



Volume 4, Number 4  
Week V, January 2008

**HOW MUCH OIL  
PRODUCTION IS NEEDED TO  
"COVER" THE FISCAL  
ACCOUNTS?**

**By:**

Alejandro Grisanti  
Asdrúbal Oliveros  
Michael Penfold

**Edited by:**  
John Holden

Reproduction and/or  
distribution prohibited

Is it true that the Government has serious fiscal problems? For many analysts, the root of all fiscal problems begins with the oil sector. In this report, we offer an overview of the levels of oil production based on foreign sector indicators and fiscal accounts. These estimates suggest that domestic oil production is at levels close to those published by the MEP

**This controversy has  
become exacerbated  
over the last few weeks**

During the last few weeks, the opinion that Chávez's Government is in serious fiscal trouble has gathered momentum. The reason being, a series of news items, like: 1.- The interpretation that the reduction from 30 to 8 days in the recovery of the oil bill by PDVSA is associated with cash-flow problems, 2.- the release of PDVSA's debt figures and CITGO's loan, that, as a matter of fact, coincided with our esteemed, 3.- the Tax reform being planned within the framework of the Special Powers Law in order to increase Tax collection, 4.- the announcement that the Government doesn't have money for the education missions, among other things, etc.

Based on these rumors, the rumor of an impending devaluation of the official exchange rate has also significantly increased an aspect which is denied by Minister of Finance, Rafael Isea. In addition, in the international markets, the country risk remains at high levels, especially when compared with other countries in the region, such as Brazil.

## Oil production, the eye of the hurricane

In the center of all these rumors we find Venezuelan oil production. Since the end of the oil strike, economic agents founded doubts about the real oil production, since the company's production figures vary depending on the source. PDVSA has always maintained that since the end of the strike oil production has fluctuated between 3.0 million barrels daily (b/d) and 3.4 million b/d. While other the reliable sources within the oil industry, most of them international, say that Venezuelan oil production is between 2.7 million b/d and 2.3 million bd.

## You can't mix apples with oranges

The root of the problem is due to the change that generates the MEP when it presents its oil production figures. Until the year 2002, international sources and the MEP published figures of oil production, excluding condensates and derivatives. Currently, the MEP publishes the total numbers of Venezuelan production, including derivatives and condensates, while all other sources continues to publish only the production of crude. The other important fact that one must be aware of here is what kind of production are we talking about, which is to say, is it global production (exports + domestic market) or only export production.

## The key is in the balance of payment and fiscal management

A way to clarify this problem is by analyzing the figures released by the Central Bank of Venezuela (BCV) regarding the balance payment and foreign sector indicators as well as the fiscal situation. Concerning the argument of some analysts that say that the BCV figures are not to be trusted, at **Ecoanalítica**, we have no concrete reason not to trust these figures.

Then we raised two scenarios. The first where the Venezuelan production is at 2.4 million barrels per day, which would place the production of export by 1.7 million barrels and the second stage with the official figures.

## 1<sup>st</sup> hypotheses: Foreign and fiscal collapse

If we assume that oil export production is at 1.7 million b/d, we would have that oil export revenues would be at US\$40.40 billion. The sale of foreign currencies that could make PDVSA to the BCV will be located in \$ 18,460 million, which discharges to deduct external revenues (mostly CADIVI, ALADI convention and service external debt), the international reserves had closed the year at \$ 20,069 million, which represents a fall of over \$ 17.000 in 2006. Fiscal oil contributions would have been at US\$24.40 billion, so along with 2007 projected spending, the Government's fiscal management figures would have closed with fiscal deficit equaling 5.2 points of GDP.

This deficit of the Central Government contradicts the accumulation of extra resources in different funds, that the Venezuelan State has been implementing. Additionally, in this scenario, the chances of devaluation would be high.

## 2<sup>nd</sup> Hypotheses: Fiscal voracity

There is no doubt that what has just been described here does not correspond with what is reflected by the Venezuelan economy. International reserves closed above US\$34.00 billion, the Government has accumulated important resources in different funds, and fiscal oil contributions, according to sources in the Ministry of Finance to which **Ecoanalítica** had access to, were at US\$34.21 billion for 2007. Therefore, the fiscal deficit should be similar to that reported by the government and close to 2.0 points of GDP.

