



# Weekly Report

Year 5, Number 20  
Week 1, June 2009

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## ***HOW IS THE GOVERNMENT FINANCING ITSELF?***

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#### **Spending drops, but not as much as revenues**

The Central Bank of Venezuela (BCV) recently released the Central Government's first semester fiscal management figures. This report reflects a serious deficit which is being covered by Treasury resources.

According to the BCV figures, Government spending during the first two months of the year was at VEF 20.64 billion, which represents a drop of 6.5% compared to the same period last year. In real terms, the drop in spending is more significant, around 28.7%. This reflects the hard times the Administration is going through due to the drop in oil revenues. This also reflected that the Administration began to initiate its cuts, in public spending, quite some time before it announced its economic measures in March.

With respect to revenues, the drop is significant with revenues shrinking by 22.8% compared to the same period last year, and if you take inflation into account, the drop jumps to 41.2%. By sectors you find that oil revenues dropped by 45.3% while non-oil revenues dropped by 38.6%; both are real term figures. It's clear to see since revenues have dropped more than spending that there will be a significant deficit.



FISCAL BALANCE CENTRAL GOVERNMENT (VEF Millions)	February 2009	February 2008	Nominal Variation	January- February 2009	January- February 2008	Nominal Variation	Real Variation
<b>Total Revenue</b>	6.794	8.356	18.7	14.227	18.427	-22.8%	-41.2%
<b>Non-Oil Revenue</b>	4.198	4.972	15.6	9.138	11.338	-19.4%	-38.6%
<b>Oil Revenue</b>	2.596	3.384	23.3	5.089	7.089	-28.2%	-45.3%
<b>Total Expenditure</b>	11.563	10.750	7.6	19.303	20.635	-6.5%	-28.7%
<b>Fiscal Balance</b>	-4.769	-2.394	1.0	-5.075	-2.208	128.8%	75.1%
<b>Primary Balance</b>	-4.123	-1.722	1.4	-3.921	-1.005	290.2%	197.3%
<b>Non Oil Balance</b>	-7.365	-5.778	0.3	-10.164	-9.297	9.3%	-16.7%
<b>Debt Amortization</b>	200	904	-0.8	394	1.907	79.3%	-84.3%
<b>Financing Requirements</b>	4.969	3.298	0.5	5.469	4.115	32.9%	1.3%
<b>Foreing Debt</b>	0	3	-1.0	93	18	423.3%	298.8%
<b>Domestic Debt</b>	1.048	0	-	1.048	0	-	-
<b>Tresury Bonds</b>	693	0	-	693	0	-	-
<b>Tresury Debt</b>	356	0	-	356	0	-	-
<b>Others</b>	3.921	3.295	0.2	4.328	4.098	5.6%	19.5%

Sources: BCV and Ecoanalítica

### The firsts two months of the year deficit is almost 1 point of GDP

These figures reflect that during the first two months of the year, the Administration accumulated a deficit of VEF 5.08 billion (US\$ 2.36 billion) which is more than double that of what was registered during the same period last year (VEF 2.21 billion or US\$ 1.03 billion). This deficit accumulated in just two months is quite significant and is equivalent to 0.7 points of the Venezuelan GDP estimated for 2009. It's important to point out here that we estimate the 2009 national deficit to close at 3.8 points of GDP.

### How is the deficit being financed?

When you add the fiscal deficit together with the public debt payments which are due you get the sum of VEF5.47 billion (US\$ 2.54 billion) which is the amount the Administration will need to somehow finance. It did so, during the first two months of the year, by financing 19.2% of the deficit with domestic debt and only 1.7% with foreign debt, the rest (79.1%) it financed by pulling resources out of the National Treasury. During the coming months we'll see a significant increase of domestic debt being issued as a mechanism to finance the Central Government's deficit. Keep in mind that the issue of domestic debt really began to increase towards the end of March and these figures reflect the first two months of the year. These resources that are being used from the Treasury are essentially Miranda Fund contributions, Treasury investments. This is where you would find the Administrations exchange profits that it is getting from its exchange operations through FONDEN.

### It's not something new

The use of Treasury resources is not something new. The Administration has been doing this for quite some time, right along with the creation of out-



of-budget funds. So Government fiscal management figures do not completely reflect what the Government does in terms of the National Budget.

In fact, what **Ecoanalítica** has been able to find out is that the Government keeps a significant portion of the resources that do not go through the Central Bank's Treasury. However, it then uses these resources to finance the fiscal deficit. Why does it do this? Because these resources are not only used to finance the deficit but they are also used for other Public Administration spending, and this gives the Administration much more to maneuver in its operations.

**How is it going with the extraordinary resources?**

The estimate of the amount of resources the Administration has available is at US\$42.90 billion at the close of the month of May. These resources include the resources deposited by the Chinese Government into the bi-national fund Venezuela has with China. It's important to mention that this amount does not include the resources recently received from Japan by PDVSA (US\$ 1.50 billion), because we don't have any information regarding what these resources will be used for, as well as other resources managed by PDVSA that were not included in our table. Compared to the balance of extraordinary resources at the end of March, they have only increased by US\$ 500 million.

