



# Weekly Report

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*Exchange polices in Venezuela:  
change, everything changes...*

By:  
Asdrúbal Oliveros  
Carlos de Sousa  
José Luís Saboin  
Ecoanalítica's Team \*

\* Adriana Morillo and Luís Pulgar

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If there is something that best reflects the changing dynamics of the Venezuelan economy its exchange policies; and one could say that they follow the maxim: "everything changes in order for everything to stay the same." If you thought you'd seen it all after the elimination of the swap-market, creating the SITME system, and now, the unifying the exchange rates, well you'd better think again. It seems that now there will be a new player to keep tabs on in the Venezuelan economy: the *Bicentenario* Public Stock Exchange (BPVB). This Report will also address one of the biggest challenges that companies doing business in Venezuela will face: designing a strategy and planning in the current exchange environment.

**Uncertainty is  
the key when  
dealing with the  
exchange  
market...**

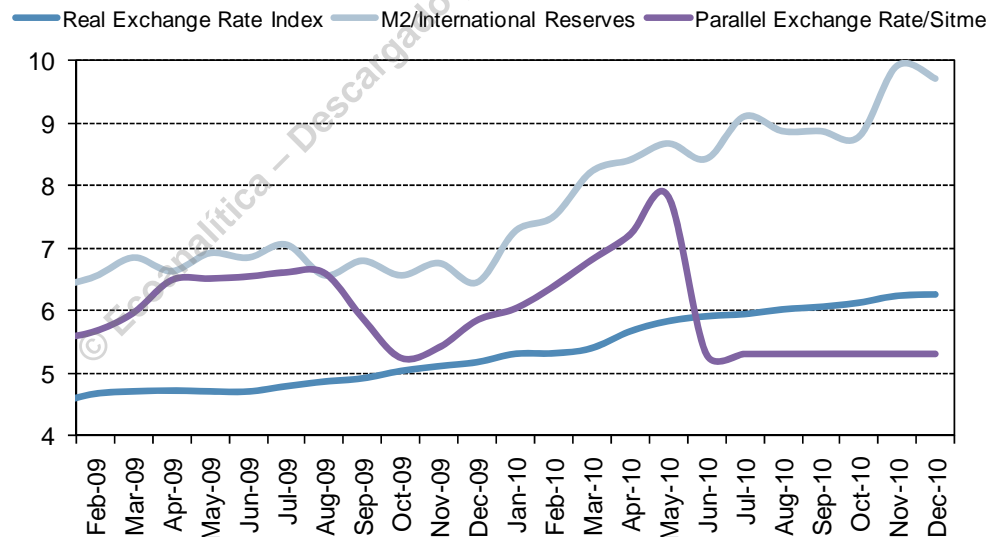
Up until 2009, trying to calculate future foreign currency cost for a company doing business in Venezuela was possible, though it did include a certain amount of uncertainty and speculation. The method most commonly used would go as follows: first calculate the amount of foreign currency required for the year in accordance to demand estimates; then you only had three variables left: the official exchange rate (which remained constant for almost



five years); the estimated average exchange rate of the swap-market for the year; and the amount of foreign currency that CADIVI would approve for your company. This would allow you to determine how much of the foreign currency needed would be obtained at which exchange rate, and this would allow you to calculate a weighted exchange rate.

With respect to the swap-market exchange, though calculating the estimated average rate for the year was no easy task, there are econometric and market tools available to help with this calculation. Two variables that we at **Ecoanalítica** consider to be fundamental are: the real exchange rate and the implicit exchange rate between monetary liquidity (M2) and the international reserves; the first being seen as the lowest level the swap-market exchange rate could reach, and the second as being the ceiling.

Exchange Rate Indicators (VEF/US\$)



Sources: BCV and Ecoanalítica

At the beginning of last year, the number of variables one has to calculate increased with the implementation of a dual exchange rate for CADIVI, the elimination of the swap-market, and the creation of the SITME system. It all became much more complex and imprecise to calculate the estimates cost of foreign currency for a company in Venezuela.

... And too many factors in play

Currently, with the elimination of CADIVI's so-called preferential exchange rate (VEB 2.6/US\$) there are five variables to consider when calculating





foreign currency costs, and with the upcoming introduction of the *Bicentenario* Public Stock Exchange (BVPB), there will be seven variables to consider: the official exchange rate (which we assume will remain at VEB4.3/US\$ at least until the close of 2011), the amount of foreign currency that CADIVI will approve for your company, the SITME system exchange rate (we believe that this rate will be adjusted soon), the amount of foreign currency that the SITME system will authorize (which according to the Exchange Agreement 18 will be a maximum of US\$4.2 million a year per registered company), and the unofficial market exchange rate. An important point to mention, and which we will address more in depth further along in this Report, is that where we are referring to the SITME system, it is very probable that in the future we may have to instead refer to the BVPB.

**“The King is dead... Long live the King”**

As one can see, the calculation becomes quite complex, and it only gets more complicated. It now seems that the SITME system's days are numbered. Unofficially, sources say that within the Central Bank of Venezuela (BCV) and the Ministry of Planning and Finance, both entities are considering an alternative way to assign foreign currency via the *Bicentenario* Public Stock Exchange. It's still not clear how this would work. From inside the BCV, the word is that it would continue to control the primary market placing stocks and the BVPB would control the secondary market. There is no word yet as to what role the financial system will play, which is the backbone of the SITME system. The new system is supposed to begin operations during the second quarter.

