



Volume 4, Number 18
Week II, May 2008

**FOR NOW... PDVSA
DOESN'T HAVE
ANYTHING TO WORRY
ABOUT**

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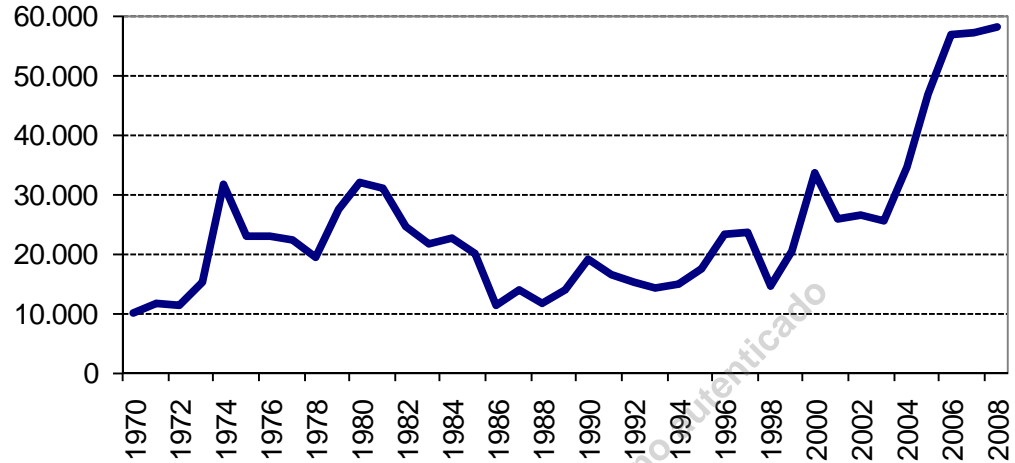
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According to PDVSA's 2007 balance sheet, high oil prices (which averaged US\$ XX), allowed the company to post net profits of US\$6.27, 15% higher than 2006, despite the fact that the company has recently managed its financial affairs in a less than efficient manner.

The 2007 balance sheet highlights a number of important elements. For example, PDVSA's 2007 consolidated debt closed at US\$16.01 billion, up 449% compared to the previous year. What's most worrying about this is that it happened during the same year that the company posted profits for US\$ 96.24 billion, the highest amount yet in company history.

**Real Oil Income
US\$ 2006=100**



Sources: Ministerio de Finanzas and Ecoanalítica

The company's social spending increased by more than 122% with funds going to fifteen different Government Missions and a number of different social projects (US\$ 5.69 billion), to Fonden (US\$ 6.76 billion) and to different trust funds to be kept for future social investment plans (US\$ 1.44 billion). In total, PDVSA contributed in 2007 around US\$ 13.90 billion for social development. These types of contributions which are being made year after year are becoming more and more important within the structure of the company's social spending budget increasing in the last three years by 222%.

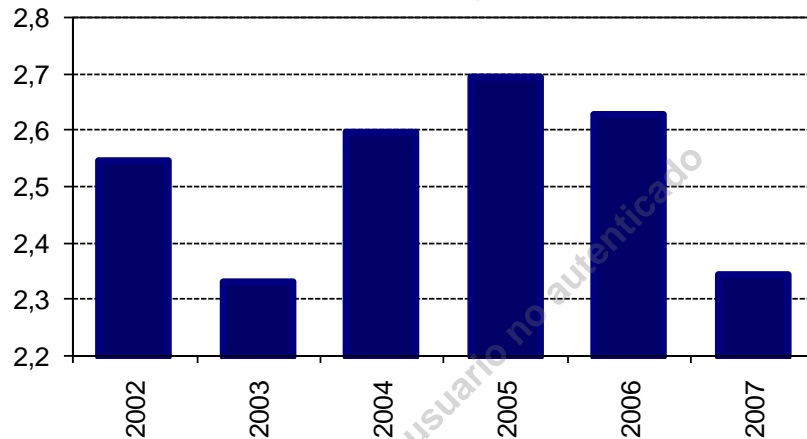
The great company paradox: the more it invests the less it produces

