



Weekly Report

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*From a Recession Cycle to an
Expansion Cycle?
Or rather a Period of Stagnation*

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A few weeks ago, the Central Bank of Venezuela (BCV) released the country's economic growth figures and the Balance of Payment figures corresponding to the third quarter 2010. These figures showed that the GDP shrank by 0.4% compared to the same period last year. The BCV concluded that the country was entering into a new economic growth period. The question is: is this true? This Report will focus on this issue.

**Not enough... is
the key word**

The rate by which the economy had been shrinking during the past 6 consecutive quarters dropped significantly during the third quarter, and it most likely is paving the way for a positive economic growth rate in the fourth quarter 2010. A positive economic growth rate for the fourth quarter of the year will mark the end of a cycle of consecutive negative economic growth rates that has lasted six quarters, but this doesn't necessarily imply that the economy is entering an economic expansion cycle with increased wellbeing for the people, as the president of the BCV, Nelson Merentes has stated. And, even if the GDP growth rate of 2% set in the 2011 National Budget were to be achieved, this would not translate to an increase in



wellbeing that the population, which grows 1.6% annually, would be able to notice.

With respect to the foreign sector, what stands out the most is that non-oil imports recovered by 17% compared to the third quarter 2009, but still far from the level they were at in 2008.

**High oil prices
won't lead to
increased
social
wellbeing**

The figures released by the BCV have led us to project that at the close of the year, the GDP will shrink less than previously stated, and that it will settle around 1.5%. At *Ecoanalítica*, we have modified some of our projections which we will publish in two weeks in our upcoming Outlook Report, but our figures for the medium and long term, continue to be the same and point to the same end: the Venezuelan economy is entering into a period of stagnation in which the GDP will increase at a rhythm no higher than by what the population is increasing. In other words, despite high levels of oil revenues being collected by the Administration, this won't translate to increased social wellbeing for the population.

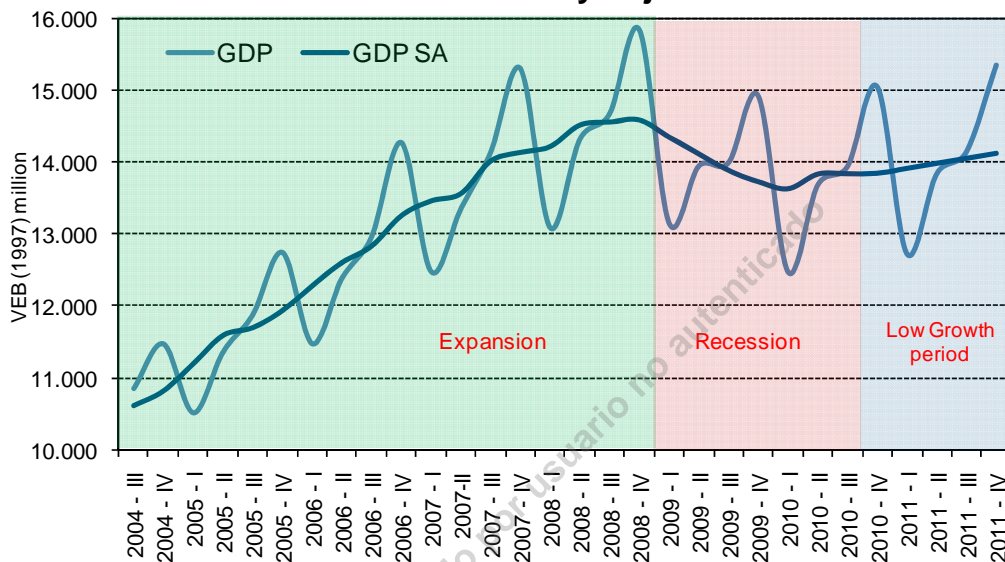
**The figures
aren't as positive
as they seem**

In order to evaluate the third quarter figures by themselves and not based on a comparison with the third quarter 2009, when the economy was already in the grips of the recession, one uses GDP figures without taking into consideration seasonal factors. These figures show us that during the second quarter of the year, the GDP grew at a yearly quarter to quarter rate of 6.1%, a rate which undoubtedly surprised everyone in the market. And, using this same calculation method, we find that the yearly quarter to quarter growth rate for the third quarter was only 0.1%. In other words, if the economy were to continue to grow for a whole year at the rate it grew during the third quarter the economy would only grow by 0.1%.





GDP Vs. Seasonally Adjusted GDP



Sources: BCV and Ecoanalítica
Seasonal adjustment made by X12 method

Government policies influence sector figures

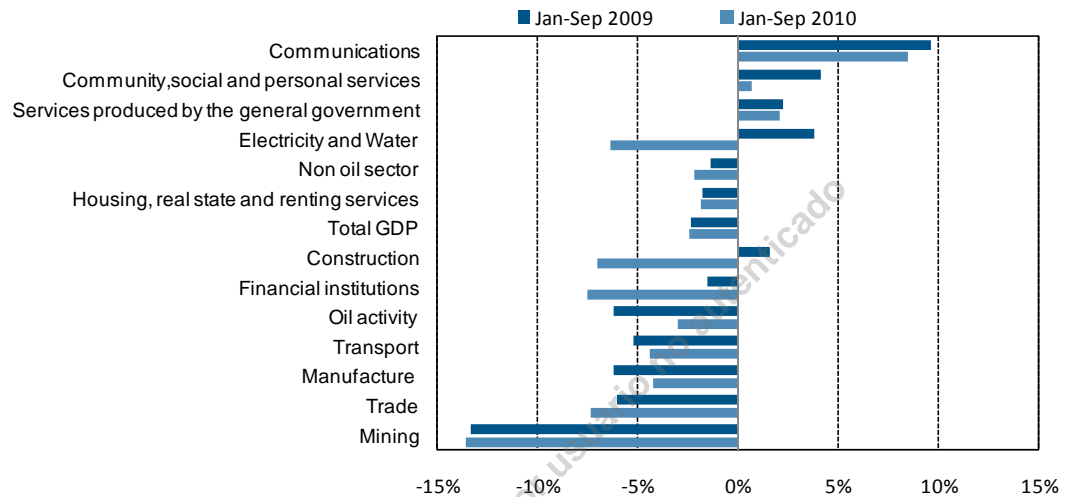
When looking at economic activity figures by sectors one can see that the recession hasn't had the same impact in all the sectors. The sectors that were most affected by the Administration's wave of nationalizations, such as the mining sector, the oil sector and construction, were also the sectors which reflected the lowest economic growth figures. It's clear that with the construction sector, short term recovery is totally out of the question, since the measures recently implemented by the Administration have completely eliminated all private interest incentives to invest in the sector.

