



Weekly Report

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NEW ARRANGEMENT FOR IMPORTS IN VENEZUELA

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The new exchange control mechanism that the Central Bank of Venezuela (BCV) along with the Administration is looking to implement presents a series of new challenges for the exchange market, especially with respect to imports. Not only will CADIVI have to make some significant changes with respect to assigning foreign currency, but also the way the new "alternative" exchange market, through the Transaction System in Securities in Foreign Currency (SITME), will perform will have to adjust.

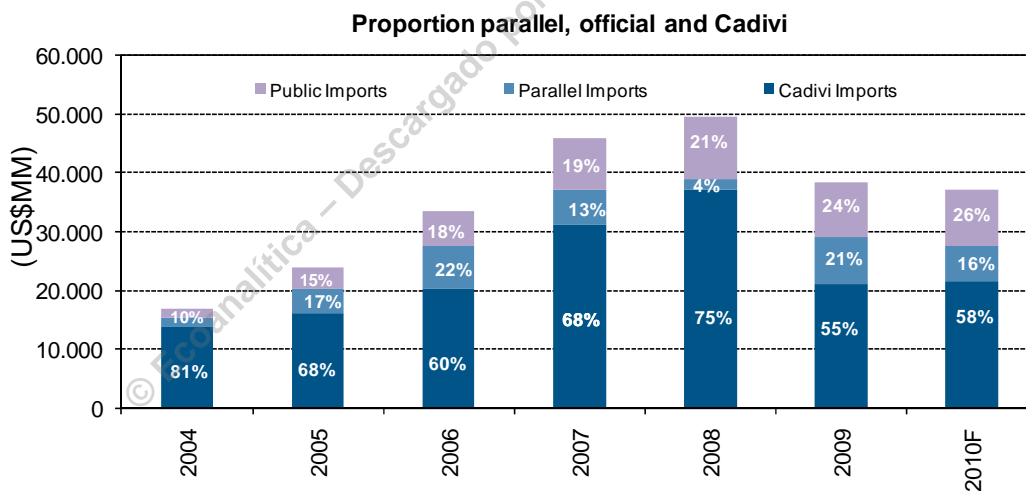
The old swap-market system financed a significant portion of imports.

If you compare the information released by the BCV at the close of 2009 with respect to the amounts of foreign currency liquidated by CADIVI, you will find that for the total amount of imports, the private sector received 55% of the foreign currency liquidated (or US\$ 21.04 billion). This means that the old swap-market system was responsible for financing 21% of imports (or US\$ 8.18 billion), and the public sector received US\$ 9.22 billion for imports, dropping down from US\$ 10.63 billion liquidated in 2008 (13% drop).



It's important to point out that since the exchange control was implemented in 2003, the year that CADIVI liquidated the most foreign currency, even more than 2004, was in 2008, when it covered almost 95% of demand. The distribution of imports in 2008 was as follows: 75% imports from the private sector (through CADIVI); 21% imports from the public sector, and only 4% went through the old swap-market system. In 2009, the same distribution reflected the following: 55% private sector (through CADIVI); 24% the public sector; and 21% the old swap-market system. The amount of imports being financed through the old swap-market system increased by 348% between 2008 and 2009.

So this will be an important point to keep an eye on in order to evaluate the impact of the new exchange system.



Sources: BCV, Cadivi and Ecoanalítica

The other side of the old swap-market

At **Ecoanalítica**, we have always held that the lion's share of the operations the old swap-market financed was not import operations. In fact, since the exchange control was implemented in 2003, the average percentage of total imports financed through the old swap-market system was 15%, and if we only take into account private sector imports, the percentage would drop to 18%. Most of the old swap-market operations had to do with private sector out-going capital transactions, with the public sector being the main source of supply. According to **Ecoanalítica**' estimates, between 2003 and 2009, the public sector injected around US\$57,32 billion into the old swap-market through foreign debt bonds, structured notes, Argentina bonds, and direct injections by PDVSA and other public administration entities, such as: the



National Treasury, FONDEN, BANDES, and the *Banco del Tesoro*, among others.

The new exchange system

The BCV and the Administration have stated that the new exchange system (SITME), which is replacing the never officially recognized “old” swap-market system, is aimed at supplying foreign currency for imports to a specific segment of the market importing goods and services which no longer are being liquidated by CADIVI and/or for imports experiencing significant delays in the liquidation of foreign currency by CADIVI. There are also categories aimed at covering the needs of natural persons but these are not significant. And, make no mistake, because it has been made very clear by a number of different spokes persons, including Nelson Merentes, president of the BCV, that this new exchange system will not be used as a mechanism for currency speculation, namely as a means of carrying out private sector out-going capital transactions.

As things stand currently, Venezuela’s exchange situation is the most worrying point the country is facing, even more worrying than the fiscal situation. We estimate that “cash” oil export revenue will be at US\$ 45.99 billion of which CADIVI will absorb US\$ 25.60 billion. Public imports will take another US\$ 9.70 billion from this amount, and then there is US\$2.50 billion going to FONDEN, this leaves just US\$ 8.19 billion. Clearly, the public sector will not be able to finance the US\$ 20,9 billion in out-going capital operations which has been the average for the last three years.

Impact on Imports

Limited to this level of oil export revenue, we estimate that CADIVI liquidations for imports will only increase by 2.2%, going from US\$21.04 billion to US\$21.50 billion. Imports financed by the new exchange system could reach around US\$6.0 billion, based on the information being released by the BCV. This would mean that imports would drop by 26.7%; and that the new exchange system (SITME) would be financing 16.1% of the total amount of imports, which is quite a respectable figure.

