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*The private sector doesn't feel it has any guarantees that it will receive the foreign currency promised.*

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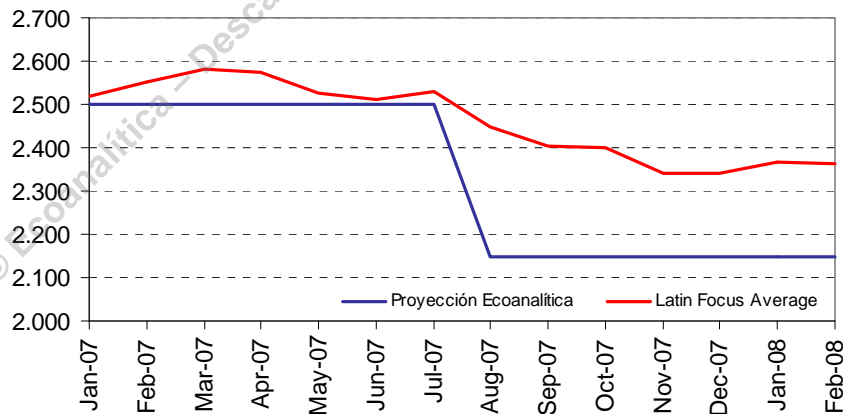
At **Ecoanalítica**, we have mentioned from the beginning that exchange controls are not sustainable in Venezuela. The reason for this comes from a feeling of subsidy that the private sector has due to the exchange differential between the official and non-official exchange rate. The greater the differential, the faster Venezuela rushed towards a balance of payments crisis. Furthermore, as the Administration imposes quantitative restriction regarding the release of foreign currency, every businessman must be asking himself: when is it going to happen to me? The answer to that question leads them straight to establishing coverage strategies; adjusting their prices based on the non-official exchange rate; and purchasing assets indexed in foreign currency while acquiring debt (whenever possible) in bolivars. This quarter, due to monetary and fiscal restrictions, and because it is traditionally a slow foreign currency demand period (a situation that we don't expect will repeat itself in the follow three quarters of the year), the exchange market has remained fairly calm, even tending to become more moderate. We suggest that you don't wait for the lowest level you think the exchange rate will drop, or that the storm arrives, for you to begin reducing risk. **WITHOUT A DOUBT,**

## THE MOMENT TO BEGIN IMPLEMENTING COVERAGE STRATEGIES IS NOW.

**The Administration is carrying out an implicit devaluation.**

In May 2007, we were the first in the market to state that we didn't expect there to be a devaluation of the official exchange rate in 2008. Currently, this is what the market also believes. The analysts that still think that there will be a devaluation of the official exchange rate also believe that it will be a very modest one, not surpassing 16.0%. In that report we mentioned that a way that the Administration can keep its word and not adjust the official exchange rate is by restricting the sale of foreign currency. This restriction of the sale of foreign currency at the official exchange rate is nothing more than an "implicit" devaluation, since the companies that don't have access to official exchange rate foreign currency (liquor, automobile, candies, and anything else that is not of "priority to the revolution") have to turn to the parallel market. The sad thing is that the Government thinks that this implicit devaluation is politically "acceptable."

**Exchange Rates monthly projections. End of 2008**  
VEB/US\$



Sources: LatinFocus Consensus Forecast and Ecoanalítica

**The implicit devaluation has a high political cost for the Government: Inflation.**

Since July 2006, CADIVI has published a number of different rules through which more than 3,500 tariff codes have been declared as luxury items which prohibits or limits the sale of official rate foreign currency for the import of these items. This creates a scenario in which every sector is just waiting for the moment when a rule will be issued restricting them from purchasing official rate foreign currency because

some genius in the public sector happened to have a “strategic” idea. We point this out because not even the food sector, with all the shortage problems that exist, has escaped the creativeness of the Government which has limited the import of corn, or maybe it’s suggesting that we eat bread made out of rice flour.

