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**By:**  
Alejandro Grisanti  
Asdrúbal Oliveros

**Edited by:**  
Gabriel Dobson

## ***THE OPPOSITION HAS WON, BUT HOW WILL THEY COLLECT THEIR PRIZE?***

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### **THE CLIENT**

The Venezuelan opposition has conducted a campaign that is nothing short of miraculous. There can be no doubt in anyone's mind that the candidate up for re-election is politically weaker than he was 100 days ago. The opposition is also in a far better position than it was when it was listening to myths about short-term solutions that made it lose contact with the people, particularly with those of lower economic resources. The most probable result is that the opposition will lose the December 3 elections, but these elections are going to be far closer than any impartial analyst would have predicted. The key question now is this: What is going to be said by the opposition sector on December 4 if it fails to triumph at the polls?

### **The opposition's political mass has increased**

In less than three months, the Venezuelan opposition has moved forward from something around 18% of the intention to vote to more than 40% popularity, whilst the candidate up for re-election is stuck at 54%. According to the opinion polls, 5 million voters out of a universe of 16 million will not go to the voting booths next December 3.

## Weekly Report

Therefore, of the 11 million left, possibly 6 million will vote for Hugo Chávez Frías and 5 million for Manuel Rosales. Obviously this result could change over the last few days before the elections. But such change is not to be found in the possibility of a *Chavista* voting for Rosales, but rather in changing the mind of the immense number of voters who today appear not prepared to go out and vote. As Luis Pedro España<sup>1</sup> said recently: “it’s very unlikely that a Magallanes team fan will change sides and start to root for Caracas; so rather than changes from one side to the other, the votes that will make the difference have to be found among those who don’t go to the stadium in support of any particular team.”

**The advances made by the opposition and the stagnation of the incumbent sector are the direct results of the campaigns run by both candidates.**

The opposition has abandoned its abstract discourse and is now competing in the electoral market by wielding the government’s own main weapon: Populism. Manuel Rosales has managed to unite the opposition and get it to set aside talk of abstention and demands for election conditions, and assume its condition of underdog and start to quickly and efficiently grab the attention of low-income families. His speech centers on the possibility of sharing out more money, of subsidizing more sectors and by simply using the oil income more efficiently. The problem is that in a “rentist” State such as Venezuela (i.e., one that lives off, in this case, its oil income) the presidential candidate that does not offer “heaven on earth” is doomed.

On the other hand, the candidate up for re-election, blinded by power, has followed a line that turns its back on the Venezuelan people. The discourse of officialism has remained centered on intergalactic warfare, on fights with international political leaders, on sticking its nose into the internal affairs of other countries, on a vulgar personality cult, on not offering answers to the people’s problems and on the lack of new proposals for helping to resolve the problems of all Venezuelans. The only proposal - “innovative” indeed - and supposedly defining 21st-Century socialism, is the barter system!

Yes, three weeks back the President said that it was necessary to return to the barter system in Venezuela, whereby part of the

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<sup>1</sup> From “*Win by losing*”, an article published in El Nacional on November 5, 2006.

production of a given cooperative was to be donated to the other members of the community and the rest swapped for sundry products. The President even went so far as to speak of the creation of community currencies that would only be valid within a specific area and for a determined period. At **Ecoanalítica** we believe that this will be just one more speech to join the ranks of the many senseless pronouncements made by President Chávez over the last eight years.

**The difference of votes between the government and the opposition has not been increased by the use and abuse of power**

It is a well-known fact that in all the countries in the world the incumbent uses his position of power to assist himself in his re-election, or in the election of her or his party's candidate. But the Venezuelan case is particularly noteworthy. The candidate for re-election in Venezuela has managed to financially strangle his contender, diminish his presence in the media and use all the State institutions available to generate fear among the populace in his bid to stimulate abstention among the opposition voters. The government not only customarily uses State resources for its campaign, but has actually changed the electoral law by cutting off all public financing to candidates or political parties. On top of that, for every Bs. 1.00 that a political party collects from its rank and file, Bs. 0.50 goes in taxes. Needless to say, the result of this measure has been a marked reduction in the transparency of the financing of different candidates.

