



Weekly Report

Year 6, Number 21
Week II, June 2010

By:
Asdrúbal Oliveros
Maikel Bello
Carlos de Sousa
Ecoanalítica's Team*

NEW EXCHANGE SYSTEM GEARING UP WHAT CAN WE EXPECT IN THE FUTURE?

*José L. Saboin, Luis Pulgar and Ainara Bacaicoa

Reproduction or distribution prohibited

During the beginning of this week, and after almost a month of waiting, with the swap-market completely shutdown, the Central Bank of Venezuela (BCV) began to release the first bits of information as to how this new swap-market system would work. We will be commenting on what we have learned in this Report.

The first step Exchange agreement 18 and new rules

The BCV released both these instruments during the beginning of this week. They constitute a reference framework of how the new system will operate. First we'd like to point out the positive fact that a new exchange agreement has been drafted for this new swap-market system. From what we have seen, the agreement seems to be fairly open, especially due to the fact that the system is being designed to be able to be modified in the future, as we expect will happen. Two main points stand out: 1) In Article 1, the power that the BCV has to determine the exchange rate bands in accordance using any methodology it deems convenient, and 2) The swap-market disappears as we know it and it becomes a market of buy and sell of dolar denominated bonds that are payable in VEF by locals, all monitored and regulated by the BCV.



With respect to the new regulations governing the new system and this type of operation stands out the role the new exchange operators (banks) will play. An important point here is the daily publication of the exchange rate bands that will govern market operations. It's important to point out that the BCV establish regulations for tourist hotels, foreign currency exchange offices along the border, and new exchange system operations being carried out by banks.

**Second step:
The president of
the BCV speaks**

During the press release held by the president of the BCV on Tuesday, June 8, he said that the new Transaction System in Securities in Foreign Currency (Sitme) will begin as of Wednesday, June 9.

As was stated, the system will begin operations from 9 am to 12 noon everyday possible, adjusting to international markets holydays, since this is there the securities in foreign currency will be traded. In order to place a request for foreign currency, clients must first initiate the process through a bank. There is a possibility that other types of operators may be included in the future. And, even though the amount was not defined, there was mention that the banking system had agreed to liquidate a daily amount through the new exchange system.

At the moment this Report is being written, the new regulations that will govern the new exchange system operations have not been released. But, from unofficial sources we have found out that the following maximum amounts and requirements will be established:

- **Natural persons will only be able to request:** 1) up to US\$1,000 to help cover family remittances; 2) up to US\$5,000 a year cover studying abroad expenses and/or travelling abroad expenses; 3) up to US\$10,000 a year to cover special case expenses, such as: medical expenses or the acquisition of goods to be used to provide professional services; 4) up to US\$150,000 a year for the sale of tangible assets when having changed address and moved abroad.
- **Legal persons will only be allowed to request:** up to US\$50,000 a day and up to a maximum of US\$300,000 a month to be used for: 1) goods and services NOT included in lists 1 and 2 of priority goods set by CADIVI; 2) goods and services that ARE included in lists 1 and 2 of priority goods set by the Currency Administration BUT that haven't received CADIVI dollars during the last 90 days; 3) capital goods



According to the information released during the press conference, the initial supply of foreign currency available for beginning operations with the new exchange system will be at around US\$2.70 billion with US\$2.0 billion going to the private banking system and US\$700 to the public banking system. It's important to point out that very soon, the BCV will lower the legal amount a bank may keep in foreign currency with respect to its assets. The percentage of foreign currency holding legally allowed will drop from 30% to 15%. Furthermore, Nelson Merentes stated that the total amount of foreign currency calculated to be supplied through the new system for the rest of the year is at between US\$5.0 and US\$6.0 billion.

Changes that could come

However, Merentes made it clear that the system should be able to replenish its supply of foreign currency via companies that need to bring foreign currency in to the country, and at the same time he alluded to the fact that the Government would have to intervene and liquidate foreign currency through issuances or some other mode, because the supply would not be enough.

The president of the BCV made it very clear that the new exchange system would not be used as a vehicle for out-going capital or for profit repatriation, and that the request forms for foreign currency must clear define and justify the need for the foreign currency and that subsequent transfers of foreign currency liquidated by the banks must be deposited in to the account of the company and/or person making the request.

It was stated that natural persons would also be allowed to participate in the new exchange system, but only allowed to request small amounts of foreign currency, and that natural persons may not participate in the new system every day, since the exchange system was not designed to "encourage out-going capital or currency speculation."

Merentes, also pointed out that the market was designed to be able to be shutdown at a moment's notice in case of shocks occurring in the foreign markets which could drastically affect the price of bonds. This will avoid unjustified, sudden peaks and drops in the exchange rate. He continued to say that the exchange rate bands will be made public when the system begins operations and that there is no way to determine this information before said event.





**Third step:
Initiating the
exchange
system: the
first day**

On June 9, the new “swap-market” exchange system supervised by the BCV officially began operating. However, according to a press note released by the BCV, “the amount of bonds traded, of both, the Republic and of PDVSA, amounted to US\$4.97 million, to result in an implicit exchange rate weighted average of VEF 5.27/US\$, this amount is insignificant, and this is because the BCV has yet to officially release the regulations governing the requirements necessary to participate in the new exchange system.

The BCV posted on its webpage the minimum and maximum prices for each sovereign bond and bond from PDVSA that will be used in this market. We have added an additional column with the resulting implicit exchange rate, calculated by simply dividing the maximum price into the minimum price and multiplying by the official exchange rate (VEF 4.30/US\$). In doing so one finds that the minimum price in bolivars posted by the BCV is almost exactly equal to the international price in US-dollars of each one of the bonds (we suppose it was exactly equal at the time the BCV made the table, and now it is slightly different due to international market fluctuations) and the maximum price, in all cases, is 23.3% higher than the minimum price.