**Nothing changes... Restrictions continue to be applied**

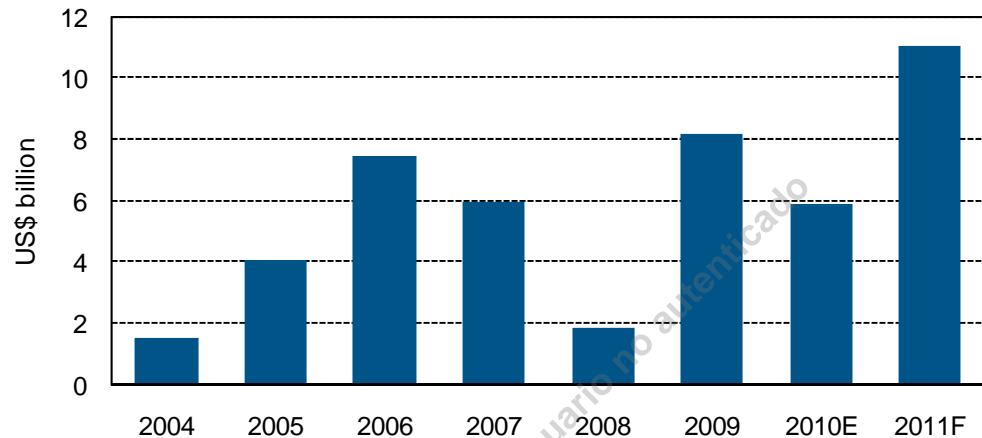
So, companies and natural persons must evaluate the possibility of accessing foreign currency via *Bicentenario* Public Stock Exchange at an exchange rate that will most likely be similar to the SITME system exchange rate or of the implicit rate of the next debt issuances (especially those issued by PDVSA). And this is where it gets very uncertain since the Administration has not been very clear as to how this new institution will operate.

Two things impact the exchange market: first, restricting foreign currency due to operative problems that affect PDVSA. At **Ecoanalítica**, we have calculated that at least US\$ 10.0 in imports will have to be covered by either the SITME system or the BVPB. This does not include outgoing private capital





### Non Cadivi, private imports



Sources: BCV, Cadivi, and Ecoanalítica

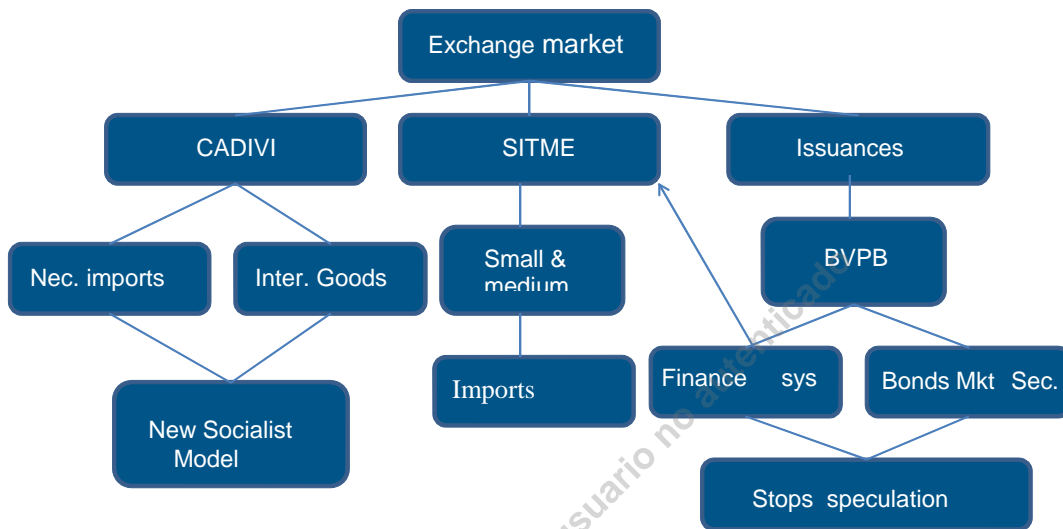
Second, the differences that have led the Ministry of Planning and Finance (Giordani) and the Central Bank of Venezuela (Merentes) to butt heads regarding the foreign currency exchange issue.

#### Giordani vs. Merentes

Back to the issue of the SITME system and the *Bicentenario* Public Stock Exchange (BVPB), according to the information we have been gathering at **Ecoanalítica**, two possible ways of operating the BVPB are being considered. As has been the case lately, one of these ideas is being proposed by the Minister of Planning and Finance, Jorge Giordani, and the other by the president of the Central Bank of Venezuela (BCV), Nelson Merentes.

In Giordani's proposal, the BVPB would serve as a mechanism to replace the role that brokerage houses play as intermediaries when bonds are issued, Republic and well as PDVSA bonds, and any other bond issuances that could possibly come from public companies. Sources from Giordani's office state that they are also considering the idea of establishing a foreign currency acquisition mechanism controlled by the BVPB which would substitute (eliminate) the SITME system. This idea, as we have mentioned before, seems to be the one that is going to be implemented.

