



Weekly Report

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***GLOBAL CRISIS: VENEZUELA
ALWAYS LATE***

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In previous reports we have talked about how Venezuela has and will be affected by the world crisis, but we have never analyzed how Venezuela has weathered the crisis compared to other countries. The objective of this report is to give the reader an idea of how severe or not, the consequences of the crisis have been, and their qualitative differences compared to other countries.

Transmission mechanisms

It's quite evident that the main transmission mechanisms which introduce foreign shocks into the Venezuelan economic scene is oil, which represents more than half of all fiscal revenues, more than 13% of the GDP, and more than 92% of the country's total exports.

One of the channels through which the drop in oil prices (due to the international crisis) affects the economy is the fiscal channel. During the last few years, the main force behind the Venezuelan economic growth has been public spending; responsible for most of the positive economic growth figures posted between 2004 and 2008.



On the other side, Venezuela, being an economy with significant restrictions with regard to the mobility of capital and with a finance sector which is not very important internationally, has not been affected by the world crisis in the same way most other countries have been. It was especially not affected right at the moment the crisis exploded, but much later.

But, at the same time, the drop in oil revenues has significantly affected our foreign accounts. A good example of this is how it has affected the Current Account, structurally always posting a surplus, but turning negative during the fourth quarter 2008 and the first quarter 2009.

Why didn't the Government implement anti-crisis measures earlier?

When the Lehman Brothers crashed half way through the month of September last year, the world was shocked and panicked, and financial markets crumbled. However, in Venezuela, nobody seemed worried, not even by the fact that the Venezuelan oil baskets had dropped more than 50% by then (it had started to drop in July, really diving in October).

Despite the fact that there was an enormous drop in fiscal revenues during the fourth quarter 2008, the Government kept right on spending, not changing the rhythm of public spending compared to the previous quarter. One of the reasons for this were the region elections that were being held in November, which didn't allow the Administration the "luxury" of cutting back on public spending during the weeks leading up to the elections, and run the risk of tarnishing Chávez' popularity. The President assured everyone that Venezuela was completely protected against the crisis. By December 2008, after the elections were held, Government spending down by 15% in real terms compared to the month of November, and down by 28.1% compared to the same month the previous year (also an election month).

Another factor that is very important for our economy is imports. A consequence of having an exchange rate that is continually appreciating since 2005 (the last time the exchange rate was adjusted). The Venezuelan economy has become more and more dependent on imports, even in sectors that not so long ago we were competitive in. CADIVI maintained its level of liquidation to the private sector, though for the last few months of the year, liquidations were almost frozen. This allowed imports to remain at their normal levels despite less foreign currency revenue being available. In the fourth quarter 2008, the liquidation of foreign currency was greater than during the same period in 2007.



But it's been different in 2009

During the first part of the year, the President still couldn't begin to openly implement measures to solve the country's cash flow problems since on February 15 the Constitutional Amendment vote was being held. So, even though Government spending during the first semester of the year was down in real terms, public spending from other public entities such as FONDEN and PDVSA partially compensated for this cutback, the rest was covered by fiscal savings from previous periods.

Despite the fact that the President didn't formally announce the Administration's anti-crisis measures until the end of March, it was already implementing measures under cover, such as significantly restricting the amount of foreign currency CADIVI was liquidating. During the first quarter, foreign currency liquidated by CADIVI was down by 24.3% compared to the same period last year (foreign currency approvals were down by 35% compared to the previous year). Restrictions in the liquidation of foreign currency will continue in the second quarter which will lead to import levels dropping.

So, the crisis transmission mechanisms are essentially two: cutbacks in public spending and restrictions in the liquidation of foreign currency by CADIVI. You can read the details of how the foreign crisis is affecting the Balance of Payments in our Report "*A close look at the 1st Quarter BP: An Adjustment that didn't surprise anyone*" which came out during the last week in May.

What is going to happen during the rest year?

At **Ecoanalítica**, we estimate that the Venezuelan economy will begin to post negative growth figures as of the second quarter (and will eventually close 2009 registering a drop in growth of 1.2%). How long the recession will last will largely depend on oil prices, (which during the last few weeks have increased much more than most oil experts had been predicting, though this doesn't mean that they will continue to increase at the same rate for the rest of the year), and the Government's economic policies, especially its exchange policies.

If oil prices continue to increase during the next few months, then we will probably see CADIVI relax its restriction and fewer cutbacks in public spending which will help the economy recover. Another very important factor, which we have already mentioned, is how the Administration is going to handle the parallel market foreign exchange issue. As long as it



continues to be a non-transparent market, not recognized by the Administration, a market in which no one can predict how it will behave in the future, then it will continue to be a source of ever increasing distortions for the economy due to its extreme volatility.