Totals Imports (US\$MM)			
	2008	2009	2010F
Cadivi Imports	37,029	21,039	21,500
Parallel Imports *	1,826	8,182	6,000
Public Imports	10,627	9,221	9,700
Total	49,482	38,442	37,200
*2010 through Sitme	49,482	38,442	37,200

Sources: Cadivi and Ecoanalítica





**“Necessary
consumption”
and priorities**

In this context, it is clear that CADIVI will be managed in terms of priorities; thereby determining exactly who and what sectors have access to foreign currency. CADIVI has been implementing this criterion since the close of last year, a fact that is clearly evidenced by fourth quarter 2009 and first quarter 2010 figures. At **Ecoanalítica**, we figure that food, health, and machinery and equipment will consume 48% of the foreign currency assigned. The sectors that will feel the worst of the foreign currency squeeze will be the automotive sector, telecommunications, and commerce. This will significantly affect the rate of inflation as well as private consumption and could lead to shortages become more prevalent in other sectors, and not just be limited to the food sector where shortages have been a problem for some time now.

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CADIVI Liquidate amount (% total)			
Sector	2007	2008	2009
Food	11.4%	18.1%	22.2%
Trade	19.0%	15.6%	10.4%
Health	13.8%	13.7%	17.8%
Automotive Industry	9.9%	11.0%	14.5%
Machinery and Equipment	7.2%	6.5%	6.3%
Chemical industry	8.0%	6.1%	5.2%
Telecommunications	4.9%	5.1%	2.4%
Informatic	4.0%	4.7%	1.9%
Metallurgical	4.4%	3.9%	3.7%
Rubber and Plastic	2.7%	2.3%	2.7%
Electrodomestic	2.0%	1.8%	1.0%
Services	2.0%	1.8%	2.3%
Construction	1.8%	1.6%	1.1%
Electric	1.3%	1.4%	1.0%
Electronic	1.8%	1.2%	1.1%
Non metallic minerals	1.3%	1.3%	1.3%
Textile	1.2%	0.9%	1.8%
Paper - Cardboard - Wood	1.0%	0.8%	0.9%
Grafic	0.7%	0.8%	1.0%
Communications	0.4%	0.0%	0.5%
Vet	0.3%	0.4%	0.1%
Science and tecnology	0.2%	0.2%	0.3%
Bookshare	0.3%	0.1%	0.4%
Tobacco - Alcoholic Beverage	0.1%	0.1%	0.1%

Source: Cadivi and Ecoanalítica

Those affect the most

According to the lists published in the *Gaceta Oficial* by the Administration with respect to priority goods and goods not eligible to receive foreign currency for import, and what we at **Ecoanalítica** have been able to find out, the sectors which will be most affected are: telecommunications, which according to our calculations will receive, around US\$ 241 million; electrical appliances, US\$ 96 million; and electronic equipment, US\$ 109 million, just to name a few. In the following table we show what we estimate will be the foreign currency assignments for imports through the new system (SITME) which will total US\$ 6.0 billion. Notice that commerce, automotive, and



machinery and equipment will consume 52.1% of the total amount liquidated through the new system. With the new system's exchange rate clearly being subsidized for these sectors, the new system could actually be advantageous for these sectors. In the commerce sector, small and medium size companies could benefit with yearly imports under US\$ 10 million. Our most important recommendation for our clients which fit this profile is to establish mechanisms by which to access the new SITME system. From a personal point of view, we recommend to increase consumption, in other words, make purchases now, in view of the outlook this scenario holds for us, with significant increases in the price of goods and services.

Sitme	2010
Trade	1,042.1
Automotive Industry	1,453.1
Machinery and Equipment	628.0
Chemical industry	520.9
Telecommunications	241.3
Informatic	192.7
Metallurgical	366.4
Rubber and Plastic	270.6
Electrodomestic	96.0
Services	227.2
Construction	111.4
Electric	103.0
Electronic	108.9
Non metallic minerals	132.3
Textile	182.5
Paper - Cardboard - Wood	88.4
Grafic	95.6
Communications	50.9
Vet	13.9
Science and tecnology	28.9
Bookshare	40.6
Tobacco - Alcoholic Beverage	5.4
Total	6,000

Source: Ecoanalítica



An example: the telecommunications sector

According to Carlos Sanoja, president of the Telecommunication Companies' Service Chamber (Casetel), the sector as a whole needs between US\$ 2.20 and US\$ 2.50 billion, and it will have to work both systems (CADIVI and SITME) in order to cover its demand. Casetel represents a group of 35 companies, so theoretically, through SITME, the sector should be able to get US\$ 147 million. Sanoja continues to say that the impact of not being able to access the required amounts of foreign currency means that quality will be affected, and certain products may have to be discontinued. The most critical services in question would be long distance call service, roaming services, and certain parts of the network that need to be expanded in order to increase the capacity of next generation equipment.

The telecommunication industry has been looking for ways to approach the authorities in order to try to explain their needs and how the network operates, what services it depends on, and the real needs of the sector. Other sectors should follow this blueprint and reach out to the authorities. This may be a way to introduce adjustments to the new SITME system in the future.

It will need to make adjustments in the future

With the new SITME system about to begin operations, at least two things are clear: first, the system as it is designed now, must be modified in the future; and second, and most important, the new exchange system via SITME must be more inclusive and the Administration must establish less ridged mechanisms and clearer regulations. At **Ecoanalítica**, we recommend that the National Assembly reform the Exchange Crime Law.

It doesn't make any sense that a market that will be financing over 20% of total imports doesn't have clearly expressed and defined regulations, letting everyone know exactly how they may participate. It should also include other mechanisms beyond just managing public bonds. If this doesn't happen, the pressure on the new market will be enormous, especially with the BCV with its hands tied in terms of monetary policies. If the pressure doesn't lead to a very significant increase in prices, it will lead to a significant number of products disappearing from the market, everything from whisky to a compressor for a car to chewing gum to delicatessen cheeses.

PDVSA and FONDEN are the key

As we have made clear in a number of Reports, an exchange control is harmful to economic activity and it generates corruption; furthermore, there



is no doubt that in the medium term, the current exchange control will not be dismantled, but no exchange control can last forever.

