



Weekly Report

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What's happening to the international reserves?

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So far this year international reserves have dropped by US\$ 3.5 billion despite the fact that during the same period oil prices have increased by 20%. This has left a lot of domestic as well as foreign interests very worried. This Report will analyze why the international reserves aren't increasing.

The Administration's loaic

Since 2004, the current Administration has begun to talk about the concept of optimum international reserve levels. Back then the argument was that there was such a thing as having surplus international reserves (of a certain stock, or currency, or cash flow), and that one could define a surplus in reserves once an optimum level of international reserves has been defined and set. Once you have defined an optimum level of any economic category, you can then talk about levels of surplus and deficit.

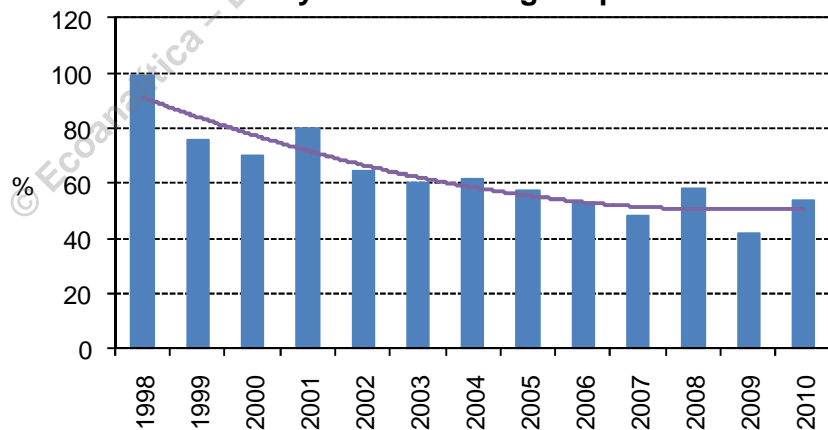
So by defining an optimum level of reserves and making a series of changes to the laws governing this area (which we have mentioned in previous Reports), the Administration has been skimming significant



amounts of resources, which in the past would have gone to the reserves. In essence, the way the Administration is managing the reserves now is that it sets what it considers to be an optimum level of international reserves, which in its opinion is enough to cover imports and service payments to the public debt. The rest gets siphoned into a parallel structure (out of budget) managed by the Administration without any oversight and at its total discretion to handle areas of government spending that it so chooses.

So, between 1998-2004 (before optimum levels of reserves were defined), Pdvsa turned over to the Central Bank of Venezuela (BCV) a quarterly average of its incoming foreign currency from oil exports of around 74%. Now, between 2004-2010 (optimum levels of reserves being defined), the quarterly average of its incoming foreign currency from oil exports which is turned over to the BCV is around 54%, which clearly reflects all the legal changes which have been introduced in this area and the change in the paradigm.

Proportion of foreign currency at BCV delivered by PDVSA through exports



Sources: BCV and Ecoanalítica

What has happened in 2011?

So far this year, international reserves have not gone up, which is odd to say the least given oil prices have been steadily increasing. And what's worse, not only have reserves not been increasing, they have been dropping. There are a number of reasons which can be associated to this drop: 1. Transfers from the reserves to FONDEN which have totaled US\$2.0 billion so far this year; 2. CADIVI liquidating a greater amount of



foreign currency for imports, plus its liquidating delayed foreign currency requests from previous periods; 3. Public debt service payments.

There is another problem at the heart of this issue and it's that 95% of all foreign currency coming into the country comes in via PDVSA and the oil industry, and the company has been, and continues to face, serious problems in operation, namely dropping oil production levels. So, the problem is not only that PDVSA is turning over a lower percentage of the foreign currency it takes in from oil exports, but due to dropping oil production levels, the company is hard pressed to maintain the current level of incoming foreign currency.

**Let's not forget
political logic**

At *Ecoanalítica*, we believe that international reserves levels will not increase significantly. Every US-dollar that comes into the BCV, enters into a cycle that could be called the formal budget structure, with all the rigidity that this implies for an Administration such as the one President Chávez manages. The temptation to be able to manage significant amounts of foreign currency in a number of out of budget funds (especially FONDEN) without any oversight, having to answer to no one is very great, and especially entering into a presidential election cycle. And this is why the Administration will only transfer enough foreign currency to the BCV for it to manage CADIVI foreign currency liquidation for imports and to pay public debt service payments. The rest will be managed through the Administration's parallel funds. In spirit, this management scheme is very much like what the recently approved Special Contribution Law we analyzed in our last Report is designed to do.

It's worth mentioning that in the eyes of this Administration, anything over US\$28.0 billion in the international reserves is considered a surplus. We estimate that in all of 2011, PDVSA will transfer to BCV around US\$ 26.28 billion, while total oil exports declared in the Current Account of the Balance of Payments will equal around US\$77.23 billion. In other words, PDVSA will only turnover 34% of the foreign currency taken in through oil exports. This is the lowest percentage of oil exports turned over by PDVSA to the BCV in the 1998-2011 period.



