



Weekly Report

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***Housing construction:
Lofty goals not likely to be
achieved...***

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In view of the goals the Administration has set for itself in terms of housing construction, and keeping in mind that it has been empowered by the Special Powers Law and that there have been recent modifications in the real estate sector, we have chosen to take a closer look at the role the State has played in building houses compared to the private sector, evaluate how they have both performed, and also look at what effects the Emergency Law for Urban Land and Housing and the Real Estate Renting Law will have on future housing construction projects.

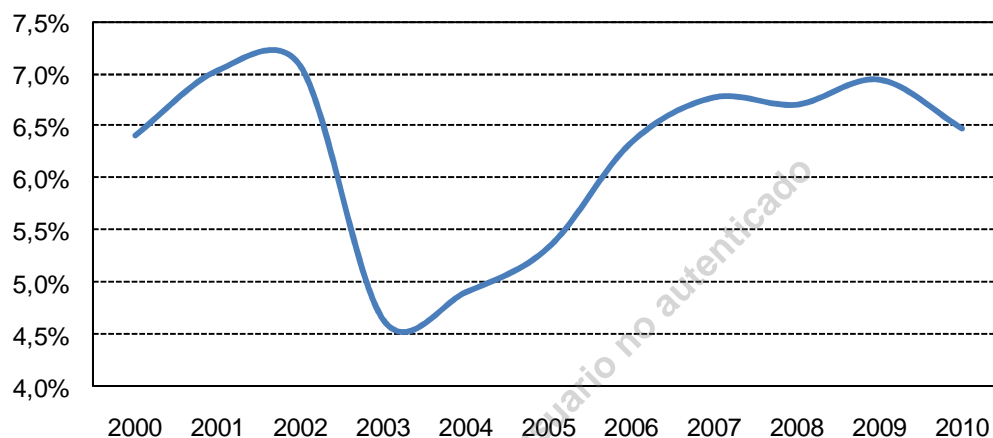
The housing situation up until now

During the 12 years the Chávez Administration has been in power, the construction sector has had its ups and downs. In 1999, the construction sector represented 6.2% of Venezuela's Gross Domestic Product (GDP). In 2010, it represented 6.5% of GDP, and during the last 12 years it has averaged 6.8%. From the point of view of the private sector, this 12 year average should have been up around 8.0%.





Share of building sector over GDP



Sources: BCV and Ecoanalitica

Between 1999 and 2010, the construction sector has grown by 48.8%. However, if we look closer at these figures we'll see that during the same period the construction of houses has dropped by 25.7%. So, this leads us to conclude that the aforementioned growth was focused on the construction of shopping malls and other infrastructure projects, but not housing, and especially not low income housing.

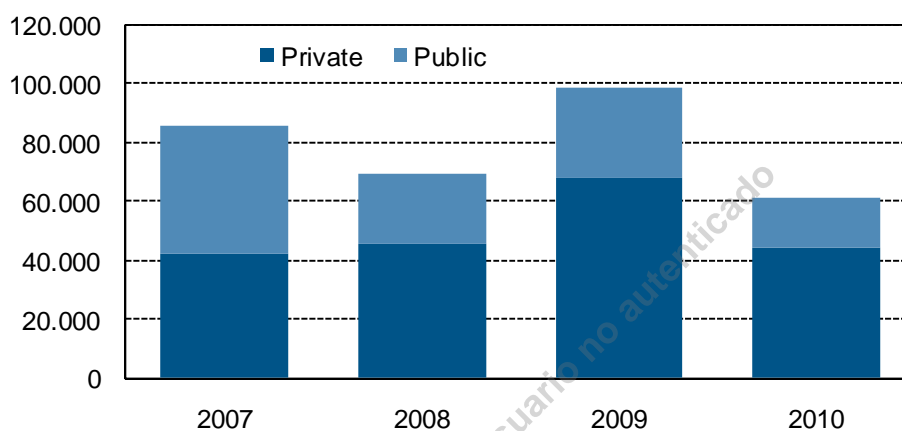
2010 figures

To date, the government has only released figures for the first three quarters of 2010. These figures reflect a 32.4% drop in housing construction. The total drop in housing construction between 2009 and 2010 is estimated at around 38.0%.

A figure that stands out and is quite worrying is that during the third quarter 2010, a total of 125,914 houses were under construction; of these, 87,379 houses were being built by the private sector, representing an 11.5% drop, and 38,535 houses were being built by the public sector, representing a 43.2% increase. The private sector continues to lead the way in housing construction being responsible for 64.0% of all the houses built in Venezuela (average 2007-2010). This supports what we have stated a number of times in the past regarding the government's presence and involvement in the country's economy; despite the fact that private sector companies continue to prove that they are vital for the country's continued economic growth, the Administration's objectives seems to be bent on changing this fact.



Built housing by sector (units)



Sources: CVC and Ecoanalítica

Housing construction performance

Among the reasons that led to such a significant drop in housing construction in 2010 are: first the electric power crisis, which significantly affected construction operations during the first two quarters of the year; second, the shortage of construction materials, due to the difficulties domestic companies in these sectors are currently going through, and the difficulty in acquiring foreign currency in order to import material; and third, and probably the most important, is the new regulation which prohibits that the price of houses be adjusted, during the span of the construction period, in accordance to the Consumer Price Index in order to keep pace with inflation which affects the price of construction materials and the whole construction process in general.