Furthermore, in the last two years, CADIVI has accumulated accounts payable for US\$ 2.100 million. In other words, the amount of requests authorized surpassed the amount that was actually paid out. It’s important to clarify that this figure can be slight less given that a company in the end may have decided not to import the good in question. However, that’s the exception and not the rule, since one has to consider what company, with its official rate foreign currency request approved, would not take advantage of the super discount rate for foreign currency they were getting and decide not to import the good in question. At **Ecoanalítica**, we believe that these two situations have led businessmen to adjust their prices which in the last three months have increased by a yearly rate of 52,8%.

**“Snail’s pace adjustment<sup>1</sup>” explains the relative calm of the exchange market and the increase in the interest rates**

Since the end of September the Government has been carrying out an adjustment program which aims at restricting liquidity, and therefore also restricts fiscal spending. The State has been moving its deposits from the private banking system to public banks, which then have to be depositing these resources in the Central Bank of Venezuela (BCV). Furthermore, the Central Government and PDVSA have slowed down the rhythm of public spending and have delayed their payment schedules. This has produced a false image that we have a Government and/or oil industry that is having cash flow problems. At **Ecoanalítica**, we believe this is just a strategy being carried out by the Administration, since the State’s accounts with BCV and those it has abroad are full of resources.

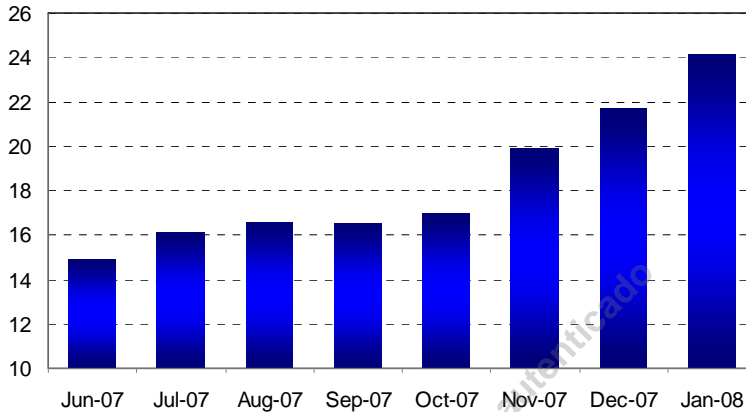
But in the end, economic laws still apply, even for this socialist government. In this environment, lending rates increased from 15.9% on September 28, 2007 to 24.1% on February 8, 2008, up 820 base points.

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<sup>1</sup> Victor Salmerón, El Universal.

# Weekly Report

Average Active Interest Rates  
%



Sources: BCV and Ecoanalítica

**Low seasonal demand of foreign currency and the sale of structured notes have strengthened the bolivar**

At the same time the Government has been carrying out its snail's pace adjustment, there has been a relatively low "seasonal" demand for foreign currency by the private sector, and there has been a direct placement of structured notes into the financial system. This quarter taxes are due, therefore companies have to put their accounts in order to make payment; inventories are over stocked and demand is relatively low, which is why the demand for foreign currency is also relatively low. Furthermore, the Ministry of Finance has once again decided to place structured notes, which may be quite opaque, but still increase the supply of foreign currency. Both of these situations have strengthened the bolivar in an environment of low volatility. These conditions will not repeat themselves during the rest of the year, so you know what you need to be doing.

**The surveys don't lie: this is the moment since regional elections are just around the corner**

Once the Tax payment period has passed and we get closer to the second semester of the year, companies will increase their demand for foreign currency. Furthermore, all the surveys that we have seen regarding the upcoming regional elections (key races for Governor and mayors in important states) show the opposition winning by a significant margin. This will force the Administration to "for now" realize that it is necessary to forget about fiscal and economic adjustments and, if the revolution is to "survive," once again launch its electoral spending party. Expanding public spending will increase the circulation of bolivars, and what the foreign currency supply will be at is anybody's guess. Plus, Minister Isea's followers have already made it known that

# Weekly Report

they wish him to be considered for the Governor's race for the state of Aragua. Before all this uncertainty, are you still going to continue thinking about it?

