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***THE GOOD, THE BAD AND
THE WORST TO BE EXPECTED
OF 2008***

Edited by:
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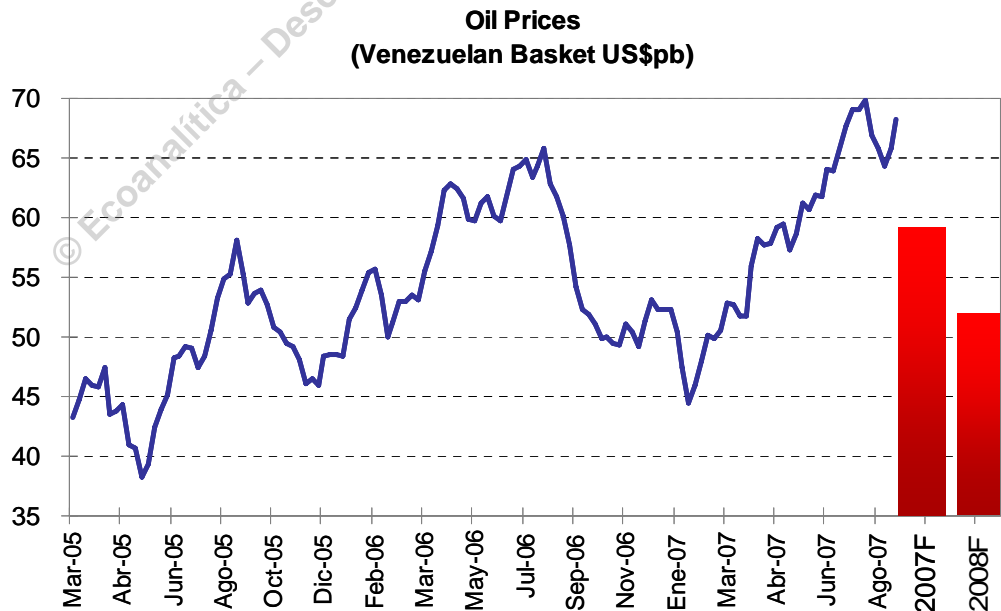
While the legal environment (which includes both an upcoming constitutional reform and an enabling law in force through the end of 2008) is extremely hostile, being characterized by a concentration of power in the hands of the President of the Republic with no counterbalancing effects whatsoever, the price of oil will continue to impose favorable results on the main economic variables. Therefore, the good news for 2008 is that the economic boom will continue. Insofar as the bad and the worst, we are hard put to decide whether the bad part is the legal environment and the worst part the political environment – or vice versa.

At ***Ecoanalítica*** we have been victims of polarization. Every time we run our “economic” models, we get very positive results, which many of our clients never believed would have happened. Time has shown we were right. The economy is going through the longest period of expansion of the last 30 years, and everything seems to point to this

continuing during 2008. Moreover, if the Venezuelan basket oil prices keep to their relatively high levels (i.e., between US\$ 45 and US\$50 per barrel as opposed to the present price of US\$ 68.3 per barrel), the Government could even stick to the same official exchange rate throughout 2008.

We up our oil price forecast

We have been using a very conservative average oil price for our economic projections. Since it is so difficult to project oil prices, we have always advised our clients to be very cautious in their oil price estimations, especially when making investment, expansion, and etc. decisions. We have suggested that it is preferable to make investment calculations based on prices at least 20% below current prices. Therefore, given the almost 60% increase from the 2006 year-ending price and the US\$ 68.3 price recorded last week, we have decided to up our 2007 price forecast from US\$ 50.8 to US\$ 59.1 per barrel, and our 2008 forecast from US\$ 41.8 to US\$ 51.9 per barrel. It should be noted that our 2008 estimate is 24% lower than the latest recorded price. Maybe we will again be at fault for being over-conservative. Nevertheless, the resulting economic scenario for 2008 is quite positive.

