



Weekly Report

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Nationalizations: How Much Longer?

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Recently, President Chávez stated that the process of nationalizing companies being carried out by his government did not exceed 30%, noting that it is concentrated in "strategic sectors" with incentives for private investment in other areas, according to reports in the Brazilian press. In this report, we offer an update of the latest developments in this process and future prospects.

What did Chávez say?

In an interview for the newspaper *Folha de Sao Paulo*, he said that nationalizations "don't come to 30 percent, but [this process] is concentrated in strategic sectors. Before (prior to his government), they were privatizing oil, petrochemicals, iron and steel, and the state-owned basic industries." He also stated that "the telecommunications sector was privatized, the entire electricity sector; the strategic areas. There the State (now) has hegemony, and should have it."

He also talked about the private sector

But he went further: "In the other systems or components of the economic model, the presence of private capital is valid, and not only do we respect it,



we also promote it. There are many businessmen and large Brazilian companies investing in Venezuela.”

He noted that he meets frequently with Argentinean, Russian, Chinese, Belarusian, US, Vietnamese, and Brazilian businessmen who operate in the Venezuelan market and has never had any complaints. *“On the contrary, more are making approaches daily wanting to invest in Venezuela. There is a high degree of legal certainty. There is no type of delay in payments, as they are saying, and if there were, we would quickly solve the problem.”*

What has happened?

The Executive has pointed out consistently in different scenarios that the private sector is a secondary player. That means that the State should be the only promoter of the country’s economic-social transformation and that private initiative is destined to engage in a limited number of activities. For that reason, the government’s strategy is focused not only on regulating this sector, but also on excluding it from given activities that the government considers “strategic” for achieving public policy objectives. This is what has been behind the partial or total expropriation of some companies and, in some cases, entire industries (oil, cement, electricity sectors and CANTV, among others).

As can be seen from the following table, this process, which started in 2006, has covered different industries and committed resources in the order of US\$ 23,3 billion, equivalent to 7.2% of GDP. Here, we have included the cases of the Hilton Hotel Complex on Margarita Island and the Exito chain of hypermarkets.





Nationalitation Costs (MMM US\$)

Canceled

Electricidad de Caracas	1,10
CANTV	2,00
Oil companies(Statoil, Total, Chevron)	3,45
Sidor (Payed)	1,07
Banco de Venezuela	1,05

Sub-Total **8,67**

Future Expenditure

Éxito chain and Hotel Hilton	0,72
Cement companies	1,90
Sidor	0,90
Oil Companies (Exxon, Conoco, ENI)	7,25
Oil contractor	1,95
Petrochemical	0,62
CVG contrator	1,30
Cargill	0,05

Sub-Total **14,65**

TOTAL **23,32**

Source: Ecoanalítica

It should be noted that these calculations do not include “rescued” land or farms, expropriated sugar mills or the expropriations of industrial zones in Barquisimeto and Maracaibo, so the figure could be higher.

Apart from the nationalizations

If we add the cost of the interventions in the banking system during December 2009 to our estimated cost of the nationalizations, the figure rises to US\$ 27 billion. While these were not expropriations as such, the consequence is the same: the asset (in this case the banks) passes into the hands of the State.

Not everything has been paid for

If we think the cost of this process is high, there is another matter that gives cause for concern and that is, according to *Ecoanalítica*'s calculations, US\$ 14.65 million/billion have still not been paid to companies that have been affected, and, of that amount, some US\$ 7,25 billion are payable to companies in the oil sector, such as ConocoPhillips and ExxonMobil.



These cases, along with others, are in arbitration before the World Bank and it is likely that decisions will be handed down in 2011 and 2012 and that the Republic will have to honor these payments. In fact, we are not discarding the possibility that the Executive is preparing sizeable foreign debt issues in order to honor these commitments.

The evolution of a concept

Ecoanalítica was of the opinion that 21st century socialism was a series of regulations for private enterprise, in particular with regard to earnings, accompanied by the entrance of new players and the strengthening of state capitalism. Explanations offered by different government spokesmen point to it being simply a matter of continuing with the process started eight years ago. For example, National Assembly Deputy Carlos Escarrá commented that the reforms would be made respecting private property but creating new forms of property, such as social, collective, and public property. On the other hand, Rodrigo Cabezas has commented that what the Bolivarian Government is seeking is to get the private sector to contribute more to the State, hence the idea of regulating companies' profits. Cabezas went further and stated that *"the mechanisms for regulating those profits will be via taxation..."*

However, the Executive now seems to be going even further. The President has repeated on countless occasions that it is not a matter of whether his revolutionary model is copying what occurred in Russia or Cuba, for example. Twenty-first century socialism in Venezuela is evolving according to its own parameters.

No need for constitutional reform

Nevertheless, there is a clear parallel between some of its key lines and the models of socialism implemented in different parts of the world. The debate over the property issue in Venezuela heated up in 2007 when the government proposed reforming the Constitution, as in doing so it tried to define different types of property and their treatment under the law.

Even though the constitutional reform did not prosper, the Executive has moved ahead to underpin other types of property. Social property has been promoted with instruments such as the Participation and People's Power Act, which fine tunes the building of the Communal State.

But restrictions on the scope of action for private property are also being implemented by other means. So, for example, the only way the private sector can participate in the oil business is as a minority shareholder and in



partnership with the State through the so-called mixed enterprises. Moreover, with the devaluation of the bolivar in January, two basic exchange rates have been established, one at VEF 2.60/US\$ and the other at VEF 4.30/US\$. The first is reserved for basic items and, essentially, for imports by the State.

Slowly but surely

In the next few years, the Executive hopes to consolidate the First Socialist Plan 2007-2013, which defines the need to underpin social property as a means of moving ahead in the transition towards a socialist scheme.