On the other hand, PDVSA investment has been less than its social spending averaging US\$ 4.86 between 2005 and 2006. But in 2007, this changed with PDVSA investing around US\$ 11.01 billion, up by more than 89% (US\$ 5.83 billion) compared to 2006. Despite this investment, total crude oil production during the same period dropped by 3% (100,000 b/d) going from 3.3 million b/d to 3.2 million. Official figures also show that crude oil exports and oil by-products dropped by 6.3%, going from 2.9 million b/d in 2006, to 2.7 million b/d in 2007.

Oil experts say that in order for PDVSA just to stop the decline in production it has to invest around US\$ 7.0 billion. At **Ecoanalítica** we wonder, if of the US\$11.01 billion that was invested in 2007, of which only US\$ 4.16 billion was earmarked for production strategy development, why then did the drop in oil production not stop? And, not only did oil production not stop dropping, but the decline in production

increased. We believe that the company has to take a serious look at these figures and explain this situation.

**Average Oil Production
(Million of daily Barrels)**



Sources: Bloomberg and Ecoanalítica

It's vital to increase production

The Government doesn't seem to understand that it is precisely during moments like these, characterized by high oil prices, that it has to take advantage of to increase oil production levels. We'll have to wait and see if within the framework of the Oil Seeding Plan which expects to invest US\$78.12 billion between 2007 and 2012, if oil production levels increase by significant levels. The Ministry of Energy and Petroleum has mentioned on numerous occasions that through the Oil Seeding Plan Venezuelan Oil production will reach 5.8 million b/d by 2012. But at the current rate such efforts are going, it doesn't seem possible that the Government will ever achieve such a goal.

PDVSA's 2008 outlook is a bit surreal

A few weeks ago PDVSA released its 2008 budget. The first thing that stands out which leads us to say that this budget is full of surreal figures is that it is based on an average price of crude oil of US\$ 35 per barrel. This is US\$ 57 or 62% under the current average price that the Venezuelan oil basket has posted so far this year (US\$ 92.9).

The budget also assumes that total exports will be at 2.9 million b/d, of which 2.2 million b/d will correspond to crude oil and 683,000 b/d to oil by-products. It will be all up hill for the Government to be able to meet these goals if you take into consideration that all the international sources, among them, OPEC and the International Energy Association

(IEA) agree that current Venezuelan oil production is only at 2.3 million b/d.

**PDVSA´s 2008 Budget.
Main Goals**

Production	3.637
Crudes	3.448
NGL	182
Products condensates	7
Exports	2.908
Crudes	2.225
Products	683
Local Sales	1.008
Products	550
Natural Gas	458

Sources: Gaceta Oficial and Ecoanalítica

With these figures, PDVSA expects to receive total revenues (current and capital account) for US\$ 41.04 billion and total spending for US\$ 53.39 billion which would lead to total deficit of US\$ 12.34 billion. This would lead anyone to think that the company will be forced to issue a significant amount of debt quite soon.

The information included in the budget and the 2007 balance sheet, with all its impreciseness and surreal expectations is just another example of the lack of transparency which has characterized the company when it comes time to release its accounts, a problem which also affects all public institutions in general. So it's not surprising to hear that the International Transparency Organization has recently catalogued PDVSA as one of the least transparent oil companies in the world.

At **Ecoanalítica**, we have decided to recalculate PDVSA's budget using figures that are more realistic. We will base the budget on an average price of crude oil of US\$ 81 per barrel and an average export of 2.1 million barrels. Notice that these figures are still quite conservative with regard to current market tendencies. This is done on purpose, and any increase in oil prices or exports can only translate to better year-end results for the company.

A total lack of transparency stands out

A more realistic and favorable scenario is possible

Using our base price for crude oil, estimated total oil revenues would be at US\$ 63.64 billion, more than double what the current budget projects and which would allow for a significant amount to be saved US\$ 10.50 billion. Meanwhile, spending would round-off at US\$ 66.47 billion leading to a much lower deficit than that projected by the current budget of US\$ 2.83 billion.

