



# Weekly Report

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*How much money will the administration get out of the devaluation?*

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There is no question as to the fact that the devaluation ("revaluation" according to President Chávez) will generate extra revenue for the Administration given the nature of its being an oil producing country. However, given the presence of the parallel foreign currency market (or swap-market, black-market, if you will) and the institutional rearranging by fiscal entities, it's not so easy to calculate exactly how much extra revenue the Administration will actually receive. This Report will attempt to estimate the amount of additional revenue coming to the Administration, taking these factors into account.

## **A necessary correction**

Recent Venezuelan economic history has taught us that a devaluation of the official exchange rate is a fiscal correction measure, much different than what other Latin American countries use devaluation for. The reason that the Administration chose not to implement this measure sooner is that its fiscal needs were not pressing enough. The implementation of an exchange control system has led to an expensive foreign currency exchange subsidy via imports and out-going capital. If this were to have continued, in other words, if the devaluation would have continued to be postponed, it would

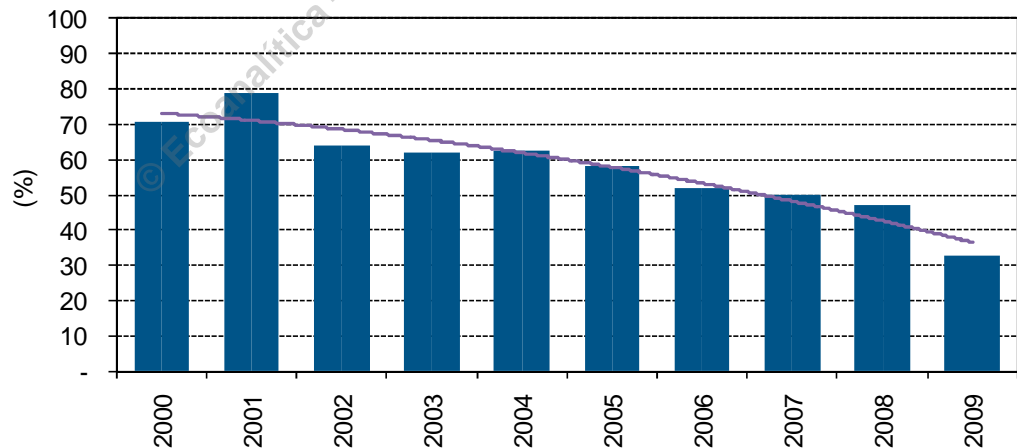


have led to a serious imbalance of the foreign accounts and the real sector of the economy. The fact that the devaluation was not implemented in 2009 negatively affected private sector performance while the public sector significantly increased its debt and the use of extraordinary funds. This explains why the devaluation was more of a corrective measure rather than an unavoidable one.

### Harmful mechanisms

It's difficult to summarize all the economic distortions that the implementation of the exchange control has led to within the Venezuelan economy. In this Report we will limit ourselves to looking at the role PDVSA has played, therefore we will be talking about the matter of fiscal management. Since 2004, legal and institutional changes have been introduced which have had three main consequences: 1. The weakening of the autonomy of the Central Bank of Venezuela (BCV); 2. PDVSA has become an entity with considerable autonomy in exchange operations: and 3. Fiscal accounts have become less and less transparent. So now, PDVSA doesn't turn over all its foreign currency to the BCV, constituting a number of different funds besides FONDEN with the amount it kept.

**Proportion of foreign exchange from oil exports delivered by PDVSA to BCV**



Sources: BCV and Ecoanalítica

PDVSA, in view of how harmful the official exchange rate pegged at 2.15 VEF /US\$ was for its operational costs, used this venue to turnover less and less foreign currency to the BCV; it increased borrowing, and directly or indirectly found a way to funnel this foreign currency into the swap-market in order to benefit from a much higher exchange rate than the official one.



These distortions made it almost impossible for the Administration to design mechanisms to control the parallel market and they were also very costly.

### **The official exchange rate in 2009**

At *Ecoanalítica* we have studied the flows (supply and demand) involved in the parallel market in 2009 in order to be able to determine the implicit exchange rate for the Administration in 2009. Many of you probably think that last year's "implicit" exchange rate is the current official exchange rate, but this is not the case given the role PDVSA plays in the swap-market. Because of this, the fiscal effect for the Administration is less given that it has been benefitting from an exchange rate higher than the official exchange rate.

According to our calculations, resources from PDVSA that were funneled into the parallel market were at around US\$ 11.06 billion. It's important to point out that most of this amount was injected "indirectly" into the swap-market, through payment to suppliers and contractors, and to a lesser extent, in direct sales of the oil industry treasury.

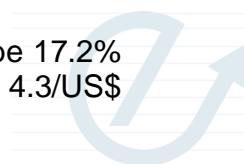
So, from the fiscal point of view, this venue provides 75.8% in net revenue for the Administration, which is nothing more than PDVSA tax payments to the government through BCV, all based on the official exchange rate (VEF 2.15/US\$). The other 24.2% are PDVSA interventions in the swap-market made at an exchange rate of approximately VEF4.5/US\$. Notice that this exchange rate is lower than the average swap-market exchange rate all through 2009. The reason for this is that we established that PDVSA operations were being carried out a rate lower than this, though we recognize that it is very difficult to establish the exact value. So, taking all this into consideration, the so-called "exchange rate for the Administration" for 2009 was at around VEF 2.7/US\$.

### **And in 2010?**

This year, the situation is quite a bit different. The adjustment made to the official exchange rate introduces some significant changes, the most important, in our opinion, being that PDVSA will now turn over 69% of its foreign currency to the BCV at the VEF 4.3/US\$ exchange rate and the rest at the VEF 2.6/US\$ exchange rate. This significantly lowers any incentives there may be for PDVSA to intervene in the swap-market. In fact, PDVSA's participation in the parallel market will now be limited to payments made to its suppliers and contractors, virtually eliminating its so-called direct sales of foreign currency.

