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HOW LONG WILL THE BALANCE OF PAYMENTS NUMBERS BE GOOD?

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Two weeks ago, **Ecoanalítica** introduced a simulation exercise about the fiscal situation in a scenario of low oil prices. In view of this year's first semester balance of payments figures recently released by the Central Bank of Venezuela (BCV), we've extended the exercise to the foreign sector accounts, which we present in this report.

Oil prices continue to guarantee good results

The balance of payments figure recently published by the BCV highlight a number of important elements. For example, foreign accounts for the first semester 2008 reflect a surplus in the current account equal to US\$ 26.55 billion, up by 193% compared to the figure reflected during the same period in 2007. This important commercial surplus is due to a 78% increase in oil exports which were at US\$ 48.47 billion, compared to the 7% drop observed in non-oil exports.

It's no secret that the significant increase in oil exports is mainly due to the historically high oil prices which dominated during this period, in fact, the Venezuelan oil basket increased by 80% during the first semester 2008 compared to the first semester 2007. However, the BCV also

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recognizes a slight increase in export production of 3,2% during the first half of the year.

Imports grew, but at a slower pace

On the other hand, even though imports were up by 13% during the first semester 2008, a slowdown in the rate at which imports are increasing compared to previous periods has been noticed (31% increase during the first semester 2006, and 37% during the first semester 2007). This is a result of the multiple restrictions regarding the authorization of official exchange rate foreign currency by CADIVI which the Government has implemented this year.

Nothing has changed

Furthermore, the capital account deficit reflected an increase of 26% during the first half of the year, which as will be seen, was spearheaded mainly by capital transaction made by the public sector. But, thanks to the significant surplus in the current account, the global state of the balance of payments only reflected a slight deficit of US\$ 924 million, 93% less than what was reflected at the close of the first semester 2007.

BALANCE OF PAYMENTS (General Summary)	1S07	1S08	Var (%)
Current Account	9.047	26.552	193%
Goods	11.546	30.107	161%
Oil Exports	27.240	48.465	78%
Non-Oil Exports	3.507	3.266	-7%
Import of goods f.o.b.	(19.201)	(21.624)	13%
Services	(2.589)	(2.786)	8%
Others	90	(769)	-954%
Capital Account	(21.884)	(27.476)	26%
Public Sector	(8.848)	(13.201)	49%
Private Sector	(13.036)	(14.275)	10%
Reserves Variation	(12.837)	(924)	

Sources: BCV and Ecoanalítica

The public sector continues to reflect a significant deficit in its capital account

The BCV shows an increase in the public sector's foreign assets position mainly due to FONDEN's transfer mechanisms which we calculate to be around US\$8.35 billion. The State's liability also increased during this period due to the issue of US\$ 4.0 billion in Bonds during the month of May, which later began to be traded on international markets. These

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results reflected a year-to-year increase in the deficit of the capital account of 49%, going from US\$ 8.85 billion during the first semester 2007 to US\$ 13.20 billion during the first semester 2008.

BALANCE OF PAYMENTS PUBLIC			
SECTOR	1S07	1S08	Var (%)
(General Summary)			
Current Account	25.440	45.754	80%
Goods	25.656	46.225	80%
Oil Exports	27.240	48.465	78%
Import of goods f.o.b.	(1.584)	(2.240)	41%
Services	(87)	(108)	24%
Others	(129)	(363)	181%
Capital Account	(8.848)	(13.201)	49%
Public Sector	(8.848)	(13.201)	49%
Reserves Variation	16.592	32.553	

Sources: BCV and Ecoanalítica

Foreign investment increases

With respect to the private sector, a significant amount of outgoing capital equaling US\$ 13.19 billion was reflected during this period, up 37% compared to what was reported at the close of the first semester 2007 which was at US\$9.63 billion. On the positive side, foreign direct investment in the country was at US\$ 1.63 billion. It's important to point out that at the close of the first semester 2007, foreign direct investment registered a negative figure and was at US\$ 684 million. The BCV points out that this increase has to do with private company pending dividends and accounts payable its branch offices, as well as profits reinvested in financial institutions and private companies in the country.

BALANCE OF PAYMENTS PRIVATE SECTOR (General Summary)	1S07	1S08	Var (%)
Current Account	(16.549)	(19.334)	17%
Goods	(14.110)	(16.118)	14%
Non-Oil Exports	3.507	3.266	-7%
Import of goods f.o.b.	(17.617)	(19.384)	10%
Services	(2.502)	(2.678)	7%
Others	63	(538)	-954%
Capital Account	(4.095)	(646)	-84%
Private Sector	(4.095)	(646)	-84%
Investment of Portfolio	(905)	672	-174%
Direct Investment	(684)	1.632	-339%
Private Capital Flows	(9.632)	(13.193)	37%
Reserves Variation	(20.644)	(19.980)	

Sources: BCV and Ecoanalítica

2008 will close with a balance of payments surplus

Given how the price of a barrel of oil has behaved so far this year, we at **Ecoanalítica** expect prices to close out the year at an average of US\$106 per barrel of domestic crude oil. So, revenues due to oil exports will be around US\$91.50 billion and non-oil exports around US\$ 7.50 billion; which added to total imports which we estimate to be at US\$ 54.60 million, will all result in a trade surplus of US\$ 38.50 million. As we will point out further on in this report, despite the US\$ 31.10 billion deficit that we estimate for the capital account, high oil prices have allowed for a global surplus in the balance of payments of US\$ 7.40 billion.

