Prospective Report

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THE MOMENT OF TRUTH HAS ARRIVED

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"Time is only the delay for what's to come"
(Martín Fierro)

2009 – 2013 Economic Outlook Update

Economists are having a hard time agreeing on what 2009 has in store for the Venezuelan economy. Though there is a consensus on certain issues such as economic activity dropping, higher inflation, and imports dropping, among other things; there are very many different opinions as to the state of PDVSA, fiscal management, and the actual amount of extraordinary resources the Administration has at its disposal.

At ***Ecoanalítica,*** we have been saying for some time now that we believe the Government has been accumulating extraordinary resources in order to be able to face a crisis situation. A year ago, in our Outlook Report, we wrote: "The propensity to accumulate resources abroad is designed as a strategy to protect against adverse economic scenarios. As the situation begins to deteriorate (2009-2010), the

Government will begin to cash in on those resources in order to avoid the unavoidable. The sad thing about all this is that those resources will be "lost" and not be a part of the nation's savings, in a scenario where economic policies have to be corrected."

For us, this statement is still valid, and today it's the source of much debate. If there is something positive to say about 2009, though it may sound cynical, it will be that we will be able to verify if Chávez' Administration has in fact accumulated enough resources to weather a crisis of oil prices bottoming out or not. This is why we are saying that the moment of truth has arrived. However, the existence of these resources in no way constitute a guarantee of invulnerability for the Venezuelan economy, it has only bought the Administration a bit more time to maneuver, which we estimate will last about a year.

During this year, Venezuela will face a series of problems that have been plaguing the country for some time now such as high inflation and the lack of private investment, and these will be joined by another series of new problems brought on by the world financial crisis such as the drop in economic activity and consumption and restrictions on imports.

2008 has paved the way for what is to come, despite the fact that the Venezuelan oil basket had an increase of 24%, the Venezuelan economy performed at a rate which could be categorized as regular to deficient:

- Economic growth slowed down going from 8.4% in 2007 to 4.9% in 2008. This was reflected mostly by a slowdown in consumption that went from 16.1% in 2007 to 6.3% in 2008 and a drop in investment of 2.1% when in 2007 it increased by 25.4% compared to the previous year.

- The country's inflation reached a rate of 30.9%. In other words, 2008 was a year of high inflation and a slowdown of economic growth.

- Imports only increased by 4.7% and the capital account of the balance of payments registered a deficit of 62.7%.

The beginning of 2009 has been characterized by some timid economic measures and by the expectations of the economic agents that the Government is getting ready to make an economic adjustment. With regard to recent economic measures, they have all

been focused on CADIVI rationing the use of foreign currency, which seems to be a logical move when you take into consideration the significant drop in price of the Venezuelan oil basket. They have also focused on improving tax collection mechanisms. To date, the Executive Office has not implemented any measures that could be qualified as being part of a new economic package. In fact, the Minister of Finance, Alí Rodríguez, has been emphatically insisting that no new measures are in the works.

Venezuela has been caught up in a consumption boom for the last few years, but it will now begin to feel a significant drop in economic activity. This will be the beginning of a "perfect storm," as internal distortions take a firmer grip on the economy at the same time that the world financial crisis begins to have an undeniable affect on the country. The sectors that will most affected are those that were dependent on the consumption boom and imports. The oil sector and the construction sector will be very vulnerable.

With respect to the private sector, what we have seen and will continue to see in the medium term is that:

1. Companies are not making significant investments to increase production capacity, rather they are investing in their ability to expand their coverage capacity (direct and indirect) and on information regarding consumers. This will be vital in order to determine how the consumer will react to the crisis.

2. A greater dependency on imports has been generated given the existing exchange subsidy which is very attractive. In our opinion, this is the most serious issue, because CADIVI is going to drastically reduce financing imports at the official exchange rate, this will make a number of imported items uncompetitive.

3. CADIVI will be stricter when it comes time to liquidate foreign currency and this will have a very significant effect with regard to shortages of essential products in the market given that up until now, the gap between domestic demand and domestic supply has been covered by imports. The public sector will tend to increase the number of regulation mechanisms for the private sector, especially through price controls.

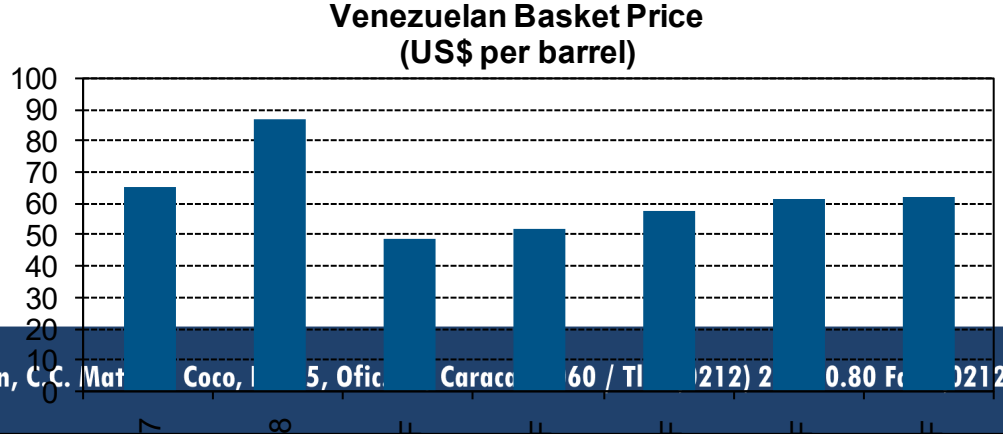
4. The dependency that exists between the public sector (which controls most of the economy) and the private sector (which understands and knows the market better) will become greater.

In essence, 2009 is a year to prepare, a year for strategies, getting ready to face harder times which will probably begin starting 2010, if oil prices don't bounce back a recover, an event which is very dependent on how well the world economy performs, especially the United States economy. And it goes without saying that most "right wing" economists are totally convinced that the bonanza is completely over.

