



# Weekly Report

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*After January, What outlook does the Venezuelan economy have?*

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The month of January has finally ended and it seems like if a year has gone by in Venezuela. The devaluation of the official exchange rate and the electric power crisis becoming much worse are both factors that will impact the performance of the Venezuelan economy in 2010. In this Weekly Report, we offer our first preliminary outlook of how the Venezuelan economy will perform this year.

## **An economy in crisis**

The president of the Central Bank of Venezuela's Year-End Address regarding the close of 2009 and the outlook for 2010 left no doubt that the economy is in a crisis. Preliminary figures showed that the economy shrank by 2.9% compared to 2008, private consumption dropped by 2.6%, investments dropped by 7.6%, and the biggest drop was reflected in imports, as was to be expected, which dropped by 19.7%.

Confronted with these figures, the Administration radically modified its exchange policies and adjusted the exchange rate. Meanwhile, the electric power situation became much more critical and tensions between the Administration and the private sector increased. The Administration has

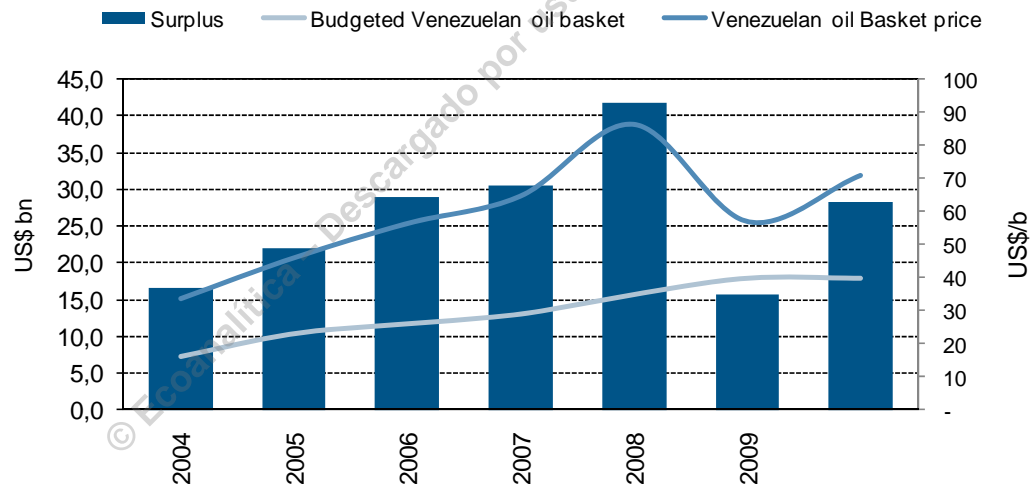


made it clear that it will not modify its economic model, which is not very surprising, since it's the only model it knows with the State as the main player and placing political interests before economic policies and the development of the country.

### First things first... Oil prices

In our last Outlook Report, we estimated that the average price per barrel for the Venezuelan oil basket for 2010 would be between US\$67-US\$72/bl., so far this year the average price has been at US\$71.2/bl. This, along with the devaluation of the official exchange rate has left the Administration with a very comfortable fiscal situation which will allow it to increase public spending without any problems.

**Surplus Resources of the Restricted Public Sector**

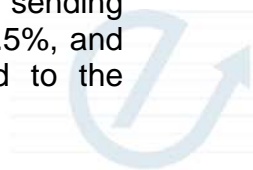


Sources: ONAPRE and Ecoanalítica

### Gross Domestic Product. Could Giordani be right?

Recently, Minister Giordani stated that the Venezuelan economy could grow by as much as 3% to 4% this year. In our opinion, the Minister is being extremely optimistic. At *Ecoanalítica*, we have developed three growth scenarios which could take place in Venezuela in 2010.

Let's call the first scenario, the optimistic scenario. It will be characterized by a significant increase in public spending (12% compared to last year), a drop in consumption of only 3% and an increase in total investment of 2% (mostly coming from the public sector). This would give us an economic growth rate of 2.3%. However, in the pessimistic scenario, public sending would only increase by around 5%, consumption would drop by 5.5%, and total investments would drop by around 2%. This would lead to the Venezuelan economy shrinking by 2.8%.

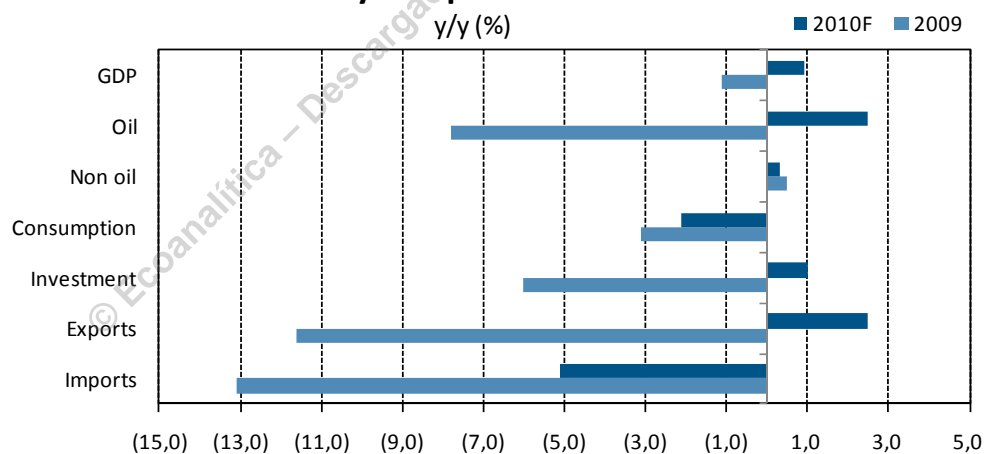




Our scenario for 2010 is based on public spending increasing by 8% and consumption dropping by 5% which would lead to an economic growth rate of just 0.9% for the year. The main reason for this being that the private sector will remain stagnant with no significant reason to increase investments.

2010 will also see the public sector participating more and more in certain sectors of the economy (those identified as being strategic), though the public-private sector dependency on each other will increase throughout the year, being as the private sector has a better grasp of local markets. All of this will continue to negatively affect investment and jobs. In summary, what we can expect is an economy exclusively sustained by the public sector and which continues to grow at a rate way below its potential which should be at around a yearly average of 3.8%.

