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OPPOSITION'S ELECTION STANCE DEFINED. VICTORY LOOKS UPHILL.

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THE CLIENT

With just three months to go before the presidential elections, the main players of the opposition reached a consensus and the Governor of the country's most important state (Zulia), Manuel Rosales, is to be their candidate against President Hugo Chávez. This is the most important step taken by the opposition since the referendum on Chávez' continuance in power, which incidentally took place exactly two years ago. It is unlikely that two years full of blunders by the opposition will be corrected in just three months, but Latin American politics are anything but predictable, so who knows?

The opposition joins forces behind a single candidate who leads off with 28% of the popular choice

The main forces of the opposition at last came to an agreement and decided that Manuel Rosales, Governor of the main state of the country will be the man to face President Hugo Chávez. The naming of Rosales precludes the primaries, since the pre-candidates have declared their support for the Governor.

The candidate starts with 28% of the voters' choice, which includes the 15% he held before the withdrawal of the other pre-candidates. His main contenders had been Julio Borges and Teodoro Petkoff, with respectively 10.4% and 3% of the popular vote. The votes of the other two pre-candidates will likely migrate in a large percentage to the sole candidacy since this segment of the population is very flexible within its "anti-Chávez" posture.

**Who is Manuel Rosales?
What are his strengths
and weaknesses?**

Manuel Rosales is a 54-year-old Venezuelan, married with 6 children. The Governor graduated from college but did not complete his university studies. He was internal auditor for the Colón Municipality Council, town councilor for the Colón Municipality, Santa Bárbara del Zulia between 1979 and 1982 and chief deputy of the Legislative Assembly of Zulia State between 1983 and 1994. In 1996 he was elected Mayor of the City of Maracaibo and in 2000 and 2004, Governor of Zulia State.

The Governor enjoys a positive image in the eyes of the public (way below Chávez, however), and is one of the very few people among the opposition who has repeatedly won head-to-head against Chávez candidates, apart from having done a good job running his state which is the most important state, electorally speaking. On the downside, he is a candidate that can be associated with the past, specifically Acción Democrática, a political party that has heavily lost favor in the country. He also signed the Carmona decree. But in spite of this, the choice of Rosales means there is a glimmer of light at the end of the tunnel for the opposition.

**A single candidate.
Meanwhile, however, it
is not a sole candidacy**

Although an important step has been taken, the sole candidacy is nevertheless a long way off. Towards the end of July, the comedian Benjamin Rausseo, better known as "er Conde del Guácharo", threw his hat into the ring as an anti-politician, usually very fertile ground in our country. Let us not forget that Chávez himself used this strategy to win the presidential sash for the first time in December 1998. The appearance of Rausseo has caused a lot of comments in the media, but the real impact will not be felt until the end of August or beginning of September when the serious pollsters start to publish their numbers. However, contrary to what the middle class may think, **Ecoanalítica** believes that the Conde is not a candidate that will move the masses.

First challenge for the Governor and the opposition: reduce abstention in the opposition group

The opposition candidate needs to convince an important sector of the population whose current intention is not to vote because of their distrust of the National Electoral Council (CNE). This sector represents 15% of all voters. Their distrust was born with the voting automation system and lack of auditing of the recall referendum (RR). To date nobody can certify the numbers presented by the CNE for the RR. However, the opposition has to move on. Abstention has been the reason for Chavism being in control of 90% of the local governments, 85% of the municipalities and 100% of the National Assembly. These electoral processes have been audited and no fraud whatsoever was detected. This attitude has not unlegitimized anybody, since even international public opinion has been witness to the polls ahead of each process. Abstention has been a serious mistake on the opposition's part and it has to be corrected.

Second challenge for the Governor and the opposition: convince the Chavistas to vote for him

Governor Rosales also has to convince an important percentage of Chavistas to vote for him. At the beginning of August, President Chávez held an intention to vote rating of over 50%. This intention to vote will be difficult to overcome in view of the high oil prices and their positive effect on the economy and on the people's standard of living. The accumulated errors of the opposition over the last few years will not be easily forgotten, but that is the road that has to be taken.