Balance of Payments Estimated 2008- US\$ MM	US\$ 106
Current Account	38.500
Goods	44.400
Oil Exports	91.500
Non-Oil Exports	7.500
Import of goods f.o.b.	-54.600
Services	-5.200
Others	-700
Capital Account	-31.100
Reserves Variation	7.400

Source: Ecoanalítica

Our scenario for 2009 has oil prices at US\$ 96.50 per barrel

As we have already stated in previous reports, our estimate of the price of the Venezuelan oil basket during 2009 is at US\$ 96.50 per barrel, slightly under what the market is generally considering. At **Ecoanalítica**, we have repeatedly stated that we prefer to be conservative with our estimate of prices, this guarantees that any unexpected increases will translate into better fiscal account results.

So, based on our estimated price, we expect oil export revenues to close out 2009 at US\$ 83.0 billion, while imports will be at US\$ 64.80 billion. If added on to this we fix non-oil exports at US\$ 8.40 billion, the resulting figure will be a surplus of US\$ 20.40 billion in the balance of payments current account. Assuming that capital transactions carried out abroad will lead to a deficit of US\$20.0 billion in the capital account, 2009 will close out with a surplus of US\$400 million in the balance of payments.

Balance of Payments 2009 Base Scenario	
US\$ MM	US\$ 96,5
Current Account	20.400
Goods	27.400
Oil Exports	83.800
Non-Oil Exports	8.400
Import of goods f.o.b.	-64.800
Services	-6.000
Others	-1.000
Capital Account	-20.000
Reserves Variation	400

Source: Ecoanalítica

What would happen if oil prices behaved differently?

Since the beginning of the month of August, oil prices have begun to drop. The average price of the Venezuelan oil basket was at US\$ 111.20 in August, down US\$ 12.50 from the US\$ 123.70 average price oil commanded in July (this despite that fact that during the last few days of August, weather conditions have caused a slight jump in prices). Keeping this in mind, and given how totally dependent our economy is on the international oil market, at **Ecoanalítica**, we have tried to simulate how our foreign accounts would fare next year if the drop in oil prices were systematic.

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In order to do so, we have chosen three hypothetical oil prices to carry out our simulation: US\$ 85.00, US\$ 70.00, and US\$ 50.00 per barrel. As we have pointed out further on in this report, at a price of US\$ 85.00 per barrel, total exports would be at an acceptable level of US\$ 79.60 billion and imports would be at US\$ 59.90 billion, which would all lead to a positive balance of US\$13.90 billion in the balance of payments current account, and consequently, a global deficit balance of US\$ 11.20 billion. A very similar situation would occur if oil prices were to drop down to US\$ 70.00 per barrel. In this case, the balance of payments deficit would be at US\$ 16.60 billion.

Balance of Payments 2009 US\$ MM	US\$ 85	US\$ 70	US\$ 50
Current Account	13.900	6.800	-4.000
Goods	19.700	12.600	1.800
Oil Exports	71.300	58.800	42.000
Non-Oil Exports	8.300	8.300	8.300
Import of goods f.o.b.	-59.900	-54.500	-48.500
Services	-5.000	-5.000	-5.000
Others	-800	-800	-800
Capital Account	-25.100	-23.400	-19.800
Reserves Variation	-11.200	-16.600	-23.800

Source: Ecoanalítica

The situation would still be manageable

In both previously described scenarios, the current account continues to reflect a surplus, even though it is not enough to cover the deficit generated by financial transactions. However, in both cases, the situation is still manageable, since the Government would still be able to make use of its extraordinary resources which it has astutely been saving in a number of funds; resources which, as we mentioned two reports ago, currently add up to around US\$ 57 million. Furthermore, facing a deficit of such magnitude, the State could also take advantage of, and be more discretionary in, how it uses CADIVI as a mechanism which would allow it to control imports to a level it could better manage (it's important to point out that any move like this would increase the pressures on the unofficial foreign currency market).

But, the model collapses at US\$ 50.00 a barrel...

The last scenario is if oil prices drop to US\$ 50.00 per barrel. This would lead the current economic model to collapse. In this case, export revenues drop to such levels that it would generate a significant foreign crisis characterized by what is known as "twin deficits," which is to say

negative balances in both the current account and the capital account, which would lead to a global deficit of around US\$ 23.80 billion.

...In which case, we will have reached our inexorable destiny

With this exercise, **Ecoanalítica** has once again proven that in a scenario of low oil prices, the collapse of the current economic model won't come from the fiscal accounts, but from the foreign accounts. In the last scenario described, maintaining exchange controls is virtually impossible, which means that the Government will be forced to dismantle it and to significantly devalue the exchange rate. In previous reports, we have made reference to this scenario representing "our inexorable destiny," a result of the enormous inability of those responsible to design a sustainable economic formula for the country.

