



# Weekly Report

Year 6, Number 8  
Week I, March 2010

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## *Chávez's three crises*

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So far this year, the dynamics of the economy has worsened, exacerbated by the devaluation of the bolivar and the deepening of the electricity crisis. On the political front, the dynamics look no better, in particular for the Executive and President Chávez. This means that *Chavismo* has to guarantee not only its triumph at the upcoming parliamentary elections in September but also the viability of the political project with a view to the presidential reelection in 2012.

### **The most obvious crisis**

The economic crisis is a reflection of the situation in the country and of a lowering of the population's expectations. Just this week, the growth figures for 2009 were revised, the most notable being a drop of 3.3%, with the private sector declining 4.5% and the public sector increasing 0.9%. This is reflected in an unfavorable performance in the majority of economic sectors, in particular manufacturing, commerce, and transportation, which account for 30% of GDP. The Central Bank's figures are eloquent: huge drops in total investment (8.2%) and private consumption (3.2%). Against this backdrop, the outflow of private capital increased by 13.6% and inflation closed at nearly 25%.



This “Dante’s Inferno” scenario bodes no good for 2010, as mentioned in previous reports. From the political point of view, the electricity crisis and the decline in purchasing power are two highly unpopular elements and there is no absolutely certainty that the Executive will manage to revive the economy by dint of public spending in the second semester of the year.

### Behind the scenes

The second crisis is within the ranks of *Chavismo*. Here there are several points worth mentioning: first, the internal struggles between different tendencies within the United Socialist Party of Venezuela (PSUV), which have resulted in a series of resignations and firings of ministers and top government officials this year; then there are the effects of the mini financial crisis that revealed strong ties between bankers, businessmen, and high-level government officials; and third, relations with allies (in particular the Communist Party of Venezuela and *Patria Para Todos* - PPT), which have deteriorated with Henri Falcón’s resignation from the PSUV and his subsequently joining the PPT. This crisis will deepen as the parliamentary elections draw nearer and candidates have to be nominated. But, in the longer term, it is a crisis that will deepen if President Chávez does not manage to win back his popularity, as the stronger the opposition becomes, the stronger the so-called “dissident *Chavismo*” will also become. The President does not have a clear idea of who his allies are or who could, in the future, be his opponents (potential enemies).

Moreover, even in the most pessimistic scenarios, the opposition will win seats in the National Assembly in September, a situation that is practically inexistent at the moment. In fact, vis-à-vis 2012 and depending on the Executive’s performance, the “traditional” opposition could gradually build up spaces with dissident *Chavismo* drawn from the ranks of both *Chavismo*’s allies and from the PSUV. The President is aware of this dynamic and that is the reason for such strange proposals as the so-called the law against “switching sides” or party loyalty law.

### The worst crisis of all

While the two previous situations are no small thing, the third “crisis” is the biggest of all and the one that is giving President Chávez and those who support him greatest cause for concern. This crisis could be called, in the words of Professor Michael Penfold, the inability to renew the promise or, what comes to the same thing, a break with expectations. While it is true that President Chávez still has acceptable levels of popularity (around 40%), there are some important shifts in people’s perception. The first is that there is an increasingly large percentage of Venezuelans who hold President Chávez responsible for the country’s main problems. This is important, as, up until now, what has been operating has been the perception that “the government is very bad but Chávez isn’t” (“Teflon



effect”). The second change has to do with the Venezuelan population’s growing pessimism with regard to the future, exacerbated by the economic crisis.

The challenge facing Chávez is not a minor one. Not only does he have to increase his popularity, but he also has to give people hope and the sensation that things are going to improve with him in power; that the alternative is chaos.

Here we are only referring to *Chavismo*. However, on the side of the opposition, while there have been major advances, they have still not managed to come up with a discourse that connects with the majority, not to mention their serious leadership problems, as the maximum levels of popularity of any opposition leader does not even come near the lowest levels of President Chávez’s. In other words, the Venezuelan opposition continues to be an attempt rather than an alternative. This is slowing down any deterioration of *Chavismo* as an alternative.

**All paths lead to...**

Reelection. From the point of view of economic policymakers in Venezuela, the strategy is designed to guarantee the survival of the *Chavista* model at the 2012 presidential elections, where it is taken for granted that President Chávez will run for reelection. In short, the “Bolivarian revolution” has reached the point where it has to start coming up with effective responses to social demands, and the Executive has to give the sensation of “efficiency.” That is the engine that will be driving measures on the economic front starting in 2010.