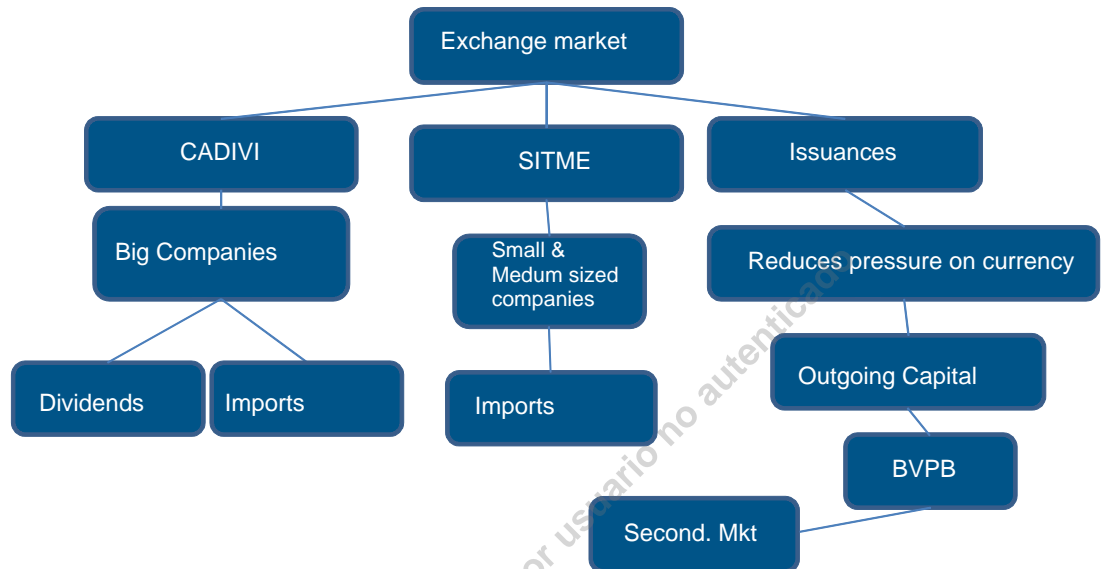




In this case, what has been discussed in Giordani's office is that only the financial sector will have direct access to the BVPB in order to buy bonds in the secondary market, which would then have to be re-sold to companies and natural persons. The primary market would be where Republic and PDVSA bonds would be issued. According to Giordani, this would allow the BVPB to "put an end to speculation" and it would be able to maintain exchange rates constant, be it a CADIVI exchange rate, SITME, and/or BVPB. The problem with the design of this exchange mechanism is that it doesn't offer a legal venue for outgoing capital. Furthermore, by not allowing the implicit exchange rate to be adjusted, it will continue to restrict the amount of foreign currency available to the private sector.

In Merentes' proposal, the SITME stays pretty much as it is and the role of the BVPB would be to institutionalize a secondary bond market that would create a legal venue for private sector outgoing capital, which in turn would take a lot of the pressure off the unofficial exchange market





In our opinion, Merentes' proposal is clearly better because it creates a legal venue for outgoing capital (besides primary bond issuances). This is necessary in order for the economy to function properly. In Giordani's proposal, outgoing capital would continue to flow. It would just use an illegal venue and be at a higher exchange rate, which in turn would create more incentives for speculation, thereby failing to achieve this proposals main objective which is to get a handle on inflation.

**Nothing has been decided yet...**

Despite the fact that it looks like Giordani's proposal is the one that is going to be implemented, it's not out of the question that in the future, before the prospect of the whole system collapsing, that the Administration will introduce a number of modifications that will make this mechanism look more like Merentes' proposal. Let's not forget that exchange policies, strongly influenced by ideological motives, evolve by trial and error.

**High oil prices: a bit of luck**

Whatever the structure of the BPVB turns out to be and how it operates, it could signal an increase in the foreign currency supply for the private sector and must be taken into account as an addition source of foreign exchange in the company's exchange structure. Of course, any increase in the supply of foreign currency will be tied to how the international oil market evolves, taking into account two factors: that oil prices continue to increase and that PDVSA can stop the decline in its oil production. It's ironic that the second factor will be harder for PDVSA to achieve than the first one.





**On the other hand: there is no single foolproof exchange strategy**

If we look at 2010 as an example, we'll can calculate that the weighted exchange rate for the public sector was VEB3.6/US\$ and for the private sector VEB5.4/US\$. But, and here is where it gets complex in terms of designing an exchange strategy for a company. The fact is that even within the private sector there isn't just one exchange rate. Take a look at these examples:

1. A company working in the food or pharmaceutical sector that received most of its foreign currency from CADIVI at the preferential rate. This company's implicit exchange rate will be closer to VEB2.6/US\$ than VEB4.3/US\$.
2. A company that imports electrical appliances that gets most its foreign currency from the SITME system last year, throughout the year it had a weighted exchange rate of VEB6.3/US\$.
3. A multinational company getting its foreign currency via CADIVI at VEB4.3/US\$, its implicit exchange rate was VEB5.9/US\$.

**For better or for worse: The exchange system will define the environment**

There is no way that the exchange strategy of these companies could ever have been the same. The first company is much more susceptible to changes in CADIVI, at the mercy of all its lists and regulations. The second company is more worried about what is going to happen with the SITME system and/or the BVPB; and along with the third company, it is also interested in what is going to happen with regard to foreign debt issuances by the Republic and/or PDVSA. As things stand today, it's almost impossible to suggest one catchall exchange strategy and this is a very important detail that all companies should keep in mind.

In other words, each company, depending on its size and economic activity must plan its own exchange strategy, in order to estimate the company's operative expenses. The key is to base your strategy on your previous experience with each one of the existing mechanisms, your foreign currency needs, and the outlook that we at **Ecoanalítica** can provide, through our team of economic advisors, to help you more accurate estimate each variable.





## Economic Tips

**Exchange Agreement No. 15 published in G.O. number 383.071** (verificar), corresponding to January 27, 2011 has been released. It includes the list of all foreign currency requested from CADIVI up to December 31, 2010 at the VEB2.6/US\$ rate for students studying abroad, health, sports, culture, scientific research, and other special cases, such as pensions and retirement funds for people abroad. These funds will be liquidated at the aforementioned rate as soon as the authorization for liquidation of CADIVI funds fulfills its normal process.

**Studying adjustment to the Tax Unit.** The Commission for Finance and Economic Development of the National Assembly (AN), through its president Ricardo Sanguino, will in the coming days announce the new Tax Unit. This adjustment must take place before February 15 as established in the Organic Tax Code. The Code states that the previous year's inflation rate must be taken into account, but for the last three years, the average of a calculation carried out by the SENIAT of a number of prices has also been taken into consideration.

**Unemployment among the poor.** According to the Integrated System of Social Indicators of Venezuela (Sisov), part of the Ministry of Planning and Finance, the level of unemployment among the group of people with the least amount of economic resources of the population is at 22.1%, at the close of the first semester 2010. These figures show that among the 20% of the poorest group of the population, the unemployment level was double the national average registered by the National Statistics Institute (INE) which was at 8.8% at the close of the first semester 2010. The strata immediately above the poorest level, the unemployment level improved to 11.0% during the same period; for the strata above this one, unemployment improved to 7.7%; and the next level above improved to 4.3%; with the top level, those with the most amount of resources, unemployment was only at 2.4%.