**Besides, in the long term, economic history tells us that exchange controls are not sustainable and that they end up with significant devaluation**

It should be clear to our clients that despite the fact that we don't expect a devaluation of the official exchange rate in the short term, we continue to believe that exchange controls are not sustainable in Venezuela and they create an environment that makes it necessary to have protection against the comings-and-goings of the official exchange rate. More than protection, past experience with exchange controls has led us to conclude that companies should maintain a long balance in US-dollars and a short one in bolivars. The reason for this, as you can see in the annexed table, is that in periods of exchange controls, interest rates are below the inflation rate and they are both below devaluation.

	<b>RECADI</b> 1983-1988	<b>OTAC</b> 1994-1996	<b>CADIVI</b> 2003-2008
<b>Average Interest Rate</b>	7,9%	27,5%	12,5%
<b>Inflation</b>	20,1%	57,8%	19,9%
<b>Average Depreciation Rate</b>	44,5%	98,8%	32,1%

Source: Ecoanalítica

During the first five years of the current exchange control, the relationship between these variable hasn't been the exception. Savings interests rate have averaged 12,5%, a figure much lower than the average inflation rate of 19,9%, and both quite a bit under the average yearly devaluation (measured by the parallel exchange rate) of 32,1%. This is why companies should avoid maintaining assets in bolivars and look for ways of maintaining their assets value with regard to the instability of the official exchange rate. Of course, with these current oil prices, the end is not just around the corner.

Exchange controls continue to subsidize a part of imports, and therefore the country continues to move towards a balance of payments crisis which will end with a very severe economic

adjustment. Adjustments like what Venezuelan experienced in 1989 and 1996, which led to the highest inflation rates this country has ever seen and impoverished the whole population. It's sad that a country continues to make the very same mistake over and over again; a mistake that has such an adverse affect on its population and especially on its poorest members.

## Economic Tips

**Higher oil contribution.** The Minister of Energy and Petroleum, Rafael Ramírez, announced that last year, the State kept 92.5% of PDVSA export revenues. This figure comes by adding the fiscal contribution made by PDVSA in form of royalties, dividends, and Income Tax (US\$29.28 billion) to the social contributions it made directly as well as indirectly (US\$13.05 billion) which all added up to US\$42.32 billion at the close of 2007. In 2006, the State kept 88.1% of PDVSA revenues.

**More controls on the way?** The Bank Superintendent assured that in the next few weeks the BCV will be making a decision to control lending interest rates which on average have increased 8.4 percentage points in the last 12 months. He continued to say that he could not understand why the cost of some loans have been increasing to the maximum ceiling of 28%, adding that he thought the BCV should fix commercial, tourism, and promissory note loan rates. It's important to point out that according to the information we have, the BCV would be studying the possibility of raising the ceiling on lending interest rates.

**Fonden contributions will be for US\$7.30 billion.** Resources to be transferred to FONDEN this year will be for US\$7.30 billion, 37% less than the US\$11.50 billion transferred in 2007. Of the total amount, US\$5.80 billion will be contributed by PDVSA, even though increasing the industry's weekly contribution is still being studied, increasing it from US\$120 million to 200 million per week. Fonden contributions will be less this year due to lower level of surplus reserves registered at the close of 2007. We don't rule out the possibility that the Government increase the transfer via BCV.

**Structured notes return.** The Ministry of Finance resumed the practice of offering foreign currency to the nation's financial institutions through the allocation of

structured notes, financial instruments which coupon's payment is tied to the risk-country of nations like Ecuador and Bolivia. In two weeks, US\$270 million have been allocated through the National Treasury Office, and the preliminary schedule indicates that the weekly amounts will range between US\$130 and US\$135 million. The Ministry of Finance is expected to continue to sell all the remaining notes held by FONDEN throughout 2008.

**Foreign and domestic debt.** According to figures published by the Ministry of Finance, Venezuela's foreign debt contracted in 2007 was US\$27.29 billion, 5% greater than the debt contracted in 2006. Of this amount, 81% (US\$22.31 billion) was acquired through bonds and other obligations issued. The other 19% was requested before multilateral organisms and other institutions. The 2007 public debt balance was 15% greater than 2006, settling at VEF35.40 billion. 97% of the domestic debt corresponds to national public debt bonds and only 3% to the placement of promissory notes and Treasury Bills. This only includes the Central Government.