While it does not eliminate private property, the plan does point out that it will not be promoted so that the model of a socialist economy can start to take shape. The idea is for there to be equal proportions of socialist enterprises, private companies, and state companies and that they interrelate within the framework of the model that the Executive hopes to implement in Venezuela.

What will the consequences be?

Evidently, in countries where private property is not respected, investment will be substantially less than in countries, socialist or not, where a stable legal framework is maintained and private property is respected. Private investment is a source of growth, generates jobs, and encourages higher productivity in those jobs. Real wages simply reflect a country's levels of productivity. Lastly, investment increases the supply of goods, thereby mitigating inflation. That is why countries with lower investment suffer from higher unemployment and inflation and from jobs remunerated at rates of pay with lower purchasing power. It can be clearly seen that, today, based on these indicators, Venezuela is going in the opposite direction.

It's not easy to say who will be next

This leap the government is taking makes no sense politically or economically. The only possible explanation is that ideology is prevailing despite the economic and political costs of these measures. For the government, making political hay by freezing tariffs –which, in a context of high inflation means a swift reduction in tariffs in real terms- proved to be positive. It meant that the government was able to take advantage of the efficiency of the private sector to maintain service quality and the survival of the company without having to pay out money that could be spent in other sectors. Basically, that is what they did during the first eight years of this administration, and it worked.

We believe it is necessary to find the reason for the change in strategy in order to be able to understand, negotiate, and establish future strategies.



So far, **Ecoanalítica** has found no rationally satisfactory answers to this question. If the conclusion is simply that the ideological factor is the predominant one and that the government announced the nationalization of these companies regardless of the economic and political costs, then they will continue with the nationalization of other companies they consider “strategic” in the future.

But the idea of what is strategic is flexible

The idea of what is “strategic” for the State and for President Chávez is extremely fluid. It was the argument used to justify the first expropriations. Chávez said that the oil, energy, and telecommunications sectors had to be in his hands because they were strategic. But that was as far as it would go. Then came the nationalizations of Sidor and the cement sector.

After that, it was the turn of the rice processing plant belonging to the transnational Cargill and Banco de Venezuela, not to mention other expropriations. The concept of “strategic” became more flexible with the nationalization of the Exito hypermarkets, which now go by the name of *Bicentenario*, where not only food but clothing and domestic appliances are sold.

Taking things still further, the concept allows the government to act in areas involving luxury goods such as car sales, which started with former Minister of Trade Eduardo Samán, and also to get involved in socialist *areperas* (businesses selling *arepas*) and even the marketing of cellular phones with the argument of putting a stop to speculation.

The Executive’s response is crucial

There is something that should be kept in mind. One way of gauging the intensity and deepening of the so-called “radicalization of the process” is by observing the price the government is prepared to pay and seeing whether that price is in line with the market or not or whether those involved manage to negotiate successfully with the Executive, as the Argentina’s Techint Group or Spain’s Santander Group managed to do. In addition, it remains to be seen what the Executive’s response to the arbitration decisions will be.

Within the context of 21st century socialism and the Economic and Social Development Plan, the government is going to continue to encourage new forms of property, social organization or business management, particularly in matters relating to social production companies, socialist enterprises, workers’ councils, communal councils, and so on. This will be more pronounced in sectors where the State plays a key role, particularly in the



oil, food, and construction sectors. The main impact will be felt in the efficiency and quality of goods, services, and works, which could become a two-edged sword for the government.

That will be the upshot given that, in most cases, these new forms of social and economic participation have neither the technical expertise nor the financial muscle to undertake large-scale projects, which has caused considerable inconvenience and delays; hence the perception among a large number of agents that the government has fiscal problems in the light of the delays in and suspension of projects. The problem is more serious than a lack of money; it has to do with an ideological position.

The result will be: An economy with mediocre macroeconomic performance that does not generate well-being for the majority of the country's inhabitants.

Economic Tips

Wage increase brought forward: Last Friday, President Chávez brought forward the increase in the minimum wage scheduled for September. This raise brings the increase to 26.5% so far this year. The minimum wage is now VEF 1,223.9. This adjustment will mean an overall expenditure of VEF 10 billion.

Another US\$500 million transferred to Fonden: Last week, on April 27 to be precise, the Central Bank of Venezuela transferred a further US\$500 million to the National Development Fund (Fonden). With this latest transfer, the international reserves now come to US\$26.80 billion, below the optimum level of US\$28 billion mentioned by the Central Bank. The amount transferred so far this year totals US\$5.5 billion, with US\$1.5 billion of the amount requested still pending.

US\$7.1 billion of the Chinese Fund used: Figures from the Ministry of Planning and Finance indicate that US\$7.1 billion of the Chinese Fund's US\$12 billion earmarked for projects in agricultural, education, the basic industries, health, and infrastructure have been used. Now a new US\$20 billion fund has been set up with China Development Bank that will be administered as a trust fund.





Ministry of Economy and Finance's Annual Report and Accounts: The Ministry of Planning and Finance (MyCMEF) has posted the Annual Report and Accounts that the former Ministry of Economy and Finance presented to the National Assembly on its webpage. The report reveals that, in principle, Seniat's total tax collections for 2009 exceeded the goal set by the Budget Law (100.9%), thanks mainly to collections of VAT, income tax, and taxes on other domestic income (111.4%, 111.2%, and 123.6% of the goals, respectively, but in real terms they all have contractions of 30,8%, 5,0%, and 11,1, in that same order).

2009 fiscal results: According to the MyCMEF, the National Treasury Office received VEF 183.1 billion in fiscal revenues, 72.9% of which were ordinary revenues, with the remaining 27.1% coming from extraordinary revenues and borrowings. As for Central Government spending, this totaled VEF 197.1 billion, VEF 149.3 billion of which corresponded to current spending, whereas capital spending came to VEF 42.4 billion and financial applications posted VEF 5.4 billion.