**2007 Fiscal and Oil Indicators**

	Other advisors	Preliminary official results
Basket Price (US\$)	65,1	65,1
Total Production (MM BPD)	2,4	3,2
Exports production (MM BPD)	1,7	2,6
Exports income (MM US\$)	40.395	62.371
Foreign Currency sales to the Central Bank(MM US\$)	18.460	28.198
Contributions to Fonden (MM US\$)	6.000	6.000
Oil revenues (MM US\$)	24.397	N/A
Closing foreign reserves (MM US\$)	20.069	34.309
Estimated fiscal deficit (MM US\$)	11.570	N/A
Estimated fiscal deficit (% GDP)	5,2	2,0

Sources: BCV, MF, MENPET and Ecoanalítica

At **Ecoanalítica**, we have always sustained that a situation of fiscal stress can't be hidden, especially because of the significance of the

# Weekly Report

**It's not a cash flow problem, it's a fiscal voracity problem**

public sector in Venezuela. The balance of payment figures, the international reserves, import levels, fiscal situation, all of this, all corresponds to oil export production levels of 2.4 million b/d. Otherwise, the Executive would be in a critical situation and the growth that one sees on the street, would be ephemeral.

A fact that has to be taken into account when analyzing the 2008 fiscal situation, is that the Administration has been accumulating extraordinary resources in a number of different funds which main characteristics are: that they are not subject to controls, but to be used at the discretion of the Administration; that they grow over time; and a significant amount of these resources are in foreign currency. Having monitored these extraordinary resources allows us to draw two conclusions. First, that the Government doesn't need to use the devaluation mechanism in order to adjust the fiscal situation, and second, the fiscal adjustment that we are all expecting can be gradual.

<b>Government Resources</b>	<b>Dic-07 (MMM US\$)</b>
<b>Central Government</b>	<b>27,4</b>
<b>PDVSA</b>	<b>14,0</b>
<b>BANDES</b>	<b>10,1</b>
<b>BDT</b>	<b>6,4</b>
<b>Deposits in Financial System</b>	<b>13,1</b>
<b>Foreign reserves</b>	<b>34,3</b>
<b>TOTAL</b>	<b>105,3</b>

Source: Ecoanalítica

The Government is caught in a spiral in which it wants the best of both worlds: on the one hand, it wants to increase public spending; on the other hand, it wants to accumulate important resources. We've called this scenario, "fiscal voracity." This is why the Government doesn't let up on Tax collection and borrowing.

An estimate of the resources the Venezuelan Government, excluding foreign reserves, has reached US\$70.00 billion, not all of it in foreign currency. According to our estimates, the resources in US-dollars would be around half of the total amount.

In other words, the Government knows, though it won't admit it, that the situation can become difficult for it in the future, and it looks to be prepared for it. What for us isn't clear yet is if the private sector is taking the same precautions.

## Economic Tips

**ISEA denies possible devaluation.** The Minister of Finance assured that the current exchange control will be maintained, emphasizing that a devaluation of the bolivar "is not planned," and that the exchange control administration will continue in place. He also said that the possibility of establishing differential rates is "totally rejected."

**New bond issues are being evaluated.** ISEA also indicated that Venezuela is planning to renew its bond issues in the first quarter of this year, but the idea is to maintain the same level of debt without changes in 2008. On the other hand, ISEA said it is not concerned about the effects of the possible economic recession in the United States, and if oil demand drops the domestic oil basket will have to adjust accordingly. Nevertheless, this will not hurt the country's economy.

**Government to review ALADI agreement.** The Finance Ministry and the Central Bank will review the status of imports made through the ALADI (Latin American Integration Association) agreement. According to ISEA, more than US\$11.0 billion of foreign currency was authorized through ALADI, which it believes to be excessive and that this is responsible for distorting the exchange control, in terms of the imports being realized. ISEA stressed that the agreement will continue even if certain regulations will have to be effected to optimize the use of US-dollars.

**More foreign currency for CADIVI.** Cadivi received an initial quota of foreign currency of US\$3.60 billion from the Central Bank, which could later increase to US\$4.50, thanks to an allotted increase of US\$900 million. The Bank's president, Manuel Barroso, said that the institution conducts the necessary monthly technical review to determine how much foreign currency the country needs and to see if an increase is warranted. On the other hand, the official said that at the first hearing held for the 1,404 credit card users abroad, only 818 individuals appeared, and of them, fewer than 100 persons were able to demonstrate correct use of the foreign currency.

