ECOANALÍTICA

Weekly Report

Volume 4, Number 8
Week IV, February 2008

By:
Asdrúbal Oliveros
María Cecilia Ramírez
María Elisa Silva

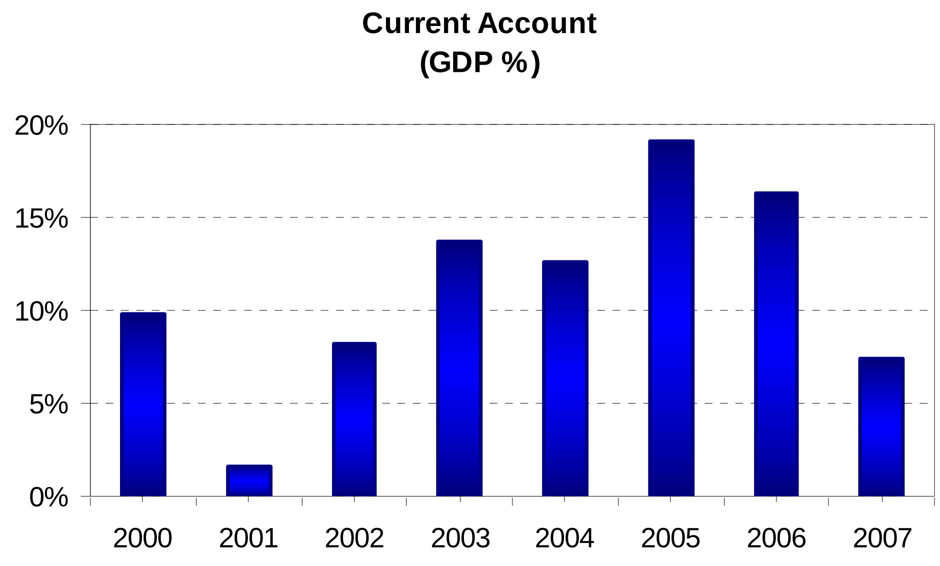
Edited by:
Alejandro Grisanti
Asdrúbal Oliveros

THE EXCHANGE CONTROL IS MORTALLY WOUNDED

The Balance of Payments figures released by the Central Bank of Venezuela (BCV), which correspond to the last quarter of 2007, reflect how our foreign accounts have been deteriorating throughout the year, a fact that was reinforced by the fall of the Current Account balance (usually an account which reflects a surplus due to the significant amount of revenue coming in from oil exports), as well as a more pronounced deficit in the Capital and Financial account. At ***Ecoanalítica,*** we are convinced that the worsening state of the foreign sector clearly marks the unsustainability of the exchange control.

High prices are not enough

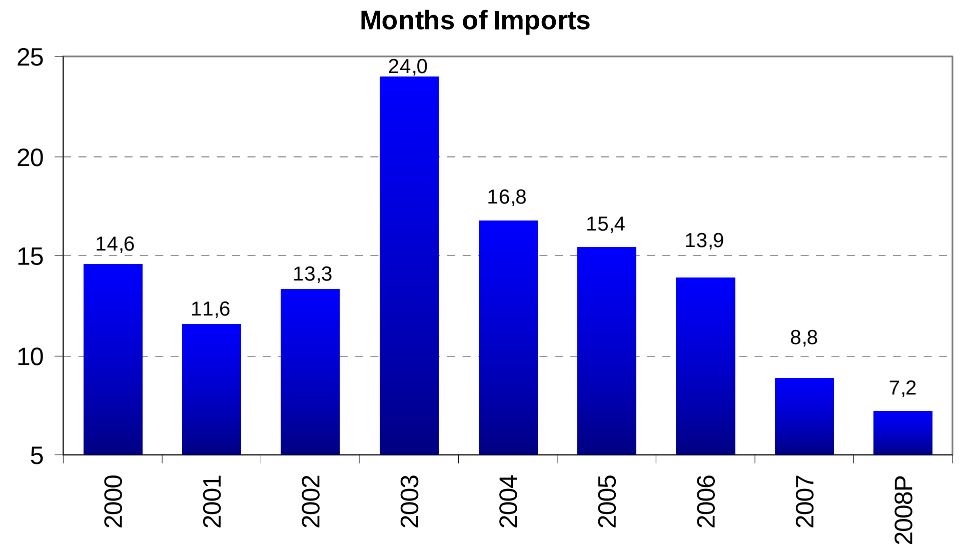
The Current Account results during 2007 point to a slight increase of 7% in oil exports (on a year-to-year basis) due to the 15.4% increase in oil prices and shrinking oil production. Non-oil exports dropped 2%, which added to the 40% increase in imports, made for a 26% drop in the Current Account balance of the Balance of Payments.



Sources: BCV and Ecoanalitica

The exchange control works as a subsidy for imports

Balance of Payments figures ratify what we have said in our previous reports that exchange controls have become a direct subsidy for imports which have become the most dynamic sector of the economy. However, the unbridled increase imports have been showing is quite worrying. In fact, the international reserve's ability to cover imports has been diminishing since the exchange controls were put into place in 2003, when reserves represented the equivalent of two years worth of imports while in 2007 reserves were only able to cover 8,8 months. Furthermore, according to our estimates for 2008, the reserves will only be able to cover 7,2 months of imports.