Country	Growth (%)	Inflation (%)	Unemployment (%)
Latvia	-18.0	4.7	11.3
Taiwan	-10.2	-0.8	5.8
Russia	-9.8	12.3	10.2
Japan	-8.8	-0.1	5.0
Mexico	-8.2	6.0	5.3
Hong Kong	-7.8	0.6	5.3
Thailand	-7.1	-3.3	1.9
Germany	-6.9	0.0	8.2
Italy	-6.0	0.9	6.9
Eurozone	-4.8	0.6	9.2
South Korea	-4.2	2.7	3.9
Great Britain	-4.1	2.3	7.1
France	-3.2	-0.3	9.1
Spain	-3.0	-0.9	17.4
United States	-2.5	-0.7	9.4
Chile	-2.1	3.0	9.8
Brazil	-1.8	5.2	8.9
Colombia	-0.7	4.8	12.9
Canada	0.0	0.4	8.4
Venezuela	0.3	27.7	7.7
Australia	0.4	2.5	5.7
Norway	1.5	3.0	2.6
Saudi Arabia*	4.5	5.2	11.1
Argentina*	4.9	5.5	8.4
India	5.8	8.7	7.3
China	6.1	-1.4	4.3
Uruguay	9.6	6.6	6.8
UAE*	27.4	11.1	n.a.
Qatar*	44.0	11.1	n.a.

*4Q08

Sources: Bloomberg, IMF and Ecoanalítica





How is the rest of the world doing?

In the previous table we have provided here, the growth figures correspond to the first quarter 2009; inflation and unemployment figures, are the latest available, some from April, others from May. You can easily see that the countries which economies contracted the most are also the world's biggest lenders, and it is not a coincidence that they are mostly found in Asia. On the other hand, the countries which have acquired the largest amounts of debt such as the United States, the United Kingdom, and Spain, performed better than what the market expected. Despite the fact that their domestic demands were the most affected (due to shrinking availability of loans), their Current Accounts, which reflected the most deficit, improved significantly. On the other hand, countries which acquired very little debt, such as China, Japan, and Germany, despite the fact that their domestic demands didn't suffer so much, reflected much poorer figures in their Current Account (due to less credit being available to their main international sources of demand, countries which acquire a lot of debt).

Latvia, performing the worst

Despite the fact that it is a very small economy, we want to highlight Latvia's case because of some of the economic policy decisions it made which resemble Venezuela. There are six characteristics which have led Latvia to its extremely severe drop in GDP which will continue throughout the rest of this year and the next: (1) high inflation, (2) too many loans, (3) imports higher than exports, (4) price gouging out of control, (5) lack of funds to face the crisis, and (6) appreciating local currency.

Two problems formed at the same time. First a gigantic real estate bubble which bust with the crisis and had similar affects as those which occurred in the United States, derived from excessive loans and speculation in that market. The second problem is very similar to the problem we have in Venezuela, Latvia has a fixed exchange rate pegged to the Euro and high inflation which has been over 10% in 2007 and 2008 (very high compared to the rest of Europe). The local currency appreciated significantly leading to a significant increase in imports. But, since the country doesn't have a constant source of foreign currency (such as for example oil), its Current Account steadily got worse, reaching a 22% deficit with respect to its GDP. Latvia's future depends on a US\$7.50 billion loan that is currently being evaluated by the IMF. This is an enormous figure if you take into account that it represents more than 90% of the country's GDP last year and more than 100% of the projected GDP for this year.



Meanwhile, in East Asia...

In this region, one can see some of the most severe drops in GDP of the world and very low unemployment figures. The drop in growth of East Asia, as a group, can be considered the worst in the world. This is due to the fact that many of these countries have very evolved financial markets and they are open markets focused on exports. They are extremely sensitive to stock market reactions and therefore felt the effects of the world crisis almost immediately, unlike Venezuela and most of Latin America.

Another very important fact, which has a lot to do with the magnitude of the recession suffered by these countries, is that these economies live from industrial exports, especially Japan; most of their production is for export, which is why they suffer so when countries such as the United States and Europe have problems accessing credit.

China and India: Unstoppable

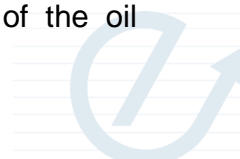
Despite the crisis, the growth rate of these two countries remains high, 6.1% and 5.8%, respectively, for the first quarter 2009. At *Ecoanalítica*, we estimate that these economies will grow this year by 6.7% (China) and 6% (India), and they will continue to be the most dynamic economies in the world.

Oil exporting countries

Among the oil exporting countries, such as Venezuela (many could not be included because their Governments do not release industry figures), their economies grew during the first quarter 2009, on average by 7,2%, and they reported relatively high inflation rates (10.2%) and low unemployment rates (7.6%).

One of the countries that was worst affected by the crisis was Mexico, but this is mainly due to the fact that it is so totally dependent on the U.S. market, its main trading partner. And, on top of the world economic crisis effects, Mexico had to deal with the outbreak of the so-called swine flu (H1N1) which cut its tourism revenues by 50%.

Among the anecdotal cases we could mention are Qatar and the UAE, champions of world economic growth levels. They are very small countries (a population of 0.9 and 4.5 million respectively) which have invested their oil revenue very efficiently to promote economic growth. During the last few years, these two countries have invested significant amounts of the oil





revenue into tourism, making them two of the most luxurious tourist destinations in the world.