We are taking the maximum price in bolivars as the only reference price instead of calculating a range for the implicit rate (in which case the lower limit would be VEF 4.3/US\$) because with such an attractive maximum implicit rate (VEF5.3/US\$ plus the commission which we suppose will be 1% plus the VAT which would all add up to VEF 5.36/US\$) it is not very probable that the resulting implicit rate will be lower than the higher band price (23.3% over minimum price).

As the supply of Venezuelan papers increase in the international market, their prices should begin to drop, this will force the implicit price to tend to increase. We don't expect this to occur all of a sudden, but it's important to keep this in mind, in other words, carry out your exchange operations as soon as possible.





Banco Central de Venezuela

Price range* in VEF to buy and sell of Securities that are traded through the "System of Trading with Securities in Foreign Currency" (SITME) at 09-Jun-2010

Bond	Min Price (%)	Max Price (%)	Implicit Exchange Rate
PDVSA 2011	85.20	105.01	5.30
PDVSA 2014	56.00	69.02	5.30
PDVSA 2015	51.33	63.27	5.30
PDVSA 2016	50.62	62.39	5.30
PDVSA 2017	50.95	62.80	5.30
PDVSA 2027	42.29	52.12	5.30
PDVSA 2037	41.93	51.68	5.30
VENEZUELA GLB-10	98.48	121.38	5.30
VENEZUELA GLB-11	89.90	110.81	5.30
VENEZUELA GLB-13	84.37	103.98	5.30
VENEZUELA GLB-14	73.83	90.99	5.30
VENEZUELA GLB-16	57.92	71.39	5.30
VENEZUELA GLB-18	83.03	102.33	5.30
VENEZUELA GLB-18N	56.79	69.99	5.30
VENEZUELA GLB-19	55.83	68.81	5.30
VENEZUELA GLB-20	50.49	62.23	5.30
VENEZUELA GLB-23	56.94	70.18	5.30
VENEZUELA GLB-24	53.88	66.40	5.30
VENEZUELA GLB-25	52.43	64.62	5.30
VENEZUELA GLB-27	63.22	77.92	5.30
VENEZUELA GLB-28	56.82	70.03	5.30
VENEZUELA GLB-34	56.92	70.16	5.30
VENEZUELA GLB-38	49.50	61.01	5.30

* Prices in percentage value and payable in VEF

Sources: BCV y Ecoanalítica

What to expect in the future?

Merentes gave us an idea as to the initial supply of foreign currency being liquidated through the new exchange system once it begins operations. However, there are a number of other elements which were not mentioned by the president of the BCV. At *Ecoanalítica*, we believe that a first stage, meaning from now until the end of the year, must include the following: Public Sector (including banks): US\$ 5.50 billion, plus new issuances (which could include exchange bonds) for: US\$ 4.0 billion.

This way, the initial supply of foreign currency for the new system will be around US\$ 11.50 billion (US\$ 442 million a week).





And further on down the line?

We expect that this supply will be increased, especially towards the end of the fourth quarter, through the following entities:

- Private exporters: US\$400 million
- PDVSA: US\$5.0 billion
- FONDEN: US\$5.0 billion
- Other public companies (including the National Treasury): US\$1.1 billion

We're in bad shape, but are we on the right course?

In essence, the new exchange system represents the institutionalization of the old swap-market system with two variations: first, obstacles placed to enter the market and no, or very little, attention paid to the so-called "speculative component;" and second, the formalization of the participation of public entities in this market.

According to our estimates, this new exchange system's priorities are defined in function of:

- The swap market's "natural" imports: US\$3.5 billion (particularly commercial, services, and telecommunications activities)
- Financing of "CADIVI" imports: US\$4.9 billion

Finally, in Ecoanalítica show our estimate of how it will develop this scheme in the short and medium term. At the time of going to press, the big question is how private individuals and the mechanism for the outflow of private capital will fit into this new scheme.

A scheme that will mutate ...

Finally, in Ecoanalítica show our thoughts of how it will develop this scheme in the short and medium term:

PHASE ONE

- This phase will last for two to three months and, given how complicated it is, the system will function with considerable delays and serious operational problems.
- Supply will come mainly from bonds and securities in the hands of the public sector, coordinated by the Central Bank.
- Participation by PDVSA and Fonden will be fairly limited. Supply from the private sector will also be scant.



- Considerable shortages and major logistical problems for the private sector.

PHASE TWO

- Efficiency improves.
- The first modifications to the system are implemented: a degree of flexibility for the repatriation of domestic companies' profits.
- Incorporation of PDVSA and Fonden.
- Greater barriers for private individuals.

PHASE THREE

- Inclusion of the stock market.
- Zero barriers for operating, both for private individuals and companies.
- Elimination of the bands.
- The market is supplied mainly by PDVSA and the price is adjusted to market conditions.
- CADIVI will be for priority sectors only.
- The rest of the economy will migrate to the new system.

Should one participate in the new system?

Our recommendation to companies is that they participate in the new system, independently of how their relationship with CADIVI is evolving. We extend this advice to natural personas as well. Given the evolution of interest rates, acquiring debt in bolivars is still a valid option. And, we have still not ruled out that in the future, this system will also be able to be used for repatriating dividends. However, for now, that still falls under CADIVI parameters. One last point one has to be aware of when evaluating the impact of the new band system. The real exchange rate at the close of April was at VEF5.62/US\$ and the implicit rate based on the M2- International Reserves relationship for the same period was at VEF8.53/US\$.





Economic Tips

Published price band. The Central Bank of Venezuela (BCV) published the price band for the transaction of public debt in foreign currency, in which the minimum price equals the price of opening bid price on international markets for Venezuelan bonds and the maximum price is equivalent to 23.3 % more. Additionally, we can calculate an implicit rate of FEV 5.3 / US \$, which can vary when anyone sells the bond on international markets if that the price has fall beyond the minimum value placed on price band. The first days were offered \$ 17 million.

Exchange Agreement No. 18. The Central Bank of Venezuela (BCV) released its Exchange Agreement No. 18 and published it in the *Gaceta Oficial* number 39.439, where a series of Articles appear which define the regulating entity in this new exchange market for securities which will make up the new “exchange market” by which one can have access to foreign currency. Among the rules introduced, the BCV will have the power to decided which securities denominated in foreign currency will be traded in the new Transaction System in Securities in Foreign Currency (Sitme).