<b>Government Resources</b>	<b>May-09 (US\$ MMM)</b>
<b>Cash</b>	<b>42.9</b>
<b>In VEF</b>	<b>23.6</b>
BANDES	0.1
BDT	-
Deposits in the financial system	15.2
Fondo Miranda	3.5
National Treasury	3.2
FONDEN	2.0
<b>In USD</b>	<b>19.3</b>
FONDEN	11.3
Other Funds	7.4
PDVSA	0.6
<b>Total</b>	<b>42.9</b>

Source: Ecoanalítica





According to our estimate, the resources in US-dollars reach US\$19.30llion, in other words, 45% of the total amount. Compared to total of US-dollars compared to the close of March, in net terms, the US-dollar denominated resources increased by US\$ 500 million, and the resources in bolivars remained unchanged.

### The Administration's bet is working

At *Ecoanalítica*, we continue to stand behind our analysis that the Government will continue to partially cut spending and increase borrowing, increase exchange operations in the parallel market, and using extraordinary funds to face dropping revenues, because it is not willing to make any major economic adjustments with high political costs. So far this ploy has been working, with the private sector suffering a very severe exchange adjustment.

These mechanisms will allow the Administration to cover its fiscal needs. But, by the close of 2009, Venezuelans will have an economy with high inflation, fewer imports, and imports becoming more expensive, all in the middle of a substantial economic slowdown. In essence, Chavez' Administration is no different than all the 4<sup>th</sup> Republic Administrations that came before him.

## Economic Tips

**BCV cut interest rates:** June 4yh, BCV cut interest rates in the amount we can see below on the table. This measure is in line with the expansive monetary policy that most central banks are doing to expand credit and liquidity; but in this case, BCV has another objective: Set free resources from local financial system and make cheaper internal debt. At this time it also cuts injection open market operations interest rate by 2 pp to stay at 20, 21 and 22% to 7 days, 14 days and 28 days, respectively.





Rates	First Adjustment	Second Adjustment
Deposit of the financial system in BCV at 28 days (%)	6	6
Deposit of the financial system in BCV at 56 days (%)	7	7
Repos (%)	31.5	29,5
Lending Rate (Loan, excluding Credit Cards) (%)	26	24
Credit Card Interest Rate (%)	31	29
Minimum Saving Rate (%)	14	12,5
Minimum Deposit Rate CDs (%)	16	14,5

Sources: BCV and Ecoanalítica

**Inflation in May 2009.** According to data released by the BCV, month-to-month domestic inflation was 2.0%, for 26.9% of year-to-year variation. Month-to-month inflation in Caracas Metropolitan Area was 2.1%, for a yearly growth in prices of 28.5%. The above mentioned result comes based, among other things, for the decrease in the basic price of consumer goods as pasta, bread and milk.

**FONDEN to issue paper to purchase Banco de Venezuela.** In order to purchase the Banco de Venezuela the Administration has to come up with US\$ 1.05 billion: US\$ 630 million in cash and the rest will be covered with promissory notes one expiring in October and the other in December. The president of the National Assembly Finance Commission, Ricardo Sanguino, explained that the Organic Law for Finance Administration of the Public Sector allows FONDEN to be able to issue paper.

**New system to auction Treasury Bills.** According to information released by the Finance Ministry, no finance entity participating in an auction of Treasury Bills may acquire more than 5% of the total being auctioned. It will be a Dutch Auction with bids awarded in descending order, with the possibility of a single unit price being set equal to the last bid awarded.

**No easing up on the exchange controls.** The Minister of Economy and Finance, Alí Rodríguez Araque, reiterated that the Government will not ease up on exchange controls and that it has no plans to introduce a dual exchange system.

**More agreements.** In total, 12 agreements were signed between Venezuela and Brazil at Salvador de Bahía where the seventh quarterly meeting to advance the mechanisms for bi-national integration was held. The agreements were signed by the Presidents of both countries, the President of Brazil, Lula Da Silva, and President of Venezuela, Hugo Chávez. One of the agreements signed was the Trade Liberation Program between both countries which aims at setting up a schedule for bilateral trade



before Venezuela's definite inclusion in Mercosur and in favor of integrating other political and social spaces in the region.

**Yes, there are enough resources.** President Chávez assured that Venezuela has enough resources to continue with its nationalization plan and that the only companies that will be spared "are those that are willing to work." "Venezuela has money. Our reserves are more than triple what they were 10 years ago. Will keep moving forward with the nationalization at a rhythm dictated by opportunities," he said.

**International reserves.** International reserves rose 0.29%, going from US\$ 29,242 million at the close of the third week of May to US\$ 29,327 million in the fourth week. Compared to the same period in 2008 when the reserves were at US\$ 31,259 billion, reserves are down by 6.45%.

**Monetary liquidity.** Monetary liquidity for the fourth week of the month of May was up by 0.9% compared to previous week and settled at VEF 201.88 billion. So far this year liquidity has increased by 4.8%, and compared to the same period last year, it is up by 31.1%.

