



Weekly Report

Year 5, Number 19
Week IV, May 2009

By:
Asdrúbal Oliveros
Maikel Bello

A CLOSE LOOK AT THE 1ST QUARTER BALANCE OF PAYMENTS: AN ADJUSTMENT THAT DIDN'T SURPRISE ANYONE

Reproduction or distribution prohibited

The Central Bank of Venezuela (BCV) recently published some foreign sector indicators along with economic growth rate figures from the first quarter of the year. With respect to the Balance of Payments (BP), it reflects the severe adjustments suffered by the Venezuelan economy due to the drop in oil prices and the recent changes in exchange policies that the Administration is implementing.

According to the BCV, during the first quarter 2009, the BP registered a deficit of US\$ 3.53 billion in the current account, in sharp contrast to the US\$ 9.46 billion surplus it posted last year during the same period. This is due to a significant drop in exports, more than 50%. The drop in the current account isn't greater because imports only increased by 6%, which is a result of CADIVI's significant drop in the amount of foreign currency it is liquidating for imports, the increasing percentage of imports that have to be financed by the parallel market, and the significant increase in public sector imports.

Alongside this, the capital account is also showing a deficit of US\$ 11.73 billion which is actually 12% less than what was registered during the first



quarter of 2008. What's different is the nature of the deficit by institutional sector: while the private sector capital account went from US\$ 5.70 billion in the first quarter 2008 to US\$ 2.63 billion in the first quarter 2009, in other words, a drop of 54%; the public sector capital account increased by 20% going from US\$ 7.60 billion to US\$ 9.10 billion in the same period.

BALANCE OF PAYMENTS (Million US\$)	2008-IT	2009-IT	Var (%)
Current Account	9.457	-3.533	-137%
Goods	11.487	-1.442	-113%
Oil Exports	20.459	9.111	-55%
Non-Oil Exports	1.625	718	-56%
Import of goods f.o.b.	-10.597	-11.271	6%
Services	-1.336	-1.236	-7%
Others	-694	-855	23%
Capital Account	-13.304	-11.728	-12%
Public Sector	-7.604	-9.096	20%
Private Sector	-5.700	-2.632	-54%
Reserves Variation	-3.847	-15.261	

Sources: BCV and Ecoanalítica

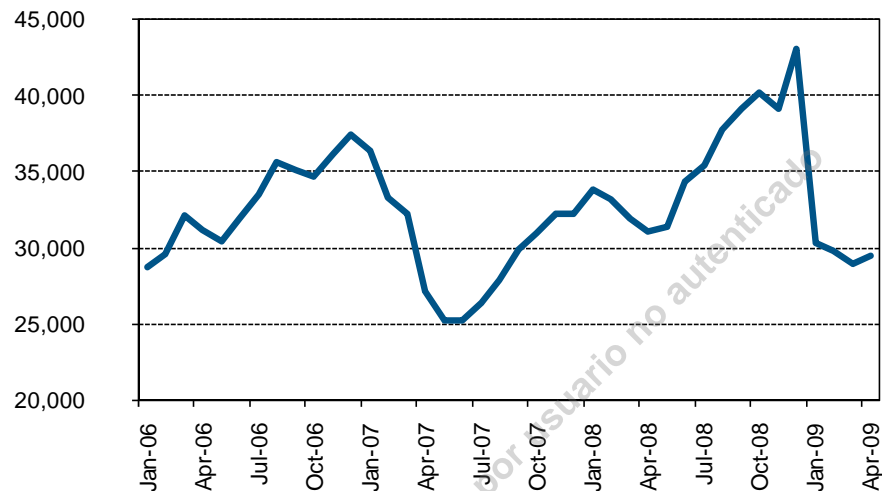
Exchange adjustment

The Administration has continually been saying that there will not be a devaluation of the official exchange rate despite the international economic crisis. The reason for this is that the Government hasn't felt the need to do so yet. From a fiscal point of view, the Government still has room to maneuver and to cover all its accounts this year, and therefore it hasn't felt the desperate need to move the exchange rate. And from the point of view of the foreign accounts, CADIVI has limited itself to service the needs the Administration establishes, a strategy which has limited the drop of the international reserves. Between January and the third week of May, the international reserves have only dropped by US\$ 1.89 billion, not counting the US\$12.0 billion transferred to FONDEN which took place last year. During the same period, according to our estimates, the drop in oil exports has been for US\$21.93 billion, this is considering oil prices during the same period last year.





Foreign Reserves (Million US\$)



Sources: BCV and Ecoanalítica

Swap-market participation is significant

Another aspect that stands out with the regard to first quarter 2009 foreign sector figures and the BP has to do with the nature of the import of goods and services. According to the BCV, private imports were at US\$ 8.67 billion, which represents an increase of 2.3% compared to the same period of the previous year. When you contrast these figures with what CADIVI liquidated for imports and the ALDI agreement, there is a difference of US\$ 3.12 billion. It's a bit premature to say that this whole amount was financed through the swap-market, given seasonal factors and CADIVI delays liquidating foreign currency, but it does show an increase if we take into consideration that during the same period last year this difference was at US\$ 1.53 billion.