**The informal economy shrinks due to drop in micro-businesses.** The rate of the informal economy dropped to 43.7% in December 2010 due to a drop in the number of micro-company employers which dropped to 265,845. The National Statistics Institute reported in its last report of the year on the labor market that during 2010, the number of micro-businesses (business with less than 5 workers) dropped by 17.4% which translates to 56,069 workers in this sector. Of all the groups that make up the informal sector of the economy, only those with less than five workers posted negative numbers.



**10.4% of world unemployment in Latin America.** The overall economic growth reflected in Latin America, with the exception of Venezuela, didn't do much to lower the region's overall unemployment rate. The International Labor Organization reported that of the 205 million people unemployed worldwide in 2010, 10.4% resided in Latin America.

**Distribution of wealth.** The National Statistic Institute points out that only 17.3% of the nation's wealth was distributed among 40% of the poorest of the population at the close of the first semester 2010. This is an improvement from previous years considering that in 1998 only 12.6% was distributed. However, after 12 years, the wealth is still being concentrated among the higher strata. 40.0% of the population with the most resources had access to 44.8% of the country's wealth distributed during the same period. In 1998, it was at 53.4%.

**Inflation and recession eroded family wellbeing.** According to the National Statistic Institute figures for the first semester 2010, household spending averaged VEB 3,190 a month while during the same period a year ago it was at VEB 2,663, which in nominal terms represents a 19.7% increase. But after adjusting for inflation, it's down in real terms by 8.3% between 2009 and 2010; and if you take away subsidies which help improve household income, the drop in household spending in real terms is at 8.8%.

**2010 government deficit closed at 4.02%.** Ordinary revenues last year were higher than stipulated in the Budget, spending was higher, and in the end the government ended up with a deficit. According to the figures released by the office of public finances, ordinary revenue taken in by the government last year were at VEB198.5 billion, while spending was at VEB233 billion. Despite this deficit, there are funds that can cover the gap.

**BCV hiding government financing figures.** During the last 12 months, the Central Bank of Venezuela has failed to provide information regarding sources of the monetary base, a key indicator in measuring how the economy is doing. Among other things, monetary base sources show if the Central Bank has financed the government or other public companies such as PDVSA.

**PDVSA was authorized to issue \$ 3.0 billion.** Petróleos de Venezuela was authorized to issue US\$ 3.15 billion in bonds via the recently inaugurated *Bicentenario* Public Stock Exchange. These bonds will be issued with an 8.5% fixed yearly coupon, with semester payments and maturing in 7 years, to be acquired at VEB4.30/US\$ rate, and Income Tax payment exonerated. The resolution issued by the Ministry for Planning and Finance and the National Stock Exchange Superintendent's Office have



registered the issuance in the National Stock Registry according to what was published in the *Gaceta Oficial* number 39.605.

**Admit that inflation was not only generated by price gouging.** The Minister of Science, Technology, and Intermediate Industries, Ricardo Menéndez, recognized that the problem with inflation is not only due to price gouging, but it is also has to do with the increase in prices in raw materials and food items on the international market.

**Interest rate.** The lending rate for the third week in January was at 18.1%, down by 0.26 perceptual points compared to the previous week. Time deposits and savings rates were steady at 15.5% and 12.6%, respectively.

**International reserves.** International reserves decreased 0.1% going from US\$29.66 billion during the third week in January to US\$29,63 billion during the fourth week of January. Compared to the same period last year, international reserves have dropped by 7.9%. On January, 14, the BCV transferred US\$1.000 million of the international reserves to the Fonden

**Monetary liquidity.** Monetary liquidity for the third week in January was up 0.01%, compared to the previous week settling at VEF 292.5 billion. The M2 has increased 24.3% year-on-year.

**Sitme figures.** To date, US\$5,7 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$147 million, US\$29.6 million more than last week when braided US\$117 million.

## Oil Tips

**More Pdvsa funds demanded for housing and agricultural projects.** The Administration demanded the national oil company to contribute more, this time with US\$3.2 billion to fund agricultural and housing projects. Moreover, President Chavez said last weekend he would use VEB 1 billion from the Independence Fund, managed by the oil industry, for the AgroVenezuela mission. According to Pdvsa's annual report and accounts, between 2004 and 2007, the state's oil company maintained a US\$4 billion trust fund for the agricultural sector and contributed with US\$4.08 billion to build homes between 2003 and 2007.



**Pdvsa demands increases in production of joint venture partners.** The Minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, notified Pdvsa's domestic and foreign joint venture partners during October and November of 2010 that they would need to present an investment plan aiming for an increase in production in order to boost the national production by 400 kb/d, otherwise their rights to operate might be reviewed.

**Pdvsa exports gasoline to Iran.** Despite Washington's warnings to Venezuela about the sanctions to be applied for doing oil business with Iran, Pdvsa is currently shipping two gasoline vessels to Iran to be delivered this month. Rafael Ramirez, president of Pdvsa and Minister of Energy and Oil stated that Opec had not taken any measures as a result of US sanctions.

**Possible closure of the Suez Canal would cut supply by 2 mb/d.** If for any reason the Egypt conflict would cause an interruption of trade through the Suez Canal, the shipment of two million barrels of oil per day would be interrupted, that is 6.5% of the world's daily crude oil sea exports. Abdullah al-Bradri, Secretary General of Opec said the organization was in the capacity to include an additional supply of 6 mb/d if necessary, as they don't want a situation like 2008's to repeat itself.

**Less natural gas and oil production in the Northern Sea.** The Norwegian company Statoil said the natural gas and oil production at the Gullfaks field, the largest field in the Northern Sea, would decrease this year due to the same operative problems that affected them during May and June of 2010.

