



# Weekly Report

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*Will the new foreign  
exchange plan be a  
success?*

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In a joint press conference last Tuesday, the authorities announce the new foreign exchange plan and procedures which will replace swap-market foreign exchange operations as we know them, after these were prohibited by the new reforms introduced to the Exchange Crime Law. At the moment this Report is being written, there are a number of important details which have yet to be released and/or clarified, but one still wonders if these new procedures will be able to stabilize the exchange market. This Report will try to answer this question.

## What's new?

According to the explanation given by Nelson Merentes, the Central Bank of Venezuela (BCV) will fix a band system which will determine the rate at which foreign exchange swap-market operations will be carried out. The exchange rates will be determined according to the value of securities denominated in foreign currency issued by the Republic and/or PDVSA. Merentes pointed out that in order to fix the bands the value of securities traded on the international market will be taken into account, and that a maximum and minimum limit will be set, and that it would vary according to market conditions.



The BCV will create a clearing house in order to process transactions for all those who need to purchase foreign currency. The BCV will be like a mediator supervising all operations. This will create a robust platform which will reflect market values.

The BCV will also issue a resolution in which it will fix the parameters for the operations, since the new reforms introduced in the Exchange Crime Law stipulate that the BCV has to centralize all securities purchase and sale operations.

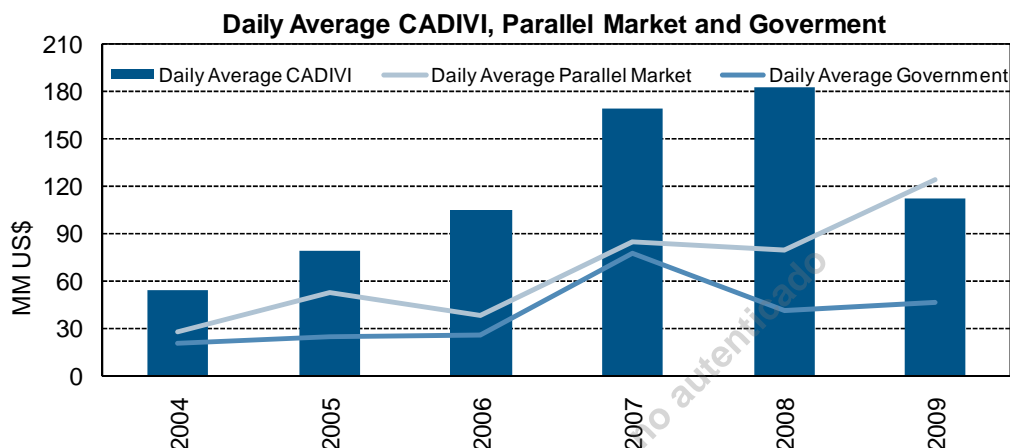
### How did we get here?

We have written a number of Reports analyzing the swap-market and explaining how it affects the Venezuelan economy. For many, this is a very complex subject, and a number of urban legends are woven around the swap-market. But, one would expect that the members of the Economic Cabinet would have a clear sense of how the swap-market works and its implications. Unfortunately, the press release given by Giordani and Merentes show us a profound lack of understanding regarding this market.

Three realities come together in the swap-market: the financing of outgoing capital (its most dynamic component); the importing of goods and services excluded by CADIVI, in other words, financed by the swap-market; and the mechanism that made certain imports possible given the delays CADIVI presented with respect to liquidating foreign currency. So, the swap-market was much more than just a vehicle by which price gougers, speculators, and brokerage houses took advantage of the exchange differential and played the system.

Another key factor has to do with the supply of foreign currency. For the last 7 years, most of the foreign currency supply for the swap-market has come from the public sector, which is logical, since over 95% of all the foreign currency coming into the country is through PDVSA. How has the supply presented itself? Through bonds purchased in bolivars but denominated in US-dollars, PDVSA bonds, Argentinean bonds, structured notes, or placements made by the National Treasury, PDVSA, FONDEN, public banks, and during this past year, exchange bonds issued by the BCV. Any serious analysis of the swap-market has to include these aspects. But last Tuesday, listening to Giordani and Merentes, it seemed like these aspects didn't even exist.





Source: Ecoanalítica

In 2008 and 2009 a large part of the difference between the amount of currency traded in the parallel market and the total offered through bond issues, was covered by direct sales of PDVSA and the Fonden, in 2009 the first sold about US\$11,000 million while the second sold at least US\$1,800 million.

### The problem according to Giordani

According to Minister Giordani, three things impact the so-called swap-market exchange rate: outgoing foreign currency; legitimization of capital (highlighting drug trafficking and money laundering); and the establishing of a fictitious exchange rate by using stock market trading in securities denominated in foreign currency to set an arbitrary exchange rate. The Minister continued to say that “we are on the brink of another financial avalanche.” And that the changes made to the Exchange Crime Law in the exchange operations and the purchase of securities was done so that people could not carry out these operations without declaring where they got the money to do so. He said that a lot of buying and selling of capital was done from abroad.

Giordani announced that the Government would continue to intervene in brokerage houses in order to avoid any irregularities. “We have found serious evidence of speculative purchasing and selling of securities in Venezuela.”

The Minister of Planning and Finance continued to say that part of these problems we are seeing have to do with economic politics: “we are talking about political situations in which the positioning of the new stage we are introducing towards the socialism is leading us to these anomalies.”

