



Weekly Report

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The devaluation won't be as bad as Venezuelans think

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For some time now, at **Ecoanalítica**, we have been saying that it was very likely that the Administration would devalue the currency during the first two months of 2010. And last Friday, January 8, after five years of having the official exchange rate fixed at VEF2.15/US\$, President Chávez announced the devaluation of the currency.

In the wake of said decision, uncertainty is the word that best describes the state of the country and the economic agents. This is due to the vagueness and lack of information which accompanied the announcement of the devaluation. In this Report, we will clarify some of the questions that are being asked concerning the implications of the recently announced devaluation.

We already had a dual exchange system, now we have three

To start with, we would like to explain that in Venezuela, given the structural characteristics that we have, an exchange control mechanism will implicitly always create a parallel (or black) exchange market. Economic agents use the parallel market exchange rate as a "reference" rate or "market" rate.



Consequently, the differential between the parallel exchange rate and the official exchange rate becomes a subsidy for the import sector.

So, an exchange control mechanism works like a dual system, providing foreign currency at a preferential rate (official rate) to finance certain sectors and items. This exchange mechanism is controlled by an administrative entity (RECADI, OTAC or CADIVI). When economic agents can't meet their needs through this mechanism, then they turn to the parallel (black) market in order to finance their imports and for capital outflows.

Of course, this “dual” system is not recognized by the Administration. The government only “recognizes” the official rate; for them, there was no parallel system. So when President Chávez announced that the Administration was implementing a multiple exchange system (in this case three).

So now, as we said, there is a multiple exchange system in place: VEF2.6/US\$ for the so-called priority imports which include: food, medicines, machinery and equipment, science and technology, and books. Public sector imports and remittances sent to family members abroad will also be eligible to receive this rate. All other goods and services being imported, private foreign debts paid, travelling quotas, and internet purchases will be subject to the VEF4.3/US\$ exchange rate, what the President referred to as the “Petro-Dollar” rate. And a third exchange rate will exist, which will be the parallel market exchange rate, which will be mainly used for capital moving and all imports not covered by CADIVI.

They finally convinced Chávez

In a number of Reports released in 2009, *Ecoanalítica* has talked about the idea of returning to a dual exchange system in order to manage and differentiate priority imports from all other imports. This idea has also been considered by upper level government officials for quite some time, with PDVSA being its most vocal sponsor. The only obstacle was to convince Chávez, who rejected the idea of a dual system due to its history of corruption and the scandalous collapse of the dual system managed by RECADI which led to former President Pérez' “paquetico” in 1989.

It's also worth mentioning that on a number of occasions, both Minister of Finance, Alí Rodríguez, and president of the Central Bank of Venezuela (BCV), Nelson Merentes, stated during 2009 that a devaluation was not totally out of the question, simply that in a high inflationary context it was not viable. And since during the last two months of the year the increase in inflation has significantly slowed down (especially the month of December which registered lowest increase in inflation, from month to month, in all of



2009), this was one of the factors which led to the possibility of considering a decision to implement a devaluation.

How much they devalue?

At *Ecoanalítica*, we don't agree with the calculations being reported by the media with regard to the magnitude of the devaluation. On a number of occasions we have reported that the Administration has already carried out a devaluation of sorts during 2009 by only granting foreign currency through CADIVI (official rate) to a select few sectors, thereby forcing everyone else to go to the parallel market to meet their needs. Based on the figures released in the BCV President's Year End Address regarding total imports and the preliminary figures released by CADIVI, *Ecoanalítica* calculated a series of estimates regarding the average exchange rate for private sector imports in 2009 which was at VEF3.36/US\$. Based on the announcements made by the President last Friday, the average exchange rate for imports for the private sector for 2010 will be at VEF4.05/US\$. Therefore, the average "real" devaluation which the private sector is facing is at 20.6%, quite a bit lower than the calculations being released by some analysts. This modest devaluation percentage will put less pressure on prices.