**Citgo maintains US fuel subsidy plan.** For the sixth consecutive year, Pdvsa's affiliate, Citgo, started its US fuel subsidy plan, bringing benefit to 132 thousand households. The subsidy plan has a cost of US\$60 million for the oil company. Since the program started in 2005, Citgo has delivered 170 million gallons of heat fuel (equivalent to approximately US\$250 million) to low-income families in the US, including 234 homeless shelters.

**BP lost US\$4.9 billion in 2010.** British Petroleum, BP, reported it lost US\$4.9 billion in 2010, after having won more than US\$13 billion in 2009 with lower oil prices, due to the oil spill in the Gulf of Mexico. This was BP's first financial loss since 1992. The company increased its spill clearance cost estimates to US\$40 billion.

**International oil baskets.** At the close of the New York market last Thursday, February 3, the WTI was at US\$90.3/bl, showing a 5.5% increase compared to the US\$85.6/bl of the previous Thursday. The Brent increased by 4.4% to reach US\$101.6/bl, compared to US\$97.3/bl of the previous Thursday.



**Local oil basket price.** The Venezuelan oil basket price decreased last week, to close at US\$83.9/bl on Friday, January 28, down by US\$2.84 or 1.0% from the US\$86.8/bl registered the previous week. Meanwhile, the basket's annual average is at US\$85.4/bl.

## Business Sector Tips

**Bicentennial Public Securities Exchange begins operations.** The Bicentennial Public Securities Exchange began operations last Monday with securities issued by public and private entities. The first operations to be carried out by the new exchange market will be with commercial papers issued by Envases Venezolanos and Toyota.

**Nationalization process of Owens Illinois moving forward.** So was confirmed by the First Court of Administrative Litigations' decision to authorize the Ministry of Science, Technology and Intermediate Industries to appoint the members of the board of directors of the glass-container-producing company. The Court also ordered law enforcement bodies to take the necessary measures to secure two plants owned by the company in the states of Carabobo and Trujillo, as well as the offices and delivery trucks all throughout the country.

**Casa Propia Loan and Savings' operations suspended.** The Superintendence of Banks ordered the closed-door audit of Casa Propia Entidad de Ahorro y Prestamo, as published in Official Gazette N° 39,603 dated January 31 of 2011.

**Government and banking system to review real estate project loans.** Vice president Elias Jaua announced a future meeting between the Government and the private banking system to review the financing of the housing developments that were expropriated and occupied.

**Law of Emergency for Lands and Housing in effect.** The Organic Law of Emergency for Lands and Housing, which will regulate the use of idle urban lands and real estate properties, was published in Official Gazette N° 6,018 dated January 29 of 2011.

**Public Ministry to indict three construction executives.** Within the next few hours, the Public Ministry will indict two executives of the construction company Inversiones



Blanchet, C.A., and one from the company Grupo Eiffel, as part of the investigations started by this public entity against fraud, criminal deception and usury.

**Liquidation of Federal Casa de Bolsa ordered.** Official Gazette N° 39,605 dated January 31 of 2011 published the order to liquidate the stock brokerage house Federal Casa de Bolsa, under audit process since June of 2010. Maritza Mosqueda, who was in charge of the company's auditing board, was appointed as its liquidator.

**High default index affects the public banking system.** Statistics from the Superintendence of Banks indicate that, in average, private financial institutions have trouble getting back 2.15% of the total loans granted, while public institutions have trouble with 8.03%.

**Banking system requests precision regarding the scope of the law.** In the Official Gazette issued on December 21 of 2010 appeared a "material error" correction to the Organic Law of the National Financial System which questioned the legal existence of financial groups, the structures that currently allow a bank, and insurance company and a stock brokerage house to work under the same name.

**Tire agreement with Uruguay put on hold.** The agreement celebrated between the Uruguayan tire company Funsu and Venezuela, signed in June of 2009, has not met its objective and its continuity is uncertain. Company delays and bureaucratic obstacles in Venezuela have caused that, six months after the agreed time period, only half of the tires have been delivered.

**Food costs increase significantly after record agricultural loan numbers.** In order to follow the rules, last year the banking system injected 25% of the total loans to the agricultural sector, a historic record proportion that exceeds the 22.5% reported between 1984 and 1990. However, the response was not as expected, since this disbursement has not translated into cheaper food but, on the contrary, has resulted in a significant increase in the cost of food in a proportion that exceeds the region's available records by far.

**Producers will have up to 10 years to pay debts.** The Presidential Order Law of Attention to the Agricultural Sector, published in Official Gazette N° 39,603 dated January 27, contemplates the restructuration or total or partial pardon of agricultural loans granted for the strategic production of agricultural products that were affected by the floods of the last quarter of 2010.

**CVG Alcasa workers have been protesting for five days.** Venezuela's aluminum pioneer, CVG Alcasa, remains in minimum operation conditions, after the labor



protests that started last Monday with demands of labor benefit payments and collective labor agreement negotiation.

**Coca-Cola Femsa plant has been shut down for two weeks.** Workers of the Valencia plant of Coca-Cola Femsa are still on strike since January 14, affecting 50% of the beverage company's national supply and distribution capacity. The disagreement between both parties regarding social-economic conditions within the framework of the collective labor agreement negotiation forced workers to request authorization from the Labor Inspectorate to shut down the activities of this plant, one of the four plants owned by the Mexican bottling company in Venezuela.

**Labor conflict in Helados EFE to be subjected to arbitration.** In light of the continuous disagreements between representatives of Helados EFE and its workers, both parties agreed to subject their differences in the collective labor agreement negotiation to an arbitration board.

**Banking system proposes bond issuance to increase mortgage contribution.** The president of the Venezuelan Banking Association, Juan Carlos Escotet, explained that the proposal of financial institutions to boost the construction of homes contemplates an issuance of bonds, an increase in the contribution by employers and employees and public sector disbursements.

