



# Weekly Report

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## *WHAT WILL 2010 BRING?*

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Our last weekly publication of the year offers a brief overview of what we expect in terms of key economic variables next year, bearing in mind three new developments in recent weeks: 1) the energy crisis; 2) the situation in the financial and insurance system; and 3) institutional changes and changes in the power elites as a result of the irregularities that have emerged following the intervention of eight banks.

### **The numbers for the third quarter**

The decline in economic activity in the third quarter of the year took the market by surprise. The contraction of 4.5% from a year ago was way above market expectations (2.6%). This indicates that the decline in the economy in 2009 could be nearly 2% compared to 2008, which would bring the result for the fourth quarter to -1.4% compared to the same quarter in 2008.

### **The international context**

The consensus among international analysts highlight a number of relevant factors for 2010: 1) the world recession has come to an end and China is leading the recovery –in fact, the latest published figures confirm this; 2) a cyclical rebound is starting in the United States and a moderate recovery is



expected for 2010; 3) it is expected that, with the end of the asset purchasing programs, the rates on US government bonds will go up and the dollar will appreciate in value; 4) it is expected that oil prices will reach the US\$80 per barrel mark next year and go above US\$100 per barrel in the medium term; and 5) emerging markets, including Latin America, have passed the test.

Of note in recent weeks are the concerns of investors over certain European Union countries, headed by Greece, but also including Spain and Portugal. The European recovery could take a bit longer.

#### Economic growth outlook 2010 (y/y%)

World	3.1
Advanced economies	1.3
Euro area	0.3
Major advanced economies (G7)	1.3
Newly industrialized Asian economies	3.6
European Union	0.5
Emerging and developing economies	5.1
Africa	4.0
Central and eastern Europe	1.8
Developing Asia	7.3
Middle East	4.2
Western Hemisphere	2.9

Sources: IMF and Ecoanalítica

#### Will we grow in 2010?

Two elements will be significant for the results of the economy in 2010: a slight recovery in oil prices and the holding of parliamentary elections next September. In this context, the Executive will implement the the only economic policy applied thus far: injecting public spending to try to shore up economic activity. But the Venezuelan economy is starting to face more profound structural problems that are going to require more than public spending to revive it.

The question frequently asked these days is: Will we grow next year? **Ecoanalítica** is of the opinion that, in 2010, the Venezuelan economy will grow at an estimated 1.4% compared to 2009. It should be pointed out that market consensus puts growth at 0.6%, although the outlook is becoming more optimistic, as three months ago it was at 0.2%. The most pessimistic



forecast puts the decline in economic activity in 2010 at 3.4% (y/y) and the most optimistic predicts growth of 2.5% year-on-year.

As for the components of GDP, we put special emphasis on an increase in private consumption of 1.6% compared to 2009. The market, on average, puts it at 1%. On the investment front, the outlook is not very positive, as the market expects a drop of 2.2% compared to 2009. We, however, expect limited growth of 1%, which is merely a statistical rebound, given our forecast of a 6% drop this year compared to 2008. In this case, the market expects a drop of 3.2% (y/y).

#### Prospects for growth (y/y%)

	2009F	2010F
Real GDP	-2.0	1.4
Oil Sector	-7.5	2.5
Non Oil Sector	-2.0	1.4
Consumption	-2.4	1.7
Public Consumption	1.9	2.2
Private Consumption	-4.1	1.6
Investment	-6.0	1.0
Exports	-11.6	2.5
Imports	-13.1	2.2

Source: Econalítica

#### A problem without solution in the medium term

Accumulated domestic inflation up until November was 23%. So, this year, inflation will close at below our estimate of 27.5% and the 28.1% expected by the market. Moreover, it will be less than the 30.9% posted at the close of 2008. This, of course, is in the context of an economy that is in the middle of a recession. Will this trend be repeated in 2010? At **Ecoanalítica** we are pessimistic.

For 2010, we expect an upsurge in domestic inflation to 34.6%. The market's average is 31.4%. The most optimistic analyst expects domestic inflation to reach 25.7% in 2010 and the most pessimistic 35.6%. We admit that our estimate is high, but it can be explained by a number of factors: The main factor to be considered is adjustments in the foreign exchange market. Even though the subsidized exchange rate will be maintained (with or without devaluation) for food and medicines, the swap market will be financing at least 40% of imports. With the latest developments in the



financial system, there is no clear strategy for the swap market, as a result of which there will be upward pressure on the swap rate.