One of the reasons that the "real" devaluation level is relatively low, is that during 2009 most companies and business sectors had already migrated to basing their activities on the parallel exchange rate. Now, some of them will be able to receive US-dollars at a VEF4.3/US\$ exchange rate, a much better price than before. Taking this into consideration, the price adjustments made by these sectors shouldn't be much.

	2009			2010		
	ER	Private imports	Total imports	ER	Private imports	Total imports
Priority Imports	2.15	68.8%	76.9%	2.15	35.0%	51.8%
No Priority Imports				4.3	45.0%	33.3%
Parallel market Imports	6.02	31.2%	23.1%	6.00	20.0%	14.8%
						100.0%

Source: Ecoanalítica

Why wasn't the VEF2.15/US\$ rate sustainable?

As we have stated before, no country is able to keep its exchange rate nominally anchored indefinitely, and especially when its domestic inflation rate was substantially higher than its trading partners. A country with an average inflation rate during the last five years of 21.8% (the highest among emergent markets and developed markets) would always be forced to devalue, and better sooner than later.



In fact, at **Ecoanalítica** we believe that it would be better (healthier for the economy) to make small adjustments to the official exchange rate (or the types of official exchange rates) once a year, or a few times a year, than to make one big macro-devaluation once every five years.

The big winners: the Government and PDVSA

Due to the structure of fiscal revenues, where a big part comes in US-dollars (oil revenues), a devaluation of the currency increases the number of bolivars for each US-dollar coming in. According to our estimates, the increase in fiscal revenues during the next twelve months due to the devaluation will be at VEF 110.5 billion. Of course, there will also be soft effects in terms of spending (due to an increase in foreign debt service on central government spending). The following table shows the net impact of the devaluation on government fiscal accounts.

**Anual Fiscal income increase for devaluation
(VEF bn)**

Effects on income		Effects on costs	
Oil royalties	42.8	Interests	11.9
Oil income tax	20.7	Amortization	5.6
Customs	0.7	Others	1.7
New external borrowing	37.5		
Others	1.7		
Total	103.5	Total	19.2

Yearly net effect **84.2**

Source: Ecoanalítica

Besides these effects that we have shown above, it's also important to keep in mind that the Administration has other sources of extra-revenue, such as exchange profits. These exchange profits are nothing more than accounting resources registered by the BCV for value exchange of international reserves that end up being transferred to Government accounts.

Historically in Venezuela, devaluations improve the Administration's fiscal accounts. This devaluation in 2010 is not an exception.





Not everything will be at VEF4.3 for PDVSA

We feel that is important to point out that the US-dollars that PDVSA will sell to the BCV is carried out in accordance to the proportion the BCV sells to the “priority” and “non priority” sectors, and not as public opinion infers, based on statement made by the President, that all the US-dollars that PDVSA is going to sell will be sold at the petro-dollar rate of VEF4.3/US\$.

The reason for this is that, if PDVSA sold all its US-dollars to the BCV at the VEF4.3/US\$ rate, then when the BCV has to sell at VEF2.6/US\$ it would be an accountable losing on the exchange for the main entity.

A new challenge for the Government: Control the parallel market

In the current context facing the nation, the Government has set a challenge for itself, which is to control the parallel exchange rate. If the Administration can keep the parallel exchange rate from reaching the historic high levels it reached in 2009, it will be able to get a handle on inflation. This is so, among other reasons, because of what we said in the beginning of this Report, in reference to the parallel market being used as an exchange rate reference by a good part of the economy. In order to control the parallel market, the Administration must actively intervene in it. Apparently, the entity appointed to do so is the BCV.

A change of roles: Now the BCV is the main player

During the statements Chávez made last Friday, he said that the BCV will be responsible for actively intervening in the parallel market in order to avoid any speculation and to maintain the parallel market exchange rate under control. This takes the ball out of PDVSA’s hands, which up until 2009 was the main player in terms of controlling the parallel market. We don’t doubt that the Administration is capable of achieving this goal. The risk, and this has happened in the past, is that the efforts employed to keep the parallel market under control have no persistence, and this creates even greater volatility in the parallel market exchange rate. Once again, we must stress this point, the parallel market exchange rate is a fundamental variable when considering price expectations. In other words, the inflationary impact of this devaluation can be kept in check if the Administration can keep control of the parallel exchange rate and avoid it from going up.

