Prospective Report

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Venezuela: between rising oil prices and the limitations of the economic model

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2011-2015 Economic Outlook Update

In the opinion of many, Venezuela seems to be blessed. It is as though it has a "guardian angel" that protects it in times of trouble. The results of the last two years could not be more negative: two years running with a decline in economic activity, high inflation with limited action by the Central Bank, real contraction in spending, an aggressive borrowing policy, stagnated oil production, restriction on foreign currency for the private sector, and a falling back of social indicators.

With this panorama, the collapse of the *Chavista* economic model would seem to be imminent, or put another way, it is time to make adjustments. Even the government appears to have realized this. Towards the end of last year it decreed a devaluation, was on the point of approving an increase in VAT, and was even considering the possibility of putting up the price of gasoline. It looked as though the time for a price adjustment had finally arrived, something that many had been forecasting. So, what happened? The price of oil started to climb again. International marker prices closed the year at around US$80.2/barrel and, at the time of going to press, they were nearly US$115.6/barrel. The Venezuelan basket, which closed in 2010 with an average of around US$72.7/barrel, ended up with a record average price for the first quarter of US$90.9/barrel.

The outlook changed and the decision was put off yet again. But the predicted increase in gasoline has not gone away, it has merely been postponed. It will not happen in 2011 (a pre-election year) or in 2012 (an election year).

This report will attempt to analyze what we are going see in the coming months, summed up as follows:

1. **Outlook of high oil prices:** We have recalculated our estimate for the average Venezuelan oil basket for 2011 and 2012 from US$77.0/barrel to US$88.0/barrel in 2011 and from US$85.0/barrel to US$94.0/barrel in 2012. In 2011 alone, extraordinary fiscal revenues will come to more than US$13.6 billion.

2. **"Technical" recovery from the recession:** We estimate that the Venezuelan economy will grow by 1.7% in 2011, a positive performance compared to the results for 2009 and 2010. Even so, it is a fairly poor result given the magnitude of the rise in oil prices and is way below our potential. Besides, growth will be concentrated in few sectors.

3. **Foreign exchange restrictions, with a change in actors:** On the foreign exchange front, we will continue to see a policy of restrictions on foreign currency for the private sector, with emphasis on granting foreign currency to priority sectors and an increase in imports by the State. At ***Ecoanalítica*** we are of the opinion that, given the oil price scenario, the Administration will not make any adjustments to the official exchange rate in the short term, not even in the SITME rate.

4. **Increased performance in public spending:** One of the most surprising things about *Chavismo*'s economic policy is that it has been two years since there was any increase in central government spending in real terms. This is the most relevant factor for explaining the drop in economic activity. *Chavismo*, with elections in the offing and finding itself in the middle of an oil price boom, will increase public spending, even though this means more inflation.

5. **The policy of borrowing continues:** The Administration will continue issuing bonds, both bonds of the Republic and PDVSA bonds. It will also continue its "heterodox borrowing," particularly from China. This will allow the Administration to kill two birds with one stone: build up resources in the extraordinary funds and partly meet the shortfall in foreign currency for the private sector.

6. **Inflation just won't drop:** Venezuela has the highest inflation rate in the world right now, despite having an exchange control in place and a strict regimen of price controls. During 2011, inflation will continue with its tendency to increase, and Venezuela will continue to be an economy with very high (though not at hyperinflation levels) and persistent inflation. But from now on, inflation will begin to weigh a bit more heavily because the country's economic growth rate will pretty much be at bare minimum. In the medium term, the big challenge facing the private sector will be to face inflation rates at around 30%, an economy that is growing well below its potential.

7. **Social conflict:** The problems of high cost of living, unemployment, workers' demands, and housing will set the agenda in 2011. The government will make an effort to sell the idea that it is addressing these problems in order to recover its popularity. What is clear is that the Administration has proved its ability to cope with protests and to use safety valves to reduce the pressure when it considers it strategically necessary.

One clear example of this dynamic is the decision not to approve the amendment to the Higher Education Act.

2011 will prove to be a better year than 2010, but it will never be as good as the period 2006-2008. Next year will also provide an excellent opportunity for doing business in Venezuela, given the electoral dynamic and the outlook for oil prices. However, the outlook beyond 2012 does not look very promising. If Chávez is reelected, what we will have is more of the same as in recent years, with the economy in a permanent state of stagnation. If he loses, the new government will have a weak support base and will have to implement measures with a high political cost.

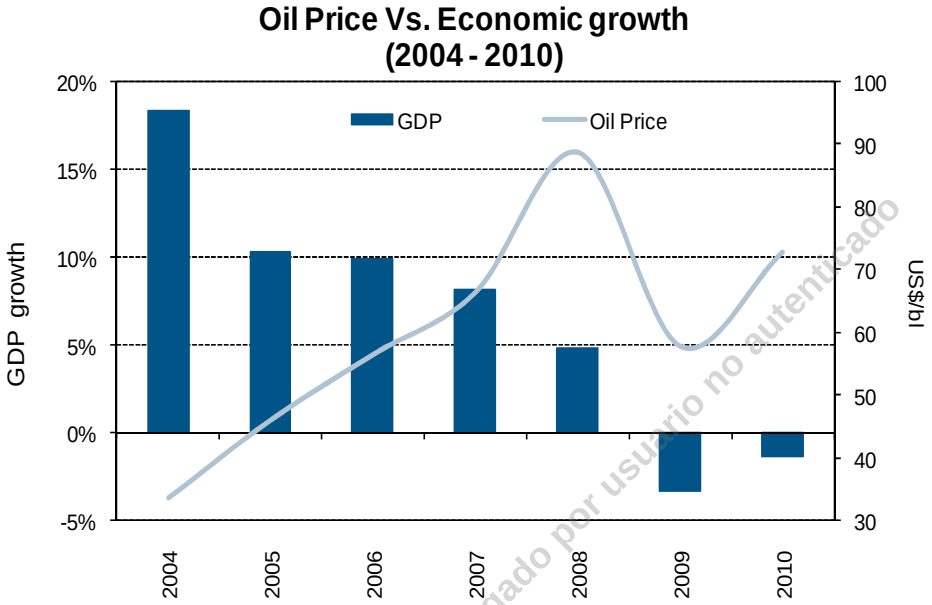
In this context, it is worth noting that oil prices play a fundamental role. If there is a change in government and they continue high, this will allow the new government to make changes in the economic policy with a greater degree of freedom; and if Chávez is reelected, high oil prices will allow him to put things off. However, the present administration needs not only high oil prices but for them to grow indefinitely, which means that, if there is a scenario where oil prices stabilize, this will have negative consequences for the *Chavista* economic model.

The oil scene: Now its geopolitics that moves the market

At the moment, thanks to renewed volatility in the oil barrel price, the oil market has become an issue, not only on international financial markets owing to speculation, but also among economic policymakers in countries that are viewing the increase in the prices of this commodity with caution, as this could affect economic growth. In Venezuela, on the other hand, high oil prices are unadulterated good news. However, it would seem that, in today's Venezuela, that good news will have different overtones.

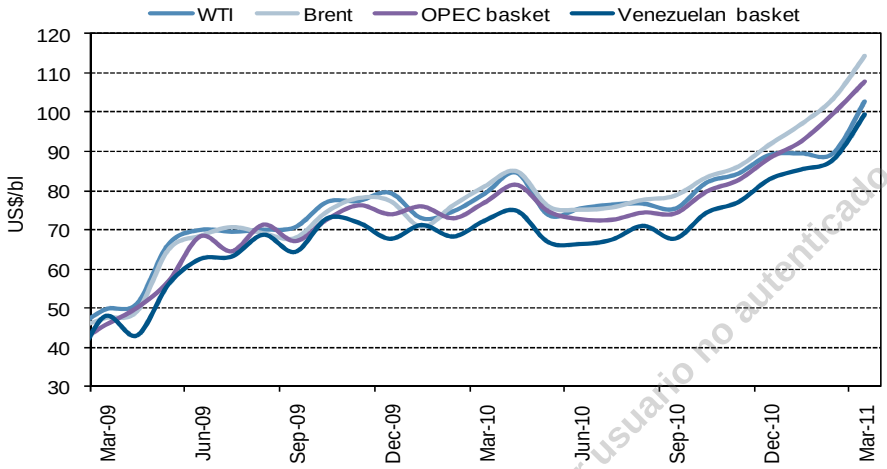
Between 2004 and 2008, the price of oil increased at an average of 28% per year, which permitted the Chávez administration to implement a highly expansive fiscal policy, thanks to which it was possible to achieve average annual growth in GDP of 10.3% over the same period.

In 2009 the story changed, average oil prices posted a contraction of 36.5% compared to 2008, which caused fiscal revenues to shrink by 29.1% compared to the previous year and generated a contraction of 3.3% in GDP. In 2010, with the recovery of the world economy, the average price of oil rose by 23.3%, but this was not sufficient to lift Venezuela out of the recession. Stagnating oil production, an ill-managed foreign exchange policy, the policy of expropriations, and many other issues that hampered economic performance produced a negative result of 1.4% of GDP during 2010.



2011 should be a different story. This year, the outlook for oil prices is extremely positive for crude exporting countries such as Venezuela. So far this year -less than three months-, oil prices have risen by 14.0% on average. This is not due solely to the geopolitical situation in the Middle East, as Brent (international "marker" crude) had reached US$100/bbl even before the conflict in Egypt, indicating that the upward pressure on prices is also due to a strong increase in global oil demand.

Oil prices



Sources: MENPET and Ecoanalítica

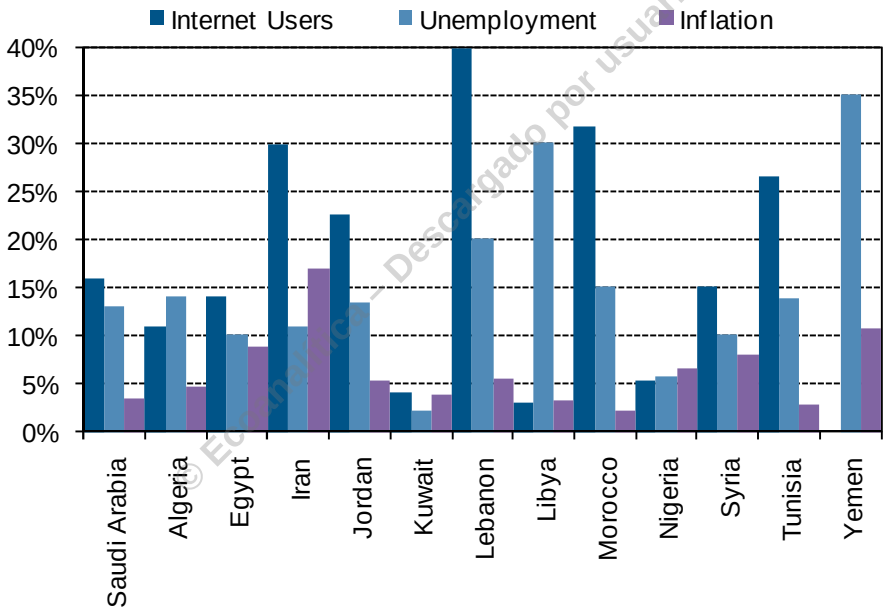
The nature of the oil industry worldwide is determined -apart from the fundamental factors (supply and demand)- by the relations between governments and companies in a context, naturally, of the political game on both the domestic and international fronts.

Given the profits that oil generates, it is practically impossible to separate the oil industry from its political context. Nevertheless, in recent years, the tendency has been for oil companies to try to dissociate themselves from their political and geopolitical context. In other words, attempts have been made to achieve an apolitical stance to allow oil to flow regardless of the regime in power and abiding by current legal rules.

But even though oil will continue to exist regardless of who is in power, the nature of the commodity, who owns it, its price, and related capital investments are definitely influenced by the government of the day. So, despite the stance companies seek to adopt, oil continues to be highly political. Recent events at the Middle East are a perfect case in point.

The current situation in the Middle East and North Africa (MENA) arose as a result of what could be called a social cocktail. In other words, there was a deterioration in social indicators that built up over time, generating general discontent in MENA countries to the point where the connections between the political leaders in those countries and their inhabitants have, in some cases, been permanently broken, changing the course of the region's history on all fronts (politics, the economy, society, etc.)

Here are some of the main social indicators showing signs of deterioration: high inflation (double-digit inflation in some cases); high levels of unemployment (20,0%), particularly among young people (25%); absence of democratic freedoms and basic civil rights; corruption; and inequality. Besides these structural factors, we need to add a circumstantial variable to the mix, the increase in commodity prices and the fact that, in countries where there are food and energy subsidies –a feature of MENA countries-, the cost of those subsidies is increasingly greater. This prompted many governments in the region to revise their subsidy schemes, which further fueled discontent. Any resemblance to Venezuela is purely coincidental.



Sources: Index Mundi and Ecoanalítica

Today, the regimes in Tunis and Egypt have fallen owing to the intensity of the protests, producing a domino effect in the region, where countries can be broken down into two groups: Prudent (Saudi Arabia, Jordan, Algiers, Yemen, and Iraq) countries that have chosen to respond moderately and flexible to conflicts, and Risk-takers (Libya, Bahrain, and Iran) countries that have not given an inch and/or have become more radical.

The situation in Libya is extremely serious, and not only because of the considerable loss of human life and the political instability in the country, but also because of the implications for the global oil market. Libya's crude production and marketing capacity is highly compromised and not only in the short term. A few days ago, the first column

of smoke from the explosion of storage tanks and other oil facilities at Ras Lanuf provided proof of the destruction of the country's productive capital.

All this tells us that crude exports from Libya will be minimal in the second quarter of the year and that the country will continue to be a focus of instability for the oil market for a long time to come. It will be remembered that of the 1.6 mbd that Libya placed on the international market before the conflict, it is now sending only 0.6 mbd, or thereabouts, with Saudi Arabia making up the shortfall on the international markets.

Bearing in mind the above, we can say that it is geopolitical uncertainty that is moving the oil market at the moment. Events in MENA are increasing expectations of volatility in crude shipments and, what is worse, are casting doubts on the advisability of the investments that need to be made over the long term in order to ensure the sustainability of the industry given the increase in consumption.

While geopolitical factors are the key oil market drivers at the moment and the issues of concern, fundamental market factors had already been working in the same direction for some months. According to the latest estimates of the US Energy Information Administration (EIA), global demand for crude will grow by 1.51 mbd compared to 2010 (up from its previous forecast of 1.44 mbd), and growth in OPEC supply will be only 0.16 mbd (down from its previous forecast of 0.31 mbd). According to the EIA's estimates, OPEC needs to produce at least 30.3 mbd in order to keep global inventories constant, that is 0.5 mbd higher than the EIA's estimate of OPEC output for February and 0.2 mbd higher than its estimate for January, when there was still no Libyan output loss.

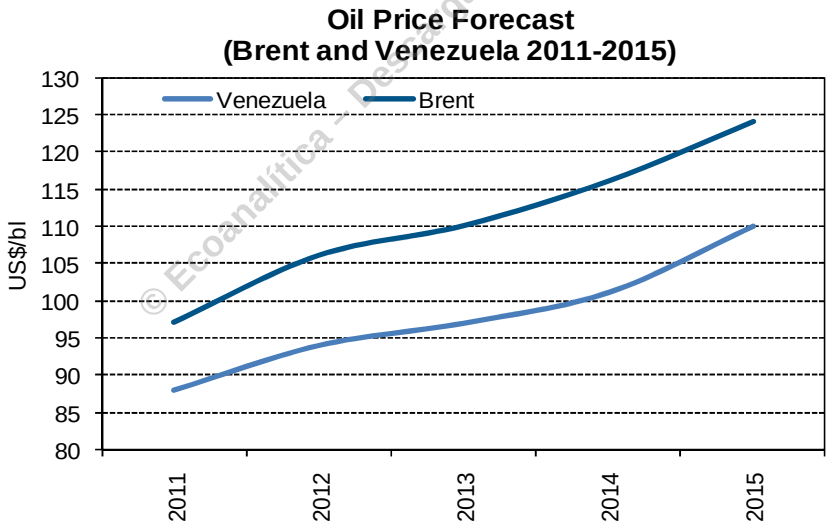
Another topic giving cause for market concern is spare production capacity. It is estimated that Saudi Arabia has three quarters of global spare capacity, with its neighbors, Kuwait, the United Arab Emirates, and Qatar, accounting for the rest. The EIA puts global spare capacity at 4.1 mbd, 3.25 mbd of which are in Saudi Arabia and the rest in the neighboring countries already mentioned. It seems unlikely that the present civil protests in Saudi Arabia will gain sufficient momentum to put the country's tremendous oil production capacity (the largest in the world) in jeopardy.