Sources: BCV and Ecoanalítica

Both sectors contribute

According to the explanation given by the BCV, the drop in non-oil exports is due to the drop in foreign sales of aluminum products made by the public sector, as well as the drop in private sector exports, mainly the automotive, chemical, and non-metallic mineral industries. The increase in imports is mainly due to the demand for food and beverages, automobiles, and machinery generated by the private sector which in the fourth quarter of 2007 increased by 28% compared to the same period of the previous year. Another important fact which caused this jump in imports was the increase in purchases of products by the public sector (during the same period increased by 120%), which were mostly made for the oil industry, and for the recently nationalized CANTV and *Electricidad de Caracas*.

Regarding the Current Account…

Exchange controls impose restrictions on the production of goods to satisfy the domestic market given that producers encounter all kinds of obstacles when it comes time for them to import raw materials and items they require to maintain production. Meanwhile, official exchange rate subsidy generates pressure on imports leading them to increase by the percentages we have already mentioned. So, it's obvious that the constant uncertainty faced by businessmen and producers, concerning the future course of action of public policies, constitute a significant impediment when it comes to increasing private investment and therefore exports. All this, added on to the structural issue of a fixed exchange and the over-valuation of the bolivar which makes us less competitive before our trade partners.

If to all these elements we add on the low investment made by the oil industry, which has determined the drop in crude oil exports from 2,63 mbd in 2006 to 2,29 mbd in 2007, the result is two opposing forces which are becoming more defined over time and which are systematically draining the trade surplus: the progressive increase of imports and continually diminishing exports.

BALANCE OF PAYMENTS (General Summary)	2006	2007	Var (%)
Current Account	27.149	20.001	-26%
Goods	32.712	23.702	-28%
Oil Exports	58.438	62.555	7%
Non-Oil Exports	6.772	6.610	-2%
Import of goods f.o.b.	-32.498	-45.463	40%
Services	-4.433	-5.851	32%
Others	-1.130	2.150	-290%
Capital Account	-22.011	-25.743	17%
Public Sector	-10.753	-3.759	-65%
Private Sector	-11.258	-21.984	95%
Reserves Variation	5.138	-5.742	-212%

Sources: BCV and Ecoanalitica

The Capital account doesn't look much different

Capital Accounts, which register foreign operations that are purely financial, closed this year with a deficit of US$25.74 billion, which is not very different from that observed in previous years with respect to our Balance of Payments. It always turns out that the flow of outgoing foreign currency surpasses the incoming flow. This is a characteristic of our economy. However, this tendency has progressively become more pronounced (US$25.74 billion in 2007 vs. US$22.01 billion in 2006) and has been spurred on by the private sector with an 85% participation of the deficit of this account.

It's important to understand that in an environment of negative interest rates, private agents have no incentive to keep their capital in the country. On the other hand, during 2007, economic agents were worried given the possibility that a new Constitution would be approved that would introduce doubts concerning the respect for private property.

In this context, the deficit increased by 17% in 2007 compared to the previous year. This modest variation is due to the opposing positions of the public and private sector. At the close of 2007, the first one presents a deficit in the Capital Account of 65%, while the private sector, for the same account, for the same period, shows an increase in its deficit of 95%. The result being an increase in the deficit, but less pronounced than expected.

BALANCE OF PAYMENTS PRIVATE SECTOR (General Summary)	2006	2007	Var (%)
Current Account	-28.072	-38.748	38%
Goods	-22.953	-34.562	51%
Non-Oil Exports	6.772	6.610	-2%
Import of goods f.o.b.	-29.725	-41.172	39%
Services	-4.328	-5.691	31%
Others	-791	1.505	-290%
Capital Account	-11.258	-21.984	95%
Private Sector	-11.258	-21.984	95%
Investment of Portfolio	-1.282	-1.477	15%
Direct Investment	-590	646	-209%
Private Capital Flows	-7.310	-18.916	159%
Reserves Variation	-39.330	-60.732	54%

Sources: BCV and Ecoanalitica

The public sector cutback on its outgoing capital

The public sector accumulated fewer resources abroad. According to the BCV, in the case of the public sector, what stands out is the increase of classified assets in the categories of other investments and direct investments, especially the resources transferred to FONDEN and the credits associated to oil industry trade activity. On the other hand, reserve asset positions dropped and investment funds in portfolio instruments also dropped, these resources being redirected to other investment accounts. In our opinion, the public sector Capital Account figures reflect the Government's tendency to change its holding of foreign currency with domestic currency, and therefore, the significant drop in its deficit.