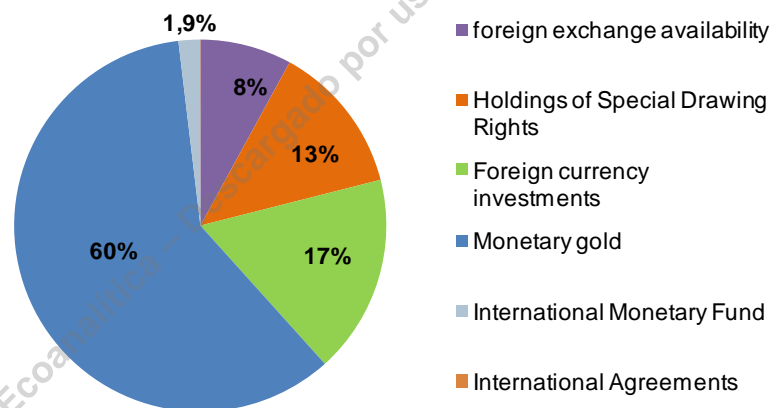


What's worrying about how the international reserves are being managed?

The way the international reserves are being managed by the Central Bank could lead to a number of operative and financial risks, therefore a number of parameters should be established:

- Diversify risks and the state of liquidity
- Manage exchange risks and an “*optimum*” combination of currencies with clear and acceptable limits.
- Have timeframe requirements that limit interest rate and market price risk.

International Reserves Composition (February 2011)



Sources: BCV and Ecoanalítica.

Modern economy has evolved with respect to the so-called “*optimum*” level of international reserves as a precautionary mechanism to limit vulnerability caused by foreign events which may impact a country's domestic exchange regime and flows of capital. In Venezuela's case, one has to add that the country's economy is based on the oil industry.

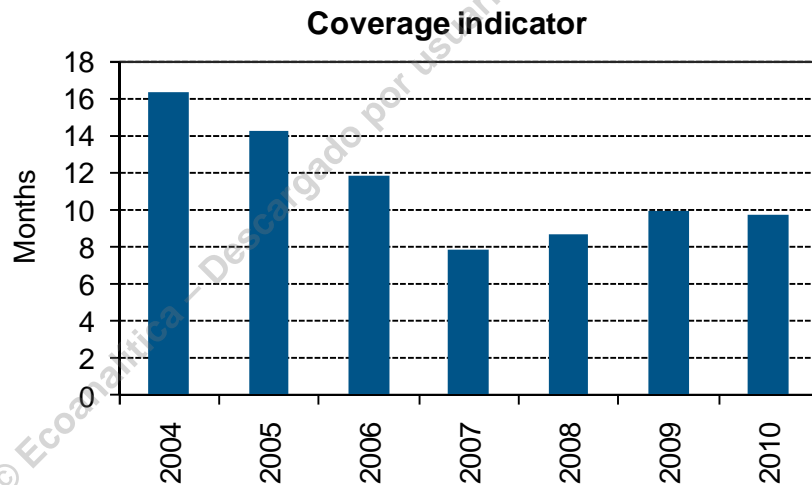
Having outlined how the country has arrived at the situation it is in today with respect to international reserves, we will now highlight some of the problems with how the reserves are being managed which could cause concern in the future.





First: The so-called coverage level

For an economy such as the one Venezuela has, the coverage indicator (equal to the level of reserves calculated by months of imports it is able to cover) is very important. The coverage indicator has gone from 16.3 in 2004 to 9.7 in 2010. As one can see, reserve coverage levels have become less and less. Now, it's a fact that current theories in economy and even economist do not agree on what should be defined as an "optimum" level of international reserves. At **Ecoanalítica**, we believe the optimum level of reserves should be able to cover between 18 and 24 months of imports. Current levels of international reserves are far from this.



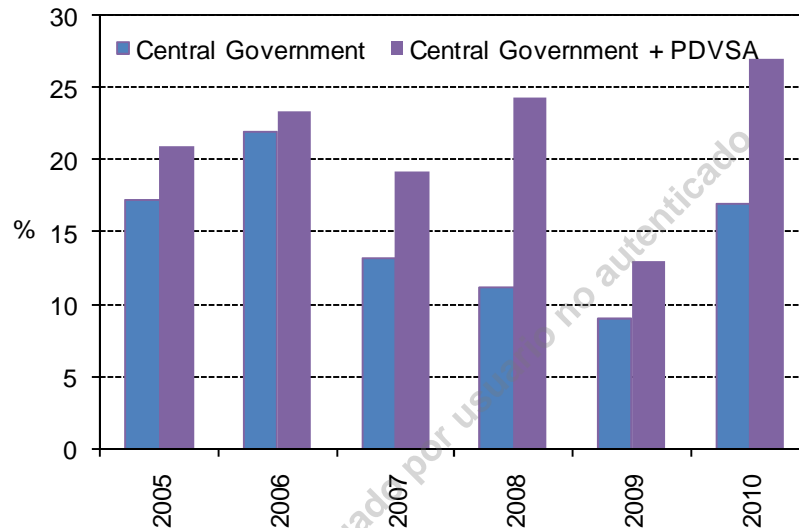
Sources: BCV and Ecoanalítica.

Another indicator that is very relevant is the level of reserves vs. foreign debt payments that must be made by the Central Government. The following graph shows how this indicator has been evolving. It's deteriorating trend is clear to see, and it's worse if we include PDVSA debt.





Foreign debt payments /Reserves



Sources: BCV, MPF and Ecoanalítica.

