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Redaction:
Alejandro Grisanti
Asdrúbal Oliveros

HOME BUILDING IN VENEZUELA: WHEN A RICH STATE IS NOT EVERYTHING

Editors:
Gabriel Dobson

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THE CLIENT

In the housing area, the Chávez administration has been very deficient. Its best year does not even reach the lowest level of home building in the 1990-1998 period. However, if reforms were made and the State cooperated with the private sector, home building could increase because the resources are there.

The government has failed to meet its home building target

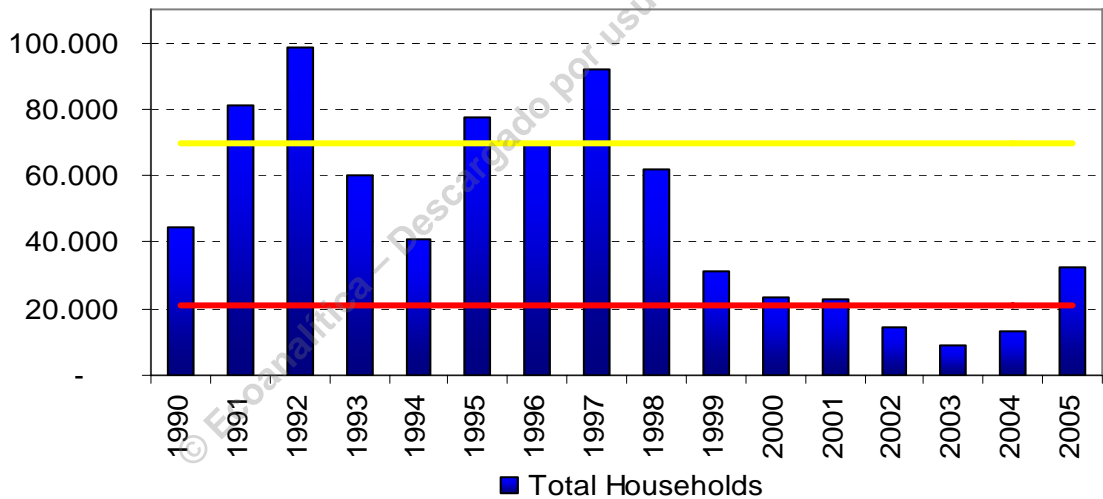
Recently President Chávez said that the revenue and expenditure budget for next year could top VEB100 trillion (US\$46.51 billion) and that "housing is one of the areas that is going to receive the biggest injection of resources."

The president wrongly stated that the government target for this year was 120,000 new homes. Both Chávez himself and several of his many housing ministers have repeatedly said that the 2006 target was 150,000 homes. Housing is one of the departments that have seen most changes of ministers because it has proved impossible to build the promised homes. The total is well below the number built in the 1990s during the last three administrations of the so-called IV Republic.

Chávez has only built one third of the homes built by the last two administrations

According to the figures supplied by the government to the Venezuelan Construction Chamber, an average of 69,528 homes was built each year between 1990-1998. In contrast, in the 1999-2005 period during the Chávez administration this figure dropped to 20,818 homes, which is only 30% of the annual average for almost all the period of the three previous administrations (CAP, Ramón Velázquez and Caldera). Moreover, all three achieved this in difficult economic circumstances, very different from the economic bonanza enjoyed by the current administration.

**Total Households
Public and Private
1990 - 2005**



Sources: C.V.C and Ecoanalítica

The home building deficit has been growing

According to the National Statistics Institute (INE) and the CVC, the housing deficit in 1990 totaled 880,083 homes, affecting around 4.4 million people. In 1999, this deficit was more or less unchanged at 900,000 homes. In other words, in the 1990-1999 period, the rate of home building could not keep up with the natural growth of the Venezuelan population, which prevented the deficit from falling.

