



# Weekly Report

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## ***DOES THE ADMINISTRATION HAVE ENOUGH MARGIN TO MANEUVER TO ISSUE MORE DEBT?***

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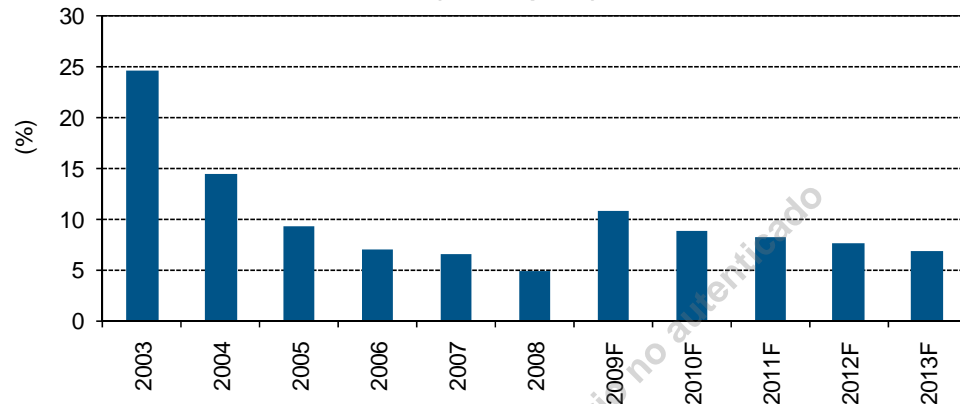
One of the main points which is at the heart of the Government's economic strategy is the issuing of public debt, especially domestically and in bolivar denomination. The key question now is if this mechanism is currently viable and/or will it lead to serious distortions in the future.

**It hasn't been so bad**

At *Ecoanalítica*, we believe that the policies followed by the Administration for issuing debt have not been bad. In the first place, at the close of 2008, domestic debt was at US\$ 14,19 billion, down by 15.2% compared to the previous year. In fact, for the last three years, the Administration has cut the debt it owes down to minimum levels and it has only had to worry about managing service costs. With respect to foreign debt, exchange controls have made it easier to place foreign debt in more favorable conditions than in past, which has led to significant savings in foreign debt service. All this doesn't take into account that the Government bought-back debt in 200 for around US\$ 3,9 billion. All in all, the Central Government's total debt (domestic and foreign) equal US\$ 44,1 billion, which represents 13.9 points of GDP and 103.9% of exports projected for this year.



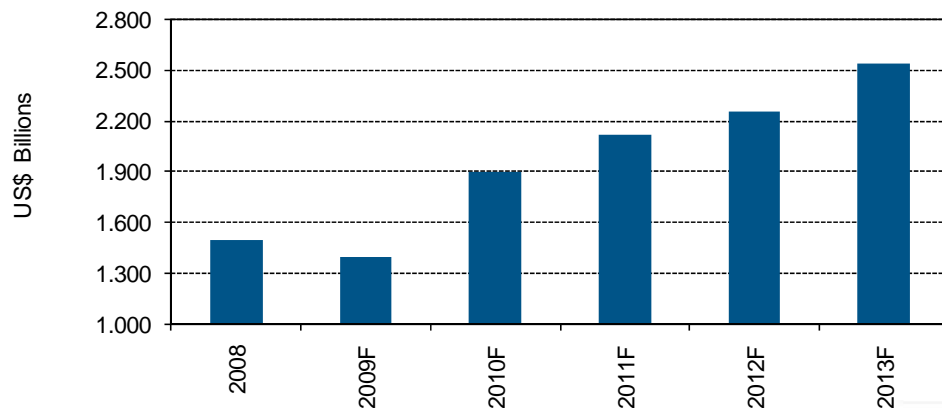
**Foreign Debt Service  
(%Of Exports)**



Sources: Ecoanalítica and MF

In this context, the Government has decided to increase its stock of debt, especially domestic debt (bolivars). Officially, it has been announced that the Administration plans to increase its issue of public debt this year by VEF 37,0 billion (US\$ 17,21 billion). However, recent modifications made to the Public Sector Financial Administration Law make us think that the Administration is planning increase the issue of domestic debt by around VEF 10.0 billion (US\$ 4.65 billion) more than what was announced. In total, gross debt would be at VEF 47,0 billion (US\$ 21,9 billion). This would represent an increase of 49,62% in the total debt issued by the Central Government. In terms of GDP, the debt would be going from 13.8 points of GDP in 2008 to 17.8 points of GDP in 2009. In terms of debt service, this would increase by VEF 10,87 billion in the period 2010-2013.

**Central Government Debt Service**



Sources: Ecoanalítica and MF



### **Until oil prices increase**

Some analysts point out that this significant issue of public debt is a sign that the Government never did have extraordinary resources saved up to use. At **Ecoanalítica**, we don't share this notion. We believe that the Administration is just trying to get its hands on the most resources it can so that it does not have to make an economic adjustment or carry out an economic plan that would lead to serious political collateral damage. This is very important to understand. For Chávez, the most difficult measures he had to introduce were the ones he announced last March, and he really doesn't want to have to introduce additional, more severe, measures. Though it may seem incredible to us, the Government and its technicians, are all still hoping and betting that oil prices will increase again so that they can go back to business as usual, as it was before the international crisis; because in the current scenario, there will never be enough resources.

According to unofficial information that we have gathered, Government spending for 2009 will be at VEF 180.0 billion (US\$ 83.72 billion). This does not match the VEF 156.38 billion (US\$ 72.74 billion) in spending which was established in the updated and reformulated version of the 2009 National Budget. The difference, which is equal to VEF 23,62 billion (US\$ 10.99 billion), is expected to be covered by issuing debt.