The paradox is that improving economic performance implies solving some issues that *Chavismo* finds unpleasant, those that the World Economic Forum has identified as the causes that explain the deterioration in the business environment in Venezuela: exchange controls, political instability, the government’s inefficient bureaucracy, and inflation. Most experts in this area agree that none of these problems will disappear in the short term and they, along with an electricity crisis whose effects will continue beyond 2011, will put a brake on economic expansion.

**The last word has not been said**

In his book “*Dos tradiciones, un conflicto: El futuro de la descentralización,*” Penfold highlights that, so far, Chávez’s success in implementing his model of society has been closely linked to the fiscal expansion of the public sector due to the high revenues from oil and the intensive use of those revenues with distributive criteria, which facilitated the creation of a large-scale clientelist network, all of which was accompanied by a system of



carrots and sticks to ensure the loyalty of his political followers, buy the sympathies of ambivalent groups, and punish his adversaries.

The outlook on the political front points to the President using all his political capital to step up his efforts to restrict the states' and municipalities' access to financial resources and multiplying the communal councils, all with the purpose of avoiding the emergence of a federal alliance, as Penfold calls it, aimed at recovering certain administrative spheres of competence, besides becoming a real alternative to *Chavismo*. The point is that the opposition must quickly learn how to capitalize on the discontent, that break with expectations, and the economic difficulties long before President Chávez runs for reelection in 2012, all of which will happen in the midst - as Penfold puts it- of a system that is beginning to show clear signs of fatigue.

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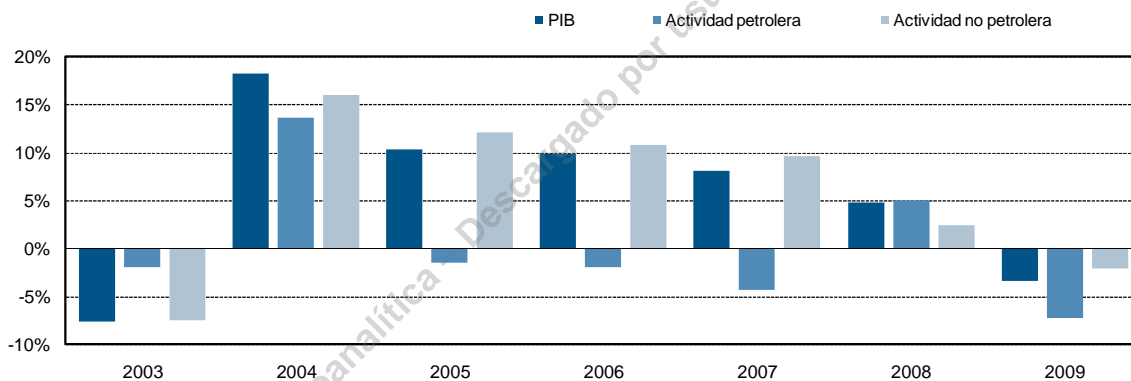




## Economic Tips

**2009 GDP results at last, worse than expected:** According to figures published by the Central Bank of Venezuela, GDP for the last quarter of 2009 posted a drop of 5.8% compared to the same quarter last year. This result finally brings the contraction for the year to 3.3% and not the preliminary 2.9% mentioned by the president of the Central Bank in his year-end message.

### Crecimiento PIB total, actividad petrolera y actividad no petrolera



Fuentes: BCV y Ecoanalítica

**GDP in the public and private sectors:** As for the public sector, the Central Bank indicated a decline in growth of 0.3% in the last quarter, whereas the private sector posted a drop of 7.0% compared to a year ago.

**Oil and non-oil GDP:** Oil GDP contracted by 10.2% in the third quarter of 2009 compared to the same period in 2008, whereas in the fourth quarter the drop was 7.2%. According to the Central Bank, the contraction was caused by the production cuts agreed by OPEC. As for non-oil GDP, it shrank by 4.0% in the last quarter compared to a year ago.

**The minister is optimistic.** The Executive is maintaining the growth goal of 0.5% proposed in the 2010 national budget. To that end big investments will be made in the productive sector, stressed People's Power Minister for Planning and Finance Jorge Giordani, after submitting the ministry's report and accounts for 2009 to the National Assembly.



**Other issues:** He added that, not only was economic growth expected in 2010, but that it was also expected that standard of living indicators, such as the unemployment rate, would also be maintained. He recalled that this indicator was 7% last December. He mentioned that the State is making an effort to increase productive investment in order to overcome the decline in growth in the Venezuelan economy in the last quarters of 2009 as a consequence of the world crisis.

**2009 balance of payments results.** Finally, the balance of payments results for 2009 were published, showing a decrease in the trade balance of 77.1% y/y, explained by a fall of 39.2% y/y and 43.5% y/y of the oil exports and non oil exports, respectively, which more than compensate the increase of 22.3% y/y of the imports. The capital account had a decrease of 33.1% y/y.