Second: What are international reserves being invested in?

In 2004, the then Minister of Finance, Tobías Nóbrega, highlighted with respect to international reserves that in the medium to long term, reasonable profits should be generated by the funds invested in the international reserves. And even the current president of the BCV has stated that it is a point of honor for him that reserve funds must be invested in instruments that yield significant profits, which of course would be associated with higher risks.

Today, according to the latest balance released by the BCV, most of the reserves are invested in gold (60%); another significant amount is invested in bonds (17%); and only 8.0% in foreign currency (which constitutes what one usually calls operative reserves (ready cash flow). At the close of 2004, the international reserves were invested in: 5.0% foreign currency, 22% gold, and 71% bonds. In 2009, reserves were invested in 3.0% foreign currency, 38% gold, and 48% bonds. The difference is quite substantial.

Even though gold has been performing quite well for some time now, the percentage of reserves held by the BCV invested in gold is extremely high. We can confidently say, without any exaggeration whatsoever that currently, Venezuela is not only vulnerable the extremely volatile and impossible to predict price of oil on the international market, but also to any fluctuation the price of gold may



experience. Furthermore, it clear that the revaluing of this precious metal during the last few months has covered the overall drop in reserves and even inflated exchange profits and BCV profits to be deposited in fiscal coffers.

**Share of Gold Reserves
(US\$ billion)**

	Monetary Gold	International Reserves	Share
2004	5.2	24.2	22%
2005	5.7	30.4	19%
2006	7.2	37.4	20%
2007	9.3	34.3	28%
2008	9.2	43.1	22%
2009	13.3	35.8	38%
2010	16.3	30.3	54%

Sources: BCV and Ecoanalítica

**Third: The BCV
and Fiscal
financing**

Though there hasn't been any official statement to the fact, the latest reforms to the laws governing the Central Bank operations makes it clear that the BCV will be able to acquire PDVSA bonds, which is also tied into how the SITME system operates. But we see this as an indirect mechanism for fiscal financing which make Central Bank operations vulnerable. During the last few months, PDVSA's buyback of bonds and the so-called "*private issuances*" between PDVSA and the BCV have increased significantly, with no clarity or transparency.

**How we faced
the crisis?**

Prudence leads countries to accumulate adequate levels of international reserves in accordance to their structure, and the levels accumulated are defined by the experienced learned over time. In Venezuela's case, this is very relevant given the country's dependency on oil, which has gotten worse, and a series of economic crises which have occurred in the past, as appears in the following table.





Venezuela: Episodes of Crisis

	Loss reserves (US\$ billion)	% Initial reserves	Nominal devaluation	Real devaluation	GDP growth
1982-1983	1.5	14.8%	66.7%	61.5%	-5.6%
1986-1987	4.6	33.3%	34.5%	14.2%	3.6%
1988-1989	1.4	17.0%	71.8%	5.1%	-8.6%
1993-1994	3.8	30.2%	100.2%	30.3%	-2.3%
1997-1998	4.5	24.4%	14.8%	-11.9%	0.2%
2001-2002	4.8	23.7%	26.2%	27.0%	-8.9%
2002-2003	1.7	11.0%	47.4%	26.0%	-9.2%
2009-2010	12.8	29.7%	100.0%	59.8%	-4.6%

Sources: BCV and Ecoanalítica.

The normal functioning of the Venezuelan economy requires high levels of international reserves due to the fact that we are a small economy, not very diversified, and dependent on the most volatile of all the commodities, oil. Furthermore, the country's Capital and Financial Accounts of the Balance of Payments are very unstable with a marked dichotomy between the public sector Current Account (surplus) and the private sector Current Account (deficit).

In closing we would like to share with you words spoken by Tobías Nóbrega in 2004 before a special session of the national Assembly on this subject:

“Reaching that optimum level of reserves doesn’t mean, as has been trivialized by politicized debate and manipulated by the media, getting your hands on the reserves in custody of the BCV. The intent is to create institutional and legal mechanisms so that significant monetary and real perturbations are not generated...”





Economic Tips

BCV: April inflation at 1.4% and accumulated 7.5% so far this year. According to BCV and INE statistics, the CPI for Venezuela for the month of April 2011 registered a variation of 1.4% compared to the previous month, the same as was observed between March and February, and much less than what was registered in April 2010 (5.2%). Inflation accumulated during the first four months of the year is at 7.5%, much lower than what was recorded during the same period in 2010 (11.3%).

Core inflation... Core inflation for the month of April 2011 compared to March 2011 dropped from 2.4% to 2.0%. This drop was due to processed food and non-administered services which both dropped from 4.0% to 3.1% and 2.3% to 1.5% respectively.

Inflation by cities... National CPI figures broken down by cities shows that in 4 of the 11 cities included in the index prices dropped in April compared to March: the city of Caracas going from 1.6% to 1.3%; Ciudad Guayana, from 1.9% to 1.7%; Maracaibo from 1.4% to 1.2%. The following cities still had prices going up: Maracay, going from 1.3% to 1.4%; Barcelona-Puerto La Cruz, from 1.6% to 1.9%; Valencia, from 1.3% to 1.7%; Mérida, from 0.8 to 1.7%; San Cristóbal, from 1.4% to 1.8%; and the rest of the nation from 1.3% to 1.4%. The city of Barquisimeto remained steady with the same variation as last month, 1.7%.