### **Does the financing system have the capacity to absorb this**

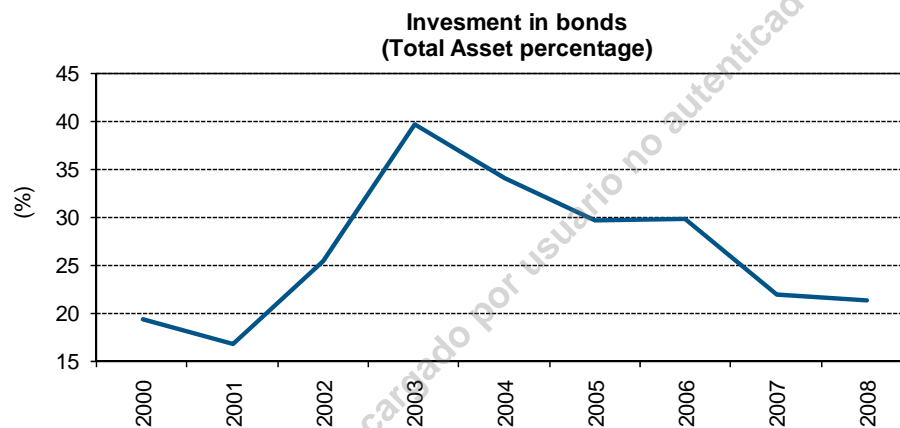
Up until now, we have been describing the Government's strategy regarding issuing debt. Now we would like to briefly take a look at whether the Venezuelan financing system has the capacity to absorb this debt. Here, it's important to point out that decisions made by the Central Bank of Venezuela (BCV) during the last few weeks regarding monetary policies seem to indicate that it is going to make things easy for the Administration. Recent changes have mainly focused on making legal bank reserve policies more flexible and lowering interest rates, especially those related to absorption operations. At **Ecoanalítica**, we expect that during the second semester legal bank reserve levels and interest rates will drop marginally, the latter due also to a significant slowdown in economic activity.

At the close of the first quarter, investment in bonds was at VEF 79.64 billion (US\$37.043 billion). When attempting to calculate the amount of resources that may be "available" at the close of April we find that the financing system liquidity surplus is at around VEF 4.32 billion (US\$ 2.01 billion), the





amount of domestic public debt maturing during what's left of 2009 is at around VEF 4.15 billion (US\$ 1.93 billion), the amount of compulsory loan obligations that the financing system will fail to meet is at approximately VEF 6.20 billion (US\$ 2.88 billion). All this adds up to VEF14.67 billion (US\$ 6.82 billion), which is 31.2% of the total amount of debt the Administration is planning to issue.

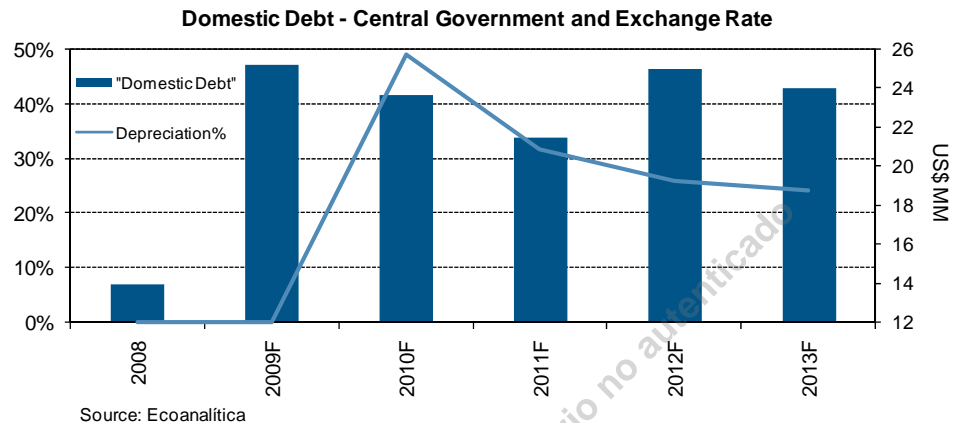


Sources: Ecoanalítica and SUDEBAN

Plus, we would have to consider that the balance of absorption operations, which can be gradually substituted with public debt bonds with a more attractive yield, at the close of April was at VEF 26.40 billion (US\$ 12.28 billion). But, if the marginal legal bank reserve were to be reduced from 25% to 15% and the traditional legal bank reserves dropped from 17% to 15%, around VEF 16.50 billion (US\$ 7.67 billion) in resources would be freed up. These resources would add up to VEF42.90 billion (US\$ 19.95 billion). If we add this to the previous amount we will have VEF 57.57 billion (US\$ 26.78 billion).

This makes it quite clear and evident that the Government could increase the issue of domestic debt without any problems whatsoever, since this would significantly increase the amount of debt service during the next four years; plus, the Government still has the devaluation of the currency to fall back on. So, by employing this strategy, the Administration controls the stock.





It was to be expected that the Government would turn to issuing debt in times of hardship and economic slowdown. However, issuing debt must be done within the framework of a multi-year public financing scheme, because if not, we could run the risk of falling into an out-of-control debt issuing spiral, with limited scope, not focused on improving the people's wellbeing. Let's not forget, debt issued today places obligations on future generations, and it has to be paid for with more taxes.

## Economic Tips

**Fiscal management as of January 2009.** Fiscal revenues in January amounted to VEF 7.43 billion and expenses were at VEF 7.74 billion, for a fiscal deficit of VEF 306 million. Primary result (less payment for debt interests) was a surplus of VEF 201 million. It is worth noting the real-term drop of 43.4% in total revenues and 40.7% in primary spending. Furthermore, 81.2% of financing requirements were covered with resources from the National Treasury.





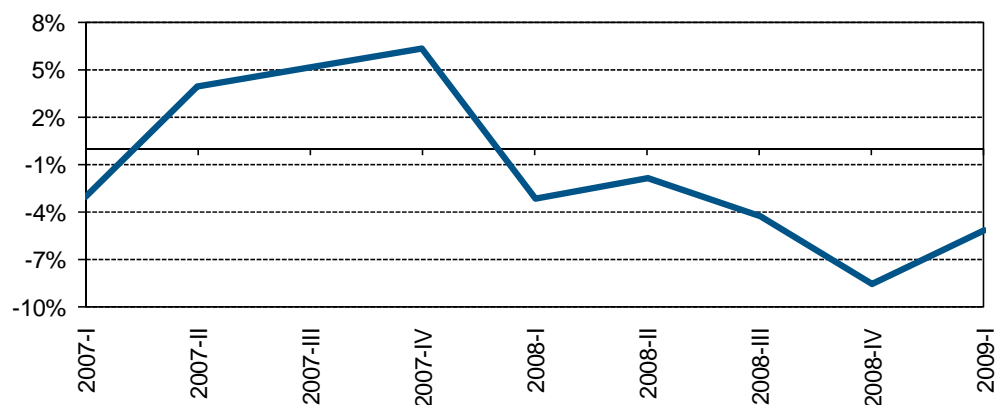
FISCAL BALANCE CENTRAL GOVERNMENT (VEF Millions)	January 2009	January 2008	Nominal Variation	Real Variation
<b>Total Revenue</b>	7.434	10.071	-26,2%	-43,4%
<b>Non-Oil Revenue</b>	4.940	6.365	-22,4%	-40,5%
<b>Oil Revenue</b>	2.493	3.705	-32,7%	-48,4%
<b>Total Expenditure</b>	7.740	9.885	-21,7%	-40,0%
<b>Fiscal Balance</b>	-306	185		
<b>Primary Balance</b>	201	717		
<b>Non Oil Balance</b>	-2.799	-3.520		
<b>Debt Amortization</b>	194	1.003		
<b>Financing Requirements</b>	500	817		