Gross Domestic Product. With or without a crisis, an economic slowdown was immanent…

In our last Outlook Report, we talked about how difficult it would be to predict the reach, scope, and possible duration of the current world financial crisis. Now, writing this Outlook Report which is about to be released, the uncertainty and difficulty in predicting what will happen regarding the world financial crisis is the same as before, but with an increased feeling of pessimism. The only thing we can be sure of is that the crisis will affect all the economies of the world in varying degrees. The International Monetary Fund (IMF) in its latest update to its projections released on January 28, 2009, refers to the upcoming economic scenario as being a global recession with the world economic growth rate estimated at -0.5%, the lowest level it's been at in the post-war era. Just to months ago, the IMF was projecting a world economic growth rate of 2.2% for 2009.

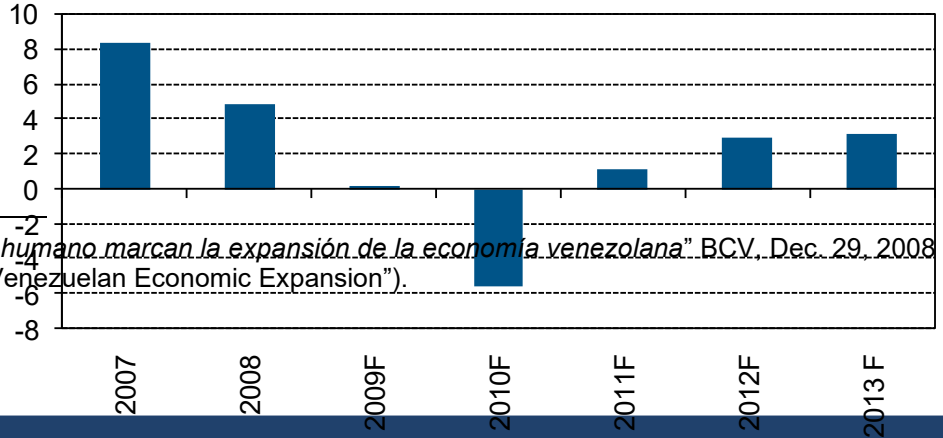
The drop of the world demand for energy caused by the crisis has led to oil prices dropping. So far in 2009, the Venezuelan oil basket has averaged US$ 36,6 per barrel. This drop in oil prices began in the month of august 2008 and has continued until now despite recent geopolitical tensions around the world and production cutbacks by OPEC. The raw material price boom is over and in general, the market doesn't expect prices to bounce back in the medium term. At ***Ecoanalítica***, we maintain our estimate of US$ 48 per barrel for the Venezuelan oil basket during 2009, a figure which is 45% less than the average price reached in 2008. Starting in 2010, we expect prices to begin to recover slightly, though no where near the levels they reached last year.



This scenario has forced us to lower our estimates of economic growth in 2009 which we now expect will only reach 0.2%. With oil revenues dropping, PDVSA will not be able to meet the industry's investment requirements to maintain production at current levels. In a recent press release[1], the BCV points out that "if WTI oil prices remain at US$50 per barrel or less, that this would open the door to a very serious global supply problem, because at those prices companies don't invest the amounts required to increase supply in the medium term." If you add on to this the fact that production has to cutback to meet recently introduced OPEC quotas, the end result is that oil production will be cut by 7.8% this year.

In 2010, we expect oil production to drop by 5.6%, which will effectively put an end to the recent consecutive quarters of economic growth the country has been posting during the last few years; an event that we at ***Ecoanalítica*** have been pointing out as being imminent this past year. The recession will begin to correct itself starting in 2011, when we expect oil prices to be higher.

Gross Domestic Product
(Annual Variation)



Sources:BCV and Ecoanalítica

[1] See: "*Equidad y desarrollo humano marcan la expansión de la economía venezolana*" BCV, Dec. 29, 2008 ("Equity and Human Development Mark Venezuelan Economic Expansion").

It's important to point out here that even before the world economic crisis became evident, Venezuelan economic figures were already beginning to point towards an economic slowdown. During the third quarter of 2008 (with the Venezuelan oil basket averaging US$ 92.23 per barrel), economic growth was only at 23.5%; much less than the 33.8% posted during the same quarter in 2007. In fact, the preliminary figures released in the 2008 Years End Address by the president of the BCV (MFA08), reflect that economic growth went from 8.4% in 2007 to 4.9% in 2008.

Growth by Sectors (%)

	2007	2008
Gross Domestic Product	8,4	4,9
Oil activities	(4,2)	3,0
Non oil activities	9,5	5,3
Mining industry	2,0	(1,1)
Manufacture	7,2	1,6
Electricity and water	2,4	4,4
construction	13,3	6,7
Trade and repair services	16,9	3,8
Transport and storage	13,5	3,6
Comunications	20,0	21,4
Banks and insurance	17,0	(4,5)
Business, property and rent services	6,6	2,1
Community, social and personal services	10,9	9,2
Service producers of the Central Government	5,0	4,5
Rest	5,1	5,6

Sources: BCV and Ecoanalítica

At the time, we pointed out that the economy was going to slowdown, even without an international economic crisis; the reason being that the "good" economic performance of the last four years, was not "quality growth" based on building solid macroeconomic foundations. It was more of an illusion, its duration tied to ever increasing oil prices, and it was stimulated by special conditions created an exchange control, all of which ended up exacerbating domestic distortions within the Venezuelan economy. So, all the world financial crisis did was to accelerate a process that was already well on its way.

When we adjusted our estimation of the GDP, it also became clear that total consumption would also be affected, dropping 0.9% in 2009, mainly by the private sector; and not at all compensated for by the slight 0.2% increase in consumption by the public sector. In 2010, the drop in consumption will be much more drastic in both sectors and will add up to a -4.9% in total consumption. Investment will continue its downward trend which started in 2008, falling to -0.1% and -0.9% in 2009 and 2010, respectively. With respect to foreign trade, export revenue will drop during the coming years and consequently so will imports. As we have already mentioned, we expect all these indicators to begin to recover slightly in 2011, given the expected increase in oil prices.