When this regulation became law, it led to the delay of a number of private sector construction projects, a situation which President Chávez took advantage in order to expropriate a number of housing construction projects under the pretext that they had been abandoned. He also began a campaign to discredit private sector building contractors, in some cases leading to them being prosecuted for projects being delayed and/or temporarily stopped.

Where is this all headed? The new “Emergency” Law

This situation, made even worse by the crisis created by the rains during the last two months of 2010 which left thousands homeless, has been used by President Chávez as an excuse to create the Emergency Law for Urban Lands and Housing. Through this legal instrument, the State has the power to take any measures it deems necessary to “ensure the right of



Venezuelan families of a dignified house to live well.” Based on this premise, President Chávez has set the goal for housing construction in 2011 at 150,000 units.

The Law states that all land, public or private, suited for housing construction, that are abandoned or not being used at their full potential, including private real estate, as stated in Article 8, are subject to this Law. The Law also states that the State is empowered to decree emergency zones for the occupation of urban lands suited for housing.

Article 13 states that once an emergency has been declared due to a catastrophe or calamity or an event that produced damage to housing units making them inhabitable, the Administration is empowered to decree temporary occupation of real estate that is in a state of disuse or abandonment that may serve to house those affected.

**Expropriations
not the only
issue... New
regulations...**

The Administration has also created a series of new regulations such as the new rules that govern housing pre-sales agreements and the creation of a “Construction Currency” as an indicator of the official value of a real estate operation. This new indicator was created in order to take the place of the CPI, and how it was being used to adjust the price of housing construction projects. This indicator will be adjusted once a year by the National Institute for Urban Lands and the amount it is adjusted by will be calculated based on studies analyzing *“the factors that affect the average costs of housing construction.”* The proposal states that “all housing sale-purchase contract options, for houses under construction, must stipulate its price in Construction Currency.”

The Law foresees price regulations for construction materials, as well as the creation of state-run mixed construction companies and suppliers of construction materials. Keep in mind that the State already runs most of the main sectors key to construction supplies, such as the cement and steel industry.

This new regulation also states that contracts must include the date when the unit will be delivered and all housing permits and documents appropriately filed and requirements met. Housing sale-purchase options must be filed and meet all requirements within 120 days after being introduced.

**Other sectors
will also be
affected**

Article 18 of the Law orders the public and private banking system to create another loan portfolio, besides that one that already exists, earmarked for



loans destined to finance housing projects authorized by the government. The regulation states that the percentage quota for this “new” portfolio that the banking system will have to set aside will be set by the Administration in the near future. The current housing loan portfolio which all banks must have is set at 10% of bank revenues and must be distributed between loans to purchase houses and financing for housing construction.

At **Ecoanalítica**, we believe that these types of measures only lead to more bureaucracy and a credit crunch for the economy in general. Banks will have a hard time finding good construction projects to lend to (low risk) and consequently will cut-back on lending to other sectors so as not to acquire even more risk.

Plus, the Renting Law is also about to be modified

President Chávez has already announced that there is an emergency, and this emergency has prompted him to issue a new Renting Law which main objective is to protect renters from *“impulsive evictions, which have become more prevalent during the last few months, and that according to his opinion, are being backed by the Judicial Power and organizations that back house/apartment owners.”*

The President is preparing to make modifications to the Law that will put an end to these so-called “impulsive eviction” in the renting market, and will also fix prices in the secondary housing market. Consequently, the Supreme Tribunal of Justice, through an official notice to all judges, stating that all legal procedures regarding evictions of real estate used for family housing must be temporarily suspended, which in effect stopped the eviction process of a number of rented houses, as well as a number of invasions, and evictions due to foreclosures.

What can we conclude for now?

At **Ecoanalítica**, we believe that all these expropriations and the increased number of regulations have created a lot of uncertainty in the construction sector, and consequently, dampened any incentives to invest in new housing construction projects. Instead of creating incentives to invest in housing projects and thereby move forward towards solving the serious housing problem that exists, these conditions could lead to just the opposite, a scenario where the private sector cease to be benefited from participating in the housing construction sector.

The consequences of the private sector not continuing to participate in the housing construction sector are too serious for the Administration not to leave some room to create agreements. And now, with President Chávez having announced the housing construction goal for 2011 at 150,000 units,



when in 2009, the total number of housing units completed by both the public and private sector only reached 98,343, we at **Ecoanalítica** believe that there is no way the Administration can hope to reach this goal without making the rules more flexible. As things stand, these new rules only create more bureaucracy and more risk for investment, which was already high to begin with, but which were compensated with profit which don't seem possible now.

As we mentioned before, as things stand and in the direction they seem to be moving, the private sector will not only be less motivated to invest in the housing construction sector, but it will also find it a lot harder to find any financing to begin such a project, since the margin for profit is being more and more compromised.

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Economic Tips

NCPI up by 2.7% in January. The National Consumer Price Index (NCPI) for the month of January was up by 2.7% compared to the previous month, significantly higher than the 1.8% registered in December 2010 and the 1.7% registered in January 2010. This put the y/y inflation rate at 28.5%, up from the 27.2% y/y rate reported in December 2010.

