



Weekly Report

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The parallel budget

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A few weeks ago, in our Weekly Report "The 2011 National Budget: Looking Beyond the Obvious," we outlined the characteristics of the coming year's national budget and we cited our opinion as to the implications said budget would have and how the resources would be distributed and spent.

Along this line, we would now like to present our analysis of what we call the Parallel Budget that the Administration has access to, and which is not reflected or appears in any way in the National Budget approved by the National Assembly.

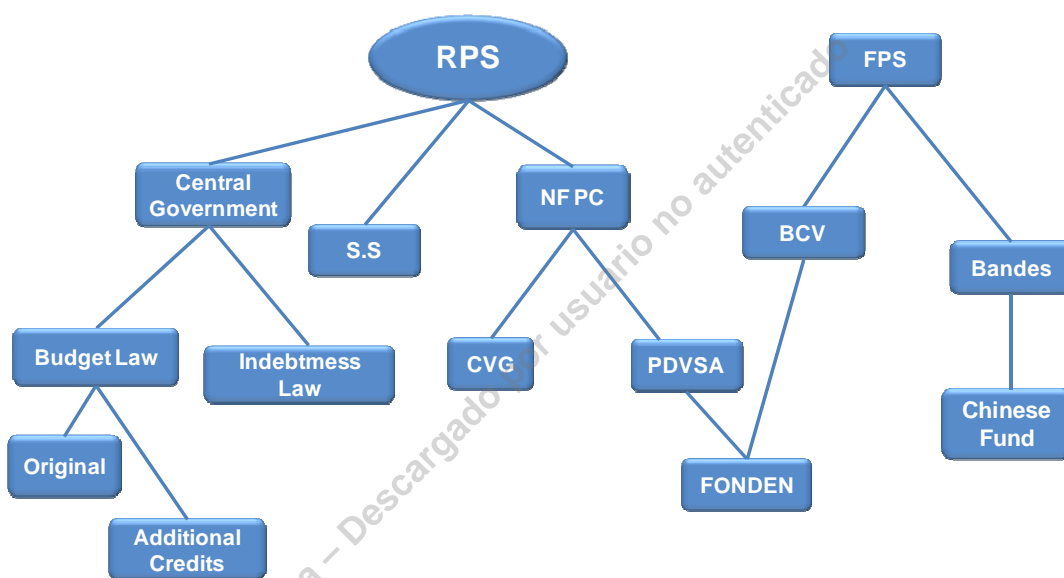
**The players:
Not all of them
are represented
in the Budget...**

Before we begin to talk about the Parallel Budget, it's important to define Venezuela's current fiscal structure made up by the Restricted Public Sector (SPR) and by the Public Finance Sector (SPF).

We've mentioned this subject before in past Reports, but we believe it is important to define these sectors and clarify exactly what they include and represent. The SPR includes all sectors corresponding to the Central



Government, such as: Non-Finance Public Sector (PDVSA, CVG, etc.), the Social Security, and FONDEN. This does not include the finance sector belonging to the State, such as: the Central Bank of Venezuela (BCV), FOGADE, BANDES, Banco Bicentenario, Banco de Venezuela, and the Banco Industrial. All these institutions are grouped together in the SPF.



Source: Ecoanalítica

No clear view

The Ministry of Planning and Finance is responsible for releasing SPR figures, the problem is that the Ministry doesn't publish these figures very often. Central Government figures are released on a more regular basis, in fact, 2009 figures are available. We point this out because, it's the SPR figures are the only ones that really allows us to get a complete view of how the Administration is managing the country.

What does it allow us to see?

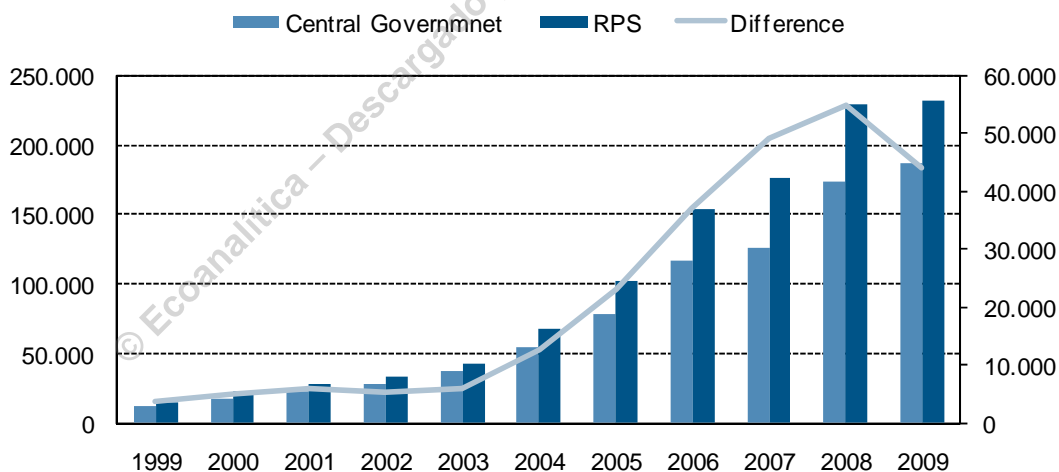
A good way to illustrate how important SPR figures are is to compare them with Central Government figures. SPR figures allow us to see that during the last 10 years (1999 to 2009), government spending went from 26.1 points of GDP to 33.0 points of GDP, which is the same as saying that it increased by 6.9 percentage points of GDP. If we look at Central Government figures for the same period, we would see that in 1999, spending represented 19.8 percentage points of GDP. This is 6.3% less in GDP terms that reflected by the SPR. And ten years later, in 2009, this figure reached 26.7 points of GDP, maintaining the same margin as before with the SPR.