**Banco del Alba is established.** During the VI Summit of the leaders of ALBA (Bolivarian Alternative for the Americas) held in Caracas beginning January 26, the Banco del Alba was founded with initial capital of US\$1 billion. President Chavez added that the purpose of the institution will be to raise the quality of life for the 53 million inhabitants of the member countries.

**Venezuelan reserves in Banco del Alba.** During the VI ALBA Summit, Chavez recommended that part of Venezuela's international reserves should be placed in the entities that make up the Banco del Alba and Banco del Sur. Once the institutions are functioning, Chavez said that they should place part of the international reserves in them.

**SENIAT surpasses 2007 Tax collection goal.** The SENIAT collected VEF6.89 billion during last December, an amount that suffered a real variation of 6.7% compared to what was collected in December 2006 while at the same time being 24% over the Tax collection goal for the month. Tax collection for the period between January and December 2007 was VEF61.61 billion, 4% higher than the yearly goal and 0.5% lower, in real terms, to what was collected in 2006. The areas that showed the most positive variation was "other rents," given the increase of Tax collection coming from bingos, casinos, liquors, and drinks. Also significant, the Financial Transaction Tax (ITF) collected since it went into effect in November 2007. It generated VEF2.54 billion in Tax revenues.

NATIONAL TAX COLLECTION				
(VEF Millions)				
DECEMBER				
	2007	2006	Var %	Real Var %
<b>TOTAL</b>	6.888	5.268	30,7%	6,7%
<b>Income TAX</b>	2.168	1.497	44,8%	18,2%
<b>Tax</b>	2.426	2.048	18,5%	-3,3%
<b>Customs</b>	1.672	1.442	15,9%	-5,4%
<b>Others Incomes</b>	622	281	121,6%	80,9%
<b>ITF</b>	1.290			
JANUARY- DECEMBER				
	2007	2006	Var %	Real Var %
<b>TOTAL</b>	61.609	52.141	18,2%	-0,5%
<b>Income TAX</b>	21.561	18.415	17,1%	-1,4%
<b>Tax</b>	19.424	17.205	12,9%	-4,9%
<b>Customs</b>	18.101	14.504	24,8%	5,1%
<b>Others Incomes</b>	2.523	1.694	48,9%	25,4%
<b>ITF</b>	2.540	0	-	-
<b>Debit Tax</b>	0	324	-	-

Sources: SENIAT and Ecoanalitica

# Weekly Report

**Stopping inflation.** Pressured by inflation increasing, the BCV and the Government have initiated policies to stop the expansion of money and to prevent more bolivars, in an effort to acquire a limited supply of goods, push prices up. An important part of this strategy is that public organisms stop injecting liquidity into the financial system.

**Defying price controls.** Luis Armando Rodriguez, the manager of Economic Statistics at the Central Bank, says that despite December measures, price controlled goods are selling at 25% more than the norm, on average.

**New CPI.** Starting in 2008, the year 2007 will be used as a new base year, and the new consumer preferences resulting from the third National Survey on Family Budgets will be taken into account.

Structure weights (%)		
CPI in the metropolitan area of Caracas		
	Base 1997=100	Base Dec2007=100
Food and non-alcoholic beverages	22,9	25,6
Alcoholic drinks and snuff	1,5	2,3
Clothing and footwear	6,5	5,2
Rental housing	15,1	12,1
Service housing except phone	3,5	2,7
Equipment from home	5,6	5,4
Health	4,2	6,5
Transport	13,3	11,2
Communications	5,2	4,9
Recreation and culture	5,1	4
Education Services	4,8	4,5
Restaurants and hotels	6,1	9,4
Miscellaneous goods and services	6,2	6,2

Sources: BCV and Ecoanalítica

**International reserves.** According to the latest published figures, total reserves, including BCV reserves and contributions to the Macroeconomic Stabilization Fund, dropped 0.17% during the week of January 24, 2007, settling at US\$33.39 billion.

**Interest rate.** The average lending interest rate of the six main banks in the country was at 24.67%, up 0.57% from last week. The average interest rate for term deposits

showed a slight increase of 0.1 percentage points compared to the previous week settling at 11.2%.

**Monetary liquidity.** The amount of money in the public's hands and in term deposits for the week of January 18, 2007 was at VEF150.19 billion, reflecting a negative variation compared to the previous week of 1.69%.

## OIL TIPS

**Oil prices dropped.** The price of oil dropped more than US\$1.00 to settle around US\$89 per barrel due to a drop in the world stock markets. Greater losses were avoided because of the expectation that the OPEC will not agree to increase supply.