### The problem is something else...

The fact that a swap-market exists is because of the failure of the Administration to effectively implement its exchange control policies (since February 2003). This exchange control mechanism should have been dismantled back in 2006, for example. We, at **Ecoanalítica**, as well as a



number of other analysts, have been pointing out for a long time now that the Administration has been failing to introduce policies aimed at getting at the root of the exchange market problem. The Administration, in turn, prefers to stick to their story that the problem has to do with “bourgeoisies conspiracy” to disrupt the economy. The real problem has to do with a serious lack of confidence (the un-sustainability of the current model), high inflation, and the less room to maneuver that the Administration has due to the drop in foreign revenues coming in. These are the three points that Minister Giordani and the Economic Cabinet should be contemplating.

**Other points  
that should be  
taken into  
account**

In order to stabilize the exchange market, the BCV should take a number of other aspects into account that are causing trouble. For example, the way the corporate sector, which has the highest demand for foreign currency in the market, is being neglected. Since the BCV began to auction exchange bonds, it has placed more US-dollars with natural personas and failed to impact the real demand that exist with the corporate sector.

Then there are CADIVI delays. The Administration is focusing on liquidating all CADIVI's accumulated debt from 2009, but this is producing significant delays with current liquidations at the VEF 4.30/\$ exchange rate. Furthermore, there is still a lot of uncertainty with respect to the payment of dividends and foreign investments for transnational companies.

And lastly, what everyone always asks for and wishes for, clear and unambiguous rules to the game. The BCV has its work cut for it with respect to this issue. There are a lot of things that are not clear with respect to the new reforms being implemented and the new exchange procedures. Let's hope that Merentes doesn't go back to working the system like when the structured notes were being placed. Everyone is hoping the mechanism will be improved and become more stable and transparent.

**The doubts**

At the moment this Report is being written, the technical details of the new system had yet to be released. However, there are a number of aspects that we find worrying:

1. How quickly will the financial system be ready to implement this new mechanism in terms of technology, logistics, and personnel experienced in exchange transactions. This may not be the most critical aspect but it will no doubt take a couple of months for the process to be up and running. One can also expect there to be a migration of personnel from the brokerage houses to the banking system in order to better implement this new system.



2. There is no doubt the demand will be high. Ecoanalítica estimates that the demand for swap-market operations will be between US\$ 15.0 billion and US\$ 17.0 billion this year. The big question is how much will the supply cover. We feel confident that the supply will come from the BCV and the public sector, and we are equally sure that the supply will not be enough to cover the demand. We expect the BCV to place around US\$ 4.5 billion in exchange bonds during what's left of the year and it will also issue public debt denominated in US-dollars (PDVSA and the Republic) for up to US\$5.0 billion. How is the BCV going to deal with the excess demand? How will the exchange rate bands be adjusted?
3. The other public entities may also benefit from this new money market, especially the National Treasury, PDVSA and CANTV. The BCV is probably considering acquiring and using the inventory securities denominated in foreign currency held by these entities which surpass US\$ 6.0 billion. Let's hope these transactions appear in the books somewhere.
4. The BCV will be flexible and adjust the bands in accordance to changes in the market. This is a key point because if it doesn't it will lead to serious shortage of foreign currency with very negative impacts in the economy and inflation.
5. Lastly, there is the question of those that are excluded from the system and the creation of a new "illegal black market" which will be anything but transparent. How big this "black market" gets will all depend on the BCV and its ability to adjust the exchange bands and maintain foreign currency supplies.

**It's not all set  
in stone**

At *Ecoanalítica*, we are convinced that this new plan will suffer some significant changes in the short term. This is due to the fact that the new system is too rigid. It will increase the distortions that already exist because it is not attacking the root of the problem: guaranteeing a supply of foreign currency in an efficient manner. The swap-market has always been an escape valve for the economy, by closing it you will immediately exacerbate the distortions which exist which in turn will send inflation spiking. This is why we believe this new system will become more flexible.

A positive point in all this is that the BCV has assumed total control of the swap-market. This should have been done a long time ago. Now we just need more controls for PDVSA. The distortions created by the autonomy in exchange operations that PDVSA has acquired are significant. A point to keep in mind, it's not only about how much is injected, but also about how it



is injected, and the role played by other players from the public administration.

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## Economic Tips

**Fitch comments of Exchange Crime Law.** Fitch Ratings pointed out in a report it released on May 14 that the new Exchange Crime Law could increase the distortions present in the Venezuelan economy by turning over control of the swap-market to the Central Bank of Venezuela. The report continues to say that these reforms could complicate the economies efforts to grow, push inflation higher, and compromise the country's debt payment capabilities.

**Furthermore...** Fitch Ratings also points out that this measure does not attack the problems causing the depreciation of the currency. It says that the loss of value of the currency is due to a series of inconsistent economic policies, the persistent expectation of sustained growth of prices and the creation of inorganic money through transfers from the reserves to the National Development Fund (FONDEN). The persistent lack of credibility in economic policies will lead to continued pressure on the exchange market which will have a negative effect on consumption and investment.

**Salary index.** The salary index released by the BCV registered a variation of 4.5% during the first quarter of the year, significantly higher than last year during the same period. This variation is due mainly to the 10% salary increase implemented in February and to the 18% increase in the tax unit adjusted for 2010.

**The private sector...** The salary index corresponding to the private sector registers a month-to-month increase of 5.2%. Broken down by economic activity, we can see that the greater salary increases were in electric power, gas, and water supply, 24.9%; other service activities, 8.2%; commerce, 7.7%; education, 7.2%; intermediation financing, 6.9%; hotels and restaurants, 6.7%; real estate activities, 6.4%; transportation, storage and communication, 6.2%; social services and health, 5.8%; and manufacturing 4.5%.