Economic Tips

Establishing the premises. The Ministries of Planning and Finance, which are already working on the 2009 National Budget Law, are basing their initial draft on an economic growth rate for the coming year of between 5% and 6%. So far, there is no mention of any plans to carry out a devaluation of the official exchange rate. With respect to inflation, the Government is working based on estimates that inflation will be held to 13%, a goal which is way to optimistic, not to mention impossible to meet.

Fiscal Balance of the Central Government. For 1S08, the Central Government (CG) earned revenues totaling VEF 68,734 million, 25.6% higher than the value of income issued for the 1S07 of VEF 68,734 million in nominal terms. In real terms, there was a reduction in revenue of 2.3%. As regards expenditure, growth was higher than income (34.3% in nominal terms and 4.4% in real terms), going from VEF 57,617 million in 1S07 to VEF 77,402 million in 1S08. These figures show a deficit of VEF 8.667 million as a result of the fiscal management of the government, far above the deficit of 1S07 of VEF 2,906. Finally, because of the fiscal deficit achieved for this first half of the year, funding needs also increased, going from VEF 8,546 million during the 1S07 to VEF 13,324.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Billions)	January- May 2008	January- May 2008	Nominal Variation	Real Variation
Total Revenue	68.734	54.711	25,6%	-2,3%
Non-Oil Revenue	39.635	30.297	30,8%	1,7%
Oil Revenue	28.839	24.343	18,5%	-7,9%
Total Expenditure	77.402	57.617	34,3%	4,4%
Fiscal Balance	-8.667	-2.906		
Primary Balance	-4.500	977		
Non Oil Balance	-37.767	-27.320		
Debt Amortization	4.657	5.639		
Financing Requirements	13.324	8.546		

Sources: BCV and Ecoanalítica

Spending will increase by 20%. According to the vice-president of the Finance Commission, Simón Escalona, the public spending budget for 2009 could increase by 20% compared to what was programmed for this year (VEF137.50 billion), so it could surpass VEF 165.00 billion.

According to the multi-year schedule. According to the 2008-2010 multi-year schedule, next year's spending will be equal to 33.5% of GDP, with current spending at 23.6% of GDP and capital spending (investment) at 9.8%. Projected revenues are at 32.4% of GDP, of which oil will contribute 14.9% of GDP and taxes collected 17.5% of GDP. The deficit and financing needs are estimated at equaling 1% of GDP.

Estimated production. Preliminary scenarios being considered for the 2009 budget are putting oil production at 3.6 million b/d, which much the same which was estimated for 2008. These figures are still not definite.

Araque aware of the problem. Minister Rodríguez Araque recently stated that high inflation persists because "the Venezuelan economy is structurally inflationary, and this is because revenues surpass domestic production. Production doesn't satisfy demand, and policies have to be designed to do so."

Supplementary appropriations. Out-of-budget spending increases week after week. According to the latest information available, supplementary appropriation equal VEF 35.0 billion, which means that total spending is now at VEF 172.50 billion.

SENIAT collects 70% of its tax collection goal. At the close of the month of August, the SENIAT reached 70% of the tax collection goal for 2008 set at VEF60.0 billion. It's estimated that by the close of the year it will surpass this goal by 10%.

CADIVI authorizations for imports increase by 35%. To date, CADIVI has authorized US\$17.70 billion in foreign currency for imports. This amount is 35% higher than what was authorized during the same period last year (US\$13.0 billion). Most of the authorizations have been for the purchase of food items. This sector has received US\$3.0 billion, up by 57% compared to what was approved during the same period in 2007 (US\$1.50 billion).

International Reserves. International reserves closed Wednesday, September 3rd at US\$ 38.021 billion, up by 0.99% compared to the previous week when they were at US\$ 37.650 billion.

Interest rates. Interest rates for the six main banks around the country were at 21% on Friday, August 29th, down 12% compared to the previous week when they were at 24%. Although, time deposits were up by 4.6% and settled at 18% during the same week.

Monetary liquidity. At the close of the third week of August monetary liquidity closed with an increase of 0.61% over the previous week, in VEF 162.307 million, after having registered decreases for two consecutive weeks.

OIL TIPS

Juicy windfall profits. The fund which is fed by resources collected from the tax imposed on windfall profits made from high international prices in the hydrocarbons market (windfall tax) has already accumulated US\$ 3.56 billion. According to President Chávez, US\$ 800 million of this amount has already been earmarked for a number of projects.

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Storm makes prices jump. During the last week in August, storms off the coast of the United States have increased the price of the Venezuelan crude oil basket by US\$ 0.76 placing it at US\$ 109.40 per barrel. The accumulative price for the month of August was at US\$ 110.20 and so far this year the accumulative price is at US\$ 103.90, almost US\$ 69.00 over the US\$ 35.00 per barrel price that the 2008 National Budget was based on.

So far. So far, it's estimated that PDVSA has made around US\$ 36.53 billion extra from crude oil and oil by-product exports, not including the volumes handled by the mixed companies working on the Orinoco Oil Belt.

International market prices increase. In expectation of the impact Hurricane Gustav may have on the oil producing areas of the Gulf of Mexico, the average price of WTI closed out the last week of August up, settling at US\$ 115.90 and a barrel of October delivery increased by US\$ 1.80 to close at US\$ 117.40. A barrel of Brent ended up with an average price of US\$114.60 and a barrel of October delivery increased US\$ 1.50 to close at US\$ 115.70.

