



# Weekly Report

Year 5, Number 02  
Week III, January 2009

By:  
Asdrúbal Oliveros  
Michael Penfold

## ***CADIVI: 2009's BIG HEADACHE***

### **Reproduction or distribution prohibited**

The international crisis, and consequently, the drop in oil prices, will significantly impact Venezuela's foreign accounts in 2009, especially those related to financing imports. From the fiscal point of view, the Government has enough resources to cover public spending in the medium term, despite low oil prices on the international market, but it won't have as much official rate foreign currency available as it had this year to cover imports.

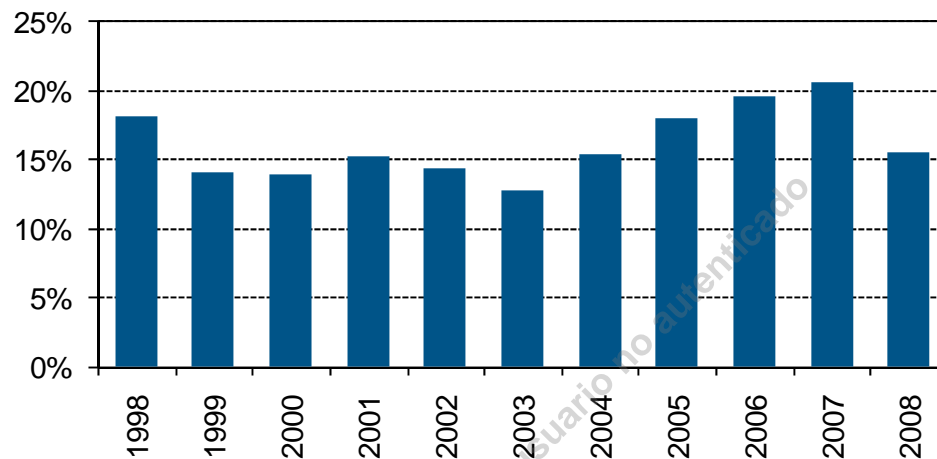
### **CADIVI is changing its priorities**

It's no secret that the main manifestation of the recent economic boom has been the increase of imports. In 2003, imports represented 12.8 points of GDP (US\$ 10.70 billion). In 2008, imports represent 15.6 points of GDP (US\$ 47.60 billion) according to Central Bank of Venezuela (BCV) figures. This is due to the exchange control measures in place which in fact act like a subsidy for imports given the over-valuation of the currency which makes imports cheaper.





### Imports % GDP



Sources: BCV and Ecoanalítica

Despite some initial problems produced by the implementation of the exchange control, CADIVI didn't have any problems authorizing foreign currency to meet the financing needs of a number of sectors, from basic items to luxury and exotic items like Hummers and 18 year-old scotch, right up to 2007. In 2007, the Government, due to the significant increase in imports, began to implement restriction of the authorization of foreign currency by CADIVI. The most important changes, in our opinion, were: 1. the policies governing the authorization of import licenses and production and no-production certificates by the MILCO, with the automobile industry case being the most emblematic; 2. the new restrictions for the approval of foreign currency via ALADI agreement; and 3. the lowering of the foreign currency quota for internet purchases and travelers.

#### Food, commerce, and health

The Government, on the other hand, established that it had three priorities: food, medicines, and capital goods for industry, a very ambiguous item. All these changes are reflected in CADIVI's liquidation of foreign currency in 2008. For example, the food sector received almost 20% of the foreign currency authorized by CADIVI, more than any other sector, and it was also the sector which amount of foreign currency it received this year was higher than last year (91% more). It's worth noting that the food sector's increase of 7 percentage points with respect to the total. Commerce, in turn, dropped its participation in 2007 to 19% and 15.6% in 2008, came in second in terms





of sector to receive the most foreign currency by CADIVI, which makes sense given the increase in private consumption experienced in Venezuela.

<b>CADIVI Liquidated Amount (% of Total)</b>			
<b>Sector</b>	<b>2007</b>	<b>2008</b>	<b>Differential</b>
	<b>Weight Index</b>		
Food	11,4%	18,1%	-6,7
Trade	19,0%	15,6%	3,4
Health	13,8%	13,7%	0,1
Automotive industry	9,9%	11,0%	-1,1
Machinery and equipment	7,2%	6,5%	0,7
Chemical	8,0%	6,1%	2,0
Telecommunications	4,9%	5,1%	-0,2
Information technology	4,0%	4,7%	-0,7
Metallurgical	4,4%	3,9%	0,6
Rubber and Plastic	2,7%	2,3%	0,4
Electrodomestic	2,0%	1,8%	0,1
Services	2,0%	1,8%	0,3
Construction	1,8%	1,6%	0,2
Electric	1,3%	1,4%	0,0
Electronic	1,8%	1,2%	0,6
Non metallic minerals	1,3%	1,3%	0,0
Textile	1,2%	0,9%	0,3
Paper- Coal - Wood	1,0%	0,8%	0,2
Graphic	0,7%	0,8%	-0,1
Communication - Press	0,4%	0,5%	0,0
Veterinary	0,3%	0,4%	0,0
Science and Tecnology	0,2%	0,2%	0,0
Bookstore and school supplies	0,3%	0,1%	0,0
Tobacco - Alcohol beverage	0,1%	0,1%	0,0
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

Sources: Cadivi and Ecoanalítica





### **More than half**

With respect to capital goods, it's worth noting that the items machines and equipments came in fifth place and increased in the amount authorized by 9% compared to 2007. If we add up CADIVI's priority sectors we see that they reflect 38.3% of the total. According to our calculations for 2009, these three sectors will be getting 53% of the total of foreign currency authorized.