### **For the Administration it was almost 50% devaluation**

So, from the Administration's point of view, the proportions would be 17.2% for the parallel market (BCV and PDVSA), 57.5% for the VEF 4.3/US\$





exchange rate (the Petro-dollar), and 25.2% for the VEF 2.6/US\$ exchange rate. This gives us an implicit exchange rate of VEF 4.0/US\$ which equals a 48.2% devaluation for the Administration. This means that the “fiscal” devaluation is more than double the “real” devaluation (imports) which was 20.6%.

<b>2009</b>	<b>Weights</b>	<b>T/C</b>
Pdvsa to BCV	75,8%	2,15
Pdvsa to the parallel market	24,2%	4.5*
<b>Weighted average E/R (Fiscal Dollar)</b>		<b>2,7</b>

<b>2010</b>	<b>Weights</b>	<b>T/C</b>
Public funds to the parallel market	17,2%	5.0*
Pdvsa to BCV	57,5%	4,3
Pdvsa to BCV	25,2%	2,6
<b>Weighted average E/R (Fiscal Dollar)</b>		<b>4,0</b>

Sources: Cadivi, BCV and Ecoanalítica

\*Exchange rate used by Pdvsa and public funds to sell currency to the parallel market

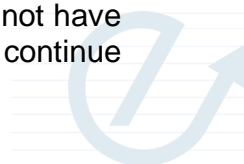
**How much will the Administration get?**

Once the parallel market effect on fiscal accounts has been defined, one can make a more exact calculation of extraordinary revenue generated by the devaluation for the Central Government. In our first Weekly Report of this year, we made an estimate based strictly on the changes made to the official market. There we stated that the devaluation was 68.2% and extraordinary revenues generated at VEF84.20 billion.

The new calculations, taking into account the parallel market, we have that the net yearly effect for 2010 was at VEF 73.77 billion. This represents 34% of the total spending we estimate the Administration will use in 2010 which will reach VEF 220.0 billion. It's important to point out that in this case, just like in the first case, the payments from exchange profits from the BCV and the Administration are not included.

**A little better... but still a ways to go**

The new adjustments made to the exchange control weaken PDVSA's role in the swap-market, which is a positive thing, given the lack of transparency in the exchange operations carried out by the oil company. This new scenario puts more control over exchanges policies into the hands of the BCV, though at an expensive price measured by the lowering of the international reserves. But more needs to be done. PDVSA should not have autonomy to carry out exchange operations, nor should transfers continue





to be carried out to FONDEN. The implementation of a revolving fund should be clearly defined through revenue and spending rules.

And lastly, it's important to point out that with the devaluation the Administration has taken care of its fiscal gap, but we Venezuelans are left with a significant loss in purchasing power due to high inflation levels which could close the year out at 40%.

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## Economic Tips

**A high deficit.** According to the figures released by the National Treasury Office, payments carried out in 2009 reached VEF 187.60 billion. This puts public spending up by 6.2% compared to last year but this also represents a real drop of 17.2%. Of total spending during 2009, 61.7% went to transfers and donations to the public and private sector, 22.0% for a number of funds tied to worker benefits, and 7.7% to pay public debt service. Central Government current revenue was at VEF 153.30 billion which leaves a deficit equal to around 3.5% of GDP.

**Public deposits decrease in private banks.** The Government is changing the distribution of the public deposits in the financial system, decreasing 14% the public money in private institutions between October and December. The amount of money from the public sector in hands of private banks by December was VEF 17.318 millions. The public deposits of Banco de Venezuela increase to 31,3% in the last quarter.

**First transfer of reserves of the year.** The first transfer of surplus reserves to the FONDEN has already taken place, announced the BCV. The amount transferred was US\$3.0 billion which dropped the level of the International Reserves from US\$34.60 billion to US\$31.30 billion. The total amount that the BCV will eventually transfer to the FONDEN is US\$7.0 billion, according to statements made by the President, so another transfer of US\$4.0 billion is expected soon. When the transfers have been carried out, International Reserve levels will be at US\$28.0 billion, the so-called optimum level according to President Chávez.

**Is the strategy failing?** In the last auction of exchange bonds the BCV placed US\$39.20 million, making US-dollars available at an implicit rate of VEF4.85/US\$, if the bearer of the bond waits for it to mature in 90 days. Including this auction, the BCV has now injected a total of US\$180 million, which, according to exchange operators, just isn't enough to satisfy demand. This has pushed the parallel exchange rate up to VEF6.10/US\$. Due to increasing extraordinary oil revenues due to improving oil prices, the BCV will be able to increase its liquidation of foreign currency (previously approved by CADIVI) which should ease some of the pressure off the swap-market. But, no one is sure about when this increased liquidation will begin.

**Ranks of public workers increasing.** During 2009, the number of public employees increased by 10.4% compared to the previous year, according to the National Statistics Institute (INE). Another statistic that stands out is that 19.5% of the workforce is working in the public sector (around 2.42 million workers), up by 1.3 percentage



points compared to 2008. This increase is largely due to the recent nationalizations the Government has carried out. Of the working population, 80.5% (9,978,002 workers) is working in the private sector.

**Minimum wage can't cover basic basket.** In December 2009, the basic basket price was at VEF 1,056.73, according to figures released by the INE. This points to an inflation rate between November and December of 1.38%. This calculation includes subsidized foods sold through Mercal. The minimum wage closed 2009 at VEF 967.50 which means that 18% of the workers earning minimum wage do not earn enough to purchase a complete basic basket. In 2010, salaries will be adjusted by 10% in March which will take the minimum wage to VEF 1,064.25.

**Director optimistic.** The director of the BCV, Armando León, said that the adjustment measure will not have as big an effect on prices as some analyst are saying and that inflation may just end up being a "little bit" over what the Government estimates it will be this year, 22%. He pointed out that most analyst have already said that prices in 2009 were already pegged to the parallel market exchange rate. If this is so, then there shouldn't be much of an increase in prices.

**Strange situation.** León also argued that something strange is happening with the parallel market, because in fact, it is a relatively small market, but it has an exaggerated affect on the rest of the economy. The director assured that the BCV will continue with the auctions; that in this first stage, the aim is to bring order to the market. He assured that the auctions would not affect the international reserves levels because there is an estimate of how much foreign currency the economy needs, and up until now the demand has been less than expected.