Sources: BCV and Ecoanalítica

**Inflation in April 2009.** According to data released by the BCV, month-to-month domestic inflation was 1.8%, for 28.3% of year-to-year variation. Month-to-month inflation in Caracas Metropolitan Area was 2.3%, for a yearly growth in prices of 29.4%. Despite factors that create inflationary pressures, such as a smaller number of foreign exchange allocations by CADIVI and the increase in VAT aliquot, inflation recorded is not higher due to economic deceleration. These results are in line with our projection of 29.0% inflation in 2009.

**Salaries buy less and less.** The BCV recently published the remuneration index for 2009 first quarter. Upon discounting the effect of inflation on wages and salaries, the overall remuneration index dropped 5.2% in real terms, vs. the same period last year. The loss of purchasing power in the private sector is lower than that for the public sector; the private sector posted a 3.9% loss in actual remunerations, whereas the public sector recorded 7.7%.

**Real Wages Index (IQ-1997=1,00)**



Sources: BCV and Ecoanalítica



**In force minimum wage increase.** Minimum wage 10% increase entered into force on May 1<sup>st</sup>, in compliance with the decision made by the Executive. Minimum wage will be VEF 879.16 from May to late August. The second trench of the increase will take minimum wage to VEF 967.08. From May on, firing freeze will now protect employees gaining less than VEF 2,637.48/month.

**SENIAT's collection continues to dive.** Tax revenues amounted to VEF 7.5 billion in April. This amount represent a nominal drop of 7.7%, in comparison to April 2008 collection of VEF 8.12 billion, for an actual contraction of 28.8%. Revenues for the first four months of the year were VEF 25.4 billion, for a nominal decrease of 3%. Without considering inflation, this drop is about 25.1% and if revenues for the Financial Transaction Tax (ITF) are excluded, nominal variation is 17%, whereas actual contraction was about 9.6%.

**2008 Surplus resources will be used as financing source.** Ana Consuelo Barrios, Head of the National Public Credit Agency and Walter Rodríguez, Assistant Treasurer, submitted to the National Assembly Public Credit Subcommittee the public debt placement schedule for 2009. They stated that 2008 surpluses will be applied to finance projects rather than to current spending. The Executive has the moneys in the National Development Fund (FONDEN), the Simón Bolívar Fund and the Miranda Fund; this latter has presently VEF 5.8 billion (US\$ 2.7 billion).

**More and more deceleration signs.** The Central Bank (BCV) numbers show that the growing trend the economy had experienced over the last four years has now "stopped". Comparing figures for January 2008-2009, wholesale and retail sales volume grew 0.55% vs. 21.38% in the previous period; industrial production fell 0.87%; total loans lost 0.54%; and to comply with OPEC cutbacks, the country has had to cut its production of oil barrels.

**Gold production is now a priority on the domestic market.** The gold commercialization scheme was modified by the BCV, so that a considerable share (70%) of the production will be earmarked for the domestic market. According to the Official Gazette No. 39,169 of April 30<sup>th</sup>, 70% of the quarterly gold production will go to the domestic market and 30% will be earmarked for exports. Of the domestic 70%, the BCV will take 60% and just 10% will go to the domestic market. This is a drastic change, because the prior regulation set forth that only 15% of gold extraction went to the domestic market.





**“Gold” profits.** We at *Ecoanalítica* believe that the change of this resolution may be related to the fact that the BCV is planning to increase gold sales to improve its balance and decree gains for the National Treasury. Alternatively, it could be due to the government’s intention to place debt collateralized with gold. It would be sensible that the BCV clearly explains the real meaning of this resolution to the country.

**International Reserves.** International reserves registered an increase of 2.2%, from US\$28,89 billion/million at the end of April’s fourth week to US\$29,53 billion/million as of the first week of May. International reserves for the year-to-date reached an amount equivalent to US\$29,53 billion/million, down 3.6% from US\$ 30,65 billion/million for the month of March in the previous year.

**Liquidity.** Liquidity at the close of April’s fourth week posted an increase of 2.9% vs. a week before, to VEF 195,57 billion. According to this numbers released by the BCV, liquidity as of April’s fourth week, 2009, recorded a substantial increase of 28.3% as compared to the result for the same period a year before (VEF 152,41 billion/million). As to the close of 2009, for the year-to-date liquidity decreased 2.3%, to VEF 191,22 billion/million.

**Interest rates.** Lending interest rates at the end of April’s fourth week increased 1.4% in comparison to the third week of the same month, closing at 21.4%. Time deposit rate increased 0.6 and savings rate remained unchanged.

## Oil Tips

**PDVSA: 20% for the Treasury.** At this moment, when the national treasury requires more cash to meet its commitments, PDVSA has decided to adjust the royalty payment schedule. The state-owned oil company has paid VEF 6.4 billion in royalties (US\$ 2.97 billion). Of this amount, VEF 4.97 billion (US\$ 2.31 billion) has been paid in cash and VEF1.3 billion (US\$ 604 million) in kind. In other words, 20% of the payment that is receiving the central government is made in oil barrels.

**Orinoco Oil Belt consortiums are being created.** The 19 companies that will participate in the selection process attended the meeting to discuss the terms for the bidding process of the Orinoco’s Carabobo project. These companies include BP,



CHEVRON, China National Petroleum Corporation (CNPC) of China; ENI Venezuela, PETROBRAS, PETRONAS (Malaysia), REPSOL, SHELL, STATOIL, TOTAL and a Russian consortium. PDVSA's sources have informed that, France's TOTAL and China's CNPC are planning to create a consortium to take part in the bidding process. Japan also expects to participate in a single consortium without the participation of other companies and PETRONAS also has plans to become part of a consortium.

