



Year 2, Number 14  
April 24th, 2006

**Redaction:**  
Alejandro Grisanti  
Miguel Goncalves

**Editors:**  
Gabriel Dobson

*Excess liquidity will continue creating downward pressure on interest rates. Credit expansion will extend into 2006.*

Reproduction and distribution prohibited out of the terms between ECOANALITICA C.A. and

**EL CLIENTE**

### **Strong increase in liquidity to continue**

Exchange controls, combined with the huge fiscal expansion, will continue to produce a strong increase in liquidity. Money supply at April 7, 2006 totaled VEB74.6 trillion, a 6.8% increase this year or 54.9% since the same time last year. Likewise, high powered money (monetary base) grew to VEB24.3 trillion, a 5.3% rise this year and 42.8% in the last 12 months.

### **Liquidity has been kept down because of exponential growth of absorption operations.**

Despite the fall in the interest rate paid by the Central Bank on its absorption operations, at March 24 the Bank had issued credit instruments for VEB 32.3 trillion, up 6.3% this year and 195.9% in the last 12 months. The next chart shows the exponential growth of Central Bank restrictive operations as a percentage of monetary base since early 2003 with the implementation of exchange controls. Absorption operations have grown from less than 10% in January 2003 to 136.1% of the monetary base in March this year. On this point we think it is reasonable to ask the Bank: If exchange controls are a

# Weekly Report

permanent policy and the oil price is going to continue financing fiscal expansion, what other policy instruments have been defined to drain excess liquidity? **Ecoanalítica** does not have the answer, but we strongly advise against increasing the absorption operations in the hands of the monetary authority.

**Absorption Operation by BCV**  
(% Monetary Base)



**The strong expansion of liquidity will keep pushing interest rates down**

In early February, the Central Bank cut interest rates on its 28-day absorption certificates from 11.5% to 10.0%, eliminated 56-day certificates and introduced a new term: 14 days at 9.25%. Since that date, the Central Bank has maintained the discount, rediscount, repo and advance rates at 28.5%. With this measure, **Ecoanalítica** forecasts a sharp fall in lending rates since the banks will have to create incentives for credit to avoid placements at a lower return in the Central Bank. The average lending rates of the six main banks for week ended in April 7, 2006 dropped to 13.83%, the lowest since the Central Bank started keeping records.

**Deposit rates fall almost to their legal limits.**

The average 90-day deposit rate fell from 10.48% in January to 10.03% in the first week of April, only three basis points above its 10.00% floor, while the savings rate averaged 6.90%, the lowest since the introduction of the 6.5% minimum rate. Time deposits not destined for intermediation produce losses. If the banks have to pay 10% interest after deducting costs, that money will have to be placed at

11.5% at least to begin to generate a return, so placements with the Central Bank would produce losses.

**Falling rates have led to an upturn in demand for credit without affecting deposits, which simply do not have freedom to move because of exchange controls.**

The lower interest rates have produced a notable upturn in credit demand. Lending increased 75% in the last 12 months. Consumer loans and loans regulated by the executive have grown explosively. These items include vehicle loans, up 225.5%, followed by mortgage loans (208.6%), microcredits (80.3%) and credit cards (75.5%). However, despite the low interest rates, deposits in the financial system plus ceded investments also grew a hefty 68% in the last 12 months simply because the capital deposited in the financial system has nowhere else to go.

**Still a good time to borrow**

It is not difficult to forecast that most of the distortions in the financial markets are not going to go away in the short and medium term, which will keep interest rates at relatively low levels. In this scenario, the best alternative for the private investor is leveraged acquisition of highly liquid assets with a reasonable return which keep their value over time. In view of the current political conditions, this strategy seems to be the best option for a long-term investment that involves large amounts of fixed assets.

## Economic Tips

**The government is preparing a debt issue.** The Finance Ministry sent the conditions for a debt issue up to VEB3 trillion (US\$1.40 billion) to the National Assembly Finance Committee. When the committee approves the conditions, the government may issue domestic or foreign debt. As always happens in these cases, the prospectus is very broad so it is impossible to say what type of operation the executive has in mind.

**An issue in dollars or euros but payable in bolivars cannot be ruled out.** The government could use these funds to continue the domestic and foreign debt restructuring program. However, the amount requested (US\$1.40 billion) seems insufficient given the latest placements and the excess liquidity.