**Interest rates.** The loans interest rate for the second week of January was 18.84%, representing an increase by 81 basis points compared to the last week of the same month. On the other hand, fixed-term deposit and regular deposit rates were at 14.50% and 12.6%, respectively, representing a decrease by 2 basis points for the fixed-term deposits' rate, and no variation for the deposits rate.

**International reserves.** The international reserves decrease by 7.47% going from US\$35.12 billion during the first week of January to US\$32.5 billion during the second week. Compared to the same period of last year, the international reserves have contracted by 3.71%.

**Monetary liquidity.** The monetary liquidity for the second week of January reported 1.84% decrease compared to the last week of the same month, reaching VEF 231.2 billion. Liquidity has increased by 21.84% in nominal terms and it decrease 2.53% in real terms, compared to the same period of last year.





**Auction of exchange bond.** The Central Bank of Venezuela has made five auctions of exchange bonds for a cumulate of US\$220 million, of those that have been awarded US\$218.284 million. The price of each bond was 112%, on the last emission, with a unit value of US\$1,000, at an exchange rate of 4.3 VEF/US\$. The bonds are zero coupon, with a 90 day maturity, and a maximum fee of 1% from the intermediaries, which allows the acquisition of dollars at an implicit rate of 4.87 VEF/US\$, if the investors keep the bond to its expiration.

## Oil Tips

**PDVSA's Debt increased by 42% in 2009.** Pdvsa's financial debt reached US\$21.4 billion in 2009, a 41.8% increase compared to 2008. In a context of low income due to decreasing crude oil prices, Pdvsa had to use different sources of financing, issuing two debt bonds for a total of US\$6.3 billion. In spite of this debt increase, Pdvsa can still count on its wealth assets, since the company's wealth risk by end-2009 could be around 30%, similar to other oil companies.

**Mariscal Sucre: 100% Pdvsa.** According to the minister of energy and oil, Rafael Ramirez, the companies that participated in the bidding process did not meet the expectations, so the national oil company will be taking over the drilling of 36 offshore wells of the Natural Gas project for the domestic market, which will imply a larger financial response by Pdvsa.

**The same situation in Junin 10.** After not being able to reach an agreement with potential partners, (Statoil and Total), the Ministry for Energy and Oil said the partner-selection process for Block Junin 10 was over, so Pdvsa would be taking care of this block's development on its own. Block Junin 10 holds 20 billion barrels (bb) of original oil in place (OOIP) with business plan designed to reach a production of 300,000 barrels of extra-heavy crude oil per day.

**Pdvsa will have to pay more.** Although Pdvsa has the wealth to face its obligations and (benefitting from a recovery of oil prices and devaluation) a lower cash flow than in 2009, the industry will need large investments, not only to maintain but also to increase its production levels, especially in the joint development projects of Block Junin 10 of the Orinoco Oil Belt and the Mariscal Sucre natural gas projects, in which Pdvsa has said they would invest its own resources after not having reached an agreement with potential partners. A possible bond issuance to face these "new obligation" towards the second semester of 2010 is not out of the question. Also, the



estimated disbursements needed to meet 2010-11 obligations are around US\$6.2 billion.

**So far, two consortiums in Carabobo.** The Minister of Energy and Oil said the Government approved the creation of “at least” two consortiums that will participate in the tendering process of seven blocks of the Orinoco Oil Belt’s Carabobo block. Interested corporations have until January 28m 2010 to submit their bids and block distribution will be carried out in February.

**Larger oil reserves in the Orinoco Oil Belt.** According to a study carried out by the United States Geological Service, taking an oil recovery rate between 40% and 45%, the Orinoco Oil Belt’s “technically recoverable” reserves range between 380 bb and 652 bb, determining a median estimation of 513 bb. The study is not based on estimated reserves (which are 1.360 bb), but in the amount of oil that is technically recoverable with the currently available technology. Some experts think the correction factors used are too high.

**Crude oil production dropped by 7% in 2009.** According to numbers released by OPEC in its monthly report, local production averaged 2.31 mb/d in 2009, less than the previous year’s 2.48 mb/d, a drop by 175 kb/d. Regarding operative drills, the company Baker Hughes reported that 54 drills were operative by the third trimester of 2009, a reduction by 23 platforms compared to 2008, when there were 77 operative drills.

**Pdvsa reduced its tax contribution in 2009.** According to numbers released by the Ministry of Economy and Finance, the fall of the Venezuelan crude oil basket price caused Pdvsa to deliver VEF 53.2 billion in 2009 related to royalties, Income Tax, dividends and other taxes. In 2008, Pdvsa’s contribution reached VEF 82.4 billion, a 35.4% nominal drop and a 51.6% drop in real terms. The information reveals the contribution from royalties reached VEF 31.8 billion, VEF 12.9 billion in Income Tax, VEF 4.3 billion in dividends and VEF 3.8 billion in oil extraction and exportation tax. Considering the budget requirements and what the Administration actually perceived, Pdvsa delivered an additional VEF 15.4 billion, mainly from royalties.

**Fuel transportation costs adjusted.** The Menpet set new gasoline and diesel transportation rates from PDVSA’S plants to gas stations. For tank trucks operating on the country’s “distant scales” and mountain routes, a 31% adjustment was set, as well as an additional 10% increment to be applied on Sundays and holidays. Industry representatives said the total increase approved reached 59%, as was agreed at the Ministry last year, and a second 28% adjustment is expected in about three months.

**Pdvsa to reduce energy consumption.** The Minister of Energy and Oil, Rafael Ramirez, said Pdvsa would acquire new electric plants to “achieve a 20% reduction in



*the energy demand.*” Pdvsa is currently acquiring 554 megawatts for the country’s West, and is currently working on making the East independent.

**Ramirez: Refidomsa will not be purchased.** Last Thursday January 21, the president of Pdvsa, Rafael Ramirez, said Venezuela discarded the purchase of the Dominican State Refinery Refidomsa, since they considered the operation was not “convenient” for Venezuela. The Dominican Government assured Venezuela did not notify them of their decision to withdraw from the purchase of 49% of said refinery’s shares, of which signing the agreement was the only thing left to do.