Yesterday, the BCV carried out an US\$50 million “exchange bond” auction earmarked to control the parallel market through the banking system and brokerages firms.

How is the auction?

The mechanism of this auctions is simple: sell high liquidity dollar denominated bonds (90 day maturity zero coupon bonds in multiple of US\$1,000 at the “petro-dollar rate” of VEF4.30/US in the first two auctions),



as well as at the “priority” (VEF2,60/US\$) exchange rate or at the “petro-dollar” exchange rate (VEF4,30/US\$). These papers are being currently sold by the BCV with a prime of 16,25% . The objective is to bring down the parallel market exchange rate by crating a new implicit exchange rate, that will be (if the agents keep the paper to its maturity) somewhere in between the parallel market exchange rate and the “petro-dollar” exchange rate.

This would be a positive step forward for the government’s tread to control the parallel market in 2010, much better than how the situation was being handled before. Also, this would make the market much more transparent which would improve its efficiency, turning lower the relative differential between the parallel exchange rate and the average official exchange rate.

Inflation: The same problem as ever

The Venezuelan economy will slightly recover from 2009, it’s not likely that it will experiment high growth rates again. While the Government keeps taking a side the private sector our growth rates will be below its potential.

Our previews estimates regarding inflation in 2010, taking into account a devaluation from 2,15 to 2,9 in the official exchange rate, was that it will be at 34%. Since we expect that the BCV and CADIVI will significantly increase the amount (compared with last year) of US-dollars that they will be granting for private sector imports, the percentage of imports financed by the parallel market should drop from 23.1% in 2009 to 14,8% this year. In the end, it all depends on how well the Administration is able to control the parallel market exchange rate; on how quickly it can clarify which sectors are eligible for which exchange rate and/or which good and services are eligible for which rate; and on how quickly it can begin to issue (through CADIVI and/or BCV) increased amounts of US-dollars to the private sector. If it succeeds in fulfilling these points, then it will be able to control the inflationary impact of the devaluation, and by the end of the year inflation could be kept to 38%. This inflation rate could be higher or lower depending on measures the Government may have planned.

Transfers from International Reserves to FONDEN...

During the announcements the President made last Friday, he also mentioned that the optimum level for the International Reserves had been set at US\$28.0 billion. At the end of 2009, International Reserve levels were at US\$ 35.83 billion. This means that US\$7.83 billion will be transferred to FONDEN. These resources will be used to increase public spending and will keep Venezuela as the economy with the highest level of inflation among the emergent markets. At *Ecoanalítica*, we believe that this measure is extremely negative and shows just how resistant to change the Government is.



As we have already mentioned, today's devaluation is a result of high inflation in the past. This latest transfer of Reserves to FONDEN, monetizes public spending (spending financed by printing more money) which will increase inflation in the long run. This increase in inflation in the future will be reflected by more drops in real fiscal revenue, which will in turn end up in more devaluation. The people in charge of making economic policies must stop this vicious circle, eliminating and/or stopping future transfers of resources from the BCV to other state-run entities.

Lastly, we would also like to add that the exchange control give the Administration two attractive advantages. First, it can be used as a political weapon and it also allows the Administration to improvise with its fiscal accounts. We don't believe the Administration will give this mechanism up in the foreseeable future.

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Economic Tips

Official Gaceta number 39.342: Devaluation. Towards the end of the afternoon last Friday, President Chávez announced that the Administration would be implementing a dual exchange rate system.

Venezuelan debt up. The new year began with a positive increase in the Venezuelan bond curve. The rally began on January 1 and not as of yesterday as some people are reporting. The global 24 sovereign bond issued last year went from 55.68% on January 1, 2010 to 64.27% on January 11, On January 12, it was at 71.13% when trading began. This may lead one to think that many investors must have sold off their holdings due to the price increase. Other Venezuelan paper being traded reacted in much the same way.

