



Weekly Report

Year 6, Number 9
Week III, March 2010

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A THREEFOLD VIEW OF THE VENEZUELAN ECONOMY: BALANCE OF PAYMENTS, OUTGOING CAPITAL, AND PDVSA

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The Central Bank of Venezuela (BCV) recently released the economic growth figures and the Balance of Payments figures for 2009. Beyond the obvious final figures expected from the Current Account and the Capital Account, we would like to focus on how the BCV is registering PDVSA's operations and how this is affecting Outgoing Capital figures, especially in the Public Sector.

What was to be expected

The Balance of Payment figures released by the BCV reflect the economic slowdown which took place last year. The 2009 fourth quarter Current Account figures had a positive balance of US\$5.58 billion, a fairly positive result compared to the negative balance of US\$4.95 billion it posted during the same period in 2008. This result is due to oil prices recovering which had a positive effect on exports, especially oil exports. Exports ended up settling at US\$15.84 billion, much better than the US\$9.78 billion balance it registered during the fourth quarter of 2008. This represents an increase of 61.9%.



Non-oil exports dropped 3.6% last quarter, not as bad as expected, going from US\$944 million during the last quarter of 2008 to US\$910 million during the last quarter in 2009.

The other big reason the Current Account balance recovered so much was that imports only reached US\$8.41 billion during the last quarter of 2009, down by 42.9% compared to the same quarter in 2008.

With respect to the yearly balance of the Current Account, it shrank by 77.1%, settling at US\$8.56 billion at the end of the year compared to US\$37.39 billion that it posted at the end of 2008. This drop in balance was spearheaded by the drop in oil exports (58.0%) and the drop in non-oil exports (43.5%) which more than compensates for the drop in imports (23.3%).

BALANCE OF PAYMENTS (US\$ million)	2008	2009	Var(%)
Current Account	37.392	8.561	-77,1%
Goods	45.656	19.153	-58,0%
Oil Exports	89.128	54.201	-39,2%
Non-Oil Exports	6.010	3.394	-43,5%
Import of goods f.o.b.	-49.482	-38.442	-22,3%
Services	-8.354	-7.617	
Others	90	-2.975	
Capital Account	-28.117	-18.823	
Public Sector	-9.716	9.023	
Private Sector	-18.401	-27.846	
Reserves Variation	9.275	-10.262	
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Sources: BCV and Ecoanalitica

Capital Account deterioration

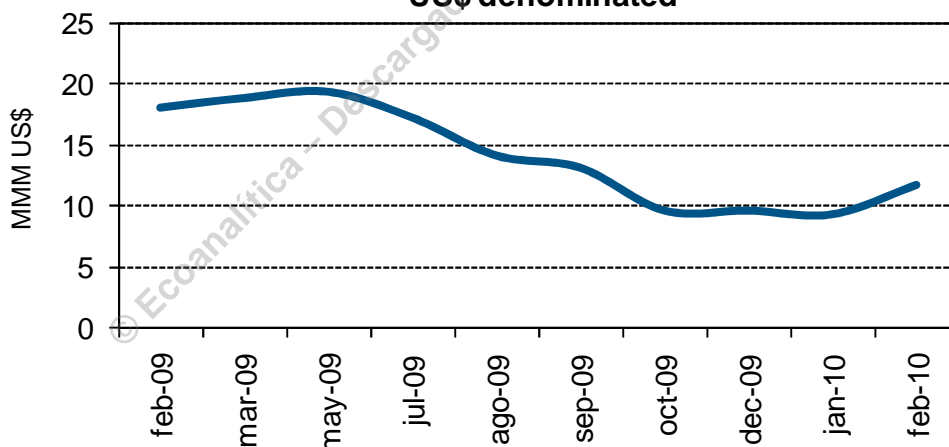
Taking a look at the Capital Account figures, we can see that for the fourth quarter 2009 presented a negative balance of US\$4.44 billion, and though it is compensated for by the positive balance of the Current Account, it is still quite a bit less than the balance it posted during the same period in 2008 of US\$9.56 billion. This is mainly due to the private sector Capital Account



negative balances posted in 2008 (-US\$807 million) and in 2009 (-US\$11.90 billion), alongside a 28.1% drop in the public sector Capital Account.

The Capital Account had a negative balance of US\$18.82 billion in 2009, which is a significant improvement over the negative balance posted in 2008 of US\$28.12 billion. This was mainly due to a positive balance in the public sector Capital Account of US\$9.02 billion, compared to the negative balance the same account posted in 2008 of US\$9.72 billion. This partially compensated for the 51.3% negative increase in the private sector Capital Account. The public sector positive balance goes hand in hand with the almost 50% drop in extraordinary resources denominated in foreign currency which went from US\$ 18.0 billion at the close of January, 2009 to US\$ 9.3 billion at the close of January this year.

**Extraordinary Government resources
US\$ denominated**

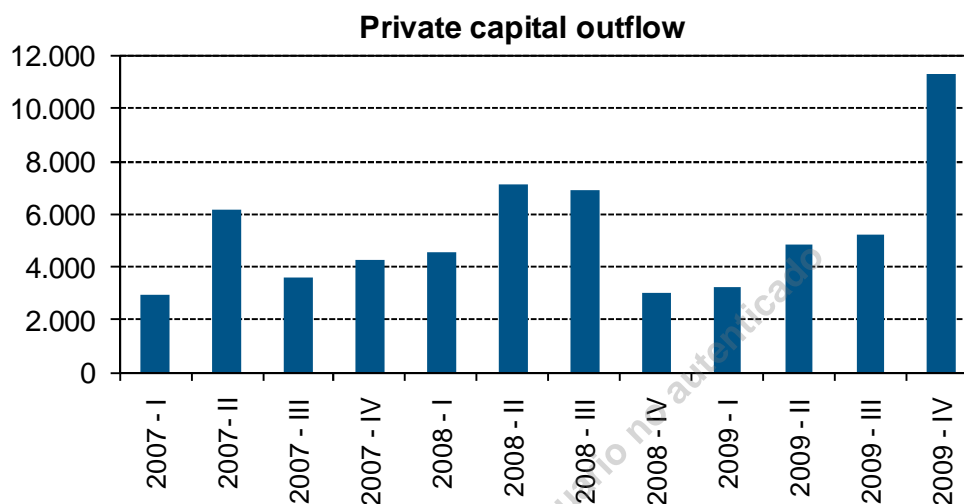


Source: Ecoanalítica

Outgoing Capital at record levels

At *Ecoanalítica*, we have been monitoring private sector outgoing capital for some time now and during the fourth quarter 2009 flows continued at very high levels reaching US\$10.16 billion and accumulating for the year US\$22.41 billion. This figure represents the most outgoing capital in a single year that has ever been recorded in Venezuela. As we have mentioned before, one of the biggest ironies regarding the exchange control is that its main purpose for existing is to put a stop and/or control outgoing capital.