**Tighter leash on banking system funds.** President Hugo Chavez emphasized his control over the banking system by saying he would manage the destination of mortgage loans. So far, financial institutions have been obligated to destine predetermined loans for the housing sector, but had the freedom to evaluate and decide which company or person received such loans.

**Private automotive companies without a license to import vehicles.** Private vehicle distributors will not receive import licenses for the third consecutive year, according to an official document issued by the Ministry of Commerce (Mincomercio). "The applications received in September of 2010 are technically denied since the period to issue a response has already expired," says the text Mincomercio sent last Wednesday to the Venezuelan Automotive Chamber (Cavea). The resolution, signed by Jesus Armao, director of the organization's commercial policy, adds that another decision would only correspond to what the Productive Economic Vice-president's office might resolve.

**Movistar to continue selling Blackberries.** Movistar will continue importing Blackberry (BB) phones, manufactured by Research In Motion (RIM). According to statements issued by the president of Movistar, RIM is willing to collaborate and negotiate to continue marketing these devices in Venezuela.



**Attorney General's Office investigates 1,600 cases of real estate frauds.** The Public Ministry is working on over 1,600 cases of real estate frauds in national territory through its Plan Against Fraud, Criminal Deception and Usury, said the Attorney General of the Republic, Luis Ortega Diaz.

**Friosa's deterioration blamed on basic industry debts.** Workers of the food distributor Frigoríficos Ordaz S.A. (Friosa), in Bolivar, protested last Thursday about the company's low productivity since it was taken over by the Government in September of 2010. They assure the deficient arrival of merchandise prevents them from being able to supply supermarkets, grocery stores and basic companies' lunch rooms.

**President threatens to nationalize Banco Provincial.** President Hugo Chavez, during the act to hand-in 71 homes in the expropriated housing developments, threatened to nationalize Banco Provincial unless it abided to the law and presidential orders. The warning came after some families that purchased apartments in the San Jose del Avila project said the financial institution had not disbursed the resources to finish the third stage of the development.

**Pedeca, asphalt producing plant in Villa de Cura, expropriated.** The Municipal Hall of Zamora, Aragua State, ordered the expropriation of the construction company Pedeca, dedicated to producing asphalt. According to statements issued by the Mayor, this measure was taken to create a social-property company to work in commonwealth along with the municipalities of Linares Alcantara, Libertador, Lamas, Mariño and Zamora, all in the southern region of Aragua.

**US\$80 million owed to the Colombian textile sector.** Venezuela owes nearly US\$80 million to Colombian textile and confection companies, one of the sectors with longest delays, so was reported by the Colombian Vice-minister of Entrepreneurial Development, Carlos de Hart.

**Public Securities Exchange kicks off with commercial papers.** The Venezuelan Public Securities Exchange started operations selling commercial papers that will not protect money from inflation, but could represent a small profit versus the referential interest rates for long-term investments. According to Exchange promoters, the commercial papers of Envases Venezolanos, which can also be purchased by investors through Banco Provincial, leader in order placements, have an 18-month expiration and report a 15.71% interest over the first six months.





## World Economy Tips

**US economy grew by 3.2% in the fourth quarter of 2010.** According to preliminary data, the US GDP grew by 3.2% in the fourth quarter of 2010 (q/q seasonally adjusted annual rate, SAAR). This growth rate was slower than consensus expectations (3.6%), but was the same growth rate reported since the first quarter of 2010, so the year's preliminary results indicate a GDP growth by 2.9%, after a 2.6% contraction reported in 2009.

**Sales recover but still haven't reached pre-crisis levels.** Other preliminary results for the US economy show that sales recovered by 1.4% in 2010, compared to a 2.1% fall reported in 2009, and this time, sales were mostly boosted by the domestic demand, with a 1.9% growth, while foreign trade had a negative net effect over the GDP due to the fact that imports grew faster than exports. As to the demand, personal consumption increased by 1.8%, the Government spending kept growing, this time by 1.1%, the residential investment kept contracting, this time by 3%, after drastic reductions by 22.9% and 24% in 2009 and 2008, respectively, and companies' fixed investment grew by 5.5%, still not enough to compensate 2009's 17.1% contraction.

**Real estate market relapses.** If there's a real danger of relapse, it's in the US real estate market. From early 2009 to June of 2010, the Case Shiller home price index showed a slow recovery thanks to the US Government's tax credit plan, but during the last five months (available until November), prices have continuously fallen. In November of 2010, the average prices of homes in the main 20 cities of the US were 1.6% lower than in November of 2009.

**Interest rates will remain unchanged, as expected.** The Federal Open Market Committee (FOMC) decided to leave federal fund rates unchanged within a range between 0-0.25%, as it has been since late 2008. The discount rate was also left unchanged at 0.75% as there aren't significantly increasing trends in prices or inflationary expectations, and despite the moderate growth of income, unemployment is still too high.

**European growth rates step back.** The EU Commission Index reported a slight contraction in January going from 106.1 to 105.8, but there was a mixed behavior in the index's components. The euro zone's industrial component is at percentile 96 of its historic data (since 1990), while the services sector, construction and consumer confidence are well behind in percentiles 29, 30 and 28, respectively. Oddly, despite



the low confidence reported by consumers and the negative indicators in the services sector, sales are in percentile 96 of the historic data. The behavior by country is also pretty heterogeneous, with Germany leading the group of countries in percentile 93, followed by France in percentile 77, Italy in percentile 44, United Kingdom in percentile 43, both Spain and Portugal in percentile 18 and Greece in last place in percentile 7.

**Mubarak will not be presidential candidate.** After over a week of demonstrations in the streets of Egypt demanding the resignation of President Hosni Mubarak, who has been in office for 30 years, President Mubarak, 82, publicly stated before the crowd in Cairo that he would not run for the upcoming presidential elections in September of 2011. US President, Barack Obama, Mubarak's ally, requested him to resign from the presidential commission after the massive protests that, according to the UN, resulted in more than 300 deaths.