BALANCE OF PAYMENTS (General Summary)	2008	2009	Var(%)
<b>Current Account</b>	37.392	8.561	-77,1%
<b>Goods</b>	45.656	19.153	-58,0%
<b>Oil Exports</b>	89.128	54.201	-39,2%
<b>Non-Oil Exports</b>	6.010	3.394	-43,5%
<b>Import of goods f.o.b.</b>	-49.482	-38.442	-22,3%
<b>Services</b>	-8.354	-7.617	
<b>Others</b>	90	-2.975	
<b>Capital Account</b>	-28.117	-18.823	
<b>Public Sector</b>	-9.716	9.023	
<b>Private Sector</b>	-18.401	-27.846	
<b>Reserves Variation</b>	9.275	-10.262	

Sources: BCV and Ecoanalitica

**Increasing the Chinese Fund is being considered.** According to President Chávez, the Venezuelan Government is studying the possibility of increasing the amount of the Chinese Fund to US\$20 billion. To date, it has received contributions amounting to US\$12 billion.

**US\$1.5 billion transferred from the international reserves to Fonden:** On Friday, February 26, US\$1.5 billion were transferred from the international reserves to the National Development Fund (Fonden). This operation brings the amount handed over



to Fonden in 2010 to US\$4.5 billion. The transfer of US\$2.5 billion to complete the US\$7 billion established at the close of 2009 is still pending.

**Fitch comments on the devaluation and its effects.** The risk rating agency Fitch told the Spanish news agency EFE that exchange controls are affecting Venezuela's credit solvency and indicated that the devaluation corrected the distortions in the economy, which are increasing with high inflation and the appreciation of the real exchange rate. It maintains that this mechanism increases the cost of economic adjustments and also Venezuela's vulnerability to fluctuations in oil prices.

**January unemployment rate:** According to figures published by the National Statistics Institute (INE), the unemployment rate for January rose to 10.2%, compared to 6.6% posted in December and up 0.7% from January 2009. This means an increase in the unemployed population of 463,532 persons between December and January, giving a total unemployed population of 1,338,680 in January.

**Informal employment rate up in January:** The INE's monthly report for January indicates that the percentage of people whose jobs are in the informal sector came to 43.5%, which means that 5,103,739 people have an informal job out of a total employed population of 11,742,513.

**Number of government service employees down:** According to the latest figures published by the National Statistics Institute (INE), in January the number of government service employees came to 2,274,125, some 13,000 workers and employees fewer than in December.

**Central Bank's fiscal revenue figures for 2009:** The Central Bank's monthly fiscal performance bulletin, published somewhat late, indicates that fiscal revenues for August came to VEF 10.52 billion, a reduction of 35.1% compared to 2008. Moreover, the cumulative figure for the first eight months of that year imply a drop of 35.8% in real terms, going from VEF 98.27 billion to VEF 81.27 billion. A breakdown of total revenues reveals that cumulative non-oil revenues for the year fell in real terms by 20.7% compared to the previous year, whereas oil revenues contracted by 52.0%.

**Central Bank's spending figures for August 2009:** The Central Bank's monthly bulletin for August 2009 indicates that spending came to VEF 14.75 billion, a nominal increase of 17.4% compared to the previous year. Cumulative spending between January and August shows a variation of -22.1% in real terms and of only +0.3% in nominal terms, going from VEF 107.52 billion to VEF 107.79 billion.



FISCAL BALANCE CENTRAL GOVERNMENT (VEF Millions)	August 2009	August 2008	Nominal Variation	January-August 2009	January-August 2008	Nominal Variation	Real Variation
<b>Total Revenue</b>	10.517	16.202	-35,1%	81.269	98.269	-17,3%	-35,8%
<b>Non-Oil Revenue</b>	7.269	5.553	30,9%	52.011	50.946	2,1%	-20,7%
<b>Oil Revenue</b>	3.248	10.650	-69,5%	29.106	47.062	-38,2%	-52,0%
<b>Total Expenditure</b>	14.754	12.569	17,4%	107.792	107.520	0,3%	-22,1%
<b>Fiscal Balance</b>	-4.237	3.633		-26.523	-9.251		
<b>Primary Balance</b>	-3.414	4.230		-19.873	-3.908		
<b>Non Oil Balance</b>	-7.485	-7.017		-55.780	-56.574		
<b>Debt Amortization</b>	310	0		3.153	5.542		
<b>Financing Requirements</b>	4.547	-3.633		29.676	14.793		
<b>Foreign Debt</b>	1	101		146	6.484		
<b>Domestic Debt</b>	2.622	97		19.298	654		
<b>Tresury Bonds</b>	2.476	0		16.788	21		
<b>Tresury Debt</b>	146	97		2.510	633		
<b>Others</b>	1.924	-3.832		10.232	7.655		