On the other hand, the two sectors that have most benefited from government policies, community services, non-profit goods and services, and general government goods and services, all sectors which have continued to grow despite the six quarters of recession.





Growth by economic activity



Sources: BCV and Ecoanalítica

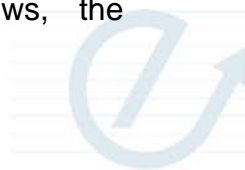
The Communication sector continues to grow, and it always will

During the first three quarters of the year, the communication sector has expanded by 8.5% compared to the first three quarters of the previous year, but the Administration's policies have nothing to do with this growth. Worldwide, the communication sector is in continual growth, thanks to continual advances in technology. There is no reason to believe that the sector won't continue to grow at similar rates in the coming years.

The banking sector to continue to be affected by severe regulations

The Administration has made it very clear in its discourse and by its action that the SUDEBAN will intervene in any financial institution that is having problems maintaining solvent or that is not following the established regulations. On top of this, the banking sector has to deal with a dropping demand for credit, due to the recession, and the closing down of the brokerage houses which had a negative effect on the sector.

We don't expect that the Administration will make a move to nationalize the finance sector in 2011 because there is no need for it with the recent approval of the Organic Law for the National Finance System, the Insurance Activity Law, and the Securities Market Law, along with the Banking Activity Law which is currently under discussion (it was approved during its first discussion but the Banking Association asked the National Assembly (AN) to revise 24 of the Articles proposed because they were extremely negative for the efficient operation of the system). With these laws, the Administration has all the control it needs over the finance system.





The foreign accounts are another story

With respect to the Balance of Payment figures registered for the third quarter 2010 we can see that the Current Account registered a surplus of US\$2.57 billion, down by 49.2% compared to the US\$5.06 billion registered during the same period in 2009. The main reasons for this are the following:

- The import of goods was up by US\$1.32 billion (up by 17.0% on a y/y basis), especially due to public sector imports which was responsible for 70% of said increase, in other words, US\$921 million.
- The export revenue dropped by 5.4%, despite the fact that oil prices increased by 7.1% during the period. This underlines how Venezuelan oil production is stagnating and how much more vulnerable the country is to significant changes in the price of oil.
- The Services Balance reflected a deficit of US\$2.10 billion, which increased by 19.2% or US\$338 million on a y/y basis; furthermore, the Current Transfers Account also increased its deficit.

The foreign sector improves... and the country pays the price

If we look at the Current Account balance for the first three quarters of the year we'll see that there is a surplus of US\$11.33 billion, four times more than the US\$2.80 billion registered during the same period last year, mainly due to the increase in oil prices since the end of last year. It's important to point out that though the Current Account is showing some positive signs with respect to the Venezuelan economy recovering, this is not reflected in the GDP growth figures, mainly due to the distortions created by the exchange controls and the actions of the Administration that limits the private sector's access to foreign currency, and thereby eliminating any freedom or discretion to make use of said foreign currency. Furthermore, the stagnation of Venezuelan oil production becomes quite evident when you compare the surplus of the Current Account at the third quarter 2007, a year when the price of the Venezuelan oil basket was almost the same as it is now in 2010, to the surplus of the Current Account at the third quarter this year. During the aforementioned period in 2007, the surplus was at US\$13.15 billion, 16.1% more than the surplus this year during the same period.

The problem in the Capital Account is structural

Moving on to the Capital and Financial Account balance, it registered a deficit of US\$1.88 billion, compared to the same period in 2009 when it registered a deficit of US\$1.73 billion. If we take the Capital Account



balances so far this year into account, we will see that the deficit is at US\$15.53 billion, up by US\$4.39 billion from the previous year. This is due to the increase in liabilities by the public sector in the Other Investments Account, where the China – Venezuela cooperation agreement stands out.

It's important to mention that the deficit of the Direct Investments in the country account has dropped by 53.0% during the first nine months of the year compared to the first nine months in 2009, with the deficit going from US\$3.26 billion to US\$1.53 billion. This could suggest fewer outlays due to expropriations with respect to 2009 despite the fact that the expropriation process has accelerated this year.

BALANCE OF PAYMENTS (US\$ MM) (acumulated balance till the 3Q)	2009	2010	Var (%)
Current Account	2,804	11,332	304.1%
Goods	10,728	20,580	91.8%
Oil Exports	38,320	45,572	18.9%
Non-Oil Exports	2,440	2,454	0.6%
Import of goods f.o.b.	-30,032	-27,446	-8.6%
Services	-5,931	-6,414	8.1%
Others	-1,993	-2,834	42.2%
Capital Account	-14,596	-18,121	24.15%
Public Sector	2,727	-1,803	
Private Sector	-17,323	-16,318	-5.80%
Reserves Variation	-11,792	-6,789	-42.43%

Sources: BCV and Ecoanalítica

Capitalism or rentism and from the State

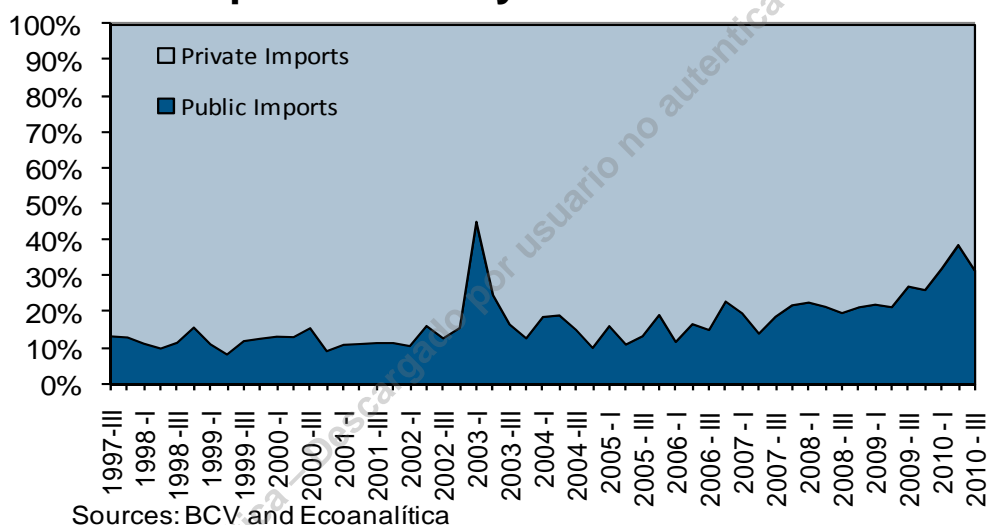
It's important to point out that imports have dropped 8.6% during the first three quarters of the year compared to the same period in 2009. Imports didn't drop by more due to public imports increasing by 33.3%, while private sector imports dropped by 22.0% on a y/y basis, much like what happened last year. The point here is that public imports overtook private imports. The reason for this being that the Administration was forced to make a significant number of purchases abroad due to the electric power crisis, and because of how difficult it is now for the private sector to gain access to foreign currency, now increasingly more difficult after the swap-market was shutdown.





