



Weekly Report

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OUTLOOK FORUM ROUNDUP: MOST FREQUENTLY ASKED QUESTIONS

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Two weeks ago, **Ecoanalítica** held its Outlook Forum in Caracas and in the city of Valencia. The range of topics discussed was broad and many questions were asked, a number of them, due to time constraints, were not answered. This Report will focus on answering six of those unanswered questions.

Crossroads... the day to day grind

Why have so few petro-dollar (VEF4.3/US\$) requests been approved?

CADIVI finally began liquidating foreign currency requests this year by the second half of the month of February after having solved a series of technical and operative glitches. To date, CADIVI has approved around US\$4.8 billion in foreign currency, most of these operations being foreign currency request orders which were processed in 2009. CADIVI is behind on its liquidation of foreign currency request orders due to the significant debt it has accumulated with the private sector. At the close of 2009, the gap between foreign currency requests approved and the amount yet to be liquidated reached US\$ 7.0 billion. Logically, CADIVI is focusing on reducing this amount. And then there is the fact that imports eligible for the



VEF2.6/US\$ rate are given priority (food items and medicines). These are the sectors that the Administration wants to keep well supplied. As CADIVI's budget increases, and it is able to reduce the amount of approved foreign currency request orders pending from last year, then we'll see an increase in the liquidation of non-priority foreign currency request orders at the petrodollar rate (VEF4.30/US\$). At **Ecoanalítica**, we estimate that petrodollar rate request orders this year will be at around US\$ 14.61 billion.

What effect will increased public spending have on loan channels and loan restrictions?

Though it is true that public spending in Venezuela has been a bit more controlled during the last few years, it is still the main driving force behind the local economy. This year, the Administration will increase public spending. We expected it to be at around VEF 220.0 billion, with spending taking off during the second quarter of the year. This injection of resources into the economy will most certainly have a positive effect on financial system indicators. However, this will not be enough. The demands for loans have been shrinking due to the economic slowdown and the loss in purchasing power. In this kind of environment, banks tend to be less likely to take chances in the private sector and run the risk of increasing their percentage of delinquent loans. Banks, despite all the implications that come with it, always prefer to accept risk from the State (via debt) than the private sector. So, the private sector should not expect banks to be very loan friendly this year.

Should I buy an electric power generating plant or not?

The question may sound a bit silly and maybe even naïve, but we believe that it is a very pertinent question. We are not experts in the field of electric power generation and related matters, but analysts who specialize in this area all agree that the electric power system crisis that the country is facing is not something that is going to end soon. It is quite probable that we will feel the repercussions of this crisis for the next two to three years to come. It is very positive that the Administration is taking the situation seriously and taking steps to solve this matter, but the private sector should take this new element that is now a factor in our economy seriously and take steps to cover its effect. The Administration has said that it is evaluating the measures it will take to minimize the effects of the electric power crisis on the private sector. Minister Rodríguez Araque highlighted the idea of offering support to the productive sectors of the country, including the private sector, "to increase their capacity to generate their own power." Fiscal incentives are being evaluated as well as soft loans and/or preferential foreign currency rates. It's important to point out that according to Conindustria figures, the electric power rationing measure has affected production in the industrial sector by between 9% and 32% and affected production in general by an average of 25%.



**Are the
“operative”
international
reserves
figures
released by the
BCV accurate?**

During the last few years in Venezuela, mistrust in the figures released by different public sector organisms has been growing, and the Central Bank of Venezuela (BCV) is one of these organisms. According to the BCV Law, the international reserves include all of the following: 1. Gold coins and gold bars deposited in the BCV vaults and in other first class foreign financial institutions as recognized by international criteria. 2. Foreign currency deposits, cash, or time deposits; foreign currency titles issued by first class foreign financial institutions as recognized by international criteria. 3. Foreign currency deposits, cash, or time deposits; foreign currency titles issued by foreign public entities and international financial institutions in which the Republic has a holding or interest in and that are easily negotiable. 4. Special Drawing Rights or any other type of international trust currency. 5. Net credit position in the International Monetary Fund.

The term 'operational reserve' refers to the proportion of the reserves that are more liquid, which mainly U.S. dollars and other currencies. However, a broader concept could include gold holdings, given the conveniences that exist in international markets for the purchase and sale of this metal. According to the criterion of the BCV, expressed in "Technical Papers Series BCV 5"* operational reserves at the end of February 2010 were at US\$ 13,363 million, that including monetary gold would add up to US\$ 26,387 million.

We would like to point out that to date; we have no reason to doubt the accuracy of the figures released by the BCV with respect to this subject.

The debt... Always back to the debt

**How much
borrowing will
there be in 2010
and 2011?
Government or
PDVSA?**

We have written quite a bit about this subject in past Reports. In summary, we believe that borrowing in 2010 will be less aggressive than what it was in 2009, given the boost in resources the Administration got from the devaluation and the increase in the price of oil. The Administration will continue to carry out a domestic borrowing strategy and we don't rule out a long term issue of international bonds, though the amount won't be very significant. In the short term, PDVSA is expected to make an issuance of between US\$ 2.5 billion and US\$ 3.0 billion, but it's not clear if it will be for the market or if the BCV will acquire the whole amount. With respect to foreign debt, since so much was borrowed in 2009, we expect that for following two years the rhythm of borrowing will drop significantly.

* "... Is defined as operating reserves, international reserves excluding gold assets, the net credit position with the IMF, holdings of SDRs and the credits derived from the International Finance Corporation ..."



Why does the Venezuelan debt yield so much if they are so sure there will be no “default”?