This stands out, because when we do the same analysis with revenue, they drop by 1.9 points of GDP, going from 26.8% of GDP to 24.9% of GDP. Once again, if we compare the SPR with the GC, we find that the latter reflects 8.8 points less of GDP in revenues than the first one in 1999. But, in 2009, the difference isn't so big, only 3.3% of GDP. This mainly due to the drop in oil royalties, which drop due to the drop in world oil prices, caused by the world financial crisis.

It's important to point out that 2009 isn't the best year to compare due to the fact that the drop in oil prices significantly dropped the country's revenues. But, it does show us how our dependency on oil industry has increased and how much the State has increased its presence in the Venezuelan economy during President Chávez' Administration.

RPS vs. CG (VEB million)



Sources: Ministry of Planning and Finance and Ecoanalítica

What is the parallel budget?

Extraordinary funds, or what we at **Ecoanalítica** call the Parallel Budget, are what is known as the Administration's private petty cash box of available out-of-budget resources. The Administration is able to use these funds for any type of government spending it sees fit, without having to answer to anyone, since these resources are not part of the National Budget authorized by the National Assembly, and therefore are not accountable to Central Government management and accounts.





Since these resources do not make up any part of the National Budget, the Administration does not have to present any checks and balances to the National Assembly explaining or justifying the use of these resources. Consequently, how these resources are being used, in many cases, is anyone's guess.

Where are extraordinary resources kept and where do they come from?

Parallel Budget recourses are held in a number of State-run entities such as: Banded, Banco del Tesoro, the Miranda Fund, the National Treasury, the Chinese Fund, and PDVSA.

According to our most recent estimation of these resources, we believe that they are at US\$46.40 billion, as of the close of September 2010. It's important to know that a certain percentage of these resources are held in local currency and the rest is held in US-dollars. The resources held in bolivars are calculated at VEB 2.6/US\$.

The resources that make-up the Parallel Budget comes from a number of different sources, such as:

- PDVSA foreign currency that is not sold to the Central Bank;
- PDVSA foreign currency transferred to FONDEN;
- International Reserves considered to be a "surplus";
- The Miranda Fund is fed by unused resources that correspond to the National Budget;
- Exchange profits and;
- Various funds created by contracts with other countries.

Government Resources	September - 2009 (US\$ bn)	September - 2010 (US\$ bn)	Variation (%)
In VEF	30,1	31,1	3,3%
BANDES	0,1	0,8	700,0%
BDT	0,1	0,3	200,0%
Deposits in the financial system	20,7	19,0	-8,2%
Fondo Miranda	2,8	2,1	-25,0%
National Treasury	3,9	7,0	79,5%
FONDEN	2,5	1,9	-24,0%
In USD	13,1	15,3	16,8%
FONDEN and National Treasure	5,8	6,9	19,0%
Other Funds	6,1	5,8	-4,9%
PDVSA	1,2	2,6	116,7%
Total	43,2	46,4	7,4%

Source: Ecoanalítica



The difference with extraordinary spending

In our Weekly Report “The 2011 National Budget: Looking Beyond the Obvious,” we highlighted the issue of how when it comes time to set the average price of a barrel of crude oil, a figure which will be used to base all calculations for the coming year’s National Budget, that this figure is always significantly underestimated. We also mentioned that the practice of underestimating this base price is not something that originated with the Chávez Administration, rather it’s something other Administrations have done in the past in order to gain more control and have more discretion over how public spending will be managed through supplementary appropriations, which are defined as out-of-budget spending.

This out-of-budget spending, in the form of supplementary appropriations authorized by the National Assembly, will be added on to normal Central Government spending at the close of the year. Despite the fact that the amount of supplementary appropriations authorized is significant, and that it totally redefines the amount of resources allocated for the National Budget, and that the Administration has pretty much a free rein when it comes time to designate how much and which sectors will be awarded these supplementary appropriations, it’s not really this part of the extraordinary resources that we are referring to when we speak of a Parallel Budget.

The Parallel Budget spending that we are referring to is made up of two important elements that differentiate it from Budget spending and out-of-budget spending. The first element which makes up the Parallel Budget is all spending that falls outside of anything to do with the National Budget, in other words, all spending made through SPR institutions, different from the Central Government, which in theory is the only subject of the National Budget. The second element which makes up the Parallel Budget is all spending carried out by companies and entities belonging to the SPF.