Sources: BCV and Ecoanalítica

And PDVSA?

PDVSA's role with respect to Balance of Payment figures is vital given that more than 90% of the foreign currency coming into the country comes through the state-run oil company. It has an overwhelming effect on the Current Account and even the Capital Account doesn't escape from the oil company's influence.

The eternal problem

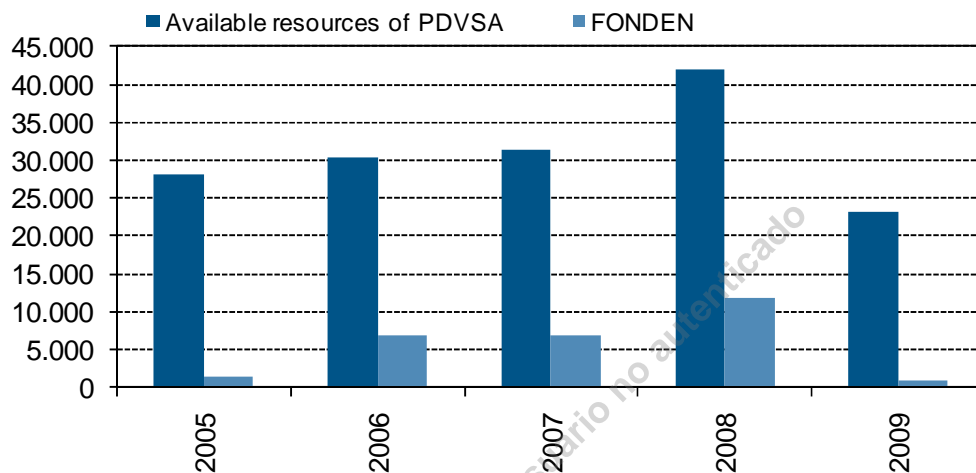
The inconsistencies surrounding PDVSA's oil production are reflected in the Balance of Payments. These inconsistencies don't only affect oil production volumes but it also affects the portion of resources already paid in cash and what is owed or already has been paid in advance. Plus, PDVSA has been turning over less and less of its foreign currency to the BCV during the last few years, going from turning over 72.3% of the company's foreign currency which is equal to its oil exports in 2003 to only turning over 42.7% in 2009.

The question that everyone is asking themselves is: what is PDVSA doing with the left-over amount? A partial answer would be to say that it makes transfers into FONDEN. But, according to our calculations, PDVSA has only transferred resources equal to 21.7% of the left-over amount. The numbers are hiding something.





FONDEN Transfers vs PDVSA's Funds



Sources: BCV, PDVSA and Ecoanalítica

The BCV with its hands tied

Before all the new reforms were implemented there were institutional control mechanisms in place between the BCV and PDVSA to monitor the amount and flow of resources coming out of the oil company. Now, those mechanisms don't exist. The BCV and the people have no way of validating the amount of foreign currency from oil exports coming from PDVSA. The only figures which can be accounted for are those transferred to the FONDEN and to the international reserves, and these amounts create a lot of doubts as to the Balance of Payments Current Account export figures.

Making ends meet

With respect to the Balance of Payments, the accounting is pretty straight forward: the Current Account balance added to the Capital Account gives us any variations which may have taken place with the international reserves during the period in question. But our analysis of the figures in the Balance of Payments shows that the BCV overestimates the Current Account (PDVSA's affect on it) and there is also an overestimation of the deficit of the public sector Capital Account (foreign assets) which keeps any variation of the international reserves within the margin. But if one were to try to calculate the "real" Capital Account figures for the public sector, one would find this to be a very difficult, if not impossible, task to carry out.

A Current Account exercise

At *Ecoanalítica*, we have re-estimated the oil export figures included in the Balance of Payments based on PDVSA production figures, not counting production not tied to special agreements (PETROCARIBE), or anticipated payments as is the case with China and Japan. As one can see in the table we have included, the average difference only becomes significantly noticeable during the last two years. Between 2003 and 2007, the average difference between exports reported by the BCV and actual exports



calculated by us was 3.8%. Between 2008 and 2009, the difference increases to 26.9%.

The results for the last two years have a lot to do with the percentage of foreign currency being turned over by PDVSA to the BCV. Using BCV figures, we find that the amount of foreign currency transferred by PDVSA was 47.2% in 2008 and 42.7% in 2009. But after carrying out our re-estimating exercise, we find that the proportion of foreign currency transferred in 2008 was at 67.4% and 54.7% in 2009.

Capital Account is obscure

From this exercise we can conclude that the autonomy that PDVSA has benefited from up until now has allowed it to have access to additional amounts of foreign currency, and it has also allowed the company to mask the inconsistencies surrounding its production volumes and how it is managing its accounts receivable. It's impossible to calculate how much of the public sector Balance of Payments corresponds to this. According to our calculations, between 2003 and 2009, PDVSA managed funds for around US\$ 94.22 billion. Of this amount, it transferred US\$ 27.64 billion to FONDEN and US\$ 2.84 billion to FONDESPA, predecessor to FONDEN. So this leaves US\$ 63.75 billion in resources at its disposal.

But, according to our calculations, the amount declared by PDVSA and not perceived up until now is at US\$ 45.61 billion which would be, according to our estimates, in the Capital Account tied to the public sector so that it won't affect the international reserves. It's important to point out that 84.4% of this difference was generated between 2008 and 2009.