## Oil Tips

**International oil prices continue to go up.** International oil prices continued to go up in New York as well as in London topping US\$ 68.00 per barrel, the highest level prices have reached in seven months. This is due to an increase in purchases of raw materials, a weakening US-dollar, and optimism returning to the international markets. WTI closed at US\$ 69.39 per barrel, up by US\$ 4.31 compared to the previous week. Brent closed at US\$ 68.05 per barrel, up by US\$ 4.71.

**Venezuelan crude oil basket continues to climb.** The price of the Venezuelan crude oil basket was up by US\$ 2.95 at the close of the last week in May, going from US\$ 53.15 per barrel to US\$56.10 per barrel. The Minister of Energy and Petroleum attributes the increase to an increase in short term crude oil supply contracts, a weakening US-dollar, and a drop in inventories. This latest surge in price pushed the yearly average price over US\$ 43.00 per barrel which should alleviate fiscal accounts.

**OPEC: maintains production.** OPEC, very much aware that there is an excess in supply and that inventories are high, decided to maintain current crude oil production



levels at its meeting held on May 28. The decision, according to the cartel, was based as much as on not worsening the world crisis as it was reacting to current sign that the economy is recovering and that there is an increase in demand which is helping prices recover.

**Liquefied Petroleum Gas (LPG) supply failure.** In the midst of labor conflicts due to insufficient pay raises and food coupons, the nationalized LPG distributing companies (Tropigas and Vengas), limited deliveries to the LPG filling plants Bajo Grande and Ulé (Fedemgas), a refinery accident at Cardón (Paraguaná), and operations stopped due to maintenance at the El Palito refinery, have all led to domestic natural gas and LPG deliveries for some regions of the country to be delayed.

**Indemnification to oil contractors may come in the form of papers.** The National Assembly Commission for Energy and Mines considers that the Government is in conditions to pay with a number of different papers the indemnification that is being negotiated with the different companies that were nationalized, depending on the case. The process by which the amount to be paid is being analyzed should not take more than a month or so and the company's past record in the country as well as its value on the books will be taken into consideration. Up until now, no amounts have been issued.

**The "Isla" refinery in Curacao must reduce its emissions.** According to a decision handed down by the courts on a neighboring island, the refinery run by PDVSA must cut down on its emissions of sulfuric dioxide and particles which have caused serious health problems to a number of people. If they do not comply the company will face multimillion dollar fines. According to court documents, the company needs to invest around US\$ 100 million in order to comply with the established standards.

**China initiates second phase of oil reserves plan.** China approved a plan to build the second phase of state oil reserves, the second stage of the plan will begin after China finishes filling the first set of tanks. The tanks in the second stage will hold 26.8 million cubic meters or equivalent to 170 million barrels. This phase will be bigger than the first that has a capacity to hold 100 million barrels. This need for oil could come from the country's plans to fight carbon gas emissions which provide 80% of the country's electric power.

**Brazilian Group Braskem associates investment with Pequiven.** The Brazilian company Braskem, largest petrochemical substances producer in Latin America, especially polyethylene, is studying the plans for a petrochemical plant which will cost



US\$ 1.10 billion, to be built in Venezuela along with Pequiven S.A. An increase in demand in polyethylene in Brazil as well as in the region justify the investment.

**Crude oil exports to U.S. drop.** Venezuelan crude oil exports to the U.S. have dropped according to figures released by EIA. Figures indicate that exports have dropped by 2.89% in March. During said month, the U.S. received from Venezuela 1.10 million b/d, down from the 1.13 million b/d received in February. In January Venezuela exported 1.35 million b/d to the U.S. Despite the drop in the amount being exported, Venezuela is still the fourth largest supplier of crude oil to the U.S.

**Oil workers are also protesting.** Zulia state and Puerto La Cruz oil workers protested this week due to the deteriorating work conditions that they are facing. 2,000 representatives of the 16,000 workers affected blocked the access to 14 docks in Ciudad Ojeda. The president of PDVSA has announced that the company would absorb those affected and that 8,000 workers have already been included in the payroll. Union representatives say that this is not the case.

**U.S. inventories dropped last week.** U.S. inventories dropped last week by 1.4 million barrels due to delays unloading imports due to bad weather in Louisiana and an increase in demand due to Memorial Day weekend.

## Business Sector Tips

**CAF issued bonds for US\$ 1.0 billion.** This is the largest issue that the company has ever placed on the market. Demand from the U.S., Europe, and Latin America tripled the amount offered, which reflects the confidence in the low level of risk from these international organisms even during a time of crisis.

**Electricidad de Caracas posts losses after one year of being nationalized.** Electricidad de Caracas posted net losses in 2008 for VEF 300.50 million, according to the figures released in the Yearly Management Report for 2008, while in 2007 the company posted profits for VEF 132.40 million. It's important to point out that accounts receivable went from VEF 249.70 million in 2007 to VEF 792.20 million in 2008, and that in these accounts there is VEF 412 million from the China-Venezuela cooperation fund.