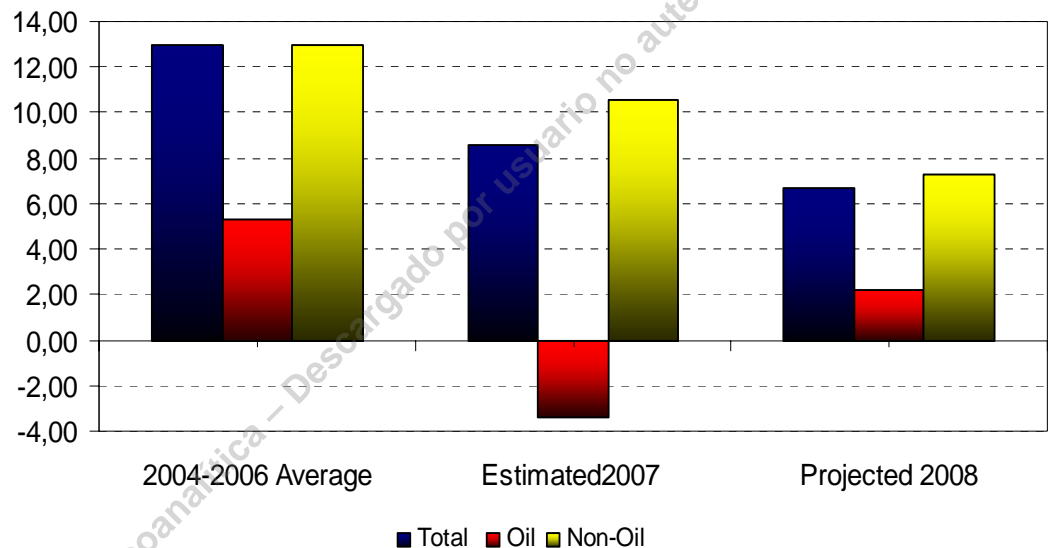


Sources: MEP and Ecoanalítica

High consumption-driven economic growth

Any increase in oil prices necessarily generates higher growth rate estimates. We therefore foresee that 2007 will close with a growth figure of 8.6%, mainly driven by a 10.5% growth of the non-oil sector. Our previous projections had forecast a growth of between 7.1% and 8.4% for the economy as a whole and the non-oil sector, respectively. In regards to the oil sector we expect it will contract by 3.4% in 2007, slightly higher than the 2.5% previously forecast. In 2008 the economy will expand by an average 6.7%, 7.3% for the non-oil sector and 2.2% for the oil sector.

Economic Growth



Sources: BCV and Ecoanalítica

Government has brought down fiscal waste

Notwithstanding expected increases of oil prices in 2007, compared with those of 2006, the central Government has implemented a minor program of fiscal constraint. In fact, over the first five months of the year, expenditure declined by 7.6% in real terms and non-oil income grew by 10.3%, once inflation is discounted. In addition, at the close of June 2007, the State's liquid resources stood at over US\$ 46.4 billion. This moderation in the expansion of expenditure, together with the high availability of liquid resources, means that devaluation is less necessary and will allow the fiesta to carry on into 2009. There can be no doubt that one of the characteristics of this Government is its extremely flexible fiscal policy. Around election time it injects money on

a massive scale, but when no elections are in sight, it simply turns off the expenditure tap.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Billions)							
	May 2007	May 2006	Nominal Variation	January-May 2007	January-May 2006	Nominal Variation	Real Variation
Total Revenue	11.867	4.701	152,4%	47.234	37.169	27,1%	6,6%
Non-Oil Revenue	4.095	3.628	12,9%	25.291	19.224	31,6%	10,3%
Oil Revenue	7.772	1.073	624,2%	21.872	17.322	26,3%	5,9%
Central Bank Earnings	-	-		71	624	-88,6%	-90,4%
Total Expenditure	11.521	10.201	12,9%	48.527	44.036	10,2%	-7,6%
Primary Expenditure	11.134	9.780	13,8%	45.288	40.244	12,5%	-5,6%
Interest Payments	388	421	-7,9%	3.239	3.791	-14,6%	-28,4%
Domestic Debt	208	234	-10,8%	1.277	1.386	-7,9%	-22,7%
Foreing Debt	179	187	-4,3%	1.962	2.406	-18,4%	-31,6%
Quasifiscal Expenditure	-	-		-	-		
Fiscal Balance	346	(5.500)		(1.294)	(6.867)		
Primary Balance	734	(5.079)		1.945	(3.075)		
Non Oil Balance	(7.426)	(6.573)		(23.236)	(24.812)		
Debt Amortization	894	423		7.010	4.763		
Net Monetary Injection	8.141	6.808	19,6%	26.660	27.169	-1,9%	-17,7%
Financing Requirements	548	5.923		8.304	11.630		
Foreing Debt	3	1		17	131		
Domestic Debt	-	-		1.624	-		
Tresury Bonds	-	-		1.624	-		
Tresury Debt	-	-		-	-		
Others	545	5.921		6.662	11.499		

Sources: BCV and Ecoanalítica

In spite of the monetary reform, inflation will remain at around 20%

Inflation will definitely continue to be the economic variable that will demonstrate the incongruence of the economic model. This Government has not implemented a single policy to control it, so we foresee that it will remain at around the 20% level. We should point out that the 20% rate we are forecasting for 2008 will occur as long as there is no devaluation of the official exchange rate, nor further transfers of international reserves to Fonden, since they will close 2007 at around US\$ 28.8 billion, US\$ 1.2 billion below what has been declared a "sufficient" level.