Weekly Report

The current housing deficit is 1,680,000 homes, affecting around 7.4 million Venezuelans, an 87% increase between 1999 and 2006. About 85% of the deficit - over 1,400,000 homes - is in the D and E levels of the population, with income under 55 tax units (VEB1,840,000) and no capacity to save. These families can only solve their housing problem with help from the State.

To this must be added 1.2 million occupied homes which require some type of improvement due to inadequate infrastructure or services.

Current levels of home building deepen this deficit

In February 2000, President Chávez said he would work to wipe out the housing deficit by 2012 but he is a long way from this goal.

According to CVC, in the next 20 years, just to keep up with the natural growth of the Venezuelan population, 110,000 homes would have to be built each year and another 90,000 homes to eradicate the accumulated deficit, a total of 200,000 homes a year. But the current administration is only building on average one tenth of this figure so the deficit grows.

The problem is not resources

The investment required for home building, according to **Ecoanalítica's** calculations, at today's prices is VEB8.3 trillion a year (US\$3.86 billion). A relatively small amount compared with the wealth of resources that this government has received. Taking 2006 as an example, this amount is only 12% of the surplus that the government will receive during the year from oil exports.

According to the National Housing Council (CONAVI), its budget allocation in 2006 is US\$4.97 billion. With this money, 267,300 homes could be build this year, but only 60,000 were built in the first nine months and the government only plans to build another 70,000 homes in the last quarter. So with resources to build over 267,000 homes, the Chávez administration will provide only 130,000 (49%).

According to the national government, FONDEN has sufficient resources to allocate US\$3.98 billion, not including the possible transfer of international reserves of US\$5.00 billion which could take place before the end of the year. So we are talking about US\$8.98 billion to be used in the next three years generated by the 2005-2006 oil bonanza, not including the budgetary allocation via recurrent revenue (national budget).

Housing needs private enterprise more than any other sector

Ecoanalítica is convinced that the main factor behind such an abysmal home-building record is that the State has not created sufficient synergy with the private construction sector, which has all the expertise and experience needed to undertake large-scale projects.

Quite the contrary, in recent years, the government has issued regulations that have had a depressing effect on the sector, especially the Housing and Habitat Assistance Regime Law. In general, this law does not encourage the participation of formal property developers but concentrates on the participation of communities which do not have the technical or financial capacity to carry out large-scale projects. This situation is aggravated by other negative factors such as the rent freeze decree, threats of expropriation and invasion of private property, and the possibility of future price regulations.

According to the Chamber, if the resources flow slowly, and the State does not get help from the formal construction sector, home production this year could be as low as 40,000 to 80,000, very much below the 200,000 required to even begin to correct the housing deficit.

What could stimulate the sector?

Ecoanalítica's opinion is that a package of reforms is needed to stimulate home building in a shared effort between the State and the private sector.

Planning and population density

The first factor to be considered is the design of the National Land Development Plan, which covers the provision of primary infrastructure (public services) and promotes the decongestion of the central region in favor of other localities, as well as establishing a uniform policy on environmental impact studies.

A direct subsidy for the demand side

Second, the national government should transform CONAVI into an agency responsible for paying housing subsidies to needy families, as established in the Home Mortgage Debtor Protection Law. The subsidy is for individuals not institutions. It is not CONAVI's role to supervise the private construction sector, let alone become a housing developer. A National Construction Council is needed to coordinate all the bodies involved in the sector.

The subsidy could be paid, as the Chamber proposes, through a personalized certificate or bond, which the beneficiaries could use on the real estate market to buy the home that suits them best. This

would also guarantee the required financial resources and a fast and flexible flow of disbursements.

Modular homes

We have said that 200,000 homes a year are needed to wipe out the housing deficit. The process could be speeded up by designing simple but dignified homes with an area of land for expansion and improvement in the medium and long term. With this system, more homes could be built per year and resources used more efficiently.

Recovering our property rights

The State should grant ownership deeds to the occupiers of homes and land, which would be consistent with the policy of "democratization of capital" and combating latifundism which the Chávez administration strongly opposes.