## Political Tips

**Chavez's presents.** National Assembly Representative, Julio Borges, ratified that President Hugo Chavez could not be called anything but "Mr. Giveaway," even if he didn't like the nickname, since the total amount given to other countries in 2010 reaches US\$13.45 billion, and the accumulated figure over the last 5 years reaches US\$69.94 billion for more than 40 countries. He assured that what he gave away between 2005 and 2010 *"would be enough to cover the total cost of the 75,000 currently employed cops plus another 50,000 for 30 years."* Borges reminded that on January 15, during his speech in the National Assembly, Chavez assumed the commitment to debate this subject.

**Venezuelans against expropriations.** The National Pulse survey, presented by the company Datos during Venamcham's 2011 Economic Outlook forum reveals that 80% of Venezuelans do not agree with the Government's actions against private property and demand respect. The president of Datos, Joseph Saade, said that for Venezuelan people, the concept of owner was very deep-rooted, so much that many of them wish they had their own company. The study indicates that 70% of respondents disagreed with the expropriation of private companies and commercial establishments. The opinion against government audits rose last year, after the Government tightened the measures against companies, farms, commercial establishments, real estate developments and spaces in municipal markets. Early in 2010, Datos' survey reflected



that 59% of the people rejected these actions, the trend increased to 60% in the third quarter and closed at 70%.

**Negative perspectives.** Saade highlighted that half of Venezuelans reject the socialist model of President Hugo Chavez. As of the last quarter of 2010, the survey results showed that 34% agreed with these policies, 15% neither agreed nor disagreed, and 50% rejected the model. *“If this economic model keeps progressing the way it has been, by undermining the role of the private sector, that will have an impact on public opinion and the Government’s political ground,”* said Saade.

**Suggestions to eliminate Parish Boards.** Sumate branded the elimination of existing Parish Boards, as well as the extension of current city councilors’ office periods expired since August 2009, product of the approval of a new Reform to the Organic Law of the Municipal Public Power (LOPPM) and the Law of Regularization of Constitutional and Legal Periods in State and Municipal Public Powers in December of 2010 by the departing National Assembly, as a serious violation to the Constitution, and a disrespect to the Municipal Power. For the members of Sumate, the approval of these two legislations in the outgoing national legislative power also violated Venezuelans’ right to choose and be elected.

**Chavez: Willing to work.** President Chavez said he was willing to support opposition governors in their proposals. *“All Governors who have projects, including opposition governors, have my support. Of course, it’s my obligation, instead of having them accuse me of being a dictator,”* said the Head of State in a national TV and radio broadcasting. He said the Governor of Zulia, Pablo Perez, sent a message to the Vice president *“and I told him- well, assist him and Tachira’s governor too,”* he emphasized. Also, Chavez said the Chinese industry would provide technological and human support to build homes throughout the nation.

**Ministry of College Education: university’s autonomy is guaranteed by the National Government.** *“The revolution guarantees university’s autonomy. We have defended their autonomy since before the revolution, we have defended the idea of universities having the place they deserve in the Venezuelan society,”* said the minister of College Education, Yadira Cordova. She also assured that knowledge should help in solving the nation’s problems. *“Universities produce, circulate, divulge and transmit knowledge to solve the nation’s problems.”* In her opinion, people don’t study only for their own benefit. Minister Cordova said it was indispensable for all college supporters, including students, employees and graduates, to assume the debate about universities, *“but all Venezuelans should assume it as well.”*

**Chavez: “I am not an enemy of Golf.”** President Chavez called Caracas golf field owners to collaborate in the solution of the housing problem by handing out lands that



are good for building suitable spaces to give shelter to thousands of people needing a home. During his speech in the act to hand-in apartments to families defrauded by construction companies, Chavez expressed his commitment with the development of sports in Venezuela, golf, in this case. *"I am not an enemy of golf. I'm only calling golf field owners to contribute."* President Chavez added that these golf fields had an extension of nearly 100 acres located in the heart of the city, and that in only 2.5 acres they could build up to 4,000 housing units.

**Fedecamaras: promise of homes is "a political campaign."** President of Fedecamaras, Noel Alvarez, said that the Government's promise to build 150 thousand homes by 2011 and 200 thousand by 2012 seemed more like "a political campaign." He said the numbers were ambitious, because the average in last few years was 40 thousand units per year. "What I'm worried about is that it seems as though we are in a political campaign, and not in the development of a Government stage," said Alvarez. He reiterated *"the private sector is there, it's willing, it has the machinery to work, but we need to put aside our political ideals and focus on who's actually qualified to build, we need to work with them for the sake of our country."*

**Mujica: Venezuela will solve asymmetries in Mercosur.** The president of Uruguay, Jose Mujica, said in his visit to Caracas that the possible inclusion of Venezuela to the Common Market of the South (Mercosur) would complement and provide support to the organization. He said Venezuela's presence would help solve the internal asymmetry problem and would collaborate with important regional affairs such as nutrition. He added that the eventual inclusion of Venezuela to the South American commercial block would also be a source of food imports; the strong point of a significant part of Mercosur, considering its inclusion would be quite favorable.

**Attorney General Luisa Ortega Diaz: Afiuni's rights are guaranteed.** Attorney General Luisa Ortega Diaz labeled Human Rights Watch annual report assuring that human rights were not fully guaranteed in Venezuela, with the example of Judge 31 of Control of Caracas, Maria Lourdes Afiuni, for allegedly facilitating the evasion of banker Eligio Cedeño, as "unfounded" and "false." *"The report has no scientific value,"* said Ortega Diaz, and maintained that no representatives of the pro Human Rights organization had visited the public officer at the National Institution of Feminine Orientation (INOF) to verify the measures the authorities have adopted to guarantee her rights.