Venezuela proposes to maintain production. At OPEC's upcoming meeting to be held in Vienna on September 9, Venezuela will support proposals to maintain crude oil production at current levels. However, according to Minister Rafael Ramírez, a proposal to cutback on production if oil prices continue to drop is not out of the question.

Goals readjusted. According to statements made by high ranking oil manager, Orlando Chacín, to the magazine *Petroleum*, the production goals for the 2005-2012 Plan, including the Oil Seeding Plan, which were set to reach a goal of 5.8 million b/d by 2012 was moved back; now the same goal was set for 2021.

Approved in first discussion. This past August 27, 2008, during an extraordinary and urgent session of parliament, the National Assembly approved the Organic Law for the Reordering of the Domestic Liquid Fuel Market in its first discussion. The second discussion was set for Thursday, September 4.

Present proposal. Seeing how quickly the National Assembly approved the Organic Law for the Reordering of the Domestic Liquid Fuel Market law-project, domestic wholesale companies working in this sector are proposing to create mixed companies in which PDVSA or the subsidiary they are assigned for this area would be the majority shareholder.

The State absorbs companies that barely make ends meet. The recent nationalization of companies working in the domestic fuel market will be filed in the red column of the State's accounts since fuel regulations have made it so these companies are continually on the verge bankruptcy.

Negotiations begin. Last week, the vice-president Ramón Carrizales reinitiated negotiations with CEMEX, but in order to reinitiate the process, PDVSA and CEMEX had to sign an agreement which guaranteed the start of conversations that would analyze aspects such as the company's share prices, environmental liability, fiscal debt, labor problems, and technology.

INVEVAL mixed company. On August 27, 2008, President Chávez announced that the valve factory, INVEVAL, which is currently being run by the workers and the State, since being expropriated from its private owners, will now become a mixed company with PDVSA. He continued to say that initially, an investment of VEF 27 million would be made to update and stabilize the company.

Ecuador and Chile explore in Venezuela. The Minister of Mines and Petroleum of Ecuador, Galo Chiriboga, announced that the state-run oil company Petroecuador and ENAP (Chilean state-run company) jointly with PDVSA would begin crude oil exploitation operations at Ayacucho camp on the Orinoco Oil Belt.

Exploration in Honduras. Having finalized Honduras incorporation into ALBA, in a sworn declaration signed by ALBA leaders, immediate cooperation measures were established for the exploration and production of oil in Honduras.

Now they're PDVSA contractors. On Monday, August 25, the Minister of Energy and Petroleum, Rafael Ramírez, introduced a service contract model to the companies that bottle and distribute natural gas in bottles that would turn these companies into contractors for *PDVSA Gas Comunal*. According to the draft of the contract, *PDVSA Gas Comunal* will continue to deliver natural gas wholesale to the distributing companies, but they would never, at any time, own the hydrocarbon, instead, they would receive a fee for carrying out the service of bottling and distribution.

Change in regime. The State plans to change the way business is done with the bottling and distributing companies of bottled natural gas. It is planning to pay these companies sufficient monthly fees to transport, bottle, and the delivery of the bottles to compensate for the de-capitalization and the debt that the business in this sector have as a consequence of profit margin freeze. The state-run company would

coordinate the delivery routes and the volumes delivered to each plant, and they would have a right to involve themselves in the administration of personnel.

Perforation operations begin in Ayacucho 5 block well. Within the framework of a series of agreements that exist between Ecuador and Venezuela, the President of these two countries were present at the beginning of perforation operations at the Ayacucho 5 block well on the Orinoco Oil Belt which will be extracting crude oil, in part by Petroecuador.

New agreements. President Correa's visit to the Orinoco Oil Belt was due in part to the signing of seven documents, among them: (i) an agreement to produce and upgrade heavy crude oil which will be extracted from Ayacucho 5 block, (ii) to evaluate the possibility of installing a re-gasification station, (iii) the creation of a mixed company in Ecuador to explore for natural gas around Guayaquil, and other agreements. The Minister of Energy and Petroleum, Rafael Ramírez, also announced an agreement that would create a mixed company to explore and exploit on the Orinoco Oil Belt.

Ecuadorian state-run company will own 8.3% of Onado. The Ministry of Energy and Petroleum authorized Petroecuador to acquire an 8.35% package of shares in the mixed company PETRONADO that was being held by *Banco Popular* of Ecuador. This company has an average production of crude oil of 4,500 barrels a day.

Agreement between Uruguay and Venezuela. On Saturday, August 30, the state-run oil companies of Uruguay (ANCAP) and Venezuela (PDVSA) signed an agreement to evaluate production, upgrading, and commercialization activities in Ayacucho 6 block of the Orinoco Oil Belt. According to Ramírez, the perforation of the wells is finished and the existence of 19.0 billion barrels of original oil are being certified which translate into 3.80 billion barrels of proven reserves of crude oil.

Three areas of the Orinoco Oil Belt up for grabs. The Minister of Energy and Petroleum and president of PDVSA, Rafael Ramírez, announced that the three areas which will be open to offers in the Carabobo block of the Orinoco Oil Belt have been defined. This allows domestic and transnational companies that are working in Venezuela to associate themselves with PDVSA in order to extract heavy crude oil in these areas. He added that all companies will be invited to submit offers except for EXXON MOBIL.