Secondary mortgage market

Lastly the Mortgage Debtor Protection Law should be changed to stimulate the development of a secondary mortgage market, which has proved to be a highly efficient mechanism for guaranteeing a housing program in the medium and long term.

Economic Tips

Fiscal accounts in July. According to the Central Bank, expenditure in July amounted to VEB8.3 trillion (US\$3.86 billion), a 20.5% increase from the same month of 2005. Revenue increased 76.9%, fed by the 161% rise in oil revenue. On these results, the central government ended the month with a surplus of VEB1.1 trillion (US\$522 million). Expenditure in July dropped to the lowest level since March this year.

The deficit for the seven months to July is VEB2.2 trillion. with a 50.4% jump in expenditure in real terms from the same period last year but only a 19.7% increase in revenue. The government deficit of VEB2.2 trillion (US\$1.03 billion) contrasts sharply with the high surplus of the previous period of VEB7.6 trillion (US\$3.55 billion). In this situation, the government has used funds accumulated in the National Treasury of around VEB7.3 trillion (US\$3.41 billion).

Severe deterioration of non-oil fiscal deficit. In the period, the non-oil fiscal deficit ballooned 94.8% from the same period last year, confirming the acute vulnerability of the fiscal accounts to the volatility of the international oil market.

		Inflation July 06		13,48%			
		Average Inflation January-July 06		12,10%			
FISCAL BALANCE							
CENTRAL GOVERNMENT							
(VEB Billions)							
	July 2006	July 2005	Nominal Variation	January-July 2006	January-July 2005	Nominal Variation	Real Variation
Total Revenue	9.429	5.331	58,4%	58.925	43.900	28,3%	14,7%
Non-Oil Revenue	3.489	3.055	33,5%	27.384	18.942	50,4%	34,5%
Oil Revenue	5.940	2.276	74,9%	30.917	21.376	30,8%	16,9%
Central Bank Earnings	-	-		624	3.582	-82,6%	-84,4%
Total Expenditure	8.307	6.891	97,1%	61.131	36.265	79,8%	60,8%
Primary Expenditure	7.851	6.154	109,6%	56.552	31.285	93,7%	73,2%
Interest Payments	456	737	-13,5%	4.579	4.980	-20,4%	-28,8%
Domestic Debt	235	430	-7,6%	1.925	2.408	-22,5%	-30,8%
Foreing Debt	221	307	-26,3%	2.654	2.572	-16,1%	-25,0%
Quasifiscal Expenditure	-	-		-	-		
Fiscal Balance	1.122	(1.560)		(2.207)	7.635		
Primary Balance	1.578	(823)		2.372	12.615		
Non Oil Balance	(4.818)	(3.836)		(33.747)	(17.323)		
Debt Amortization	1	335		5.289	3.024		
Net Monetary Inyection	4.593	3.093		36.378	10.862		
Financing Requirements	(1.121)	1.895		7.495	(4.610)		
Foreing Debt	6	3		160	67		
Domestic Debt	4	771		4	6.913		
Tresury Bonds	-	605		-	5.823		
Tresury Debt	4	166		4	1.091		
Others	(1.132)	1.121		7.331	(11.590)		

Sources: BCV and Ecoanalítica

Domestic debt edges up. The Central Bank reported that domestic debt increased VEB841.45 billion (US\$391 million) to VEB29.9 trillion (US\$13.92 billion) in the nine months to September. In the same period, the government issued public bonds in bolivars for around VEB 6.1 trillion (US\$2.83 billion) and amortized VEB5.2 trillion (US\$2.43 billion).

2007 budget ready. The Chávez administration presented its revenue and expenditure estimates for next year. According to Finance Ministry sources, budgeted expenditure for 2007 will be VEB115 trillion (US\$53.49 billion). Although this expenditure is 32% over the 2006 budget it is similar to the levels programmed so far this year after including additional credits (VEB117 trillion). *Ecoanalítica* has always maintained that the budget is a "salute to the flag" because the government executes its expenditure based on the trend in fiscal revenue, especially oil.