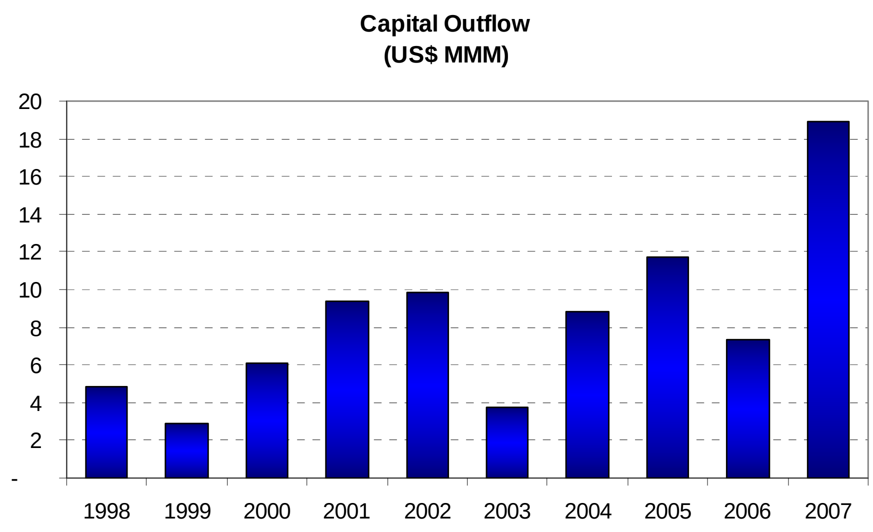
BALANCE OF PAYMENTS PUBLIC SECTOR (General Summary)	2006	2007	Var (%)
Current Account	55.221	58.749	6%
Goods	55.665	58.264	5%
Oil Exports	58.438	62.555	7%
Import of goods f.o.b.	(2.773)	(4.291)	55%
Services	(105)	(160)	52%
Others	(339)	645	-290%
Capital Account	(10.753)	(3.759)	-65%
Public Sector	(10.753)	(3.759)	-65%
Reserves Variation	44.468	54.990	24%

Sources: BCV and Ecoanalitica

The private sector increased its outgoing capital, setting a new record in 2007

The greatest distortions reflected in the Balance of Payments continue to be the private sector's Capital Account with an increase in its deficit of 95% compared to 2006. This is explained by three important facts:

In the first place, and most overwhelming, is outgoing private capital. This account reflects an increase in its deficit of 159%, going from US$7.31 billion in 2006 to US$18.92 billion in 2007. This is the highest amount ever recorded since the BCV began publishing these figures and it goes to prove how the exchange controls are not serving their purpose and therefore have no reason for being.



Sources: BCV and Ecoanalítica

In the second place, the direct foreign investment account improved, going from a deficit of US$590 million to a surplus of US$646 million. This increase in the balance was tied to the BCV through international financing for US$1.0 billion received by the oil industry, in other words, it does not reflect any improvement in non-oil private investment. If we subtract this amount from the account, the deficit would equal US$354 million.

And lastly, the portfolio investment account reflected a moderate variation of 17%, going from a deficit of US$1.28 billion at the close of 2006 to US$1.48 billion at the close of last year. This is explained by an increase in the acquisition of foreign titles by the private sector.

The result: an important drop in international reserves

With a Current Account reflecting a surplus, but less of one than compared to 2006, and a Capital Account with a larger deficit than what was registered in the same year, the result is evident: international reserves dropped by US$5.74 billion in contrast to the US$5.14 billion increase they reflected at the close of 2006.

Everything is clearly explained by the figures obtained. Despite the fact that oil prices reached record levels in 2007, oil revenues were not able to surpass resources leaving the country due to soaring imports and outgoing capital from the public as well as private sector. The current situation presents the Government with one fundamental challenge: generate confidence in the economy. Unfortunately, we don't believe this is one of the Government's priorities.

At ***Ecoanalítica,*** we continue to believe that what the Balance of Payments account reflects is just what Martin Fierro's famous phrase says: *"El tiempo sólo es tardanza de lo que está por venir"* (Time is only the delay before what is about to happen). The exchange control that the current Administration is trying to convince us will be "permanent" is going to collapsing when foreign oil revenues can't compensate for the continual increase of imports and the drain of outgoing capital due to the exchange subsidy that exists through the "preferential" (official) exchange rate. Though a Balance of Payments crisis is not just around the corner, unfortunately, we are slowly but surely heading for it.

Economic Tips

The paradoxical circumstances of Venezuelan economic growth. For the seventeenth quarter in a row, the Venezuelan economy posts an increase in of GDP which settles at 8.5%, but at the same time the oil GDP reflects a drop of 0.7%. It's important to point out that this activity is the one that generates the resources that allows the economy to grow, and it has done so lately based on pure oil price increases and not increasing production. In 2007, the oil industry shrank by 4.2%. The sector that reflected the most growth during the quarter was communications, up 18.3% followed by commerce and services, up 16.7% compared to the same quarter of the previous year.

New economic plan to increase domestic production. The Minister of Planning and Development, Haiman El Troudi, announced that a new Economic Plan was forthcoming and that it mainly included new monetary and fiscal policies that would aim to increase domestic production with the collaboration of businessmen from both sides of the political spectrum. At ***Ecoanalítica***, we don't understand why the announcement of the new plan is being delayed given that the new authorities have already been in office for two months.

SENIAT tax collection drops. During the first month of the year the SENIAT surpassed its monthly tax collection goal by 17.8%, collecting VEF5.06 billion. With respect to January 2007, this figure increased by 7.8% in nominal terms but dropped by 12.9% in real terms. Most of the taxes collected came from the VAT, followed by customs tributes and the Financial Transaction Tax (ITF).