**Asphalt export suspended.** Due to the deteriorated state of the national highways, President Hugo Chávez has order all asphalt exports suspended in order that it be exclusively used in the domestic market. Currently, asphalt production is at around 32,000 barrels a day, according to the Minister of Energy and Petroleum, Rafael Ramírez.

**Greater contribution to FONDEN.** In reviewing the contributions that the Government has being doing, it has contemplated asking the oil industry to increase its weekly contribution of US\$120 million to US\$200 million to the FONDEN. The adjustment is not so much so FONDEN will be able to count on more resources to attend to this year's projects, but because the emitting institute is transferring fewer assets that during the previous fiscal year.

**PDVSA debt at 16.01 billion.** The preliminary figures for PDVSA's finance statements published by the Alcaraz, Cabrera & Vázquez company, show that the company currently has debt for a total of US\$16.01 billion, including operations carried out by the main company and by different subsidiaries.

**It's normal for Ramírez.** The Minister of Energy and Petroleum says that this level of debt "is normal" if you take into account that the company's assets have increase as a result of the nationalization process of the old Orinoco Oil Belt associations.

**Changing signals.** This year's PDVSA's debt will be around US\$5.0 billion, though as recently as 6 moths ago there was talk of increasing debt to US\$12.0 billion.

## ***Weekly Report***

**Making payment with Citgo's help.** During 2008, PDVSA has to pay 17.9% of the capital of its debt, in other words, around US\$2.80 billion plus US\$900 million in interest. The company is looking in to refinancing this amount by applying for a loan through Citgo.

**Average oil production dropped in 2007.** 2007 has been the second consecutive year that Venezuelan oil production has dropped according to OPEC statistics. National crude oil production dropped 148,000 b/d during the year, averaging 2.39 million b/d.

**New purchase.** PDVSA directors are planning to meet with Isla refinery authorities, located in Curacao, in February in order to negotiate an agreement that will allow them to be shareholders in the plant. The refinery has a processing capacity of 320,000 b/d. It's currently being operated by PDVSA under a lease agreement which has been renewed a number of times. It's true that its location is strategic for PDVSA as an exit point for its oil by-products aimed at the U.S. and the other countries in the region that are members of Petrocaribe, but the company has also been getting rid of other assets in this area.

**Possible revision of the Law for Hydrocarbons.** The Energy and Mines Commission began operations last week and on its agenda it's planning to review the country's energy dynamics as well as to define the laws that govern it. The president of the Commission, Ángel Rodríguez, pointed out that " we are going to write the Law for Petrochemical Activity and we hope that they will let us prepare the Law for the Electric Power Sector as well as the reform of the Organic Law of Hydrocarbons."

**Trying to reach an agreement.** Eulogio Del Pino, director of PDVSA expects to reach an agreement with the U.S. companies ExxonMobil and ConocoPhillips regarding the nationalization of their heavy crude oil upgraders on the Orinoco Oil Belt. Del Pino also announced that around the middle of February major maintenance will be carried out on the Petrocedeno heavy crude oil upgrader, which was called Sincor before the nationalization in 2007. Maintenance will take more than 49 days.

**Hausmann proposal.** The director for the International Development Center for the University Harvard, Ricardo Hausmann, explained in Davos that he was proposing a new strategy for maintaining oil prices down and increase production, and at the same time achieve a new energy balance thanks to bio-combustibles. The first step to implementing Hausmann's theory would be to introduce a variable oil tariff.

**Giving away oil.** The Honduran Congress has authorized the Government to begin negotiations for the import of fuel from Venezuela. They announced the import of 20,000 b/d of fuel which will cost US\$1.56 billion during the next two years. Of that amount, 60% will be paid in cash within 90 days, and the rest over 25 years at 1% interest rate with a two year grace period.

## BUSINESS SECTOR TIPS

**Import of cars restricted.** The Finance Minister has informed the government that it has decided to limit the number of vehicle import licenses in 2008, in order to spur domestic production. According to ISEA statistics, locally manufactured vehicles represent between 45%-55% of all cars sold in the country. The Ministry of Light Industry and Commerce (MILCO) authorized 219,620 import licenses for cars this year.

**Auto-parts makers warn of production halt.** In the next few days 20% of the companies that manufacture auto-parts will be forced to stop production if CADIVI does not authorize the US-dollars that they have requested for inputs.