### Growth by component of the GDP



Sources: BCV and Ecoanalítica

### Jobs and salaries. The devaluation devours everything

The impact of the devaluation will have a significant effect on prices. Add on to this that the economy is at a virtual standstill, the result is anything but promising for Venezuelan workers. Expected price increases in the wake of the devaluation will significantly take a bite out of real salary values (public and private sector), a fact that could lead to public discontent, which in turn could lead to more labor conflicts. This will be a key factor in the social dynamics of the country throughout the year.

Meanwhile, the economy slowing down has led to unemployment beginning to increase since May 2009. This tendency will continue in 2010 with a



more noticeable migration of workers towards the informal sector of the economy.

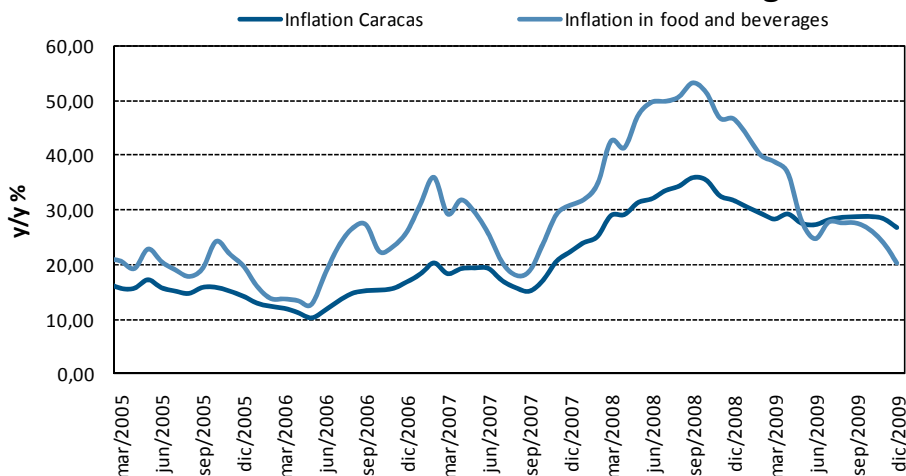
As a consequence of the economic scenario just described, at **Ecoanalítica**, we project that in 2010, unemployment increase to 9.0%. With respect to people's purchasing power, it will continue to deteriorate. We estimate that real salaries will drop by around 12%, significantly impacting private consumption.

**Inflation. The demons has been unleashed**

According to Central Bank of Venezuela (BCV) figures, inflation in 2009 actually dropped a bit closing at around 25%, thanks mostly to the economy slowing down rather than to economic and monetary policies. In 2010, the situation will be quite a bit different, as we have pointed out in previous Reports.

For 2010, we expect inflation to increase to 38.6% for the year, which means that in the coming months, price increases will become more significant. The main factor to consider is the adjustment that was made to the exchange market. Though the exchange rate for foods and medicines continues to be subsidized, the 100% devaluation suffered by all other goods and the uncertainty existing in the market reflected by the swap-market make it clear to see why it will be very difficult to control and/or lower inflation. It's worth mentioning that if the real sector of the economy had not gotten used to, and adapted to working with, a "black-market" exchange rate between 2008 and 2009, the impact of the devaluation would have been much greater on the price index.

**Inflation vs. Inflation in food and beverages**



- Sources: BCV and Ecoanalítica





The Administration will continue to increase public spending since it is receiving more oil revenues, and this will make the imbalances even greater. And given the multiplying effect public spending has on the rest of the components of demand, and the fact that the production of goods is not at all keeping pace with demand, this will be another factor putting pressure on prices to increase.

**Interest rates and monetary policies. Nothing new here**

For 2010, we maintain our projections with respect to monetary indicators. We estimate that liquidity will increase by 42% in nominal terms, which means that it will reach levels around VEF 355.0 billion. Such an increase is expected because, since it's an election year, we believe that the Government will significantly increase public spending.

With regard to interest rates, it is not very probable that maximum lending rates or minimum savings rates will suffer any modifications, since the Government will want to continue with its strategy to re-ignite the economy. Taking into account what we have just said, in 2010, even though we believe that interest rates will continue to remain low, we expect lending rates to close the year out at around 22.5%, but with an average rate for the year lower than this year's average at around 20.9%. With respect to the savings rate, it will remain low at around 14%, and by the close of the year we expect it to be at around 12.6%. You can see that for both rates the tendency is to be a bit higher than current levels and that they will close the year out at levels a bit higher than what they closed 2009 at, with the characteristic that both rates will be well under expected inflation levels. Therefore, acquiring debt in bolivars continues to be a very viable option.

**Balance of Payments. A substantial improvement**

After the devaluation and the implementation of the new exchange rate scheme, we estimate that total imports in 2010 will be around US\$ 39.0 billion and total exports around US\$ 64.30 billion, with the Trade Balance closing 2010 at US\$25.30 billion and a surplus in the Current Account equal to 10.1 points of GDP.





| <b>Balance of Payments</b>           | <b>2009</b> | <b>2010</b> |
|--------------------------------------|-------------|-------------|
| Oil Price (Brent)                    | 62.7        | 81.5        |
| Oil Price (Venezuelan Basket)        | 57.0        | 71.2        |
| Current Account (% of the GDP)       | 6.2         | 10.1        |
| Current Account (US\$ MMM)           | 12.4        | 21.5        |
| Balance of Trade (US\$ MMM)          | 22.4        | 25.3        |
| Exports (US\$ MMM)                   | 60.9        | 64.3        |
| Oil exports (b/day)                  | 2.2         | 2.3         |
| Imports (US\$ MMM)                   | -38.5       | -39.0       |
| Services & Income Balance (US\$ MMM) | -7.9        | -3.8        |
| Capital Account (US\$ MMM)           | -18.9       | -21.4       |

Sources: BCV and Ecoanalítica

### **Exchange policies. The BCV's key role**

During the month of December, nobody would have bet a cent on Nelson Merentes having a future within the current Administration. A miniature domestic financial crisis had caused him a lot of grief and weakened his strategy to control the swap-market. One expected that 2010 would begin with the exchange market totally out of control, with there being little or nothing that Merentes could do about it. However, the Administration was finally convinced, and agreed to the idea of a devaluation which allowed it to collect additional fiscal revenue and PDVSA to improve its financial situation.