**And by occupation...** private sector service workers and commercial vendors, 7.9%; unskilled workers, 6.0%; office personnel, 5.8%; professionals and scientists, 5.7%; technicians and mid level professionals, 4.7%; management, 4.3%; officers, 3.4%; and installation operators 2.9%.

**From the Public Sector ...** the salary index registered a variation of 3.0% compared to the previous quarter. By groups, unskilled workers increased by 8.9%; service workers and commercial vendors, 7.6%; officials, 7.0%; office personnel, 6.0%; installation operators, 5.7%; technicians and mid level professionals, 1.9%; professionals and scientists, 1.8%; and management, 1.7%.



**Interest rate.** The lending rate for the first week in May was at 18.0%, up by 112 base points compared to the previous week. Time deposits and savings rates were at 14.6% and 12.6%, respectively, which represents a 13 basis points increase for the first one, while the second one remain steady.

**International reserves.** International reserves went dropped by 0.4% going from US\$ 27.95 billion during the first week in May to US\$ 27.83 billion during the second week in May. Compared to the same period last year, international reserves have % by 5.3.

**Monetary liquidity.** Monetary liquidity for the first week in May was down by 1.2% compared to the previous week settling at VEF 235.61 billion, and down by 0,1% in nominal terms during this year and down by 10.3% in real terms compared to the same period last year.

## Oil Tips

**April crude oil exports down.** Venezuelan oil exports went down by 6.8% y/y in April, averaging 2.36 mb/d, said the Ministry of Energy and Oil last week, according to numbers audited by an independent firm. The growth of domestic demand and the decrease in the demand of byproducts due to flaws in the national refining circuit have caused foreign crude oil sales to show a decreasing trend since last year.

**Orinoco oil belt upgraders working at 70%.** Eulogio del Pino, Pdvsa's vice president of Exploration and Production said all four Orinoco oil belt heavy crude oil upgraders were currently producing 450,000 barrels per day (b/d) or 70% of their installed capacity of 620,000 b/d, indicating the production decreased thanks to a series of scheduled "or unexpected" upgrader shutdowns.

**Pdvsa: There have been no leaks.** The industry rules out the possibility of a natural gas leakage in the area where the Aban Pearl semi-submersible platform was located, after having confirmed it by monitoring the area with specialized equipment. Pdvsa informed they are in control and are supervising the surrounding areas by sea and air, so vessels are already in place equipped with 3,000 feet in containment barriers and three skimmers.

**Mariscal Sucre stays afloat in spite of the platform's sinking.** After the Aban Pearl platform sank last Thursday morning, the executive schedule of the Mariscal Sucre Project's exploitation campaign is still standing, said Eulogio del Pino in a press



release. "We maintain we will start producing natural gas offshore in November 2012, as scheduled; we are bringing that gas molecule into our country for consumption in homes, industry and the petro-chemical sector."

**Block Carabobo 2 to be tendered by end-2010.** Pdvsa hopes to select the partners the Orinoco Oil Belt's block Carabobo 2 by the end of 2010, said the Ministry of Energy and Oil Advisor and Coordinator of the Carabobo Project, Baldo Sanso. Some of the bids have been submitted by single companies and others by consortiums, said Sanso, adding that "the companies that were left out want in on the process."

**Venezuelan gasoline back in USA.** Pdvsa resumed the shipping of 960 thousand barrels of gasoline to USA during May, after having completed operational adjustments to the Paraguana Refining Complex (CRP) that lasted several months, said the company in a press release. The General Manager of CRP, Jesus Luongo, said a shipment carrying 240 thousand barrels of "Reformulated Blendstock for Oxygenate Blending," a gasoline mixture suitable for international environmental specifications, was already on its way. This shipment "is one of four scheduled" in May, each one for 240 thousand barrels. Seven more deliveries are scheduled for June.

**Pdvsa submits less in the first third of 2010.** In spite of the Venezuelan oil basket price increase, so far this year, Pdvsa's tax contribution level is still similar to last year's. According to information provided by the Public Finance Office, the amount transferred by Pdvsa to the Tax Administration to cover the ordinary expenditure in the first third of 2010 was VEF 11.3 billion, representing a 2.5% decrease in nominal terms and a 26.0% decrease in real terms.

**Petrobras: Huge!** The Brazilian oil company Petrobras announced last week they would be increasing their crude oil production by approximately 22% in 2010, due to their subsalt projects. This week, Brazil announced to large subsalt discoveries that would add about 9 billion oil barrels, increasing the country's appeal as a new frontier for oil exploration.

**BP clears the spill.** British Petroleum assured that a sort of giant submarine vacuum cleaner (a mile-long tubing) works satisfactorily and is transporting most of the crude oil coming out uncontrollably from the bottom of the gulf of Mexico to a super-tanker in the surface.

**International oil baskets.** At New York market's closing time, last Thursday May 20, the WTI was at US\$67.8/bl, showing an 8.9% decrease compared to the US\$74.4/bl of the previous Thursday. The Brent decreased by 11.0% to reach US\$70.7/bl, compared to US\$79.4/bl of Thursday, May 13.



**Local oil basket price.** The Venezuelan oil basket price decreased last week, to close at US\$68.5/bl on Friday May 14, US\$5.6 less than the US\$74.0/bl of the previous week. Meanwhile, the basket's annual average decreased to US\$71.8/bl.