Moreover, new electoral rules were enacted in August to regulate the campaign, including strict restrictions against the use of the media. Thus we have the candidate for re-election, Head of State, making a presentation that is many times greater in size and volume than the one presented by the opposition candidate. To round it all off, the intimidation of the civil servants and the circulation of different lists that politically segregate the opposition, have created a feeling of fear throughout a population which, directly or indirectly, counts on the State for its main source of income.

**However, these advances could easily be diluted if the opposition returns to its childish games**

There are opposition sectors that still do not understand that no matter what the event, countries do not die, and that after these elections there will be others. **Ecoanalítica** believes it is essential that the opposition holds on to its platform, from where it can reconquer its lost power. Local governments have to be recovered, to show the 26

million Venezuelans that their problems can be solved. It is also vital to reconquer the National Assembly, in order to reinstate democratic debate and re-establish institutional control of the government's actions. To stick to this platform after an electoral triumph on December 4 will be very simple for the opposition. How to do the same in the event that the opposition "does not, for now, achieve its goals" is what has to be defined during the next few hours.

## Economic Tips

**Another transfer of reserves.** According to government sources, the BCV is planning to transfer around US\$ 6 billion to FONDEN at the beginning of next year. In fact, some days back President Chávez mentioned that "the BCV Law allows for the establishing of a cap (i.e., ideal level) on international reserves of US\$ 29 billion, and therefore that any surplus goes to FONDEN." That is as maybe, but the optimum level of reserves has to be determined by the BCV, and to date no technical study in this regard has been made public. A further transfer of reserves would, in our opinion, constitute a violation of the BCV Law.

**A short-sighted solution.** According to BCV Director, Armando León, importers have received dollars from the Exchange Administration Commission (CADIVI), and therefore there is no justification for the price adjustments made to certain products. According to León, the solution to the problem of rising prices is that both the SENIAT and CADIVI itself take action to verify cost structures and show that the importers are receiving their Dollars at the official rate. León appears to have forgotten, however, that the increase in public expenditure and the rise in the parallel exchange rate are the true impacts on end prices.

**One third for capital goods.** According to the Minister of Planning and Development, Jorge Giordani, 29% of all CADIVI authorizations is to bring in capital goods.

**IMF report.** *Perspectivas Económicas - Las Americas*, a document published by the International Monetary Fund, highlights certain relevant aspects of the economic policies followed during recent years. Since 2004, Venezuela has held first place in all of Latin America insofar as real primary expenditure growth is concerned. In 2006

alone, the FMI reports that real primary expenditure will grow by 27.8%, as compared with the weighted average for Latin America as a whole, which will stand at 7.3%.

**Increase in fiscal impulse.** From the IMF's viewpoint, an expansive orientation is being applied to fiscal policy, patently obvious in Venezuela, where fiscal impulse has gone from -3.5% of GDP in 2005 to 4.9% of GDP in 2006, making it the highest among the larger economies of the region.

**The weight of oil.** According to FMI technicians' analysis, when the fiscal impulse is adjusted for the effect generated by the increase in oil prices, it would be 7.3% of the GDP for 2006. In this way, the fiscal impulse indicator reflects the expansive effect lent by the real growth in expenditure in excess of the historical rate of economic growth.

**The positive side: debt.** In its study, the FMI points out that the proportion of external debt to total debt diminished in the case of Venezuela, descending from 84.7% for the 1996-1998 period to 62.1% for 2003-2004. In 2005 it stood at 53.1%. On the other hand, the proportion of short-term debt for 2005 was just 4.2%, only exceeded by Colombia and Peru.

## Oil Tips

**Down again.** The Venezuelan basket of crude prices receded again last week by US\$ 1.24, to finish at an average of US\$ 49.23 per barrel. Since August, Venezuelan oil prices have dropped by an accumulated 25%. So far this year the average crude price stands at US\$ 56.88 per barrel.