With the new exchange rate scheme, BCV is strengthened. Now PDVSA has to sell a greater portion of its foreign currency to the Central Bank, and the foreign currency sales mechanism is institutionalized from FONDEN to the BCV at the VEF 4.30 rate, of course.

And the other market, the "traditional one?" That's where the pressures will manifest themselves (and in fact they already are). But two important elements have been lost: debt issuances, which have been discard for now, and an active participation by PDVSA.

In this context, the BCV has to increase the weekly amounts of bonds it is offering to no less than US\$150 million, and the issues should be tied to market seasonal behavior.

The problem is not only about how much to inject, but also about how it's injected and the other players (CADIVI, PDVSA, National Treasury). However, it is a positive step that now, the main player to assume control of the swap-market is the BCV and not PDVSA. And it's also very positive that



the aggressive medium and long term debt placement strategy has been abandoned, since it was becoming very costly.

**Fiscal policy.  
The only hope**

With regard to spending, the 2010 spending budget was set at VEF 159.41 billion, an extremely conservative figure to say the least. This figure is 17% less in nominal terms than what is being projected to be the final spending figures for 2009 (VEF192.94 billion). One may think that this is possible, the only catch being that 2010 is an election year.

Those who drafted the National Budget must have taken the President's mandate to cut spending to heart and therefore decided to set such a spending goal for 2010. They also must have taken to heart the expected average price per barrel of oil which was set at US\$40, low to say the least, and nowhere near what international analysts have been estimating for 2010. However, everyone knows that the Administration always exceeds its National Budget spending limits by issuing supplemental appropriations at its discretion. And this is exactly what is going to happen in 2010. At **Ecoanalítica**, we estimate 2010 public spending to be at VEF 220.14 billion.

The National Budget is anticipating a fiscal deficit equal to 3.9% of GDP. We believe that this deficit estimate is quite high but in line with an estimate of less oil revenues. At **Ecoanalítica**, we believe, and more so after the devaluation, that the Government's 2010 fiscal deficit will close the year out at around 1.0% of GDP.

| National Accounts              | 2009F | 2010F |
|--------------------------------|-------|-------|
| Real GDP Growth (% Annual)     | -2.9  | 0.9   |
| Oil Sector                     | -6.1  | 2.5   |
| Non Oil Sector                 | -1.9  | 0.8   |
| Consumption (% Annual)         | -1.8  | -2.1  |
| Public Consumption (% Annual)  | 2.1   | 11.2  |
| Private Consumption (% Annual) | 2.6   | -4.8  |
| Investment (% Annual)          | -7.6  | 1.0   |
| Exports (% Annual)             | -9.8  | 2.5   |
| Imports (% Annual)             | -19.7 | -5.1  |

Sources: BCV and Ecoanalítica





## Economic Tips

**Fiscal spending according to Treasury Office.** According to the figures released by the National Treasury Office, the amount paid during 2009 was VEF 192.85 billion. Of this amount, VEF 179.21 billion corresponds to the 2009 Budget and VEF 13,842 corresponds to the 2008 Budget. The total 2009 Budget amount agreed to be paid out was VEF 197.72 billion so there is still VEF 18,511 left to be executed. This figure implies a 17.4% real drop in spending compared to what was registered in 2008.

**Fiscal revenues shrank.** According to National Treasury figures, fiscal revenues during 2009 equaled VEF 187.98 billion, which represents a 5.5% nominal increase compared to 2008. However, in real terms (not counting inflation) the amount actually shrank by 16.9%.

**Fiscal revenues.** Continuing with the National Treasury figures, we can see that most of the fiscal revenues came from collecting current revenue, an amount which equaled VEF 153.30 billion, out of which VEF 137.10 billion came by ordinary means. Oil revenues dropped by 49%, due to the drop in oil prices. Non-oil revenues reflected a real drop of 5.2% compared to last year.

**External debt by the Ministry of Finance.** The Ministry of Finance published the cumulated figures for the third quarter concerning public debt, external and internal. Regarding external debt we have that increase US\$54.65 million, which represents a percentage of 0.18% of growth, mainly by multilateral loans and bond which increased US\$95.82 million y US\$21.71 million, respectively. Comparing with the third quarter of 2008 it increase by 0,35% or US\$103.27 million, again by a increase in multilateral debt of US\$530,72 million, since all others items decrease.

**Internal debt by the Ministry of Finance.** The Ministry of Finance published the cumulated figures for the third quarter concerning public debt, external and internal. Regarding internal debt we have that increase VEF 5,122 million, which represents a percentage of 11.65% of growth, national public debt bonds and notes, which increased VEF 4,690 million y VEF 432 million, respectively. Comparing with the third quarter of 2008 it increase by 27.85% in real terms.

**Borrowing according to ONT.** Treasury figures show borrowing increasing by 197.9% in nominal terms, which clearly played a part in covering the drop in oil revenues. Borrowing went from VEF 8.92 billion to VEF 33.70 billion.



**The issue of exchange profits.** In the latest audited BCV balance statement states that at the close of the second semester 2009, VEF 17 million in exchange profits were produced that must be transferred to the Executive Office. This amount is quite low due to the fact that no devaluation took place last year. This is important to point out because, although there are still some loose ends to tie up, it will be interesting to know exactly how much the total amount of exchange profits the Administration make this year, after the devaluation. It seems that last semester were around VEF 17 million.

**Consumption drops by 4.2% during the fourth quarter 2009.** The president of the Central Bank of Venezuela's Year-End Address regarding the close of 2009 shows that private consumption dropped by 2.6%, which reflects a 4.2% drop in the fourth quarter 2009. This fact that stands out, since usually, due to seasonal factors, spending increases substantially during this period. Nelson Merentes, president of the BCV, stated that this obeys "the drop of real revenue and the increase in unemployment and people's less willingness to spend."

