



Weekly Report

Year 6, Number 12
Week I, April 2010

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Amendment to the central bank of Venezuela law: The tale of the mere billion

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Everyone knows that, a few years ago, President Chávez made a request to the Central Bank to let him have “a mere billion dollars” to finance development and investment projects in the country. When the request was made, the Central Bank’s Board of Directors put up some resistance. In time, however, the Executive got its way and it has turned out to be not just a “mere million.” Now the figure runs to more than US\$37.5 billion, besides the implementation of new mechanisms for financing the treasury.

An addiction

While the comparison may sound strong, the relationship between the Executive and the Central Bank reads like the story of an addict. Like an addict, the Executive, which established the autonomy of the Central Bank in the 1999 Constitution, started to demand the foreign exchange profits and, as that was not enough, it then demanded changes to the rules governing PDVSA’s revolving fund and set up FONDESPA. Not content with that, it established the concept of surplus reserves and the obligation to make transfers to FONDEN. As can be seen, already at this stage of the story, the Central Bank’s autonomy was somewhat impaired. But, like the addict, the Executive needed more.



The 2009 amendment

Then last year, the National Assembly passed an amendment to the law that governs the functioning of the Central Bank. The main aspects of this amendment are as follows:

- It gives the Central Bank the power to grant credits for the purpose of contributing to the country's development. In this sense, bonds issued by the Republic and decentralized entities also become instruments for providing credit aid.
- It gives the Central Bank's board of directors the power to set interest terms and rates. However, the most relevant aspect is that it orders the board of directors to establish special interest terms and rates for programs classified by the Executive as being priorities for the country and carried out in the agricultural, manufacturing, construction, and agri-food sectors, projects with export capacity, and projects aimed at the formation of monetary gold.
- It orders the board of directors to establish special terms for the financing operations of the sectors mentioned in the previous paragraph.
- It establishes special conditions for discount and rediscount operations, when these operations are conducted with State institutions or funds set up for the development of those sectors.
- It allows the Central Bank to purchase PDVSA's credit instruments. Any such offer must be authorized by the Executive and, moreover, the opinions of the Ministry for the Economy and Finance and the Central Bank will be binding when it comes to the financial terms of issues of PDVSA's credit instruments.
- In the event that the Central Bank acquires part of the credit instruments issued by PDVSA in foreign currency, it establishes that said papers shall constitute an asset in foreign currency and be added to the country's international reserves when they are cashed in or mature.
- Lastly, it establishes that the Central Bank is under the obligation to transfer international reserves to FONDEN; the amounts to be transferred being the difference between the optimum level of the reserves and their level at the end of each semester. Said transfers shall be made 15 days following the close of each semester.



In our opinion, this amendment already contained somewhat polemical elements by establishing indirect mechanisms for financing the National Treasury. Those of us who thought that the Executive would be satisfied were wrong. That was not the case.

A new amendment

The justification for a new amendment to the Central Bank Act is twofold: first, to allow Minister Jorge Giordani, who is currently the Minister for Economy and Planning, to continue occupying his seat on the Central Bank's board, given that the law forbids the Finance Minister to be a director of the Central Bank; and second, to give the Central Bank greater powers for handling financial crises, as a result of the events that occurred at the end of last year with a number of banks. However, the changes to the law were much more far-reaching.

Venezuela's recent mini financial crisis had three significant consequences: first, the public sector became a key player in the Venezuelan banking system, controlling just over 25% of the system's deposits; second, the cost to the State, which came to around VEF 15 billion; and third, the perception in top government circles (in particular Giordani) that the only thing the Venezuelan financial system does is to "speculate," that its contribution to development is limited, and that it operated with practically no control of any kind.

As a result, two laws have already been passed -the National Financial System Act and the amendment to the Central Bank of Venezuela Act- and an amendment to the Banking Act is in the pipeline. Without going into any great detail, these laws seek to increase the controls over players operating in the domestic financial market. The Central Bank also gains power, as does Giordani, who heads up the OSFIN (Higher National Financial System Body).

What's new?

Although Merentes says that the amendment to the Central Bank Act will allow the Central Bank to take rapid decisions if negative symptoms are observed in the banks, it goes much further. The article that gives us most cause for concern is the amendment to Article 127 on the international reserves. This article adds a new group to the traditional classification of international reserves: "*any other asset classified as a reserve in accordance with internationally recognized criteria.*" What does that mean? What does that open the door to? Sovereign bonds, PDVSA bonds, bonds of other countries or, even worse, structured notes? Is it via this loophole that the Central Bank is going to intervene in the swap market? We will have to wait and see. But the law is already on the statute books and, with it, the mechanism and the power to act.



Other aspects Here we are going to provide a brief overview of the most relevant points in the law that, in our opinion, give cause for concern.

It does undermine autonomy Even though the Central Bank's president, Nelson Merentes, insists that the amendment to the law does not undermined the Central Bank's autonomy, the changes made to Articles 2 and 71 make us think otherwise. Article 2 states that the Central Bank "*will contribute with the latter [the Executive Office] in the realization of the higher purposes of the State and the Nation.*" Even more conclusive is the change made to Article 71, which states that "*in the drawing up of the Central Bank of Venezuela's Strategic Plan, it shall ensure that it abides by the Plan of the Nation's general guidelines...*"

"New" mechanisms for financing the public sector The modification of Article 37 includes the exception that the Central Bank may accept the property or property rights of third parties in trust funds required by the Executive "*in the context of projects of interest for the development of the national economy*" (paragraph 14).

The positive side In *Ecoanalítica's* opinion, the Central Bank Act provides the Central Bank with more leverage when it comes to dealing with financial crises, besides more control in the so-called payment systems and in the execution of the foreign exchange policy.