## Business Sector Tips

**Exchange with US increases.** According to a report published by the Venezuelan-American Chamber for Trade and Industry (Venamcham) Venezuelan exports to the US during the first quarter of 2010 reported US\$8.09 billion, representing a 41.5% increase. Exports are mostly comprised by oil (96.5% or US\$7.80 billion), so this boost was expected, due to the price recovery. The report also shows the trade balance with the United States closed at US\$5.91 billion.

**Cadivi update.** In a press conference held on Tuesday May 18 by the Ministry of Planning and Finance, Jorge Giordani, and the President of the Central Bank of Venezuela, Nelson Merentes, the first said that, up to the first week of May, US\$10.29 billion had been liquidated by the Currency Administration Commission (Cadivi).

**US\$1.08 billion liquidated.** According to a press release issued by the Currency Administration Commission (Cadivi), over US\$1.08 billion have been liquidated to automotive companies so far this year.

**US\$400 million for refrigeration.** The president of the Chamber for Ventilation, Air Conditioning and Similar Products (Venacor), Higgins Patiño, said Cadivi had granted nearly US\$400 million to this sector so far this year, due to the improved relations with the Government thanks to the Technical Table installed with the Ministry of Light Industries and Trade.

**More expropriations.** President Chavez ordered the nationalization of the bauxite processing company NorPro de Venezuela and the expropriation of the company Materiales Siderurgicos (Matesi), property of the Argentine company Tenaris, since they have not been able to reach a friendly agreement. He also ordered the nationalization of the raw materials' transportation sector for Guayana's basic industries.

**New modification to the Organic Labor Law (LOT).** The reform to the Organic Labor Law (LOT) contemplates the mandatory creation of workers' councils in public and private companies, said the vice president of the National Assembly's Social Development Commission, Osvaldo Vera. This instrument will also include these



councils' functions. This law will be focused on the workers' obligation to take part in the decision-making of public companies' productive processes, production control in private companies and including workers in companies' boards of directors.

**New Insurance Law coming soon.** The Law of Insurance Activities is up for discussion soon, with which the plan is to eliminate economy groups, to forbid emergency clearance codes in private clinics and the insurance banking system for policy sales. The impossibility of insurance companies to terminate a contract due to failure to pay financing installments is also contemplated, as well as the inclusion of new risk classes to be covered. The Finance Commission already approved the proposal last week.

**Loans portfolio keeps falling.** During the last twelve months, the banking sector's loans portfolio has contracted by 12.5% in real terms, reaching VEF 150.83 million. So far this year, it has decreased by 11.7% in real terms. These numbers reconfirm the existence of a *Credit Crunch* in the Venezuelan financial system, in which banks are not incentivized to lend money due to distrust in the payment abilities of those receiving the money (Increasing arrears levels, although not too worrisome for now), and the demand falls due to the decrease in people's purchasing power and companies' lack of interest in investing. In reaction, the Venezuelan government threatens the banking sector to force loans.

**Any excuse...** Antonio Benavides, Second Commander of the Regional Commando number 5 (CORE 5), will request the investigation of the hypermarket chain Makro for not accepting food stamps as payment in its establishments. He said there were several formal accusations he would be taking to Indepabis and the Public Ministry to proceed to closing the aforementioned establishments for illegal practices. However, the president of the National Assembly's Social Development Commission, Rafael Rios, indicated the Law of Nutrition for Workers does not bind establishments to accept food stamps as payment.

**Sales down.** According to the Venezuelan Food Industry Chamber (Cavidea) report "Results of the Cavidea trend survey," pasteurized milk, oil, tuna and coffee sales fell during April by 6.1%, 3.4%, 1.5% and 3.9% respectively. However, rice, corn flour, wheat flour, pasta, oat meal, powdered milk, chicken, eggs, cold meats, margarine, mayonnaise, sugar and ketchup reported increases the same month. So far this year, only powdered milk, coffee and cold meats have decreased in sales by 15.3%, 4.2% and 2.7%, respectively, due to a supply shortage and the decrease of people's purchasing power.

**More Chinese investment.** Venezuela and China are working to close a bi-national "colossal strategy" to "boost and strengthen" the production of Venezuela's basic industries of iron and aluminum, said President Hugo Chavez. The head of state said



a high-level Chinese commission was currently in Venezuela visiting Guayana, where there are extensive iron, bauxite and gold deposits, aiming to create Chinese-Venezuelan mixed companies to exploit these minerals. The Venezuelan iron and bauxite reserves reach 14,000 and 6,000 million tons, respectively, according to official 2008 numbers, Venezuela produces approximately 4.2 tons of gold per year, according to official 2009 data, and during the past few years, the Government has announced its plans to assume the exploitation of mines currently in the hands of foreign concessionaries.

## World Crisis Tips

**US retail sales continue to improve.** US retail sales increased by 0.4% in April compared to March, while the retail sales growth rate for March was revised up from 1.6% to 2.1% (compared to February). Compared to 2009, April 2010 sales were 8.8% higher, though they are still 3.6% lower than the peak reported before the beginning of the recession.

**Industrial production improves as well.** US Industrial production continues to increase as well. During April, industrial production increased by 0.8% compared to March, when it increased by 0.3% compared to the previous month. IN y/y terms, industrial production reports a 5.2% growth.