The IMF estimates inflation to be at 32.4% in Venezuela this year. According to International Monetary Fund (IMF) projections for 2011, inflation in Venezuela will be at around 32.4% by the close of this year. The IMF considers Venezuela to be among those countries where the implementation of very expansive macroeconomic policies is stimulating demand and causing inflation to increase. It also states that the country's economic growth is limited by its unfavorable environment for business and by restrictions in supply. According to the IMF, economic growth in Venezuela this year will be at 1.8% and for 2012 it will be at 1.6%, while inflation will be at 30.1%.

Merentes: Lowering the legal bank reserve won't push inflation to increase. It's been confirmed that the board of directors of the Central Bank of Venezuela (BCV) approved shaving three points off the legal bank reserve limit. According to the president of the BCV, freeing up these resources from the legal reserve limit won't adversely affect inflation because it is a programmed release of resources occurring between May and December 2011. The VEF 10.0 billion that will be freed up from the



legal reserve limit added to the 4.0 billion from the 2.0% increase in the mortgage quota will only be about VEF 14.0 billion injected into the real economy.

Announcing the return of Maximum Sales Price for all products. The Administration is thinking of introducing a price fixing scheme (Maximum Sales Price) for a wide range of basic products within the framework of the Law for Costs, Prices, and Salary Protection which will be introduced for consideration before the Minister's Council. According to the President, this Law will be aimed at doing away with price gouging, hoarding, and the voracity of the market.

Supply of US-dollars via SITME system down by 26.0%. BCV statistics show that between September and December 2010 the average daily supply of US-dollars via SITME system was at US\$42 million, but during the first four months of 2011 this amount has dropped by 26.0% to settle at US\$31 million a day. With respect to CADIVI, during the first quarter of the year, approved foreign currency application for all activities increased by 11.7% compared to the same period in 2010. On the down side, the BCV cut back on the liquidation of foreign currency during the same period by 3.0%.

Government spending in the black. According to sources within the National Treasury, government spending during the first quarter 2011 increased by 23.6% in nominal terms compared to the same quarter last year. In real terms, spending has dropped by 1.1%.

Unemployment spiking. Unemployment was at 8.6% in March 2011, according to information from the National Institute for Statistics (INE). The same month last year had unemployment at 8.7% and for the month of February 2011 it was at 8.8%. For its part, the informal sector of the economy stood for the month of March at 5.118.536 people, this translates into an increase of 1.5% over the same month in 2010 and 5.118.536 people compared to February in 2011 when it stood at 5.267.382 people.

Jaua assures the Great Labor Mission "will defeat unemployment." Executive Vice-President of Venezuela, Elias Jaua, said that the objective of the Great Labor Mission announced last May 1st by President Chavez during the Labor Day March was to incorporate 1,100,000 unemployed citizens to the labor market, plus the 260,000 added every year.

Three meals a day. The results from the IV National Survey on Family Budgets corresponding to the years 2008-2009 on family eating habits showed that food is not a mayor problem for most Venezuelans with 80% of the population eating three times a day (breakfast, lunch, and dinner) and 16.2% eat four or more times a day (breakfast, lunch, and dinner, and snack). Relating both these results we find that



96.2% of the population meets and even surpasses the three standards expected from food. The data from this research, which was developed by the Central Bank of Venezuela (BCV), National Institute for Statistics (INE), the *Universidad de los Andes* (ULA), and the *Corporación Venezolana de Guayana* (CVG).

Improvements have been made. Comparing the results from the IV National Survey on Family Budgets with the previous edition of the same study (corresponding to the years 2004-2005), one sees that the percentage of people that eat three times a day has increased from 59.1% to 80%. Another relevant piece of information gathered from the comparison of the two studies is that there is specific improvement among the families with less income. The study shows that segments I and II (where 50% of the families with the lowest income are concentrated) the percentage of those eating three times a day jumped from 62.5% to 81.8% and from 61.6% to 82.1%, respectively.

Interest rate. The lending rate for the fifth week in April was at 17.13%, decreased by 2.38 perceptual points compared to the previous week. Time deposits also were decreased by 1.12 perceptual points to reach 14.63%, while the passive has not submitted any variation since January 2010, placing well at 12.6%.

International reserves. International reserves creased 3.0% going from US\$26 billion during the fourth week in April to US\$27 billion during the fifth week. Compared to the same period last year, international reserves have dropped by 6.0%.

Monetary liquidity. Monetary liquidity in the fourth week in April creased 0.2% compared to the previous week settling at VEF 308.467.303 billion. The M2 has creased 30.0% year-on-year.

Sitme figures. To date, US\$7.49 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$35.0 million a day, with an implicit exchange rate of 5,3VEF/US\$. Last week the traded amount reached US\$206,9 million, US\$17,8 million less than last week when braided US\$189,3 million. So far this year the SITME has negotiated US\$ 2,408 million.





Oil Tips

Resuming operations. According to the news agency Reuters, Isla refinery managers, operated by Pdvsa in Curacao, have restarted the processing units that were shutdown since March, including the cracker.

