



Weekly Report

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*2010 year-end address: the
problems continue*

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In our fourth Weekly Report last year titled, "After January, What Outlook Does the Venezuelan Economy Have?" we said that the president of the Central Bank of Venezuela's Year-End Address regarding the close of 2009 and the outlook for 2010 left no doubt that the economy was in a crisis. Preliminary figures showed that the economy shrank by 2.9% compared to 2008, this figure was then revised to show that the economy had in fact shrunken by 3.3%. Keeping this precedent in mind, there is not much else to say after reading the Year-End Address regarding the close of 2010, which reflect deteriorating accounts and reports that the economy has shrunken for the second consecutive.

Based on the 2010 Year-End Address, we will give our preliminary analysis on how the Venezuelan economy performed in 2010 while we continue to wait for the final official figures which will be released in February.

Preliminary results

Preliminary estimates reported in the 2010 Year-End Address show that the economy shrank by 1.9%, and though we are used to these preliminary



figures being sugarcoated, let's hope that the final official figures don't reflect a much more severe drop in the economy's performance

What ended up happening in the fourth quarter?

These figures allow us to calculate how the economy performed during the fourth quarter 2010. The figures show that the economy shrank by 0.5% during the fourth quarter, thereby making it seven consecutive quarters that the economy has dropped. This underlines how vulnerable the Venezuelan Gross Domestic Product (GDP) is and reflects that other variables are having a serious negative effect on the economy besides unpredictable drops in international oil prices. However, we should see the economy begin to show signs of positive economic growth during the first quarter 2011; nothing to celebrate, rather very moderate growth. At **Ecoanalítica**, we are predicting that the Venezuelan economy will grow by 1.6% this year, nowhere near the growth rate registered during the economic bonanza years, nor compared to what other countries in emergent economies are registering

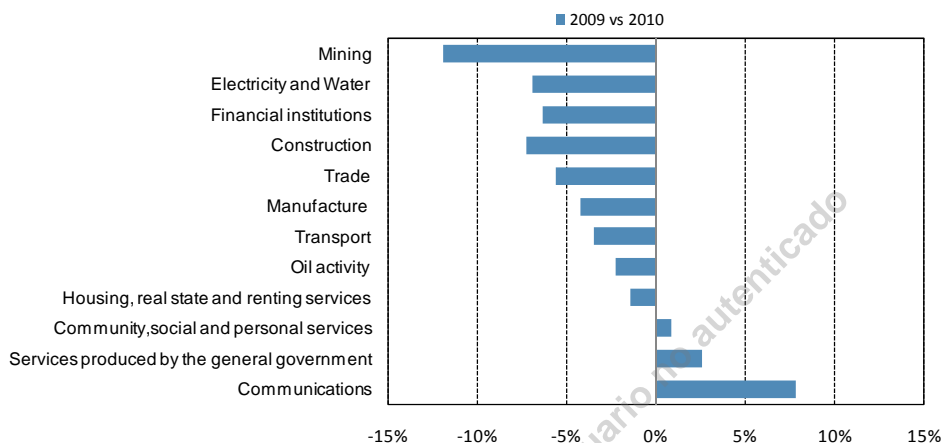
What sectors suffered the most?

Reviewing the preliminary figures released we find that of the sectors that most affect the GDP, the following suffered the most: Manufacturing which represents 14.8% of GDP, dropped 4.2%; Commerce which represents 9.6% of GDP, was down 6.3%; Construction which represents 6.5% of GDP, was down 7.2%; and Financial and Insurance Institutions which represent 4.2% of GDP, were down 6.9%. A sector that has always been important but during the past few years has been growing in importance is Communications. It grew by 7.8% and now it has gone from representing 5.5% of GDP in 2009 to representing 6.0% of GDP in 2010. The only other sector that registered growth in 2010 was Central Government Products and Services which grew by 2.6%, going from representing 11.8% of GDP in 2009 to representing 12.2% of GDP in 2010. This reflects just how much the State's influence on the economy is growing and how the economy is increasingly dependent on Government decisions





Growth by economic activity



Sources: BCV and Ecoanalítica

What happened with the oil sector?

During 2010, the oil industry benefited from international oil prices recovery nicely after they plummeted with the onset of the world financial crisis, up 27%. However, due to a number of not very productive oil exchange agreements signed by PDVSA, increasing domestic gasoline and oil by-product subsidies, and a continued drop in oil production, currently at 2.18 million b/d, according to PWI, all this has led to a drop in oil activity of 2.2%; this happening in a scenario where, according to the preliminary figures reported in the 2010 Year-End Address, oil exports were up by 12.2%

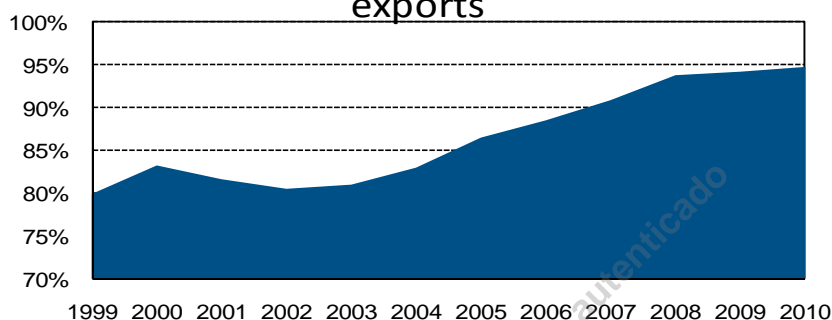
Vulnerability and lack of efficiency

Including the figures in the 2010 Year-End Address, we can see that during the last 10 years oil exports have gone from representing 79.8% of total Venezuelan exports in 1999 to representing 94.7% of total exports. And if we compare exports during the same period, you'll find that they have tripled in value. This shows us just how dependent the Venezuelan economy has become on the oil industry despite the fact this it represents just 11.4% Of GDP, less than what the manufacturing industry represents. However, the fact that the Government is increasing its presence in the GDP is due to the State increasing in size which is mainly financed via oil revenues, plus one would also have to take a look at the Community and Social Products line item which has also grown to represent 5.9% of GDP. This line item reflects the impact that the implementation of the new 21st Century Socialism economic model is having on the economy.