**US fiscal deficit contracts.** The deficit accumulated during the first seven months of the fiscal year 2010 by the US Government reached US\$799.7 billion in April, 3.24% less than during the same period of the fiscal year 2009 (US\$802.3 billion). Even though the expenditure has been reduced by 2.9% so far this fiscal year compared to fiscal year 2009, since real estate, vehicle and commercial stimulus programs have expired; the high unemployment rate keeps revenues restricted: the income tax collection is 11.6% lower (in y/y terms), and labor taxes dropped by 4.8%, but corporate taxes have improved by 8.9%.

**But the trade deficit accentuates.** During March, both imports and exports had a strong boost in the US (3.1% and 3.2% respectively compared to February and 24.2 and 20.4%, respectively compared to March of 2009). However, imports exceeded exports by US\$40.4 billion, making the trade deficit 3.2% higher than the previous month's.

**European growth, weak but positive.** The first European Union growth results were published this month, although not all countries have reported, the European Monetary



Union is estimated to have had a 0.2% growth (SAAR), exceeding the consensus expectations of 0.1%. In y/y terms, this is the first positive growth rate published since the third quarter of 2008, 1.5% for the European Union and 1.2% for the Euro Zone countries.

**European industrial production grows faster.** During the first quarter of 2010, the industrial production, measured by the MFG index, grew at a seasonally adjusted annual rate of 14.8%, the sector's earnings were lead by France, Italy and Germany. The notable difference between the GDP growth and the industrial production growth in the old continent is a clear display of how weak the domestic demand is. The continent is showing growth lead by exports, that is, mostly because of the strong recovery of the US and Asian economies.

**Euro falls to four-year low and the outlook is negative.** On Monday, May 17, the Euro hit a four-year low of 1.2237 €/US\$, to then show a slight recovery closing at 1.23 €/US\$. The massive euro sell-off is boosted by the fear of fiscal austerity plans being applied by Portugal, Ireland, Greece and Spain, reducing these countries' growth dramatically. Most analysts believe the euro will continue to fall throughout the year and some dare to comment it could pair up with the US\$ in 2011.

**European Central Bank carries out emergency liquidity operations.** The European Central Bank (ECB) said it had already used €16.5 billion to buy sovereign bonds from Greece and other financially weak euro zone countries, with this being the first part of a series of emergency liquidity injection operations the ECB will continue to carry out for as long as it is necessary to support the euro zone's bond market.

**Spain announces austerity plan.** The First Ministry of Spain, Jose Rodriguez Zapatero, announced the €15 billion fiscal expenditure cuts from the national budget between 2010 and 2011. Public sector salaries are to be reduced by 5%, the investment will be €6 billion less than the originally planned amount, and local governments will have to restrict their expenditure by €1.2 billion, while Zapatero and his ministers will have a 15% salary cut. Portugal is also joining fiscal austerity, with tax increases and salary reductions in the public sector.

**UK y/y inflation reaches 3.7% in April.** The Bank of England (BOE) reported a y/y inflation of 3.7% in April (the highest since November 2008), up from 3.4% reported the previous month, and way over the inflationary goal of 2%. In m/m terms, England's consumer price index reported a 0.6% increase in April, 0.2 percent points above expected. The price increase was greatly explained by the higher fuel prices during March. A VAT increase from 17.5% to 20% is to be discussed to reduce the fiscal deficit, which will also have an inflationary impact.



**Japan wholesale prices recover.** Since November of 2009, the Japanese Domestic Corporate Goods Price Index (equivalent to the wholesale price index or to a producer price index) has been slowly recovering. This is a good sign of deflation possibly continuing to decrease. April's Domestic Corporate Goods Price Index was only 0.2% below April's of 2009, and 0.9% over November's level, when the index reported a 5% y/y deflation. The Consumer Price Index reported a y/y variation of -1.1% in March (last available data), while the y/y deflation in October 2009 was 2.5%.

**Japanese fiscal incentives to private expenditure.** The Japanese government is considering a radical change in its tax law which would mean a significant increase to the heritage tax and a reduction to half of the donations' tax. The intention is to persuade Japanese elders, who tend to keep large amounts of money saved, to passing their inheritances onto their children now instead of waiting until they pass them on through a will, since young people have a marginal tendency to spend more money than the elderly. This way, the Government would be implementing a practically costless expansive fiscal policy.

## Political Tips

**Against price gouging.** The Venezuelan President assured he was currently holding a battle against price gouging in the Venezuelan currency exchange market and the parallel exchange rate, and that he had intelligence organizations working in this case. In his statement, he said *"some websites are breaking the law. Someone publishes a website called "dolar paralelo" (parallel dollar) and when you look for the domain address, it's in the United States, Germany, England (...). Don't be alarmed if you hear about raids in the next few hours."*

**"Either they comply or they will be closed for audit."** After receiving a complaint, via Twitter, from a user who was denied a housing loan in a bank, President Chavez demanded the private banking system to adapt to his revolution's guidelines unless they wanted to be closed for audit

**Chavez: It's a risk to invest in the US.** According to Chavez, Venezuela is solid in the fields of economics, politics and society; he also assured the financial sector's speculative mafias would be "beaten down." As to the impact of the financial crisis in Venezuela, he said that, even though it had had some effects on the economy, "we will overcome the problems." He reminded the Venezuelan debt was only 20% of its GDP, which could be paid with the international reserves. He also invited people to review



the “catastrophic” numbers of USA, saying “it’s risky to invest there.” Great banks default in the United States, consumption has dropped, only they have a great ability to sort-of cover the disaster.