At the same time, the prices of food items supplied by MERCAL and PDVAL have been gradually increased and, on top of that, the substitution of products from Argentina or other allied countries for products imported from Colombia could mean additional costs. Another element that needs to be factored in, is the transfer of control of the companies belonging to one of MERCAL's main contractors (Ricardo Fernández) to the Executive, which will affect their efficiency and have a negative impact on food distribution by the networks in the different regions.

Lastly, the Executive will continue to increase spending as it receives more oil revenues, and, given the multiplier effect of public spending on the remaining demand components and a rigid situation in the production of goods, this will have an impact on prices. This theory is borne out by the recent amendment to the Central Bank Law, which, in essence, establishes mechanisms for financing the fiscal deficit and a relaxation of the monetary policies due to momentary problems in the financial system.

### **A year of social conflict**

Venezuela is suffering from stagflation. An economy that will barely grow just over 1% next year with inflation of around 30% confirms this. This will have serious consequences for people's purchasing power. Our estimate for the drop in purchasing power in 2009 is -5.9%, and this will get worse in 2010, when it will go to -8.9%. The market expects drops of 4.9% and 4.7% for 2009 and 2010, respectively. This is worrying, particularly for the private sector, as increasing wages and salaries in line with inflation in the midst of a slowing down of the economy is practically impossible. Next year will be marked by labor disputes and bigger demands by workers in both the public and private sectors, something that has already started this year.

### **How much will we import?**

In 2010, with the Venezuelan basket expected to average US\$71/bl, import levels will be similar to this year's (the government has already announced that CADIVI's dollar budget for 2010 will be 40% less than the amount paid out this year) and the balance of payments will have a comfortable surplus, although it will not go back to pre-2009 levels.





We estimate that imports will come to US\$ 42.5 billion. Analysts put them at US\$ 44.9 billion, on average. Our estimates are based on a maximum of 40%<sup>1</sup> and a minimum of 29%<sup>2</sup> being financed with the unofficial dollar.

**And the swap dollar?**

**Ecoanalítica** has extended the projections of our indicators to shed some light on what is shaping up as a hazy foreign exchange outlook, now even more so with the added uncertainty generated by the recent instability in the domestic financial system. Our conclusion is that there are elements that are clearly putting upward pressure on the swap exchange rate and that current levels offer a purchase opportunity.

**The real exchange rate**

Using the consensus of market expectations (an average of the estimates by the world's main consultants) with regard to inflation and the exchange rate in Brazil and Colombia and inflation in the United States together with our inflation estimates for Venezuela, we have projected the value of the implicit exchange rate in our Real Exchange Rate Index for the whole of 2010. According to our calculations, the RER will close the first quarter of 2010 at VEF 5.8/US\$, increasing to VEF 6.2/\$ at the close of the first semester and to VEF 6.7/US\$ at the end of the third quarter, to close the year at VEF 7.2/US\$.

**The M2/international**

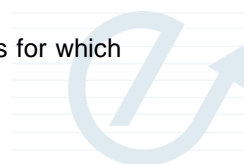
**Ecoanalítica** uses this indicator as the ceiling that the swap exchange rate could reach in the event that the foreign exchange strategy proposed by the Executive fails or is not implemented.

**Ecoanalítica** estimates that these contributions to FONDEN are in the order of US\$6 billion a year. Of course, there is the risk of the international reserves being reduced to US\$22 billion to please the President. If that were to happen, the transfers would be larger and, consequently, the implicit foreign exchange rate based on the ratio of money supply to reserves would be higher as well. Another scenario is that they abide by the provisions of FONDEN's 2010 budget, which includes transfers from the Central Bank of some US\$6 billion.

According to our estimates for liquidity growth and international reserve levels, the M2/international reserves ratio will be VEF 8,4 /US\$ after the first transfer of US\$5 billion to FONDEN; it will then go up to VEF 10.8/US\$ with the second transfer, and finally close 2010 at VEF 12,2 /US\$, owing to the

<sup>1</sup> This estimate is for the case where the official foreign exchange budget of US\$ 30 billion is for all activities for which CADIVI grants preferential dollars, which are not only imports.

<sup>2</sup> In this case, the US\$ 30 billion would be only for imports via CADIVI, including the ALADI agreement.