**PDVSA hands over its balance sheets.** More than one year late, PDVSA filed its 20-F report for the year 2004 with the US Securities and Exchange Commission (SEC). It should be noted that this will be the last report to be filed by PDVSA with the SEC, the oil company having notified the Commission on May 25 of the termination of its undertaking to provide updated information.

**How much did PDVSA produce?** According to the report, PDVSA recorded an own production of 2.73 million bpd for 2004, including operating agreements and its participation in the Faja agreements, out of a total capacity of 3.7 million bpd. Gas extraction added 6.566 billion cfd.

## Weekly Report

**Another tax assessment for Shell.** The SENIAT has notified that it submitted an assessment to Shell, associated with transfer prices, for VEB 38.1 billion (US\$ 17.7 million). According to the SENIAT, the assessment arose from an objection made regarding the determination of interest on financing granted to the company by associated companies. When calculating the interest, the company did not take into account certain parameters provided in the Income Tax Law.

**Operating agreements in the authorities' sights.** Starting with the strategic associations, the SENIAT had already begun to review transfer prices, now the companies making up the operating agreements are being included.

**Rights transferred to joint-venture companies (*empresas mixtas*).** The Executive transferred to a group of joint-venture companies the right to perform primary exploration and production activities. The beneficiaries are Petrocabimas, Petronado, Petrokariña, Petroperijá, Boquerón, Petrocuragua, Petrocumarebo and Petroguárico. The companies may conduct the above-mentioned primary activities during a 20-year period.

### Sectoral Tips

**CANTV dividend approved.** CANTV's Special Shareholders' Meeting approved an extraordinary dividend of VEB 307.14 per share, to be paid this December 13 to those shareholders registered as of December 6, pursuant to the statutes regulating its operations.

**The SENIAT on the trail of the banks.** Starting next January, the SENIAT is planning to start auditing the banking system to determine whether it is complying with the tax on dividends. It should be noted that the banks adjust their equity for inflation, and according to the Income Tax Law, a difference is generated between the taxable and accounting incomes, from which arises the tax on dividends. The authorities want to know if the banks actually comply with this ruling.

**CVG budget approved.** Next year's budget for the whole group of basic industries in Guayana will be VEB 5.2 trillion (US\$ 2.419 billion) for the supply and demand processes. In contrast, only 10% of the companies' purchasing budget for 2006 was executed. The low execution payment percentage for this year's estimated plan was

due to the difficulties the companies had in complying with the labor certificate of good-standing.

**Businesses optimistic.** The qualitative industrial survey conducted periodically by the National Institute of Statistics (INE), indicates that business owners expect that during the last quarter of the year there will be “an improvement in the activity” of the manufacturing industry. The survey highlights the participating companies’ statements that production performance picked up in the third quarter, when compared with the second quarter. Industrialists also noted that sales prices had risen and that they would continue to rise in the last quarter of the year.

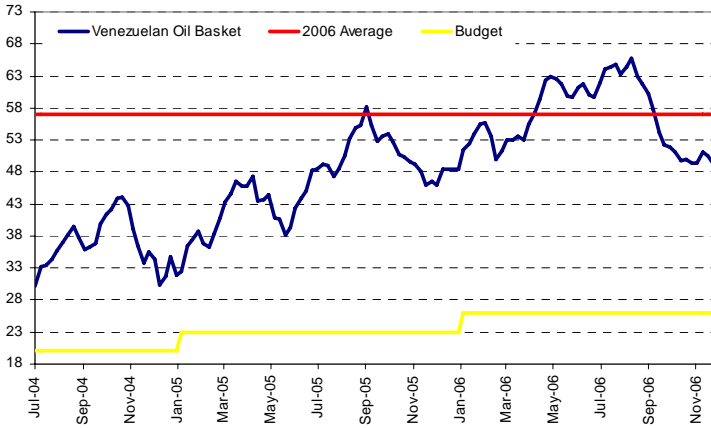
**Installed capacity rises.** According to Minister Giordani, installed capacity rose to 92.5% in the manufacturing sector during the third quarter. The Minister considers that it is at its maximum capacity, and that therefore there will be a corresponding growth in the contracting of personnel.