**Fitch worried.** According to Fitch Ratings, countries which earmark revenues taken in due to the high price of the export of basic materials to finance their social spending agenda like Argentina, Venezuela, Ecuador, and Bolivia do, run the greater risk of experiencing a deteriorated economic performance. Christopher Sabatini, policy director for the Americas Council, pointed out that in Venezuela, the main problem was production; stating that not even OPEC believes it when the Government assures that it is pumping 3 million barrels a day. Fitch Ratings also believes that access to international loans may also be a problem for Venezuela after the PDVSA asset freezing episode.

**Unemployment down.** According to the Labor Force Situation Report corresponding to the second semester 2007 issued by the National Statistics Institute, unemployment dropped 1.8 percentage points compare to the second semester in 2006, settling at 7.5%. Compared to the second semester 2006, the same period in 2007 showed a drop in the unemployment rate, especially the areas of hydrocarbon exploitation (7.0%) and manufacturing industry (5.9%).

**International reserves.** During the third week of February, international reserves were at US\$32.96 billion, recovering slightly by 2% compared to the previous week, and after an abrupt drop of more than US\$2.0 billion during the first weeks of 2008.

**Interest rate.** The average loan interest rate during the course of the week of February 8<sup>th</sup> for the six main banks in the country was at 24.13%, up 0.43% from the previous week. Term deposit interest rates were down by 2 percentage points and settled at 10.00%.

**Monetary liquidity.** The figures published on February 8<sup>th</sup> reflect a slight drop in monetary liquidity of 1.32 percentage points, settling at VEF149.34 billion.

## OIL TIPS

**New record.** WTI prices for March delivery reached US\$100.01 per barrel, while the OPEC basket settled over US\$92. The jump in price is attributed to, among other things, the belief that OPEC will not change its position regarding increasing supply, during its next meeting to be held on March 5<sup>th</sup>, and to the supply conflicts that exist in Venezuela and Nigeria.

**New IEA provisions.** Lawrence Eagles, main analyst for the International Energy Agency (IEA), stated that the IEA lowered its provision regarding world oil demand by 0.2 million barrels of oil per day for 2008 due to an economic slowdown, especially by the United States. At the same time, the IEA increased its provision of world supply for the month of January by 745,000 barrels which placed it at 87.2 million barrels a day, thanks to Brazilian oil production developments and a return to normal by Azerbaijan, China, and Mexico.

**Venezuelan basket also up.** Venezuelan barrel of oil also went up this week to an average price of US\$86.29, according to information released by the Ministry of Energy and Petroleum. The crude oil and oil by-products basket was up US\$4.53 compared to the previous week when it averaged US\$81.76.

**PDVSA releases investment figures.** Minister Ramírez announced that PDVSA substantially increased its investments from US\$5.83 billion in 2006 to US\$10.56 billion in 2007. However, at *Ecoanalítica*, we are not quite sure what is being quantified as an investment.

**Agreement reached with ENI.** The Ministry of the People's Power for Energy and Petroleum announced that it has reached an agreement with the Italian company ENI to settle the dispute related with the migration of the operative agreement of the Dación area. According to PDVSA, agreements have been reached regarding all of the 32 operative agreements that existed. The ENI was also a part of the conversion process from Shared Risks and Profits Exploration Agreements to Mixed Companies, and it agreed to migrate according Venezuelan legislation.

**Exxon Mobil still interested in reaching a friendly agreement with PDVSA.**

Exxon production director for Europe, the Caspian Sea, and Russia said in an interview that Exxon Mobil was still willing to negotiate “a friendly agreement” with Venezuelan authorities regarding the forced acquisition of its oil deposits. But if negotiations can’t be carried out, then the multinational would exercise its rights.

**US\$97.00 billion in oil revenues.** The Minister of Energy and Petroleum and president of Petróleos de Venezuela, Rafael Ramírez, announced that oil revenues for 2007 reached US\$97.00 billion, with an average production of 3.3 million barrels daily.

**For now, No!** During the last broadcast of the President’s show *Aló presidente*, he commented that there were no plans to stop delivering oil to the United States, as he had threatened to do on numerous occasions. But, the President warned that in case Imperialism were to assault the country, not recognize its sovereignty, or try to hurt it, then the supply would be cancelled.