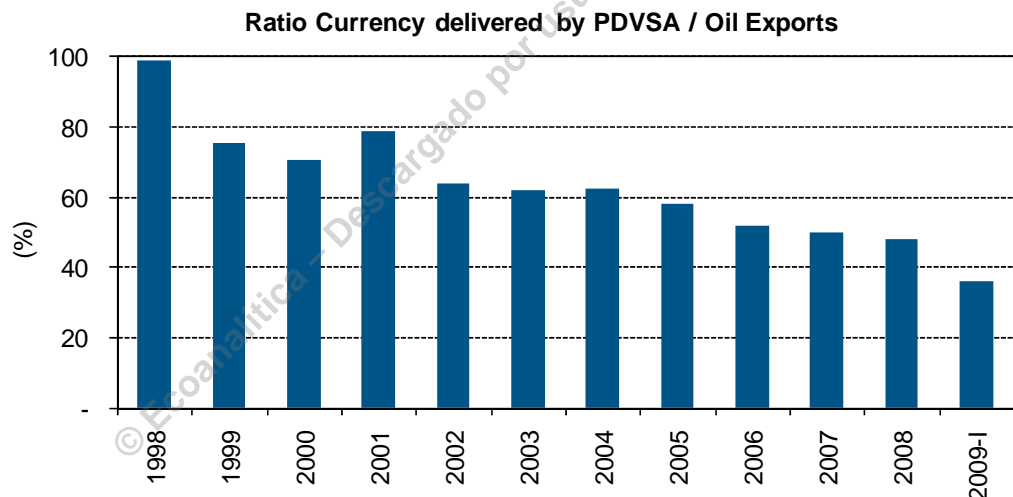
In order to be able to measure just how much the parallel market is financing imports, it's necessary to have the consolidated figures for the year. Notwithstanding, we maintain our original estimate and say that the unofficial exchange market will be financing around 26% of imports. In 2008, it only financed 6% of imports.





How much did PDVSA turnover PVSA?

First quarter 2009 figures allow us to see, taking into account seasonal factors and the lull in imports, how much foreign currency PDVSA managed. According to the information released by the BCV, PDVSA turned over to the Central Bank of Venezuela the net equivalent of US\$ 3.29 billion, this is equal to 36% of total oil exports, less than the amount turnover in 2008 which was 48%. The difference between these two amounts could be caused by not only the amount of funds PDVSA manages which are entirely at its discretion but also because of the difference in export volumes and the impact of the industries accounts receivable. Whichever the case, first quarter 2009 figures ratify our theory that PDVSA is the most important player in terms of exchange matters.



Sources: BCV and Ecoanalítica

Exchange figures not clear

When you look at first quarter 2009 figures, you can just limit yourself to analyze what happened from the official side (CADIVI). But when you look at the swap-market, there are a number of import elements that need to be questioned: foreign currency injections into the parallel market were made by PDVSA during the first quarter, with a global injection of almost US\$ 900 million. However, when you look at the outgoing capital figure and an estimate of net CADIVI imports you get an approximate figure of US\$ 4.97 billion which is being managed by the swap-market. As can be seen, the supply doesn't correspond with the demand. Since the Administration





doesn't release any information regarding this subject, it's all guess work. Where did more than US\$ 4.0 billion of the foreign currency supply come from? ¿FONDEN? It's not clear, though between December 2008 and March 2009, according to our calculations, the net amount of foreign currency available of the US\$ 12.0 billion transferred to FONDEN, dropped by US\$ 4.50 billion. Once again, at Ecoanalítica, we call out to the Government to please explain what it is doing in terms of exchange matters.

What to expect in the short term?

The first thing to point out is that the Government will do all it can not to open-up the swap-market. Its answer to the crisis is to restrict the access to imports, as the first quarter 2009 BP figures show. At Ecoanalítica we do not believe that this will change in the short term. However, as oil prices begin to recover, the Administration will begin to be more flexible with its foreign currency budget. Meanwhile, companies that receive foreign currency from CADIVI will be under enormous pressure. The Government will try to use this mechanism to curb inflation.

Lastly, we would like to point out that as long as the current scheme is in place, it is extremely difficult to predict how the swap market will behave. However, we stand behind what we have been saying that the amount of funds being injected into the swap-market will be less than the demand.

Economic Tips

Government imports increased by 93%. According to the figures released by the BCV, public sector imports (excluding purchases tied to oil activities) were at US\$1.64 billion, which reflects an increase of 93% compared to the same period in 2008, meanwhile, private sector imports increased by 2.3%. The BCV assures that the increase in public sector imports is due to the purchase of motors, turbines, transmitters, cell phones, food, metals, electric apparatuses and chemical products.

Low index for economic activity. The Latin American business environment improved slightly in the last two months going up from 2.9 points in January to 3.6 points in April, though it is still at the lowest levels it's been in seven years. The index





dropped in Venezuela from 1.9 to 1.6 points between January and April, the index also dropped in Bolivia and Argentina.

Business environment getting worse. According to The Economist Intelligence Unit, Venezuela and Angola are the countries with the worst environment for business. During the 2004-2008 period, Venezuela was ranked 70th, while in 2009 it has dropped down to 81st.