Public debt: Public debt came to US\$59.55 billion at the close of 2009, equivalent to 17.2% of GDP. Of that amount, US\$34.86 billion corresponds to foreign debt, an increase of 16.7% compared to 2008, and US\$24.69 billion (at the exchange rate of VEF 2.15/US\$) to domestic debt.

Basic Family Basket continues to spiral. According to the Venezuelan Teachers' Federation's Documentation and Social Analysis Center (Cendas), the cost of the Basic Family Basket went up by 3.7% in April to VEF 5,252. Cendas also reports that the basket has increased by 45.6% in the past year. It notes that, if a family's income depends on two members each contributing one minimum wage, the family would fall VEF 3,123.5 short of the cost of the basket.

Interest rates. The lending rate in the second week of April was 18.6%, a reduction of 19 basis points compared to the previous week. As for the rate on fixed term deposits and the borrowing rate, they remained unchanged at 14.5% and 12.6%, respectively.

International reserves. The international reserves grew by 2.1%, from US\$ 27.76 billion in the third week of April to US\$ 28.33 billion in the fourth. The international reserves contracted by 3.9% compared to the same period last year.

Money supply. For the third second week of April posted a drop of 0.1% compared to the previous week, amounting to VEF 236.87 billion. This means it has increased by 1.8% in nominal terms so far this year and contracted by 5.5% in real terms compared to the same period last year.



Oil Tips

Two “new” business partners. The President of Belarus, Alexandr Lukashenko, proposed his Ukrainian homologue, Victor Yanukovich, to jointly import up to 10 million tons of oil from Venezuela to refine and sell to the Belarusian, Ukrainian and other markets. Last March in Caracas, President Hugo Chavez promised Lukashenko that this month, Venezuela would start selling Minsk 80,000 barrels of crude oil per day (kb/d) (with a chance of increasing this number to 100,000 kb/d).

And so it goes... The first Venezuelan oil shipment to Belarus (4,413 tons) is already in the Ukrainian port of Odessa, after having crossed the Atlantic Ocean, and was scheduled to arrive to the Belarusian refinery of Mozir by train on May 4. This delivery can be considered a trial and will help Belarusians assess the profitability of oil supply via the Atlantic Ocean and train through Ukrainian territory, in order to reduce its dependency on Russia, which currently supplies 20 million tons of crude oil per year to Belarus.

Refidomsa's purchase: At last! Near a year of wait and up to a moment when one believed that the transaction had sunk, yesterday the governments of the Dominican Republic (DR) and Venezuela made concrete the sale and purchase of 49% of the actions of the Dominican Refinery of Oil (Refidomsa). The Venezuelan Government will pay to the Dominican condition US\$133.4 million for 49% of the actions of the oil refinery. The contract records that three months after his ratification in the DR National Congress, Venezuela will initiate the disbursement of the resources. In addition, the agreement includes the purchase of the terminal of crude oil Nizao, the pipeline and mono-buoy SBM and the plant of Haina's refinery, assets of which in forward PDV Caribe will have 49% of the actions.

And it will be extended ... Stressing the importance of the operation, President Hugo Chavez said that the Venezuelan government will invest in the modernization and expansion of the company to increase its refining capacity, which currently is 30,000 barrels per day and consumption is 100,000 barrels per day.





Pdvsa acquired tug boats from Cuba. Caribbean Drydock Company of Havana gave Venezuela the first of four tug boats hired by Pdvsa as part of the bilateral agreements signed under the Bolivarian Alliance of the Americas (ALBA). According to Hector Pernia, Pdvsa representative in Cuba, the incorporation of these tug boats to the fleet *“will close an operational vulnerability gap in oil terminals.”*

Birds of a feather flock together... PDVSA and the Brazilian Odebrecht signed a memorandum of understanding to create a mixed company devoted to carrying out primary production activities in the fields of Mara West, Mara East, La Paz and Sibucara, located in the state of Zulia. The mixed company (60% CVP and 40% Odebrecht) estimates an investment of US\$149 million during the next 25 years.

The Kirchner-Chavez agreement. The financial plan that was implemented so that Pdvsa could diversify the market of its refined products by shipping 25,000 barrels of oil byproducts per day to Compañía Administradora del Mercado Mayorista Electrico de Argentina (Argentinean Electric Wholesale Market Administrating Company, Cammesa) has kept the oil industry from receiving benefits from its exports of fuel oil and gas oil to that country. Payments were set in cash (which was supposed to go to a trust fund account managed by Bandes) and a remaining amount, which went to Pdvsa's accounts receivable due in 15 or 25 years, depending on the invoice conditions. According to preliminary numbers, today, these accounts' balance is close to US\$114 million.

But they didn't get it... Between 2005 and 2008, Pdvsa received a US\$554 million-dollar income in cash sales to Cammesa, but the money never went to the treasury department, instead it was deposited in Bandes. In average, the disbursements for the trust fund managed by Bandes reach US\$138 million per year, and in 2008, they reached US\$199 million. In Argentina, it is said that last year the agreement moved US\$750 million. According to the agreement's provisions, the use of these resources was supposed to be exclusively restricted for the Venezuelan Government to acquire agricultural machinery only from companies authorized by the Argentinean Ministry of Planning.

JP Morgan increased its estimated crude oil price. In light of the strong growth of crude oil demand in emerging markets, JP Morgan raised its projection for the Brent to US\$88.6/bl, up from US\$84/bl, and the West Texas Intermediate (WTI) was raised from US\$84/bl to US\$88/bl. The firm says *“even though the season and the*



maintenance of refineries are giving room to a certain short-term market weakness, OPEC's lack of response for the high oil prices is creating a storing market for this surplus."

