



Weekly Report

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BACK TO THE 80s: VENEZUELA EN ROUTE TO LOSING CONTROL OF ITS DEBT

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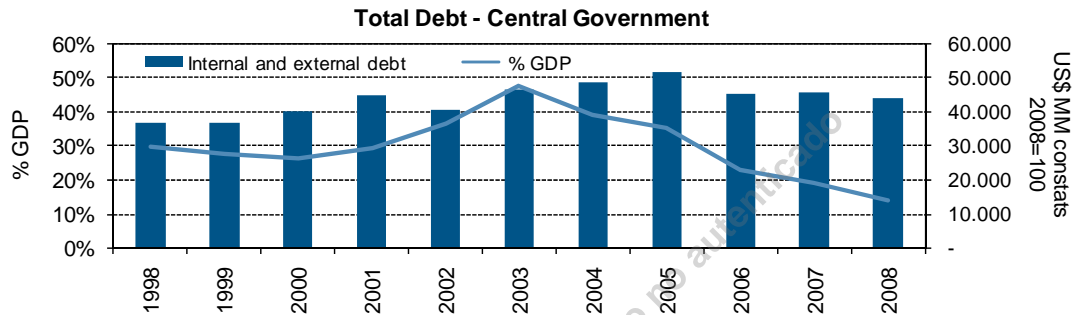
To date, Venezuelan public debt (as a component of the GDP) is at relatively low levels, and the amount required to service this debt is in no way putting any strain on the finances of the Republic. However, the recently reformed Finance Administration of the Public Sector Law (LAFSP) introduces a number of important distortions and makes one think that Venezuela should use greater discretion in the acquiring of future debt.

Acquiring debt as a financing mechanism

It's clear that the fiscal situation for the coming 18 months is going to be quite complicated and strain the resources available to the Administration. The measures that it has announced are aimed at avoiding a significant fiscal collapse. The significant increase in the amount of domestic debt which will be acquired points to this mechanism being the Administration's main sources of revenue required to cover its financial needs. At ***Ecoanalítica***, we estimate that the fiscal deficit this year, in terms of GDP, will be at 3.8 points. With the deficit at this level, the requirements to finance it will be at 6.1 points of GDP, of which 3.5 points of GDP will be covered by domestic financing; the rest may be covered by multilateral foreign financing



(0.3 points) and the net lowering of Treasury resources (2.3 points). Out-of-budget spending would be at around 2.5 points of GDP.



Sources: MF and Ecoanalítica

The first hit

On March 26, the National Assembly, in plenary session, sanctioned the Partial Reform of Decree-Law 6233 of the Finance Administration of the Public Sector Organic Law, specifically, article 81. This would allow the Government, in extraordinary cases, such as a significant drop in revenues, to have the possibility to acquire debt in order to balance the budget.

Article 81, after being reformed, established that:

“Beyond the maximum amount of debt authorized by the Yearly Debt Acquired Law to be acquired, other operations may take place which are required to face extraordinary spending produced by public calamities or catastrophes and ordinary spending that is not able to be executed due to a drop in revenues expected to be available for the fiscal year (...) Also, operations may be carried out, beyond the maximum amount of debt authorized by the Yearly Debt Acquired Law to be acquired which object is to refinance or restructure the domestic debt, as well as those derived from food sovereignty, preserving social investment, security, and integral defense.”

A provision is made which give the National Assembly the authority to grant the Executive Office a general authorization to adopt, within the limits and conditions and determined periods of time, general refinancing programs, thereby eliminating the previous condition which required these operations to be individually approved by the Venezuelan Parliament.





This first reform practically give the Administration the green light to acquire as much debt as it needs, beyond the limits set in the Debt Acquiring Law and the Umbrella Law, without having to face any real opposition. It's important to point out that the "umbrella" category was put in place precisely to limit the levels of debt acquired, and to maintain the Legislative Power's role as overseer.

The second hit

Last week, the National Assembly once again modified the Finance Administration Organic Law, this time, Article 91. The reform introduced give the President of the Republic, through the Council of Ministers, the power to authorize, in the interest of the nation, autonomous institutes to exercise financial activities to carry out operations granting public loans or acquiring debt.

The reform mentions the authorization of an institute or company, or State entity, to carry out public loan operations earmarked for strategic areas. This modification will allow State entities, in a manner which is strategic for the development of the country, and to improve the quality of life in the nation, to carry out public loan operations, in the most expedite manner, in accordance with the Administrations controls.

The president of the National Assembly Finance Commission, representative, Ricardo Sanguino, that this Law, before its reform, was approved more than 10 years ago, and legislators could not accurately predict future events from the point of view of public administration, "therefore, the Law at times was like a straitjacket when it came time to making public management more efficient."

Sanguino isn't wrong

Representative Sanguino is correct, the purpose of this legislation is to serious limit the levels of debt the Republic may acquire. These restriction came from the problems faced during the 80s and how Venezuelan public debt was managed then, as well as the problems faced by other Latin American countries recently with regard to the management of their debt, for example Argentina.





What happened back then in Venezuela?

Between 1979 and 1983, the total amount of public debt acquired increased by 71.8% going from VEB 54.53 billion (VEF 54.53 millions) in 1979 to VEB 93.66 billion (VEF 93.66 millions) in 1983, reflecting a year to year increase of 14.5%. The yearly average increase of foreign debt was at 13.7%. Domestic debt was increasing at 16% during the same period of time, though most of it occurred in 1981, when it grew at a rate of 34.2%.