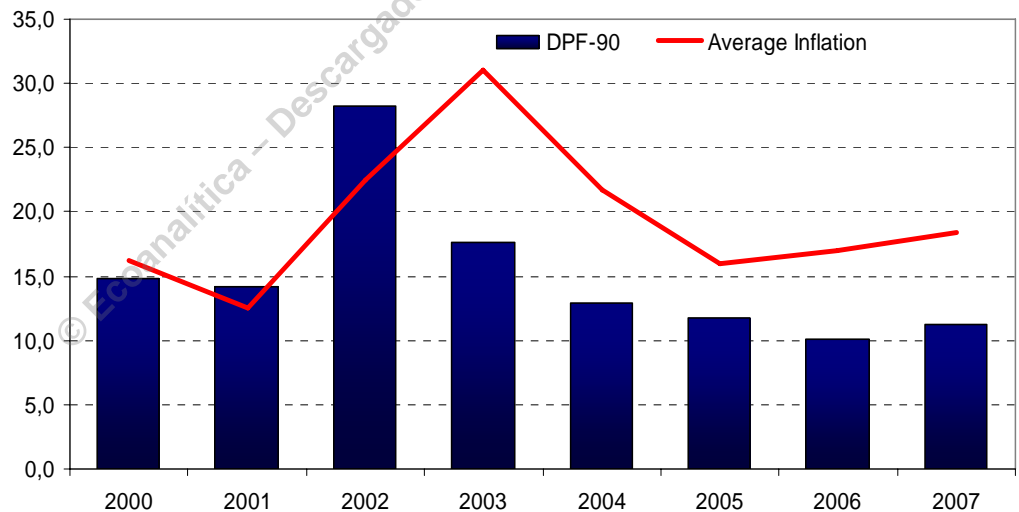
2008 will be marked by the monetary reconversion process. However, we do not believe that the monetary reconversion will affect the country's main economic variables. Its benefits will be felt in the

simplification of the accounts and calculations for the Venezuelan people. Its cost is essentially being borne by the private sector, which has to adapt all its systems to the new coinage. Ecoanalítica believes that the supposed costs of rounding off prices, and the psychological benefits derived from the lower denomination of the currency will be practically negligible.

Lower growth of the monetary aggregates and little increase in interest rates

A slowing fiscal expansion together with an increase in CADIVI disbursements have produced a slower growth in monetary aggregates. Moreover, the BCV has adopted a series of measures to increase both active and passive interest rates. This change in the fiscal and monetary policy have meant that our active interest rate forecasts have been raised slightly to 16.3% for 2007 and an average of 19.8% for 2008. In both cases, and as is usual in times of exchange control, the interest rates will always be below inflation rates.

Inflation vs DPF-90

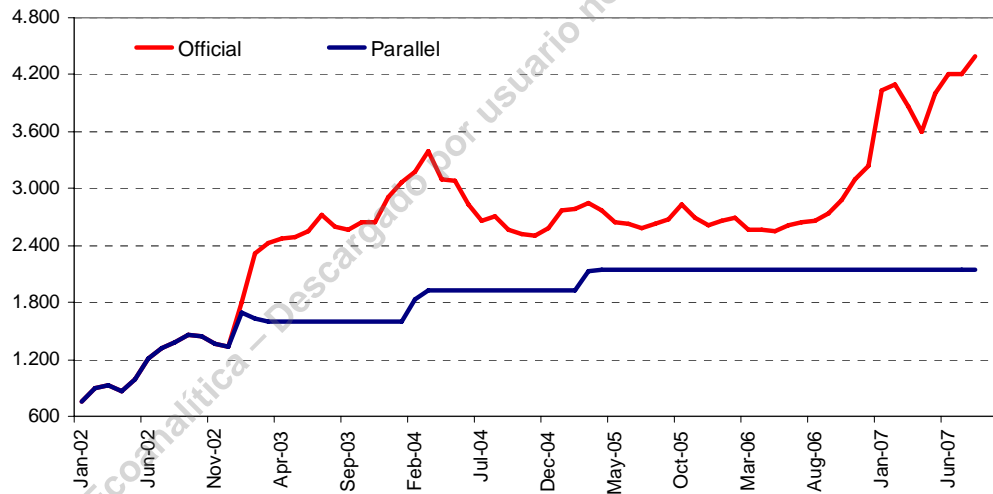


Sources: BCV and Ecoanalítica

We foresee a 32.6% devaluation of the official exchange rate during the first quarter of 2009, taking it to Bs. F 2.85/US\$ 1.00

This is just a slightly more subtle way of saying that we do not expect a devaluation in 2008. The reasons are political: no government in the world embarks on a monetary reconversion by devaluing its currency. It just makes no sense. The Government will try to put off the devaluation for as long as possible after 2008. The oil panorama that we have described above allows the Government to hold off on the devaluation throughout next year. Moreover, devaluations occur in Venezuela when the fiscal accounts are askew. However, as we also mentioned above, the fiscal policy is tending towards moderation and the State has enough money to stay devaluation.