Its role in financial crises On the matter of financial crises, the bill's explanatory statement stresses that "*it is recommended that the Central Bank of Venezuela's capacity to act to preserve the liquidity of the financial system be broadened by means of the incorporation of two new policy instruments: i) the possibility of granting loans using the loans portfolio as collateral in order to be able to provide financial institutions with liquidity; and ii) the possibility of acquiring the credit assets of financial institutions on the terms and under the conditions established by the Central Bank's Board of Directors to that end.*"

Greater Central Bank control over the foreign currency budget In foreign exchange matters, the Central Bank will have greater influence in discussions on the policy for allocating foreign currency. The bill highlights that the Central Bank will be represented on any special committees the Executive "*may create to hear and decide on such matters as the foreign exchange agreements determine, by one of its Board members or high-level officers appointed by the Central Bank; and that matters relating to strategic aspects in the area of foreign exchange operations that are considered in said committees will be submitted to the Board of the Central Bank of Venezuela for its consideration.*"



By way of conclusion: there is total consensus among economists regarding the Central Bank's separation from and independence of Central Government.

The importance of the separation of powers was established at the end of the 18th century, when the foundations of the modern state were laid. This separation is necessary to prevent a head of government from becoming a tyrant and to deconcentrate the power of the state so as to create minimal checks and balances. As there is consensus in politics on the separation of powers, by the end of the last century, we, the economists, had reached the conclusion that it was necessary to separate the objectives and functions of Central Government from those of the Central Bank. The function of Central Government is to provide the maximum level of well-being and progress for its population in a manner that is sustainable and based on criteria of equity. The basic function of a central bank, on the other hand, is to keep prices stable.

In this context, the government uses a variety of budgetary tools (spending, taxes, transfers, etc.) to encourage productive investment and human capital so as to generate sustainable growth combined with social responsibility, whereas the Central Bank controls the money-making machine in order to keep prices stable. It is healthy for these two functions to be separate, as a government could be tempted to print money in order to increase spending, thereby reducing taxes. Governments that, for different reasons, have not separated these two objectives have ended up with spiraling inflation. The most notable examples are Germany after the First World War and the Southern Cone countries (Argentina, Brazil, Chile, and Bolivia) in the 70s and 80s.

Consensus on the independence that the Central Bank of Venezuela should have was established in Article 318 of the Constitution of the Bolivarian Republic of Venezuela, which states: "...*The Central Bank of Venezuela is a juristic person under public law with autonomy for formulating and exercising policies within its sphere of competence (...) The Central Bank of Venezuela will have among its functions those of formulating and executing monetary policy, participating in the design and execution of foreign exchange policy, regulating local currency, credit, and interest rates, administering international reserves, and all functions established by law.*" In addition, Article 320 establishes: "*The Central Bank of Venezuela will not be subordinate to the Executive's guidelines and may not validate or finance deficitary fiscal policies.*"





Economic Tips

Net tax revenue. The net tax revenue made by Seniat between January and March of 2010 was VEF 23.4986 million, surpassing the raising goal of the year by 38,2%. The nominal variation of the Seniat collection for this year compared with 2009 was 35,0%, while the real variation stood at 5,9%. Checking further we observed that 33,5% came from Income tax, 50,7% from value added tax, 9,2% from customs revenue and 6,6% from other taxes like liqueur and cigars taxes.

Seniat collection (millions VEF)	January	February	March	Total
Income tax	1.175	1.021	5.670	7.866
Value added tax	4.122	3.845	3.936	11.902
Customs revenue	594	711	857	2.163
Other taxes	526	473	557	1.555
Liqueur	28	37	65	130
Cigars	453	382	429	1.264
Stamp duty	3	4	6	13
Successions	9	18	18	44
Games or gambling stake	19	17	17	53
Other	13	15	22	51
Net proceeds	6.416	6.049	11.020	23.486
Bonds	13	14	6	32
Gross proceeds	6.430	6.064	11.042	23.537

Source: Seniat y Ecoanalítica

Income tax returns up by 30%: According to Seniat, the base of people and companies filing income tax returns was up 30% compared to 2009. The number of returns rose to 4.6 million.

Publication on secondary exchange bond market: The Central Bank of Venezuela has issued a circular for financial institutions that use the Electronic Securities Custody System (SICET) for Venezuelan Exchange Bonds in which it states that these bonds may be traded up to seven working days prior to their maturity. In addition, in the case of bonds whose maturity date is 14/04/2010 or 15/04/2010, trading on the secondary market will only be allowed until 31/03/2010.

Number of employers in private sector down by 16.9%: According to figures published by the National Statistics Institute (INE), the number of employers in the private sector shrank by 16.9% between February 2009 and February 2010, a reduction of 72,839 employers in 12 months. The variation compared to the previous month was 21%. Explanations for this behavior include expropriations of private companies and the closure of companies due to the recession and electricity rationing.



Number of workers per private sector employer up: In February, there was an increase in the number of workers per private sector employer, from 10.8 in 2009 to 12.7 in 2010. This happened because the reduction in employers was proportionally less than the reduction in workers in the last twelve months.

More freelancers: One of the factors that have had the biggest impact on the labor market is the shift from being an employee to working as a freelancer, this being one of the few groups that have posted growth in recent months. According to the INE, the total number of freelance workers has risen by 312,960 in the last 12 months (an increase of 9.1%) to 3,770,476.

Informal workers up, but only slightly: The fact that the number of informal workers is increasing is yet another sign that the economy is not set on the right path. The number of workers in the informal sector rose by 4.7% between February 2009 and February 2010.

CDS DataVision downgrades Venezuelan debt rating to high-risk. According to CDS DataVision, Venezuelan debt is the riskiest in the world, while it also severely downgrades Greece's rating owing to its recent deficits. The company's quarterly survey of credit default swaps found that insuring Venezuelan sovereign debt is extremely costly as it has the highest risk rating, after outstripping Ukraine. Argentina occupies second place in the company's riskiest debt table.