**Pdvsa in China.** The Chinese Government approved a crude oil refinery project between CNPC and Pdvsa for US\$6 billion. This refinery, the first Venezuelan refinery in Asia, will ensure our country a good market and confirms, once again, the national oil industry’s change of direction by delivering more crude oil to non-traditional markets.

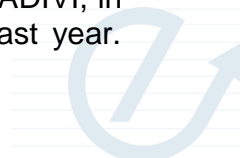
**OPEC: aligned, but cautious.** In OPEC’s last monthly statistical report we were able to observe that its perspectives regarding the oil market’s foundations for 2010 are aligned with other agencies’ approaches (demand growth boosted by emerging markets, a slow recovery of the US, Europe and Japan, as well as a slow recovery of the world’s oil supply). They *did* suggest differences in their price estimates, the cartel, maintaining 2009’s cuts, aims to being cautious, indicating that “*an inventory growth, a low stationary demand and the beginning of refinery maintenance*” are expected within the next few months.

**International oil baskets.** At New York market’s closing time, this Thursday, January 28, the WTI was at US\$73.3/bl showing a 3.6% decrease compared to the US\$76.1/bl of the previous Thursday. The Brent also decreased by 3.6% to reach US\$71.9/bl, compared to US\$74.6/bl of Thursday, January 21.

**Local oil basket price.** The Venezuelan oil basket price went down last week, to close on Friday, January 22 at US\$70.2/bl, US\$3.1 less than the US\$73.3/bl the previous week. The oil basket’s annual average remained stable at US\$72.6/bl.

## Business Sector Tips

**CADIVI liquidations dropped by 41.2%.** According to figures released by CADIVI, in 2009, liquidations registered a 41.2% drop compared to the same period last year.





Foreign currency liquidations for imports (ordinary imports plus ALADI agreement) dropped by 43.3%, which means that US\$16.0 billion was not liquidated for imports.

Amount disbursed 2009 (US\$MM)			
	2008	2009	Var(%)
Imports	24,783.4	14,924.5	-39.8%
Students	225.3	266.0	18.1%
Special cases	96.3	79.0	-18.0%
Airlines	968.9	893.7	-7.8%
Ext Private Debt	584.6	39.8	-93.2%
Consulates and Embassies	73.2	83.7	14.4%
Insurance and Reinsurance	98.5	149.0	51.3%
Foreign Investment	1,489.4	533.4	-64.2%
ALADI Convention	12,248.7	6,070.3	-50.4%
Retirees and Pensioners	39.2	52.1	33.0%
Remittances to family	785.8	547.0	-30.4%
Credit Cards	4,714.0	3,344.5	-29.1%
Cash for travel	317.5	315.2	-8.5%
Services	9.9	9.5	-3.9%
Telecommunications	49.1	41.1	-16.3%
<b>Total</b>	<b>46,483.6</b>	<b>27,348.8</b>	<b>-41.2%</b>

Sources: CADIVI and Ecoanalítica

**Public deposits decrease in private banks.** The Government is changing the distribution of the public deposits in the financial system, decreasing 14.0% the public money in private institutions between October and December. The amount of money from the public sector in hands of private banks by December was VEF 17.32 billion. The public deposits of Banco de Venezuela increase to 31.3% in the last quarter.

**The Venezuelan Government could compete in the pharmaceutical sector.** Eduardo Saman, Minister of Commerce, said the Government had decided to compete in the pharmaceutical sector through Corporación de Mercados Socialistas (Corporation of Socialist Markets, Comerso). He said they would open 22 drug stores in Caracas within the next 6 months, hoping to reduce market prices. With this new resolution, the Venezuelan Government might import medication at 2.6 VEF/US\$.

**Indepabis law approved in record time.** The change that was included in the new version of the Indepabis Law adds 6 articles, all of which establish new faculties to the Venezuelan Government, as is the fact that *"it will be authorized to initiate the expropriation of assets (...) without the need of the National Assembly's statement of*



said asset's public usefulness," and "are declared, and are therefore assets of public usefulness and social interest, any and all goods necessary to develop the production, manufacture, import, storage, transportation, distribution and trading activities of goods and services," which indicates anything can be expropriated. It also allows the Administration to occupy said asset for as long as it is deemed necessary.

**Transportation sector reacts to the devaluation.** In a statement issued by the Camara de Transporte del Centro (Central Transportation Chamber, Catacentro), a 30% increase in the cost of bulk transportation from Puerto Cabello was announced, starting in March, 2010 as a response to 2009 inflation and the one being caused by the devaluation. The statement also points out the prices will be re-evaluated in June, after analyzing the market's behavior since March.

**Efforts to suspend the use of mutual funds.** Wolfgang Cardozo, representative of the Organizacion de Consumidores y Usuarios (Organization of Consumers and Users) submitted a document to the National Exchange Commission (CNV) to request the suspension of mutual fund operations, since these are not covered by Fogade's insurance. They request the CNV to determine whether stock brokerage houses act as financial intermediaries with this vehicle, it being a practice restricted only for banks.

**Loan demand drops.** According to information provided by the Banks' Superintendence, the amount of loans by the month of December decreased by 4.4% in real terms, in contrast to bond investments, which grew by 16.8% in real terms. Another statistic data indicates that by the end of 2008, the banking sector destined VEF 60.8 out of every VEF 100 received in deposit, and that number was reduced to VEF 58.8 in 2009.

**Auto-part manufacturers and assemblers study the possibility to get back to business.** Companies such as the car-seat manufacturers Johnson Controls are studying the possibility to reactivate their production after they put a halt in their operations by mid-2009 after General Motors de Venezuela closed for three months, since 90% of their production was devoted to Chevrolet. Several assembly companies are likewise studying the possibility to reopen, should it be more profitable considering the devaluation.

**Demand for resources of the Fondo Bicentenario.** Over 4,000 companies have offered to acquire financing by the Fondo Bicentenario, which holds US\$3 billion destined to substitute imports and boost exports. The Ministry of Agriculture and Lands, Elias Jaua, said most projects presented come from the food, clothing, shoes and working tools sectors, all within the Fund's priorities. The first loans are expected to be granted by the second week of February.