CPI for the AMC up by 28.9% during the last 12 months. According to the most recent BCV figures, the January 2011 m/m variation of the CPI for the Caracas Metropolitan Area (AMC) was at 3.6%, up by 1.9 percentage points compared to the previous month when it closed at 1.7%. This means that the y/y variation of the CPI for the AMC was at 28.9%.

Inflation in the main cities of Venezuela: Maracaibo, 1.6%; Ciudad Guayana, 1.9%; Maracay, 2.1%; Barcelona- Puerto La Cruz, 2.1%; Barquisimeto, 2.2%; San Cristóbal, 2.2%; Valencia, 2.4% Maturín, 2.6%; and the rest of the country, 2.7%. The highest inflation rate was reported in Mérida, with 2.8%, and Caracas, with 3.6%, both higher than the national average.

Inflationary core also up in January. The m/m variation of the inflationary core registered an increase of 0.5 percentage points in January 2011 to settle at 2.3%. Consequently, the y/y variation of the inflationary core reached 27.8%.

January wholesale price index. The January wholesale price index with taxes points to inflation being up by 2.9%, and the y/y inflation rate being at 28.7%. Looking at the wholesale price index and imports separately, we see that inflation was at 2.7% for wholesale prices and 4.1% for imports.

January shortages and diversity index dropped. According to BCV figures, the shortages index in January dropped by 0.7 percentage points, going from 13.3% to 12.6%; meanwhile the product diversity index dropped during the same period going from 149.5 in December to 146.5 in January 2011.

Salary index. According to the figures released by the BCV, the salary index for the fourth quarter 2010 reached an accumulate level of 22.2%, which in real terms represents a drop of 4.7%.





Salary index by sectors. According to the figures released by the BCV, the salary index by sectors shows that for the private sector, the accumulated variation in 2010 was at 26.0%, while for the public sector it was at 14.3%. In real terms these figures show that there was a drop of 1.7% for the private sector and a drop of 10.9% for the public sector.

S&P stated that the risk ratings on Venezuela unchanged. This to a changing landscape, the adoption of arbitrary laws, price controls, the threat to the private sector coupled with political uncertainty, among several factors weaken and undermine perceptions and risk ratings of Venezuela

Fourth quarter extraordinary revenue at \$845 million. Extraordinary revenue due to high oil prices reached US\$845 million in the fourth quarter 2010 with oil production averaging 2.27 million barrels a day (according to an independent auditor), extraordinary revenue from oil exports and the export of oil byproducts were close to US\$151 million for October, US\$241 million for November, and US\$453 million for December 2010, thereby equaling US\$845 million for the quarter.

The Administration won't raise taxes. On January 4, President Hugo Chávez announced that he wouldn't raise taxes since the price of oil was over US\$85/bl. He also announced that the resources to deal with the emergency caused by the rains would be covered by the oil industry. Consequently, PDVSA is using all its sources of available funds to attend to the Administration's request.

PDVSA withdrew US\$829 million from the FEM. Last Thursday, PDVSA withdrew US\$ 829 million of the US\$ 832 million in the Macro-Economic Stabilization Fund (FEM) to transfer to the Administration to be used for the construction of shelters. With this transfer, PDVSA has now channeled US\$3.5 billion in the space of three months to the Administration. These resources, which have been made on top of normal fiscal contributions, have come from the FEM, the bond issuance in US\$ made in October 2010, the sale of the refinery in Germany, and the *Independencia* Fund (where the exchange differential is deposited).

BCV to deliver VEB 12 million in profits from the second semester 2010. The Central Bank of Venezuela (BCV) continues to be a reliable source of revenue for the Central Government and is ready to transfer VEB 12 million in second semester 2010 profits to government coffers whenever the Administration so orders. In its second semester 2010 balance statement, the BCV informed that at the close of the year it had accumulated VEB 12 million in profits, down by 29% compared to profits in the second semester 2009 which were at VEB 17 million.





BCV made it easier for the government to place bonds. Since the end of 2009, the BCV has made sure that all the money that banks don't grant in loans had no other destination than to be used for acquiring bonds and Treasury Bills issued by the Ministry of Finance. In order to achieve this objective, the Central Bank cut-back on issuing papers to soak up money from the market which tend to compete with the bonds that the Ministry of Finance needs to place. In order to make sure banks wouldn't find another option for their resources other than the bonds issued by the Ministry of Finance, the BCV told banks that their balance of BCV bonds in the portfolio could not be greater than the amount registered in November 2009.

...thanks to this measure, in 2010, the amount of money placed by the big banks in bonds and Treasury Bills issued by the Ministry of Finance increased by 123% from VEB 20.74 billion to VEB 46.31 billion, according to the Bank Superintendent's Office figures.

January Family Food Basket up by 0.4%. According to Cenda, the cost of the Family Food Basket in January 2011 was at VEB 2,810.40, up by VEB 12.35 (0.4%) compared to the month of December 2010. The Family Food Basket y/y variation between January 2011 and 2010 was at 39% (VEB 789.16) which is equal to 64.5% of the minimum wage. According to Cenda's figures, eight food basket items went up in price: sugar and salt, up by 11.4%; fish and shellfish, up by 4.6%; dressings such as mayonnaise, up by 3.6%; and an increasing gap between controlled prices and market prices (76.2%) was detected.