This question is asked repeatedly, here at home and abroad. So we couldn't leave it out. It's always important to ask yourself: what are the costs of a default? The economic literature on the subject is fairly unanimous in stating that the costs associated with a default create enough incentives for a default not to occur. The paradox is that there is no consensus as to exactly what these “costs” are. Recent economic research has studied the different channels that would be affected by a Government defaulting on its debt. Among the channels studied is the traditional analysis of the cost to one's reputation. They also look into how a default affects economic growth; and evaluate what happens to the nation's banking system; and how it affects international trade; as well as the possible political costs an Administration has to evaluate when it is deciding to pay or not.

Another point which must be taken into account is the difference that exists between the capacity to pay and the disposition to pay. The markets evaluate this and it has been empirically proven that financial markets “punish much harder” those countries which carry out a strategic default, in other words that lack the disposition to pay. To date, Venezuela has no problem with respect to the capacity to pay, but it does have a problem with its disposition to pay. For example, the Administration borrowing policy during the oil bonanza years (2004-2008) resulted in a partial buy-back of debt which lowered the percentage of debt with respect to GDP. This debt buy-back lowered the overall cost of debt service. So, considering any borrowing which may occur from now until the close of 2011, the amount owed in debt service will be fiscally manageable.

Another point to keep in mind in Venezuela's case, which limit the risks there may be in the country defaulting, is that PDVSA will need significant amounts of resources in order to be able to develop the Orinoco Oil Belt projects it has scheduled. If there were a default, the international markets would black list the oil company or the Government. This would at the very least delay all these projects if not stop them all together. Plus, the Administration uses issuances of bonds in foreign currency as a means of injecting foreign currency into the private sector. If there were a default, it would not be able to continue with this mechanism and it would have a much harder time controlling the exchange market.

And the political impact? One always has to keep these in mind. Administrations which default do not remain in power for very long. This is the conclusion that a number of research studies have come to. Some studies even suggest that authoritarian regimes pay a higher political cost for defaulting. And given the negative impact a default has and how it will



undoubtedly affect the economic growth and wellbeing of the nation, all this becomes even more significant this being an election year. And since the next presidential election will be held in 2012, we do not believe that there is any chance of a default before then. Another argument that points to the Government not considering a default is that most of the foreign borrowing has taken place during the current Administration's tenure, especially since 2003, therefore President Chávez has no room to use Ecuador's President Correa's argument of disowning the debt owed and labeling it as illegitimate because it was issued by previous Administrations.

**Other reasons
not to default:**

Here are some other reasons why the Administration will not default on the debt and why there is very little risk of a default occurring in Venezuela in the short term. • Currently, around 41.2% of the public debt, calculated at the official exchange rate, (including PDVSA debt) is domestic debt. It is denominated in bolivars. Given that a significant portion of the Government's fiscal revenues is in US-dollars (thanks to oil), the Administration can always devalue the currency in order to lower the amount of domestic debt measured in US-dollars. This is what is commonly known as liquefying the debt. We saw an example of this at the beginning of this year.

• In 2007, President Chávez announced that Venezuela was getting out of the International Monetary Fund (IMF). But then the Administration found out that a number of Venezuelan bonds had a clause which stated that if the country were not a member of the IMF the bond was in technical default. Since then there has been no more mention of leaving the IMF.

• And lastly, but not any less important, the price of oil on the international market is rising. This has improved the public sector cash flow situation significantly. The Venezuelan oil basket has improved by around 84% since January 2009 to date. Experts in the field say that oil prices should remain around current levels.

In conclusion, as we have said a number of times before, the costs of declaring a default (in the coming years) are much greater than any benefits which could be derived, and the Administration is very much aware of this.





Central Bank of Venezuela Law reform. In the Central Bank of Venezuela (BCV) Law reform draft one can see a number of worrying changes, such as the modification made to Article 2 which states that although the BCV is not subordinate to the Executive Power, it must work together with it for the greater good of the State and the Nation. Article 23 takes sanctioning powers away from the BCV board of directors by stating that when necessary decisions can be made by the President, two board members and the first vice-president, when normally decisions can't be made without the presence of three board members. Another worrying modification is that a new type of asset has been included for the international reserves. It has been defined as any other asset which is classified as a reserve according to international criteria. We will focus on these subjects in our next Weekly Report.

Fiscal Balance of 2009... The Central Bank in its report for the *Asamblea Nacional* shows a primary and financial fiscal deficit in terms of GDP of 4.0% and 5.4%, respectively, for the second consecutive year. This is reflected in a decrease in terms of GDP of 2.6% of the income and an increase of 0.6% of the expenditure.

Exchange policy executed in 2009. Another mentioned aspect by the Central Bank in the Report to the *Asamblea Nacional* is the availability of currency of US\$34.276 million for 2009, which is 35.6% less than 2008. Of this amount were authorized and liquidated US\$31.256 million, of which US\$21.290 million were designated to the private sector, US\$6.306 million to the Aladi agreement and US\$3.660 million to the public sector.

Another transfer of funds to FONDEN. Last week the BCV made another transfer to the National Development Fund (FONDEN) for US\$500 million putting the total amount transferred at US\$4.50 billion. With this transfer the BCV has deposited 64% of the US\$7.0 billion it will transfer to FONDEN this year.

The INE Food basket is up. According to the National Institute of Statistics (INE) the Normative Food Basket was at VEF 1,113 for the last week in February, said INE president, Elías Eljuri. This reflects a 1.1% increase in the cost of the basket compared to the cost in January. However, when comparing the cost of the basket between February 2009 and February 2010 we see an increase of 14.0% in nominal terms but a 10.2% drop in real terms. The minimum wage is currently at VEF 1,064.3, so one minimum wage would not be enough to purchase the basket.

The cost of the basic basket in February. According to figures released by the Center for Documentation and Analysis for Workers (Cenda), the basic basket for food, goods and services was at VEF 4,081, up by 1.1% compared to the cost in



January. Increases were spearheaded by health products (up 3.6%), housing (1.9%), and basic public services (1.8%).