### **The automobile industry**

With regard to the automobile industry, despite the fact that the Executive Office established import licenses and raised tariffs, the amount authorized compared to 2007 only dropped 1.3%, coming in fourth place. But, according to information coming from the Venezuelan Automobile Chamber (CAVENEZ), car sales in 2008 dropped by 44.8% compared to 2007; especially the sale of imported cars and domestically assembled cars dropped by 59.7% and 12.5%, respectively. Furthermore, automobile exports dropped by 91.3%, going from 13,154 cars exported in 2007 to 1,191 in 2008.

This drop reflects this sector's potential growth margin for 2009, though we are not optimistic that it will be reached, since unofficial information has it that the Administration is planning to reduce the number of import licenses by half, with licenses for around 55,000 vehicles being issued with priority given to public transportation vehicles and heavy load vehicles.

### **What will 2009 be like?**

According to our estimates at Ecoanalítica, imports in 2009 will be at around US\$ 42.50 billion which represents a drop of 10.7% compared to 2008. Although the drop is not dramatic, it still could be just wishful thinking that imports will be kept to such levels.

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

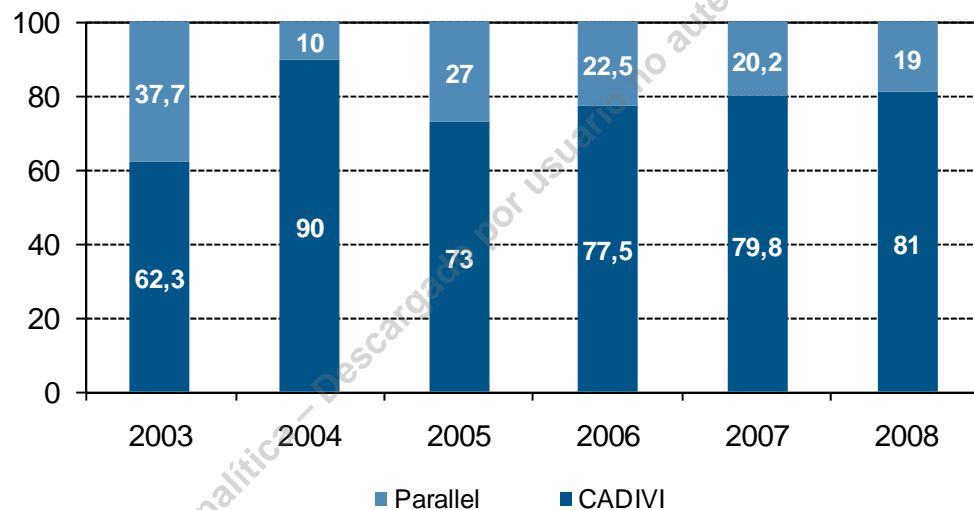
In 2009, the figures are going to divide themselves a bit differently. At Ecoanalítica, we estimate that imports financed by CADIVI (official exchange rate) will be at around US\$ 25.65 billion, This represents a drop of 33.7% compared to that it authorized in 2008, and more than half of this amount will go to the Government's three priority sectors (food, medicine,





and capital goods). So this means that most of the industries will have to rely on the parallel market for financing their needs. In 2009, imports financed by the parallel market will reach US\$ 16.85 billion, in other words, 88.6% more than the previous year. The unofficial market will finance 40% of the total of imports. This will produce negative effects on inflation and on the structure of costs for companies, as well as put the brakes on the increase of consumption due to how prices will behave.

### Imports Percentage



Sources: Cadivi y Ecoanalitica

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

Totals Imports (US\$ MM)			
	2008	2009	Var (%)
Imports- Official	38.667	25.651	-33,7
Imports- Non Official	8.934	16.849	88,6
Others	9.363	6.449	-31,1
<b>Total</b>	<b>56.964</b>	<b>48.949</b>	<b>-14,1</b>

Sources: BCV and Ecoanalítica



### The credit card backlash

In 2009, the financing of other items by CADIVI will drop from US\$ 9.36 billion in 2008 to US\$ 6.45 billion, in other words, a drop of 31.1%. This drop is mainly explained by the adjustment made to foreign currency quota for travelers that was cutback from US\$ 5,000 to US\$ 2,500 and the new regulations regarding border cities and the new limit on credit cards. According to our calculations, these measures will save the Government US\$ 2.09 billion and also explains the 72% drop in foreign currency earmarked for other items.

The sectors of vital importance are: airlines, private foreign debt, and foreign investment which will not be seriously affected in 2009 in our opinion; but in a scenario in which includes restrictions on foreign currency, it's important that companies take the necessary precautions.

### An exchange control that has outlived its usefulness

When the exchange control was implemented in February 2003, it was justified. In the middle of a significant economic boom, the Government didn't take advantage of the opportunities it was presented with to dismantle these controls without seriously affecting the country's economy. Today, almost 6 years later, the exchange control is not fulfilling its purpose, especially with regard to outgoing capital, and it is generating too many distortions affecting imports. Today, more than ever, the Government should begin to initiate a flexibilization process first and then dismantle the exchange control in order to avoid a more severe adjustment in the future. Unfortunately, we see no signs which indicate that the Executive Office has any intentions of making any substantial changes, and therefore the distortions caused by the exchange control will get worse.

## Economic Tips

**Inflation in Mercal.** In order to minimize the impact of the increase in foodstuff prices on the population (41.3% in 2008), the President of the Republic pointed out that the figure does not take into account the effect of Mercal, where inflation is zero. However, data from the National Statistics Institute (INE) contradict that information reporting that





the official food basket has increased 199% over five years; this basket includes the effect of the Mercal chain.

**Next president of the BCV.** The National Assembly could probably receive this month from the Executive the name of the new president of the Central Bank of Venezuela. According to the BCV Law, the vacant post will be filled by the first vice president until a new president is appointed. The new official has to be appointed within 90 days of the said absence. Once the President of the Republic submits the name to the National Assembly during the first 30 days of this term, the Assembly will examine it for its eventual approval in a plenary session.