It's important to point out that our estimated spending figure is significantly influenced by an increase in "non-operation spending," which include refining costs, transportation associated spending, and the purchasing of crude oil and products from third parties. It's quite probable that these figures increase during 2008 given that they have been increasing during the last few years (for example, purchasing crude oil from third parties went from averaging US\$ 22.12 billion between 2003 and 2005, to US\$ 32.97 billion between 2006 and 2007, an increase of 49%).

A more realistic and favorable scenario is possible

General market projections are even more optimistic. Some analysts are expecting the price of a barrel of WTI oil to close 2008 at an average price of US\$ 120, which would lead to an average Venezuelan oil basket price of US\$110.

If we repeat the exercise basing the budget on an average price per barrel of crude oil of US\$ 110, the industry's capacity for current savings increases thanks to total revenues which would reach US\$ 87.59 billion. With spending estimated at US\$ 78.14 billion, this would equal a surplus of US\$ 10.79 billion.

PDVSA. Savings-Investment-Financiamiento
US\$ Millions

Concept	2008 Budget	<i>Ecoanalítica</i>	Venezuelan Basket US\$ 110
Current Account			
Current Income	39.161,4	61.295,2	87.588,4
Operating Income	39.078,4	61.156,3	87.399,8
Other Income	83,0	138,9	188,7
Current Expenditure	37.716,8	50.798,8	62.474,3
Operating Expenditure	12.538,8	17.605,6	19.257,7
Non operating expenditure	25.177,9	33.193,1	43.216,6
Economic Result: Savings	1.444,7	10.496,5	25.114,1
Capital Account			
Capital Resources	3.326,2	12.841,5	26.463,2
Capital Expenditure	15.670,0	15.670,0	15.670,0
Financial Result: Deficit	12.343,8	2.828,5	-10.793,2
Financial Account			
Financial Resources	15.570,8	6.055,5	-7.566,1
Financial Applications*	15.570,8	6.055,5	-7.566,1

Decrease of other liabilities+decrease of accrued results+financial deficit

Sources: Gaceta Oficial and Ecoanalítica

These results would eliminate any need for PDVSA to have to issue debt in 2008. In fact, the company would be in a position to simultaneously satisfy the Governments current three priorities: 1) Increase oil production levels in the short term in order to fulfill the Oil Seeding Plan goals 2) Contribute surplus resources to public sector fiscal management through mechanisms like Fonden 3) Make contributions to social development.

In conclusion, there is no evidence that PDVSA is heading for any cash flow problems this year. Rather, ever increasing oil prices will allow it to continue to handle any financial problems that may arise. Once again, remembering what Rockefeller said, it would be said that the best business in the world would settle for being the second best business in the world, in other words, a poorly administered oil business. PDVSA should take advantage of this golden opportunity to secure the sustainability of its future in anticipation of when oil prices will not be so favorable.

A more realistic and favorable scenario is possible

Economic Tips

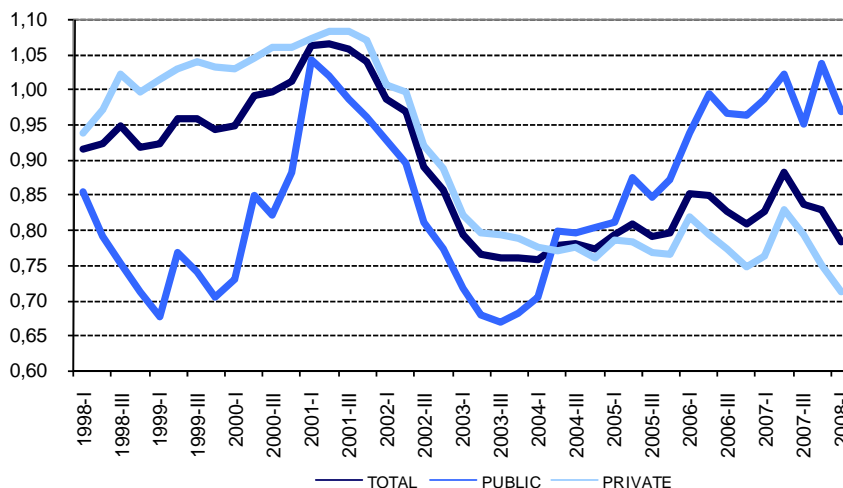
New Argentinean bonds? According to the Argentinean press, Venezuela will purchase around US\$ 500 million in Argentinean bonds with 13% yield. The ministers of finance of both countries met to carry out the purchase. However, nothing was said about this issue.