**Real estate market growing.** According to the Venezuelan Real Estate Chamber, commercial transactions rose by 16% in 2006 when compared with the year 2005. On the other hand, approximately 90% of the homes sold are from the secondary market (used property), and the rest corresponds to new or primary market homes. During 2006, the average price per square meter rose by 20% in comparison with 2005 prices.

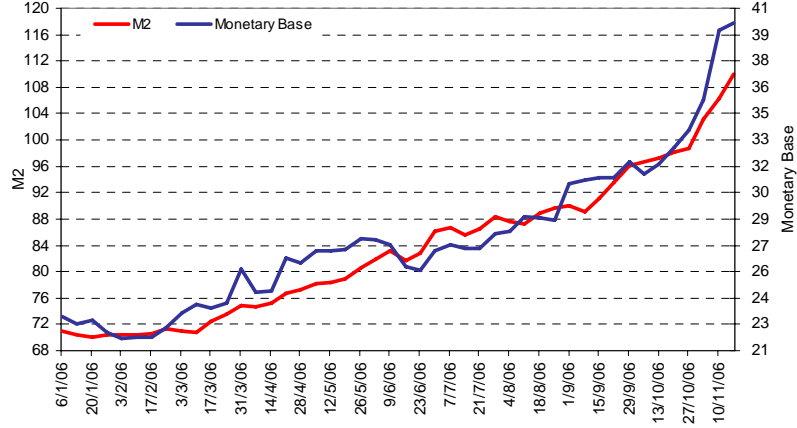
**Three new IPOs.** The National Securities Commission (CNV) authorized the public offering of bearer bonds issued by Industrias UNICON, Corporación TELEMIC and Envases Venezolanos. Industrias UNICON will issue paper for up to VEB 64.5 billion (US\$ 30 million) to refinance its short-term debt. In the case of Corporación TELEMIC, the offering will be for VEB 60 billion (US\$ 27.9 million) and the funds will be used to acquire satellite companies (franchises). Finally, the offering of Envases Venezolanos, is the smallest (VEB 6 billion) and seeks funding for working capital and substitution of bank liabilities.

# ECONOMIC OVERVIEW

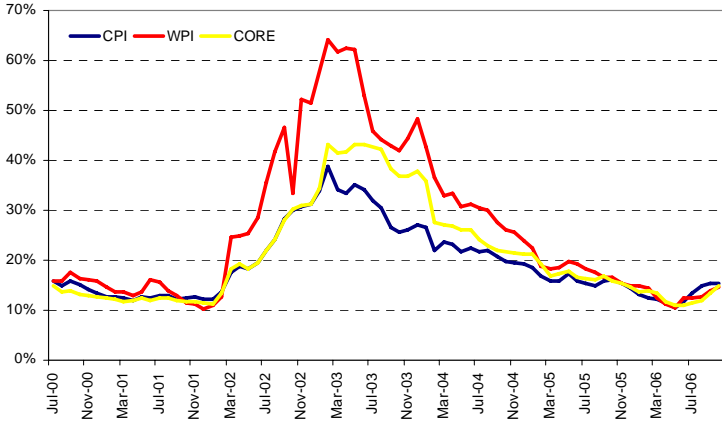
**Oil Price**  
(Venezuelan Basket US\$/pb)



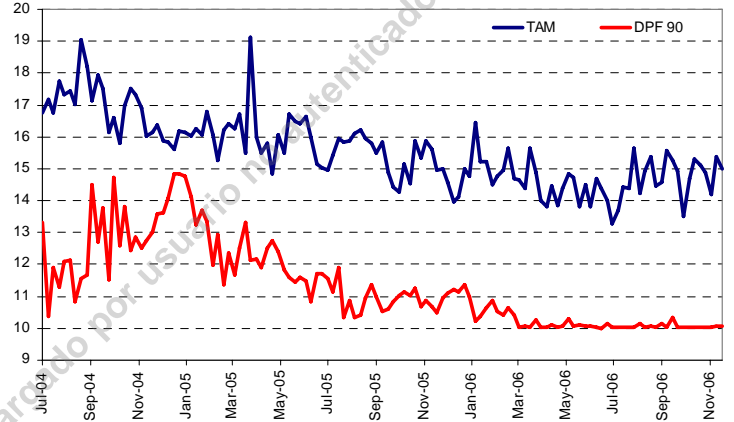
**Monetary Base & M2**  
(VEB Billions)