**Tough Chávez.** Chávez claims that he has enough resources to survive any upcoming crisis. He has surplus resources from 2008 fiscal year of about US\$ 11.0 billion that were transferred to the Fondo Miranda; he also has resources from FONDEN (presently estimated at US\$ 3.0 billion, without including the transfer from international reserves) and resources in the Fund the government has with China, of US\$ 2.0 billion. These are the estimates released by President Chávez.

**No package in the near future.** The minister of Economy and Finance, Alí Rodríguez Araque, denied once more that new taxes are to be created and that official exchange rate is going to be adjusted. "No, not for now," he said about other eventual controls on the economic sector. However, Rodríguez pointed out that a number of measures are being considered to face the drop in oil revenues due to the lower oil prices.

**US\$ 12.0 billion in reserves for FONDEN.** The President of the Republic announced that more than US\$ 12.0 billion will be transferred from surplus reserves in the BVC, to finance projects of the national government. PDVSA has transferred US\$ 21.81 billion to FONDEN, since this latter was created: US\$ 1.5 billion in 2005, US\$ 6.8 billion in 2006, US\$ 6.7 billion in 2007 and US\$ 6.67 billion in 2008.

**Lack of cash flow in banks due to deposit withdrawals by the government.** The current administration has started to withdraw deposits placed in private financial institutions to cover expenses, as a result of the lower oil revenues. This fact has resulted in an increase in short-term inter-bank loans to be able to cover daily operations.

**Overnight rate soars.** The withdrawal of State's resources from private banks is putting upward pressure on inter-bank loan rates: the average operations changed from 8.8%





in October 2008 to 29.3% as of January 15, whereas overnight rate reached 33%. Another sign of this imbalance is the average amount of inter-bank lending: VEF.1.5 billion in October 2008, whereas the amount reached VCEF.4.25 billion in December.

**The BCV is promoting the exchange of community currencies.** The BCV Director, José Félix Ribas Alvarado, expressed at the “Workshop on the solidarity-based exchange system, barter and community currencies” that community councils make community currencies and that, therefore, meetings with these organization will be promoted to agree on future actions.

**50 Venezuelans leave poverty every 50 hours in Venezuela.** According to figures used by President Chávez, 437 thousand people leave poverty: “about 1,190 people daily, 50 every hour, almost one per minute” and over the last decade (1998-2008) a total of 2.7 million Venezuelans have overcome poverty line. Therefore, 30% of the population is still classified as poor.

**Poor people are increasingly depending on the State.** Sociologist Luis Pedro España pointed out that poverty has decreased over the last decade due to the distribution of oil revenues and not to the development of production capacities. He also underscored that the high import level and financing of social programs are indicative of the high dependence on oil rent over the last years.

**2008: Poverty decrease and stagnated unemployment.** According to data by the National Statistics Institute (INE), unemployment rate closed at 6.1%, unchanged from the prior month figure and only 1% below the level in December 2007. But not only unemployment reduction stopped; Chávez, in his State of the Nation Address, when speaking on poverty based on income, highlighted that poverty reached a point in which a maximum effort will be required to be able to reduce it, above all in terms of extreme exclusion.

**Economic freedom jeopardized in Venezuela.** The Heritage Foundation and the Wall Street Journal published the 2009 Index of Economic Freedom based on data gathered from July 2007 to June 2008. The Index reports that economic freedom in Venezuela continued to deteriorate, occupying the 174th place in a ranking of 179 countries. Hong Kong ranked first 15 years in a row, whereas the US fell to the sixth place.

**SENIAT reminds to file tax return and pay Income Tax.** March 31st is the deadline to file tax return and pay Income Tax for those people whose income in 2008 were equal





to or higher than one thousand tax units (VEF. 46,000). The National Tax Superintendent, José Cabello, urged the population to file their tax return and to pay Income Tax to avoid eventual inconveniences.

**Fiscal management up to third quarter.** With a marked delay, the BCV released its figures for fiscal management of the Central Government for September 2008. Revenues for that month were VEF. 13.0 billion and expenses amounted to VEF.13.8 billion. Therefore, income for the first nine months of the year was at VEF.111.35 billion and expenses were VEF.121.3 billion. Cumulative deficit is as VEF.9.95 billion that turn into VEF.3.63 billion when the payment of debt interest (primary deficit) is excluded.

FISCAL BALANCE CENTRAL GOVERNMENT (VEF Millions)	May 2008	May 2007	Nominal Variation	January-May 2008	January-May 2007	Nominal Variation	Real Variation
<b>Total Revenue</b>	13.088	10.261	27,6%	111.357	86.450	28,8%	4,6%
<b>Non-Oil Revenue</b>	6.015	4.587	31,2%	56.961	44.222	28,8%	4,6%
<b>Oil Revenue</b>	7.073	5.674	24,6%	54.135	42.157	28,4%	4,2%
<b>Total Expenditure</b>	13.791	9.735	41,7%	121.311	86.013	41,0%	14,5%
<b>Primary Expenditure</b>	12.811	8.726	46,8%	114.988	79.943	43,8%	16,7%
<b>Interest Payments</b>	981	1.009	-2,8%	6.323	5.554	13,9%	-7,6%
<b>Domestic Debt</b>	139	302	-54,0%	2.006	1.846	8,7%	-11,8%
<b>Foreing Debt</b>	841	706	19,1%	4.317	3.707	16,5%	-5,5%
<b>Fiscal Balance</b>	-703	526		-9.954	437		
<b>Primary Balance</b>	277	1.535		-3.631	6.506		
<b>Non Oil Balance</b>	-7.776	-5.148		-64.350	-41.791		
<b>Debt Amortization</b>	-5	-196		4.903	6.146		
<b>Net Monetary Inyection</b>	6.929	3.635		64.915	41.604	56,0%	26,6%
<b>Financing Requirements</b>	698	-722		14.858	5.709		
<b>Foreing Debt</b>	5	9		6.489	41		
<b>Domestic Debt</b>	0	611		21	2.673		
<b>Tresury Bonds</b>	0	611		21	2.673		
<b>Tresury Debt</b>	0	0		0	0		
<b>Others</b>	693	-1.342		8.347	2.995		

Sources: BCV and Ecoanalítica

**Interest Rates.** Active Interest rates closed the SECOND week of January with an increase of 14,05% over the previous week, closing at 22,97%. On the other side, the decrease in the rate of term deposits was 2,95%, from 17,65% to 17,13%. The passive rate remained at 15%.