**Interest rate.** The lending rate for the second week in January was at 18.92%, up by 28 base points compared to the second week in January. Time deposits and savings rates were at 14.52% and 12.60%, respectively, down by 2 base points for time shares while the savings rate remained the same.

**International reserves.** International reserves were down by 1.17% going from US\$32.50 billion during the first week of January to US\$32.12 billion in the second week of the same month. Compared to the same period during the previous year, international reserves are down by 5.93%.

**Monetary liquidity.** Monetary liquidity during the third week of the month of January was down by 0.12% compared to the second week of the month settling at VEF 235.44 billion. When compared to the same period last year, nominal liquidity has increased by 23.86% but dropped by 2.40% in real terms.

## Oil Tips

**Two bids for Carabobo.** After loosening the fiscal system potential partners are supposed to follow, plus the last-minute rejection of international arbitration, President Chavez himself said the Ministry of Energy and Oil had received two bids last Thursday, January 28, for the three projects involved in the tendering process of the



Orinoco Oil Belt's Carabobo Block. The official winners will be announced on February 10.

**Who joined?** According to Reuters, out of 12 companies that were listed, only two consortiums showed up. The first one included Chevron, Suelopetrol and the Japanese companies Mitsubishi, Jogmec and Inpex. The second consortium bidding included Repsol, the Indian company ONGC and the Malaysian Petronas. Each one of these projects will require investments estimated between US\$10 billion and US\$10 billion to install the production facilities and build an oil upgrader to convert the Oil Belt's extra-heavy crude oil into a lighter product to be exported.

**First agreement reached at Junin 5.** The Italian oil company ENI, along with Pdvsa, will begin the construction of a refinery in the Orinoco Oil Belt's block Junin 5 between 2010 and 2012. Said plant will have a refinery capacity of 350 thousand barrels per day (kb/d) and is estimated to start operations by the year 2017. The minister of energy and oil, Rafael Ramirez, said that in the creation of this mixed company, Pdvsa will own 60% of the shares and ENI will own 40%, both disbursing an initial investment of around US\$9.3 billion which is expected to grow to US\$12 billion by opening day.

**Junin 6 too.** A consortium including several Russian companies and Corporacion Venezolana de Petroleo (Venezuelan Oil Corporation) signed an agreement last Monday to constitute a mixed company to be in charge of exploiting block Junin 6 to produce almost 0.5 mb/d with a joint investment of US\$18 billion. Russia's highest authority in energy affairs and vice-president, Igor Sechin, said he did not rule out the possibility of exporting production to the United States' market. It is important to point out that in each one of these agreements, partners must pay a US\$1 billion bonus to the Republic just to seal their access to the project.

**Venezuela down to fourth place.** Venezuela's crude oil shipments to the US decreased for the second consecutive month in November of 2009. According to the EIA, imports of Venezuelan crude oil totaled 890 kb/d in November, representing a drop by 27.6% compared to the same period of the previous year, and about 65 kb/d less compared to the previous month. It is worth pointing out that when analyzing numbers by country, Venezuela was displaced by Nigeria as the third major supplier, after exporting 980 kb/d to USA. The two major suppliers are still Canada and Mexico, reporting shipments for 2.5 mb/d and 1.1 mb/d, respectively.

**Not effective yet.** According to Fuptv representatives, due to delays in the preparation of the final document, the oil industry's collective labor agreement (signed by President Chavez the last January 20) will be submitted this week for its respective ratification. However, PDVSA has already started paying the VEF 8,000 bonus due to delayed signing. Once the agreement is ratified, oil workers will start collecting the corresponding salary retroactive since October the 1<sup>st</sup>.



**Iraq wants to be first.** The minister of oil of Iraq (with the world's third largest crude oil reserves) believes they will be the world's first oil producer within the next six or seven years, reason why OPEC should consider that country's economic needs due to the war. The minister said *"we can't find a reason to prevent Iraqi production from becoming higher than any other OPEC state or even states outside OPEC. We expect that to happen in the next six to seven years with coordination and agreement with other OPEC producers."*

**Tokyo as a starting point.** After a decision made by the Commodity Futures Trading Commission (CFTC) to try to stop the excessive speculation in energy trade (which, more than the excess demand, was what boosted oil prices to record levels during 2008), the Energy International Agency is planning to hold a meeting by end February with representatives of OPEC, banks and regulation agents, as well as with representatives of the "speculation" side, in order to discuss the factors that determine crude oil prices. This meeting is expected to work as a base to a quest for a stronger control of speculation in this market.

**IMF: Oil barrel at US\$76/bl.** The International Monetary Fund, in its global projections for 2010, is estimating the average oil barrel price to close this year at US\$76/bl. They are attributing this performance to the *"vigorous recovery of Asia's emerging economies, to the general reactivation of other economies and to the improvement of the world's economic conditions."* However, this prognosis has not suffered any variations since it became public in October, while the 2011 prediction did suffer modifications, increasing by US\$3 to reach US\$82/bl, mainly due to the expectations of increasing commodity prices thanks to a solid worldwide demand.

**International Oil baskets.** At New York market's closing time, last Thursday, February 4, the WTI was at US\$72.7/bl showing a 1.8% decrease compared to the US\$74.1/bl of the previous Thursday. The Brent decreased by 4.3% to reach US\$71.6/bl, compared to US\$74.8/bl of Thursday, January 28.

**Local oil basket price.** The Venezuelan oil basket price went down last week, to close on Friday, January 29 at US\$66.6/bl, US\$3.5 less than the previous week. The oil basket's annual average remained stable at US\$71.2/bl.





## Business Sector Tips

**Cadivi prepared.** According to Manuel Barroso, president of the government entity, after several efforts to adjust the technological platform in order for it to work with the dual exchange rate, Cadivi is now ready and fully capable of taking care of all applications under the said exchange rate. He said the delay was due to the time terms in which the exchange agreements were made public.

**Mutual funds prohibited.** The National Exchange Commission eliminated the use of mutual funds as a financial product. Stock exchange and brokerage firms have no more than six months to have operations representing up to twice their stock capital, so far it has reached levels of up to eight times. The National Exchange Commission (NEC) provided a 90-day period to dismount mutual fund operations.

