



Weekly Report

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VENEZUELAN ECONOMY: THIRD QUARTER 2009: CONTINUES IN THE RED

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Last week, the Central Bank of Venezuela (BCV) released its Economic Growth and Balance of Payments figures for the third quarter 2009. This Report will focus on the Economic Growth figures of the third quarter, and we will look at the Balance of Payments at third quarter and the PDVSA's financial results in the next issues.

Though there was very little doubt that the GDP would continue to shrink for the second consecutive quarter, what has surprised analysts is the magnitude of the shrinkage (-4.5% compared to the same quarter on the previous year). There are a number of factors that have contributed to this unexpected drop: less public spending which in turn had an equally limited impact on economic growth; the exchange rate appreciating; the adverse environment for doing business (nationalizations, threats, etc.); CADIVI continuing to be very restrictive; the drop in imports; and very significant, the drop in oil activity, among many other things.

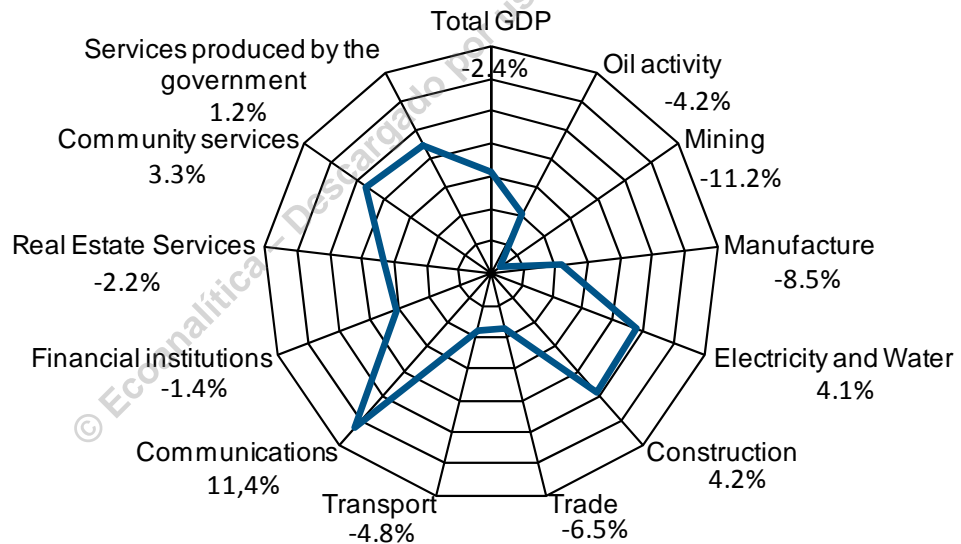


Expecting a drop, but not of this magnitude

We had already anticipated that the Venezuelan economy would shrink during the third quarter 2009. We knew the non-oil sector would perform poorly, and had even pointed out which individual sectors would suffer the most: manufacturing, commerce, financing institutions, and mining. Their poor performance, even though it was a bit more severe than expected, produced no surprises. And the sectors that continued to do well and did show some growth, was also not a surprise.

The big surprise came from the -9.5% drop reflected by the oil sector, this after a -3.8% drop registered in the second quarter 2009 and a -5.0% drop during the first quarter 2009 (both on the heels of OPEC production cutbacks).

Economic Growth III quarter 2009



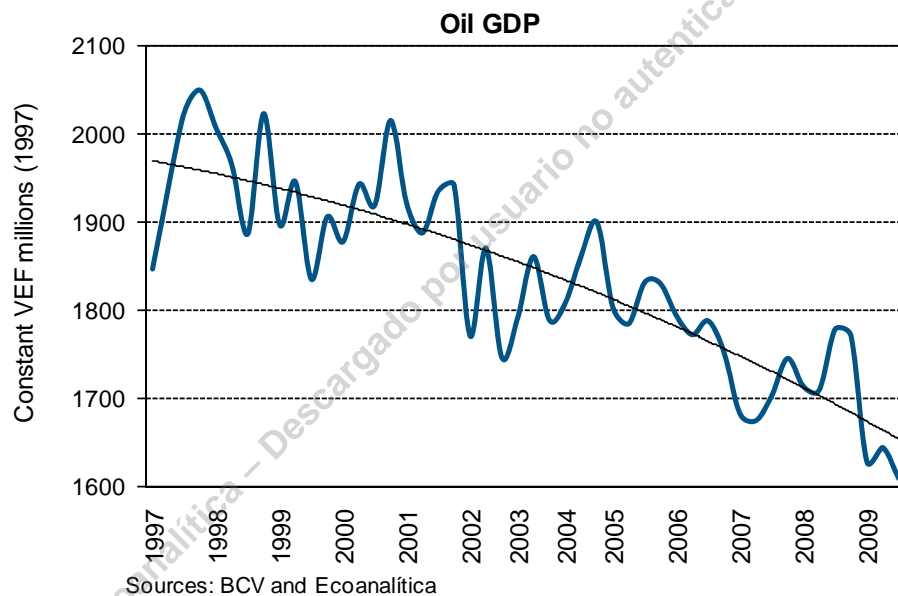
Sources: BCV and Ecoanalítica

Oil activity dropping for the last 11 years: A lost decade?