Third challenge for the Governor and the opposition: stick together after the December elections

Although the main objective of any candidate in an election is to win; it is necessary to rescue the idea that one can win, losing. The levels of freedom that would be handed to the President to advance with his revolutionary process will be far greater if the result of the elections is 8 million to 2 million in favor of the President, as opposed to a scenario of 6 to 4 in favor of Chávez. We are not saying here that the opposition has no chance of winning. What we do have absolutely clear is that the opposition has to compete and stick together after the December elections until such a time as they have a huge majority that will allow for a change of government.

To conclude, with the presidential elections just three months away, Manuel Rosales needs to create hope in the voters, neutralize the calls for abstention and attack the President on his weak points. Although the task looks very uphill, nothing is impossible in the political environment of Latin America. However, if these objectives are not fulfilled this year, it will be necessary to keep active until achieving the majority of the votes of the Venezuelan population.

Economic Tips

Exchange earnings. The BCV presented its Statement of Results for the first half of 2006, with earnings of VEB 15.511 billion, of which VEB 13.184 billion (US\$ 6.1 million), exchange profits, corresponds to the Executive. According to the BCV, expenditure attributable to monetary policy was VEB 1.7 trillion, a significant increase with respect to the monetary policy expenditure for the first half of 2005 which was VEB 0.6 trillion..

Zero losses. On the other hand, the Balance Sheet closed June with an accrued result in operations of zero, which contrasts sharply with the accrued losses through May of VEB 157.540 billion. However the BCV's equity decreased by VEB 293.284 billion between May and June. It should be noted that the BCV continues to record as assets the resources transferred to FONDEN for the equivalent of VEB 12.5 trillion (US\$ 5.792 billion). Nevertheless, to date the BCV has transferred about US\$ 10 billion in foreign currency to FONDEN.

Everything set for the Southern Bond. The Finance Commission of the National Assembly approved the financial conditions for the issuing of the Southern Bond. With such approval the Government has full powers to participate in the sale of securities together with Argentina, on the local market. At *Ecoanalítica* we believe that in view of the design of the joint bond, the issue may be going on the market in mid-September. It will be offered as a combo of 50% TIF bonds of national public debt in Bolívars maturing between 2016 and 2020, and 50% BODEN-type Argentinian bonds maturing between 2012 and 2015. The bonds must be bought in combination.

No shared risk. In regard to the risk and in spite of being a joint bond, each country will be responsible for the issuing of its paper, and therefore each one will pay the bearers separately. Hence the role of Venezuela will be to offer its market and that of Argentina to take advantage of our exchange differential. On the other hand, we believe that the issue will be for a total of US\$ 2 billion, with US\$ 1 billion being Argentina's and the other US\$ 1 billion (VEB 2.2 trillion) Venezuela's.

July tax collections. The SENIAT collected VEB 3.8 trillion in July, a real increase of 7.5% in respect of July 2005. What is surprising about the numbers is that real growth in VAT collections was almost zero, when this has to date been the most dynamic tax.

Good numbers. So far this year SENIAT has collected VEB 29.4 trillion, with income tax being the biggest contributor at 41%, followed by VAT at 31%. It is not impossible that SENIAT's 2006 collections amount to more than VEB 57 trillion, which would represent 16 GDP points, in other words 3.4 points more than what was collected in 2005.

NATIONAL TAX COLLECTION		JULY		
(Bs. Billions)	2006	2005	Var %	Var % Real
TOTAL	3.793	3.109	22,0%	7,5%
Income TAX	1.345	786	71,1%	50,8%
Tax	1.263	1.103	14,5%	0,9%
Customs	1.060	902	17,6%	3,6%
Others Incomes	125	105	19,4%	5,2%
Debit Tax	0	214	-100,0%	-100,0%

NATIONAL TAX COLLECTION		JANUARY-JULY		
(Bs. Billions)	2006	2005	Var %	Var % Real
TOTAL	29.374	20.890	40,6%	25,4%
Income TAX	11.968	6.621	80,8%	61,3%
Tax	9.066	6.891	31,6%	17,3%
Customs	7.180	5.364	33,8%	19,4%
Others Incomes	837	671	24,7%	11,2%
Debit Tax	324	1.342	-75,9%	-78,5%

Sources: SENIAT and Ecoanalitica

BANDES results. In its June balance sheet, investment in securities surprisingly amounts to VEB 7.4 trillion, and trust funds are held for about VEB 14.8 trillion. The net result was VEB 55.415 billion.

BNT too. In the case of the Banco del Tesoro, trust funds held amount to VEB 30.1 trillion and the net result is VEB 3.275 billion. Investments in securities amount to VEB 183.848 billion.