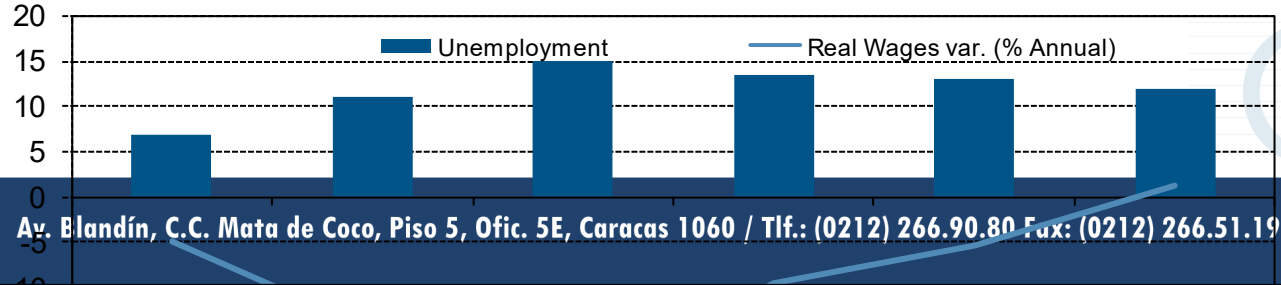
Jobs and Salaries. Previous tendencies revert

During the last few years, the National Statistics Institute (INE) has pointed out how significantly unemployment has been dropping. In November 2008, unemployment was at 6.1%, down 6.8 percentage points to what it was at four years earlier. At ***Ecoanalítica,*** we have often mentioned that this is consistent with the growth in economic activity, but we have also stated that this also responds to a drop in the unoccupied population (people, who for example, take part in educational Missions, are not considered "unoccupied" but "inactive" and therefore are not included in the unemployment figures).

We estimate that jobs will be cut due to the economic slowdown and that unemployment could close 2009 at 11%, increasing to 14.9% in 2010, due to the recession getting worse. Meanwhile, institutional weakness, political uncertainty, and legal insecurity will all be elements that will continue to plague the domestic job market.

High inflation will have an affect of the people's purchasing power, and this will in turn affect salaries. In real terms, salaries increased in 2008 by a rhythm of 8.7%, but they could drop by 14.6% during 2009 and by up to 22% in 2010. This will be one of the determining factors which will define the expected private sector drop in consumption during the next few years.

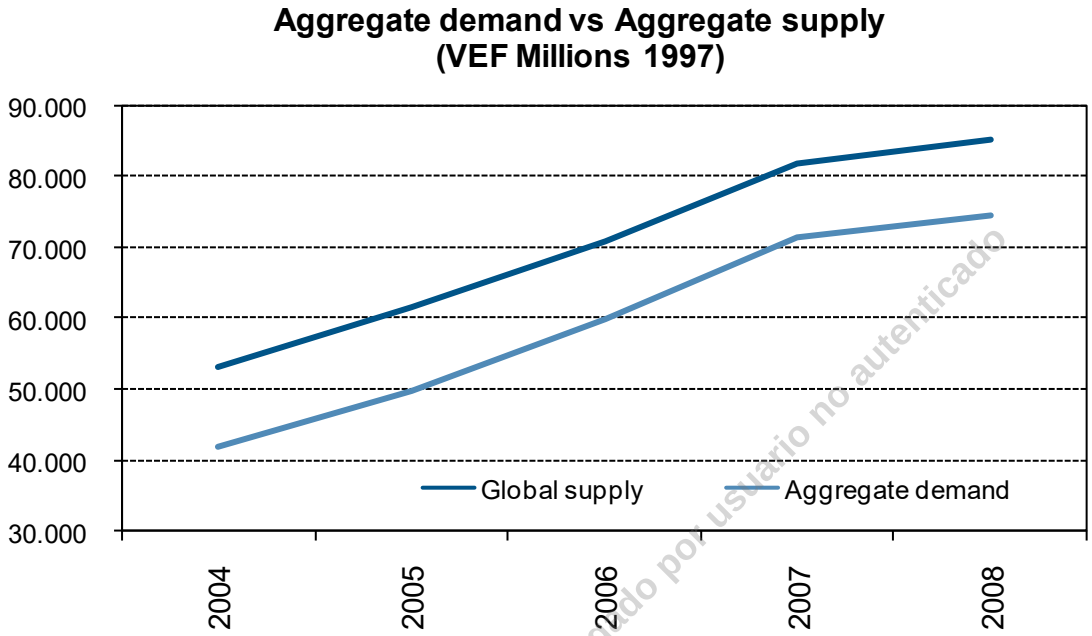
Real wages and Unemployment



Inflation. We maintain our projections for high inflation despite a slowdown in economic activity

On 2008, the BCV introduced the National Consumer Price Index (INPC) and began monitoring price behavior in a number of different cities around the country, not just Caracas and Maracaibo, with the help of the INE. Despite the fact that some analysts voiced certain misgivings regarding this new indicator, saying that it was an attempt by the Administration to "doctor up" inflation results, the INPC issued its first report and inflation came in at 30.9%. This makes Venezuela the Latin American country with the highest inflation rate by quite a comfortable margin which has been getting worse these last few years. In fact, during the last few years, inflation (measured by the Caracas Consumer Price Index) was consistently dropping, up until 2006, when it became the Chávez Administration's most worrisome and persistent problem.

The reason inflation has remained so high and refuses to drop is associated with three main principles: the disorganized way fiscal policies have been executed, price control policies, and the gap that exists between supply and demand. This last factor, in ***Ecoanalítica's*** opinion, is the most important one in order to understand why, despite the fact that since the beginning of 2007 when the Administration began to "worry" about inflation, most of the decisions that it has taken have not worked. Another fact that has contributed to high inflation is the increase in raw material prices on the international market, especially between 2007 and the first half of 2008.