The oil sector's poor performance makes it necessary to review and analyze these figures carefully, as well as contrast them, in order to put them into perspective to better understand what has been happening recently, and what this will imply for the future. By observing the evolution of oil activity by quarters (at constant prices) you can clearly see that there is a decreasing tendency since 1998 and that the drop registered in the third quarter 2009, is the biggest on record since 1997 (excluding the second quarter 2002, the fourth quarter 2002 and the first quarter 2003, because these quarters suffered oil strikes and were plagued by significant levels of political turmoil). This conclusion, based on official figures, confirms what we have been saying for quite some time, that Venezuela is producing less



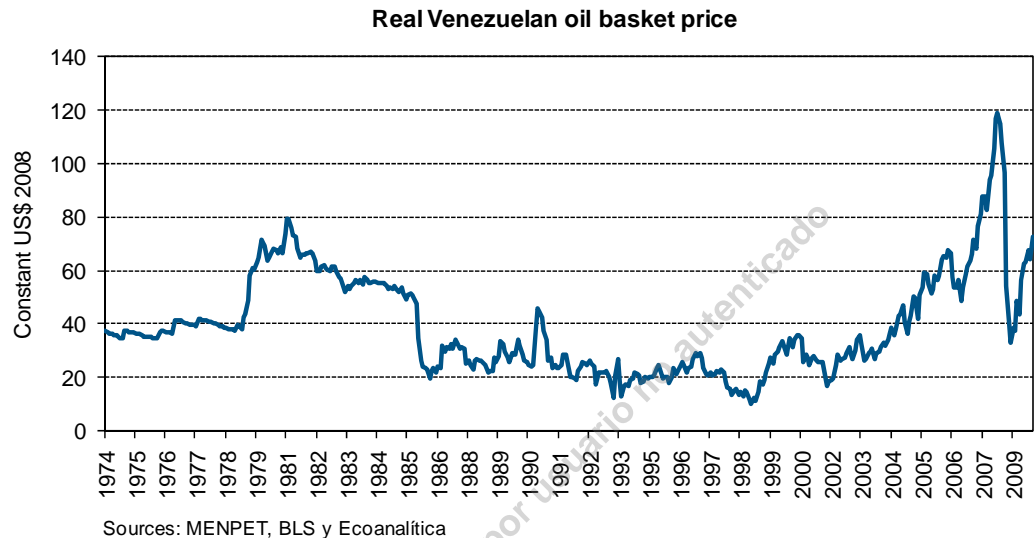
oil than it used to. At **Ecoanalítica**, we'd like to point out that so far this year, the amount of goods and services produced by the oil sector is 16.7% less than what was registered in 1998 (an average yearly drop of 1.7%). The 80's are considered a "lost decade" for Latin American countries, because during those years production went stagnant. If we were to compare then to now, we'd say that the years of this Administration have been a "lost decade" for the Venezuelan oil industry.



The "veil" created by oil prices

Venezuela is an oil producing country that year after year has been producing less goods and services from its oil production. It is also a country that year after year depends more and more on said declining oil production. And though this may seem like a paradox type situation it isn't, because the oil price boom between 2004 and 2008 has created a veil that has effectively hidden the reality of the country's falling oil production. These high prices have allowed the Administration to continue to receive increasing amounts of oil revenues (even after taking inflation into account and decreasing oil production), which has in turn allowed the Government to exponentially increase public spending to stimulate the non-oil sector. It has also allowed PDVSA to significantly increase the number of people it employees (in the oil sector, as well as other sectors it now controls such as food, among others), and it has allowed CADIVI to grant significant amounts of foreign currency. When oil prices finally dropped due to the worldwide financial and economic crisis, Venezuela's true vulnerabilities, due to ever decreasing oil production levels, became clearly visible.





**The -9.5% drop
in the oil sector:
What does it
really mean?**

It's important to know that when one talks of the level of oil activity, one is not only referring to the volume of oil production, but also to what is generated by oil investments and the industry's services. If we look at the figures released by different international oil entities such as the OPEC, IEA, or Bloomberg, Venezuelan oil production during the third quarter 2009 dropped by an average of 3.9% (IEA estimates by -5.9% and Bloomberg -5.9%, while OPEC estimates 0%) compared to the same period in 2008. The difference between -9.5% and -3.9%, tells us that it is very probable that the oil industry's investment levels are below what is expected and what is required to increase production capacities and to maintain current production levels. This has probably been motivated by cash flow caused by dropping oil prices. Venezuelan oil industry "maintenance investment" is ever increasing due to the natural drop in production of light crude oil wells and the increasing participation of heavy and extra-heavy crude oil production in the Venezuelan oil basket.