In order for the new system (which is not free from generating corruption) to be able to last over time, it will be necessary for other entities to participate in the supply, such as: FONDEN, *Banco del Tesoro*, BANDES, and of course PDVSA (the main source of foreign currency), and contribute part of their foreign currency into this new market. In 2009, these entities directly or indirectly injected around US\$ 11.0 billion into the old swap-market.

The stage is set, let's see what happens.

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Economic Tips

Guidelines for the SITME system released. On Monday, June 14, the Central Bank of Venezuela (BCV) released the guidelines to be followed for operations on the new Transaction System in Securities in Foreign Currency (SITME) in order to purchase and/or buy foreign currency.

... **For legal persons.** The BCV regulations for the SITME for legal persons (Corporations and companies) that fall under the category of goods and services will only be able to request a daily maximum of securities denominated in US-dollars of US\$50,000, up to a monthly total maximum of US\$350,000, and amounts will not be able to be accumulated and used during other periods.

The requirements. Legal persons wishing to participate in the SITME must prove that they are a resident of Venezuela, have a valid and up to date RIF and articles of incorporation-by-laws before the bank chosen for the operation authorized to carry out such transactions.

With respect to natural persons. Natural persons wishing to participate in the SITME may request up to US\$10,000 a year for cases having to do with health, education, culture and sports. In the case of remittances, a family may request up to US\$1,000 month; but they may only send a total of US\$6,000 a year. Amounts can't be accumulated between periods. Natural persons may request US\$5,000 for educational expenses, trips, or the payment of goods required to offer professional services.

Interview with Nelson Merentes. An interview with Nelson Merentes, president of the UCV, was published in the news paper *Ultimas Noticias* on Sunday, June 13. In the interview he says that the new SITME system obeys the laws of supply and demand and the value of the securities traded, therefore it is not a mechanism engaged in currency speculation. He also points out that during the first days the system was operating, supply surpassed demand, and as long as this continues, the government is in no obligation to add anything extra in the market and there will be no adverse impact on international reserves. He also points out that the market will be monitored and that the needs of the people will be attended to, leaving the door open for an issuance of bonds to supply the market. He points out that the old swap-market began to show problems after it had a relatively stable performance in 2009, and said problems were not due to economic problems, given that such big imbalances can't occur in such a short time period. He suggests that this may have been planned by



people interested in destabilizing the economy and another factor that could be affecting the situation is money coming in from the illegal drug trade.

Satisfied with the system. Nelson Merentes says that he has been in touch with a number of businessmen and that they are satisfied with the new exchange system and that they are more than willing to listen to any observations and make any pertinent changes.

Sectors that benefit and inflation. In the interview he points out the sectors that will benefit from the new system: natural persons and small to medium sized companies. He also points out that the new system should help ease inflationary pressures.

New regulations. The BCV fixed the maximum fees a bank can charge to carry out the following operations: no more than VEF 5 for issuing a bankbook, issuing debit cards, VEF 4, ATM operations, a maximum of VEF 0.75, VEF 0.50 to issue a bank statement, VEF 5 to issue a new checkbook (after the third checkbook in one semester), VEF 16.20 for writing a check without sufficient funds.

Forced to transfer. The National Securities Commission (CNV) issued the Circular PRE DCJU 144 992 010 which states that the securities brokerage firms and investment bank should be addressed to the foreign exchange authorities designated by the Central Bank to settle its own portfolio or transfer the portfolio of the third, giving custody to any of these entities. This should be done in the next fifteen working days from 9 June.

Results of May. The National Treasury Office (ONT) that belongs to the Ministry of Planning and Finance, in its monthly report of May published the aggregate figures on fiscal management, where current income is located in VEF 58.965 million, a figure that exceeded the 3.7% estimated in the Budget Law 2010, of which VEF 56.599 million correspond to item of ordinary revenue. The largest portion of revenue comes from non-oil sector (VEF 39.761 million), in particular the collection of Seniat, amounting to VEF 39.482 million. On the other hand, the oil sector recorded a total of VEF 16.837 million, while the extra income was VEF 2.366 million.

About expenditure. In the report of May about fiscal figures, published by the ONT, we can see that Central government expenditures accrued as of May stood at VEF 79,003 million, including VEF 9,176 million of the budget for 2009 that were pending. Therefore, remain to be executed VEF 101,571 million, since the budget was adjusted to VEF 171,398 million, due to an upward adjustment of VEF 11,995 million. In the first five months of the year, the fiscal deficit stood at VEF 20,038 million.



Interest rate. The lending rate for the fourth week in May was at 18.1%, down by 103 base points compared to the previous week. Time deposits and savings rates were at 14.5% and 12.6%, respectively. This reflects a 45 base point drop for time deposits while savings remains steady.

International reserves. International reserves increased by 0.9% going from US\$27.66 billion during the first week in June to US\$ 27.91 billion during the second week in June. Compared to the same period last year, international reserves have dropped by 5.0%.

Monetary liquidity. Monetary liquidity for the first week in June was down by 0.4% compared to the previous week settling at VEF 239.00 billion, and up by 1.4% in nominal terms and down by 10.6% in real terms compared to the same period last year.

Oil Tips

More revenues between April and May. After having paid VEF 7.2 billion in taxes for the first quarter of 2010, Pdvsa accelerated its disbursements in April and May. Pdvsa paid VEF 9.6 billion in those two months, equivalent to 123% more than the estimated, thus being able to reduce the Government's deficit from 29% to 17% by the end of May. The revenue service's cumulative collection during the first 5 months of 2010 is VEF 70.5 billion, 17% more than the amount estimated by the National Treasury.

Creation of "Socialist Petro-Industrial Bases." The President of Venezuela, in his Sundays' TV/radio show, announced the creation of Socialist Petro-Industrial Bases, comparing these spaces with military or naval bases. He also said "these spaces represent a stepping stone to build socialism."