Keeping to the schedule: This week the People's Power Ministry for Planning and Finance have announced the bond and treasury bill auction schedule for the second quarter of the year. It stated that the treasury bill auctions started on April 6 and that the auctions of Vebonos with a 91-day coupon period, payable semi-annually would start on April 7. The National Public Credit Office, abiding by established conditions, is to give details of the instruments and amounts to be auctioned in the weekly call to bid published via the Central Bank of Venezuela.

Interest rates: The lending rate for the fourth week of March was 17.7%, an increase of 5 basis points compared to the previous week. As for the rate on term deposits and the borrowing rate, they remained unchanged at 14.5% and 12.6%, respectively.

International reserves: The international reserves increase by 0.2%, from US\$ 29.31 billion in the third week of March to US\$ 29.36 billion in the fourth. They increased by 2.7% compared to the same period last year.

Money supply: Money supply for the third week of March posted an decrease of 0.4% compared to the second week of the same month to VEF 234.93 billion, which means that it has increased by 22.6% in nominal terms and contracted by 4.4% in real terms compared to the same period last year.



Money supply and the swap rate: This week, it is worth pointing out that money supply has not increased significantly so far this year (-0.3% in nominal terms; -6.4% in real terms), due mainly to the low levels of public spending so far. However, despite this, the swap rate continues its upward trend, reaching record levels, and this is due mainly to the fact that supply is far from sufficient to meet market demand.

Exchange bonds auction. The Central Bank of Venezuela has carried out eight issuances of exchange bonds, in total issuing US\$360 million in bonds of which US\$50 million was placed in the market. The price for each bond, during the last issuance, was at 112%, with a unit value of US\$1,000, at an exchange rate of VEF 4.3/US\$. These are zero coupon bonds, 90 day maturity, and they have a maximum commission of 1% by intermediaries, which all allows for the acquisition of foreign currency at an implicit rate of VEF 4.87/US\$ upon reaching maturity.

Oil Tips

Junin 6 awarded to Russia. The Russian companies Rosnet, Lukoil Oil Company, Gazprom, TNK-BP and Surgutneftegaz and Pdvsa created the mixed company called Petromiranda, in which Pdvsa holds the majority of shares, to exploit the Orinoco Oil Belt's block Junin 6, predicted to start producing about 50 thousand barrels per day (kb/d) by end 2010 and 450 kb/d by 2014, a crude oil that will be mixed with light oil for exportation. The consortium paid US\$600 million as part of a US\$1 billion bonus to participate in the oil reserves. The remaining US\$400 million are expected to be paid by the end of the project's basic engineering stage.

Russia is "big" in the Orinoco Oil Belt. During the visit of Russian Prime Minister, Vladimir Putin, to Venezuela, a letter of intent was signed for the Russian National Oil Consortium (CNPR, acronym in Spanish) to be included as a minority partner in the Orinoco Oil Belt's blocks Ayacucho 2, Ayacucho 3 and Junin 3, with a joint production potential of 500 kb/d. The Republic will receive bonds for all three areas. However, the amount to be paid by the consortium to gain access to the reserves is yet to be set. This Russian participation could guarantee a crude oil production of 950 kb/d.

International arbitration allowed in the Carabobo block. Consortiums that will be participating in the exploitation of extra heavy crude oil from the Orinoco Oil Belt's Carabobo block obtained clearance from Pdvsa to receive international arbitration, although it will be limited to the amount of money financed by the international banking system or the issuance of treasury bonds, while the contributions of the mixed



company's partners were left out. All cases will be presented at the Stockholm Chamber of Commerce instead of the Icsid, due to the Venezuelan Administration's rejection towards USA.

The use of their own staff was also allowed. Pdvsa's directors agreed to allow this block's minority partners to employ their own technicians and trusted staff in the same proportion as their participation in the project (40%).

Tug of War. Venezuela will resume looking for foreign partners to activate the offshore natural gas project Mariscal Sucre, for which an unsuccessful bidding process was held last year due to unclear conditions. The decision was made because the project's work rhythm needs to be sped up in order to give way to the exploitation stage, which will allow PDVSA to supply the new plants with natural gas and save billions of dollars in diesel fuel. Venezuela will also resume negotiations with Dominican Republic, unilaterally suspended in December, to acquire 49% of the oil refinery Refidomisa.

Problems in the oil refining circuit continue. The refinery Isla, operated by Pdvsa in Curacao, and with a processing capacity of 335 (kb/d) has been shut down since early March after a new failure in the Curacao Utilities Operating Company Plant, which supplies it with electricity, water and steam. Pdvsa's refining circuit has been affected by a series of shutdowns since May of 2009. Said problems will cause a decrease in the release of byproducts to international markets, products of a high commercial value that generate significant revenues to the company in times of high oil prices.

Also in Amuay. The flexicoker of the Amuay refinery, Venezuela's largest with a capacity of 640,000 kb/d, was shut down last Wednesday morning to start a scheduled major maintenance process, said a plant manager to Reuters. The source also said the unit would remain inoperative for "several weeks," a time during which the neighboring refinery, Cardon, with a capacity slightly over 300 kb, is expected to work at full capacity.

But there are investments in new refineries. Within the framework of the Refining Plan of 12 projects in foreign lands, Pdvsa is considering the construction of a refinery in Syria, in association with the governments of Iran and Malaysia. Said refinery would have the capacity to process around 140 kb/d. Pdvsa is expected to ship 42 kb/d of crude oil, while Iran will destine 28 kb/d and Syria 70 kb/d, for an initial period of 25 years. However, the project's total cost has not been reported but Pdvsa is expected to invest 33%, while Iran and Malaysia invest 26% each and Syria 15%.

Rules are meant to be broken. Professional and union representatives assure that since the Venezuelan Government suspended the exports to Colombia, the extraction of gas fuel has passed the 100 million liters consumed by that region each month. The first measure (presence of National Guard, Army and Government officers in gas



stations, vehicle censuses and gas pump automation) applied at the end of last year to put a stop on smuggling didn't have the expected results, so a second plan to minimize the problem has been announced, aiming to penalize re-offenders as well as establishing exclusive gas stations for public transportation units and taxis.