It is worth noting that the EIA's estimates are on the conservative side. Other estimates forecast fundamental market factors that would result in an even stronger upward trend in oil prices: higher demand estimates, lower supply estimates, and less available spare capacity.

Global Supply and Demand (consensus)	2009	2010	Annual change (mb/d)	2010-IV	2011-I	2011-II	2011-III	2011-IV	2011	Annual change (mb/d)
Demand	**84.7**	**86.8**	**2.2**	**86.9**	**87.4**	**87.3**	**88.8**	**89.1**	**88.4**	**1.5**
OECD Demand	45.5	46.1	0.6	46.6	46.5	45.2	46.2	46.6	46.1	0.0
Non-OECD Demand	39.2	40.9	1.7	41.5	41.6	42.5	42.8	42.6	42.3	1.4
Supply	**84.6**	**86.9**	**2.3**	**87.7**	**88.0**	**87.6**	**87.9**	**88.6**	**88.1**	**1.2**
Non-OPEC Supply	51.1	52.2	1.1	52.8	52.8	52.7	52.5	52.9	52.7	0.5
OPEC NGLs + CNC	4.7	5.2	0.5	5.4	5.6	5.7	5.8	5.9	5.8	0.6
OPEC crude	28.8	29.5	0.7	29.6	29.6	29.2	29.6	29.8	29.6	0.1

Sorces: IEA, EIA, OPEC and Ecoanalítica

Based on this analysis of the global oil market, ***Ecoanalitica*** expects prices to continue their upward trend in the short and medium terms. We expect Brent (international "marker" price) to be around US$97.0/bbl in 2011, which, taking account of the historical difference between this basket and the Venezuelan barrel, would give an average price for the Venezuela basket of US$88.0/bbl for the year and US$100.0/bbl in the medium term, similar to levels reached in 2008, when the economy grew by 4.8%.



Sources: Menpet , Bloomberg and Ecoanalítica

Will we get the most out of the increase in oil prices?

After President Chávez was elected to his second term in office (2007-2013), the Administration made it clear that besides the State becoming much more directly involved in the economy of the country that a new entity would control the economic development of the country. This entity would compete with the State and the private

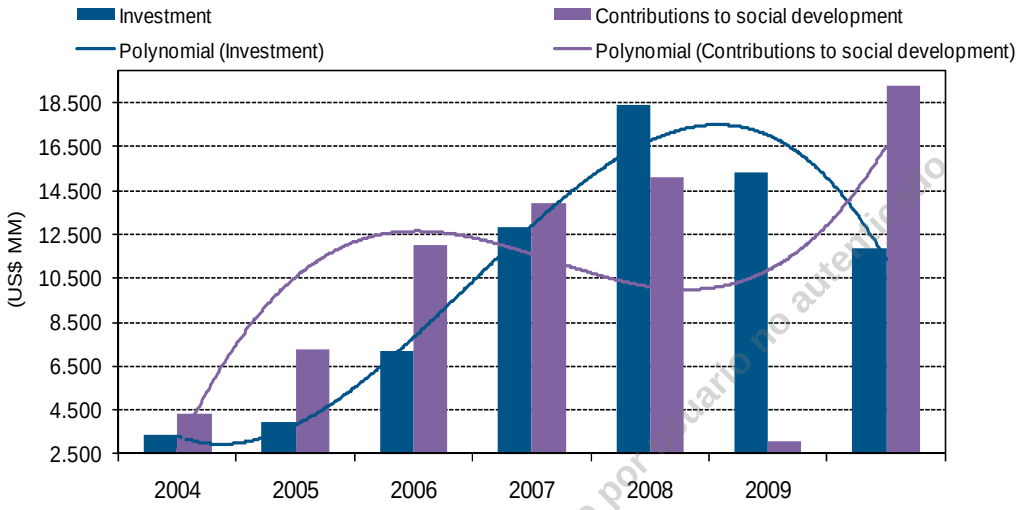
sector (including mixed companies) in the supply of goods and services to the people. This entity is defined in the Nation's 2007-2013 Socialist Plan "Simón Bolívar" as a Social Production Company or Social Economy Company1 with PDVSA being the main model to follow.

So now, another category was added to PDVSA's investment policies: social development contributions. Said contributions are made in two main areas: transfer of resources to FONDEN and to the Missions. Keep in mind that these transfers are on top of PDVSA's normal tax contributions to fiscal coffers.

Over time, these social development "contribution" have increase, and more so when the international price of oil spikes; so much so as to surpass the amount invested in key areas of the company, and even more than the amount transferred to fiscal coffers to meet the company's tax obligations. There is no doubt that this has led to PDVSA's drop in production, as well as other internal problems such as labor conflicts, problems with suppliers, unscheduled stops in refinery operations and accidents at the refinery, and all this has led to an increase in the company's borrowing policies. None of this is new, and at ***Ecoanalítica***, we have made reference to this issue a number of times in past Reports.

[1] In general terms, a social economy company is a business model in which the social vocation of the company is defined within, and not outside, the company's operative and financial structure, in other words the social is part of the medullar structure of the company.

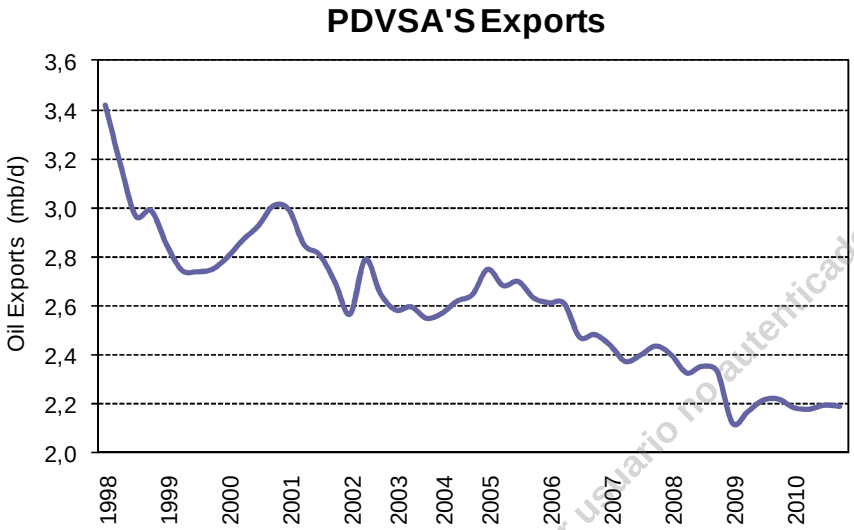
Pdvsa's investments Vs. Contributions to social development



Sources: Pdvsa and Ecoanalítica

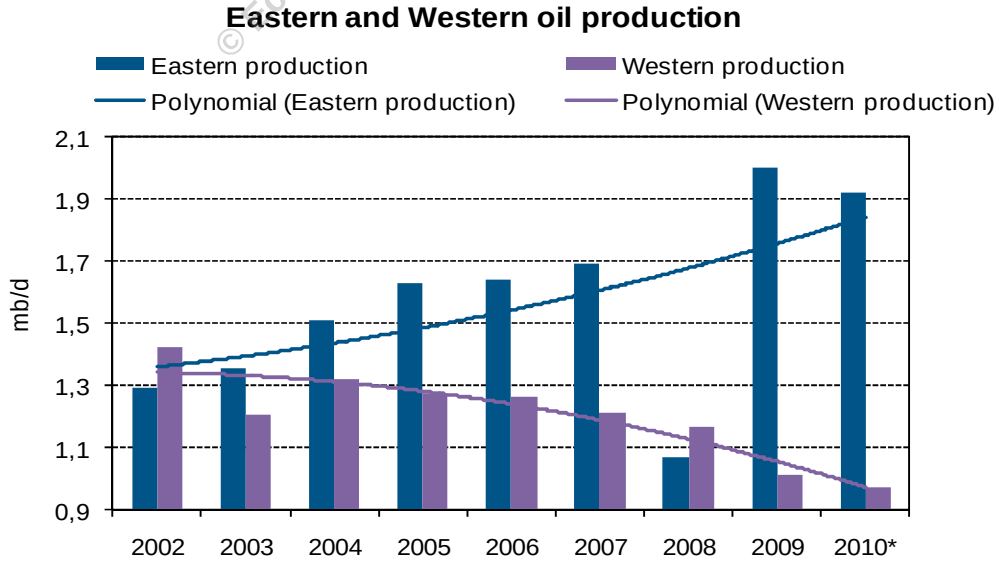
As you can see in the graph, PDVSA religiously meets its social development contribution obligations, even when the price of oil drops on the international market. And, after what happened in 2009, with the worldwide financial crisis and the drastic drop in international oil prices, one can see how PDVSA's board of directors reacted and made adjustments in its investment policies, prioritizing investments for key company areas (exploration, production, refining, etc.). This reaction, this adjustment in investments, is an action that hasn't been appreciated by many analysts, and we at ***Ecoanalítica*** believe that it is a very positive sign.

Despite the fact that in 2009 PDVSA once again focused its investment policies on key areas of the oil industry and that oil prices rebounded in 2010 by 27.5%, the investment horizon didn't look much better in said year. According to preliminary PDVSA figures, crude oil production reached an average of 2.89 mb/d which translates to a drop of 280,000 barrels per day (kb/d) compared to 2009 and a drop of 507 kb/d compared to 2008. And, taking into account the increase in domestic consumption, this has led to oil exports (according to OPEC) to drop to around 0.18 kb/d compared to 2009 and 0.23 kb/d compared to 2008.



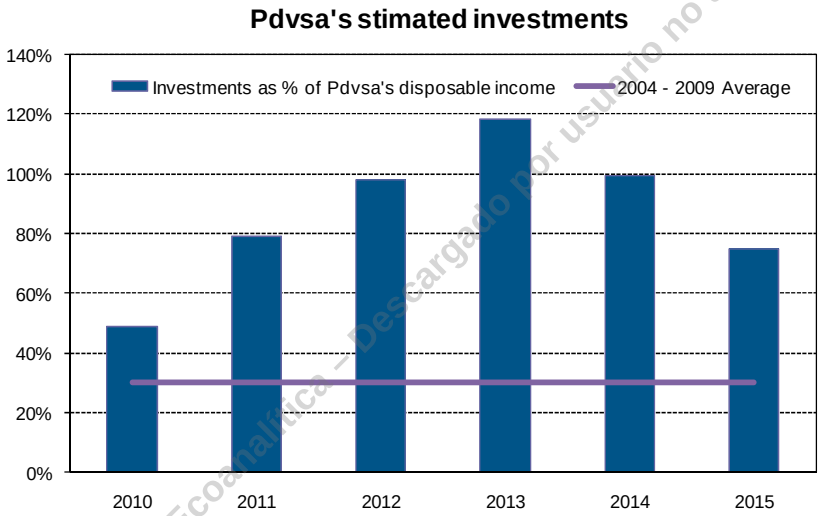
Sources: OPEC and Ecoanalítica

At ***Ecoanalítica***, we believe that for PDVSA to "recover" this year in terms of oil production will be very complicated, and if oil production figures do improve, it will be by very little. For 20 years now, the strategy has always been to make-up for the Western region's (Maracaibo) fall in production by exploiting the Eastern region, namely the Orinoco Oil Belt, which in fact has been slowly increasing as can be seen in the previous graph.



Sources: Pdvsa and Ecoanalítica.
2010* estimated

In previous Reports we have mentioned that PDVSA is not able to absorb the investment requirements that will be needed to develop the Orinoco Oil Belts project by itself, an investment that will be around US$17.0 billion a year (which represent 40.0% of PDVSA's available resources). This is why in 2010, a new strategy was implemented and the Orinoco Oil Belt fields were opened up to foreign investors. Investors that wanted to participate would have to create a mixed company, a partnership with the government, with PDVSA being the majority share holder. These mixed companies are much more protectionist than previous editions, meaning that PDVSA has to use more resources to cover its part.



Sources: Pdvsa and Ecoanalítica

In this context, where a company subordinated by the designs of the Administration in power (President Chávez), has to make enormous efforts in order to contribute to the development of its main activity (oil), the Minister of Energy and Petroleum, urged its partners in the mixed companies that they should present "a remediation plan to execute the investment and production plan as quickly as possible," stating that in the original business plan, predicted investment and production goals were not in-tune with each other. So the outlook is positive, especially when high oil prices make it more urgent to extract the oil as soon as possible.

Of the total number of oil field blocks granted from the Orinoco Oil Belt, the Junín 2 block (assigned to a Vietnamese company) with an estimated production of 200 kb/d, the Junin 5 block (assigned to an Italian company, ENI) with an estimated production of 240 kb/d, and the Junín 10 block (assigned 100% to PDVSA), are the ones that could begin oil production this year. This without taking into account the fact that the Refidomsa refinery (Dominican Republic and Venezuela) that has a refining capacity of

30 kb/d is supposed to begin operations this year and the Puerto La Cruz refinery that has an estimated refining capacity of 200 kb/d is supposed to be finished with expansions being made.

However, infrastructure and distribution problems to get the crude oil to the storage warehouse and José Antonio Anzoátegui port is bogged down in litigation with respect to the building of oil pipelines.

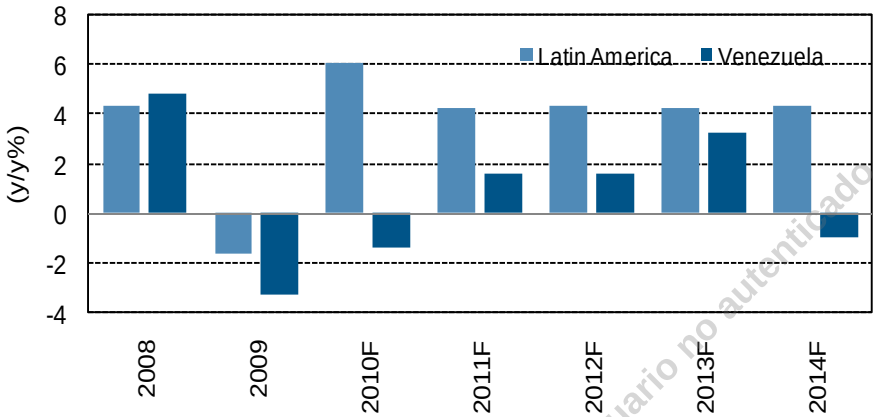
At ***Ecoanalítica***, we estimate that in the best case scenario, the Western region will be able to stabilize its oil production, in other words, it won't continue to drop this year. And the Eastern region, given the distribution problems and the magnitude of the Orinoco Oil Belt project, we estimate that production will only increase by 50 kb/d this year. However, increasing oil prices may create enough incentive so that production may increase by up to 100 kb/d.

But, it's clear that with an improvement in oil production, in the best case scenario, of 100 kb/d this year, it is not enough to compensate for the accumulated drop in oil production during the last two years of 507 kb/d, and consequently it will not stimulate the economy to grow at a greater rate than what we have already estimated. However, if efforts continue to produce results in the medium term, and if oil prices continue their tendency to increase, economic performance will improve. It's too bad that the ideology will also continue to prevail.

Gross Domestic Product: between the reality and the Governmnet Announcements

2010 closed with a negative result, and that was inevitable given the prevailing context of political and social uncertainty, low demand, problems in obtaining the necessary foreign currency to maintain operations, electricity rationing, labor disputes, the disappearance of the stock market, and a contraction in public spending. All these situations had an impact on production last year –and are a fair indication of what is in store for the near future-, as confirmed by the contraction of 1.4% in 2010 reported by the Central Bank of Venezuela, a result that was very close to expectations, as it could not be otherwise.