**Bid winners will be announced in August.** The Minister of Energy and Petroleum informed that the winners of the bid for the development of the Carabobo zone in the Orinoco Oil Belt will be announced in August. The announcement was postponed because it was necessary to clarify many doubts that the interested companies sent via e-mail.

**There are plans to exclude arbitration, but this is not easy.** The new contracts for the Orinoco Carabobo block between Venezuela and the foreign partners will probably not include arbitration. However, according current legislation, although arbitration is not included in contracts, foreign companies can sue Venezuela before the World Bank's International Centre for Settlement of Investment Disputes (ICSID) in case of any dispute. Arbitration can also be activated in the country of origin of the foreign investor if a treaty between that country and Venezuela is in force.

**Orinoco Oil Belt's tax scheme will not change.** Despite the current financial crisis that has impacted oil prices, the government will maintain the current tax scheme (royalties, income tax and tax on windfall profits) that is applied to the new mixed companies that will be created for the Carabobo project at the Orinoco Oil Belt.

**PDVSA is trying to mitigate drop in revenues.** To face debts that PDVSA owns its suppliers, the company's Board is analyzing the possibility of including Venezuelan banks as an option. The oil company will negotiate a scheme together with the banks, according to which PDVSA will pay the outstanding invoices to the suppliers and they would receive in exchange a bond with a clause that would compensate for losses derived from an eventual devaluation. Another alternative to cope with debts is a syndicated loan, according to which four banks join to place the money. However talks have not advanced enough. The second option is the one preferred by the ministries of Finance and Planning.





**Oil company exposed to lawsuits.** Williams Companies assured that if PDVSA does not meet its payment obligations (US\$241 million), it will use all legal resources to which it is entitled as per contracts, including arbitration.

**PDVSA still has problems to pay its suppliers.** With a debt over US\$ 3.0 billion, Rafael Ramírez pointed out that companies that do not lower their rates will not receive any payment.

**And the payroll inflates.** About 21,000 workers from contractor companies have been incorporated into PDVSA's payroll from 2005 up until now, reported to *Últimas Noticias* the Minister of Energy and Petroleum/President of PDVSA, Rafael Ramírez. Ten thousand contracted oil workers were included in the payroll of workers that are active in the Orinoco Oil Belt, during the last two years alone. Petróleos de Venezuela's current payroll, between contracted and fixed workers, amounts to 74,822 workers.

**New York and London: moderate increase in the oil barrel.** As a result of the gains on major world markets that compensated for the increase in energy inventories and the drop in demand, US oil barrel prices increased US\$ 0.15, closing at US\$ 51.1 per barrel. London crude, in turn, gained US\$ 0.2, to close at US\$ 50.8 per barrel.

**US\$ 52.11: OPEC reference basket.** The OPEC reference basket posted an increase of US\$ 1.70, to US\$ 52 per barrel.

## Business Sector Tips

**Earthquake shake central region.** Last Monday, May 4th at 4:40am, was recorded a earthquake of 5.4 grades on the Richter magnitude scale, on the central region of Venezuela. The epicenter was in Miranda state, at 14 Km from the southwest of "Los Teques", it was 3,4 Km deep and last 15 seconds. The earthquake felt in la Gran Caracas, Valles del Tuy, Los Teques, Aragua, Guárico, Carabobo, Lara and Portuguesa. Even though its intensity, there was not any damage or injured.

**Nationalization of SIDOR.** Venezuelan government agreed to pay US\$ 1.970 millions by the total shares of Ternium in SIDOR (59,7%). CVG (Venezuelan Guyana Corporation) already paid \$ 400 million, 945 million will be paid in 6 equal parts quarterly and





the remainder will be canceled in October 2010. As with the nationalization of CANTV, Electricidad de Caracas and the other private companies nationalized, the government has paid the market price of Ternium's participation in SIDOR, estimated at U.S. \$ 1920 million

**Agricultural bonds will be discounted from the banks' compulsory loan quotas.** The terms on which financial institution may purchase agricultural bonds were already published in the Official Gazette, including the possibility of their being discounted from the compulsory loan quota that the financial system must guarantee for the agricultural activity in the country. Agricultural loan portfolio for 2009 will be progressively increased, so that it accounts for 21% of the total loan portfolio granted in 2008.

**In force controlled price cutback.** As established in the Official Gazette, the prices of pasta, powdered milk and sandwich white bread were lowered. According to the measured approved by the national government, the retail sale price of powdered milk was reduced between 13 and 19%, depending on the presentation. White bread retail sale price was cut 11% in its six presentations. Prices of pasta manufactured with a mixture of wheat were reduced 4% in 1-kilo presentations.

**Restrictions on foreign exchange are for real.** According to the information released by CADIVI, the foreign exchange amount allocated for imports (including ALADI) for the first quarter was about US\$ 4.88 billion, down 35.7% from US\$ 7.6 billion approved in the same period last year. In general, allocations in dollars fell 32.8% during the first quarter of the year.

**More backlogs.** CADIVI is still registering backlogs in payments for purchases abroad with credit cards. The debt with the banks exceeds US\$ 400 million. This amount was admitted by the BCV Board. This poses a big problem for Venezuelan travelers, who have no certainty as to their availability of foreign exchange to pay their accounts abroad.

**Less and less foreign exchange for automotive sector.** Toyota could be forced to shut down in the next four months if the allocation of dollars for inputs, engines and imported accessories does not return to normal. CADIVI has still to allocate about US\$ 200 million to Toyota.

**Gold Reserve in conflict with the Venezuelan government.** In a statement the transnational company said that the Venezuelan government revoked the authorization





to use natural resources it has granted Gold Reserve, which had been granted in March 2007, for the completion of the infrastructure and service phase of the Brisas mining project, in Bolívar state. The company pointed out that if the dispute is not amicably settled, they could seek international arbitration, by virtue of the Agreement on Investment Promotion and Protection signed by the governments of Venezuela and Barbados or according to the terms of the Canada-Venezuela Bilateral Treaty signed six months later.

**CANTV expects to invest US\$ 1.2 billion in 2009.** CANTV President/Minister of Telecommunications, Socorro Hernández, informed that the company has plans to raise by 35% its investments for 2009, to about US\$ 1.2 billion, with a view to expanding networks and provide increased access for users of the telecommunication national market. Hernández announced that they expect to reach 12.8 million of cell phone lines in order to remain as leader on the domestic market.

**The government is using gains of nationalize companies to cover current spending.** President Hugo Chávez informed that he took VEF 150 million from dividends paid by CANTV to the State for a transfer to the Mercal network.