**PSUV discusses political action plan.** PSUV proposed an auto-evaluation and a shake for the next two years as a challenge to achieve victory in the local, regional and presidential election of 2012. Among the organization's objectives is conquering the militants that might be "confused by the right-winged adversary or by our mistakes," reads the document analyzing PSUV's militancy and management called Psvu's



Strategic Lines of Political Action 2011-2012. The document establishes 5 lines of action for the militancy and was proposed by President Chavez last December and reads: *“It is fundamental for us, in this stage, to recover, regroup and re-articulate our forces that have been dispersed, immobilized, demoralized or confused by our adversary or by our mistakes. Our adversaries prefer us to be dispersed, divided and conflicting over sterile diatribes because they know that’s the easiest way to try to stop the advance of the revolutionary democratic forces.”*

## Legislative Tips

**Organic character of the Law of Urban Lands backed by the TSJ.** The Supreme Court of Justice (TSJ) backed the decision of President Chavez to give Organic character to the Law of Urban Lands, as its “objective is to guarantee a fundamental right intrinsic to human dignity, as it is to own a suitable home,” so was announced by Constitutional Courtroom’s sentence number 3 in which it warns “this executive order law does not contemplate just any regulation of the right to housing, but it contains basic and essential elements of said regulation that contribute to the better application of the constitutional precept because it affects aspects that are inherent to its efficacy, such as the access, execution and establishment of rights and duties in its development and enforcement.”

**Law of Emergency for Lands and Homes published in Official Gazette.** Extraordinary Official Gazette N° 6,018 dated January 29 published the new Law of Emergency for Lands and Homes. Its objective is to regulate the use of idle urban lands and real estate properties. Through this legislation, the government will create mechanisms “to face the housing crisis that has affected the Venezuelan people as a consequence of the capitalist model, and that became more acute with the effects of global warming.”

**Proclaimed and published in Official Gazette.** President Hugo Chavez signed Executive Order N° 8,012 through his Empowering Law and made official the Law of Attention to the Agricultural Sector with the objective of integrally assisting agricultural producers who were affected by the rains in 2010. The Law was published in Official Gazette (GO) N° 39,603 dated Thursday, January 27 of 2011. This new law proposes the restructuration or total or partial pardoning of the debts of agricultural producers who were affected by the rains of the third quarter of 2010. In this regard, President Chavez said each producer had now to state its case and recommended the creation



of a committee in charge of supervising the enforcement of this Law. He said “Banks that don’t comply will be penalized.” Producers benefitted by this regulation ought to belong to the following sectors: cereals, tropical fruits, vegetables, roots and tubers, grains and leguminous plants, tropical crops and fishing and aquaculture, and a maximum period of 10 years is established to pay restructured loans from the moment the restructuration benefit is granted. The official document also announces the creation of a Temporary Emergency Agricultural Fund for VEB 100 million for cocoa and plantain, and a fund for VEB 50 million for vegetables and other strategic crops.

**Six sessions to present Ministers’ administration before the National Assembly.**

According to an announcement issued by the president of the National Assembly (NA), Fernando Soto Rojas, the presentation of each ministry’s annual administration reports will begin on February 8, 2011. A maximum of six sessions will be devoted to the presentations and the Q&A between ministers and representatives. These sessions will be broadcasted on radio and television.

**Ordinary sessions and commission meetings.** Starting in February, the National Assembly’s ordinary sessions will take place on Thursdays, so was announced by Fernando Soto Rojas, president of the legislative power. He also indicated that, having already designated all National Assembly permanent commissions, they will hold their meetings on Wednesdays. Vice president of the National Assembly, Aristobulo Isturiz, said the Consultative Commission superseding the Coordinator was also installed and will be integrated by the board of directors of the Legislative Power, commission presidents and vice presidents and parliamentary group leaders.

**Asset seizing and alienation service created.** The executive order to create the National Service for the Administration and Alienation of Insured or Seized, Confiscate and Impounded Assets was published in Official Gazette N° 39,602. The decree establishes that this entity will be a decentralized, specialized service without legal entity status and dependent on the National Anti-drug Office (ONA). However, it will have technical autonomy and administrative, operative, budgetary, financial and dispositional capacity within the framework of the Organic Law against Drugs. Its functions will be the administration, disposal, liquidation, alienation, custody and control, inside the country and offshore, real estate and movable properties, capitals, ships and aircrafts, automotive vehicles, works of art and jewelry, livestock, assets and bank availabilities, shares and rights appointed by the Venezuelan penal courts, in conformity with the Law regulating drug-related affairs.

**Articles of organization of the National Experimental University of Security created.** President Chavez approved decree No. 8,014 published in Official Gazette No. 39,602, by which the articles of organization and operation of the National Experimental University of Security was created. “The decree indicates the purpose is



to have a special regime in accordance with its mission to form the future people responsible for citizen safety.” The text establishes that “the academic structure is oriented, among other aspects, towards guaranteeing the academy the strengthening of mechanisms of participation and permanent connection with the community as the protagonist in college duties in the new model of citizen safety; as well as the interaction among professors and educators, and their interaction with different disciplines, lines of thinking and sources of information; the relocation and redesign of intra and inter-institutional functions and mobility, for both the teaching and technical staff.”

**New Law of tenancy to come.** According to the vice president of the National Assembly, Aristobulo Isturiz, the United Socialist Party of Venezuela (Psuv) will support the Draft of Leasing and Tenancy being prepared by the “Metropolitan Tenants’ Network.” He indicated “they (the Metropolitan Tenants’ Network) already finished the draft which will be discussed throughout the nation and we are giving our support in this discussion process. We appointed a pro-government representative by state to support this cause.” He also said “I think that, once they read the content of this law they will have to support it or isolate the people,” assuring that these would be the solution for many Venezuelans suffering.

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## ECONOMIC OVERVIEW