**A significant change in the banking system due to the devaluation.** The appraisal and bookkeeping of assets and liabilities in foreign currency of financial institutions ruled by the Law of Stock Capital Market, Law of Insurance and Reinsurance Companies and General Law of Banks and Other Financial Institutions will from now on be set at an exchange rate of 2.60 VEF/US\$. Stock capital securities issued by the national public sector owned by these institutions are included in this modification. Securities issued by the national public sector in foreign currency owned by financial institutions will be considered at the exchange rate of 4.30 VEF/US\$.

**Fees to Fogade.** The Official Gazette number 39,358, dated February 1 of 2010 indicates the modification of the percentage of monthly fees to be paid by banks to Fogade. This percentage will now be 0.50% of the total of people's deposits, for public financial institutions, while private institutions will have to contribute with 0.75%, both at the end of each semester.

**Goes on and on.** Bank auditing continues to be an issue, several stock-exchange-active institutions have been declared under audit due to administrative and managerial irregularities, such as a lack of liquidity for long-term obligations. La Primera, Maximiza, Unicredito, Venemutuo, Unicapital, Cori Invest, Rendivalores, Banacci and Unovalores were all declared under audit in one month. All of the aforementioned had a direct relation with operations carried out by U21 and Banco Canarias, both of which appeared as creditors. Only Maximiza, Cori Invest and Rendivalores have re-opened their doors because they met the re-capitalization demanded by the National Exchange Commission (CNV).



**Three new close-door-audits.** The National Exchange Commission suspended three more exchange institutions for audit, Primus Casa de Bolsa, Unicredito Sociedad de Corretaje and Unicapital Casa de Bolsa Agrícola. According to the Official Gazette, the audit is due to operations related to the eleven banks under audit/suspension or to U21 Casa de Bolsa. The company Everest Financial Group, advisor of Uno Valores Casa de Bolsa, was also suspended.

**60% of the products to be sold by Mercal will be imported.** President Chavez published the expansion plans of the Mercal network for 2010, indicating 486,400 tons of food would be produced in Venezuela and 713,800 would be imported, representing a total of 1.2 million tons to offer. This seems a bit opposite to the thought that national production would recover with the devaluation. It is worth pointing out that Mercal's proportion of national and imported products has remained the same since 2007.

**A new company.** Ministers of Agriculture of the Bolivarian Alliance for the People of our America (Alba) agreed to sign a juridical document to create the Grand-national company Alba Alimentos, which will allow the development of agricultural, agro-industrial and food-distribution projects among the countries included in this cooperation mechanism.

**Could fail to meet the Pida predictions.** After President Chavez's statement indicating that 60% of Mercal's products would be imported, it seems hard to meet the Plan Integral de Desarrollo Agrícola (Integral Plan for Agricultural Development, Pida) 2010-2011, which implies an increase of vegetable and animal production by 27.8% and 14.4% respectively, compared to the previous program.

**Sentences due to price speculation.** The first few store owners were already charged with speculation, Davide Prati Guido and Luca Caruzzo, owners of Supermercados La Franco Italiana, located in Punto Fijo, Falcon State. They were sentenced to three years in prison.

**Expenses of the Ministry of Public Works and Housing.** The Ministry of Public Works and Housing's 2009 budget reached VEF 8.8 billion, out of which only 5.4 billion were used, that is, 62% of the funds. It is worth mentioning that the priority for the third quarter of last year was the injection of funds to construction due to the effect of unemployment, which in fact grew by 46%.

**Worries in the automotive sector.** The future of the automotive industry seems uncertain, since auto assemblers have only received authorizations to import the assembling materials that correspond to the first quarter of 2010. This is alarming to the industry since it raises fears of having to restrict the inventory as a measure in order not to be forced to close in March due to this situation.



**Pre-sale Law moving forward.** The Pre-sale of Homes under Construction Law Draft was approved in its first discussion last week, pending a second discussion. The conditions of the Real Estate Pre-sale agreement are indicated in this draft, as well as the parameters to be used to estimate the price of housing solutions and the actions buyers will be entitled to take in case of the seller's failure to comply with the project. Each pre-sale process shall be notified to Indepabis.

**The government takes over insurance policies.** Starting July, 2010, the insurance company La Bolivariana de Seguros will start handling all public-sector insurance policies. Jesus Tovar, president of said company, official entities will start transferring their policies to this company in April in order to start using them within the term set out.

## World Crisis Tips

**US economy grew by 5.7%.** Way over the analysts' expected average (4.8%), the US GDP grew by 5.7% (q/q seasonally adjusted annual rate, SAAR) during the fourth quarter of 2009, the highest growth rate since the third quarter of 2003 when the economy grew by 6.9%. For the full year of 2009, GDP fell by 2.4% compared to the previous year, its biggest full-year decline since 1946.

**US 2011 budget, US\$3.8 trillion.** President Obama proposed the fiscal 2011 budget, establishing total expenses at US\$3.8 trillion. A record deficit forecast of US\$1.6 trillion for 2010 is also included in Obama's proposal, a deficit that will be reduced to US\$1.3 trillion in 2011. One of the suggestions to reduce the deficit is the elimination of the tax cuts implemented by former-president Bush for people who earn over US\$250,000.

**Obama's proposals.** He also proposed freezing the government spending unrelated to national security, Medicare and social security; micro-loans: Obama proposed using the US\$30 billion re-paid by banks from the financial rescue to promote loans to small entrepreneurs; incentive to create jobs: he suggested the granting of fiscal loans to small enterprises hiring new employees or increasing salaries and higher taxes for companies hiring employees from foreign countries; incentive to education: US\$10,000 tax cuts for those completing a university program in four years.

**US consumer spending slowed in December.** During December, 2009, consumer spending increased only 0.1% after a 0.4% gain (seasonally adjusted), resulting much



lower than the consensus. With this, consumer spending increased at an annual rate of 2% during the fourth quarter, still 0.5% below pre-crisis levels.