Black tide. The Deepwater Horizon platform, managed by British Petroleum (BP) sank near the coast of Louisiana (United States) on April 22, after a 36-hour fire caused by an explosion, sprouting approximately 4,700 barrels of crude oil per day and causing a black spot of over 6,000 square kilometers, endangering the ecosystem near the coast of Louisiana, Florida and Alabama. The company said last Monday they would take "all the possible measures" (meaning disbursements of US\$6 million per day) to contain the oil spillage that threatens to create the largest ecological disaster in US history.

International oil baskets: Suffer from Grecia's crash. Near New York market's closing time, this Thursday, May 6, the WTI was at US\$77.0/bl showing a 9.6% decrease compared to the US\$85.2/bl of the previous Thursday. The Brent decreased by 9.0% to reach US\$78.3/bl, compared to US\$86.0/bl of Thursday, April 29.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$75.2/bl on Friday April 30, US\$1.4 more than the US\$73.7/bl of the previous week. Meanwhile, the basket's annual average increased to US\$71.8/bl.

Business Sector Tips

Currency authorizations for students increase. The Currency Administration Commission (Cadivi) published in its website that currency authorizations for student expenses abroad have increased by 47.7%, for a total US\$81 million allocated during the first quarter of 2010, when in 2009, the number was US\$57.2 million.

1,200 new Mw between May and June. According to a press release made by the Minister of Electric Energy, Ali Rodríguez Araque, 1,200 Mw will be incorporated to the National Electric System (SEN) between May and June. He also acknowledged the existence of failures in the electric distribution system, highlighted in the case of the shutdown of Guri dam's turbojet number 8, due to a strong vibration, which required a pertinent check.



Workers to Corpoelec's Board of Directors. By Presidential order, Angel Navas, Joaquin Osorio and Mercedes Gutierrez (Representatives of the Electric Industry Workers' Federation) were appointed as members of the Board of Directors of Corporacion Electrica Nacional (National Electric Corporation, Corpoelec).

Electric consumption decreased by 2.5%. During the first quarter of 2010, electric consumption in the National Electric System decreased by 2.5%, compared to the same period of 2009, to report 27,850.2 Gigawatts hour (GWh), so was informed by the Centro Nacional de Gestion (National Management Center, CNG). Despite this decrease, a 13.4% increase between February and March is evident, going from 8,648 GWh to 9,807 GWh.

Electric projects financed with Chinese Fund. Banco de Desarrollo Economico y Social de Venezuela (Economic and Social Development Bank of Venezuela, Bades) announced that over US\$1.8 billion from the Chinese-Venezuelan Joint Fund have been used to finance the execution of 21 projects to reinforce the National Electric System's generation, transmission and distribution.

Minimum labor protection sum increased. After last Saturday's minimum wage increase promulgation, anyone receiving a basic salary under VEF 3,671.67 can not be laid off without a justified cause. Also, companies with payrolls of over 20 employees will have to pay a food bonus to those earning a basic salary under the amount mentioned above.

Again in the agenda. The vice president of the National Assembly's (NA) Social Development Commission, Representative Oswaldo Vera, estimated the reform to the Organic Labor Law (LOT) would be sanctioned before the end of 2010. *"We are not going to rush the reform. We are working gradually but uninterrupted,"* he said. He also said the legal draft would not be approved compulsively, for it contemplates over 700 articles involving the country's productive, social, recreational and economic sectors. *"The commission has already finished the pre-draft. We are now debating with the different sectors. I believe this will be the most discussed and the most participative law of all laws prepared by the National Assembly,"* he said. He informed the reform's preliminary report had been enriched with proposals from the Supreme Court of Justice, the Ministry of the People's Power for Labor and Social Security, universities and from workers themselves.

Habeas corpus overruled. The habeas corpus filed by Empresas Polar against the decree to expropriate 21 companies in Zona Industrial 1 in Barquisimeto was declared



inadmissible by the Higher Court in Contentious Administrative Matters. The decision will be appealed before the Supreme Court of Justice's Constitutional Courtroom.

Investment in treasury bills and bonds increased. One more proof of the presence of a *credit crunch* is the national banking systems' increased investments in treasury bills and public debt bonds. This can be observed in the last report published by the Banks' Superintendence (Sudeban), where investments in the said securities went from VEF 69.6 billion to VEF 84.2 billion between February and March, representing a 21.0% increase.

Period for mutual fund liquidation expired. Stock exchange brokerages were obligated by the National Securities Commission (CNV) to dismount mutual fund operations by April 29. IN numbers published by the Venezuelan Association of Stock Exchange Brokerages (AVCB), it is possible to observe how between January and March, mutual fund operations were reduced by 84%, going from VEF 5.98 billion to VEF 958,000.

Broadband use grows. According to Cisco Barometer numbers, published by El Mundo Economía y Negocios, Venezuelan fixed broadband connections grew by 23% during the last year. Only on the second half of 2009, the sector experienced a 29% increase, reaching 624,255 subscribers. The regions with the most broadband penetration in 2009 were the Capital District (19.1%), Miranda (7.2%), Delta Amacuro (7.2%), Nueva Esparta (5.1%) and Aragua (4.95%).

They will finally receive currency. Enrique Gonzalez, president of the Venezuelan Automotive Chamber (Cavenez) said automobile assemblers' currency authorization applications started to be received by Cadivi a few days ago and, even though they still don't know the amount to be liquidated, this represents a great relief for this sector's companies. Among the companies that started to receive authorizations are Ford and General Motors.