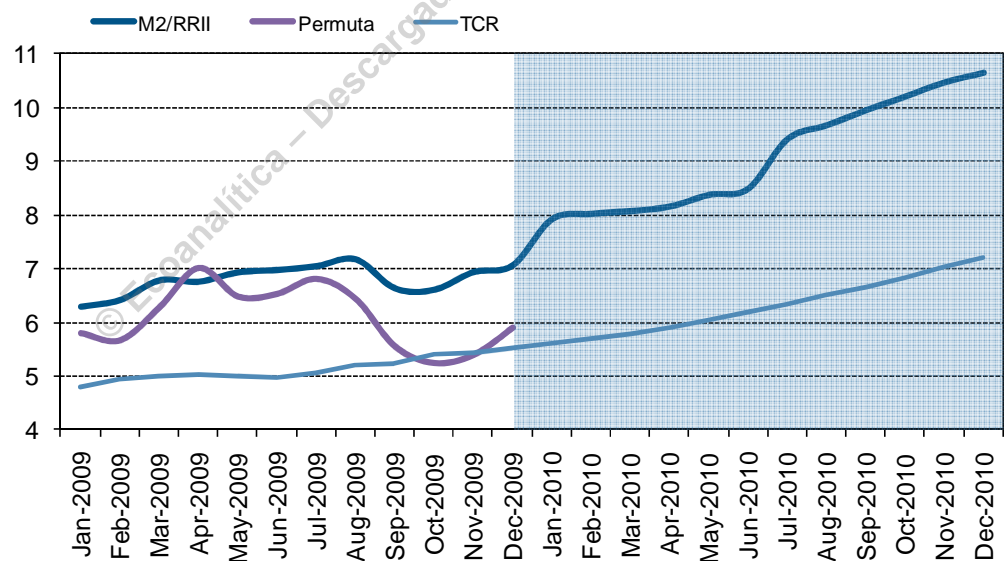




sharp increase in money supply usual in the last quarter of the year. In the event that the transfers were of US\$3 billion each, the numbers would be as follows: 7.9 after the first transfer to FONDEN, 9.4 after the second transfer expected on July and 10.6 at the end of the year.

It is important to note that, while we hope that the swap exchange rate will not reach these levels in 2010, it is a scenario that should not be discarded completely, given that the plan proposed by Merentes has been practically rejected out of hand by foreign exchange operators in the financial system. Our estimates have always noted the following: when the government intervenes in the market, the correlation between the swap market exchange rate and the RER is higher. Whereas, when the government does not intervene, or does so only slightly, correlation between the swap rate and the implicit M2/international reserve ratio tends to be better.

### Swap market range (VEF/US\$)



Sources: BCV and Ecoanalítica

### 2010: Growing way below our potential

According to our calculations, while the Venezuelan economy is going to enjoy a slight recovery in 2010, it is unlikely that it will experience high rates of growth again. As long as the Executive is unwilling to work together with the private sector, our growth rates will remain below their potential and the results, as far as the population in general is concerned, will be poor. If the



idea is to have the State as the lead player, our economy is not going to produce better results.

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## Economic Tips

**FONDEN to receive VEF 18.8 billion in 2010.** The Ministry of Economy and Finance published FONDEN'S budget in the Official Gazette N° 39,325 on December 10, indicating they will be receiving VEF 18.8 billion from the BCV and PDVSA. The document states the BCV will be providing VEF 12.9 billion. PDVSA will give FONDEN VEF 5.9 billion.

**What about expenditures?** FONDEN'S budget indicates all expenses and resources allocated to real and productive investment projects will be approximately VEF 34.3 billion.

**Labor market in continuing deterioration.** According to information from the INE, the unemployment rate for November stood at 7.5%, which means that the unemployment rate rose 140 basis points compared to the same month last year.

**ECLAC is pessimistic about Venezuela.** According to the Preliminary Balance for Latin America and the Caribbean recently released by ECLAC, Venezuela's economy contracted by 2.3% in 2009 as a result of the downfall of international crude oil prices. The multilateral organization states the sectors that contracted the most were the oil, manufacture and commercial sectors. However, ECLAC predicts a 2.0% GDP growth for 2010.

**Food basket price increased by 5.7% between October and November.** The cost of the basic food basket went up to VEF 1,883 during November, representing a 5.7% increase compared to October, according to the Workers' Documentation and Analysis Center (CENDA). CENDA'S calculations indicate the minimum wage allows workers to buy only 50.9% of the basic food basket, and an additional VEF 923.99 are needed to obtain the whole basket.

**Interest rates.** The loans interest rate for the first week of December was 19.0%, representing an increase by 48 basis points compared to the last week of November. On the other hand, fixed-term deposit and regular deposit rates were at 17.8% and 12.6%, respectively, representing an increase by 268 basis points for the fixed-term deposits' rate, and no variation for the deposits rate.