The main elements which characterized how the public debt, domestic and foreign, was behaving during this brief period can be summed up in the following manner: debt between the same organisms in the public sector represented 60.3% of the total domestic debt which was at VEB 1.67 billion (VEF 1.67 millions) in 1980, mostly made up obligations issued by the Executive Office in favor of the Social Security and VEB 9.94 billion (VEF 9.94 millions) in State company contracts with the Venezuela Investment Fund. It's important to keep in mind what happened to the public debt during the beginning of the 80s in order that we don't commit the same mistakes now.

Going back more than 20 years

Regarding this issue, the former director of the Central Bank of Venezuela (BCV), Domingo Maza Zavala, pointed out in August 2007, that *"as the situation stands now, the accumulation of oil revenues in foreign currency squirreled away by the Administration and the reserves transferred by the BCV to FONDEN and other funds is greater than the operational reserves of the BCV, especially if you add all the foreign currency in possession of public sector entities such as FOGADE, BANDES, Banco del Tesoro, and other state-run companies, which is over US\$50.0 billion. It's quite unsettling that so much is spread around in so many different entities, without any central control or defined purpose for how they will be used. It's a kind of Budget which exists parallel to the State Budget and is totally out of control."*

Going down

In the 80s, Venezuelan public debt grew significantly in anticipation of severe fiscal restrictions. But if Venezuelans learned something from those days, which seems to have already been forgot by some, including representative Sanguino, is that a critical point of the situation of the situation that was created then had to do with the lack of information and control over the foreign debt in general, and especially short term debt





acquired by decentralized entities. This delayed totaling the exact amount of obligations which would need to be refinanced by public organisms, which in turn forced a reform of the Public Credit Organic Law which would allow the Executive Office to centralize the process through the negotiation of a general refinancing program and an effective control of public debt operations carried out by decentralized entities. This new reform taking place now is doing away with all that.

In 1988, a study carried out by the UCAB pointed out that:

"Venezuela has paid US\$ 30.20 billion in foreign public and private debt between 1983 and 1987, and it has another scheme of payments for another US\$ 27.0 billion for the global service of foreign public and private debt between 1988 and 1993. Draining the economy of this amount of resources will progressively affect its ability to promote economic growth."¹

Déjà vu

In the 80s, similar arguments were used. Foreign debt between 1984 and 1988 was mainly used to partially or completely finance, among other things, the investment program for basic sectors of production, Caracas subway system, the Guri hydroelectric reservoir system (expanding its operations and the 400 kW transmission system), electric power systems developed by EDELCA, CADAFE, ENELVEN, ENELBAR, the Eastern forestation development program, the Technology and Agro-Industry Development Program (PRODETEC), the global program for industrial loans, CANTV expansion program (1987-1989), the public investment program in the national electric sector 1987-1990, the expansion of Aluminum plants VENALUM and ALCASA, first stage of the project to expand and modernize SIDOR's pipe plant, among others.

Negative reform

History has taught us that loosening the regulations which control how Venezuelan public debt is acquired will have negative consequences and it opens up the door for current levels of public debt to increase significantly, just like it did in the 80s. The current Administration is looking to increase the level of debt to more than VEF 37 billion. This is what has been

¹ Universidad Católica Andrés Bello, Instituto de investigaciones económicas, "Deuda externa de Venezuela: evolución y perspectivas" temas de Coyuntura, N°17, agosto 1988. (Economic Research Institute, "Venezuelan Foreign Debt: Evolution and Perspectives" Key issues, No. 17, August 1988.)





established in the reform of the Debt Acquiring Law. The Administration is planning to use a number of different entities to acquire this debt. The authorities have yet to define if the loan operations carried out by these official entities will be included within the framework of this year's Umbrella Law of if they will be added on to the debt that has already been programmed to be acquired during this fiscal year. At **Ecoanalítica**, we believe the Administration is looking to establish a "parallel line."

The Government's intentions are clear: it will use the funds that were initially earmarked for financing and current public spending, and now, it will also use the resources it acquires through this new modality, to finance investment spending for a number of different companies. In other words, the Government does not want to impose fiscal austerity and it is trying to avoid significantly cutting public spending (compared to 2008). At **Ecoanalítica**, we estimate that the additional gap in public could be at around VEF 20.0 billion (US\$ 9.30 billion)².

Will the Administration begin with CVG?

Now that the reforms that have taken place, there are unofficial indications that the CVG is analyzing the possibility of issuing bonds for an amount of US\$ 6.0 billion, establishing gold as collateral. This will allow it to raise resources to attend to company obligations. The information that **Ecoanalítica** has collected points to the MEF considering allowing different entities to issue debt, but not in foreign currency; this being the case, let us hope that they at least do so with the multilaterals (CAF and BID). The CVG's financial situation does not make placing debt for such an amount viable.

Economic Tips

BCV cuts interest rates again. The BCV Board cut interest rates for absorption operations by 2 percent. With this cut, interest rate for 28-day papers is at 6% and 7% for 56-day papers. The BCV announced in a statement that this measure is intended to sustain economic growth and employment. This is the second time in less than a month

² This gap is calculated by comparing last year's spending level (VEF 190.0 billion) and the spending estimated for this year (VEF 170.0 billion).



that rates for absorption operations have been cut back. With this policy, the BCV is trying to facilitate the National Executive debt operations.

Oil revenues will fall 55% with an oil barrel below \$50. Despite the slight recovery of crude oil prices, the average for 2009 is still below the level stated in the 2009 National Budget (US\$40). According to *Ecoanalítica*, if the year's average price is around US\$48/bbl., oil revenues would amount to about US\$39.4 billion, i.e. 55% vs. last year's revenues.