PDVSA bonds also up. The 2017 PDVSA bond was also up during this same period going from 63.24% to 73.05%, following the same tendency though different from the sovereign bonds in that the curve dropped a bit after Monday. All the other PDVSA bonds are reacting in much the same manner. This may be due, among other things, to the steady increase in oil prices after the first of the year, plus the effects of the devaluation which increase the company's revenue.

New classification for Venezuela. S&P changed Venezuela's credit risk rating from negative to stable due to expected improvement in the country's fiscal and foreign accounts due to the recent devaluation. However, Fitch doesn't think the benefits derived from the devaluation will amount to much and it believes the country has significant macroeconomic distortions, such as high inflation and an unfavorable business environment due to the political situation in the country.

Exchange Crime Law to be reformed. Modifications are being considered for the Exchange Crime Law in order to allow the BCV to directly intervene in the parallel market, announced the president of the Finance Commission of the National Assembly, Ricardo Sanguino. Said intervention will be carried out by the selling and purchase of bonds and instruments denominated in US-dollars. The BCV participation will be for a limited time only, between six months to a year. The reform will also include a rule change for imports and a modification about the rule prohibiting the mention of the parallel market exchange rate.

Minimum wage nothing to be proud of anymore. Once the devaluation of the currency was announced, Venezuela was no longer the country with the highest



minimum wage in the region, not that the claim was ever very realistic. Now, Panama, Argentina, Chile, and Paraguay with US\$ 416, US\$ 379, US\$ 332 and US\$ 305, respectively all are higher than Venezuela.

Inflation less than expected. The drop in consumption was the key factor which led the CPI to close the year out at 25.1%, much less than expected and quite a bit less than the 30.9% posted in 2008. It was even less than what the Government expected at 27%. According to the BCV, consumption dropped by 2.6%, due to the drop in real revenue which is why there was no increase in pressure on prices as was the case in 2008 when consumption increased by 7.1%. It's important to point out that inflation figures for the month of December were the lowest in the year at 1.7%, which shows that the banking crisis and the electric power problems significantly affected consumption towards the end of the year.

The Sucre about to begin circulation. Towards the end of this month the Single System for Regional Compensation, better known as the SUCRE will begin to be used for transactions between Bolivia and Cuba with Venezuela, according to information released by the Minister of Economy and Finance, Alí Rodríguez Araque. The first transaction in which the Sucre will be used is in a deal where Venezuela will sell rice to Cuba.

Unemployment closed the year out at 7.3%. According to figures released by the National Statistics Institute (INE) the average unemployment rate closed the year out at 7.275%, up by 1.2% compared to the end of 2008 (6.1%). It's important to point out that the unemployment rate in November was at 7.5%, one of the lowest during the year, and in December the unemployment rate was at 6.6%, which is normal due to the season. This drop made the average drop to around what it had at during the whole year, 7.336%.

Interest rates. The loans interest rate for the last week of December was 19.4%, representing an increase by 93 basis points compared to the last week of November. On the other hand, fixed-term deposit and regular deposit rates were at 14.5% and 12.6%, respectively, representing an increase by 60 basis points for the fixed-term deposits' rate, and no variation for the deposits rate.

International reserves. The international reserves close 2009 at US\$35.8 billion, which means that they have contracted by 16.9% compared to the close of 2008.

Monetary liquidity. The monetary liquidity close the year at VEF 233,704,118 million, an increase of 22% over the year.





Oil Tips

Crude oil and natural gas extraction fell in 2009. According to BCV figures, crude oil and natural gas extraction decreased by 6.3% in 2009. The refinery process shrunk also, by 5.1%. Both the Administration and the monetary authority are attributing this decrease to the fall of crude oil demand due to the global crisis, as well as to cuts established by OPEC. However, PDVSA's operational and financial report for the first semester of 2009 indicates the industry's investment dropped by 29%, demonstrating that the minimum investment levels required to maintain production were not reached, so the reduction in crude oil and natural gas extraction was also caused by PDVSA's lack of investment, especially in the exploration and production areas.