Didn't specify the surface area. Despite the fact that Ramírez didn't specify the surface area of each block, he said that the approximate production capacity for

each block would be around 200,000 b/d, and if all the projects come through as expected, the Orinoco Oil Belt should be producing around 1.2 million b/d of crude oil by 2012.

Negotiations with Brazil. The director of *PDVSA Industrial*, Eduardo Quinteros, stated that the PDVSA is in negotiation with the Brazilian Association of Industrial Machinery (ABIMAQ), discussing the possibility of creating a mixed company in Venezuela to manufacture equipment for the oil industry, thereby reducing domestic dependency on foreign supply of machinery which is currently at 60%.

PDVAL goals. For the week of September 1 to 7, PDVAL expects to sell more than 10,360 tons of food throughout the country through 518 special sales events in which consumers will find a number of products included in the basic basket.

BUSINESS SECTOR TIPS

Study changes in the finance system. According to Minister of Economy and Finance, Alí Rodríguez Araque, the Government is preparing new measures to “heal the finance system.” Without giving any details, Rodríguez said that a number of loan quotas were being reviewed, especially those aimed at the industrial and agriculture sector.

Banks to offer preferential service. A resolution published in the G.O. No. 39.002, established that finance institutions around the country must have a teller available in all their office to offer service to people with disabilities, pregnant women, and the elderly. The teller window must be clearly identified and have a maximum height of 80 centimeters (31.5 inches), and be open for service everyday during banking hours, including the lunch hour.

Shortages still a worrying issue. Despite the measures taken by the Administration to fight shortages, it hasn't been completely eradicated. Some stores still have shortages of basic basket food items like rice, oil, eggs, and sugar. Consumers point out that these products are still very hard to find and that the price increase in other items has been quite considerably felt.

POLAR inspected. The Institute for the People's Defense to Access Goods and Services (Indepabis) announced that one of *Alimentos POLAR* plants located in

Turmero was inspected due to “a lack of precooked corn flour in the stores.” The inspection revealed that the plant was at full operation.

CADIVI improving response time. The Minister of Planning and Development, Haiman El Troudi, announced that according to an analysis of CADIVI operations, the entity’s average response time which used to be 90 days is now at 60 days. At this rate, by the end of the year, the entity should have caught up and eliminated all delays. However, the information in the field is that response times have improved but they are not at the same level as reported by Minister El Troudi.

Automotive industry in decay. The president of the Chamber of Venezuelan Manufacturers of Automotive Products (Favenpa) warns that the industry is in danger: The drop in production by the main automobile assembly plants in the country is producing negative effects within business related to the automotive industry sector. Favenpa statistics show a 19% drop in the sale of auto parts so far this year compared to the same period last year.

Problems in the plastic industry. The plastic industry is on the verge of a crisis, according to statements made by the president of the Venezuelan Association of Plastic industry (Avipla), Carlos Celis. According to Avipla data, the industries dedicated to making plastic products are showing a 20% deficit in the supply of resins, especially polyethylene and polypropylene.

Agreement with Sidor doesn’t seem to be friendly. After having reached an agreement concerning the purchase price of Sidor, the Argentinean Company Ternium sent Chávez’ Government a request for an immunity guarantee for any future claims that may arise after the nationalization process is complete. This request was frowned upon and rejected since according to Chavez it was unconstitutional.

Techint could sue. Sources inside Techint, the company which owned expropriated Sidor, say that it may sue Venezuela before the International Centre for Settlement of Investment due to the decision President Chávez made to break off negotiations and continue with the expropriation of Sidor.

Renewing Venezuela airplanes. Venezuelan airplanes are nearing the end of their life cycle, so it’s expected that between now and 2015, US\$ 5.0 billion will be invested to buy new more modern planes which will be more fuel efficient and secure.

FAO: drop in food prices will not last. The director of the United Nations Food and Agriculture Organization (FAO), Jacques Diouf, stated that despite the recent drop in raw material prices, they are still quite high compared to 2006 prices. It doesn't seem that this fact was taken into consideration by the Venezuelan Government when it established its 13% inflationary goal for 2009.

Political Tips

Politicians meeting in El Salvador study Chávez' influence. During this past week, political leaders from 20 Latin American countries have gathered in El Salvador to study President Chávez' influence in the region. They report that Chávez' policies for solving problems are wrong. They are also taking advantage of the meeting to discuss experiences regarding the political development of the region.

PSUV defines strategy. The PSUV is aware that it has to make significant changes with regard to the upcoming political elections campaign. This idea is clearly defined in the document "Conceptual bases of the election campaign for Mayor and Governor," which is 50 pages long and was written by a technical team from the socialist party, experts in communication, publicity, and propaganda. A part of the report proposes that the political organization, the platform, must be put above the candidates. The report advises to expand as much as possible and go after the young people, the middle class, and independents in 10 "strategic electoral states:" Aragua, Bolívar, Falcón, Lara, Mérida, Miranda, Sucre, Táchira, and Zulia, besides the Capital District and the Sucre (Miranda state) and Libertador (Caracas) municipalities.