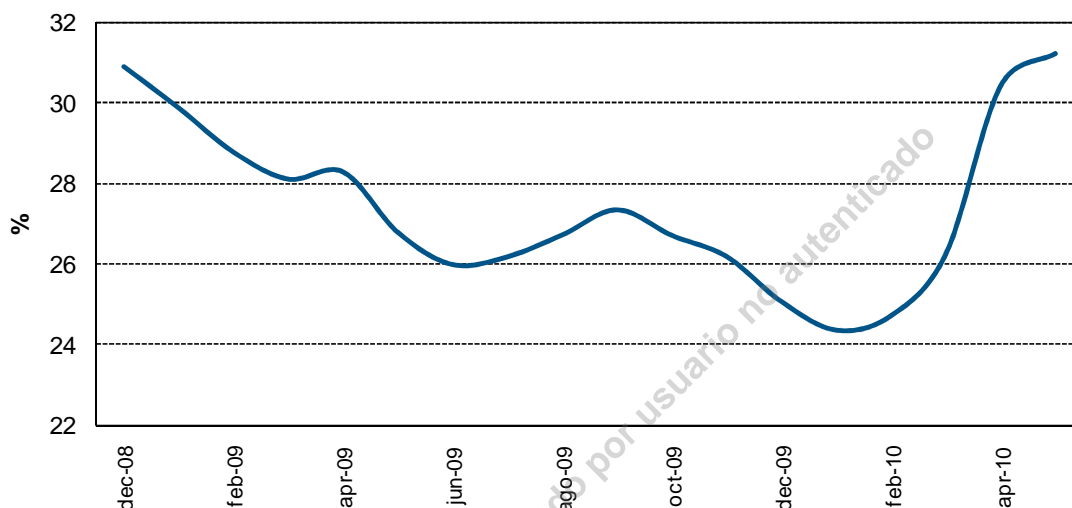
Furthermore... in accordance with the new Exchange Agreement, the BCV will also be empowered to set the exchange rate band using whatever methodology it deems to be convenient to set the price. The BCV will also establish the requirements that have to be met by the institutions wishing to be authorized to participate in the new exchange system, the mechanisms to be followed, and it will monitor and control the operations, and evaluate their execution.

Inflation for the month of May inflation drops due to the recession. The Consumer Price Index registers a variation of 2.6% during the month of May which puts the accumulated inflation so far this year at 13.5% and 31.2% during the last 12 months. Inflation for the Caracas Metropolitan Area was at 2.2% in May, with accumulated inflation for the year at 14.2% and inflation during the last 12 months at 32%.





National Consumer Price Index



Sources: BCV and Ecoanalítica

The CPI by items. The results of the variations registered in the CPI for the month of May, by items, show a slight increase compared to the previous month in 9 of the 13 groups. Among the groups reflecting the slightest increase are: household services, except for telephone, 0.7%; rent 0.9%; recreation and culture, 0.9%; clothing and footwear, 1.1%; communications, 1.2%; education services, 1.4%; health, 2.1%; household equipment, 2.2%; and miscellaneous goods and services, 2.3%. The other four groups are: restaurants and hotels, 3.2%; food and beverages, 3.3%; transportation, 3.5%; and alcoholic beverages and tobacco, 4.4%.

By cities... The National CPI for the month of May by cities reflected the following: up by 2.9% in Maracay; 2.2% in Ciudad Guayana; 2.7% in Barcelona- Puerto La Cruz; 2.9% in Valencia; 3.0% in Barquisimeto; 3.0% in Maracaibo; 2.5% in Mérida; 2.9% in Maturín; and 2.6% in San Cristóbal. The rest of the country maintained an average price variation of 2.7%.

Goods and services. May inflation for goods and services dropped compared to the previous month going from 6.9% to 2.8% and 2.6% to 2.4% respectively for each group.

And the inflationary core... The NCPI inflationary core reported 2.5% in May, a variation that is lower than the NCPI in April (2.6%). With this, the accumulated variation of 2010 reaches 11.5%, while the y/y variation is 29.2%. Regarding the



inflationary core for the Caracas Metropolitan Area, the variation was 2.6%, also lower than that of the CPI (2.7%). The accumulated variation of 2010 is 12.3% and the y/y variation is 31.7%.

Tax collection for the month of May. According to the SENIAT, during the month of May tax collection reached VEF 7.0 billion, surpassing the goal for the period by 28.0% set at VEF 5.60 billion. Tax collection compared to the previous year is up in nominal terms by 24.7%, and when taking inflation into account, down in real terms by 5.5%.

INE prepared for the National Census. The National Statistics Institute (INE) announced that it was ready to carry out the XIV National Census for Population and Housing and the IV Census for Indigenous Population and Communities to begin in 2011. Elías Eljuri, head of the organization, stated that it expects to go beyond demographic aspects in order to register more specific results in state and municipal regions.

Interest rate. The lending rate for the fourth week in May was at 17.6%, down by 98 basis points compared to the previous week. Time deposits and savings rates were at 14.5 and 12.6%, respectively. This reflects a 31 basis point drop for time deposits while savings remains steady.

International reserves. International reserves increased by 0.5% going from US\$27.5 billion during the third week in May to US\$ 27.7 billion during the fourth week in May. Compared to the same period last year international reserves dropped by 6.1%.

Monetary liquidity. Monetary liquidity for the fourth week in May was up by 1.5% compared to the previous week settling at VEF 240.0 billion, and up by 1.8% in nominal terms during this year and down by 10.3% in real terms compared to the same period last year.