**Investments in the telecommunications sector increased by 30% despite CADIVI.** CONATEL informed that during the first quarter, around US\$ 237 million was invested in the telecommunications sector, 30% more than what was invested in the first quarter of 2008, (US\$ 181 million). This seems to reflect that the growth telecommunications industry has not been adversely affected by diminishing flow of foreign currency, but first quarter investments seemed to be very padded by investment agreements made by the different telephone operators last year. Between CANTV and Movistar, US\$ 109 million was invested, with Digitel investing most of the US\$ 128 million difference along with other smaller operators.

**Venezuelan Government to invest US\$ 20.0 billion in national electric power system.** The National Government expects to invest US\$ 20.0 billion in development and expansion of the national electric power system during the next five years, announced President Hugo Chávez. He went on to say that the investment was aimed at increasing national electric power generation by 10,000 megawatts.

**More restriction.** CADIVI informed that a resolution issued by the Ministry of the People's Power for Economy and Finance was published which contains the updated list of the goods authorized within the framework of the productive imports modality. Resolution No. 2314 published in the Gaceta Oficial No. 39.187, dated May 27, 2009, establishes that the import of capital goods, raw items and materials by companies which belong to the productive sectors of the economy, will benefit from a streamlined foreign currency authorization process for up to US\$ 50,000 or its equivalent in another currency while fulfilling the process of requesting the Foreign Currency Authorization Process, and then the Foreign Currency Liquidation Authorization before beginning to meet the process requirements established by CADIVI.

**Medical items and equipment eliminated from the list.** CADIVI eliminated these good from the list of items exempt from having to produce a no-production certificate which will make it more difficult for the health sector make its investments and it very probable that in a very short time a number of vital items begin to disappear from the inventory in hospitals and clinic, and this will also put more pressure on prices in a sector that has reflected 16% inflation in the first four months of the year.

**CADIVI owes more than US\$1.0 billion to Colombia, Ecuador and Peru.** Most of this debt is for imports received a year ago. Peru is owed around US\$500 million, Colombia 252 million, and Ecuador 200 million. It looks like CADIVI is waiting for the current increase in oil prices to continue and improve is flow of foreign currency before paying off these debts.





**Colombians could be paid with bonds.** The president of the National Association for Foreign Trade (Analdex), has introduced the possibility of paying Colombian companies with Venezuelan debt paper as a form of payment so that said bonds may be traded on the U.S. stock exchange.

**PDVAL meat to increase in price.** The price for first class meat sold at PDVAL was at VEF 10 and second class meat at VEF 8, but it's been more than 3 months since the market has had a supply. The supply will get back to normal but at its regulated prices of VEF 17.6 for first class and VEF 11.1 for second class meat.

**Venezuela receives agriculture machinery from Belarus, Argentina, and Brazil.** . Venezuela received 425 units of agriculture machinery, stemming from the bi-national agreement with these three countries. The machinery will be distributed in 14 states and will benefit more than 40,000 producers in 2009. Another 6,000 machines are expected towards the end of the year.

**INDEPABIS discovers cars being hoarded.** The INDEPABIS, discovered 49 cars (Chevrolet) of different models being hoarded in a warehouse in Valle de la Pascua, Guárico state. Among them were cars, trucks, pickup trucks, and compact cars, most of them manufactured in 2004. INDEPABIS coordinator, Orlando Chacín, announced that the process will be handed over to the Public Ministry and that dealership must sell them at the prices fixed by the assembly plant.

**Private sector will build 60,000 houses this year.** The private construction sector built a total of 16,000 housing units during the first quarter of the year, with 140,000 units under construction, plus what is in inventory. The Venezuelan Construction Chamber (CVC) expects that 60,000 new houses will be put on the market this year.

**Techint threatens to sue.** Techint will file suit against Venezuela if it doesn't pay the indemnification owed to them for the nationalization of the steel companies Tavsa and Matesi, in which it is the mayor stockholder. Techint will be monitoring to see if the current investment protection agreements that exist between Argentina and Venezuela are being honored and met, said Daniel Novegil, executive president of Ternium.

**No discrimination.** The national Government underlined its pledge to support Argentinean companies operating in Venezuela and announced that there was a "defamation campaign" going on due to the nationalization of a number of steel industries, among them Argentinean company Techint.





**Changes.** National Assembly Sub-commissions will debate the Petrochemical, Mines, and Electric Power Laws aimed at starting a consulting process which will then be taken before the plenary session for its first discussion. With respect to the Transformation Plan for Basic Companies, the Assembly has informed that the first workshop has already taken place with 400 workers and union representatives.

**Concession not extended.** Venezuela decided not to extend the Canadian company, Gold Reserve's mining concession which has expired with regard to the Brisas project due to a failure to fulfill the contract, including the payment of obligations, informed the authorities through a recent Gaceta Oficial.

**Cero growth.** The president of the Venezuelan Chamber of Shopping Centers, Arnold Moreno, announced that the sector did not reflect any growth and that department stores were the only ones showing positive numbers. Moreno states that the figures show a significant drop in the people's purchasing power and that inflation continues to increase. But, with the forecast for the year in hand, he said that by the end of the year there may be a 5% growth in the sector, taking into account that for 2008 growth was at 7%. He also announced that 24 new shopping centers were under construction and that this could be good for business. The Chamber estimates that 85% of the urban population visits shopping centers and that 2 million people visit them daily.