**British Manufacture expands fast in January.** British manufacture expanded at the fastest pace in 15 years. The CIPS/Markit manufacturing index increased from 54.6 points in December to 56.7 points in January, a score not seen since 1994. This gives hope of growth to the United Kingdom, after having presented a very weak fourth quarter 2009 growth rate last week (0.1% SAAR).

**The European Union set a deadline to Greece.** The European Union set a deadline to Greece this week to carry out its urgent fiscal reform which will allow this country to pay its large public debt. The release published: "Urgent measures to be taken by May 15, 2010" demands cuts to average nominal wages in the public sector, the creation of new taxes on luxury goods, proposals to speed up tax payments by the self-employed. Greece has been under a lot of pressure by international investors fearing a default the past few weeks, in the worst case scenario, Germany and France would have to come to the rescue.

**People's Bank of China will not keep the Yuan fixed.** China's exchange depreciation, that is, maintenance of an underrated exchange rate, which increases the competitiveness of its exports, has been a strong subject of debate since last year; this monetary policy has been especially criticized by the United States and the European Union. However, the governor of the People's Bank of China, Zhu Min, said in the World Economic Forum the bank would not modify its currency policy until the Government begins a coordinated withdrawal of monetary and fiscal policy stimulus measures, since it is part of its plan to continue growing between 8% and 9% in 2010.

**People's Bank of China warns of bubble risk.** Fan Gang, one of the representatives of the monetary policy committee, warned of bubble risks in Shanghai's Real Estate market, and said the People's Bank of China must beware of this situation as well as possible inflation risks. In a second official statement, Shanghai's Mayor said he would raise the city's minimum wage by 15% starting April 1 and that 150,000 subsidized houses would be built this year to increase the Real Estate offer and reduce the price pressures in this sector. The two may look like contradictory measures.

**IMF Green Fund for US\$100 billion.** The director of the IMF, Dominique Strauss-Kahn said on Saturday the institution would be creating a fund for US\$100 billion to reduce the increasing carbon emissions. The fund could be partly financed by a new issuance of Special Drawing Rights.





## Political Tips

**Farewell to Fides.** The National Assembly will revoke the Law the Intergovernmental Fund for Decentralization (Fides) in order to create the new mechanism to finance the regions. President Hugo Chavez said in the program that the Fund for Inter-territorial Compensation would be created and instructed the new vice-president, Elias Jaua, to get to work on it, for the scheme was contemplated in the Constitution of 1999. The Law of Federal Government Council already includes the Fund as one of the mechanisms regional rulers may use to invest in projects. This instrument indicates *“these resources will promote a balanced development of all regions and the cooperation and complementation of policies and initiatives of regional public entities.”*

**How will it grow?** The Compensation Fund will grow with the contributions provided by the National Administration, with the resources allocated by territorial political entities and other revenues obtained by their administration. This mechanism will not have a specific source of income like the Fides, which gets 15% of the national Value Added Tax collected.

**Chavez: National Electricity Fund.** President Chavez, in his radio show “alò presidente,” said the country’s energy consumption had increased by 7% compared to previous years, so the situation in 2011 could be critical. In order to calm this situation, he announced the creation of a National Electricity Fund, devoting US\$ 1 billion to the development of 59 electric generation and distribution projects and 50 operation and maintenance projects. The logistics would consist of transferring the necessary resources to the Ministry of Electric Energy to carry out all of the sector’s investment projects.

**And the minister of electric energy says:** Ali Rodriguez, minister of electricity, said they are expecting to increase 4,000 MW of electricity to reach 10,000 MW by 2014. He also announced the opening of Termozulia’s new unit, which will supply an additional 60 MW to the 90 it was already producing.

**Elias Jaua sworn in.** Under the framework of the celebration of the XI anniversary of the Government, President Chavez swore Elias Jaua in as Executive Vice-president of the Republic. In the act, Jaua pointed out the achievements of the revolutionary government in different areas and assured that after eleven years of revolution, *“today, the Venezuelan people can say they are a free and sovereign country.”*

**Support to President Chavez.** In the World Social Forum, celebrated in Porto Alegre, Brazil, Chavez received unconditional support and few criticisms for his recent



decision to suspend RCTV Internacional's subscription-TV transmission. Several sociologists said courage was necessary to mitigate the dismissing climate created by some media, and that this democratization of the media should be an example to other heads of state.

**President urged to resign.** Some former army colleagues, former ministers and members of the 1999-Constituent Assembly demanded President Chavez's resignation. To them, the Head of State "does not have the moral and material authority to rule, for he does not respond to satisfying the people's demands."

**PSUV Campaign.** After talking about the beginning of the Admirable Campaign and in ways to the parliamentary elections, President Chavez invited people to call the masses to demonstrate the PSUV's mobilization capacity and its presence on the streets. Regarding the modification of circumscriptions, Chavez said what the CNE did was not of his business and that now candidates should campaign in each circumscription.

**"Knife-fight" for the parliamentary election.** Calixto Ortega, representative for the PSUV, said in a public statement that all parties that are part of the Union Party had a "knife-fight to launch their candidacies to the Parliament." He also said the opposition's hopes were set on a Parliamentary majority "to try to remove President Chavez from office, but the people are absolutely clear and aware," the only way to "remove" Chavez from office would be through a recall referendum.

**Electric crisis in the hand of Cubans.** The Cuban Minister of Technology, Ramiro Valdez, is currently in Venezuela to coordinate a Technical Commission to face the electric crisis. Chavez said Fidel Castro requested the Venezuelan Government's authorization to send specialists to help with the country's electric problem.

**The Government to intervene in Police departments that don't take action.** After the events that took place in the Lara state, where in a demonstration of students, bottles, rocks and other hard objects were thrown around with no actions taken by the regional police department, President Chavez warned the government would intervene in the operation of regional law enforcement bodies that wouldn't exercise their authority.

**Venezuelan soldier deported from Colombia.** According to statements issued by President Chavez, the Colombian government's version about the expelling of a Venezuelan soldier operating in Colombia is "an outrage." According to Uribe, the soldier was arrested and expelled due to national security; the individual was performing military intelligence labors in national Colombian.



