



Weekly Report

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2010: year of restrictions
2011: year of decisions

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The year 2010 is almost in the books, and in Venezuela we will always remember this year as what we at **Ecoanalítica** have decided to call it: the year of restrictions. And like everything in life, it has a beginning and it comes to an end. And every end leads to a new beginning, and that is what we will be expecting from the year 2011. This Report welcomes the New Year and offers some views on how the coming year will be in terms of economic issues based on our last Outlook Report, *Venezuela: caught between "the road to victory" and "a lost cause."*

Why the year of restrictions?

Let's not forget that 2010 began with a devaluation of the official exchange rate, an electric power crisis without precedent, restrictions imposed on the foreign currency market continued, the disappearance of the legal parallel market, and all this happening in the middle of a significant real cutback in public spending. But beyond all this, the Venezuelan economy's poor performance has to do with the economic model that is being implemented by the Administration. This model does nothing to attract private investment and the performance of the public sector, which is becoming more and



more directly involved in the economy and production, leaves much to be desired in terms of efficiency and productivity.

So, most Venezuelans will say good riddance to 2010, grateful to have survived it and ready to wash away the bad feeling it has left in most the population; not quite what 21st Century Socialism had planned for the country. At the close of the year, the Venezuelan economy will probably end up shrinking by 1.6%, and inflation will close the year out at 27.5%.

Government net borrowing increased by US\$13.19* billion and the international reserves dropped by almost US\$7 billion. Added on to these “macro” figures are the following “micro” figures: people’s purchasing power dropped as did the performance of the main sectors of the economy along with sales. And one can’t forget that all this happened in an environment of recovering oil prices.

Desired oil prices

At *Ecoanalítica* we still believe that global macroeconomic data will improve, and with them, the oil market, which in the end translates into new and better expectations. Regarding global crude oil demand, we expect a growth of 2.1 mb/d with respect to 2009 (0.6 mb/d more than in our previous report), based on the fact that demand will continue to grow in several regions, there will be lower inventories, and winter.

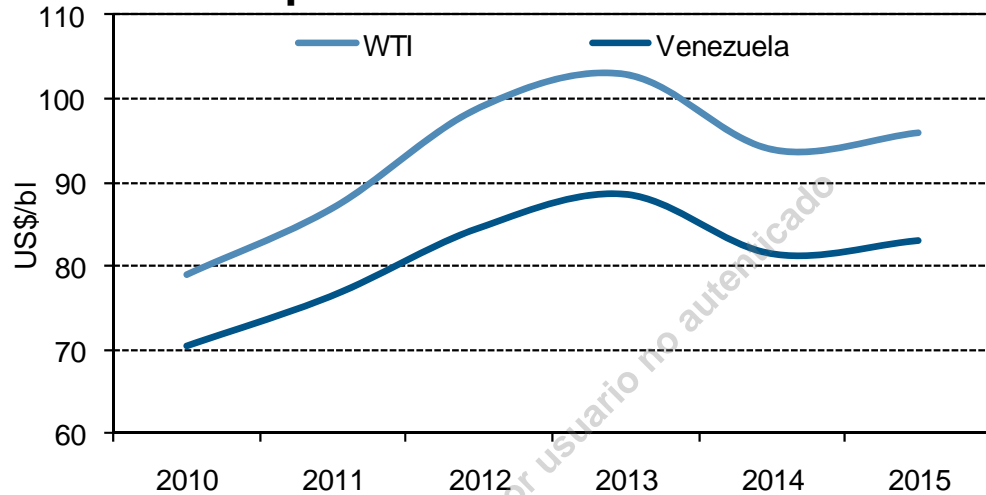
Based on these figures, we will stick with our 2010 estimates for the WTI spot price at US\$83.0/bl. And in 2011, we expect this spot price to around US\$87/bl per barrel, though a number of forecasts point to it being able to reach US\$90/bl. With all the modifications and considering the historical average differential between the Venezuelan oil basket and WTI, we expect average price of the Venezuelan basket to move around US\$71.0/bbl. in 2010, i.e. matching our estimate at the beginning of the year. In 2011, we expect the Venezuelan basket to settle at US\$77.0/bl, and in for the midterm we expect the average to be around US\$85.0/bl.

* At the close of the third quarter of 2010, according to the figures of the Ministry of Planning and Finances





Oil price outlook 2010 -2015



Sources: IEA, EIA, Opec, Bloomberg y Ecoanalítica

Domestically, the current context of higher oil prices hasn't brought about the economic growth and social wellbeing levels that were observed during the years of the oil boom (2004-2008). This is due to the stagnation in PDVSA's oil production since 2005; which in turn, as we have said many times before, is due to PDVSA's new business vision, where it has to become a social production company, where social investment comes first, and the oil business comes second. This is why, since the beginning of 2010 PDVSA has tried to implement a strategic investment plan to increase the production of oil and gas in the next five years, to generate better economic growth rates and thus provide support to the political and economic viability of the 21st century Socialism. But, since everything in Venezuela is bound by the needs of a political project whose basic intent is to remain in power, regardless of the amount of resources to achieve it, the question is, will PDVSA be able to do that?

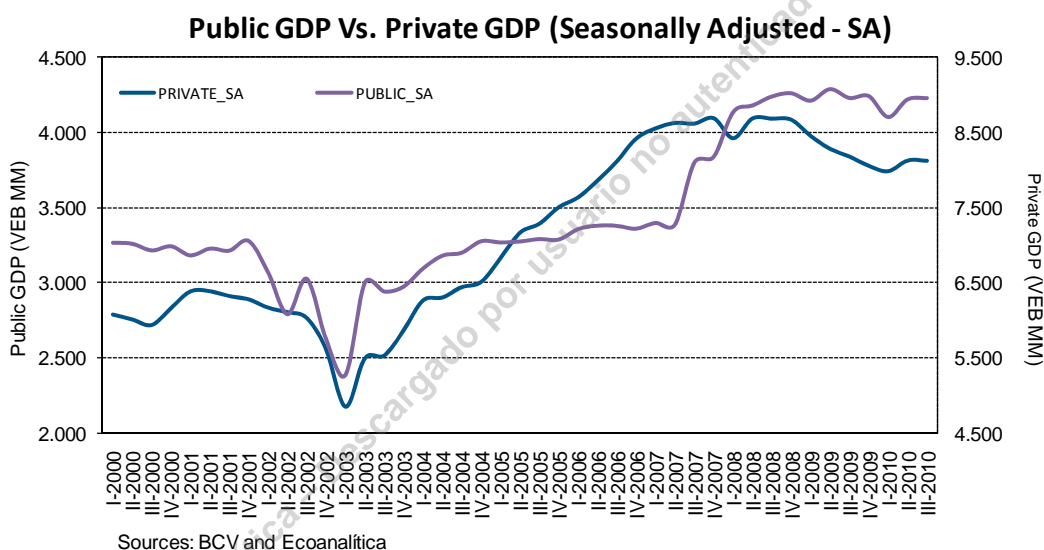
Will the economy grow in 2011?