Interest rate. The lending rate for the fourth week in January was at 17.7%, down by 0.5 perceptual points compared to the previous week. Time deposits and savings rates were steady at 14.5% and 12.6%, respectively.

International reserves. International reserves decreased 1.0% going from US\$29.63 billion during the fourth week in January to US\$29,34 billion during the first week of February. Compared to the same period last year, international reserves have dropped by 8.8%. On January, 28, the BCV transferred US\$829 million of the FEM to given them to the executive to housing projects.

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\$5,85 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.4 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$14.3 million, US\$0.9 million more than last week when braided US\$147.4 million.



Oil Tips

Crude oil exports to US bounce back. According to the Energy Information Administration (EIA), in November of 2010, Venezuela exported an average of 942 kb/d to the US, which, compared to November of 2009 (874 kb/d), represents a 7.7% increase, and a 12 kb/d recovery compared to the average volume exported in October of 2010. It is worth mentioning that the 7.7% y/y increase was due to the fact that the level of exports used in the comparison (November of 2009) was the lowest reported since January of 2003, during the Venezuelan oil industry strike.

US reduced crude oil imports in the last week of January. According to the EIA, US total crude oil imports decreased by 371 kb/d during the week ended on January 28 of 2011. This reduction was linked to the purchases made to Canada and Nigeria, while the imports from Saudi Arabia, Mexico and Venezuela reported increases, though not enough to change the negative figure of the net effect on imports.

Venezuela stops fuel exports to Nicaragua. Three weeks ago, Pdvsa decided to suspend the shipping of approximately 28 kb/d of fuels (gasoline and diesel) to Nicaragua through the company Albanisa, as a pressure measure so that the accounting records of Alba Petroleos were thoroughly reviewed due to irregularities found in an audit carried out by Pdvsa in said company, such as the fact that the company did not submit all the information required for the audit.

All ready for the Abreu e Lima refinery by March or April. According to statements issued by the president of Pdvsa and minister of Energy and Oil, as of March or April, Pdvsa will have compiled all the necessary requirements to assume 40% of the refinery Abreu e Lima, to be built on the north-eastern side of Brazil, next to Petrobras. For this project, Pdvsa will provide US\$480 million this year. The total cost of the project was estimated in US\$4 billion in 2007, of which Pdvsa will contribute with 40% and Petrobras with the remaining 60%. The plant located in the state of Pernambuco, will process approximately 20 kb/d of crude oil. Originally, it was expected to begin operations by the end of 2011, but the construction has been delayed from the original schedule.

Pdvsa will need to invest over US\$70 billion to meet FPO plans. In order to meet the investment plans in the Orinoco Oil belt (FPO), Pdvsa will need to provide more than US\$70 billion over the next six years, as, according to the plan, the Venezuelan oil company will be a majority partner in all projects. Being able to meet these plans on schedule seems difficult, due to Pdvsa's current financial situation.



Ramirez says oil prices could reach US\$200. The minister of Energy and Oil, and president of Pdvsa, Rafael Ramirez, said to Reuters that the price of an oil barrel could reach US\$200 if the Suez Canal, controlled by Egypt, was closed as a consequence of the political crisis taking place in said country. However, such an event is highly unlikely.

Pdvsa's revenues increased by 28% in 2010. Rafael Ramirez also said that Pdvsa's consolidated revenues had increased by 28% in 2010, reaching US\$96.11 billion, compared to the US\$75 billion reported in 2009.

International oil baskets. At the close of the New York market last Thursday, February 10, the WTI was at US\$87.8/bl, showing a 3.1% decrease compared to the US\$102.1/bl of the previous Thursday. The Brent decreased by 0,18% to reach US\$102.3/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\$87.6/bl on Friday, February 4, up by US\$3.65 or 1.0% from the US\$86.8/bl registered the previous week. Meanwhile, the basket's annual average is at US\$85.8/bl.

Business Sector Tips

State's debt with banks increased by 50% in 2010. Even though last year the oil price reached US\$72/bl, the Venezuelan Government needed more money to cover expenses and turned to significant indebtedness operations. According to the Superintendence of Banks, the State's debt with financial institutions due to bonds and treasury bills has increased by 50%, from VEB 41.26 billion as of the end of 2009 to VEB 61.83 billion in 2010. It is clear that the public banking system plays an essential role in the Government's cash flow.

Banks to help build one million homes in 4 years. After assuring that the "serious" private banks are not accomplices in the real estate frauds, the president of the Venezuelan Banking Association (ABV), Juan Carlos Escotet, assured that the sector he represents was willing to collaborate with the State in the construction of one million homes over a period of four years.



CVG Carbonorca production reduction not caused only by labor problems.

Workers of the carbon anode producer, CVG Carbonorca, maintain the state company's operations in minimum production conditions, as they have not collected their fortnightly salaries. However, the claim goes beyond the labor framework, as there are still basal issues such as the supply of raw materials (there's a shortage of oil coke) and the creation of projects necessary to reduce production costs, among others.

Alcasa and Venalum are also operating at minimum levels. The actions taken by the unions of CVG Venalum in Caracas didn't work. The protests of the aluminum processing company were radicalized and workers blocked the entrance to the plant, thus maintaining operations in minimum conditions. Among their claims are: the negotiation of the collective labor agreement, meritocracy and the application of the salary tabulator.