**International Reserves.** The international reserves showed a decrease of 0,8%, going from US\$ 42.969 million at the close of the first week of January to US\$ 42.628 million at the close of the second week of January.





**Monetary liquidity.** At the end of the second week of January, the monetary liquidity recorded an increase of 0.5% over the previous week to close at VEF 190.490 million.

## Oil Tips

**Venezuelan crude oil barrel loses US\$ 3.6 to close at US\$ 34.02.** The Ministry of Energy and Petroleum recorded a drop of US\$ 3.6 in the price of the Venezuelan oil barrel, to US\$ 34.02. According to declarations by the MEP, this drop is due to the decrease in world oil demand that has been translated into an increase in oil commercial stocks.

**WTI sold at US\$ 37.78 due to expectations about energy demand.** Due to the expectations about a decrease in world oil demand as a result of the economic slowdown, the WTI crude oil barrel gained 0.5% and closed at US\$ 37.78 in New York. At the close of the session at the New York Mercantile Exchange, WTI contracts for delivery in February added 19 cents to the price and closed positive after five sessions on the down side.

**OPEC marker basket falls to US\$ 40.53.** The OPEC oil basket of 12 crudes fell from US\$ 42.17 at the previous session to US\$ 40.53 falls.

**Extreme contango<sup>1</sup> on the crude oil market.** In a context of extreme contango on oil market (6-month futures of WTI were being quoted US\$ 18.75 per barrel above its next maturity price this week), storage possibilities are disappearing vis-à-vis this opportunity of what practically represents an arbitration. At present there are 80 million crude oil barrels in oil tankers anchored or navigating between ports; the largest amount in 20 years. Several investment banks are hiring cargo ships to buy oil at the spot price and sell it at future prices to take advantage of the huge differential that is by far higher than physical and financial storage costs.

**Lower prospects of crude oil demand.** In its monthly bulletin OPEC reported that world oil demand is expected to drop by 180.000 b/d this year. The organization expects that crude oil production by non-OPEC members reaches 51.15 million barrels in 2009.

<sup>1</sup> When the futures price is above the expected future spot price.



Energy Information Administration, in turn, estimated that crude oil consumption will decrease by 810,000 b/d in 2009.

**Supply cutbacks will push crude oil prices up.** OPEC President declared that this Organization is fully implementing its oil supply cutbacks, the largest in its history, which should be enough to make prices rise.

**Conservative Iran.** The Iranian government fixed the price of its crude oil price at US\$ 37.5 for calculation purposes of its next fiscal year budget (March 2009-2010). Iran produces about four million barrels daily; therefore it is being severely impacted by drop in oil prices.

**IEA fears.** The International Energy Agency pointed out that it fears that oil producers may not be able to meet demand; a situation that would lead to a supply crisis after world economy has recovered. These fears result from the low levels of investment in exploration, production and infrastructure, along with the lack of cash flow of the world finance system and the collapse of oil prices.

**The government is expecting investment by transnational companies.** The New York Times reports that a number of oil transnational companies, including Royal Dutch/Shell, Chevron and Total, have been requested by the Venezuelan government to submit investment offers in exchange for access to some of the largest hydrocarbon reserves in the world. Recently, PDVSA has partnered with state-owned oil companies from countries such as China and Iran. However, these mixed companies have not changed back the downward trend of Venezuelan production.

**PDVSA late payments affect companies.** PDVSA suppliers are not receiving their payments on time, therefore, they will request banks to provide for special payment programs to solve their financial situation and maintain operative.

## Business Sector Tips

**More controls.** A joint resolution by the Ministries of Agriculture and Lands, Health, Food, and Light Industries and Trade, published in the *Gaceta Oficial* No. 39.097 of January 13, 2009, established that MILCO will be the entity that will fix the Maximum





Retail Price (MRP) for special types of regulated foodstuffs or products manufactured with basic raw materials used to produce the same, upon request by the interested company. Foodstuffs that meet these characteristics and do not have a fixed MRP have 90 calendar days to commence the regularization process established by the government.

**Trade situation between Venezuela and the US will remain unchanged.** The president of the Venezuelan-American Chamber of Commerce (Venamcham), Edward Jardine, does not believe that Obama's new administration will impact trade relations with Venezuela. In fact, he considers that this change does not have any influence on trade relations between both countries.

**Venezuelan-Colombian border is still blockaded.** Members of 11 gas supply cooperatives are still blockading the Venezuelan-Colombian border due to the lack of controls for fuel sales by the governments of both countries. Representatives of the cooperatives state that the situation has resulted in an increase in smuggling.

**Dollar quotas approved by CADIVI.** Bank sources point out that CADIVI started to authorize foreign exchange quotas from January 6<sup>th</sup> and that the BCV is already supplying dollars, so that the situation can be normal again. Furthermore, a bulletin released by CADIVI states that only 3% of the 98,040 users that were called upon until last March 2008 have proved that they used their foreign exchange quotas properly.