Venezuelan productivity down. According to the Inter American Development Bank (IDB), between 1960 and 2005, Venezuelan productivity dropped by 47% compared to the United States. This information appears in a study published including 76 countries from all the continents. During the same period of time, China increased productivity by 219%. Chile is the only country in Latin America to improve productivity.

National Treasury releases revenue figures. The National Treasury Office released the fiscal management figures for the month of February which reflect the accumulated current revenue figures for the first two months of the year at VEF9.72 billion which represents an accumulation of VEF 18.16 billion. Of these, 34.5% comes from the oil sector, 63.1% from non-oil collection, and 2.3% comes from extraordinary revenues.

Spending figures for the month of February. Spending for the month of February was at VEF 14.35 billion, with the two month spending total at VEF25.08 billion. Of this amount, 67.1% was spent in transfers, 4.9% in payments, 3.5% in debt service, and 24.6 % in other expenses. During the first two months the Administration has accumulated a VEF 6,927 million deficit.

Interest rate. The lending rate for the first week in March was at 19.4%, up by 28 base points compared to the previous week. Time deposits and savings rates were at 14.5% and 12.6%, respectively, remaining steady.

International reserves. International reserves went down by 3.6% going from US\$30.66 billion during the second week in March to US\$29.55 billion during the third week. Compared to the same period last year, international reserves have increased by 2.4%.

Monetary liquidity. Monetary liquidity for the first week in March was up by 0.3% compared to the last week of the previous month settling at VEF 235.51 billion, up by 23.2% in nominal terms but down by 3.0% in real terms compared to the same period last year.



Crude oil prices up due to OPEC decision. OPEC decision to maintain current production quotas though oil prices are steadily rising has further pushed prices up. A barrel of WTI is at US\$83 and Brent is at US\$82, up by US\$1.23 and US\$ 1.43 respectively. The oil cartel produces 40% of the total worldwide production of crude oil. It will maintain daily crude oil production at 24.84 million barrels daily. It considers the recovery of oil prices to be “frail and uncertain.”

The US-dollar gains. The US-dollar has gained on the EURO due to worries stemming from the Greek debt. This has had a negative effect on oil prices leading to an 0.88% drop in price leaving prices at US\$ 82 per barrel and putting an end to the last two days increase in oil prices.

Venezuelan oil reserves increase. Venezuelan oil reserves increased by 23.1% compared to 2008. According to the *Gaceta Oficial*, 39.95 billion barrels of oil were incorporated from the traditional areas around Barcelona, Maracaibo, Maturín and Cumaná, plus other blocks from the Orinoco Oil Belt were also added. With this, total reserves at the close of 2009 equal 211.17 billion barrels making Venezuela the country with the second largest oil reserves in the world after Saudi Arabia.

Much more than budgeted. The difference that exists between the yearly average price for crude oil which the National Budget was based on and the current yearly average price of the Venezuelan crude oil basket afford the Administration a lot of room to maneuver in terms of fiscal spending. According to figures released by the Ministry of Energy and Petroleum, the Venezuelan oil basket is averaging US\$70.4 per barrel for the year, 76% more than the US\$40.0 barrel price the National Budget was based on. This gives an extra US\$30.4 per barrel more for the Administration to play with and gives PDVSA added revenues of US\$4.03 billion.

PDVSA changes strategy in Ecuador. PDVSA is going to develop a new strategy to explore for natural gas in the Gulf of Guayaquil which has to do with using 3D seismic technology, according to Rafael Corea, President of Ecuador. He continued to say that although the first round of exploration was not successful (PDVSA paying for all the cost), that PDVSA was continuing with the project and “still working with Ecuador.”

World reserves lower than expected. According to a report released by a senior scientist attached to the British Government, David King, world oil reserves have been overestimated by up to 30%. This report, alongside the opinion of other researchers from the University of Oxford affirm that existing official data introduces figures that are much greater than what in reality exists. This is much like what occurred in the 80s



with OPEC member countries overestimating their oil reserve figures due to the ferocious competition that existed in the market. In Kings opinion, current world oil reserves estimates which are at between 1.15 trillion and 1.35 trillion barrels should be reduced to between 850.0 billion and 900.0 billion.

PDVSA considering investing US\$1.50 billion in Refinería Isla. The president of PDVSA, Rafael Ramírez, announced that the company is in negotiations with the authorities of the island nation of Curacao, to invest US\$1.50 billion in the *Refinería Isla*. This investment would give PDVSA shares in this refinery that has a processing capacity of 335 kb/d.

OPEC supports Ecuador project. During the last OPEC meeting held in Vienna this month, the oil cartel manifested its support of Ecuador's Yasuní-ITT project which proposes not to exploit oil reserves found in its Amazon region (around 850 million barrels of crude oil), in exchange, the international community will give the country a monetary compensation equal to half of the revenue it would receive for developing the area. This proposal will avoid the generation of around 410 million tons of carbon dioxide.

PDVSA gasoil deliveries to Petropar under investigation. According to Paraguayan law, fuel imports must be delivered by ships flying Paraguayan flags, something which PDVSA has not been doing since it has been using its own fleet of ships to deliver the gasoil, a clear breach of Paraguayan law. Currently, Petropar owes PDVSA around US\$275 million. A Venezuelan mission is headed to Paraguay this week to negotiate some mechanism by which this debt may be paid.

International baskets. At almost closing time in the New York market on March 25, WTI was trading at US\$80.4/bl, down by 2.2% compared to the US\$82.2/bl it closed at the previous Friday. Brent was down by 3.3%, compared to the US\$80.6/bl it closed at on Friday, March 18 and settled at US\$77.9/bl.