NCPI per city. The NCPI registered a month-to-month variation of 1.7% in April, to a cumulative variation of 8.9% for the first four months of the year. The cities with the higher point inflation were: Maracaibo 2.0% Barcelona-Puerto La Cruz 1.8%; Mérida, Maturín and San Cristóbal, 1.7%; and Caracas and Maracay 1.6%.

CPI-CMA. The BCV also Publisher the Consumer Price Index for the Caracas Metropolitan Area (CPI-CMA). Incidentally, it behaved in a similar fashion to the Caracas NCPI in April, increasing 1.6%. Therefore cumulative inflation according to CPI-CMA is at 9.9%. The inflationary core also increased by 1.6%.

Slight increase. The Wage-earning Remuneration Index registered a 1.6% increase for the first quarter of 2008, down from the one for IQ-07 (6.8%). This increase was mainly due to the rise of the Food Bonus resulting from the tax unit adjustment and from the fact that some private business increased wages and salaries. Private workers remunerations increased 2.2%, whereas those for public workers increased by 0.5%. However, public sector real wages are higher than those in the private sector.

**Real Wages Index
(IQ-1997= 1,00)**



Sources: BCV and Ecoanalítica

Taxes might be reviewed. Due to the requests by different sectors, the National Assembly is considering to review the Tax on Financial Transactions (TFT) and the Value Added Tax (VAT). In the case of the TFT, impact on saving accounts, civil associations, and small-sized and medium-sized business will be identified and VAT exemptions for different sectors will be analyzed.

Funds for the increase. The president of the NA Finance Commission, Ricardo Sanguino, pointed out that the Executive believes that it will deliver the supplementary appropriation for wages and salaries adjustment in next June. Sanguino suggested that the moneys that governor's offices and mayor's offices have deposited in banks be reviewed in order to determine if they are effectively executing the funds provided by the Central Government.

International Reserves. International reserves decreased by US\$ 70 million in the second week of May in comparison with the prior week, to US\$ 30,895 million.

Interest rates. Lending interest rate for the month of April of the country's six major banks was at 22.62%, whereas interest rate for time deposits averaged 14.08%.

Monetary liquidity. Monetary liquidity was 154.767 million in April's last week, thus registering an increase of 1.55% from the prior week.

OIL TIPS

It's not necessary. The OPEC will not hold an emergency meeting before its ordinary meeting scheduled for September because it considers that the market is properly supplied. Its members are ready to increase production when they are required to.

Historic prices. WTI close at US\$ 121.8/bbl. last Wednesday, surpassing the US\$ 120 bbl. barrier for the first time. This increase is due to the weakness of the US dollar and to the concern about a stop in supplies, after the cutback in Nigeria's production. Two day after, WTI continued to increase, to close at US\$ 124.6/bbl. last Friday.

The week closed with a record high. The Venezuelan oil basket gained US\$ 4.35/bbl., averaging US\$ 105.5 for the first days of May. The average for the year-to-date was US\$ 92.99/bbl., up \$28.3/bbl. from last year's full year average.

Concerning the 2008 Budget Law, so far this year, PDVSA has received export extraordinary revenues for approximately US\$ 16,450 million.