In 2011, it's true that the economy will probably post growth figures in the plus column, which technically mean it has come out of the recession, but this doesn't mean that the economy has recovered and will continue to expand at a healthy rate. It's doubtful that growth next year will reach 2%, which is way below the average for other countries in the region, though it will be enough to bring new oxygen to sectors which sorely need it, especially commerce and mass consumption.





It is important to note that despite the six quarters of recession in the national economy, non-lucrative community products and services and Government products and services in general are two sectors that continued growing in a sustained manner, although not at an accelerated pace, and they will continue to do so, slowly but surely in the next few years.



Where are economic policies headed?

The first semester of 2011 could be much like the first semester of 2010 but with the following differences:

- A devaluation of the official exchange rate, CADIVI and/or the SITME is not out of the question. In our weekly report N° 45: *Devaluation in 2011: not everything has been said*, we presented the dilemma that exists in two Government factions regarding the issue of devaluating or not in 2011, because the decision has not been made yet, and it is well known that a decision to devalue is eminently political, and President Chavez has the last word.
- The Administration will continue with its strategy to increase borrowing, specifically foreign debt, with issuances that could reach US\$ 9.0 billion between Republic bonds and PDVSA bonds.
- In fiscal matters, the Administration will be more dynamic in terms of spending as well as revenues, slightly increasing the former in real terms in order to improve the management of the government, and with respect to the latter, don't be surprised if there is a reform of the VAT tax Law and the return of the Financial Transaction Tax (ITF).



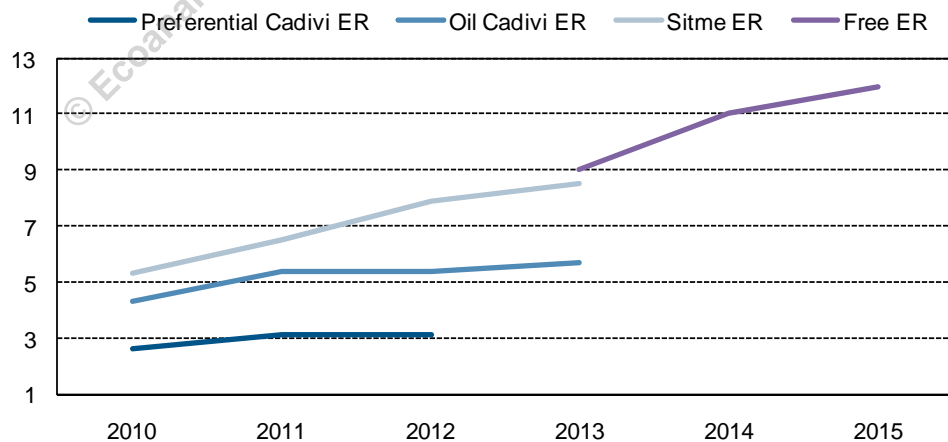
- The legislative agenda. An important point to keep an eye on with all the laws that will be approved during the closing of the year and during the beginning of next year. It would be wise to get familiar with the new Organic Labor Law.

A point to highlight: Long term exchange policies

For the long term, our predictions are even more daring; as we said before, we are predicting a change of Government at the 2012 presidential elections, so the implementation of a market exchange rate system is a necessary step for the new Government. All based on the premise that the exchange rate will be completely unsustainable by then, and we base our predictions on the following:

- The elimination of CADIVI's present dual exchange rate in the beginning of 2013; only the present oil exchange rate will remain, with a moderate devaluation with respect to 2012.
- The release of SITME's exchange rate in the beginning of 2013: access restrictions to this market will be lifted, and the exchange rate will be determined by supply and demand.
- The total elimination of exchange controls in 2014: there will be a single exchange rate, which is very likely to be of the dirty float type.

Long-term exchange rate forecast



Source: Ecoanalítica

Obviously, all this is part of a probable scenario that serves as a framework for our clients to plan in the long term; the forecasting of structural changes, which is what we are doing, is not the result of an econometric study, but rather of a visualization of possible political scenarios. In our first weekly reports of 2011, we will build a scenario based on the continuity of the



Government beyond 2012, in order to complement the vision that we present in this perspectives report.

Will the Administration become more radical with respect to the economy?

The other important point we want to emphasize has to do with the radicalization of the present government. It seems that after September 26, the Administration decided to accelerate its reforms towards a “Socialist State”, measured by a radicalization in the political arena. At **Ecoanalítica** we believe that this is not final, at least until 2012. The next months will be marked by the upcoming presidential election, so the Administration, rather than being radical will be pragmatic.

This pragmatism will lead it to flexibilize some aspects, particularly economic ones, and the upcoming fiscal adjustment (devaluation, VAT rise, and imposition of ITF are examples of these) so as to recover lost ground and start the electoral campaign with an advantage. This doesn't mean that the Administration will abandon some radical trends, particularly in politics. Pragmatism will be the vehicle to improve the administration, particularly in sensitive areas: housing, infrastructure, and security. The radicalization will be used to join together the chavistas, move forward in the creation of the “*people's power*”, and discourage opposition sectors. Venezuela will move between these two extremes in the next few months.





Economic Tips

Cepal: Venezuelan GDP -1.6% for 2010. The Economic Commission for Latin America and the Caribbean's 2010 preliminary regional economy balance published that as of the end of this year the region will have grown by 6.0%, after having reported a 1.9% contraction the previous year. According to the commission, this behavior is due to the countercyclical measures applied by region's governments since mid 2009 and the fast recovery of the international economy. The commission estimates a 4.2% Gross Domestic Product (GDP) expansion by 2011, *"based on a more pessimistic scenario for international economics, less public spending and the exhaustion of idle productive capacity."* Among the best performing regions are Mexico and Central America with an average expansion of 4.9% and the Caribbean with a GDP increase by 0.5%; on the other hand, Haiti's economy will likely report -7.0% and Venezuela -1.6%.