The paradox of all this is that since private imports represent more than 65% of all imports, this drop in volume translates into a greater loss of purchasing power for the population, along with the complete lack of incentives to invest for the private sector (main engine which leads to economic growth in a modern economy), thereby sustaining the recession.

Imports share by institutional sector



Capital outflows: no accurate measure with the quarterly data

It is important to note that estimation of capital outflows since the introduction of exchange controls is an uphill task. This is because the account of errors and omissions, defined by the BCV as one that "reflects discrepancies arising from the use of multiple sources and estimation errors and omissions. Methodologically, at the sectoral (public and private), this category also includes the consideration for the transactions recorded in the current and financial account, which involve the transfer of foreign currency resources between these sectors and that no movement of international reserves", increasingly includes more of this "statistical discrepancies" so that results are requiring more urgent justification by the BCV in order to get a better understanding of the phenomenon. This theme was developed in detail in our *Weekly Report* number 34 of this year.

The problem of methodology

This means that the account of errors and omissions could include operations performed in the exchange market so it is preferable to wait until the BCV publishes the Economic Report 2010, which highlights the results of the balance of payments between the public and private sectors, not something that happens when you publish the quarterly results, and thereby obtain clear figures. In *Ecoanalítica*, we still waiting for the BCV clarify



these balances for errors and omissions in order to get something very important in our economy: trust.

What are the Outlooks?

At **Ecoanalítica**, we are projecting that the Current Account will close 2010 out at US\$14.50 billion, up significantly compared to the US\$8.56 billion registered at the end of 2009, mainly due to export revenue reaching US\$62.0 billion, a figure that is much better than 2009, but nowhere near the figure registered in 2008. And, once again, we point out that this figure has improved only due to oil prices increasing, and it is not enough to propel the economy. Furthermore, we project imports to be at US\$37.0 billion, down slightly from imports in 2009 which were at US\$38.44 billion.

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Economic Tips

Merentes: Venezuela will continue growing. The president of the Central Bank of Venezuela, Nelson Merentes, stated that preliminary Venezuelan economic figures indicate that fourth quarter 2010 figures will be better than the third quarter figures were, and that the economy “will continue to grow satisfactorily for the next two years, despite the fact that the GDP dropped 5.2% during the first quarter; 1.9% during the second quarter; and 0.4% in the third quarter 2010.” He continued to say that “the problem is lowering inflation,” and we are working on a plan to lower it to a single digit by 2013. The president of the BCV considers that the issue of prices is a very “complex subject” and declared that it is imperative that the Administration as well as the Private sector work hand in hand in order to achieve goals regarding the issue of inflation.

Sandino predicts a 2% growth. The president of the Finance Commission, Ricardo Sandino, stated that in order to reach the country’s economic growth objectives, projects must be executed efficiently. “We’re entering a period of recovery but we must be efficient with the programs. The economy is expected to grow by 2% this coming year.” Sandino pointed out that currently macro-social balances are more important than macroeconomic ones.

Food basket up by 1.4% in October. The National Statistics Institute (INE) released its figures for the month of October showing the food basket at VEB 1,353.30, up by 1.4% compared to the previous month. During the last 10 consecutive months the food basket has increased in price by 26.3%. In October, a minimum wage salary would be able to cover only 90.4% of the basket.

Recession won’t affect Human Development Index. Elías Jaua, president of the National Statistics Institute (INE), assured that the recession that Venezuela is going through will have a negative effect on the Human Development Index (HDI) this year. Jaua states that despite a drop in national revenue, the indicator has showed a favorable evolution in matters such as education, enough to offset the drop in national revenue. He also explained that the Institute had adopted a new methodology applied by the United Nations Program for Development, so that the HDI results calculated by the government entity can’t be compared to last year’s figures.

Supplementary appropriations granted mainly for labor payments. During the 11 months of the year that have gone by, the National Assembly has authorized VEB 60.20 billion in supplementary appropriations, putting the current National Budget at



VEB 219.60 billion. In nominal terms, the increase is of 80%, despite the fact that the Administration has insisted that 2010 has been a year of austerity, but with more obligations. The main reason for this Budget increase has been the increase in labor responsibility that the government has acquired, receiving 58% of all appropriations granted.

National Budget second discussion. The National Assembly is preparing the final details for the second discussion regarding the 2011 National Budget Draft and the 2011 Public Borrowing Law Draft, set to begin December 9. The president of the Finance Commission, Ricardo Sanguino, stated that all the public powers and ministries had turned in their documentation related to the National Budget and Borrowing Law and that the final draft was being drawn up to be presented before the National Assembly in a plenary session.

Interest rate. The lending rate for the third week in November was at 17.7%, down by 79 base points compared to the previous week. Time deposits and savings rates were steady at 14.5% and 12.6%, respectively.

International reserves. International reserves increased 3.1% going from US\$28.28 billion during the second week in November to US\$29.16 billion during the third week of November. Compared to the same period last year, international reserves have dropped by 13.3%.

Monetary liquidity. Monetary liquidity for the third week in November was up by 3.1%, compared to the previous week settling at VEF 272.93 billion.

Sitme figures. To date, US\$4,322 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$35.4 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$226,9 million, US\$27.6 million less than last week when braided US\$199.3 million.