**International reserves.** The international reserves grew by 2.2% going from US\$34.3 billion during the first week of December to US\$35 billion during the second week.



Compared to the same period of last year, the international reserves have contracted by 8.3%.

**Monetary liquidity.** The monetary liquidity for the first week of December reported 1.0% increase compared to the last week of the previous month, reaching VEF 234.8 billion. Liquidity has increased by 20.9% so far this year, and by 27.3% compared to the same period of last year.

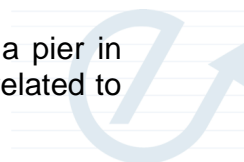
## Oil Tips

**Oil production at 2.90 million b/d.** In November the extraction of oil in Venezuela, was lower than in October, said Inspectorate, a British firm that was hired by the Venezuelan Government at the beginning of the year to certificate oil exports and production. Juan Carlos Boue, advisor to the ministry of energy and oil, in a document published by Middle East Economic Survey, said that the Venezuelan oil exportations were 2.37 million b/d, supported by Inspectorate. With this amount and adding the 508,792, of domestic consumption, the total oil production of November is 2.907 million b/d, while in October was 2,963 million b/d.

**Orinoco Oil Belt bidding process: Oil companies have spoken.** After PDVSA submitted the scheme to create mixed companies to large international oil companies, in a context of high production costs for the world's oil industry, these companies were expecting a better approach and more flexibility in the model. They are demanding, among other things, the exemption of the general consumption tax and for all decisions to be taken under a set of guidelines. The fact that the bidding schedule (set up for late January) has not been modified, in spite of the delay in the delivery of both the selection bases and the mixed-company-creation scheme, puts pressure on the potential partners about the negotiation process with PDVSA.

**Low gasoline price affects gas stations.** Aside from the high costs generated by PDVSA (approx. US\$9 billion), the subsidy of gasoline is restricting the operation and investment costs of gas stations. There is a delay in the development of projects to improve pipes, hydrocarbon storage tanks and fuel feeders, all of which correspond to PDVSA when (a year ago) it assumed the reserve of intermediation activities that were carried out by wholesale fuel supplying companies.

**A new nationalization in Zulia.** The Venezuelan government nationalized a pier in Zulia last week, as part of the process to nationalize all goods and services related to





the hydrocarbon sector that started in May of 2009. The Cadeco pier, located in the Lagunillas municipality, will dock vessels working in the Maracaibo Lake, as well as personal transportation boats and towing boats.

**PDVSA pays suppliers in fractions.** PDVSA agreed last week to disburse US\$1.4 billion to meet the payment of bills for less than US\$10 million with its suppliers, in order to improve these companies cash flow to meet year-end labor and entrepreneurial commitments. Said companies' spokespersons say the payments do not cover their commitments which added up to US\$8.1 billion for the first six months of 2009. So far, only a 30% rate discount with Enasco is known of.

**PDVSA: 140 drills in operation.** Information released by some consulting firms (Energy Economist and Baker Hughes) last week said the industry had around 56 operative drills. In response to that statement, PDVSA'S vice-president of exploration and production, Eulogio Del Pino, said that out of the 140 units, 50 are owned by PDVSA and 90 were subcontracted. When comparing this information with the one presented in the 2008 closing report, the industry is down by 11 drills.

**PDVSA-Petropar debt: the payment plan.** In the beginning, the agreement to pay the debt of over US\$300 million for the 2004-2008 diesel supply contract was intended to be structured by freezing US\$162 million for one year, refinancing US\$60 million to 15 years and creating a trust fund for US\$10 million due by Petropar this year. Also, the whole debt was consolidated at a yearly interest rate that is 2% over the LIBOR rate.

**But the proposal changed: security exchange...** Now, according to what was agreed in a meeting held last week between PDVSA and Petropar executives, almost everything is in place to pay the debt by exchanging PDVSA bonds. According to the president of the Paraguayan Oil company, Juan Alberto Gonzalez Meyer, should the security-exchange form of payment be accepted, the debt could be paid up in less than two years and with a 40% reduction in value.

**Inventories down in Eastern Venezuela.** During the last few days, a shortage due to a small number of trucks and a reduction in the inventories of the Mamporal supplying plant (which also supplies for the Andean region) left some gas stations in Lara, Yaracuy, Portuguesa and Apure with no fuel. Said plant is supplied by the El Palito refinery, but due to severe failures, it has been receiving fuel from the Cardon refinery, in Falcon. Both refineries have presented several programmed and non-programmed halts in operation during 2009, but their situation should have been recovered by early December. However, the inventories are estimated to be a full capacity by next week, as long as PDVSA supplies Mamporal as scheduled.





