



*When high oil prices
aren't
everything... Venezuelan
economy slowing down*

By:

Asdrúbal Oliveros
Michael Penfold

Edited by:

John Holden

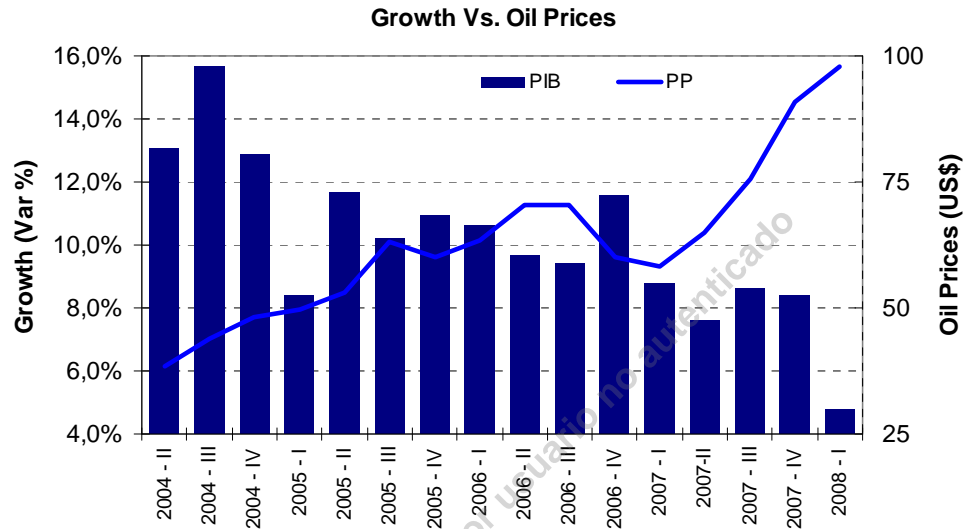
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**Microeconomic
factors make a
significant impact**

After a two week delay, the Central Bank of Venezuela (BCV) finally released its economic growth figures for the first quarter of the year. The Venezuelan economy grew by 4.8% compared to the same period last year. This growth is much lower than what has previously been achieved.

The GDP figures released by the BCV gather a number of important aspects. In the first place it's a good lesson for the Administration. Though it's true that so far during 2008 the price of the Venezuelan oil basket has gone up by 32.3%, the economy only grew by 4.8%, much lower than the average economic growth rate of the last four years which is 11.8%. So, the Government must begin to understand that from now on it's not enough that oil prices are high, but it's also important to design and implement efficient and coherent economic policies that include the private sector. The significant distortions caused by price controls, interest rates going up, problems with the foreign currency exchange market, nationalizations, increased labor costs, problems in the foreign

sector, among a number of other aspects are all leading to sacrifices in terms of economic growth and wellbeing.



Sources: BCV and Ecoanalítica

**A positive factor:
The oil sector is
growing**

The BCV figures reflect that the oil sector expanded by 3.3% compared to the first quarter of 2007. This is a very positive sign since the oil sector has been shrinking for the last 6 quarters in-a-row. At **Ecoanalítica**, we have pointed out that PDVSA has been increasing its investment levels for the last few months in order to stop the significant drop in oil production reflected in 2007.

The BCV points out that *“the oil sector’s favorable results for the first quarter are mainly due to the increase in crude oil production by the mixed companies.”*

**There is no doubt
about the slowdown
in non-oil activity**

The non-oil sector figures confirm what the indicators have been reflecting that there is a definite slowdown in progress. Non-oil activity only grew by 5.0% compared to last year. The figures also show that as things stand today, the Dutch sickness is alive and kicking: the GDP of activities that produce tradable goods increased by 2.1% and non-tradable goods increased by 4.9%.