New joint venture. Petroecuador and PDVSA will incorporate a new joint venture this month to build a refinery in which Ecuador will have 51% stake and PDVSA 49%. The refinery will process 300,000 b/d and will cost around US\$ 5.0 billion, which could reach US\$ 10.0 billion if the petrochemical plant is expanded.

The Ministry of Energy and Petroleum explains. The Coordination for Statistics, International Prices and Economy of the MEP, in its weekly report, attributed the price increase to the worries about global supply, the speculative activity in future markets, and the renewed geopolitical unrest in the Middle East and Nigeria. However, the US dollar has started to show signs of recovery, whereas oil and by-product US inventories have remained stable over the last weeks.

At a snail's pace. Pequiven Annual Report shows that development plans of the different petrochemical plants in the country haven't progressed substantially. For instance, the expansion of the fertilizer plant in Morón only progressed 14% in 2007, the expansion of the olefin plant at the Jose Complex increased just 3%, whereas the propylene plant at the El Tablazo Complex only progressed 9%.

Change of operator requested. Eulogio Del Pino, president of the Corporación Venezolana de Petróleo (CVP) and director of PDVSA, announced that PDVSA has proposed its US affiliate to operate the Chalmette refinery, which the Venezuelan oil company shares with ExxonMobil. Rafael Ramírez said that the operator's change was already requested.

Reserves increase. Minister Rafael Ramírez announced at the inauguration ceremony of the 1st South American Energy Council that Venezuelan proven crude oil reserves increased approximately 31%, from 99.37 billion bbl. in 2007 to 130.00 billion as of April 30, 2008. This increase in reserves is the result of the "Magna Reserva" plan, which started in 2006. According to PDVSA estimates, reserves in book will be at 200.00 billion at the end of 2008 and 235.00 billion for next year.

Agreements between Venezuela and China. During the visit of the Vice Prime Minister of China's Council of State to Venezuela, the governments of Venezuela and China signed agreements to create a joint exploration and production venture in an area to be defined in the Junín 4 Block at the Oil Belt. The agreement includes financial and feasibility studies for the construction of a 400,000 b/d refinery to process Venezuelan heavy and extra-heavy crude oil, informed president Hugo Chávez.

And with Portugal too. The governments of Venezuela and Portugal signed 14 economic cooperation agreements during the visit of the Portuguese Prime Minister, José Sócrates, to Caracas. Half of the agreements concern the energy area, with the most outstanding being the 30,000 b/d supply contract to Portugal, which will pay with food in exchange. Agreements were also signed for a joint reserve certification study between PDVSA and Galp Energía and for the incorporation of a gas joint venture.

BUSINESS SECTOR TIPS

Increase in basic product basket. According to the last report issued by Cenda, the basic product basket increased by 1.4% in April, to VEF 2,587.1. The report explains that based on an average family income of VEF 1,229.6, 47.5% of the basket is covered.

Food basket too. Cenda's report shows that food basket also increased 2.1% in April in comparison to March. The higher increases were: fish 14.5%; seeds, oleaginous and leguminous, 12.4%; cereals and derived products, 10.2%; sugar and similar products, 5.3%; food products, 2%; and fruits and vegetables, 0.9%.

CADIVI foreign currency authorizations increase. CADIVI announced that it has authorized more than US\$ 15,000 million in the first four months of the year, up 28% from the same period in 2007. Daily authorizations averaged US\$ 180 million by the end of April.

CANTV's investments. CANTV's president informed that the state-owned telephone company will invest US\$ 360 million in 2008 in GSM mobile phone technology, plus US\$ 200 million earmarked for the overhauling and expansion of the existing networks.

Authorized resources for CANTV's ADS. The National Assembly authorized four supplementary appropriations for VEF 254 million, including VEF 109 millions that will be used to purchase 3.6 million ADS that are still in hands of the US Renaissance Technologies LLC. The purchase increases to 89.43% the stake of the Venezuelan state in the telephone company.