Oil exports as proportion of the total exports



Sources: Ecoanalítica y BCV

In conclusion, the results are quite mediocre in terms of efficiency, and in the end it becomes just one more factor which makes the Venezuelan economy more vulnerable. Furthermore, it's almost impossible to monitor and see how these resources are being used since the government books and accounts registering these activities are opaque at best, a characteristic clearly reinforced by the 2010 Year-End Address. So, the sectors that have been becoming more important with respect to representing a larger percentage of the GDP are not able to drive the economy forward by themselves, plus these sectors have a very limited impact in terms of creating new jobs.

Aggregate demand, following more or less the same path

Aggregate demand figures pretty much reaffirm what we have been saying up until now. Public sector spending was up by 2.7%, while Private sector spending shrank by 2.8%. It's important to point out that Public sector spending has increased its proportion over global demand by 2.0%, thereby settling at 12.7% in 2010.

Investment shrank by 4.8% in 2010, and far from being a positive figure, it was much less than the drop in investment registered in 2009 when it dropped by 8.2%. This indicator still reflects a lack of trust in the Venezuelan business environment when it comes time to think about investing. At **Ecoanalítica**, we don't expect these figures to change substantially any time soon without first seeing changes in the Administration's economic policies, regulatory framework which protects private property, and stops its expropriation policy

Foreign demand reflects a drop in exports of 12.5%, while supply registers a drop in imports of 5.5%. Both these figures reflecting a less severe drop



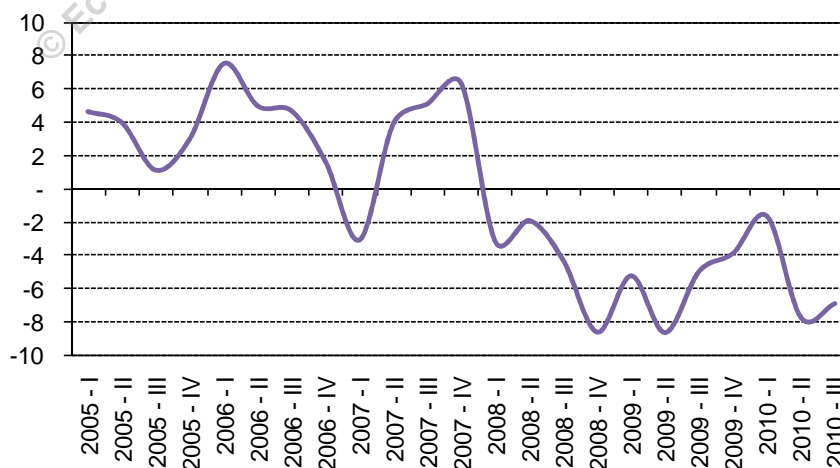
than what they suffered in 2009, but if we use 2009 as a reference, we'll find that these are both very significant and worrisome drops

Inflation was less than expected, but equally as damaging

The National Consumer Price Index (INPC) reported in the 2010 Year-End Address shows that inflation closed the year out at 27.2% after registering 1.7% during the month of December. This figure is a bit surprising considering that inflation was at 16.3% at the end of the first semester 2010. However, don't be fooled. The reason inflation didn't continue to increase at the rate it was going was not due so much to improved economic policies on behalf of the Administration; instead, it was due to the effects of the recession and price controls..

A variable that lets one see just how damaging inflation was, which was reported in the in the 2010 Year-End Address, is the Real Salaries Index. This index registered a 6.9% drop in real terms in the third quarter 2010, and it hasn't been since the fourth quarter 2007 that this index has registered a figure equal or higher than zero. Add on to this that 2010 closed the year out with an average unemployment rate of 8.7%, up by 0.7% compared to the close of 2009. So, salaries losing their purchasing power with fewer job opportunities, two key social indicators which define development, down.

Real wage index (y/y %) (Base: IQ-1997)



Sources: BCV and Ecoanalítica





Trade Balance improves... The great influence of the Government

And finally, the 2010 Year-End Address released the preliminary figures of the main accounts in the Balance of Payments. The Current Account shows an improvement of 62.3%. This translates into a US\$5.34 billion surplus. This is due to an increase in oil exports and non-oil exports (1.1%), and a slight drop in imports of 1.0%. This more than covers the US\$1.69 billion increase in the deficits of Services, Income, and Transfers

The drop in imports was due to three main factors: the drop in demand due to the recession; restrictions acquiring foreign currency through CADIVI; and the changes in the exchange market due to the implementation of the new SITME system and the elimination of the swap-market, which has been very challenging for all importers. This last factor is the main reason that private sector imports have weakened, once representing 75.2% of total imports, now down to 66.2%. This could also be interpreted as an increase in public sector imports of US\$3.65 billion