**The Banco Venezolano de Crédito (BVC) suspends the use of its credit cards abroad.** The *Banco Venezolano de Crédito* announced that from May 3, 2009 on it will indefinitely suspend the use of its credit cards abroad, as a consequence of the delays at CADIVI to pay the foreign exchange spent by Venezuelans abroad. Sources from the banking sector state that CADIVI owes the entire banking system approximately US\$ 300 million for consumptions that their clients have already made. In recent days, other banks have followed the example of the BVC, as *Bolívar Banco* and *Banco Plaza*.

**Resources for the aluminum sector have been approved.** The president announced that VEF 410 million had been earmarked for aluminum companies. The announcement was enthusiastically welcomed by the sector's representative. This credit will be used to pay suppliers. However, these resources would appear to be insufficient, because CVG ALCASA owes CVG VENALUM VEF 600 million.

**VETELCA manufactures its first model.** Venezolana de Telecomunicaciones (VETELCA) has launched the first mobile phone fully assembled in the country: C355. Carlos Audrines, VETELCA's president announced that after the first delivery, 100,000 units are expected to be manufactured in two months and the goal for 2009 is producing 600,000 phones and later 1.2 million.





**Caracas drops four positions.** The 2009 Standard of Living report released by the consultant firm Mercer shows that day-to-day life of citizens in Caracas is down four positions from 2008. The report highlights that Caracas is at the 156 position out of 215 cities included in the standard of living ranking. The best positioned cities in Latin America are San Juan de Puerto Rico (72), Montevideo (79), Buenos Aires (81), Santiago (89) and Panama City (94).

**55% of Venezuelans is satisfied with their wages.** 55% of Venezuelan workers rated expressed that they are from “more or less” to “much” satisfied with their wages, whereas 45% considers that their remunerations are poor, according to a recent poll by Barómetro Cestatiket. The perception is better in the Greater Caracas, where 74% of the workers are satisfied with their labor benefit package, against 26% that believe that their wages are not enough. However, even though they claim they are satisfied with the contractual packages offered by their employers, 79% said that they would definitely leave their current jobs if they were offered better benefits. The wage issue appears to be determining, because for 55% of workers in Caracas, the biggest concern is the amount of their wages, whereas 23% are concerned about the possibility of losing their jobs and 16% is not satisfied with the time they spent at their worksites.

**More in the private sector.** The Barómetro Cestaticket poll also rates the level of satisfaction in terms of remuneration among private and public sector workers. The poll reports that 58% of private sector workers are happy, whereas the percentage in the case of public workers is 57. The poll also highlights that managers are more satisfied with the labor benefit package than employees and workers. In this regard, 81% of the people that occupy high posts claim to be satisfied with the salaries they receive, whereas satisfaction in terms of remuneration among employees drops to 74%.

**Antiflu drug sales go up 25%.** The impact of the swine flu has not only alarmed the Venezuelan health authorities, but also the citizens. Worried Venezuelans have rushed to drugstores to look for antiflu drugs to prevent contagion. The president of the Venezuelan Pharmaceutical Federation (FEFARVEN) reported that antiflu drug and analgesic sales has increased 25%.

**Impacted Cemex balance.** Sales of the Mexican cement company in Venezuela decreased US\$ 3.7 billion for the first quarter 2009 in comparison to the US\$ 5.4 billion posted for the same period last year. CEMEX says that this situation is attributable to





the nationalization of its plants in Venezuela in mid 2008, and to the sales of other assets and to exchange rate fluctuations.

**CVG debts.** Fernando Goyenechea, president of the Chamber of Guayana Miners and Industrialist, reported that Ferrominera stopped making the payments corresponding to the supplier portfolio due to the lack of cash. The debt of this company, former CVG subsidiary and now part of the Corporación Siderúrgica, now adds to the consolidated debts among Guayana business alliance and SIDOR, pellets plants and aluminum companies attached to CVG.

**Telecommunication sector figures for 2008.** According to CONATEL figures, the penetration level of mobile telephony increased, with an estimate of 97 mobile phones per every 100 inhabitants. The number of customers using post-payment modality grew in comparison to 2007. Text messages also increased in general with respect to phone calls. As a consequence of this and in comparison to other Latin American countries, we can note that Venezuela is one of the countries with the largest mobile telephony penetration in the region.

**The NA amends the Law on Capital Markets.** The deputy Elvis Amoroso, chairman of the subcommittee of public credit of the National Assembly, pointed out that the current Law on Capital Markets will be amended in order to give savers wider access. Furthermore, he stated that the law is out of date and that it has to be adapted to the reality. In his opinion, the market has to be democratized.

## World Crisis Tips

**New IMF paradigms.** At the International Labor Organization meeting held in Geneva in last March, the IMF president, Dominique Strauss-Kahn, said he was worried because world economy could be severely impacted if fiscal stimulus is not enough. Economists at the IMF left behind orthodox policies of high interest rates and have rather inclined to new credit policies, such as modernizing conditions, doubling financing access limits, reforming services for low income countries and simplifying financial products.





**Multilateral entities grant credits to Latin American countries.** The IMF has signed an agreement with Mexico, under the initiative Flexible Credit Lines, for US\$ 47.0 billion. Colombia is negotiating a disbursement of US\$ 10.4 billion; Guatemala signed an agreement for US\$ 935 million; and El Salvador another one for US\$ 800 million.

**Macro data in Europe.** The European Commission (EC) expects the European economy to recover for the second half 2010. The EC revised downward their growth outlook in January, from a 1.9% contraction for 2009 and of 0.5% for 2010, to a 4% contraction for 2009 and 0.1 for 2010. Expected inflation is 0.4% and 1.2% for 2009 and 2010, respectively; it was 3.3% in 2008. Unemployment rate, in turn, could exceed 10% for the European Union and 20% in Spain.

**Real Estate market in Spain.** Sales in Spain are increasing, but about a third part of the homes has been sold with discounts from 40% to 55%; almost 50% of the sales has had discounts going from 30% to 40% and the rest between 15% and 29%. At the end of the first quarter 2009, the average home prices were back to the levels of 2006 second half.

**And in the US...** Home prices have slightly recovered from March's lows, after a steep drop from mid 2007. The Halloween Indicator recommends "*Sell in May and go away,*" because statistically the November-April period uses to be more profitable than May-October, with opportunities to receive short-term benefits. Prices are expected to follow the downward trend, but without falling to March's lows.