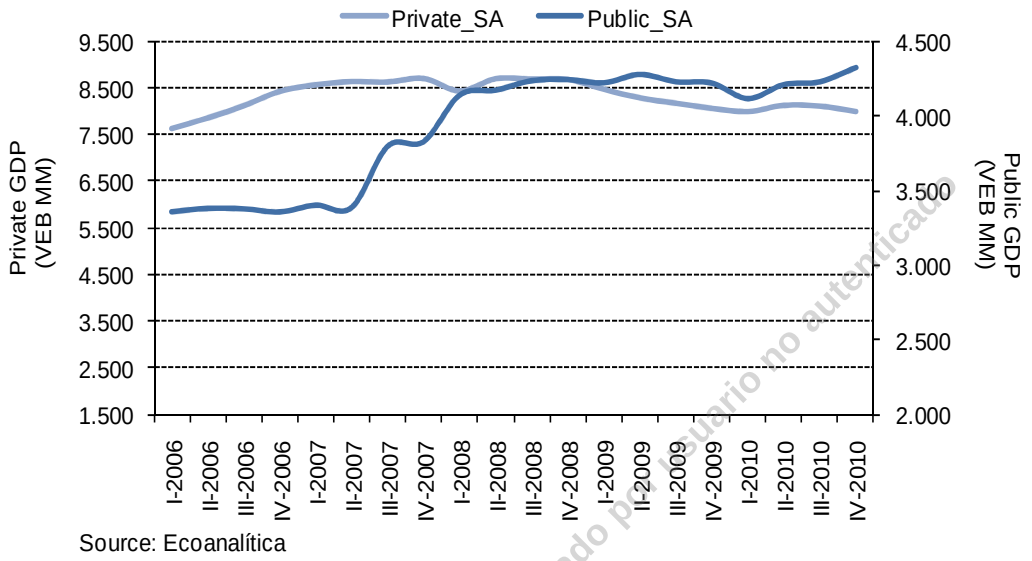
Venezuela's is one of the economies in Latin America to have received some of the highest revenues thanks to the improvement in average oil prices, particularly during the past year. This does mean that high oil prices alone will be enough to pull the economy out of the recession and set it once more on the path of growth, much less growth that is sustainable over time.



Sources: FocusEconomics and Ecoanalítica

It is curious or perhaps paradoxical that, while what is being sought is an upturn in the economy, there is scant optimism in the different sectors of the economy owing to the absence of changes in the government's policies to address problems such as the rigidity of price controls, the failure to adequately recognize the impact of the unification of exchange rates early this year on the production costs of different sectors, the continuous attacks on the private sector, and the constant expropriations and confiscations of companies in the private sector, which, one way or another, affect the investment climate (making it increasingly hostile), the creation of productive jobs, and the present situation in the supply of goods.

Public GDP Vs. Private GDP (SeasonallyAdjusted-SA)



Source: Ecoanalítica

Even so, it is highly likely that the economy as a whole will grow during 2011 by nearly 1.7%, which will give some sectors a breathing space. This would only be a technical recovery from the recession and would not result in an improvement in the population's standard of living, which will grow at around 1.6% in 2011. We must also bear in mind that the consequences of the many errors in the design of government policies will continue to make themselves felt and, as we have mentioned on several occasions, the necessary corrective measures will be put off yet again. Some of the factors that will have the greatest impact on economic performance in the next few years are:

1. **High oil prices for the period 2011-2015**: This will not result in a greater flow of foreign currency for all sectors equally, as it is expected that approvals will be a bit more selective in certain sectors, although definitely more than in 2010 for the majority. Another factor that needs to be taken into consideration is the restrictions on capital goods imports.

2. **Greater price controls and, now, controls on earnings as well:** The government, under the Special Powers Act, is currently preparing the ground for introducing the new system of laws that will regulate the production and marketing of goods. This means that, over the next three quarters, it is expected that the Administration will be evaluating the introduction of new laws, among them a Prices Act, a Trade Act, and a Maximum Profits Act, as well as the creation of a Costs and Prices Superintendency. These instruments would be in addition to current laws that already impose

controls on production, such as the Law for the Defense of People's Access to Goods and Services, the Food Sovereignty and Security Act, and the Lands and Agricultural Development Act. This setting up of a legal framework in order to bring the economy into line with the government's Socialist Plan of the Nation clearly points to a political radicalization.

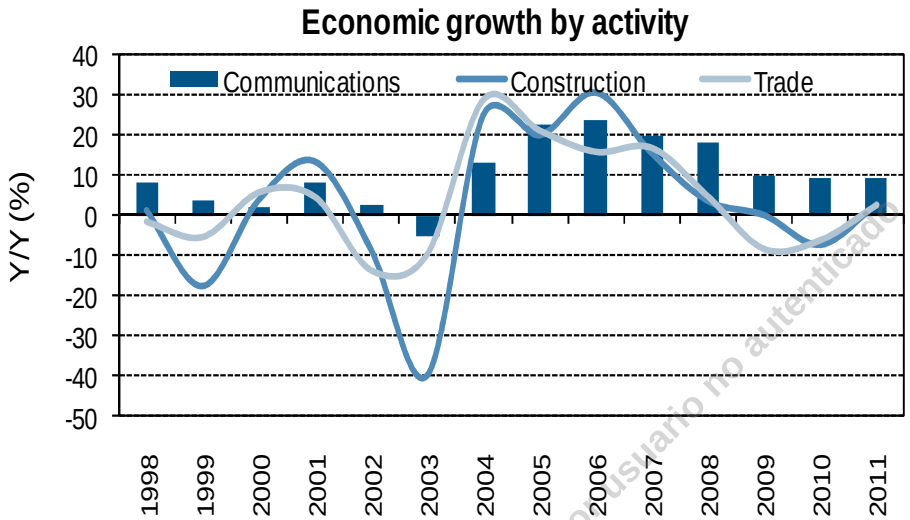
3. **An increase in labor disputes** in both the public and private sectors, given the backlog of worker demands that are still waiting for a response.

4. **Progress in the State's plan of large-scale investments in electricity** with a view to stimulating the sector by increasing installed capacity.

Based on the above and the fact that we are on the eve of the next presidential elections in 2012, we cannot discard the possibility, for the purposes of this *Outlook Report*, which goes beyond 2011, that there might be a change in government, nor can we rule out the possibility that the present government will remain in power. What we do have to take into account, however, is how decisive the upcoming elections will be for *Chavismo*. The government will have to somehow get the series of economic policies it has been implementing to work once and for all, or at least cater to the requirements of all economic agents, as far as it is possible, while paying more attention to society in general.

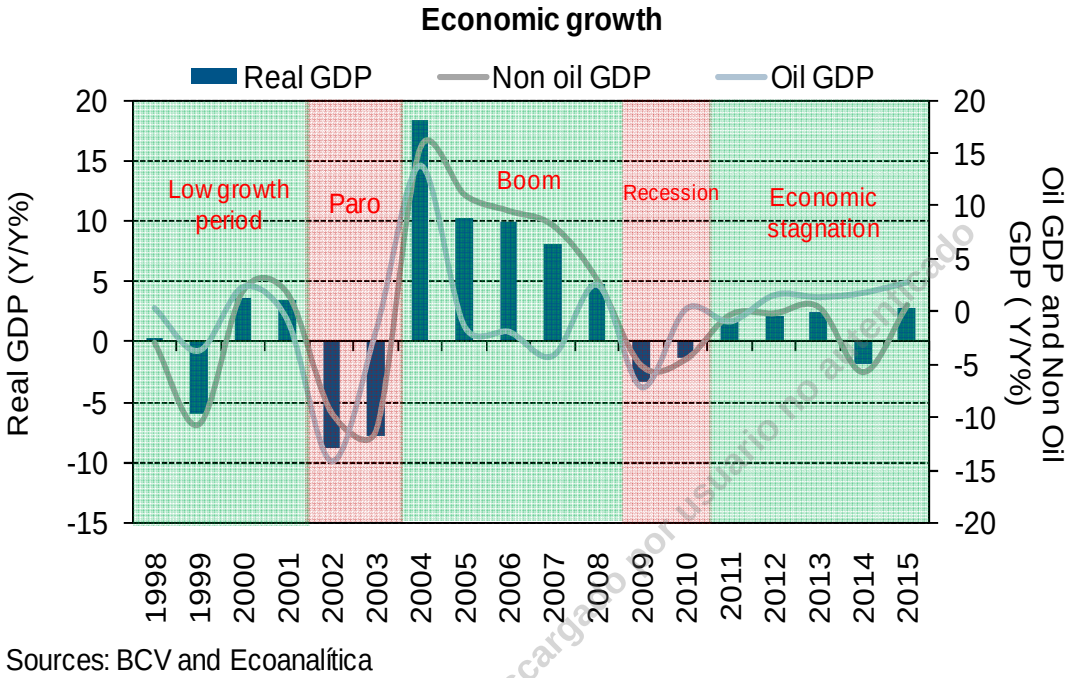
There are some positive points. The manufacturing industry, for example, could experience an upturn between this year and the next three, driven by an increase in public sector demand.

In the case of commerce, however, we expect a cycle with some slight ups and downs, as, on the one hand, it will be subject to the restrictions that will be maintained on granting foreign currency, which will obviously result in a reduced supply of imported products and, therefore, in lower sales, while, on the other, the cyclical behavior of real wages, consumption, money supply, and bank credit will also have an impact on this sector.



Sources: BCV and Econalítica

Now then, in the construction sector, expectations are fairly optimistic in all areas having to do with the development of infrastructure projects, the petrochemical sector, and the construction of housing with financing from FONDEN, PDVSA, and the agreement with China. Given the present political will and the attention the Administration has been paying to the construction of housing, it is expected that this sector will be more buoyant in 2011 and even more so in 2012. In the private sector, the construction of housing will go at a slower pace owing to the constant lack of inputs and raw materials, such as cement, gravel, rebar, and so on, which leads us to believe that the output of housing units will depend on the resources the public sector has available.



Sources: BCV and Ecoanalítica

Another sector that will continue its expansive trend of the past 28 quarters is the telecommunications sector, sustained by a greater demand for cellular telephony, fixed telephony, data transmission, cable television, and Internet services. So, this sector will continue to grow throughout the projection period at a rate of around 6.0%.

Nevertheless, while everything seems to indicate that the negative trend has been reversed, as claimed by government agencies, among them the Central Bank, the facts seem to show that we are entering a phase of stagnation, where the effect of inflation (estimated at around 33.1%) will continue to make itself felt without mercy and more harshly in the most vulnerable strata of the population (Stratum I, for example), so further complicating the outlook.

At ***Ecoanalítica***, we are of the opinion that, even though an average price for the Venezuelan oil basket of more than US$100/bbl can be expected in the next few years, given PDVSA's low production levels, the government will not try to make adjustments to the official exchange rate. We do consider, however, that this anchoring of the exchange rate will only be sustainable insofar as the government manages to maintain the mechanisms for restricting foreign currency to the private sector, which could well imply harvesting bitter fruits beyond 2012 as it would mean bigger devaluations. Finally, it should not be forgotten that, besides all this, we are dependent on PDVSA's efforts to increase production.

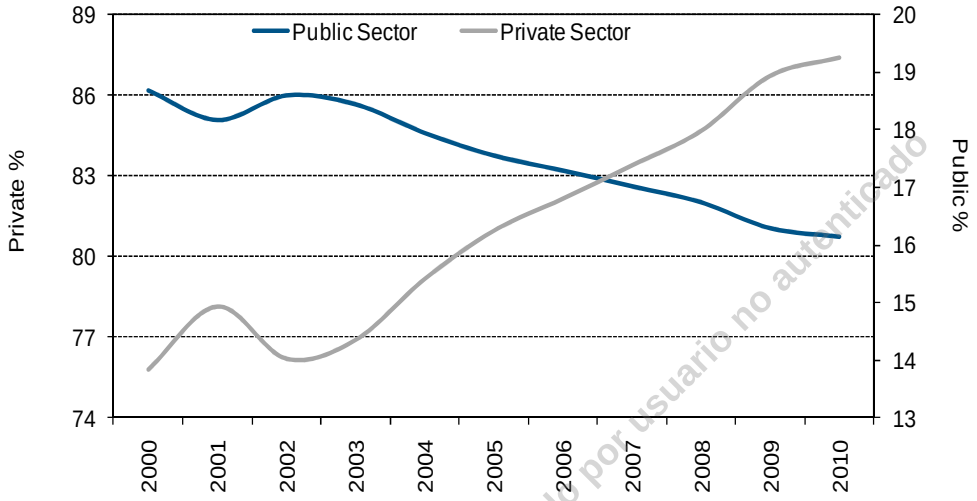
Employment and wages: 2011 another year of peaceful struggle but high expectations

We will be seeing an increase in and radicalization of peaceful demonstrations in Venezuela this year. On top of that, private companies have already seen their capacity to expand their payrolls considerably reduced, a situation that State and government agencies now have also had to cope with, although to a lesser extent (the wave of dismissals from the Finance Ministry of some 710 formal workers between the end of 2010 and early 2011).

It is worth noting, however, that as at January 2011, the public sector posted an increase in the number of employees of 2.1% compared to January 2010, whereas the number of employees in the private sector only rose by 1.6%. Compared to the figures for January 2007, this shows a sizeable increase in employees of 17.1% in the public sector and of 10.1% in the private sector. The epicenter of this growth in the public sector's payrolls is the series of state takeovers that the government, in it is eagerness to take control of companies it considers strategic, has been carrying out since 2005, but more intensively since 2007, and that are still continuing this year.

Now then, if we compare the number of government service employees with the numbers as at the close of May 2005, when the first expropriations took place, the figure goes up by 42.8%, which shows us that, without a shadow of a doubt, even though the private sector continues to have a larger number of workers than the public sector by a long chalk, the trend of growth in the number of employees in the public sector has been maintained and will probably pick up in the future.

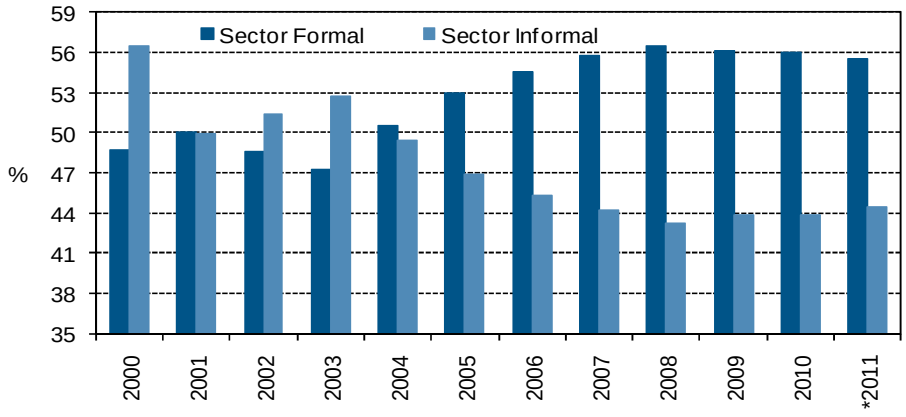
Public Sector Vs. Private Sector (Employees Share)



Sources: INE and Ecoanalítica

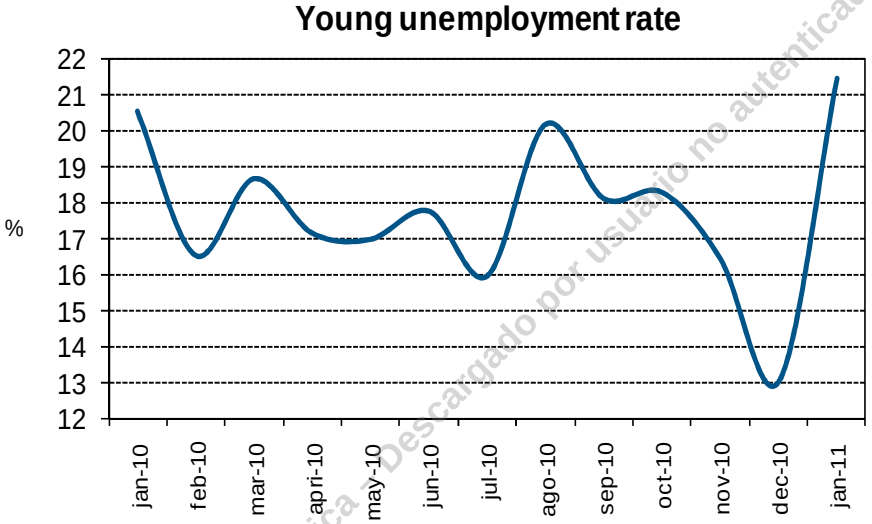
Apart from that, the government's restrictive policy towards the private sector has, to some extent, caused the stagnation in the supply of formal jobs in recent years, which, according to the Workers' Confederation of Venezuela (CTV), is around 3.5 million jobs, way below official figures, which put it at 7 million jobs. Informal employment, on the other hand, posts an increase of 6.3 million according to the CTV's figures or an estimated increase of 5.4 million if we take official sources.