**Consider taxing windfall oil profits.** President Chávez wants to create a new “windfall profits” tax which foreign oil companies operating in Venezuela would have to pay whenever oil prices rise above a determined level.

**Total stays in Venezuela.** The French oil company Total stated that whatever conflict Venezuela may have with U.S. Exxon does not constitute any reason why it should shutdown its operations in the country. The company’s president added that despite the fact that the company’s shareholdings participation in the Sincor (now Petrocedeno) heavy crude oil project was reduced, this continues to be a profitable business for Total.

**US\$50 million to build storage tank in El Salvador.** Through its subsidiary PDV Caribe, PDVSA finds itself investing US\$50 million to build a fuel storage tank in El Salvador. The first phase will begin this year with the construction of storage tanks for diesel fuel, 91 and 95 octane gasoline, and jet fuel.

## BUSINESS SECTOR TIPS

**Loan portfolio increases by 66%.** According to figures released by the Bank Superintendent’s Office (SUDEBAN) loans granted in the month of January reached

## Weekly Report

VEF102.96 billion at the close of January. This figure is 66.38% greater than what was registered in January 2007, and 1.76% less than what was registered during the previous month.

**The Banco del Pueblo with a delinquency rate of 20.8%.** The Banco del Pueblo balance registers at the close of January that 20.8% of the total of all loans granted are delinquent. This delinquency index is much higher compared to all the private sector banks where the average delinquency index is at 1%. However, the bank has an adequate amount of funds to incorporate new loans and even showed profits for VEF62 million in January.

**MAT fixed priorities for agriculture loans.** According to the *Gaceta Oficial* N° 38.868, the priority items for obtaining loans from the public and private banking system for this year are: white and tallow corn, rice, sorghum, coffee, cacao, sugar cane, and cotton, among other things. Also included were agro-ecological units and related crops (*conucos*). The banking system must allocate 49% of its agriculture portfolio to finance the production of priority primary items each month.

**More threats.** During his Sunday broadcast, President Chávez threatened to intervene Empresas Polar for supposedly hoarding basic basket food items. He warned that any monopoly doing this will be immediately intervened and put under Government control.

**Alimentos Polar denies charges of hoarding.** Alimentos Polar denied, through a statement released by the company that it has anything to do with hoarding food items. The statement continues to explain that the company doesn't sell to the public but to distributors and businesses, and that all regulated items have their price marked on the package of each product and these prices are reflected on their bills.

**Production dropping.** Pablo Baraybar, president of the Venezuelan Chamber of the Food Industry (CAVIDEA), announced that price controls and the drop in inventory of raw materials has deteriorated the manufacturing capacity of the nation's food companies. Their production has dropped by 2% since September 2007.

**Confusion in pasta market.** Since the industry has still not begun to produce the regulated pasta, the market is being supplied with Premium pasta not subject to control. This situation has caused confusion especially in organisms like the INDECU and the GN that don't know that 30% of pasta production in the country is not regulated and they have forced the sale of Premium products at regulated prices.

## ***Weekly Report***

**SANCOR will increase shipments.** In order to end the shortage of milk in the country, the Minister of Food and president of Mercal, announced that the Argentinean company SANCOR had in recent agreements accepted to send 15,000 tons of milk during 2008. He also added that this product would be packaged by the Supply and Agriculture Service Corporation (CASA), and distributed in Mercal as well as in PDVAL.

**PDVAL has placed 70,000 kilos of powdered milk in 5 weeks.** The food distributor PDVAL, located in the Fabricio Ojeda Endogenous Development Nucleus, has sold around 70,000 kilos of powdered milk during its first five weeks in operation. This center services an average of 2,000 people a day.

**Coca-Cola FEMSA blockade stopped.** The legal representative for Coca-Cola, Rodrigo Anzola, announced that the blockade of its company had been lifted upon reaching an agreement with their former transport personnel who were demanding benefits owed them from when they were employees. For the last 10 days they have illegally occupied 12 distribution centers and one bottling center around the country.