Conservative government. As is common practice, the government set very conservative premises for the macroeconomic estimates for next year. An oil price of US\$29 per barrel, 5% growth, inflation between 10% and 12%, and a stable official

exchange rate of VEB2,150 per dollar, zero devaluation next year. We will analyze the information contained in the 2007 budget in more detail in a future report.

BANDES more powerful. According to BANDES President Edgar H. Behrens, next year the institution will have VEB1.0 trillion available to cover direct and indirect financial needs in the country through its loan portfolio. An additional US\$200 million will be available to meet international requirements. BANDES plans to open branches in Bolivia, Nicaragua and Mali (Africa) with a capital of between US\$10 and 20 million.

Oil Tips

Another week of falls. According to the Energy and Oil Ministry, the Venezuelan oil basket fell US\$0.79 last week to US\$51.04 per barrel. This is the eighth week of decline in the national oil price; however the average for the year is still US\$58.09 per barrel.

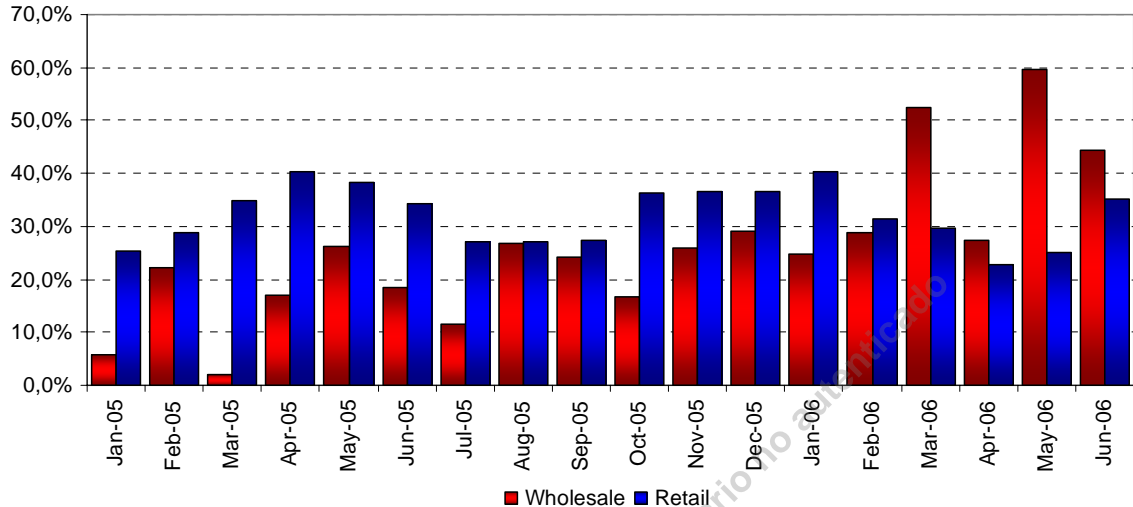
OPEC to cut or not to cut. The OPEC Secretariat and the cartel members are in the midst of intense negotiations on a consensus decision to jointly cut supply by one million b/d. The decision has to be unanimous for the cut to be effective. Venezuela, Nigeria, and Iran are the countries most active in trying to set up an extraordinary meeting to decide on the cut.

Venezuela benefits. A production cut would benefit Venezuela by bringing its OPEC quota into line with real production. The official OPEC quota for Venezuela is 3.2 million b/d but current Venezuelan production averages only 2.6 million b/d, 600,000 b/d below the OPEC quota.

Sectoral Tips

Sales go on rising. The Central Bank reports that in the first half of the year, the volume of commercial sales grew 33.4% from the same period last year. Wholesale sales climbed 40.3% and retail sales 30.4%. On the wholesale side, the largest sales volumes are machinery and equipment (83%), domestic items (41%), construction materials (30%), and food and beverages (17%). Retail sales are led by domestic appliances and articles (57%), followed by vehicles (56%), and textiles and footwear (48%).