## World Crisis Tips

**GM finally declares bankruptcy.** On June 1 GM declared bankruptcy and the U.S. Government gave it US\$ 30.0 billion more of the taxpayer's money to help it rebuild, which added to previous loans granted puts the Government's holding in the company at 60%. GM has a total of US\$ 172.81 billion in liabilities and US\$82.29 billion in assets. On the same day a judge in New York authorized the sale of a part of Chrysler to Fiat. Suzuki is worried that it will lose US\$ 745 million that GM owes it.

**Getting rid of Hummer first.** Hummer sales during the first four months of the year have dropped by 67% compared to the same period last year. With current gasoline prices, there are not many people willing to buy a car that only gets 12 miles to the gallon. Despite this, the Chinese company Sichuan Tengzhong is interested in buy the brand. GM is also looking to sell Saab and Saturn and it will discontinue the Pontiac brand while it concentrates on improving the Chevrolet, Cadillac, Buick, and GMC brands.



**Direct Foreign Investment to drop by 35% in 2009.** The executive secretary of the CEPAL, Alicia Bárcena, expressed that the Direct Foreign Investment (DFI) in Latin America and the Caribbean will drop by 35% to 45% this year compared to 2008 when it grew by 13%. With respect to direct investments made by Latin American companies abroad, in 2008, it reached the second highest level in history at US\$ 34.56 billion with the main investors being Brazil and Chile, followed by Venezuela, Colombia, Argentina, and Mexico.

**Germany, first quarter figures:** the second estimation of the GDP for the first quarter confirmed a drop of 3.8% compared to the previous quarter due to a significant drop in exports (-9.7%) and investment (-7.9%), which neutralized the positive growth of private consumption (+0.5%). But, all indicators point to the worst being over and second quarter figures begin to improve.

**Eurozone: industrial orders drop.** Industrial orders dropped by -0.8% in March compared to the previous month, for the eighth consecutive month. This brought the indicator to a level 26.9% below what it was the previous year. The rate it has been dropping has moderated, but it is still too soon to talk of a recovery or even of a stabilization of the sector.

**Visiting clients.** The Secretary of the Treasury of the United States, T. Geithner, is currently visiting China where he has promised the Chinese authorities that the Administration will lower the public debt as soon economic conditions permit to a sustainable level in the medium term which is understood as a deficit of 3% of GDP.

**Japan getting back on its feet.** Global trade flows are returning to normal levels after their total collapse during the fourth quarter of last year. Japanese exports increased by 1.9% compared to the previous month, the second consecutive month to increase. This just leaves exports down by 39.1% compared to last year, but current levels are 5.3% up over recent lows after having fallen by 45.8% between January 2008 and February 2009.

**Re-appreciation of long term rates.** The conditions for long term rate markets has changed dramatically in the last few weeks reflecting a significant jump in profits, especially the US-dollar curve. Public debt 10 year rates have increased by 169 basic points since the end of last year to the maximum levels reached during the middle of last week, and 38% of that increase has come in the last 10 days. This has put 30 year mortgage rates over 5% for the first time since the Federal Reserve announced in



March that it was buying public debt. This increases the probability that Federal Reserve will increase the scale of its asset purchasing program.

**Why is there a re-appreciation?** This re-appreciation (which in a way we have already been experiencing in the foreign currency markets) reflects the disappearance of the demand for public debt as secure assets in a context of adverse risk, the slight improvement in world markets signaling the beginning of the end of the crisis, and the market once again focusing on solvency and the need for the state to issue. Though the U.S. will probably lose its AAA in the short term, the market is much more aware of the massive deterioration (present and past) of public accounts.

**Forecast for growth in Mexico look grim.** A group of 31 analysts all agree that the Mexican economy will shrink by 5.8% this year, and inflation is expected to be at 4.4% in 2009.

**Deflation in Peru.** The Consumer Price Index in Peru dropped in May by 0.04 percent, less than expected for April. This will give the Central Bank more margin to work with and significantly cut its rates which is part of its monetary policy to fight against the domestic economic slowdown.

## Political Tips

**Venezuela in the eye of the hurricane.** The Peruvian intellectual Álvaro Vargas Llosa said in Caracas that “the future of freedoms in the continent is being dramatically jeopardized in Venezuela.” Consequently, he asked Venezuelan citizens who oppose to the government to maintain their “heroic struggle.” Vargas Llosa was in Caracas, along with his father, Mario Vargas Llosa, and other intellectuals from several countries, to take part in the discussion forum on topics like freedom, democracy, property, and fight against poverty, which was held a week ago. At his arrival to Venezuela, Álvaro Vargas Llosa was detained in the Maiquetía Airport for a few hours by the authorities, which warned him not to talk about domestic politics because he was a foreigner.

**...and also his father.** Like his son, the Peruvian writer Mario Vargas Llosa was also detained for 90 minutes by Venezuelan airport authorities. Vargas Llosa came to Venezuela to participate in a forum on freedom and private property. A few hours



before Vargas Llosa's arrival, the Venezuelan Minister of Culture, Héctor Soto, called Vargas Llosa "disrespectful former intellectual."