**Only for special cases.** The president of CADIVI, Manuel Barroso, announced that partially increasing the allotment of foreign currency for internet purchases is being studied in order to be able to address special cases like "entities subscribing to scientific magazines that order medicines or import spare parts via internet." Purchasing of electronic equipment is not being considered as a special case.

**Mobil gas stations around the country to be renamed.** The Minister of Energy and Petroleum announced that the gas stations that continue to work under the Mobil banner are in the process of being renamed, and according to the Minister, it's due to delays in the process since they were all sold in 2007 to Venoco.

**National cacao plan will promote domestic consumption.** The Government is working on the design of a National Cacao Plan through three public and private entities. This project, which investment will surpass VEF900 million, initially expects to benefit 27,000 cacao-growing families.

**Imported automobiles stuck in customs.** Around 11,000 automobiles sent to Venezuela during November and December 2007 are being held at the Puerto Cabello customs office are waiting to be nationalized. The sticking point is that they require an import license valid as of January 1<sup>st</sup> in order to complete the process and be allowed into the country.

**Mercantil on top.** At the close of 2007, the Mercantil Banco Universal subsidiary occupies the first spot in the domestic banking system with regard to their portfolio aimed at the real estate sector and agriculture. It's also in first place when it comes to Venezuelan banking system savings deposits, with 16.6% of the market. Results at the close of 2007 indicate that company's equity registered an increase of 31.6% compared to the previous year settling at VEF3.41 billion.

## Political Tips

**Samuel Ruh fired.** After nine years as head of the Presidency of Consumer and User Education and Training Institute (INDECU), Samuel Ruh was replaced from this office on February 19<sup>th</sup>. Maybe the fact that he denied that there was a shortage crisis, insisting that it was all due to hoarding, was the reason that he was replaced by Eduardo Samán, who was the director of the National Autonomous Service for Standardization, Quality, Measurements, and Technical Regulations (SENCAMER).

**National Assembly proposes to bring to trial those responsible for the oil opening.** National Assembly representative Ángel Rodríguez proposed to start legal proceeding against those public officials that made the oil opening possible, given that they are responsible for having turned over our national oil wealth to the "predators." The proposal was supported by the rest of the representatives who also agreed to recommend to the Administration that it should ask the International Centre for Settlement of Investment Disputes (ICSID) to be removed.

**Upcoming regional elections have a date.** Director of the CNE, Tibisay Lucena, announced that the date proposed to hold the upcoming regional elections for governors, legislative councilmen, and mayors will be on November 23, 2008. However, the date proposed has to be approved by at least two of the remaining four directors.

**Reaching agreements to unite is difficult.** According to information gathered by *Ecoanalítica*, the opposition is finding it difficult to structure an agreement to present united candidates. However, in the end, the search for unity and wanting to get the most for your vote, will allow for important agreements to be made.

**Tascón kicked out...again.** After having reported before the National Assembly the alleged irregularities concerning the purchase of vehicles for the Ministry of

## Weekly Report

Infrastructure, the members of the Bloque Socialista Unido at the NA proposed the exclusion of Representative Luis Tascón from the Partido Socialista Unido (United Socialist Party).

**Keller: Chávez's popularity is becoming eroded.** The pollster Alfredo Keller & Asociados reported that President Hugo Chávez's popularity is currently at 38% and that has been falling over the two last years after having reached a little over 60% in recent years.

**Caracas' Survey.** According to a public opinion survey carried out by the Instituto Venezolano de Análisis de Datos (IVAD) (Data Analysis Venezuelan Institute) of the 1500 people surveyed from the 5 municipalities of the Caracas' Metropolitan District, 57% of the inhabitants of the capital city believe that the situation of Caracas is very bad, bad or regular tending to bad. The main problems are first, the lack of personal safety; second, garbage collection, and third, traffic jams. Barreto, Bernal and Rangel Ávalos have 61%, 56% and 48% acceptance levels, respectively, whereas those that placed the highest were López (79%) and Capriles Radonski (63%).

**New Cédula (Identity Card).** ONIDEX director, José Morales, announced that the proposed electronic ID project will be financed by FONDEN, being US\$ 172.2 billion earmarked for the project. Morales pointed out that the tests will start by mid year, after the equipment is purchased and the technological platform has been fitted.