**More CADIVI restrictions.** CADIVI issued a new resolution which prohibits paying credit cards in advance to increase their credit limit in order to be able to spend more dollars abroad. That is, it is limiting the access of Venezuelans to their credit limit in any of the country's financial institutions.

**Sidor is negotiating with subcontracted workers.** The Minister of Basic Industries and Mining (MIBAM) and president of the Corporación Venezolana de Guayana (CVG) and Sidor, Rodolfo Sanz, pointed out that a wage and salary table is being developed for subcontracted workers that amount to 8,400 at present. He also assured that the company is not capable of absorbing the total number of subcontracted workers.

**Aluminum production, a endangered species.** The president of the Corporación Venezolana de Guayana (CVG), Rodolfo Sanz, stated that aluminum producing companies are in a very difficult situation. According to Sanz "our production costs





*exceed US\$ 3,500 per ton and the gap between these costs and prices is US\$ 1,500 per ton, so that the product is being sold below its production costs.”*

**Cemex with operational difficulties.** Workers of Cemex plant in Anzoátegui State claimed that delays in investments have negatively affected the operational capacity of that plant. They inform that the State has not injected the resources required to maintain the plant's machinery optimally and fully operating, with equipment losing almost 85% of their operational capacity.

**Factory in Argentina.** According to official sources of the Argentinean newspaper *El Cronista*, the Venezuelan president is considering opening a state-owned assembly plant for economic cars, “Venirauto”, in Buenos Aires’ suburban areas. Although this company started its operations in Venezuela two years ago, it is still in its maturing process.

**Trade exchange between Venezuela and Brazil intensified.** According to the Federation of Brazil and Venezuela Chambers of Commerce and Industry, exports between Brazil and Venezuela reached US\$ 5.6 billion in 2008, for five years in a row of increase in trade exchange between the two countries. However, the balance of trade balance recorded a deficit for Venezuela, thereby positioning Brazil with a surplus of US\$ 4.6 billion.

**Agricultural revolution in exchange for oil?** Last week Venezuela and Brazil signed twelve new cooperation agreements in oil and agriculture. The agreements express Brazil's support for Venezuela for the construction of two meat processing plants, the installation of a tropical fruit processing plant and the construction of fertilizer producing plants; whereas Venezuela committed to supply two monthly shipments of natural gas and a monthly shipment of aircraft fuel. In this regard, the Brazilian president stated that his country is willing to transfer technology from the 60's, for Venezuela to have its own agricultural revolution.

**Food security promotion.** The Executive expects reactivating 71 agroindustries this year for processing of sugar, dairy products, soybean, sesame and sunflower oil. Richard Canán, vice ministry of Agricultural Economy and president of the Agricultural Bank of Venezuela, assured that 345,000 tons of food was process in 2008 in the plants of the Corporación Agraria de Venezuela.





**Cattle farmers complaint that fresh milk is being rejected.** About 800 cattle farmers from Mérida state have been affected by the lack of payment of 400,000 liters of fresh milk, which were not received by dairy industry since October 2008.

**Fishing sector decreases by 54.6%.** Actions announced for the national fishing sector include a ban on trawling, an activity that accounts for 70% of fish consumed in the country. According to the Ministry of Agriculture and Lands and the Socialist Fishing and Aquiculture Institute, this would not affect production and supply of fish products or the country's economy. However, the fishing sector reported a production drop of 54.6% in 2008 in comparison to 2007.

**CANTV extends its satellite services.** The executive vice president of the state-owned telephone company, Franco Silva, announced that CANTV will use the Simón Bolívar satellite to reach those areas in the Venezuelan territory that are not covered by the terrestrial network. In this regard, Silva pointed out that the company expects to connect 10,200 schools, 7,700 health centers, and 340 Mercal outlets through the satellite.

## World Crisis Tips

**Recession in the Eurozone during 2009.** The European Commission informed that the Gross Domestic Product (GDP) of the Eurozone will register a severe recession of 1.9% this year, which will be accompanied with a strong increase in public deficits and a clear unemployment growth of more than 10% in 2010.

**Sales in the US collapse.** Retail sales dropped 2.7% in December in the US, a much worse drop than the one estimated by the market, and with a downward review from November data. This is the sixth monthly drop in a row, the worst streak since the series started to be compiled 17 years ago. This leaves sales volume at 10.7% (US\$ 40.92 billion) below the cyclic high reached in November 2007, a period when, as per Census Bureau estimates, the population has increased by almost 3 million people.

**Industrial production plunges.** Industrial production fell 2.0% on a month-to-month basis in December, a worse figure than the one estimated, which follows a downward





reviewed figure of -1.3% in November. The fall was led by a 7.2% decrease in automotive sector production.

**The situation of Citigroup and the Bank of America has consequences for the markets.** The Bank of America reported a 73% decrease of its net gains in 2008, which amounted to US\$ 4.0 billion, due to losses registered by its new affiliate in the bank business, Merrill Lynch. Citigroup, in turn, announced that it will split the company into two separate firms (Citicorp and Citi Holdings) vis-à-vis losses of US\$ 8.29 billion recorded in late 2008. In response to this fact, the US Treasury announced that it will inject US\$ 20.0 billion to finances of the Bank of America in exchange for preferential shares at a rate of 8%, and that it will grant collaterals of up to US\$ 118.0 billion for the assets of this institution.

**Additional measures: second part of TARP and extension of FDIC collaterals.** The US Senate approved (52 to 42 votes) last night the disbursement of the second part of the TARP package (US\$ 350.0 billion), after L. Summers, economic advisor of the President-elect, promised that up to US\$ 100.0 billion of these funds would be earmarked to alleviate the housing crisis. FDIC, in turn, will propose extending the maturity of the collaterals offered in its Temporary Liquidity Guarantee Program, from a maximum of 3 to a maximum of 10 years in collateralized debt which issue supports consumer credits.