Oil Tips

Pdvsa creates mixed company with ENI. The Administration granted a natural gas exploration and exploitation license to the mixed company involving one of Pdvsa's affiliated companies and the Italian ENI. The license authorizes the exploitation of non-associated natural gas deposits and the exploration to find other deposits in the areas of Punta Pescador and the gulf of Paria. The gas produced will be mainly destined to the domestic market, both for energy use and as raw material for industrialization, and



eventually to feed a train of the East Caribbean Delta project or a similar one. Last week, Chevron was authorized to produce natural gas at Block 2 of the Deltan Platform, one of the country's largest offshore projects.

Petropar starts to pay. The president of Petroleos Paraguayos (Petropar), Juan Gonzalez Meyer, assured they had transferred the amount of US\$50 million to Pdvsa as a partial payment to their debt for US\$414 million. Gonzalez said they would make another payment this week to cover the operative debt of 2009 for US\$145 million for this year's supplies. This operation will leave Petropar with the accumulated debt of US\$269 million (2006-2008), which they will pay through Venezuelan Treasury bonds.

Venezuela to partner up with Argentina. The Argentinean-state Company, Enarsa, and Pdvsa agreed to speed up the construction of a new re-gasification plant in order to increase the foreign supply of liquefied natural gas (LNG) by sea. The first stage – for which the bidding process is set to start within days implying a business of approximately US\$150 million – consists of the construction of a pier, a connection gas pipeline to the network and the lease of an “offshore regasification” unit. This joint project is to be carried out by a mixed company integrated by Pdvsa (60%) and Enarsa (40%).

Pdvsa's commitments with the regions. Freites municipality, in the Anzoátegui state, indicated the execution of the civil labors plan projected for this year has been affected because the entity has stopped receiving VEF 180 million from Pdvsa's municipal taxes. A press release says *“the process is being disturbed and that's harming Freites municipality neighbors, not being able to reactivate programs such as the Pa'Toitos Market, the ambulatory network, as well as civil engineering labors that consolidate sectors and parishes in the fields of public services such as the construction of aqueducts and well connections, sidewalks, curbs, ditches and drains, sewer connections, electrification, among others.”*

Dominican Republic: It's time to sell Refidomisa! The Dominican Republic Administration urged senators to speed up the authorization of the contract to sell 49% of the state-owned company Refineria Dominicana de Petroleo (Refidomisa) to Venezuela. Said country's Minister of Finance reiterated the State would receive US\$133.4 million for the sale of 49% of the refinery's shares in a period no longer than three months from the National Congress' contract approval.

Gas stations in Bolivar to be taken over. The State plans to fulfill the take-over announcement made to the owners of 18 gas stations in the Bolivar state in the next 15 days. Gas-station owners have not received any details, so they don't know exactly what motivated this measure, apparently aligned with the military program coordinated by the Administration against illegal mining called Plan Caura. Euro Benitez, president



of the Association of Gasoline Entrepreneurs of Guayana, said these are “family businesses” in which it is still uncertain whether the owners will continue to perceive an income or whether workers will keep their jobs.

Failure after failure. Another failure was produced last week in Pdvsa’s facilities. This time, a leak of hydrogen sulfur gas (H₂S) obligated the authorities to evacuate the staff at Petrocedeño, in the Cryogenic Complex Jose Antonio Anzoátegui. However, this is not the first time this happens, another incident occurred last week, alarming the staff of 700 people.

Workers had reported it. After the accident, the authorities of the Unitary Federation of Workers of Oil, Gas and the like (Futpv) said they had sent reports to the ministries of Environment and Labor about the conditions in which they were working at the Petrocedeño plant, assuring the international safety measures were not being met, affecting the staff with drowsiness, vomit and eye irritation, since H₂S is hazardous.

Pdvsa answered. Pdvsa said the incident was caused by torrential rain falling on Petrocedeño’s flare and that the incident was taken care of immediately without affecting the staff, the environment or the crude oil processing units. Pdvsa also said the automated controls had been activated and that the staff was preemptively relocated by their security systems.

El Palito is operative. Robert Gonzalez, executive secretary of Futpv says the production of fuels at the El Palito refinery is 54,000 barrels per day (out of 60,000 of capacity). This level was achieved over a week after the fluid catalytic cracking (FCC) unit, which had presented a failure two weeks earlier causing it to shut down, resumed operations.

International oil baskets. At New York market’s closing time, last Thursday June 10, the WTI was at US\$75.5/bl, showing a 1.2% increase compared to the US\$74.6/bl of the previous Thursday. The Brent increased by 0.7% to reach US\$75.1/bl, compared to US\$74.6/bl of Thursday, June 3.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$64.8/bl on Friday June 4, US\$2.9 more than the US\$61.9/bl of the previous week. Meanwhile, the basket’s annual average decreased to US\$70.6/bl.





Business Sector Tips

Electricity rationing plan suspended. The President of the Republic has declared suspension of the electricity rationing plan, despite a few days ago was extended for 60 days.

The problem of spoiled food. This week were arrested Ronald Flores and Vileska Betancourt, general manager and director of operations Pdval, respectively, for having links with research into the containers with rotten food in Puerto Cabello. They join the former President of Pdval Luis Enrique Pulido, who was arrested a week ago. A total of 2,300 containers have been found damaged in Carabobo food, resulting in more than 70,000 tons of expired products.

Food distributors expropriated. To continue with the expropriation policy, Richard Canan, minister of Commerce, formalized the expropriation of 18 food distribution companies due to violations such as the lack of licenses, problems with invoices, mobilization guides and other irregularities. Out of these expropriations, 14 were in the Quinta Crespo Market, including: Distribuidora La Emeratriz, Doble Punto, Rospín, Quinta Casacoima, Almacen 608, Isla de Fuego, Viveres Loa Uchuela, Elitey Viveres Almacen.

NA wants to force Polar. The Commission for Labor, Professional and Union-related Affairs wants to meet with Empresas Polar again to reach an agreement between the company and former workers. The Commission expects not only to reach commercial solutions, but also social.

The accusation to Polar. Elias Jaua, vice president and minister of Agriculture and Land, blamed Polar of exercising a monopoly and control over food distribution and pinpointed it as the main responsible for the market's distortions by restricting food supply and causing speculation. He also said they were looking to restrict the supply to overthrow the Government as was intended during the national strike of 2002.