New plant in El Salvador. A new fuel storing plant will soon be opened in a port on the pacific coast of El Salvador. The plant belongs to the company ALBA-Petroleos de El Salvador, run by mayors associated to the State Corporation Pdvsa, who import fuel from Venezuela to then sell it at more accessible prices in the Central American country. The plant is located in the sea port of Acajutla, in the Sonsonate department, nearly 150 km southwest from the capital city.

No more and no less than... In the latest monthly report published by the Organization of Petroleum Exporting Countries (OPEC) corresponding to March, Venezuela still showed production falls, with a 5.6% decrease compared to the same period in 2010. According to Opec, Venezuela's production to export reaches 2.2 million barrels per day, compared to the 2.35 million reported in the same period of 2010. These numbers include the production at the Orinoco Oil Belt.

The first platform. Pdvsa finished assembling the first offshore oil extraction platform called Central Production Facilities. The platform is located south of the Orinoco River, Matanzas sector in the Bolivar State, at the facilities of Patión Alianza Deltana of the metal-mechanics company Venezuelan Heavy Industries, C.A. (Vhicoa). This is a semi-public company with 80% of shares owned by Pdvsa Industrial and 20% owned by the company Vhicoa. The mega-structure occupies 3,848 square meters and has a total weight of 8 thousand metric tons, including the structural platforms and the above-surface equipment. This platform is contemplated in the Corocoro Development Project and will be transported from the Orinoco River to the Gulf of Paria to be installed in Güiria within the next few months.

Paraguay achieved its goal. According to Paraguay President's Office, represented by its Secretary General, Miguel Angel Lopez Perito, an official mission traveled to Caracas to restructure the Paraguayan oil company's debt for US\$284 million with Pdvsa. The agreement will require the intervention of the Swiss-French bank Societé Generale. The conversations between both nations began two years ago due to Paraguay's incapacity to pay the fuel purchase debt. The Paraguayan representative said this was "a financial engineering mechanism by which Petropar will pay the debt



in approximately one year. We will also be saving approximately 30 percent, nearly US\$70 or 80 million”.

Our neighbors are becoming increasingly relevant. Colombia’s National Hydrocarbon Agency announced that the Andean country had reached a historical oil production record registering a total of 903 thousand barrels per day in April. This number represents a 16% increase compared to the same period of 2010, when Colombia produced 778,440 barrels per day. Also, reviewing this year’s evolution, over 4 months, Colombia’s hydrocarbon production has grown by 9.4%, being last year’s closing number 825 thousand barrels. With this number, Colombia has become South America’s third oil producer, right behind Venezuela and Brazil.

The goal is close. Colombian President, Juan Manuel Santos, said this year’s goal was to exceed one million barrels per day. Colombia is currently selling between 200 and 300 thousand barrels per day to the United States, and is the tenth largest oil exporter to the US. Nearly 20% of this production corresponds to labors performed by the Canadian company Pacific Rubiales, which employs managers and engineers who used to work for Petroleos de Venezuela. However, only this firm indicates they should expand their production by another 30 thousand barrels in 2011, explains Ronald Pantin, CEO.

More and more projects. Petrobras announced it would invest US\$73 billion by 2015 to develop a project at the Campos Basin. 26% of the investment will be provided by partners.

International oil baskets. At New York’s market closing time last Friday, April 29th, the WTI remained at US\$112.5/bl resulting an increase of 2.0% compared to US\$109.8/bl recorded in the previous week. The Brent creased by 1.0% to reach US\$124.4/bl, compared to US\$122.9/bl of the previous Thursday.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$110.3/bl on Friday, April 29th, up by 2.0% from the US\$108.3/bl registered the previous week. Meanwhile, the basket’s annual average is at US\$95.0/bl.





Business Sector Tips

Producer prices of corn, rice and soy increased by 30%. The ministries of Commerce, Agriculture and Lands and Nutrition, by resolution published in *Official Gazette* number 39,664, established the new prices of the products mentioned above. White corn, with a current cost of VEB 1.15 will now cost VEB 1.50 per kg; yellow corn will go from VEB 1.02 to VEB 1.33. Type A Paddy rice will go from VEB 1.55 to VEB 2.02, and nationally produced Soy will go from VEB 1.89 to VEB 2.46 per kg. This adjustment represents an average 30% increase for all four products. The new prices will come into effect August 15.

Maximum public ground transportation rates for interurban and urban routes. The ministries of the People's Power for Commerce and Transportation and Communications, by resolution N° 6,023 published in *Official Gazette*, established nationwide maximum rates for public ground transportation services in interurban, suburban and urban inter-municipal routes.

President Chavez proposes supermarket chain Central Madeirense to form an alliance with the State. President Hugo Chavez stated his Administration's intentions to work with some private sectors, such as the case of the chain of supermarkets Central Madeirense, in order to guarantee high-quality food products at good prices.

Salary protection can only be achieved by controlling inflation. According to Noel Alvarez, president of Fedecamaras, the best measure to protect workers' salaries is to stop inflation, so to preserve people's purchasing power, so it is indispensable to increase the supply of goods and services in the nation. The Government's measure regarding company's mandatory payment of food stamp bonuses will have an impact especially on small and medium-sized companies, for which the payroll increase might reach up to 50%.