BNDES assures that it will loan Venezuela US\$ 4.30 billion. The president of National Bank for Economic and Social Development (BNDES), Luciano Coutinho, assured that it will finance projects in Venezuela for US\$ 4.30 billion, which will include Brazilian companies. Another one of the reasons behind the meeting between the leaders of Brazil and Venezuela is to decide if PDVSA will participate in the Pernambuco refinery project, the creation of strategic bi-national fund, and the possible membership of Venezuela in MERCOSUR.

Unemployment at 7.7%. The unemployment rate was at 7.7% for the month of April 2009 according to the Monthly Report of the Work Force put out by the National Statistics Institute (INE). The president of the INE, Elías Eljuri, informed that unemployment in Venezuela registered its lowest level of all previous April months since it began to record the work force on a monthly basis.

International reserves. International reserves dropped by 0.5%, going from US\$29.38 billion at the close of the second week in May to US\$ 29,24 billion during the third week. Reserves are down by 6% if compared to the same period last year when they were at US\$ 31,26.

Monetary liquidity. Monetary liquidity was up for the close of the third week in May, registering an increase of 0.5% compared to the second week settling at VEF200.05 billion. So far this year, liquidity has increased by 4.8%, and increased 31.5% compared to the same period last year.

Interest rate. Lending interest rate for the third week in May was at 22.22%, up 0.36% compared to the previous week. Time deposits and savings accounts' interest rates remained stable at 16% and 14%, respectively, for the second week in May.





Oil Tips

The number of nationalized oil companies increases to 76. The government published in the Official Gazette the nationalization of another 35 companies that provide specialized services for the oil industry. The decree also states that companies that directly or indirectly provide services for companies included in the resolution are also affected, thereby increasing the number of private companies that will be now under State's control. This happens at a time when PDVSA is facing complaints from local and foreign contractor companies about the delay in the payment of their debts, lower oil prices and the polemic around its production numbers.

Of the 76, 74 are already under control. PDVSA's President, Rafael Ramírez, announced that PDVSA has already taken control of 74 companies, out of the 76 that were nationalized, since the enactment of the law that reserves the State assets and services associated to hydrocarbon primary activities. 632 pieces of equipment are under control in Zulia state. He also stated that the state-owned oil company assumed control of 17 decks, 6 shipyards and 6 repair decks, and that about 2,500 of the 8,000 workers of the seized companies are already included in the census. Up until now, the holding has not given details about the payment of compensation resulting from this measure.

Notwithstanding, PDVSA is reviewing the list. Although the Administration published the list including the 76 companies that provide goods and services for oil production activities that were nationalized, the process against some of these companies could be reverted. In the resolutions published in the Official Gazette, some companies that do not exclusively work for the oil industry were inadvertently included; this is the case of Simco Consortium which performs activities related to gas injection for the maintenance of oil reservoirs in Maracaibo Lake. As a result, the list published includes now 34 companies.

Gas injection in the eastern region is cut by 10% to feed power plant. President Hugo Chávez ordered PDVSA to cut by 10% gas injection in reservoirs in the northern area of Monagas state, which have a production level of 0.5 million b/d. This gas will be used to fuel a future power plant. The cutback will have implications for reservoirs in Monagas' northern area, because their production has dropped from 0.8 million b/d





to 0.5 million b/d as a result of operational problems with Pigap II because PDVSA is not receiving enough gas.

PDVSA takes control of 48.5% of production in the country's eastern region.

With the nationalization of projects in northern Monagas, PDVSA will have under its responsibility the maintenance of 48.5% of production in Venezuela's eastern region, which, according to the company's 2008 Account Report, is close to 1.03 million b/d for this year, down from the 1.2 million b/d in 2007. According to official sources, with the expropriation of the gas injection plants, PDVSA will save about US\$56.4 million every year.

Possible drop in production in the areas recently taken by PDVSA. Oil production in reservoirs in the northern part of Monagas state and Maracaibo Lake could fall because PDVSA, at least in the medium term, is not capable of controlling secondary recovery activities aimed at increasing crude oil extraction. If these activities are not carried out properly reservoirs could be damaged, because if oil is not extracted properly, it would spill within the well thus rendering it very difficult to be pumped out, according to experts.

Local oil price closes last week with a moderate increase. Venezuela crude oil closed at US\$53.15/bbl. last week, for a slight increase from the US\$52.38/bbl recorded during the same week. The local basket price grew US\$0.77 on the week, due to fears surrounding gasoline supplies in the US market, the continuous depreciation of the dollar vis-à-vis other currencies, and violence in Africa and Nigeria, which raised fears for possible cuts in supplies from that country, reported the Ministry of Energy. Average value of US\$42.78/bbl. is still slightly higher than the price for the reference barrel revised by the Administration.

CITGO and PDVSA swindled out of US\$ 560 million. A parallel civil lawsuit filed by SEC (the entity that controls financial markets in the US) states that an executive and an employee of FTC Capital Markets requested US\$560 million from CITGO and PDV from April to November 2008. They used the money to create an ancillary account or reserve fund that was used to finance non-authorized and speculative transactions with their own interests concerning non-registered, risky and illiquid investments where they had financial interests.





Venezuela is not complying with production cuts agreed by OPEC. Although the Ministry of Energy and Petroleum ordered Britain's Inspectorate to audit its crude oil and product exports from November to March 2009 as part of the efforts to clarify production levels, official figures reveal that they are not complying with the production cut agreed by OPEC. Doubts arise because OPEC itself warns in its monthly reports that Venezuela's production, between October 2008 and March 2009, has dropped from 2.3 million b/d to 2.1 million b/d, for a decrease of 278,000 b/d. The decrease accounts for 76.4% of the 364,000 b/d production quota that PDVSA had to cut.