Labor market
Formal Sector Vs. Informal Sector



Sources: INE and Econalítica

One way or another, the Venezuelan economy has reduced its capacity for generating new jobs and the market barely covers the country's demand for jobs. While, on the one hand, it looks as though the wave of dismissals has ended, on the other, it seems that the intake of first-time employees into the job market has been halted, revealing how vulnerable the young segment of the population is, with unemployment of 21.5% in January 2011.

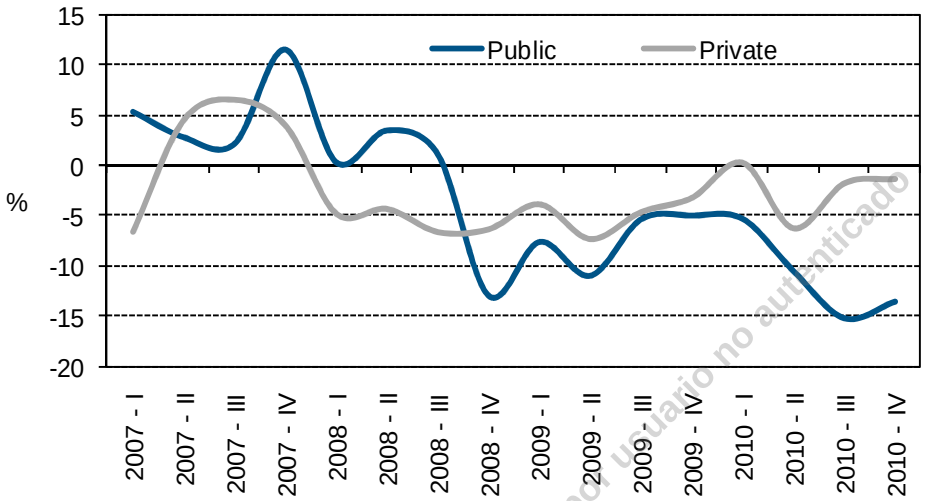


Sources: INE and Ecoanalítica

Generally speaking, even though the unemployment rate this January (10.4%) was only 0.2 of a percentage point higher than in January 2010, this simply reflects the cyclical tie between the resumption of productive activity and the pressure of entrants into the job market typical of the start of the year.

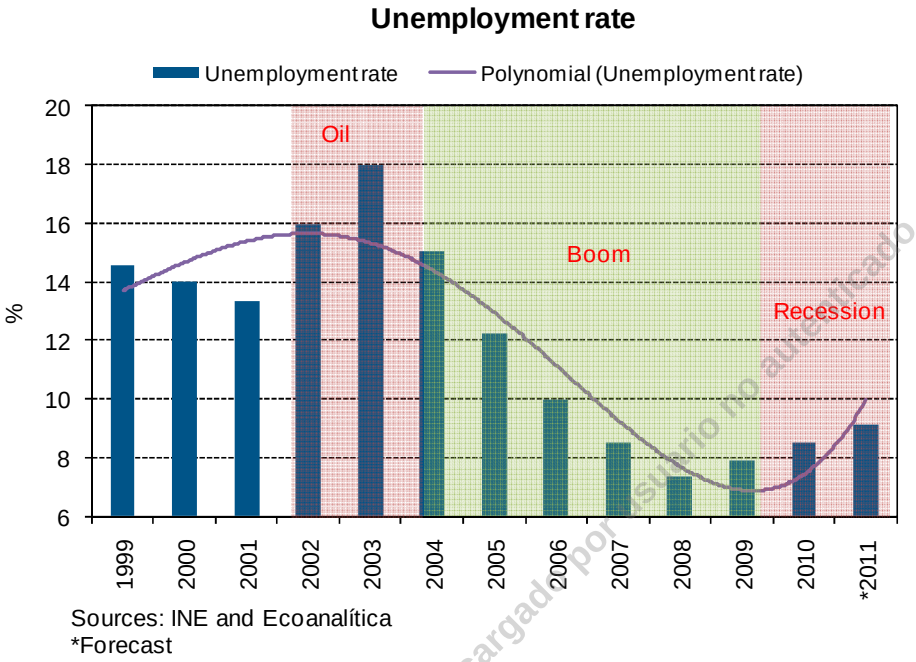
As for remunerations, according to the latest quarterly report issued by the Central Bank of Venezuela, the Wage Earners Remunerations Index (WERI) for the last quarter of the year rose by 20.5% compared to the same quarter in 2009. However, once the impact of inflation has been deducted, it is evident that there was a contraction in remunerations of 5.3% (-1.4% in the private sector and -13.6% in the public sector), indicating that we are still a long way from enjoying true well-being; a paradox considering that this is one of the primary objectives of this government.

Real Wages Index



Sources: BCV and Ecoanalítica

Given a far from encouraging outlook with economic recovery in some key sectors such as manufacturing, which will be more as a result of a rebound effect than any other factor that might indicate an improvement in the performance of the economy as a whole, plus persistently high inflation that far outstrips any wage increases, a deterioration in working conditions, and the extension of the firing freeze until December this year, we predict that the average unemployment rate will end the year at nearly 9.1%. This explains why informal employment remained practically unchanged, reaching 43.7% at the end of January this year.



Sources: INE and Ecoanalítica
*Forecast

At the end of 2010, the government had already paved the way for approving the new legal framework in 2011. It took steps to transform the regulations governing employment to bring them into line with the socialist model, where the principle of equal wages and benefits prevails, but also where workers have a bigger say in decision-making in the companies where they are employed. This was not done via the much awaited amendment to the Basic Labor Act (LOT), however, but by passing the Basic People's Power Act, which went into force on December 22, 2010.

This law mentions workers' councils for the first time, so giving them the legal status they had been lacking thus far. Creation of these workers' councils was initially provided for in the bill to amend the LOT, which has been awaiting approval for nearly 12 years. According to this amendment, the working day should be shortened, as mandated by the Constitution, and the principle of retroactivity should be reintroduced for calculating longevity and severance benefits.

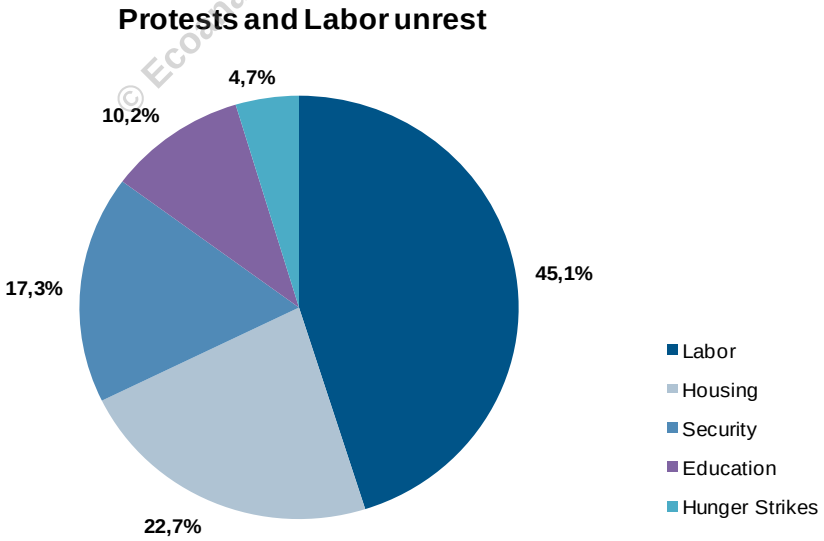
To get these workers' councils up and running, the National Assembly will have to introduce changes that will pave the way for the transition to socialism, and one of those changes will be to make the setting up of workers' councils in every company compulsory.

According to this new law, which is merely a foretaste of things to come, these workers' councils will be under the obligation to promote the values and principles of the

socialist ethic so that they act in accordance with the Economic and Social Plan of the Nation, better known as the First Socialist Plan.

Mention also needs to be made of the recent Basic Act on Emoluments, Pensions, and Other Remunerative Benefits, which went into force on January 12 this year. This new law sets ceilings on monthly salaries, including perks, for high-level public sector employees, which, as might have been expected, caused something of a stir among that group. Note also needs to be taken of the transitory amendment to the Basic Labor Act introduced by the Administration, using its special powers, to attend to the needs of a small group: the concierges.

This year, labor disputes have been on the increase, a situation that has been confirmed by the latest report by the Observatory of the Latin American Council of Social Sciences, which points out that at least 203 had been reported up until February, 143 more than in January. This series of protests and demonstrations has included hunger strikes, shutdowns, mass gatherings, and permanent assemblies, indicating that protests are becoming increasingly radical. The main demands of these protests are for the negotiation of collective employment contracts, the payment of outstanding wages and benefits, job stability, and for the government to address the lack of investment in the basic industries. In many cases, these demands are indicative of the unwillingness on the part of representatives of government agencies to discuss and solve the problems.



Sources: Consejo Nacional Latinoamericano de Ciencias Sociales and Ecoanalítica

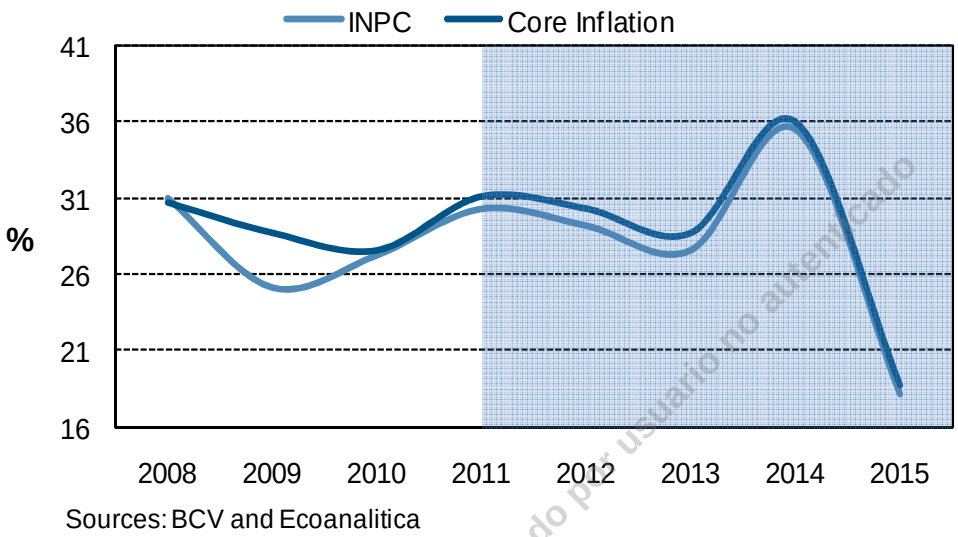
Even though it seems that 2011 will be favored by a better economic performance thanks to higher oil prices, on average, than in the past two years –despite recent international developments-, the situation on the labor front looks very different, where disputes over workers' demands will be the calling card. In this scenario, we must not forget to take into account the housing problem and the impact on people's pockets of the high cost of living and their loss of purchasing power. Like it or not, all this will make the forecast scenario worse. We do not discard the possibility that the government will be prepared to adopt a strategic stance in order to cope with this year of protests, however.

Inflation: as long as things don't change, it's the man in the street who pays the price

The inflation issue seems to be a never-ending story in Venezuela. But the point is that, here, the problem goes much deeper than what the books on economics say when they point out that sustained increases in prices are a monetary phenomenon. While it is true that this is an important factor, Venezuela undoubtedly runs counter to logic and theory.

In Venezuela, inflation is the result of distortions created by an extremely complex and bureaucratic exchange control system that results in the supply of goods being insufficient for the large number of people with plenty of bolivars in their pockets wanting to buy them. This creates a vicious circle where the outcome is nothing more than perennial expectations of rising prices, which, in turn, are reflected in the planning of all the agents in the Venezuelan economy, be they businessmen or employees in the public or the private sector. To cut a long story short, this is the result of an economic policy that lacks sufficient credibility to combat those expectations.

Now let us take a look at the figures that support this argument. In 2010, despite the fact that economic policymakers forecast otherwise, prices ended up growing by 27.2%, according to the official figures of the Nationwide Consumer Price Index (NCPI). We have to admit, however, that this increase was less than consensus expectations in early 2010, when we started the year with a devaluation that looked as though it would have greater repercussions.



At ***Ecoanalítica***, we feel that this scenario was really positive bearing in mind that public sector imports grew by 42.5% compared to the previous year and now account for 34.3% of total imports. This immediately resulted in virtual control of the prices of many items, in particular food. The point is that the driving force behind this increase in prices was Food and Nonalcoholic Beverages (with a weighting of 32.2% in the calculation of the entire index), which went up by 33.8%. It is worth noting that this item is a good example of the situation we described initially, which strengthens our argument.

To complete our analysis of last year's figures, we would like to comment on core inflation, which came to 27.6% for 2010, a figure that is not very different from the NCPI, even though the effect of regulated goods is eliminated when calculating core inflation. This is simply further proof of how unsuccessful the policy of controlling prices has been as a measure for controlling inflation, more so if the factor of public sector imports is taken into account.

Given these results and in view of how inflation has behaved in the first months of the year, plus the elimination of the social exchange rate of VEB 2.60/US$ (so making the VEB 4.30/US$ rate the only official CADIVI rate, which means that public sector imports will now be at the higher rate with the consequent impact on prices), it is not totally ludicrous to think that the government might decide to sell at a loss in order to prevent a huge hike in the prices of basic goods.

In a scenario where we do not expect there to be any major changes in the arguments put forward thus far, at ***Ecoanalítica***, we are forecasting an increase in prices of 30.2% for the NCPI and of 30.9% for the Consumer Price Index for the Caracas Metropolitan Area (CPI-CMA). As for core inflation, we expect it to be 31.1% for the CMA and 31.7% for the nation as a whole.

Inflation forecasts	2008	2009	2010	2011	2012	2013	2014	2015
NCPI (%)	30.9	25.1	27.2	30.2	29.1	27.5	35.4	18.1
CPI - Caracas (%)	31.9	26.9	27.4	30.9	28.4	28.1	36.0	17.5
Core inflation (%)	33.8	34.6	29.3	31.7	29.2	29.0	36.5	18.6
Core inflation - Caracas (%)	31.7	30.7	27.6	31.1	30.3	28.7	36.0	18.7
Whole sales CPI (%)	32.4	24.8	26.8	30.5	29.8	22.5	42.1	15.1

Sources: BCV and Ecoanalitica

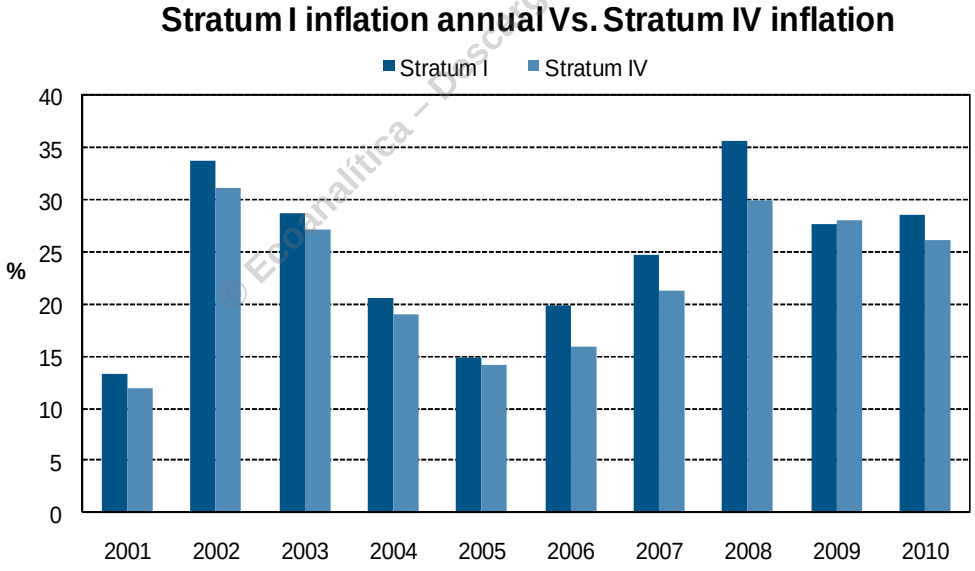
We consider it worth taking a closer look at the foreign exchange figures so that the reader can better understand the magnitude of the devaluation. At ***Ecoanalítica***, we have mentioned before that the best way of measuring an adjustment in the exchange rate is by using an import- and export-weighted exchange rate. So, if we use this indicator adjusted to take account of our projections for 2011, we would get a devaluation of 13.5%, whereas the devaluation for the previous year, based on the same premises, was 59.1%.