International oil baskets. At New York market's closing time, last Thursday, April 8, the WTI was at US\$85.3/bl showing a 0.5% increase compared to the US\$84.9/bl of the previous Thursday. The Brent increased by 1.0% to reach US\$84.7/bl, compared to US\$83.9/bl of Thursday, April 1.

Local oil basket price. The Venezuelan oil basket price was up last week to close at US\$73.5/bl on Friday, April 2, US\$1.4 more than the US\$72.1 of the previous week. Meanwhile, the local basket's annual average price increased to US\$70.9/bl.

Business Sector Tips

First import licenses approved. The import licenses of Mazda and Kia were approved by the Venezuelan Ministry of Commerce in concordance with the automotive agreement signed in Ecuador. This is the second time Kia receives a license, 2009 being the first, while for Mazda it's the first year.

River flow that supplies the Guri dam continues to decrease. In spite of the decision to declare holy week's Monday, Tuesday and Wednesday as holidays, the reservoir's water levels remained at 13 centimeters per day, due to the fact that the Caroni river flow that supplies the Guri dam has decreased significantly as well. According to numbers released by the Oficina de Operación de Sistemas Interconectados (Interconnected System's Operation Office, Opsis), the river flow decreased to 4,300 cubic meters per second during the holidays, having read 4,500 to 4,800 cubic meters per second the previous week.

Use of coke fuel to generate energy being studied. PDVSA and the Russian company Inter Rao Ues are to evaluate the possibility to install an electric generation plant to generate between 200 and 500 megawatts using coke fuel.

Paraguana to generate wind energy. The National Government, along with PDVSA, is currently building an Eolic Park in the Paraguaná Peninsula, where approximately 76 energy aero-generators are expected to be installed to produce one hundred megawatts. The project has existed since 2006 but it being activated now, with the



reception of the first 24 segmentation rings and the fact that the bidding process for the project's construction is close.

An increase of only 70 megawatts has been implemented. The National Administration planned the installation of 5,900 megawatts for 2010, out of which only 70 megawatts have been incorporated, according to National Electric System (SEN) numbers released by the National Center for the Electric System's Administration (CNG). The SEN's installed capacity in February was 23,777.4 megawatts, 0.3% more than the 23,708.1 of installed capacity at the end of 2009.

Another Law. Congressman Juan Carlos Dugarte, member of the parliament's energy commission, said the electric service law aims to establish energy investment in a coordinated and planned manner with the national administration, so that it can be aligned with the national electric plan. He also said the law looks to integrate communal councils and establish order in the electric system. He explained that in years previous to President Chavez's Administration, the hydroelectric systems were deemed important, but not thermoelectric generation, to which the current government has indeed paid attention.

716 tons sold in four weeks. The Fish Fair, promoted by the National Government, sold 716 tons of sea products in four weeks. The Fair had 65 points of sale distributed throughout Aragua, Anzoátegui, Carabobo, the Capital District, Falcón, Lara, Miranda, Nueva Esparta, Portuguesa, Sucre, Vargas and Zulia. People going to these establishments were able to find products up to 40% cheaper than in conventional supermarkets.

Government imports coffee. The 2009-2010 coffee harvest production was 16.6% lower than the previous year's, representing a second consecutive year of decrease. This generates a supply problem in this area, since the monthly industrial demand is 152,000 tons. However, the import estimates reached 300,000 tons of ground coffee and the Government has already imported 405,503 metric quintals, out of which 238,148 came from Brazil, 158,280 from Nicaragua and 9,075 from El Salvador.

Only 26% of the people are able to own a house. According to information published by the Venezuelan Construction Chamber's Housing Commission, only 26% of the Venezuelan households are able to acquire a home with the family income they receive. These calculations estimated that 29% of households receive a monthly income of VEF 1,694, 44% receive VEF 2,913 and 26% receive more than VEF 4,435, and the latter are the only ones able to save enough money for a down payment to acquire a home. However, if the household's income is close to VEF 4,000, the family would need to save for approximately 88 months to reach a down payment of 105 thousand.



Merged. La Bolivariana de Seguros y Reaseguros S.A. will acquire C.N.A de Seguros La Previsora. This measure was published in the Official Gazette number 39,395, dated March 26 of 2010.

Two or more insurance companies being audited. The insurance companies Premier Seguros and Universitas are currently being audited by the Insurance Companies' Superintendence, because they were presenting losses and reserve insufficiencies. This measure was published in the Official Gazette of March 26. Premier was owned by Pedro Torres and Universitas by the retirement funds of Universidad de Oriente, Universidad Experimental Libertador and Universidad Lisandro Alvarado.

Dairy products' prices up. An increase in the price of dairy products was published in the Official Gazette. From now on, powdered milk will cost VEF 15.78 per kilogram, while the canned version will have a cost of VEF 18.0. As for pasteurized milk, prices were reviewed up at VEF 4.15 for the 900 cc presentation. Producer milk price is now VEF 2.20 per kilogram. As to cheese, white hard cheese will now cost VEF 23.92 per kilogram; white semi-hard cheese will cost VEF 20.36 per kilogram; pasteurized and vacuum-packed white cheese, VEF 29.10 per kilogram; gouda, VEF 36.87 per kilogram; edam, VEF 39.80 per kilogram; munster VEF 43.13; and yellow cheese, VEF 34.29 per kilogram.

Penalized for not closing during the holidays. The National Government fined over 150 commercial establishments for not meeting the holy week holiday decree. The fines for said establishments are between VEF 266.06 and VEF 1,064.25, according to the Organic Labor Law.