NATIONAL TAX COLLECTION
(VEF Millions)

	DECEMBER			
	2008	**2007**	**Var %**	**Real Var %**
TOTAL	5.055	4.691	7,8%	-12,9%
Income TAX	881	1.397	-36,9%	-49,1%
Tax	1.598	1.781	-10,2%	-27,5%
Customs	1.225	1.404	-12,8%	-29,6%
Others Incomes	350	108	222,7%	160,7%
ITF	1.002			

Sources: SENIAT and Ecoanalitica

95% of the 2007 budget was used. Public spending authorized by the 2007 Budget Law was for VEF115.17 billion, and an additional VEF28.00 billion approved in additional loans throughout the year. So authorized spending for the year was for VEF143.00 billion. The Government used 95% of this during the fiscal year.

And the BCV releases figures up until November. According to the BCV, during the first 11 months of 2007, public spending equaled VEF97.72 billion, which is down, in real terms, by 7.8%. So one could say that there was drop in public spending last year which had a limited effect on inflation. Total revenues were also down, in real terms, by 8.6%, which is explained by the 20% drop in oil revenues. However, this drop is not so, since PDVSA has accumulated a portion of its fiscal contributions in a fund in US-dollars.

A manageable deficit. Up until November, the Central Government accumulated a deficit of VEF2.91 billion, which contrasts with the VEF1.88 billion deficit accumulated during the same period in 2006. Financing needs settled at VEF8.81 billion.

FISCAL BALANCE CENTRAL GOVERNMENT (VEF Millions)	November 2007	November 2006	Nominal Variation	January-November 2007	January-November 2006	Nominal Variation	Real Variation
Total Revenue	9.547	8.952	6,6%	104.362	96.633	8,0%	-8,5%
Non-Oil Revenue	5.504	4.835	13,8%	54.436	43.124	26,2%	6,9%
Oil Revenue	4.043	4.116	-1,8%	49.855	52.512	-5,1%	-19,6%
Total Expenditure	16.227	15.196	6,8%	113.951	104.757	8,8%	-7,9%
Primary Expenditure	15.714	14.810	6,1%	106.521	97.083	9,7%	-7,1%
Interest Payments	514	386	33,0%	7.020	7.674	-8,5%	-22,5%
Domestic Debt	139	264	-47,3%	2.790	2.930	-4,8%	-19,4%
Foreing Debt	374	122	207,6%	4.641	4.744	-2,2%	-17,1%
Fiscal Balance	-6.681	-6.244		-9.589	-8.124	0,0%	0,0%
Primary Balance	-6.167	-5.858		-2.159	-450	0,0%	0,0%
Non Oil Balance	-10.724	-10.360		-59.515	-61.633	0,0%	0,0%
Debt Amortization	-186	0		5.715	5.729	0,0%	0,0%
Net Monetary Inyection	9.886	9.805		55.467	58.247	-4,8%	-19,3%
Financing Requirements	6.494	6.244		15.304	13.853	0,0%	0,0%
Foreing Debt	2	0		62	256	0,0%	0,0%
Domestic Debt	277	433		5.122	4.371	0,0%	0,0%
Tresury Bonds	277	425		5.122	4.359	0,0%	0,0%
Tresury Debt	0	8		0	13	0,0%	0,0%
Others	6.215	5.811		10.120	9.225	0,0%	0,0%

Sources: BCV and Ecoanalítica

BCV prepares to introduce a new ceiling for lending interest rates. Armando León, director of the BCV, announced that the BCV is currently reviewing interest rate ceilings. According to the director, it's probable that the maximum ceiling for lending rates, which in the past few months have been increasing considerably, will be adjusted to a lower level.

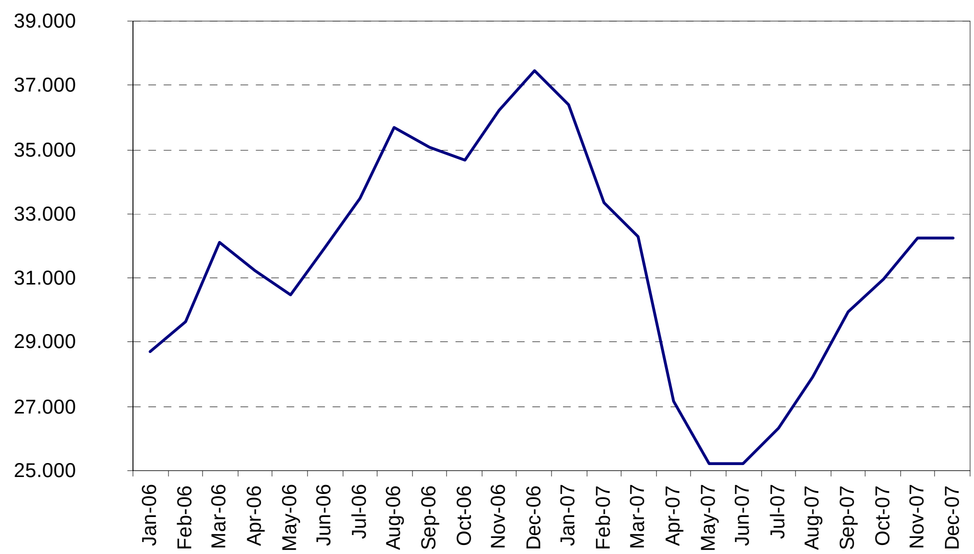
Treasury bills. The National Assembly Finance Commission authorized the issue of VEF3.70 billion in Treasury Bills during 2008. During the first days of the month of January an issue of VEF7.50 billion of domestic and foreign debt was issued and VEF8.60 billion to restructure the debt, so VEF19.80 billion (US$9.21 billion) of public debt is expected to be issued this year.