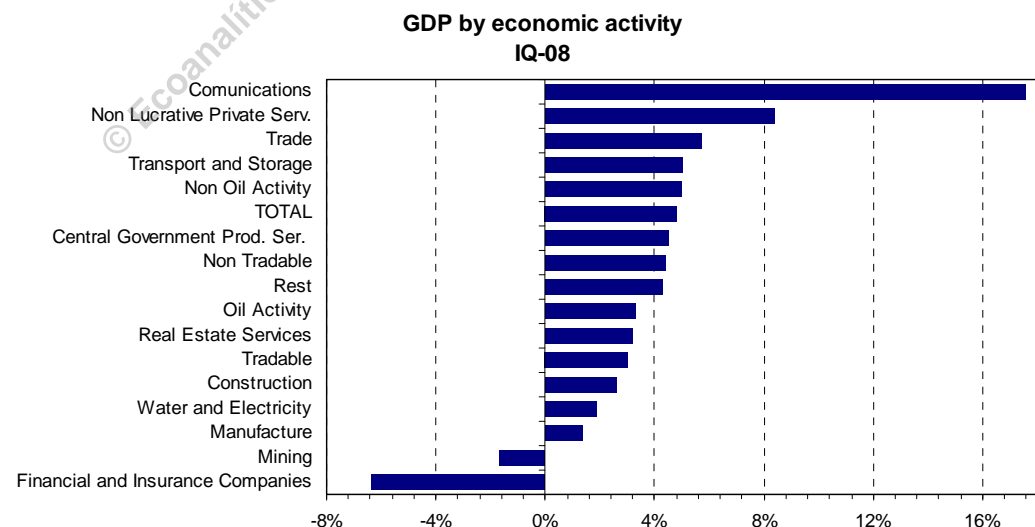
The slowdown in growth can be seen by the fact that between the first quarter of 2008 and the fourth quarter of 2007, the Venezuelan economy dropped 14.2%, with the non-oil sector economy shrinking by 15% and a

slight 0.4% expansion in oil activity. It's important to point out that due to seasonal factors, the variation rate between the last quarter of 2007 and the first quarter of 2008 is negative. However, the shrinkage reflected in the first quarter 2008 is quite high if we consider that the rate's average, between quarters, during the last four years has been 8.4%.

A worrying drop

The BCV points out that within the non-oil economy the activities which grew the most were: communications (17.6%); community, social and personal services (8.4%); commerce (5.7%); transportation services (5.0%); and Government service producers (4.5%). However, two labor intensive activities, construction and manufacturing, only grew by 2.6% and 1.4% respectively. With regard to construction, this drop is dramatic considering that its average variation between the first quarter of 2005 and the fourth quarter of 2007 was 22.9%.

On the other hand, the new monetary policy decisions being made by the BCV as well as the new adjustments the Ministry of Finance has been making with regard to payment flows has been having its affect on the financing systems performance. The sector shrank by 6.4% compared to the first quarter of 2007. This drop is significant because up until now the financing system had always been one of the main beneficiaries of the recent economic growth, with an average growth rate of 31.7% between the second quarter of 2003, up until the fourth quarter of 2007.



Sources: BCV and Ecoanalítica

The private sector in reverse

The BCV points out that during the first quarter of 2008 compared to the first quarter of last year the public sector expanded by 22.2% while the private sector shrank by 2.3% during the same period. These figures illustrate the changes which have occurred in the institutional structure as a consequence of the migration of the private oil companies to the public sector (mixed companies) and the nationalization of the electric power companies and telecommunications, a behavior that is fundamentally determined by the institutional reclassification of the nationalized companies.

It's important to point out that the private sector is continually shrinking and its range of action is becoming more limited. In fact, of the 10 largest companies in terms of sales in Venezuela, 7 are now public companies.

Company	Sales 2006 (US\$ MM)	Property
PDVSA	101.838	State
CANTV	3.161	Nationalized
EMPRESAS POLAR	3.114	Private
MOVISTAR	2.691	Private
SIDOR	2.297	Nationalized
PEQUIVEN	1.580	State
CVG EDELCA	1.238	State
CVG VENALUM	989	State
SIVENSA	916	Private
CVG FERROMINERA	779	State
CEMEX	732	About to nacionalice.
ELECTRICIDAD DE CARACAS	707	Nationalized
CVG BAUXILUM	610	State

Sources: América Economía and Ecoanalítica

Imports are saving us

When we analyze the first quarter global supply and demand figures released by the BCV, the fundamental role imports play is once again ratified. While aggregate domestic demand expands to 9.3% during the first quarter of 2008 (compared year to year), the GDP grew 4.8%. How has this gap been corrected? The answer is easy: with imports. During the same period imports expanded by 13.8%, despite the fact that foreign currency exchange policies were redesigned and implemented by the Administration. After imports, the component that increases the most is

private consumption at 11.1%. Another important point is that investment has dropped by 1.8%. A fact that in our opinion has a lot to do with the fact that inflation refuses to go down.