**Second round of payments.** As of today, natural persons who had long-term deposit certificates, savings certificates and signature loans in Banpro and Banco Canarias will



be able to withdraw up to VEF 30,000, the amount covered as per the General Law of Banks. Additionally, all natural persons, holders of savings or checking accounts who already collected VEF 10,000 authorized by Fogade, will be able to request the remaining VEF 20,000 approved by the new law.

**Exito's new administrators.** The expropriation of the chain of Hypermarkets Exito was made official last Wednesday night. The chain will now be part of the Corporación de Mercados Socialistas (Corporation of Socialist Markets). At the time of signing the expropriation agreement, President Chavez announced the chain will be now administered by Pdvsa, through Pdval and Pdvsa Agrícola, in conjunction with the Ministry of Commerce.

**No more capitalism.** President Hugo Chavez wants the Venezuelan parliament to write laws to allow the elimination of capitalist operative guidelines from public companies. According to Chavez's model, public companies will not depend on their capacity to survive, nor will they depend on the quality of their articles, or the costs, or sales, for their continuity will be guaranteed by an annual budget provided by the State.

**No added value either.** By ensuring public companies' operations that way, their production will not be sold in the market but will be submitted to a State entity which will be in charge of trading at prices with no added value. According to Chavez's thesis, all consumption goods that reach the people that way will be much cheaper than those offered by capitalist companies and similar in quality, as well as an equally attractive design.

**They are different.** President Chavez criticized the fact that public companies are currently managed using the same guidelines as capitalist companies and their dependency on the market to survive. Chavez explained that the new productive system is attached to a social model supported by the community, the columns of the socialist system, which, according to his projections, will reach a "no return" situation in Venezuela by the year 2031. The Venezuelan President urged his ministers, and in general all of his followers, to commit to a "great effort" for people to understand the.

**Electricity crisis strongly affects Carabobo.** Statements issued by Carabobo State entrepreneurs indicate that five-hour-long power shut-downs take place everyday, causing a 50% reduction of their weekly working time, so they are suggesting closing one day per week. They say these shut-downs did not start with the electric rationing measures, but have been occurring since 2009, with no planned schedules, and have caused considerable production losses.

**Consequences of the time-zone.** Nelson Hernandez, a specialist in Electric Power matters, said the possibility of an electric crisis has been known for the last 10 years, and there are still some actions to be taken that wouldn't need large investments and



could help mitigate the effects of the crisis, such as daylight saving time, which would reduce the current powering-on of public light poles by 30 minutes. He also recommends the regulation of air conditioners in public and private properties.

**The sucre is coming.** According to a press release by the BCV, the works being developed by Cuba, Nicaragua, Bolivia, Ecuador and Venezuela upper level delegations to start the Sistema Unitario de Compensacion Regional de Pagos (Regional Unitary Payment Compensation System, Sucre) has come to a final stage. This new platform for sub-regional integration, in which the member States will carry out commercial transactions using sucres instead of USD, will begin operations within the next few days.

## World Crisis Tips

**IMF improves its global growth forecast.** Global economy has recovered more rapidly than expected by the IMF, led by emerging economies, particularly Asian. Meanwhile, the most advanced economies are still experiencing a slow recovery and continue to depend on government stimuli. The IMF improved its global growth forecast by 0.8 points, up to 3.9%, for 2010, and by 0.1%, up to 4.3%, for 2011.

**US recovery continues firmly.** The Conference Board Leading Economic Index continued to improve in December, showing a month-to-month increase of 1.1%. December was the ninth month in a row of improvement of the Index, with a cumulative 10.8% increase over the last six months. Furthermore, nine of the ten variables that make up the Index showed a positive variation, whereas only 7 did in the two prior months. The Coincident Economic Index also improved for fifth month in a row, although only 0.1%, like in November.

**Pre-crisis Consumer confidence levels.** The Conference Board Consumer Confidence Index increased up to 55.9 points in January from 52.9 the previous month, marking a 16-month high that is the highest level since September 2008, when the financial crisis intensified.

**Home prices go down in the US.** Mixed signs showed November data concerning S&P home price index. The price index of the 20 major cities shrunk 0.2% from the prior month. However, analyzing data on a year-to year basis, price increases can be observed during 10 months in a row; in fact, a single-digit year-to-year decline can be



seen over the last three months. A relevant factor explaining the 0.2% decline in the index is that November is seasonally a month with low home sales. As a consequence of this, non-season based data shows a 0.2% increase in the same index.

**Britain grows 0.1% in the fourth quarter 2009.** UK registered a quarter-to-quarter growth, on a yearly basis and seasonally adjusted, of just 0.1%, way below the expected levels (0.4%). This means that UK is formally out of recession, but given the little growth rate, this increase could be reverted if the figures are adjusted downwards on February 26<sup>th</sup>: adjustments over recent quarters have been 0.1 or 0.2 percentage points in any direction. British economy shrank 4.8% throughout 2009, the largest drop since the Great Recession. The IMF expects for Britain to grow 1.3%, in line with the British Treasury forecast of 1.25%.

**Fears for possible Greece's default disappear.** On Monday, January 25<sup>th</sup>, Greece had plans to issue bonds worth €5.0 billion; however, demand was so high (€25.0 billion) that the issue was increased up to €8.0 billion. The result was perceived as a very positive sign by the market: the euro grew from 1.412 US\$/€ to 1.419 US\$/€ on Monday; shares of the National Bank of Greece gained €0.5 to €17.1. *"This is a proof of investors' confidence in Greek economy. Greece has proven that it is capable of rising funds to cover its financial requirements in 2010 without any problem,"* Spyros Papanikolaou, head of Greece's public debt management agency.