Oil Tips

Possible prohibition of arbitration in oil contracts. The Venezuelan Government is studying the possibility to forbid arbitration pacts for contracts related to oil or natural gas activities. This is contemplated in a draft of the Organic Law for the Protection of the National Hydrocarbons Sector, expected to be discussed this year in the National



Assembly. The draft establishes that *“in contracts celebrated by State-owned companies involving the acquisition or letting of goods and services required for the execution of oil or natural gas operations, arbitration shall not be allowed as a means of contract interpretation or solution of controversies”* and includes that *“Venezuelan courts shall be the only competent instances”* to know the possible controversies. The draft also contemplates a *“prohibition of preemptive and execution measures”* to keep all *“movable and real estate properties from becoming the object of preventive or executive measures sentenced by courts or upon individual requests.”*

It also includes a new principle. The draft of the Organic Law for the Protection of the National Hydrocarbons Sector also includes a principle known as “unseizability,” by which “all real estate properties” used for hydrocarbon activities, *“as well as all those holding goods required for the execution of oil or natural gas labors, such as: gasification and water injection plants, drills, tanks, dams, shipyards, and the administrative offices of Petroleos de Venezuela and its affiliates, shall be unseizable and not-executable as long as they are devoted to such ends.”*

CRP hiring. Complejo Refinador de Paraguana (Paraguana’s Refining Complex, CRP) celebrated its first One-day event to hire the State, regional and municipal companies that will provide their services during 2011. According to the general manager of CRP, Jesus Luongo, the event looks to strengthen “the policy of economic sovereignty.” Luongo explained that these are labors that need to be carried out by Pdvsa and can be developed by State companies, “the advantage is that those earnings or profits stay in state and municipal governments to be invested in the community.” Besides the new hires celebrated in this one-day event, CRP had previously hired between 2000 and 2500 cooperatives from the area. In 2010, a large share of the VEB 167 million in the hiring budget went to State companies.

To be resumed. Starting December 1 of 2010 Venezuela will resume supplying fuel to Colombia, specifically to the Norte de Santander department, so was agreed in a meeting held by representatives of Colombia and Venezuela. Ivan Orellana, vice minister of Hydrocarbons said “the working schedules were established for each one of the tables identified in Cucuta, everything was arranged in order of importance, the delivery of fuel to the border, the gas-multipurpose pipeline, and the exchange of information about the perception of the natural gas demand in Central America and Ecuador.”

All other axles. In the conversations, Colombia and Venezuela scheduled meetings with Wayúu cooperatives, for the Guajira-Zulia axle, to market fuel in the city of Maicao; for the Apure-Arauca axle, they reviewed the fuel supply logistics and reactivated it. Finally, for the Amazon (Venezuela) – Guainia and Vichada (Colombia) axle, both countries agreed to the reactivation of fuel sales starting January 1 of 2011.



There are still debts with suppliers. The president of Baker Hughes Venezuela, Guillermo Romero, said *“the debt has been reduced in the last two quarters, but there is still debt. There are no payment agreements other than goodwill and the communication with Pdvsa, which has shown an effort to honor its commitments.”* However, even though Pdvsa is asked to pay its oldest debts, 2009, there are no answers to this issue, and this affects the company financially. According to Pdvsa’s executives, this is affecting the industry’s quality and efficiency, since it needs to finance itself in order to continue operating, not including the different problems due to the lack of supplies, which reduces the attractiveness of working in Venezuela. Pdvsa currently has 240 active drills in Venezuela.

Orinoco oil belt’s oil upgraders in trouble. The rains and infrastructure failures have affected three crude oil upgraders. The affected upgraders are Petropiar, Petroanzoategui and Petromonagas, all of which refine 180 thousand, 130 thousand and 120 thousand barrels of heavy crude oils per day, respectively. This delay has caused the anchoring of 18 oil vessels off the coast of Anzoátegui, generating more costs for Pdvsa.

Colombian oil bonds. Reuters announced that the Colombian State-owned oil company, Ecopetrol, had issued bonds for 800 billion pesos, equivalent to US\$417.3 million, to finance next year’s investments. This would be the largest bond issuing in the history of Colombia, since the closest one was the one carried out by Grupo Aval in December of 2009 for 750 billion pesos or US\$391.2 million. The firm’s total bond allocation reaches one billion pesos or US\$521.6 million.

International oil baskets. At the close of the New York market last Thursday, December 2, the WTI was at US\$87.85/bl, showing a 4.9% increase compared to the US\$81.9/bl of the previous Thursday. The Brent increased by 5.4% to reach US\$89.9/bl, compared to US\$85.4/bl of Thursday, November 18th.

Local oil basket price. The Venezuelan oil basket price decreased last week, to close at US\$75.8/bl on Friday, November 19th, up by US\$0.3 or 0.4% from the US\$76.1/bl registered the previous week. Meanwhile, the basket’s annual average is at US\$70.5/bl.





Business Sector Tips

Government acquires 81% of Cativen's shares. The vice president of Venezuela, Elias Jaua, announced that after eight months of negotiations, the State made official the purchase of 81% of the shares of Cativen, a company of the French group Casino, which includes, among other things, six Exito hypermarkets and 35 Cada supermarkets (now Bicentenario supermarkets). An announcement was made in September indicating the French company had received US\$600 million at the time of the initial expropriation announcement and after a first payment of US\$120 million the Government paid the rest of the debt and became the major shareholder.

84.7% of commercial establishments stopped importing during the III quarter. According to data compiled by the National Council of Commerce and Services (Consecomercio) in a "situational survey," 84.7% of respondents said they didn't import anything during the third quarter of 2010. The survey involved a total of 200 sector chambers, and among the results obtained was the fact that 85.5% of tradesmen have had difficulties trying to increase the amounts they import, given the restrictive situation in the access to foreign currency, and the most affected by this situation are small and mid-size enterprises of different subsectors of the tertiary sector of the economy.

... This survey conducted by Consecomercio also reflects the persisting effects of the electric crisis. According to this situational consultation, 79.9% of Venezuela's service providers and tradesmen are still affected by the irregular electric supply in their regions, with the most affected sectors being: telecommunications, automotive and auto parts.

Retail sales volume decreased by 12.3% in September of 2010. The numbers issued by the Central Bank of Venezuela show that the sales volume has suffered a 12.3% contraction (SAAR), with the most affected sectors being: home artifacts, articles and equipment, down by 30.7% compared to the third quarter of 2009, and pharmaceutical, medicinal, cosmetic and hygiene products, down by 30.2%, while food, drinks and tobacco and vehicles dropped by 9.5% and 15%, respectively.

Wholesales reported a 13.4% increase in one year. The Central Bank of Venezuela reported a 13.4% increase in wholesale activities during September of 2010 compared to the same month of 2009. This result was boosted by a 42.4% increase in the sale of construction materials and hardware-store articles and a 38.4% increase in the sale of



other products, also reporting decreases in the fields of food, drinks and tobacco, 4.2% contraction, and intermediate products, -5.1%.

Reform to the Law of Banks to be approved before December 15. The National Assembly expects to approve the Law of Banking Institutions before December 15. This new law will replace the existing General Law of Banks. The National Assembly also expects to approve in first discussion, in this period, the Law of the Public Banking System.

MMC Automotriz expects to assemble 14,700 cars in 2011. The vehicle manufacturer MMC Automotriz expects to assemble 14,700 units next year, according to Jorge Dias del Castillo, vice president of company affairs, a number that, according to their estimations, would represent a 10% market share in 2011.