According to the figures estimated by the BCV, at prices that were constant for 2007, the Venezuelan economy grew by 8.4% during 2007. Based on this, the Venezuelan economy registered four consecutive years of growth which the BCV classified as “sustained, generalized, and significant.”

According to our estimates for 2008, the Venezuelan economy will grow by 6.7% with the non-oil sector increasing by 7.3% while the oil sector will increase by 2.2%. We believe that given the dynamic of the upcoming regional elections in November, economic growth will be more pronounced during the second semester of the year.

Our estimate for the price of oil for 2008 is US\$81.10 per barrel. However, it's very probably that the year's average price settle quite a bit higher than this. We are aware that this is a very conservative estimate, but any improvement on this figure translate to a positive adjustment, especially with regard to economic growth, the foreign sector, and fiscal tallies.

But we must point out that it is becoming increasingly difficult for policy makers to continue to increase the growth of the economy based solely on high oil prices. 2008 is a good example of this: despite the fact that we consider that the price of the

Venezuelan oil basket will most likely end up being higher than US\$81.10 per barrel, the Venezuelan economy will grow less than it did in 2007 when the average price per barrel was around US\$ 65 per barrel.

Economic Tips

More Argentinean bonds. According to the Argentinean newspaper Clarín, the latest acquisition of Argentinean bonds took place last week for an amount equal to US\$1.0 billion. According to the article, the operation was costly because of the

southern country's high country risk rating which forced it to pay a 13% rate for the Bonden 15. It's worth pointing out that the Government is not placing them on the market due to investor's lack of interest in Argentinean debt. The Administration could use the bonds as part of its strategy to control the parallel foreign currency market.

National Assembly reviewing use of resources. The National Assembly Finance Commission is reviewing how the Governor's and Mayor's offices around the country have been disposing of the resources that they have been receiving through constitutional allocations, the Special Economic Assignment Law, the Inter-Governmental Fund for Decentralization, and/or supplementary appropriations, given that it is presumed that these resources have remained deposited in the banks and are not being used to develop projects.

Banks will sell notes. In the *Gaceta Oficial* N° 38.933 the Ministry of Finance made it official that financing institutions are not permitted to keep titles or structured notes in bolivars but backed by US-dollars given that these instruments make-up a part of the foreign currency position of the institutions but they are not registered as such in their balance accounts. Banks are only allowed to possess up to 30% of their total assets in foreign currency.

The amount is considerable. According to our estimates, the amount of structured notes kept by financing institutions is around US\$4.5 billion. So, if the sale of these instruments actually takes place, the Ministry of Finance measure would significantly contribute to take pressure off the unofficial foreign currency exchange rate.

Unemployment continues to drop. According to the National Statistic Institute figures, unemployment for the month of April was at 7.9%, down 0.9% compared to April 2007. The Government hopes to get the unemployment rate down to around 6% by the end of the year.