Venezuela is the only Latin American country with pro-cyclic policies. Vis-à-vis the global crisis, the governments of the major Latin American economies, except Venezuela, have implemented a series of policies intended to counteract recession. Measures applied by Brazil, Mexico, Argentina, Chile, Colombia and Peru to foster economic growth are translated into tax cuts, increase in spending for investment programs and incentives for the creation of new jobs. Venezuela is applying just the opposite policies.

The "Sucre" is born. Presidents of the ALBA (Bolivarian Alternative for the Americas) member countries plus Ecuador signed the framework agreement of the Regional Trade Compensation Mechanism (Sucre) that signifies the creation of this Latin American integration financial mechanism. This system is aimed at assisting these countries counteract the effects of the world financial crisis.

Interest rates. Lending interest rate at the close of April's third week fell 0.41% vs. the second week of the same month, to close at 21.73%. Time deposit and savings rates remained unchanged at 16.03% and 14.0 respectively.

International reserves. International reserves posted an increase of 0.53%, from US\$28.94 billion at the end of April's second week to US\$28.78 billion for the third week of the same month.

Liquidity. Liquidity at the close of April's second week dropped 0.6% vs. the first week of the same month, to VEF 189.77 million.





Oil Tips

PDVSA is not paying suppliers and contractors. Sources close to the oil industry report that PDVSA since March is making weekly payments ranging between 5% and 10% of the accrued debt both in local currency and dollars; however, payments have not been regular. Therefore, contractors and suppliers are trying to propose PDVSA an alternative payment schedule.

21 rigs are shutdown due to OPEC's cuts. Between October 2008 and March 2009, the number of oil drilling rigs dropped 25% as a consequence of quota cuts agreed on by OPEC. According to data provided by the Organization concerning the monitoring of drilling rigs, reported by Baker Hughes, this situation is evident by comparing the 84 production units that were active before the cutbacks were announced with the 63 units that are operating after the announcement.

400 thousand b/d to China. About 40% of the crude oil shipments scheduled for China in 2010 is being dispatched now; this percentage is equivalent to about 400 thousand b/d. According to official sources, 250,000 b/d are part of a contractual

Energy Minister: OPEC must fix a price band. The Minister of Energy/PDVSA President, Rafael Ramírez, pointed out that OPEC should fix a price band or set prices based on well-established parameters, once the oil market is stable, so as to favor certainty and stability both for producing and consuming countries.

Orinoco's Carabobo project is reformed. The national government changed the schedule for the selection of the partners that would participate in the Carabobo Block project in the Orinoco Oil Belt. The Minister of Energy and Petroleum, Rafael Ramírez, stated that this change would allow clarifying some points to the participating companies and listening proposals concerning PDVSA provisions and requirements to take part in the bid process.

Participation in the Oil Belt bid has not been confirmed. The major oil companies have not confirmed their participation in the bid of the Carabobo Block of the Orinoco Oil Belt, although they have already purchased the data pack including the bidding





information. This has delayed the schedule. Only Total and CNPC have expressed their interest in being involved in the new project.

Green Light for CNPC-Total in the Orinoco Oil Belt. Venezuela supports joint venture between France's Total and China's CNPC. The Minister of Energy and Petroleum, Rafael Ramírez, stated that companies are allowed to enter into agreements that will benefit them, provided they can meet the conditions for the bidding process. Both companies would control 40% of the oil produced and the remaining 60% would go to PDVSA.

PDVSA and PETROPAR are renegotiating debt. The president of the Paraguayan oil company (PETROPAR), Pablo Sugastti, stated that refinancing of an already matured debt for US\$270 million is being negotiated with PDVSA. Sugastti is proposing a 2% interest rate that is contemplated in one of the payment modalities agreed instead of the 18% rate that PDVSA applies to its ordinary operations, plus a 15-year term.

Oil price drops 1.27% in New York. WTI closed at US\$49.41 for a drop of US\$0.64, which is equivalent to 1.27%. This situation reflects the change of the increasing trend of this crude oil, which in part is due to expectations that world crude oil demand in 2009 will be substantially lower than that of 2008, as a result of world recession.

Business Sector Tips

Backlogs at CADIVI stop issuing of credit letters. Mauricio Caycedo, president of the Venezuelan Packaging Chamber, and Teresa López, executive director of the Venezuelan Chamber of Importers, Manufacturers and Distributors of Dairy Products, report 3-month backlogs in the reception of import credit letters. The problem, according to bank representatives, is that CADIVI has not authorized the allocation of foreign exchange on time; as a consequence of this, many financial institutions have decided to suspend the issuing of credit letters.

Exports to Colombia drop. According to figures released by the Venezuelan-Colombian Economic Integration Chamber (CAVECOL), Venezuela's exports to Colombia dropped 58% during the first three month of 2009 in comparison to the same period in 2008, from US\$282 million to US\$118 million. Furthermore, Venezuela's





imports from Colombia fell 3%, from US\$1.3 billion to US\$1.27 billion, in 2009 first quarter vs. the same period in 2008.

Spain: The Banco de Venezuela sale will be under favorable terms. Miguel Ángel Moratinos, Spain's Minister of Foreign Affairs, assured that a favorable agreement will be reached by the Venezuelan government and the Bank's board, which goes beyond a mere nationalization. He added that the Spanish government is working in a "discreet and effective" fashion to foster the agreement, meeting with the Venezuelan Ministry of Economy and the board of the Santander Group.