**Second round of financial bail-out also in the United Kingdom.** After the start in the US of the second round of financial bail-out, the United Kingdom also started its second round with a new financial stabilization package:

- Extending the term of the Credit Guarantee Scheme until December 2009.
- A new line of guaranties for ABS (both mortgage and consumption and company debts) with AAA rating starting from April 2009.
- Extending Discount Window Facility of the Bank of England with a maturity extension from 30 days to 1 year, and an incremental cost of 25 basis points.
- Establishing an assets purchase program by the Bank of England with an initial value of up to £ 50.0 billion.
- The government announced its "intention to offer assets and capital protection to the assets that were most affected by the current economic conditions," with additional details to be announced in February.





- The FSA finance regulator entity will incorporate “counter-cyclic measures” to strengthen banking capital, on the same regulatory line applied since ten years ago by the Bank of Spain.
- Northern Rock will no longer be forced to rapidly dismantle its mortgage credit portfolio.
- £ 5.0 billion in preferential shares (with dividends) of the Royal Bank of Scotland (acquired in the first round of the financial bail-out) will be converted into common shares.

**Circuit City closes operations.** The second electronic product distributor in the US, Circuit City, announced on January 16<sup>th</sup> that it will be ending activities because no agreement was reached with its creditors. This company was under the protection of the US Bankruptcy Law since November 2009.

## Political Tips

**Criticism of Venezuela.** According to the Human Rights Watch 2009 Yearly Report, Latin America has made progress in terms of Human Rights; however, problems concerning judicial systems, police abuse, and poor penitentiary conditions are still common factors. Venezuela lacks a reliable and independent judicial system that may contain arbitrary decisions by the State and that guarantee fundamental rights.

**Morocco closes its embassy in Caracas and moves to the Dominican Republic.** Morocco will close its embassy in Caracas due to the stance of the Venezuelan government concerning the conflict in Western Sahara and the Sahrawi Arab Democratic Republic (SADR). However, the business attaché of the Venezuelan embassy in Rabat, José Clavijo, assured he does not know anything about the decision and that Morocco Government has not contacted the Venezuelan officials.

**The Armed Force is tuning up details of the Plan República.** Jesús González, Chief of the Strategic Operational Command, informed that 140,000 military troops and officers will guard February 15<sup>th</sup> referendum. Concerning the plan of a number of university students to place ballot boxes outside voting centers so that those people that could not register in the electoral roll can vote, this official said that that will be possible





provided the 200 meter security perimeter established by the National Electoral Council is respected.

**Sessions of the National Assembly were suspended due to electoral campaign.** AN sessions will resume on February 17<sup>th</sup>, after the consultation on the constitutional amendment. The proposal was submitted by the chairman of the Committee on Energy and Mining. The National Assembly already presented the CNE with the amendment project.

**Illegitimate referendum?** Three experts in electoral matters claim that the constitutional referendum breaches Constitutional articles concerning Human Rights, political rights, CNE autonomy and functioning, and the methodology to introduce amendments; it also violates articles of the Suffrage Law concerning rules to activate the electoral roll and the publication of the electoral regulations.

**TSJ intervention is requested.** Student groups filed writs of amparo before the Constitutional Chamber of the TSJ for it to urge the CNE to reopen the Electoral Roll.

## Other Tips

**End of the attacks on Gaza.** On Sunday, January 18<sup>th</sup>, Israel Security Cabinet agreed to end attack on the Gaza Strip. The Israeli Prime Minister, Ehud Olmert, assured that troops would be withdrawn when they consider it convenient and that they will respond to the attacks from Hamas. According to UN's figures, 1,100 Palestinian and 13 Israelis died and 5,200 Palestinian were hurt during the attacks from Israel on Gaza.

**2009: IDB will increase credits** The Inter-American Development Bank has plans to grant credits for about US\$ 18.0 billion. According to Luis Alberto Moreno, IDB's president, "We are using almost all our lending capacity, which will be possible thanks to the new fast-disbursing lending modality to support growth, which we created a few weeks after the intensification of the world financial crisis in last September," explained the banker.





**New member.** China joined the IDB with a contribution of US\$ 350 million that will be used to finance different programs in Latin America. As a result China became member number 48 of the IDB.

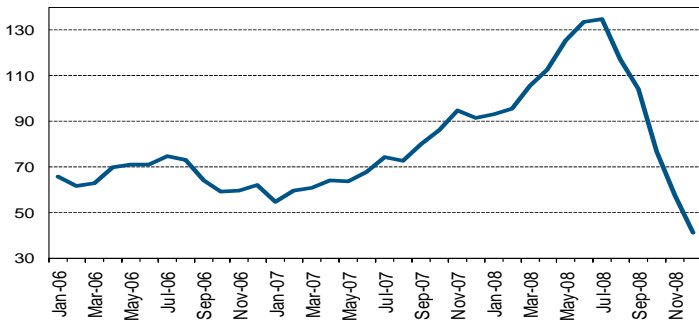
© Ecoanalítica – Descargado por usuario no autenticado