And Venezuela will continue to go against the grain

Sadly, at *Ecoanalítica* we see that most of the oil producing countries that we have studied have already reached bottom during the first quarter 2009 or are reaching bottom during the second quarter 2009 and they are all expecting to recover by the end of 2009 or during the first quarter of 2010. In Venezuela, the situation is quite different, since it is now when we will begin to go through the stage of economic growth contraction and the economy will probably continue its drop in growth rate until the beginning of next year. As we have repeatedly said in previous Reports, the Administration missed the chance to make the necessary adjustments when it was the time to do so, and now, albeit too late, it still doesn't want to face up to it.

Economic Tips

National Statistics Institute (INE): Extreme poverty dropped 17.2% since 2002. According to the president of the National Statistics Institute (INE), Elías Eljuri, extreme poverty in Venezuela decreased from 25% in 2002-03 to 7.6% in 2008. He added that after 2002 poverty was 55%, whereas it was 27.5% at the end of 2008.

INE: Unemployment fell from 14.6% to 7.7% over the last ten years. Elías Eljuri informed that unemployment rate was at 14.6% in 1999, when President Hugo Chávez came to power, whereas it was 7.7% in April this year. He also highlighted that formal employment went from 49% to 57.2% of the Economically Active Population (EAP), whereas the informal sector dropped from 51% to 42.8% EAP in the same period.

Basic product basket costs VEF 3,360. According to data released by the Centro de Documentación y Análisis para los Trabajadores (CENDA), basic basket of food, goods and services cost VEF 3,360 in May, accounting for a 1% increase from April. Basic basket price has increased 7.6% from January to December. Family average income (2 current minimum wages) is enough only to buy 52.3% of the basket.

Transportation was the service that increased the most in May... Public services were the component of the basic basket that posted the highest increase in May, due



to the upward adjustment of public transportation rates in the Caracas Metropolitan Area. As a result of this increase, people who live in Caracas spend a minimum of VEF 117/month in transportation, whereas inhabitants of the suburbs spend between VEF 180 and VEF 300/month.

International Reserves. International reserves dropped 0.03%, going from US\$29,327 million at the end of the fourth week of May to US\$29,336 million in the first week of June. In comparison to the same period in 2008, when reserves were at US\$32,712 million, the decrease was -10.32%.

Liquidity. Liquidity in the first week of June decreased by 0.43% from the fourth week of the previous month, down to VEF 203.024 million. Liquidity for the year-to-date has increased 6.44%, up 32.52% from the same period last year.

Interest Rates. Lending rates for the first week of June was at 22.10%, for a drop of 6.25% compared to the last week of May. Time deposits rate and savings rate were at 15.98% and 13.95%, respectively. In comparison to the fourth week of May, the decrease were 2 and 5 basis points, respectively.

Oil Tips

PDVSA reports to shareholders: Let's draw conclusions. After the approval of the financial report by shareholders, PDVSA recorded revenues for US\$125.36 billion at the close of 2008 fiscal year. PDVSA president, Rafael Ramírez, announced that total revenues increased 23.9% from the previous year. 2008 production averaged 3.26 million barrels daily (Mbd), refining averaged 2.5 Mbd: 1.2 Mbd from internal process and the remaining processes in PDVSA's facilities abroad, particularly Isla refinery in Curacao.

And... The state-owned oil company recorded US\$9.36 billion in net profits, but adding the so-called "occasional operations", profits goes up to US\$9.41 billion; tax and royalty payments were US\$23.46 billion, including US\$12.40 billion for Income Tax; and US\$2.0 billion of the reported total debt of US\$7.50 billion to contractor companies and suppliers were paid. No reference was made to obligations to workers.

Draft Law on petrochemical activities was approved in first discussion. The Draft Organic Law for the Development of Petrochemical, Carbo-chemical and Phospho-



chemical Activities, which sets forth in one of its articles that “petrochemical activity, as well as works, goods and facilities required for its operation, are reserved for the State,” was approved in its first discussion by the National Assembly (AN); the AN Energy and Mining Committee explained that due to economic and political sovereignty and national strategy reasons, the State will keep all of the shares of Pequiven or of any other entity that may replace it.

... **PEQUIVEN with a 51% stake in mixed companies.** Article 5 of the draft law provides for that the control over petrochemical activities can be exercised directly by the Executive, through companies that are exclusively owned by the State or mixed companies where the State will keep a stake over 50%. Pequiven intends to assume a 51% stake in the mixed companies that are created once the Law enters into force. Another article concerning the mixed-capital associations includes a number that excludes international complaints and arbitration.

Petrochemical industry takeover is intended to reduce imports. With the Organic Law on Petrochemical Activities, the government seeks to reduce imports of raw materials that are produced domestically, in order to place them on the domestic markets and strengthen the development of the small and medium-sized industry, informed Pequiven president, Saúl Ameliach. METOR and Superoctanos, mixed-capital companies but mostly under private control, are two of the targeted companies.