Control of food processing plants. The administrative area could be monitored by the own workers of industries and companies. Workers report that since they do not have any information on costs and expenses, they cannot expect better benefits, because employers claim that profits are not enough." Cargill, Monaca and Alimentos Polar union representatives, along with the Silos Superintendent, Carlos Osorio, and the Minister of Commerce, Eduardo Samán, discussed the implementation of social comptrollership in food producing companies.

CVA in charge of Cargill rice processing plant. The Vice Minister of Agroalimentary Policies of the Ministry of Agriculture and Lands, Richard Canán, announced that the forced acquisition of assets, furniture and real state properties where the rice processing plant Cargill de Venezuela operated is now a fact. The plant would be transferred to the Corporación Venezolana Agraria (CVA), once the Vice Minister evaluates the conditions of the plant facilities.

Price drops in milk, bread and pasta. The government announced that milk, bread and pasta prices will be cut from next May, considering the drop in raw materials as a result of the world economic crisis. Prices of white and yellow corn for domestic production and rice prices paid to the producer were also defined.

PDVAL reduced powdered milk price. PDVAL will soon sell powdered milk at a 50% discount on the controlled price at all its outlets. The 50% discount will also be applied to liquid UHT milk, but in the case of this product consumers can buy two units and pay only one.

Doubts about PDVAL food. PDVAL ratified in a press statement that foodstuff sold in their outlets is harmless and of high quality for human consumption. However, Carabobo governor, Henrique Salas Feo, sated that the state is in health alert due to





the possible outbreak of an epidemics resulting from the ingestion of food in state of decomposition.

Venezuela will import more than US\$ 150 million of food from Argentina. Venezuela will buy beef, chicken, rice and yellow corn, among others, from Argentina. The sale to Venezuela of 20,000 tons of beef, 50,000 tons of yellow corn and 60,000 tons of rice was agreed.

Irregular supply of raw materials for the construction sector. The construction sector is facing again problems with the supply of raw materials like iron bars, wires and meshes and related materials, cement transportation difficulties and price increases. The states where problems are worse are Bolívar, Carabobo, Lara and the Great Caracas.

Ten plans to foster production within ALBA were approved. The Minister of the People's Power for Agriculture and Lands, Elías Jaua, stressed that projects approved at the ALBA summit include the creation of a special seed fund and a genetic center in Honduras, the installation of a fish processing plant jointly with Suriname and a project to improve the cold chain for the dairy sector developed with the assistance of Guyana.

And more plans... The Minister also highlighted plans for the acquisition of fertilizers, seeds and machinery with Jamaica, whereas the development of irrigation systems and the improvement of storage processes are being considered with St. Vincent and the Grenadines. He added that plans for rice production and agroindustrial rehabilitation are being discussed with Nicaragua and food production with Belize.

Loan portfolio falls in the first two months of the year. The total bank loans fell 0.6% in the first quarter of 2009, vs. 1.15% growth for the same period in 2008 and 10.9% in 2007. However, title purchase is now booming. Therefore, investment in bonds increased by 14.96% in March, mainly government issued bond.

Public sector created more than 60% of new jobs. According to the National Statistics Institute (INE), a total of 282,248 new jobs were created between March 2008 and the same month in 2009. Of this total, 188,694 were created by the government and 93,554 by the private sector. This result reflects the fact that as a result of the wave of nationalizations, employees and workers of private companies were transferred to those companies that became public. Therefore, the public sector created 66.8% of the new jobs that were opened during the last year.





Vehicles running on gas are expected to be produced as from next June. Representatives of the automotive industry estimate that the production of cars running on gas will start in June. The mechanism applied by PDVSA to reimburse the equipment import and installation costs is still unknown.

Labor conflicts grew 91%. The largest number of labor conflicts was recorded in March, with a total of 113 claims, vs. 59 in the previous month. Per sector, 91 conflicts occurred in the public sector and 22 in the private sector. However, hostilities were centered in the private sector, because violent protests took place, especially in the car assembly plants of Toyota and MMC Automotriz. Oil industry was also affected due to the delay in payments to contractors.

New Insurance Law. Authorities will now control not only insurance firms, but also cooperatives and prepaid health service companies. According to the project, insurance firm equity is increased and state-owned companies may operate as insurance and re-insurance firms as stated by the Insurance Superintendent's Office. The second discussion of the Insurance Law is expected to take place at the National Assembly in May.

World Crisis Tips

Another encouraging sign. The consumers' confidence index of the University of Michigan for April increased more than expected, 4.6 points, up to 61.9, with advances both in the component related to expectations (up to 58.9) and that concerning current conditions (up to 66.3). This is the second increase in a row, which put the level of the series above the Lehman's pre-bankruptcy levels. This is an encouraging sign, particularly considering that this indicator uses to be one of the first reflecting an improvement when economy comes out of a recession. However, it is still too close to its historical lows and is still compatible with drops in retail sales according usual correlations.

More inflation is expected. Interestingly, inflation expectation indices increased /from 2.0% to 3.0% for the inflation expected for one year, and from 2.6% to 2.7% for inflation





expected over the next 5 years), meaning that the negative inflation contemporary data has not influenced consumers' mood.