There is another factor that contributes to our projections for the period: the fact that the government will have more funds available –and even more with the oil prices we are seeing at the moment- to finance spending, which we are forecasting will be greater than in 2010. This will be an ingredient that will boost demand, which, in turn, will fuel inflation and, as we do not expect there to be any significant change on the supply side, we cannot hope for a more encouraging growth in prices than last year's.

At ***Ecoanalítica***, we will be using a scenario for the next few years where inflation remains at levels similar to those of 2010 and 2011, due mainly to problems of excess demand driven by public spending, in particular in 2012 because of the elections. However, the economic policy will continue to suffer from a lack of credibility, unless there is a change of signals, which will have nothing to do with the political line but with the intentions of the decisions taken in economic matters. This, as we saw in 2010, will keep inflation at 27.5% in 2013, a year in which spending shrinks more than our projection for inflation.

In our outlook scenario, we have forecast a dismantling of the exchange controls, which, while generating high inflation, will make it possible to achieve more moderate increases in prices in later years. This is the type of decision we mean when we talk of decisions that would lend credibility to the policymakers' intention to cope with the inflation problem by getting Venezuelans' expectations to change.

Everything we have included in this section on the outlook for inflation may seem somewhat repetitive, but we must never forget that inflation causes considerable harm not only to the economy but also, and above all, to the man in the street, as it deteriorates his standard of living, making him poorer by the day. Official figures can corroborate this: in 2010, the poorest stratum (Stratum I) suffered inflation that was 2.4% higher than the inflation experienced by the richest stratum (Stratum IV). In fact, since publication of the index started in 2000, the growth in prices has been 2.2% greater, on average, for people in Stratum I, as they have much less room for maneuver to prevent their situation from deteriorating in the event of an increase in such magnitude.



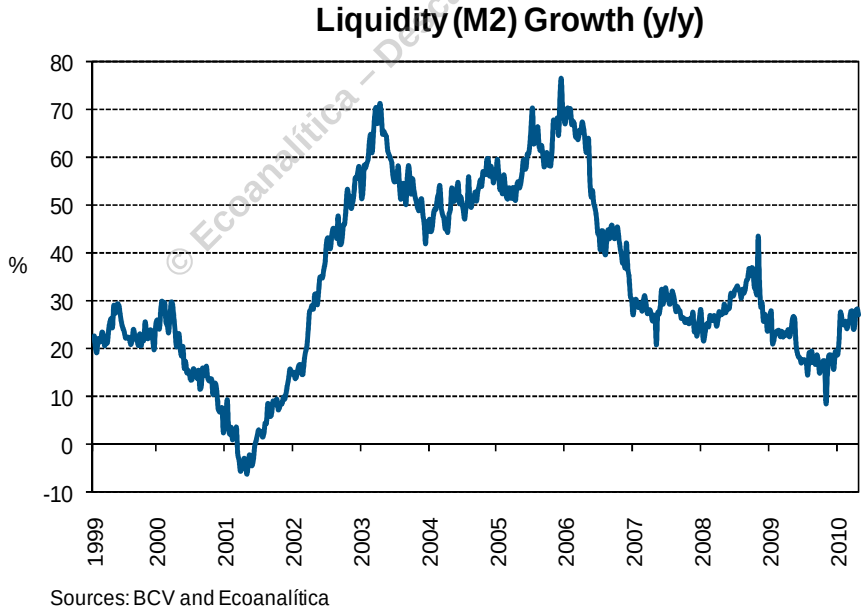
Sources: BCV and Ecoanalítica

Venezuelans have got used to living in a situation where prices rise faster than wages, leaving them at a disadvantage and making it daily more difficult for them to achieve their personal goals. The objective should be to change this situation, and that is why the Academy of Economic Sciences makes its contribution focusing on inflation, even though the economy has other major problems.

Monetary market, interest rate, and finance system: The BCV not doing enough

The existence of exchange controls, combined with high oil prices and the Central Bank's subordination to the Executive, has prevented the Central Bank from controlling monetary expansion. In the period 2003-2006, money supply (M2) expanded by an average of 57.5% a year, a level of expansion that is definitely not in line with the increase in activity experienced by the Venezuelan economy during that period and that was a direct consequence of a fiscal policy that expanded faster than the absorption capacity of the economy, resulting in two-digit inflation despite the free availability of foreign currency for importing at an appreciated exchange rate (via CADIVI) that prevailed during that period.

However, during the last four years, monetary liquidity has increased by an average of 24.9% each year. In other words, since the beginning of President Chávez' second term in office, liquidity has been increasing at half the rate it did during his first term in office. This is a bit of a paradox since the inflation rate during his second term in office has been much higher than during his first term in office by 7.9 percentage points.

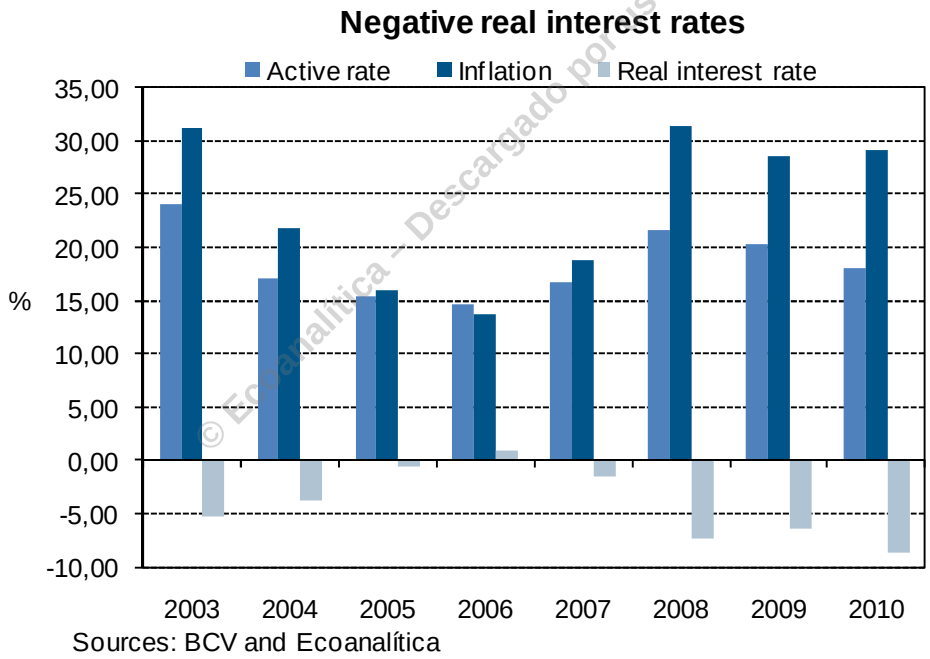


Sources: BCV and Ecoanalítica

During 2010, monetary liquidity (M2) was mostly based on the increase of money in circulation (M1 = coins and bills + visible deposits), which increased by 40.7% compared to 2009. In contrast, so-called quasi-money (savings deposits + term deposits) dropped 5.5% on a y/y basis, and it's important to point out that total liquidity (M1/M2) reached

74.3% last year and 64.0% in 2009, the highest level its ever been at since monetary liquidity began to be monitored in Venezuela.

This behavior suggests that the public has a preference for readily available and liquid instruments. In other words, economic agents prefer to have their money within easy reach. This behavior is also substantiated by the existence of negative interest rates in real terms. Furthermore, since the exchange control was implemented in Venezuela in 2003, one of the main monetary characteristics of the economy has been the existence of negative real interest rates, in other words, nominal interest rates that were lower than the inflation rate. This without taking into account that the Central Bank of Venezuela (BCV) lowered savings rates in order to stimulate consumption in 2009. This made it even clearer that people prefer to have their cash readily available.



Sources: BCV and Ecoanalítica

At ***Ecoanalítica,*** we would like to point out to our clients that besides the fact that this characteristics will remain constant for as long as the exchange control is in place in Venezuela, it is a very important variable to take into account when a company is planning on how to dispose of its revenue in local and foreign currency, since negative interest rates always make it a good idea to acquire debt in bolivars and save the hard currency.

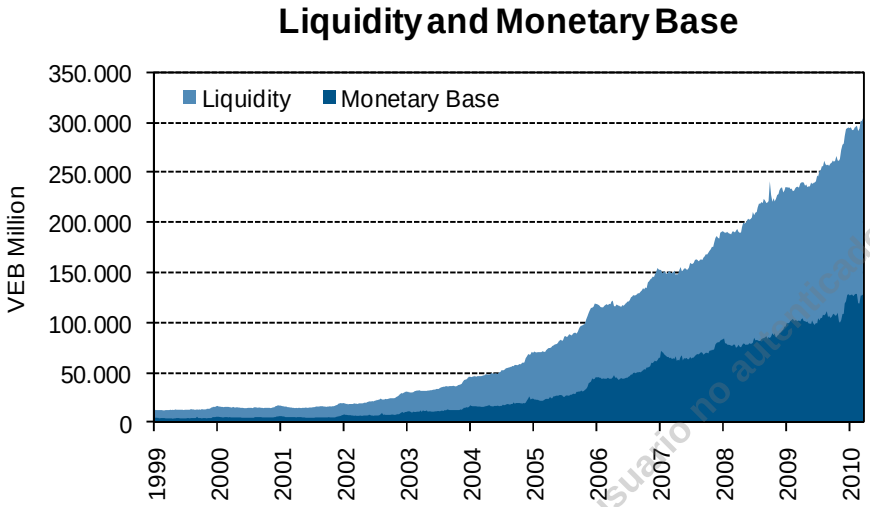
At the close of last year, M2 reached VEB 294.49 billion, up by 24.9% on a y/y basis and a bit more than 22.8% than what was reported in 2009. But when put into real terms,

liquidity dropped by 2.9% following a tendency it has reflected since 2008. It's also important to mention that besides the examples we've already given regarding the people's preference for having their money readily available, economic agent's perception of risk has increased. As an example of how this affects liquidity, the banking sectors surplus in liquidity last year reached VEB 16,612 billion, up by 361.3% compared to 2009.

At the close of 2010, the monetary base reached VEB 126.23 billion, up by 27.6% compared to 2009, while the growth level for the same year was at 18.2%. In real terms, there was a y/y drop of 1.1%. It's important to point out that no information has been released regarding the sources of the monetary base since the close of 2009.

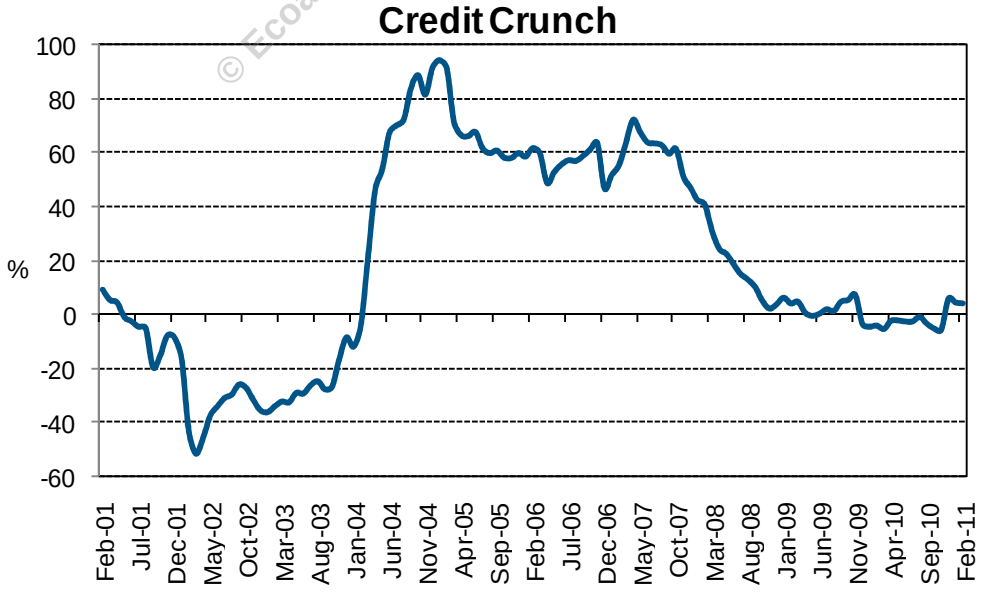
This limited increase in liquidity with an increase in the monetary base implies a drop in the money multiplier brought on by the economic recession of the last two years. Despite the fact that there was an increase in public spending (oil prices and devaluation) a greater aversion to risk by the finance system (reflected in fewer loans being granted), the sterilizing effect of the purchase of bonds issued in foreign currency but payable in bolivars, as well as the acquisition of foreign currency via CADIVI (and to a lesser degree SITME) at a lower exchange rate, mitigated the expansive effect of liquidity during 2010. The outlook for 2011 doesn't look much different.

Economic recovery (mainly due to increasing oil prices) and two years of campaigning towards the presidential elections to be held in December 2012 will be the main push behind increasing monetary supply coming from fiscal coffers in 2011 and 2012. This dynamic (high prices and election campaign) will contribute to easing economic agent's aversion to risk, or at least help to not increase it during the period. Despite this, debt issuances that are planned for the year (US$9,000 billion), acquiring foreign currency via CADIVI at a higher exchange rate, the incentive to save in foreign currency (due to negative interest rates), and a SITME system that will mange twice the amount of foreign currency it handled the previous year, will once again be the mitigating factors. At ***Ecoanalítica,*** we expect monetary liquidity to increase by 27.3% in 2011 and 33.3% in 2012.



Sources: BCV and Ecoanalítica

With respect to the finance system, the loan market will increased by 24.9% in nominal terms in 2010. In real terms it has dropped on an average of 6.0% a month since September 2008, while during the previous 5 years it had at a real average monthly rate of 46.0%. So far this year, in real terms, the indicators show it dropping. However, at ***Ecoanalítica***, we believe that this indicator will show signs of recovery starting in the second semester 2011, though not at the level that it was at during the boom years.

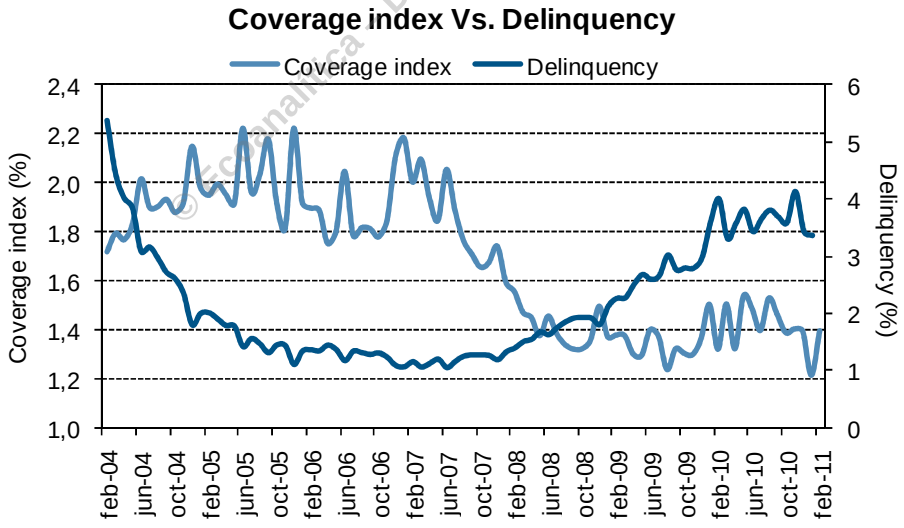


Sources: BCV and Ecoanalítica

On the other hand, bond investments increased by 31.6% in nominal terms, up by 5.0% in real terms going from VEB 70.75 billion at the close of 2009 to VEB93.09 billion at the close of 2010. Of the total amount of bond investments of the financial system, 67.0% correspond to bonds issued by the State and 56.0% of those are held by the public banking system.

At ***Ecoanalítica***, taking into account the role the public banking system is playing with respect to exchange policies, we expect bond investments to increase in real terms at about the same rate in did in 2010 for the next two years. And we expect the public banking system to increase its participation in band investments within the structure of its assets.