**Dominican Republic's "payments" to PDVSA.** Dominican Republic's Minister of Treasury fled to Venezuela last week to sign part of the payment agreement for the oil supply contract between Venezuela and Dominican Republic included in the Petrocaribe agreement. The agreement includes the sale of 2,500 metric tons of liquid sugar for US\$2.9 million and the supply of 10,000 metric tons of black beans.

**PDVAL transporters on strike.** Transporters of PDVSA's food producer and distributor are on strike claiming the company has not paid their salaries in six months. PDVAL's debt per transporter is around VEF 40,000 and VEF 60,000. The total debt reaches VEF 1.3 billion, said the newspaper *El Tiempo*. It is important to point out that this is not the only episode PDVAL is going through, for around mid-2009, workers of PDVAL Los Ruices and Guatire protested due to the unjustified layoff of about 200 employees.

**IEA: December numbers.** The International Energy Agency's (IEA) latest monthly report indicated a growth in its projected demand for 2010 by 130 thousand barrels per day (kb/d), increasing the annual growth to 1.5 mb/d, based on the demand of NON-OECD countries and on better perspectives around OCDE countries. About the supply, a 135 kb/d (the year's highest) increase in production of OPEC crude oil is reflected in IEA's report for November. For 2010, the cartel's production prediction increased by 500 kb/d, that is 29.0 mb/d, largely as a result of lower production expectations from non-OPEC countries.

**An important issue: less refinery.** The IEA report also indicates a reduction in the world refinery capacity by 0.6 mb/d for 4Q09, due to larger maintenance halts in Asia and the Mid East. About the first quarter of 2010, the report indicates a world refinery capacity of 72.7 mb/d, increasing it by 1.0 mb/d y/y, but the expectations about the drop in crude storage in developed countries' refineries could debilitate the margins for 2010.

**International oil baskets.** At New York market's closing time, last Wednesday, December 16, the WTI was at US\$72.6/bl showing a 2.7% increase compared to the US\$70.7/bl of the previous Wednesday. The Brent increased by 1.1% to reach US\$73.6/bl, compared to US\$72.2/bl of Wednesday, December 9. It is remarkable that these are the first positive journeys of this month, since December first the international oil price has decreased more than 7%.

**Local oil basket price.** The Venezuelan oil basket price went down last week, partially because of the market's pressure in light of the US crisis recovery, to close on Friday, December 11 at US\$68.2/bl, US\$3.7 less than the US\$72.0/bl the previous week. Meanwhile, the oil basket's annual average was maintained at US\$56.1/bl, generating an extraordinary income to the State by US\$12 billion.



## Business Sector Tips

**National Assembly follows the President's suggestion.** The National Assembly approve this week the partial reform of the General Banks' Law, which increases deposit insurance to VEF 30,000, just like President Chavez had suggested. The guarantee of VEF 10,000 had remained unchanged since November of 2001. The president of FOGADE, Humberto Ortega, said in order to increase the guarantee to that level it was necessary for banks to increase their monthly contribution from an equivalent to 0.50% of deposits to 1.50%.

**Also, more account-holders of the liquidated Banks will be received.** A special provision was recently approved to take care of account holders of Canarias and BanPro. 92% of Canarias' deposits and 97% of BanPro's deposits were guaranteed because they were for up to VEF 10,000. With the new adjustment to this guarantee, part of the account holders that were originally excluded will now be covered, however, the amount resulting from the extended guarantee will be paid 30 days after the release of the Law.

**Permission from SUDEBAN.** The National Assembly also included in the reform of the Banks' Law that all stock acquisitions carried out through the Stock Market shall be previously approved by SUDEBAN. Article 21 was modified, establishing that anyone who does not meet the conditions to purchase a bank or any of the companies regulated by this law will not be able to carry out said operations. The reformed Banks' Law also establishes that any bank purchase operation shall be notified to SUDEBAN within a maximum of three days, and this entity shall make sure all the necessary requirements are met in order to issue the authorization to the National Stock Exchange Commission (CNV).

**Bicentennial investment.** The Venezuelan government needed VEF 92.7 million to rehabilitate Bolivar Banco, Confederado and Central, all of which had lost more than two thirds of their capital. The government took over all of Confederado's shares for a sum of VEF 51.0 million, of Central's loss, the State assumed VEF 25.5 million, which makes it the major shareholder, and bought all of Bolivar Banco's shares for VEF 16.2 million.