Cement sales down by 10% during 2010. The construction sector ended 2010 with a 7.2% contraction, which caused less production of essential materials such as rebars and cement. Construction companies have repeatedly said that the shortages of supplies and raw materials have increased, and the numbers of concrete companies (Cementos Venezuela, Fabrica Nacional de Cementos and Invecem), are clear evidence of that fact, and their data indicate that in 2010, sales decreased by 10%, going from 7.9 million tons in 2009 to 7.1 million tons in 2010.

Investigations and arrest of real estate fraudsters will continue. A series of raids and arrests of people involved in real estate fraud cases will take place within the next few days, reported the national director of the Scientific, Penal and Criminal Investigations' Corps (CICPC), General Commissioner, Wilmer Flores Trosel.

Heinz workers to remain in protest. Even though the labor inspectorate didn't authorize the conflictive list of demands presented by the Workers Union of Alimentos Heinz, workers will maintain their protests at the plant located in the Carabobo State until they receive a satisfactory response to their demands. Alimentos Heinz said in a press release that the strike was illegal, as it was not authorized by the labor inspectorate.

Heinz and Coca-Cola unions are not looking to expropriate. Labor conflicts are currently taking place in Carabobo, in the plants of Heinz, Coca-Cola Femsa and Pirelli, three of the region's largest companies. At least in the first two cases, workers are not ruling out addressing the National Administration requesting it to solve their problems, while tire plant workers prefer to save their strategies and apply them during the negotiation of their collective labor agreement.



Pirelli's production down by 50% due to labor protests. Since December of last year, workers of the tire company Pirelli stopped working overtime, as a protest measure for the company's denial to meet previous labor agreements. The measure has caused a 50% contraction in the company's tire production.

ILO asks Venezuelan Government to allow a mission in Venezuela. The International Labor Organization (ILO) urged the Venezuelan Government to accept the visit of a mission to check the labor situation in the nation. The Organization's Commission of Experts in the Application of Agreements and Recommendations compiles the cases reported by worker unions and entrepreneurial organizations over the last years, including the murder of union representatives, the restriction of people's rights to protest, the arrest of union leaders and the legal processes against union leaders and entrepreneurs.

Assembly to deem Law of Tenancy as urgent. The president of the National Assembly, Fernando Soto, had a meeting with representatives of the Movement of Residents and the Metropolitan Network of Tenants, who are preparing the reform to the Law of Real Estate Tenancy. The congressman explained that, once the organization's proposals were received, the text would be reviewed. He added: "We will discuss this law with the required parliamentary urgency, as it is presented to the National Assembly," however, he did not rule out the possibility of the law's reform being approved through the president's Empowering Law.

Obstacles in imports cause shortage of milk. The reposition of inventories of both raw materials and packages has been affected by the National Government's adjustment to the official exchange rate early this year. According to the statements issued by Roger Figueroa, president of the Venezuelan Chamber of Dairy Industries (Cavilac), as a consequence of the exchange rate adjustment, suppliers have had difficulties to import sachet packages and cans to pack powdered milk, and plastic-coated bottles for pasteurized milk and juices.

Sugar sector in the Government's sight. Last Wednesday night, President Hugo Chavez ordered the investigation of the sugar-cane processing plant El Palmar, located in the Aragua State, in order to confirm "whether entrepreneurs were violating workers' rights." Chavez added that, should they confirm the existence of irregularities in the processing and payment of the cost of sugar cane, the sugar palm would be expropriated.

Biennial Plan consolidates socialist agricultural model. According to the Biennial Plan for food production 2011-2012, the Ministry of Agriculture and Lands has set itself the goal of increasing cattle production by 8% in 2011, and another 18% in 2012, by



consolidating the infrastructure of support to national production and replacing the inventories of livestock affected in the winter of 2010.

FAO warns: commodity values will remain high. The prices of milk, corn and rice in the international market have been affected in the last week by both the weather in productive areas, and the behavior of the USD and export limitations.

Crisis in Egypt boosts increase in fuel and food prices. The crisis in Egypt and the uncertainty about its outcome are causing increases in the prices of fuels and food, and the fear of the crisis expanding to its neighbors, which control large part of the world's oil supply.

Sidor's liquid steel production decreased by 41.9% in 2010. Siderurgica del Orinoco "Alfredo Maneiro" (Sidor), closed 2010 with a production of 1.8 million tons of liquid steel, a 41.9% decrease compared to 2009 when the company reported a production of 3.1 million tons.

Automotive market reports 21.6% fall in sales compared to the same month of last year. According to the latest bulletin issued by Cavenez, new vehicle sales dropped by 21.6% in January of 2011 compared to the same period of last year, reporting 5,803 units sold in January of 2011. In the national vehicles segment, the contraction reported was 27.1%, going from 6,640 units sold in January of 2010 to 4,480 last month. The field of imported cars reported a 26.5% growth, by selling 202 more cars than last year.

1,203 more vehicles assembled in January of 2011 compared to January of 2010. Vehicle production increased by 25.92% in the first month of 2011, compared to the same period of last year, according to the Venezuelan Automotive Chamber (Cavenez). By the report, 5,845 vehicles were assembled in January of 2011, 1,203 more units than in the same month of 2010.