**United Armed Force.** According to President Chavez, Venezuela lives a Social State of rights and has a united military force. He rejected the opposition's comments about an alleged discomfort in the military components.

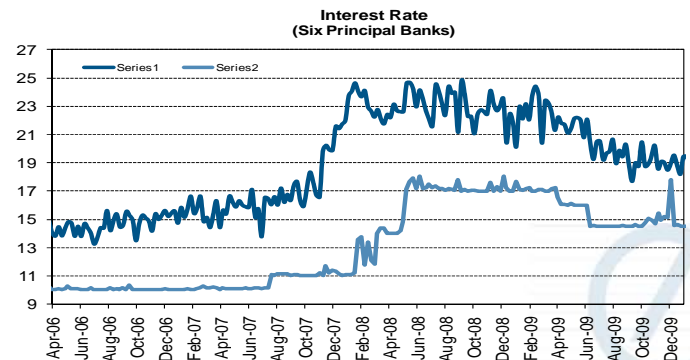
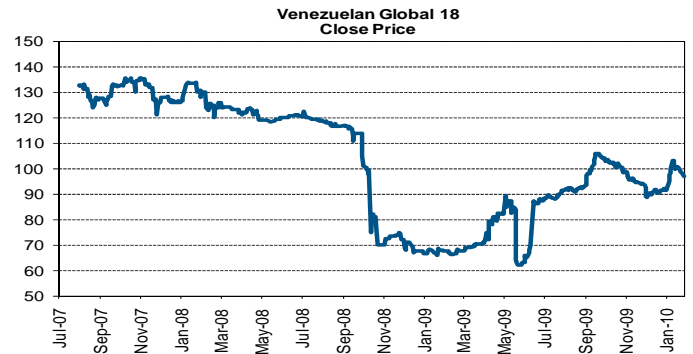
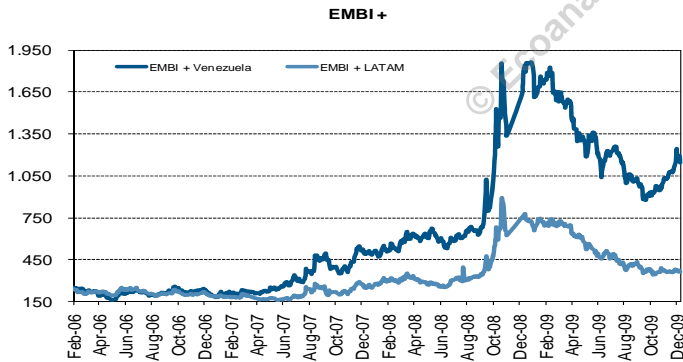
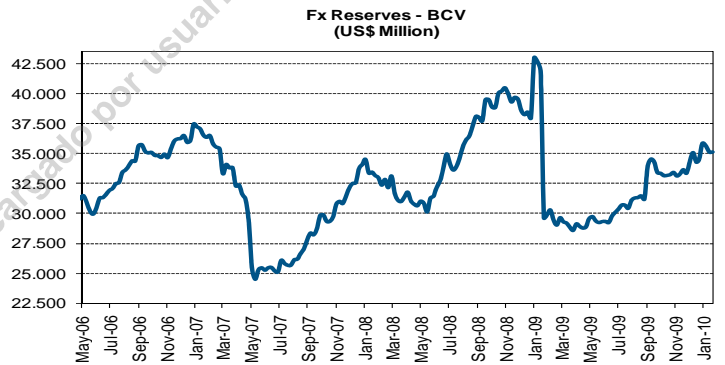
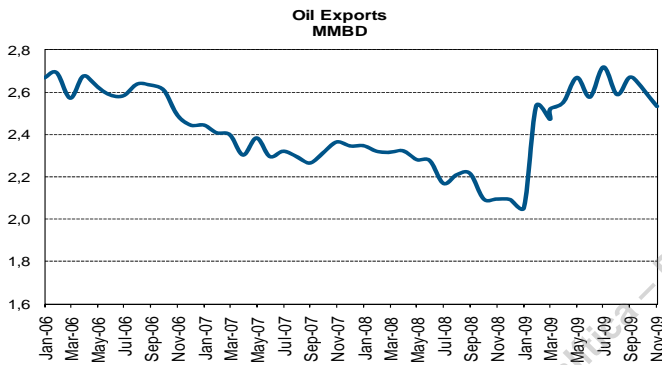
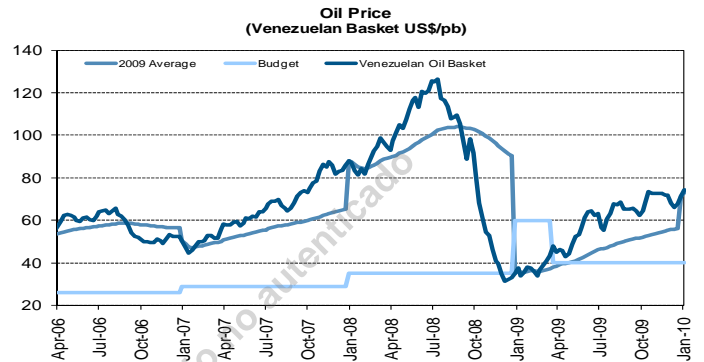
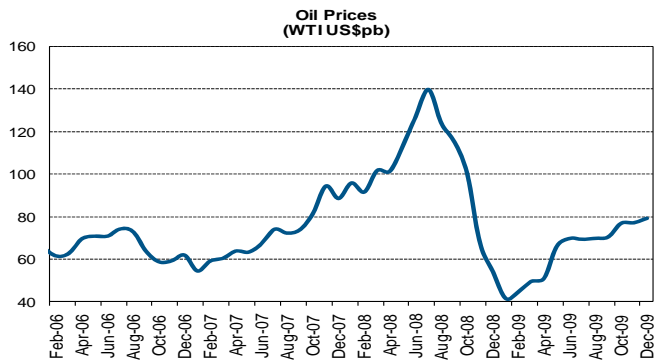
**11 years of Socialist Revolution:** It's been 11 years since Chavez took over as the 52<sup>nd</sup> president of the Venezuelan Republic. Throughout these years, the country has experienced several changes: A new name, a new constitution, a new time zone, a new national currency, among others. However, we have the same president, in spite of his own statements in 1998 when he said: "in five years, when we turn in the Administration." Other things have changed too; many of those who stood by the Bolivarian Project have been drifting away from it and its promoters.