The quality of the loan portfolio (expired loans + loans in litigation / gross loan portfolio) or the banking systems loan delinquency rate got worse for the second consecutive year (a reflection of the economic recession) reaching an average of 4.5% for the year, when in 2009 and 2008 it averaged 2.6% and 1.8%, respectively. The bank coverage index (provisions/expired portfolio + litigation) was at 1.4 during 2010, while the average of the previous 5 years was at 1.8.



Sources: Sudeban and Ecoanalítica

So far this year, the quality of the loan portfolio is recovering (3.7% in February) and the coverage index is at similar levels (1.4 in February). At ***Ecoanalitica,*** we expect these indicators to recover slightly towards the end of the year and in the medium term we don't expect them to reach previous levels.

One last word with respect to interest rates, the increasing trend they showed (in nominal terms) during the 2006-2008 period reversed due to monetary logic during the recession period (2009 and 2010). In fact, the average lending rate for the six main commercial and universal banks during 2010 dropped by 2.4 percentage points compared to 2009 to settle at 17.9%.

Interest rates for loans for specific sectors that dropped the most were housing loans 15.4% in 2009 and 10.9 in 2010) and the communications sector (22.7% in 2009 and 17.5% in 2010).

Interest rates for savings accounts and term deposits averaged 14.7% and 12.6% respectively, just 0.2 and 0.1percentage points over the minimum levels established by the BCV.

Taking into account the outlook previously mentioned for the monetary and finance market, at ***Ecoanalítica,*** we expect lending interest rates to average 15.0% in 2011, and the savings interest rate to reach 15.0% this year. However, remember what we mentioned at the beginning of this report, taking inflation into account, interest rates are still negative, which is an incentive to acquire debt in bolivars and save in hard currency.

External front: Thank you Middle East

The Balance of Payments figures at the close of 2010 do not come close to reflecting what really happened to the real sector of the Venezuelan economy.

The Current Account posted a surplus of US$14.38 billion, up by 67.9% compared to the US$8.56 billion registered in 2009. The balance of goods reached US$27.17 billion due to the 15.0% increase in oil exports, going from US$54.20 billion in 2009 to US$62.32 billion in 2010; imports posted an increase of 0.4% going from US$38.44 billion in 2009 to US$38.61 billion in 2010. The service, income, and current transfers balance posted a deficit of US$12.80 billion, 20.8% greater than the one registered in 2009.

BALANCE OF PAYMENTS (General Summary)	2009	2010	Var(%)
Current Account	8,561	14,378	67.9%
Goods	19,153	27,173	41.9%
Oil Exports	54,201	62,317	15.0%
Non-Oil Exports	3,394	3,469	2.2%
Import of goods f.o.b.	-38,442	-38,613	0.4%
Services	-7,617	-8,857	16.3%
Others	-2,975	-3,462	16.4%
Capital Account	-18,823	-22,438	19.2%
Public Sector	9,023	3,031	-66.4%
Private Sector	-27,846	-25,258	-9.3%
Reserves Variation	-10,262	-8,060	-21.5%

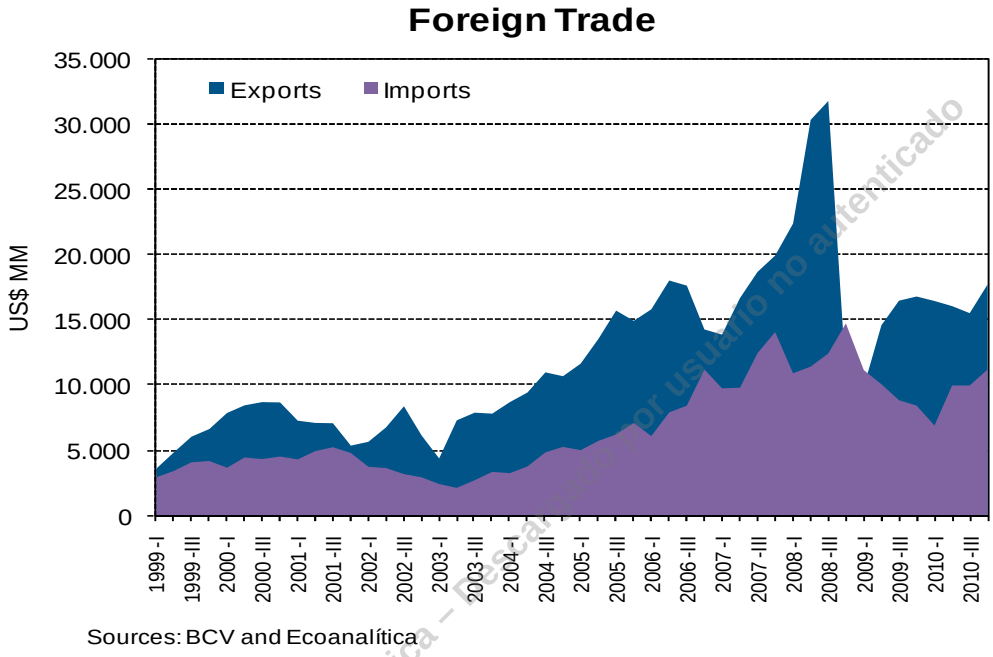
Sources: BCV and Ecoanalitica

It's important to point out that the increase in oil exports is due to the 25.9% spike in international oil prices which in turn benefited the Venezuelan oil basket price. Unfortunately, Venezuelan oil production for export, for the 6th consecutive year, posts a drop, only managing to export 2.337mb/d in 2010, compared to the 2.585 it reached in 2009, according to OPEC figures. But, as we mentioned in the oil section of this report, at ***Ecoanalítica,*** we believe the outlook is much better for this year: world economy growing, world increase in demand for oil, and the Middle East conflict which will push international oil prices to increase and thereby push the Venezuelan oil basket price to increase by an average of 21.1%, plus we expect that domestic oil production will not continue to drop this year. All this would lead to a balance for oil exports of US$79.33 billion.

Non-oil exports (2.5% of total exports) posted a slight increase of 2.2% in 2010. But, this sector has been posting drop after drop since 2006 (when it was at 2.2% of total exports), mainly due to the appreciation of the local currency since 2003. This has severely affected and will continue to affect, how competitive we will be able to be compared to our trade partners in sectors other than oil. As long as we continue to have an ultra-regulated exchange market, and private sector investment continues to be neglected, this will be so; and consequently, we should expect the non-oil sector to post any significant improvements.

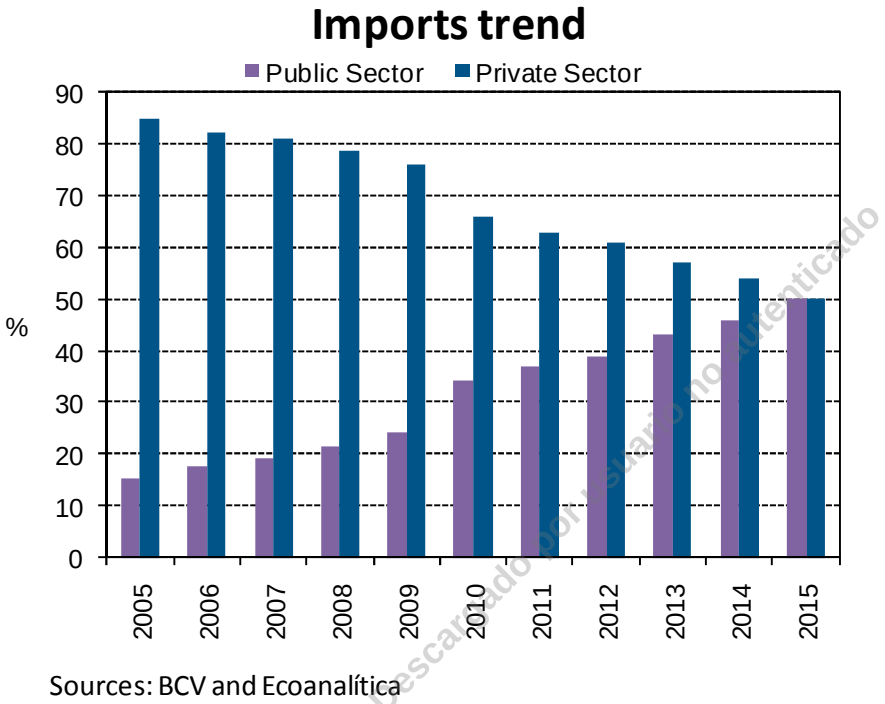
With respect to imports, the figures which were posted were about what was expected. Given the recession which we were in, at ***Ecoanalítica***, we would like to highlight that the import balance was not less than it was (our estimates for 2010 were at US$37.20

billion), due to public sector imports which increased by 42.5%; while private sector imports dropped by 13.3%.



Sources: BCV and Ecoanalítica

Public sector imports increased mainly due to the Administration's subsidy policy (what used to be called the preferential exchange rate at VEB 2.6/US$). The significant drop in domestic production is turning the State into one of the main players in the country when it comes to imports; and to a lesser degree, all the imports made by the State related to the electric power crisis. So you can get an idea of how significant public sector imports have increased by, in 1999, public sector imports were at 11.3%, while in 2010 they were at 34.3% of total imports. Unofficially, the word is that the Administration is looking for the public sector to be responsible for 50% of total imports in the medium term.



Sources: BCV and Ecoanalítica

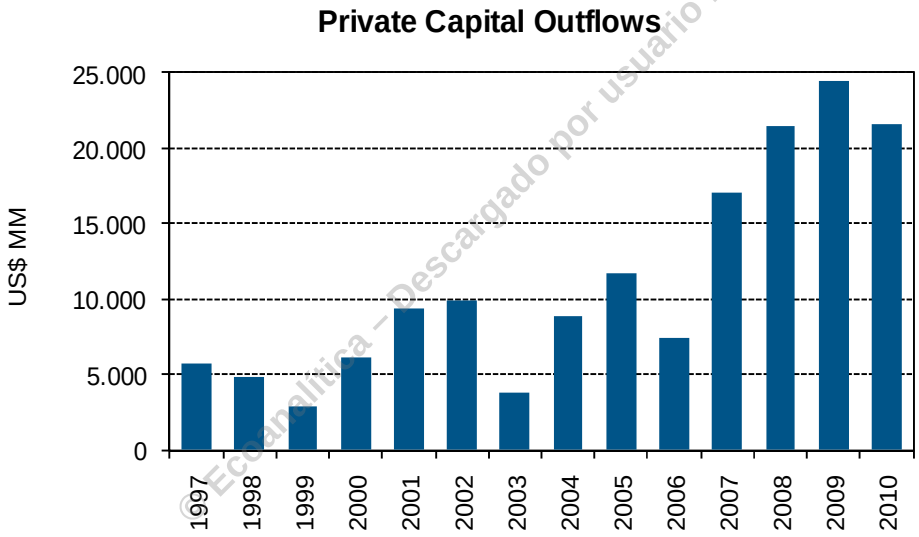
Private sector imports dropped due to the difficulty in acquiring foreign currency through a CADIVI system which has become much more selective about liquidating foreign currency requests. Plus there is the close of the swap-market, a higher exchange rate, a SITME system which has a whole new set of requirements and restrictions, a limited supply of paper to trade in the market, and the effect of the recession that put a dent in domestic demand due to a loss in people's purchasing power.

With the coming year's outlook pointing to the economy recovering and higher international oil prices, it looks much better for imports this years, but one mustn't forget, the ideology leads the way. We expect that imports will reach US$40.60 billion in 2011, up by 5.1% compared to 2010. We'll discuss this more in depth in the *Exchange Policy* section.

Continuing with the analysis of the 2010 Balance of Payments figures, the deficits posted by the Capital and Finance Account of US$ 18.80 billion was a result of the Investment Portfolio surplus of US$3.19 billion and the deficits of the Direct Investment Account and the Other investments Account for US$ 1.21 billion and US$ 17.98 billion respectively.

At ***Ecoanalítica,*** we've been watching how the flow of private sector out-going capital has evolved over the years, and for 2010, despite the fact that the volume of out-going capital has dropped compared to 2009, it still remains at very high levels, hovering at around US$21.64 billion compared to the US$24.41 billion registered in 2009. As we have mentioned before, it's ironic that the very thing the exchange control was designed to control is what continues to flourish.

Once again, the peformance of the Capital Account in 2010 reflects the erratic nature of Administration exchange policies, which in turn reflects that the current foreign sector is capable of supporting a fragil Veenzuelan economic stucture.



Sources: BCV and Ecoanalítica.

Direct Foreign Investment in 2010 dropped 23.2%; and in 2011, we expect a deficit, with the capital coming from China, Iran, Russia and all the other partners signed up for the Administration's oil investment, not covering the flow of out-going revenue corresponding traditional multinational companies and payments made corresponding the nationalizations of private foreign companies that the Administration has carried out.

This scenario will lead to a deficit of the Capital and Finance Account of US$23.80 billion in 2011 due to the increase in out-going capital from the public sector, due to increased borrowing reflected in the Other Investments Account, and the cooperation agreements; and from the private sector due to the smothering regulations, political expectations, the lack of incentive for domestic investment, and significantly negative interest rates.

These figures only serve to validate what we have been saying for some time now that the current economic model is not sustainable, and the only reason it hasn't complete collapsed is due to current volatile oil prices. This year, and those that follow in the short term will most asuredly reflrct incresing oil prices, which despite PDVSA's serious oil production problems, will guarantee that the Administration continue to take in significant amounts of foreign corrency which will serve to oxigenate it 21st Century Socialist project. It's sad that with foreign account figures that would be the envy of a developed country, the performance of the real sector of the economy is so precarious. This is why we say, thank you Middle East.

BALANCE OF PAYMENTS (General Summary Forecast)	2010	2011	2012	2013	2014	2015
Current account (% GDP)	5.4	9.4	10.5	11.0	17.3	19.6
Current account (US$ Bn)	14.4	29.5	34.8	44.9	60.3	70.5
Trade balance (US$ Bn)	27.2	38.7	43.6	53.6	70.5	78.5
Exports (US$ Bn)	65.8	79.3	88.8	96.0	107.2	122.2
Oil Exports (bl/day)	2.3	2.4	2.5	2.6	2.8	3.0
Imports (US$ Bn)	(38.6)	(40.6)	(45.2)	(42.4)	(36.7)	(43.7)
Services & Income Balance (US$ Bn)	(12.8)	(9.2)	(8.8)	(8.7)	(10.2)	(8.0)
Capital Account (US$ Bn)	(18.8)	(23.8)	(24.9)	(18.9)	(24.1)	(15.9)
Foreign Direct Investment (US$ Bn)	(1.4)	0.3	0.2	1.7	1.0	3.5

Source: Ecoanalitica

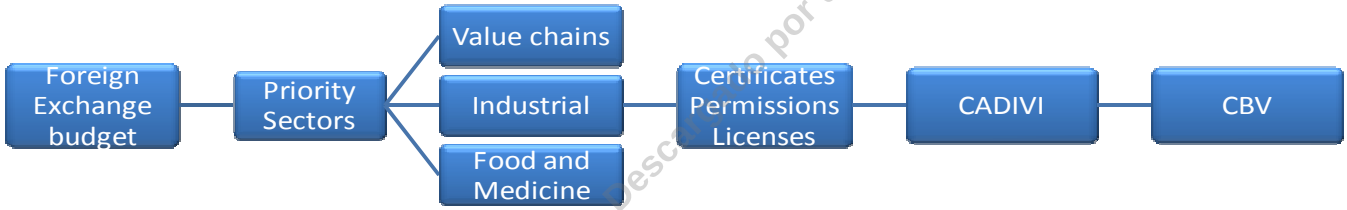
Foreign exchange policy: ideology sets the agenda, oil prices the pace

After the devaluation last December, sold as "foreign exchange unification," at ***Ecoanalítica***, we expected some changes in the foreign exchange policy in 2011, the most important being an adjustment in SITME's upper band exchange rate from VEB 5.30/US$ to VEB 6.50/US$. In addition, it was expected that this mechanism, fed mainly by PDVSA and the Central Bank, would be more effective in allocating foreign currency. At the close of the first quarter of the year, the foreign exchange outlook is different.