March car sales. March automobile sales show the same increase this sector has been accumulating this year, with a m/m 14.7% growth, selling 10,890 units, mostly national units (10,227). However, comparing the numbers to the same period of 2009, it is possible to observe a 40% decrease, and comparing the sales of the first quarter of 2010 with those of the first quarter of 2009, the decrease reaches 43.6%, both falls mainly caused by the drop in imported vehicle sales, due to shortage.





World Crisis Tips

US GDP grew by 3.2% during the first quarter. The world's largest economy expanded by 3.2% (SAAR) during the first quarter of 2010, less than consensus expectations (3.4%). This is the third consecutive quarter of positive GDP growth since the end of the recession, when the GDP fell by 3.8% from peak-to-trough in real terms. In y/y terms, this first quarter's GDP was 2.5% higher than 2009's first quarter's (when the crisis hit rock bottom) but compared to the peak GDP of the second quarter of 2008, this quarter's is still 1.2% lower.

US small growth was partially due to the business deficit. Inventories grew by 1.6% (less than half of the 3.8% inventory growth reported the previous quarter), but consumption grew by 3.6% (more than twice as much as the previous quarter, 1.6%). The business deficit subtracted 0.6 percent points from the GDP growth, since exports grew by 5.8% while imports increased by 8.9% (in the previous quarter, foreign trade had had a positive 0.3% contribution).

FED funds rate unchanged. As expected, the Federal Open Market Committee (FOMC) kept the federal fund interest rates unchanged after its last meeting. The FOMC said US's economic activity had continued to strengthen since December and the labor market had begun to improve. About inflation, it is possible for it to stay low for a while, long-term inflationary expectations remain stable and there are enough resources to contain cost pressures. They also said the economic and financial conditions had changed enough as to not guarantee the current federal fund rates in the long term.

Greece's rescue plan increased from €45 billion to €110 billion. After last week Moody's reduced Greece's debt rating and S&P did the same with Greece, Spain and Portugal, this week, the European Union along with the IMF, agreed to increase Greece's rescue plan from €45 billion to €110 billion (€80 billion from EU member countries and €30 billion from the IMF), since due to Greece's debt size, the previous rescue plan would have only helped solving the problem in the short term.

Greece commits to more fiscal austerity. Greece's Prime Minister, George Papandreou, announced the Government's budget would be reduced by €30 billion (13% of the GDP) during the next three years, being these reductions additional to those previously approved. The acceptance of this higher fiscal austerity was a requirement to increase the previously proposed rescue plan. With this budget reduction, Greece commits to reducing its deficit from 13.6% last year to less than 3% (required by the EU) by 2014, two years more than the originally agreed upon.



Austerity measures include the freezing of public sector salaries and pensions for three years, a VAT increase from 21% to 23%, a 10% increase in fuel, cigarette and alcohol taxes, very unpopular measures that will increase the existing social dissatisfaction and the strength of protests.

Fear of infection by the other three countries with large deficits. Financial markets are still highly volatile due to the fear of Greece's debt crisis infecting the other three euro zone nations with large deficits. The four largest deficits of 2009 in the euro zone were: Ireland with 14.3%, Greece with 113.6%, Spain with 11.2% and Portugal with 9.4%. The S&P volatility index (VIX) marked 25.8 points this week, a 19% increase compared to the previous week. For its part the German stocks volatility index (VDAX) reached 25.1, for a 17.7% increase compared to the same period. The euro continued to slump up to € 1.27/US\$, which collects a drop of 11.1% so far this year.

Asian manufacture indexes in strong expansion. PMI (Purchasing Managers Index) manufacture indexes have been published in many countries this week, with almost all of them showing readings over 50 points, which indicates the manufacturing sector is in expansion. The first indexes published were those of some Asian countries, Taiwan, South Korea and India. These countries' PMI manufacture indexes exceeded 50 points early in 2009 and currently read 60.7, 57.0 and 57.2 respectively.

European manufacturing indexes split by the debt crisis. In Europe, where PMI manufacture indexes started to show expansion late in 2009, Italy, France and Germany, economic leaders of the euro zone, show a considerable expansion, with Germany highlighted, reading 54.3, 56.6 and 61.5 respectively in April. The indexes of euro zone countries with debt problems, Greece, Ireland, and Spain, are weaker. In Greece, the index still shows contraction with 43.6 points, and will probably continue like this with the recently-approved and even harsher fiscal austerity measures, while in Ireland and Spain, the manufacturing sector started to expand in March, reading 53.4 and 53.3 in April.

Consumption in Japan recovering. During the first quarter of 2010, the world's second largest economy's retail sales increased at an 11.3% seasonally adjusted annual rate, compared to the previous quarter. This is a clear advanced indicator that the domestic demand could recover in the mid term, which in the best case scenario would allow Japan to exit the deflationary spiral.





Political Tips

PSUV with 38% of participation. The PSUV's primary elections celebrated last Sunday had the participation of 2,539,852 party supporters. Cilia Flores, president of the National Assembly, was in charge of announcing the official results of winners by circuit in this primary election; in circuit 1 in Capital District Freddy Bernal and Aristobulo Isturiz came out as winners, with Eduardo Piñate and Desiree Santos Amaral as substitutes; In circuit 2, Robert Serra; in circuit 3, Andreina Tarazon; in circuit 4, Jesus Farias; in circuit 5, Dario Vivas and Juan Carlos Aleman. In total, 110 candidates were elected to represent Hugo Chavez's party in the country's 87 circumscriptions.

15 PSUV young pre-candidates won the primary election. In last Sunday's primary elections, young people were highly favored by voters. In total, 15 young pre-candidates were elected to run for a chair in the National Assembly, such as Andreina Tarazona, who defeated Richard Peñalver in Caracas. Also, Robert Serra, Tito Oviedo and Antony Coello. Other young winners were Alexis Ramirez in Merida, Otto Lenin Parada in Tachira; and all three main candidates in Trujillo: Cristian Zerpa, Jose Morales and Jucvel Roa.