A lot of money available. Thus, trust funds handled by BANDES and the BNT amount to VEB 44.9 trillion (US\$ 20.884 billion), which leads us to believe that spending over the next few months will remain high.

Oil Tips

Price up again. The Venezuelan oil basket was up US\$ 1.44 to US\$ 65.81 per barrel. So far this year the basket has averaged US\$ 58.45 per barrel, while in August it has registered an average price of US\$ 65.31.

Production down. According to the IEA, Venezuelan oil production declined by 100,000 barrels per day during July to 2.4 million barrels per day. The IEA also pointed out that Venezuela had no excess extraction capacity.

More drills. PDVSA has contracted 13 companies to erect 20 onshore and 7 lacustrine rigs for a total cost of VEB 4.3 trillion (US\$ 2 billion), thus raising the total of active rigs in the country to 140. It is important to note that the contracts which were previously for two-year periods are now upped to five years.

Delay likely. However, a May 2006 report by Franks & Franks on rig activity indicates that there are 92 active rigs in the country, out of a total of 129, with 33 inactive or dismantled. Furthermore, the construction of oil rigs is by no means an easy task, since there is a world-wide shortage of drills and the service companies no longer accept two-year contracts. So it was not PDVSA that imposed minimum five-year contracts, but rather the companies themselves due to the shortage of equipment. On top of the shortage of equipment, there is also a shortage of spares. There is a three-year waiting list for new rigs and repairing the ones that are turning into scrap iron takes about a year.

PDVSA announces sale. Rafael Ramírez announced the sale of Venezuela's 41.3% share in Citgo's Liondell refinery for US\$ 1.314 billion. The buyer will be Liondell itself, ex-partner of PDVSA.

Gas development sought. The MENEP opened a public offer for 4 blocks in La Blanquilla and Punta Pescador for the offshore exploration and production of natural gas, as part of the Delta Caribe project. The MENEP invited 34 international oil firms to participate. The investment plan will contemplate a 70% participation of PDVSA in La Blanquilla Block A (the most advanced in terms of seismic studies) and it is keeping 35% in the remaining three areas. Announcement of the winners is scheduled for October 28 and the handing over of licenses for November 21.

Sectoral Tips

Auditing complications. According to the National Superintendent of Cooperatives, Carlos Molina, cooperatives are being incorporated without sufficient control, apart from the fact that his Superintendency (SUNACOO) is not in condition to audit the 136,740 associations registered in Venezuela. To date, the main irregularities found are: little transparency in the handling of funds, problems in the declaration and control of expenditure records, and non-compliance with their objectives.

Another issue on the way. EDC is to make its fourth share issue of the year, and a fifth is also possible, according to its President, Julián Nebreda. It should be noted that the shareholders' meeting of the beginning of this year ordered the company to increase its capital by 5%, and so far it has done so by 4.55%. The two public issues raised 4% of the capital increase and purchase by the employees half a point, therefore a new issue through this payroll plan is likely, in order to contribute the remaining 0.5% to comply with the goal set by the meeting. Nevertheless, a new public issue is not ruled out.

Installed capacity rises. The INE reports that the installed capacity of the manufacturing sector rose to 77% at the close of the first half, according to Encuesta Industrial Cualitativa. In the previous period the level of occupation was 72%. In the period analyzed, improvement was observed in sector variables such as production volume, occupied capacity, investment in fixed assets, order portfolios and financial resources, all of which will tend to improve the panorama of the next quarter.

Good prospects for the technology market. According to sources of the sector, 600,000 desktop computers will be sold this year, 100,000 more than in 2005. Similar figures of 4 desktops for every laptop were reported.

Social programs to be launched. CONATEL announced its new National Telecommunications Plan, establishing access to IT technology as a human right that it will now "have a truly social meaning." One of the most powerful criticisms of CONATEL is that the opening of the market has not translated into a democratization of telecommunications services. For this reason, regional rather than national concessions will be granted for mobile telecommunications services, and only in accordance with the operator's capacity to guarantee that the area will be completely covered.

Weekly Report

Black mark. Another mention made by CONATEL is that from now on, concessions for mobile telephone services will not be carried out through a bidding process, but by direct adjudication. This lowers the level of transparency of these operations and the auditing of the economic agents, and could well affect the quality of the services rendered.