Safety the main issue. The document recognizes that safety is the main issue, followed by unemployment, shortages, cost of living, political instability, housing, poverty, and corruption. "Any communication actions taken will be ineffective if these areas aren't transformed by Government action within the social reality." The campaign objectives would be: "to position the PSUV as the political force at the helm of the revolution. Increase the pride in being chavista.

Chávez visit to South Africa. The Venezuelan Ambassador to the Republic of South Africa states that Chávez' visit to that nation will strengthen bilateral relations between both countries as well as representing a deepening of the new diplomacy

with the countries the Bolivarian Government is supporting. A number of agreements between both countries will also be signed, among them in the areas of energy and petroleum.

Ridicules the opposition. Chávez accused the opposition as being ridiculous for their drive to collect signatures against the 26 laws which were approved via Special Powers Law to present before the Organization of American States. During his weekly television broadcast of *Aló Presidente* he said: “It makes me want to request another Special Powers Law and nail them with another 26 laws.”

Other Tips

Grave doubts concerning the electric power sector. Another blackout affected 50% of the country and leaving many people without basic services like the subway. The blackout, which cut power for awhile, came back on, and then cut power again this past Monday, affected the Greater Caracas area, Apure, Aragua, Bolívar, Carabobo, Falcón, Lara, Mérida, Nueva Esparta, Portuguesa, Táchira, Trujillo, and Zulia. This is the second widespread blackout this year, and it has left the people wondering as to the state of the national electric power service.

Ever increasing. The head of the National Statistics Institute (INE), Elías Eljuri, announced that the population of Venezuela has passed the 28 million mark and continues to grow. However, Eljuri pointed out that despite this increase in population that “Venezuela is a country that has begun its transition stage. This means that the rate of population growth is beginning to decline like it happens with a developing country.”

Fewer children. The INE president continued to say that “we used to have a population growth rate in 1950 of 3%, now it’s at 1.67%. The birth rate in 1950 was at 7%, today it’s at 2.78%, and the projections for 2020 is that it will be even less, around 2 children per person.”

The BCV to begin IV Home Survey. Around 45,000 Venezuelan homes will be surveyed starting on September 1, 2008, which will signal the beginning of the data gather process of the IV National Survey of Family Budgets. During this data gathering phase, the Central Bank of Venezuela (BCV), the National Statistics Institute (INE), the *Universidad de Los Andes* (ULA), and the *Corporación*

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Venezolana de Guayana (CVG) have selected groups of specially trained survey-takers to carry out this important task.

Hi inflation in the region. According to the Commission for Latin America and the Caribbean (CEPAL), global inflation in Latin America for July is at 8.9%, with food items prices increasing during this period by 15.7%. The countries with the highest yearly inflation are: Venezuela (32%) Nicaragua (23%), Bolivia (17%), Guatemala (14%), Paraguay (13%), and Costa Rica (13%).

Venezuela to buy more arms. Chávez announced that he is planning to purchase fighter planes from the Government of China in the next few weeks. He also offered Venezuela territory to Russia to be used to dock its ships and so that its planes could land in layover, as a strategic ally of Venezuela.

Argentina continues to buyback. According to the Argentinean press, the Minister of Economy of that country held an auction last week and bought-back debt for around US\$ 3.2 million; despite the fact that it had announced that it would buyback US\$ 49.3 million. The papers purchased were bonds in Argentinean pesos with high yield tied to GDP growth. Boden bonds were left out of the operation.

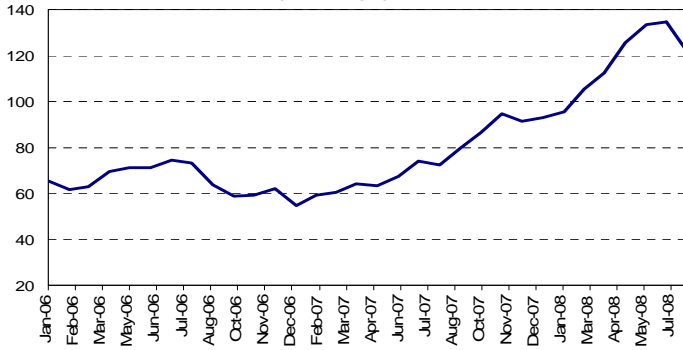
Ecuador still hasn't joined the ALBA. President of Ecuador, Rafael Correa, announced that for the moment, his country would not join ALBA because he doesn't see any aggregate value in the move. He says that it wouldn't add anything significant to the country's relationship with Venezuela. However, the possibility of joining the group has not been discarded.