Deficit increases in February. BCV figures indicate that the Central Government received revenue for VEF7.25 billion and spent VEF10.75 billion. Accumulated revenues for the first two months of the year reached VEF16.28 billion of which 56% (VEF9.19 billion) came from non-oil sector sources and the other 44% (VEF7.09 billion) came from oil revenues. Total spending for the period (VEF20.64 billion) surpassed revenues producing an accumulated deficit of VEF4.35 billion. It's important to point out that the Government has financed the deficit and the debt payment by lowering the National Treasury surplus by VEF6.09 billion.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Billions)	January- December 2007	January- December 2006	Nominal Variation	Real Variation
Total Revenue	16.282	12.250	32,9%	6,6%
Non-Oil Revenue	9.193	8.744	5,1%	-15,7%
Oil Revenue	7.089	3.505	102,2%	62,2%
Total Expenditure	20.635	16.475	25,2%	0,4%
Fiscal Balance	-4.354	-4.226		
Primary Balance	-3.150	-3.204		
Non Oil Balance	-11.443	-7.731		
Debt Amortization	1.753	2.451		
Financing Requirements	6.106	6.676		

Sources: BCV and Ecoanalítica

IV Economic Census. The second phase of the IV Economic Census, created for the purpose of providing up-to-date statistics regarding the productive activity in the country, is about to finish. The Census look to create an information platform that will be of value to those entities in charge of designing economic policies for the country.

Africa is interested in *Banco del Sur*. African countries are showing an interest in the cooperation mechanisms outlined in the *Banco del Sur* and the *Banco del ALBA*, according to information released by the Ministry of Finance. Representatives from Africa manifested the need to create support schemes between the *Banco del Sur* and African Union organizations like the Investment Bank, the African Central Bank, and the African Monetary Fund.

Price controls without much effect. Hugo Chávez's Administration has used price controls as its main weapon to control inflation since February 2003, but BCV statistics show that the measure has had virtually no effect. During the first four months of the year, non-regulated products have increased by an average of 9% nationwide and controlled products increased by 8.7%, just three tenth of a point separating the two groups.

Minimum wage not as good as the Government says it is. The President celebrated his 30% increase in minimum wage taking it to VEF799, the highest salary in Latin America. However, a study carried out by Matías Riutort, a professor

at the Economic and Social Research Institute of the UCAB, shows how the Venezuelan worker is far from being the most benefited in the region. According to the study, the Venezuelan minimum wage is actually ranked sixth in the region.

International reserves. During the third week of the month of May international reserves increased slightly by US\$680 compared to the previous week. This represents a positive variation of 2.22% and has reserves settling at US\$31.23 billion.

Interest rate. The average lending interest rate for the six main commercial and universal banks in the country was up 0.05 percentage points compared to last week and settled at 24.71%. Term deposit interest rates were up 0.6% and settled at 17.70%.

Monetary liquidity. For the second week of the month of May monetary liquidity settled at VEF152.14 billion, up 0.49% compared to the previous week.

OIL TIPS

Prices continue to go up. According to the Ministry of Energy and Petroleum figures, the Venezuelan oil basket closed last week at US\$ 116.57 putting the average for the month of May at US\$ 110.75. The price fixed in the National Budget for this year was US\$ 35 per barrel. So there is a surplus of US\$ 60.04 per barrel. So far this year, the Venezuela basket average accumulated price is at US\$ 95 per barrel.

Tendency to rise continues. The international WTI market price hit a new record at US\$ 135.09. Brent crude oil also reached US\$ 131.57 per barrel this week.

Trying to find the true figure. On Tuesday, last week, the secretary general of the OPEC held a meeting with Rafael Ramírez, Minister of Energy and Petroleum, where they reached an agreement that a mixed commission made-up by members from the OPEC's Research Department and technical personnel from the MENPET will study the discrepancies that exist in the official Venezuelan production figures and the ones the OPEC uses as a reference for its reports.

Energy Grannacional named Petroalba. The ALBA Energy Treaty Approval Law stipulates that member countries will be allowed to extract oil from a block on the Orinoco Oil Belt to be developed in unison. If need be, refining facilities will be built in member countries in order to guarantee the processing of the crude oil extracted from the Orinoco Belt and to manufacture products in demand in their domestic markets.

The Japanese loan has already been placed. According to Ramírez, the US\$3.50 billion that the Japanese company will lend PDVSA will be used to acquire "major equipment" for downstream projects, to expand the El Palito and Puerto La Cruz refineries, and to develop the already existing crude oil upgraders on the Orinoco Belt as well as to build new ones.