Oil expropriations intensify. One month upon the enactment of the Law reserving for the State Goods and Assets related to Hydrocarbon Primary Activities, with the nationalization of 75 companies, President Chávez announced that about 70 units that produce gas in 14 plants throughout the country, most of which belong to the already expropriated Exterran, will also be expropriated according to a schedule that has already been prepared. PDVSA hasn't paid the more than US\$7.5 billion it owes suppliers and contractor companies, which have not received any payment since last year.

Oil price recovery generates windfall revenues for the Administration. Thanks to the escalation in the Venezuelan oil basket, the Administration has obtained US\$1.3 billion in windfall revenues. According to the Ministry of Energy and Petroleum, the domestic basket has reached an average selling price of US\$44.1/bbl., resulting from the increase on the week, expectations of a higher crude oil demand due to the global economy recovery, and depreciation of the US dollar, among others. As a consequence, the price is US\$4.1 over the value estimated for 2009 budget. This average guarantees, according to the ministry, close to US\$15.0 billion that would



allow the oil industry to cover its spending - more than US\$7.5 billion in payment to suppliers and contractor companies – and make the corresponding fiscal contributions.

Paraguay: PDVSA's prices are very high. A study developed by the Senate of Paraguay, which analyzed PETROPAR's debt, found that buying gasoil from PDVSA does not give this country any advantage. Gasoil purchased from PDVSA reports a higher (almost three times) collection cost for intermediation in the fuel supply process, when compared to prices of other suppliers in the region.

Algeria: crude oil basket will go from US\$65 to US\$ per barrel. According to estimates by the Algerian Energy Minister, world price of the oil barrel will increase to US\$65-US\$70 at the end of the year, due to the summer seasonal increase in gasoline consumption in the US. The price of oil barrel will exceed the US\$70 level in early 2010.

One month after nationalization = 1 month without pay. The Zulia state oil union reported that workers on the East Cost of Lake Maracaibo have not received their wage payments after the State took possession on May 8th of the contractor companies' assets. The Association of Industries and Businesses of Lagunillas estimates that 108,000 workers lost their jobs thanks to nationalizations.

Expropriations still going. The Ministry of Petroleum and Energy launched the expropriation of the gas transportation companies of Tachira, from 90 companies, 9 are being taken the next few days. In Delta Amacuro, the government took control of operations of U.S. crude oil transportation Exterran. Also recently expropriated an electric generation plant and a gas compressor that also belonged to Exterran.

PDVSA will be reported to ILO. The Federation of Oil, Gas and related Activities Workers (FUTPV) will report PDVSA to the ILO for not having fulfilled the collective contract and for the conflicts resulting from the nationalization of oil service companies.

OPEC price goes up to US\$66.07/bbl. The OPEC basket price rose to US\$66.07/bbl. last Friday from the US\$59.71/bbl. recorded a day before.

...and the Venezuelan basket followed suit. Like other oil barrel reference prices, the Venezuelan basket increased to US\$5.20/bbl. between June 1st to 5th, from the previous week average, to US\$61.3/bbl.





Business Sector Tips

Will social property companies have compulsory portfolios? According to the draft law on social property, the Executive must finance these companies, but the possibility is left open that financial entities may fund social property companies. Deputy Ulises Daal, head of the team that prepared the draft law, believes that a special loan portfolio, with preferential rates, should be established to support the State in the development of social property.

Proposal: 60% of cable TV programs should be produced domestically. A special cable TV law draft establishes that cable companies must give, free of charge, up to 60% of their channels for UHF, VHF, for community, public service and national audiovisual production.

Manufacturing activity is expected to contract 3.5%. Eduardo Gómez Sigala, president of CONINDUSTRIA, stated that the manufacturing sector is expected to contract between 3% and 3.5% at the end of 2009, because production capacity is limited due to the lack of foreign currency, among other things.

The State will promote cell phones assembly. Jesse Chacón, Minister of Science, Technology and Intermediate Industries (MCTII), pointed out that the Government will promote the manufacture of cell phones instead of importing finished equipment. According to Chacón, the same scheme as the automotive industry would be applied. This scheme consists of importing parts to assemble units on site instead of importing finished items.

CVG and electric companies owe VEF 5.300 billion to EDELCA. According to the account report of Electrificación del Caroní (EDELCA) as of December 2008, the company has VEF 5.385 billion in accounts receivable from aluminum companies' affiliate of Corporación Venezolana de Guayana (CVG) and electric power companies belonging to the National Interconnected System (SIN). According to its projections, these accounts receivable will reach VEF 8.627 billion at the end of 2009.

Car sales dropped 47% from 2008. CAVENEZ monthly report shows that new car sales dropped 47% in the first five months of 2009, in comparison to the same period in 2008. 72,975 units were imported during the first five months of 2008, whereas this year only 19,134 units have been imported.





Escalation in construction IPC is still rising. Between May 2008 and May 2009, producer prices rose 17.3% and from April to May 2009, the increase was at 2.5%. This development is due to several reasons: one is related to the fact that some manufacturers of construction materials are including transportation costs that, in turn, was the sector with the highest cumulative inflation between January and May this year (17.2%); another is the demand related to the 120,000 homes that already have construction permits.