**The 21<sup>st</sup> is the day.** Starting December 21, the doors of Bolivar Banco, Confederado and Central Banco Universal will be open for business after their rehabilitation. These resolutions were published in the Extraordinary Official Gazette number 5,943. The procedures for people who maintain their CADIVI allocations with these banks to be able to use them will be published in the Official Gazette number 39,326. This last measure applies for Banco Canarias, Banpro, Bolivar, Confederado, Baninvest, Central and Real.

**Wanted not only by Venezuelan authorities, also by Interpol..** The arrest order for executives of the Venezuelan banks under frozen-funds audit are now also in Interpol's database. This became effective once the arrest orders appeared on Interpol's website. Said bankers are wanted for alleged complicity in the situation that triggered the banks' audit, some of which were finally liquidated. The names that appear in the list are: Alvaro Gorriñ Ramos, Ruben Idler Osuna, Juan Felipe Lara, Gonzalo Ernesto Vasquez, Carlos Ponce Fuentes, Gustavo Mancera, Jose Omar Contreras, Luis Gustavo Kowalski and Pablo Botella Carretero.

**Stock Exchange brokerage houses under audit.** The Venezuelan Attorney General, Luisa Ortega Diaz, said the international stock exchange brokerage houses Interbursa and Equivalores have been closed for audit. The orders were issued by a Judge of the 11<sup>th</sup> Control Court. She also said these actions were carried out due to the brokerage houses' relations to Baninvest, Banco Real and Central, the frozen-fund-audited banks, hoping this intervention can help clear up the banks' issue.

**Yet another bank falls under audit, although this time it was expected.** Sudeban started auditing another bank last Friday, BaNorte. It is still unknown whether this bank will be liquidated or rescued. It has the same problems the rest of the closed-audited banks had, solvency problems, loans granted to the bank's owners and dependency on public deposits, plus it had several administrative penalties (Sudeban had fined it with VEF 960 billion for not meeting the minimum agricultural loan portfolio). The bank shares' sale had not been approved and it lacked liquidity. Altogether, the eight frozen-fund-audited banks had 8.4% of the system's deposits. The owner of Banorte, Jose Zambrano, is part of the new kind of entrepreneurs, several of which have been stained by the banks' problems due to the origin of their funds; he also owns the insurance company Zuma Seguros and the professional basketball team Marinos de Anzoategui.

**Fernandez' companies are operative.** Valentina Querales, Director of Indepabis, said the objective of taking over private companies was to maintain their facilities in function in order to guarantee normal operations. She ruled out a lack of food supply by these companies to Mercal and Pdval. Pronutrico and Proarepa produce nearly



20% of the pre-cooked corn flour consumed in Venezuela, and process nearly 10% of the national rice. The tuna processing company Fextun and Portuguesa's oil company were also taken over by the State.

**Threats in CVG Bauxilum.** Workers of ACBL (American Commercial Barge Line) in Venezuela are threatening about starting a hunger strike to demand the payment of profit share and CVG Bauxilum's debt of US\$29 million. ACBL's economic activity is to transport bauxite down the river.

**Unfair competition.** Colombian producers are asking the Trade Ministry to implement antidumping measures due to the fact that the competition in the steel sector from Mexico, Brazil and Venezuela offers their products cheaper than the market's standards and cause a detriment to national sales and production. They also said the situation was unsustainable in a short and mid term.

**Possible antimonopoly law in the electric sector.** Juan Carlos Dugarte, Vice-president of the National Assembly's Energy and Mine Commission said the Electric Energy Subcommittee is currently promoting a process to debate and consult the modification of the Electric Service Organic Law, which could be approved by the first semester of 2010. The representative said the new law shall prohibit monopolies since *"The exercise of two or more activities (generation, transmission or distribution) can not be carried out by the same company. That is important to dismount those monopolies that force an arbitrary regulation of rates, for the costs are directly established by the company exercising the monopoly"* producing unreal rates.

**Medical consults get less and less accessible.** The price or cost related to medical visits, medical exams, medicines and hospitalization and surgery insurance policies has increased considerably in the metropolitan area. The first items, related to medical services, have increased by 34.6% by November, compared to November 2008, when medical consults and exams increased by 46.8%, while hospitalization services and medicines (Regulated) are 39.2% and 24.5% higher, respectively. HMO's have increased by 39.8% compared to November 2008.

## World Crisis Tips

**ECLAC estimates a 4.1% growth for Latin America in 2010.** The last ECLAC report indicates most countries in the Latin American region have recovered faster than





expected. By region, South America and Central America will grow by 4.7% and 3% respectively; among these countries, Brazil, Peru and Uruguay stand out with estimated growths by 5.5%, 5% and 5% respectively.