**Mercal subsidies.** The government is feeling the financial crunch of the MERCAL supermarket chain in terms of subsidizing basic foodstuffs, the expense coming to VEF1.7 billion last year. According to information from the Food Ministry regarding regulated prices of 14 basic foodstuffs, the average subsidy is 39% more than the value of the products. In the case of key items such as milk, the subsidy is 70.8% over the final price.

**Temporary measures decreed to fight shortages.** In view of the mounting shortages of foodstuffs, President Chavez has decreed measures to make more flexible the import of food items, in which the importer of foodstuffs or raw materials for manufacture, will not have to present proof of solvency to the IVSS, INCE and LPH, nor a Certificate of Non-production that is required of companies in other industries. The Government will also ask the Ministries of Health and Lands to issue their health certificates in no more than seven days.

**Transport of basic goods to frontier states prohibited.** According to Official Gazette #38,856 of January 23, which contains the resolution of the Agriculture and Lands Institute (MAT), there will be a temporary restriction of the transport of strategic goods to the frontier states of Apure, Táchira, and Zulia, in order to stem the

flow of contraband items outside the country. Among the goods cited are milk, rice, coffee, white and yellow corn, legumes and sorghum.

**PDVAL is the answer.** The government believes that the shortages of milk sugar, chicken, eggs, wheat flour, meat, oil, pasta, beans and rice could be overcome through the creation of the PDVAL network, or PDV Alimentos.

**Prior experience.** Initially, PDVAL will adopt MERCAL's operating system with domestic and international suppliers, and a marketing scheme aimed at operators and small grocery stores. It is anticipated that PDVSA Agrícola and PDVAL will be able to take advantage of Bariven's expertise with international markets in order to contract shipments, in this case foodstuffs. Based on the Mercal experience, the government depends on 70% imported items to take care of 14% of consumer demand.

**More demand for canned goods.** During 2007, some 250,000 tons of canned goods were consumed, a 20% increase over the previous year. This year, a similar increase is forecast, according to a statement by the president of Plumrose, Bent Porsborg, and which would signify a share of more than 25% of that market.

**Private banks to deliver close to VEF21.0 billion to agriculture.** The Ministry of the People's Power for Agriculture and Lands estimates that banking sector agriculture loan portfolios will be at VEF21.0 billion, with maximum interest rates of 15% and 3-20-year terms.

**New capitalization.** The Superintendency of Banks and other Financial Institutions (SUDEBAN) believes that certain entities should incorporate a new capitalization scheme for this year.

**Higher exchange.** Commercial exchange between Venezuela and Colombia is estimated at around US\$6 billion in 2007, according to Cavecol.

**Decongesting customs in La Guaira.** The maritime customs entity is studying the possibility of adding another highway lane in order to alleviate the heavy traffic caused by trucks carrying wheat from La Guaira customs headed to all parts of the country.

**Possible State subsidy of Aeropostal.** The president of the National Civil Aeronautics Institute (INAC), Ramón Viñas García, doesn't disqualify the possibility of the Venezuelan State subsidizing Aeropostal, once the airline presents recovery plans that demonstrate that it can improve its economic and operational situation.

**National Assembly (AN) considers publicity control bill.** Deputy Rosario Pacheco is sponsoring the General Law of Publicity, which seeks to control distortions caused by both private and public publicity that should be handled legally. The bill, which contains regulations that have been effective in other countries, will soon be taken up for debate by the AN.

**Telephone changes.** The Telephone Administration Council has strengthened itself in Latin America and in China through a series of personnel changes to become effective February 1. Telefónica Latinoamérica will thus be making organizational changes in three of its Latin America subsidiaries, specifically in Telefónica Venezuela, Telespy Telefónica in Central America, as well as in its Asian subsidiary. The presidency of Telefónica Venezuela will be assumed by Juan Antonio Abellán, who formerly headed Grupo Telefónica in Central America.

## Political Tips

**Confidence in the President drops.** A survey carried out by Datos reflects that between 2006 and 2007 confidence in Hugo Chávez has dropped by 9% going from 39% to 30%.

**Eduardo Lapi receives asylum in Peru.** Peru's Foreign Minister, José García Belaunde, announced that his Government has given former governor of Yaracuy state, Eduardo Lapi, who is wanted by the Venezuelan authorities, asylum.