Completion of 85,000 homes is jeopardized. The president of Venezuela's Real Estate Chamber pointed out that if indexation for inflation is eliminated from home prices, projects will have to be stopped thereby jeopardizing the completion of some 85,000 homes that are currently under construction, plus 120,000 homes that have their permits and that should be completed between 2010 and 2011.

CADIVI's debt to Chilean companies amounts to about US\$80 million. 52 Chilean companies have not received the payment of US\$ 80 million for businesses they have made with Venezuela. In this regard, Ricardo Sanguino, president of the Finance Committee of the National Assembly (AN), stated that the AN authorities will meet with CADIVI to solve this situation.

Certificate issuing is streamlined. The Ministry of Science, Technology and Intermediate Industries has met over recent weeks with business people who have seen delayed the allocation of foreign exchange they need for exports. These meetings are aimed at streamlining the processes of issuing non-production or insufficient production certificates required to import raw materials.

Companies restock inventories at swap dollar prices. Business people state that due to backlogs in the allotment of dollars at the official exchange rate, prices of their products and services will be adjusted, partly as a result of the negative expectation produced by the price of dollars on the swap market. Having to wait more than 180 days to receive their dollars, companies have decided to pay their debts with dollars at the swap rate, because costs of financing the wait could increase the product reposition value. Therefore, market experts forecast that items will increase their prices between 10\$ and 20%, particularly mass consumption items like home appliances and household electronic devices, clothing, footwear, personal care and beauty products, auto parts and technology.

Venezuela's military spending decreased 12.6% in 2008. According to the yearly report on weapons, disarmament and world security, presented by the Stockholm International Peace Research Institute (SIPRI), Venezuela spent a total of US\$1.987



billion in 2008, for the second year in a row with a decrease in spending in warlike materials. The report also states that Venezuela's military spending has increased 64.3% over the last 10 years, up from the regional average of 50.3%. With the spending reported for 2008, Venezuela is at the fourth place on the list of South American countries with the highest spending in weapons.

World Crisis Tips

The IMF expects global economic recovery in the first quarter 2010. The director of the International Monetary Fund, Dominique Strauss-Kahn, stated last Monday that global economy would reach its turning point between September and October this year and that it will certainly recover in the first half of next year.

European growth is expected. Trichet announced that economists at the institution expect that the Eurozone economy will contract between 4.1% and 5.1 in 2009, whereas the activity is expected to be between -1% and 0.4% in 2010. Concerning inflation, ECB's economists forecast that harmonized inflation will be between 0.1% and 0.5% in 2009 and a flat growth (around 0) is expected for 2010.

BCE maintains interest rate at 1%. Last Thursday, the European Central Bank (ECB) decided not to cut interest rates, because European and global economies are showing moderate signs of macroeconomic improvement, above all at the level of expectation (consumer and business confidence). Since October 2008 up until now, the ECB has cut back 325 base points from interest rates; however no further cuts are seen, at least in the short term.

Global military spending does not seem to be affected by the crisis. Global military spending grew 4%, to a record high of US\$ 1.464 trillion in 2008. In the eight-year tenure of George W. Bush as US president, the country's military spending increased up to its highest real-term level since the 2nd World War. This arm policy has contributed to the increase of public deficits in many countries, including, besides the US, Iraq, China and Russia. Once the crisis is over, the US will have to reduce its deficit progressively until a sustained level of 3% of GDP (currently 8%), according to Ben Bernake. For this purpose, military spending is one of the most eligible candidates to be cut back. Since military industry accounts for 5.3% of GDP in the US, this could significantly reduce the country's long-term growth.





US: wholesale inventories fell for eighth month in a row. Wholesale inventories fell 1.4% in April, after a 1.8% fall in March. At the current sales rate, it would take inventories 1.31 months to run out, in comparison to 1.32 months in March and 1.10 in June 2008. While the drop in inventories is not sharp, it is a good sign of slight improvements in demand and that manufacturers are reducing their production to prevent prices from falling. Car inventories went down 4.5% and sales decreased 7.8%.

GM and Citigroup removed from Dow Jones. Dow Jones is the oldest stock market index. It is being quoted since 1896 and consists of only 30 companies, considered the most sound in the US, because this index is representative of the health of the American economy. GM and Citigroup were removed from Dow Jones starting this week, because they are no longer considered healthy businesses, worthy of belonging to these top 30s. They were replaced with the computer technology company Cisco Systems and Travelex insurance firm. General Electric is the only company that has remained in the Index since 1896.

GM will shut down production in 13 of its 15 assembly plants in the US to reduce car inventories; it is also planning closing 1,100 dealers that are registering low sales volumes, with a view to reducing costs.

S&P lowers Irish debt rating. Standard & Poors lowered long-term Irish debt, from AA+ to AA, because the cost of the Irish financial system rescue plan will be higher than originally estimated. Ireland was the first European economy that slid into recession, in September 2008.

French government adjusts its growth expectations downward. French government adjusted its growth expectation according to that of OECD. Until last March, France's growth estimates were -1.5% for 2009 and 1% for next year. Now these estimates have been adjusted to -3% and 0.5%, respectively. The French economy contracted 1.2% in the first quarter 2009, with private investment (-9.4%) and the foreign sector (-0.4%) being the main responsible for this contraction. Consumption growth has remained slightly positive (0.4%), thus mitigating the adverse effects of other variables. The German government, in turn, forecasts a 6% GDP contraction for this year.