**Repurchase going smoothly.** The Ministry reported that it had completed 75% of the US\$3.90-billion repurchase operation of Brady bonds maturing in 2020 in a plan to

reduce the total foreign debt balance. The Ministry reported transfers of US\$1.64 billion, EUR473.2 million and 59.20 million Swiss francs for the first payment for repurchase of Par and Discount Bradys announced in February. According to the minister, this operation will save the Republic US\$676 million in debt service in 2006 and US\$4.73 billion on the balance of total public debt. Since March, the government has also been making early repayments of US\$700 million on loans with multilaterals, especially the World Bank.

**SENIAT crackdown a success.** In the first quarter of the year, SENIAT receipts grew 50.2% to VEB12.2 trillion. With income tax receipts increasing 83.4% to VEB5.2 trillion, the crackdown on evasion is definitely giving positive results.

NATIONAL TAX COLLECTION		MARCH		
(Bs.Billions)	2006	2005	Var %	Var % Real
<b>TOTAL</b>	5.972	3.890	53,5%	36,9%
<b>Income Tax</b>	3.517	2.028	73,4%	54,7%
<b>Tax</b>	1.882	1.304	44,3%	28,7%
Wholesale	1.202	845	42,3%	26,9%
Imports	679	459	48,1%	32,0%
<b>Customs</b>	456	279	63,1%	45,4%
<b>Others Incomes</b>	118	88	34,1%	19,5%
<b>Debit Tax</b>	0	191	-	-
NATIONAL TAX COLLECTION		JANUARY- MARCH		
(Bs.Billions)	2006	2005	Var %	Var % Real
<b>TOTAL</b>	12.204	8.125	50,2%	33,4%
<b>Income Tax</b>	5.153	2.810	83,4%	62,9%
<b>Tax</b>	5.276	3.858	36,8%	21,5%
Wholesale	3.696	2.670	38,4%	23,0%
Imports	1.579	1.188	33,0%	18,1%
<b>Customs</b>	1.140	707	61,2%	43,2%
<b>Others Incomes</b>	312	244	27,7%	13,5%
<b>Debit Tax</b>	324	507	-36,2%	-43,3%

**Fiscal management to 1Q06.** According to sources in the National Treasury, the central government in the first quarter of the year received fiscal revenue of VEB20 trillion with a very high execution of public expenditure of around VEB30 trillion, representing 30% execution of the VEB100.2 trillion budgeted, including additional credits. At this rate central government fiscal expenditure looks set to go over VEB150 trillion in 2006.

**Transfer to FONDEN.** On March 31, the first transfer of US\$1.40 billion was made from the international reserves to FONDEN. However the level of reserves was virtually unaltered because of a positive injection of the same size before the transfer. As of April 11, the reserves totaled US\$31.45 billion. The FONDEN balance was US\$10.00 billion with an extremely low execution rate of around 12%.

**Change in legal reserve.** The Central Bank included financial market funds (formerly liquid asset funds) in the financial institutions that have to maintain a minimum reserve with the issuing authority. Money market funds have now been incorporated into the rest of the financial system in order to avoid granting privileges or legal advantages to some institutions and not others.

**Creative Maza Zavala.** Central Bank director Domingo Maza Zavala said that if the government wanted to improve the financial position of the Central Bank "it should provide it with public debt instruments to compensate for the funds transferred to the Executive." The instruments would be used in monetary policy to replace the certificates of deposit. The Central Bank is studying a series of additional measures to improve its capital, but they cannot be revealed until the final decisions are taken, he added. These statements reveal the director's concern about the capital loss caused to the Central Bank by the transfer of reserves to the central government, and the strong expansion of liquidity which is not backed by international reserves.

**More from Maza.** The director believes that the balance of payments will end this year with a surplus of about US\$5.00 billion. Economic growth in the first quarter of 2006 was over 7.9%, which he believes is evidence of the development of manufacturing industry, construction, services and commerce, among other sectors. The economy would grow this year between 6% and 8% of GDP.

**Major error.** BIV President Luis Quiaro revealed that the Finance Ministry is interested in buying a majority block of shares in a Bolivian bank. It was initially expected that the BIV would open a branch in Bolivia but Quiaro explained that the acquisition of an institution in that country would make the presence of the Venezuelan government felt more quickly. The official did not reveal which financial institution the ministry has in its sights or how much it would offer for the shares. On repeated occasions we have signaled our rejection of public ownership of financial institutions, which usually produce large losses and are sources of corruption.