The Administration, in turn... Venezuela will ask OPEC members to comply with crude oil production quotas that will be allocated at the Organization's next meeting to be held on May 28 in Vienna. The Venezuelan demand is aimed at preventing big oil consuming countries from consolidating their strategic reserves, which could drive oil prices downward in the near future. Furthermore, the chairman of the Energy and Mining Committee of the National Assembly denied that Venezuela is one of the OPEC member countries that is producing oil over the corresponding quota.

The International Energy Agency (IEA) chief economist Fatih Birol referred yesterday to the possibility that oil prices return to significantly higher levels after cutbacks in E&P investment made by the sector's companies. Oil companies have cancelled investments worth at least US\$170.0 billion, equivalent to a production of 2 million b/d. Another 4.2 million b/d have been postponed at least for 18 months. Moreover, companies of this sector will likely announce additional cuts over next months. IEA is also anticipating that global power consumption would drop this year (-3.5%) for the first time since 1945 as a result of recession, with drops around 2% in China, 5% in the OECD and 10% in Russia.

Business Sector Tips

Chávez orders the nationalization of the briquette sector. President Hugo Chávez ordered the immediate nationalization of the briquette sector in Bolivar state in order to create a state sun industrial complex aimed at ending the intense labor problems facing the sector for the last few months. The following companies: Matesi, Comsigua,



Orinoco Irons, Venezolana de Prerreducidos Caroní (Vemprecar), Cerámicas Carabobo, among other will now be in the hands of the State, possibly as of this weekend. "Nationalize the briquette sector, there is nothing to talk about," said the President in one of his broadcasts from Ciudad Guayana in Bolívar state, when he was there for a workshop with workers from the basic industries.

Electric power consumption increased by 4.3% in 2008 compared to 2.1% in 2007. Most of the increase in the demand for electric power came from the interior of the country. Despite the fact that there were three great power outages nationwide in 2008, the problem wasn't with the amount of electric power being produced it was the electric power distribution system, according to the National Center for Electric Power System Management. This is why 472 km has been added to the distribution system to avoid more power outages.

Bi-national fund between Ecuador and Venezuela. Aimed at financing strategic projects, Ecuador and Venezuela have created a US\$ 70 million fund. Venezuela will contribute US\$ 50 million, just as was established in the meeting which took place in Cumaná in February.

CADIVI to compensate Ecuadorian exporters. The Presidents of Ecuador and Venezuela assured that CADIVI would liquidate the US\$ 139 million debt owed to Ecuadorian exporters through compensations between the central banks with an agreement signed to create the mechanism.

Trade exchange with U.S. down. The trade exchange between Venezuela and the United States during the first quarter 2009 dropped by 49.1%, due to exports only reaching US\$ 5.72 billion while during the same period in 2008 they were at US\$ 11.25 billion. The Venezuelan-American Chamber of Commerce and Industry (VENAMCHAM), warns that "96% of the exports come from oil exports (US\$5.46 billion) and the other 4% (US\$ 256 million) come from non-oil exports, the exact same distribution that was posted during the first quarter 2008.

The Government will pay US\$1.05 billion for Banco de Venezuela. The Government will make payments in the following manner: US\$630 million on July 3, and it will issue 2 promissory notes for US\$ 210 million each, one due on October 3 and the other on December 30. This makes the State the largest banking entity in the country with a total of 21.56% of all deposits, 175 of all branches, 20% of all payrolls,





41% of government deposits, 15% of loans, and 31% of investment in bonds, 61% in trusts, and 28% of the fixed loan portfolio.

Public sector banks may merge. A possibility that is being considered by the Administration is to merge all the financial entities it controls: Banco de Venezuela, Banco del Tesoro, Banfoandes, BANCOEX, and the recently intervened Banco Industrial; though Banfoandes does agree to accept BIV in the merger.

Stanford Bank, end of intervention. On May 21, the SUDEBAN announced the end of the intervention of the Stanford Bank, after the BNC has purchased it. Starting on Tuesday, May 26, natural persons and account holders may visit the office to reactivate their accounts, from Thursday, checking accounts will be handled, and starting on June 1, legal persons will be attended.

The construction sector will be hurt if the CPI is eliminated. Representatives from the ANAUCO will petition before the Constitutional Chamber of the TSJ for them to fix clear payment rules for housing development projects and to define a system which will allow home buyers pay a fair price for the unit but without hurting the construction company.

The construction company is the leader when it comes to building and finishing houses. During the first quarter, of the total 17,000 houses built, 10,500 were built by the private sector and 6,500 units were built by the public sector. During the President's yearly address to the national Assembly, the President said that 23,000 houses were built and 51,504 houses are expected to be built this year. 13% of this amount was built during the first quarter, which leaves 45,000 units to be built in the coming months.