Further rate cuts. Last Friday, the Banco de México cut interest rates by 75 base points, to 6%. The movement was more intense than the one expected by the market in general. This is the fourth rate cut in this cycle and it took place the same day as the IMF approved a credit line of US\$47.0 billion under the new Flexible Credit Line (FCL) intended as a crisis prevention instrument for countries with a good recent history of economic results and policies (therefore, without urgent need of financing). The statement of the Banco de México leaves the door open for new future rate cuts. Furthermore, the Turkish central bank also lowered the rates by 75 base points on last Thursday, to 9.75%, more than the level expected by the market and breaking the two-digit psychological barrier.

UBS sells Pactual to Andre Esteves. According to Bloomberg, UBS sold its Brazilian unit, UBS Pactual, to the former director of the Andre Esteves unit, for US\$2.5 billion in cash and by assuming the debt of Esteves BTG Investment. UBS had bought this business in 2006 for US\$2.6 billion.

Waiting for the result of the stress test. The market is still waiting for the results of the stress testing exercise performed by the US administration. According to the last news, the Fed and other regulators will release on April 24th the methodology used, and the concrete results on May 4th. Statements by Rahm Emanuel, White House Chief of Staff, this last weekend hint that the Administration will not likely request new funds from Congress and that the temporary nationalization of the weakest banks will be avoided. Even though, the market is still nervous vis-à-vis the possibility of bad news on the soundness of some of the largest banks.

US could convert banks' bail out into common shares. US Administration officials stated that if loans offered to the largest American banks are converted into common shares, they would not have to ask for more bailout funds for the financial sector from the Congress. In this regard, transforming loans for the largest 19 banks in the US into common shares would turn the government's assistance into available equity and would provide government with a wider participation in the financial sector.

US: FED reported a lower economic activity in February and March. The US Fed pointed out that its index on domestic economic activity dropped to -2.96 in March and -





2.82 in February, because employment, production, consumption and housing sectors fell.

Bernanke asks for rationality on credit markets. The Fed Chairman, Ben Bernanke, said that doors are open for innovation on credit markets, but he also highlighted that it is not fair that financial products are rendered more complex to confuse consumers. In this sense, the regulation should guarantee that innovations are transparent and easy to understand, so that consumers can select financial products.

The “Great Recession” is almost over. Paul Volcker, President Barack Obama’s advisor, stated that the US economy contraction pace is decelerating. He added that perhaps the US is not in a situation similar to the “Great Depression”, but rather in a “great recession.” According to analysts, the US economy touched bottom in the fourth quarter of 2008.

Fannie Mae CEO leads the banking system bail out. Herb Allison, Fannie Mae CEO was appointed to monitor the US\$700.0 billion market bail-out fund. Now Allison will monitor several federal programs intended to improve credit availability, assist the main car manufacturers and support housing market.

AIG closed and agreement to obtain another US\$ 30.0 billion in public funds. The insurance firm American International Group Inc. (AIG) will sell 300,000 preference shares to the US Treasury, including options to purchase common shares, for US\$29.83 billion. The original amount was US\$30.0 billion, but officials cut the amount by US\$165 million due to withholdings of bonds paid in March to employees of the financial product unit.

JP Morgan estimates losses for US\$400.0 billion in US banks. JP Morgan Securities estimates that banks in the US will post additional losses for US\$400.0 billion and some entities may need more capital injections. A large part of bank losses will come from credit portfolios and a smaller part from securities portfolios, which have already faced severe amortizations.

Temporary assistance for General Motors and Chrysler. Additional loans worth around US\$5.0 billion and US\$500 million will be granted by the US Treasury to General Motors and Chrysler, respectively. With these funds, General Motors will be able to reform its viability plan; Chrysler, in turn, will close an alliance with the Italian





manufacturer Fiat, which will allow it to face the severe crisis that is impacting the automotive sector.

Bank of America's profits increase. Bank of America Corp. informed that its profits for the first quarter of the year grew more than twice, given a revenues increase resulting from the purchase of Merrill Lynch & Co. and an extraordinary profit derived from the sale of shares of a Chinese bank. The net profits applicable to common shareholders of the Bank of America amounted to uS\$2.8 billion, from US\$1.02 billion posted a year ago.

Latin America will go into chaos if the region does not get any financing. Colombia's president, Álvaro Uribe, stated that a world economic crisis will hit Latin America if no cheap financing is obtained from multilateral entities. Furthermore, if this not happen, a new debt crisis could emerge because some countries would opt for very expensive financing.

Political Tips

Chávez will not "change even a single comma" of the reform. Although the reform proposal was defeated by a "pyrrhic victory", Chávez dixit, the National Assembly, in March and April 2009, has devoted itself to implementing it, by violating the spirit of articles 16, 18, 157, 158 and 164 of the Constitution with the passing of the reform of the Law on Decentralization, Delimitation and Transfer of Powers to States, and the most recent passing of the Capital District Law. For Chávez the reform proposal is still valid; he assured that he would not "change even a single comma of that proposal...It was not possible for now, but I maintain it."

AN will pass the Lay for Territorial Ordering. The creation of regional authorities contemplated in the draft Organic Law for Territorial Ordering and Administration will be approved during the first weeks of May 2009. The draft law with 206 articles presents as a fundamental value the fact that all governors and mayors, regardless of their political stances, will have to obey the Simón Bolívar National Project, the country's first socialist plan, according to the deputy that put forward the draft law, Manuel Briceño (PSUV-Mérida).





Miranda and Guárico merged? A proposal to merge Miranda and Guárico states was presented to the National Assembly by Willian Lara, governor of Guárico. Lara claims that the conditions and the geopolitical and social and economic characteristics of this two bordering states are ripe for the merge. Furthermore, he asked the request to be included in the Territorial Ordering Law that will be discussed soon at the AN.