Exxon's claims limited. The US oil company's demands over the nationalization of its assets carried out in 2007 was rejected by an arbitration court of the World Bank, benefiting Venezuela. According to Minister Rafael Ramirez, the International Centre for Settlement of Investment Disputes (ICSID) said it would consider claims from 2006 on, a shorter period than the one intended by the company. Ramirez said "*Venezuela considers this as a favorable decision, although we know the trial is not over.*"

Origin of the black stain still unknown. Official authorities still haven't been able to determine the environmental and economic consequences of the crude oil spill



detected at the Maracaibo Lake affecting the coast of six Zulia municipalities. The cleaning labors are quite slow; they with 80 fishermen and an additional 300 are expected to join in. The company in charge of coordinating these actions is Pdvsa, with the help of Iclam, which performed studies and evaluations in what was determined to be oil allegedly from a river still unknown to this date.

Opec not meeting 48% of the quota. The cartel's June 2010 report indicates oil pumping is 2 mb/d over the number member countries are committed to producing. All countries' production, excluding Iraq, reaches 26.8 mb/d (with a set supply of 24.8 mb/d). In the organization's last meeting (March 2010), members agreed to maintain production quotas to achieve prices between US\$70 – US\$80/bl, which allows them to carry out the investments planned.

Inventories full. The latest Opec report highlights the huge inventory construction that has allowed an excess supply by around 700 thousand barrels per day (kb/d). This, along with the failure to meet the quota and the crisis at the euro zone, could contribute to encouraging the already present bad expectations, influencing the price of international oil baskets down, thus causing more volatility. However, the impressive growth in the demand shown by emerging markets could neutralize this effect, thus maintaining the outlook of a barrel near US\$90 by year end.

Petrobras looking to boost the Brazilian oil industry. Between US\$15 and 20 billion is the amount Petrobras expects to obtain through a capitalization law draft for a public share offering (PSO), in order to carry out an investment plan that could reach US\$220 billion in the year 2014. With this increase to the state-owned company's equity, its total production (oil and natural gas) will be increased from 2.8 mb/d to 3.7 mb/d in 2013.

Correa's ultimatum. President Rafael Correa set December 2010 as deadline to close the renegotiation of oil contracts with transnational companies; should they not meet the deadline, said companies would cease to operate in Ecuador. Correa also talked about his submission of a reform to the Law of Hydrocarbons before the National Assembly to provide the "instruments" to make the measure viable. However, President Correa didn't specify the terms of the project.

Obama asks BP to cover the damages. Barack Obama, President of the United States, is to demand British Petroleum (BP) executives to create an account to cover the expenses due to damages to individuals and businesses affected by the oil spill at the Gulf of Mexico. The US Coast Guard Admiral, Thad Allen, appointed by Obama to the Gulf's disaster, said he expects BP to present a plan to capture more volumes of leaked oil later today.



... **And intensifies his actions.** In order to solve the crisis caused by the oil spill at the Gulf of Mexico, Barack Obama will increase and intensify his actions. David Axelrod, presidential advisor, explained that after his visits to the coast, he will hold a meeting with the president of British Petroleum (BP), Carl-Henric Svanberg, and its General Director, Tony Hayward, to put some pressure on them.

Partners without benefits. BP executives will decide in a meeting whether to maintain dividend share among its shareholders, after the crisis caused by the oil spill at the Gulf of Mexico keeping the oil company in a very delicate situation. The decision could suspend the payment of dividends to shareholders due to the strong pressure being applied by the White House, which has insisted BP should use its profit to clean the eco-disaster caused by the oil spill.

International oil baskets. Near New York market's closing time, last Thursday June 17, the WTI was at US\$76.8/bl, showing a 1,7% increase compared to the US\$75.5/bl of the previous Thursday. The Brent increased/decreased by 4.0% to reach US\$75.0/bl, compared to US\$78.8/bl of Thursday, June 10.

Local oil basket price. The Venezuelan oil basket price decreased last week, to close at US\$64.4/bl on Friday June 11, US\$0.4 less than the US\$64.8/bl of the previous week. Meanwhile, the basket's annual average decreased to US\$70.3/bl.

Business Sector Tips

One more... Banco Federal was closed for audit on Monday June 15 leaving 153 offices inoperative and clients unable to withdraw their money until the bank's rehabilitation or until Fogade pays account holders' warranties after a possible liquidation. Banco Federal has a staff of 3,539 employees and controls 2.8% of the banking system's deposits and 2.4% of loans.

The audit... The people in charge of auditing Banco Federal are Mary Espinoza de Robles and Cesar Orellana, both of whom will need to prepare a report within the next 60 days recommending the bank's rehabilitation or liquidation. Should the advice be to liquidate the bank, they will be responsible for paying deposit warranties for up to VEF30,000. According to Edgar Hernandez Behrens, superintendent of banks, a total of 273,406 account holders, 96% of the bank's clients, will be able to recover all of their money, VEF2.15 billion.



As to the bank... The superintendent of banks, Edgar Hernandez Behrens, said the audit of Banco Federal was ordered because its shareholders were asked to increase the bank's capital by VEF1.5 billion, considered necessary to cover legal deposit and liquidity requirements and to maintain the financial institution's operations, and shareholders only committed to depositing VEF100 million. The bank was also requested to increase its liquid assets and to improve its warranties.

However... Jorge Kiriakidis, legal representative of Banco Federal, said shareholders *did* try to contribute to increase the bank's capital but the Banks' Superintendence (Sudeban) didn't authorize it because the resources were obtained through a loan. Also, Nelson Mezerhane, president and main shareholder of Banco Federal, said the equity increase demanded by Sudeban was for only VEF400 million and was not authorized because it was "obtained through loans" granted to him or his companies, so the bank was considered insolvent.

More audits. The National Securities Commission closed the brokerage houses Intertrust and Multinvest for audit. The reasons are that the first one has clients' bonds registered to its name and keeps US\$74,194 frozen in FTC Emerging Markets, a US company, while the second one has problems in operations with securities to purchase and sell USD, with a "hard situation from which a severe damage to shareholders, suppliers and clients could arise." Luisa Ortega Diaz, Attorney General, said a total of 22 stock brokerage houses had been raided due to illegal exchange operations.