Exports to the US decreased in October. According to EIA figures, Venezuelan crude oil and product sales to the US dropped by 20% in October compared to September. The number in October was 955 thousand barrels per day (kb/d) versus 1.14 million barrels per day (mb/d) in September. When compared to the same period of the previous year, it represents a 22% decrease. This reduction can be attributed to two effects: the decrease of national production and PDVSA's new premise of deviating traditional exports to new areas that are strategic for the Administration (Asia, Central America and the Caribbean).

In line with OPEC... EIA numbers indicate the decrease did not only occur in Venezuela. OPEC deliveries to the US market were also reduced. Cartel supplies fell by approximately 4.6 mb/d to 5.0 mb/d in September, representing an 8% m/m decrease. Algeria, Kuwait, Nigeria, Saudi Arabia and Venezuela were the countries that reduced their crude-oil deliveries to USA. However, Venezuela is still the third largest crude oil exporter to the United States.

Russia-Venezuela Agreement. The general terms of the joint strategic project development agreement were stated for the year end, comprising not only the development of Block Junin 6 of the Orinoco Oil Belt, but also a crude-oil and products' sale agreement signed by PDVSA and one of the companies of the Russian consortium. Additionally, the possibility to develop activities in blocks Junin 3, Ayacucho 2 and Ayacucho 3 was included. Sources state the interest of the Russian consortium to consolidate oil businesses in Venezuela is focused on strengthening its presence in the North American market.





Details of the oil industry's collective employment agreement. Although no details have been published about what was agreed in the discussion, the contract set a salary increase by VEF 35 from VEF 40 of the previous agreement, the food bonus was increased to VEF 1,800, more than the current VEF 1,200 but almost half of the VEF 3,500 that workers were expecting to receive. Regarding the agreement delay bonus, the Minister of Energy presented President Chavez two numbers: one for VEF 6,000, included in PDVSA's proposal, and another one for VEF 8,000 as a counteroffer by Union representatives. FUTPV had initially proposed a bonus for VEF 10,000. The document (with an estimated cost of US\$4.4 billion) was delivered to President Chavez last week for approval, almost a year after its expiration.

PETROPAR – PDVSA debt: No pact. According to versions of the Paraguayan press, the delay in the approval of Venezuela's inclusion in Mercosur by said country's Parliament, caused PDVSA's not being able to set the refinancing of PETROPAR's due debt by, at least, US\$300 million.

Alba Petroleos de El Salvador: Expected to Grow. The company Alba Petroleos de El Salvador, a PDVSA associate, is expecting to double its market share in said nation this year with the beginning of operations of a storage plant. The Salvadorian senator, Orestes Orteza, a financial advisor for said company, assured it is currently covering 15% of the fuel market in the Central American country.

Did PDVSA GAS save the day? According to an official press release, in 2009, PDVSA's affiliate exceeded the planned income goals related to sales of Liquefied Natural Gas LNG (propane, butane and natural gasoline) and Liquefied Petroleum Gas LPG in domestic and foreign markets by reaching US\$1.48 billion, representing a 32% increase from the real plan for the fiscal year. The company also guaranteed future supply of all natural-gas-derived products. Last year, said industry delivered the domestic market an average sustained production of 1 billion cubic feet per day.

Cuba increases exploration plans. According to the chief of explorations of the Cuban State company CUPET, Rafael Tenreyro, they will give priority to the exploration of new oil deposits in order to substitute those that are already decreasing due to long-term exploitation. Cuba produced approximately four million tons of oil and gas in 2009.

Local oil basket price. The recovery of the global oil demand, as well as the improved (better than expected) development of emerging markets regarding the global crisis during the second semester of 2009, lead the Venezuelan oil basket's annual average to US\$57.02/bl, about US\$17.02 above the budgeted US\$40 established in March of 2009. So far in 2010, the cold wave in the main international markets marked the increasing trend of the Venezuelan oil basket compared to



December, so the Venezuelan oil basket's annual average so far this year is of US\$72.9/bl, US\$6 over the US\$68.9/bl of December and US\$32.9 over the price set in 2010's budget.