BALANCE OF PAYMENTS (General Summary)	2009	2010	Var(%)
Current Account	8.561	13.897	62,3%
Goods	19.153	26.181	36,7%
Oil Exports	54.201	60.811	12,2%
Non-Oil Exports	3.394	3.432	1,1%
Import of goods f.o.b.	-38.442	-38.062	-1,0%
Services	-7.617	-8.752	14,9%
Others	-2.975	-3.532	18,7%
Capital Account	-18.823	-20.140	7,0%
Direct Investment	-4.939	-3.888	-21,3%
Portfolio Investment	8.931	3.953	-55,7%
Other Investment	-4.783	-3.953	-17,4%
Reserves Variation	-10.262	-10.181	-0,8%

Sources: BCV and Ecoanalítica

The Capital Account situation is the same old story

The Capital Account increased its deficit by 7.0% (US\$1.32 billion), which is becoming a regular occurrence. Given that the figures released by the Central Bank of Venezuela (BCV) in its 2010 Year-End Address don't get into much detail about out-going capital in 2010 it's hard to be precise with this analysis. However, we can add that the Direct Investment Account closed with a deficit of US\$3.89 billion, while the Investment Portfolio



Account registered a surplus of US\$3.95 billion due to foreign debt issuances. Lastly, the Other Investments Account registered a drop of US\$20.21 billion due to an increase in Venezuelan foreign assets

**Resulting in:
Economic
adjustments**

Faced with the need to create conditions which would ensure at least a minimum of economic growth in 2011, the Administration was forced to push aside its “politically correct” façade and devalue the official exchange rate by a significant amount, effectively eliminating the VEB2.6/US\$, known as the official preferential exchange rate reserved for specially designated imports, and making one single CADIVI exchange rate at VEB4.30/US\$. Furthermore, the SITME exchange rate which is currently fixed at VEB5.30/US\$ will be adjusted to VEB6.50/US\$ in the very near future

The devaluation will have a positive effect on PDVSA and it may make domestic products more competitive. But, if the devaluation isn't accompanied by other economic policies aimed at helping restore confidence in the Venezuelan business environment, at the close of 2011 we will find ourselves in a situation very much like what we have just described here in this Report, and faced with another devaluation. One thing the Administration has going for it in 2011 is that oil prices are predicted to remain high throughout the year, and it is not totally out of the question that the average price of the Venezuelan oil basket could top US\$ 80 per barrel. This, along with the so-called “statistical bounce,” would probably lead to the Venezuelan economy to register a positive economic growth rate though it won't top 2.0%. But, it's going to take a lot more than just signs of positive economic growth to inspire and/or restore confidence in the Venezuelan economy and the Venezuelan Government. The Administration will have to become much more transparent in its fiscal management and economic policies and create more efficient integration mechanisms between the public and private sectors. If not, Venezuela will continue to be at the back of the line when it comes to economic performance compared to the other Latin American economies





Economic Tips

Decree authorizing issuances in Gacetas. The *Gaceta Oficial* No 39.591 dated January 11, 2011 included the publication of the decrees authorizing the issuance of the bonds announce in the 2011 Borrowing Law. The revenue collected by this issuance will be aimed at covering the servicing of public debt, covering the fiscal deficit, and restructuring existing debt. According to what was published, the Ministry of Planning is expected to issue VEB 10.70 billion earmarked for servicing the debt with papers maturing between 2013 and 2020; issue VEB 20.0 billion for fiscal management with papers maturing during the same dates already mentioned; and issue VEB 13.60 billion to refinance existing debt. Another VEB 6.80 billion was approved to be issued in Treasury Bills

Giordani move. It's important to point out that these decrees surprised the market since it almost used up the total amount allotted for borrowing in the 2011 Law via issuance in domestic debt (in VEB). It would seem like Minister Giordani is looking to curtail issuance of debt in foreign currency. However, if need be, the Administration can always request before the National Assembly to increase the borrowing limits set in the 2011 Borrow Law.

BCV will transfer up to US\$2.50 billion to State organizations. As is well known now, since 2007, all surplus reserve resources over the amount designated as being "optimum" are to be transferred to FONDEN. However, as of this year, transfers to FONDEN will not surpass US\$2.50 billion a year. Specialists in these matters working within the Administration finally convinced the President that it was essential to set the "optimum" level of reserves higher, between US\$27.0 billion and US\$28.0 billion. So far this year, the BCV has only transferred \$1.0 billion, leaving US\$1.50 billion pending, which will be transferred in intervals starting in the second semester

INE: The Venezuelan economy will grow by 2%. Elías Eljuri, president of the National Statistics Institute (INE), in a statement, affirmed that the Venezuelan economy in 2011 would grow by 2.0%, due to more than US\$15.0 billion being invested in public works through the agreements with China. He continued to state that resources will earmarked for a series of productive activities in the petrochemical sector, infrastructure construction, and housing. He assured that the country was on its way out of the recession that caused the economy to shrink 3.1% in 2009 and 1.9% in 2010, according to BCV figures





...Chávez. During the release of the 2010 Year-End Address, President Chávez assured that Venezuela is on the road to health economic growth and hoped that the economy would grow by more than 2.0% this year, with indicators improving even in the first quarter 2011. The President continued to say that “for the private sector that is working and wants to work and that may need the help of the Government, here I offer my hand so that we may work together and increase domestic production.”

No impact on prices. Elías Eljuri, president of the National Statistics Institute (INE) assures that despite the fact that the exchange rate was unified at VEB4.30/US\$, there will be no impact on prices in the short term. He assured that inventories of products imported at the now unified rate of VEB2.6/US\$ are able to cover a three months supply. And if in fact this devaluation will have an impact on the prices of these items, it won't be a 65% hike across the board in price as is being reported. “It's only a small group of medicines and food items which were being imported at the old rate.”