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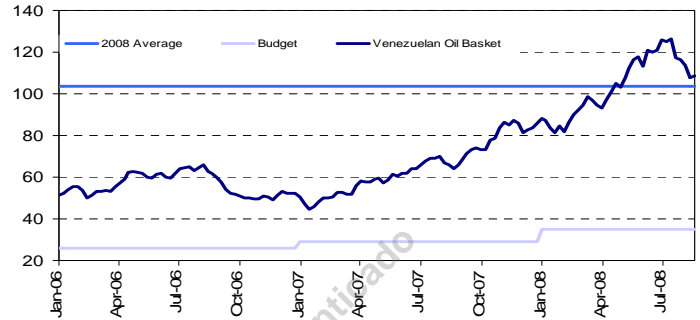
Weekly Report

ECONOMIC OVERVIEW

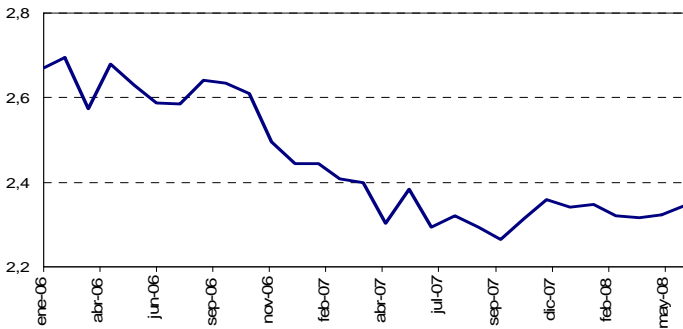
Oil Prices (WTI US\$pb)



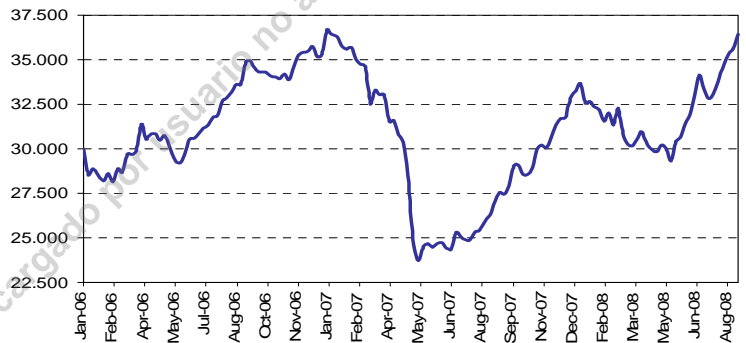
Oil Price (Venezuelan Basket US\$/pb)



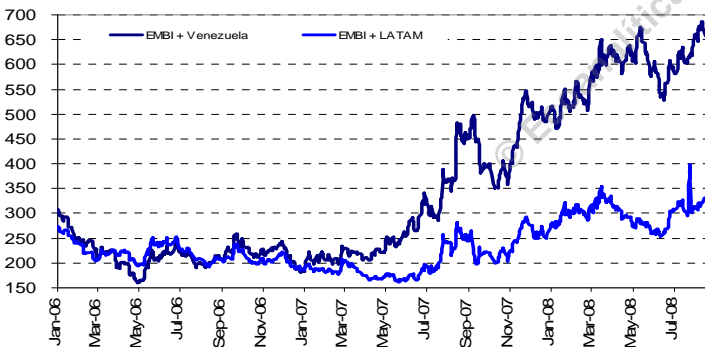
Oil Production MMB/D



Fx Reserves - BCV (US\$ Million)



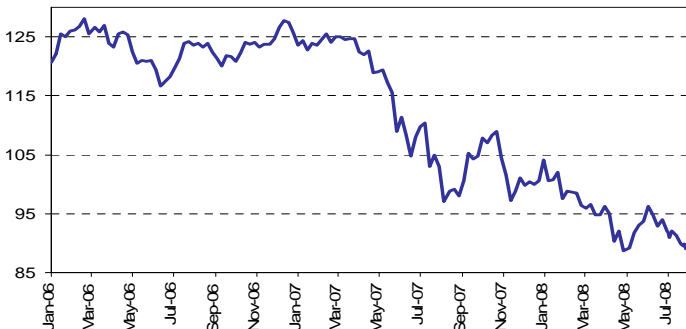
EMBI +



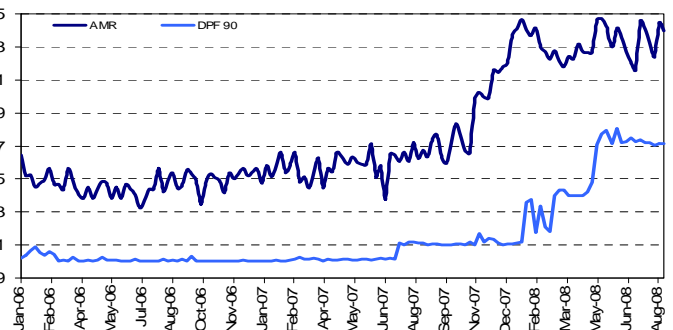
Venezuelan Global 18 Close Price



Venezuelan Global 27 Close Price



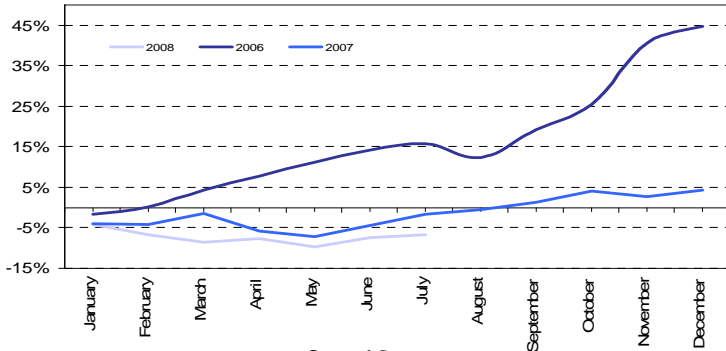
Interest Rate (Six Principal Banks)