Venezuelan Government formalized trade with Colombia. The Venezuelan Government made official the agreement signed between presidents Hugo Chavez and Juan Manuel Santos on April 9 in Cartagena, which will temporarily regulate trade between Venezuela and Colombia.

Small drugstores at risk due to changes in the Law of nutrition. According to a press statement issued by the Venezuelan Chamber of Drugstores (Cavefar) "the



extension of the obligation to pay food stamps to drugstores with less than 20 employees represents a cost increase that will significantly affect these businesses.”

It would be harmful to join Mercosur. During a meeting between different private and academic sectors and the Venezuelan Latin American Parliament Group (Parlatino), Ismael Virgil, executive president of the Venezuelan Confederation of Industrial Businesses (Conindustria), stated that the national industry was too weakened by the Administration's policies, thus making it difficult for them to compete with industrials of countries such as Argentina and Brazil.

Entrepreneurs believe the salary protection will put a hold on inflation. A new control is in effect: The Law of Costs, Prices and Salary Protection. The entrepreneurial sector projects the result of this new measure will be similar to the result of previous restrictions, more shortage.

Regulation on loan portfolios. According to *Official Gazette N° 39,664* dated May 2, banks will need to destine their own funds to grant mortgage loans, with the minimum established at 12% of their gross annual loans portfolio. The referred loans portfolio will be distributed as follows: 50% for home construction; 35% for first home acquisition; 7.5% for first home improvements, repairs and expansions and 7.5% for first home self construction.

Salary increase did not entirely mitigate labor protests after the announcements of a 25% minimum wage increase, 45% for public employees and 40% for the University sector. The Administration's efforts to recover people's purchasing power didn't seem to have the expected effect, as unions and professional associations are still expressing their distress for the low increment and the way it was announced without considering union negotiations.

Strikes risk Minerven's production. After a little over a week on strike, the goals have not yet been accomplished, and it seems none of them might, as ever since the CVG gold exploiting company Minerven workers decided last Sunday April 24 to shutdown the operation, they have still not received their delayed payments nor the food stamps they were claiming.

There will be increases by up to 66% in public sector payrolls. Calling to exercise labor control, yesterday afternoon President Hugo Chavez announced an adjustment to the salary table of centralized public administration workers and employees, a measure that will represent salary increases from 45% to 66%. Salary tabulators had not been reviewed since May 1, 2008.





Government home-construction goal includes private plans. One of the Government's objectives this year is to cover the deficit of two million homes over a period of seven years, and that *"does not only include the homes guaranteed by the State, but also those to built by the private sector and organized communities."*

Funds authorized to boost Great Housing Mission. Within the framework of the launching of the Great Housing Mission Venezuela, President Hugo Chavez authorized an additional VEB 1.34 billion for the construction of 15,000 housing units all over the country.

Industrial zones to be used to build homes. Ministry of Housing, Ricardo Molina, indicated that the Great Housing Mission Venezuela was planning to incorporate the best lands to build homes, including those that have so far been mostly used as industrial areas.

Fogade grants extension to clients of banks in liquidation. The Deposit Warranty Fund (Fogade) will allow the creditors of banks in liquidation that haven't attended the debt classification process to do it between April 28 and May 11. The measure is for creditors and debtors of Banco Federal, Canarias, Banpro, Inverunion, Banco del Sol, Real, Baninvest and Helm Bank.

Prizes and punishment for electric system users. The Minister for Electric Energy, Ali Rodriguez Araque, announced that the National Government was studying the possibility to apply measures to reduce the electric consumption. One of the measures could be to reduce the rates for people consuming less kilowatts per months and to increase it for those who exceed the same limit.

Guaranteeing electric service requires another system. An analysis prepared by Edelca's Committee of Professionals and Technicians as a contribution to solve the current contingencies in the National Electric System, states that this year's generation requirement is 2,700 Mw to cover the demand.

Ready for the party. Thirty six containers with home appliances arrived to the La Guaira Port, Vargas State, as part of the Government program My Fully-Equipped Home. A representative of the Ministry of the People's Power for Trade, Angel Yanez, stated these containers had refrigerators, stoves, washing machines, air conditioners and dryers, among other home appliances. Yanez indicated they were expecting 181,014 appliances until next month.

And more to come. According to the schedule, approximately 3 million appliances are expected to arrive over a period of 18 continuous months. These home appliances arrived to the nation as part of the cooperation agreement between the



People's Republic of China and Venezuela, signed in May of 2010, to promote fair commerce, to create a first-necessity product distribution system and to eradicate speculation.

World Economy Tips

US growth loses momentum. The real US GDP growth during the first quarter of 2011 was 1.8% (SAAR), being this the weakest growth rate since 2Q2010, close to consensus expectations of 1.9%. The weakness of the GDP components has been generalized. A slower growth in private consumption (2.7%) compared to 4Q2010 led the deceleration, although it was higher than last year's. The weakest result was the rate of investment, 1.8%, compared to last year's 5.7%. The housing sector continued to show weakness and government spending dropped to a 5.2% rate, the biggest fall since 1983.

Inflation up... The inflation measured by GDP-linked prices went up to 1.9%, almost twice as much as last year. The domestic final demand index jumped 3.8 (1.6% y/y) and the final sales price increased by 1.9% (1.5% y/y).