Price Gouging. President Chávez made it very clear that he was going to crack down on any price gouging as a result of the devaluation, saying to Parliament that there should a limit as to how much prices will be allowed to increase, especially with respect to food items: “if everyone along the production line expects to earn 20% more, the product will end up costing more than 200% its initial value.” So, in order to keep price gouging in check, via Special Powers Law, the President will create the Superintendent's Office of Costs and Price. He also added that the country has a month's supply of basic basket products in reserve and almost two months supply of food stored.

Food basket up by VEB 111.20 in December. Oscar Meza, director of the Center for Social Documentation and Analysis (Cenda), pointed out that the month of December closed with inflation at 4.1% causing the food basket to increase by VEB 111.20 in just the month of December. So, in order to be able to cover the cost of the food basket, which in fact is almost just a survival basket, since it only includes 57 products, you need to use 2.3 minimum wage salaries. For the year 2010, the Cendas food basket increased by an average of 43.0%.

Unemployment by sectors. According to the National Statistics Institute (INE), December 2010 employment figures: public sector employees increased by 9.3% compared to the previous month (up by 208,296 workers) totaling 2,440,986 workers. During the last 12 months the number of public workers has increased by 29,383 workers (1.2%). Private sector workers increased by 123,163 workers (1.2%) to settle at 10,101,165 personas.

Informal sector of the economy in 2010? According to the National Statistics Institute (INE) bulletin for December 2010, the formal sector of the economy increased



by 1.1 percentage points compared to the previous month and 1.2 compared to the same period last year to settle at 56.3%. The informal sector closed the month of December at 43.7%, equal to 5,474,735 people.

Interest rate. The lending rate for the first week in January was at 17.3%, down by 3.7 percentage points compared to the previous week. Time deposits and savings rates were steady at 14.6% and 12.6%, respectively.

International reserves. International reserves decreased 4.1% going from US\$30.80 billion during the first week in January to US\$29.54 billion during the second week of January. Compared to the same period last year, international reserves have dropped by 15.9%.

Monetary liquidity. Monetary liquidity for the first week in January was up by 0.4%, compared to the previous week settling at VEF 295.6 billion. The M2 has increased 25.5% year-on-year.

Sitme figures. To date, US\$5,5 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.9 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$132 million, US\$10 million more than last week when braided US\$122 million.

Oil Tips

Venezuela has the world's largest proven oil reserves. Venezuelan minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, told Reuters that Venezuela increased its proven oil reserves by 40.6% reaching 297 billion barrels making them the world's largest proven oil reserves. Proven natural gas reserves were increased by 5% up to 195 billion cubic feet, so Venezuela also holds the largest proven natural gas reserves in America

Reissuing of Pdvsa (N) 2017 will be for US\$3.15 billion. According to Pdvsa's official release, the reissuing its bonds expiring in 2017 will be for US\$3.15 billion, much more than the originally announced US\$2 billion. This private issuing (to which natural or legal entities will not be entitled, but only the BCV and other funds) will take place under the same financial conditions (8.5% six-monthly redeemable coupon and par value) as the public issuing of the third quarter of 2010. According to official



statements, Pdvsa will use US\$2 billion of the total obtained in this issuing to pay a debt to the BCV.

Pdvsa in the public stock market. Even though Pdvsa will clearly be the main bidder of securities denominated in foreign currency in the new Public Securities Exchange, since it has been officially authorized to participate in this new market, the way in which the oil company will intervene is still uncertain. At first, the operations should take place with previously issued bonds, that is, Pdvsa would be selling again in the local market (payable in bolivars) bonds it repurchased in the foreign market, but the possibility to issue new securities is also open

Pdvsa reduced its 2011 investment goal by 61%. Venezuelan minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, said Pdvsa had invested US\$11.5 billion during 2010, almost 30% less than the projected US\$16.4 billion. According to Ramirez, this year Pdvsa will invest US\$12 billion, 4.3% more than last year's investment but barely 38.6% of what was stipulated in 2009's investment previsions for 2011 (US\$31.09 billion). This significant reduction to this year's projected investment will make it even harder for Pdvsa to meet the established deadlines for the Plan Siembra Petrolera 2010-2015, especially regarding the investments in the Orinoco Oil Belt

Venezuelan oil production remains constant according to OPEC. According to the Organization of Petroleum Exporting Countries' (OPEC) latest monthly report, based on secondary sources, Venezuela produced an average of 2.264 mb/d (million barrels per day) during December of 2010, almost the same number as the one reported in December 2009 (2.27 mb/d) and 36 kb/d (thousand barrels per day) more than in November 2010

Crude oil demand keeps growing. During the same period, US oil imports, the world's largest oil consumer, increased by 3.8% going from 8.17 mb/d in December 2009 to 8.48 mb/d in December 2010. According to OPEC, the global demand for crude oil will grow by 1.2 mb/d in 2011, a quite lower forecast than that of other agencies such as the International Energy Agency (IEA) which estimates a growth in demand by 1.32 mb/d, or that of the US Energy Information Administration, which estimates an increase in demand by 1.45 mb/d.

Pdvsa's relation with Iran will not be changed. Venezuelan minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, said the close relation between Pdvsa and Iran would not be modified despite the concerns stated by the US Congress through a new missive. According to Ramirez, the information of this letter came to him through the press and not through diplomatic means.



International oil baskets. At the close of the New York market last Thursday, January 20, the WTI was at US\$88.9/bl, showing a 1.6% decrease compared to the US\$90.3/bl of the previous Thursday. The Brent decreased by 0.7% to reach US\$95.9/bl, compared to US\$96.6/bl of Friday, January 14th.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$85.9/bl on Friday, January 14, up by US\$0.92 or 1.1% from the US\$84.95/bl registered the previous week. Meanwhile, the basket's annual average is at US\$85.4/bl.