Incident coverage payment increased. During the first quarter of 2010, insurance companies faced a larger number of incidents and issues with vehicles, according to a report published by the Superintendence of Insurance Companies. Incidents added up to VEF 3.8 billion, when in 2009 the number was VEF 2.9 billion, a 2.2% increase in real terms to the amount of incidents paid as of March 31.





New Law of Insurance Activity. The new Law of Insurance Activity approved by the National Assembly sets limitations at the time of acquiring insurance contracts in foreign currency, giving exceptions only to the case of reinsurance policies. It literally says “insurance contracts celebrated with foreign companies not authorized to develop the insurance activity in Venezuela shall not be valid when the risk is located in National Territory. Are an exception to this provision all reinsurance operations carried out in conformity to this Law as well as all operations provided in the international agreements signed by the country.”

May Vehicle sales. May vehicle sales, as published by the Venezuelan Automotive Chamber (Cavenez), showed a 2.7% increase compared to the units sold during the same period of 2009, reaching a total of 10,397 units. This number can be broken down in 8,681 national vehicles and 1,716 imported vehicles, the main responsible for the variation with a 17.9% y/y increase. Another pinpointed number is the 243.2% increase of imported units sold in May, when compared to the previous month, thanks to the Government’s granting of import licenses to some vehicle makes.

So far this year... However, the accumulated sales of the first 5 months of 2010 present a 30.8% contraction, compared to 2009, reaching 48,888 units. In this case, both segments, national and imported, are responsible since they contracted by 13.8% and 76.6% respectively.

And production... According to Cavenez, vehicle production contracted by 0.3% during May, compared to the same period of 2009, to reach 8,504 units. However, production has contracted by 20.4% so far this year, which represents 11,056 units less than in the same period of 2009, to reach 43,057 units. Between April and May there was also a 13.8% contraction.

World Crisis Tips

US unemployment rate down to 9.7%. The latest report of the Bureau of Labor Statistics (BLS) about the employment situation shows a reduction to the unemployment rate from 9.9% in April to 9.7% in May. 431,000 unemployed people were hired in May, but 411,000 of them were hired for temporary jobs to carry out the 2010 Census, so probably over 400,000 will be unemployed again once the census is over.

US Consumer credit expands by US\$1 billion during April. According to the Federal Reserve, US consumer credit grew by US\$1 billion during April, after having



fallen by US\$5.4 billion in March. In y/y terms, consumer credit is 3.2% below the figures of April of 2009, a modest recovery from the -4.4% (y/y) reported in December of 2009.

Bernanke is not expecting a double-dip recession. The Fed Chief, Ben Bernanke, said he doesn't see a double recession for the US, since the recovery of the consumer spending and private investment would be enough to keep the economy growing, though at a relatively slow rate.

Bernanke believes the Euro will survive. Ben Bernanke said the €750 billion euro package agreed between the European Union and the IMF was more than enough to protect Greece, Portugal and Spain from the volatile credit markets for several years and that he was convinced of the commitment of European leaders to do whatever was necessary to preserve the euro and to overcome the financial problems that would surely arise.

IMF advises independent tax measures to each country in the Euro zone. The International Monetary Fund urged the European Union to continue to defend the euro's long-term continuity through fiscal adjustments, but highlighted this had to be done individually according to each country's possibilities and conditions. Those countries facing higher spreads in their debt performance compared to Germany should make forced fiscal adjustments, delaying them or making partial adjustments could cause a further loss of financial market confidence in the fiscal sustainability, which would increase the cost of sovereign debts even more and would continue to put pressure on the euro depreciation.

Euro zone growth, slightly better than expected. Figures of the European Central Bank show the euro zone's GDP was 0.6% higher during the first quarter of 2010 than in the same period of 2009 (y/y), which at the same time represents a 0.8% growth in q/q seasonally adjusted annual rate (SAAR). Germany and France stand out with 1.5% and 1.2% (y/y), respectively and Greece is still the only one of all 16 countries that hasn't hit bottom with a SAAR rate of -3.1% (-2.3%, y/y) in the first quarter of 2010.

European real economy continues to recover. Germany's sales volume increased by 1.2% in April after having grown 2.9% in March, to reach 5.3% more than at the end of 2009; unemployment also continued to decrease in Germany, reaching 7.7%, half a percent point below the rate of November 2009. Norway, Denmark and the Czech Republic reported their industrial production indexes, with Norway being the only one of the three whose industrial production continues to decline, 3.5% below the rate of April 2009, while Denmark and the Czech Republic showed industrial production



growth by 1% and 2.2% in April, to close at 4.2% and 10.9% over the rates of April 2009.

Germany sets an example with its €80 billion savings package. The German Prime Minister, Angela Merkel, presented a plan with the intention to save €80 billion from the national budget from now to 2014. This austerity plan assumed to set an example of fiscal discipline to other countries in the euro zone could be detrimental to the German economy and Europe as a whole, since Germany's growth thus far has been led completely by the foreign sector. As evidence of that is the fact that the production of capital goods has grown by 14% (y/y), the production of intermediate goods has grown by 21% (y/y) and the production of consumption goods has only grown by 1% (y/y).

Hungary facing fiscal problems as well. Early this week, the euro hit a four-year minimum, momentarily reaching 1.19 €/US\$, due to the market's concerns about Hungary's fiscal sustainability. The recently elect Hungarian Government responded with a tax reform plan, introducing a 16% flat rate tax to personal income, a special tax to the financial system and a 15% reduction to public sector salaries.

Political Tips

Over 6,000. From Tuesday, June 1 to Saturday June 5 at midnight, 6,465 candidacy applications for the 165 seats at the National Assembly and the 12 Latin American Parliament seats to be elected on September 26, were received. In all Venezuelan states, all 24 Regional Electoral Boards received the political organizations, citizen groups, indigenous tribes and applicants by own initiative, who introduced the requirements to become candidates. 5,245 applications were received for the election of 110 nominal representatives, and 1,132 applied for the list-elected seats. 34 applicants were received for the three seats to indigenous representatives. 54 applications were also submitted before the National Electoral Board, at the CNE headquarters, for the 12 seats of representatives of the Latin American Parliament, 11 of them elected by list, plus one representative of indigenous tribes, with their respective substitutes.