International oil baskets. At the New York market's closing time, this Thursday, January 14, the WTI price was at US\$79.3/bl showing a 4.1% decrease compared to the US\$82.7/bl of the previous Thursday. The Brent decreased by 4.4%, to reach US\$78.4/bl, compared to US\$81.9/bl of Thursday, January 7.

Business Sector Tips

Cease to the electric rationing, but the danger in imminent. Starting Tuesday, the Venezuelan government will suspend electric power supply during four hours every two days all over the country, said Javier Alvarado, president of Electricidad de Caracas, due to the energetic crisis, defending the measure, facing the 12% energy deficit" that causes failures at the Guri dam. Otherwise, at almost zero hours Wednesday, president Chavez decided to repeal the measure and to remove the minister of electric energy, Angel Rodriguez, from office, because of the lack of information about the plan and the adverse results caused. The public servant indicated this is due to the lack of rain and climatic situation that the dam's water levels are in jeopardy and, additionally, Colombia reduced its electric power supply to Venezuela as a protective measure for said country's domestic consumption.

Offensive plan against speculation. President Chavez said he would not carry out a "defensive plan, but an offensive plan" against speculation, regarding price increases consequence of the devaluation. He also ordered the Vice-president Ramon Carrizales to hold a meeting with the National Guard, the Army and military, the Communal Power, Seniat, Indepabis and other organizations to carry out a plan against speculation. He also threatened to expropriate businesses and commercial spaces that increase prices and to hand them over to their employees. He said air ticket rates would not double.

The businesses that update their prices will be punished. After the despair showed by the Venezuelan costumers during the weekend, as a consequence of the devaluation, Indepabis started to visit and punish every business the updated their prices. The first irregularity was shown by Hipermercados Exito. During this week have been audited about 700 businesses, and 388 of those have been closed. Moreover the



Asamblea Nacional is studying the creating of a new law that allows the Government to expropriate a business if it's punish for the increment of its prices.

Electric power sector income in 11 years: US\$35 billion. According to preliminary results of the study on the "Vulnerability of the National Electric System" carried out by the specialist, Victor Poleo, in which he reviews the Official Gazettes from 1999 to today, regarding ordinary and additional budgets, with which he was able to determine that due to "ordinary public loan allocations, additional loans and electric bills, the electricity sector obtained a consolidated income by US\$34.73 billion in said period." Out of that number, a portion of US\$27.01 billion are represented by electric bills, US\$7.01 billion are represented by ordinary allocations, and US\$726 million represented by additional loans. All this money was used in operative expenses, maintenance and expansion of electric networks and in the suitability and construction of hydroelectric and thermoelectric plants, he said.

Executed budget. The study on the "Vulnerability of the National Electric System" coordinated by Victor Poleo, specialist in electric power, compared the expected investment and the real investment in the electric transmission area in the period of 2001 – 2005, and determined that Cadafe estimated to spend US\$643 million and ended up spending US\$155 million. During the period being studied, 316 power interruptions of over 100 mW in the National Interconnected System, out of which 208 events (66%) occurred in the electric transmission network. Cadafe contributed with 251 (80%) of all 316 events that caused rations over 100 MW. The number of consumers affected by these events reaches 1.5 million.

Credit card foreign-currency allocations under review. The credit card foreign-currency allocations for travelers and electronic operations are currently under review, due to announcements made by the Head of State regarding the exchange rate. Ali Rodríguez, minister of economy and finance said "the amounts will remain unchanged for now, but studies and works are being carried out between Cadivi and the BCV to establish criteria on the subject." The current maximum is US\$3,000 for travelers and US\$400 for Internet operations, which will now have a cost of VEF 12,900 instead of VEF 6,450, due to the new exchange rate of VEF 4.3 per US\$.

Desperate consumers go out to buy electrical appliances. President Hugo Chavez's announcement on the new exchange rate generated a great panic among Venezuelan people who visited electric appliances' and other stores, such as personal care, cosmetic and diaper stores, during the weekend. The global fear was generated when President Chavez announced a devaluation of the exchange rate to VEF 4.3 per US\$.