Business Sector Tips

Chavez Administration asked private companies to reduce their “grotesque” profits. President Hugo Chavez, in his Annual Report and Accounts before the National Assembly, announced the regulation of profits and ordered more inspections to private companies to continue “fighting speculation,” and added “everything has a limit,” so the Administration will create the Superintendence of Costs and Prices.

Local automotive industry produced barely 41% of its capacity. According to the Venezuelan Automotive Chamber (Cavenez), a total of 104,537 units were assembled during 2010, a 6.5% drop compared to the 111,554 manufactured in 2009. According to Cavenez, the seven car makers have an annual assembling capacity of 254,000 units, but 2010's performance ratified the contraction that began three years ago.

Meanwhile, vehicle sales dropped by 8.3% in 2010. The automotive market contracted by 8.3% during 2010, reported Cavenez. According to these numbers, a total of 125,202 units were sold last year, 11,315 units less than in 2009. The most dramatic fall is in the imported vehicles' segment, with a 39.8% contraction compared to 2009.

The Administration analyzes “other alternatives for food and medicine.” The unification of the official exchange rate at VEB/US\$4.30 will make the imports that were done at VEB/US\$2.60 more expensive by 65.8%, according to estimations made by the Venezuelan Chamber of the Food Industry (Cavidea), so they asked the national Administration to review the prices of regulated foods. In light of this request, the National Administration announced as a palliative measure it was willing to



increase the import of food and other consumption goods and products, in order to keep Cavidea from trying to increase or adjust prices.

Measures in the food sector could include subsidies. The elimination of the preferential exchange rate at 2.60 VEB/US\$ still generates arguments in the national Administration, for the effects on costs and prices of imported foods. In detail, the Venezuelan Government is considering options such as subsidizing certain imported foods or adjusting prices up as measures to mitigate the inflationary impact after the devaluation by 100% to the preferential exchange rate that used to be applied to first need products.

Coca-Cola Femsa labor conflict affects 70% of the company's productive capacity. In a press release warning clients and the general public, the company said the Valencia plant was the main producer of the beverages manufactured and distributed by this company in Venezuela. "Since December of 2010 the plant has suffered from arbitrary partial and occasionally total shutdowns that have significantly affected its production." The company reiterates its willingness to negotiate and work within a framework of respect, looking for alternatives that allow workers to obtain fair retributions and guarantee complete supply.

Raw materials prices reach historic high levels. Similar to what happened in 2008, the prices of raw materials such as cereals, oil, milk and meat, reported historic peaks in the foreign market. The reason for this is the increase in the demand by emerging economies and the restriction in supply of producing countries, also related to the extreme weather phenomena, and the greater dependency in foreign trade to satisfy nutritional needs, a situation that, according to the Food and Agriculture Organization of the United Nations (FAO) could generate great and frequent threats to the world's nutritional safety.

Internet penetration in homes grew by 33%. According to the information provided by President Hugo Chavez, Cantv increased homes' internet access with 242,993 new users in 2010, for an accumulated total of 352,000 users, a 22% growth compared to 2009. He also pointed out a 65% increase in telephone lines compared to 2007, going from 3.5 million to nearly 6 million in 2010. As for wireless, fixed telephone lines, the increase was by 20%, 61.2 million new lines.

Colombia's sales to Venezuela decreased by 70% in 2010. According to the Colombian National Trade Association (Analdex), Colombia's exports to Venezuela decreased by 70% in 2010. The sector suggests exporters to be cautious when making business in Venezuela, due to the existence of unclear situations and the fact that future game rules are unknown.



Sudeban penalized financial institutions for irregularities. The Superintendence of Banks and Other Financial Institutions (Sudeban) penalized Banco Sofitasa, Banco Universal and Banco de Guayana, for not meeting the minimum economic contribution required to support the agricultural sector. It also announced the closed-door audit of General Rent A Car, Grupo de Inversiones Canarias, Servicios Costa Afuera and Cedel Casa de Bolsa.

Fogade has paid VEB 2.79 billion for deposits' warranties. After the wave of audits of up to 21 financial institutions since the late 2009, the Fund for Deposits Warranties and Banking Protection (Fogade) has paid VEB 2.79 billion as part of the warranties for the deposits held in 12 institutions that have been liquidated.

Financial intermediation falls in the banking system. The report prepared by Softline Consultores reflects the impact of the recession in banks' portfolios. As of the end of 2009, out of every VEB 100 received in deposits, the financial system had VEB 58.2 placed in loans, as of the end of 2010 that number decreased to 55.8. Also, loans with delayed payments had a slight increase from 2.89% to 3.09%.

28.5% of the capacity to generate electricity is available. During his long intervention at the National Assembly, President Hugo Chavez assured "the country's installed generation capacity is 24,500 Mw, out of which 17,500 Mw are available", so 7,000 are unavailable (28.5%), of which 3,000 Mw correspond to the hydraulic source and 4,000 Mw to the thermal source.

Electric failure leaves six States without service. The minister of Electric Energy, Ali Rodriguez, announced the interruption of the electric service in six Venezuelan states. According to his statements, the failure, still undetermined, produced the outlet of 1,000 megawatts (Mw) from the National Interconnected System (SIN), through the plants of Tachira, San Agaton, Paez and Masparro, located in the country's flat and Andean regions.

Liquidation of BBO Casa de Bolsa ordered. The National Securities Commission ordered the liquidation of the company BBO Casa de Bolsa, raided by the authorities in May of 2010 for alleged irregularities in the exchange market.