Cadivi pays debt to Colombian companies. In an official release, the Currency Administration Commission (Cadivi) said that after several meetings with Colombian entrepreneurs and the Colombian Ambassador, Venezuela has already started paying its debt to Colombian suppliers. The currency administration commission assured that, as of today, they had already paid US\$410 million to Colombian companies.

Communal economic structure established. The National Assembly (AN) was appointed by the National Government to create the socialist model. Parliament representatives decided to activate the laws that give way to the territorial reform, strengthen communal groups and give a structure to the regime, leaving properties in the hands of communities. Among the reviews of the five communal laws, the Organic Law of the People's Power was approved, a law in which the Communal State is created as well as the bases for communal economy. The instrument reads: *"communal economy allows organized communities to constitute means for production, distribution, exchange and consumption of goods and services, as well as knowledge and knowhow, developed in the form of social community property in order to satisfy collective needs and socially reinvest surpluses"*.

Currency allocation increased compared to 2009. The government allocation of foreign currency has increased by 9.5 in 2010, compared to last year. According to the Currency Administration Commission, between January 1 and November 30 of 2010, the Central Bank of Venezuela allocated US\$33.37 billion to cover the different applications by different economic sectors. The daily average is US\$123.1 million, a



7.2% increase compared to the same period of 2009, when the daily average was US\$114.9 million.

Unemployment up by 9.0% in October. According to official numbers published by the National Institute of Statistics (INE), unemployment reached 9.0% in October, 0.9 percent points (pp) more than the unemployment reading of October 2009, and 0.6 percent points more than in September of 2010 when it reached 8.4%.

Unemployment by sector. The National Institute of Statistics' (INE) monthly report indicates that the number of public sector employees decreased by 0.6%, or 104,562 people in October compared to September, reaching 2,280,856 people. Over the last 12 months, the number of public employees has increased by 23,730 people (1.1%). As to the private sector, the number of employees increased by 0.6% a similar proportion but a different number of people (48,450), reaching 9,768,451 people.

Number of employers keeps decreasing. According to INE, the number of employers has continued to decrease: over the last 12 months it has dropped by 24.9% and 22.9% so far in 2010.

Interest rate. The lending rate for the first week in December was at 17.5%, down by 0.5 percentage 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 2.2% going from US\$28.28 billion during the fourth week in November to US\$28.88 billion during the first week of December. Compared to the same period last year, international reserves have dropped by 15.8%.

Monetary liquidity. Monetary liquidity for the first week in December was up by 0.3%, compared to the previous week settling at VEF 279.1 billion. Year-to-date the M2 has increased 18.4% and 19.6% year-on-year.

Sitme figures. To date, US\$4,790 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$35.8 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$223.2 million, US\$13 million less than last week when braided US\$209.9 million.





Oil Tips

Production down. According to the Organization of Petroleum Exporting Countries (OPEC), during November Pdvsa produced an average of 2.25 million barrels of crude oil per day. This number represents a 3.0% drop compared to the production of November 2009, when the nation produced an average of 2.32 million barrels of crude oil. Also, in a month/month basis, November's result indicates a 1.4% decrease in the volume of crude oil extracted compared to October of 2010, when 2.28 million barrels of oil were produced each day. According to the Ministry of Energy and Mines, Pdvsa currently reports a production of 3.0 million barrels of oil per day. However, November's numbers are still unknown, and a number of malfunctions occurred during this month in the Orinoco oil belt's upgraders.

Production unchanged. OPEC's monthly report indicates oil production in the 11 member countries reached 26.8 million barrels per day, a slight decrease by 0.8%, compared to the previous month. This results from an increase by over 20 thousand barrels per day in Algeria, Iran, Libya and Saudi Arabia, while in Angola, Nigeria, United Arab Emirates and Venezuela, production decreased by more.

Both demand and supply increase. According to OPEC, the global oil demand increased by 130 thousand barrels per day in November. This increase places the average demand at 87.2 million barrels of crude oil per day. The same report indicates oil supply in non-OPEC countries increased by 180 thousand barrels per day, while the supply in the cartel dropped by 43 thousand barrels per day. According to OPEC, its member countries' crude oil supply represents 34% of the total crude oil traded globally.

A dilemma. OPEC and the International Energy Agency (IEA) presented different opinions about the future of oil production and the global demand of crude oil at OPEC's assembly in Quito. OPEC said the current band could be maintained by consuming nations. However, the IEA said the US\$90/bl price started to seem harmful for the recovery of the world's economy, and by reaching levels of US\$100/bl, OPEC and Saudi Arabia would receive a lot of pressure to increase production. On that note, the Venezuelan Minister of Energy and Oil, Rafael Ramirez, once again stated his agreement with a price around US\$100/bl, reminding that the Venezuelan oil basket's price is lower than the WTI and Brent indicators, due to the quality of its oil.

14 accidents in one month. Increasingly worrisome are the labor accidents occurred in Pdvsa's facilities. According to Eudis Girot, director of the Single Federation of Oil



Workers of Venezuela (Futpv), Pdvsa has reported a significant increase of labor accidents, especially in joint venture companies. Over the past month, 14 workers suffered major accidents, amongst which we can mention the incident occurred at Petroanzoategui's solids' room, where worker Carlos Lucena received an electric shock that caused him third degree burns.

But there are other statements. The General Management of Pdvsa Refinacion Oriente stated that over the past two years the gross frequency of work accidents had decreased in their periodic accidents' indicator (injuries per million hours worked), being 16.4 in 2008, 12.2 in 2009 and 8.7 in 2010, a 46.95% decrease in 24 months. This statement contradicts what Futpv representatives have reported, indicating the company's industrial safety measures are in poor conditions, and the lack of maintenance makes it impossible for them to produce the 620 thousand barrels at the Orinoco oil belt, as published by official sources.

Pdvsa prioritized electric plans in Falcon during the third quarter. The difficult electric generation and distribution situation in Venezuela's central (especially Falcon), western and eastern regions, forced Petroleos de Venezuela's projects regarding electric service to become a priority during the third quarter of 2010. According to a Pdvsa quarterly report, the state-owned oil company moved forward with civil works and the installation of several electric generation plants for the National Electric System.