Exchange Rate (VEB/US\$)



Sources: Reuters and Ecoanalítica

Why do people think that the Bs.F 2.15/US\$ 1.00 exchange rate is unsustainable – even in the short term?

Ecoanalítica understands that it is swimming against the current when it says that it is possible to keep to the same exchange rate until the first quarter of 2009. This rate, frozen at VEB 2,150/US\$ 1.00 for two and a half years, subject to an average inflation of 15,6%, makes it look very cheap. However, this view is held mainly because there is another exchange rate, a parallel rate, that is almost double the former. The economic agents' decisions are taken based on the parallel rate, regardless of the fact that foreign currency is authorized at the official exchange rate. Even the President of the Republic, when calculating the value of a donation in US Dollars, uses the parallel rate.

This is why it is important for the Government to calm the parallel market so as to reduce the distortions created by the exchange control in Venezuela, the most obvious of which is the major difference existing between the official and the parallel market exchange rates.

The parallel exchange rate: “I only know that I know nothing”

If ever there has been a variable difficult to predict, it has been the parallel exchange rate. Some of the problems are that this market is not particularly transparent, there are few players and it lacks depth, all of which render it extremely volatile. Independently of that, how do you explain that a State with more than US\$ 60 billion cash in its pocket allows the parallel exchange rate to depreciate by more than 100% over the last twelve months, having gone from VEB 2,500/US\$ 1 to around VEB 5,000/US\$ 1. In respect of the parallel market **Ecoanalítica** has two ways of looking:

The first is rational. The State seeks to reduce the imperfections of the parallel market, allowing negotiation of short-term US\$-denominated bonds, and where the Finance Ministry auctions off directly, every week, between US\$ 100 and US\$ 200 million. This scenario implies a reorganization of the market and regulation of the hard-currency offerings of the public sector. In this scenario, pressure on the parallel rate will abate and we believe we will see a drop in the exchange rate to less than VEB 4,000/US\$ 1.

The second scenario is where you sit and do nothing; where the FM keeps a shroud over its currency offerings, selling structured notes continuously and overburdening the international market with Venezuelan debt. In this case, and with the upcoming seasonal growth of demand ahead of Christmas, the parallel exchange rate will continue its downward trend. We will then find ourselves in a very irrational economic position, but one that is frequently experienced by many agents, that of saying: “there’s no such thing as an expensive dollar.”

Ecoanalítica has heard that there are many technicians in the public sector that are in favor of the first option, to put a semblance of order in the parallel market and achieve a substantial reduction in the differential between the parallel and official markets. However, there are small groups inside or close to the Government that are making immense fortunes thanks to the current situation. These groups are interested in sticking to the system in force with its major differential.

This is why Ecoanalítica has no idea as to who will come out winning in the struggle between reason and corruption. We are prepared to bet that the latter will prevail and there will be an increase in the parallel exchange rate. But each of us has to reach her or his own conclusion.

The model is unsustainable

Regardless of the positive results up ahead next year, Ecoanalítica has no doubt whatsoever that the 21st Century Socialism model is just not sustainable. High oil prices will continue to pay for high economic growth and postpone a decision to devalue the currency. But all the economic agents know that the end of this story will be a repetition of what happened in 1989 and 1996. What we are saying is simply that the end of this economic model will not come in 2008 and quite probably not in 2009 either. The distortions being created will undoubtedly be felt towards the end of the year 2010, and particularly in 2011. That is when the Venezuelans are going to feel the full brunt of this Government's inefficiencies.

Economic Tips

Cash injections into the monetary system suspended. On Wednesday, September 5, the BCV issued a communiqué announcing the suspension of all cash injections into the financial system (Open Market Operations). The decision affected overnight operations during the following days. On the day following the decision, overnight rates went up as far as 121%.

BCV alert. Armando León, Director of the BCV, declared that the issuing authority will intensify its monitoring of the behavior of the interbank system and liquidity levels, so as to be ready to immediately correct any momentary pressure on liquidity.

Southern Bond again, but not so big. Venezuela agreed to reduce the amount of the Southern Bond issue to US\$ 1.2 billion from the US\$ 1.5 billion initially planned, according to Rodrigo Cabezas, Finance Minister. The Government intends to re-launch in September the combined Argentine and Venezuelan sale, suspended a few weeks back because of the volatility of international markets. Cabezas added that the package would be made up of one single Venezuelan note and a single Argentine one.

More bonds may be on the way. Venezuela, which recently finished placing US\$ 1 billion in structured notes, is now looking at placing more of these financial instruments over the following months so as to confer liquidity on a State fund, according to Cabezas.