**Chavez signs a Supplementary Appropriation.** The country’s state and municipal governments are to receive a supplementary appropriation for the pending legal contributions of 2009 for the regions. Chavez, in the installation act of the first plenary session of the Federal Government Council, said that VEF 731.9 million would be allocated from the constitutional fund, VEF 1.81 billion from the special economic allocations’ law; for states, VEF 1.13 billion; for municipalities VEF 509.4 million; for community funds VEF 907.5 million; for the Supreme Court of Justice (TSJ) VEF 300.6 million. 50% is to be paid between May and June of 2010, the remaining half will be delivered in four installments in monthly payments between May and August.

**Presented in partnership.** The Democratic Unity Table presented its candidates for the September parliamentary election. Opposition leaders attended the act celebrated in the stadium Jose “Papa” Carrillo. Ramon Guillermo Avelado, member of the Unity Table, told the audience that the new National Assembly would need to implement the Constitution by legislating with realism and a future-oriented vision, controlling the government and balancing powers. Oswaldo Alvarez Paz said he didn’t attend the act to seek personal support, but for the candidates presented, who believe they need to be true warriors of freedom. Avelado highlighted the fact that everyone was very united despite differences and that this union pretended to be the seed for national unity.

**Exclusion in the Democratic Unity Table (MUD).** Several national union leaders said that “not even one nationally known union leader was appointed to a circuit as main candidate, only as substitutes.” In light of this situation, they announced the presentation of their proposed legislative agenda to be executed by the next Parliament elect on September 26. Likewise, labor forces are to constitute a National Committee of Workers, union and sector leaders for labor representation before the National Assembly, in defense of their rights.

**Military presence in the PSUV will not be debated.** The debate on the apparent military presence in the PSUV was denied by majority in the National Assembly. Representative Juan Jose Molina criticized the presence of active National Armed Force officers in the red party, which was revealed by the director of the NGO Citizen Control, Rocio San Miguel. In response, Representative Juan Jose Mendoza assured “there is no proof” of military incorporation to the PSUV. “That’s simply a discredit campaign,” said the congressman after highlighting that “during the last few weeks, opposition sectors had been insulting the FAN.”



**NA in debt with the TSJ.** The National Assembly has been in debt with the Supreme Court of Justice since 2006. In light of this, 32 main magistrates, members of the TSJ, have no substitutes. The NA should have elected these clerks by 2007, but the selection process has not started yet, for which the Judicial Candidacy Committee is required, an instance that must be integrated by six congressmen and five people from different sectors of the Venezuelan society.

**Encouragement to create a “high treason to the country” law.** The Venezuelan President requested the creation of a “Special Law of high corruption to the country,” to fight the country’s personal safety and corruption problems. This new law would punish any police officers who commit crimes. The sentence for a public officer, according to Chavez’s opinion, should be of 30 years in prison.

**PSUV Campaign to be regulated.** The United Socialist Party of Venezuela (PSUV) lists a series of guidelines to rule the behavior of its parliament candidates. These guidelines will encourage its AN candidates to act ethically during the proselytism process. The main request is to abide the national campaign lead by President Chavez, and not to fall into the temptation of holding “personalized campaigns.”

**TSJ rejects measure against Copei.** The electoral dispute presented by Attorney Rafael Contreras Millan against the election of the Copei party authorities was acknowledged by the Supreme Court of Justice. However, the highest court declared the petition to dictate a precautionary measure to the suspension of said election’s results as inadmissible. That is, for now the results of the green party’s election remain.

**Chavez talks to opposition leaders.** President Chavez extended his hand to opposition governors during the installation of the Federal Government Council. In this opportunity, Chavez invited these governors to “work along with his Government.” Once the act was finished, he talked to Capriles, Perez Vivas, Pablo Perez and Morel Rodriguez. Henri Falcon didn’t approach the group. President Chavez invited opposition mayors and governors to work conjointly and to develop projects to favor the people.

**New CVG board of directors.** President Hugo Chavez swore in the workers chosen by the working base to lead the basic industries that comprise the Venezuelan Corporation of Guayana under the plan “Socialist Guayana” towards the commitment of worker control. CVG Bauxilum, CVG Carbonorca, CVG Alcasa, CVG Venalum, CVG Alucasa, CVG Cabelum, CVG Alunasa and Sidor are the companies that, from now on, will have leaders proposed by their workers.