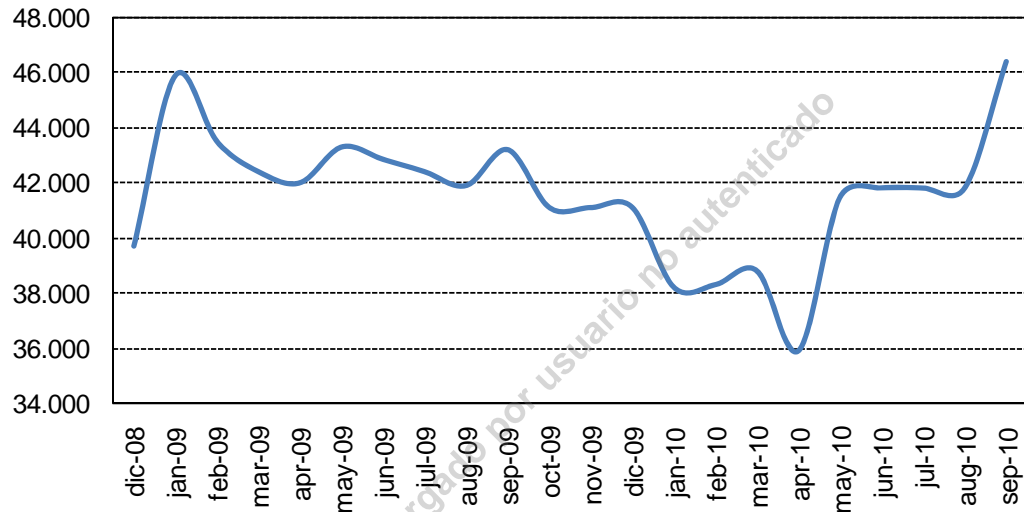
How has this evolved?

Parallel Budget resources represent a significant amount of resources available to the Administration to use in government spending as it sees fit. In October 2008, the total amount of extraordinary resources available to the Administration was at US\$54.50 billion. So in two years, the amount of resources available has dropped by US\$ 11.90 billion. But the most significant change is in the proportion of currencies being held. Two years ago, VEB represented 53.0% of total extraordinary resources available; and 47.0% was being held in US-dollars. Now, 67.0% is being held in VEB and only 33.0% in US-dollars. If you keep in mind that bolivars are calculated at



VEB 2.6/US\$, the drop in available resources for spending is much greater than initially perceived.

Extraordinary resources (US\$ million)



Source: Ecoanalitica

However, the recovery of oil prices has allowed the Administration to be able to feed the Parallel Budget accounts, recovering what it had lost to drop it to its lowest point ever in January 2010 when it reached US\$38.2 million, mainly due to the devaluation of the bolivar, which significantly affected the portion held in local currency. Levels were recovered with the transfer of US\$6.0 billion of surplus international reserves to FONDEN. We also expect that levels will continue to increase in the future given the creation of the new fund with China, which includes a line of credit of US\$ 20.0 billion.

What's the purpose of the extraordinary funds?

There are a number of ways one could justify why the Parallel Budget exists. And in justifying the existence of the current Parallel Budget, a number of reasons could be given, but they would all have to do with President Chávez' socialist project.

The first reason one would have to state is the benefit the Administration gains of being able to spend without having to consult with the National Assembly. This free hand and total discretion allows the President to be able to finance campaigns, projects, Missions, and finance decision based solely on political reasons and/or needs; decision which put to vote or consultation could create problems or not be politically popular. But, since



the use of these resources is almost impossible to trace, there is very little risk of political repercussions.

The second reason is due to the fact that the government, and specifically President Chávez', never again, under any circumstance, want to feel as vulnerable as they did during the General Oil Strike of 2002-03. With the amount of resources in the Parallel Budget, if ever a situation as serious as the Strike were ever to happen again, the President would have much more capacity to maneuver with these funds in reserve.

And finally, with these resources available, the Administration can carry out expropriations, especially of foreign companies, without having to wait for said resources to be approved by the National Assembly. These payments will almost certainly come out of the FONDEN.

Full steam ahead

This analysis shows you the capacity that Administration has to keep on moving ahead with its Socialist Project, and how contrary to many analysts who think that the government is going broke, that plenty of resources are available. So, as we have said before, it's not a question of whether the Administration has resources enough or not, the Parallel Budget shows you that it does, the question is what are those resources earmarked for? The answer to that question will depend on the priorities of the Revolutionary Process. The President has made this clear in all his speeches.

Economic Tips

Giordani: "Less taxes, greater economic growth." In a press release, the Integrated National Service for Customs and Tax Administration (SENIAT) informed that its contribution to the National Treasury will be for VEB 110.06 billion. This is equal to 57.9% of total revenues calculated for the 2011 National Budget. In order to get away from being so dependent on oil, the 2011 National Budget Law, approved by the National Assembly, expects to collect total revenues for VEB 204.20 billion. Of this amount, VEB 118.40 billion will be from the non-oil sector.