High overhead. In just about nine months the national Assembly has approved additional credits for VEB 18 trillion, increasing the budget by 16%. This year's assignment was VEB 115.17 trillion and now stands at VEB 133.17 trillion. The President of the Finance Commission, Ricardo Sanguino, points to the fact that the volume of extraordinary operations authorized this year is less than last year, and emphasized that greater control is being exerted over the execution of the resources. Last year, additional credits were over VEB 40 trillion.

Job productivity down. According to a report called Key Indicators of the Job Market, presented by the International Labor Organization (ILO) it is shown that the added value contributed by each employed person in Latin America and the Caribbean has grown by a minute amount during the decade 1996 to 2006 (it rose from US\$ 17,652 to US\$ 18,908 during the period). In Venezuela, productivity per worker, compared with that of the United States declined from 77% in 1980 to 42% in 2005.

Reduction of working day hours to apply to all productive sectors. Representatives of the small and medium-sized companies have expressed their concern about the potential increases in their costs, arising from the cutting back on working hours. However, according to Rafael Chacón, Vice Minister of Labor, neither the Small and Medium-Sized Companies nor any other sector will receive preferential treatment in this regard.

Unemployment to close the year at 7%. Jorge Giordani has affirmed that projections are positive, thus allowing him to forecast that the year will close with an economic growth figure of 12.3% for the fourth consecutive year. He also that unemployment will decrease during December. It should be noted that unemployment numbers traditionally decline in December for seasonal reasons.

Basic Products Basket on the rise. According to the Workers' Center for Documentation and Analysis (CENDA), the basic products basket increased by 0.7% in August, to VEB 2.09 million. The categories that rose most during the month were: food (1.2%), housing (0.7%), education (0.7%) and personal hygiene and home cleaning products (0.6%). CENDA calculations show that an average home falls 41.3% from covering the cost of the basket of basic products.

Law of Conservation and Maintenance of Public Property. The Law of Conservation and Maintenance of Public Property was published in Official Gazette N° 38.756 of August 28, 2007, setting forth the obligation to carry out periodic maintenance of State assets. The President of the Venezuelan Chamber of Distributors, Erick Hartkopf, is sure that the Law will stimulate the labor market, to the point that the heavy machinery sector will generate 400,000 new jobs over a medium term.

Tax collections at 66% of their target. So far this year the SENIAT has collected 66% of its total contribution of VEB 59.2 trillion, as provided in the 2007 Budget Law. The month of September was originally set for meeting the proposed target, but because of changes made to the tax framework, whereby PDVSA and the mixed companies will not file income tax return, the term has been postponed until the end of October. This modification means a reduction of VEB 10 trillion in the amount to be collected.

OIL TIPS

Up again. The Venezuelan basket of crudes and derivatives rose for the second straight week, gaining US\$ 2.5 to stand at an average price of US\$ 66.23, which is in fact lower than the US\$ 68.07 recorded in July. So far this year, the Venezuelan barrel has managed to achieve a price of US\$ 58.49, slightly more than US\$2 above the price of US\$ 56.45 registered in 2006, while the price established in the nation's budget for this year was US\$ 29,49 (+101%).

OPEC raises production quotas. Omar Ibrahim, the cartel's spokesman, reported that the energy ministers of the OPEC countries had approved an increase of 500,000 barrels of petroleum production per day as of November 1. The decision was taken due to strong international pressure against the rise in crude prices, but only after seven hours of intense and hard-fought debate.

Not much will change. Analysts do not foresee a real increase in crude production as a result of this decision. In August, the countries to which the quotas apply had already extracted a daily average of 26.7 million barrels (of 159 liters each). The new quota for these countries (not counting Iraq and Angola) is now 27.25 million bpd, said Al Badri. Of the 500,000 barrels, 350,000 correspond to Saudi Arabia and the remaining 150,000 bpd to the other member countries. The majority of the OPEC member countries, among them Libya, Venezuela and Iran saw no need to increase

quotas. As far as they are concerned, the industrialized countries could “live” with the new price levels of up to US\$ 80, in view of the economic growth of Europe and Asia.

Funds assigned for the operation of the new PDVSA affiliates. The Minister of Energy and Petroleum has said that resources have been assigned to the seven recently created affiliates of PDVSA, through transfers of budgets from other State entities. It is important to point out that none of these affiliates appeared in the industry’s 2007 budget. The new affiliates will exercise different roles in the national economy and will be entitled: Pdvsa Servicios, Pdvsa Gas Popular, Pdvsa Agrícola, Pdvsa Industrial, Pdvsa Ingeniería y Construcción, Pdvsa Naval and Pdvsa Desarrollo Urbano.