Sources: BCV and Ecoanalítica

One would imagine that in 2009, with economic activity slowing down significantly, and the impact this will have on private consumption, and international raw material prices dropping, that all this would make the inflation rate drop. Unfortunately, at ***Ecoanalítica,*** there are a number of reasons that make us think that this won't be the case. We estimate that the national interest rate will be at 41.8%, and this is more than 3 percentage points higher than our previous estimate.

Be believe this to be the case due to the following:

- A redistribution in the financing of imports. The 80-20 scheme, where CADIVI finances most of the cost of imports (80%) at the official exchange rate and only a fifth of the cost requires financing via parallel exchange market, will be modified to a 60-40 scheme where now 40% of the cost of impost must be financed via parallel market. This seriously impacts companies doubling their operations costs.

- A devaluation of the official exchange rate.

- An increase in the level of shortages, not only due to obstacles created by control polices, but because many companies will not be able to continue to be competitive without receiving subsidized foreign currency, therefore, a great number of products will cease to be imported.

- A lack of domestic private investment. This makes it impossible for the domestic supply of goods and services to increase. Plus, the Administration will continue to increase control mechanisms and to tax the private sector much like what it did with the food sector.

- A weakening of BCV assets with the transfer of US$ 12.0 billion of the international reserves to FONDEN. This cut its margin to maneuver in order to implement a sound monetary policy aimed at lowering the inflation rate.

We estimate that the inflation rate in 2010 will be at 66.5%; which also includes the impact caused by a max-devaluation adjustment, given the resurgence of simultaneous serious imbalances in the fiscal and foreign sectors. In 20011, we expect the inflation rate to be around 32.9%. In the following years the inflation rate should remain around 22%. So, beyond 2009, Venezuelans will once again have to suffer the penalties for lessons which remain unlearned, the importance of keeping inflation as low as possible.

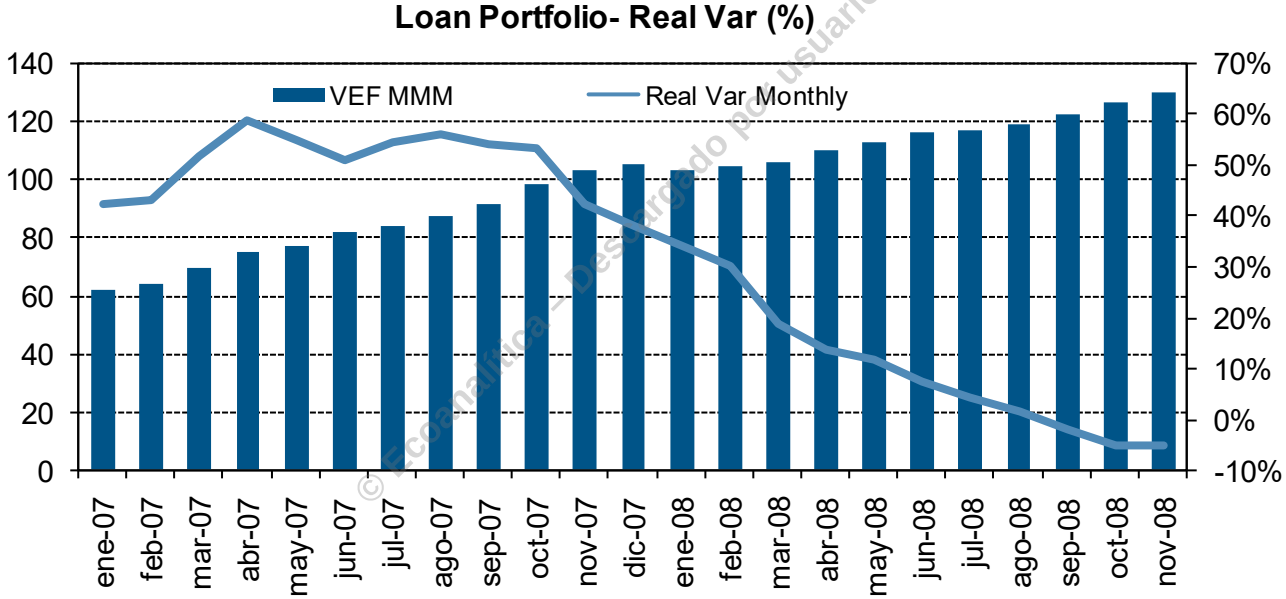
Interest rate and monetary policy. We don't expect any major changes

Since July 2007, the BCV has implemented a number of measures trying to cutback on consumption and promote domestic savings and thereby stop ever increasing inflation. These measures consisted in stricter controls on bank rates and commissions, as well as adjusting the maximum and minimum levels of interest rates. These measures did little to control inflation, with their only perceivable effect being that lending rates now tend to hug their maximum legal levels while savings rates don't move from the minimum allowed by the BCV. Furthermore, banking costs have increased and it is increasingly difficult for them to maintain satisfactory financial margins. In 2008, the average lending rate was at 21.67% and the average savings rate was at 17.63%.

Without a doubt, the performance of the financing sector is a good example of the vulnerability an inadequate growth model can generate in the economy. During the last few years, the financing sector was one of the leaders of the sustained growth the economy was reflecting. A good part of that performance was due to the increase of

liquidity, and therefore, greater capacity to grant loans. Plus, the constant issuing of public debt represented unique opportunities to earn juicy earnings without intermediation. But the sector's bonanza vanished as quickly as it had arrived, the GDP of financing and insurance institutions surprisingly dropped by 4.5% in 2008 after having been growing at an average rate of 32% between 2004 and 2007.

The behavior of the financing systems loan portfolio is a good indicator of how the sector has been affected. According to SUDEBAN figures, up until the month of November, loans granted were at VEF 132.2 billion, down by 4.5% in real terms, compared to the previous year. In November 2007, the loan portfolio registered a real increase of 37.8%.