Chavez: Opposition in the NA will shut missions down. The Venezuelan President said in national broadcasting that, should the opposition win the next parliamentary election, the NA would not approve the supplementary appropriations proposed by the national budget to sponsor missions and to pay the salaries of public workers. He also



said: *"We can not let the opposition take over the National Assmebly (NA). That would be dissastrous, they would put an end to all this!"*

Venezuela with no economic risk. President Chavez said Venezuela was a country with no economic risk, accusing national oligarchy sectors of promoting that "lie." Chavez reminded all nations had economic problems these days, and despite that, there were no salary or job reductions in Venezuela, as opposed to countries such as Spain and Greece, on the contrary, the "revolutionary" and socialist Government run by Chavez for the last 11 years is *"creating new companies and saving companies bankrupted by capitalism,"* by expropriating companies in "strategic" sectors such as oil, electricity, telecommunications, cement, banking and food.

100 thousand activists to convince the "neither-nors." The Democratic Unity Table started a campaign to explain the importance of participation in the September 26 election in order to deliver the message to the "neither-nors." In light of this, the former Governor of Miranda and candidate to the parliamentary election, Enrique Mendoza, said that right now *"we are entering the street activism stage, which is nothing more than placing 100 thousand speakers throughout the country to go door-to-door and, in a way, open hearts and thoughts to add people to the September-26 election."*

Legal bases of the Communal Parliament set. The construction of the Communal Parliament has started. This figure is defined as *"the instance of planning, coordination and execution of the government in the communal group,"* which is set out in the Communal Group Law Draft, written by the National Assembly's Permanent Commission for Citizen Participation. This draft's presentation of reasons *"promotes the creation of a new instance of territorial government, that of the communal power."* With this, legislators propose to install *"a self-governed communal system"* or a Communal State, where *"power is directly executed by the people, with a economic model of social property."*

Creation of the Nation's Situational Center. The creation of the Nation's Situational Study Center (Cesna), to be attached to the Ministry of Internal Affairs and Justice, was publishes in *Official Gazette N° 39,436*. This decree indicates the Study Center will have administrative and financial autonomy and its job will be to compile, process and permanently analyze the information from the different situational rooms or similar organizations of the State and society's institutions about any aspect of national interest.

TSJ denied pre-trial against Chavez. The accusation introduced by Guillermo Morena Alcalá and Octavio Tovar Chacín against President Chavez due to alleged treason was denied for being inadmissible. The reason for this judgment is the fact



that they do not have procedural legitimacy to request a pre-trial of merit against the Venezuelan President, according to Luisa Estella, president of the TSJ.

PSUV tunes up electoral campaign. In an act at Poliedro de Caracas, the United Socialist Party of Venezuela (PSUV) started preparing its machinery for the electoral campaign, with less than four months left for the election. The act was hosted by the president of the party, and President of Venezuela, Hugo Chavez, who sworn in the participating militants. Among the initiatives to be taken, the socialist organization will have 12,471 chiefs of the Bolivar Battle Units 200 who will be in charge of mobilizing President Chavez's followers on the day of the election to choose the NA representatives.

Chavez: turning the "neither-nors" into followers. The Venezuelan President asked the Bolivar Battle Units 200 (UBB) to turn those voters not affiliated with the government party or the opposition, the so-called "neither-nors," into followers. In the act carried out where the PSUV's electoral machinery was sworn in, Chavez said "*the solution needs to go beyond the left wing,*" quoting Alfredo Maneiro, founder of Causa R, and reminded the party needed to find those people who still wouldn't identify with the left wing.

Campaign "I do finance my PSUV" collected VEF 7 million. The campaign called "I do finance my PSUV" powered by the United Socialist Party of Venezuela (PSUV) collected nearly VEF 7,340,692, according to the national chief of the Campaign Commando Bolivar 200, Aristobulo Isturiz. This campaign ended last Monday in all the national territory, exceeding the initial expectations.

Internal complot not ruled out. The National Assembly (NA) is to investigate the case of over 56 thousand tons of PDVAL foods in state of decomposition. The ones in charge of said investigation are the permanent commissions for Comptrollership, Economic Development and Social Development. The National Assembly does not rule out a possible internal complot.

Basque Country Requested maximum collaboration against ETA. In order to achieve the effective compliance with the processing order issued by Judge Eloy Velasco, the parliament of the Basque Country asked the Venezuelan Government to provide its maximum collaboration. This initiative backs the Spanish Government's efforts to prevent the terrorist group ETA from finding shelter "anywhere in the world."

Order to deprive the president of PDVAL from freedom. Henry Chirinos, executing judge in the Carabobo state, issued order for preemptive deprivation of freedom against Luis Enrique Pulido, former president of Pdval. Among the crimes Pulido is accused of are those of boycott and corruption contemplated in the Law for the



Defense of People in the Access of Goods and Services and the Law against Corruption. Pulido was arrested for his link to the current situation of rotten foods found in a warehouse in Puerto Cabello.

Salas Romer declines candidacy. Henrique Salas Romer, former Governor of the Carabobo State, rejected his candidacy to the National Assembly. According to Salas Romer, this way he respects the people's will. The list will be led by Carlos Eduardo Berrizbeitia and seconded by Yaritza Aray.