Guri Dam starts to decrease. The Guri Dam, along with the rest of the hydroelectric source of the lower Caroni River, started to decrease its levels as usual in the summer cycle. The dam started the year with 271.01 meters above sea level (masl) and as of the end of January it reached 269.85 masl, a 1.16 meter decrease in one month. However, these numbers are not official, since the National Administration Center (CNG) has not reported the National Electric System's behavior for over 70 days.

Law of Emergencies for Lands and Housing includes roads to expedite expropriations. This legal framework, effective since January 29, establishes preventive measures including emergency and temporary occupations. The Law of Expropriations for Public Utility provides previous and temporary occupations, so the



new Law of Emergency incorporates a new concept: emergency occupations, which guarantees expedite expropriations.

President authorized VEB 3 billion for housing solutions. President Hugo Chavez announced on Twitter the approval of VEB 3 billion to build 40 thousand homes.

Seniat closed 79 stores in Zulia, Lara, Falcon and Miranda. To continue with the operation to verify formal duties, the National Integrated System for Customs and Tax Administration (Seniat) closed 79 stores in Zulia, Lara, Falcon and Miranda, due to different irregularities with the Organic Tax Code (COT).

Cadivi authorized 40% less for the telecommunications sector in 2010. As of the end of September, when Cadivi practically authorizes the last batch of foreign currency, as if applicants get the rest it is mostly for next-year disbursements, telecommunications companies (not including CANTV), including subscription TV providers, mobile phone operators, landline phone operators and internet providers, among others, received US\$638 million, 40% less than the amount received in 2009, when they received approximately US\$1 billion, and a fall by over 50% compared to the US\$1.6 billion granted in 2008.

World Economy Tips

Optimism in US small businesses. The National Federation of Independent Business indicated that its small business optimism index reached 94.1 points in January of 2011, a 1.6% increase compared to the 92.6 points reported in December of 2010, with this being the highest reading since December of 2007. The biggest improvement was reported in the percentage of firms that hope to have a larger sales volume over the next six months (13%). The reported percentages of firms with a job vacancy, planning capital investments for over the next six months, and planning to increase prices were the highest since late 2008.

US Interest rates increase. Although the Federal Reserve has maintained the interest rate of federal funds at 0.25% since early in the crisis, the yield of 10-year treasury bonds has gone from 2.4% in October 2010 to 3.6% early this month, due to an increasing activity registered in the US economy. Mortgage rates have also increased: the 15-year fixed rate reached 4.1% last week, up from 3.6% reported in



November, but variable mortgage rates have not increased from their minimum of 3.2%.

Other indicators of more economic activity in the US. Others indicators revealing more economic activity in the US include: fewer unemployment insurance claims, more vehicle sales, higher readings in ISM (Institute of Supply Management) manufacture and services indexes.

Euro zone retail sales down. During December, retail sales in the euro zone decreased by 0.6% compared to November, and 1% in y/y terms. European consumers have been affected by the fiscal austerity policies applied to solve the debt and deficit issues of countries such as Ireland, Spain, Portugal and Greece.

Sales down in Germany. The total sales (in both the domestic and foreign markets) of German producers decreased by 3.4% during December of 2010, compared to the previous month, after having reported a m/m increase by 5.2% in November. Despite the contraction, in y/y terms (compared to December of 2009), sales were 6.9% higher. The m/m contraction was stronger on the side of the foreign demand, which dropped by 4.2% (after an 8% increase reported in November), while the local demand decreased by 2.4%.

China raises interest rates again to fight inflation. The People's Bank of China raised the interest rates for the second time in only six weeks, strengthening its battle against inflation. Both the reference rate and the 1-year rate were increased by 25 base points, up to 3% and 6%, respectively. Even though January's inflation has not been officially published, Reuters' survey reveals expectations of 5.3% y/y.

Pacific Rim growth accelerated in the fourth quarter. Most countries in the Pacific Rim showed acceleration in their economic growth during the fourth quarter of 2010. Indonesia, China, Singapore, South Korea, the Philippines and Vietnam all reported a significant acceleration in their GDPs growth, with Singapore on top with a GDP growth by 14.8% in 2010.

Protests continue in Cairo. The protests asking for the immediate resignation of Egyptian President, Hosni Mubarak, continued last week and demonstrators are not satisfied with their latest achievements. Recently, President Mubarak authorized the creation of three committees to modify the constitution and boost the reforms that will allow for the transition to a new Government, thus meeting one of the most important demands from the opposition. The reform seeks to relax the conditions for a candidate to participate in presidential elections and limit the presidential period.





Political Tips

Compromised popularity. The number of detractors to President Hugo Chavez's Administration keeps growing. According to Consultores 21 (in its report called Profile 21, for the fourth quarter of 2010), 56% of Venezuelans think the performance of the Head of State has been "bad." Up to 6 out of every 10 citizens don't trust in President Chavez's promises. Moreover, half the people estimate that Chavez actions' ultimate end is personal benefit, while only 39% believe they are destined to benefit the people.