	2003	2004	2005	2006	2007	2008	2009
Oil production (MMBD)	2.331	2.597	2.692	2.545	2.413	2.353	2.181
Oil exports BCV (US\$ Billion)	18.735	27.954	39.447	47.938	51.664	89.128	54.201
Net Oil exports (US\$ Billion)	18.214	25.795	38.274	45.216	51.142	62.444	42.369
Foreing exchange delivered for PDVSA to BCV (US\$ billion)	13.632	20.563	28.074	30.471	31.243	42.079	23.168
Difference in favour of PDVSA (US\$ Billion)	5.103	7.391	11.373	17.467	20.421	47.049	31.033
Net difference in favour of PDVSA (US\$ Billions)	4.582	5.232	10.200	14.745	19.899	20.365	19.201
	521	2.159	1.173	2.722	522	26.684	11.832
% Delivery	72,8%	73,6%	71,2%	63,6%	60,5%	47,2%	42,7%
% Effective delivery	74,8%	79,7%	73,4%	67,4%	61,1%	67,4%	54,7%
PDVSA contributions to FONDEN (US\$ Billion)	-	-	1.525	6.855	6.761	11.694	800
% FONDEN contributions - PDVSA's Funds			13,4%	39,2%	33,1%	24,9%	2,6%
% FONDEN contributions - Net PDVSA's Funds			15,0%	46,5%	34,0%	57,4%	4,2%

Sources: BCV, PDVSA and Ecoanalítica



Economic Tips

NPCI per sector. The results of the National Price Consumer Index (NPCI) variation per sector show that out of 13 sectors, only 4 had a better performance than in January. Those with better results include: food and non alcoholic beverages with 0.6%; tobacco and alcoholic beverages with 4.4%; communications with 0.6%; and educational services with 0.7%. Meanwhile, 8 of the other 9 sectors experienced a faster price acceleration rate in February: clothing and footwear with 1.0%; home rentals with 1.2%; housing services, excluding telephone, with 0.6%; home appliances with 1.7%; health with 3.1%; restaurants and hotels with 2.2%; miscellaneous goods and services with 3.0%; and transportation with 2.2%. The only item that remained unchanged from the prior month was entertainment and culture with 2.9%.

PCI in the major cities. According to the NPCI geographic breakdown, five of the 11 cities studied registered an inflation level below January's variation: Caracas with 1.5%; Maturín with 1.7%; San Cristóbal with 1.8%; Ciudad Guayana with 1.6%; and Maracaibo with 1.3%. The other group, which includes six cities had the following results: Mérida at 2.6%; Barquisimeto at 1.9%; Valencia at 2.0%; Barcelona-Puerto La Cruz at 1.7%; Maracay at 1.8%; and the rest of the national territory at 1.5%.

Inflation for goods and services. According to another NPCI disaggregation, the behavior of prices of goods and services was as follows: the first one was at the 1.4% level, a little under January's 1.7%; whereas services showed a higher variation than January, with 1.9% vs. 1.8% in January.

February NPCI core inflation. February core inflation reached 2.2%, up from January's 2.0%, mainly due to the fact that 3 out of 4 sectors showed a more accelerated behavior in price growth; industrial goods, excluding food and textiles, was at 2.7% in February, whereas the variation in January was 1.9%; non-administered services reached 2.3%, up from 2.2% in January; and apparel and textiles went from 0.0% variation in January to 1.1% variation in February.

Increasing shortages in Caracas. Shortage indicator for the Caracas Metropolitan Area grew 30 base points in January-February, with 14.8%. This indicator has exhibited a sustained shortage growth since November when it reached 11.8%.

Diversity indicator decreases in Caracas. The product diversity index for the Caracas Metropolitan Area, published by the Central Bank of Venezuela (BCV), which takes May 2003 as base period (one of the periods with the lowest diversity degree due to the general strike), decreased to 132.5 in February, down from 139.2 in



January. This decline has been constant since the month of September, when the indicator reached 183.2.

Variation of the PCI for the Caracas Metropolitan Area (CMA) per sector in February. January's Inflation in CMA, broken down per components ordered from lower to higher variation, showed the following results: educational services, 0.1%; food and non-alcoholic beverages, 0.3%; communications, 0.6%; home rentals, 0.8%; clothing and footwear, 1.0%; home services, excluding telephone, 1.1%; home appliances, 1.5%; transportation, 2.1%; entertainment and culture, 2.7%; restaurants and hotels, 2.8%; health, 2.9%; miscellaneous goods and services, 3.4%; and tobacco and alcoholic beverages, 4.1%.

PCI core inflation for the CMA in February. Core inflation for the Caracas Metropolitan Area in February was at 1.5%, down from 2.4% in January. This was mainly due to the fact that the processed food sector exhibited a much less inflationary behavior, 1.9%, a percentage with 180 base points down from January

Interest rates. Lending interest rates for the first week of March was 19.2%, for an increase of 106 base points from the previous week. Interest rates for term deposits and savings were at 14.5% and 12.6%, respectively, both unchanged.

International reserves. International reserves dropped 1.5%, going from US\$31.118 billion in the first week of march to US\$30.658 billion in the second week of March. In relation to the same period in 2009, international reserves have gained 4.5%.

Liquidity. Liquidity for the second week of March registered an increase of 0.3% in comparison to the first week of the same month, to VEF235.5 billion. Liquidity has increased 23.2% in nominal terms and contracted 3.0% in real terms, compared to the same period in 2009.

Oil Tips

Exploitation bond defined. Venezuela will receive US\$5.73 billion in three years in bonds for assigning Orinoco Oil Belt exploitation projects to foreign companies, where investments up until 2016 will add up to US\$80 billion, said the minister of Energy, Rafael Ramirez. These projects will allow Venezuela to increase its oil production by 2.09 million barrels, said Ramirez.



Local crude oil production increased. A 2.4% increase in oil production was reported in February of 2010 compared to the previous month, according to OPEC's monthly report. This slight increase was resulted in an exportation of 2,356 kb/d versus 2,292 kb/d during January, making Venezuela the group's fourth largest producer, right ahead of Kuwait. Compared to the same period of last year, when oil pumping was 2,144 kb/d, there was a 9.4% increase.

US\$1.5 billion to be invested in refinery. Venezuela is involved in an investment project which will destine US\$1.5 billion to a refinery plant that is out of service due to electric failures in the island of Curacao. With this investment, the refinery's productivity will increase and the quality of oil by-products will be improved.

Hydrocarbon spills reported. Workers of the El Palito refinery reported an alleged hydrocarbon spill that is affecting the nearby beaches. Marcos Savariego, oil industry's union representative for the Carabobo State, said the spill occurred at *"the byproduct or refined product residues' deposit processing lagoon since the effluent unit in charge of resending liquids to the refinery is currently inoperative."* Pdvsa has not issued any comments on this incident.