USA: Venezuelan Government linked to the Colombian Guerilla. General Douglas Fraser, Commander of the US Southern Command, said the Venezuelan Government was still linked to the Colombian Revolutionary Armed Forces (FARC). According to General Fraser, there are both financial and logistics training links. He said, however, he had no information about FARC presence in Venezuelan territory.

Caracas-La Paz five-year development plan defined. In a meeting between Evo Morales, President of Bolivia, and Hugo Chavez, they established a five-year plan for joint development in all economic areas. Evo Morales, in the inauguration of a countrymen congress in Sucre, announced he would hold a meeting with President Chavez and several ministers of both countries to design a bilateral complementary economic development and investment plan for the next five years. The strategic 2010-2015 plan will include the incorporation of Bolivia to the multinational Empresa Pesquera Mixta del ALBA (Mixed Fishing Company of ALBA).

22 cooperation agreements signed with Brazil. Luiz Inacio Lula da Silva, President of Brazil, and Hugo Chavez, signed a total of 22 bilateral agreements to strengthen cooperation in the fields of energy, housing, society, culture, tourism, food and agriculture. Among the most important agreements are those related to the



supervision and control of border lines, with which both nations will be allowed to fly over common boundaries. Also, the agreement for the construction of homes in San Agustín del Sur, Caracas, by the Brazilian company Odebrecht, was extended.

“I am not a capitalist.” President Chavez, in an intervention during his tour with Bolivian President, Evo Morales, said his account in the social network @chavezcandanga, which he called “his secret weapon,” already had 100 thousand followers. In light of criticisms, Chavez said to him, this was a contact with the world: *“I’ve received messages from China, Russia, Argentina, Bolivia (...) I’m just another surfer in this world of technology and now I’m going to fight back.”* Also, after being tagged of capitalist for using internet, he said: *“Twitter is neither capitalist nor socialist; it depends on how you use it. Technology is not neutral, because someone could say cattle or milking technologies are capitalist.”*

Antonini: “Bribes in Argentina were of public knowledge.” Guido Antonini, a Venezuelan businessman, protagonist of the *“briefcase scandal,”* said from USA that the payment of bribes to the Argentinean Government to export to Venezuela was of “public knowledge.” Antonini said the Argentinean Minister of Planning, Claudio Uberti, managed an office in Caracas where he collected “tolls” during the Nestor Kirchner Administration (2003-2007).

Chavez: Communal Power will not substitute the National Assembly. Televen journalist, Adriana Nuñez, asked President Chavez a series of questions, to which he had few or no specific answers. She asked questions such as: “Could the Communal Power replace the Legislative Power? Could you specify what kind of support are the Cubans providing inside the National Armed Force? Can the 40% salary increase to militaries be extended to other sectors?” Chavez only answered that the doubts she had “had the same code, the Televen code.” About the possible substitution of the National Assembly by the Communal Power, he said *“Who could imagine that, if we’re choosing Parliament candidates, we could possibly think about substitute the National Assembly?”*

“I shall not harm the atmosphere of unity.” Enrique Mendoza, former governor of the Miranda State, said if the Unity table didn’t answer his request to become a candidate for circumscription 3 (Petare), he wouldn’t rule out the possibility to run as an independent candidate. According to the former governor, he wouldn’t be *“running alone,”* but instead, he would be backed by Miranda citizens and Sucre municipality residents who have showed him their support. He expressed his dissatisfaction with Julio Borges’ posture for circuit 4 (Guarenas-GUatire), since this candidate doesn’t live or vote in that circumscription. All in all, he emphasized his intention to *“never harm the atmosphere of unity. But unity can not mean disrespect citizens.”*



Flash visit. The Spanish Secretary of State for Latin America, Juan Pablo de Laiglesia, held a meeting with the Venezuelan Chancellor, Nicolas Maduro, in Caracas last Monday, to review the bilateral agenda and discuss the upcoming EU-Latin America summit. De Laiglesia said this was a “flash visit” to Venezuela to “review with the Chancellor” the current status of the bilateral relation, which he tagged as “very positive”.

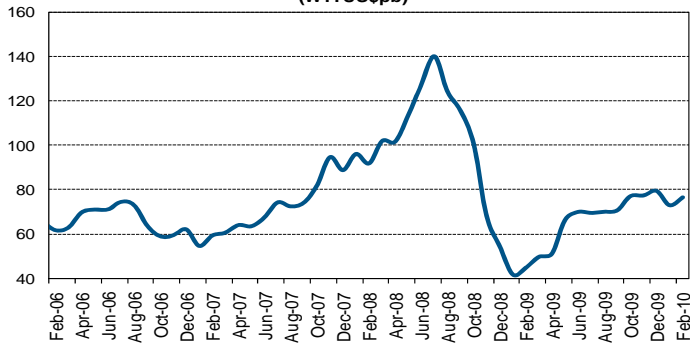
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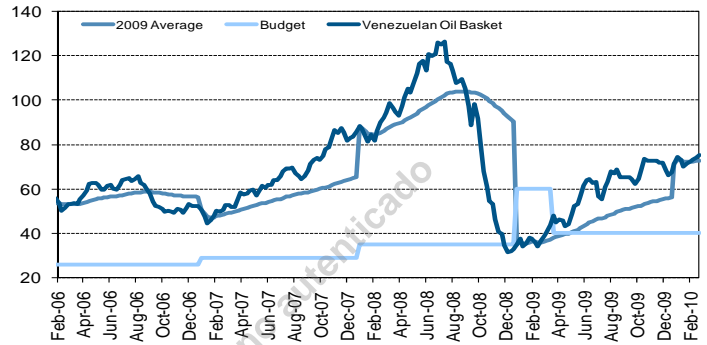