Local basket price. The price of the Venezuelan oil basket on Friday, March 19 was US\$72.7/bl, down by US\$0.6 compared to the US\$73.3/bl price it closed at on the previous week. The yearly average price for the Venezuelan oil basket increased to US\$70.5/bl.





Companies closing down due to failure to meet power cutback quotas. On Monday, March 22, 80 business had their power cut off for 24 hours due to failure to meet their electric power cutback quotas (20% cutback in power consumption). Losses incurred due to this measure are estimated in being between VEF 30,000 and VEF 50,000. Some of the businesses sanctioned are worried that food items they have stored will spoil due to the power being cut for 24 hours.

Despite measures taken, power consumption didn't drop enough. A number of the 80 business which were sanctioned and had their power cut for 24 hours said that they had taken measures to cut consumption, but they weren't enough to cutback 20%. Some business even spent significant amounts of money in order to cutback power consumption, and they were unable to cut 20%.

Losses in the millions at MMC. In a public press release, MMC Automotriz, makers of Mitsubishi, Hyundai and Fuso in Venezuela, denounced that due to a failure to obey the law and acts of violence, the company has not been able to maintain operations at its Barcelona plant in Anzoátegui state. 1,495 vehicles which should have been assembled have not been and losses are at VEF 62.4 million.

GM estimates production in 2010. General Motors de Venezuela (GMV) estimates that it will produce 80,000 units in 2010. This means that the plant will be at a little over half of its production capacity and it will be way below previous production figures estimated for 2008 and 2009 of 120,000 units and 140,000 units respectively. However, company president, Ronaldo Znidarsis, said that the year has begun well with increased sales and a 50% share of the market.

Must finish around 80,000 houses. According to information released by the public sector there are around 80,000 housing units still pending from housing projects dating back to 2001, 2002, and 2007. Of these pending units, 25,000 are still under construction, 40,000 have permits to begin construction, but haven't begun yet, and 15,000 are completely paralyzed. Minister of Public Works, Diosdado Cabello, has stated that 120,000 housing units have to be finished by the end of the year.

Goal dropped significantly. Private sector builders estimate that they will build around 44,300 housing units this year, 30,000 units less than what they built in 2009, in other words, down by 45%. The Administration's decision to not allow CPI variations to be included in the price of pre-sales agreements. The houses finished in 2009 went from 98,246 units to 81,000



Socialist Fish Fair. The Venezuelan Food Corporation (CVAL) sold more than 300 tons of food during the second Socialist Food Fair. According to the Minister of trade, Richard Canán, the fish most purchased was Tuna sold at VEF 15 per kilogram while the market price is at VEF 33 per kilogram.

Mercal expanding. According to announcements made by the government, it is contemplating increasing the monthly distribution of food items from 130,000 tons to 140,000 tons. Of these, 110,000 tons would be of the 14 subsidized products sold through the food chain, while the other 30,000 tons would be unsubsidized regional products produced by small or medium sized producers that have loans with the State.

Labor conflicts create complications for cheese production. A number of cheese processing plants are going through a hard time seeing their production numbers dropping by between 30% and 50% due to labor conflicts which occur almost daily. The sector has had to ask the National Assembly to step in and mediate the problem, but this has not helped the situation much.

Public sector monies being relocated from private banks. The Government has been transferring its deposits in private sector banks to public sector banks, mainly the *Banco de Venezuela*. Public sector deposits in public banks have increased by 74.6% this year going from VEF 13.43 billion to VEF23.45 billion.

Another expropriation ordered. President Chávez ordered that the industrial park area belonging to the San Francisco municipality in Zulia state be expropriated in order to transform it into social production property. The order to intervene and expropriate was issued to Mayor Omar Prieto, who must now expropriate all the warehouses that are not being used.

World Crisis Tips

Barack Obama's Health Care Reforms are passed. The health care reform proposed by President Obama since he was candidate was finally passed. With the reform, health care system coverage is expanded to 32 million US citizens who do not have health insurance. Republican representatives unanimously voted against the reform because of its costs; however, the reform was passed by the House of Representatives 219 to 212. The reform will cost US\$940.0 billion over the next 20 years. According to the reform, insurance firms may not deny insurance coverage to



people with preexisting conditions and low-income citizens may be granted subsidies to obtain health care insurance coverage.

Economic Activity Indicators in the US improve more slowly. The Conference Board Leading Economic Index recorded a moderate increase of 0.1% in February with respect to the previous month, after having improved 0.3% in January. Only 4 of the 10 components improved, whereas almost all of them improved in December. The Coincident Economic Index recovered just 0.1%, after a 0.2% growth one month before. The Lagging Economic Index, in turn, registered its first growth since January 2009, because the average duration of unemployment shortened and labor costs increased more rapidly.

US Current Account Deficit was the lowest since 2001. US Current Account registered a US\$115.0 billion deficit in the fourth quarter of 2009, after closing with a US\$102.3 billion deficit in the previous quarter. Yearly deficit for 2009 was US\$410.0 billion (2.9% of GDP), much less than in 2008, when this indicator totaled US\$706.1 billion for the lowest deficit since 2001 and the smallest in terms of GDP since 1998 (2.4%).

Trade Deficit in the Eurozone. The first estimate of Eurostat for the Eurozone trade balance (EA16) puts deficit numbers at €8.9 billion, for a significant decline from January 2009 levels (€12.1 billion), whereas EA16 posted a trade surplus of €4.1 billion in comparison to a €1.7 billion deficit in December 2008. In the European Union (EU27), the trade balance performed similarly, with a €22.5 billion deficit in January 2010 compared to a €28.0 billion deficit for the same month in 2009. The overall improvement in trade balance in 2009 was due to the energy commodity prices (€233.8 billion deficit in 2009 vs. €375.1 billion in 2008).