New law moving forward. The National Assembly's (NA) plenary session expects to present the Stock Market Law draft for first discussion, a legal instrument that aims to substitute the current Securities Market Law. The president of the NA Permanent Finance Commission, Representative Ricardo Sanguino, maintained that the National Securities Commission would become the National Securities Superintendence and that brokerage houses would only act as intermediaries with securities issued by the private sector, namely, stock, bonds and instruments. Representative Iroshmina Bravo said that operations with public debt securities and credits issued as per the Law of the Central Bank of Venezuela (BCV) and the law regulating the national banking sector were excluded from this law's scope of application. She mentioned this legal instrument had 26 sections and 63 articles, and that it was one of the legal standards depending directly on the recently sanctioned Organic Law of the National Financial System.

Law of lands also moving forward. The Law of Lands and Agricultural Development could rule the operation of public and private lands with agricultural potential. The parliament expects to authorize the instrument after having deferred the second discussion last Thursday. The first 25 out of 63 articles have already been approved. Article 97 is still pending discussion (a tax over the unsatisfactory use of private and



public rural lands) as well as the transitory provisions. Article 1 was approved, eliminating large estates and the use of third parties. Mario Isea justified this article in which, to his judgment, the land is owned by he who works it. Pastora Medina said with this article, the State becomes the land-owner, thus disrespecting private property.

Iron-Steel and chemical industries receive more US\$. According to the Currency Administration Commission (Cadivi), a total of US\$912.6 million have been assigned to the Iron-Steel, chemical, petrochemical and oil industries during the first five months of 2010, representing a 75.6% increase compared to the US\$519.8 million assigned during the same period of 2009.

As to foods. As to the food sector, Cadivi said between January 1 and May 26 of 2010, a total of US\$2.21 billion have been authorized to import this sector's items, representing a 4.8% increase compared to the US\$2.11 billion authorized during the same period of 2009. So far this year, the highest number of US\$ has been assigned to the food sector, followed by the health sector with US\$1.45 billion; trade with US\$1.15 billion and machinery and equipment with US\$682.8 million.

More for airlines. Cadivi authorized a total of US\$528 million to airlines from January 1 to May 31 of 2010, a 46.2% increase compared to the same period of 2009 in which the allocation reached US\$361 million. Out of the total amount, US\$469 million were assigned to international airlines and US\$59 million to local companies. The national and international aeronautical companies' representation chambers held a meeting with CADIVI authorities last Friday as part of the permanent meetings scheduled with the country's productive sectors.

Harassment and inspections continue. The Ministry of Trade, by way of the Institute for the Defense of People in the Access to Goods and Services (Indepabis), has inspected over 1,195 commercial establishments throughout the country as part of the National Plan against Speculation and Hoarding. Out of these establishments inspected, only eight have been closed due to irregularities, and the Government restated they would continue carrying out inspections and fighting speculation and hoarding.

Confiscations continue as well. According to Richard Canan, Minister of Trade, Indepabis confiscated 182 tons of foods in an inspection operation carried out on five commercial establishments in Catia that presented irregularities in terms of licenses.





World Crisis Tips

US Fiscal deficit will be lower than 2009's. The US National Association for Business Economists is projecting a fiscal deficit of US\$1.31 trillion for 2010, a 7.6% reduction compared to the record deficit of US\$1.41 trillion of fiscal year 2009, when, as consequence of the expansive fiscal policy that was necessary to recover from the world's financial crisis, the fiscal deficit tripled.

The fiscal deficit was US\$135.9 billion in May, to accumulate US\$935.6 billion in 2010, a slight improvement compared to the same period of the previous fiscal year. Individual income tax receipts were 7.8% (y/y) lower than those of May 2009, due to the high unemployment rate, but still significant improvement compared to the 29% (y/y) fall at the end of 2009. Corporate tax receipts improved by 17.5% during the first eight months of the fiscal year 2010 compared to the same period of the previous year.

US Imports grow faster than exports. The US trade deficit with the rest of the world reached US\$40.3 billion in April, only slightly lower than the consensus expectations of US\$41 billion. Compared to April 2009, exports have increased by 19.9%, but at the same time, exports grew by 23.9%, so the trade deficit was US\$28.4 billion higher than that of April 2009, especially due to the continuous increase of oil prices since March 2009, accumulating a 67.5% (y/y) increase, while the import of non-oil goods has grown by 21.1% during the same period.

US consumer sentiment keeps improving. According to the University of Michigan's survey results, the US consumer sentiment improved by another 2.6% on mid-June compared to the previous month, reaching 75.5 points and accumulating a 6.6% improvement compared to June of 2009. The expectations component presented a 2.8% increase to reach 70.7 points, a 43.7% improvement compared to the low mark registered in 2008 at the beginning of the financial crisis. The current conditions' component went up by 1.9 points to reach 82.9, a 44.2% recovery compared to the low mark of 2008.

US retail sales disappointing. Retail sales decreased by 1.2% in May compared to April, a disappointing number compared to the consensus expectations of a 0.2% increase. Compared to May of 2009, retail sales were 6.8% higher, although excluding automobile and fuel sales the number drops to 4.4%, mainly due to the strong increase to the price of gasoline and other byproducts during the last 12 months.



Euro zone industrial production keeps growing. In spite of the financial markets' concerns about Europe's sovereign debt problems, industrial production keeps growing, this time by 0.6% in April compared to March, after increases by 0.8% and 1.8% in February and March, respectively. But industrial production is still boosted by capital (1%) and intermediate (2.2%) goods, and it now needs to hold the burden of a decrease in the production of consumption goods by 0.9% compared to March. All this continues to indicate the real euro zone economy maintains a steady growth in spite of the debt crisis, but is still lacking a boost in domestic demand (final consumption goods), a boost that won't come for a while due to the fiscal adjustments being applied in troubled countries.