Var% Index of Vol. of sales



Sources: BCV and Ecoanalítica

Supermarket sales grow. The president of the National Supermarkets Association (ANSA), Carlos Carvalho, said that the sector grew 15% this year and forecast that the trend would continue until the end of the year. On Mercal, the State food distribution network, Carvalho said that it was one more competitor in the market. Despite operating under special conditions proper to a State program, it does not represent a disadvantage for the sector, he added.

Vehicle sales grow 90%. According to CAVENEZ, sales of new cars in Venezuela in September leaped 89.8% from the same month last year to 33,384 units. Sales from January to September rose to 231,862 units, up 50.8% from the same period of 2005.

But business owners take a different view. According to a survey of 150 business owners by FEDEINDUSTRIA, 53% of small- and medium-sized enterprises (SMEs) reported falling sales. The basic reason is the introduction of the labor clearance certificate. The business representatives urge more flexible and speedy procedures for issuing the certificate. Some 7% of those surveyed said that sales were steady, while 40% said sales had significantly recovered. Lastly, 63% were confident that the demand for goods and services would improve with the approach of the Christmas season.

One more bank. Before the banking sector had time to recover from the sale of Corp Banca, a group of local investors announced they were buying Banco Confederado from Grupo Maldonado. Rubén Idler, who will be president & CEO of the financial

institution, said that 94.5% of the total capital had been acquired. The rest of the capital remains in the hands of small investors.

At CANTV some of the pensioners are missing. According to informed sources, the data that SENIAT received to check the retroactive payments of CANTV retirees and pensioners is not complete. The previous calculation covered only 5,353 pensioners, leaving approximately 4,600 employees outside the study. SENIAT has applied for a 15-day extension from the Fifth Labor Court of First Instance of Examination, Mediation and Execution for final presentation of the results of the calculation. According to our calculations, the maximum amount that CANTV should pay is US\$650 million.

Bottom of the list The leading Spanish companies with foreign investments give Venezuela and Bolivia the worst rating for conditions for setting up productive activities, according to the Spanish Foreign Investment Valuation Index, published by Iberglobal and the Exporters and Investors Club. Venezuela scored 4.4 out of 10. The study said the country had the "most intervened economy, markedly closed with scant propensity to attract foreign investment."

CONATEL also promotes new economic model. The National Telecommunications Commission (CONATEL) will allocate US\$100 million to stimulate cooperatives and Social Production Enterprises (EPS). CONATEL Director General Alvin Lezama said that the government would increase the provision of telephony, internet and associated services in rural sectors of the country by providing financial support to EPS and cooperatives. The funds will come from BANDES.

Political Tips

Changes at MIBAM The Minister of Basic Industries and Mining (MIBAM), José Khan, carried out an internal restructuring which included changes of three vice ministers: Iván Hernández becomes vice minister of Mines replacing Eduardo Vera; José Hernández is appointed vice minister of Investment Promotion taking over from Valmore Vásquez; and Jesús Paredes was named vice minister of Basic Industries replacing Raiza Molina. Lastly, Carlos Valter now heads the National Basic Industries Company (CONIBA), the body responsible for 11 new EPS.

Venezuelan radicals. According to the latest public opinion poll from the firm Keller & Asociados, 50% of Venezuelans say that "radical changes" are needed to solve the country's problems. Only 14% of the population believes that no additional changes or reforms are necessary. The Keller study also finds that the 88% of Venezuelans