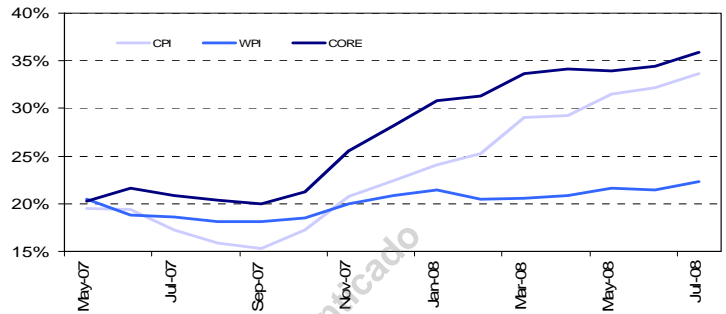
Weekly Report

ECONOMIC OVERVIEW

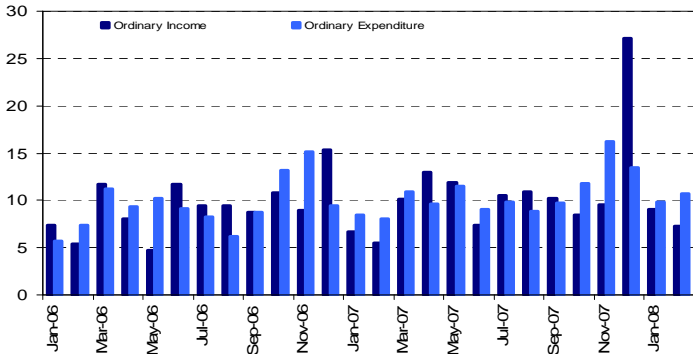
Real Expansion (M2)



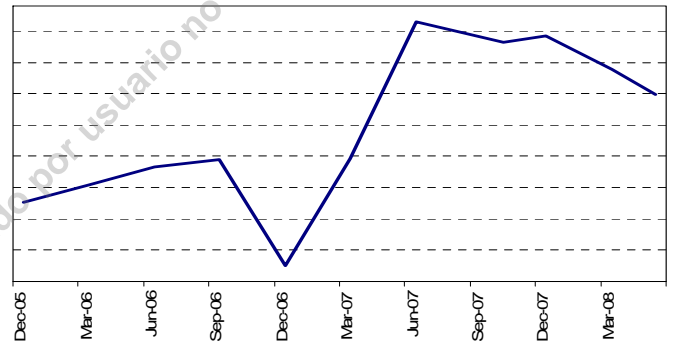
Inflation (Last 12 Months)



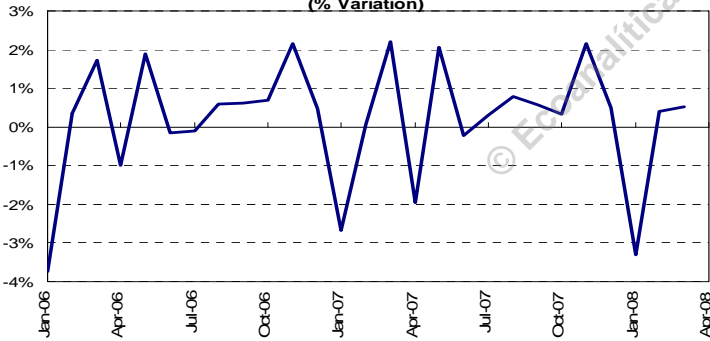
Central Government (VEB Billion)



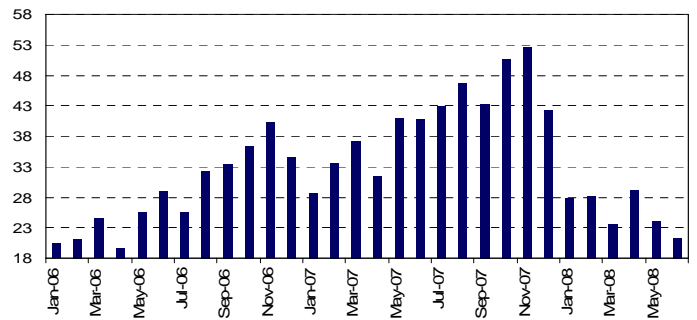
Resources of the State (US \$ MM)



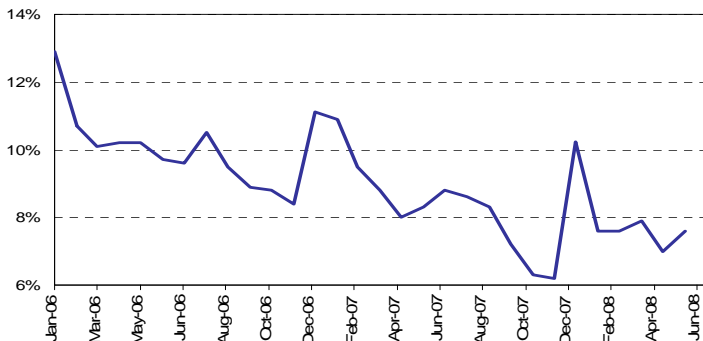
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment (% Variation)



Disbursement (US\$ Million)