Orinoco Oil Belt (Faja) Production. Crude extraction in the Faja is advancing at the rate of 515,000 barrels per day, as well as 25 million cubic feet of gas per day. These numbers were made public by the Minister of Energy and Petroleum.

BUSINESS SECTOR TIPS

Government looking into the creation of a single utilities corporation. The Government has in mind the unification of the collection of public utilities and the creation of a single corporation where all information will flow into a single automated information system on electricity, fixed-line telephones, direct or domestic gas and even municipal taxes. Extra-officially it has been reported that the project will be implemented in the medium term, once the system is adapted to the monetary reconversion.

New Publicly Owned Company. Frutícola Caripe C.A. has been declared to be of public usefulness and social interest. The Government has argued that “the suspension of activities since 2006 constitutes inadequate usage of means of production.” The assets of this company will be employed in the Endogenous Development of the Caripe Citric Circuit Project.

Caracas is the leader. Franchise may grow by 15% in 2007. Of the 370 “franchisable” companies that currently exist in Venezuela, about 80% are in the capital, whilst in the other economically important states, they have a low penetration percentage. Zulia, for example, has a mere 5% penetration. In the region of the Llanos or in Guayana, the incidence of these businesses is a mere 0.3%. Of the total of these franchises that function all over the country, 65% are national and the remainder foreign-owned, mainly from the United States.

New car sales in Venezuela up a massive 53%. New car sales in Venezuela shot up by 52.6% over the first eight months of the year. The Venezuelan Automotive Chamber (Cavenez) has reported that 302,853 vehicles were sold through August, as opposed to 198,478 sold last year in the same period. 46,720 vehicles were sold in August, 44.5% more than in the same month last year.

Back to the CAN. The Secretary-General of the Andean Community of nations (CAN), Freddy Ehlers, recently stated that the Venezuelan Government had requested the initiation of talks, through its Foreign Minister Nicolás Maduro, with a view to an eventual return of Venezuela to the Andean Community, from which it withdrew in April 2006.

Colombia will not charge Venezuelan transport vehicles a toll at the frontier. Álvaro José Soto, Director of the Colombian Institute of Road Concessions, has informed that Venezuelan transport vehicles coming into the country through one of the onshore border crossings will not be charged a toll. The official explained that the exemption will also apply to transport vehicles entering from San Cristóbal, Ureña and San Antonio del Táchira to Cúcuta.

Real estate sector fears a major drop in the rental market. The draft constitutional reform recently presented by the President of the Republic to the National Assembly has raised grave concerns in the real estate sector, which fears greater juridical insecurity, over and above that to which they have been accustomed during recent years. Felipe Martínez, President of the Real Estate Chamber, which represents the building administrators, reports that if the proposal goes through without including a characteristic of the private property such as its fee disposal, it will be difficult to sell, mortgage, transfer, rent or bequeath any property in the future.

Regulation almost ready. Within 15 days it is expected that the directors of private clinics, insurers and the medical profession will submit their observations to the special sub-commission of the National Assembly (charged with investigating the high prices of private treatment).

Meat imports cover 25% of the country's domestic needs. Genaro Méndez, President of the National Federation of Cattle Breeders (Fedenaga), reports that Venezuela imports 120,000 tons per year of Brazilian livestock. National production accounts for 420,000 tons per year, covering only 75% of the demand.

Argentine seed potatoes to be imported. The National Service of Food and Agricultural Health and Quality (Senasa) of the Argentine Nation has indicated that its country will export seed potatoes to Venezuela. This product will be added to the basket of Argentine exports to Venezuela which through July 2007 amounted to US\$ 149 million in animal and vegetable products.

Mercal covers private supply shortages. The increase in food consumption has encouraged the remodeling of 170 Mercal stores, increasing the capacity of some of them. According to Rafael Oropeza, Food Minister, the demand for Mercal products has increased due to supply shortages among the private sector. As a result, Mercal's distribution capacity has been doubled this year.

VEB 1.2 trillion for housing projects. Since the year 2005, VEB 1.2 trillion has been spent on housing subsidies, granted under the "Casa Media" Plan. The Ministry of Housing and Habitat has said that the Plan has benefited a total of 117,860 families. 41,428 more families have received loans financed with funds from the Obligatory Savings Fund for a total of VEB 4.03 trillion.

Lottery agencies sanctioned. During August the "Zero Illegal Betting" plan of the National Lotteries Commission detected a series of irregularities in the operations of many lottery agencies, among which 34 were temporarily shut down.

Socialist processing plant inaugurated. The President of the Republic was present at the inauguration of the socialist pre-cooked flour processing plant Bravo Cacique Yaracuy. 1% of the internal production of maize will be processed at the plant for manufacturing pre-cooked flour, under the brand name Venezuela Socialista. According to the announcement, at the end of November another similar plant will be opened in the State of Bolívar. In total, the Government hopes to develop 10 maize processing plants.