**U.S. Congress after Chávez.** Eliana Ros-Lehtinen (rep) believes that conditions exist to consider that the Government of Hugo Chávez backs irregular terrorist groups, and justified the proposal of her political faction to include Venezuela in the list of counties which support terrorism. In our opinion this proposal is in response to internal political motivations due to an election year and will probably not be approved.

### Other Tips

**Fidel Castro steps down.** The Cuban leader Fidel Castro announced that after almost a half of century in power, he would no continue to be the country's President due to his current health problems. His renouncing the presidency does not exclude him from being elected as a State Council member or that in the future he may fulfill the role of veteran statistician.

## ***Weekly Report***

**New CVG president.** The *Gaceta Oficial* number 38.896 includes the presidential decree which names Rodolfo Sanz as president of *Corporación Venezolana de Guyana* (CVG). Rodolfo Sanz was recently a member of the Political Command of the Revolution and a member of the Ayacucho Command.

**Ministry of Planning new members.** The *Gaceta Oficial* número 38.867 has been published which includes the presidential decree that names Carlina Pacheco as the vice-minister in charge of Economic Development for the Ministry of the People's Power for Planning and Development. The same publication includes decree number 5.855, which names Pedro Oliveira as vice-minister of the People's Power for Institutional Planning and Development.

**Mergers on the way.** Four U.S. airlines are in negotiations contemplating mergers. Delta Air Lines is expecting to merger with Northwest and Continental is in negotiations with United Airlines.

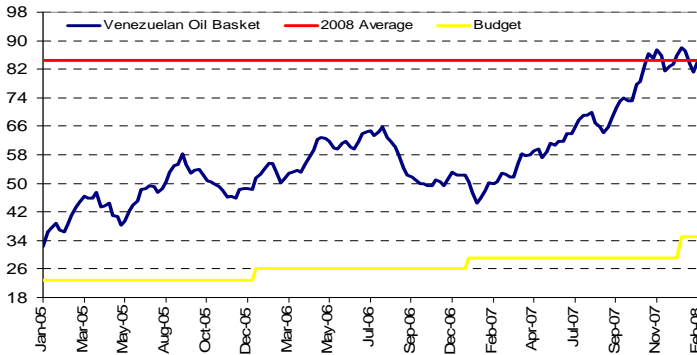
**Correa popular.** According to the latest survey taken in February by Cedatos, 55% of the population approves of President Rafael Correa's Administration. Though the result is 2 percentage points less than the survey taken in January, since 1979, when the democratic period began, no president had surpassed a 45% approval rating after having been in office for a year.

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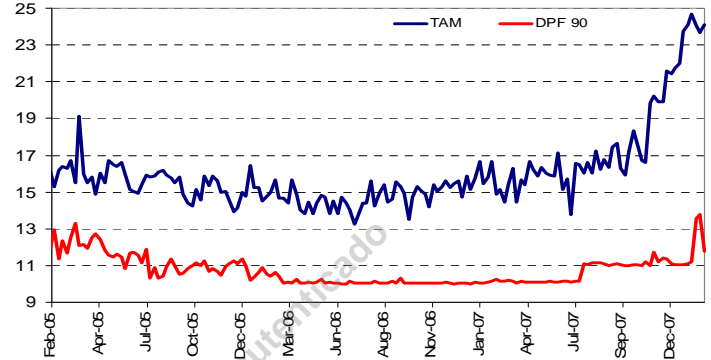
# Weekly Report

## ECONOMIC OVERVIEW

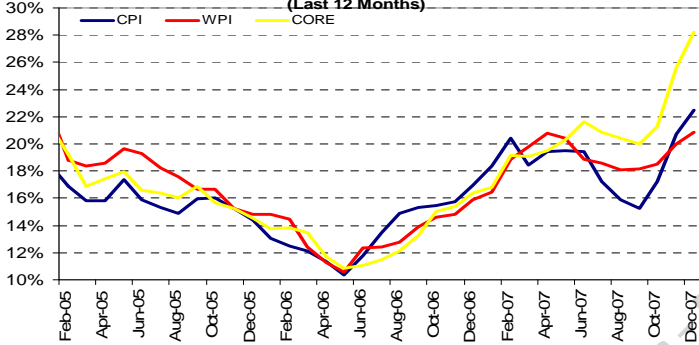
**Oil Price**  
(Venezuelan Basket US\$/pb)