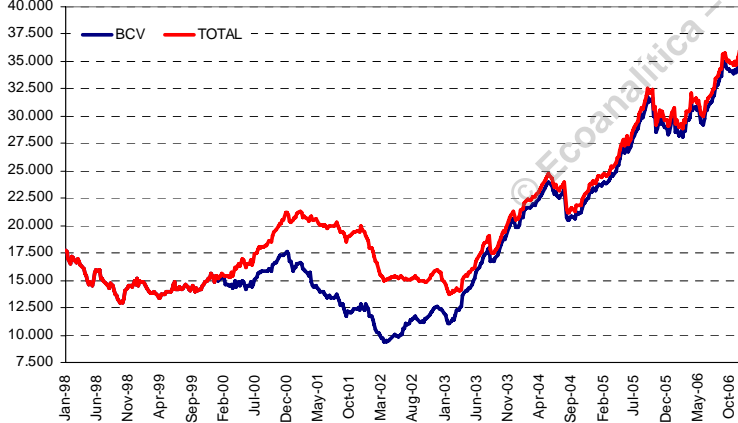
**Inflation**  
(Last 12 Months)



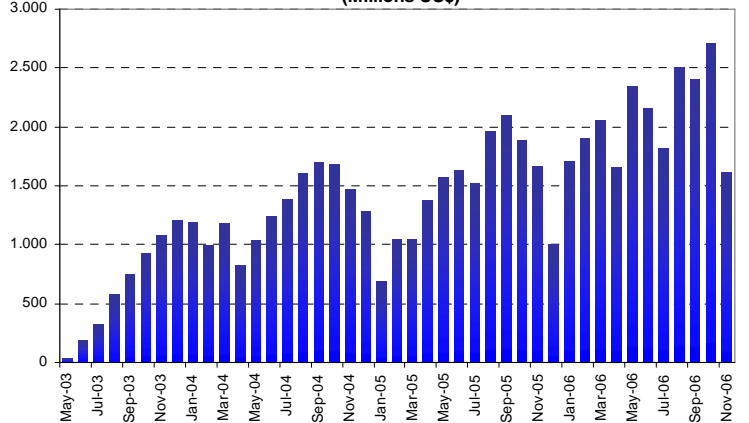
**Interest Rate**  
(Six Principal Banks)



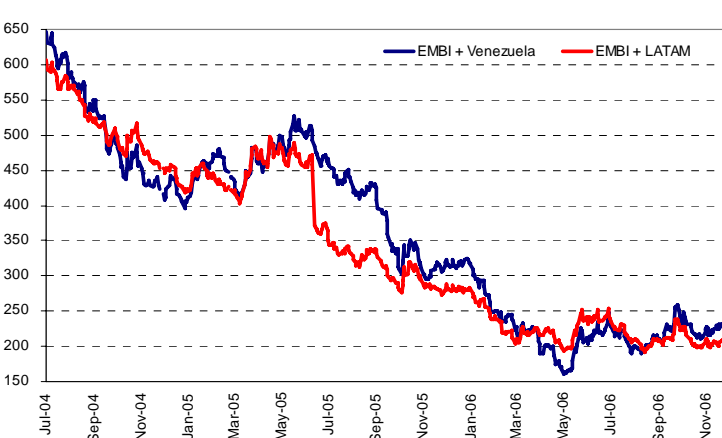
**Fx Reserves**  
(Millions US\$)



**Disbursement**  
(Millions US\$)



**EMBI**



**Central Government**  
(VEB Billions)