**China grows 8.7% in 2009.** China's GDP grew 8.7% in 2009, thanks to counter-cyclic policies applied by the Chinese government. On a year-on-year basis, China grew 10.7% in 2009 fourth quarter, after having grown 9.1%, 7.9% and 6.0% in the third, second and first quarter of 2009, respectively. As already commented last week, we don't see any major risk that speculative bubbles may jeopardize Chinese economy's development. This week, the IMF stated that bubbles could exist on some markets in China, but that they don't see any risk that this could spread over the entire economy.

**China will grow 9.5% in 2010.** Major local analysts in China forecast a 9.5% growth rate for 2010 and they are not worried about inflationary pressures, putting CPI yearly variation at 3%. Comparing the Chinese CPI in December 2009 to the same period the prior year, a 1.9% variation can be observed; however, 2009 consumer prices were 0.7% lower than 2008, on average. At this growth rate, China's economy will position itself as the world's second largest economy, before Japan, before year end.

**S&P revises Japan rating to negative.** Standard & Poor's downgraded Japan's sovereign debt from AA stable to AA negative, after learning at the political decision meeting of Bank of Japan (BoJ) that the country will make its monetary policy more flexible to alleviate deflationary pressures. Furthermore, Japan's Democratic Party (in power since September) has showed a much slower improvement in State's finance



than expected. However, downgrading will not have a great impact on Japan's bond market, because most holders are local.

**S&P pasa de estable a negativo el rating de Japón.** Standard & Poor degradó el rating de deuda soberana de Japón de AA estable a AA negativo, luego de que en la reunión de decisión de políticas del Banco Central de Japón (BoJ), se diese a entender que este tendrá una política monetaria incluso más laxa para aliviar las presiones deflacionarias; además de esto el Partido Democrático de Japón (que está en el poder desde septiembre) ha mostrado un ritmo de mejora en las finanzas del Estado mucho más lento del esperado. Sin embargo la degradación del rating no tendrá un gran impacto en el mercado de bonos de Japón ya que la mayor parte de sus tenedores son locales.

## Political Tips

**Vice President/Minister of Defense resigns.** Ramón Carrizales, Venezuela's Vice President/Minister of Defense, resigned on alleged personal grounds. President Chávez accepted his resignation and thanked and acknowledged his task, effort and commitment. The Minister of the Environment, Carrizales Wife, Yubirí Ortega, also resigned.

**Chavez appoints new vice president and defense minister.** President Chavez appointed Elias Jaua (also Minister of Agriculture and Lands), as the new Vice President, General Carlos Mata Figueroa (also head of the National Strategic Command) as the new defense minister, and Alejandro Hitcher as Minister of Environment.

**President of Banco de Venezuela also resigned.** Reportedly, Eugenio Vázquez Orellana left his post due to health problems. However, according to BCV sources, Vázquez Orellana had personal clashes with the new minister of Economy, Finance and Planning, Jorge Giordani, in particular because he was against the creation of Banco Bicentenario. According to unofficial information, minister Giordani would have asked former minister, José Rojas, Venezuela's representative to the World Bank, to take Vázquez Orellana's post.

**More changes.** Yuri Pimentel (until now president of VTV) will be deputy minister of Planning, Ministry of Science and Technology and Tania Diaz from "Dando y Dando"



TV show will be the new president of Venezolana de Television (VTV, a Government channel).

**RCTV International is shut down from cable TV.** At 12 am, cable TV operators in Venezuela took RCTV International's signal off the air in Venezuela. This action was taken after Diosdado Cabello, Conatel's director, sent a message to Cable TV firms at a press conference, saying that they had to comply with the Organic Law of Telecommunications (referring to RCTV International's lack of compliance with the article according to which domestic TV channels have to broadcast the "Government network broadcasts called *"cadenas"*"); otherwise they will be opened an administrative procedure. All national cable TV firms showed the following message after 12 am: "In order to comply with the law, we have found that some domestic audiovisual production services have not complied with the rules imposed by the current legal framework."

**Protests against taking RCTVI off the air.** Since Sunday, a number of protest marches have been held around the country protesting taking RCTV International off the air. Most of these protests have been organized by student movements. Representatives from the Opposition, the Chamber of Commerce, the Association for the Organization of Civil Societies, the International Press Institute, OAS, and many other organizational all have protested the measure. In protests held in the city of Mérida, two students from the ULA were killed and 22 officers were hurt. All classes have been suspended since Tuesday.

**HRW report points to democracy deteriorating in Venezuela.** The latest Human Right Watch report points out that judicial power in Venezuela are not independent, that they are totally controlled by the Executive power. The report also points out that freedom of speech is deteriorating and that the President's rights to express himself is above that of a citizen's right. The report also mentions that the condition of jails in Venezuela are some of the worst on the continent. The Attorney General of the Republic, Luisa Ortega Díaz, said that the report was not credible and had no value whatsoever since it was not backed by any scientific evidence.

**Countries most criticized by the HRW.** Cuba for its political repression; the United States for not abolishing its military tribunals, long term detentions without due process, and not investigating torture incidents; Honduras for the repression of Micheletti provisional government; México for the decision to delegate the war on drugs to the military, which led to abuses and violence; Nicaragua for totally prohibiting abortion (even when the mother is in danger of dying); Bolivia for political violence; Chile, for lowering the punishment for human right abuses; Colombia for excessive violence in its armed conflict; Argentina for the deplorable condition of its jails;



Guatemala for its high level of violence, judicial and political corruption; Peru for the use of torture on its criminals.

**Chávez demands that Obama not take advantage of Haiti.** President Chávez said from Bolivia while attending Evo Morales' inauguration for his second term in office, that "Obama, send doctors, send help, but don't send marines. Don't take advantage of a tragedy to militarily occupy a country to further Yankee imperialist policies." Chávez made this statement after it was made public that the U.S. was sending another 5,000 marines which would bring their total number to 20,000 on the island.

**Chávez absolved Haiti debt for fuel purchases.** President Chávez stated that the debt Haiti had for fuel purchased would not be collected, thereby following the example set by the IDB which absolved US\$400 million owed by the country days after the catastrophe. The ALBA donated US\$20 million to Haiti's health sector and a fund for US\$100 million "to begin with" said Chávez.