## Oil Tips

**PDVSA repurchase ends.** PDVSA reported that it had concluded the repurchase of the US\$83 million that remained in the hands of the public. These securities obliged the oil company to file regular audited financial statements with the US Securities and Exchange Commission (SEC). PDVSA's current balance of consolidated foreign debt is US\$3.17 billion, down from US\$8.43 billion on December 31, 2001. PDVSA Finance no longer has any financial instruments registered with the SEC. After filing its 2004 results in May, PDVSA will withdraw from the SEC as CITGO did last month and will no longer be obliged to present audited financial statements. From now on, it will be more difficult, not to say impossible, to know the financial position of our leading company.

**No more numbers but more finance.** PDVSA Finance Director Eudomario Carruyo said that the holding was interested in obtaining finance from international banks to leverage its 2006-2012 business plan. The business plan requires an investment of US\$70.00 billion.

**ENI pays up.** Tax superintendent José Vielma Mora said that SENIAT would not execute the embargo against Italian oil company Eni Dación because the company was negotiating payment of the income tax assessments for 2001 and 2004. Vielma added that the company tax debt totals VEB147.60 billion. SENIAT also reported that Total and Chevron had paid up to date.

**SENIAT loses out.** The National Assembly finance committee approved the new VAT Law as submitted by the Ministry of Energy. A rate of 0% will apply to hydrocarbon sales by joint ventures. The provisions establish that the joint ventures will be responsible to the tax authority for recovering the tax, not PDVSA.

**Savings and staff cuts after operating agreements.** According to PDVSA President Rafael Ramírez, the migration of the operating agreements to joint ventures will save PDVSA US\$3.00 billion annually, of the US\$4.00 billion annually that was paid to the 32 agreements to produce between 450,000 and 500,000 barrels a day. The migration process will include staff cuts, in addition to other operating economies generated by unifying adjacent fields.

**The Belt – next on the list.** After concluding the chapter of the operating agreements, the government is now preparing to set new ground rules for the Orinoco Belt strategic associations. Minister Ramírez has said that no more blocks would be granted in the

Belt until the companies adapt to the new Hydrocarbon Law, which increases income tax to 50%, royalties to 30% and gives the State a majority interest in the companies. In **Ecoanalítica's** opinion, the functioning of the new joint ventures should be tested before migrating the strategic associations in the Belt.

**Citgo plans to sell refinery.** Citgo and Lyondell Chemical signed a letter of intent to explore the sale of the refinery that they operate jointly in Houston. The refinery has a processing capacity of 268,000 barrels a day of crude. The value of the refinery, opened in 1993, was not revealed but analysts estimate that it could be around US\$4.50 billion. Citgo holds a 41.25% interest in the installation, while the majority is in the hands of Lyondell Chemical.

## Sectoral Tips

**Slim starts the process.** Telmex and América Móvil, both owned by Carlos Slim, are planning to buy 28.5% of CANTV from Verizon. Representatives of the two companies filed the formal documentation for the operation with the Venezuelan Securities Commission, which also requires approval from Pro-Competition and CONATEL.

**The MERCAL phenomenon.** According to figures from Datos, Mercal now has a 46% share of the domestic market covering all social classes, especially D and E. Venezuelans spend most on consumer products, food and non-alcoholic beverages, followed by payments for housing, transport and recreation.

**Food sector grows.** Figures from the Datanálisis consulting firm show that in the first quarter of this year food consumption grew 9% from the same period last year. The increase was not only in volume but also in the number of meals a day which Venezuelans eat. In 2003, 34% of the population said that they did not have three meals a day; this figure has now dropped to 20% which reveals a fall in extreme poverty.

**More money for home building.** The government said that the Housing Ministry would receive VEB10.6 trillion this year for home building, considerably more than the initial VEB6.0 trillion appropriation. State home building programs have been slow and inefficient because the private sector and decentralized bodies are excluded.

**Still going up.** Car sales in Venezuela totaled 24,637 units last March, 63.4% above March 2005. Sales in the first quarter grew 66,262 units, up 55.4% from the same period of 2005.