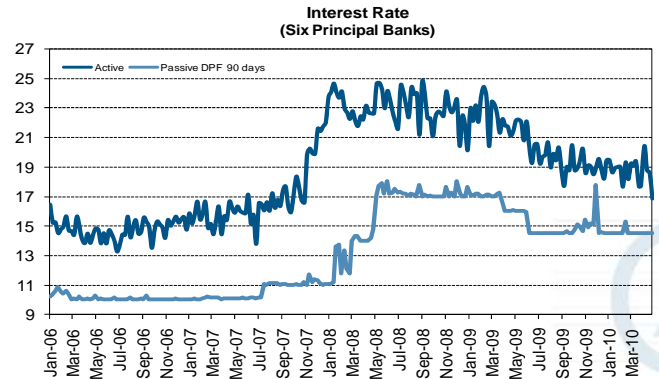
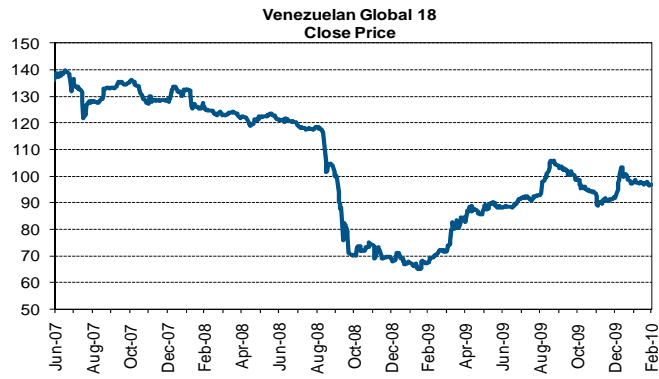
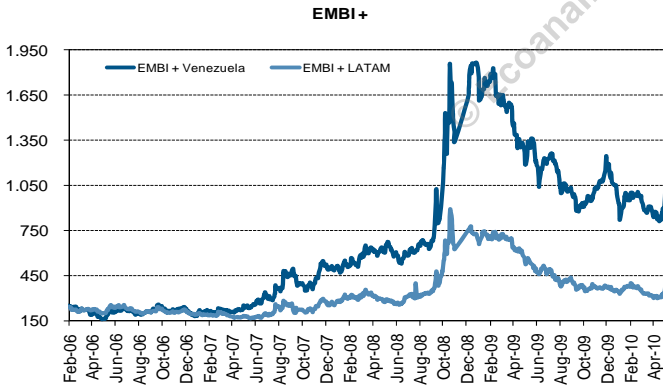
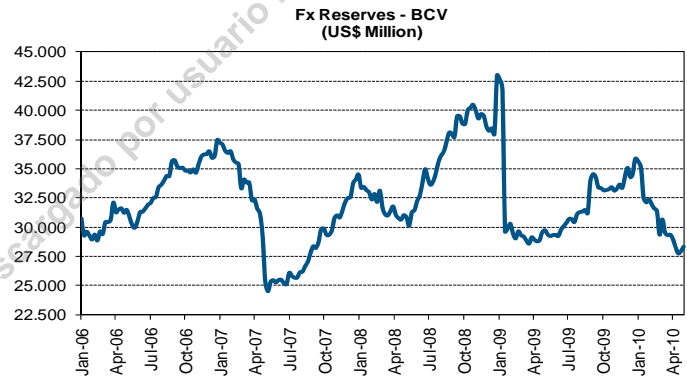
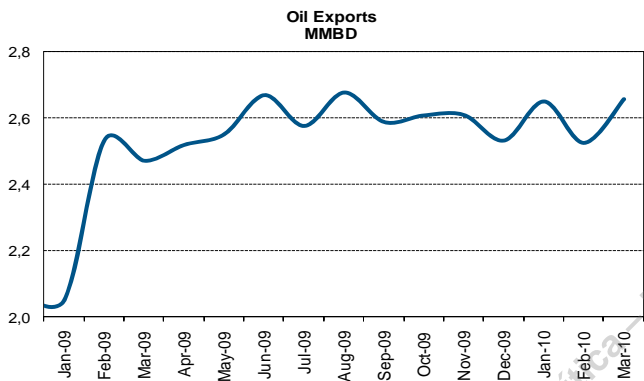
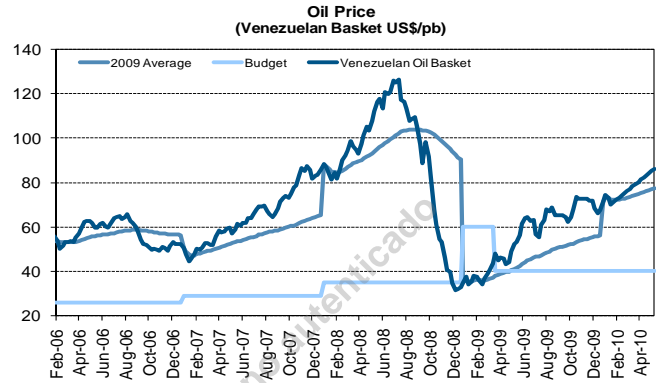
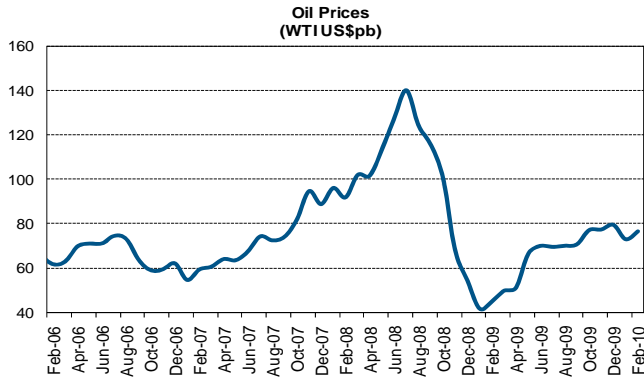
**Progressive dismantling of the water restriction plan announced.** The minister of Environment, Alejandro Hitcher, assured *“there are plans to progressively suspend”* water rationing in Caracas, also known as the “Special Supply Plan” activated in 2009. This suspension, however, depends on the beginning of the rain season and the recovery of the Lagartijo dam located in Los Valles del Tuy.