Price controls will be maintained. During a nationally televised broadcast, the President announced to different private sectors that he would not lift price controls arguing that the State has a responsibility to protect the consumer from the "voracity of capitalism," when the main cause of the current shortages are due to the same control.

Monetary liquidity. According to the latest figures released by the BCV, monetary liquidity is at VEF149.06 billion, down 0.11% compared to the previous week. For the year, monetary liquidity is down 2.5 percentage points.

International reserves. International reserves total for the week of February 21st of the current year was at US$32.16 billion, down 2.06% compared to the previous week.

Foreign Reserves (Million US$)



Sources: BCV and Ecoanalitica

Interest rates. The average lending interest rate for the six main commercial and universal banks in the country was at 22.98%, down 1.15%. Term deposit interest rates were at 13.38%, up 1.61 percentage points compared to the value of the previous week.

OIL TIPS

Profits drop. The general intermediate balance published by PDVSA, with figures up until June 30, 2007, indicate that the oil company's net profits were US$896 million during the first quarter of 2007, thereby registering a drop of 68% compared to the same period in 2006 (US$2.85 billion). The company's drop in profits is justified by the slight drop in crude oil exports (from 2.66 MBD in 2006 to 2.55 MBD in 2007) as well as the drop in prices (-4.5% with respect to 2006), added on to the 7.8% increase in social contributions.

PDVSA scored US$1.02 billion in debt from energy agreements. Countries benefiting from the energy agreements that involve the supply of Venezuelan oil and oil by-products accumulated up until June 2007 accounts to be paid for US$1.02 billion, 43.8% more than what was registered in 2006. In only six months, Petróleos de Venezuela has seen an increase of US$310 million in its accounts to be paid over the long term, according to the company's intermediate financial statements released. Among the countries that are benefiting through these agreements are Cuba, Argentina, Bolivia, Uruguay, Paraguay, Nicaragua, and 15 other countries located in the Caribbean and Central America.

And full of disputes. PDVSA's intermediate balance also reveals that the company is also involved in a number of claims and legal actions against it incurred in the normal course of its operations. These all add up to US$6.08 billion. As a contingency for this kind of situation, PDVSA set aside until the 30 June, 2007 a total of US$1.57 billion catalogued as "accumulations and other savings," and an amount that surpasses US$860 million set aside until the 31 December, 2006.

Oil prices continue to increase. The price for a barrel of Venezuelan oil closed last Friday at US$90.13, up US$3.8 compared to the end of the previous week. The WTI closed at US$98.81, also up US$ 0.58.

Compensation for European oil companies. As part of the Orinoco Oil Belt nationalization process, PDVSA announced that it had paid US$1.80 billion in compensation to European oil companies Statoil, and Total.

Won't affect classification. The North American risk classifying agency, Moody's Investor Service, announced that PDVSA's GLC (Global Local Currency) classification would not be affected by the arbitrage process being introduced by Exxon Mobil against Venezuela given the size of its assets, the reach of its operations, and its current B1 rank. Moody's announced that they have been observing PDVSA's financial levering during 2007, mainly through loans obtained and increased payments made to social programs promoted by the Bolivarian Government.

BUSINESS SECTOR TIPS

More money for the Housing Fund. The National Bank for Housing and Habitat (Banavih) estimates that it is going to receive VEF1.10 billion during the first semester through contributions from the Compulsory Housing Savings Fund, enough to service the demand for loans in this area, according to the Bank's president, Eugenio Vásquez Orellana. The funds will be monitored in the same way the funds contributed to banks are monitored so that they reach their intended destination, in this case, housing loans.

Milk shortage could be solved soon. The president of the Venezuelan Chamber for the Dairy Industry (CAVILAC), Roger Figueroa, announced that the measures taken by CADIVI have helped streamline milk imports and according to talks with other government organisms, milk shortages could be resolved in three months.

The Government looks to organize food distribution. Carlos Osorio, Superintendent of Silos, Warehouses, and Agriculture Storage Facilities (SADA), announced that given that the national distribution of food is not equal according to population density, the Government will begin to be in charge of this matter. It plans to hold talks with companies around the country concerning the imbalances created by distribution. This process will be carried out through the Integral System for Agro-Food Control (SICA).

More controls for ALADI agreement. The Administration is considering increasing requirements to import items through the ALADI agreement. The president of the Finance Commission, Ricardo Sanguino, announced that there will be more requirements for carrying out purchases through this agreement. They will be announced by members of the Administration. He said that what was being considered was that the import of certain products should not be continued to be allowed through the agreement but through normal channels.