Repsol finds natural gas deposit in Bolivia. Consorcio YPFB Andina S.A., integrated by Repsol YPF and the state of Bolivia, announced in a press release it found a new natural gas deposit in the Santa Cruz region. "This finding took place after 79 days of drilling labors down to 3,680 meters in the Rio Grande-81 well, a structure that recently showed positive results." Preliminary estimates ventured on well RGD-81 aim to a production of 6.3 million cubic feet of natural gas per day, and 250 barrels of oil per day. "This new finding will allow YPFB Andina S.A. to strengthen even more its position as Bolivia's main hydrocarbon producer, with a market share of over 40% of national natural gas production and 37% in condensed gas."

Resumes operations. Cardon refinery resumed operations after having repaired the electric system affected last week by the heavy rain and electric storms, said Pdvsa's representatives. "Domestic and international deliveries are being met as scheduled," said the company. Pdvsa announced "El Palito Refinery was currently operating normally in all of its process units. The existing stock in the refining center, as well as in the distribution plants of Yagua and Barquisimeto, satisfy the domestic demand," said the state-owned oil company.





The electric issue was a priority. Electric generation and distribution in the central, western and eastern regions of the nation were a priority in Pdvsa's projects regarding the electric service during the third quarter of 2010. Pdvsa moved forward with civil works and the installation of several electric generation plants for the National Electric System.

International oil baskets. At the close of the New York market last Thursday, December 9, the WTI was at US\$88.8/bl, showing a 0.9% increase compared to the US\$88.0/bl of the previous Thursday. The Brent increased by 0.9% to reach US\$91.7/bl, compared to US\$90.9/bl of Thursday, December 2nd.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$82.5/bl on Friday, December 10, up by US\$3.4 or 4.2% from the US\$79.2/bl registered the previous week. Meanwhile, the basket's annual average is at US\$71.0/bl.

Business Sector Tips

VEB 717 billion authorized to pay for Cativen's shares. The National Assembly's plenary session authorized a supplementary appropriation to the Ministry of the People's Power for Commerce for VEB 717.6 billion to be transferred to Corporacion de Mercados Socialistas, S.A. (Corporation of Socialist Markets, Comercio). The funds requested will help pay for 40% of the shares of the company Cadena de Tiendas Venezolanas S.A. (Cativen), property of the Casino Group.

Cadivi reports payments for US\$410 million to Colombian companies. The Currency Administration Commission (Cadivi) announced in an official statement that after several meetings with Colombian entrepreneurs and the Colombian Ambassador, they have been able to pay some of the Venezuelan government's debts with Colombian suppliers. So far, Cadivi has paid US\$410 million.

Private banking sector fears cuts to foreign credit lines. The reform draft to the Law of Banks states the banking sector is of public utility, a step that, according to financial institutions' remarks made to AN representatives, could have negative consequences on credit lines, an important element for import operations.

Productive restructuring Fund to be created. The minister of Agriculture and Lands, Juan Carlos Loyola, said VEB 350 million had been authorized to support



farmers who were affected by the heavy rainfall, assuring that no Venezuelan producer would be left out of the Government's plans in this regards. Other plans include the creation of a productive restructuring fund to start up with VEB 200 million, different from the 100 million assigned for the Zulia state. And a third measure will be to offer support in terms of rural infrastructure, such as the development of bridges, agricultural roads and canals, for which VEB 150 million will be assigned.

Industrials: Sector's idle capacity at 48%. Despite the slight increase reported in the third quarter of 2010, the manufacturing sector's immediate future seems compromised. As a matter of fact, according to the Venezuelan Confederation of Industrials (Conindustria), as of the end of the third quarter of 2010, the used capacity reached only 51.8%.

Movistar's revenues increased by 20% in 2010. The president of Movistar, Juan Antonio Abellan, said that despite having lost over 400,000 users this year, the telephone company's income grew by 20%. As for the problems the company had to go through to offer international roaming to its clients, old debts have been getting paid, since the company paid the due amount for US\$600 million.

25% growth projected in the telecommunications sector for 2011. The telecommunications sector, one of the few sectors reporting growth in Venezuela despite the recession, will keep the same trend in 2011. According to statements issued by the president of the Chamber of Telecommunication Service Companies (Casetel), Carlos Sanoja, the sector's activity will report a real growth between 20% and 22%. A growth between 20% and 25% is projected for 2011.

Reform to the Law of Social Responsibility in Radio and Television in vogue again. After a polemic debate the subject had cooled off but not for too long, since the intention to regulate the contents released through electronic media became news once again. This time the request was introduced by the country's vice president. The new document will incorporate not only radio and television but also electronic media, which, should the reform be approved, will be restricted from publishing specific messages and accessing public portals.

... Telecommunications to become "public patrimony." The government charged again last week and presented a new reform draft contemplating that open, community and non-profitable radio and television and national audiovisual production services are reserved to the state.

CAF created a fund for US\$300 million for rain-related emergencies. The Andean Development Corporation (CAF) announced the creation of a fund for US\$300 million to face the crisis generated by the heavy rains that have affected several Latin



American countries over the past few weeks, according to an official statement issued by the organization. The first country to receive resources from this fund was Panama: CAF authorized a loan for US\$100 million to assist 4,000 people affected by the heavy rains. Besides the loan, the organization reported it had donated another US\$50,000 to Panama.

Chavez Administration urges TSJ to review measure regarding CPI charges in the purchase of home units. Last Tuesday, President Chavez visited the shelter located in Fuerte Tiuna and, not only assessed the refugees' situation, but gave away certificates to families whose homes were in residential developments currently occupied by government auditors. In the act Chavez said "I hereby publicly urge the Supreme Court of Justice to issue a statement in this regards as soon as possible, and force these developers to refund their money."

75% of companies are concerned about the current exchange policy. The Venezuelan-American Chamber of Commerce and Industry (Venancham), an organization encompassing a total of 1,100 local and transnational companies, stated that 75.4% of these companies were concerned about the Government's current exchange policy, 60.4% were concerned about inflation, 48.6 about regulations and price-production controls, 45.9% about the fall in consumption, 32.0% about the lack of direct foreign investment in Venezuela, 30.4% about the tax burdens, 14.4% about the lack of investment in public services and 10.1% about the high public indebtedness.