Significant fall in the commercial sector. The president of Consecomercio, Fernando Morgado, informed the electricity and water rationing, along with the presidential order declaring the whole holy week as holiday, have had a great impact on the Venezuelan economy. Morgado said the numbers of the first quarter of 2010 are being studied, for which they estimated "sales 10% lower," and said the sector presents a "plummeting" dive since the end of 2008. He called on the National Government to publish the measures they will take to solve the country's energy crisis. He then ratified that the private sector has decreased the number of jobs, in response to the National Institute of Statistics' statements.





World Crisis Tips

Second review slightly reduced US 4Q growth. The US Bureau of Economic Analysis (BEA) reviewed the GDP growth rate at a slight decrease during the fourth quarter of 2009, from 5.9% (seasonally adjusted annual rate, SAAR) to 5.6% (SAAR). It is still a very positive growth rate. Most of the GDP's components were revised at slight decreases, except for the average inflation as GDP deflator which went from 0.4% in the previous estimation to 0.5%, placing the 2009 variation in 1.2%, the lowest since the early 60s.

US job market keeps recovering. The Bureau of Labor Statistics (BLS) reported a 9.7% unemployment rate for March, but despite the fact that the rate has remained unchanged in the last three months, the job market's conditions have indeed improved: during March, the number of non-agricultural workers increased by 162,000 people, after a decline of 14,000 in February and the creation of 14,000 jobs in January of the same year.

US Real Estate market's recovery seems to have hit a brick wall. According to the Case-Shiller Home Price Index, home prices increased by 0.3% during January compared to the previous month. Seasonally adjusted, prices dropped by 0.4%. In a y/y basis, the composite price index of the 20 most important cities of the US is only 0.7% below January of 2009.

US services continue to lead the recovery. The Institute for Supply Management's (ISM) composite index for the service and construction sectors went from 53 points in February to 55.4 points in March, exceeding the consensus expectations (54). The ISM survey in March (to 370 companies in 62 industries), reveals a 9.5% increase in business activities compared to the previous month, and a 13.3% increase in new orders.

Inflation and unemployment increase in Europe. The Eurostat recently published the European Union's and Euro zone's unemployment rates, both showing a 0.1% increase compared to January, to be set at 9.6% and 10% respectively. The Eurostat also estimated that the Eurozone's y/y inflation was 1.5% by March, a significant 0.9% y/y increase reported in February.

Euro zone leaders agree to aid Greece along with the IMF. The Euro Zone leaders finally agreed last week that Greece would receive financial aid through bilateral loans from the rest of the Euro Zone countries and the IMF, but only under the condition that



all States agree with the financial rescue and that Greece exhausts all of its alternative indebtedness options.

Rumors increase the cost of Greece's indebtedness. Early this week there was an aggressive Greek bond sale that caused a widening of the spread between German bonds (reference of the European debt) and Greek bonds' yields from 349 to 408 basis points, and the price of credit default swaps (CDS) increased from €347,000 to €354,000 to protect €10 million of Greek government bonds.

Russian economy decreased by 7.9% in 2009, but shows signs of recovery. Revised data confirmed Russia's GDP had a 7.9% decrease during 2009, but it is clear that the economy started to recover during the second quarter and advance indicators show significant improvements in the first two months of 2010. The Russian GDP had y/y growth rates of -9.4%, -10.8%, -4.7% and -3.8%, during all four quarters of 2009. The five basic indicators (agricultural, construction, sales, industry and transportation) had a y/y increase of 1.4% in January and 1.6% in February.

Political Tips

Richard Blanco released... The prefect of Caracas, Richard Blanco, was released on Tuesday 6 April. He left the courthouse, after eight months in prison and denounced abuses such as the impediment of visits from his family and friends while he was imprisoned at the Yare prison. He noted that he was given a series of precautionary measures such as regular reporting to the court, the prohibition of leaving the country and public statements about his criminal proceedings. However, no measure of political disqualification was made on him and indicated he will run as a deputy to the National Assembly in the upcoming elections.

Official lifting. The Official Gazette number 39,395 confirms the lifting of Wilmer Azuaje Cordero's immunity as per National Assembly agreement.

Armed Force Social Security Law to be revised. The Supreme Court of Justice will evaluate whether the Armed Force Social Security Law meets the guidelines of the 1999 Constitution. National Guard Lieutenant Manuel Reyes introduced a nullity demand against article 21 of said Law because it "violates the principles of equality, non-discrimination and juridical safety," so the Constitutional Room allowed the procedure.



Moving ahead slowly. The national president of the Un Nuevo Tiempo (UNT) Party, Omar Barboza, assures they are working full time to generate an alternative for the country, and the decisions made will not be partial but instead will encompass a totality, referring mainly to the case of Miranda. He said Yon Goicoechea's problem was "*an internal issue of Primero Justicia*" and restated the Democratic Unity Table had not reached a decision about Miranda's case. "There will be no partial decisions," he said, but instead they will submit all of the decisions favoring the board's union. MUD (Democratic Unity Table) has made advances in building agreements in most states, and the difficulties are being encountered in only four of them: Capital District, Zulia, Miranda and Yaracuy.

PSUV: Talking about National Assembly candidates is not allowed. The United Socialist Parties of Venezuela published its campaign bylaws, starting the political proselytism towards the primary elections in order to choose their candidates to the upcoming parliamentary elections. Among other things, the document stands out "the prohibition to public employees, including those elected by popular vote, such as Mayors and Governors, to issue public opinions, positive or negative, about any candidate. Ana Elisa Osorio, PSUV representative, said the bylaws would be applied with "severity," giving way to penalizations and even the possibility of total expulsion from the organization.

US\$2 billion more in weapons. In his meeting with the Russian Prime Minister, Vladimir Putin, President Chavez addressed several issues, among which he mentioned Venezuela's possibility to develop a project for the development of the first nuclear center "with peaceful purposes." As to the issue of defense, Putin explained that Venezuela has not spent resources from its weapon purchase credit approved in 2009 for US\$2 billion. In that opportunity, Bolivian President Evo Morales attended the meeting, and discussed with Putin the granting of a US\$100 million credit for the Bolivian Armed Forces.