Bolivian Senate asks to modify contracts. Jorge Aguilera, president of the Sustainable Development Commission of the Senate announced that the agreements between the Government of Evo Morales and PDVSA "are not in accordance" with the Hydrocarbons Law which has been in effect since 2005, and therefore they will demand that they be modified.

London will interrupt agreement with Venezuela. The mayor elect of London, Boris Johnson, announced that he is canceling the agreement signed with Venezuela on February 2007 that is helping to subsidize the London public transport rate by half, thereby benefiting the needy residence of that country.

BUSINESS SECTOR TIPS

Expect drop. According to studies carried out by the Venezuelan Association of Exporters (AVEX), non-traditional exports could drop by 50% by the end of the year compared to the previous year due to the problems generated by CADIVI. Delays in receiving foreign currency negatively affect domestic producers.

Low growth rate for industry sector. Eduardo Gómez Sigala, president of Conindustria, announced that the sector has grown by around 7% very similar to the growth rate of last year. However, according to Gómez, this figure is relatively low compared to other sectors and very low compared to the country's domestic production needs and so as not to have to depend on imports.

Reaching out to the Government. He also assured that in Venezuela consumption levels are maintained, despite inflationary pressures. He made these statements coming out of a meeting with the Minister of Labor, Roberto Hernández, which he defined as *"a path which marks a difference in the attitude other Ministers have had which left no room for dialogue."*

Stocks financing on the way. According to the CNV and the SOGAMPI, small and medium sized companies will soon be able to finance themselves with the so-called "stocks financing" which consist of commercial paper or short or medium term titles being issued which will be guaranteed by the SOGAMPI. This is a positive measure because it will help re-activate the Venezuelan stock market.

Conditions. There are preliminary talks of an issue amount of up to VEF 1 million and possibly a larger joint issue with a number of companies. SOGAMPI will guarantee up to 75% of the issues which will have terms of no more than three years.

BANDES and Banco del ALBA will finance Nicaragua. Between the National Bank for Social Economic Development (BANDES) of Venezuela and the Bolivarian Alternative for the Americas Bank (ALBA) will finance US\$70 million destined for an agriculture plan in Nicaragua.

Banco Iraní created. In the *Gaceta Oficial* No. 38.933, the National Assembly published the Law creating the *Banco Binacional Iraní Venezolano*, with initial capital of US\$1.20 billion (of which both countries will contribute 50%). The Bank will be in charge of evaluating industrial, commercial, infrastructure, housing, energy, capital markets, and technology projects.

CANTV fixed land lines increase. According to Socorro Hernández, Minister of Telecommunications and Information Technology, after of year of being nationalized, fixed land lines increased by more than 4.4 million subscribers, 10 million cell phone subscribers, and 1 million internet service subscribers, 21.5%, 38%, and 25.8% respectively. Investment during the first year was at US\$830 million and another US\$ 1.10 billion is expected to be invested in during the next 12 months.

CANTV contributions to the Government increased. According to the balance statements presented by the president of CANTV, the company's tax contributions in 2007 surpassed VEF1.0 billion, up 50% compared to 2006 tax contribution.

CANTV creates cooperatives. One of the most emblematic elements of the new CANTV is having converted its service providers into cooperatives which are applied as an incentive for the company's service providers. To date, over 133 cooperatives have been created though not all are operational yet.

Cell phone expansion. At the close of 2007, Venezuelan cell phone service market penetration was over 86.7%. It's expected that this percentage increase to 98% by the close of this year which implies that almost every person in the country will have a cell phone. 2007 was a crucial year for the sector. Consumption catapulted, due to among other things, a fierce rate price war sparked by the sell of CANTV/Movilnet to the Venezuelan State which left a positive balance of 5 million new users and the sale of over 12 million cell phones.

A very particular consumer. The relationship between new users and equipment purchased shows a very high turn-around rate for phones being renewed. The tendency is to purchase the new smart phones (with multimedia functions), a sign that the Venezuelan consumer has matured in its taste and use of cell phones. However, the relationship is practically identical to last year in terms of 95% of users being prepaid customers and the rest billed.