But not all countries have similar performances. The countries with the highest trade balance surpluses in 2009 include: Germany (€135.8 billion), Holland (€37.9 billion), Ireland (€37.4 billion), and Belgium (€12.8 billion). Those with the largest deficit include the United Kingdom (-€92.6 billion), France (-€54.5 billion), Spain (-€49.5 billion), Greece (-€28.5 billion), and Portugal (-€19.0 billion).

Greece asks the EU for help and talks of IMF. Greek Prime Minister, George Papandreou, asked European leaders to spell out a possible rescue plan for Greece in the event that this country was not capable of refinancing its debt obligations for this year. Papandreou insists to repeat that Greece does not need a financial rescue, because the fiscal austerity measures taken by his Government will be enough, but that markets continue to be speculative towards Greek debt papers, with the resulting increase in debt and refinancing costs with respect to the rest of the EU. The Greek Prime Minister threatened that if the EU does not send a clear financial support



message, Greece should request the IMF's aid. Markets would perceive this decision very badly and as a failure of the euro project, thereby adversely affecting the entire EU.

Germany urges Greece to turn to the IMF. German Chancellor, Angela Merkel, rejected George Papandreou's idea to present a rescue plan for Greece, because it is not necessary to take immediate actions if Greece has not officially asked for financial aid. Merkel also urged Greece to turn to the IMF and suggested that Papandreou was only bluffing. French government, on the contrary, supports the idea of helping Greece, or at least of resolving the crisis within the EU borders.

Investors are cautious in Germany. The ZEW (Center for European Economic Research) survey for the month of March reveals that German institutional investors' and analysts' perception of the future macroeconomic situation has been worsening since September 2009 (57.7% vs. 44.5%), even though perception of current macroeconomic conditions has continuously improved. Furthermore, expectations in terms of future benefits have also improved in a sustained manner in all business sectors. Therefore, deterioration of macroeconomic expectations may be attributed to debt and deficit problems in Greece and other countries in the European Union.

Good news on the UK labor market. Despite Britain's economic weakness, labor market data in February reveal that the number of applications for unemployment benefits decreased by 32,000 with respect to January. A comparison of the mean over the last three and six months to that of the previous mobile quarter and semester shows that applications decreased 36,600 and 20,900 on average, respectively. During the November-January mobile quarter, unemployment rate remained unchanged with respect to the previous quarter, at 7.8%.

Political Tips

Control of the Internet. The National Assembly passed a draft agreement to reject the publication of webpages that allow hatred and violence and lead to apology of crime. The AN appointed a special committee that will investigate webpage administrators that commit crimes established in the Venezuelan Criminal Code and the national Constitution, and will discuss sanctions which may be applied and measures that may be taken in relation to these crimes. The committee will be made up of members of the Permanent Committee of Internal Affairs, Justice, Human Rights and Constitutional Guarantees and the Permanent Committee of Science, Technology



and Communication of the Venezuelan assembly. Public branches of power were requested to open an investigation procedure of web portals that make improper and unethical use of Internet as a communication means.

But it belongs to everybody. In his Sunday TV shoe, President Chávez denied the rumor according to which Internet would be controlled, assuring that his Administration's strategy is empowering the people, and the main power is knowledge. Furthermore, President Chávez urged his followers to not to let that technology dissemination "contributes to widen the gap between rich and poor; rather, the people should use the knowledge of technology to improve their living standard, achieve their national independence, national sovereignty, fight against the values of Capitalism that are being disseminated through the Internet."

Arrest warrant against Oswaldo Álvarez Paz. The 25th Court of the Caracas Metropolitan Area issued an arrest warrant against the former governor of Zulia state and former presidential candidate, Oswaldo Álvarez Paz, who was charged with "conspiracy, inciting the public to commit crimes and disseminating false information," while he was being interviewed at Globovision's TV show, *Aló Ciudadano*.

Zuloaga captured... The businessman, Guillermo Zuloaga, was capture at the airport Josefa Camejo of Punto Fijo, when he was leaving the country to Bonaire with his family. According to the DA attorney, Luisa Ortega Diaz, an arrest warrant existed against Zuloaga due to suspicion that he was going to leak. This measure was taken after the statements that Zuloaga made in the SIP, being considered as offensive and disrespectful to the President.

... **"It is not political persecution."** The chairman of the Committee of Science, Technology and Communication of the National Assembly, Manuel Villalba, said in an interview that the arrest warrant against Oswaldo Álvarez Paz "is legal" and "nobody can claim that it is a political persecution." He added that Álvarez Paz has to assume his responsibilities like any citizen who makes false statements that disrespect the Constitution."

Nonetheless, the hearing was suspended. Oswaldo Álvarez Paz's hearing was suspended because the prosecutor didn't appear in the court, as informed Juan Carlos Álvarez, Álvarez Paz's son. He also said that defense attorneys must wait for the defendant appearance in Court in order to definitely request a conditional release precautionary measure.

IAPA condemns Chávez's actions. The Inter American Press Association (IAPA) condemned President Chávez's actions against freedom of speech and the right to information. In a document prepared by IAPA, the Organization of American States



(OAS) is requested to grant permission to the Inter American Commission on Human Rights and the Special Rapporteur for Freedom of Expression to visit Venezuela in order to solve the problem.

64% of candidates have been agreed. 15 days before the deadline agreed upon in December, political parties, electoral groups and civil associations that make up the regional representations at the Mesa de la Unidad Democrática (Democratic Unity Board), appointed 104 candidates (lists and circuits) in 14 states, which accounts for 64% of the total posts to be elected for the National Assembly.