As happens with everything else in Venezuela, two factors mark the future of economic policy. The first, our curse, is oil prices, as they establish how the flow of revenues is going to be, not only for the Administration but also for nearly all foreign currency. The second, and more complex, factor is the ideological model, the building of the so-called "21st Century Socialism," and what this model considers the roles of the foreign exchange policy, imports, the private sector, and the State ought to be. Both factors are interconnected and should not be considered separately.

A partial analysis would lead us think that, with the increase in oil prices forecast for the next few months, the Administration, with more foreign currency available, would favor imports in order to generate a kind of "consumerfest," which would reduce the restriction on foreign currency the private sector is experiencing. This, in our opinion, is only part of the truth, as it does not take account of the ideological aspect.

From the point of view of its ideology, *Chavismo*, in the context of 21st Century Socialism, seeks endogenous development, which simply translated means encouraging industrialization and generating value. In short, it seeks to put an end to the port economy. So, what we have seen in recent months is that, apart from food and medicine imports, the Administration has tried to put a brake on the importing of goods and services using this argument.



Source: Ecoanalítica

The second argument is that 21st Century Socialism contemplates the supremacy of the State. And this advance of the State is clearly reflected in imports: in 2003, public sector import represented 15.0% of the total, whereas in 2010 they accounted for 34.2%. They went from US$2,208 billion in 2003 to US$13,201 billion in 2010. We expect that, this year, they will account for nearly 40% of the country's total imports and that they will reach half that total in the medium term.

Imports by exchange rate

	2004	2005	2006	2007	2008	2009	2010	2011F
Cadivi	75%	68%	60%	68%	75%	55%	59%	48%
Cadivi 2.6							25%	
Cadivi 4.3							35%	
Public imports	15%	15%	18%	19%	21%	24%	34%	35%
Swap/black market	10%	17%	22%	13%	4%	21%	1%	1%
Sitme							5%	16%

Sources: BCV, Cadivi and Ecoanalítica

So, even though oil prices increase, the flow of foreign currency into the country will not necessarily mean an increase in the flow of foreign currency for the private sector. There is an important point that needs mentioning here: this does not necessarily mean that access to foreign currency will get worse.

At ***Ecoanalítica,*** with respect to exchange issues, we believe that for the rest of 2011, and up until the end of 2012, the following will happen:

- What the Administration considers to be priority items (food, medicines, and capital goods for certain industries) will continue to be serviced by CADIVI and they will also have priority when it comes to awarding bonds denominated in foreign currency issued by the State.

- The Administration wants the exchange market to be clearly segmented with big companies, including multinational companies, being serviced by CADIVI; and small and medium sized companies being serviced by the SITME system. We don't expect another system to be created to supply foreign currency to big companies.

- The Ministry of Planning and Finance and the Central Bank of Venezuela (BCV) will try to avoid, at all cost, that the unofficial exchange rate becomes the market reference exchange rate. Foreign currency supply via CADIVI, the SITME system, and bond issuances exist specifically in order to avoid this happening.
- The Administration will use exchange policies as a mechanism to control prices, in other words, access to foreign currency at the official rate is another way of moderately adjusting the price of priority goods. The other plan to control inflation is to increase imports by the State.

- With average Venezuelan crude oil basket prices expected to be at around US$85/barrel, CADIVI should be able to at the very least maintain its current volume of foreign currency liquidation, in fact, a slight increase in liquidation is not out of the question. We expect that private sector imports via CADIVI will increase in 2012.

- The SITME system will finance around US$ 8.0 billion in imports, averaging US$ 40 million in maximun daily liquidation of foreign currency. We don't expect the volume of foreign currency liquidations to increase for the SITME system, nor any significant changes in the system. And considering current international oil prices and the forecast that prices will remain at current levels or tend to increase in the short term, the Administration will

not adjust SITME exchange rates this year, though the possibility of an adjustment in 2012 is not out of the question.

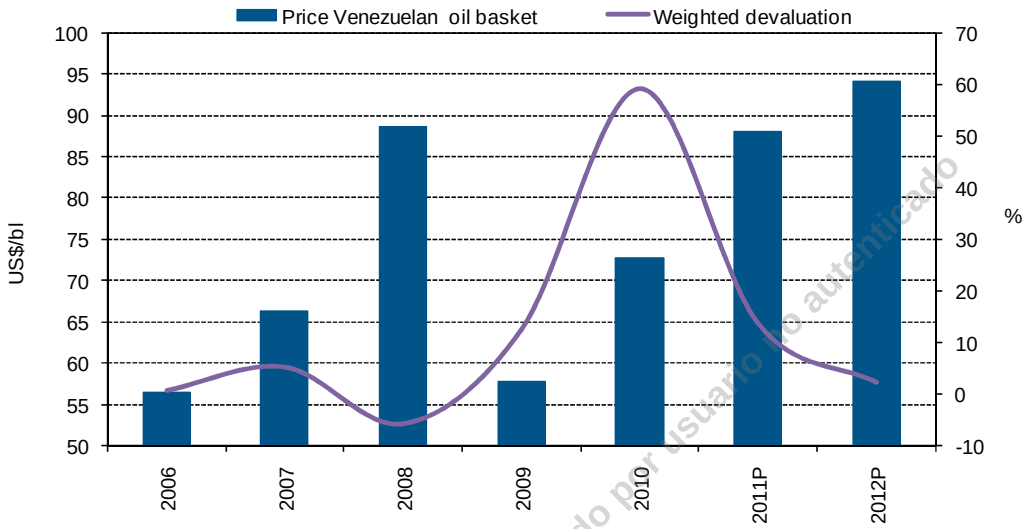
- Debt issuances are not being used as a vehicle for outgoing capital but as a mechanism to cover any foreign currency needs left unattended by CADIVI and the SITME system. We are expecting two issuances of foreign debt: one by PDVSA for US$ 3.0 billion (before August) and another from the Republic for US$ 3.0 billion (probably during the last quarter). As we have mentioned before, priority sectors will get preferential treatment in these issuances.

The other link in the foreign exchange policy is the Bicentennial Public Stock Exchange (BVPB). This entity is simply a bid by the Planning and Finance Ministry to take control of the "alternative" foreign exchange market, today controlled by the Central Bank and the financial system (SITME and bond issues). The idea is for both the Republic and PDVSA to place papers via the BVPB and via the secondary market. The possibility exists for FONDEN and other state owned companies (CANTV, for example) to also place papers via this stock exchange.

It is not the Planning and Finance Ministry's intention to use the BVPB to create a swap market "controlled" by the Administration. In the future, the BVPB will have the same role as the SITME; in fact, Minister Giordani's intention is for it to eventually replace the SITME. Right now, the main obstacle is that it has neither a technological platform nor an operations base. So, in the short term (i.e., what is left of 2011), the BVPB will not be a relevant agent in the foreign exchange market. In the long term, however, it will replace the SITME, according to Minister Giordani's proposal.

Lastly, talking of foreign exchange policy inevitably means mentioning devaluation. At ***Ecoanalítica***, we sustain the thesis that, given the high oil prices expected for this year (in the first quarter, the Venezuelan oil basket averaged US$90.9/barrel) and the policy of restricting foreign currency explained earlier, the Administration will not make any adjustments to the foreign exchange rate of VEB 4.3/US$. Not only that, if this price scenario continues and with presidential elections just around the corner, it is unlikely that this will happen next year either, although we do expect an adjustment in the SITME rate.

Weighted devalution Vs. Price of the Venezuelan oil basket

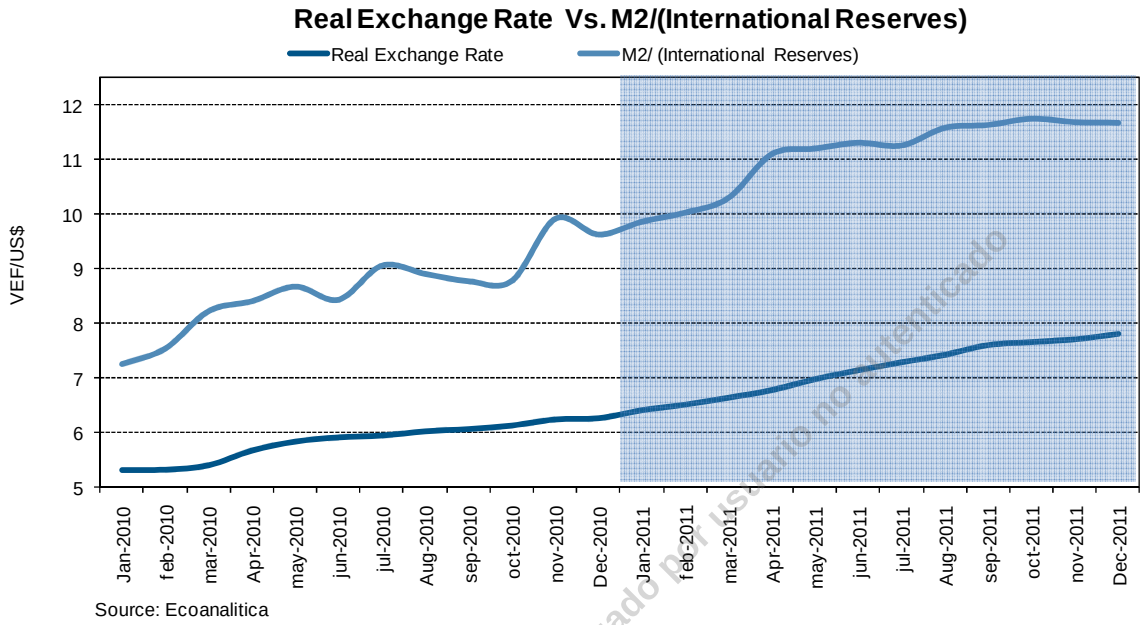


Source: BCV and Ecoanalítica

The only way to maintain this foreign exchange anchoring policy is to use a mechanism that restricts the private sector's access to foreign currency. The key is in how the government is going to manage the shortages problem, which has serious political implications as it could have a negative impact on President Chávez's popularity. So, the foreign exchange policy will also be determined by the shortages phenomenon.

In addition to what we have said earlier, we would like to play safe and comment on two more points. The first is that, if there is a devaluation, this would be entirely discretional. The second is that, given the volatility to which Venezuela is usually subject, reflected mainly in its exchange rate, debating whether the devaluation will be 30% for all of 2012 or whether those responsible for implementing the economic policy will decide to leave the exchange rate frozen nominally until 2013 is irrelevant. The only difference between these two scenarios is that, in the second, the distortion caused by the exchange control would become more acute and the need for a future devaluation would be greater.

The absence of currency devaluation on the official market is not necessarily synonymous with low volatility on the unofficial market. The unofficial market will probably come under considerable pressure in the last two months of the year. Our clients are clear that, nowadays, coverage is more than necessary.



Source: Ecoanalitica

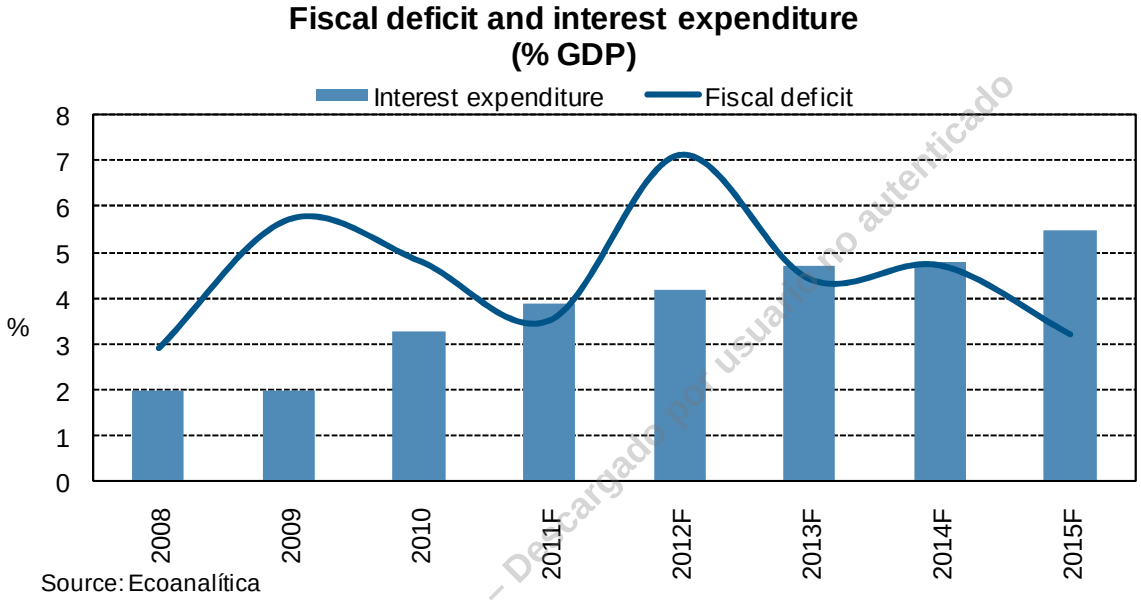
Fiscal Policy: ever declining accountability

At the time of going to press, the results for the Restricted Public Sector (RPS) had not been published and undoubtedly, as has become customary, all the analysts are anxious to study them. What is more, the National Treasury Office (NTO) no longer publishes the Central Government's fiscal reports on its website. However, the increasing opacity of the public sector's accounting figures and in its rendering of accounts to taxpayers and the owners of PDVSA, in other words the Venezuelan population, forces us to use our estimates when it comes to talking about what we expect for 2011 and subsequent years.

As we mentioned in our last report, despite the fact that oil prices rose by 30.3% on average in 2010 and that it was an important election year for *Chavismo*'s country project, last year was the second year running with a real drop in public spending. Why is this so surprising? Because, as we have said repeatedly, public spending and fiscal policy are the main mechanisms for channeling revenues from the oil booms to the Venezuelan economy. Besides that, the presence of the government in and its control over the economy are increasingly great, which means that our dependence on what happens on the fiscal front is crucial when talking of growth.

The possibility of a reduction in public spending in this scenario is a fascinating one. It has cost Venezuela more than any other Latin American country to climb out of the

crisis even though it has more revenues than most. Ironic but true, the Venezuelan economy is more dependent than ever on what happens on the oil front. So when it comes to taking investment decisions we have to keep an eye on fiscal performance.



Source: Ecoanalítica

Our calculations indicate that last year's fiscal deficit should be in the region of 4.8% of Gross Domestic Product (GDP). It should be noted that this figure was reached based on a GDP calculated with our import- and export-weighted exchange rate indicator. Now, in order to do away with that deficit we would have had financing needs equivalent to 8.3% of GDP so as to cover debt amortization of 3.5% of GDP.

This result occurs in a situation where fiscal revenues were 2.6% of GDP higher than those posted in 2009, driven mainly by an improvement in oil revenues of 1.1% of GDP and in foreign exchange earnings of 1.5% of GDP.

We are estimating nearly US$81.2 billion for total foreign debt as at the end of 2010, US$68.79 billion of which is Central Government debt and the remaining US$12.4 billion corresponds to debt acquired by the rest of the RPS, including PDVSA. While a debt figure of that magnitude looks alarming, if we use the debt indicator as a percentage of GDP, we can see that the level of 37.1% is perfectly sustainable, which is why we reiterate our position that, at the moment, the government has no incentive or need to consider the possibility of not honoring its debt liabilities.

Leaving aside the past and focusing on the present and the future, with a scenario of oil prices averaging US$90.4/bbl so far this year, at ***Ecoanalítica***, we forecast fiscal

revenues of 24.9% of GDP. We have to point out that, even though the price of oil has risen considerably this year, there is another variable that needs to be taken into account when talking of the oil boom and that is production, which has been posting declines. Besides that, domestic consumption continues to grow. That is why we cannot talk of revenues like those posted in 2006 and 2007, which came to nearly 30.0% of GDP.