Toyota plans to cut back its costs by US\$1.0 billion by 2012. The world's largest car manufacturer is planning to take this measure because the crisis has boosted the demand of small and efficient cars instead of its main strength that were large luxury cars. The car giant reported losses for US\$4.6 billion in 2008 and this figure is



estimated to go up to US\$8.5 billion in 2009. Toyota plans to use common manufacture components and methods for its compact cars. The company is even considering the possibility of reducing the size of its Corolla model.

Russia seeks assistance from the WB to mitigate its budget problems. The global crisis reflected in Russia's budget problems (fall in oil and gas prices) is a sign that Russians could need up to US\$10.0 billion in 2010 to be able to balance their budget. As a consequence, representatives from the Russian ministry of finance and the World Bank started discussing the technical aspects of the loan during an economic forum held in St. Petersburg.

Political Tips

SUDEBAN is investigating a number of bankers. SUDEBAN sent a letter to all financial entities operating in the country for them to provide the institution with information on bank accounts or any financial instrument held by Germán García Velutini, Gustavo Roosen, Celso Domínguez, Edgar Dao and Jacques Vera. This request is made in accordance with the provisions in article 251 of the Decree for Partial Amendment of the Bank General Law.

Illegal IPC collection reported. The president of the National Assembly Citizen Involvement Committee, Darío Vivas, reported that some constructors are using mechanisms to illegally collect the Consumer Price Index (CPI), such as the tax unit. He added that the AN is preparing a Law on Real Estate Property Presale, and depending on the sentence issued by the Supreme Tribunal of Justice, a provision to retroactively compensate families will be included in the law.

Reports on union freedom restrictions. Representatives from Fedecámaras will file a report to the Expert Committee of the International Labor Organization (ILO) explaining that the Executive has restricted the rights to union and association freedom and the lack of social dialogue in Venezuela. They will also point out the ideological aspects of draft laws such as the Labor and the Social Property laws.

FUTPV election scheduled for July 29th. The Direction of Union Affairs from the National Electoral Council (CNE) and the Electoral Committee from the Oil, Gas and Related Industries Workers' Federation (FUTPV) approved the new electoral schedule for the oil sector. Election was set for July 29th.



Proposal to cut daily working hours to devote time to community work. The president of the AN Integral Social Development, Oscar Figuera, stated that the new Labor Organic Law should include a provision to cut daily working hours and that that time should be devoted to social voluntary activities. However, he stressed that the parliamentary committee is not supporting any specific proposal, because they'd rather promote debate.

Plans to include D'Hondt method in Electoral Law. PSUV members will include a provision related to the D'Hondt method. This method has been applied in the country over the last 50 years to proportionally distribute positions on the list of deliberating entities. But article 7 of the Electoral Law provides for that nominal election will not affect list-based proportional election.

Other Tips

Ecuador entered ALBA. President Rafael Correa announced that Ecuador will become a member of the Bolivarian Alternative for our America (ALBA). Correa pointed out that Ecuador will also be benefited from the Common Investment Fund and the Regional Compensation Single System (SUCRE).

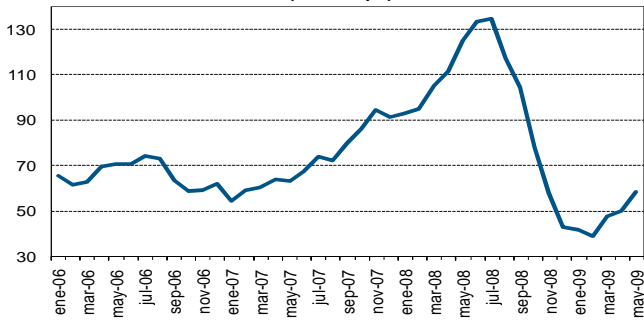
Argentina against Venezuela adhesion to MERCOSUR. Opposition blocs and the main business chambers in Argentina will request the annulment of the law that legalized the adhesion of Venezuela to MERCOSUR, in response to the nationalizations of Argentinean businesses operating in Venezuela.