Confidence among German analysts and investors down. The ZEW (European Center for Economic Research, German acronym) survey indicated the percentage of analysts and investors who think the economic conditions will improve during the next six months decreased to 28.7% in June, down from 45.8% in May, getting close to the historic average of 27.4%, mainly due to the same fiscal adjustment measures being applied by several European governments, expected to have a negative impact on the domestic aggregate demand. But the pessimist about current conditions exceeded the optimists by only 7.9%, down from 21.6% the previous month, thanks to the positive data in industrial production, exports and a lower unemployment rate.

Moody's downgrades Greek debt to junk. The rating agency Moody's downgraded Greece's sovereign debt from A3 to Ba1, considered within the rating of junk debt. The agency believes the emergency package approved by the euro zone and the IMF is enough to effectively eliminate any short-term risk of default in the Greek debt, but given the difficulties inherent to the implementation of a believable, feasible plan with a suitable incentive structure, with the objective to reduce the debt service to manageable levels in the long-term, the Ba1 rating is much more appropriate than the previous one.

Political Tips

Ramirez in charge of changing Pdvsa's name. President Chavez entrusted the minister of Energy and Oil, Rafael Ramirez, with the job of changing the legal name of Petroles de Venezuela, S.A. (Pdvsa) to Petroleos de Venezuela Socialista. This modification requires a change to its condition of chartered company, but the acronym would still be Pdvsa.



“No country is more democratic than Venezuela.” In an interview, President Chavez defended the Venezuelan political system saying “no country is more democratic than Venezuela,” despite the criticism he receives from those who assure he has built a dictatorship. Chavez stated: “There’s no dictatorship. I have been elected three times. And when wealthy sector couped me, the people brought me back. I am a democrat. I am legitimate as per the majority. This is a democratic socialism in democracy.”

Chavez rejects Hillary Clinton’s critiques. President Chavez rejected the critiques issued by the US Secretary of State, Hillary Clinton, against his government, during a stay in Ecuador. Chavez said he was “sorry about what was happening to the people of United States” under the Barack Obama administration.

Chavez asked the Catholic Church to punish “pro-coup” members. President Chavez charged against the Catholic hierarchy criticizing its silence about the alleged support of its members to the coup of 2002. In a national broadcasting, Chavez reproached the alleged critiques of the Archbishop of Barquisimeto, monsignor Antonio Jose Lopez Castillo, against priest Adolfo Rojas for having blessed the President in public.

Mercosur without Venezuela. The government of Paraguay has not submitted Venezuela’s protocol of adhesion to Mercosur to the Congress because the conditions for its approval are not given, according to representatives of Fernando Lugo. The vice president of Paraguay, Federico Franco, said that “*due to President Hugo Chavez’s antidemocratic attitudes, the conditions for Venezuela’s inclusion to Mercosur are not given.*” “*There is a democratic clause in the Mercosur Treaty. You don’t give with one hand and take away with the other.*”

Campaign to conquer the “undecided” kicked-off. The regional Unity Table along with those of the states of Carabobo and Yaracuy kicked off the program “*Door to door for democracy,*” in charge of conquering, within the next 100 days, all of those persons still undecided about who to vote for in the next parliamentary election. Enrique Mendoza, national coordinator of MUD, kept the strategy details to himself, only indicating “there will be a new awakening at the National Assembly.”

Penal code to be ready before August 15. The National Assembly (NA) would start the first discussion of a new Penal Code before August 15, the end the first part of this legislative period. The new Penal Code contemplates three main books, and will be sanctioned after a consultation within the framework of street parliamentarism. Tulio Jimenez, president of the National Assembly’s Internal Policy Commission said the Commission’s technical advisory team assured the draft would be ready by July 19.



Committee to choose judges appointed. The National Assembly (NA) chose the six representatives of the civil society who will be part of the Judicial Candidacy Committee to choose fill the upcoming seats at the Supreme Court of Justice (TSJ). Among the possible candidates, according to PSUV follower, Saul Ortega, are: Maximiliano Rodríguez, Adeldo Guerrero, Miguel Ángel Castillo, Víctor José Moreno, Emir Jiménez and Prudencio Chacón.

Copei's electoral process review denied. The Supreme Court of Justice (TSJ) declared the review request submitted by Luis Ignacio Planas against Copei's internal election, carried out on May 2 to elect the new Board of Directors, inadmissible. The decision was made by Judge Luis Martínez, because the request was based on an invalid electoral roll, by wielding there was "*no probatory element*" of these irregularities.

Arrest order against Zuloaga. The 13th court of the Republic issued an arrest order against the president of Globovision, Guillermo Zuloaga. Both father and son were indicted twice in 2009, the first time for the alleged commission of generic usury crimes and conspiracy. The second time, for the case of the alleged irregular storage of 24 Toyota vehicles located at the entrepreneur's estate. But that's not the end of it, last June 3, Chavez, during his Alo Presidente show, questioned the Judicial Power for allowing Zuloaga to run free. Days later, an arrest order was issued against Zuloaga and his son. The Attorney General, Luisa Ortega Díaz, assured the request was made after having determined the 24 vehicles "*were not in a company but in a family residence.*"