Public employees protested for mass layoffs. A group of public administration employees gathered last Monday morning to reject the mass layoffs taking place in the public administration which has had its worse episode in the Ministry of Planning and Finance.

Sidetur workers demand payment of labor benefits. The workers of Sidetur Planta Casima in Bolivar marched last Monday to demand the payment of labor benefits and



the negotiation of the collective labor agreement. Alejandro Alvarez, president of the workers' union, said that ever since the expropriation was announced "the owners have refused to fulfill the agreements we had reached after submitting our requests." Among the benefits they are demanding is a 10.5-hour workday complement and the discussion of the collective labor agreement.

Fama de America produces less in the hands of the State. According to the numbers provided by the agricultural-industrial sector, the coffee company Fama de America used to produce between 1,500 and 1,600 tons of ground and roasted coffee per year when it was managed by private investors. Now that the company is managed by the State, its production has decreased by 17%. However, on the other hand, the National Administration claims the company has grown by 2% compared to 2009.

Government and TSJ narrow it down for the rent/lease market. The president of the Supreme Court of Justice, Luisa Estela Morales, issued a resolution suspending any judicial actions on households, and the measure is part of the set of regulations being executed in the real estate sector since 2003, narrowing down the room for the rent/lease market.

Home construction goals were not met. Several ambitious plans regarding home construction have been formulated, such as the ones of 2005 and 2006, but the Annual Report and Accounts of the Ministry of Housing for those two years indicate that the maximum number of home solutions built has been 40,000 units, revealing the announcements have clearly overshadowed the results. A new ambitious plan has been formulated estimating the construction of 150,000 units for 2011 and approximately 200,000 for 2012.

Indepabis closed 167 stores for "unlawfully" taking advantage of the exchange rate unification. A total of 167 stores were closed last January 15 for overpricing and stockpiling products based on the exchange rate unification at 4.30 VEB/US\$.

World Economy Tips

US Budget deficit reduced. The US Government's budget deficit during the first quarter of FY 2011, beginning October 2010, totaled US\$370.8 billion, or the equivalent to 9.9% of US GDP, according to numbers released by the National Treasury Department. The result was slightly better than the one reported the same period of the previous FY, both in nominal terms and in terms of the GDP. In the first quarter of the previous FY, the budget deficit reached US\$388.1 billion and 10.5 points



of the GDP. This is a result of a 9.0% y/y increase in receipts, mainly due to a better income tax collection from natural persons and a modest y/y increase in outlays by 3.1%.

US trade balance remains stable. The US trade deficit remained stable during November, reaching US\$38.3 billion versus US\$38.4 billion reported in October. Market consensus had estimated an increase to US\$41 billion. Exports gained 0.8%, which represents a y/y growth by 14.9%, while imports increased by 0.6% (13.6% y/y), thus reverting October's decline. The growth in exports was led by non-auto consumer goods growing 7.0% m/m. Imports of goods grew by 2.1% thanks to the increase in crude oil prices elevating oil imports to 6.7% m/m.

By country. China's goods deficit remained roughly stable at US\$25.6 billion in November, exports increased by 28.6% y/y and imports were equally strong increasing up to 27.5% y/y. The trade deficit with Japan also held roughly stable m/m at US\$5.8 billion reflecting a 23.3% y/y rise in exports and a 16.2% rise in imports. The trade deficit with the European Union improved slightly to \$7.1 billion as exports grew 12.2% y/y and imports rose 11.0%.

Fed Members: The stimulus will not be eliminated despite the positive economic performance. "The U.S. economy still needs support from the Federal Reserve (Fed) even if growth prospects appear firmer," top Federal Reserve officials said last Friday. The expansion must be more stable and broad-based before the Fed reverses its current policy, and even more stimulus may be needed if the housing market hampers the rebound, said Boston Fed Bank President Eric Rosengren, considered as one of the most moderate members of the Fed Board. He added: "Even with a relatively robust recovery, it will take several years before we attain full employment and an inflation rate close to a long-run expectation of 2 percent."

Asia: Growth vs. Inflation. The central banks of South Korea and Thailand have mentioned the threats the increase of food prices represent for their economies, so last week they increased interest rates. However, the cost of money, reduced to emergency levels when the world's economy stumbled in 2008, is still much below the inflation rate in most Asian countries, even below historic averages. This is due to the fact that an increase to the interest rates could attract cash flow not wanted by policymakers who tend to prefer economic growth to price stability. A clear example is what happened in Indonesia, where foreign investors have sold their stock positions after the central bank's decision not to increase interest rates even despite the inflation leap last month.

World Bank: Latin America to grow by 4.0% in 2011 and 2012. The World Bank forecasted Latin America's growth for this year and the next would be around 4.0% and warned that despite the region's positive outlook, there were risks such as



currency appreciation. One of the “main” challenges will be to face the evacuation of capital flows and the “destabilizing” effect this could have on exchange rates, external competitiveness and asset prices. Mexico and Central-American and Caribbean raw material importing countries, largely dependent on tourism and remittances, are still “particularly vulnerable” to the US conditions. Chile and Peru are at the top of the list with expected growth rates over 5.0% this year and the next. Brazil, Argentina and Uruguay are also among the well-performing countries with expected rates of more than 4.0%.

Analysts increase inflation projections in Brazil. The Brazilian market significantly increased its inflation projections for 2011, but left its reference interest rate forecasts unchanged at the end of the year. The concerns for a rise in the cost of services and food prices has become a central issue these past weeks, with the Wide Consumer Price Index (IPCA) growing by 5.9% in 2010, the highest level in six years. Economists expect the IPCA reference to grow by 5.4% this year, compared to the Central Bank’s inflation goal of 4.5% for 2011 and 2012. The Central Bank’s Monetary Policy Committee is expected to increase the referential interest rate (Selic) to 11.3% this week, up from the current 10.8%, to cool down the growth and contain prices.