Weekly Report

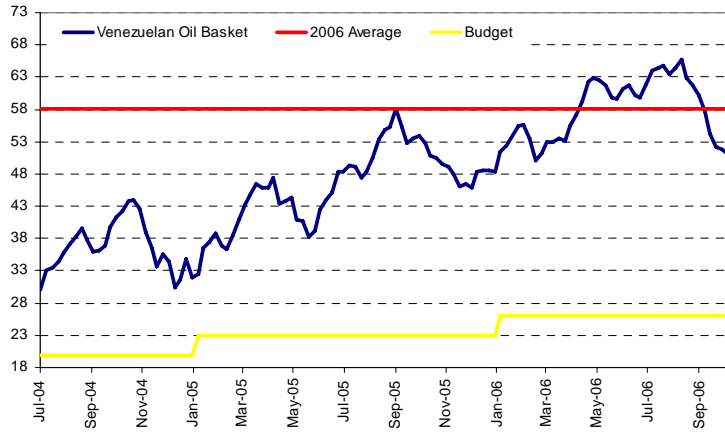
approve the "Mi Negra" oil debit card proposed by opposition national unity candidate Manuel Rosales.

Party sympathies. Keller & Asociados also found that support for President Chávez fell slightly (approximately 3%) in 2006 to average 49%, while the number of people who define themselves as opposition increased 5% to 23%.

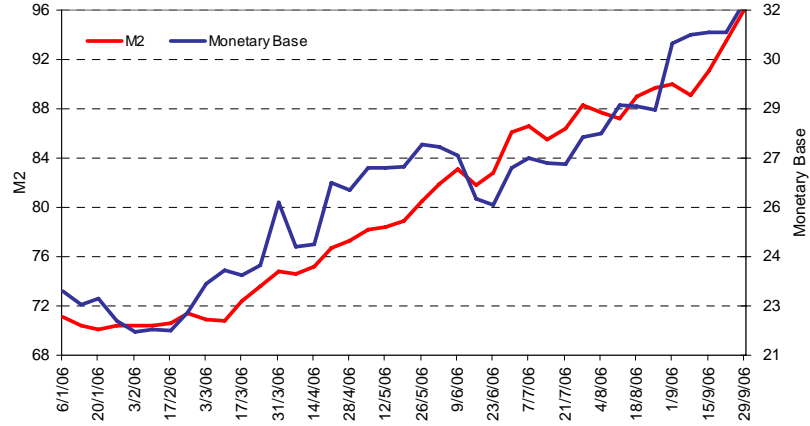
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ECONOMIC OVERVIEW

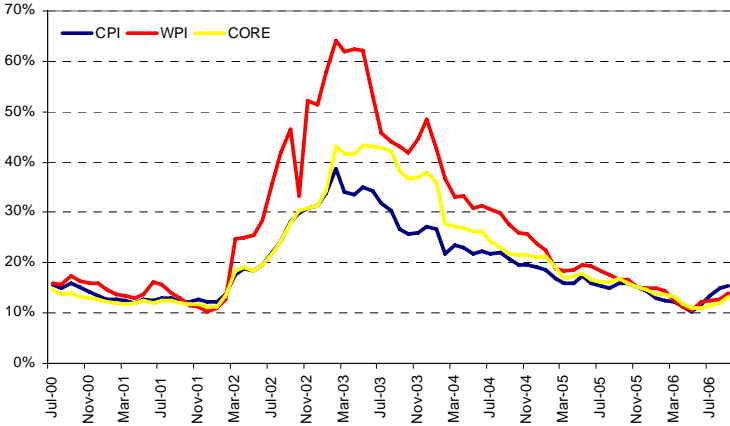
Oil Price
(Venezuelan Basket US\$/pb)



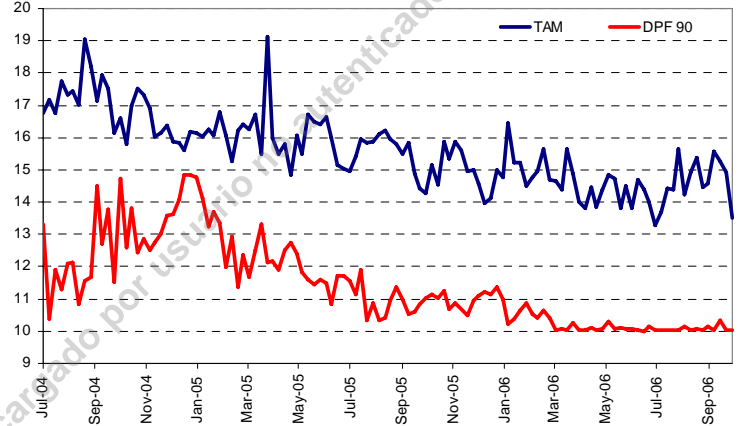
Monetary Base & M2
(VEB Billions)