Government to purchase two thousand homes from the private sector. The Venezuelan Government plans to purchase two thousand home units from the private sector to give them away to families affected by the heavy rains in different states. The budget to finish building 9 thousand homes and begin building 12 thousand for refugees was also authorized.

Chavez announced official audit of 43 latifundia. President Hugo Chavez announced the official audit of 43 latifundia in the south coast of the Maracaibo Lake, totaling 20,200 hectares. In the past, unproductive lands of over 5,000 hectares were considered latifundia, but in the reform to the Law of Lands and Agricultural Development, latifundia are pieces of land that don't exceed the region's occupation average or reach an ideal yield of 80%.

Financial and agricultural reform at the mercy of presidential orders. The fourth empowering law of President Hugo Chavez could leave in his hand the authorization by presidential order of any reforms he might consider necessary in the national financial system, as well as in the fields of agriculture, mining, environment, food and housing. Among the pending laws that could be authorized by the Administration to be published in Official Gazette without discussion are: the Law of the Public Banking



System, the Law of Urban Lands and Housing and other laws aiming to delete agricultural debts and the fiscal reform.

National electric system accumulates 20 years of short investment. Even though the national Government constantly monitors the national electric system to avoid power shutdowns and failures that could affect the people and the nation's economy, it is clear that 20 years of short investment in the area, for instance in terms of transmission and maintenance up until at least two years ago, make it difficult for the system to be efficient. The plan to install 5,000 megawatts of thermoelectric energy, promised for 2010 in response to the electric crisis lived from 2009 to mid-2010, has not been fulfilled yet.

World Crisis Tips

Bush's tax cut extension to be discussed this week. The US Congress is to discuss an extension to the temporary tax cut applied during the Bush Administration due at the end of 2010. 60 votes out of 100 senators are needed to authorize the measure, which also extends benefits to the unemployed.

Tax cut increases bonds' yield despite the FED. The imminent approval of the tax cut increased the yield of US treasury bonds due to concerns about the deficit increase the measure represents for future years. The Federal Reserve recently authorized the purchase of US\$600 million in quantitative easing, in order to stimulate the economy through a reduction of these bonds' yield, but in the short term the imminent approval of this tax cut has compensated the effect of the FED's efforts.

US Consumer sentiment increases unexpectedly. University of Michigan's consumer sentiment survey carried out early in December reveals a 3.9% increase in the consumer confidence index, going from 71.6 to 74.4 points, with this being the highest level registered since June exceeding market consensus expectations (72.5). The index is currently 2.3% over its level of December 2009. It is worth reminding that during the last ten years, this index has had a 60% correlation with the quarterly growth of consumer spending. Consumers have a much more optimistic perception of the current situation than of the future situation: the current conditions index read 85.7 points, 9.9% more than one year ago, while the expectations index reached 66.8 points, 3% less than in 2009.





US consumers' loans increased. According to the Federal Reserve, the outstanding balance increased by US\$3.3 billion during October, after an increase by US\$1.3 billion in September. Despite these facts, compared to October of 2009, the outstanding balance in consumption accumulates a 2% decrease in the first three quarters of 2010.

US trade deficit decreased. The US trade balance deficit decreased considerably from US\$44.6 billion in September to US\$38.7 billion in October, both exports and imports contributed with the deficit reduction since exports increased by 3.2% reaching US\$158.7 billion (14.9% increase y/y) and imports decreased by 0.5% reaching US\$197.4 billion (a 15.9% y/y increase).

Germany's industrial production keeps expanding. Germany's industrial production grew by 2.9% in October compared to the previous month, after a 1% drop reported in September. The increased was mainly led by capital goods' production which grew by 4.6%, while intermediate goods grew by 2.9% and consumption grew by only 0.8%. During the last quarter, Germany's industrial production has expanded at an annual rate (Seasonally Adjusted) of 14.1%. Germany's unemployment is at an 18-year low, the world crisis doesn't seem to have affected this aspect. October's exports fell but industrial production kept growing. This decrease of foreign demand by euro zone countries could represent a reduction in Germany's growth rate, unless the domestic demand compensates this decrease.

German inflation up, no response by the European Central Bank. Germany's inflation is at 1.4% y/y, but with a speeding trend due to the fast growth of the economy. The seasonally adjusted annual inflationary rate of the last three months reads 1.9%, near the 2% limit set by the European Central Bank (ECB), however, since in the rest of the euro zone inflation is lower, and unemployment is much higher and economies are much weaker than Germany's, the ECB will not be able to take measures to remediate the inflationary burst in the old continent's largest economy. Germany will not only have to deal with the higher cost of financial rescues offered to countries with fiscal and sovereign debt problems, but will also have to pay the cost of a higher inflation, since a contractive monetary policy would be disastrous for the rest of the euro zone.





Political Tips

Revolution moves forward stronger. Within the framework of the end of the current National Assembly's period of legislative sessions, the aforesaid proposes a considerably wide agenda to approve in the next few days. It's even almost a fact they will celebrate extraordinary sessions. This step forward would include the approval of an empowering law that, according to Chavez's followers, would be effective beyond January 05 of 2011 (inauguration of the new NA), a statement rejected by the opposition wing. Besides the empowering law, the agenda includes reforms to the Law of Responsibility in Radio and Television (RESORTE), to the Organic Law of Telecommunications, to the Foreign Service Law, the Law of Universities, among others.

People's Power. Another important point is related to the approval of the set of laws known as the People's Power. The Organic Law of the People's Power, the organic Law of Public and Communal Planning, the Organic Law of the Communal Economic System, the Organic Law of Communal Groups and the Organic Law of Social Comptrollership, all of which are aligned with the First Socialist Plan 2007 – 2013 prepared by Minister Giordani.

People's Power? One of the novelties of the new normative prepared by the Citizen Participation Commission, presided by Ulises Daal, is the concept of Communal Justice. This figure is defined in article 20 as "*a field of action of the People's Power, through alternative means of justice promoting arbitration, conciliation, mediation and any form of conflict solution before situations derived directly from the exercise of people's right to participate and to communal coexistence.*" The objective of this legal instrument is to consolidate the people's power by "*generating objective conditions*" through the means of participation and organization stipulated in the Constitution, allowing citizens to exercise their full right to sovereignty, participative, protagonist and co-responsible democracy as well as the constitution of forms of community and communal self-governments for the exercise of power.