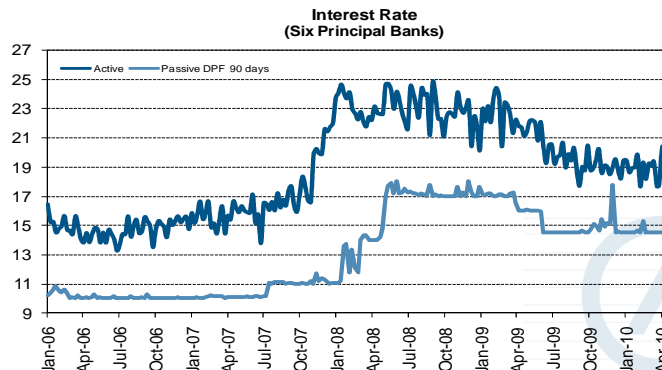
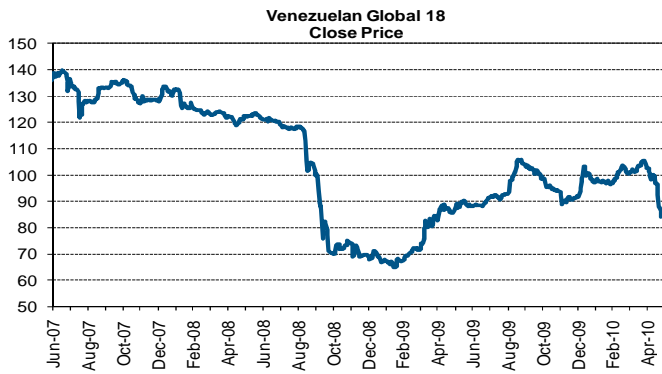
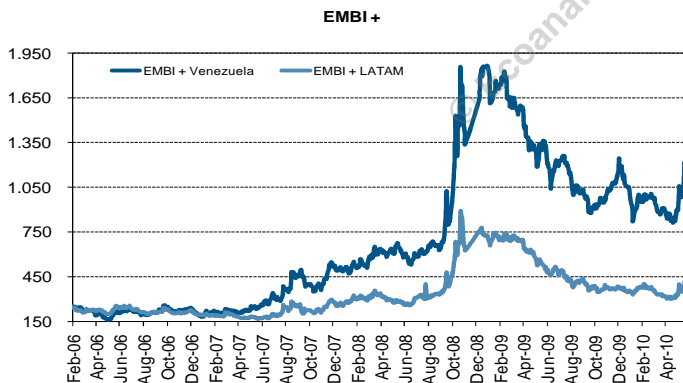
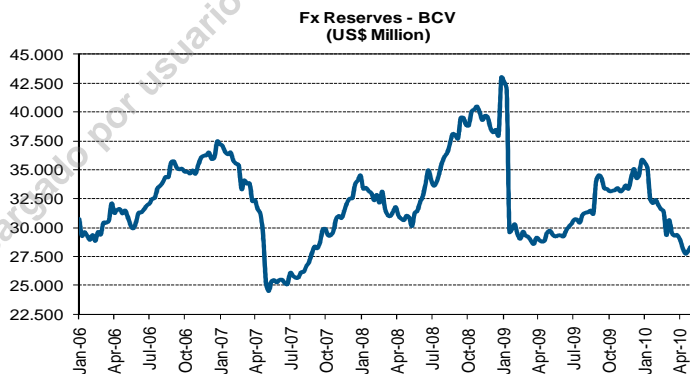
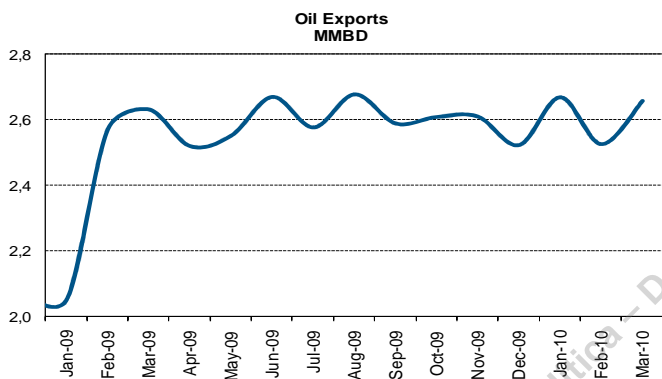
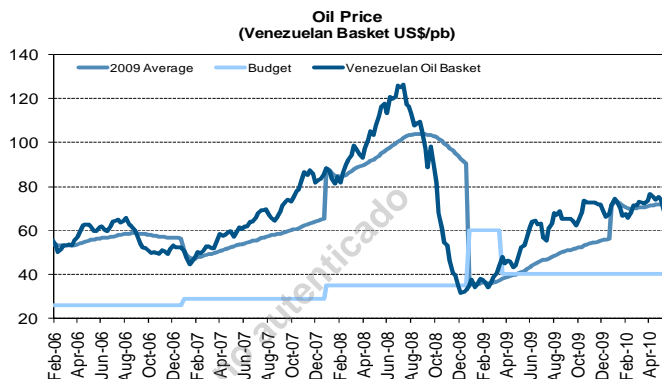
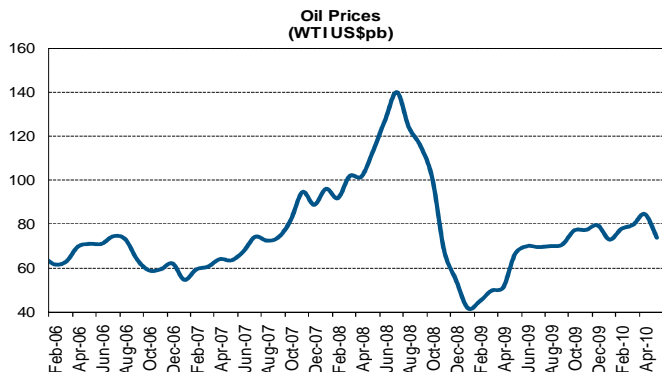
PSUV to pay its debt. Yelitza Santaella, National Finance Commission Coordinator for the United Socialist Party of Venezuela (Psuv) said Psuv would pay its debt of VEF 17.8 billion to the National Electoral Council (CNE) within one year. Psuv will make a first installment for VEF 400 thousand. This debt corresponds to the technical support provided by the institution to the party to carry out the primary election, in which its members chose the candidates to the national parliament.