It will keep on insisting. After the Ministry of the Environment denied and environmental permit to begin operations at the Las Cristinas golden mine, Crystallex International submitted a complaint where it alleges that the decision contradicts other environmental and development permits that the company had received before from the same ministry and other government's entities.

70,000 new houses. According to the Minister of Housing, Edith Gómez, housing units that are being built this year amount to 70,000. The Ministry of Housing completed in IQ-08 8.000 houses. The construction of more than 132,000 housing units is scheduled for next years.

Conditions are not the best ones. Fernando Azpúrua, president of the Construction Chamber, pointed out that the development of the housing sector will be guaranteed provided the Government intervenes but without negatively affecting long-term investments.

Mining development. The president of the Association of Venezuelan Steel Industry and Mining pointed out that there are "many interests and opportunities, based on all the development projects in the liquid and gas hydrocarbon sector;" therefore he anticipates a 10% increase of the national steel industry, higher than the 8% reported in 2007.

Substantial recovery. Representatives of the fishing sector highlighted that after trawling was included again in the list of permitted activities, fish supply in the national territory has recovered by 50%.

Medicines shortages again. The president of the Federación Farmacéutica Venezolana (Venezuelan Pharmaceutical Federation) declared that the pharmaceutical sector is facing supply shortages again in 25% of the products, after medicine supply was stabilized earlier this year.

Contracted again. According to CAVENEZ, sales of new cars in Venezuela dropped 7.4% in April with respect to last year's same month. A 16.8% fall in sold cars has been accumulated during the first four months of the year.

Fines for the banks. The Institute for the Defense and Education of the Consumer (INDECU) applied 160 fines to more than 80% of the banks in the country due to delays in the payment or the reimbursement of money concerning bank frauds. INDECU's president expects that with this first wave of fines, the problem of debit and credit card cloning may be solved.

25% to consolidate Socialism. According to the 2007 Annual Report of the Ministry of Planning and Development (MDP), the Government applied 25% of the multilateral loan portfolio to the adjustment of the productive model “toward the establishment of a new economic system.” This represents an investment of VEF 965 million, from entities like the Inter-American Development Bank, the Andean Development Corporation, and the International Fund for Agricultural Development.

For those who were excluded. The Ministry of Labor and Social Security will submit the MPD a study on the sectors that were excluded from the general wages and salaries increase for the public administration, such as doctors, teachers, and members of the social mission, so that they can also be benefited from the measure.

Only one third. According to a report by the Integrated Social Indicators System for Venezuela (SISOV), the Venezuelan Social Security Institute (IVSS) covered 31.2% of the active population last year, which represents an increase of 2.3% in comparison with 2006. With this figures, almost 2.9 million of people that are able to work are covered by the governmental institute.

Deceleration in the real estate sector. The president of the Cámara Inmobiliaria de Venezuela (Venezuelan Real Estate Chamber) pointed out that the real estate market in Venezuela slightly slowed down in IQ-08, in contrast to last year's boom, due to the increase in the price per square meter and to the recent announcements of nationalization of some businesses. He also said that real estate offer has shrunk as a result of the increase in the cost of construction materials.

Delays. The president of the Fondo Intergubernamental para la Descentralización (Government's decentralization fund) (FIDES) pointed out that according to the first assessment of the investments made through the Fund in the different regions of the country, some entities haven't disbursed all the funds they have received. Therefore, measures are going to be taken for the different institutions to use the resources and complete the projects. If agreements aren't reached, the projects would be handed over to community councils.

Increase in construction supplies. The Construction Price Index, published by the BCV, registered an increase. The wholesaler index and the producer index grew 20.2% and 22.8%, respectively, over the last 12 months.

Included in the payroll. The Minister of Basic Industries and Mining (MIBAM), Rodolfo Sanz, informed that 1,000 new workers were included in SIDOR's fixed

payroll, pointing out that there are not “first-class or second-class” workers, because all of them work here the same.