Alleged agreement on the Gulf of Venezuela denied. Both Chávez and his Colombian counterpart Uribe agreed on the necessity of solving the territorial delimitation issue. However, they pointed out that this topic was not dealt with at the meeting they had a few days ago at the Miraflores Palace. Chávez stated that since he was an active officer, he has never had “extreme stances” concerning the Gulf issue. Uribe, in turn, pointed out that he “would like the issue to be solved as soon as possible.”

New Ambassador to the US. President Hugo Chávez announced on Sunday, April 19th in Trinidad & Tobago that Roy Chaderton was appointed new Ambassador to the US, and added that “we will have to wait for the US to grant the placet” for Chaderton to assume such an important post. This is a favorable information aimed at improving the deteriorated bilateral relations, although we believe that relations will remain heated.

Venezuela donated an island to New Jersey. President Chávez said in Port of Spain that despite recent diplomatic clashes with the US, trade relations between both countries develop as usual and he decided that his government will “donate” a 140-hectare island that CITGO has in the Delaware River to the state of New Jersey.

No agreement at the Fifth Summit of the Americas. The Fifth Summit of the Americas held in Port of Spain marked a significant step forward in terms of the relations between the US and countries like Venezuela. However, no concrete agreement was reached. Topics concerning the economy, energy security, governance, global warming, etc. were discussed at the Summit. President Chávez described the Summit as the most productive event of the last decade.

Another post for Jesse Chacón. Jesse Chacón was appointed Minister of the People’s Power for Science, Technology and Intermediate Industries, replacing Nuris Orihuela. Chacón stated that this new post will pose numerous challenges and that he is putting the team together to face them. He also explained that “*now that the socialist route has been defined in Venezuela, we must ask ourselves where the socialist industrial model should be projected to.*”





...and the Head of State of the Capital District, another versatile official, was also appointed. President Chávez appointed Jacqueline Farías as Head of State for the Capital District. Farías' list of achievements include: Civil Engineer (UCV), current president of CANTV, Vice President of the PSUV, former Minister of the Environment, and former president of Hidrocapital.

Chavez is sued at a Miami court. An US-headquartered group sued president Chávez for alleged terrorism acts and human rights violations, included his alleged relations with Colombia's FARC, al-Qaida and Taliban. Freedom Watch filed the lawsuit at a Federal Court in Miami on behalf of the Venezuelan journalist Ricardo Guanipa, who received dead threats after investigating corruption acts related to the Venezuelan government.

NGO are threatened with the new Law on International Cooperation. Members of the NGOs Foro por la Vida and Sinergia believe that the Law on International Cooperation violates the rights to association, participation and free speech. Both organizations reported that the draft law approved in 2006 sets forth that the international cooperation must be oriented toward the 2007-2013 National Plan and that civil societies must register to an entity that will report to the Presidency of the Republic. NGOs would have to hand over the economic resources they receive from abroad to that new institution for it to administer them.

"Useless sacrifice." The executive president of Un Nuevo Tiempo, Omar Barboza, confirmed that Maracaibo Mayor will not present before the court that is hearing his case, because otherwise "a trophy would be handed over to the government through a trial that would be like "putting Rosales against a firing squad." Barboza confirmed that negotiations are being held with a "friend country" for political asylum, because Rosales is a "political prosecuted", not a "fugitive."

Rosales asked for asylum in Peru. Maracaibo mayor, Manuel Rosales, officially asked for asylum in Peru. According to Rosales' attorney, the Peruvian government has established a two-month term to answer to the request. He added that he is certain that asylum will be granted. "According to Peru's legal and historical asylum tradition, that country has to grant asylum to Rosales, because he is an important political leader."

Last in the list. The US president, Barack Obama, is the most popular leader among Latin Americans, followed by Brazil's Luiz Inacio Lula Da Silva, King Juan Carlos of Spain and Spain's Head of Government, José Luis Rodríguez Zapatero, according to a





recent opinion poll. “*Hugo Chávez, despite his being one of the most important leaders, only has 28 percent of approval in Latin America, which puts him at the last popularity place,*” reported the Governance Barometer of Latin America and the Iberian Peninsula. Obama was at the first place with 70% of approval among the respondents, Lula Da Silva got 58.9%, King Juan Carlos of Spain, 54.7% and Zapatero, 50%.

Otros Tips

Not more than US\$0.30/dollar for delinquent bonds. The minister of economic policy, Diego Borja, stated that Ecuador will not pay more than US\$0.30/dollar at the auction for the repurchase of the delinquent bonds. According to the Minister’s statement, the government is “keeping within its financial and budget capacity (...) and that capacity only amounts to US\$0.3 per dollar. With this we are already recognizing a premium, because the market was registering a decreasing trend, US\$0.28 on average.”