FONDEN help. Due to FONDEN official entities have not completed housing units corresponding to 2001 and 2002 plans, as well as the special program announced in 2007. Housing units build in 2008 and so far in 2009 correspond to those plans. Resources from the National Development Fund were used to complete those 6,500 homes in the first quarter. Official sources explain that the Administration has now decided to use FONDEN's resources that had been committed for those housing programs. Of the total deposits made in FONDEN in five years, US\$2.9 billion were allocated to the housing sector; of this amount, US\$1.78 billion were used between 2006 and 2008, implying that US\$1.15 billion would be spent for this period.





CANTV will invest US\$1.2 billion this year. This figure entails an increase of US\$300 million from the amount allocated by the telephone company last year. Movilnet plans to reach to 13 million customers from the current 12.2 million.

Union problems are not over. The Sutracarbonorca Union is exercising its right to strike due to breaches by the company of the benefits provided for in the collective contract. CTV claims that there are more than 200 collective contracts that have not still been discussed in the public sector. The Administration does not seem to be willing to resolve these conflicts, but rather delaying their resolution until oil prices recover in order to have more resources available.

Gasolin deficit in Cúcuta exceeds three million gallon/month. Venezuela is only exporting about 2,200,000 gallon a month, whereas this Colombian area demands more than 5,000,000 gallon of Venezuelan gasoline. The problem is that the number of tank trucks is not enough to export the fuel to that country; only 11 trucks transport gasoline to Colombia every day.

IMS expects the drug sector to grow 25.8% this year. IMS Health, international firm audits private companies, is optimistic about the lack of elasticity in drug product demand. They are expecting the sector to increase by 25.8% (vs. 33% growth last year), despite the contraction expected for Venezuelan GDP.

World Crisis Tips

Ecuador proposes to buy back the defaulted Bonds at 35%. The 2012 and 2030 bonds, were declared in default last December. Now, the Ecuadorian government is proposing repurchase them at 35% of the nominal value, 5 percentage points above the current market price. The 2015s rallied 8 points on this news that reduce the risk perception of these bonds.

Consumer's confidence index for May is the highest of the last 8 months. The index was published this Tuesday, May 26th in the US; according to the index, consumers expect a soon recovery of the economy. The index that increased the most was that reflecting the panorama expected by buyers for the next 6 months, which increased by more than 40% from last April.





Markets react after consumer confidence data. Last Tuesday, the Dow Jones rose 1.8%, the S&P500 2.2%, the NASDAQ 1.7%, the major European exchanges achieved increases above 1% and the dollar rebounded 1.7% against the euro after a week of steady decline, the demand for Treasury bonds was also reduced, thanks to investors that are moving towards more risky assets.

But homes price index is the lowest since April 2003. May 26th S&P released the Case/Shiller HPI for the end of March, which together with OFHEO is the most important home price index in the US. Prices in twenty of the major US cities are currently at the same levels as April 2003, when the mortgage bubble was only beginning to inflate. This new information has undermined optimism produce by the consumers' confidence data.

30 years fixed mortgage rate goes up 0.12%. Last week, USA mortgage rate rose to 4.8%. This increase cause mortgage application to fall 14.2% and refinance applications drop by 18.9%, on a seasonally adjusted basis.

American financial system earned US\$7.6 billion in first quarter; this is a very good sign if you look at the US\$ 36 billion loss of 4Q08. U.S. banks and thrifts set aside \$60.9 billion in the first quarter to cover potential loan losses, up from \$36.2 billion a year earlier.

It is still to be decided if Opel will be sold or if it will be declared insolvent. The German Minister of Economics, Karl-Theodor zu Guttenberg, insists on waiting for better offers; so far the most interested are Fiat and magna (Austrian-Canadian auto parts manufacturer). As long as there is not an offer that pleases General Motors and the German government, the possibility of payment default will be still open; GM would take this measure on July 1st if a cost restructuring plan that the Treasury considers appropriate is not presented.

General Motors. To avoid bankruptcy GM needed to renegotiate al least 90% of their bonds valued at US\$27 billion, for a 10% participation of the corporation, but investors dislike this offer. The GM shares have fallen by more than 84% on six months mobile average since a year ago, and fall 26.9% this Tuesday 26 on with the failed bonds negotiation. It looks like the market it's betting to bankruptcy while June first gets closer –this is the deadline to present a new plan to cut costs and make GM a profitable corp.-.





Russia's growth decelerates 9.8% in 2009 first quarter. The main cause for this harsh recession is the decrease in gas demand by the European continent, which has brought about a 46% drop in exports and has cut by more than half the positive balance of the country's balance of trade, from US\$14.8 billion to US\$7.5 billion at the close of last month.

South Africa, first recession in the last 17 years. The most important economy of the African continent recorded its third quarter in a row with negative growth. This rate was -6.4% in the first quarter 2009, much worse than the levels expected by the authorities in that country (-3.9%).

Japan, unprecedented contraction. Japanese GDP contracted an unprecedented 15.6%/year in the first quarter, much more than drops recorded for the same period in the US (6.1%) and the Eurozone (9.8%). The previous figure was adjusted downward, to -14.4%/year. The first quarter was the fourth in a row registering contraction. These are the worst figures since the year when records were kept for the first time (1955) (i.e. three years after Japan recovered full sovereignty and the year when LDP, the party that has ruled over the country for 40 years was founded). This massive contraction has been led by exports that contracted at the impressive rate of -70.1%/year.