Political Tips

So far, against. According to the latest Datanálisis poll. Conducted in August 39.8% of the voters are against the Constitutional reform and 30.2% in favor. What has to be emphasized, however, is the high proportion of the undecided, which stands at 24.3%. Ecoanalítica believes that these percentages will tend to change in favor of approving the President's proposal. The difference in the voting will be even greater,

since we expect the opponents of the reform will be divided between participating in the elections and abstaining.

Ojo Electoral supports voting by theme. Luis Lander, Executive Director of the Ojo Electoral (literally “Election Watch”) Civil Association, announced that voting for reform should be carried out by theme. He explained that a blanket consultation does not allow the population to express its opinion and vote on what it favors and what it rejects. He also said that voting by article is a very slow process and may discourage the people. He therefore suggested that “all the articles related to specific matters, territorial ordinance, for example. Should be grouped together to form one theme, therefore leaving everything divided in four or five points.”

CNE ready for the consultation on Constitutional reform. Tibusay Lucena, President of the National Electoral Council has reported that the Council is ready to hold the referendum aimed at approving or rejecting the Constitutional reform. In an interview on Venezolana de Televisión he said that the people will be called to vote by blocs (for Yes or No).

Students demand transparency and guarantees of the Electoral Authority. Within the framework of the activities of the Students’ Parliamentary Assembly, the university representatives agreed to request guarantees and transparency from the CNE in order to participate in the consultative referendum on Constitutional reform. Yon Goicoechea, a director of the student forum, said it was sure that the majority reject the project, and therefore that they would recur to the Secretary of the OEA, José Insulza, to set forth the content of the debate before this authority of the international community.

The Church will make known its position in October. The joint announcement of the Episcopal Conference of Venezuela regarding the draft constitutional reform was postponed for discussion by the extraordinary assembly planned for the beginning of October this year. The bishops are permanently in session, and a group of professionals explained the virtues and problems of President Chávez project.

New Vice Minister for Integrated Rural Development of the MAT appointed. Gerardo Rojas has been appointed new Vice Minister for Integrated Rural Development of the Ministry of Agriculture and Land, through Decree 5.552, published in Official Gazette 38.761 of September 5, this year.

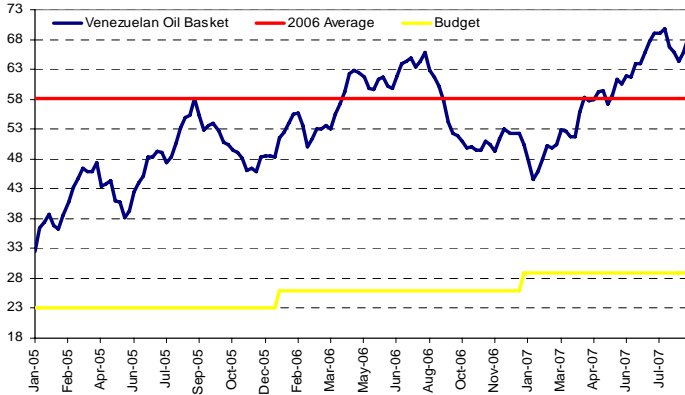
New curriculum being designed. After informing that classes would recommence on September 17, Adán Chávez, Minister of Education, went on to say that his office is working on the preparation of new texts from the schools, as well as the review and

evaluation of those used over the past few years. He also announced that a new list of texts recommended by the Ministry of Education would shortly be published, the content of which will be adapted to the reworking of the curriculum to be implemented on September 17.

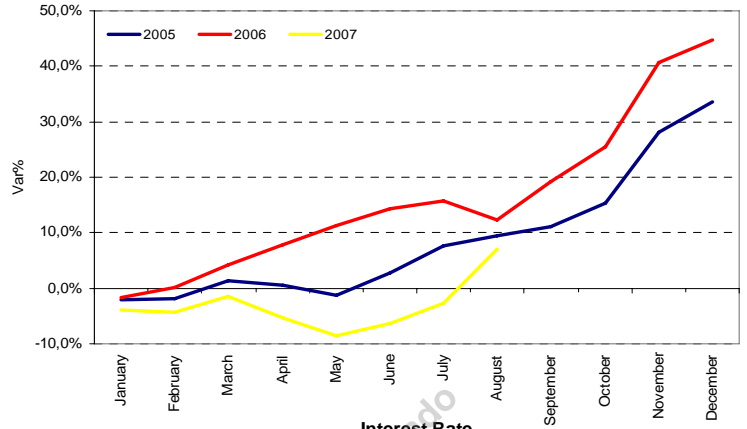
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ECONOMIC OVERVIEW