Auto-assembling industry shrinking. According to Cavenez, (Camara Automotriz de Venezuela (Venezuelan Automotive Chamber)), the auto-assembling industry shrank by 17.4% in the amount of units assembled during 2009, compared to the units assembled in 2008, being the numbers 11,554 and 135,045, respectively, indicating a decrease by 23,488 units. The only two assembling companies that reported growth were Chrysler and Iveco (1.3% and 8.5% respectively) and national production reached levels of 2004, when there were still effects of the general strike of 2002.

Banorte rehabilitated and acquired by Bicentenario. The Venezuelan Government decided to rehabilitate Banorte, Bancom Comercial, and to reopen its doors to public, only this time without Jose Zambrano, the board of directors and all managers, according to the Official Gazette dated January 6. Among the reforms to be carried out to rehabilitate the bank are the “reinstatement of the existing losses; the adjustment of stock capital; the pertinent reforms to the articles of incorporation; the transference of shares to shareholders qualified by the Superintendence and the recovery of the loans’ portfolio.” Besides the rehabilitation, the Official Gazette N° 39,342 made the bank’s acquisition by Banco Bicentenario official and its doors will be open by January 13.

Possible auto-administration of medical attention for public workers. It is possible for Administrated Health Funds to replace public workers’ HMO insurance policies starting this year, which currently represent VEF 6 billion, when the health budget for 2010 is VEF 9.33 billion. This possibility implies the need to achieve direct agreements with private hospitals and health care centers to pay by incident, using the amount previously used to pay for HMO policies, and any money saved would be invested in public health care centers. The Administration is also evaluating the possibility for public employees’ HMO insurance policies to be handled by Seguros Horizonte and La Bolivariana de Seguros, although this doesn’t seem attractive for the President.

World Crisis Tips

US Unemployment remains at 10%. Although the unemployment rate remained stable, labor data were disappointing since 84,000 more jobs were lost during December, after having created 4,000 jobs in November (reviewed by BLS, who originally reported a loss of 11,000 jobs). We expect to observe a slow recovery of the US labor market starting this quarter.



Doves and Hawks have a dispute at the Federal Open Market Committee (FOMC). The decision to maintain the current monetary policy unchanged was taken in the last FOMC meeting (the committee that decides the FED's monetary policy). However, the meeting was longer than expected, even after the voting about the monetary policy, since there isn't a consensus between the members of the committee. On the one hand are those who think the FED should not increase interest rates until the labor market shows clear signs of recovery (doves, due to their passive attitude) and on the other hand are those who are for anticipating the increase of interest rates to avoid inflation (hawks). In our opinion, the FED will not increase the interest rates during the first quarter of 2010.

Euro-zone unemployment reaches 10%. The unemployment rate in the Euro-zone hit an 11-year high (10%) during November, totaling 15.7 million unemployed and 22.9 million in the 27 countries of the European Union, slightly above the 9.9% average that was forecast by economists. However, the pace of employment loss continues to decrease. Jobs were lost at a pace of 102,000 jobs in November; seasonally adjusted annual rate (SAAR), while at the height of recession, the pace was 500,000. In Spain, the unemployment rate reached 19.4%, while in Germany, the largest European economy, the unemployment rate is 7.6%.

The Bank of England (BoE) maintains constant interest rates. The BoE decided last week to maintain the interest rates unchanged at a record low of 0.5%, and announced no changes to their ongoing run of quantitative easing asset purchases. Both measures were widely expected so the pound sterling suffered no significant modifications. In February, the BoE will decide whether to continue or to pause the expansive monetary policy. Should the current dynamics continue and should there be no unexpected bad news, the BoE might put a pause on asset purchases.

International trade rebound in China. It is possible to say China's trade market is completely recovered from the crisis. As a matter of fact, in December, the international trade current was only 2% below its peak reached in July of 2008 just before the crisis. The Chinese international trade (imports + exports) increased by 32.5% during December compared to December of 2008. Broken down, exports to the rest of the world increased by 17.6% y/y and imports increased by 55%.