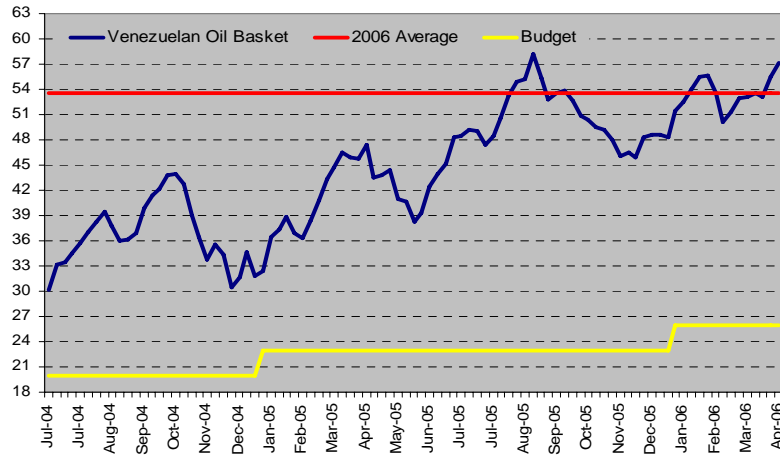
## ***Weekly Report***

**Sivensa buyback.** Sivensa agreed to repurchase up to 15% of its equity for US\$24 million, which has been held by creditor banks since 2002 when the company restructured its financial debt. The company will finance the operation, on a six-month term, with a US\$19-million loan from Deutsche Bank and its own funds. The repurchase is part of a new agreement to refinance US\$113.5 million of the financial liabilities of the company and its Sidetur subsidiary, including a US\$100-million bond issue.

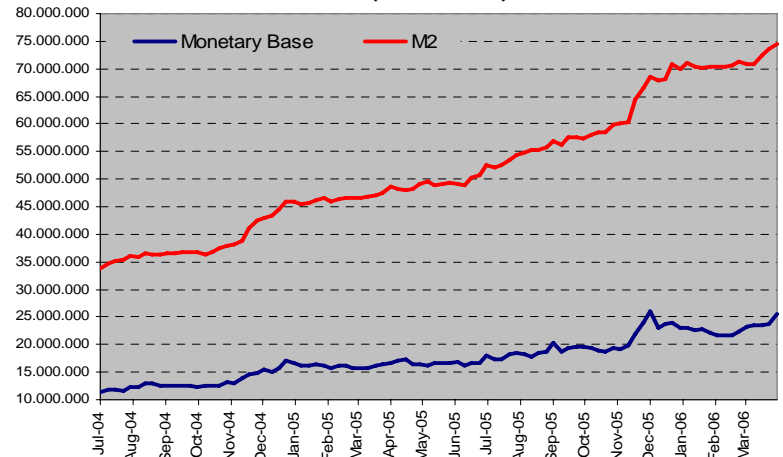
© Ecoanalítica – Descargado por usuario no autenticado

# ECONOMIC OVERVIEW

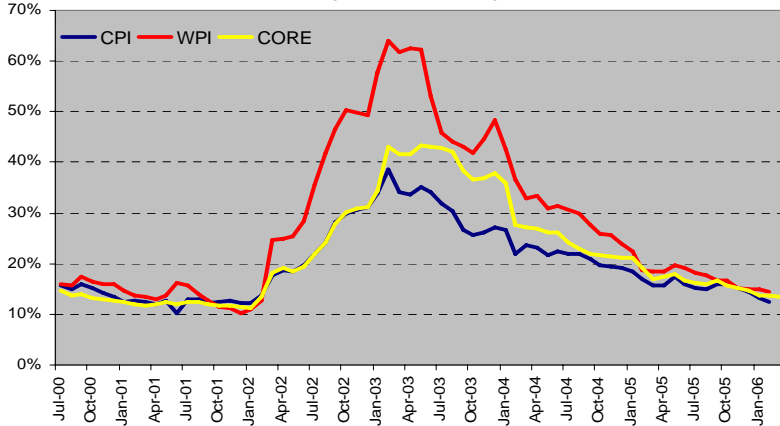
**Oil Price**  
(Venezuelan Basket US\$pb)