... A total US\$6.6 billion in defense. The relations between Russia and Venezuela have progressed since 2001, when both heads of state declared the signing of a military equipment supply agreement which, up until then, had reached US\$4.4 billion. Adding to that amount is the credit for US\$2.2 billion recently approved by Russia for the acquisition of weapons. All-in-all, Venezuela has invested over US\$6 billion in defense.

Colombia states its discontent. In response to the Venezuelan decision to acquire Russian weapons, the Colombian Minister of Foreign Affairs, Jaime Bermudez, stated his discomfort regarding the millionaire sale to its Russian colleague, Serguéi Lavrov. In an interview, Bermudez explained the issue of arm sales to Venezuela has been treated directly, as has been done in previous occasions. He also said his



Government would never acquire “offensive materials for actions against other countries” and ruled out

Bolivarian movement with Bolivar’s sword. Bolivar’s sword will be donated by the Colombian Revolutionary Armed Forces. This relic was stolen in an action by the Colombian guerilla Movimiento 19 de Abril (M-19) on January 17 of 1974 at the Bolivar House-Museum in Bogota.

Social Comptrollership Draft ready to be discussed. Oresteres Leal Briceño, vice president of the Citizen Participation Commission is in charge of the draft. Briceño assured this law draft, which includes the creation of the Social School of Comptrollership, will be subject to the first discussion in the National Assembly. Additionally, the draft, of 31 articles, establishes that the general Comptrollership and the ministries of Finance, Planning, Citizen Participation and Indepabis will support the training of social comptrollers with human and technical resources.

Basques reject Spanish government’s position. The group of Basque Refugees and Deported rejected the expulsion of ETA member Walter Wendelin, asking the Venezuelan government not to join the “pressure campaign” Zapatero has started against the Abertzale left; on the contrary, they call to join them in looking for a dialogue solution to the Basque conflict. In the celebration of the Basque country’s day (Aberri Eguna), a press release was issued rejecting the harassment campaign started with the publication of a ruling by Judge Elov Velasco of the Spanish National Hearing.

Looking to retake their seats at the National Assembly. A large number of Zulian congressmen, mostly PSUV members, are looking to retake their seats at the National Assembly, so they will run for the primary elections of May 16. According to PSUV information, Zulia reported a total of 257 red candidates to compete for 12 seats, for another 3 congressmen of said entity are running for party lists.

Police captains’ conviction ratified. All three police captains involved in the shootings of April 11 were sentenced to 30 years in prison. The conviction was ratified by the Court of Appeals of the Aragua state. The convicts were transported to pay their sentences so that the legal period starts to elapse and the pertinent legal resources can be executed.

... And the Doors are closed for candidacies. The conviction ratification eliminated the possibility for Ivan Simonovis and Lazaro Forero, both police captains, to run for a chair in the National Assembly in the upcoming parliamentary elections. The Court of Appeals of Aragua was the instance that rejected the arguments presented by the defense of all three captains and six metropolitan police officers about alleged vices in



the process, which was prolonged for more than three years.

10 presidents in 1 month. President Chavez's April agenda will be quite intense, since at least 10 heads of state will be visiting Caracas in less than 30 days. Among the visits scheduled is that of Uruguayan President, Jose Mujica, who has the intention to close some businesses; the Chinese president, Hu Jintao, to stimulate relations and promote development. Other heads of state that will be visiting are the Presidents of Ecuador, Rafael Correa, Nicaragua, Daniel Ortega, Cuba, Raul Castro, Bolivia, Evo Morales, Dominica, Nicholas Liverpool, the Prime Minister of Saint Vincent and the Granadines, Ralph Gonsalves, and the Prime Minister of Antigua and Barbuda, Baldwin Spencer.