The rating is just as bad when it comes to freedom of speech. For 61% of Venezuelans, the Chavez Administration seeks to "put an end to freedom of speech." The opinion doesn't change when it comes to private property: 63% think the State seeks to destroy it, while 36% thinks it tries to strengthen it. Not in vain, 7 out of every 10 citizens reject expropriations, regardless of whether the victims are large capitalists. Additionally, the percentage of Venezuelans who feel the nation they dream about is not similar to the one President Chavez wants to build remains unchanged, 61% disagrees with Chavez's vision for the future of Venezuela.

Only with those who are faithful. 12 years ago, President Hugo Chavez reduced the size of the ministerial bureaucracy. He said that only nine ministries would be enough for him to rule. Today, there are 27 bureaus in the Administration as a consequence of the expropriated businesses the State needs to take care of. In almost two decades in politics, Chavez has been accompanied by faithful collaborators. Some, as they confirmed the true objective of his political project, drifted away from the Government before the coup of April, 2002, others stayed longer, but unfortunately, either switched bands or removed themselves from the public life. Out of the 125 people who have been appointed ministers in these 12 years of Administration, only 12 have publicly criticized the government's policies and economic plans, only seven are now openly opposites: Alejandro Riera (first minister of Agriculture), Carlos Genatios (first minister of Science and Technology), Raul Salazar (first minister of Defense), Luis Miquilena (Chavez's political mentor and former minister of Internal Affairs and Justice), Luis Alfonso Davila (former chancellor), Alfredo Peña (former minister of the President Secretary's Office) and Raul Baduel (former minister of Defense). This is a significant tip that illustrates how Chavez has known how to surround himself of the most faithful people in order to fulfill his plans.

Primary election in July of 2012. The president of Proyecto Venezuela, Henrique Salas Römer, considered that the single candidate that would represent the opposition



should be a product of primary elections to be held in July of 2012, one month before the beginning of the electoral campaigns as, in his opinion, “battles must be short and well executed.”

Social controversy grows. The Observatory of Social Controversy in Venezuela for the Latin American Board of Social Sciences reported in January a total of 408 protests. 35% of the demands were labor-related, 30% were related to housing issues, 20% to educative requests and the remaining 15% to citizen safety, political participation and justice, among others. The document adds that in January of 2011 there was a 13.6% increase in protests, compared to January of 2010, when 359 protests were reported, as per the NGO Espacio Publico. The unhappiest sectors were the oil industry, basic industries and some ministries, which started 2011 with massive layoffs.

MUD: Condition of indicted congressmen is unconstitutional. Through an official statement, the Unity Table rejected the National Assembly’s denial to acknowledge the parliamentary immunity of elect congressmen Biagio Pilieri and Jose Sanchez. The document indicates the two congressmen should have been released from jail since they were proclaimed or since the moment the new National Assembly was installed.

PPT: The Government is antidemocratic. The political party Patria Para Todos (PPT) issued a statement rejecting the Government’s distorting of the “constituent spirit” over the last years, as well as giving way to “sectarianism, intolerance, arrogance, clientele, nepotism and favoritism.” An example mentioned by PPT to illustrate the “violation of democratic principles” is the reform to the Organic Law of Electoral Processes: “With this move, the Government achieved majority in a National Assembly that the people did not grant, in absolute terms, strengthens the restoring opposition and with a single punch violates the constitutional principle for proportional representation.” Moreover, the blue party questions the elimination of the direct, secret and universal vote to choose parish authorities and claims that the imposition of second degree elections for such ends completely degrades the concept of democracy.

Governor of Nueva Esparta willing to collaborate with the Government. The governor of Nueva Esparta, Morel Rodriguez Avila, said the entity needed 37,000 homes to solve the refugee problem. According to a press release, he said he was willing to cooperate with the National Government by offering lands to build the housing necessary units and cover Nueva Esparta’s deficit in order to avoid using hotels as shelter, since they are a source of income and employment for the entity.

Meetings with Brazil. The Brazilian minister of Foreign Affairs, Antonio Patriota, who recently made his first official visit to Colombia, will be traveling from Bogota to



Caracas this week to meet his Venezuelan homologue, Nicolas Maduro. Official sources indicate they will address different aspects of the bilateral relations, including the cooperation projects in the fields of housing, agriculture, industry, energy and border development. According to a statement issued by the Brazilian Chancellor's Office, the agenda will include different aspects of the regional situation, with special emphasis in the strengthening of Unasur.

WOLA: significant setbacks. *The US NGO WOLA (Washington Office on Latin America) condemned significant setbacks in Venezuela's governance. "The alarming laws issued in December violate Venezuela's inherent obligations to defend democracy and Human Rights," they assured through a press release. They urge the civil society and other governments to continue working with the Venezuelan Government but, at the same time, "to make it clear that drifting apart from the fundamental democratic principles has consequences on Venezuela's position in the hemisphere's community of democracies."*

Legislative Tips

Drafts presented for the 2011 parliamentary agenda. In the meeting of the Consultative Commission to determine the 2011 legislative agenda, the presidents and vice presidents of all 15 permanent commissions of the National Assembly introduced the drafts each of them would be working on. Iris Varela, vice president of the Domestic Policy Commission, said they would request the reform of the Procedural Penal Code and the Law of Disarmament and Ammunition Control. Ricardo Sanguino, president of the Finance and Economic Development Commission said they would discuss the reforms of the laws of Safety and Alimentary Sovereignty, as well as the Code of Commerce. They will also be working on the Law for Tourism, Antitrust Law, Law of Incentives to Exports and the Law of the Public Banking System. The Foreign Policy Commission indicated it would be working on the Organic Law of Foreign Service and the Draft of International Cooperation. Miguel Angel Rodriguez, president of the Permanent Commission for Culture and Recreation, announced his instance would be discussing the Organic Law of Culture, and would present the Organic Law for Recreation. Finally, Oswaldo Vera, president of the Permanent Commission for Integral Development, said they planned to discuss the Organic Law of Health, the Organic Labor Law and the Law of Defense of Salaries.