Two new concepts. The Law of Public and Communal Planning includes two new concepts: the Communal Planning Council and the Communal Council as members of the National Public Planning System. In our opinion this is oriented towards resource centralization.

The most polemic one. The Organic Law of the Communal Economic System includes a polemic concept: looks to establish a new system where there are no chiefs



or ranks, and profits must be invested in the company, the producers and the community the means of production belongs to. The exoneration of national and regional taxes and duties is proposed.

Structuring communal groups. Already sanctioned in second discussion, the Law of Communal Groups established the norms and mechanisms for the citizens to build their self-governments in the territorial areas determined. A communal group could be a unit entering in conflict with already constituted power instances such as State governments and city halls.

Fences closing in. Representative Iris Varela announced yesterday that in the new National Assembly she would insist in revoking immunity to Representatives known of having received funds from foreign organizations for political activities. Specifically, the PSUV Representative mentioned Maria Corina Machado and Miguel Angel Rodriguez, whom, she said, were funded with *“money from a US Congress account.”* Varela also ruled out the possibility of there being consensus between Psuv and the opposition wing.

Discontent in PSUV. A group of PSUV Representatives prepared a 19-page letter expressing their concern to President Hugo Chavez about the “emergency” suffered by the revolution. The document was received in the Presidential Palace last December 3 and states *“criticism and self-criticism to the process’ march,”* and include proposals to overcome the crisis. The document points out that the levels of popular dissatisfaction keep growing and that could represent new losses in social, electoral and political spaces.

What’s the problem? Parliament representatives warn that right now the process *“reports an accumulation of deficiencies with great detours from the project’s initial plans.”* Among the points highlighted is the increase of corruption, they demand deep changes in the Administration, indicating *“the constant minister changes, the relation with high-rank officials and the duality of public servants in different government labors and political-party-oriented tasks”* keep them from vanquishing corruption, inefficiency and bureaucracy. They also state *“the State’s structure remains intact, favoring clientele-like, bureaucratic and corrupt practices.”* They also question the *“inconsequence of managerial and technical teams in the state’s bureaucracy.”*

Appointment. Andres Izarra was appointed by President Hugo Chavez as the new minister of Communication and Information (Minci), an office he takes for the third time. He did not clarify who would be president of Telesur now. Izarra substitutes Mauricio Rodriguez, who took office last June 23 when the former office holder, Tania Diaz, left her position to try for the National Assembly. The new minister of Communication was originally in that office in the period of 2004-2005, previously



occupied by Nora Uribe and Jesse Chacon. Izarra took this office for the second time between January and July of 2008.

Perception gets worse. One out of every two Latin Americans thinks corruption has gotten stronger in their country in the last three years due to the world financial crisis, according to the 2010 Global Corruption Barometer published by the NGO International Transparency. However, South America comes out as one of the regions in which less citizens think these crimes have increased since 2008, along with the Asian-Pacific region and the former Soviet Union nations.

A permanent drama. 37% of respondents in Latin America think corruption has not changed and 11% think it has decreased. In contrast, the global average of people who think corruption has increased in their respective nations reached 56%. The Latin American countries where citizens think corruption has increased the most in the last few years are Venezuela, 86%, Peru (79), Mexico (75), Brazil (64) and Argentina (62). The best standing South American nations are Bolivia, where 46% of the people believe corruption has grown; El Salvador (48%), Chile (53%) and Colombia (56%). In an international scope, the countries of which's citizens think corruption has gotten worse are: Senegal (88), Romania (87), Venezuela (86), Papua New Guinea (85), Portugal (83), Peru (79) and Pakistan and Iraq (77).

Flunked in another ranking. Norway is the most complete and most developed democracy in the planet, in front of Sweden and Finland, according to the *Democracy Ranking Association's* interdisciplinary ranking presented today in Vienna. The ranking uses political, economic, gender parity, education and health access and environmental protection indicators. In the Americas the highest ranking country is Canada (14), just in front of the United States. The first Latin American country is Uruguay, ranked 21st, while Chile and Costa Rica hold positions 28 and 29, respectively. Argentina is ranked 38th, just ahead of Brazil (43), El Salvador (45), Ecuador (49), Mexico (51), Colombia (55), Paraguay (59), Nicaragua (63), Bolivia (64), Honduras (70), Guatemala (74) and Venezuela (76).

January 10 is the date. The Executive Vice President of Venezuela, Elias Jaua, announced school activities would be resumed on January 10 in the states announced by President Chavez and the minister of Education. He added that in the rest of the states school activities would continue until December 15 just as scheduled in the school program. He also pointed out they left it to universities to decide whether or not they would continue with their academic operations, depending on each institution's situation.

Long process. Minister of Science, Technology and Intermediate Industries, Ricardo Menendez, said it was the Government's goal to finish the relocation process of over



130,000 people affected by the heavy rains by 2012. The public clerk said the National Administration had taken measures to first assist people whose lives were at risk and those who have lost their homes. Then they will apply sector measures, to be announced once they are implemented.

Meanwhile... help. Executive Vice president Elias Jaua announced the distribution of bonuses for refugees, for one minimum wage, for a total of 992 cards in 32 shelters for the same number of families, starting in the Capital District and the Sucre Municipality of the Miranda State. He also said that all families living in official Government shelters would receive the bonus granted by the President. Vice president Jaua said that *“regarding the review of the amount of international help, which we have received 267.5 tons of different articles and food items from our sister lands Bolivia, Ecuador, Spain, Portugal, Belarus, Switzerland, Argentina, Brazil and Italy.”*