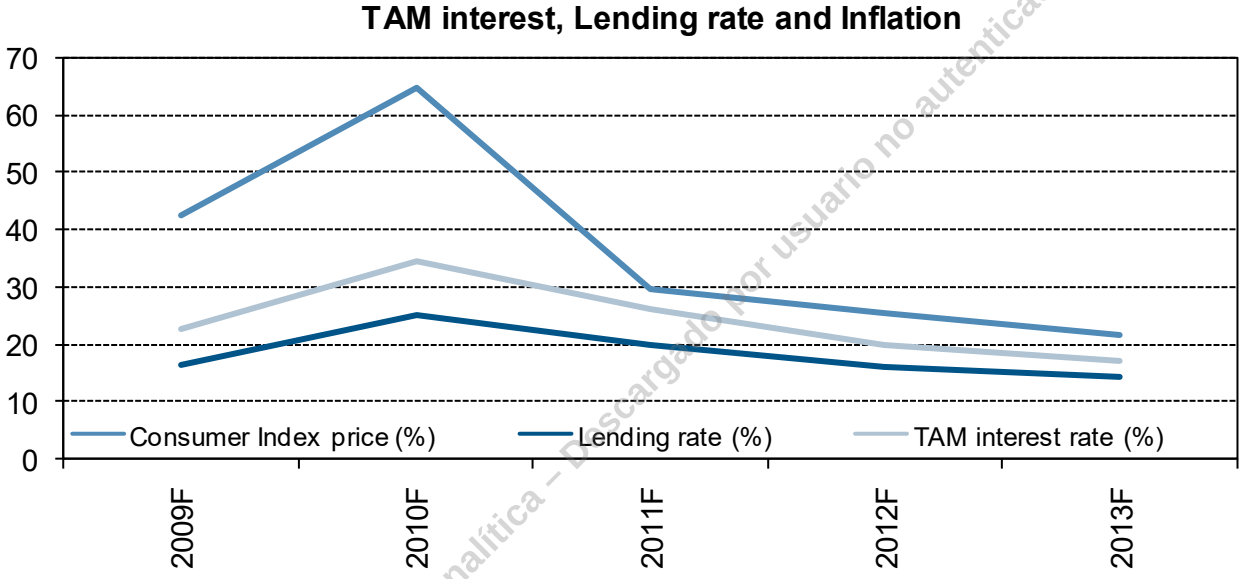


Sources: SUDEBAN and Ecoanalítica.

At ***Ecoanalítica***, we believe that given the economic slowdown which will be affecting the country, monetary policies will be much like they were in 2008, with the BCV trying to get control of inflation, ready to reduce interest rate maximums if necessary. However, we expect interest rates to remain fairly stable in the short term with a slight tendency to drop and we don't expect much variation with regard to monetary liquidity either. We estimate that the market lending rate will average 23.4% in 2009 and the savings rate around 16.5%. Expecting that an economic adjustment plan will be implemented in 2010, these tendencies will change and we expect the lending rate will increase to levels around 28.5% and the savings rate to 25.2%. In this scenario we

recommend that excessive debt in bolivars be strictly monitored and if possible avoided.

It's also important to mention that though savings rates will go up, the inflation rate will be much higher, so real interest rates will continue to be negative and domestic savings not a viable option.



Sources: Ecoanalítica.

Balance of Payments. The foreign sector will be the most vulnerable

The country's dependency on oil is never more clearly depicted than by the figures reflected in the balance of payments. While Venezuela was enjoying high oil prices during the peak of the boom, the current account posted significant surpluses which allowed for high levels of outgoing capital to be financed in the private sector as well as in the public sector.

According to the BCV's 2008 Years End Address, the current account closed with a balance of US$ 45.97 billion, up by 130% compared to the close of 2007. This

significant increase reflected in the current account is due to events happening simultaneous: exports increasing by 44% and imports increasing by only 5%. It's important to highlight this last figure since during 2003 - 2007 imports increased by an average of 45%. This substantial drop in imports has to do with important changes taking within CADIVI.

Since last year the Government, in part because it was aware that imports were out of control, introduced a series of changes in the process by which CADIVI authorized foreign currency. In out opinion, the most important of these changes were: 1. Changes in the policies governing the issuing of import licenses and production certificates and non-production certificates by the MILCO, the automobile sector being the best case in point; 2. New restriction for the approval of foreign currency via ALADI agreement; and 3. The lowering of the foreign currency quota for internet purchases and traveling abroad.

Balance of Payments		
	2008	**2009**
Current Account (% of the GDP)	14,4	0,4
Current Account (US$ MMM)	45,9	1,2
Balance of Trade (US$ MMM)	52,3	5,2
Exports (US$ MMM)	99,9	47,7
Imports (US$ MMM)	(47,6)	(42,5)
Services & Income Balance (US$ MMM)	(6,4)	(4,0)
Capital Account (US$ MMM)	(37,9)	(16,5)

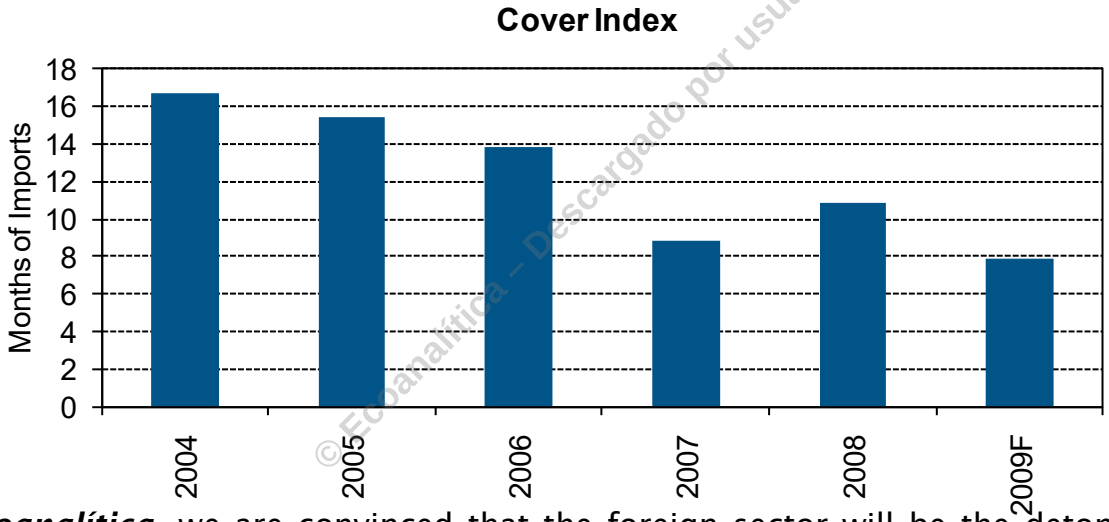
Sources: BCV and Ecoanalítica.