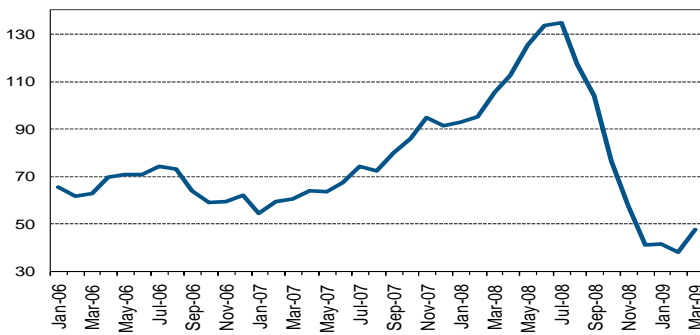
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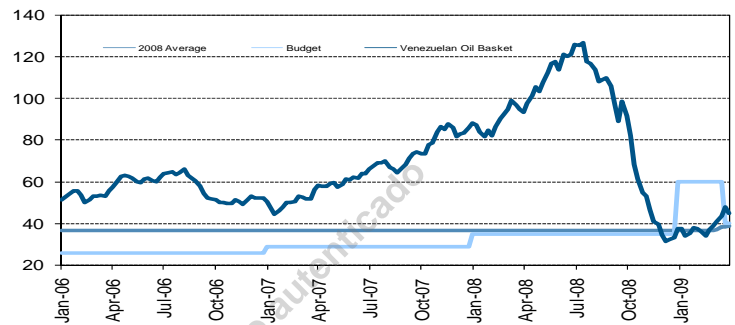


ECONOMIC OVERVIEW

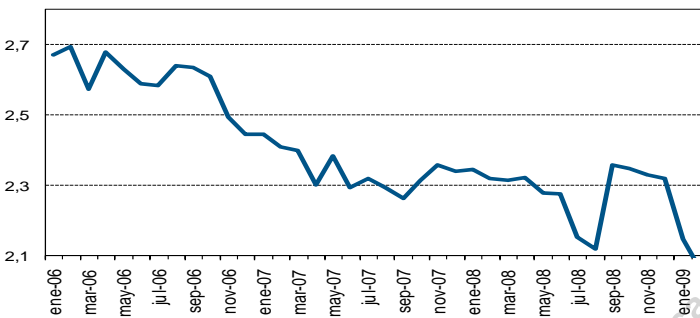
Oil Prices (WTI US\$pb)



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



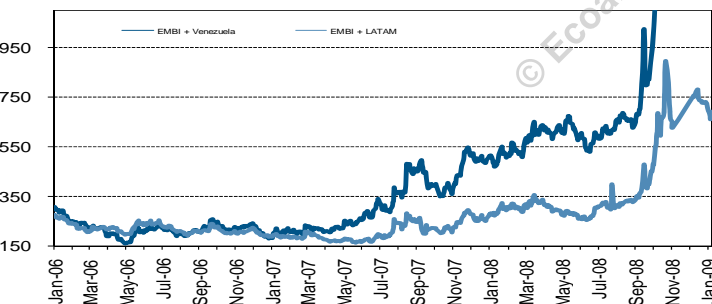
Oil Production MMBD



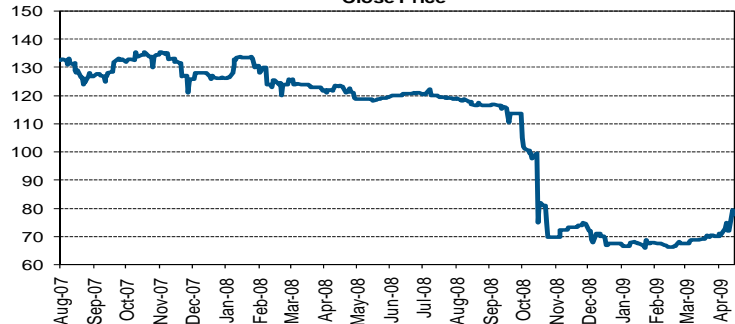
Fx Reserves - BCV (US\$ Million)



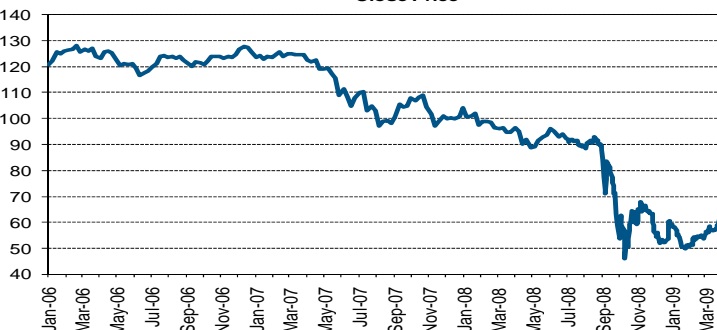
EMBI+



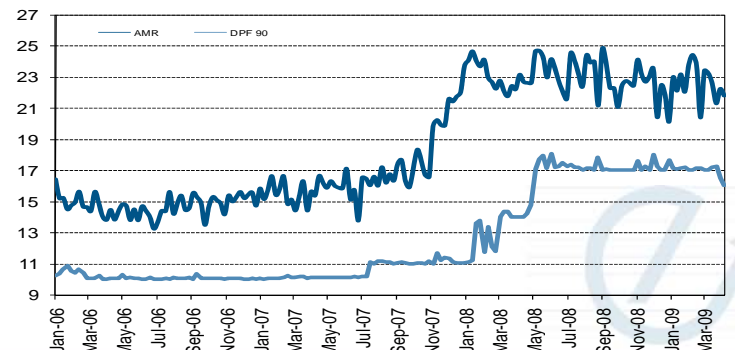
Venezuelan Global 18 Close Price



Venezuelan Global 27 Close Price

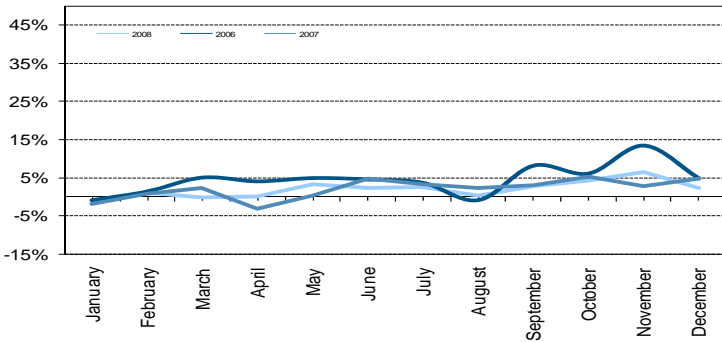


Interest Rate (Six Principal Banks)