Fiscal Balance forecasts	2009	2010	2011	2012	2013	2014	2015
Fiscal Revenue (% of the GDP)	20.1	22.7	24.9	25.0	23.0	25.3	26.6
Oil Revenue (% of the GDP)	11.0	12.1	13.5	14.1	14.5	16.0	16.9
Non Oil Revenue (% of the GDP)	9.0	9.1	9.4	8.7	7.5	8.5	9.2
Foreign Exchange Profits and Others (% of the GDP)	0.1	1.5	2.0	2.2	1.0	0.8	0.5
Total Expenditure (% of the GDP)	25.8	27.5	28.4	32.1	27.4	30.0	29.8
Primary Expenditure (% of the GDP)	23.8	24.2	24.5	27.9	22.7	25.2	24.3
Interest (% of the GDP)	2.0	3.3	3.9	4.2	4.7	4.8	5.5
Fiscal Balance (% of the GDP)	-5.7	-4.8	-3.5	-7.1	-4.4	-4.7	-3.2

Sources: BCV and Ecoanalitica

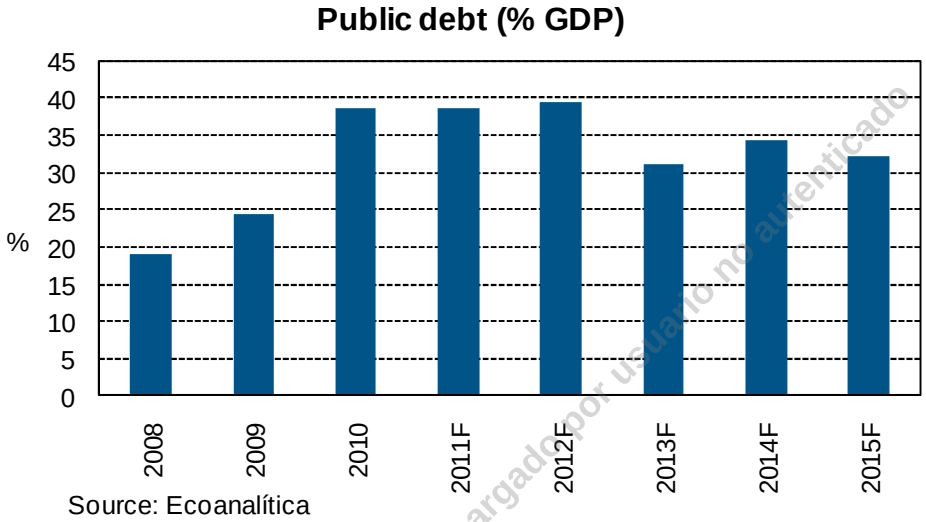
In fact, at ***Ecoanalítica***, we do not see a significant increase in fiscal revenues, particularly oil revenues, until 2014, when the projects in the Orinoco Oil Belt start to produce and production begins to post significant increases.

Our view of fiscal spending in 2011 is that the increase is not going to be proportional to the growth in revenues, reaching 28.4% of GDP. This level of disbursements would result in a deficit of 3.5%, which is considerably less than the deficit in 2010. It is important to bear in mind something else that is starting to become relevant: interest payments on the debt have grown significantly and in the next few years will reach levels that, while not exactly alarming, will be costly in terms of availability of funds.

In this scenario, financing needs will rise to 7.9%, which, after paying debt maturing in 2011, would leave a balance of US$115 billion for the RPS. This gives a level of indebtedness of 38.5% of GDP; although we insist that this is not a level that gives cause for concern or that would increase pressure to the point where the government might consider not honoring its commitments.

Ecoanalítica's outlook with regard to the level of indebtedness in the coming years is that it will continue to grow given the need supply a foreign exchange market with foreign currency and the government's need to obtain resources to finance the increasingly bloated government apparatus at a time when its revenue situation will be complicated until the projects for recovering oil production bear fruit. However, as already mentioned, we expect the exchange control to be lifted in 2014 and, as a result,

the need to borrow and to meet maturities will abate, which will help to bring down the outstanding balance on the debt.



Source: Ecoanalítica

To close we would like to return to the issue of opacity in fiscal performance. At ***Ecoanalítica***, we have referred several times to the existence of what we call the "State's Resources," by which we simply mean the government's petty cashbox. Those resources are one of the reasons for this opacity, due to the fact that the use of those resources is highly discretionary and is in no way contemplated in the national budget approved by the Legislature. It should be noted that these revenues were considerably affected by the devaluation, as the portion in bolivars were entered on the books at the VEB 2.6/US$ exchange rate and suffered a loss in value of 19.2% between December and January, although the loss to date would be 9.4%.

We have always considered these "State's Resources" to be highly relevant when considering the government's fiscal performance. However, by way of conclusion, we would like to comment on something that we consider to be extremely important at ***Ecoanalítica***, and that is the fact that, with the approval of the communal power laws in 2010, a kind of parallel state has emerged, where the communes and other entities formalized in these laws are now going to compete for resources with what we have known as the classical composition of the state. When we say "classical composition," we are referring to state governments, mayoralties, and other entities that will now find their capacity for action compromised owing to the fact that they may well have less funding available.

Government Resources	February - 2010 (US$ bn)	February - 2011 (US$ bn)	Variation (%)
In VEF	**28.9**	**24.5**	**-15.2%**
BANDES	0.3	0.1	
BDT	0.0	0.1	
Deposits in the financial system	17.9	14.5	
Fondo Miranda	7.1	4.1	
National Treausury	2.5	4.0	
FONDEN	1.1	1.7	
In USD	**9.3**	**14.2**	**52.7%**
FONDEN and National Treasure	4.1	6.5	
Other Funds	3.6	7.1	
PDVSA	1.6	0.6	
Total	**38.2**	**38.7**	**1.3%**

Source: Ecoanalítica *All the figures are expressed in US dollars at the official exchange rate

Note: The reference exchange rate for the Public Sector in 2010 was 2.6 VEB/US$. In 2011, after the devaluation, the one official exchange rate is 4.3 VEB/US$

As there has not been sufficient time to know how these new entities are going to function in accounting terms, at ***Ecoanalítica***, we cannot say that this will increase the opacity in the government's rendering of accounts. However, given the way things have panned out in the past, we have no reason to think that this will not be the case. What we can say is that the only way to reverse this opacity is for all Venezuelans to make a greater effort to demand that the government be accountable. After all, that money comes out of their pockets.

Conclusion: nothing new under the sun

After 12 years of a government that sells itself as the promoter of great changes, the Venezuelan economy continues the same: dependent on oil. High oil prices are allowing this administration to put off much needed changes and adjustments and to share out the oil revenues for political ends, generating a feeling of recovery and well-being. This is a script that has been repeated time and again. Today, the words of former President L. H. Campins, deceased, when referring to the impact that conflicts in the Middle East have on the price of crude, are truer than ever: "*Venezuela's guardian angel speaks Arabic*."

However, the growth potential fueled by oil is limited. The numbers speak for themselves. In 2006, Venezuela enjoyed spectacular growth of 9.9% and the price of oil was US$56.4/bbl. In 2008, we grew by 4.8% and the barrel reached a record price of

US$88.6. This year it is highly likely that we will achieve a new record in the price of the oil basket and we will grow by only 1.7%. This is something that warrants reflection, particularly on the part of the government. We say it yet again: in order to attain high rates of growth once more (in line with our potential), it is necessary to revise the economic model and generate confidence in the private sector.

If the government insists on implementing the present model, we will have an economy in a state of "prolonged stagnation" with practically zero growth and a significant problem of inflation with negative consequences for the social indicators, in particular for purchasing power.

In the event of a change in government, the projected high oil prices will be an advantage, as a new government that carries out an in-depth revision of the present economic model will have a margin of maneuver for implementing adjustment policies alongside far-reaching social policies.

Last of all, we wish to mention areas of opportunities we discern for Venezuela for what is left of 2011 and next year:

- Increased performance of public spending; and, in Venezuela, public spending, although less so than before, is a generator of growth.

- With high oil prices above US$80/barrel, there is no reason to think that CADIVI's performance will get worse. Better than that. It is not totally unreasonable to think that foreign currency allocations via CADIVI will increase.

- Bonds of the Republic and PDVSA bonds: We continue to maintain that the risk of default is slight in the medium term, which means that Venezuelan bonds continue to be extremely attractive on account of their yield.

- Growth focused on specific sectors, in particular Telecommunications, Commerce, Transportation, Food, and Construction.

- The elections dynamic, as the 2011 presidential elections will, in our opinion, be a close run thing and the opposition, after 12 years of Chavismo in power, has a clear chance of winning. There are weaknesses on both sides. Chávez faces no small challenge; not only does he have to increase his popularity, but he also has to inspire hope once more and generate the feeling that things are going to get better as long as he is in power and that any other option would be chaos. As for the opposition,

while it has made major strides, it has still not managed to put together a discourse that connects with the majority, and it continues to have serious problems of leadership.

From the above it can be inferred that next year, as it is an election year, will bring a greater injection of spending, which will permit a recovery in consumption levels in the Venezuelan population. This is definitely good news. On the downside, the inflation issue, increasingly deteriorated infrastructure and public services, and a bigger decline in real wages paint a far from encouraging picture for the coming months.

The foreign exchange policy will continue to be a cause for concern. At ***Ecoanalítica***, we are of the opinion that, if the Administration manages to establish a credible strategy with regard to the foreign exchange policy, it would be highly positive for the private sector and for the economy in general. The key here is confidence.

The other factor that gives us cause for concern is public sector borrowing. The Administration has been extremely aggressive here and needs to act with more moderation in 2012, bearing in mind that it has extra-budgetary resources. While there is a margin that would allow the Administration to continue borrowing, such a rapid rate of growth would generate budgetary rigidities in the medium and long terms.

The Administration is under the obligation to understand that, if there is no change in the economic policy, sooner rather than later we will be faced with a nation with serious imbalances and without any significant improvements in people's standard of living. There is no doubt about it, more than high oil prices is needed to generate permanent well-being in Venezuela.

	2009	2010F	2011F	2012F	2013F	2014F	2015F
National Accounts							
Real GDP Growth (% Annual)	-3.3	-1.4	1.7	2.1	2.5	-1.9	2.8
Oil Sector	-7.8	0.2	-1.0	1.5	1.3	1.7	2.7
Non Oil Sector	-3.1	-1.5	2.2	2.3	2.9	-2.6	3.0
Consumption (% Annual)	-2.2	-1.4	2.7	3.7	1.3	-4.0	2.3
Public Consumption (% Annual)	2.3	2.6	3.6	6.2	-2.5	2.5	3.0
Private Consumption (% Annual)	-3.2	-2.3	2.5	3.2	2.0	-5.3	2.1
Investment (% Annual)	-8.2	-4.4	1.8	2.0	1.8	1.4	5.1
Exports (% Annual)	-12.9	-12.4	-1.7	1.1	1.5	1.5	3.0
Imports (% Annual)	-19.6	-4.6	2.9	5.4	-1.7	-2.1	3.7
GDP (US$ MMM)	288.8	260.0	298.6	385.5	377.4	334.3	341.9
GDP per Capita (US$)	10,226	9,071	10,265	13,055	12,590	10,987	11,072
Population (MM)	28.2	28.7	29.1	29.5	30.0	30.4	30.9
Inflation, Exchange and Interest Rates							
CPI Inflation-National (end of year) (%)	25.1	27.2	28.2	29.1	27.5	35.4	18.1
CPI Inflation (end of year) (%)	26.9	27.4	29.2	28.4	28.1	36.0	17.5
Core Inflation - National (end of year) (%)	34.6	29.3	31.5	29.2	29.0	36.5	18.6
Core Inflation - Caracas (end of year) (%)	30.7	27.6	31.0	30.3	28.7	36.0	18.7
WPI Inflation (end of year) (%)	24.8	26.8	28.5	29.8	22.5	42.1	15.1
Weighted Exchange Rate	2.4	3.9	4.4	4.5	6.0	8.9	10.5
Official Exchange Rate (end of year)	2.2	2.6	N/A	N/A	N/A	N/A	N/A
Official Exchange Rate (Average)	2.2	2.6	N/A	N/A	N/A	N/A	N/A
Oil exchange rate (Average)	N/A	4.3	4.3	5.4	5.7	8.9	10.5
Oil exchange rate (end of year)	N/A	4.3	4.3	4.3	5.7	8.9	10.5
SITME Exchange rate (End of year)	5.3	5.3	6.3	7.5	9.0	NA	NA
SITME Exchange rate (Average)	5.3	5.3	5.8	6.9	8.3	NA	NA
TAM Interest Rate (end of year) (%)	19.2	18.2	20.9	21.9	23.1	30.7	30.0
TAM Interest Rate (Average) (%)	21.7	18.7	19.5	21.4	22.5	26.9	30.4
Lending Rate (end of year) (%)	12.1	14.6	15.0	15.5	16.0	17.8	19.7
M2 (end of year) (VEB Trillions)	235.4	294.5	375.0	500.0	590.0	760.0	885.0
M2 (% Annual)	21.2	25.1	27.3	33.3	18.0	28.8	16.4
Fiscal Policy Indicators							
Fiscal Revenue (% of the GDP)	20.1	22.7	24.9	25.0	23.0	25.3	26.6
Oil Revenue (% of the GDP)	11.0	12.1	13.5	14.1	14.5	16.0	16.9
Non Oil Revenue (% of the GDP)	9.0	9.1	9.4	8.7	7.5	8.5	9.2
Foreign Exchange Profits and Others (% of the GDP)	0.1	1.5	2.0	2.2	1.0	0.8	0.5
Total Expenditure (% of the GDP)	25.8	27.5	28.4	32.1	27.4	30.0	29.8
Primary Expenditure (% of the GDP)	23.8	24.2	24.5	27.9	22.7	25.2	24.3
Interest (% of the GDP)	2.0	3.3	3.9	4.2	4.7	4.8	5.5
Fiscal Balance (% of the GDP)	-5.7	-4.8	-3.5	-7.1	-4.4	-4.7	-3.2
Primary Fiscal Balance (% of the GDP)	-3.7	-1.5	0.4	-2.9	0.3	0.1	2.3
Amortization (% of the GDP)	2.4	3.5	4.4	4.5	5.1	5.5	6.5
Government Financing Requirements (% of the GDP) a	8.1	8.3	7.9	11.6	9.5	10.2	9.7
Quasi-fiscal Expenditure (% of the GDP)	2.5	3.6	3.1	4.2	2.0	2.0	1.5
Non - oil Quasi-fiscal Balance (% of the GDP)	-19.2	-20.5	-20.1	-25.4	-20.9	-22.7	-21.6
Debt Profile							
Foreign Exchange Reserves (US$ MMM)	35.8	30.3	36.1	45.9	71.9	108.2	162.7
Total Public Debt (US$ MMM)	79.5	98.2	112.0	119.1	115.0	107.2	105.2
Domestic Debt (US$ MMM)	24.7	21.0	24.5	28.1	27.0	22.1	23.0
Foreign Debt (US$ MMM)	61.6	77.2	87.5	91.0	88.0	85.1	82.2
Total Debt (% of the GDP))	24.4	37.1	37.5	37.3	29.1	31.9	30.4
Total Foreign Debt (% of Exports)	97.7	117.3	110.3	102.5	91.7	79.4	67.3
Net Debt (US$ MMM)	-43.1	-27.6	-17.2	-13.7	-16.7	-19.6	-22.5
Debt Service Rate b	15.8	13.8	11.5	10.3	9.5	8.5	7.4
Balance of Payments							
Oil Price (WTI)	62.0	80.2	97.0	106.0	110.0	116.0	124.0
Oil Price (Venezuelan Basket)	55.0	71.7	88.0	94.0	97.0	101.1	110.0
Current Account (% of the GDP)	2.6	5.4	9.7	10.9	11.4	17.9	20.4
Current Account (US$ MMM)	8.6	14.4	29.5	34.8	44.9	60.3	70.5
Balance of Trade (US$ MMM)	19.2	27.2	38.7	43.6	53.6	70.5	78.5
Exports (US$ MMM)	57.6	65.8	79.3	88.8	96.0	107.2	122.2
Imports (US$ MMM)	-38.4	-38.6	-40.6	-45.2	-42.4	-36.7	-43.7
Services & Income Balance (US$ MMM)	-10.6	-12.8	-9.2	-8.8	-8.7	-10.2	-8.0
Capital Account (US$ MMM)	-14.0	-18.8	-23.8	-24.9	-18.9	-24.1	-15.9
Foreign Direct Investment (US$ MMM)	-3.1	-1.4	0.3	0.2	1.7	1.0	3.5
Labor Markets							
Unemployment (%)	7.9	8.5	9.5	9.0	8.7	9.5	8.9
Real Wage (% Annual)	-5.9	-5.4	-5.3	1.1	1.2	-6.4	2.5

(a) (Amort + Fiscal Deficit). (b) (Amort+External Debt Interest)/Exports of good and services.
Sources: Ministry Finance, ONAPRE, Venezuelan Central Bank, National Institute of Statistics and Ecoanalític