**New financial regulation approved.** The House of Representatives approved last Friday the reform to the financial regulation proposed by the Obama administration. The motion was approved with 233 favorable votes (all democrats) and 202 against (175 republican and 27 democrats). This reform will create an agency to supervise the financial system's systemic risk; it will facilitate the identification of risks in the financial system and will identify the institutions that jeopardize the system, among other topics.

**Fourteen consecutive months in deficit.** The United States maintained a deficit of US\$120.3 billion during November, accumulating 14 consecutive months in deficit. The government's income during that month were US\$133.6 million, the lowest since November 2005, and the expenses reached US\$253.9 million, 4.0% below the level of expense of November 2008. Although the deficit is a latent issue, there are no plans to reduce it until 2011, since the current priority is to use the fiscal expenditure to reduce unemployment (10% by November).

**US Retail sales increase more than expected.** US Retail sales grew by 1.3% in November compared to the previous month after a 1.1% increase in October, placing the y/y variation in positive grounds, that is, November 2009 sales were 1.9% higher than those in November 2008.

**133 US banks closed in 2009.** During 2009, small regional and community banks have been going bankrupted around the United States; this week was the turn of another three small banks: Republic Federal Bank in Florida with US\$433 million in assets and US\$352 million in deposits, Solutions Banks in Kansas with US\$511 million in assets and US\$421 million in deposits and Valley Capital Bank in Arizona with US\$40 million in assets and US\$41 million in deposits. Adding these three banks, the total reaches 133 banks closed in the US in 2009, of which deposits have had to be assumed by the FDIC (Federal Deposit Insurance Corporation), an organization that guarantees up to \$250,000 per account in the US. The FDIC estimates the cost of deposit insurance will reach US\$100 billion between 2009 and 2013, since they expect these failures to continue in 2010.

**US commercial deficit reduced.** The US commercial balance deficit reduced by 7.9% going from US\$35.7 billion in September to US\$32.9 billion in October. This improvement is mainly due to a higher-than-expected increase in exports (2.6% compared to the previous month), boosted by the increased competitiveness produced by a cheaper dollar. Imports grew only by 0.4% during the same period, thanks to the



fact that oil imports continue to be 39.7% smaller than those in October 2008 due to lower crude oil prices.

**Abu Dhabi saves Dubai.** The Abu Dhabi government finally decided to carry out the financial rescue of Dubai World's debt, contributing with a total of US\$10 billion, US\$4.1 billion corresponding to the payment of bonds that expired on December 14, and the rest to be used to back debt payments until April 2010. With this financial aid from Abu Dhabi (the largest of the United Arab Emirates) Dubai's financial markets, as well as the rest of the Mid East's, had recoveries of over 10%. The aid's conditions are still unknown and official statements by Dubai government officials indicated the terms would remain discrete between the two governments.

**Japan grew less than the previously estimated.** The Bank of Japan (BoJ) reviewed the Japanese economy's third quarter growth figures at a low, going from 1.2% y/y or 4.8% q/q SAAR, to 0.3% and 1.3% respectively. These new figures show the recovery of the World's second largest economy is still very weak, so the Japanese government approved a stimulus package of US\$81 billion to be focused on homes, especially for those who have lost their jobs, and in extending the subsidy in energy-efficient goods.

## Political Tips

**In January the Sucre goes into circulation.** The first commercial use of the Sucre, ALBA's virtual currency, will take place in January with a rice export from Venezuela to Cuba. Minister of Economy and Finance Ali Rodriguez said that the Sucre's technological platform is being prepared so that on January 8 its presentation can be perfected in Caracas.

**Chavez denied rumors about La Previsora.** The President denied that Seguros La Previsora, a company owned by Pedro Torres Ciliberto and which will become part of the State's group of companies, is not providing service. In fact, he asked Attorney General Luisa Ortega Diaz to take legal action against medical centers that don't attend to La Previsora policy holders.

**Ricardo Menendez is Minister of Science, Technology and Intermediate Industries.** The President of the Republic named Ricardo Menendez as Jesse Chacon's replacement at the Science, Technology and Intermediate Industries ministry. Menendez is a geographer from the UCV and a professor of that school of



studies, a contributor to VTV's Dando y Dando opinion program, and a member of the directorship of the Cadre School of PSUV.