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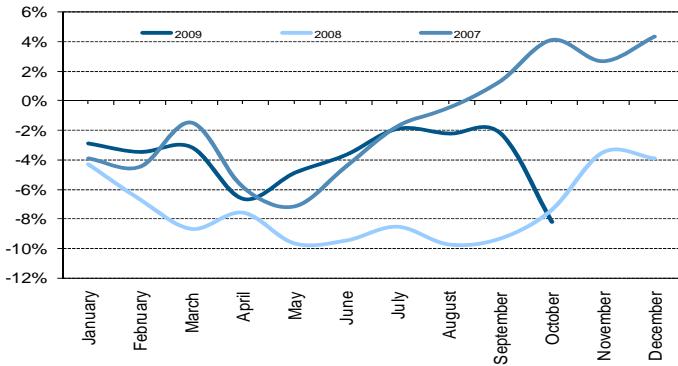


## ECONOMIC OVERVIEW

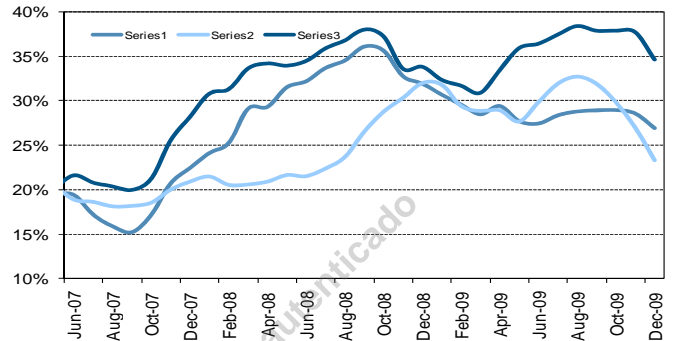




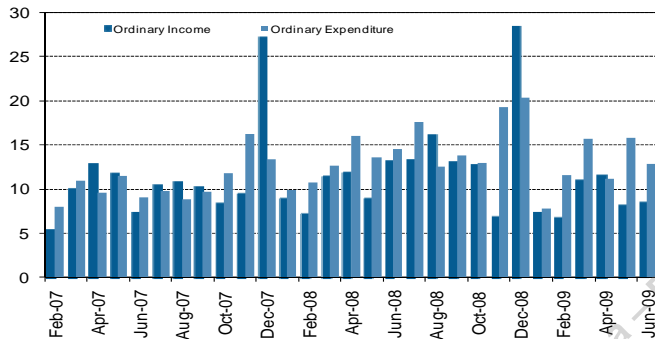
**Real Expansion (M2)**



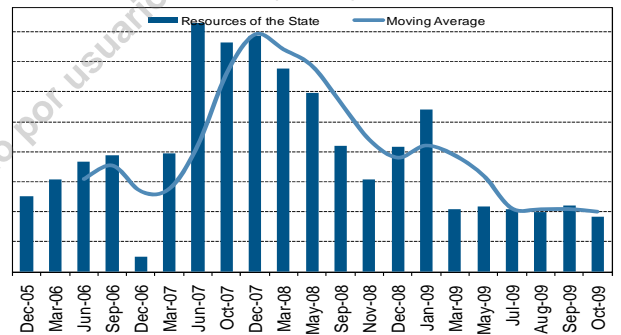
**Inflation (Last 12 Months)**



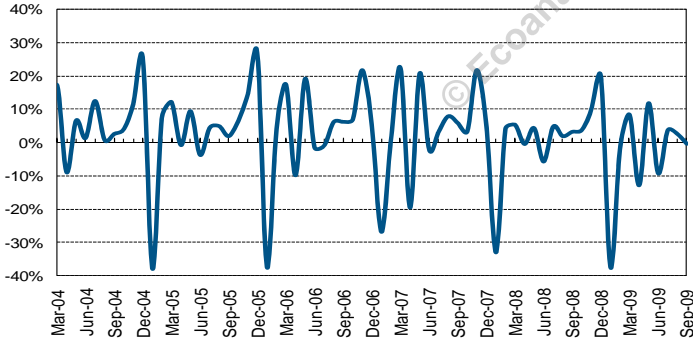
**Central Government (VEB Billion)**



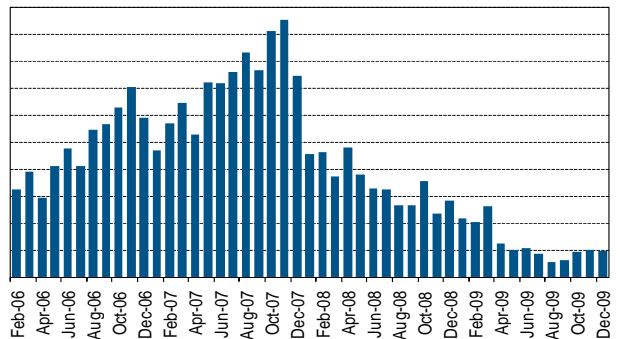
**Resources of the State (US \$ MM)**



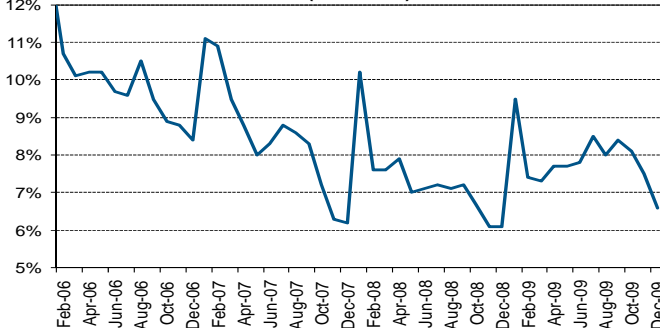
**Volume of Sales (% Variation)**



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



**Rate of unemployment (%Variation)**



**Disbursement (US\$ Million)**