Other factors which could have been a part of the poor performance of the oil sector is the number of programmed and not-programmed operations tops in the country's main oil refineries (Cardón, El Palito, Amuay) which occurred this quarter, the nationalization of oil contracting companies, and the labor problems the industry has been having.

At **Ecoanalítica**, we believe that current oil production levels can be maintained, dropping only slightly. But, it is imperative that the industry begin to make the necessary level of investments, as soon as possible. If



the dropping oil production trend continues, the future looks very bleak (in terms of fiscal and foreign accounts).

Change of methodology?

After the third quarter 2009 economic growth figures were released, President Chávez stated that the Venezuelan free medical coverage is not taken into account with regard to economic production because money doesn't change hands, just as is the case with social services and state-run companies.

We would like to point out those private sector non-profit services and goods and services produced by the State are taken into account when calculating the GDP, with the first representing 6.2% and the second, 11.4% of the total GDP during the third quarter. Furthermore, both registered positive growth during the third quarter 2009 (+3.5% and +2.4% respectively).

According to the U.S. methodology: it's not two, but three quarters in the red now

President Chávez also announced that the GDP dropped during the third quarter and that by U.S. standards, this means that Venezuela has officially entered a recession. Despite the fact that the U.S. methodology is the same as the one used in Venezuela to calculate the GDP (in accordance to U.N. standards), the GDP growth figures presented by the U.S. Federal Reserve are not y/y rates such as those presented by the BCV, rather, the U.S. presents q/q% SAAR. According to U.S. standards, which President Chávez often refers to, Venezuela has not posted two consecutive quarters with negative growth, but three. So, the country has been in a recession since the second quarter 2009.

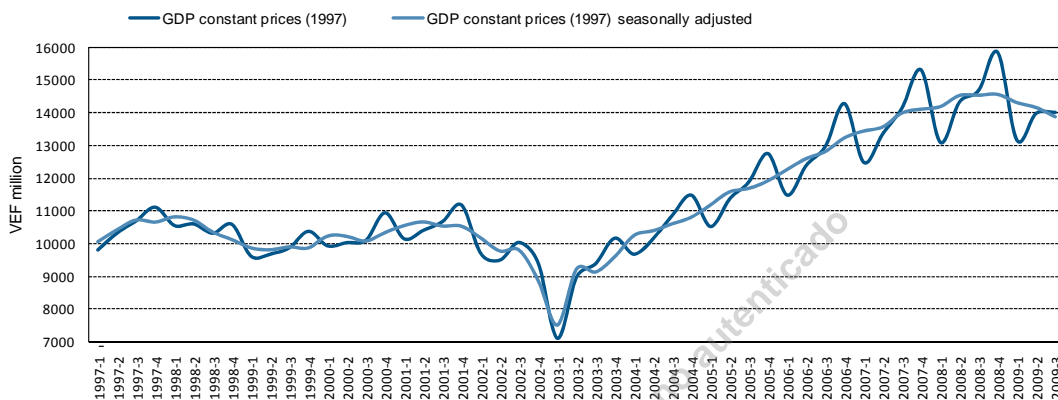
Technical considerations: y/y rates vs. q/q saar rates

The reason the BCV, and many other central banks around the world use y/y rates (dividing the value of a variable into the value of the same variable during the same period of the previous year) is because this eliminates seasonal influences over said variable. As you can see by the following table, if one compared GDP by quarters, the first quarter of the year would always reflect negative growth and the fourth quarter always positive growth no matter how good the first quarter may have been and how bad the fourth quarter was.





GDP and seasonally adjusted GDP



*Seasonal adjustment made with X12 method

GDP Growth rates

	2007-1	2007-2	2007-3	2007-4	2008-1	2008-2	2008-3	2008-4	2009-1	2009-2	2009-3
y/y	8.7%	7.8%	9.0%	7.2%	4.9%	7.2%	3.8%	3.5%	0.5%	-2.4%	-4.5%
q/q	-12.5%	7.0%	5.9%	8.2%	-14.4%	9.4%	2.5%	7.9%	-16.9%	6.2%	0.2%
q/q SAAR	6.4%	3.8%	13.2%	3.3%	2.2%	9.9%	0.2%	0.7%	-6.7%	-4.1%	-7.8%

Sources: BCV and Ecoanalítica

Y/Y rates helps eliminate seasonal effects, but it does not eliminated the so-called base effect or rebound effect, because when you compare one quarter to the same quarter of the previous year, the resulting rate not only depends on the performance of the current year, but on the production level of the previous year. One of the reasons the GDP shrank by 4.5% during the third quarter 2009 was that the Venezuelan 1997 GDP measured at constant prices reached its peak during the fourth quarter 2008, with the second highest level being reached during the third quarter 2008.