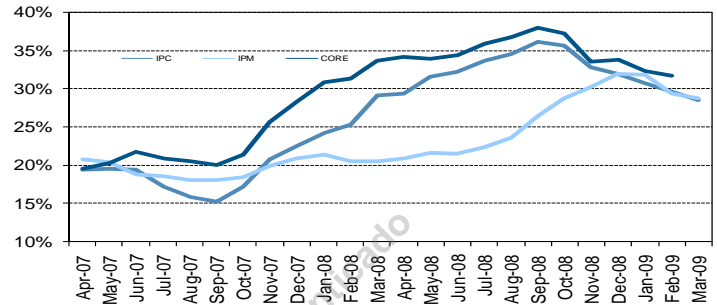




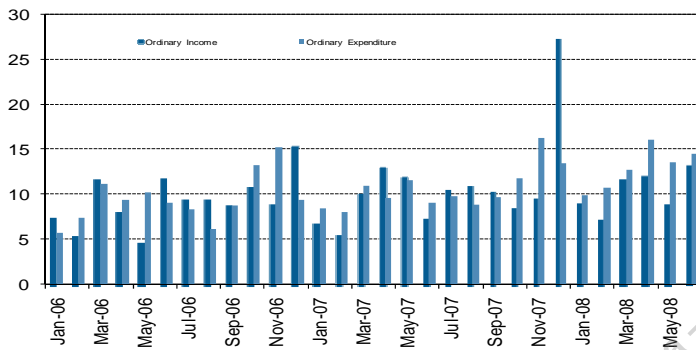
Real Expansion (M2)



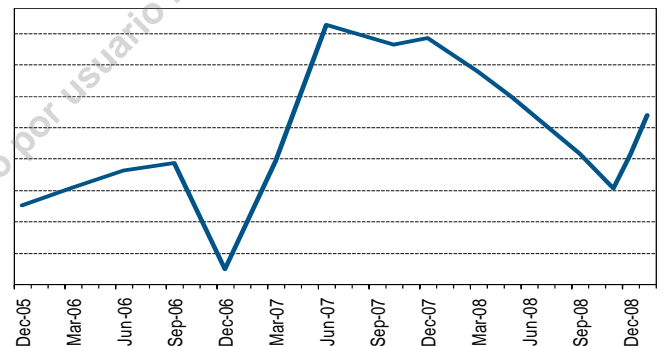
Inflation (Last 12 Months)



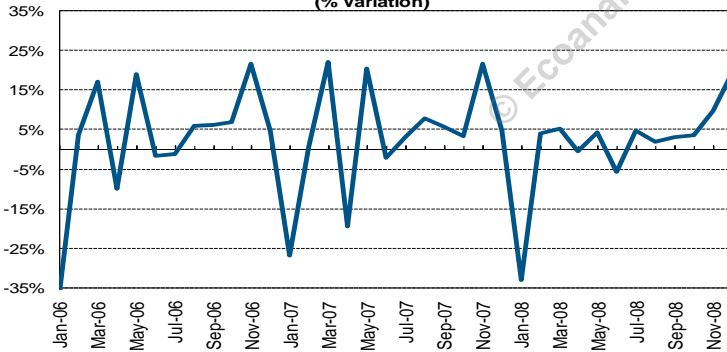
Central Government (VEB Billion)



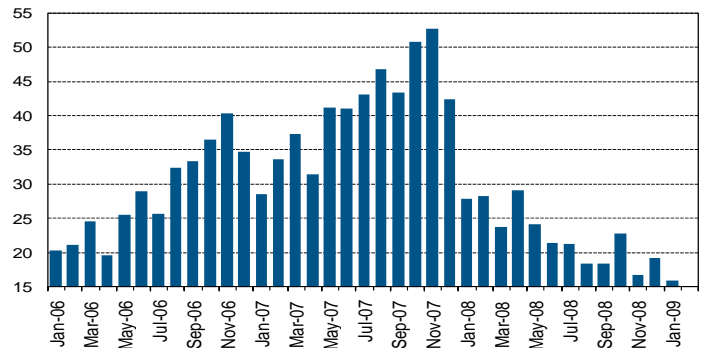
Resources of the State (US \$ MM)



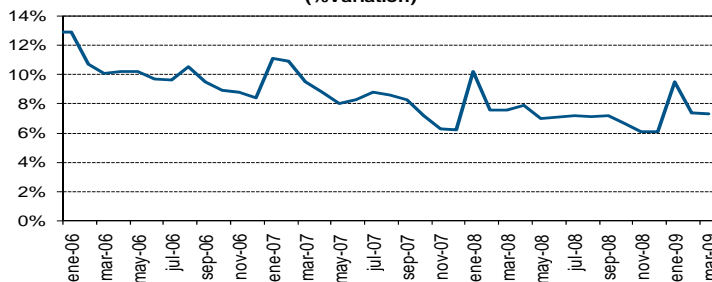
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment (% Variation)



Disbursement (US\$ Million)