ECONOMIC OVERVIEW

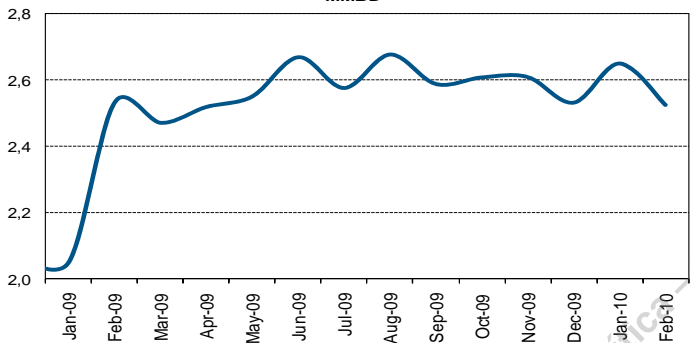
Oil Prices (WTI US\$pb)



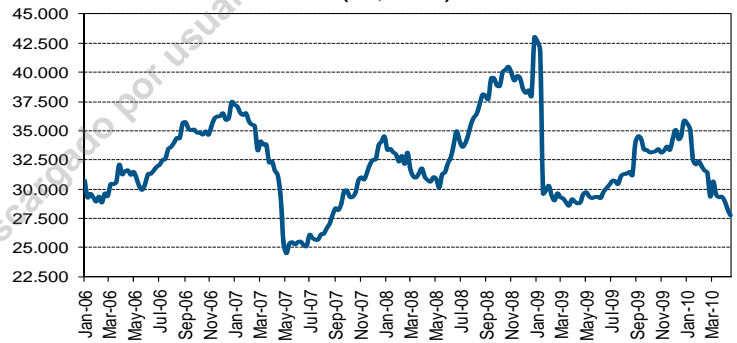
Oil Price (Venezuelan Basket US\$pb)



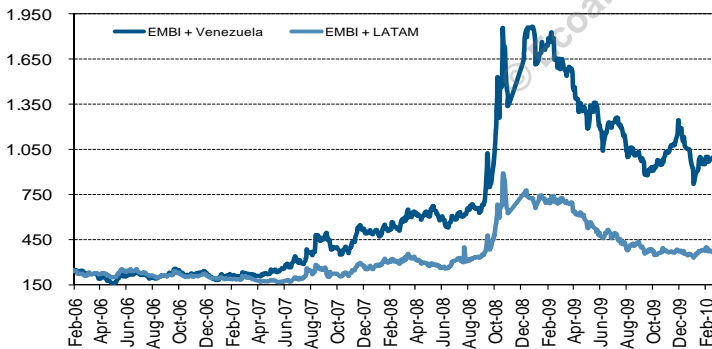
Oil Exports MMBD



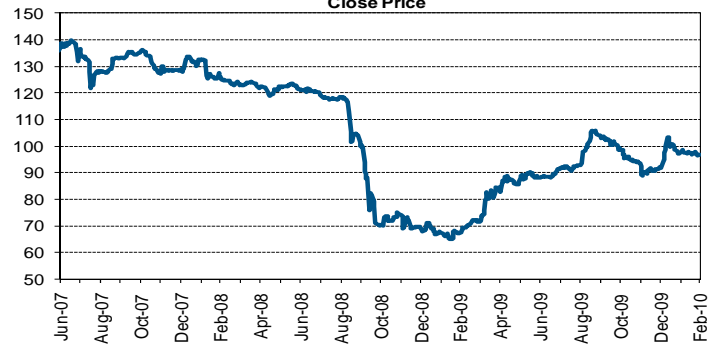
Fx Reserves - BCV (US\$ Million)



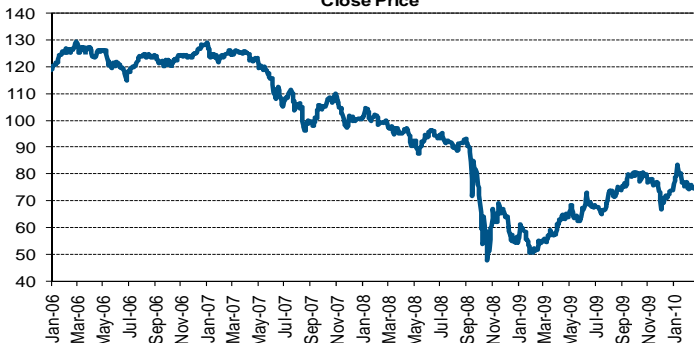
EMBI+



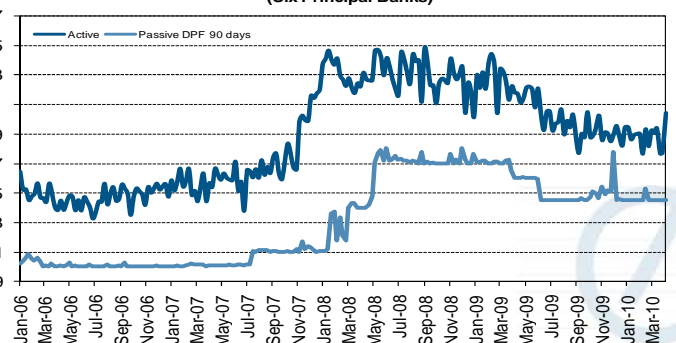
Venezuelan Global 18 Close Price



Venezuelan Global 27 Close Price

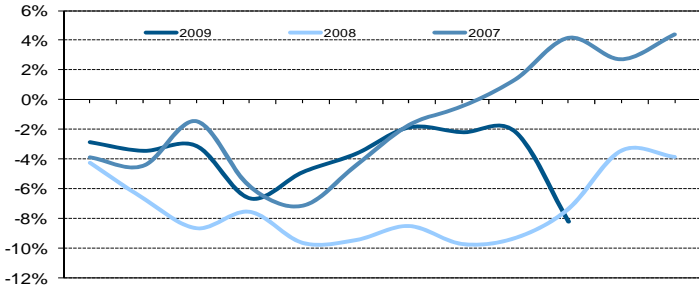


Interest Rate (Six Principal Banks)