Insurance companies' premiums increase by 9.5%. According to the balance provided by the Superintendence of the Insurance Activity, the premiums charged to insured subjects, the main source of income for this type of company, increased by only 9.5% between September of 2009 and September of 2010, while, these companies' outcomes reported increased by 13.2% in indemnifications, 17.3% in commissions and 4% in administrative expenses.

Currency allocation for the health sector up by 46.4% this year. Currency authorizations for health sector imports reported a 46.4% increase in the first ten months of 2010. According to a press release issued by Cadivi, the total amount authorized for this sector reaches US\$3.13 billion, compared to US\$2.14 billion authorized in the same period of 2009.

Sudeban liquidates Helm bank and Inversiones Fuerteventura. According to Official Gazette N° 39,560 of November 25, the Superintendence of Banks and Other Financial Institutions decided the liquidation of the company Helm Bank. Among the arguments supporting this decision is the fact that, so far this year, the bank has practically been gradually ceasing operations, plus the fact that it doesn't have enough liquid resources to allow it to grant new loans or make investments to increase its financial income.

BBVA denies being up for sale. The board of directors of BBVA Banco Provincial denied this financial institution was up for sale, as was announced in the Sunday's TV show of former vice president and journalist Jose Vicente Rangel. In a press release, the board of directors expressed this was an irresponsible announcement and that the institution had a solid and efficient position within the Venezuelan financial system.





President Chavez calls private construction companies to work with the Government. President Hugo Chavez called “honest Venezuelan entrepreneurs” to build homes under the parameters established by the Venezuelan Government. He also warned that “Venezuelan entrepreneurs who own a construction company and don’t want to build will be audited.”

Law of Emergency for Urban Lands and Housing approved in first discussion. President Hugo Chavez asked the National Assembly to speed up the creation process of the Law of Housing Emergency, in light of the current situation caused by the strong rains. Said legal instrument will allow the Government to use idle or underused lands to build homes for people affected by floods or landslides such as those occurred recently.

Government listened to bankers. Sources from the National Assembly revealed that the arguments of private bankers before the long-awaited Law of Banking Institutions were considered. The arguments by which private bankers ask to delete 24 articles, and review others, in the draft already authorized in first discussion, were expressed in a private meeting with the Parliament.

BCV made 1% commission for Sitme operations official. Bond purchase and sale operations through the Securities Transactions in Foreign Currency System (Sitme) will generate a 1% commission starting December 1. These commissions, fees or charges calculated based on operations in foreign currency, shall be converted into bolivars at the valid official exchange rate as of the date of the operation.

Brokerage houses have 180 days to sell bonds to Sitme. The Securities Superintendence announced through Official Gazette N° 39,559 dated November 24 that brokerage houses would have a term of 180 days to remove any public debt securities in foreign currency from their portfolios and sell them to the Securities Transactions in Foreign Currency System (Sitme), managed by the Central Bank of Venezuela. According to the normative, said instruments may only be negotiated in Sitme or through private negotiations in commercial and universal banks.

8.1% of 2011 budget to be assigned to housing and infrastructure. Even though the authorities state the investment in infrastructure and housing is a priority, the draft of the Law of Budget 2011 allocates only 8.1% of the total Government spending of VEB 204.2 billion for this sector. According to calculations made by the Venezuelan Chamber of Construction (CVC), the allocation scheduled for next year in infrastructure, housing and related services’ projects (environment and electric energy) reaches VEB 16.4 billion, 1.5% of the Gross Domestic Product (GDP).





More controlled prices. The minister of Nutrition, Carlos Osorio, said a price band was defined for Christmas products. He stated that raisins, almonds, hazelnuts, olives (filled and non-filled), capers, panettone (cake), nougat candy and nuts are to be sold at the prices defined by the National Administration. Osorio indicated that, the prices defined for these products will offer a 20% profit margin for commercial establishments. He added that the Government was aware of the fact that most of these products were not produced in Venezuela, but have been included in the basket of products consumed by Venezuelans in the holiday season.

World Crisis Tips

Confidence stays strong. US consumer confidence increased in November to its highest level in five months, a sign being interpreted as a reemerging of the US economy's strength. The Conference Board, in charge of releasing this index, said the measure reported 54.1 points, exceeding Bloomberg News' consensus expectations of 49.9 points. Consumer's future perspectives about the economy, along with some good discount strategies, helped boost retail sales, as well as the plans to increase the number of jobs available and salaries.

Businesses grow at a fast rate. The Institute for Supply Management of Chicago Inc. released its business barometer, with a reading of 62.5 points, the highest level since April, after having reached 60.6 points in October. Most analysts expected a 59.9-point reading. This indicator proves US businesses are expanding at a much faster rate than expected, which can be considered as a positive indicator which makes us wonder where the world's largest economy is headed in 2011.

Still contracting in some sectors. The Case-Shiller US home price index revealed a slight price increase in September, 0.6%, compared to the same month of 2009, the slightest increase since January of 2010. Moreover, this increase is below the 1.0% expected by analysts' consensus. This sector weakness arises from the end of the fiscal credit granted by the Government to home buyers, along with an unemployment rate of almost 10%, which has strongly affected the demand of this kind of property.

UK unable to settle down. While US's consumer confidence shows signs of strength, UK consumers don't feel the same way, since November's consumer confidence index reported the lowest level in the last four months. The index dropped two points to report -21, when consensus expected -19. The index's 2011 projection is -22 points, two points less than last month's projections.



Perspectives reduced. The Budget Responsibility Office reduced its 2011 growth projections for the UK from 2.3% to 2.1%. The economic outlook has split the opinions of the Bank of England's policy makers who decided to put on hold the plan to purchase bonds for US\$311 billion and leave the interest rate at its historic lowest of 0.5%.

Possible infection. The failure of Ireland's rescue plan to stop a wave of bond sales in the European Union's markets could mean the rising of a need for more rescues to come, starting with the latent Portugal. The costs to insure the Portuguese debt in case of incompletion increased today to a record figure and Spanish bonds dropped more than ever since the debut of the Euro for the second consecutive day, thus increasing investors concerns about public clerks' lack of tools to contain a debt crisis threatening the currency's survival.

Unemployment down to its lowest level. Not everything in Europe is negative. Unemployment in Germany went down for the tenth consecutive month in November, while business optimism increases. The number of unemployed people decreased by 9,000, to reach 3.14 million, the lowest level since 1992. The unemployment rate remained at 7.5%. However, the only negative mark in this indicator is the fact that analyst's consensus expected a 20,000-people decrease.