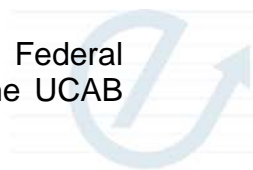
Bilateral Cooperation: Chávez and Lukashenko. Belarus' President, Alexander Lukashenko, offered to support the Venezuelan government for the construction of a national defense military system. Lukashenko also asked for assurances to invest in Venezuela's agricultural and housing sectors. The agreements made include the construction of three tractor factories, 5 homes for "low-income families" and the creation of a trade firm to offer products to ALBA member countries.

...And also with Ghana. The president of Ghana, John Evans Atta Mills, through his special representative, Cap. Kojo Tsikata, and together with the Vice Minister of Foreign Affairs, Chris Kpodo, and Ambassador Samuel Kofi Fafey, created a commission intended to establish and intensify relations between Ghana and Venezuela. The commission is to meet with representatives of the Fundación Gran Mariscal de Ayacucho (Fundayacucho), the National Antidrug agency, and the People's Ministries for Higher Education and Agriculture, in order to reach agreements in different areas of mutual cooperation.

Gerratana follows Falcón's steps. Franco Gerratana, Mayor of Roscio Municipality, the city of San Juan de los Morros, left the PSUV (Socialist party) to join Patria Para Todos (PPT). José Albornoz, secretary general of PPT, made the mayor's accession to the party official and explained that Gerratana "was abandoned by his party and had to do things by himself, alone," "he had no choice" and his initiative to work with the *chavista* William Lara was not heard.

Carlos Andrés Pérez's extradition was approved. The national government may request the US to extradite Venezuelan former president Carlos Andrés Pérez so that he can be prosecuted by the developments occurred during the *Caracazo*. The Criminal Cassation Chamber made the decision. Pérez, in turn, rejected this action and reminded that no measure has been taken for the assassination attempt against him on February 4, 1992.

Law threatens economic freedoms. The new Law of the Government Federal Council adversely affects the country's economic freedoms, in opinion of the UCAB





Law School Dean, José María Casal. The lay modifies Constitutional principles, because it doesn't promote decentralization and the transfer of powers to states and municipalities, and imposes a communal State that doesn't correspond to the guidelines established in the Constitution.

Falcón: "The process has no owner." Governor of Lara state, Henri Falcón, in a meeting held with the attendance of more than 20 thousand people, said that the revolutionary process "has no owner," it isn't a franchise and for this reason we "urge people to express and decide what they want," and stressed that dialogue is important and that the Constitution must be the beacon that guides the "fate of the homeland."

Keller's numbers. An opinion pool prepared by the firm Alfredo Keller y Asociados reports deterioration of living conditions in Venezuela, the electric power crisis, the economic situation, the parliamentary election, students, president Hugo Chávez and his ideological project, among other issues. The pool was carried out between February 26 and March 14, 2010 and is the first quarterly survey of this year. 63% of the respondents consider that Venezuela is not doing well and 80% has problems with electric power supply. Although 53% of the interviewed blames drought for the electricity crisis, 65% believes that the Administration is not taking proper measures to face the crisis. 85% has problems finding some food items and other staples; 66% say they are adversely affected by devaluation.