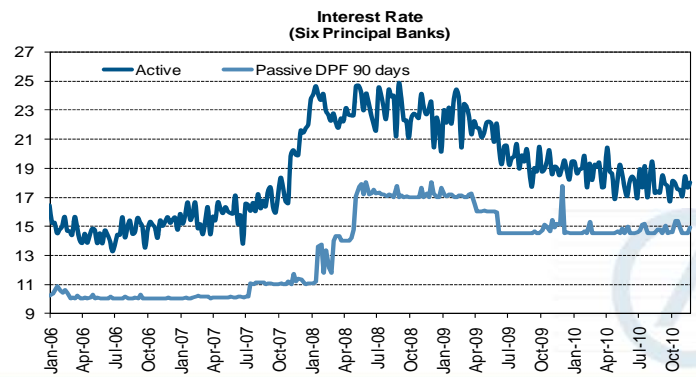
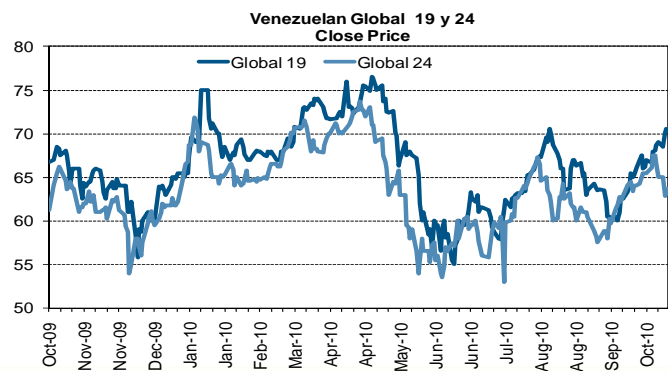
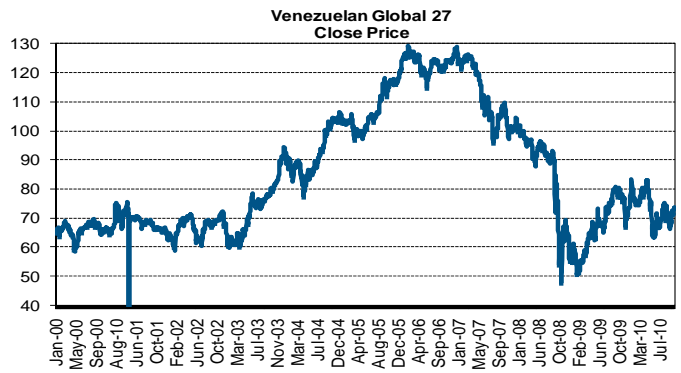
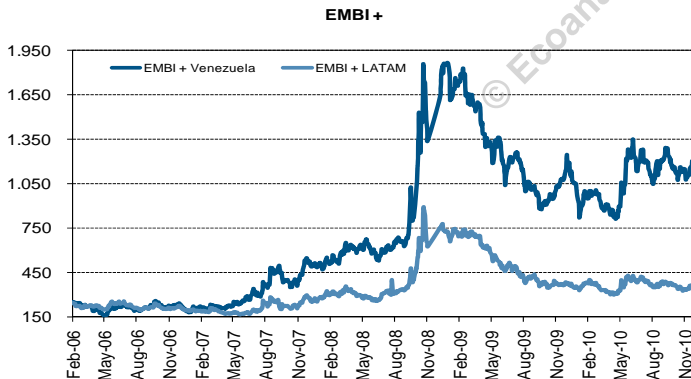
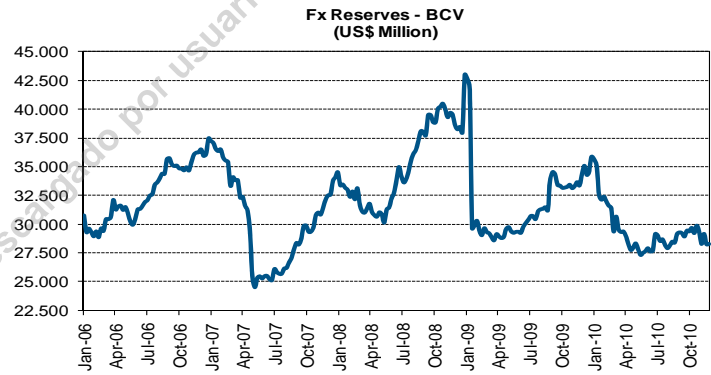
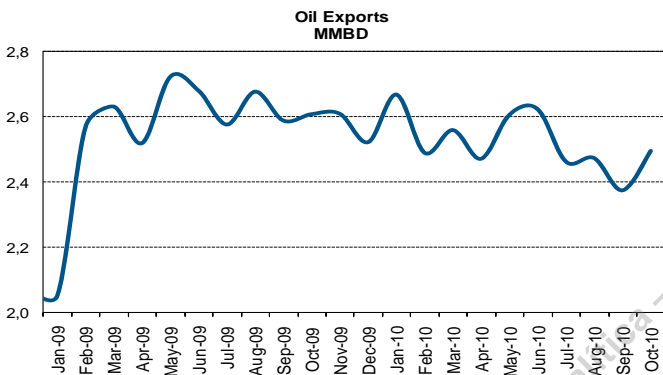
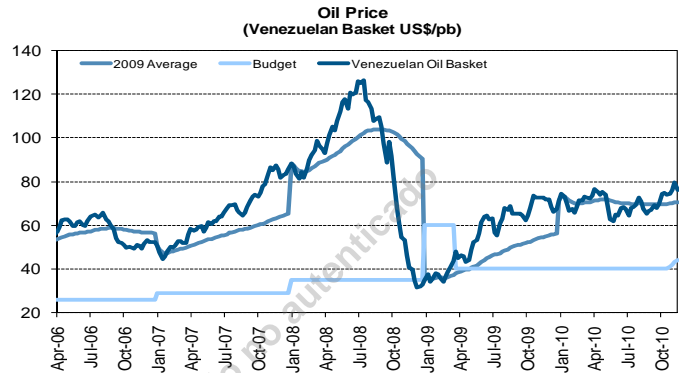
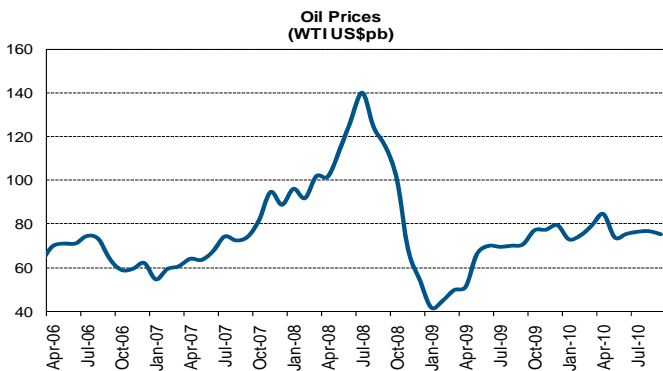
A new position. According to the new minister of the People’s State for the Urban Reconstruction of Caracas, Farruco Sesto, *“the restructuration of Caracas has already started; we are currently assessing to find out which homes are in risk areas. We are establishing strategies and actions to allow the transformation of the Great Caracas.”* He said Caracas’ restructuration was put in action with President Chavez’s order of not letting the affected families return to their homes.