Canada weaker than expected. Canada's GDP grew by 1.0% during the third quarter of 2010, when consensus expectations aimed at a 1.5% increase. The Canadian economy contracted more than expected in the third quarter of 2010, since the hard currency exchange rate was a roadblock for exports, while imports were boosted, forcing the central bank to maintain interest rates unchanged for next year.

Political Tips

We need to be radical. *"The Venezuelan upper-class needs to know the aggression will cost them,"* assured President Hugo Chavez during an act against imperialism in national broadcasting carried out in the Elliptical Hall at the National Assembly, in which he reminded that Guillermo Zuloaga had accused him before the US Congress of being an enemy to that country. *"This out-of-order, antipatriotic high class needs to know that one or more of its well-known representatives' visits to the empire to talk dirt about the Venezuelan Government will not be a freebie, especially when he owns a TV channel here,"* said President Chavez. Chavez also asked to *"prepare a severe law*



to prevent the Yankees from financing political parties, NGOs and political personalities, as well as to make the revolution radical,” and asked his National Assembly and National Armed Force followers to “be extreme left-wingers.” At the end of the act, representatives of all Public Powers signed the so-called “Anti-imperialist Manifest for the Defense of our Homeland.”

New Assembly needs to deepen socialism. “At the PSUV, those of us who are radical enrolled in a single wing, President Chavez’s wing. No one can come trying to be more radical than Hugo Chavez, and therefore, that radical wing will be taking over the National Assembly next year,” so was expressed by elect representative for circuit number 1 of Caracas, Freddy Bernal. The parliament member reiterated the Venezuelan right wing should be clear that there is no possible negotiation or conciliation with them, since the sole purpose of the new National Assembly will be to deepen socialism.

Government looks to forbid foreign financing to political parties. National Assembly Representative Juan Carlos Dugarte said that due to the alleged strengthening of the opposition’s destabilization activities with foreign resources, the parliament was working to create a law to control, forbid and stop such illegal funding. Carlos Sierra, member of the PSUV Youth Division said that State universities, communities and institutions were encouraging the debate about this law to control foreign financing, and the proposal had received the people’s support.

National Assembly to start working on it right away... The National Assembly’s Permanent Commission for Internal Policy, Human Rights and Constitutional Rights, and the Foreign Policy instance are speeding up the process to prepare the first report on the draft to the special law that will regulate and control the international funds received by some non-governmental and political organizations in Venezuela. So was indicated by the first vice president of the National Assembly, Representative Dario Vivas, when he stated a work document was already being prepared to be presented within days for a plenary debate in the Parliament.

Chavez in Unasur: After the presidents and chancellors’ Unasur summit celebrated in Guyana, President Chavez warned that the extreme-right-wing was trying to “divide Unasur.” He branded Unasur as “fast and efficient.” “Unasur has successfully acted in almost all cases we’ve heard of.” “The coup against Evo, the coup against Correa,” he reminded. “Unasur is proving to move fast and be efficient,” referring to the latest coup attempts and the tensions between Venezuela and Colombia. Regarding the OAS, President Chavez said “it’s becoming increasingly useless and now that it is divided, even more.” “OAS weakens because the empire is present. The US has always seen the OAS as its Minister of Colonies, all they want to do is compel their will,” he warned.



Everyone will participate in the new Law. The ministry of the People's Power for College Education, Edgardo Ramirez, urged students, university employees, workers, researchers and graduates, as well as communal councils, to deliver their proposals to the National Assembly's Education, Culture and Sports' Commission to create a new Law of Universities. Minister Ramirez said they had received nearly 10,000 folios in proposals. He stated the importance of all collage students' being aware of this initiative to create a new college normative to respond to the defiance and challenges of the Bolivarian land.

Eveling Trejo de Rosales under investigation. CNE ordered its Political Participation and Financing Commission to open an administrative investigation for alleged irregularities committed in the electoral campaign to the Mayor's Office of Maracaibo, Zulia State. This decision was made after analyzing a denounce made by PSUV Representative, Rafic Souki, for the alleged participation of fugitive Manuel Rosales in the electoral campaign promoting the candidacy of Eveling Trejo de Rosales to Mayor of the capital city of the Zulia state.

Fedecamaras to appear before the TSJ. Last Thursday, the president of Fedecamaras, Noel Alvarez, said he would appear before the Supreme Court of Justice (TSJ) on December 7 to file a suit for the protection of economic rights established in the National Constitution. *"We are going to ask the TSJ to declare whether the National Constitution is valid or not,"* said Alvarez. He also said a statement by the highest court was necessary because he claims the National Government is not complying with the Constitution, especially in the expropriation cases.

Towards a true unity? Governor of Lara, Henri Falcon, will travel to Guarico to back the candidacy of Carlos Prospero, member of Accion Democratica (AD) supported by the MUD, to Governor of that state. With this action, Falcon would be disobeying the guidelines of Patria Para Todos (PPT), the organization he belongs to, of not supporting any Governor candidates in the Guarico state after the withdrawal of the blue party's candidate, Franco Gerratana.

Internet services will not be regulated. The second vice president of the National Assembly, Representative Marelys Perez Marcano, denied the Parliament had plans to regulate internet services in Venezuela. She explained that the reform draft to the Law of Science, Technology and Innovation, in article 2, established information services as public interest, and accused the opposition wing of "discrediting" the Government's labor. The AN director also denied the information leaked through social networks about a possible regulation of Twitter.





Settling accounts... Governor of Carabobo, Henrique Salas Feo, sent a letter sent to vice president Elias Jaua, head of the Federal Government Council (CFG), rejecting the items in which State and municipal governments and communal councils are affected in terms of budget allocations due to a miscalculation. In item six discussed in the CFG plenary session, Governor Salas Feo indicates state governments were being deprived of VEB 2.3 billion, municipalities VEB 1.53 billion and communal councils VEB 1.64 billion. All this due to the fact that the percentage of LAEE* resources used to distribute the funds among the territorial entities and People's Power-based organizations for VEB 1.46 billion, did not represent the minimum percentage of 25% of all revenues derived from taxes to the hydrocarbon and mining industry. He stated that the percentage of LAEE resources used for the distribution was 79% lower (VEB 5.47 billion) than the amount that was supposed to be considered in the 2011 Budget.

Henry Rangel Silva: General in Chief of the FANB. In the act to celebrate the 90th anniversary of the Bolivarian Military Aviation, President Hugo Chavez promoted Henry Rangel Silva to General in Chief, the man who weeks ago said in an interview in a national newspaper that the Armed Forces were "tired" of the President's project. Libertador and Francisco de Miranda decorations were also awarded to representatives of the National Bolivarian Armed Force (FANB).