**Very bad.** Sectors that support the Government have described the forum sponsored by CEDICE as a conclave of the "Latin American far right," and the Venezuela's Socialist United Party (PSUV), led by Chávez, has pointed out that Vargas Llosa and other participants like Colombia's Plinio Apuleyo Mendoza "are here to provoke."

**No debate.** Venezuelan president, Hugo Chávez, and several liberal intellectuals, including the Peruvian writer Mario Vargas Llosa, were involved in an exchange of statements and replies to agree on a debate that did not take place in the end. Chávez' proposal to debate on politics "was never serious", pointed out Vargas Llosa, who dismissed the possibility of attending a special edition of the president's radio and TV show next Sunday. The first proposal came on Thursday when Chávez, who had already started the four-day special edition of his TV show, invited the intellectuals, who he describes as members of far right groups, to debate with figures who are akin to socialism and were gathered in the Venezuelan capital city to talk about culture and revolution.

**Law on Social Property provides for that workers' councils will take part in Social Production Companies (EPS).** Deputy Ulises Daal said that EPSs will work under an egalitarian scheme that will give a voice to workers' councils because they are mechanisms for EPS' workers to organize themselves and have a leading role in the companies' productive process and their management.

**The Labor Organic Law will cut working hours and eliminate contracted workers.** Deputy Orlando Castillo stated that cutting working hours to six/day and eliminating contracted workers are provided for in the amendment of the Labor Organic Law that is expected to be ready later this year.

**Law ruling community councils is being discussed.** Deputy of Sucre state Legislative Council, Mauricio Barroso, stated that from June 1<sup>st</sup> to 5<sup>th</sup> the municipal committees will be created to discuss the reforms to be made to the Organic Law on Community Councils. According to Barroso, discussions should be oriented toward the review of the number of families that must take part in community councils, in order to include rural areas and indigenous communities.

**Aló Presidente suspended for the second day in a row.** President Chávez suspended his radio and TV show "Aló Presidente" for the second day in a row last Sunday. With this decision the special four-day edition to celebrate the 10<sup>th</sup>



anniversary of his show was interrupted. The Ministry of Communication and Information released a statement explaining that the program had been suspended due to technical problems.

**CNE will prepare a polling centers database.** CNE will implement a Polling Center Management System in order to increase efficiency in terms of electoral physical infrastructure needs. The system will operate through an interconnected network from the different Electoral Regional Offices (ORE) to a national operation center. This center will channel, evaluate and validate on-line requests, made from all the country's regions, to create, reduce crowding, relocate and deactivate polling centers. This project envisages transferring polling center data from regional offices to the Polling Center Management System. A database of electoral spaces that could become new polling centers will also be developed.

**Evo Morales suspended his visit to Venezuela.** Bolivia's president, Evo Morales, did not travel to Venezuela last Sunday, from where he would travel with President Chávez to the inauguration of Mauricio Funes, new Salvadorian president.

**22,000 invasions in 10 years...**The Association of Urban Properties (APIUR) recorded 22,000 rural and urban invasions in Venezuela over last 10 years. All of them happened between 2001 and this year; reports and eviction orders are kept in the Attorney General's Office files, because procedures to recognize the properties' owners have not been executed.

**Law on Torture Prevention and Reparation.** Ombudsperson, Gabriela Ramírez, announced that a draft Law on Torture Prevention and Reparation is being prepared. Ramírez explained that the draft law is intended to investigate disappearances, tortures and murders committed in the '60s, '70s, and '80s in Venezuela.

**Commissioner is being requested.** The National Assembly will request the appointment of a "plenipotentiary presidential commissioner" for Táchira and Nueva Esparta states, announced Deputy Iris Varela, vice chairperson of the Domestic Policy Committee, allegedly because governors César Pérez Vivas and Morel Rodríguez are "sabotaging security and health" in their respective states. She added that they will request the intervention of local police forces throughout the country, through the Higher Security Council and the National Police Law enacted by President Hugo Chávez.

**Little motivation.** At the end of the penultimate day of the data update and registry of members of the Venezuela's Socialist United Party (PSUV), 2,100,000 movements



were counted. From this figure, 800 are new members whereas 1,300,000 old members ratified their commitment to the party, informed William Lara. As a consequence, 22.7% of the socialist party's roll has been reregistered, whereas the rest must do it this week. Lara described as "positive" the advance of the internal process. He did not announce any extension, but stated that the Party's National Board will evaluate the process and inform their opinions on Monday.

## *Other Tips*

**Confirmed third case of Influenza A (H1N1) in the country.** The president of the National Health Institute, Jesús Querales, confirmed the third case of Influenza A(H1N1) in Venezuela. Reportedly it is the mother of the first confirmed case, a 22-year old man, or the sister of the second confirmed case, a 20-year old woman.