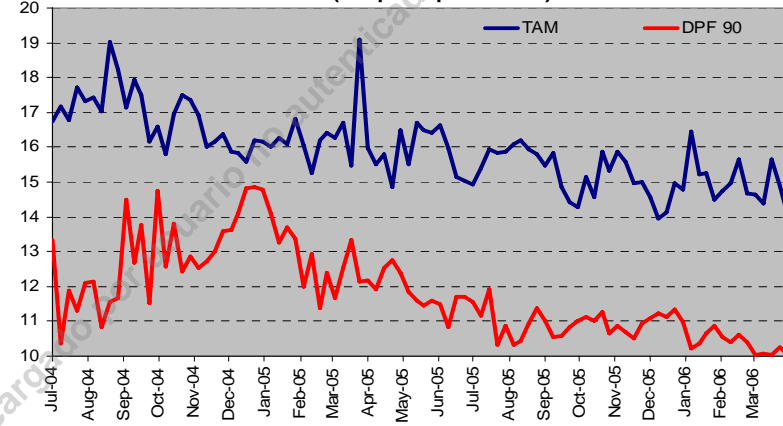
**Monetary Base & M2**  
(Millions Bs.)



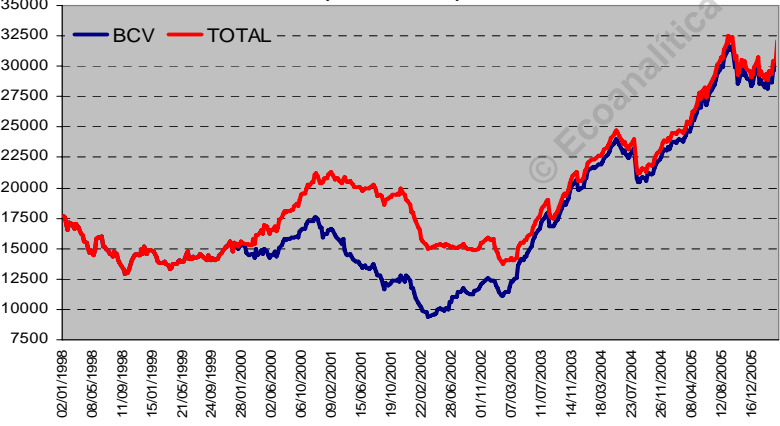
**Inflation**  
(last 12 months)



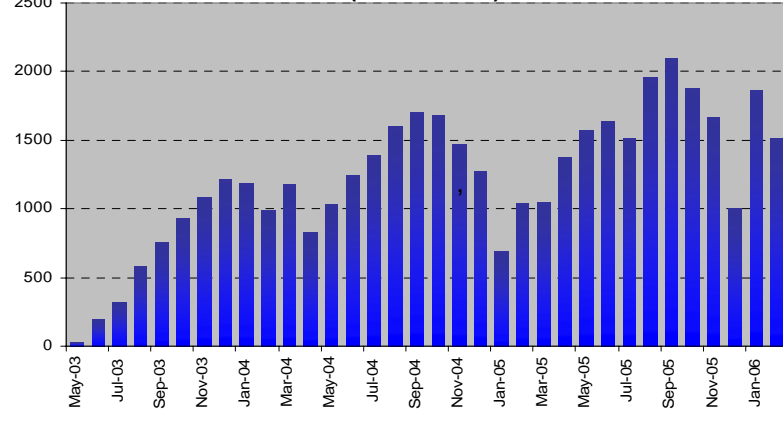
**Interest Rate**  
(Six principal Banks)



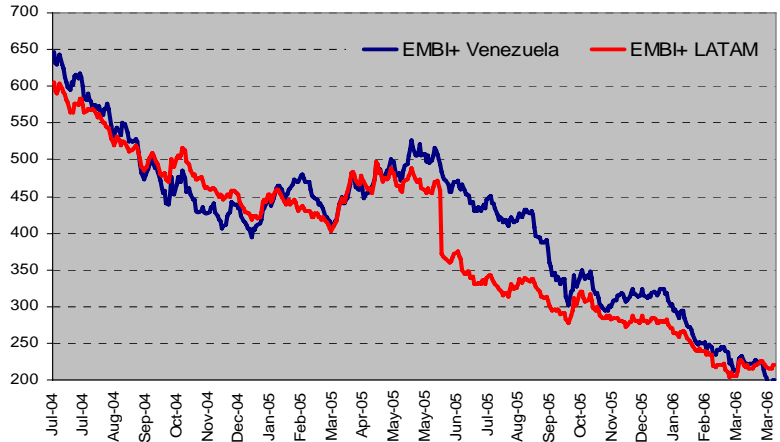
**Fx Reserves**  
(Millions US\$)



**Disbursement**  
(Millions US\$)



**EMBI**



**Central Government**  
(Billions US\$)