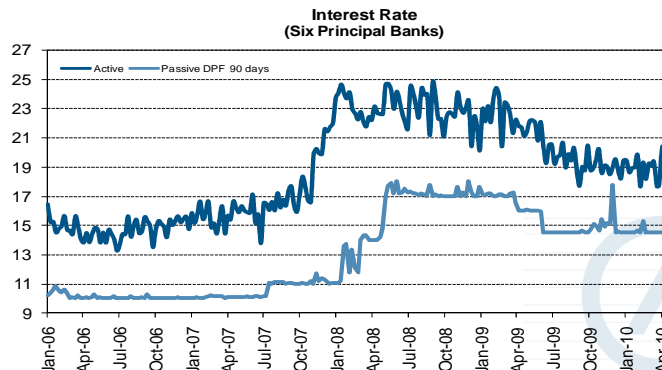
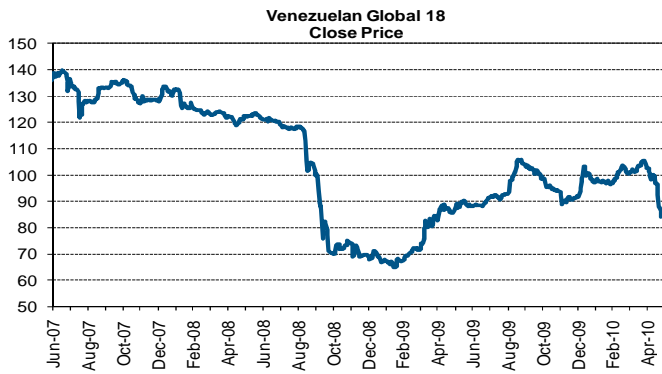
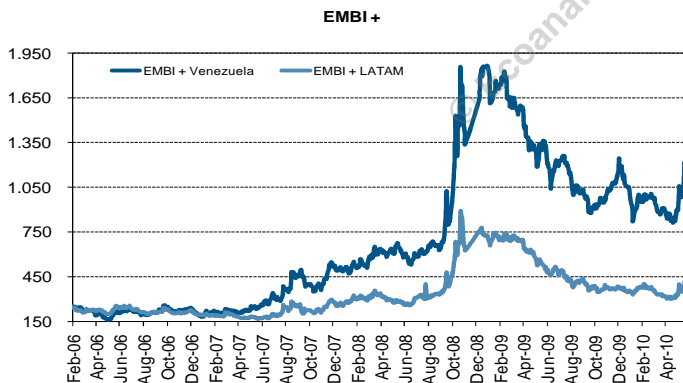
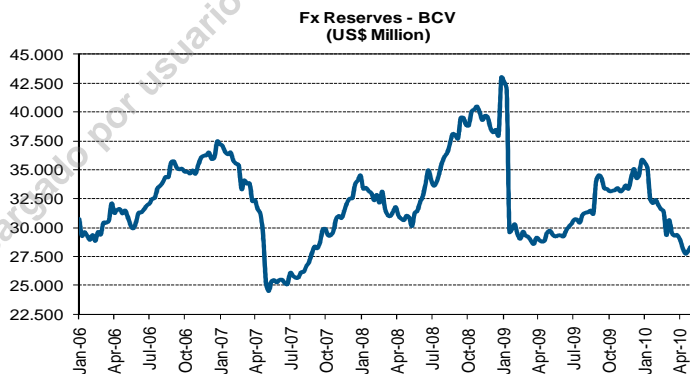
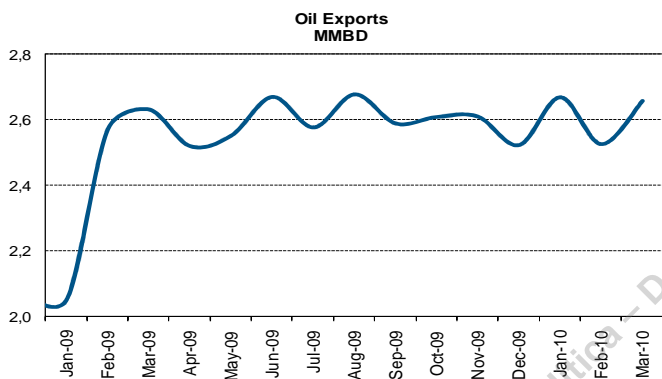
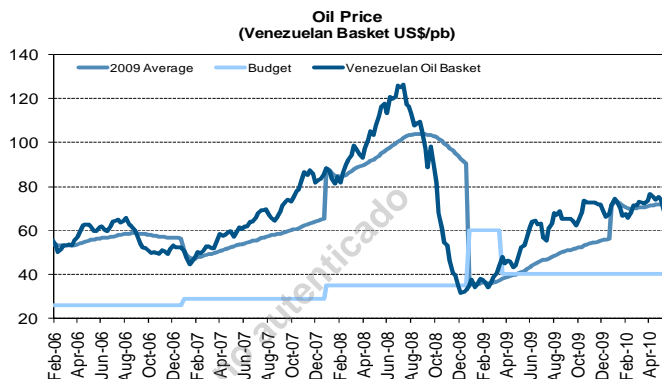
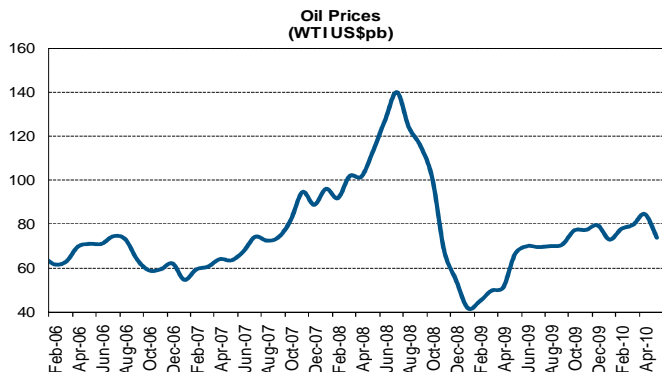
Moving forward. The President of the National Assembly's Finance Commission, Representative Ricardo Sanguino, said the Bolivarian Government was progressively moving forward in the creation of Social Production Enterprises (EPS). He said this progress depended on achieving a higher efficiency, "without taking over the surplus" as happens in the private sector. *"We are living a stage of transition, in which we need to boost social production in strategic areas where private property already exists. Even though the same production technologies can be used, the criteria that works against private property is that of accumulating surplus, while social property looks to invest that surplus in society,"* he said.