SENIAT requests information on savers. The Bank Superintendency (SUDEBAN), upon request by SENIAT, sent a communication last April 28th to all financial institutions requesting a list with those customers that have monthly balances over VEF 200,000. The list should bear the identity card number and details of all transactions (dates and amounts). Banks’ representatives have claimed that his information is very sensitive and that it can only be delivered in specific cases as part of ongoing investigations.

The telecommunications sector too. SENIAT also requested the companies of the telecommunications sector to include identity card number, telephone number and e-mail address in the information they have about their customers. According to SENIAT, this information will be used to “perfect the supervising activity of the institution, guaranteeing that it will be used only for tax purposes.”

Beef production increases. The Vice Minister for Agricultural Economy, Richard, Canán, informed that national beef production has increased and that it will amount to 480,000 tons this year. Therefore, only 100,000 tons of beef will have to be imported.

At very low levels. Roger Figueroa, president of the Camara Venezolana de Industrias Lácteas (Venezuelan Chamber of Dairy Industries) (CAVILAC), informed that pasteurized milk production in the country is at its lowest level, below 100% of the industry’s installed capacity. Although raw milk prices was adjusted recently to VEF 1.50/liter the industry has to pay VEF 1.80/liter at factory gate, whereas the final product price is still regulated at VEF 2.40/liter.

Proposal. CAVILAC presented the Executive with the sector’s cost structure which proposed a pasteurized milk price adjustment to VEF 4/liter. They pointed out that this price will allow them to buy raw material, compensate for costs, and obtain a 5% profit. This will guarantee supply in the regular marketing channels.

Fund for the informal sector. The Commission of Social Development of the National Assembly is studying a reform to the Social Security Law, which includes the idea of setting up a fund to guarantee pension and severance payment for the informal sector workers. The fund will be financed by the State.

Political Tips

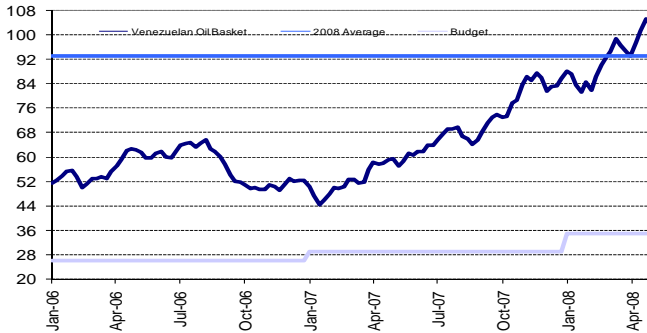
The alliance support is significant. Small parties of the *chavista* alliance, like PPT, PCV, UPV, MEP, Gente Emergente, among others, think their inclusion is vital for the *chavismo* to win next November's election. But tensions between those parties and the PSUV have intensified, which makes the alliance more difficult.

False files. President Hugo Chávez again put relations with President Uribe under strain after he called the Colombian president "irresponsible, liar and manipulative" and said that the content of the files found in the laptops seized from FARC's Raúl Reyes was false. Chávez repeated that this is a "show" organized by the US and Bogotá.

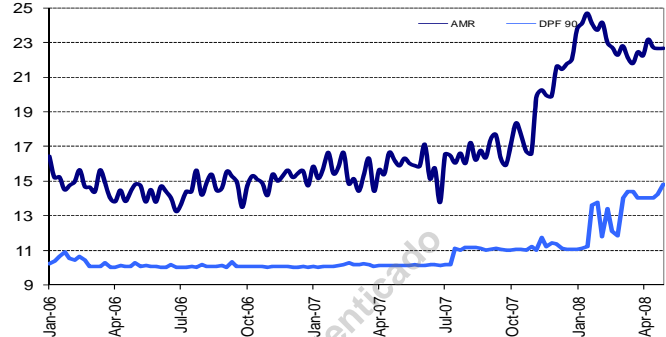
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ECONOMIC OVERVIEW