**Chrysler filed for bankruptcy.** The third largest automotive company in America registers liabilities for US\$ 21.6 billion among its 46 suppliers, a pension fund and the US government. As a consequence, it has turn to protection against bankruptcy and will stop its production this week. The equity of the new Chrysler will be as follows: Fiat (that also has plans to buy OPEL) will have 20%; the US Treasury Department with 8%; the Canadian government will have 2%; workers 55%, and Cerberus that had 80% before the crisis will lose its whole stake. Chrysler CEO, Bob Nardelli, stated that bankruptcy only affects the US operations, but not those in Canada and Mexico.

**They expect that Citigroup will need additional funds...** Citigroup Inc. may need about another US\$ 100.0 billion to comply with the capitalization rules established by the US government in the stress tests. However, *The Wall Street Journal* reports that this entity might need fewer funds if it convinces the regulating entities of its financial soundness.





**Nations in the East of Asia set up a US\$ 120.0 billion fond.** 13 countries in the East and Southeast of Asia agreed to establish a US\$ 120.0 billion emergency fund with a view to providing liquidity to any country that may need cash as a result of the global economic crisis.

**Japan anticipates that it could deliver up to ¥ 6.0 trillion.** Japan will develop a plan to provide up to ¥ 6.0 trillion (US\$ 61.54 billion) to assist Asian countries impacted by the crisis. The Japanese Finance Minister, Kaoru Yosano, added that his country will provide a framework to guarantee the placement of the Samurai bonds, which are denominated in yens and issued in Japan by foreign firms and governments, for up to ¥ 500.0 billion (US\$ 5.13 billion).

**Germany: slight inflation increase before it goes to negative figures.** April's provisional Consumer Price Index reflected a slight inflation increase, from 0.4% (the lowest level in ten years) to 0.7%. The increase is essentially attributable to the price increase of holiday packages and Holly Week travels. However, next month's inflation will probably be negative, as announced by the Bundesbank President, mainly due to base effects on energy and food prices.

**US: unexpected improvement in consumers' confidence.** The Consumers' Confidence Index of the Conference Board gained 12.3 points in April, much more than the expected level, for the largest increase since 2005. The expectation index posted a whopping 19.3 point gain in April, up to 49.5. Even though, it is still clearly below the levels (around 80), which have been historically associated to growth. This is another sign that the second half of the year is not as negative as the fourth quarter last year and the first quarter this year, as well as a sign of stabilization.

**Improved indicators of Asian foreign sector.** The balance of the current account balance in South Korea posted a record surplus level (US\$ 6.650 billion) in March, and exports to New Zealand grew 17.1% on a year-to-year basis, for the same month. This is the second rise in two months in a row and the first time this happens since December 2007. New Zealand's exports to China increased 39% with regard to the previous month. This is a sign that the worst could be already over for foreign trade.

**China: expansion territory.** China releases two PMI manufacturing sector indices, the CFLP index compiled by a governmental agency and the index compiled by CLSA (private sector). The CFLP index, which was already over 50 in March, increased up to 53.5, and the CLSA index grew 5.3 points to 50.1, with both indices showing expansion





signs for the first time in nine months. The market enthusiasm for the economic stimulus plan of the Chinese government is starting to be supported by tangible economic data.

**UK: new improvement in the manufacturing PMI.** The PMI index of the manufacturing sector gained 3.4 points in April, to 42.9, with an increase of almost seven points in the new orders component. This is another sign that the contraction pace of the economy is being decelerated in the second quarter.

**Warren Buffet's Coca-Cola.** Markets are still waiting for the results of the American banks stress test. Last Warren Buffet's favorable comments about some banks that are expected to need additional capital have spiced up the situation, including that he does not care what tests say, because nobody would understand who much Coca-Cola is worth.

## Political Tips

**Rosales' extradition will not be requested.** The short-term plans of the Attorney General's Office do not include requesting Manuel Rosales' extradition from the Peruvian government. Sources of the Attorney General's Office, Luisa Ortega Díaz, inform that *"it (extradition) could be requested, but it is not going to be successful because Peru has already granted asylum."*

**Peru is preserving its relations with Venezuela.** The Peruvian government, vis-à-vis the decision made by the Venezuelan government concerning an integral review of its relations with Peru is sending signs of conciliation. Peruvian authorities assure that they are not trying to disturb relations between Peru and Venezuela; they even emphasize the democratic legitimacy of the Venezuelan government.

**Official figures show that less than 1% of the population is indigent.** Mary Carmen Moreno, Vice Minister of Integral Protection of the Ministry of Health and Social Protection, said that between 8,000 and 10,000 Venezuelans are homeless. The ministry will offer a diploma degree in Institutional Psychotherapy for 120 officials of the missions *Negra Hipólita* and *Niños y Niñas del Barrio*, and of the Autonomous Institute National Council for the Rights of Children and Youth, on the treatment of homeless citizens or who are in a situation of risk.





**No census available about child work in Venezuela.** According to data released by the National Statistics Institute (INE), approximately 130,000 children between 10 and 14 years were economically active in 2000. Since then, no census has been made to quantify the number of working children. However, NGOs specialized in this issue assure that the figure is already close to one million children.

**PROVEA reports high repression levels.** The NGO Programa Venezolano de Educación Acción en Derechos Humanos (PROVEA) expressed its concern about the fact that police and military officers have killed 5 protesters over the last 10 months and about the repression against the demonstration organized by opposition leaders to commemorate the International Workers' Day on May 1<sup>st</sup>.

## Otros Tips

**FAO: there is no evidence that the virus comes from pigs.** Up until now no evidence has been collected that confirms that pigs are the source of the new virus strain. The UN Food and Agriculture Organization (FAO) will send a group of experts to Mexico, who will determine whether the new H1N1 virus strain came from pigs or not.

**Low impact of swine flu on the region's economies.** ECLAC expects that the swine flu epidemics will not have a relevant impact on economic growth in Latin American countries, based on the small number of infected people and because measures taken have not been as radical as in Mexico.