Ukraine: new world champion. As if GDP contractions for the first quarter in countries like Japan (-15.2%) or the Baltic region (-12.6% in Lithuania, -15.6% in Estonia and -18% in Lithuania) were not impressive enough, Ukrainian President Viktor Yuschenko stated yesterday that "a contraction of the economy of between 20% and 23% is expected during the first three months of the year", thus turning the country in a new world champion of sorts in terms of severity of current recession. This follows an 8% contraction in the fourth quarter (official figures for the first quarter are not published until the end of June). The last IMF Global Financial Stability Report estimates foreign debt refinancing needs of Ukraine for this year at 208% of international reserves, with net obligations to banks that report the BPI figures equivalent to 17.6% of GDP and 59.5% of foreign currency loans. This gives an idea of the residual financial vulnerability in this and other Eastern Europe countries. The biggest Ukraine creditors are Austria (25.6%), France (20.1%) and Switzerland (16.2%).





Political Tips

Budget cutback was not the same for everyone. Ministries for Agriculture and Lands, Finance and Planning, Culture, and the National Electoral Council (CNE) are among the winners in terms of the budget adjustment announced in March, thanks to the increase in the resources allocated to these entities. Ministries of Interiors and Justice, Labor, Foreign Relations, Defense, Education, Higher Education, Environment, Communication, Food, Tourism, Sports, and Indigenous People did see their budgets affected by the 6% cutback of public spending.

CORPOELEC supports the single collective contract. The Corporación Eléctrica Nacional (CORPOELEC) President, Hipólito Izquierdo, supported the implementation of a single collective contract, which would benefit 33,000 workers of the electrical sector. He added that this collective convention includes EDELCA contract.

The Attorney General's Office blamed BIV former president. The Attorney General's Office accused former president of Banco Industrial de Venezuela (BIV), Luis Rafael Quiaro, of own fraudulent embezzlement, a crime typified in article 52 of the Law against Corruption. Caracas 13th Control Court awarded precautionary measures providing for regular presentation every 20 days, prohibition to leave the country and the presentation of two guarantors.

BCV involved in fraud scandal. Italian prosecutors stated that BCV officials had guaranteed fraudulent bonds that were used to open credit lines in some banks. The Central Bank of Venezuela denied that some of its officials had guaranteed false bonds in an attempt to defraud the Sicilian mob, after Italian authorities aborted the operation.

Argentina to defend nationalized companies. The Argentinean government pointed out that it will defend the interests of three Techint companies that were nationalized: Tubos de Acero de Venezuela (TAVSA), Materiales Siderúrgicos (MATESI), and Complejo Siderúrgico de Guayana (CONSIGUA). In this regard, the Argentinean government will seek compensation for the nationalization of these companies.

Appointed New ambassadors to Nicaragua and Turkey. Crisbeylee del Valle González Hernández and Raúl Betancourt Seeland were appointed extraordinary and





plenipotentiary ambassadors of Venezuela to Nicaragua and Turkey, respectively, according to the Official Gazette No. 39,180, May 18th.

Audits to Antonini's bank accounts are demanded in Uruguay. Uruguay's criminal attorney, Mónica Ferrero, requested the criminal judge Fanny Canessa to investigate Umissa, a company that sells manufactured homes to Venezuela and has Guido Antonini Canessa as its majority shareholder. Attorney Ferrero declared that she found irregularities in invoices, statements and cash movements.

The Law on Electoral Processes legalizes the use of the "morochas" system. The National Assembly approved in its first discussion the draft Organic Law on Electoral Processes. Article 7 of the law provides for that nominal election will not affect proportional election through lists. This means that there will not be minority proportional representation.

Autonomous universities investigated? The National Assembly urged the General Comptroller's Office to investigate autonomous universities in order to justify the cutback in the budgets of these educational institutions, which was approved in March.

FUTEV election is still suspended. The Electoral Commission of Federación de Trabajadores de la Energía, Petróleo, Gas y sus Similares (FUTEV) (Federation of energy, gas and oil workers) requested immediate nullity of the precautionary measure issued by the National Electoral Council (CNE) concerning the suspension of the union's election. The president of the electoral commission, José Sánchez, informed that written answers were delivered yesterday. Sánchez added that impeachments are not valid because they were presented out of the periods established in the electoral schedule.

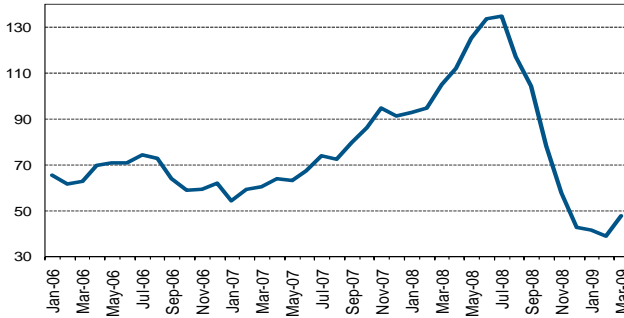
The National Assembly is looking for a formula to tax private companies' profits. Besides reviewing remunerations of top public officials, the National Assembly could also make decisions concerning profit margins of private companies. The Finance Committee Vice Chairman, Simón Escalona, informed that the possibility of taxing "excessive" profits in private companies is being studied. The method that would be used to tax business activities and, particularly, companies' profits is not clear; however, Escalona said that profit margins for companies that produce basic products could be fixed at 3%, with the "surplus" profits going to the national Treasury.