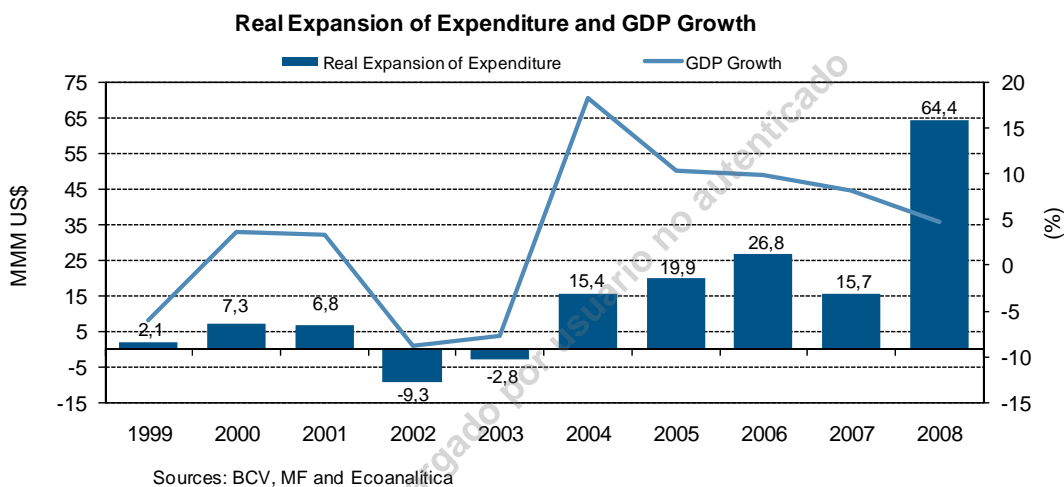
The challenge in 2010 = growth: Will spending be enough to produce growth?

In our Weekly Report titled: “Public Spending and Growth: Will it be enough?” released during the final part of August, we calculated the relationship between economic growth and, what we at **Ecoanalítica** call, Real Expansion of Spending (RES)¹. Among the results that stand out the most, in 2008, the RES was at US\$64.43 billion, in other words, Real Expansion of Spending last year was equal to more than four times expansion of spending in 2007, and more than thirty times more than the first year of Chávez’ Administration. It was even 2.4 times more than 2006, the year Chávez was reelected as President. Note that the impact from this expanded spending on the growth rate was less, since last year the growth rate was close to 5%, while in 2006, the growth rate was at almost 10%.

¹ RES shows the Restricted Public Sector as a whole, much like a “black box,” with incoming and out-going revenues, without looking at the processes and relationships between the different entities which make up the public sector. This is how the RES is made up by the expansion of public spending of the Restricted Public Sector, measured as the Y/Y differential of the financial deficit (in US\$) plus the sum of the Y/Y differential of global revenues (oil and non-oil) also in US\$ (millions).



Additionally to this, in 2006 generating every percentage point increase in the GDP cost the government US\$2,600 million in public spending, while in 2008 each percentage point of growth cost US\$13,500 million, which reflects the increasing inefficiency in public spending.



In net terms, fiscal expansion from 1999 up to 2008 is at US\$146.47 billion. If we look at this in terms of GDP estimated for 2008, we find that the same figure is equal to 46.7 points of GDP. These findings indicate that for the coming year the Government will have to something more than just increase public spending in order to stimulate the economy. Unfortunately, we are not optimistic that the necessary economic policies will be implemented in order to eliminate the distortions and imbalances that current policies have been creating and which have been accumulating during the last few years.





Economic Tips

Bonds are getting cold. The Minister of Energy and Petroleum and president of PDVSA, Rafael Ramírez, stated in an interview with the newspaper Últimas Noticias that the upcoming PDVSA bond issue has now been cancelled due to speculation which has taken place during previous issuances by certain sectors of the private banking system and brokerage houses. The Ministry announced that it is studying other mechanisms by which to allow companies to acquire the foreign currency they need to meet their obligations.

How will we measure the GDP? Given the third quarter 2009 growth rate figures recently released, the Administration has announced that the method used to measure growth must be reviewed. The Minister of Economy and Finance, Alí Rodríguez, pointed out that there is a problem which produces conflicting results when measuring a company by its aggregate value or by the jobs it generates. Furthermore, President Hugo Chávez stated that current mechanisms to measure the GDP obey capitalist logic and are not appropriate to be used in an economy in transition to socialism. One of the directors of the BCV, Armando León, stated that the Central Bank is looking into ways of measuring social and power generation matters (satellite accounts) and making other necessary adjustments in the way these calculations are made.