Manufacture recovers in Europe. Euro zone industrial orders continue to expand. Over the last year, industrial orders have increased at a rate of 21.3%. Said orders grow and accelerate in the main European economies, including sometimes troubled Spain. Out of these economies, only France has shown some deceleration trends, as its growth rate decreased to 9%. However, France's growth is still quite steady, despite having performed slightly worse than its peers. Just like in the US, the European economy is showing the best growth in the manufacturing sector.

Japan feels the consequences. Japanese industrial production reported the biggest fall since the occupation. The information corresponds to March, complementing the first quarter and reflecting the partial effects of the damages caused by the tsunami and earthquakes lived in March. The fall is worse than expected, though it was expected to be strong. Sector results provide a glimpse of the industries most affected by the triple disaster (earthquakes, tsunamis and nuclear accidents), being the transportation sector a clear example.

Portugal rescue exceeds projections. The Portuguese newspaper Diário Económico reported that the technical team of the European Commission, the



European Central Bank and the International Monetary Fund (IMF) working in Lisbon came to the conclusion that the nation needed more funds than Brussels' original projection. Portugal needs over €100 billion (US\$148.3 billion) in rescue funds from the European Union and the International Monetary Fund, including the €10 billion (US\$14.83 billion) for the banks, much more than the €80 billion (US\$118 billion) originally projected.

In an atmosphere of uncertainty. In this context, it is important to consider that Portugal is preparing for an early general election to be held on June 5, after the socialist government resigned in March due to the Parliament's rejection of the austerity plan. Both the IMF delegation and the European Commission want to grant the loans before the election and need the main political parties to commit to the rescue program.

They don't like Mercosur. European producers insisted last Monday in the European Parliament (EP) in the "*catastrophic impact*" a trade agreement with the Mercosur (Argentina, Brazil, Paraguay and Uruguay) might have on the European Union's agriculture. The president of Copa (Agricultural organizations), Gerard Sonnleitner, explained that the European agricultural sector would report losses of up to €13 billion (US\$19.2 billion), without including the repercussion on EU rural area jobs. They mentioned an agreement would be detrimental in the meat, sugar, fruit juice and corn sectors.

Brazilian production exceeded expectations in March. Brazilian Industrial Production grew by 0.5% in March compared to February, said last Tuesday Brazil's the official statistics agency IBGE. Consensus expected production to grow by 0.2%, according to the median of estimations of 11 analysts consulted in a Reuters' survey, of which forecasts ranged from a 0.4% fall to a 0.7% increase. Compared to last year, Industrial Production fell by 2.1%, less than the 2.5% expected by analysts.

Political Tips

Opposition has two new candidates for the primary election. The Governor of Táchira, Cesar Perez Vivas, announced last April 28 he would run in the Democratic Unity Table's primary election to choose the opposition candidate to the presidential election of 2012. The Governor of Miranda, Henrique Capriles Radonski also announced his pre-candidacy.



Room for everyone. The date of the opposition's primary election has already been set (February 12, 2012), and has become a topic of interest for those hoping to become the opposition's single candidate; 16 contenders are in line so far, most of them currently holding public offices. Five of them are Governors: Henrique Capriles Radonski (Miranda), Henrique Salas Feo (Carabobo), Cesar Perez Vivas (Táchira), Pablo Perez (Zulia) and Henri Falcon (Lara). Three National Assembly representatives are also on the list: Miguel Angel Rodriguez (Independent), Maria Corina Machado (Independent) and Hiram Gaviria (Aragua). One Metropolitan mayor: Antonio Ledzma (Alianza Bravo Pueblo).

And more. The contenders who are not currently holding public offices are Eduardo Fernandez, Hermann Escarra, Manuel Rosales (Un Nuevo Tiempo), Guaicaipuro Lameda, Oswaldo Alvarez Paz, former ambassador Diego Arria and Henry Ramos Allup. Even though the list is long as of today, it is quite likely to get smaller as we get closer to the primary election of 2012.

And Chavez raises the stakes. President Chavez ratified his candidacy to the Presidential Election of 2012 and said *"we have to win this election and win it right! We're going for 10 million votes, so that no one can deny the Venezuelan People's will, conscience and moral,"* he said in National Broadcasting.

Zulia Governor urges Government to invest refugee resources in roads. Zulia Governor, Pablo Perez, urged the National Government to invest part of the resources authorized to cater to rain refugees of the South coast of the Maracaibo Lake in rebuilding the interurban roads that connect said area with the rest of the State.

560 measures of alleged real estate fraud reported so far. The Public Ministry has executed 560 real measures against construction companies involved in real estate frauds, based on the 696 reports presented before said entity.

Psuv rejects terrorism but states Osama Bin Laden was a "creation of the Empire to justify wars." Cilia Flores, as spokeswoman for the political organization, insisted in Psuv's rejection of terrorism, *"from wherever it comes, we defend peace, life and love, and Mr. Bin Laden was a creation of the American Empire and the CIA, a terrorist (...) used by them to justify their wars, interventions and aggressions."*

Psuv asks CNE for campaign normative in response to President Chavez's abuse. Alberto Barrios, leader of Copei, asked the National Electoral Council to issue a regulation for the electoral campaign of 2012 in light of President Chavez's abuse and constant political propaganda. Barrios reminded the CNE that it had *"the constitutional power and competence to set a serious and responsible position*



regarding electoral behavior, the specific case of the use of government resources and the abuse of State power exercised by President Chavez.”