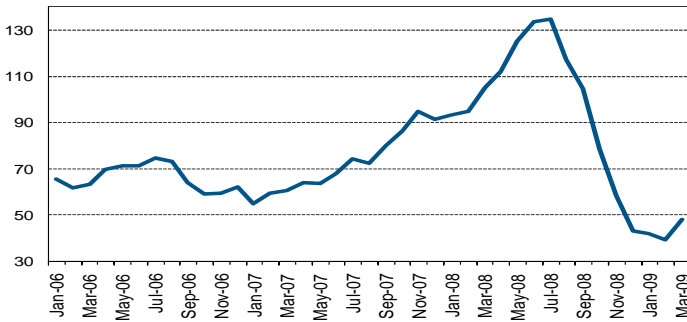
**What masks told us.** The market has moderated its reaction this week to the news on H1N1 flu, as a result of the swift actions taken by the Mexican government. The market reaction to the potentially catastrophic effects of a pandemic appears to be clearly exaggerated. Let's recall the avian flu of 2003. Then, the most alarmist estimates from multilateral agencies referred up to 70 million deaths (1% of world population) and an impact of 4% or 5% on world GDP, in the works scenario. In fact, the total certified deaths caused by the avian flu was just 774, most of them in Asia; economic impact is estimated between 0.4% and 1% of GDP in East Asia and 0.5 and 1.4% of GDP in Southeast Asia.



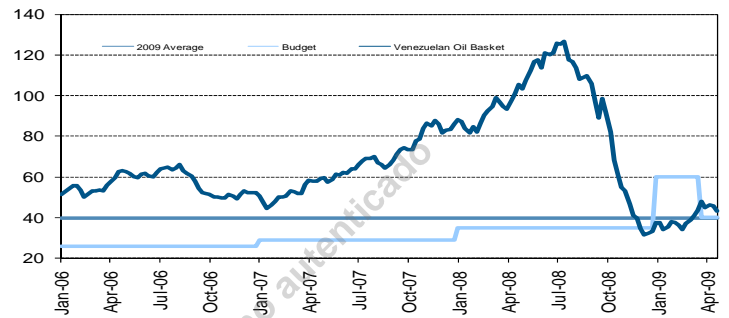


## ECONOMIC OVERVIEW

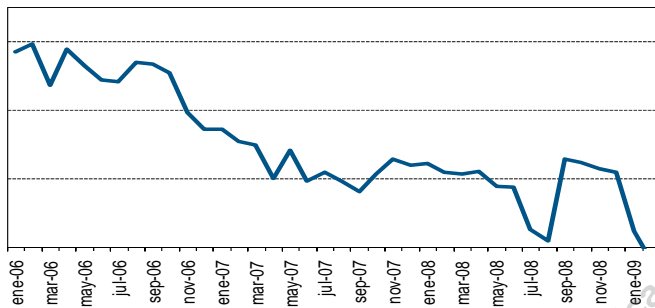
**Oil Prices (WTI US\$pb)**



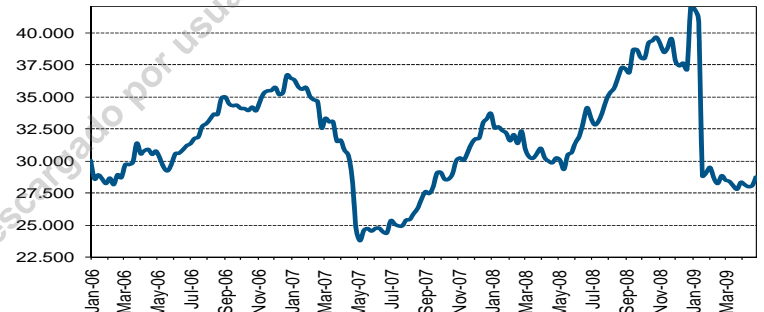
**Oil Price (Venezuelan Basket US\$/pb)**