Everyone to pay taxes. The Minister of Planning and Finance, Jorge Giordani, stated that the National Assembly should propose a tax reform. According to the Minister, the tax reform should create a table of tax scales, "those who make the most pay the most." Sources inside the government indicate that the objective of the reform is to



modify the base for paying taxes and create different scales so that everyone will contribute in accordance to what they are able to pay.

Income Tax weighted less. For the 2011 tax year, income tax is expected to collect 2.8% of the GDP, which is about the percentage that was collected in 2005, when income tax collected 2.4% of GDP. This situation is occurring because of how much the economy shrank in 2010, so it will be very difficult to expect to collect more revenue through income taxes.

The VAT is in the same boat. The goal for the collection of VAT for 2011 was set at VEB 61.37 billion, in other words, 5.6% of GDP. Though this percentage is higher than what the income tax will collect, it's slight less than the goal set for the 2010 tax year which was at 5.9%.

Modifying how to measure the economy. Nelson Merentes, president of the Central Bank of Venezuela (BCV) announced that it was looking for new measuring indexes by which to measure the GDP. According to Merentes statement, research groups are currently reviewing traditional indexes that measure the economy and some other indexes that compliment these, and that they are considering aggregating values and new parameters. He also mentioned that there will be "satellite oil accounts," but he didn't elaborate on this or anything else other than to say that production volumes will be included in the calculation of oil activity.

Resources approved for States and Municipalities. Last Thursday, VEB 3.67 billion was approved for States and Municipalities around the country, to be dispersed through the Intergovernmental Fund for Decentralization (Fides) and the Special Designation Law (LAE). Elias Jaua, executive vice-president explained that these resources will be distributed in the following manner: VEB 1.0 billion from Budget allocations, VEB 717 million from Fides and VEB 1.0 billion through the Special Designation Law. This proves that the National Government has never kept resources from the municipality, and as more resources are available, supplementary appropriations will be approved for States and Municipalities.

BCV: "Plan to fight inflation." Nelson Merentes, president of the Central Bank of Venezuela (BCV), announced that attacking inflation is the most important challenge facing the Administration and therefore certain modifications must be carried out with respect to production and imports. "We need to guarantee goods and services to the people at a lower price."

Communal economy won't pay taxes. Businesses constituted under the communal economy model currently being discussed in the National Assembly will not have to pay taxes, which will consequently reduce the number of tax payers. The point of



exempting them from paying taxes is that the revenue generated by their economic activity will be reinvested in the community, while traditional companies only have to pay a certain percentage of their profits to taxes. The National Assembly has not concluded its discussion regarding this subject.

Public Stock Market comes to life with Pdvsa. “Petróleo de Venezuela” (Pdvsa) is the first public company authorized to participate in the Public Stock Market (PSM). The placing of Pdvsa Bonds 2017 in the PSM will activate the market, motivated by the Government, after they eliminated the investment banks and parallel operations. This participation was announced in “*Official Gazette*” the last Tuesday.

NCPI increased 1.5%. In October, the National Consumer Price Index shows an increase of 1.5% compared to the previous month, as consequence the accumulated price variation, in the first 10 months of the year, is 23.0%, and the yoy variation was 27.5%.

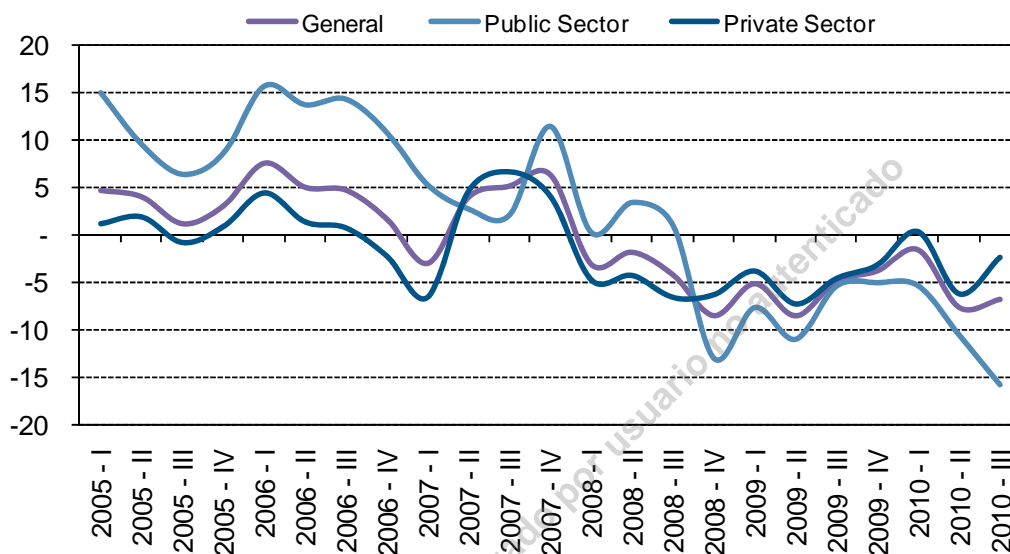
Consumer Price Index up by 1.5%. The Venezuelan Central Bank recorded in October a variation of 1.5% in the Consumer Price Index in the Metropolitan Area of Caracas. That supposed an accumulated inflation (10 first months of the years) of 23.7%.

