio (APC), was proclaimed as President of Paraguay, thus putting an end to 61 years of absolute ruling of the Partido Colorado. Lugo will assume presidency on next August 15th.

Uribe, the best assessed. Álvaro Uribe leads the popularity survey among world's leaders, carried out every year by Mitofsky from Mexico. The worst placed is Nicanor Duarte, Paraguayan president. Álvaro Uribe, President of Colombia, appears at the top of the list with 84% of approval, followed by Rafael Correa, President of Ecuador,

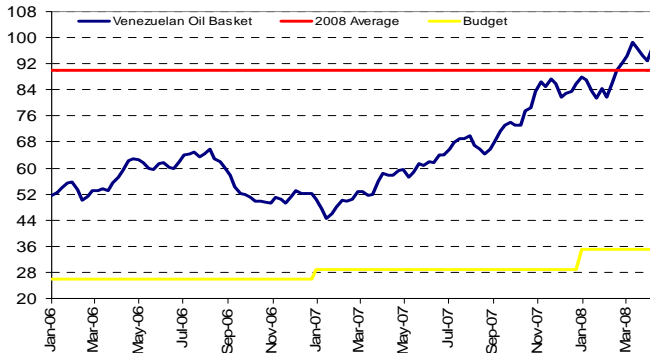
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with 62%, and Felipe Calderón from Mexico with 61%. A second assessment block, with percentages ranging between 50% and 60%, shows Evo Morales from Bolivia with 56%, Luiz Inácio Lula with 55%, Hugo Chávez with 51%, and Oscar Arias from Costa Rica with 50%.

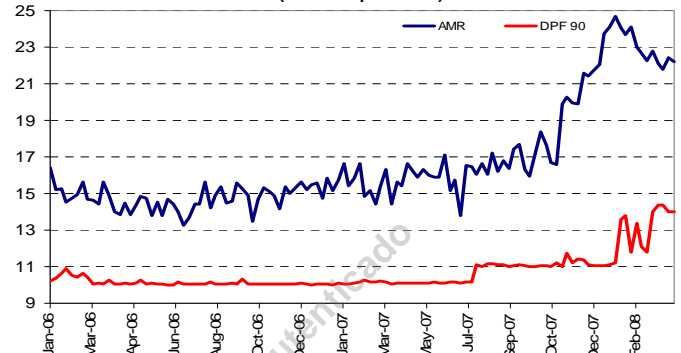
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ECONOMIC OVERVIEW

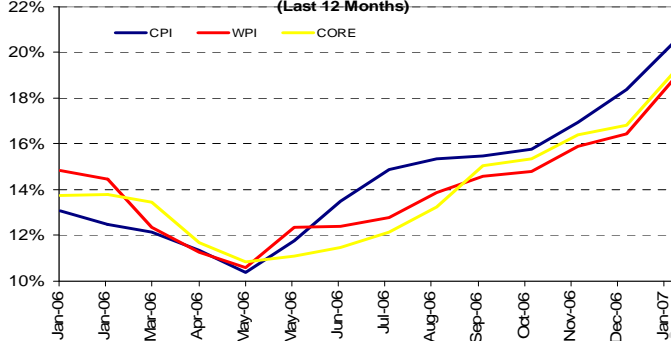
Oil Price
(Venezuelan Basket US\$/pb)



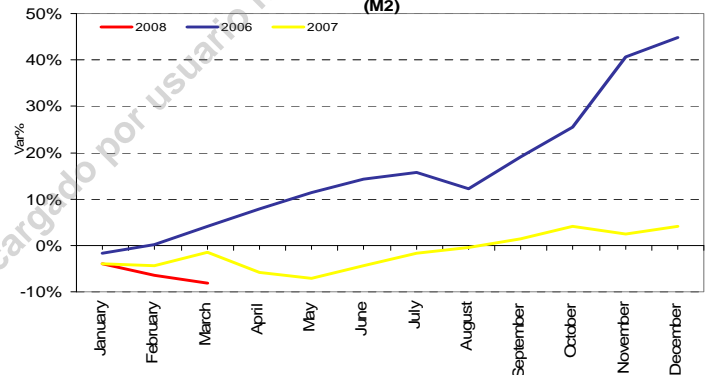
Interest Rate
(Six Principal Banks)



Inflation
(Last 12 Months)



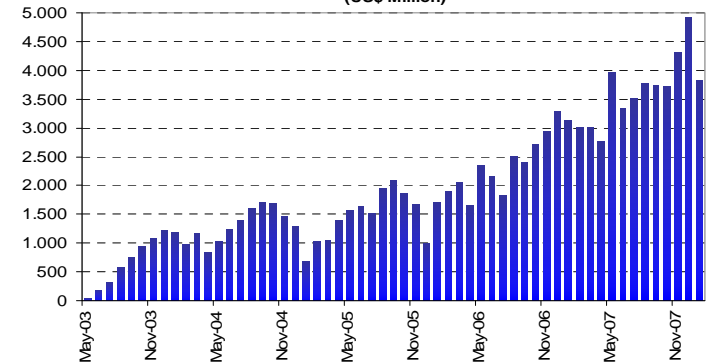
Real Expansion
(M2)



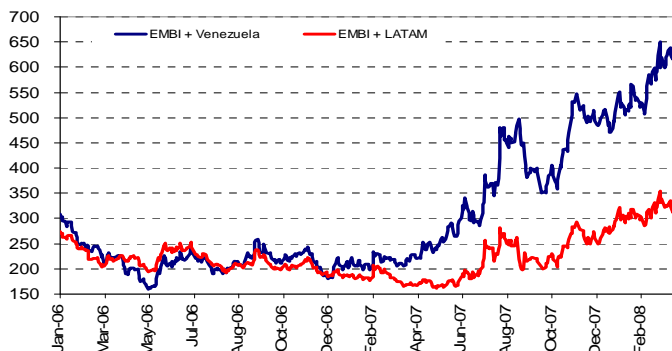
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