Internet also expands. The number of internet users increased by 5.4 million users by the close of last year. This reflects a 19.7% penetration compared to 15.3% in 2006. Despite this increase, compared to the region, internet penetration in Venezuela is lagging behind countries like Peru (24% penetration) and Costa Rica, Puerto Rico, and Mexico which all have more than 20% penetration. According to studies, internet users mostly use the service for academic research followed by sending and receiving emails and instant messaging. 63% of users are under 26.

Movistar affected by competition. The latest report from Spanish *Telefónica Móviles* reflects a loss of users by its affiliate Movistar Venezuela for the first quarter of 2008. This is the first time that Movistar (formerly TELCEL) has suffered from a churn (customer losses). The company has almost 123,000 less clients than at the close of March than the previous quarter.

But showing good numbers. Despite the fact that it reflected a 2% drop in minutes used by customers, the Venezuelan affiliate had revenues for EUR 571 million, up 29% more than during the first quarter of 2007, one of the best showing in the region for the company. Venezuelan users topped 10.4 million in March 2008, spearheaded by cell phone users, especially GSM, which represents 41% of its total.

Back to the past. The head of the National Institute for the Development of Small and Medium Sized Industry announced that the institution is promoting solidarity exchange systems, or barter markets, with 6 systems existing around the country and around 4,000 people participating.

State control. The Social Economic Development Plan in place in six years establishes that the State will maintain control of all activities that are of strategic value. Therefore investment has to increase in these areas during the development of the Plan. It's fundamental to inject funds into producing construction items.

The poor are the most affected. The president of the Venezuelan Chamber of Construction, Fernando Azpurua, presented a study that reflects an 80% deficit in housing mostly concentrated among the most poor.

Cement sales increase. Between January and April 2008, 2.44 metric tons of cement was sold in the domestic market compared to the 2.05 metric tons sold last year during the same period, an increase of 19%. During this period, 32,000 metric tons were exported, which represents a 90% compared to the first four month period in 2007.

Attractive market. The president for Latin America for FIAT announced that despite the import difficulties, "Venezuela is still an attractive market with a great potential for sales." He also added that the cars they will not be able to sell in Venezuela will be placed in Brazil and Argentina.

More money for the Cuba agreement. The Ministry of Housing recently received supplementary appropriations for VEF 4.6 million in order to help solve the housing situation in the Greater Caracas area as part of the Villanueva Mission included in the agreement with Cuba.

Electric power investment will increase capacity. President Chávez, within the framework of swearing in the new board of directors for the National Electric Corporation, announced that investment in the sector up until 2014 will be for US\$ 10.0 billion. This will increase the power generation capacity by an additional 8,635 megawatts, a 38.3% increase.

CADIVI and the hardware sector. Between the 1st of January and the 20th of May 2008, CADIVI has authorized US\$12.8 million to the hardware sector. In 2007, during the same period, US\$ 1.5 million was authorized.

Investment in the milk sector. The Venezuelan Agriculture Bank awarded 17 loans to milk producers in Lara state for an amount of VEF 2.66 million. The loans will benefit 23 people in the area who will invest in double purpose livestock.

Pasta production in trouble. Regulated pasta production continues to drop. The industry, despite its efforts to produce this product, has not been able to meet the goal set by the Government which established that 30% of what the industry produces has to be sold at regulated prices.

Export coffee? The Minister of Agriculture and Lands, Elías Jaua, assures that the production of coffee has increased to the point of being able to export.

Shortage. Medicine supplies are still registering shortages, especially medication for chronically ill patients. The president of the Venezuelan Pharmaceutical Federation (Fefarven), Edgar Salas, points out that patients, have to search in an average of 5 to 8 pharmacies in order to be able to find their medication.

Limited. CADIVI announced that the maximum amount of remittances sent in US-dollars to family members will be US\$ 1,800 a month and it can be divided up by a maximum of up to US\$ 300 a month per beneficiary. Before, the maximum per beneficiary was the same (US\$ 300) but the maximum was US\$ 1,800.