Remuneration Index increased. The Venezuela Central Bank’s figures shows at the close of the third quarterly of 2010, a nominal variation of 6.6%. However, considering the Consumer Price Index, the remuneration index drop by 6.9% compared with the same period of the last year.





Real wage index (y/y %) (Base: IQ-1997)



Sources: BCV and Ecoanalítica

Interest rate. The lending rate for the fourth week in October was at 17.5%, down by 6 base points compared to the previous week. Time deposits and savings rates were steady at 14.9% and 12.6%, respectively.

International reserves. International reserves dropped by 1.7% going from US\$29,865 million during the fourth week in October to US\$29,360 million during the first week of November. Compared to the same period last year, international reserves have dropped by 11.5%.

Monetary liquidity. Monetary liquidity for the fourth week in October was down by 1.7%, compared to the previous week settling at VEF 262.24 billion, up by 11.2% year to date and 18.5% in the last 12-months.

Sitme figures. To date, US\$3,641 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.4 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$177 million, US\$42 million less than last week when braided US\$219 million.





Oil Tips

78 exploration blocks to be awarded. The Colombian minister of Mines and Energy, Carlos Rodado Noriega, said his country would be awarding 78 contracts for the exploration and eventual exploitation of oil and natural gas, with investments projected for over US\$650 million. These blocks cover more than 10 million hectares and represent more than twice the area currently used by the country for the legal exploitation of coal, gold, water and platinum. Some of the companies already awarded blocks are Ecopetrol, OGX, Talisman and Petrolatina Energy Plc. Colombia currently produces 772,000 barrels of oil per day and hopes to increase this number to 1 million barrels per day.

Possible fall in OPEC's sea exports. According to the newspaper El Universal, the British consulting firm, Oil Movements, said the OPEC's sea oil exports, excluding Angola and Ecuador, would drop by 410,000 barrels per day during the four weeks following December 26, going from 23.11 million barrels per day to 22.70 million barrels per day. Also, according to Reuters, an OPEC document shows that member countries might start to see increased inventories during the next six months.

Final stage. In a press release, Pdvsa announced that the natural gas project of Central-East Interconnection (ICO) is currently undergoing its construction stage, and the compression plant of Altagracia, Guárico State, is already finished. Pdvsa will now be able to supply 450 million cubic feet of gas from the country's east region to the west region, in order to satisfy the demand of the electric and petrochemical sectors, guaranteeing supply to the Paraguana refining circuit and the crude oil operations in the Lake of Maracaibo. The Altagracia complex will have an installed capacity to handle nearly 650 million cubic feet of natural gas.

Trade balance between Portugal and Venezuela multiplies. The trade balance between Venezuela and Portugal increased by over 1,000%, going from EUR17 million to EUR200 million during 2009. In his most recent trip, President Hugo Chavez signed new agreements to continue strengthening the relations between the two nations, such as the construction of asphalt carriers and an energetic cooperation agreement between Pdvsa and the Portuguese Galp, in order to assess the storage of oil, natural gas and agricultural products in the Sines terminal, Portugal. Venezuela currently has a commitment to supply natural gas to Portugal, shipping between 1 and 2 million tons per year.



Demanding approval. There isn't much time before Pdvsa Anzoátegui workers' collective labor agreement expires (January 21), and the union keeps demanding the approval of the new collective agreement. Today, it's been four days since they asked to resume negotiations, which were suspended on December 21 due to Pdvsa representatives' failure to present a counter-offer to the economic clauses. Negotiations are expected to be resumed today,

Anaco workers demand being reincorporated. A group of approximately 500 workers of Pdvsa Anaco, laid off early in November, is protesting in Puente Llaguno, demanding the National Administration to reincorporate them in the industry. Workers say they were deceived because two weeks ago they had been offered a solution, but apparently with no results.

And yet another group. Another group of oil industry workers is carrying out organized protests after having been laid off from Pdvsa Gas Lara. Over 150 people demand the payment of a debt the company has with them which reaches over one million 500 thousand bolivars. Moreover, José Bodas, Secretary General of the Single Federation of Oil, Gas and the Like Workers (Futpv) denounced that the state-owned oil company has arbitrarily laid-off more than 12 workers who had suffered labor accidents or were sick, a clear in compliance with labor laws.