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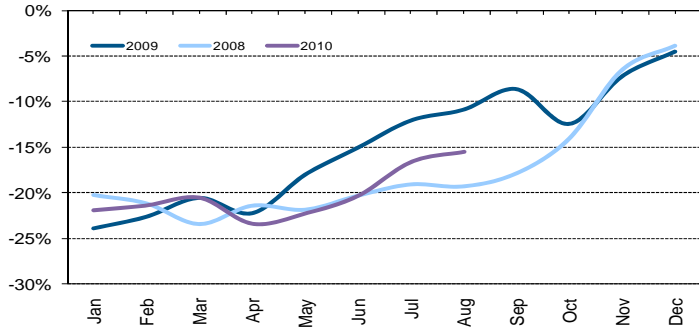


ECONOMIC OVERVIEW

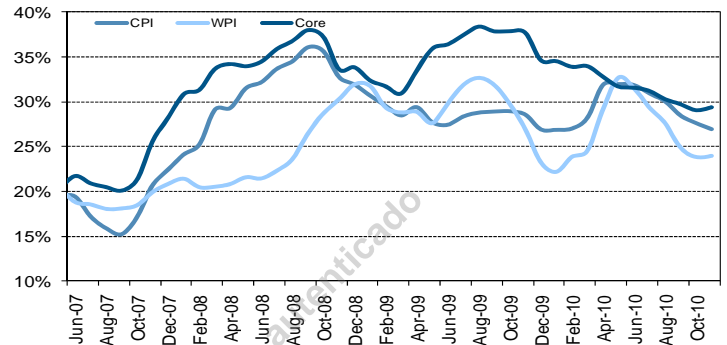




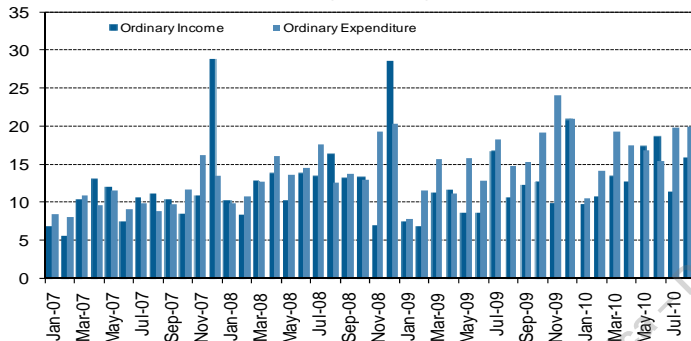
Real Expansion (M2)



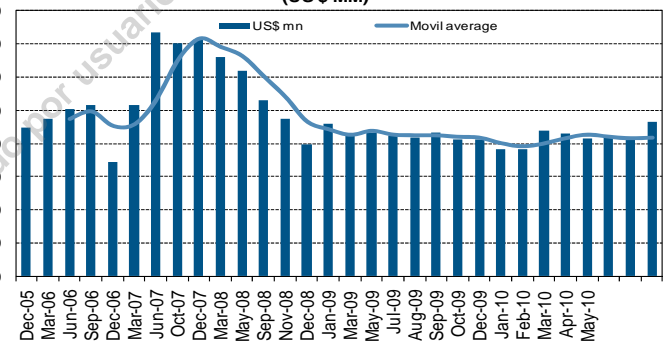
Inflation (Last 12 Months)



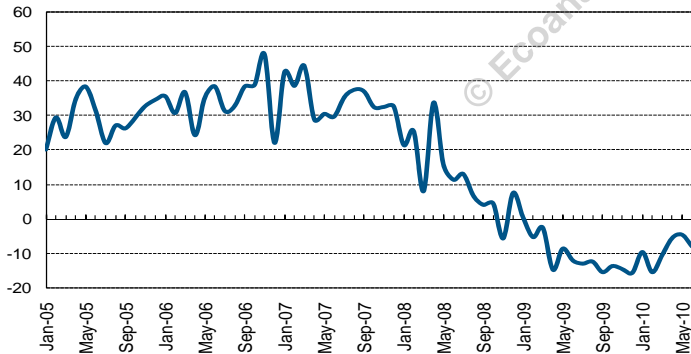
Central Government (VEB Billion)



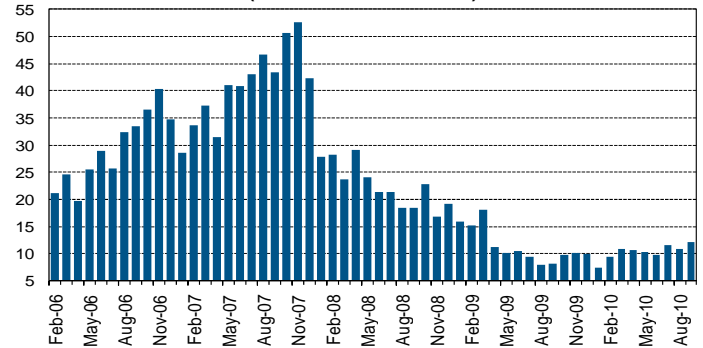
Resources of the State (US \$ MM)



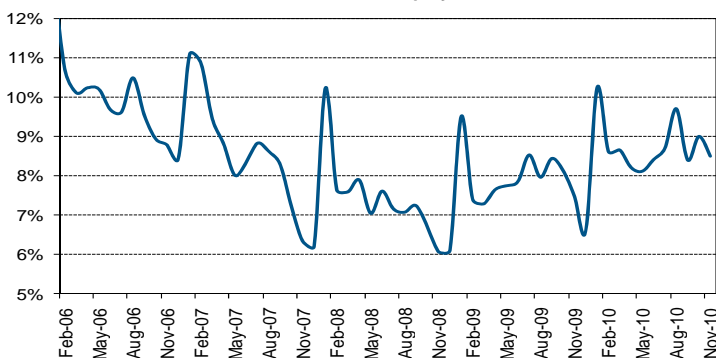
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment



Disbursement (US\$ Million)