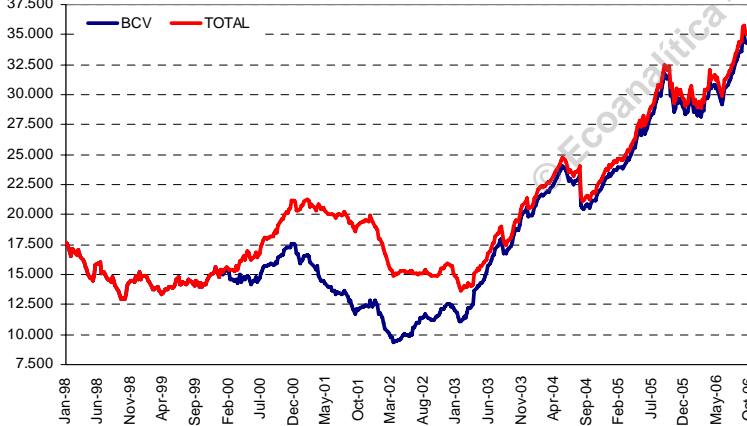
Inflation
(Last 12 Months)



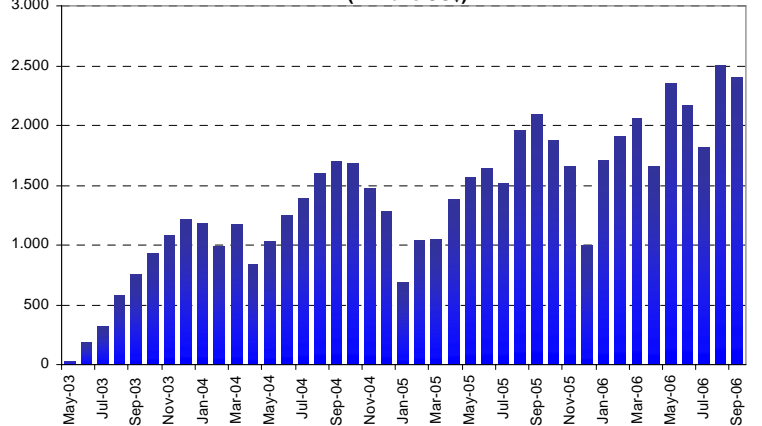
Interest Rate
(Six Principal Banks)



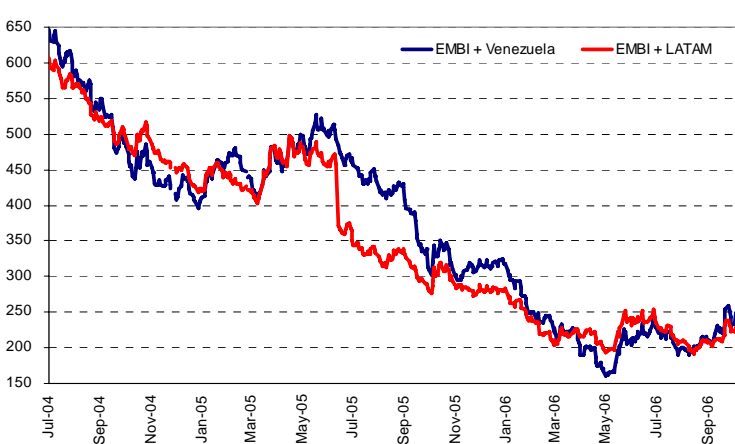
Fx Reserves
(Millions US\$)



Disbursement
(Millions US\$)



EMBI



Central Government
(VEB Billions)