International oil baskets. At the close of the New York market last Thursday, November 11, the WTI was at US\$88.0/bl, showing a 3.8% increase compared to the US\$84.7/bl of the previous Thursday. The Brent increased by 3.1% to reach US\$89.1/bl, compared to US\$86.5/bl of Thursday, November 3rd.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$76.3/bl on Friday, November 5th, up by US\$1.9 or 2.6% from the US\$74.4/bl registered the previous week. Meanwhile, the basket's annual average is at US\$70.1/bl.

Business Sector Tips

Venezuela: worst environment for investment. The "Doing Business 2011" report released each year by the World Bank has Venezuela ranked as the country with the worst business environment in Latin America. Out of a total of 183 countries analyzed, Venezuela came in 172, down two spots from it was ranked last year. Among the reasons stated for this dubious honor is the fact that to register a new company to be



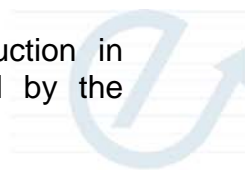
able to do business, you have to comply with 17 different requirements which take a total of 141 days to complete, much more than the 9 days it takes to register a business in Mexico or the 27 days it takes to register one in Peru.

Venezuelan Government expropriates textile company Silka. Last Sunday, vice president Elias Jaua announced the hostile takeover of the textile company Silka, which had been closed for the last 17 years without honoring any labor commitments to its workers, for which the Government will use VEB 7 million to cover the labor liabilities of 171 workers. The public officer also said the Government had decided to create a communal company to contribute with the development of the cotton processing industry.

With Siderur, the Venezuelan Government takes control of the National iron-steel activity. Over a period of almost two years, the Venezuelan Government has taken over the national iron-steel industry, leaving domestic and foreign private capitals aside. From being the owner of the iron mineral, through Ferrominera Orinoco (FMO), Venezuela is now holder of the rest of the iron-steel network, which includes briquettes, tubes, steel and byproducts. The nationalization of Siderurgica del Orinoco (Sidor), of which major shareholder was the Argentine group Techint, was made official in 2008, and decisions were made in May of 2009 to nationalize the briquette manufacturing companies Comsigua, Matesi (now under expropriation process), the steel-tube manufacturer Tavsa, as well as Orinoco iron and Venprecar, both part of the Venezuelan company International Briquettes Holding (IBH), plants that, along with Siderur, turn the State in a monopolist entity in the iron-steel industry, leaving very little ground for Sivensa, as a private iron-steel company.

Stricter Real estate sector's regulation. Even though the Government assures that home production is a priority, the legislations approved in the last two years have created more obstacles than facilities to housing developers, not to put aside the expropriations that jeopardize the activity, which can be verified with the 36% fall reported by the sector in the first semester of 2010, considering the fact that in the Government and Parliament agendas, the actions have not stopped and control measures keep increasing. The National Assembly is currently preparing a draft for the Law of Real Estate Pre-sale, which indicates the aspects that must be included in home purchase-sale agreements in the primary market, such as prices and terms of completion. Actions will not only be applied to the primary market, but also to rent, since a proposal allowing renters to acquire the properties they have occupied for at least 10 years is now ready, setting especial mechanisms to facilitate the acquisition to the affected families.

Automobile production falls by 6.0% in one year. Automobile production in Venezuela keeps decreasing, and according to the latest report issued by the





Automotive Chamber (Cavenez), local production experienced a contraction by almost 30% between September and October of 2010, going from 10,319 units to 7,226 units. These numbers also reveal a fall by 6% in the accumulated volume between October of 2010 and October of 2009. However, despite this outlook, the automotive sector is still optimistic about the industry's performance in 2011 since, according to their calculations they could manufacture 140,000 new vehicles next year.

Automotive market remains depressed. According to the recent monthly bulletin issued by the Venezuelan Automotive Chamber (Cavenez), new car sales in Venezuela fell by 15% in just one month, reporting a total of 10,346 units sold. Cavenez's data also indicate that in the first ten months of 2010, car manufacturers sold a total of 103,665 units, equivalent to 12,793 units less than the number reported in the same period of 2009. In the imported car segment, the contraction reported reaches 53%, while in the field of national cars, the market's behavior is almost identical to that of 2009, since between January and October of 2010, 91,944 units were sold, showing an increase by only 0.6% compared to 2009.

Local auto parts industry works at 45% of capacity. According to recent statements issued by the president of the Venezuelan Chamber of Automotive Product Manufacturers (Favenpa), all 58 auto part manufacturers have been going through a sustained fall over the last three years, due to the restricted access to foreign currency, the constant labor problems and the absence of an industrial policy that boosts competitiveness, so he assured that in the presence of these limiting circumstances, the sector's short-term survival was not guaranteed.

2011 Home investment to be subjected to excess funds. Even though President Chavez's broadcasts reiterate that home construction is a personal challenge for him and that investment in the construction sector is a priority, these statements seem to be far from reality, since the injection of resources in this area will be irregular, for it will be subjected to excess oil revenues and public company dividends. This way, the Government will invest a total of US\$1.5 billion to build homes throughout the national territory in 2011.