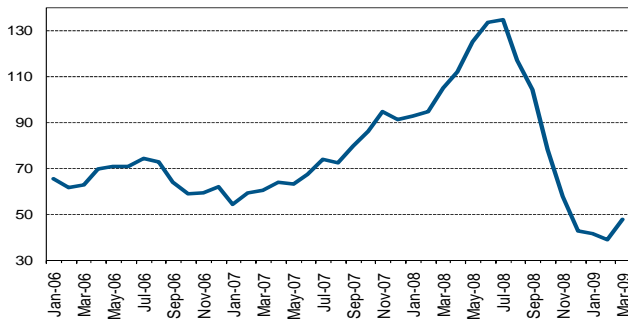
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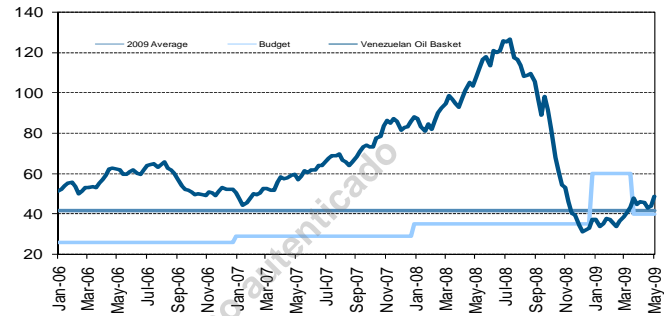


## ECONOMIC OVERVIEW

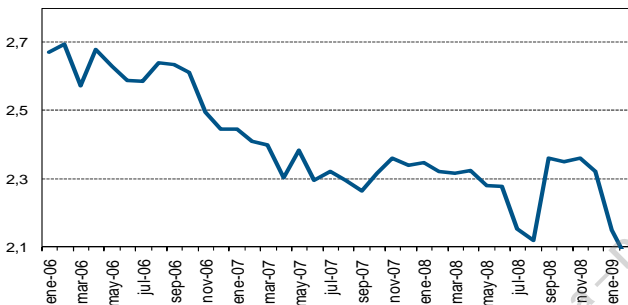
**Oil Prices (WTI US\$pb)**



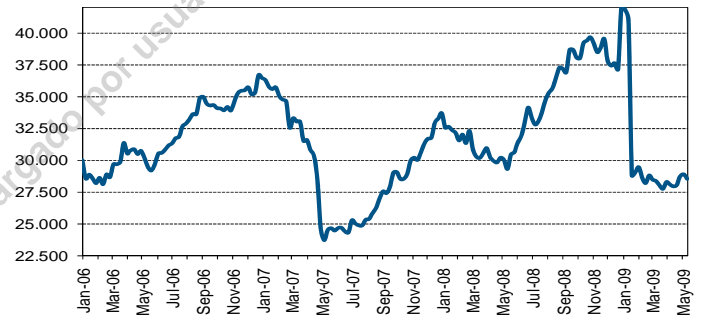
**Oil Price (Venezuelan Basket US\$/pb)**