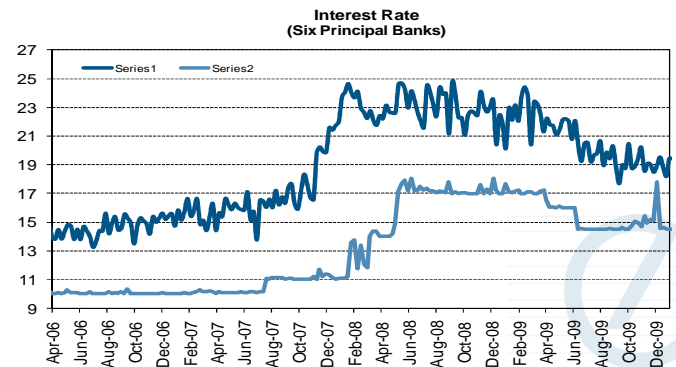
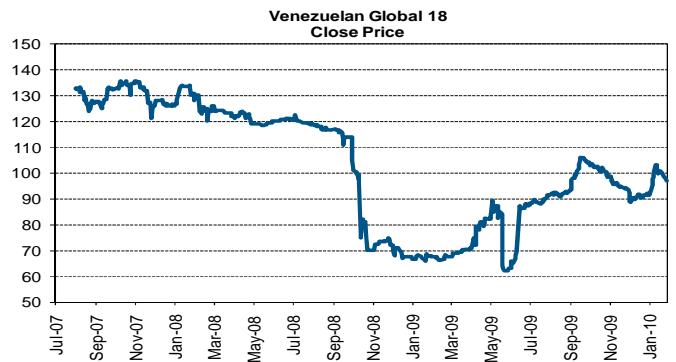
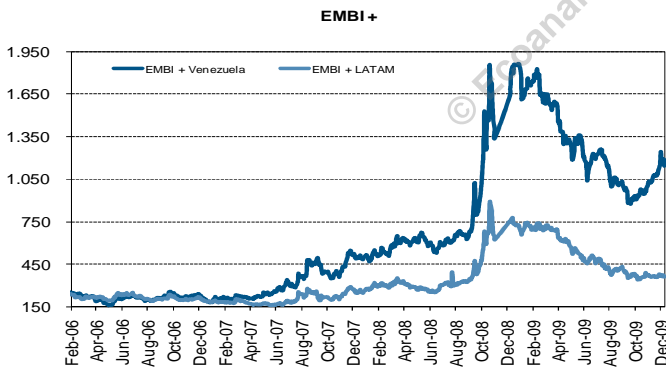
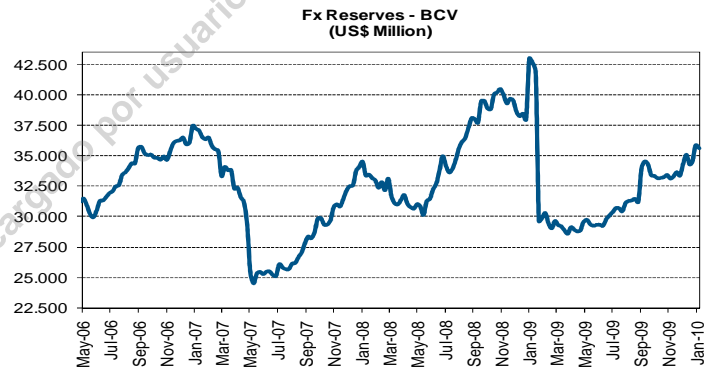
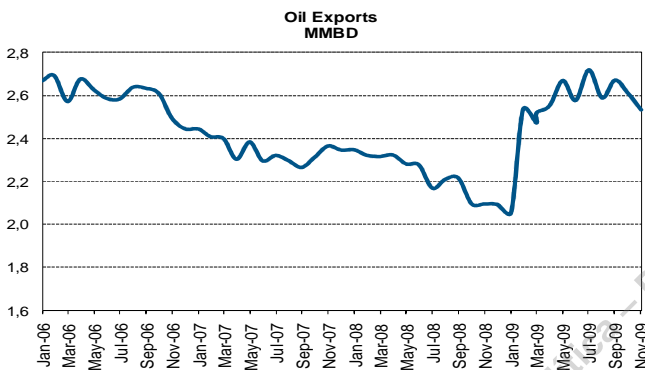
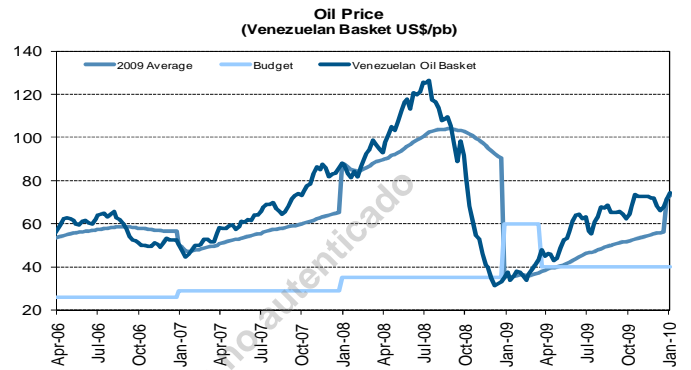
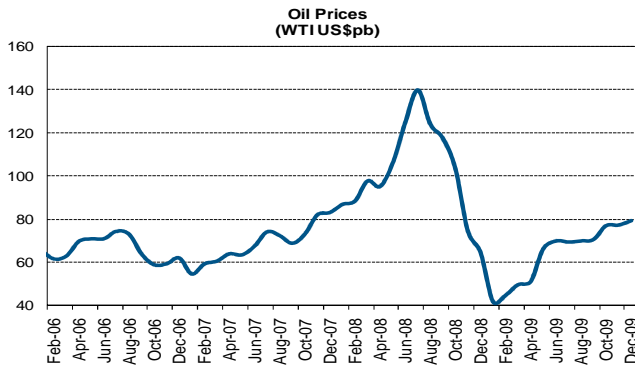
**U.S. criticizes.** The U.S. Representative to the OAS, Carmen Lomellin, urged the regional organization to act with a firmer hand with respect to the "erosion of democracy" in countries such as Venezuela and Nicaragua. *"It's no secret that we are experiencing a period of erosion in democracy in the region...little by little, in countries such as Venezuela and Nicaragua, we are seeing how democratic values are being undermined,"* said Lomellin during a forum of U.S. ambassadors in Latin America organized by the Chamber of Commerce.