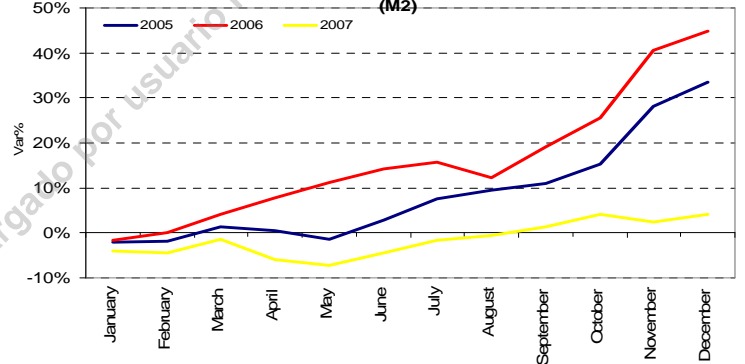
**Interest Rate**  
(Six Principal Banks)



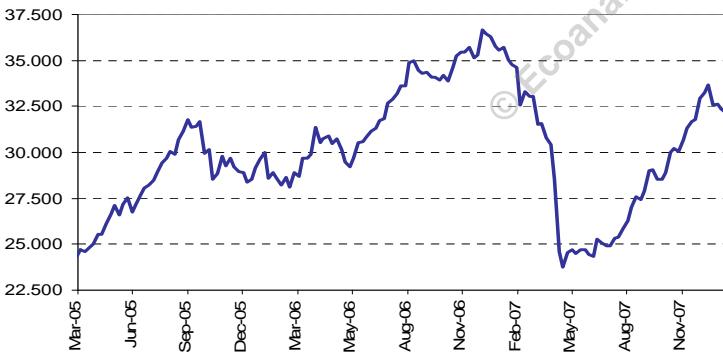
**Inflation**  
(Last 12 Months)



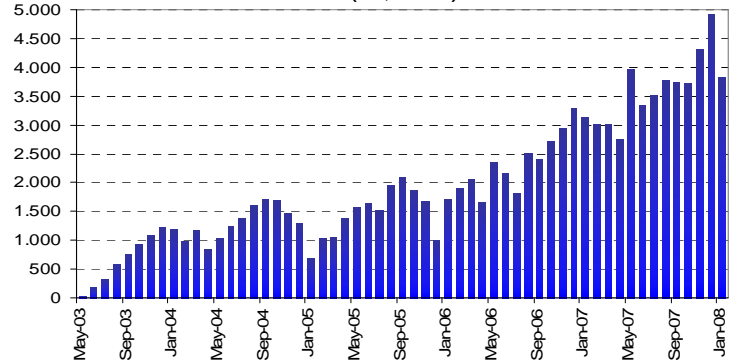
**Real Expansion**  
(M2)



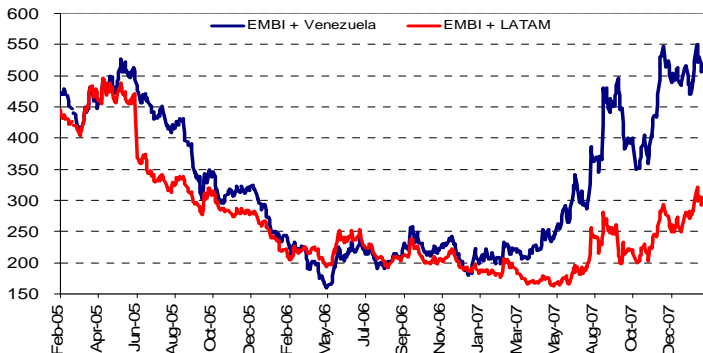
**Fx Reserves - BCV**  
(US\$ Million)



**Disbursement**  
(US\$ Million)



**EMBI**



**Central Government**  
(VEB Billion)