The small operators are coming. The Interconnection Regulations are also to be altered, incorporating small, regional and organized community operators, in order that, together with an operator that provides them with a connection to the public network, they can satisfy the service needs in those areas of the country that so far have none.

Ron Santa Teresa too. Ron Santa Teresa announced the issue of a first series of commercial paper for VEB 5 billion (US\$ 2.3 million). The papers mature at 180 days and offer 10.25%, with a minimum order of VEB 1 million.

Numbers do not square up. According to insurance sector data, 70% of the collective insurance policies cover employees of the public sector, thus contradicting the Government's declarations against the private health insurers. In fact, collective policies grew by 60% between 2004 and 2005 and now represent 30.3% of the total insurance market.

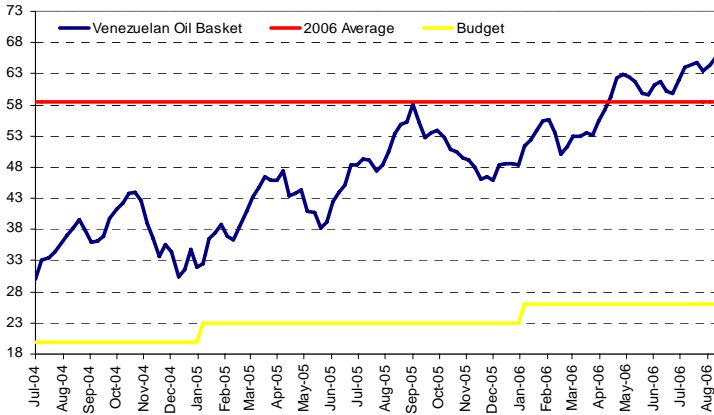
Political Tips

CNE approves fingerprint machines. The directors of the CNE decided, four votes to one, to use fingerprint machines during the presidential elections, to guarantee the principle of "one man, one vote." However, sources at the CNE pointed out that as the campaign progresses the measure could be reconsidered.

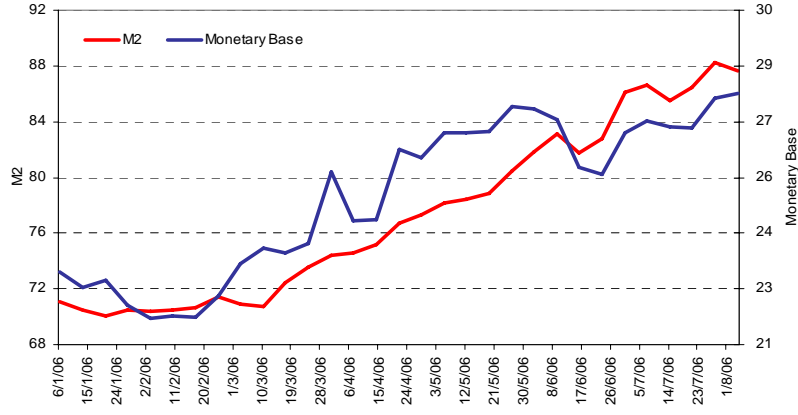
Cilia Flores president. Deputy Cilia Flores has been appointed president of the National Assembly. Desiree Santos Amaral will remain first vice president.

ECONOMIC OVERVIEW

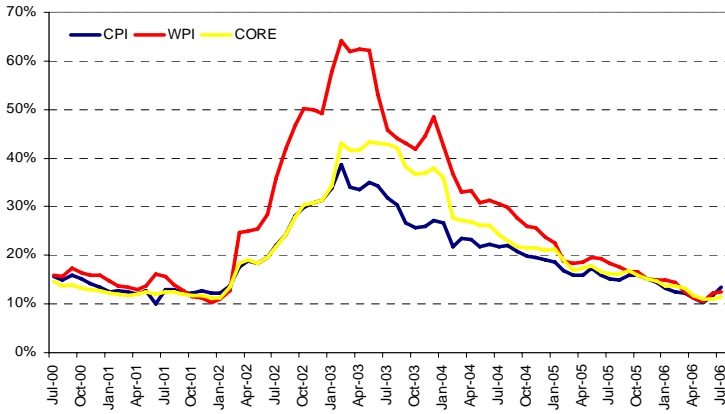
Oil Price
(Venezuelan Basket US\$/pb)