Peru: growing fast. The Peruvian economy grew by 9.9% y/y in November, more than analysts’ expectations, boosted by the construction and manufacturing sectors, said the Government on Monday. This rate is also the third highest monthly increase in the year, thanks to a strong dynamism in the domestic demand, after June’s 12.1% and September’s 10.4%. The construction sector picked up by 23.8% in November, while the manufacturing sector expanded by 14.4%. Between January and November of 2010, the economy grew by 8.8%, while the 12 months previous to November it expanded by 8.5%, said the National Institute of Statistics and Computer Information (INEI).

Political Tips

President Chavez presented Annual Report and Accounts to the National Assembly. After more than seven hours, President Hugo Chavez presented his Annual Report and Accounts 2010, highlighting his administration’s achievements last year. He pointed out that Venezuela’s extreme poverty had reached 7.1% and unemployment reached 9.5%. He ratified his commitment to the refugees and announced he was planning to build 150,000 homes in 2011.



Chavez “acknowledged” his debts with the people. During the presentation of his Annual Report and Accounts 2010, President Chavez acknowledged his revolutionary Government had “many debts” regarding citizen safety and, even though he said he assumed his responsibility, he also questioned the fact that the Democratic Unity Table blamed the crime rate problem on his administration. President Chavez praised last year’s performance of the National Bolivarian Police Department and assured there had been a 44% reduction in the murder rate in the areas where this law enforcement agency operates: *“That has to encourage us to keep supporting this model,”* said Chavez, asking for congressmen and governors’ collaboration in the “integral project” that is the National Bolivarian Police Department

Opposition: We will take the President’s word. Chavez’s political adversaries hope the president’s call to dialogue made during the presentation of his Annual Report and Accounts before the National Assembly last Saturday are not gone with the wind, and trust one of the first issues to be addressed will be the crime rate. Executive secretary of the Democratic Unity Table, Ramon Guillermo Aveledo says: *“tolerance, dialogue and democracy need to prevail over confrontation, sectarianism, exclusion and violence.”* Aveledo thinks it is necessary to correct *“with sincerity the wrong and detrimental path the nation is being driven through.”*

Weapons in the state’s hands? The minister for Internal Affairs and Justice, Tareck El Aissami, said fire arms should be in the state’s hands in order to guarantee peace and people’s safety, and that anyone holding a permit to carry a fire weapon should meet certain requirements. *“Regulating the possession of fire weapons and regulating ammunition would be the first steps to take,”* said the minister. He insisted that this issue should be treated in depth: *“disarming the anti-values of violence,”* and said *“all experiences and theories related to this issue involved the social and ethical component of the new society, the new man and the new woman.”*

PSUV: new regional directors. President Chavez, in his faculty as the highest authority of PSUV, announced the names of the new authorities of this pro-government party. As first vice president, Chavez ratified Cilia Flores. For the central region, including the Capital District, Vargas, Miranda and Aragua, Aristobulo Isturiz, currently the first vice president of the National Assembly. For the western region (Carabobo, Lara, Yaracuy and Falcon), congressman Luis Reyes Reyes. Zulia representative Francisco Arias Cardenas was appointed as vice president for the western region including the states of Zulia, Tachira, Trujillo and Merida, an office previously held by the current minister of the people’s power for Energy and Oil, Rafael Ramirez. The flat lands region was split: one block includes the state of Cojedes, Portuguesa and Barinas, to be managed by Representative Erika Farias, the other block includes the states of Apure and Guarico and will be managed by Antonia



Muñoz. The eastern region, which includes the states of Anzoátegui, Sucre, Nueva Esparta and Monagas, will have Diosdado Cabello as vice president. For the southern region (Amazonas, Delta Amacuro and Bolívar), Yelitza Santaella. The new board of director's advisors will be Ali Rodríguez Araque, current minister of the people's power for Electric Energy, and Fernando Soto Rojas, president of the National Assembly

Parlatino: Inclusion in Mercosur and back to the CAN. On behalf of the Parliamentary Block of Unity before the Latin American Parliament, Delsa Solorzano stated her support for a new agreement signed unanimously addressed to the Republic of Paraguay to lift the veto against Venezuela and allow its inclusion in the Mercosur, and proposed a second agreement for Venezuela's re-inclusion in the Andean Community of Nations (CAN).

Santos: Chavez is living up to his word. Colombian President, Juan Manuel Santos, said his Venezuelan homologue, Hugo Chavez, was fulfilling his promise of not allowing the presence of guerrilla members in Venezuela. During an official visit to the Risaralda department (central-western area), Santos said that President Chavez's government had turned-in Nilson Teran, aka "Tulio," an "important" officer of the National Liberation Army (ELN) to Colombian authorities, after having arrested him in Venezuelan territory. *"That shows President Chavez is living up to his word,"* said Santos, remembering the Venezuelan president had promised him he would not allow the presence of "gangs of outlaws."

Venezuela and Brazil to maintain strategic relation. Venezuelan president, Hugo Chavez Frias, had a telephone conversation with his Brazilian homologue, Dilma Rousseff, in order to exchange ideas about the new era in their strategic bilateral relation. Rousseff and Chavez agreed to hold a meeting in Lima, Peru, during the Arab-South America Summit (Aspa) which will gather the heads of state and government of both regions on February 15 and 16 of 2011. Both presidents agreed to maintain the three-monthly meeting rhythm that has made their bilateral relation dynamic throughout the last years, and also agreed to resume the South American energetic integration agenda, particularly in the fields of oil and natural gas.