Sources: BCV and Ecoanalítica

**Another amendment to the Central Bank Law:** The Executive is to submit another amendment to the Central Bank of Venezuela Law to the National Assembly that will allow Planning and Finance Minister Jorge Giordani to continue to sit on the Central Bank's board of directors. The chairman of the Finance Committee, Ricardo Sanguino, said that the Central Bank's legal framework had to *"be adapted to the new circumstances."* Under the present Central Bank Law, the finance minister is not allowed to sit on the bank's board, which was why the government's representative on the board was the planning minister. However, in January the ministries of planning and finance were merged, which means changing the law.

**Interest rates.** The lending rate for the third week in February was at 19.3%, up by 166 basis points compared to the previous week. Time deposits and savings rates were at 15.3% and 12.6%, respectively, with time deposits up by 82 basis points and the savings rate remaining constant.

**International Reserves.** International reserves were down by 0.7% going from US\$31.60 billion during the third week of February to US\$31.40 billion in the fourth week of the same month. Compared to the previous year, international reserves are up by 2.7%.

**Monetary liquidity.** Monetary liquidity for the third week of February was up by 0.4% compared to the second week settling at VEF 232.37 billion. Compared to the previous year, monetary liquidity has increased in nominal terms by 23.4% but dropped by 2.7% in real terms.



**Exchange bonds auction.** The Central Bank of Venezuela has carried out seven issuances of exchange bonds, in total issuing US\$310 million in bonds. The price for each bond, during the last issuance of US\$50 million, was at 112%, with a unit value of US\$1,000, at an exchange rate of VEF 4.3/US\$. These are zero coupon bonds, 90 day maturity, and they have a maximum commission of 1% by intermediaries, which all allows for the acquisition of foreign currency at an implicit rate of VEF 4.87/US\$ upon reaching maturity.

## Oil Tips

**CVP reduced its power consumption.** The Ministry of Energy and Oil said the energy consumption of the administrative areas of Corporación Venezolana de Petróleo, the Orinoco Oil Belt's companies and Petrosucre, decreased by 30%. President Chavez urged the Oil Belt's mixed companies to become more independent from the national electric system, highlighting the projection of new thermoelectric companies. This is due to the fact that all four companies that operate on the Orinoco Oil Belt depend on the national electric system, although they also have their own power generators.

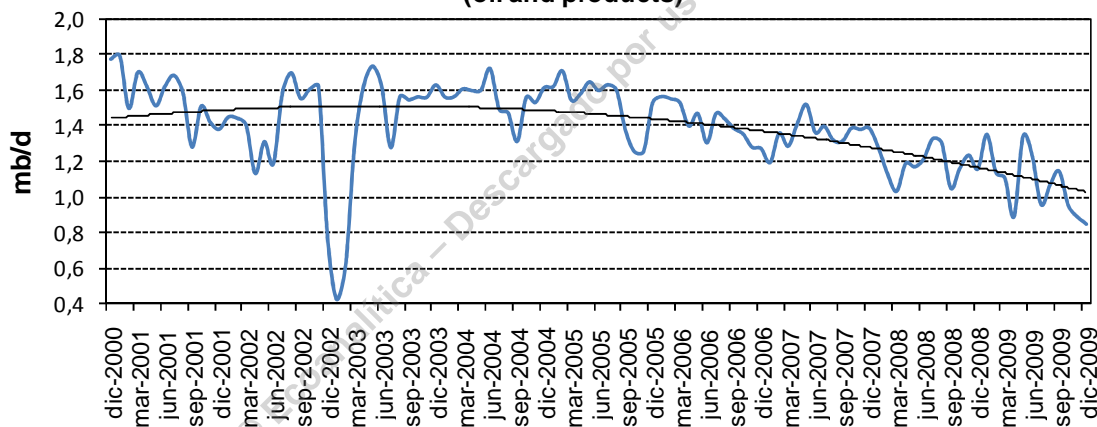
**900 Megawatts for Pdvsa.** The minister of Energy and Oil, Rafael Ramirez, said the state company will be purchasing thermoelectric plants with its own funds to generate up to 900 megawatts. At the submission of Pdvsa's Annual Report and Accounts at the National Assembly, the minister said *"Pdvsa had reserved US\$1.2 billion to acquire thermoelectric plants in the United States and Europe within six months."* According to official numbers, Pdvsa consumes an average of 800 megawatts from the national electric system and some operations, though smaller in number, depend completely on the national system.