Crude oil to Belarus. President Chavez offered Venezuelan oil to Belarus in order to develop cooperation agreements. A joint production of 20 kb/d is projected, up from the current joint production of 15.9 kb/d, according to Chavez's statements. The Vice President of Venezuela, Elias Jaua, said that both governments ratified the deepening of joint agreements in four strategic development areas: energy, agriculture and food, science and technology and public works.

OPEC maintains production quotas. As the market expected, OPEC decided not to change its production quota from 24.84 mb/d for the fifth consecutive time, as the representatives of its member countries are satisfied with the current price range of US\$70-80/b. The current production quota (effective since January 2009) will be maintained at least until October when OPEC representatives will meet again in Vienna.

Ramirez didn't show up at the OPEC meeting. The meeting scheduled by the Organization of Petroleum Exporting Countries didn't include Venezuela's current minister of oil (Pdvsa), Rafael Ramirez. According to a source in the delegation, Minister Ramirez, who has not attended a group meeting since May of 2009, didn't show up due to domestic commitments.

Algeria proposes a Natural Gas OPEC. Natural gas prices have decreased by 61.7% since its peak in July 2008, due to an excess of supply in the world market and it keeps a downward trend, which harms his resource's intensive exporting economies. For that reason, the Algeria's minister of Energy, Chakib Jelil, proposed the activation



of a Natural Gas OPEC to achieve a natural gas supply control in the midterm and to reconstitute balance to the supply and demand. This proposal will be discussed on April 19 at the Gas Exporting Countries Forum's next meeting.

IEA increases its global demand estimate. The International Energy Agency increased its world crude oil demand estimate for 2009 and 2010 since the demand of non-OECD countries has been more than expected, while the demand of OECD member countries has remained weak. 2009's demand is now calculated at an average level of 85.0 mb/d, 1.2 mb/d less than in 2008, and the world demand is projected to increase up to 86.6 mb/d in average for 2010.

And on the supply side. According to IEA numbers, the world crude oil supply increased by 0.9 mb/d during February, reaching 86.6 mb/d. OPEC's production reached a 14-month high at 29.2 mb/d. OPEC is expected to choose maintaining its production quotas unchanged, since prices remain around US\$80/b.

Less adherence to cutbacks. At the end of 2008, as a result of the world crisis, OPEC announced the implementation of production cuts in order to reanimate prices. However, cartel members' compliance with said cuts has dropped by at least 60% from over 80% in 2009, according to industry estimates.

Refining process, strong in Asia, weak in OECD. The refining of oil byproducts will also be less than the one projected during the first quarter, IEA reduced its projection of refined products' supply by 140 kb/d, placing the world supply of refined byproducts at 72.5 mb/d. But it is still 910 kb/d higher than during the first quarter of 2009, since, although refining in OECD countries continues to be below historic levels, in China and other Asian countries there is a newly-added refining capacity conjointly allowing them to refine 2.1 mb/d more than in the first quarter of 2009.

International oil baskets. At New York market's closing time, last Friday, March 12, the WTI was at US\$82.3/bl showing a 1.0% increase compared to the US\$81.5/bl of the previous Friday. The Brent increased by 0.6% to reach US\$80.4/bl, compared to US\$79.9/bl of Friday, March 5.

Local oil basket price. The Venezuelan oil basket price by Friday, March 12 was US\$71.4/bl, US\$0.2 less than the US\$71.2/bl the previous week. The oil basket's annual average increased to US\$70.0/bl.





Business Sector Tips

The new Organic Law of the National Financial System. The new Organic Law for the National Financial System, approved in first discussion, seems to demonstrate that with this new regulations won't be necessary to nationalize the banking, moreover the private sector is a better practitioner, so the Government just need to regulate and control it strongly. In article 5 is defined the scope of action of the law, covering the banks, insurance companies, investment banks and related companies and will be under the supervision of the *Organo Superior del Sistema Financiero Nacional* (OSFIN).

Power of the OSFIN. The power that the OSFIN has makes it capable of modifying the legislation in order to guarantee the support to the exchange politics of the Government. Also give it the possibility to evaluate the quantity of resources designated to the priority sectors of the real sector, could be higher than they already are, financing what the Government thinks is a priority. Other worrying capacity will be they possibility of collect every information considered necessary to track and verify the investment with the deposits from the public sector.

Respect to the insurance companies... The new law emphasizes the provision of services by insurance companies to agriculture, tourism and cooperatives.

Prices reviewed up. The Chavez Administration increased the price of chicken, sugar and rice by at least 30% in order to maintain profitability in their production. The Official Gazette includes the presidential order that makes these price increases official, presented as a "reasonable adjustment." One kilogram of chicken will now cost 11.31 bolivars, one kilogram of rice 3.66 bolivars, and one kilogram of sugar 3.73 bolivars, values that, according to the Government, must be visible for all consumers or marked on products' labels. All three products mentioned above are part of the list of first necessity foods, of which prices are regulated by the Administration.

Expropriations in Barquisimeto continue. The Mayor of the Iribarren municipality in Barquisimeto, Amalia Saez, ordered the expropriation of lands corresponding to the city's Industrial Area 1. With this measure, in a first stage of the process, Empresas Polar and another 23 companies are obligated to vacate the area that covers from the Obelisk to the 51st street. This resolution came out two days after the Municipal Chamber of Iribarren declared the area a public utility zone.

Mitsubishi workers' strike declared illegal. Representatives of the Ministry of Labor held a meeting with the New Workers' Generation Union of MMC Automotriz last Thursday to inform them the strike they were carrying out was illegal. With this



resolution, the company is exempt from paying down salaries or any indemnifications for the period during which the plant was shut down. In spite of these statements, the company has not been able to resume operations.

Penalties for re-pricing continue. Valentina Querales, president of Instituto para la Defensa de las Personas en el Acceso a los Bienes y los Servicios (Institute for the Defense of People in the Access to Goods and Services, Indepabis) said 170 establishments had been penalized for remarking prices on products that were adjusted last week.

Indepabis confiscated 10 thousand tons of wheat. Indepabis confiscated almost 10 thousand tons of wheat to Monaca in Zulia State, due to the fact that, as per the official organization, the aforementioned company was storing wheat under circumstances that could have affected its condition.