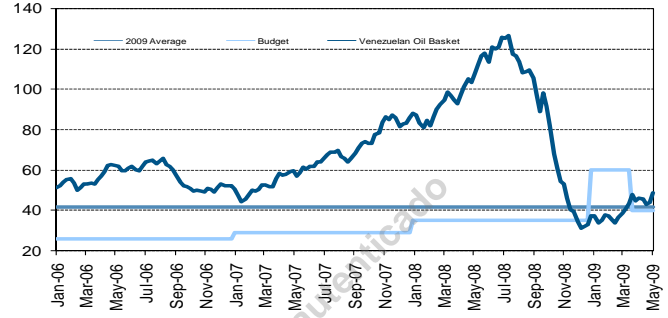


ECONOMIC OVERVIEW

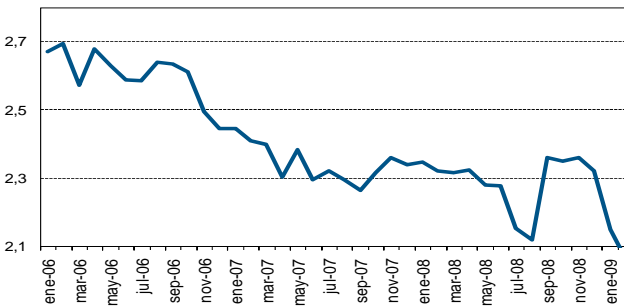
Oil Prices (WTI US\$pb)



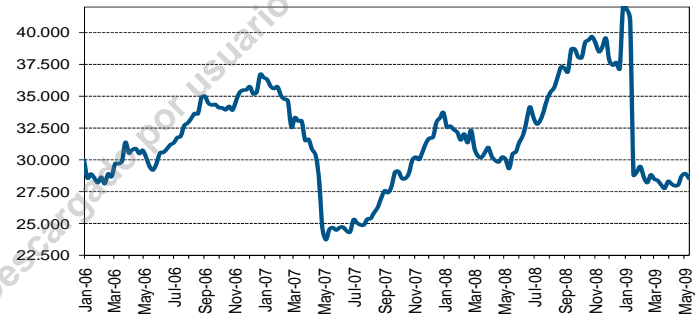
Oil Price (Venezuelan Basket US\$/pb)



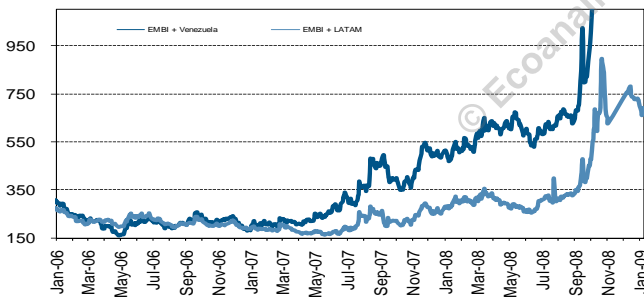
Oil Production MMBD



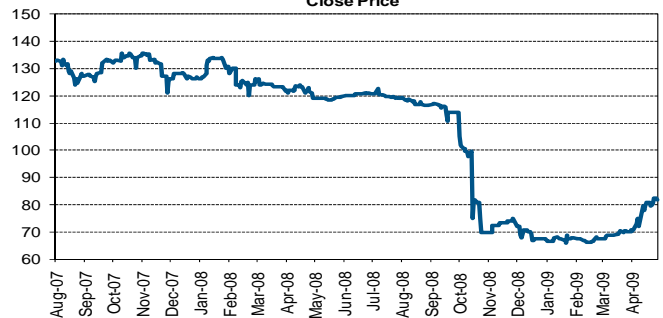
Fx Reserves - BCV (US\$ Million)