A new appointment. The minister of Foreign Affairs, Nicolas Maduro Moros, was appointed as vice president of the National Government's political area, as per presidential order published in Official Gazette. The text indicates the objective of this appointment is to "strengthen the protagonist revolutionary democracy, consolidating the social-political base of socialism." This is the second time the chief of the Venezuelan diplomacy holds an office in the sixth vice-presidency, considering he was also appointed in September of 2009, when the Presidential Council was created.

Chinese airplanes coming. The Venezuelan government is currently negotiating with China to purchase military transportation airplanes Y-8, with which the Administration plans to upgrade the country's airborne defense fleet, according to the General Commander of the Bolivarian Military Aviation, General Jorge Oropeza Pernalet. Oropeza stated Venezuela expects to purchase between 10 and 12 units for staff transportation. The agreement is contemplated in the agreements signed by Caracas and Beijing. The Venezuelan News Agency (AVN) indicates the Ministry of the People's Power for Defense expects to complete the purchase agreement by 2011. The Y-8 is a light airplane capable of transporting 88 passengers or 20 tons of cargo. It

* The Law of Especial Appropriations for States and the Metropolitan District of Caracas derived from Mining and Hydrocarbons (LAEE) is the legal instrument by which the order established in article 15 of the Constitution of the Bolivarian Republic of Venezuela is enforced. It establishes a system of especial economic allocations in benefit, mainly but not exclusively, of those states in which territories are developed mining and hydrocarbon activities.



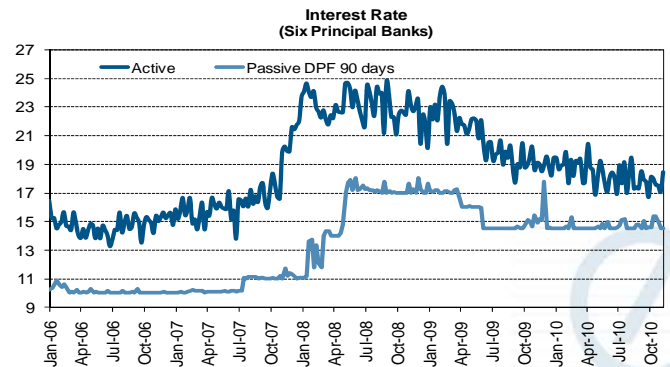
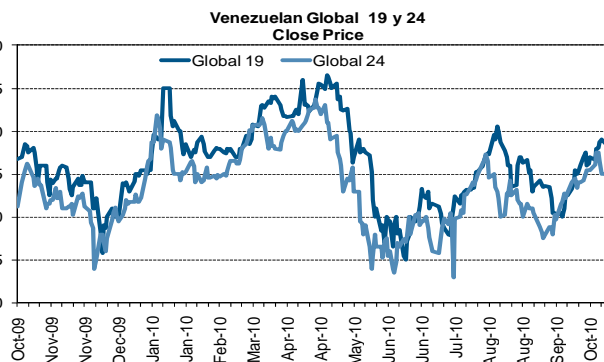
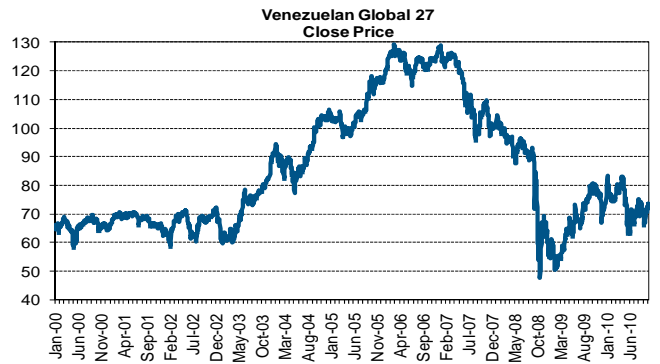
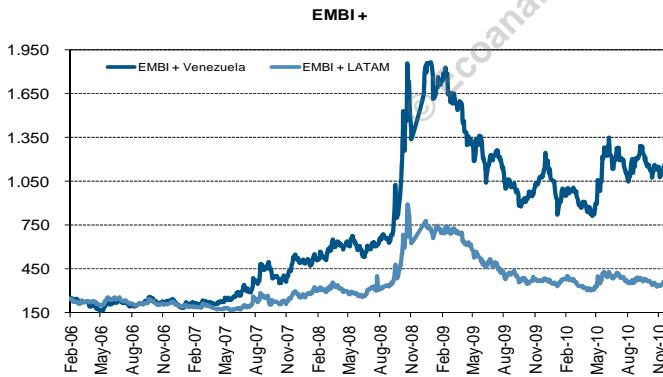
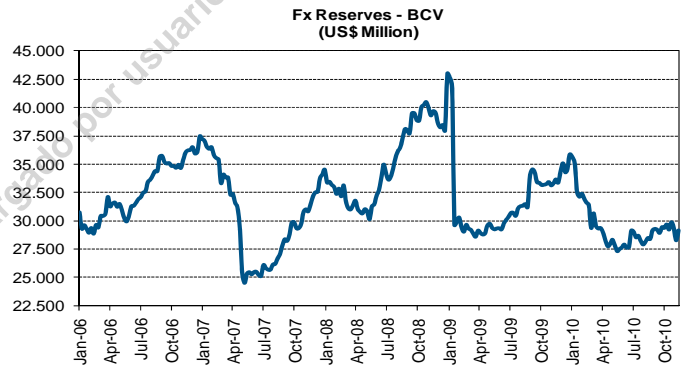
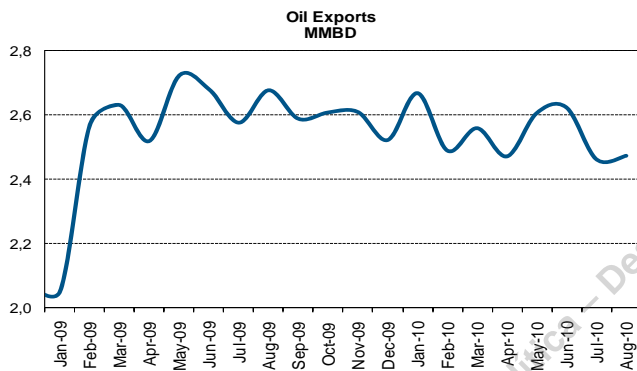
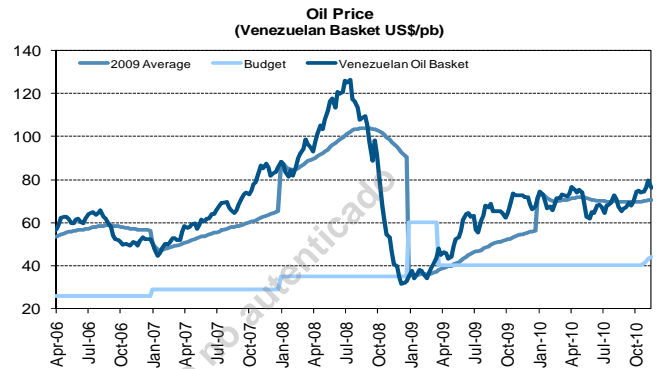
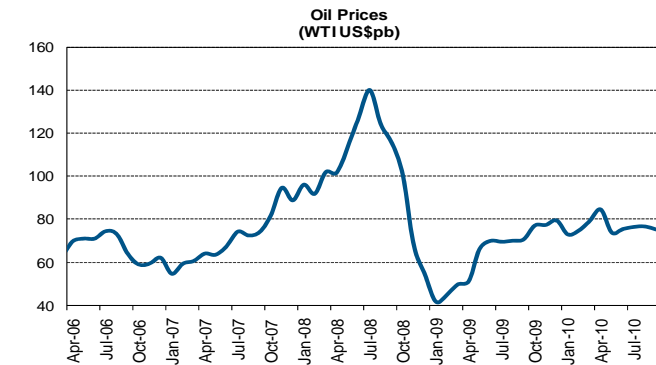
has 7.3 flight hours of autonomy. In virtue of the bilateral agreements, Venezuela already received this year 18 units of K-8, a two-seater training and ground attack airplane.