**Pdvsa sues Conoco.** Venezuela sued the oil company Conoco Phillips for their attempt to buy Pdvsa's participation in Merey Sweeny, a refinery unit in the United States. The conflict arose after Pdvsa notified Conoco they could not meet their agreed supply due to a production cut as part of OPEC's agreements and, according to the association contract signed by both oil companies, Conoco was entitled to execute its purchase option and take over Pdvsa's share at Sweeny's coquefaction unit if Pdvsa ceased to supply the plant.



**Venezuela moved to fifth place.** According to numbers released by the U.S. Energy Information Administration (EIA), Venezuelan exportation of crude oil and by-products to the United States decreased by 26.7% reporting an average export of 849 thousand barrels per day (kb/d) in December of 2009, compared to deliveries in the same month of 2008 which reported 1.16 million barrels per day (mb/d). Checking only crude oil figures, there was a y/y drop by 25.0%; and analyzing the situation of by-products, there was a 41.2% decrease compared to the same period of 2008. With these numbers, just like a soccer team facing demotion, Venezuela dropped to fifth place (last month Venezuela was fourth) as crude oil supplier to the U.S., right behind Canada, Mexico, Nigeria and Saudi Arabia.

**Pdvsa Exports to the US**  
(oil and products)



Sources: EIA and Ecoanalítica

**Diversification.** As we have mentioned repeatedly at *Ecoanalítica*, these results leave 3 important issues; number one, Pdvsa's market diversification strategy: exports to the U.S. are becoming less significant and the supply to other destinations such as China and Petrocaribe member countries is continuously increasing.

**Less refining.** The second important issue is the fact that since January of 2006, the export of oil by-products (gasoline, diesel, etc.) to the U.S. is showing a decreasing trend. Comparing December 2009's 77 kb/d with the average of the last ten years (238 kb/d), by-product delivery has decreased by 52.4%. For 2009, the average delivery of oil by-products to the U.S. was 113 kb/d. This information indicates, somehow, the consequences originated by the multiple strikes and shutdowns occurred in national refineries during the past year, aside from the low production levels, the refining process is also going down.



**The “real” cost of Gasoline.** Third, in analyzing the export numbers for finished gasoline, we see the delivery has been intermittent since September of 2006, so much that, for the year 2009, only 30,000 barrels were delivered (477 thousand liters), while the historic average of finished gasoline delivery to US was 44 kb/d (2.5 billion liters per year, equivalent to 65% of the estimated total gasoline exports in 2009) to this date. That is, in 2009 Pdvsa exported only 0.2% of finished gasoline’s historic average delivery to the U.S. A question arises, what would Pdvsa’s income be if they were delivering 44 kb/d of gasoline to the US market now? At the average price of gasoline in 2009, approximately US\$5.8 billion.

**Workers say a gasoline strike is not out of the question.** After almost a year of having nationalized 60% of the fuel distribution sector (the remaining 40% is controlled by cooperatives and small companies), Empresa Nacional del Transporte (The National Transportation Company, ENT), a Pdvsa affiliate, has not acknowledged the seniority of those who worked for the affected companies. Fuel transporters say a fuel distribution service strike is not out of the question to protest and demand compliance with the clauses in the oil industry’s collective labor agreement which obligate Pdvsa to acknowledge labor seniority. According to union representatives, there are approximately 900 affected employees who had been working in the private fuel distribution companies that were absorbed by the State for 15 and 20 years.

**International Oil baskets.** At New York market’s closing time, last Thursday, March 4, the WTI was at US\$80.3/bl showing a 2.7% increase compared to the US\$78.2/bl of the previous Thursday. The Brent increased by 3.1% to reach US\$77.3/bl, compared to US\$78.7/bl of Thursday, February 25.

**Local oil basket price.** The Venezuelan oil basket price went up last week, to close on Friday, February 26 at US\$71.2/bl, US\$X.X more than the US\$2.6/bl of the previous week. The oil basket’s annual average increased to US\$69.9/bl.

## Business Sector Tips

**EDC threatens to suspend electric service.** During Saturday, February 27, Electricidad de Caracas notified both commercial and industrial high electricity consumers that should they not meet the electric power saving plan, their service



would be suspended for 24 hours. At the same time, they announced the establishments that did meet the energy saving plan by reducing their consumption by 10%.