**Former CNV president jailed.** Antonio Marquez was recently arrested in connection with investigations into the intervened banks. For his part, President Chavez said that Marquez received a memo from the Superintendency of Banks telling him that he shouldn't permit the purchase of a financial entity through the Caracas Stock Exchange, but that he nevertheless authorized such a deal.

**AN radio channel debuts with former operating frequency of CNB.** Recently, the National Assembly's (AN) new radio station began broadcasting with the operating frequency of Circuito Nacional Belfort (CNB). The first program broadcast was that of a special session of the AN dedicated to the 10th anniversary of the referendum on the Constitution in 1999.

**ALBA blames US for Honduran crisis and military bases.** Presidents Hugo Chavez and Raul Castro of Cuba led the Summit of the Bolivarian Alliance for the Peoples of the Americas (ALBA) in Havana, where they blamed the government of Barack Obama for the crisis in Honduras and the military buildup in Latin America.

**MENPET to turn over Bs.F.3.7 million to communities.** The Finance Commission approved a reprogramming of this year's Debt Law whereby MENPET will grant Bs.F.3.7 million to community projects. The Finance Commission also approved two additional credits for Bs.F.29.9 million: Bs.F. 20 million so that the Environmental Ministry can use the money as a contingency fund for water service, and the remainder to be used by the Ministry of Interior and Justice for an internal security program of that entity.

**Fundayacucho deficit to also be covered.** A plenary session of the National Assembly (AN) approved an additional credit of Bs.F.96 million in order that the Gran Mariscal de Ayacucho Foundation (Fundayacucho) cover its shortage with regard to the financing of scholarships for undergraduate and graduates studies.

**Colombia asserts that guerrilla leaders take refuge in Venezuela.** Colombia's Minister of Defense Gabriel Silva said that members of the FARC and the National Liberation Army (ELN) are taking refuge in Venezuela and that the country's lack of cooperation should be denounced before international organizations. For his part, the director of PSUV, Carlos Escarra, rejected the proposal and characterized the statements as "a real discourtesy and lack of respect for the sovereign rights of the peoples."





**PSUV proposes creating inter-powers commission.** The United Socialist Party of Venezuela (PSUV) announced that it would submit a proposal to the National Assembly to establish an inter-powers commission to analyze the current state of the country's judicial system in order to put an end to impunity.

**State company Bolivariana de Seguros to soon be operating.** After Seguros La Previsora is officially transferred, the Bolivariana de Seguros company will begin operating under the shareholding control of the Vice-Presidency of the Republic, with an initial capital of Bs.F.3.7 million. According to its certificate of incorporation, the new state insurer's first administrative period will be from 2009 to 2012.

**Review completed.** The Permanent Commission for Integral Social Development of the AN finished its review of the new Organic Labor Law (LOT) project, comprised of 700 articles, of which 500 have been modified. On Wednesday, Deputy Orlando Castillo of this legislative body issued this report, saying that next year a big national debate will be started to find out what impressions and recommendations the workers covered by the legal instrument have.

## Other Tips

**Changes in CAF.** Brazil and Peru signed an agreement to increase the capital of the Andean Development Corporation (CAF) and Brazil became a "full member" of the organization. Brazil signed an agreement to raise its capital by US\$190 million. The accord was undersigned by the president of CAF, Enrique Garcia, and Brazil's Planning, Budget and Management minister, Paulo Bernardo Silva, the organization said on its webpage. Peru signed an agreement to raise its capital by US\$380 million and it was undersigned by Garcia and the Peruvian Economy and Finance minister, Luis Carranza.

**Second round in Chile.** According to the third official tally of 98.32% of the counted votes, Sebastian Pinera won the first electoral round with 44.03% of votes, Eduardo Frei garnered 29.62%, Marco Enriquez-Ominami had 20.12%, and Jorge Arrate, 6.21%. Pinera held a 14 point advantage over Frei, in what was the fewest number of votes ever obtained by the Concertacion party. In the elections for deputies, the Concertacion party fell from 52% to 44.63% and the Alliance for Chile party rose to 43.42%. Marco Enriquez-Ominami conceded defeat and made assurances that he wouldn't transfer his votes to Eduardo Frei.



**Three down, one to go: Closer to Mercosur.** Brazil's Senate approved the entry of Venezuela into Mercosur, joining the confirmations for Argentina and Uruguay and leaving only Paraguay to be approved. The final vote was close, with 35 votes in favor and 27 against. The argument of senators in opposition was based on their rejection of President Chavez. More favorable bilateral trade relations for Brazil was the argument most commonly voiced by proponents of Venezuela's entry.

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## ECONOMIC OVERVIEW