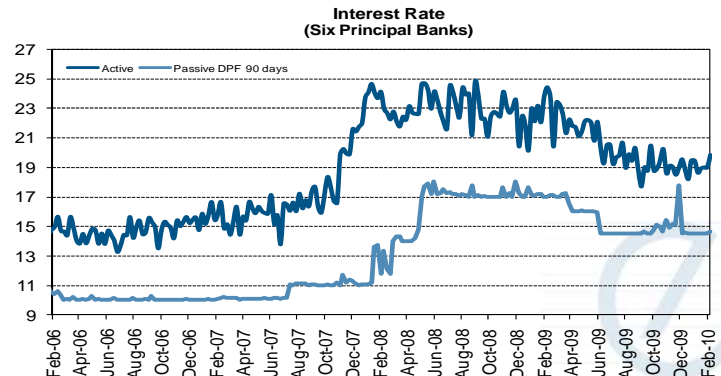
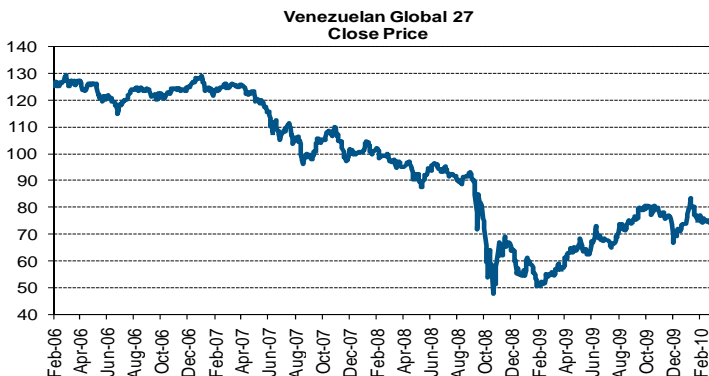
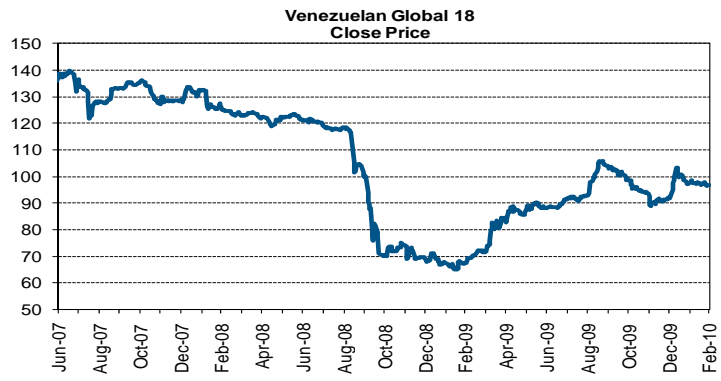
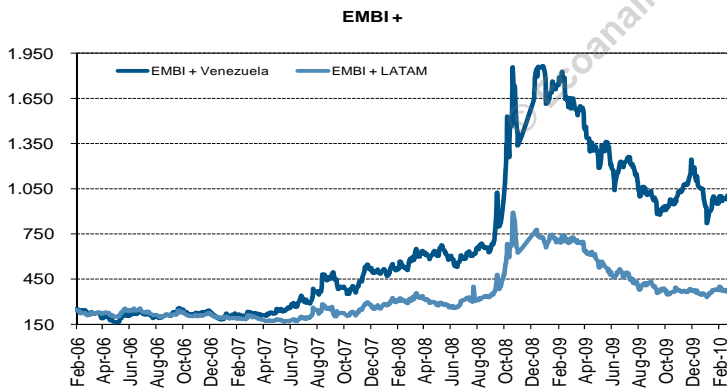
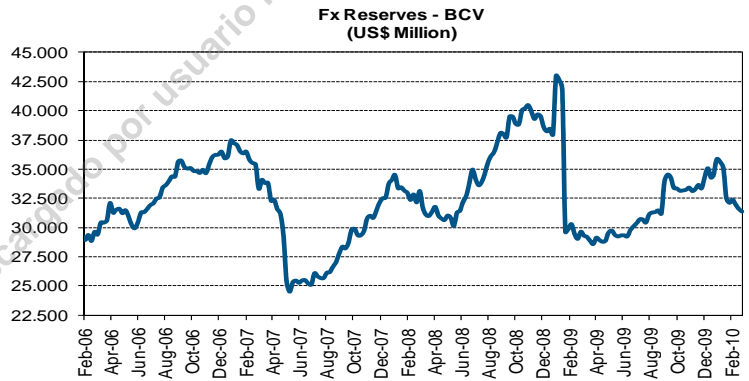
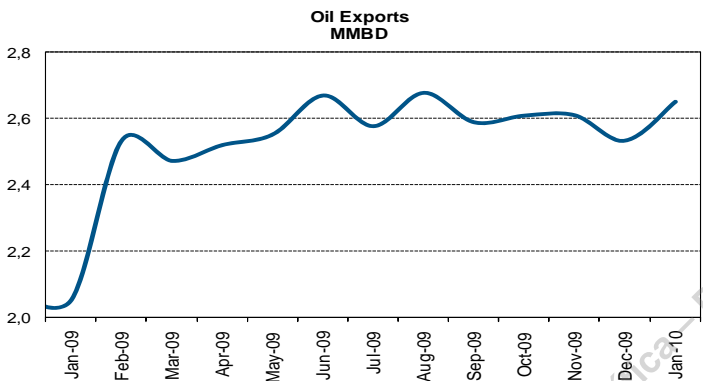
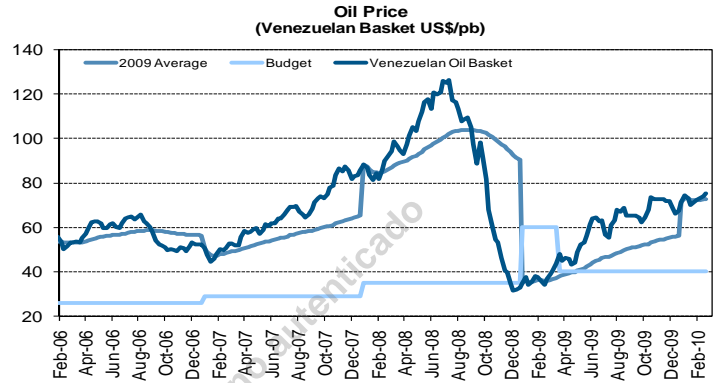
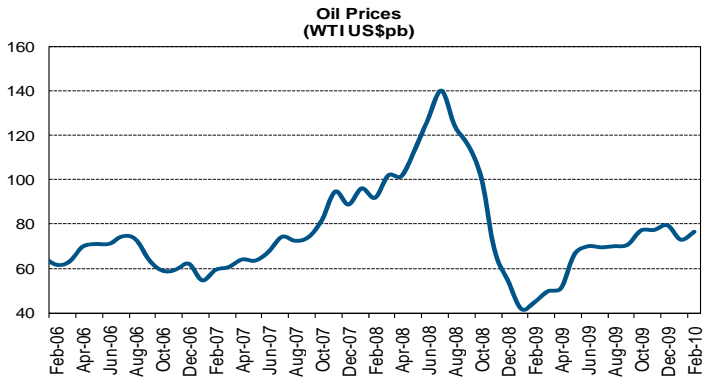
Not Venezuela. The US Deputy Secretary of State for Latin America, Arturo Valenzuela, started in last Sunday in Ecuador his second great tour around Latin America, which this time will also take him to Colombia and Peru. The diplomatic delegation said that during their transit through Andean countries, Valenzuela would meet high officials to discuss issues of mutual interest, including the cooperation in terms of safety and social inclusion, aside from economic cooperativeness and inclusive prosperity, democratic governability and human rights.