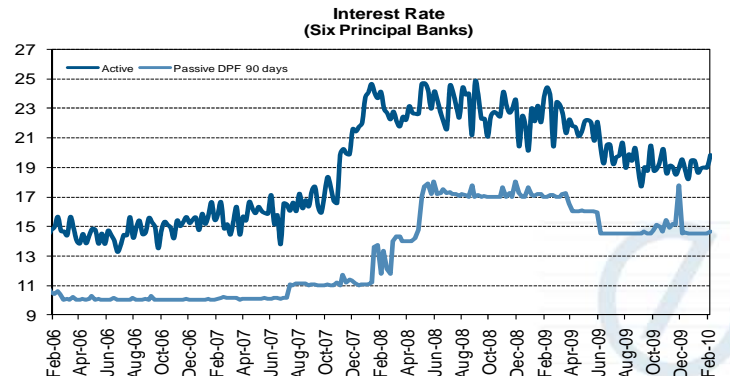
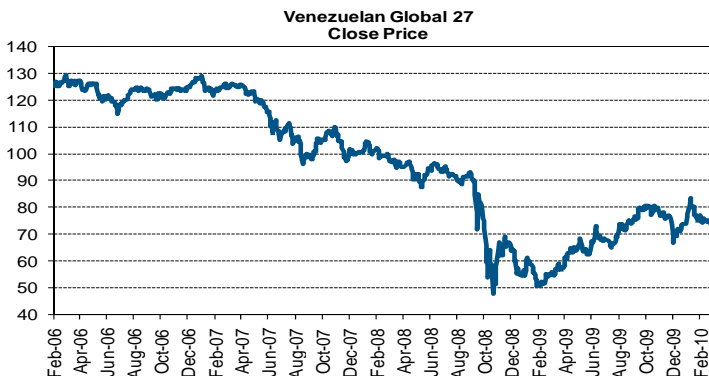
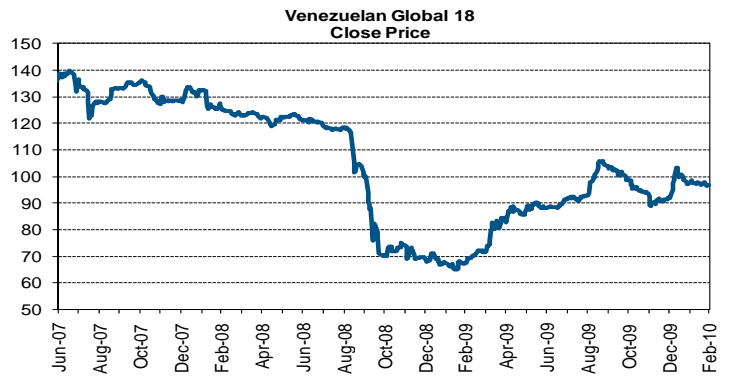
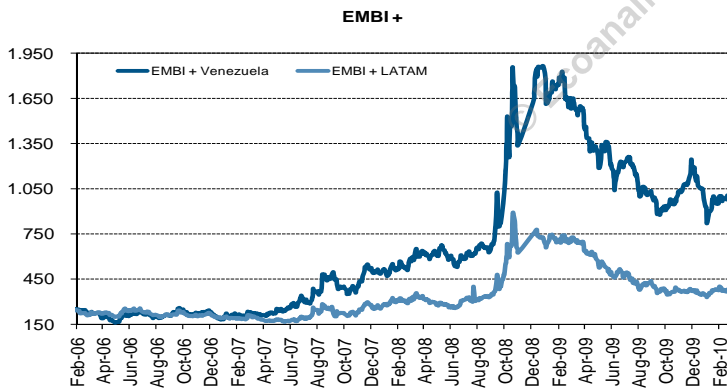
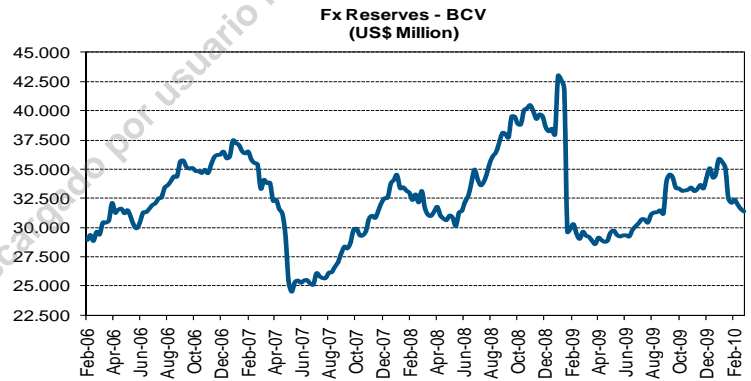
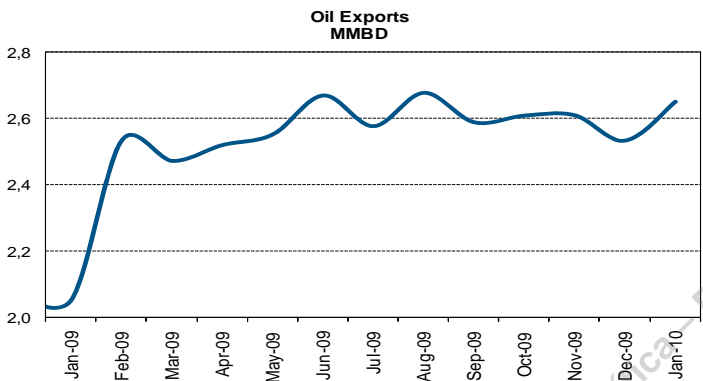
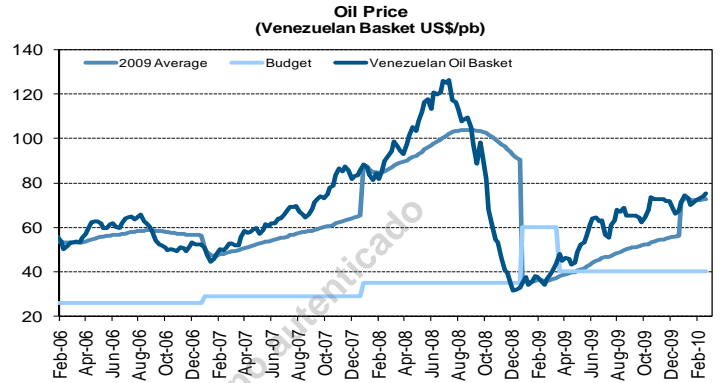
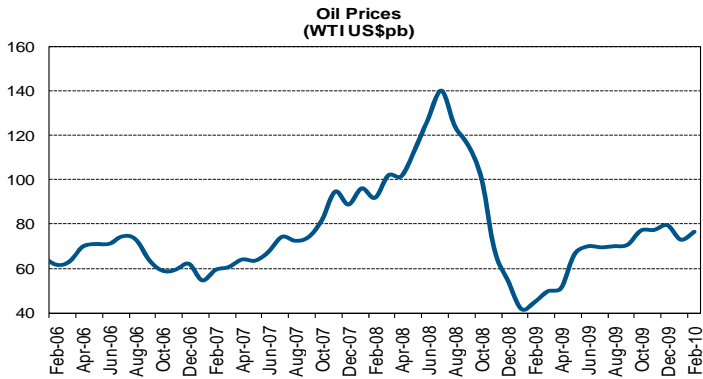
Other topics. 58% assure that expropriations are negative for the country's development and 55% say that conversion of private companies into social property enterprises is a negative measure. All this happens while President Chávez faces 49% of rejection vs. 43% of approval, for the first time since 2003.

It's not massive. The Vice President of the Political-Administrative Chamber of the Supreme Tribunal of Justice, Yolanda Jaimes, explained that the retirement of the TSJ justices will only be granted to those that meet the legal requirements. Jaimes reiterated that the National Assembly informed about the real situation of the resolution according to which the TSJ judges will be retired and stressed that only those judges that meet the legal requirements will be retired and not all the judges of the TSJ, explaining that only a few meet said requirements. These justices will remain in their posts until the TSJ appoints their replacements.