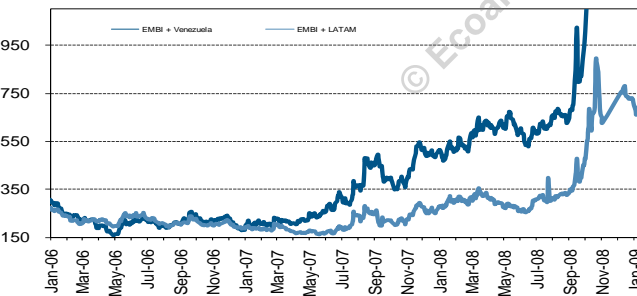
**Oil Production MMBD**



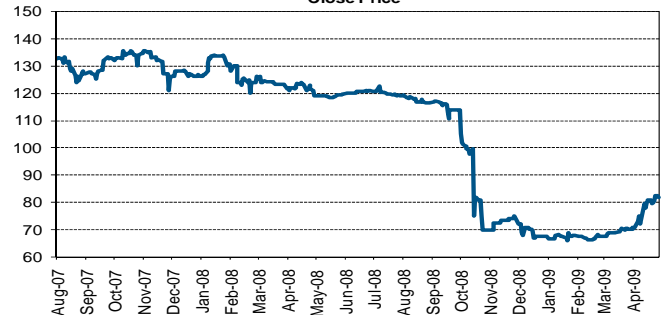
**Fx Reserves - BCV (US\$ Million)**



**EMBI +**



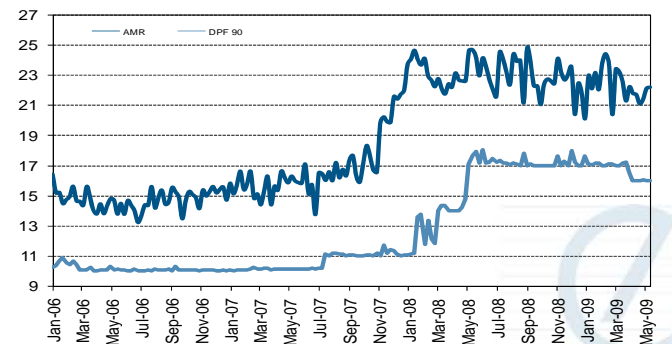
**Venezuelan Global 18 Close Price**



**Venezuelan Global 27 Close Price**

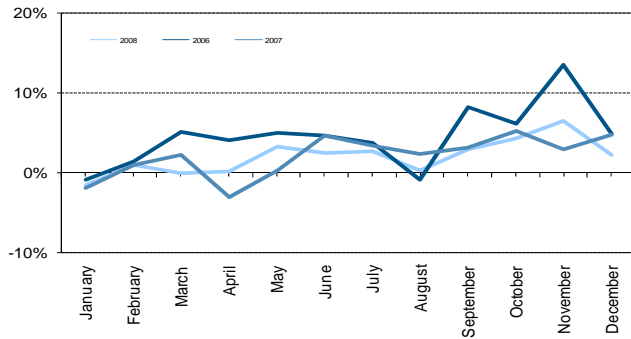


**Interest Rate (Six Principal Banks)**

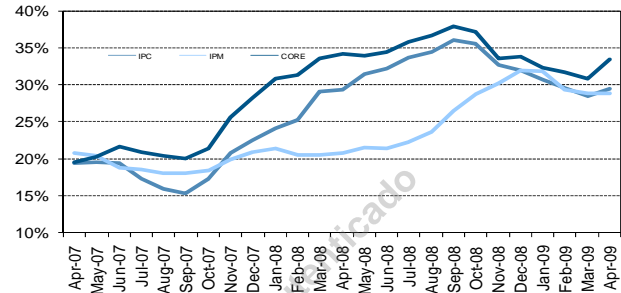




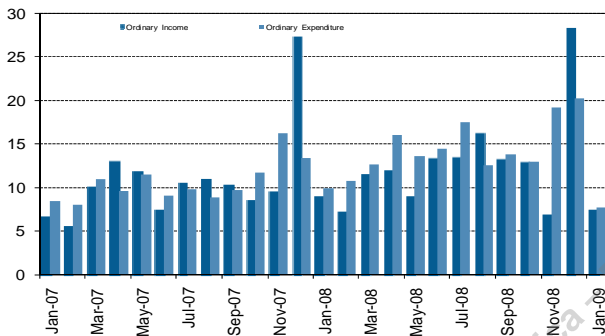
**Real Expansion (M2)**



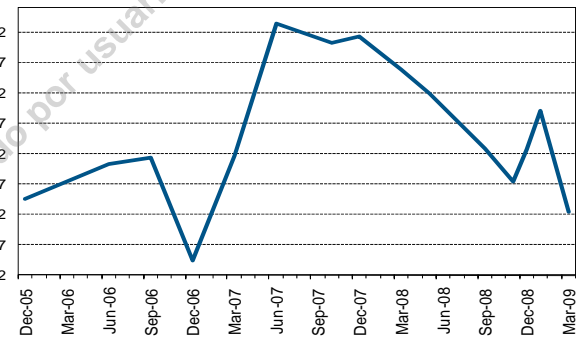
**Inflation (Last 12 Months)**



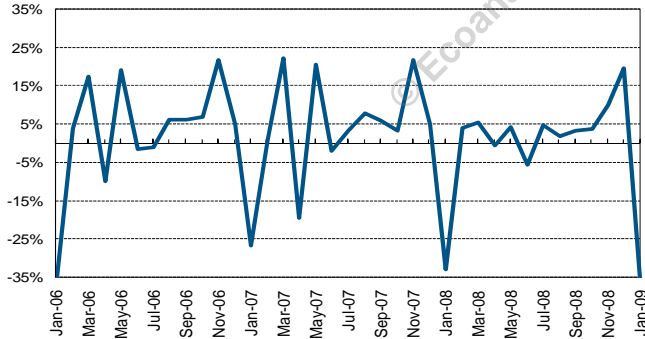
**Central Government (VEB Billion)**



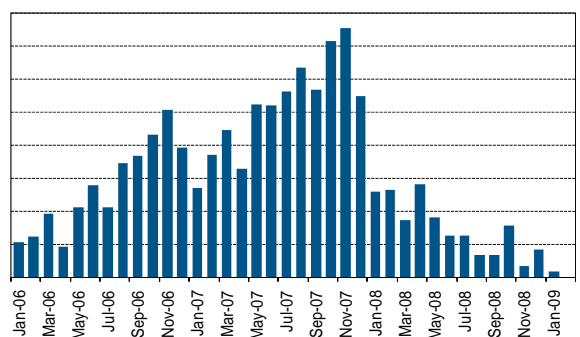
**Resources of the State (US \$ MM)**



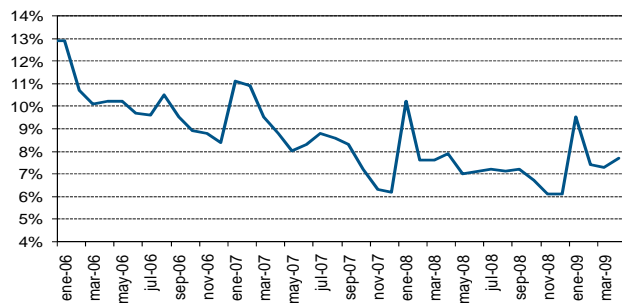
**Volume of Sales (% Variation)**



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



**Rate of unemployment (%Variation)**



**Disbursement (US\$ Million)**