But, it's not all good news regarding the accounts. The capital and financial account posted a deficit of US$ 37.90 billion, 63% higher than the deficit posted in 2007. The detailed report of the balance of payments has yet to be released by the BCV, but at ***Ecoanalítica,*** we estimate that private sector outgoing capital will be at more than US$ 22.0 billion.

2009 will be another story, the main reason being that oil prices have dropped significantly. As we have said before, we estimate that the price of the Venezuelan oil basket will be at US$ 48, down by 45% to the average price it reached in 2008, and therefore virtually wiping out the current accounts previous surplus.

We estimate that the current accounts surplus will be reduced to just US$ 1.2 billion, mainly due to a 52% drop in exports. It's important to point out that this drop in the current account surplus isn't worse due to the fact that there will also be a drop in imports, going from US$ 47.60 billion to US$ 42.50 billion. With regard to the capital account, we expect the Government to begin tapping into the assets it has abroad, so we don't expect this account's deficit to be so bad, around US$ 16.50 billion, this is more than half the deficit of 2008 (US$ 37.90 billion).

Despite all this, international reserves will close 2009 out at US$ 27.70 billion, down by more than US$ 20.0 billion than what it closed at in 2008. This level of reserves covers only six months of imports, significantly increasing the country's vulnerability.



Sources: BCV and Ecoanalítica.

At ***Ecoanalítica***, we are convinced that the foreign sector will be the detonator which will spearhead the worst of the crisis to come in Venezuela and not the fiscal account situation. As can be seen in the fiscal policy box, though the Government is able to withstand a year with oil prices at US$ 30 per barrel, it would not go so well for the foreign sector in this scenario. According to our estimations, if the Venezuelan oil basket were to level off at this price, the current account would register a deficit of US$ 4.55 billion, plus a capital account deficit of around US$ 15.0 billion, which would severely impact the international reserve levels. In this scenario, the Administration would have to make a severe adjustment which would significantly cut imports to a level around US$ 34.30 billion and it would have to use its extraordinary resources at a much faster rate.

The main point being that the foreign sector is much more vulnerable than the fiscal situation, and therefore, any economic adjustments that the Government is contemplating will be focused more on controlling the exchange issue than the fiscal situation. Our model shows that 2010 is shaping up to be a very complicated year. This is to say that it will be an adjustment year. However, these events may occur sooner/or be delayed depending on if oil production is cutback/or increased and if oil prices drop/increase. Given the volatility of these variables, it's best to assume a conservative scenario.

Balance of Payments- 2009 US$ MM	US$ 30	US$ 48
Current Account	(4,5)	0,4
Trade Balance	(1,2)	5,2
Oil exports	26,1	40,7
Non oil exports	7,0	7,0
Imports	(34,3)	(42,5)
Service Balance	(4,0)	(4,0)
Others	(0,8)	(0,8)
Capital Account	(10,7)	(16,5)
Foreign Exchange Reserves variation	(16,2)	(15,3)

Sources: Ecoanalítica

Exchange policy. Nothing lasts forever…

The international crisis, and consequently, the fall of oil prices, will significantly impact the country's foreign accounts in 2009, especially with regard to the financing of imports. From the fiscal point of view, the Government has enough resources available to withstand a period of low oil prices in the medium term, but the country will have to cutback on the amount of foreign currency (at the official exchange rate) available for imports.

The Government has already established what its priority sectors are with regard to authorizing foreign currency through CADIVI: the food sector, medicines, and capital goods for industry, the latter being quite ambiguous. These policy changes in CADIVI are quite evident by the way the entity has liquidated foreign currency in 2008. For

example, the food sector led the way receiving almost 20% of the total amount of foreign currency authorized by CADIVI, it was also the sector which increased the most with respect to the amount it was authorized compared to the previous year (2007), up by 91%. The trade sector on the other hand, though it dropped with regard to the amount it was authorized in 2007 (19%), only received 15.6% of the total in 2008, it was still the second most important sector in terms of foreign currency authorized. This makes sense given the increase in private sector consumption reflected in Venezuela.

According to ***Ecoanalítica*** estimates, in 2009, imports will be around the US$42.50 billion level, down by 10.7% compared to 2008. The drop doesn't seem so drastic, but the effects haven't been seen yet.

According to CADIVI, in 2008, it authorized US$ 38.67 billion for imports (including the ALADI agreement), plus another US$ 9.36 billion for other items out of which credit card quotas represented 51.1%. According to our calculations, imports financed by the parallel market reached US$ 8.93 billion, in other words, 18.8% of the total amount of imports.

In 2009, the figures are going to divide themselves a bit differently. At **Ecoanalítica,** we estimate that imports financed by CADIVI (official exchange rate) will be at around US$ 25.65 billion, This represents a drop of 33.7% compared to that it authorized in 2008, and more than half of this amount will go to the Government's three priority sectors (food, medicine, and capital goods). So this means that most of the industries will half to rely on the parallel market for financing their needs. In 2009, imports financed by the parallel market will reach US$ 16.85 billion, in other words, 88.6% more than the previous year. The unofficial market will finance 40% of the total of imports. This will produce negative effects on inflation and on the structure of costs for companies, as well as put the brakes on the increase of consumption due to how prices will behave.

In our opinion, the five sectors that will be most affected will be: automotive, telecommunications, information technology, household appliances and electronic equipment. It's important for companies that work in these sectors to design coverage operations and to review their strategic plans and sales.