24.6% Average adjustment for the Coffee sector. According to recent statements issued by Vice president Elias Jaua, a quintal of coffee type "A" will go from VEB 585 to VEB 747, a 28% adjustment. For type "B" grains, the adjustment made was by 27%, so a quintal's price goes from VEB 544 to VEB 691, and for type "C" coffee, the adjustment was by 22%, going from VEB 512 to VEB 623 per quintal. Good natural coffee was adjusted by 24% going from VEB 496 to VEB 613; and current natural coffee went from VEB 486 to VEB 595 per quintal, for a 22% increase. As to ground



coffee consumer-level prices, Jaua said the cost structures would be reviewed, but made it clear that this didn't necessarily mean there would be a price increase.

White rice and precooked corn flour consumer price adjustments approved. The resolutions with the new maximum sale prices of these two products were published in Official Gazette N° 39,546. This way, a kilogram of type I white rice can now be sold at up to 4.46 bolivars, type II white rice at 4.15, type III at VEB 3.94 and precooked corn flour at VEB 3.37.

Alimentos Polar keeps investing. Alimentos Polar's investment plan reached VEB 304 million in 2010 and is expected to exceed VEB 524 million in 2011, to expand the company's production capacity for precooked corn flour PAN by 13% this year and Mavesa margarine production by 40% in 2011, among other projects. Company representatives reiterate they will continue to work to offer more and better products everyday, giving consumers a wide and accessible spread of high-quality products, so they invite the Venezuelan Government to promptly grant them the necessary licenses to obtain their supplies and to guarantee the supply of raw materials.

Movistar prepares to enter the fourth mobile generation. Telefonica Movistar launched a global strategy last October for all 25 countries in which the group has market presence. In Venezuela, the strategy proposes not only a change in the brand's (Movistar) image, but also a modification to its service plans. And even though its 3G coverage is not nationwide (which does not deny its efficiency, considering all the exchange obstacles), as long as the regulating entity grants them a spectrum in the 2,100 band, the telecommunications operator will begin offering 4G services.

World Crisis Tips

FED authorizes bond purchase for US\$600 billion. The federal open market committee (FOMC) informed that the US Federal Reserve would purchase US\$600 billion in long-term treasury bonds until June 2011, including US\$75 billion this month. They also said they would spend approximately US\$35 billion per month reinvesting expired mortgage funds in treasury bonds. As an immediate consequence, the exchange market had a positive reaction (S&P went up by X% between Wednesday, November 3 and ...) and the long-term interest rates decreased after the FOMC announcement.





FED expansive monetary policy criticized. The plan to purchase long-term treasury bonds was criticized by monetarists for being inflationary, and by the foreign community for promoting the depreciation of the USD, and therefore an artificial increase of the relative competitiveness of American exports. The Chinese vice minister of finance, Zhu Guangyao, criticized the FED's decision because it would affect the already unstable balance among the world's currencies, according to his perception of the market. The FED's first expansive package for US\$1.7 billion applied between 2008 and 2009 was justified because it helped stabilize the markets early during the crisis, but this second package for US\$600 billion comes in a moment in which the global economy is already in recovery and there is no lack of liquidity, but a lack of confidence.

Ben Bernanke fights back. The president of the Federal Reserve (FED), Ben Bernanke, defended the FOMC's decision, arguing that the current inflation was below the FED's target 2%, while the unemployment rate remained close to 10%. The FED's objective is to improve the financial conditions to promote economic growth and reduce unemployment. According to Bernanke, lower mortgage rates will make the real estate market more accessible and will allow many homeowners to refinance their mortgages. Meanwhile, the lower yield of bonds will encourage real investment, and higher stock prices will generate a richness effect that will increase confidence and therefore consumer spending, which will in turn boost the income and benefits, in other words, a virtuous circle that will support the economic growth.

US unemployment remains at 9.6%. According to the US Bureau of Labor Statistics (BLS), the unemployment rate remained constant at 9.6% during October. Compared to September, payrolls showed a slight increase by 151,000 people, after a 41,000 decrease during September. Compared to October of 2009, the number of jobs has recovered by only 0.6%.

Germany in trouble. Throughout the year, the German economy has driven the rest of Europe, but the fast growth, inspired by the foreign demand and its exports' competitiveness, is over. During September, the total orders for German products contracted by 4% compared to the previous month, especially due to the 6.6% contraction of the foreign demand, while the domestic demand fell by 0.6%. The German economy's growth is not sustainable without the recovery of the foreign demand, and the domestic demand can not be expected to grow at a significant pace either because Germany is implementing a fiscal austerity plan to reduce the deficit.





Political Tips

Military “married” to the political project? In an interview published by the newspaper Últimas Noticias, General of the Operational Strategic Command Henry Rangel Silva said that the FAN has “*complete loyalty*” to his Commander in Chief (Hugo Chavez). “*We got married with this project for a country*” ruled the military in the interview. He added that “*a hypothetical opposition government in 2012 would sell the country, that's not going to be accepted by the FAN and the people less ...and an attempt to dismantle the military sector would have a reaction both the military and the people who feel that they take away something*”, said the General. Many figures in national politics and internationally condemned these statements, including the secretary OAS Jose Miguel Insulza.