**Telefonica's results.** Telefonica's results in Venezuela were greatly affected by the recession and devaluation, with a decrease by €548 million in their net result, which they were able to compensate with a tax deduction of €591 million, after a modification of the European Union for goodwill. This impact was assumed by reformulating the results of the first three quarters, reducing the first one by €67 million, the second one by €100 million and the third one by €108 million, and the remaining €273 million affected the fourth quarter's results.

**Government leads in basic product sales.** According to numbers handled by Alimentos Polar, Corporacion de Abastecimiento y Servicios Agricolas (CASA) is the nationwide leader in corn oil sales, with a market share of 43% and sales of 132,900 tons. Regarding pre-cooked corn flour, it holds a 25.5% market share, selling 213,876 tons.

**Alimentos Polar has increased production.** Alimentos Polar's pre-cooked corn flour, oil, margarine, mayonnaise and ketchup production has increased by 36% in average in the last five years.

**Corporación Venezolana de Alimentos to be created.** According to Official Gazette number 39,376 published on March 1, the Ministry of Agriculture and Lands must proceed to create a new public company called Corporación Venezolana de Alimentos (Venezuelan Food Corporation, CVAL) which's objective will be to support and guarantee the nation's agro-alimentary sovereignty in terms of production, industrialization, distribution and exchange of food products; manufacture, purchase, sale, marketing and storage of all agricultural products; managing, encouraging, producing, administering, transforming, industrializing, exporting, importing, marketing and distributing any and all agricultural and industrial products and byproducts.

**Official Audits formalized.** The official audits of La Primera Casa de Bolsa, Unovalores Casa de Bolsa and brokerage firms AVC, Venemuto and SFC Investment were published and formalized in Official Gazettes last Thursday and Friday. For La Primera Casa de Bolsa, the resolution indicates the measure is due to a capital loss of US\$58.6 million, as a consequence of investments carried out with U21 casa de bolsa. Regarding brokerage firms, only the fact that the entities were forced to freeze their



activities is indicated. According to Friday's Gazette, Unovalores' audit was ordered due to irregularities in the financial institution's operations.

**Government controls 26.9% of deposits.** According to official numbers, for January of 2010, the Venezuelan Government controlled 26.9% of all deposits in the financial sector through Banco de Venezuela, Bicentenario, Industrial, del Tesoro and Agrícola, adding up to VEF 70.2 billion. Banesco is the private bank with the largest number of deposits, with 14.1%.

**A smaller gap in loans.** According to official numbers released last Friday, the number of loans processed by public banks reaches 19.9% of the system's total. Banesco, the private bank with the largest market share, processes 16.6% of the system's total loans.

**Insurance companies are increasingly in trouble.** In a press release issued by Camara de Aseguradores de Venezuela (Venezuelan Chamber of Insurance Companies, CAV) addressed to Asociación Venezolana de Clínicas y Hospitales (Venezuelan Private and Public Hospitals' Association), a total rejection for the increase in prices announced for this year was expressed. CAV said its concern was related to the fact that there was no discussion about it, and they are charging amounts that will affect the insured client since they significantly exceed their insured amounts.

**Vehicle production starts to show improvement.** Production in February was 9,243 units, representing a 107.7% increase compared to the same month of 2009, according to numbers published by Camara Automotriz de Venezuela (Venezuelan Automotive Chamber, Cavenez), in its monthly report.

**... However, cumulative production is still down.** Cumulative national vehicle production in 2010 indicates a 30.5% y/y decrease, according to Camara Automotriz de Venezuela (Cavenez). A total of 14,285 units have been produced between January and February of the current year, versus 20,562 produced in 2009. The report indicates this decrease is caused by the labor conflicts the different assembling companies have had to face and the existing uncertainty about the sector's foreign currency budget.





**US IV Quarter growth revised up.** The growth of the world's largest economy during the IV quarter of 2009 was revised at a high from 5.7% in preliminary calculations, already above expectations, to 5.9% (seasonally adjusted annual rate, SAAR), being this the highest US GDP growth since the third quarter of 2003 and placing the y/y variation in positive grounds (0.1% y/y%) for the first time since early 2008.

**Growth boosted by inventory accumulation.** Out of the 5.7% GDP growth, 3.9 percent points come from voluntary inventory accumulation, since during the crisis, inventories were reduced in excess as a result of companies' overreaction, thus being much below the desired level.

**International trade improvement was less than the estimated.** Exports grew by 22.4% (SAAR) during the fourth quarter to close only 0.8% below the exports of the same period of the previous year (y/y), after having increased by 17.8% (SAAR) during the third quarter. Imports grew by 15.3% (SAAR), a y/y drop by 6.7%.