**PSUV Congress underway.** The I Extraordinary Congress of the United Socialist Party of Venezuela got underway this week. The plenary session called for by the party leaders, attended by more than 700 regional delegates from around the country is headed by the vice-president Eastern Regional Section, Aristóbulo Istúriz. Among the subjects being discussed are internal party statutes, program bases, militant profile, behavior and ethics code, and the organizational structure of the PSUV.



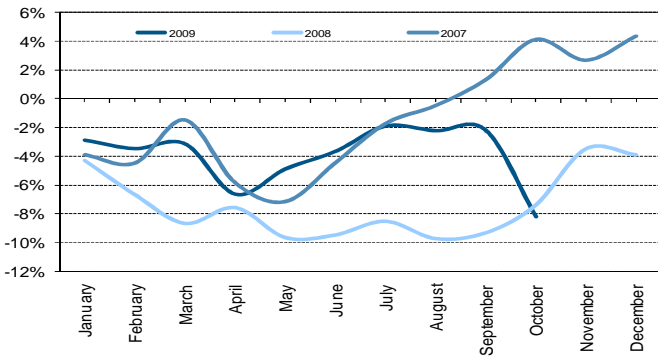


## ECONOMIC OVERVIEW

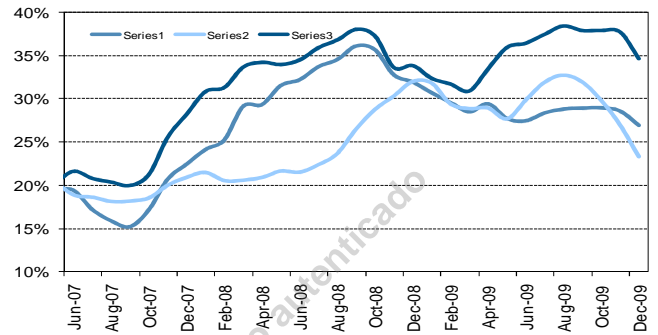




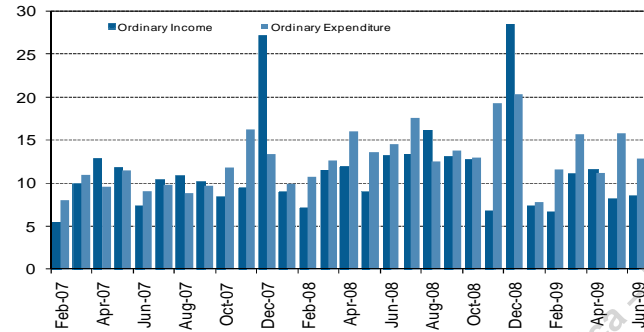
**Real Expansion (M2)**



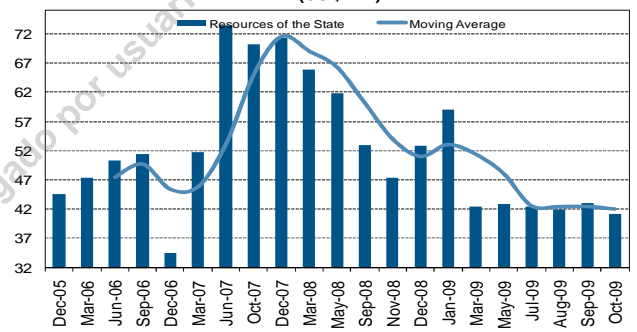
**Inflation (Last 12 Months)**



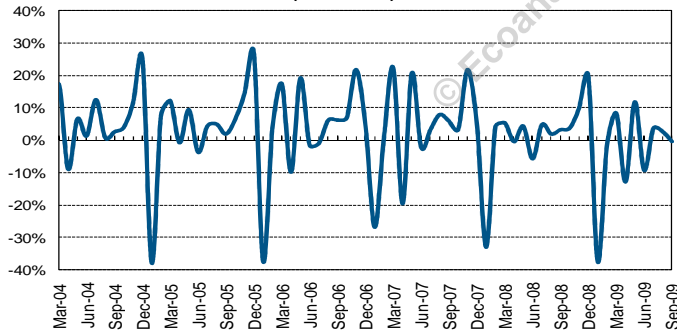
**Central Government (VEB Billion)**



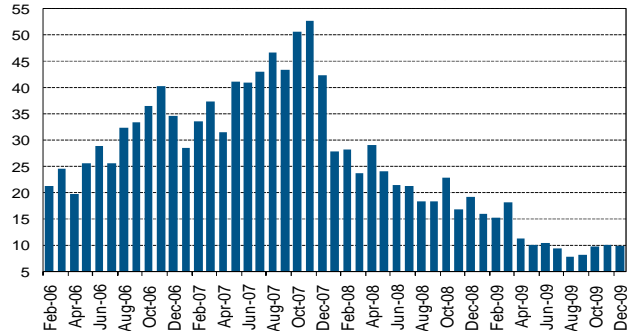
**Resources of the State (US \$ MM)**



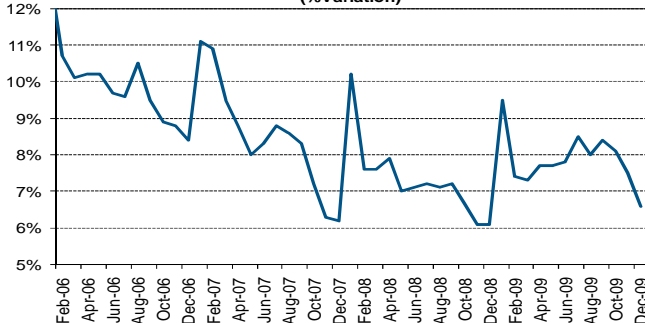
**Volume of Sales (% Variation)**



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



**Rate of unemployment (%Variation)**



**Disbursement (US\$ Million)**