Total Imports (US$ MM)

	2008	2009	Var(%)
Official - Imports	38.667	25.651	(33,7)
Parallel - Imports	8.934	16.846	88,6
Others	9.363	6.449	(31,1)
Total	56.964	48.949	(14,1)

Sources: Ecoanalítica.

With respect to the devaluation, at ***Ecoanalítica,*** we continue to believe that an adjustment will be made to the official exchange rate towards the end of the first quarter 2009 or during the second quarter. However, we have lowered or estimation of the official exchange rate that will exist at the close of 2009. Our previous estimation was that the official exchange rate would be at VEF 2.9 per US-dollar, we have adjusted this figure to VEF 2.7 per US-dollar. But we continue to insist that this decision is totally at the Administration's discretion, and it may well decide to postpone the devaluation, given the amount of extraordinary resources it has available which allows it to cover its current needs. Therefore, the devaluation may be postponed until next year. But it's important to realize that an adjustment is already being made, with the redistribution of foreign currency between the official market and the parallel market, a *de facto* devaluation is in place, producing negative consequences with regard to Venezuelan's purchasing power.

However, we would like to point out the fact that in this scenario of falling oil prices, the Administration will have to redesign the exchange control mechanism, ideally creating a new mechanisms (more transparent) in order to sell its US-dollars on the parallel market, and when it does so, it will sterilize the monetary impact it has. In other words, if the Executive Office has to sell its foreign currency on the parallel market, the expansive monetary effect that current Venezuelan monetary policies are having would simply disappear. Essentially, this mechanism is a flexibilization of the parallel market, and in the medium term, it could cutback on the pressures that it's being subjected to.

Given that the exchange control is essentially a mechanism for political control, we are not very optimistic about the Government actually carrying out a flexibilization of exchange control or making it more transparent. However, the Administration will introduce stricter controls, not all that transparent, to govern the liquidation of foreign currency in order to allow the exchange control to survive a little longer.

Fiscal Policy. Time to break into the piggybank

The amount of extraordinary resources that the country has available was updated at the close of 2008. Added on to this was the recent transfer from the international reserves to FONDEN which together total US$ 45.90 billion, excluding investments in titles. This represents an increase of US$ 14.3 billion compared to the balance of liquid resources posted in November 2008.

Government Resources	Jan-09 (US$ MMM)
Cash	**45,9**
In VEF	**27,9**
BANDES	0,1
BDT	0,3
Deposits in the financial system	17,2
Fondo Miranda	3,8
National Treausury	4,4
FONDEN	2,1
In USD	**18,0**
FONDEN	14,6
Other Funds	3,0
PDVSA	0,4
Total	**45,9**

Sources: Ecoanalítica

The updated balance of extraordinary resources available to the Administration and the recent transfer of US$ 12.0 billion from the international reserves to FONDEN, support our belief that the fiscal situation is not the main economic problem Chávez' Administration will face in 2009. However, it is important to mention that if oil prices remain below US$ 60 per barrel, the fiscal situation in 2010 will be very complicated.

As we have mentioned before, the Government has more than US$ 45.0 billion available. Take into account that according to the Ministry of Economy and Finance's preliminary report, spending for 2008 was set at US$ 95.05 billion. This means that the Government has extraordinary resources equal to 48% of the total of spending in 2008.

Another way of analyzing this is projecting the 2009 fiscal budget with an estimated price for a barrel of Venezuelan oil set at US$ 48. Based on this price per barrel of oil, at ***Ecoanalítica,*** we estimate that the global net need for financing (fiscal deficit + debt payments + public spending + supplementary appropriation + nationalizations) accrued debt will be around 10 points of GDP, equivalent to US$ 36.50 billion, in other words,

approximately 80% of the extraordinary resources. Now, if we do the very same exercise, but estimating the price of a barrel of Venezuelan oil for the 2009 budget at US$ 30, what one could consider a worst case scenario, the global net need for financing would increase to US$ 46.44 billion which would equal almost the total amount of existing extraordinary resources.

Central Government Fiscal Balance - 2009 (% GDP)		
	US$ 30	**US$ 48**
GDP (US$ MMM)	321,6	340,1
Total Revenue	11,7	18,6
Non Oil Revenue	6,8	8,8
Oil Revenue	4,9	8,9
Total Expenditure	22,5	25,5
Fiscal Result	(10,8)	(6,9)
Amortization	2,1	2,6
Financial Needs	12,9	9,6
Internal Debt	2,1	2,5
External debt	0,5	0,0

Central Government Obligations (%GDP)		
Total Obligations	17,1	13,2
Total Debt	2,0	2,0
Net Obligations	**15,1**	**11,2**
Net Obligations (US$ Millions)	48,6	38,1

So, we believe that the Government may delay taking any fiscal measures which it thinks may carry too high of a political cost. In this scenario, though at ***Ecoanalítica*** we continue to believe that the Government will devalue the exchange rate, the probabilities that the Administration will make this decision anytime soon have dropped, as well as the percentage of devaluation we estimate will be introduced has also dropped.

With regard to taxes, we believe that the Administration will delay the decision to increase the VAT rate, but in the short term, it will either introduce the financial transaction tax or the bank debit tax. The reason being that either ones of these taxes is easy to implement, almost impossible to avoid paying, and generates permanent source of liquidity for the Government since it is collected on a daily basis. If the Administration decides to introduce the bank debit tax, it will probably bring in to the fiscal coffers around 1.5 points of GDP, on the other hand the financial transaction tax will probably bring in around 1 point of GDP.

If the VAT rate were to be increased from 9% to 12%, this would generate tax revenue for between 1.0% and 1.3% of GDP. It's more difficult to be more exact in this case because the amount of VAT collect is also tied to how well the economy is performing.

If the Administration were to introduce the bank debt tax (or the financial transaction tax, one of the two) and at the same time increase the VAT rate by 3 points, the most tax revenue it could generate would be around 2.8 points of GDP, in other words, an amount equal to US$ 9.5 billion.