Political Tips

To blame. According to the latest *Ómnibus* report from Datanálisis taken between April 14 and 28, out of every 10 Venezuelans, 3 consider the President to be the main person responsible for the country's problems, 51.4% say that the problem with crime is their main worry, 12% say it's unemployment.

Neither-Nor majority. The Datanálisis report also revealed that 27.6% of Venezuelans consider themselves to be Pro-Government, 18.7% as anti-chavista, and 46% prefer not to be associated with either group, and 7.7% preferred not to answer.

Proposal re-launched. Two of the PSUV board members, Diosdado Cabello and Willian Lara, have commented recently about the possibility of establishing a legal mechanism to open the way up for the President to be reelected indefinitely through a constitutional amendment in 2010.

Venezuela and Germany look forward. Having overcome the incident between President Hugo Chávez and the German Foreign Affairs Minister, Angela Merkel, both Governments have shown interest in expanding contact, so says the German ambassador in Venezuela, Georg Clemens Dick, who announced that the bi-national anti-drug agreement will be reviewed this year.

A meeting of Presidents. Presidents Evo Morales (Bolivia), Luiz Inacio Lula da Silva (Brazil), Rafael Correa (Ecuador) and Hugo Chávez (Venezuela), agreed to meet in the near future in order to discuss joint projects announced the Venezuelan President.

CNE registration. The National Electoral Council Voter Registry will be open until August 25th for the upcoming regional elections to be held in November, announced the Council's leader, Janeth Hernández.

Chávez for a long while. President Chávez ratified this Saturday, during the act to swear in the new National Electric Corporation board on a network broadcast from Mérida, his planes to govern until 2021, but he said that it was a mistake to have introduced a socialist constitutional reform which also contemplated indefinite reelection. He said, "according to them (the opposition) I should resign. We're going to be here until 2021, friends, mark my words. This revolution is here to stay."

FARC founder dies. Timoleón Jiménez, one of the leaders of the guerrilla group, confirmed that the founder of the FARC, Manuel Marulanda, died on March 26th due to a heart attack.

Other Tips

Strike for fuel. A number of protest marches and strikes around the world have been held due to record high oil prices which reached US\$135 per barrel. This situation has bred much discontent around the globe.

FAO estimates an increase in food production in Latin America. The Food and Agriculture Organization of the United Nations (FAO) announced that food production in the Latin America and the Caribbean region would increase in 2008, especially in basic products like milk, rice, cereals, and sugar.

Weekly Report

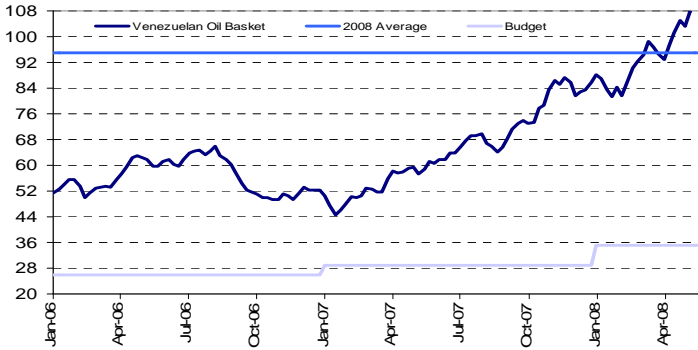
USA reinstates IV Fleet. The U.S. Marines decision to reinstate the IV Fleet, after having been out of commission for over 60 years, for the purpose of having a greater presence in Latin America and the Caribbean caused unease in the region. This fleet is in charge of anti-drug actions and to give support during cases of natural disaster.