Seniat confiscated too. 5,400 kilograms of food were confiscated by Seniat operatives in Puerto Cabello for not complying with the required health authorizations and other procedures for the products' nationalization. Among the products confiscated were 200 boxes of shrimp, 200 boxes of squid, 10 boxes of black olives, 100 boxes of pasta and 200 boxes of mate herb concentrated spirit extract.

The Guri situation gets more and more complicated. The decrease of Guri Dam's water level has been accelerating during the last week, to an average of 15 centimeters of decrease per day. Between December 11 and January 11, the setback was 2.85 meters above sea level; between January 11 and February 11, the decline was 3.62 meters; and between February 11 and March 11, the loss was 3.8 meters.

Giordani thinks mutual funds boosted inflation. According to the Minister of Planning and Finance, Jorge Giordani, mutual funds were creating "a speculative niche and produced the inflationary avalanche shown in the numbers between 2007 and 2008 and that stopped in 2009 thanks to the Administration's actions."

Cadivi assures having increased the number of currency authorizations. The Foreign Currency Administration Commission (Cadivi) indicated that during the first months of 2010, US\$3.08 billion have been authorized for imports, not including purchases through the Aladi agreement. This authorizations' amount implicates a 35.9% increase versus the same period of 2009. Once the organism's problems to process applications were solved, an average of US\$117 million is being approved every day.

Authorizations for the graphic and school supplies' sector increase. According to the Foreign Currency Administration Commission (Cadivi), during the first two months of 2010, over US\$111 million were authorized for companies in the graphic, stationery



and school supplies' sector. This amount represents a 195.7% increase compared to the same period of last year, when US\$37.8 million were allocated.

Imports from US keep falling. According to data published by the US Trade Department, US imports to Venezuela reported a 3.7% decrease in January, compared to December of 2009, to close at US\$646 million on the first month of the year. This would be the third consecutive negative m/m variation. In fact, comparing y/y, there is a 29.4% decrease.

Loans portfolio deterioration. According to the Banks Superintendence (sudeban), the loans portfolio increased by only 0.05% in February compared to January, to close at VEF 148 billion. However, in a y/y basis, said portfolio shows a real decrease of 10.1%. Under this scenario, commercial loans and consumption loans showed a 1.0% decrease. At the same time, loans to the productive sector increased by 2.2%. The default rate continues to increase, reaching 4.0%, compared to 2.3% in February of 2009.

World Crisis Tips

Record-breaking US fiscal deficit. The US Federal Government deficit reached a monthly record of US\$220.9 billion, the highest monthly budget deficit in history, even higher than the accumulated deficit of the whole fiscal year 2007 (US\$161.5 billion), with which the fiscal year 2010 (which starts in October) is already accumulating a US\$651.6 billion deficit. During the first five months of FY'10, income has decreased by 7%, compared to the first five months of FY'09, while the outlays in the same period increased by 16.8%.

Industrial production continues to recover but the weather is not helping. During February, US industrial production had a 0.1% increase (seasonally adjusted) compared to the previous month, while in January it had grown by 0.9% and 0.5% in December. Compared to the previous year, industrial production was 1.7% higher than that of February of 2009, and 5.4% over the minimum reported in June of 2009. The industrial production recovery could have been much better without the effect of a severe winter dumping several feet of snow that covered northeastern and mid-western US cities, paralyzing all types of activities.

Capacity utilization percentage increased as well. In 2009, capacity utilization in the US economy decreased from 80.6% in 2007 and 77.5% in 2008 to 70.1%. During



the last few months, capacity utilization has increased as well, reaching 72.7% in February.

US inventories have not recovered yet. During the crisis, inventory decumulation was one of the main reasons for the strong US GDP drops. Although the situation has improved dramatically, inventories are still very low, and the industry has not started to recover them. Inventories remained constant in January, after having dropped 0.3% in December. The economy's inventory stock is 8.6% below the level of January 2009, after having dropped 9.8% during 2009. The inventory/sales ratio is at a historic low, and 9.3% below the level of January 2009.

Finance Ministers of Germany and France argue about Greek rescue package.

The German minister of finance, Wolfgang Schäuble, said the European Union (EU) needs more strict rules about its members' good fiscal behavior. He also said that, in case of emergency, there should be a possibility to remove a country that is not able to put its finance in order from the Euro zone. This does not necessarily imply the exclusion from the EU, but only not using the Euro as currency, in order to adjust accounts through devaluation. The French minister of finance, Christine Lagarde, disagreed with the German minister's proposal of a European Monetary Fund to coordinate financial rescues and to allow countries to leave the Euro zone, since that would be a plan that would take at least five years. Instead, she proposed short term exits for Greece. The French minister also criticized Germany's commercial policy and urged them to stimulate their domestic demand, since their commercial surplus is unsustainable for other Euro zone members.

Japan economy grows lead by exports. During the fourth quarter of 2009, still the world's second largest economy (soon to be beat by China) had a q/q seasonally adjusted (SAAR) GDP growth of 3.8%, which, due to the large drop of the first quarter of 2009, continues to be a negative growth in y/y terms, -1.4%. Japan's GDP growth was lead by foreign demand and not by domestic demand: exports grew by 21.7% in IVQ09, 37.8% in IIIQ09 and 42.2% (SAAR rates) in IIQ09, but are still 5.3% lower than the rates of IVQ08, due to the brutal 66.3% exports fall in IQ09 (SAAR).

Inflation in China and India. China's quick monetary expansion during 2009 caused a quick reversion in the prices' trend, which had been decreasing since mid-2007, reaching levels of up to -1.68% y/y in July of 2009, to an accumulated inflation in the last 12 months of 2.7% in February of the current year. Although it still seems to be a relatively small price increase rate, the inflation acceleration rate is quite high. Inflation in India is much higher, reaching 15.5% y/y in December of 2009 (last data available).





Political Tips

I don't want any "wimps." President Chavez said he is looking for quality and not "wimps" and "cowards" at the National Assembly. He said Lara's Governor, Henri Falcon, was a deserter, and would become a traitor. He also qualified the PSUV congress as "admirable," in spite of the internal difference that need to be discussed, he said.

Henri Falcon to defend his office. In response to the President's accusations, the governor of Lara said in a press conference, "my office's usurpation will be fought on legal grounds and along with my countrymen." Governor Lara thanked all of his State's residents and the Patria Para Todos Party (Country for All, PPT) and then said there were no personal interests in his decision to leave the United Socialist Parties of Venezuela (PSUV); and that he would work for the people of Lara who elected him legally and democratically.