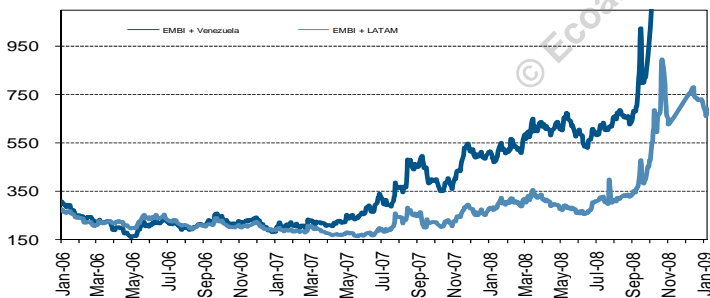
**Oil Production MMBD**



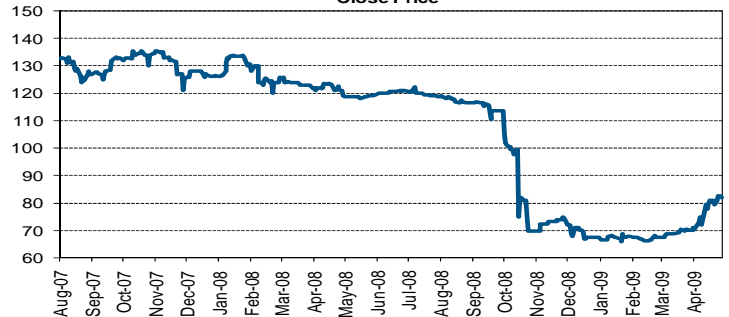
**Fx Reserves - BCV (US\$ Million)**



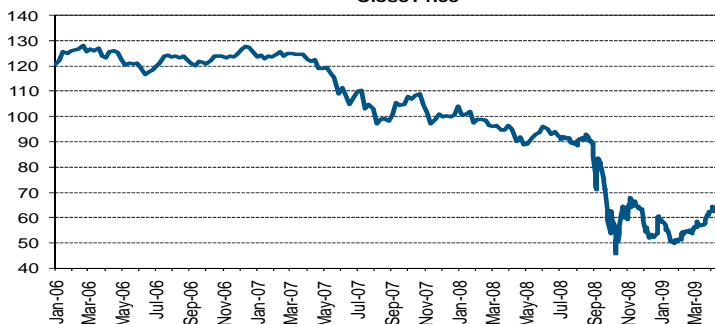
**EMBI +**



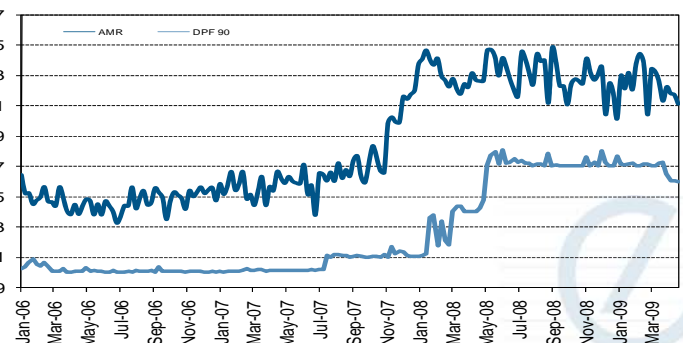
**Venezuelan Global 18 Close Price**



**Venezuelan Global 27 Close Price**

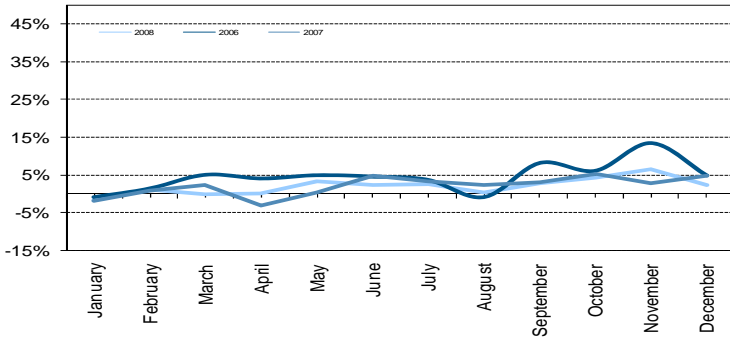


**Interest Rate (Six Principal Banks)**

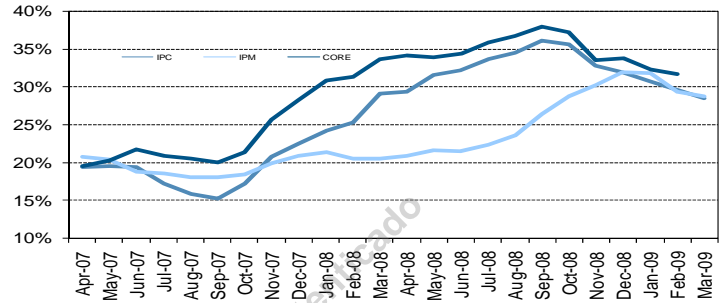




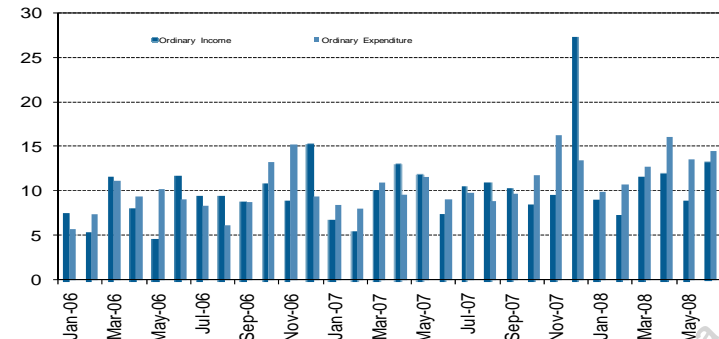
**Real Expansion (M2)**



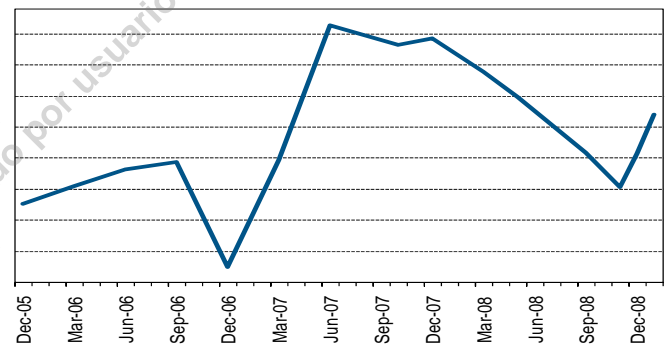
**Inflation (Last 12 Months)**



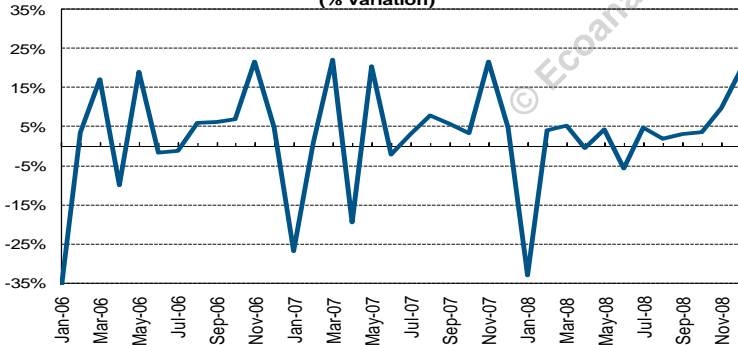
**Central Government (VEB Billion)**



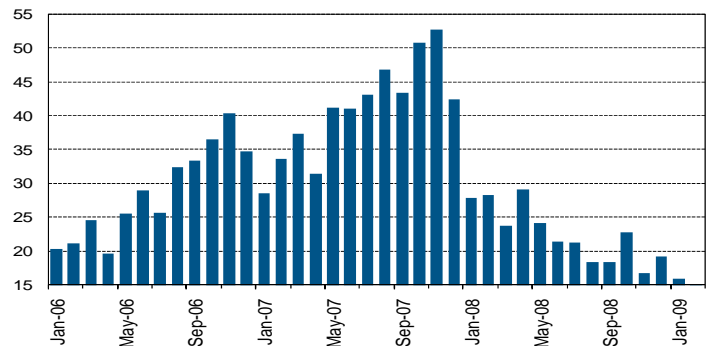
**Resources of the State (US \$ MM)**



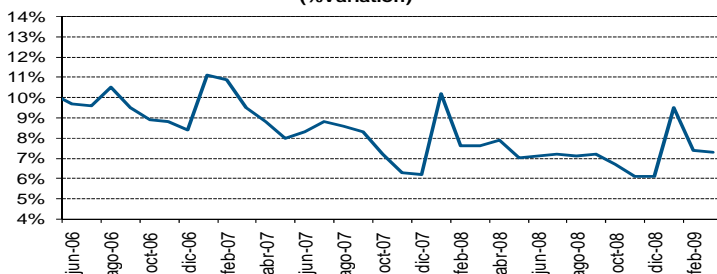
**Volume of Sales (% Variation)**



**Sale of Vehicles (Thousands of Sold Units)**



**Rate of unemployment (% Variation)**



**Disbursement (US\$ Million)**