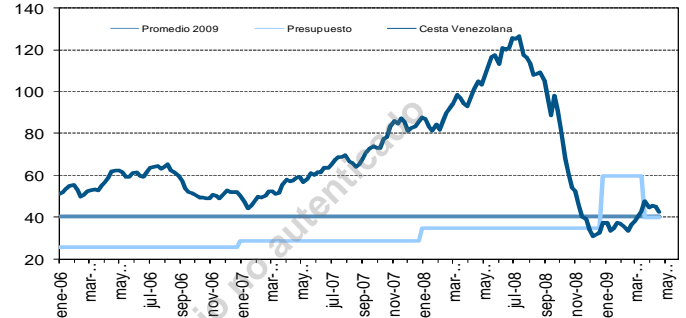


ECONOMIC OVERVIEW

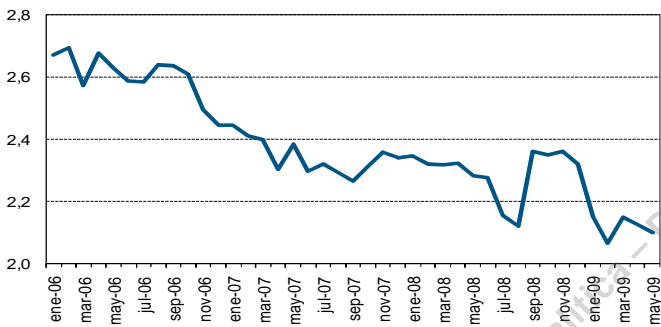
Precios del Petroleo (WTI US\$pb)



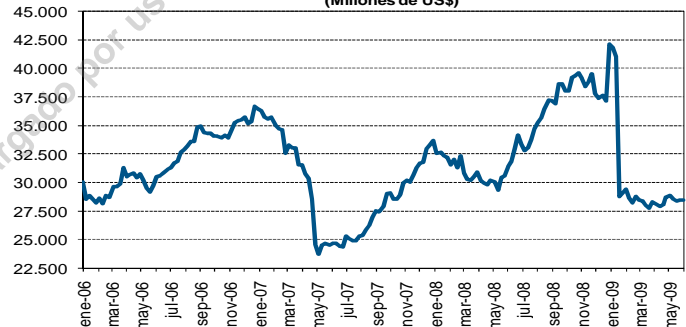
Precios del Petróleo (Cesta Venezolana US\$pb)



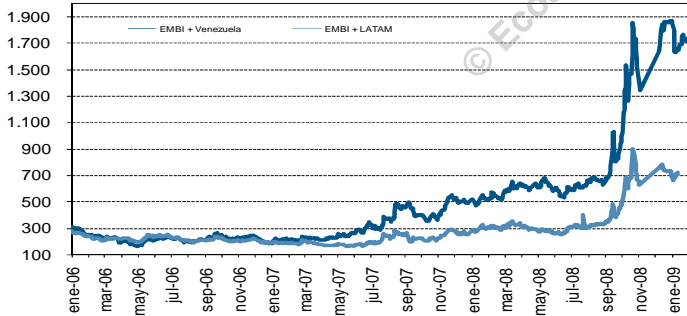
Producción Petrolera MMBD



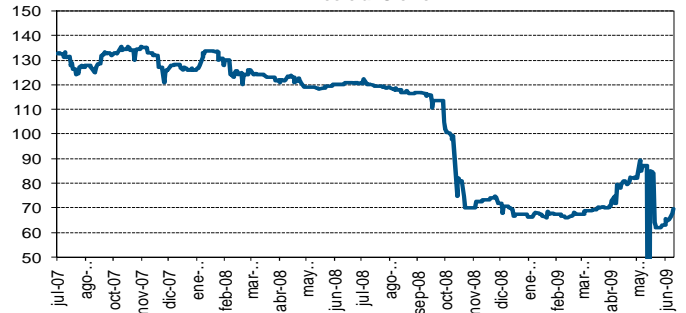
Reservas Internacionales - BCV (Millones de US\$)



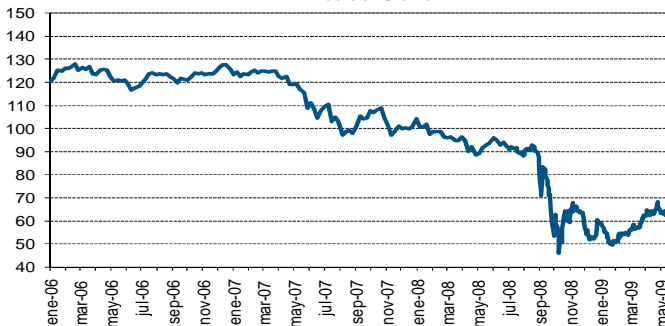
EMBI



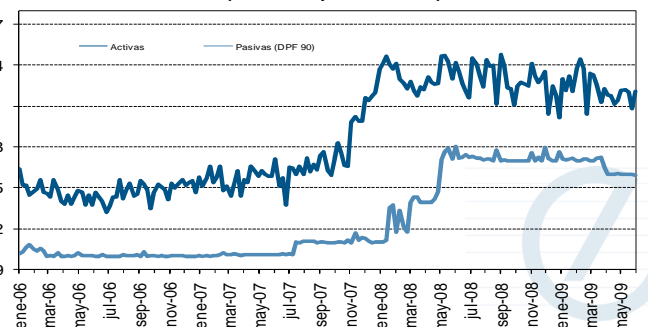
Venezuela Global 18 Precio al Cierre



Venezuela Global 27 Precio al Cierre

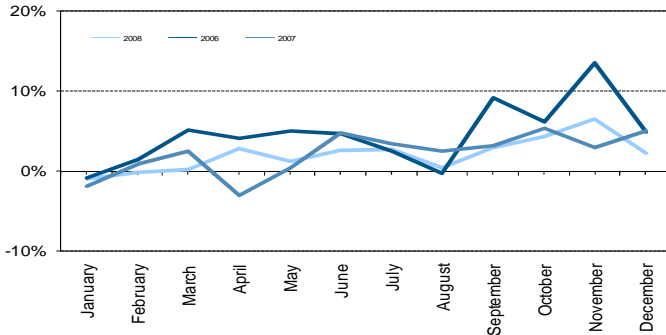


Tasa de Interés (Seis Principales Bancos)