The process moves forward. The Primary Election Technical Party confirmed the Unity Party decided that Political Prisoners could run for office in San Cristobal, the Capital District and Miranda, and, therefore, primary elections would only be carried out in 20 circuits. Maria de Oteyza said the decision to let political prisoners run for office reduced the number of circuits undergoing primary elections from 22 to 20. The Unity Party's Coordinator, Eduardo Pino, said they would be willing to yield main chairs if that would smooth things over within the opposition. In Aragua, Sergio Monsalve, a spokesman for the Unity Party, said all candidacies had been submitted and they would start evaluating them tomorrow. He said 58 candidates had run for the circuits and 11 for list for a total of four circuits. They believe they could reach agreements for circuits 2, 3 and 4. Parties Primero Justicia and Un Nuevo Tiempo addressed the Anzoátegui community, where 24 people enrolled. 18 pre-candidates enrolled in Tachira, out of which 3 were for circuit 1, 2 for circuit 2, 3 for circuit 3, 3 for circuit 4 and 7 for circuit 5. 186 pre-candidates enrolled in Zulia.

Alleged sabotage against the revolution. During an act celebrated with candidates of the United Socialists Parties of Venezuela (Psvu) to the National Assembly (NA), President Chavez showed evidence of vandalism perpetrated by counter-revolutionary groups to cause chaos and destabilize the country through electric sabotage. Chavez showed pictures of alleged intentional cuts to high-tension cables at the recently inaugurated electric generation plant of Palo Negro, Aragua State. He said the enemies of the revolution pretended to amplify the emergency caused by the climate phenomenon known as El Niño, affecting power generation with vandalism.



NA: Websites will have to respect the Law. Blog and website administrators shall regulate their opinion and news forum users' interventions, said representative Ricardo Capella. The use of Internet will be discussed at the National Assembly; some representatives stated this medium should be regulated by the already proclaimed laws, such as the Penal Code, the law of Social Responsibility in Radio and Television and the National Constitution.

Venezuelan Government changed its policy on the use of Internet. According to an academic research, the National Government went from promoting the use of internet to attempt to control it, thus changing its policy on the use of this technological tool. Raisia Uribarri, professor and researcher at the Universidad de Los Andes (ULA) said that in 2007 "there was an inflexion point;" the defeat in the constitutional reform referendum was due to the fact that "the people didn't understand the proposal," product of an alleged media manipulation, which motivated the change of strategy regarding the Internet.

Communal groups instead of municipalities. The people consultation process to prepare the Communal groups' Law draft was set in action by the National Assembly. The Citizen Participation Commission wrote a document stating the "popular and socialist communal groups are destined to become the new political-territorial units for the construction of the new revolutionary social network." The NA, in its 2010 action plan, announces the use of the social street parliament as a tool to move forward "towards the construction of the Communal Parliament."

Mass retirement at the Supreme Court (TSJ). With the approval of a resolution by the Supreme Court of Justice (TSJ), a significant number of its members will be retired, with guaranteed retirement pensions which will not be affected by the provisions of the Organic Law of Emoluments. The president of the TSJ, Luisa Estella Morales, will be in charge of executing the resolution about magistrates' retirements.

Procedural delay due to rationing. Although the president of the TSJ, Luisa Estella Morales, assures they have not been affected by the electric power rationing, at the National Assembly they say the working day's hour reduction in court rooms has increased procedural delays. The Chief of the NA Domestic Policy Commission, Tulio Jimenez, informed yesterday they would send an official document to the TSJ to express their concern and to request for penal court rooms to resume their normal schedules.

Revolution reduces poverty. President Chavez, in his Sunday radio show, said Latin America's poverty had increased in 2009, but Venezuela was the exception, because "we are aiming at zero." According to Hugo Chavez, no one is hungry in Venezuela. He also said Cuba was another exception. Chavez summarized poverty in Venezuela



and recalled that in 1996 the poverty rate was 70%, while in 2009 it reached 23%. “We are getting close to 20 and I hope we break that barrier next year and we continue to aim to zero.”

It will be possible to appoint a Single District Authority. According to Article 24 of the regulation of the Law of Federal Government Council, already published in Official Gazette, it will be possible to appoint a Single Area Authority per Development Engine District, according to the applicable normative, and will be called the Single District Authority. This Single Authority will “efficiently administer the resources assigned to projects” and “will promote the political, economic and cultural participation of the people’s power actors and organizers” and “other functions thereto assigned by the President in the creation decree of the respective Development Engine District.”

Not a word about the Dominican mediation. Even though Colombia maintains relations with the Dominican President, Venezuela has not issued public comments about the mediation of Dominican Republic for a rapprochement between Colombia and Venezuela. Dominican Republic issued a public apology last Tuesday for any involuntary nuisance caused to Venezuela as a result of the mediation actions.

Chavez denies a connection to terrorists. The national government accused the media and certain adverse sectors of the country of attempting to deteriorate its relations with Spain. The Venezuelan embassy in Spain indicated the existence of a “campaign destined to darken the positive relations” the Latin American country maintains with Spain, and stated its commitment and single purpose to “help maintaining them.”

June is the month. The president of the National Electoral Council, Tibisay Lucena, assured the submission of National Assembly candidates would be carried out during the first week of June. She pointed out the CNE was working in the electoral schedule of September 26. She also indicated that, besides the electoral process to be carried out in September, the opposition’s primary election process could be carried out on April 25, for which only the formal request by the unity party political organisms is pending.

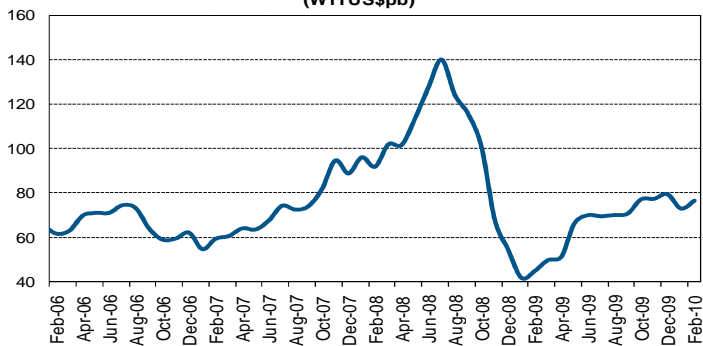
New Cadafe president, President Chavez announced the designation of Raul Arocha Mora as new president of Compañía Anonima de Administracion y Fomento Electrico (Electric Administration and Promotion Company, Cadafe). So was informed by the Head of State during his Sunday radio show Alo Presidente N° 353, from Cumana, Sucre State. “I request your full support and cooperation with Raul Arocha. He is an electricity engineer from Universidad de Los Andes, with a very extensive résumé,” he said.