**Canada grew 5% in the fourth quarter of 2009.** For the second consecutive quarter, Canada's GDP had a positive growth, by 5% this time (SAAR), after a weak 0.9% growth (SAAR) during the third quarter of 2009. This expansion was boosted by foreign trade, since exports increased and imports decreased compared to the previous quarter. Domestic demand contributions to the GDP, such as personal consumption, government spending, and investment, were all lower than in the third quarter.

**Unemployment in the EU remains at 9.5%.** The European Union's unemployment rate remained stable since December at a historic high of 9.5% (historical series since the year 2000). The Eurozone's unemployment rate remained constant as well, but at 9.9%, however, the unemployment's growth rate for this group of smaller countries that use the Euro as currency was smaller than that of the EU as a whole.

**Pound Sterling continues to lose ground against the US\$.** The Pound Sterling's value against the US\$ dropped to a four-month minimum of 1.48 £/US\$. Some analysts commented that due to the political uncertainty about the decision to be made by the House of Commons to reduce the country's increasing public debt, the Pound might continue to lose ground until reaching a low of even 1.20 £/US\$ by summer. The Pound had already debilitated significantly last week after the statements of Mervyn King, Governor of the Bank of England, regarding the possibility to continue with the flexible monetary policy.



**IMF said the Chinese Yuan was substantially overrated.** Since the beginning of the world crisis, the Chinese government set the Yuan's exchange rate against the US\$ to encourage exports, after a period in which they allowed the Yuan to gain strength against the US\$. The International Monetary Fund said the Yuan was substantially overrated, which significantly affects the recovery of many countries' foreign accounts. The IMF argued that if China lets its currency gain value, its consumers' purchasing power will increase, thus encouraging the relocation of resources from the exports sector to the domestic consumption sector. This would also drive a second growth engine for China, domestic demand, which would add to its current engine, exports.

**Reserve Bank of Australia continues to increase rates.** The Reserve Bank of Australia continued to increase its reference interest rate this week, with a 25-base point increment this time to close at 4%. Australia's economic conditions in 2009 were much better than expected, and unemployment increased less than expected.

## Political Tips

**Venezuela is not well positioned in terms of economic freedom.** According to the 2010 Economic Freedom Index, created by the Heritage Foundation and the Wall Street Journal, Venezuela is in the 174th out of 183 countries. This index puts Venezuela under the category of repressed economy, with a result of 2.8 points less than last year's, though its position didn't change. Behind Venezuela are: Zimbabwe, Cuba, Burma, Eritrea, North Korea, Afghanistan, Iraq, Liechtenstein y Sudan.

**Chavez demands jail time for the people responsible for "el Caracazo."** The Venezuelan President demanded jail time for former president Carlos Andres Perez and the Venezuelan military members who were responsible for what happened during the riots of 1989 known as the "Caracazo." For President Chavez, the people responsible for the "genocide" repression during the social protests should be incarcerated for "turning their guns toward the people." In commemoration of the 21st anniversary of that date, Chavez repeated "the Armed Force shall never again be used against the Venezuelan people," and denied again the versions, those he attributes to the opposition, that say the country is currently under conditions for a new "Caracazo."

**Extradition request.** The extradition of former president Carlos Andres Perez was requested due to his responsibility in the actions that were taken during those days to repress the protesters on the streets of Caracas and some other areas of the country. Attorney Luisa Ortega Diaz appeared before the Judicial Palace to request this measure against former president Perez.



**Chavez: It is “ineffable and ignominious.”** For President Chavez, the report introduced by the Inter-American Commission on Human Rights (IACHR) is categorized as “ineffable and ignominious.” In said report, the Venezuelan Government is accused of applying “serious restrictions” to human rights in the country. According to this, Chavez criticized the Commission accusing it, once again, of having “supported the coup” that removed him for barely 48 hours in April of 2002. He also said “what we should do is denounce the agreement through which Venezuela was included in that commission and get out of it.”

**Should Venezuela get out of the IACHR, the Constitution would need to be modified.** Foro por la Vida requested a stop in the threats to remove Venezuela from the Inter-American Commission on Human Rights and to open a “serious, responsible and constructive” debate regarding the report about Venezuela released by the said public organization last week. They also said that, should the threat become a reality, Venezuela would need to modify the Constitution, since the Commission is mentioned in article 339.

**They shall prove their loyalty in order to become candidates for the PSUV.** Militants of the United Social Parties of Venezuela (PSUV) shall “prove” they are “solid and authentic revolutionary militants” by meeting some age requirements, in order to be able to run for office in the next parliamentary elections. Depending on the militant’s age, he/she will be required to prove a certain number of years as party members.