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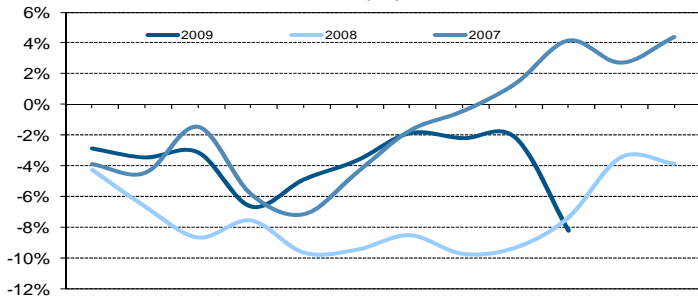


ECONOMIC OVERVIEW

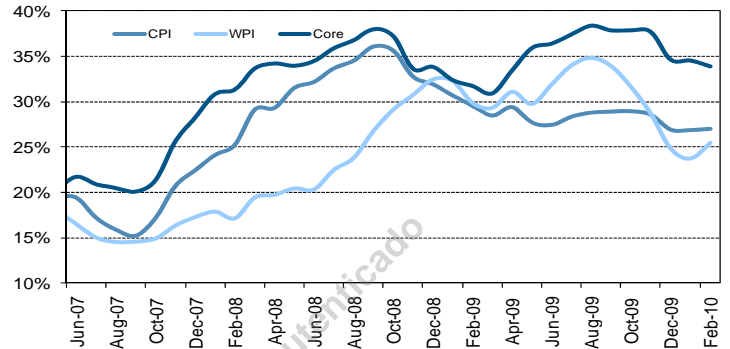




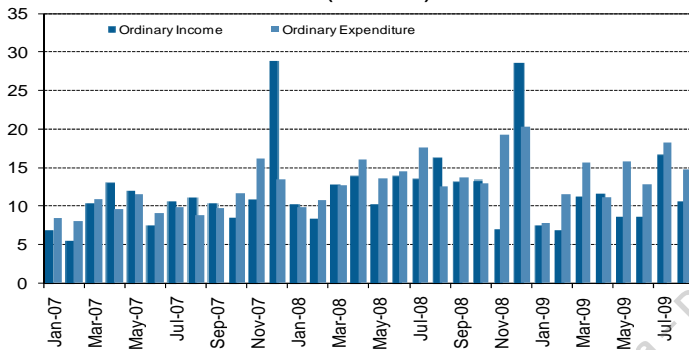
Real Expansion (M2)



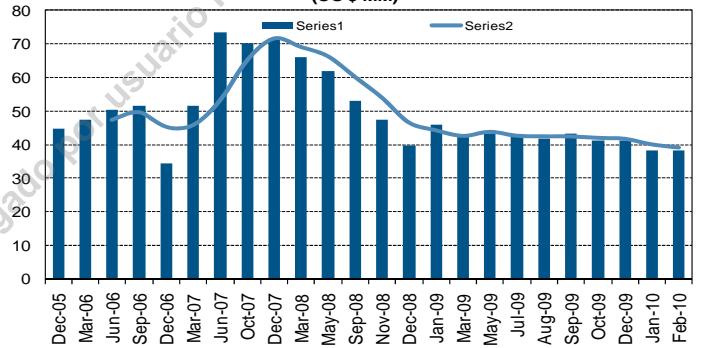
Inflation (Last 12 Months)



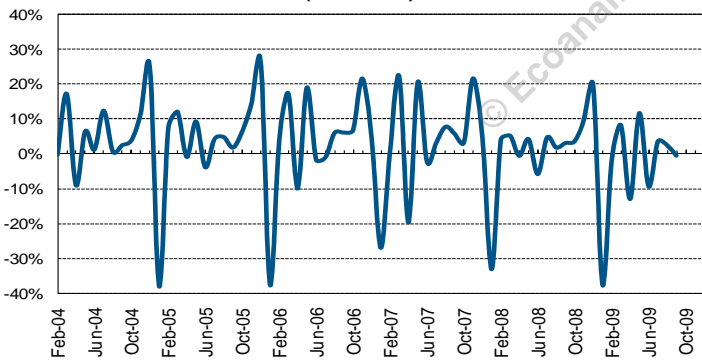
Central Government (VEB Billion)



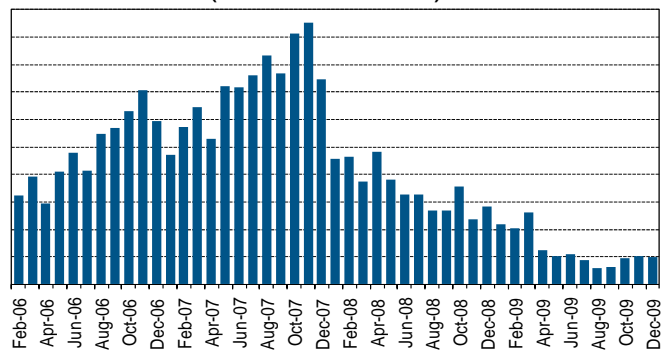
Resources of the State (US \$ MM)



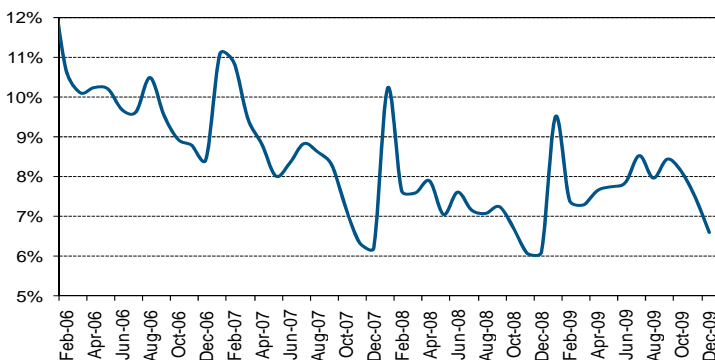
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