Government preparing plan to spark economic projects. The Ministers of Planning, Finance, and Economy are creating a five year economic plan aimed at accelerating delayed projects in critical areas such as food, energy, and housing, among others. The plan is tied to the Simón Bolívar National Project (2007-2013), but focused on economic activity. This project is expected to accelerate the carrying out of a number of projects during the next two years establishing 5 action axes: food, housing, infrastructure, electric power and gas, and financing.

Unemployment up to 8.1% in October. The unemployment rate closed the month of October at 8.1% which equals a total of 1,070,218 people looking for work during the month. Official INE figures show that during the last 12 months, 214,813 people became unemployed. During October last year, unemployment was at 6.7%, down by 140 base points compared to this year. The informal sector of the economy continues to increase, reaching 44.3% in October, up slightly from the 44.2% registered last year during the same period.

Extraordinary resources reach VEF 6.3 billion. According to information provided by the Ministry of the People's Power for Economy and Finance, PDVSA's tax



contribution upon the end of October reached approximately VEF 44.1 billion, so the Government has VEF 6.3 billion of additional income compared to the budgeted goal of VEF 37.8 billion.

Interest rates. Lending rates in the second week of November was 19.1%, for an increase of 50 base points from the first week of the same month. Time deposit and savings rates were at 15.0% and 12.6%, respectively, for a drop of 49 base points for the time deposit rate, while savings rate remained unchanged.

Internationals Reserves. The international reserves increase in a 1.0%, getting from US\$33.3 billion at the first week of November, to US\$33.6 millions at the second week of November. If we compare it to the results from the same period in 2008 the reserves have decrease 15.2%.

Liquidity. Monetary liquidity in the first week of November increased 1.1% as compared with the last week of October, when it was at VEF 223.90 billion. So far this year, monetary liquidity has increased 13.6%, and 27.3% with respect to the same period in 2008.

Oil Tips

PDVSA 1S09 results. The drop of crude oil prices made the income of six months US\$32.4 billion, reporting a 52% fall compared to the same period of last year, when the income was US\$67.6 billion. Costs and expenses in six months were US\$27.6 billion, while they reached US\$51.6 billion after the same period in 2008, showing a 46% drop. Earnings crashed down by 67% going from US\$9.5 billion in 2008 to US\$3.1 billion. Social development contributions (missions, especial programs and FONDEN) were US\$386 million, with a 79% contraction, and tax contribution also decreased by 52%. Royalty and tax payments reached US\$5.3 billion, compared to US\$11 billion in 2008.

What happened with the suppliers? During the first semester of 2009, PDVSA authorities announced they would pay what was owed to service-providing companies as long as they reduced their rates by 40%; a payment plan would be set out after said adjustment. Spokespersons in that period insisted they were taking care of part of the obligations, but the financial statements indicate the debts to suppliers increased only by 8%. By July 30, PDVSA's accounts payable were US\$8.1 billion, while in June of last year they reached US\$7.5 billion.



More and more debt. The decreased income and increased commitments (nationalizations) drove PDVSA to seek other sources of financing. First, the company went to FOGADE and Banderas to cover part of its obligations; they both acquired investment certificates for US\$1.5 billion. Then, due to their obligations, PDVSA issued equity bonds twice for a total of US\$6.26 billion. By the end of June, PDVSA debt reached approximately US\$16 billion. Now, if we consider the two bond issuances, the debt goes up to US\$22.26 billion.

PDVSA's contribution in 10 months. Segregating the contribution we have that, until October, PDVSA submitted VEF 30 billion in royalties, (the projection was VEF 17.2 billion); about these royalties, the numbers indicate that VEF 18.6 billion correspond to cash royalties and VEF 11.5 billion in kind (crude oil barrels), used to take care of the financing granted by China Development Bank; in income tax, the number is VEF 8.2 billion, which represents 64% of the VEF 12.9 billion goal; regarding dividends, upon the end of October, PDVSA disbursed VEF 3 billion, and the original projection was 4.3 billion.

What about the Treasury promissory notes? Regarding the promissory notes signed late last year (in order to take care of the industry's needs), by the National Treasury, for a value of US\$4.4 billion, PDVSA started paying in July and has paid US\$3.2 billion. According to PDVSA's plans, they would be paying about US\$800 million per month and official sources say they are only due one payment.

PDVSA acquired the Iron and Steel Company TAVSA. The Tenaris conglomerate, controlled by the Argentinean group Techint, announced last week that, according to the Venezuelan government's orders, PDVSA had exclusively taken over the operations of the iron and steel Company Tubos de Acero Venezuela (TAVSA). Tenaris said they are ready to start negotiations with the Venezuelan authorities in order to get fair and proper terms and conditions for the transfer of TAVSA to Venezuela.