Though it is true that these extraordinary resources the Government has available will allow it have certain amount of maneuverability with regard to implementing fiscal adjustments in the coming months, we are by no means in the presences of anything that resembles a stabilization fund. The difference lies in the fact that these resources

are the fruit of an oil bonanza and acquiring debt and not from saving revenues. A stabilization fund must be for saving surplus revenue, product of an increase in oil prices and balanced public spending.

Even though the Administration still has room to maneuver with regard to fiscal matters in 2009, the situation will become much more complicated in 2010 if oil prices don't bounce back up significantly. As things look now, it doesn't seem very probable that prices will recover in time. In 2010, the Administration won't have any more extraordinary resources available, especially with regard to the Miranda Fund and FONDEN, but it could very probably be facing financing needs for around US$ 20.0 billion to US$ 30.0 billion. This being the case, the Administration will have to make some very severe and significant adjustments.

At ***Ecoanalítica,*** we believe this scenario is very worrisome, and it is difficult to see how the Government is going to be able to implement an adjustment of this type, with all the associated costs it will carry with it. In Venezuela, adjustment programs that are implemented to face a severe drop in oil revenues have historically implied the liberalization of some sector of the economy, severe cuts in public spending, and a max-devaluation of the currency as a mechanism to correct the fiscal situation. Additionally, social compensation measures were designed to mitigate the adverse effects that a program of this kind generates in the most vulnerable sectors.

President Chávez' Government is not coming out with any possible solutions in terms of economic policies to face this situation, and it looks like it will continue with policies which are not helping solve the crisis situation and guarantee sustainable growth. By this, we are referring to control policies, less flexibility with labor and financial markets, zero incentives for foreign investment, among other issues.

Conclusions

It's sad that we could have been better prepared to face this crisis. International analysts are saying that the recession will be more severe and drastic in Venezuela than other countries in the region such as Colombia or Peru, countries which took advantage of the period of high revenues to introduce improvements in their economic apparatuses. What's even more unfortunate is that with the crisis upon us,

the Government chooses not to face reality and leave its goals behind, in order to guarantee macroeconomic stability and insure the wellbeing of the people.

Indeed, the moment of truth has arrived, but not only for the Administration and all its ministries. At ***Ecoanalítica,*** we will continue to repeat that these periods open the door to generate changes at the private sector level. We recommend to our clients that they their efforts not only be directed to weathering the crisis, but to also be on the lookout for opportunities which will strengthen and improve future business, when the economy will be more favorable. In order to do so, it's important to remain active, well informed, and to take maximum advantage of the human resources at hand.

	2008	2009F	2010F	2011F	2012F	2013F
National Accounts						
Real GDP Growth (% Annual)	4,9	0,2	(5,6)	1,2	3,0	3,2
Oil Sector	3,0	(7,8)	4,5	3,0	2,5	2,5
Non Oil Sector	5,3	1,6	(7,4)	0,9	3,1	3,3
Consumption (% Annual)	6,3	(0,7)	(4,9)	0,6	1,6	0,7
Public Consumption (% Annual)	5,7	0,2	(6,5)	1,4	3,5	3,7
Private Consumption (% Annual)	6,4	(0,9)	(4,6)	0,4	1,8	0,1
Investment (% Annual)	(2,1)	(0,1)	0,9	(0,2)	(0,7)	(0,7)
Exports (% Annual)	2,7	(7,0)	4,1	2,7	2,3	2,3
Imports (% Annual)	2,7	(21,6)	(13,7)	(1,9)	9,2	6,5
GDP (US$ MMM)	319	340	239	246	257	277
GDP per Capita (US$)	11.483	12.043	8.340	8.461	8.706	9.242
Population (MM)	27,8	28,2	28,7	29,1	29,5	30,0
Inflation, Exchange and Interest Rates						
CPI Inflation-National (end of year) (%)	30,9	41,8	66,5	32,9	26,1	20,1
CPI Inflation (end of year) (%)	31,9	42,5	64,8	29,6	25,3	21,6
WPI Inflation (end of year) (%)	23,2	30,9	48,6	25,1	21,4	18,3
Deflactor del GDP		26,5	53,2	25,8	21,7	17,5
Official Exchange Rate (end of year)	2,2	2,7	5,5	6,6	7,9	8,9
Official Exchange Rate (Average)	2,2	2,6	5,3	6,5	7,8	8,8
TAM Interest Rate (end of year) (%)	24,2	22,6	34,5	26,2	20,1	17,2
TAM Interest Rate (Average) (%)	23,2	23,4	28,5	30,3	23,2	18,6
Lending Rate (end of year) (%)	16,2	16,5	25,2	19,9	16,1	14,5
M2 (end of year) (VEB Trillions)	196,5	250,0	360,0	465,0	600,0	720,0
M2 (% Annual)	26,0	27,2	44,0	29,2	29,0	20,0
Fiscal Policy Indicators						
Fiscal Revenue (% of the GDP)	24,5	18,6	28,5	30,6	32,4	32,2
Oil Revenue (% of the GDP)	15,0	8,9	13,6	14,4	15,0	14,5
Non Oil Revenue (% of the GDP)	9,5	8,8	12,4	13,9	15,4	16,4
Foreign Exchange Profits and Others (% of the GDP)	0,0	0,9	2,5	2,4	1,9	1,3
Total Expenditure (% of the GDP)	27,4	25,5	32,1	33,1	36,1	37,9
Primary Expenditure (% of the GDP)	25,4	23,1	29,3	29,6	32,3	33,7
Interest (% of the GDP)	2,0	2,4	2,8	3,5	3,9	4,3
Fiscal Balance (% of the GDP)	(2,9)	(6,9)	(3,6)	(2,5)	(3,7)	(5,7)
Primary Fiscal Balance (% of the GDP)	(0,9)	(4,5)	(0,8)	1,0	0,1	(1,5)
Amortization (% of the GDP)	2,7	2,6	3,9	4,1	4,9	5,1
Government Financing Requirements (% of the GDP) a	5,6	9,5	7,5	6,6	8,6	10,8