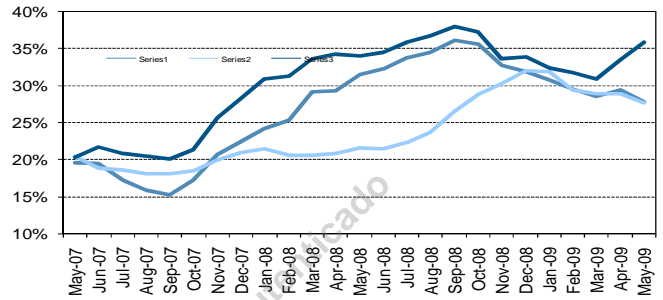




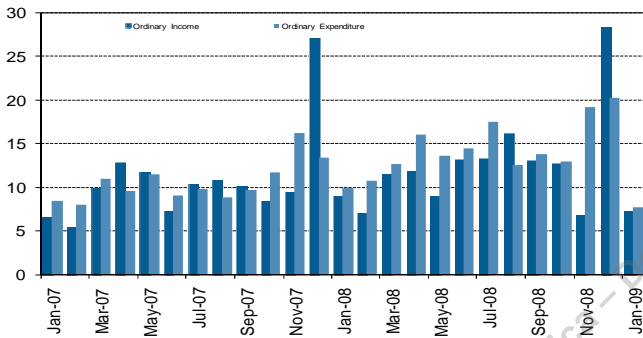
Real Expansion (M2)



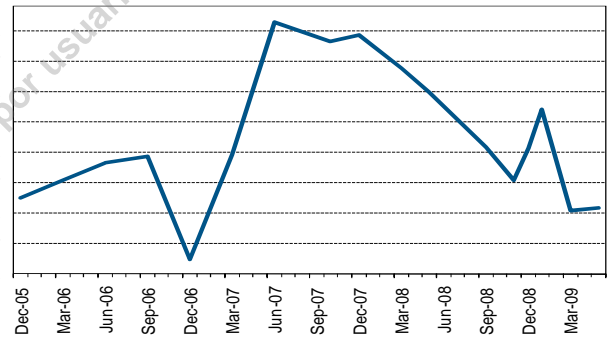
Inflation (Last 12 Months)



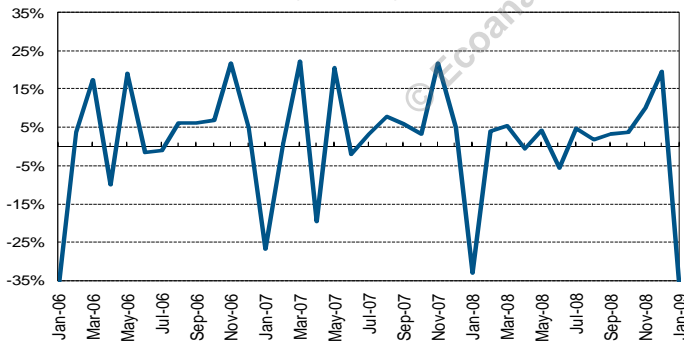
Central Government (VEB Billion)



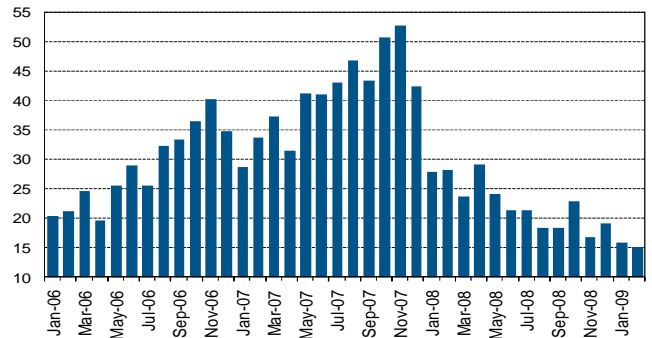
Resources of the State (US\$ MM)



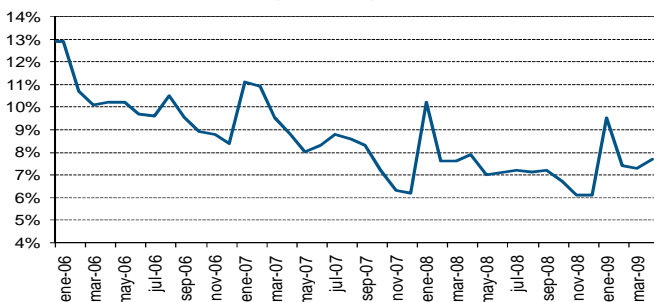
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment (%Variation)



Disbursement (US\$ Million)