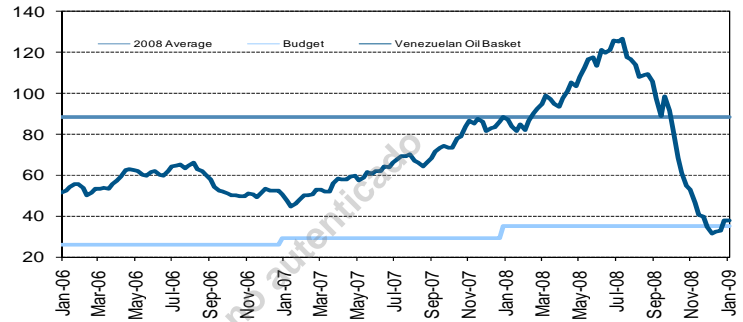


## ECONOMIC OVERVIEW

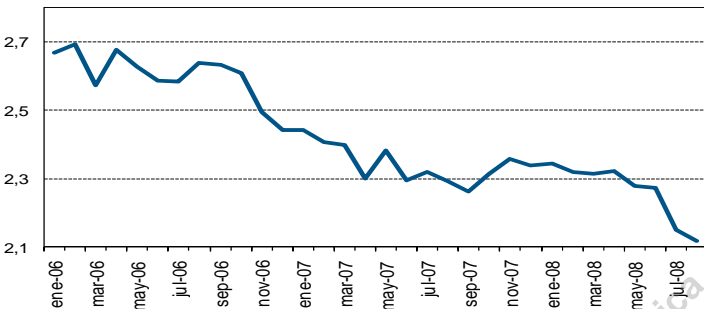
**Oil Prices (WTI US\$/pb)**



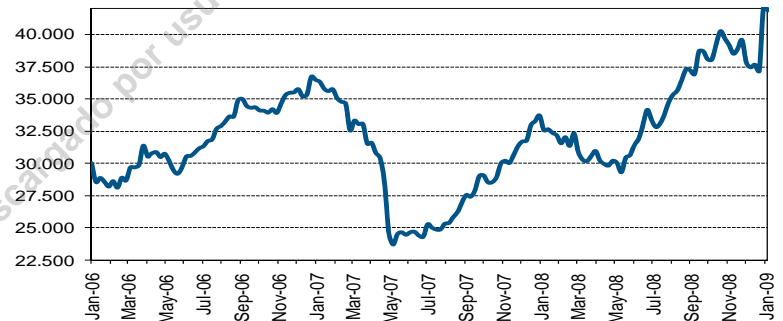
**Oil Price (Venezuelan Basket US\$/pb)**