Historical setback. Speakers for the Venezuelan Communist Party (PCV) assured that the revolutionary process led by President Chavez has been suffering from a dangerous wearing out that, unless it's reversed on time, could cause great difficulties to maintain the current rate of change, and even a historical setback. Communist support the nationalizations announced, but question the way they have been carried out. “*The squandering of money, the bureaucracy, the nepotism, the corruption, the lack of an efficient control and social comptrollership, the lack of a centralized planning of the economy and the use of Government handouts as a method to earn the immediate willingness of the people, treating them as clients, without creating in them the revolutionary conscience that commits them with the revolution's labors.*”

IAPA: Media being silenced. For the Inter American Press Association (IAPA), the Government of President Hugo Chavez tries to control the media's ideas and to impose silence. A report on freedom of speech in Venezuela, presented within the framework of the 66th general assembly of the IAPA, considered that the Venezuelan Government has decided to use expropriation as a social control medium and needs the media to be silenced for that purpose. The report indicated that so far in 2010 there had been 113 aggressions against journalists. IAPA reminded that different groups of media have constantly complained of the violations of Chavez's Government to freedom of speech and the penalization of private media.

Colombia and Venezuela resume relations. All conflicts between Venezuelan and Colombia were put aside. After having said it was impossible to reestablish relations with the Government of Santos, both presidents agreed to favor the export of Colombian products to Venezuela, to reestablish the delivery of Venezuelan fuel to Colombian border zones and set a meeting of those responsible for the fight against



drug trafficking. Both Chavez and Santos are *“determined... not to let anyone get them off track”* (...) *“We are both absolutely determined”* not to let *“anyone get us off track,”* Santos said.

Commitments between Chavez and Santos. Some of the commitments established between Venezuela and Colombia in their meeting celebrated last Tuesday were: *“A bridge of mini stores”* located between Ureña and San Antonio. The *“Jose Antonio Paez Bridge,”* linking the Apure state with the Arauca department, will be habilitated as an international border checkpoint. *“Zero obstacles,”* both presidents *“gave instructions to solve all issues hampering merchandize transportation in the border.”* *“Border music,”* both Caracas and Bogota decided to create bi-national children’s and youth symphonic orchestras, and the development of four music centers in border zones. *“Dudamel to Bogota,”* Chavez and Santos approved the celebration of a concert with the participation of the Simon Bolivar Orchestra of Venezuela and the professional orchestras of Colombia on December 15 of 2010, in Bogota.

Spain: “There are no political prisoners in Venezuela.” For the Spanish Government, cases such as those of police officers Ivan Simonovis, Lazaro Forero and Henry Vivas; former minister of Defense, General (R) Raul Baduel; or the suspended Judge Maria Lourdes Afiuni, are not cases of political imprisonment. The European country’s minister of Foreign Affairs, Trinidad Jimenez, said *“people are in custody due to penal reasons, they are accused of having participated in the Coop of 2002 or possible corruption, but those who consider them to be political prisoners are some Venezuelan opposition political parties.”*

Isaias Rodriguez’s postulation to TSJ objected. Isaias Rodriguez’s aspiration to become a magistrate at the Supreme Court of Justice (TSJ) was rejected by attorneys and NGO representatives indicating the former attorney general of Venezuela did not meet the ethical and moral requirements to occupy a chair in the country’s higher court. They questioned Rodriguez’s performance in the murder investigation of former attorney Danilo Anderson, evidence contained in the statements of the memorable *“star witness,”* Giovanni Vasquez de Armas, former attorney Hernando Contreras and former judge 19 of control, Gumer Quintana. *“These people’s testimonies are evidence of the irregularities committed by Isaias Rodriguez in this case.”*

“USA vs. Venezuela.” According to statements issued by President Chavez in Havana, Cuba; the United States is mounting another operation against his Government, through the case of the alleged drug dealer Walid Makled, who is currently in custody in Colombia. *“I hereby denounce it for the world; the empire is trying to mount another operation against the Bolivarian revolution, this won’t be the first one, and I’m sure it won’t be the last defeat we impose to the Yankee empire and its lackeys,”* said President Chavez. He also said that Venezuela’s justice had



requested the extradition of Makled from Colombia, considering *“he is a criminal, a delinquent, most likely a murdered and a confessed drug dealer.”*

Chavez: Santos will comply with the extradition. In light of the Walid Makled situation, President Chavez said his Colombian homologue, Juan Manuel Santos, had assured his Government would comply with the commitment to send this wanted man to Venezuelan territory. Chavez said: *“Even though we didn’t discuss it publically, we both insisted in the need to send (having complied with all the international legal normative) Walid Makled to continue with the trial already open for drug-dealing, money laundering, murder and who knows what else.”*

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