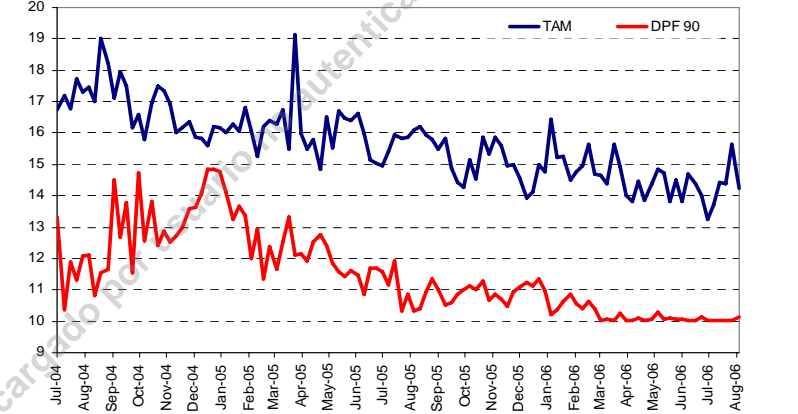
Monetary Base & M2
(VEB Billions)



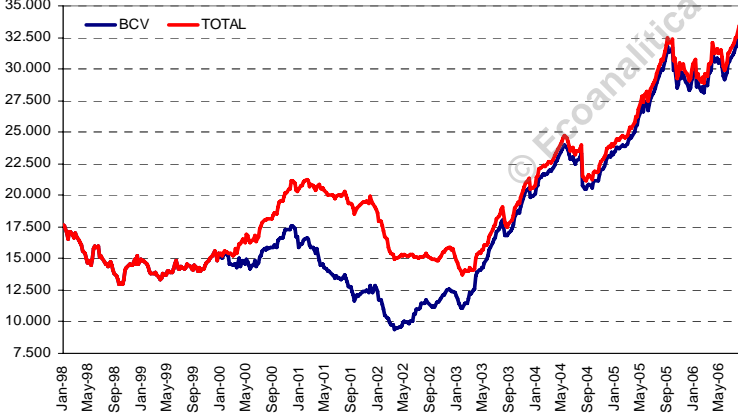
Inflation
(Last 12 Months)



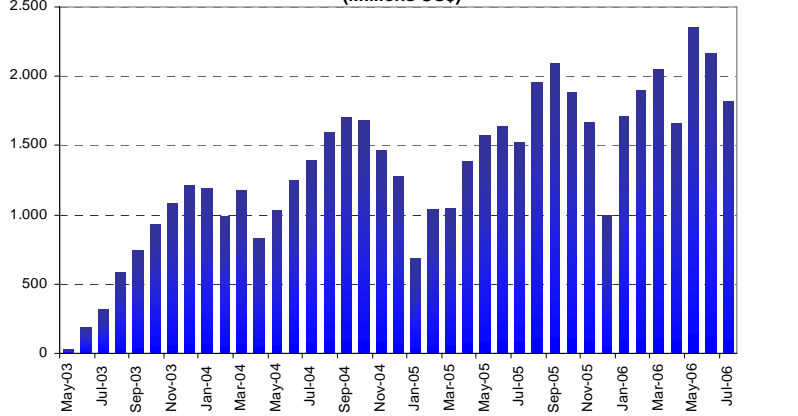
Interest Rate
(Six Principal Banks)



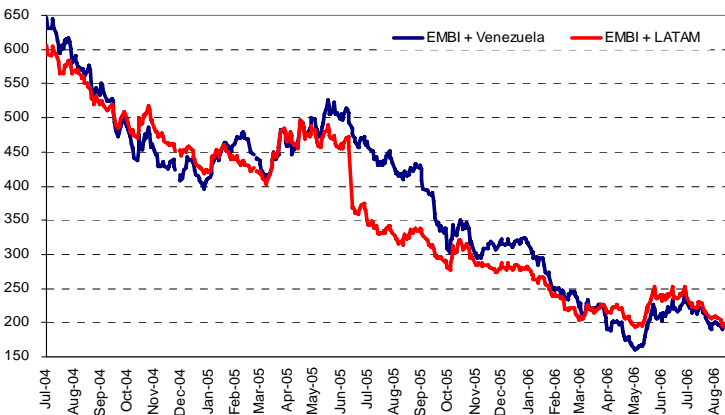
Fx Reserves
(Millions US\$)



Disbursement
(Millions US\$)



EMBI



Central Government
(VEB Billions)