**Opposition leaders sign unity pact.** Leaders from the political parties of the opposition introduced a document whereby they will be united as one for the upcoming regional election. This document includes 10 objectives which all the parties signing pledge to fulfill. These objectives are:

1. Rescue public institutions and respect their autonomy.
2. Respect ideological plurality.
3. Decentralize the country.
4. Security. Defend life and not allow impunity.
5. Respect for private property.
6. Fight poverty.
7. Education without ideologies. Respect universities' autonomy.

8. Foreign policy based on solidarity with neighboring countries.
9. Institutional Armed Forces.
10. Unity in order to achieve change.

**Expel from the PSUV all those who begin to campaign ahead of time.** President Hugo Chávez warned that all those who begin to campaign for a candidate before they have been nominated by party headquarters will be expelled from the United Socialist Party of Venezuela (PSUV). He pointed out that it will be the alliance between the Polo Patriótico and the grassroots movements that will choose the candidates to run for mayor and governor.

**National Police Law will be presented to the President.** The Minister of Interior, Ramón Rodríguez Chacín, announced that “in a matter of days” the National Police Law will be approved. He stated that the proposal on needs to be presented to the President of the Republic so that it could be included in the Special Powers Law.

**Nóbrega accused of corruption again.** The former Minister of Finance, for the second time in six months, had to stand before the Public Ministry and face charges of corruption. Specifically, Nóbrega is being charged with crimes committed due to having collected full payment for the construction of The Small Merchant’s Marker in Petare, and the Pérez de León Hospital, despite the fact that construction was never finished. He is also being charged with twice having significantly overpaid for work done in the capital.

## Other Tips

**Good results.** The BBVA released its financial statement for 2007. They reflected an annual net gain of EUR6.13 billion, up 29.4% compared to the previous year. Despite these figures, BBVA will have to face serious delinquency levels due to its subsidiary in the U.S. Compass.

**New shareholder.** The Andean Development Corporation (CAF) is becoming a shareholder of the Colombian Interior Gas Transporter (TGI) which owns Colombia’s largest network of gas pipelines. Initial investment will be at US\$40 million.

## ***Weekly Report***

**European stocks drop 2% due to recession fears.** Due to persistent recession fears which are driving raw material papers down.

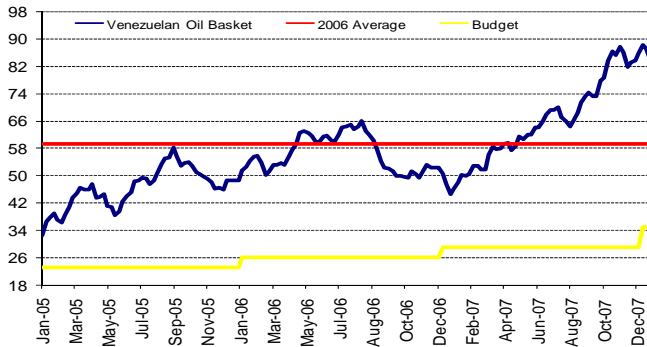
**Facing up to a recession.** The general director of the International Monetary Fund (IMF), Dominique Strauss Kahn, asked the U.S. to face the recession that is threatening the country with “serious answers,” during the World Economic Forum at Davos (Switzerland). U.S. President, George Bush, announced an Economic Reactivation Plan for US\$145.00 billion last week and last Tuesday the Federal Reserve cut basic the interest rate by 0.75%, reducing it to 3.50%.