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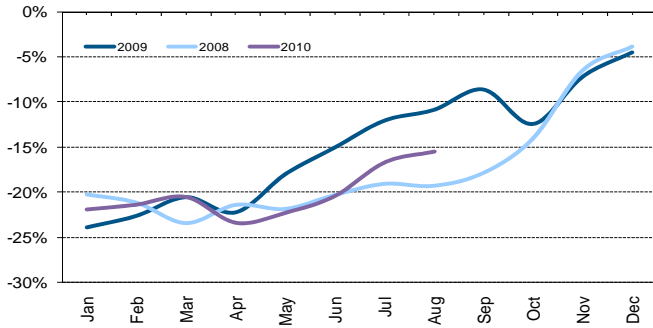


ECONOMIC OVERVIEW





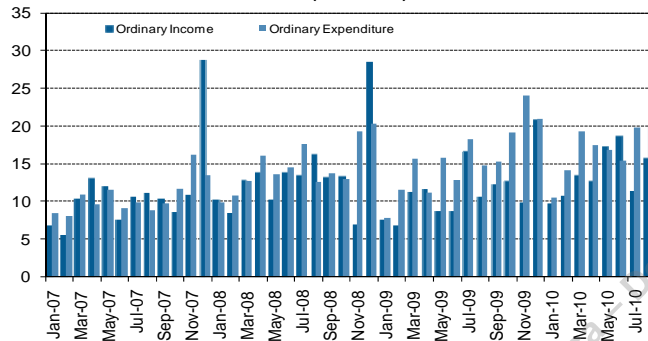
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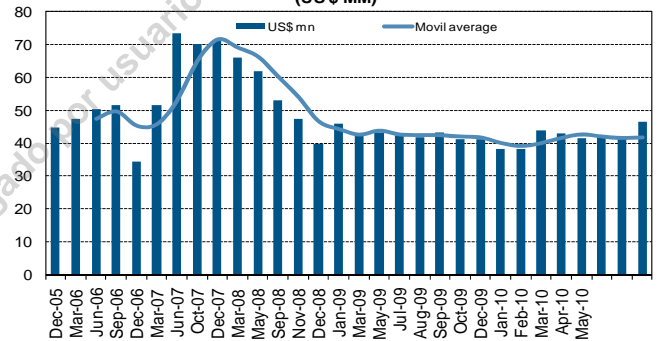
Inflation (Last 12 Months)



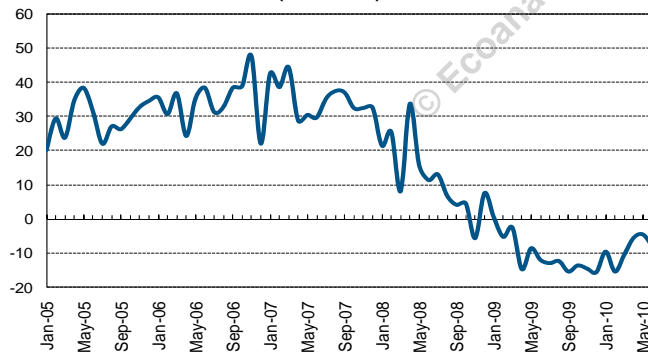
Central Government (VEB Billion)



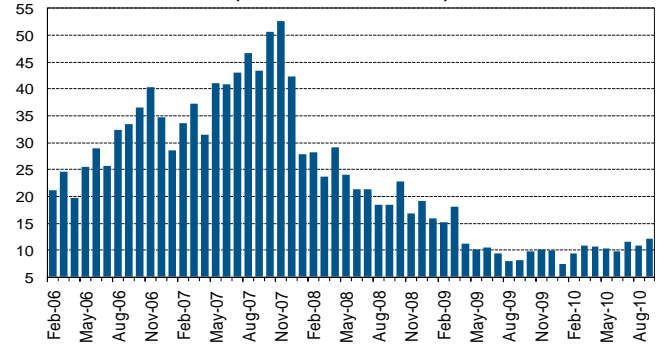
Resources of the State (US\$ MM)



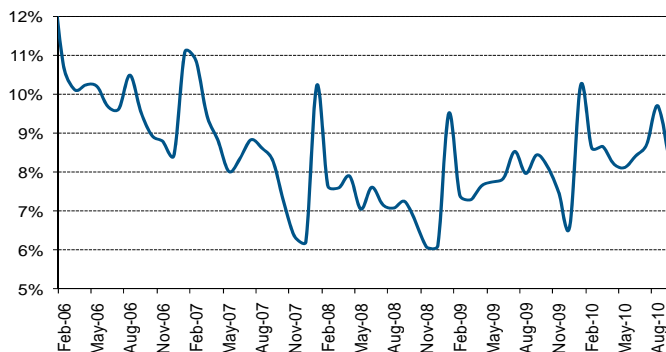
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