Financial system changes coming soon. Within the framework of the General Bank Law reform being introduced by the Administration, the financial system will be faced with a number of restrictions. Among the most import ones are introducing additional mandatory loan quotas (with this, controlled loans would equal 40% of the total portfolio) and the control of service commissions.

And also in the public banking system. Within the framework of the Special Powers Law, the Administration is preparing legal text aimed at unifying the structure of the public banking system. With this in mind, the Ministry of Finance is establishing the guidelines that will include the legal framework and some of the objectives that will be evaluated like creating a committee made up of different Ministers will be in charge of supervising the public sector financing system, instead of it being done by Banking Superintendent's Office. If this proposal were to be accepted, public finance entities would have a scheme similar to the institutions dedicated to the micro-financing system, which are not subject to control by the supervising organism.

TSJ admitted that class action suit had been filed by Anauco against CADIVI. The Constitutional Chamber of the TSJ admitted that a class action suit had been filed by the National Alliance of Users and Consumers (ANAUCO) against CADIVI, for having eliminated the pre-paid credit cards, for having reduced the foreign currency quota allowed for internet purchases, and for having created the so-called "CADIVI List."

Workers take-over Firestone plant. The Firestone plant in Valencia was taken-over by workers since last Monday due to a clash between workers unions who blocked personnel access to the plant.

Pdval community council members will keep a record of purchases per person. The vice-president of PDVSA and spokesperson for PDVAL, Asdrúbal Chávez, announced that community council members will keep a record of the purchases made per person daily from the *Pdvalitos* in order that people don't make two purchases per day so that products have a chance to reach everyone in the community. The food distribution network counts on a social study which establishes the amount of food that each person requires taking into account the needs of each family, informed Asdrúbal Chávez.

Electric power consumption grew less than expected in 2007. The consumption of electric power in the country during 2007 grew less than what was expected by the sector's technical organisms. The OPSIS, currently called CNG, estimated that the approximate increase in demand would of 5.1%, compared to what the increase was in 2006. Nevertheless it only grew 2,0 %.

Problems continue for auto-parts manufacturers. Though production for car batteries has returned to normal, other auto-parts manufacturers are not producing at maximum capacity. Produces say that CADIVI has authorized them foreign currency, but not enough. Only 30% of the foreign currency requested was liquidated.

Government is optimistic. Even with the new Venezuelan automobile policies implemented (which considerably cutback on car imports that represented almost 70% of sales last year), the Government expects car sales this year to be almost at the same levels as 2007. The Government's official planes are that domestic car production increase from around 180,000 cars to 300,000, and that with imported cars and other agreements the total number of sales reach 480,000 vehicles, according to the vice-minister of MILCO, Elio Colmenares.

***Banesco Seguros* to open office in Panama.** Banesco Seguros launched its 2008 Incentives Plan aimed at its producers which includes stimulus, commissions, bonds, and benefits. Banesco Seguros president, Pedro Luis Garmendia, also took the opportunity to announce the opening of a new office in Panama.

Venirauto to assemble 10,000 cars in 2008. The Iranian-Venezuelan company Venirauto expects to assemble 10,000 vehicles this year. It's focusing on its Turpial and Centauro models. According to Venirauto's vice-president, the company is currently working out the final details of the operation conditions of the auto-parts plant for these models. A company representative explained that the cars will run on *Gas Natural Vehicular* (natural gas).

Nestlé demands to receive a just indemnity in case of expropriation. A member of the Nestlé group assured that nationalization is the right of the Government, but insisted in the need for a "just" indemnity in case the States threats were to be carried out. The company has already been nationalized in the past, in Venezuela and even in Cuba and in both cases they received reparations.

Basic basket goods exonerated from customs taxes. The *Gaceta Oficial* dated February 21, includes the decree which exonerates from having to pay customs taxes, goods, merchandise, and effects declared being of first necessity and those items included in the basic basket, as long as there exists in the country a state of shortages due to no or insufficient production or any other circumstance that goes against the social well-being of the people. The reform's aim is to help streamline the Government's purchasing of basic goods and to eliminate their shortage.

Reduce the time to nationalize goods. According to the *Gaceta Oficial* number 38.873 dated February 19, it is established that due to motives regarding the sovereignty of food and to avoid foods and essential products decomposing, the importers of regulated foods and products declared to be of first necessity must deliver all the requirements necessary in order to immediately complete the nationalization process during a period of no more than 10 days or the Government will proceed to declare the merchandise legally abandoned and take possession of it.

The health sector has received 3.4% of Fonden. Being one of the sector for which Fonden is responsible, the health sector has been one those that least resources received from the entity which has focuses on solely distributing its funds to *Barrio Adentro* III and IV. Fonden figures corresponding to November 2007 show that it assigned only US$831 million, 3.49% of the total of its funds which add up to US$ 23.81 billion to the health sector.