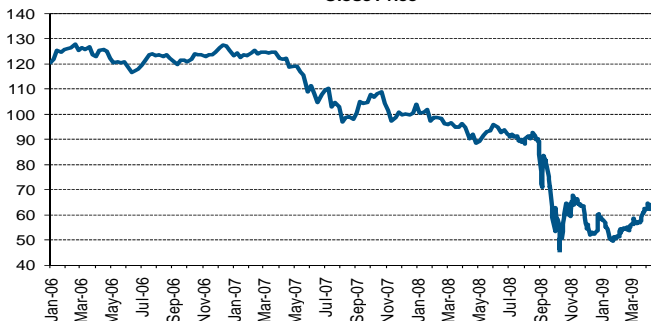
EMBI +



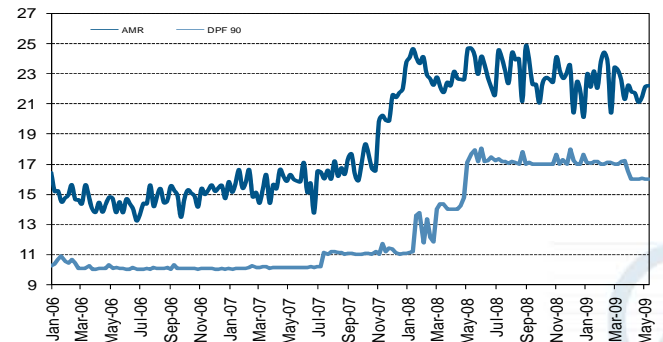
Venezuelan Global 18 Close Price



Venezuelan Global 27 Close Price

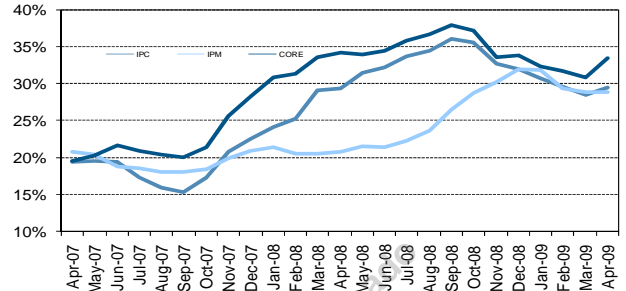
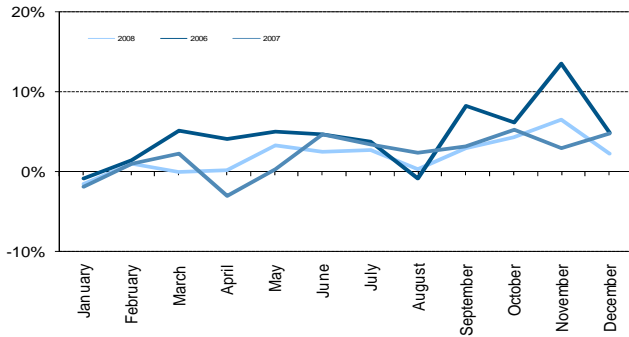


Interest Rate (Six Principal Banks)

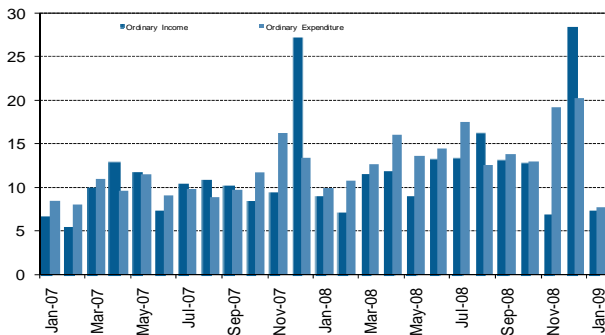




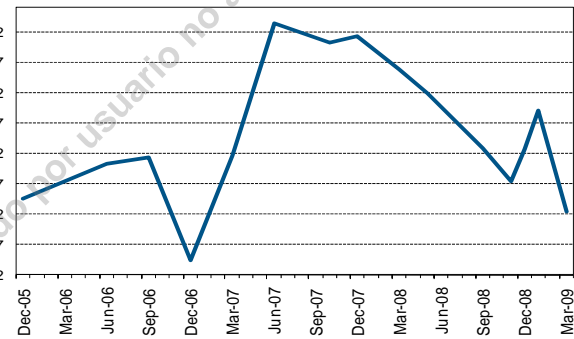
Real Expansion (M2)



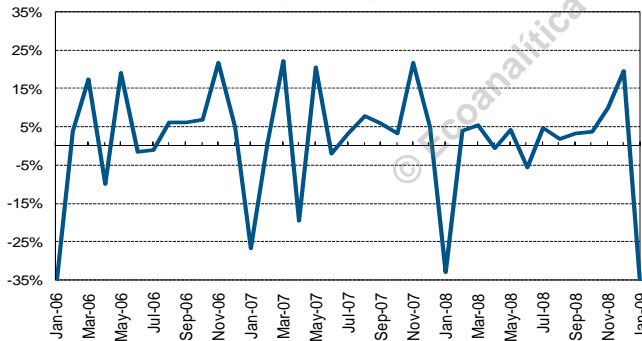
Central Government (VEB Billion)



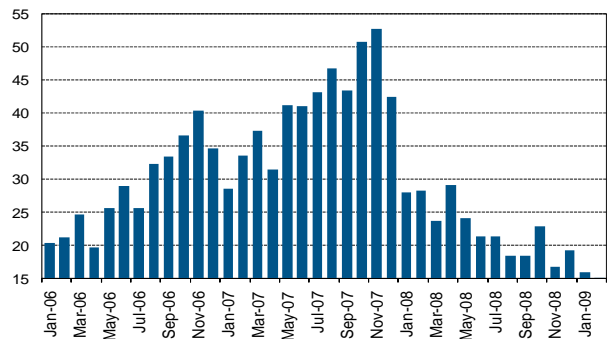
Resources of the State (US \$ MM)



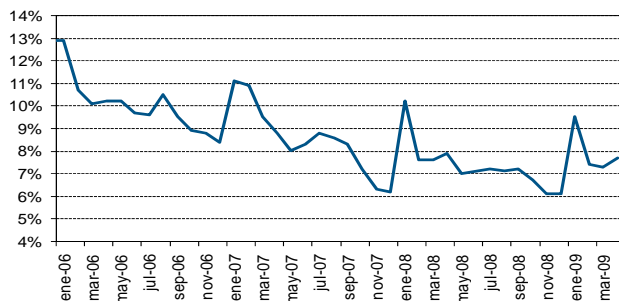
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment (%Variation)



Disbursement (US\$ Million)