Possible donation of weapons to Uruguay denied. In a press release issued by the Uruguayan Ministry of Defense, the version saying Venezuela was willing to deliver material for the Uruguayan armed forces was denied. The press release explains "*Uruguay and Venezuela reinforce their cooperation in terms of Defense, signing an agreement for Venezuelan researchers to develop scientific projects at the Artigas Base in Antartida, while the Venezuelan minister of Defense denies an alleged donation of unused weapons to the Uruguayan army.*"



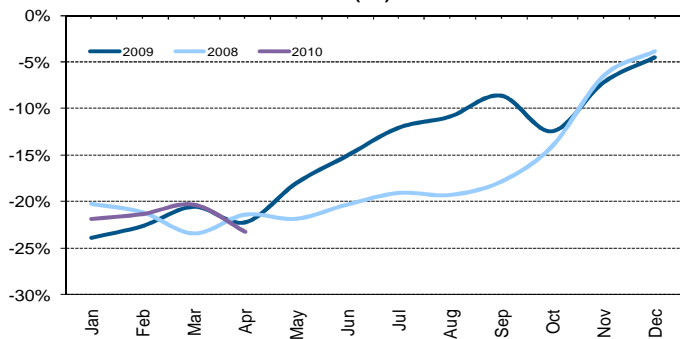


ECONOMIC OVERVIEW

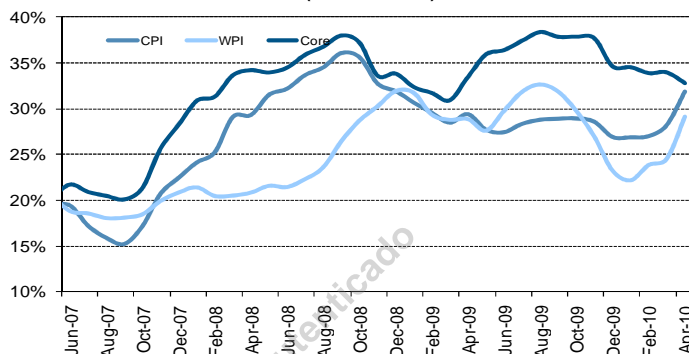




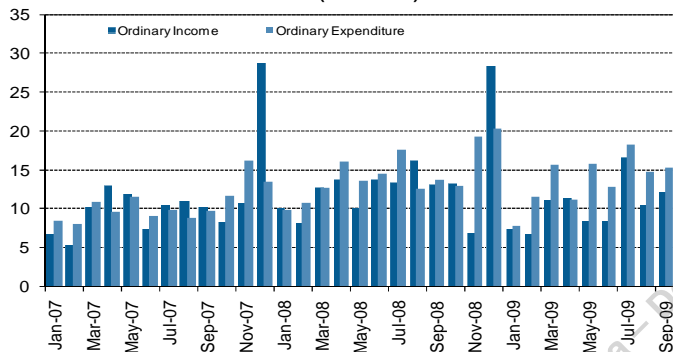
Real Expansion (M2)



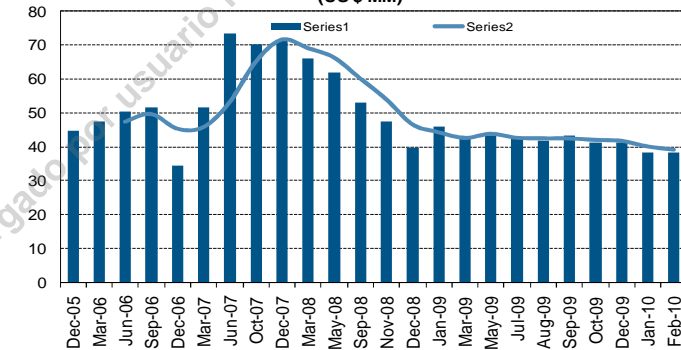
Inflation (Last 12 Months)



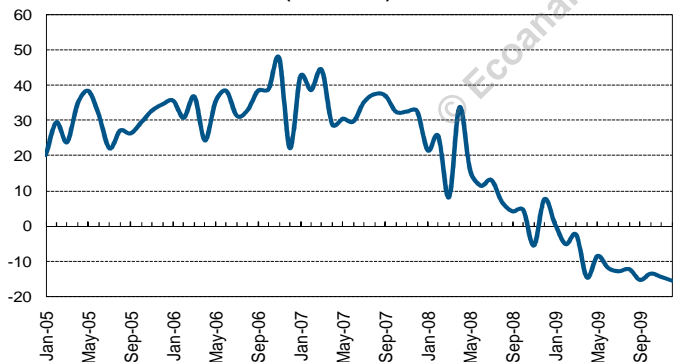
Central Government (VEB Billion)



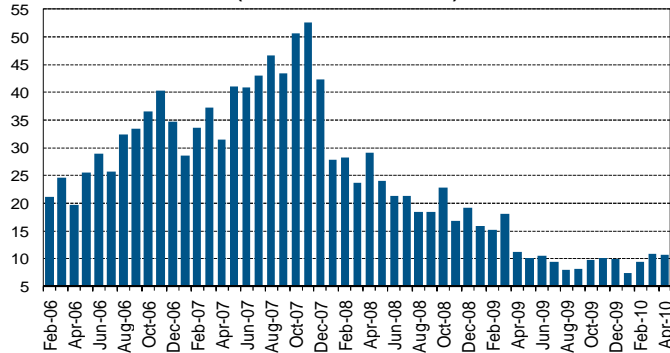
Resources of the State (US\$ MM)



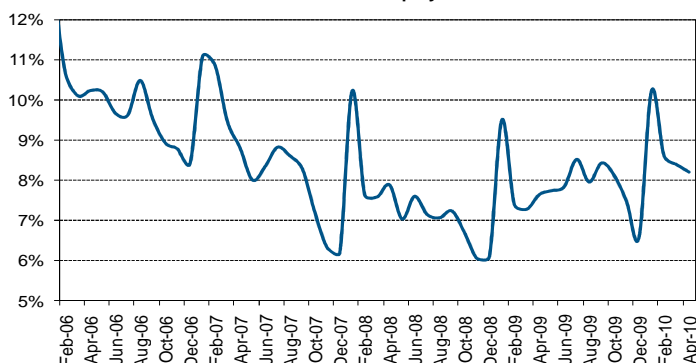
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