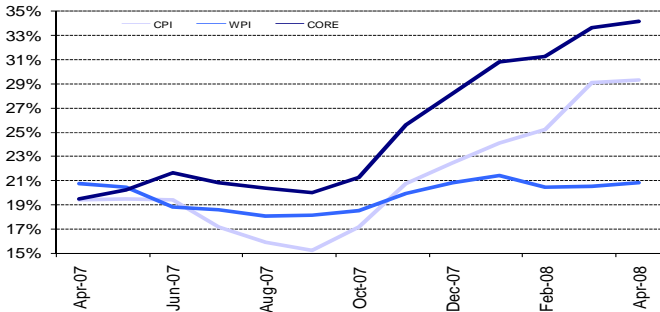
Oil Price
(Venezuelan Basket US\$/pb)



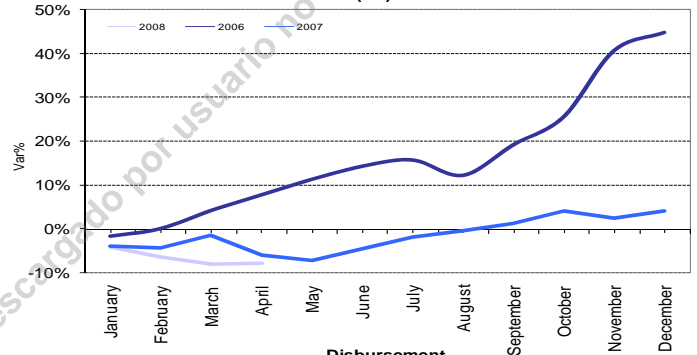
Interest Rate
(Six Principal Banks)



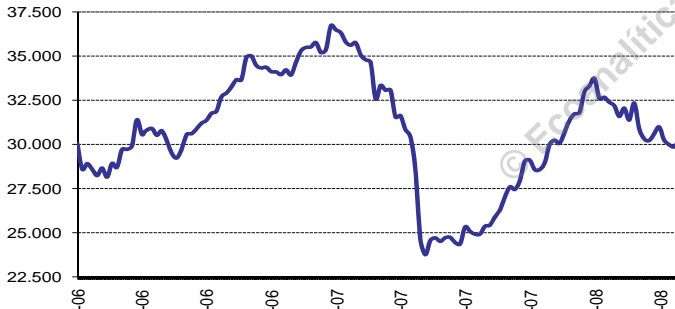
Inflation
(Last 12 Months)



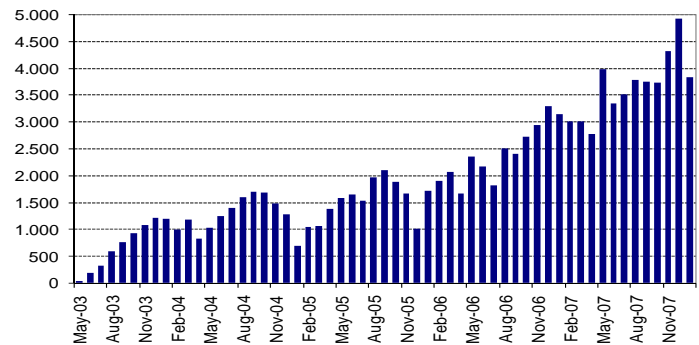
Real Expansion
(M2)



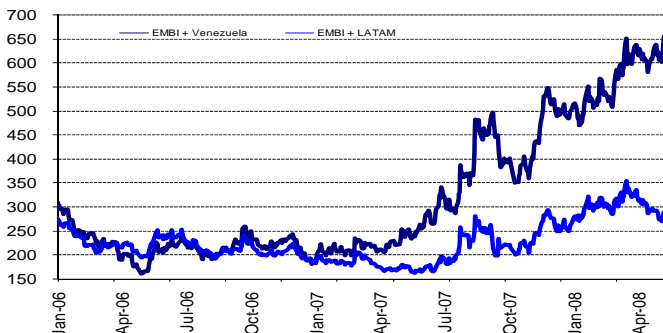
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