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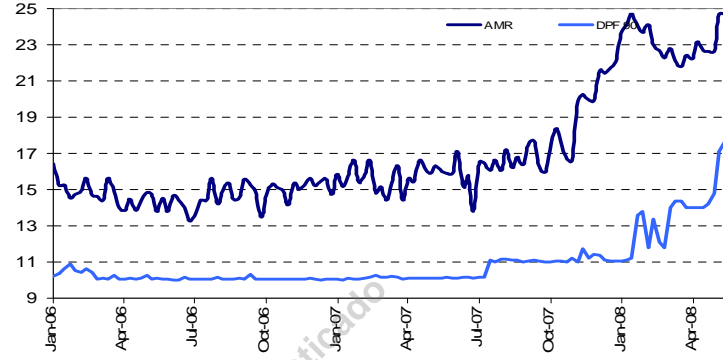
Weekly Report

ECONOMIC OVERVIEW

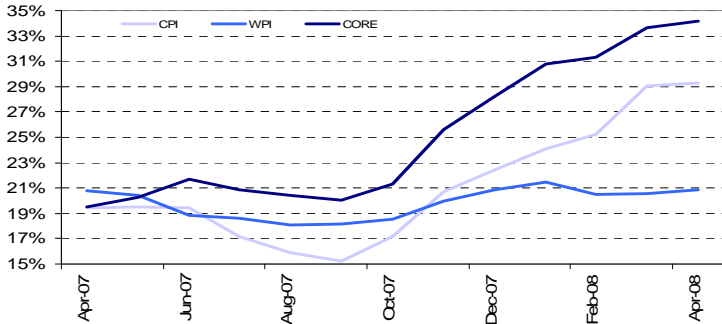
Oil Price
(Venezuelan Basket US\$/pb)



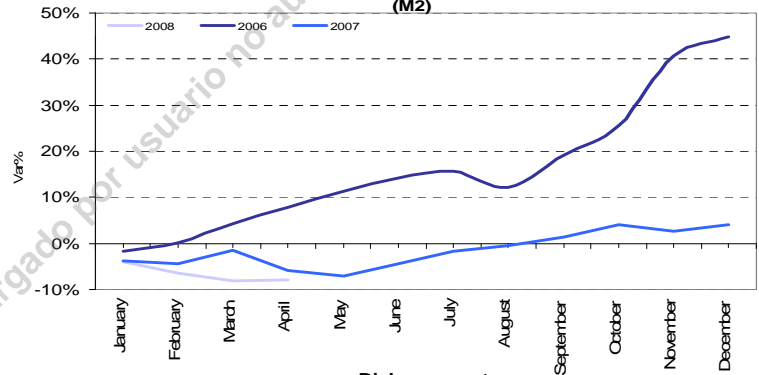
Interest Rate
(Six Principal Banks)



Inflation
(Last 12 Months)



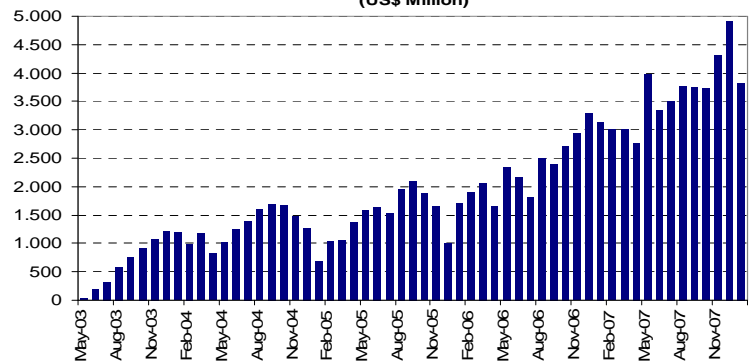
Real Expansion
(M2)



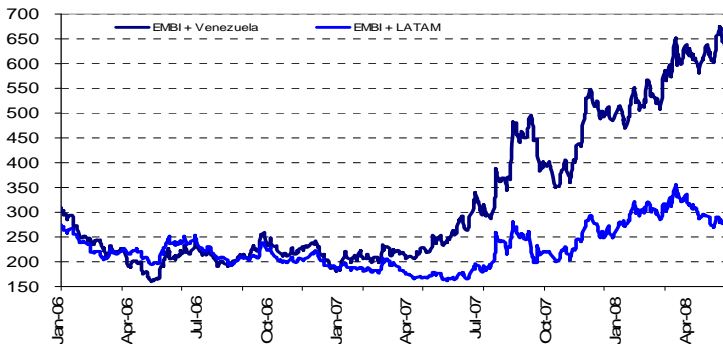
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