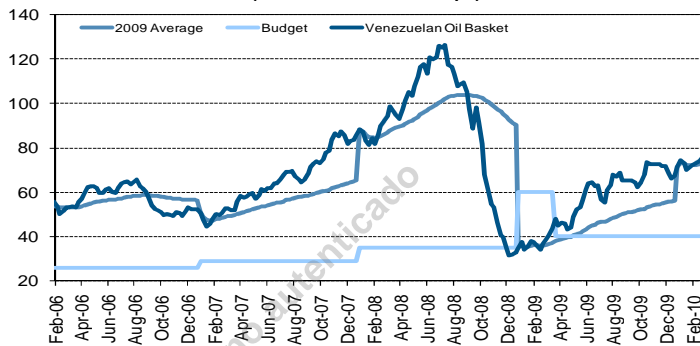


ECONOMIC OVERVIEW

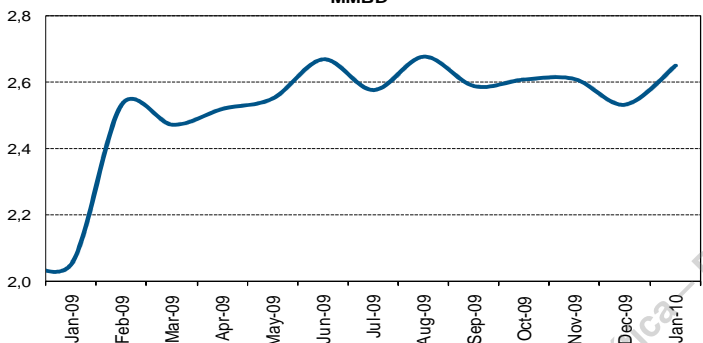
Oil Prices (WTI US\$pb)



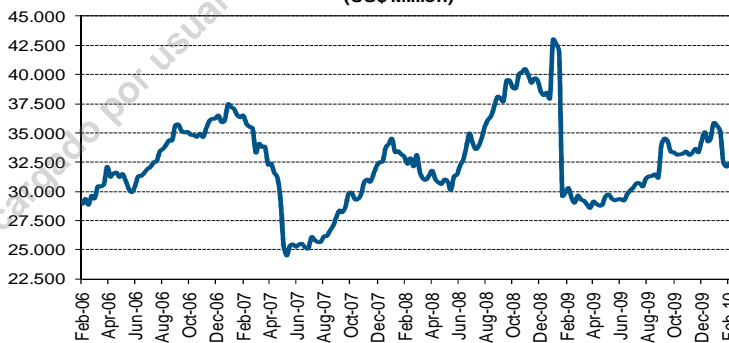
Oil Price (Venezuelan Basket US\$/pb)



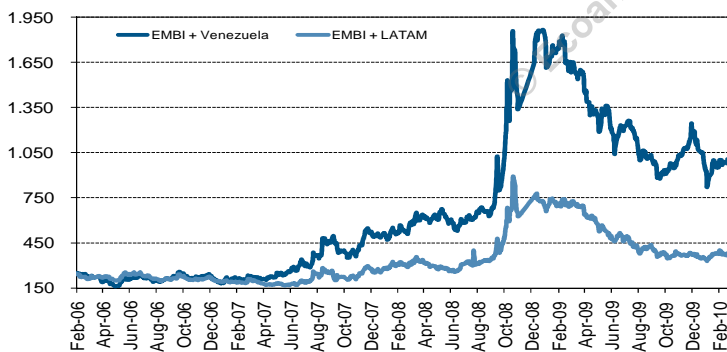
Oil Exports MMBD



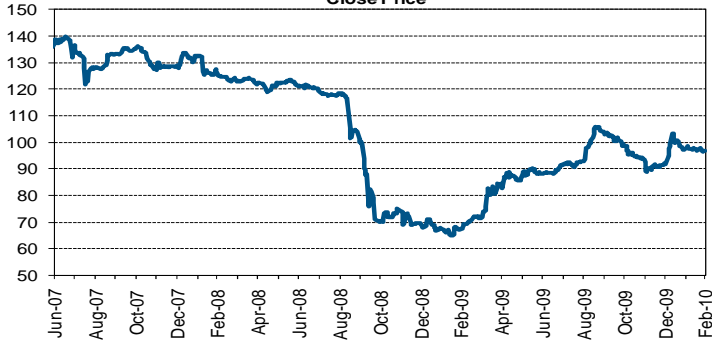
Fx Reserves - BCV (US\$ Million)