PDVSA denounced in Anzoátegui. The Mayor's Office of the Freitas Municipality in the Anzoátegui State (after having sent 52 unanswered communications to the president's office, OAS, MENPET, etc), denounced PDVSA for refusing to inform the municipal treasury about the resources collected by them as a tax collecting agent to contractors. The total debt, including delayed payment interests and the fine for refusing to report, reaches VEF 123,666. For that reason, the Mayor's Office has had to stop 80% of the construction works planned in this year's budget and the payroll has been affected with a reduction of 70% of workers. 77% of the Freitas Municipality's budget depends on said resources.



FUTPV and PDVSA: To negotiate. According to a press release issued by the Ministry of Labor and Social Security, PDVSA and Federación Unitaria de Trabajadores Petroleros, Gas, Similares y Derivados de Venezuela (Venezuelan Unitary Federation of Oil, Natural Gas, Similar and Derived Resources' Workers) (FUTPV) installed last Thursday the negotiation table for the oil industry's collective labor agreement. Wills Rangel, president of FUTPV said the first meeting would take place on Tuesday, November 24, at 9 am at PDVSA's office in La Tahona.

Changes in PDVSA. The president of PDVSA, Rafael Ramirez, announced some changes in the company's administration. Anything related to health was separated from the Human Resources department and the Health Executive Office was created in order to apply a special plan to be approved by the directors and thus improve the attention. He also announced the creation of socialist management committees, to be in charge of social work in production units, of volunteer work, sociopolitical formation and all aspects related to the workers' culture and quality of life.

CADAFE pays PDVSA with energy. CADAFE, which by June 30 of 2009 and December 31 of 2008 owes PDVSA for light diesel supply and financial support to execute their investment plan, will compensate its debt by supplying energy to them. PDVSA compensated debts to CADAFE for US\$17 million by June 30 of 2009 and in December of 2008 PDVSA executed a similar operation for US\$24 million.

Oil boosted the construction sector. According to information provided by the Venezuelan Central Bank, the growth of the construction sector during the third quarter of 2009 was partially due to oil-related constructions, which increased by 18.2%, although the oil activity had a contraction due to the smaller production volumes and the inoperative refineries. Construction increased thanks to the works being carried out in the Puerto La Cruz and Paraguana refineries, as well as to the changes being done at El Palito, and the installation of PDVALs and PDV Industrial warehouses.

International oil baskets. At the New York market's closing time, last Thursday, November 26, the WTI was at US\$76.99./bl showing a decrease 0.8% compared to the US\$77.7/bl of the previous Thursday. The Brent decrease as well, but in a bigger proportion, by 2.3%, to reach US\$76.2/bl, compared to US\$78.0/bl of Thursday, November 19.

Local oil basket price. The Venezuelan oil basket price went slightly up by US\$0.05 last week, to close on Friday, November 20 at US\$72.75/bl, compared to US\$72.70/bl the previous week. Meanwhile, the oil basket's annual average reached US\$55.3/bl, 38.3% over the budgeted value.



Business Sector Tips

Being audited. At the end of last week, four banks were declared under audit by SUDEBAN, specifically Banpro, Bolivar Banco, Banco Canarias and Banco Confederado, all owned by the entrepreneur Ricardo Fernandez Barruecos. The reasons, a series of administrative measures were imposed by SUDEBAN in September 2008, and were not met by these banks. Among said measures was an adjustment to the portfolio provision. However, the main reason was its mayor shareholder's inability to demonstrate the origin of the resources used to purchase the group of banks, prompting an investigation of the entrepreneur, who ended up turning himself in to the DISIP. President Chavez said on Saturday that *"all private banks that break the national laws will be audited"* and indicated these banks were not complying with the law so he ordered the audit himself. He closed by saying *"some rich people start buying bank after bank after bank, and then we call them and they're not able to prove where the money came from."* The banks are being audited with open doors, so they are still able to receive clients.

Among the irregularities. SUDEBAN detected several irregularities in the Banks being audited, Bolivar, Confederado and Banpro, amongst which is the granting of loans, through overdrafts, to Ricardo Fernandez Barrueco's companies. Among these transactions is registered one carried out on June 26, 2009, where Bolivar Banco loaned VEF 398.4 million to Ricardo Fernandez. Moreover, SUDEBAN had forbidden all investments by these banks, because they did not meet the minimum delayed-payment loan provision (8% of all assets), so they had liquidity differences and still violated the resolution by acquiring a participation equivalent to VEF 1.2 billion in the company Inverfactoring and VEF 613 million in Activos Corporativos AG through structured notes, both companies linked to Ricardo Fernandez.