**Chavez: Colombia without Uribe will be a different thing.** President Chavez said he expects to resume a positive relation with Colombia once Alvaro Uribe’s administration is over. President Uribe will finish his second consecutive term of office on August 7, 2010, to which Chavez said “I have an expectation that with this new Government, whoever Colombians chose as their new president, we are willing to resume constructive, positive relations.”

**Falcon’s exit.** President Chavez said Henry Falcon’s exit from the PSUV was a matter of ideology, “he couldn’t give in to the ideological changes, Falcon “dropped the ball” with the Polar issue,” he said. Chavez order a deepening of the revolution in Lara, “what the governor thinks won’t matter now.” However, the Head of State expressed his good wishes to the former governor.

**Accusation about ETA and FARC: “Traces of a colonial past”.** After the accusation by a Spanish judge about the indications of Venezuelan government cooperation with FARC and ETA, Chavez categorized it as “traces of a colonial past.” His Spanish homologue, Jose Luis Rodriguez Zapatero, asked Venezuela for an explanation on this regards; to which the Venezuelan Chancellor answered with a



press release explaining these “unacceptable accusations” were of “political nature and motivation.”

**Ministry of Higher Education removed from office.** Luis Acuña will be leaving his position as Minister of the People’s Power for Higher Education, according to professors linked to the public clerk. His exit from office is allegedly due to his weak posture, expressed in the dialogue with university authorities through the director of the University Sector’s Planning Office, Antonio Castejon, to achieve an improvement in the implementation of the new higher education acceptance system. A possible replacement could be the Ministry’s Foreign Affairs director, Edgardo Ramirez, a professor at the School of Economics of the UCV.

**Jaua: against latifundium.** For the Vice President of Venezuela, Elías Jaua, the Federal Government Council Law approved by the National Assembly rescues the true spirit of federalism. According to Jaua, “the instrument is neither to put a fence on the people’s power, nor to transfer competencies that are appropriate for power groups, but to definitely give the people back the power that national and regional oligarchies took from them.”

**Foreign Affairs Ministers to arrange a Chavez – Uribe meeting.** The mediation by the “group of friend countries” allowed a meeting between the Colombian Minister of Foreign Affairs, Jaime Bermudez, and his Venezuelan homologue, Nicolas Maduro, in order to prepare a future interview between their countries’ presidents and to reinstate the bilateral relations that have been deteriorated in the past months.

**50% of votes to win pro-Chavez primary elections.** The choice of candidates for the upcoming parliamentary elections will be subject to the regulation applied in 2008. One of the two conditions established in this rules to earn the candidacy is: the winner would have to accumulate 50% plus 1 votes or, in lack thereof, a 15% advantage over the second place. The Governor of Guarico, Willian Lara, said the primary elections would only be applied to nominal positions and not to lists.

**Again.** The Electoral Room of the Supreme Court of Justice restituted the Bolivarian Mayor, Humberto Franka, in Zulia’s Sucre Municipality. The decision was made after the accusation of irregularities registered in the last governor and mayor elections in which Jorge Barboza won.

**Land Law project in poor neighborhoods moves forward.** A plenary session of the National Assembly started the second discussion of the Special Draft for the Submission of Land Property in Poor Neighborhoods and Poor Urbanizations, which



would be the new denomination for it to be the “*Law for the Integral Regularization of Land Ownership in Poor Urban Settlements.*”

**New title.** Representative Honorio Dudamel, from the Social Development Commission, says that, in spite of the law draft title change, its key points will be intact, such as the census in urban and circum-urban public and private lands which will be declared as social utility lands, as long as they are in idle conditions. The Socialist Lands’ Institute and Land Committees will be created and will be in charge of carrying out the people’s cadastre, the initial registry of home-owners, buildings or hovels, proposing non-modifiable areas in the basic communal ordinances, as well as public use areas such as squares, paths, roads, drainages, garbage disposal containers, collective production and stimulating the creation of communal cities, among some of their functions.

## Other Tips

**Earthquakes hit again.** On February 27, an earthquake of 8.8 degrees on the Richter scale (approximately 50 times stronger than 7 degrees earthquake occurred in Haiti) hit Chile accompanied by a large number of earthquakes of lesser magnitude along throughout the country and offshore platform. The disaster killed more than 800 people. According to NASA the earthquake changed the Earth's rotation, decreasing the length of the day at 1.26 microseconds, although it is not the first time this has happened with an earthquake of this magnitude. The aftershocks of the earthquake in Chile continue on Wednesday, March 03, with magnitudes of 5.9 and 6 degrees. Also there was an earthquake in Taiwan on March 4, measuring 6.4 on the Richter scale, leaving 64 people injured.





## ECONOMIC OVERVIEW