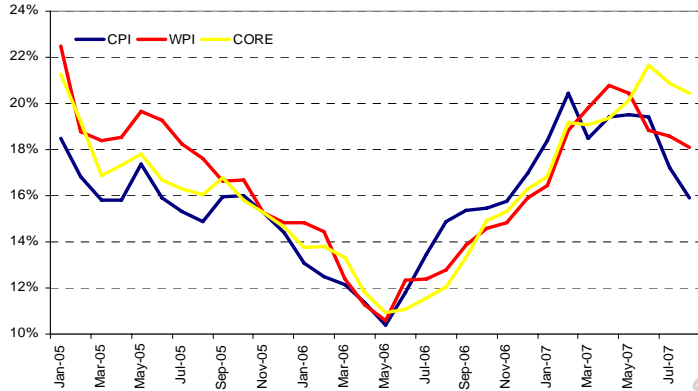
Oil Price
(Venezuelan Basket US\$/pb)



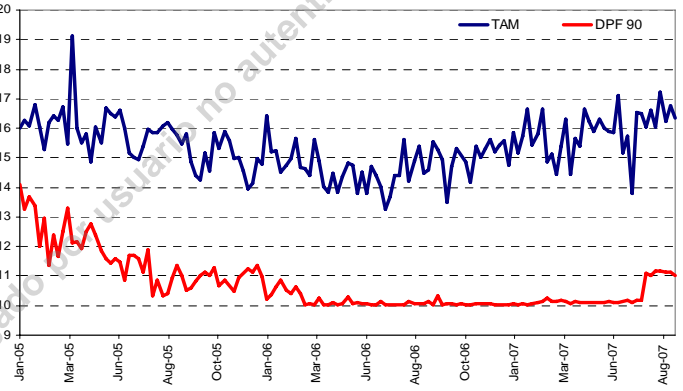
Real Expansion (M2)



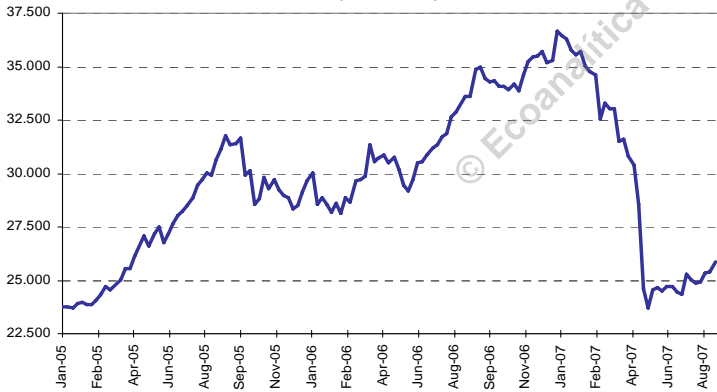
Inflation
(Last 12 Months)



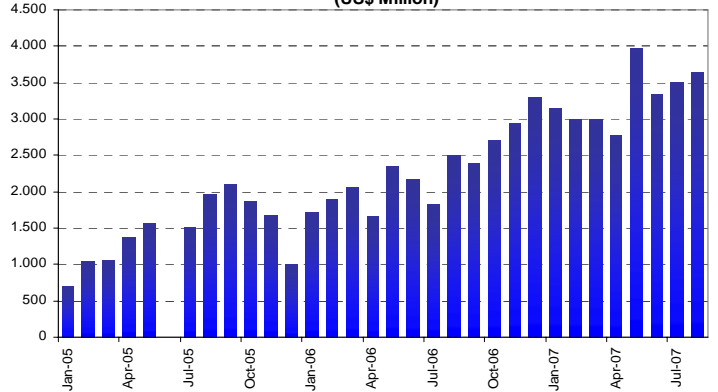
Interest Rate
(Six Principal Banks)



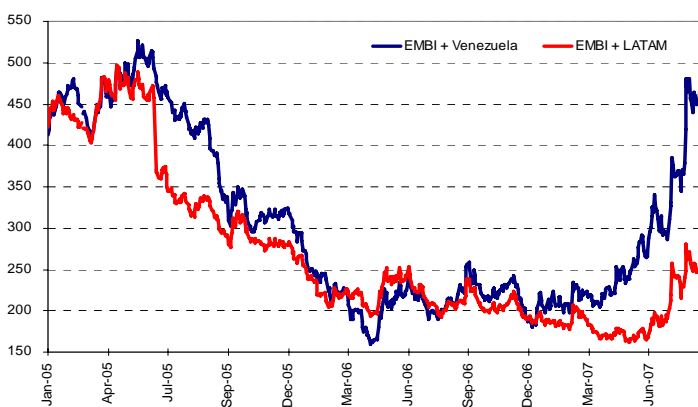
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