Fined due to incomppliance with the agricultural loans portfolio. Three banks were fined by the Superintendence of Banks and Other Financial Institutions (SUDEBAN), as a measure due to their failure to comply with the minimum mandatory percent of loans portfolio for the agricultural sector. The banks penalized were Banco federal, with a fine of VEF 2,37 billion, Helm Bank S.A. Banco Comercial Regional with VEF 80,756.09 and Ban Plus Banco Comercial with VEF 448,450.04. The fines must be paid within 15 working days after receiving notice by the National Treasury Office.

Subside to State industries. After the worldwide fall of commodity prices, Venezuelan State companies had to be subsidized because they had no resources to pay their worker's annual profit share, said President Chavez. According to President



Chavez, the sales of State-owned companies have dropped and the prices are much lower too, so they do not have enough income and need to be assisted. Among these companies is Siderurgica del Orinoco (SIDOR), which produced 2.2 million tons of liquid steel during the first three quarters of 2009, representing a 17% decrease compared to 2008.

Possible adjustment to electric power rates. A proposal to redistribute the electric service prepared by the Ministry of Energy and Oil was submitted. In the proposal, nearly 839,245 users, 17% of the total electric service subscribers, would receive an adjustment of between 4% and 41% in their monthly bills. The government acknowledges the losses are equivalent to 31.3% of the electric generation and are estimating, with this rate changes, that the company will have an additional income of approximately VEF 949 million. However, a total 0.75% impact to the inflation rate is also expected. The proposal talks about the creation of an audit system to help identify inefficient energy users.

Investment has stopped. The president of the Venezuelan Real Estate Chamber, Aquiles Martini, indicates the private investment in the Construction sector has been decreasing, which has contributed to the contraction of this market since June, when the Government implemented the measure that forbids home price adjustments due to inflation. Information held by this institution show that out of 135,000 home units to be built in 2009, only about 50,000 will be completed. The sector's activity increased between April and June, but the private contribution dropped by 1.7%. Situations such as those generated by the effect of the Law of Urban Lands, discouraging investments due to fear of the lands being declared "unused" or expropriated, losing the money invested, will cause private investments in the construction sector to drop even more in 2010.

Food production keeps falling. National food production had a 7.3% y/y fall on the third quarter of 2009, after a 6.3% y/y contraction during the second quarter. According to Carlos Larrazabal, president of Conindustria, among the reasons that explain this contraction are the restriction to obtain foreign currency to import raw materials (60% of transforming companies have stopped importing supplies and raw materials), the juridical uncertainty and the labor conflicts. Additionally, the BCV reported a final drop in consumption by 4.8% for the third quarter. Consecomericio said supermarket and grocery-store sales decreased by 16%.

Telecommunications income increased. The Venezuelan telecommunications sector's income increased by VEF 1.1 billion in the third quarter of 2009 with respect to the same period, with total sales of VEF 7.04 billion in the third quarter. The reason for



this growth is the increase in mobile phone service, Internet and subscription TV consumption, since all other branches had a negative impact. Movistar is the telephone company with the largest investment, US\$300 million, according to CONATEL, while the industry's investments between July and September were of US\$650 million. Finally, CANTV's net profit increased by 34.6% in nominal terms compared to 2008, reaching US\$736 million.

World Crisis Tips

USA didn't really grow that much. The first official economic growth estimate for the third quarter released by the Bureau of Economic Analysis (BEA) showed a q/q seasonally adjusted annual rate (saar) of 3.5%, but the BEA reviewed the number this week to release a more conservative 2.8%, mainly because the imports were originally underestimated and personal consumption expenditures, residential fixed investments and exports were overestimated.

National economic activity with a slight decrease. The Chicago FED's National Activity Index deteriorated for the third consecutive month: during October, the index was at -1.08 points, after having been at -1.01, -0.63 and -0.37 in September, August and July respectively. The CFNAI is an average of 85 indicators of economic activity and a score below -0.7 historically indicates a GDP contraction, a zero value indicates that the economy is expanding at its historical trend rate of growth (3%), and a value over 0.7 indicates a growth beyond sustainable without a relatively high inflation. In the last ten years, the correlation between this indicator and the GDP growth has been 80%.

Another leading indicator remains optimistic. The Conference Board's Index of Leading Economic Indicators kept growing in October, though at a slower pace than in September (0.3% vs. 1%).

The Real Estate market keeps improving. October home sales rose to 6,100 units, which represents a 10.1% (Seasonally Adjusted Annual Rate, SAAR) increase in sales compared to the previous month and much higher than the market's expectations (5,700 units). The real estate market's recovery in the last few months has been boosted by the recently extended tax credit for first-time home buyers, which can be of up to US\$8,000 per family. The accessible home prices have also played an important role. The median price of existing homes fell for the fourth consecutive month, to US\$173,100 (7.1% less than October 2008).