Two months? In an interview given to the newspaper *El Clarín* of Argentina, Celso Amorín, indicated that he expected to have an answer concerning Venezuela's joining Mercosur in two months. He said, *"I don't want to set a time limit because it would look like I'm imposing a time limit on Congress, which is a sovereign entity, but in a couple of months, it could be two months, it could be one months, it could be a little more."*

Political Tips

Document against López and Mendoza. The Comptroller General of the Republic, Clodosbaldo Russián, introduced a list with more than 400 people's names on it, all of which are politically ineligible to run for office because they have administrative case files pending against them with his office. Among the 400 named are Leopoldo López, who plans to run for the Greater Caracas Mayor's Office, and Enrique Mendoza, who plans to be reelected to the Miranda State Governor's Office. The officer stated that their political ineligibility is due to their not being careful with managing public resources.

Mundaraín to the OAS. Germán Mundaraín, once an Ombudsman, will be appointed as Venezuela's ambassador to the Organization of American States (OAS) replacing the current ambassador, Jorge Valero, who is also vice-minister of Foreign Affairs for North America.

CNE will sanction those who do not fulfill their electoral service. Being elected as a member of a voting table and not fulfilling your electoral duty will no longer be an option. The president of the Civil and Electoral Registry Commission, Sandra Oblitas, announced that the CNE is moving forward with a process to sanction citizens, barring those exception included in the Organic Suffrage Law, who do not assume their duty as voting table member or regional, municipal, and parochial junta member.

First community police force activated. The Governor of the State of Bolívar swore in the first 19 officers of the new Community Police force, which will work in close unison with neighbors and community councils. He pointed out that all the officers of this first group were members or decedents of the regional indigenous tribes.

Other Tips

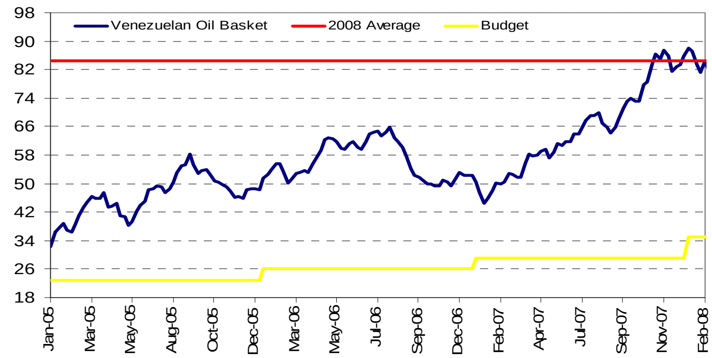
Bad business environment. The economic environment in Latin America, affected by the current U.S. crisis, dropped in January to its lowest level in since July 2005, according to the index carried out jointly by Economics Research Institute in Munich and the Getulio Vargas Foundation (FGV) in Brazil. It's the lowest level in this index that the region has reached in two and a half years, and reflects a loss of economic confidence in the region. This compared to the 5.6 mean points registered in October last year and the 5.9 points registered in July 2007, when it posted its highest rating in three years.

Only 2. Country by country, the Economic Climate Index only improved for two of the twelve countries studied: Argentina went from 4.3 points in October 2007 to 5.0 points in January 2008 and Paraguay went from 5.0 to 6.4 points. The index almost didn't vary for Brazil (6.5 to 6.4 points), Costa Rica (level at 7.0 points), and Peru (7.3 to 7.4

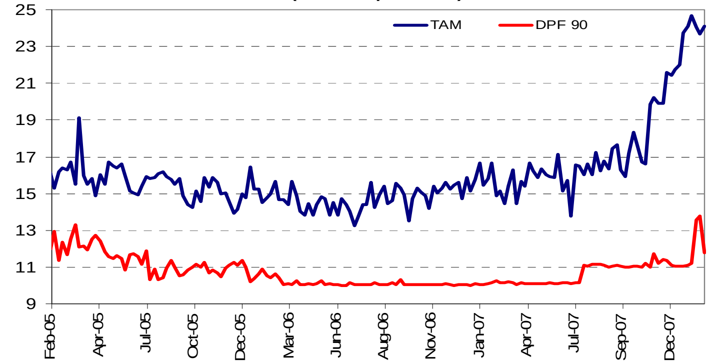
points) during the same period. Confidence continued to drop in the following countries: Ecuador (4.3 to 3.2 points between October and January), Mexico (5.0 to 4.5 points), Venezuela (5.3 to 4.1 points), and Chile (6.6 to 5.3 points). Though still dropping, the loss in confidence was less in Uruguay (8.4 to 7.7 points) and Colombia (6.2 to 5.5 points).

ECONOMIC OVERVIEW

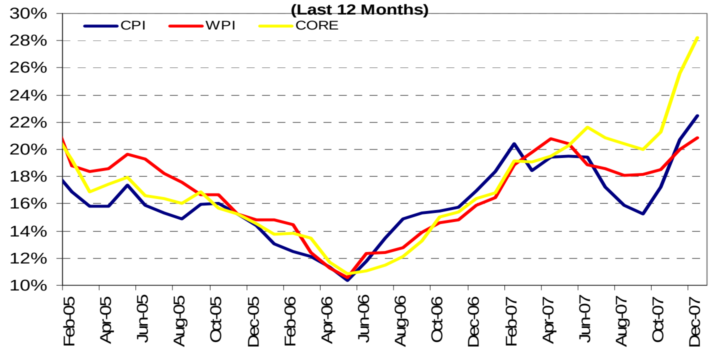
Oil Price
(Venezuelan Basket US$/pb)