Voluntad Popular to use multi-nominal vote. The open election of Voluntad Popular, scheduled for July 10, might be of use for the Democratic Unity Table (MUD) to evaluate the option of multiple votes in the primary election scheduled for Sunday, February 12, 2012.

Chavez warns opposition: “present your lousy candidate, we’ll sweep the board.” During a political rally to celebrate Labor Day, President Chavez called the opposition to present their “lousy candidate” and said he’d be “swept away” in the presidential election of 2012. “Write it down, we’ll sweep the board”, he said, as he asked again for the 10 million votes he wanted in the last election.

... **Chavez took the occasion to question the conservative allies** who questioned his decision to extradite Joaquin Perez Becerra, and took full responsibility for his transportation to Colombia.

PCV: our confidence in the Government is fractured. Chavez followers’ wound for the arrest and extradition to Colombia of the alleged international leader of FARC, Joaquin Perez Becerra hasn’t healed. The Communist Party of Venezuela said that “illegal action had fractures their confidence in Hugo Chavez’s government, and helped “validate” the alleged contents in Raul Reyes’ computer, the guerilla leader killed in Ecuador.

Newly announced Housing Mission branded as a failure. The national secretary general of Primero Justicia and National Assembly representative, Tomas Guanipa, said the Housing Mission had been reiteratively announced by President Chavez as if it were the first time.

Mexico hopes to expand bilateral relations. After a stage of diplomatic friction, Mexico and Venezuela are working on the creation of a bilateral agenda expected to expand the cooperation in the fight against organized crime, said the Mexican Chancellor, Patricia Espinoza.

Resources for universities are only enough to pay for operative costs. Even though the VEB 7.79 billion authorized by the national Administration for universities seems like a lot of money, there actually isn’t much they can do with such an amount. So was indicated by the President of Universidad Simon bolivar (USB), Enrique Planchart, who stated they would only be enough to pay for operative expenses, so there would be no funds for academic investment and infrastructure.



Legislative Tips

They think it's OK. The National Assembly's Finance Commission said a review of the Law of Extraordinary Crude Oil Prices and its effects on regions was not in the agenda. The announcement was given after opposition congressmen requested a review of this regulation, but were overthrown by the pro-government majority with the contrary proposal.

They keep moving. The Penitentiary Regime Permanent Commission celebrated a meeting to continue moving forward in the discussion of the Penitentiary Organic Code Draft (COP), so was informed by the vice-president of the legislative entity, Congressman William Ojeda. He said "*there will not be much complication among the members of the commission with this legal instrument*". He believes the legal normative will have unanimous approval, both in the commission and in plenary session of both Houses, once the observations to be presented by congressmen are incorporated.

He won't stop creating. President Hugo Chavez created the Labor Mission under the framework of his Law of Special Powers, along with a new Law of Costs, Prices and Salary Protection to control speculation. The text will turn the Institute for the Defense of People in the Access to Goods and Services (Indepabis) into a superintendence of costs, prices and salary protection in order to grant more nationwide presence to it. According to President Chavez, the normative looks to provide the State and the People with the necessary tools to "*defeat speculation, hoarding, bourgeoisie and market voracity*".

Old friends will be back. With the approval of the Law of Costs, prices and Salary protection returns to the scene the Maximum Retail Price, so was confirmed by the Minister of Commerce, Edmee Betancourt. She explained they would analyze and study cost ranges justifying the final prices of the goods traded. She also said they had already made some work to achieve this with the basic basket. However, the concept will be extended to all trade in Venezuela, so that all goods can have a suggested price.

Looking to change culture. Representing the Democratic unity Table in the mixed commission to discuss the Law of Disarmament and Control of Weapons and Ammunition, Congressman Juan Carlos Caldera said the regulation's objective was to favor the "*lives of Venezuelan citizens*" and to "*change the culture of violence in*



our society for a culture of peace". He added it was also "a multicolor effort we have been able to put before our political differences, a commitment to improve Venezuelan citizens' lives and future".

Almost ready... In a statement issued last May 1, the president of the Integral Social Development Commission, Oswaldo Vera, said: *"we will soon intensify the discussion of the Organic Labor Law in order to compile a final proposal to be submitted before the Venezuelan Parliament so that it can be approved in the 2011 legislative period".* Representatives of said commission indicated that the Draft of the Organic Labor Law might be released within days, after President Chavez urged the National Assembly to authorize said law. According to Vera, they will be releasing the legislative document containing the main objectives of the Law on May 11, and this document will work as base for the debate to take place in labor centers and factories.

But it doesn't seem so. Even though representatives of the Integral Social Development Commission said they would release the draft of the new Organic Labor Law within days, another group of Representatives members of the instance assure they have no knowledge of such advances in the draft discussion status. *"It is important to approve a new and revolutionary Organic Labor Law",* said Representative Oscar Figuera. However, he added that *"the president of the commission has suggested the commission's willingness to move forward to approve this legal instrument, but we are already in the fourth month of the year and the working team has not met even once to discuss the subject".* So, the draft might not be approved just yet.





ECONOMIC OVERVIEW