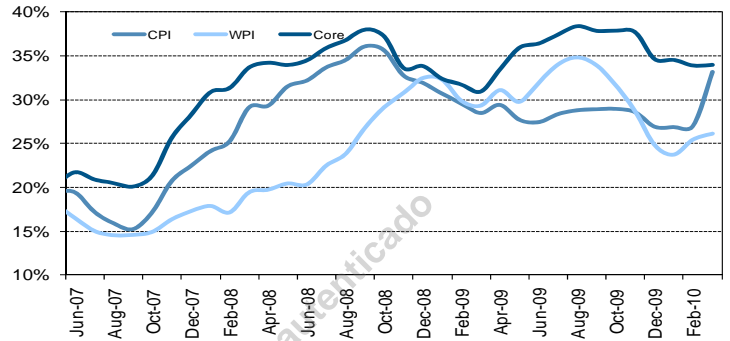




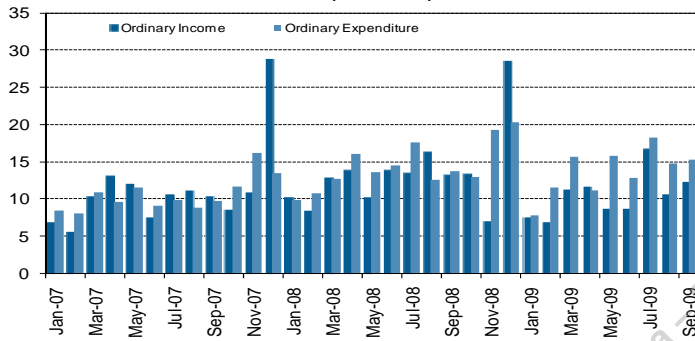
Real Expansion (M2)



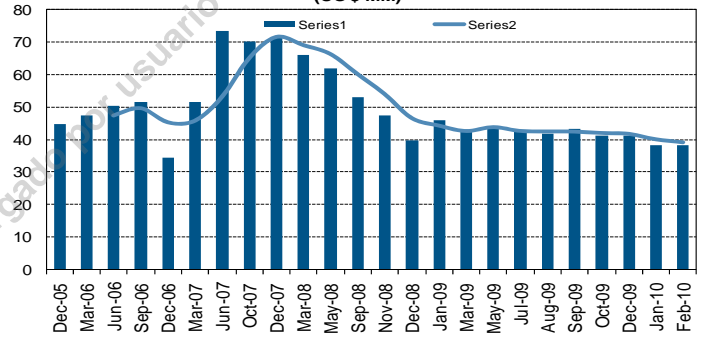
Inflation (Last 12 Months)



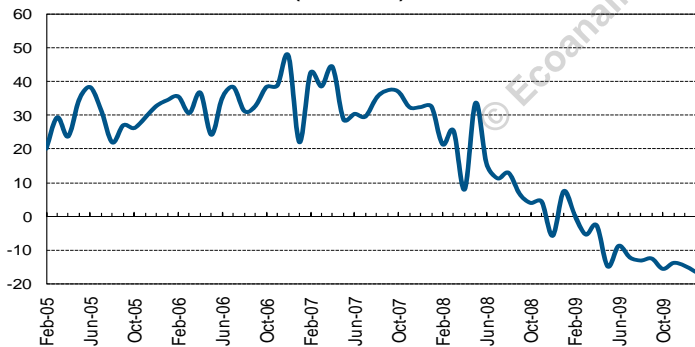
Central Government (VEB Billion)



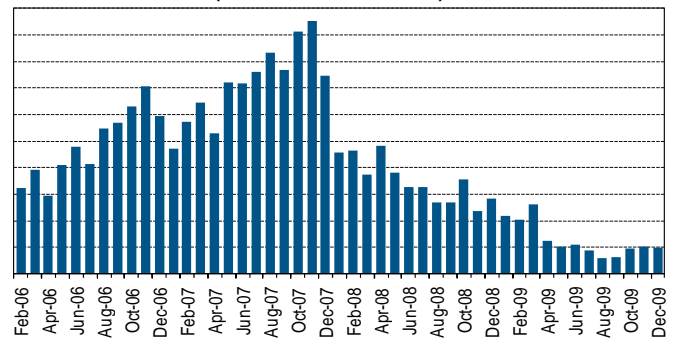
Resources of the State (US \$ MM)



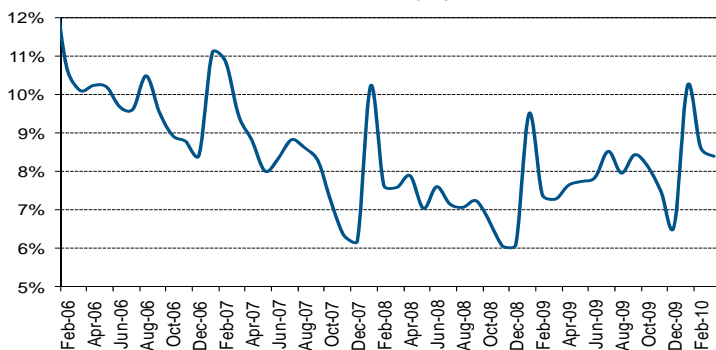
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