Legislative agenda proposed by the opposition. The National Assembly's opposition wing said it had focused on six areas of interest to prepare its proposed 2011 agenda, including citizen safety, nation's safety and institutional framework; social and human Rights protection; property and economic freedom; political participation; decentralization and services and infrastructure. Then they broke the initiatives into "laws pending agreement with the Constitution of 1999;" "pre-constitutional laws that need to be reformed to be adjusted to the Constitution of 1999;" and "other laws or legal reforms in the parliamentary agenda of the Unity table." The proposals enclose 84 laws, highlighting the Organic Labor Law, Law of Health, Law of Retirement Pensions, Law of Protection of Families, Law of Universities, Civil Code, Law of Integral Repair to Victims of HR Violations and the Law of First Jobs. The Democratic Unity table will support the Law of Conservation of the Purchasing Power of Worker's Severance Benefits, the Law of Social Protection for Mission workers and a reform to the Law of Alimentation.

Information about Fonden to be requested. In light of the requests made by opposition representatives, the president of the National Assembly's Finance Commission, Ricardo Sanguino, committed to requesting information about the administration and management of the National Development Fund (Fonden), assuring that the Government was transparent in all actions. He also said that the Finance Commission authorized an additional appropriation for VEB 2.5 million, to purchase and rehabilitate four building s in Caracas.

Private salaries to a limit. According to sources from the Ministry of Planning and Finance, some members of the Executive Cabinet are studying the possibility of implementing a top limit for private salaries, justified as a "new anti-inflation measure." This revelation "sounds quite interesting" for the president of the parliament's Finance and Economic Development Commission Ricardo Sanguino. On the other hand, Representative Jesus Faria said: "an ethical principle established there can't be great gaps between a society's salaries." Faria assured Venezuelans should aim to a society that applies "ethical criteria."

Safety is the objective. The president of the National Assembly's Domestic Policy Permanent Commission, Representative Cilia Flores, said the commission's new work agenda would include as main issues: citizen safety, a reform to the Procedural, Penal, Organic Code (COPP), the Law of Organized Crime, and the Law of Disarmament. She also indicated they would "thoroughly" review some of the laws authorized in the previous legislative period to reinforce them accordingly, in order to reach the objective of citizen safety.

Opposition proposals. The signing of the Finance Commission's final agenda was postponed for Wednesday, February 9, as the vice president of the commission asked



opposition party representatives to present a brief justification for some of the legislative drafts they introduced. Among the proposals of the socialist wing were: the Law of Alimentary Sovereignty, the Law of Popular Tourism, the law of incentives to imports, the Law of Public Banking, the budget law 2012 and the law of indebtedness. Opposition representatives requested the inclusion of the Law of Urban Lands, the Law of Agricultural Insurance Companies, a law of Protection of Private Property, a law against Smuggling, the Law of Poor Neighborhoods, a law of Democratization of the oil income, a law of State Public Treasury, and a request to destine 20% of the Value Added Tax (VAT) to Governors and City Halls.

Reform to Law against Corruption. The National Assembly's Comptrollership Commission included a reform to the Law against Corruption in its 2011 legislative agenda, said Representative Hector Navarro, president of said commission, as he walked out of a meeting with the consultative commission. According to Navarro, a special sub-commission will be appointed to review the text. "As of now, it's the only draft in our commission's legislative agenda. Comptrollership also runs the investigations of different reports generated on this matter. There are many pending cases and some investigations will be resumed," he said. However, the parliament gave no details about the contents of this legal reform. "We're only considering it, it hasn't been discussed by the commission and we need to wait for all representatives to review the material they received," he emphasized.

Investigation denied. Representatives Hiram Gaviria and Richard Mardo said their request before the National Assembly's Defense Commission to open an investigation about the explosion occurred Sunday January 30 in Cavim's warehouse was denied under the argument that other public and military agencies were already addressing the issue. According to Gaviria, their request was based on article 187, numeral 3 of the Constitution, which reads: "the Legislative Power has control duties over the public powers (...)" and numeral 16 talks about congressmen's responsibility to defend the states." However, pro-government representatives rejected the initiative.

Soto Rojas to dispatch from San Juan. The president of the National Assembly, Fernando Soto Rojas, announced yesterday he would dispatch from the neighborhood of San Juan, in the west side of Caracas, as a measure to contribute with the community's socialist education. "We have already conditioned a small place" in a neighborhood in the west side, to which "I have been historically linked when I've been legal in this country," said Soto Rojas. "We're living a real process of politicization of the Venezuelan people, but it needs to be accompanied by ideological education" in order to fight the capitalist values, he explained.





ECONOMIC OVERVIEW