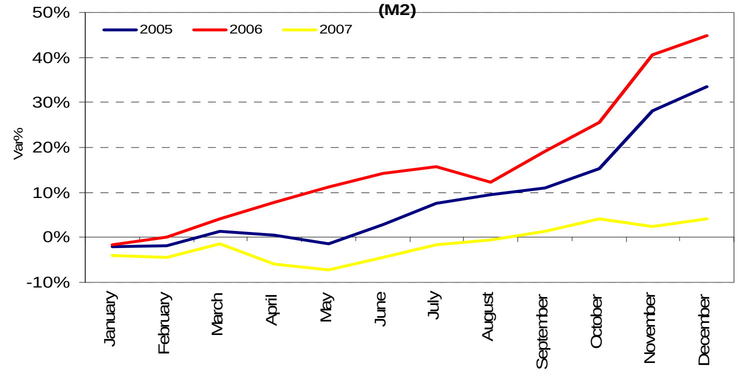
Interest Rate
(Six Principal Banks)



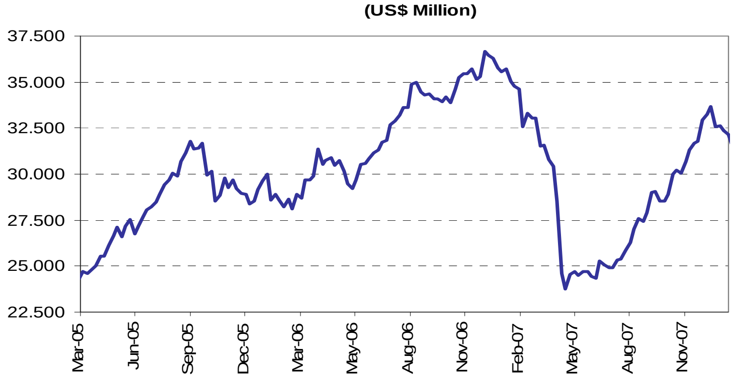
Inflation
(Last 12 Months)



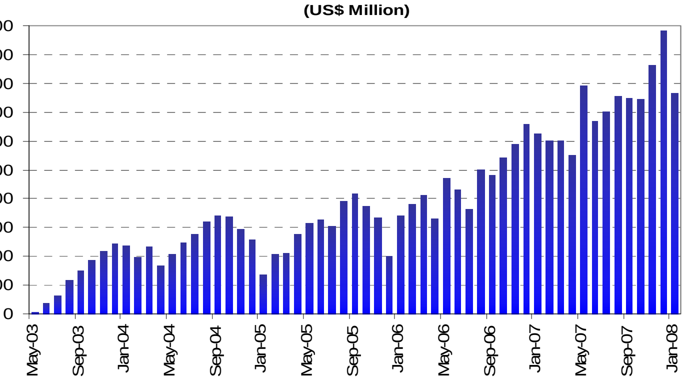
Real Expansion
(M2)



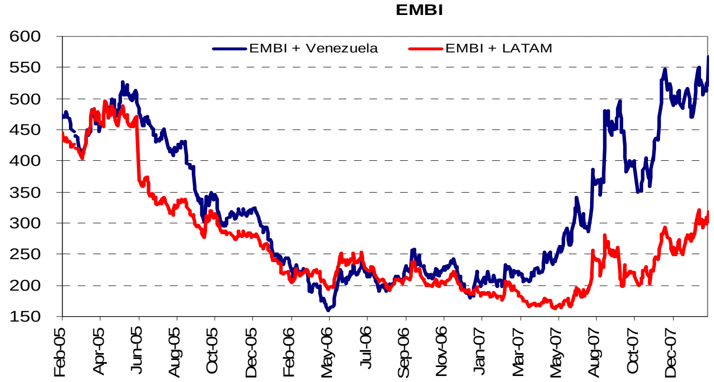
Fx Reserves - BCV
(US$ Million)



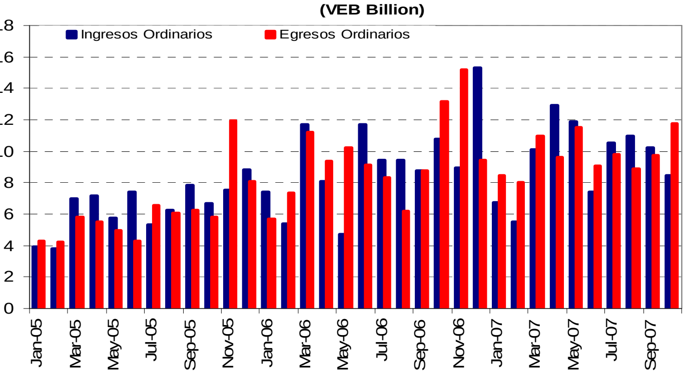
Disbursement
(US$ Million)



EMBI



Central Government
(VEB Billion)



Av. Blandín, C.C. Mata de Coco, Piso 5, Ofic. 5E, Caracas 1060 / Tlf: 266.90.80 Fax: 266.51.19
alejandrog@ecoanalitica.net / www.ecoanalitica.net