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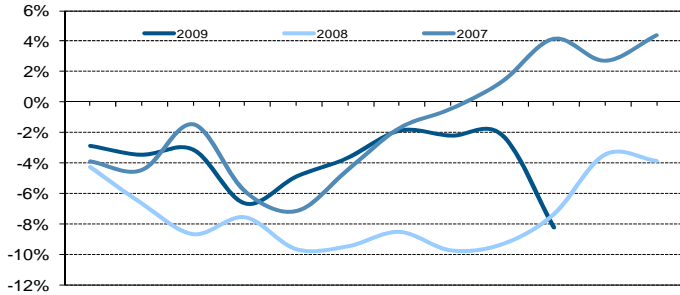


## ECONOMIC OVERVIEW

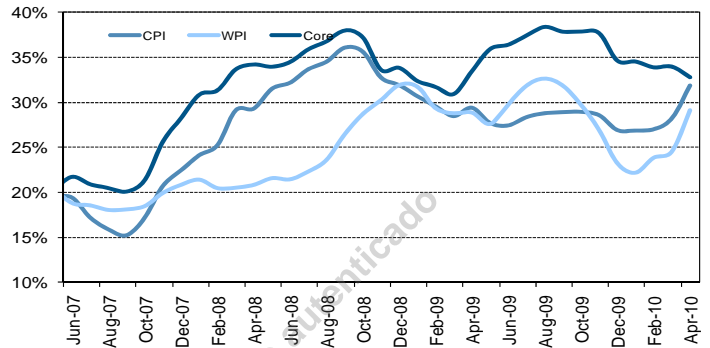




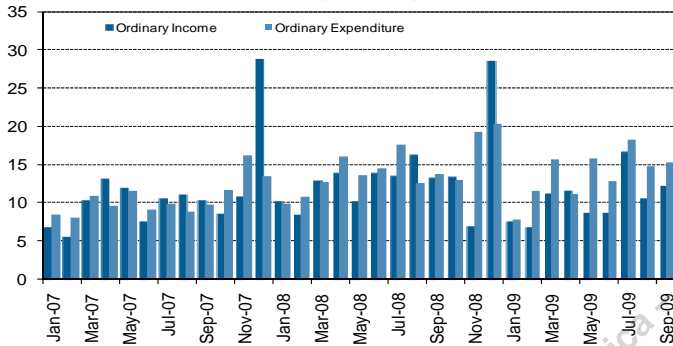
**Real Expansion (M2)**



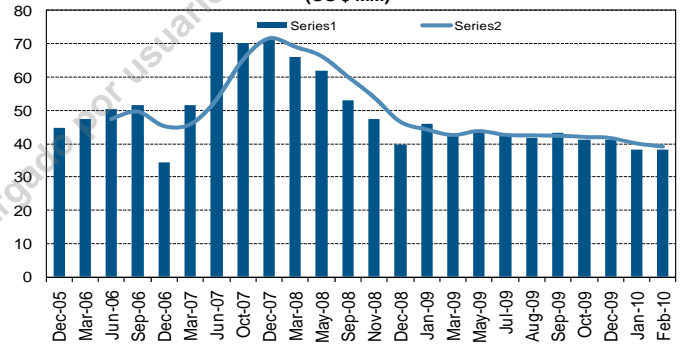
**Inflation (Last 12 Months)**



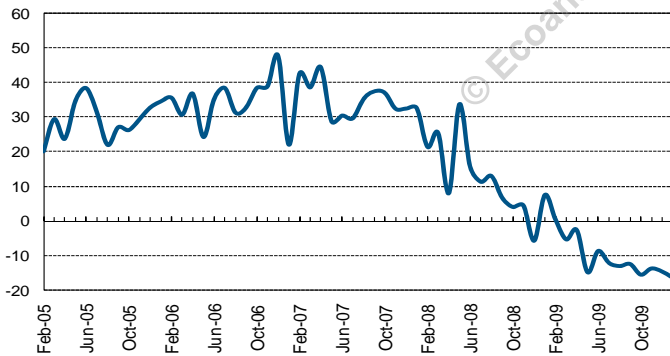
**Central Government (VEB Billion)**



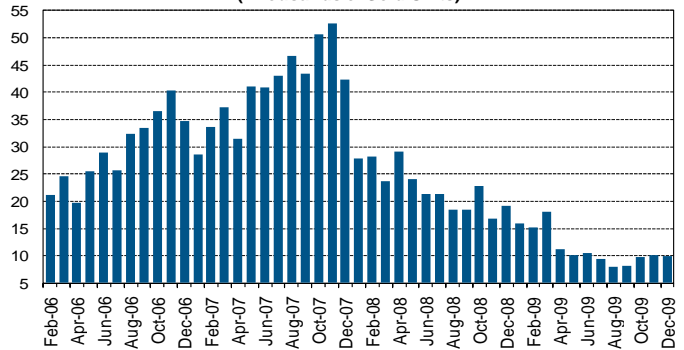
**Resources of the State (US \$ MM)**



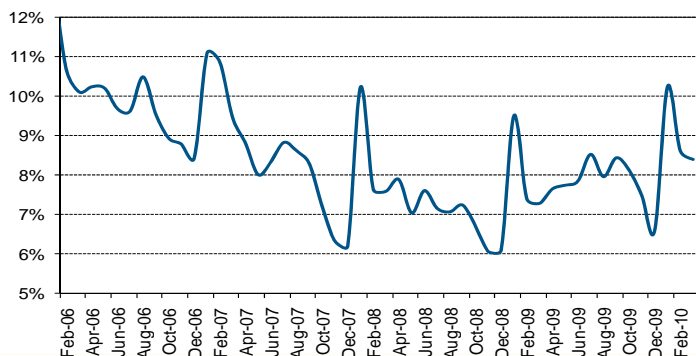
**Volume of Sales (% Variation)**



**Sale of Vehicles (Thousands of Sold Units)**



**Rate of unemployment**



**Disbursement (US\$ Million)**