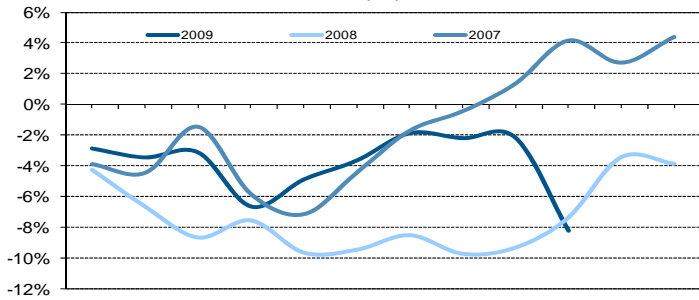


ECONOMIC OVERVIEW

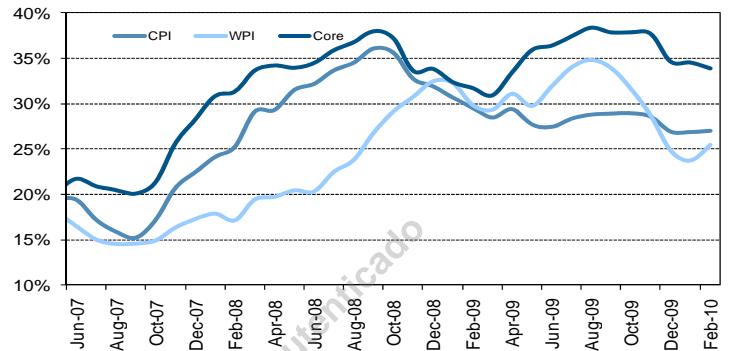




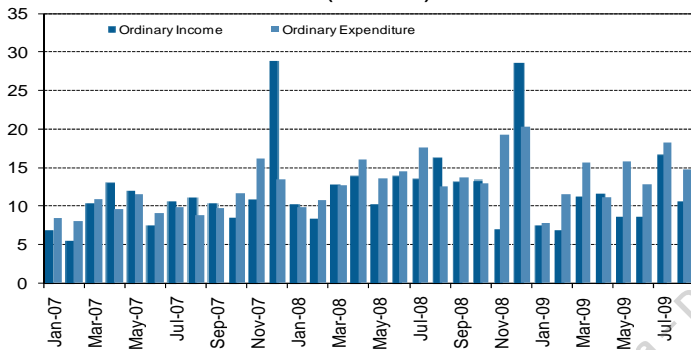
Real Expansion (M2)



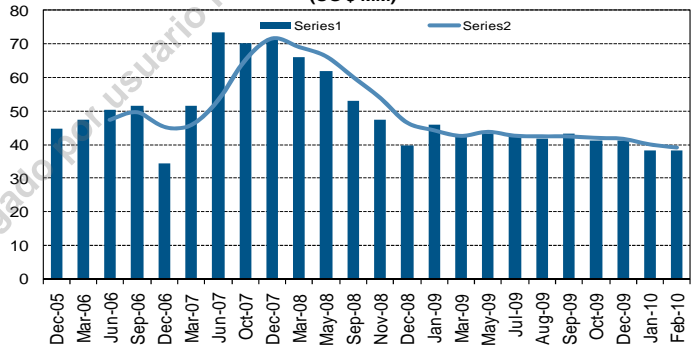
Inflation (Last 12 Months)



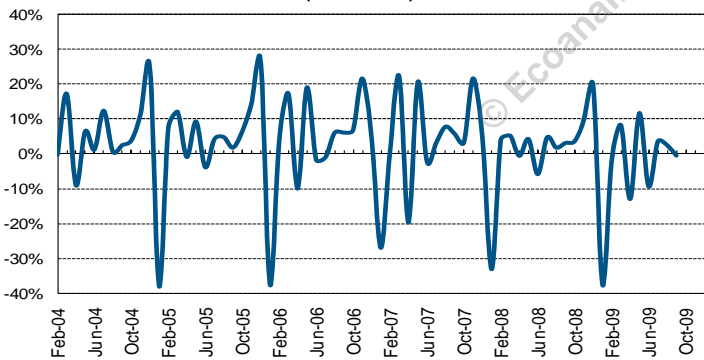
Central Government (VEB Billion)



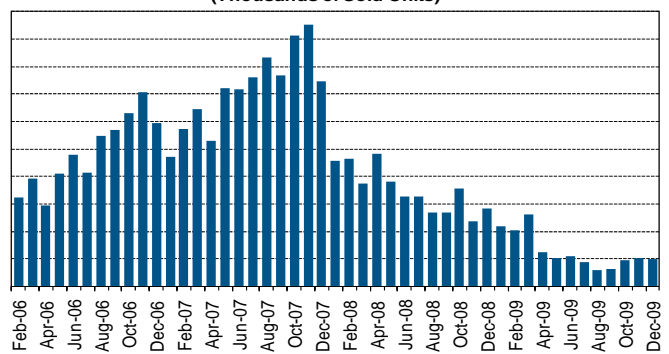
Resources of the State (US \$ MM)



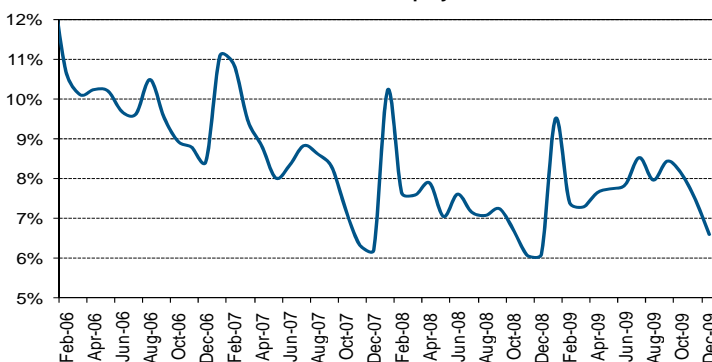
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