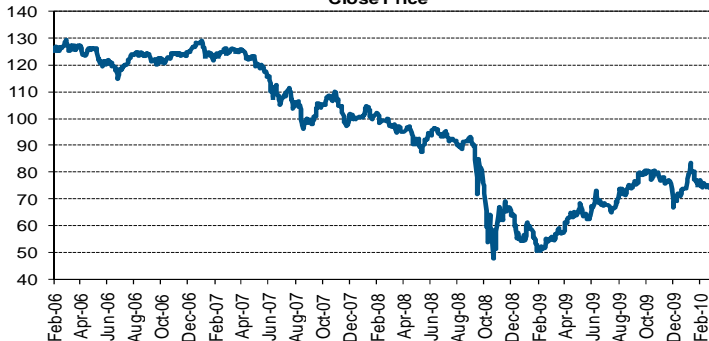
EMBI +



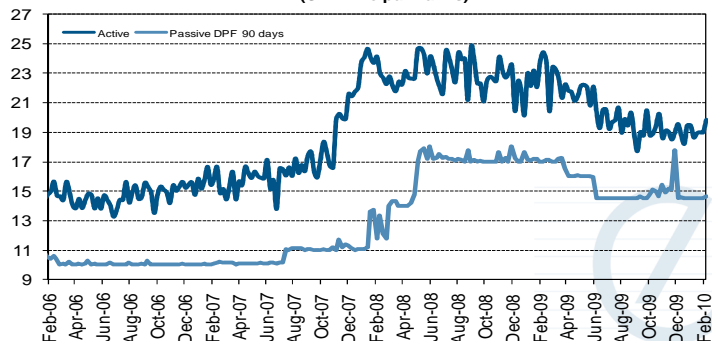
Venezuelan Global 18 Close Price



Venezuelan Global 27 Close Price

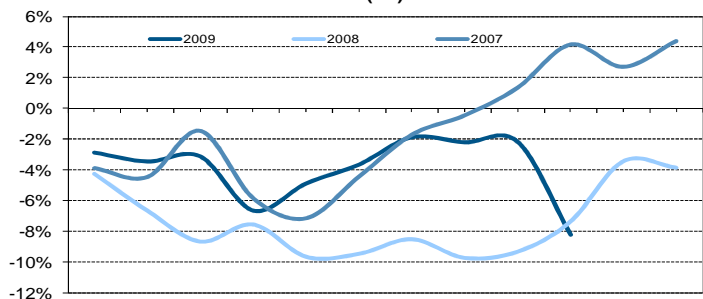


Interest Rate (Six Principal Banks)

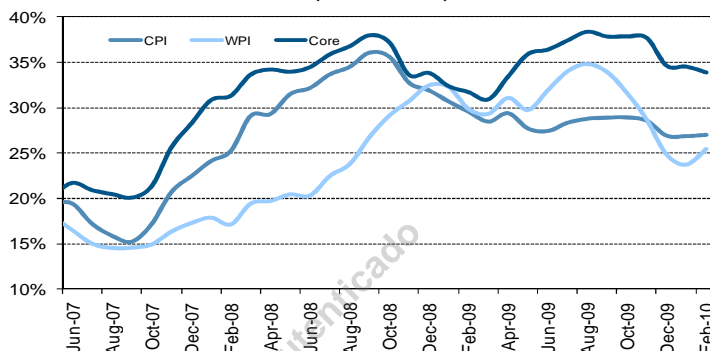




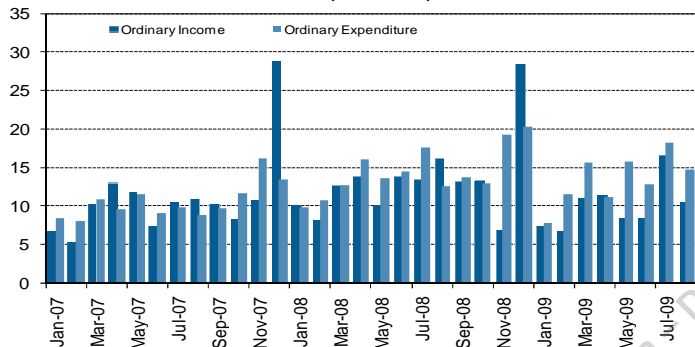
Real Expansion (M2)



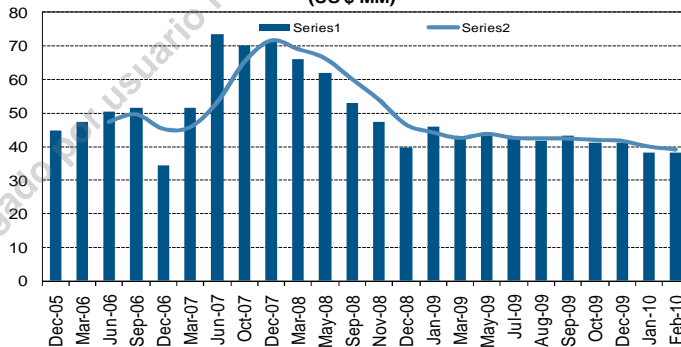
Inflation (Last 12 Months)



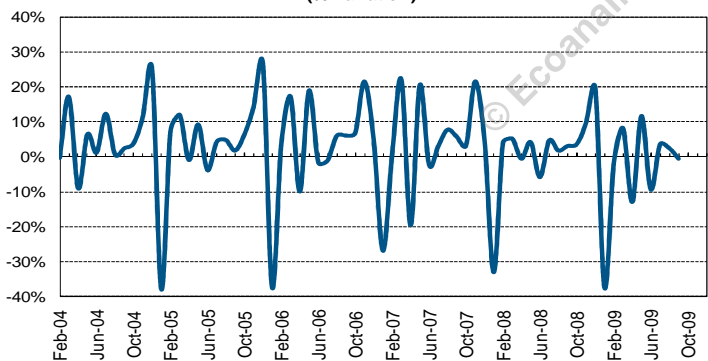
Central Government (VEB Billion)



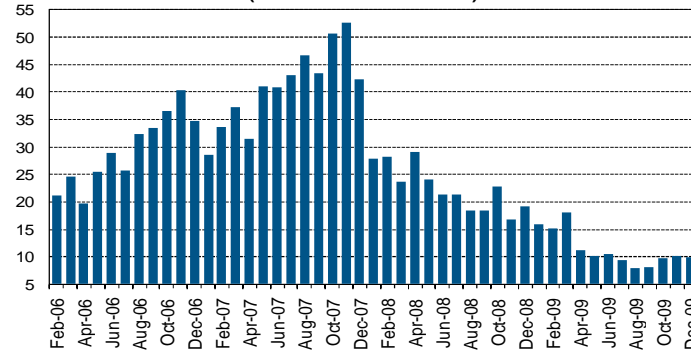
Resources of the State (US \$ MM)



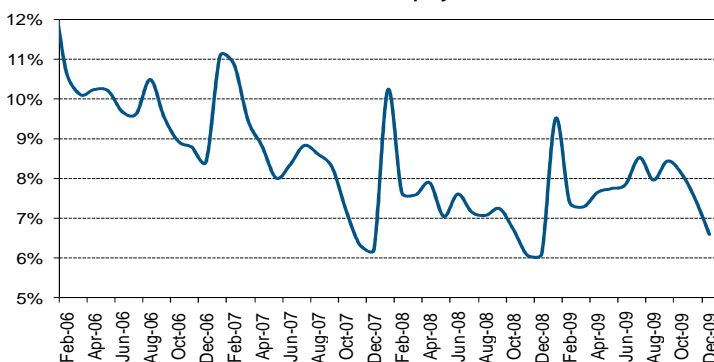
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