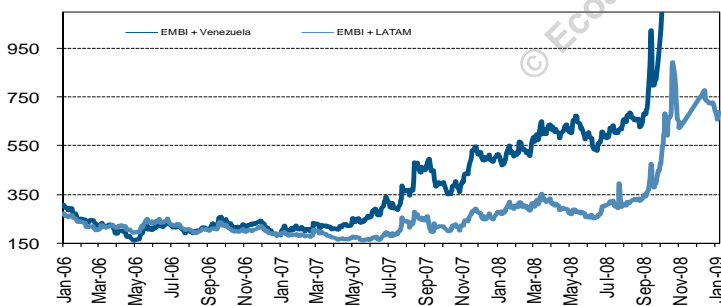
**Oil Production (MMBD)**



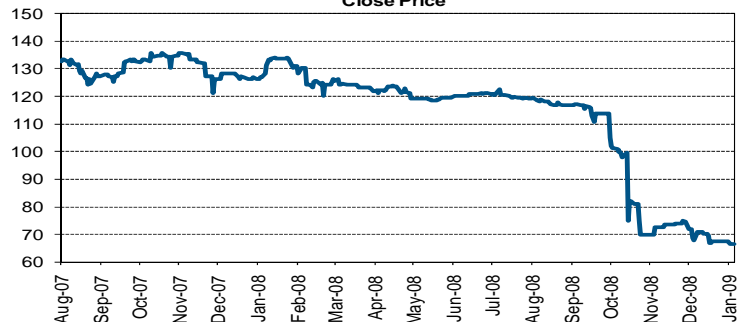
**Fx Reserves - BCV (US\$ Million)**



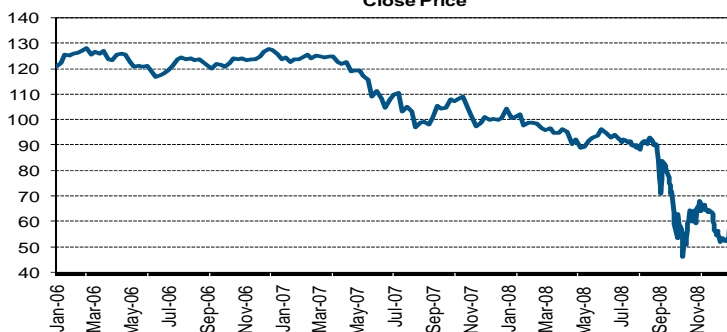
**EMBI +**



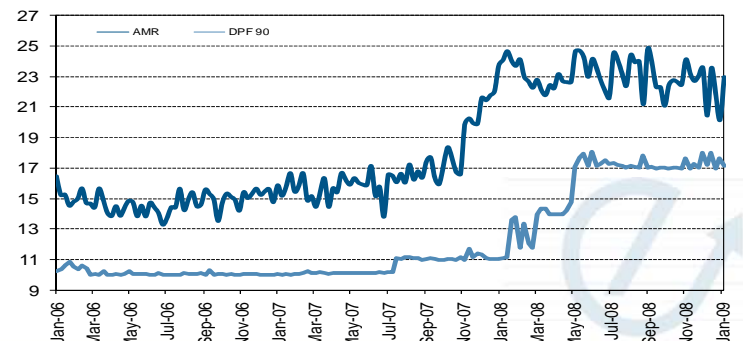
**Venezuelan Global 18 Close Price**



**Venezuelan Global 27 Close Price**

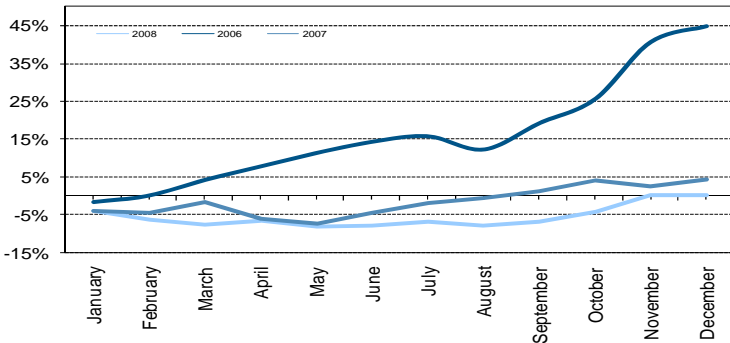


**Interest Rate (Six Principal Banks)**

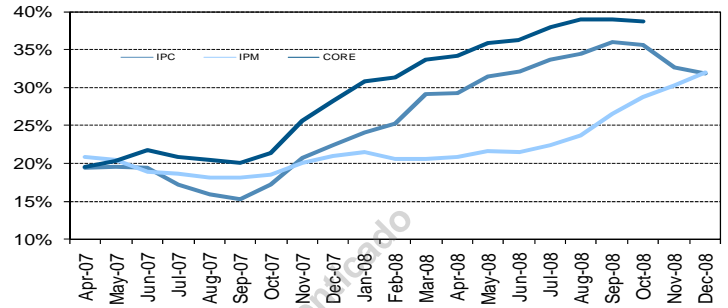




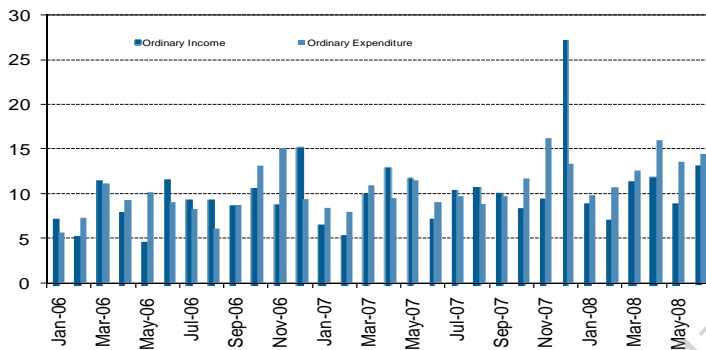
**Real Expansion (M2)**



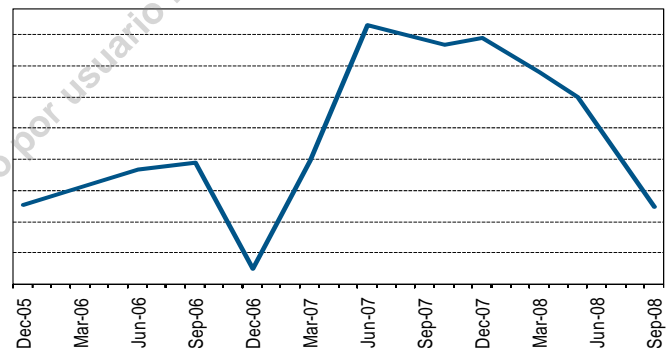
**Inflation (Last 12 Months)**



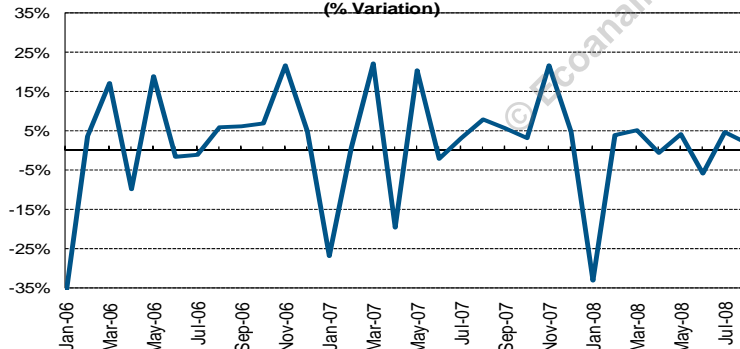
**Central Government (VEB Billion)**



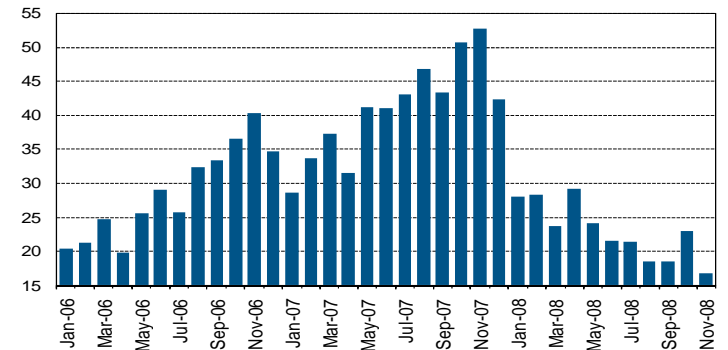
**Resources of the State (US \$ MM)**



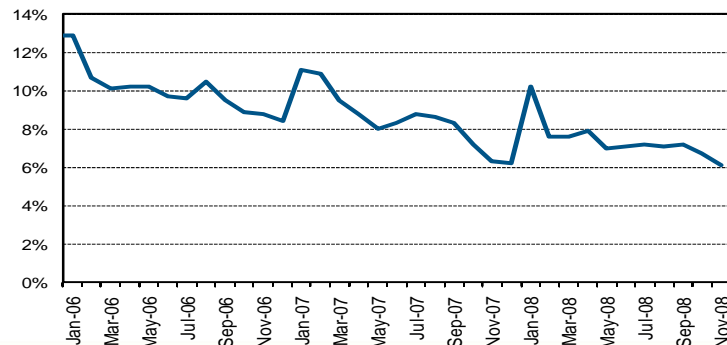
**Volume of Sales (% Variation)**



**Sale of Vehicles (Thousands of Sold Units)**



**Rate of unemployment (% Variation)**



**Disbursement (US\$ Million)**