US Inflation stays low. During October, the US Consumer Price Index grew by 0.3% compared to the previous month. One of the goods with the highest increase was fuel (1.5%), especially fuel-oil with a price increase by 6.3% in October. Another significant factor was the 3.4% increase in the price of used vehicles and 1.6% in first hand vehicles. In y/y terms, the index is still 0.2% lower than in October 2008.

Unemployment will remain high. Analysts of the Chicago FED are expecting unemployment to peak at 10.5% next spring, and then to reduce to 9.5% by end-2010. A survey of 48 members of the National Association for Business Economists (NABE) believes unemployment will remain around 10% during the last quarter of 2009 and the first quarter of 2010, before dropping to 9.6% by the end of 2010.

Euro zone private sector activity accelerates. The preliminary composite Purchasing Managers Index rose to 53.7 points from a reading of 53.0 in October (better than the market's expectations of 53.4), marking the highest reading in the last 24 months and the fourth consecutive month of improvement. The services and Manufacturing PMIs also showed consistent improvements, with the first setting a two-year-high, rising from 52.6 in October to 53.2 so far in November, while the second went from 53.9 to 54.6 in the same period, marking a peak in the last 26 months. Values over 50 in these indexes indicate growth in the sector.

Japan officially goes back to deflation. The Japanese Minister of Finance officially admitted the economy was back in deflation (the Core CPI decreased by 2.3% between September 2008 and September 2009). Deflation can be as destructive as inflation, but in a different way, for, in a deflationary economy, consumers have great incentives to postpone consumption (they will be able to buy cheaper in the future) but this affects producers who need to reduce their profit margins and end up laying people off if the deflation remains for too long. The bank of Japan (BoJ) believes that in the current financial year (which ends in March) the Core CPI (excluding fresh food) will decrease by 1.5%, then by 0.8% in the 2010 financial year and by 0.4% in 2011. The BoJ also predicted a GDP contraction by 3.2% in the 2009/2010 fiscal year and a 1.2% growth in the 2010/2011 year. The Bank of Japan decided this week to maintain the reference interest rate at 0.1%.





Political Tips

Venezuelan military blow up border bridges. Venezuelan military destroyed two bridges in the Venezuelan-Colombian border last week, specifically two pedestrian hanging bridges over the Tachira River. The Colombian government marked this fact as a “violation to international laws” and an “aggression towards civilians”, and declared they would be denouncing Venezuela before the UN Security Council and the Organization of American States (OAS). The Vice President of Venezuela, Ramon Carrizales said those bridges were illegal and were “improvised footbridges” used by drug dealers, and that Colombia’s complaints were “unfounded.” He also said Colombia manipulates the truth.

Venezuela asked the EU to urge Colombia and the United States to break their pact. The Venezuelan government asked the European Union (UE) to urge the United States and Colombia to break the pact for the installation of American military bases in Colombia.

Financial support to missions decreased by 34.7% during the first semester. According to PDVSA’s Operational and Financial Report by June, 2009, upon the end of the first semester of 2009, PDVSA delivered resources for US\$282 million (VEF 606.3 million), which represents a 34.7% drop compared to the same period of 2008. The programs Mercal, Barrio Adentro I, II and III and Vuelvan Caras did not receive PDVSA’s financial support during the first semester, Mision Revolucion Energetica (Mission: Energetic Revolution) reported a 59% y/y drop in PDVSA’s financial support, the contribution to Mision Milagro (Mission: Miracle) decreased by 50% and the contribution to Mission: Habitat dropped by 31%. Mission Arbol (Mission: Tree) received US\$2 million, while there were no contributions in the first semester of 2008, and PDVSA’s financial support to Mission Ribas increased by 23% in a y/y basis.

43 Rector Candidates approved. The Candidacy Committee admitted 43 candidates out of 60 applying to hold one of the 2 vacant positions as rectors of the National Electoral Council. A total of 32 of these people are presented by the faculties of Political Juridical Science of national universities and 11 by the Citizens’ Power Branch. Two thirds of the National Assembly have three sessions to decide about the new electoral authorities, according to the law.

Mahmud Ahmadineyad visits Venezuela. The Iranian president, Mahmud Ahmadineyad visited Venezuela this week in order to strengthen relations between both countries. This visit was part of a tour around South America that took him to



Brazil, and will continue with a trip to Bolivia. The Venezuelan Confederation of Israeli Associations (CAIV) expressed its disagreement with the Iranian president's new visit to Venezuela, and said the Iranian nuclear program shows significant signs of war preparation the world can not accept.

Venezuela is amongst the least innovative economies. According to the European School of Business' 2009-2010 Innovation for development report, Venezuela holds the 102nd place out of 131 countries sampled. Among Latin American countries, Venezuela only outdoes Haiti. The most innovative Latin American Country is Chile (29th place). The aspects evaluated by this index are the institutional framework, human capital resources, social inclusion, legal aspect, innovative infrastructure, investigation and development, the use of information and communication technologies.

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