China Central Bank starts to tighten the monetary policy. Last Tuesday, the People's Bank of China increased the reserves required by the Chinese financial system by 50 base points to avoid a significant inflation. This is the first measure to revert the huge monetary expansion carried out by the PBC to boost the economy during the crisis. The first raise of the reference interest rate is expected to be applied by mid 2010.



Kirchner couldn't pay the foreign debt with international reserves. Cristina Fernandez de Kirchner, President of Argentina, pretended to pay US\$6.6 billion of foreign debt in international bonds using her country's international reserves, but the president of the Central Bank of Argentina, Martin Redrado, refused to transfer the international reserves to a Government fund, so President Fernandez tried to remove him from his office by presidential order. The Congress must now decide whether they accept the destitution of Redrado in spite of the institutional independence of the Central Bank's decisions.

Political Tips

Nearly 1,800,000 new voters will have a chance to enroll in the REP. The INE (National Statistics Institute) estimates that for the parliamentary election of September 26 there will be 18,845,119 voting adults. By November 30, 17,061,440 citizens were authorized to vote, leaving 1,783,679 people who will have the chance to enroll in the electoral registry between January 25 and April 30 (period programmed by the CNE to include new voters in the database). People who become of legal age between April 30 and September 26 will be able to include themselves as well. The historic average voters' growth has been of 7% per year, so the expected increase for 2010 should be just under 1,200,000 new voters. So far the CNE have established new circumscriptions in thirteen states, specifically: Amazonas, Apure, Cojedes, Delta Amacuro, Falcón, Mérida, Monagas, Nueva Esparta, Portuguesa, Trujillo, Sucre, Yaracuy and Vargas.

Work accumulated for the CNE. There are 259 days left for the parliamentary election and CNE still needs to define the voting circumscriptions in the states that concentrate 72% of voters who shall choose among 103 senators for the National Assembly. They must also write 28 special regulations, according to the new Electoral Processes' Organic Law.

Creation Bicentenario Fund and Fondas. The Bicentenario Fund, recently created by the National Administration and announced by the President in Alo Presidente, will be constituted by US\$1 billion and will have the purpose to promote the substitution of imports and to boost the national productive system. The intervention mode will be by subsidies, subventions and low-rate and favorable-term loans. He also created the National Socialist Agricultural Development Fund (Fondas), and though he did not



offer many details about it, its purpose will be to transform the agro-industrial sector, to fight large estates, speculation and to favor nutritional independence.

Fernandez Barrueco's Companies changes owners. During December, ten companies that belonged to the Fernandez Barrueco family changed names. In a matter of 30 days, the last names Fernandez Barrueco stopped appearing together in the Public Registry of Panama. Fishing companies such as Salomon Islands, King F and New Caledonia were transferred to a Panamanian citizen. The same thing happened with Fextum Holding and the real estate companies Torre A-50 and Torre B-50, which went to other Panamanian citizens, leaving only two large companies to the name of his brother Bernardo, who maintains a low profile.

AN failed to meet 53% of the agenda. According to a report by the Parliamentary Observatory presented by the People's Will Movement, the National Assembly failed to meet 53% of the agenda approved for 2009 (that is, 28 out of 60 laws in the agenda were approved). The report indicates that out of the 49 laws that were sanctioned, 22 had the purpose of strengthening political control, 19 to strengthen economic control and only 4 to improve social welfare, and 21 laws were not in the agenda.

Chavez urged the opposition to carry out another revoke referendum. In response to comments issued by opposition members regarding the devaluation stating it marks the beginning of the end of Chavez, the President said "Get the signatures and call a Referendum."

Venezuelan airspace was violated. Chavez denounced the violation of the Venezuelan airspace by an American aircraft flying out of the Dutch island of Curacao. President Chavez said Venezuela would have to review its participation in an oil refinery in Curacao if the Dutch government did not offer an explanation. Stephen Lucas, a spokesperson for the US South Command, admitted that US Army airplanes accidentally entered the Venezuelan airspace in May of 2009.





ECONOMIC OVERVIEW