Internet for Cuba. A vessel transporting 1,600 km of optic fiber left France via Venezuela from where the installation of the submarine cable to improve Cuba's internet connectivity will begin. The ship's captain explained there are more than 1,600 km of cable in its warehouses, as well as the necessary technology to extend it and a submarine robot that will facilitate the monitoring of the installation operations. The installation of this optic fiber is expected to multiply the island's transmission and reception capacity with the rest of the world by 3,000, as the Caribbean nation currently needs to depend on a narrow-band satellite connection which is very expensive, making the internet service too slow and unstable.



Insulza: I only offered my opinion. The Secretary General of OAS, Jose Miguel Insulza, labeled his meeting with MUD representatives and speakers as “very pleasing.” He also said that member countries are the ones who need to decide whether the issues proposed are to be discussed within the organization or not.” Insulza clarified he did not ask for the Empowering Law to be modified, but he only offered his opinion. “My only doubt is whether it’s possible for a leaving Congress to limit an arriving Congress for 18 months,” he said. He also said, regarding the Empowering Law, “I don’t question this law. I don’t question the existence of empowering laws.”

Voluntad Popular becomes a political party. Voluntad Popular announced through its representative, Leopoldo Lopez, it will be calling for open elections to choose its authorities after the orange movement became a political party. Lopez made the announcement after the National Electoral Council (CNE) registered the political organization last January 14

Legislative Tips

He plans to return the Empowering Law before expected. During the presentation of President Chavez’s Annual Report and Accounts 2010 before the National Assembly, he regretted having been called a dictator for having obtained approval for his Empowering Law. However, he assured that in a period of five months he could achieve the labors proposed when he requested the Empowering instrument, insisting that this time the legal instrument was to assume the necessary labors to solve the problems caused by the rains. Chavez said it was likely for him to turn the Empowering Law back in to the National Assembly by May 1 of 2011, with no need to the stipulated 18 months to pass

Jaua gives hints about the use of the Empowering Law. Vice president Jaua, during his participation in the TV Show Dando y Dando, broadcasted on Venezolana de Television, said the Empowering Law would be used until May for writing laws such as *“the Law of Housing, the law to prepare the state for emergencies, laws for the economic reconstruction and other laws, in order to be more efficiently prepared regarding emergencies, refugees and housing.”*

New Law of Emoluments published in Official Gazette. On Wednesday January 12, 2011 was published in Official Gazette No. 39,592 the new organic Law of Emoluments of High Officers of the People’s Power. The objective of this law will be to



regulate and establish the top limits for emoluments, pensions, retirement allocations and other social benefits of remuneration, or not, of high officers, high level staff and directors of the People's Power and of public election. Article 8 of this law establishes that the top limit for monthly emoluments for higher State officers and public-elected officials is 12 minimum wages. Specified in these positions are the President of the Republic, National Assembly Representatives, Supreme Court of Justice Magistrates, Attorney General, General Comptroller, Ombudsman, General Ombudsman, National Electoral Council Rectors, Ministers, General Procurer of the Republic, Chief of Government of the Capital District and BCV President and Directors

Law of Emoluments: An incentive for corruption. Beyond the distress, the salary reduction stipulated in the Organic Law of Emoluments, Pensions and Retirement Allocations of High Officers of the State will result in a second collateral damage: An increase in corruption. This prediction was made by the director of Transparencia Venezuela, Mercedes De Freitas. *"The salaries of TSJ Magistrates and CNE Rectors have been substantially reduced, so the following question arises: How can someone who used to have the lifestyle of someone making X amount of money make ends meet with half of that? It should not surprise us if those and all others affected would try to find means to maintain their remuneration levels,"* said the spokeswoman of the organization in charge of fighting crime against the nation's wealth

National Assembly authorized voiding the Law of College Education. The NA lifted the sanction to the Law of College Education after reading a letter from President Chavez requesting this measure. In said letter, the president recognizes the effort made to sanction the law, but indicates the legal instrument is considered inapplicable for "theoretical, technical, practical and political reasons." He says the law needs an "even more arduous development including all sectors of the national life," amongst which he points out intellectuals, professors, retirees of the university system, students, workers and other sectors "so that they can present their remarks, contributions and critiques."

National Assembly's General Commission Installed. The National Assembly installed the General Commission to be integrated by Cilia Flores (united Socialist Party of Venezuela, Psuv), Edgar Zambrano (Accion Democratica, AD), Juan Carlos Caldera (Primero Justicia, PJ), Alfonso Marquina (UN Nuevo Tiempo, UNT), Morel Rodriguez (AD), Maria Corina Machado (Independent), Andres Velasquez (Causa R), Julio Garmendia (Podemos) and Vestalia Sampedro de Araujo (Proyecto Venezuela)

Occupation of vacant properties made legal. Within the framework of the Empowering Law, soon will be approved the Law of Emergency for Urban Lands, with the adjustments made by the Administration, after being designed by the National Assembly. According to President Chavez, the Law "foresees the occupation of



abandoned properties to be conditioned and then granted as homes.” The objective of this measure is to offer a temporary solution to families currently vacated from their homes due to the landslides. However, speakers of the Venezuelan Real Estate Chamber say this law legalizes invasions, prohibited by the Government itself. The Law establishes the Government will only take properties in proper living conditions and that it will reach acquisition agreements with their owners.

Another one in the framework of the Empowering Law. President Hugo Chavez proclaimed a Presidential Law-Order for “worthy shelters,” within the framework of the Empowering Law, to respond to the emergency caused by the heavy rains of late 2010.

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ECONOMIC OVERVIEW