© Ecoanalítica – Descargado por [Nombre] Autenticado



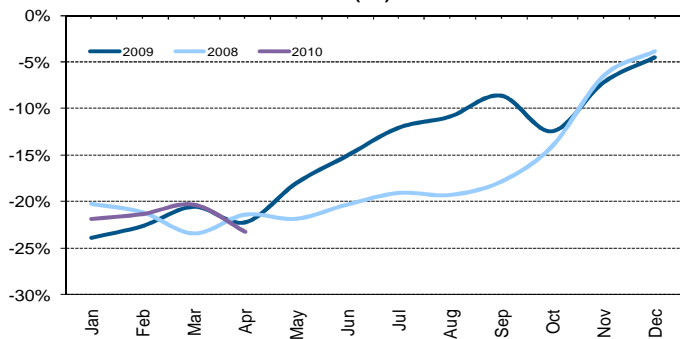


ECONOMIC OVERVIEW

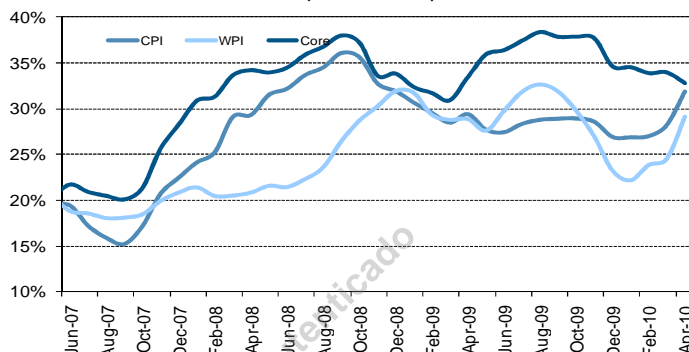




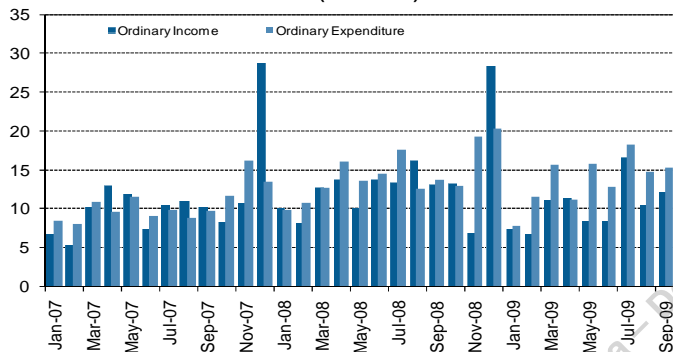
Real Expansion (M2)



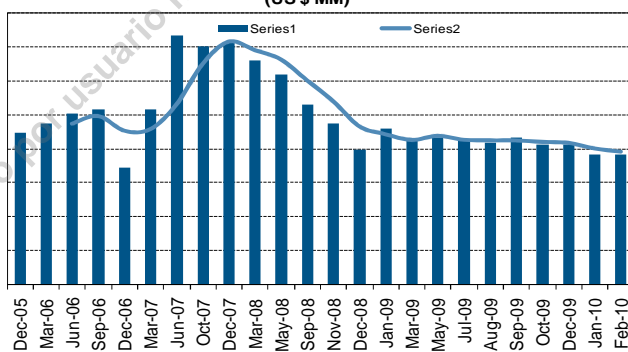
Inflation (Last 12 Months)



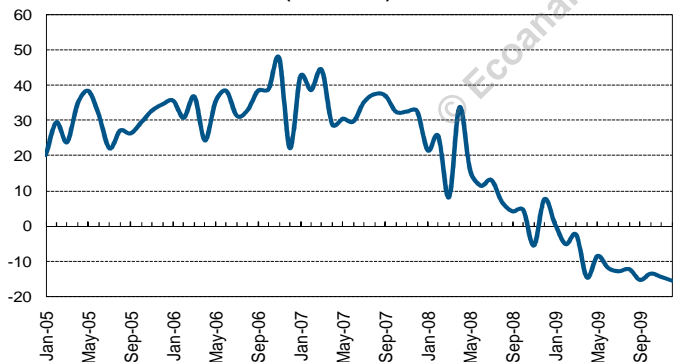
Central Government (VEB Billion)



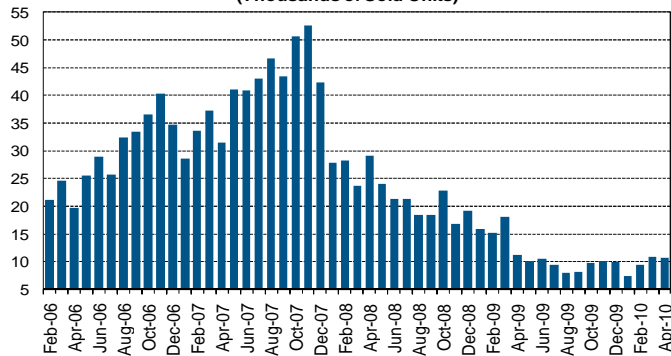
Resources of the State (US\$ MM)



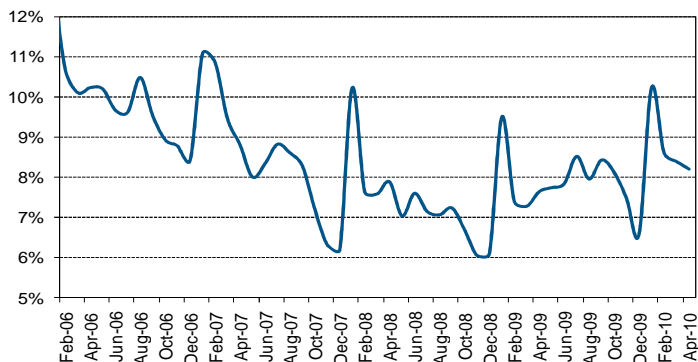
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