© Ecoanalítica – Descargado por usuario no autenticado

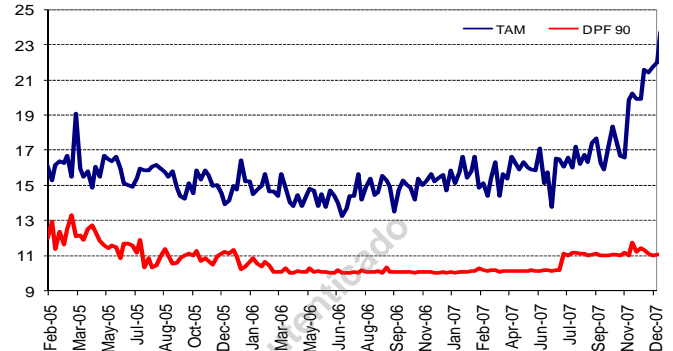
# Weekly Report

## ECONOMIC OVERVIEW

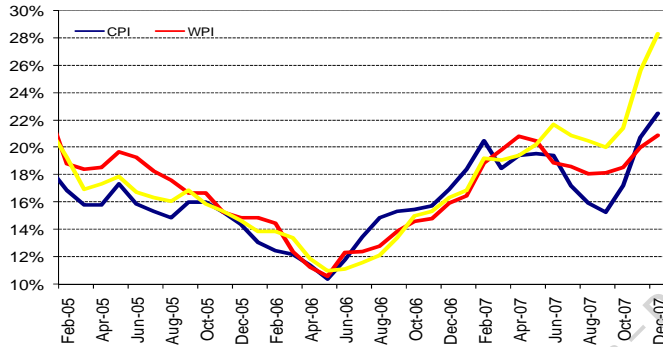
**Oil Price**  
(Venezuelan Basket US\$/pb)



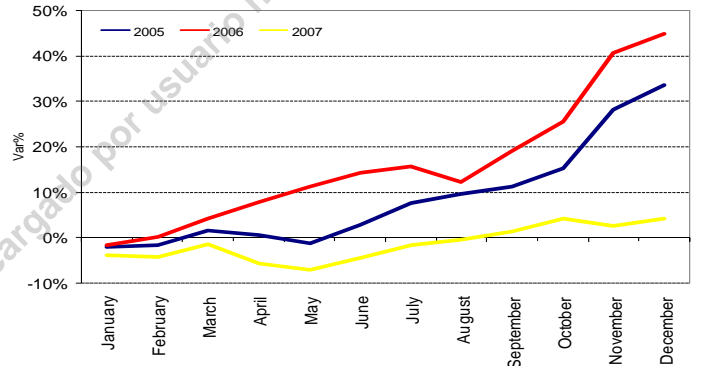
**Interest Rate**  
(Six Principal Banks)



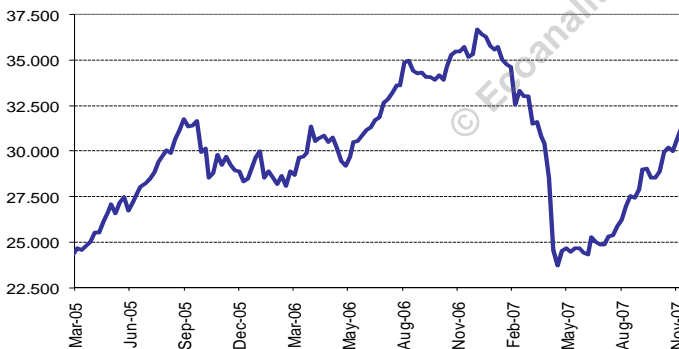
**Inflation**  
(Last 12 Months)



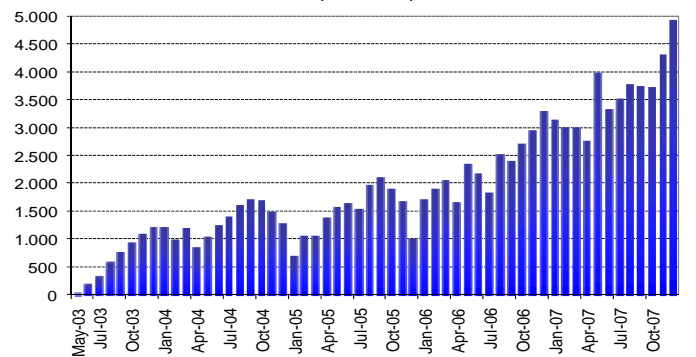
**Real Expansion (M2)**



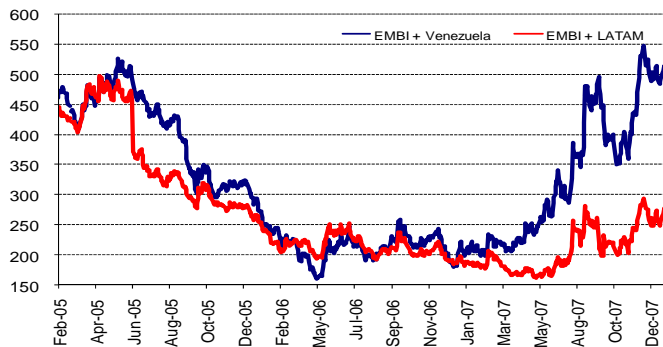
**Fx Reserves - BCV**  
(US\$ Million)



**Disbursement**  
(US\$ Million)



**EMBI**



**Central Government**  
(VEB Billion)

