



Weekly Report

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By:
Asdrúbal Oliveros
Maikel Bello
José L. Saboin

*PDVSA results H109:
Suffered, but not too much*

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On November 19th, the fourth largest oil company in the world (according to Petroleum Intelligence Weekly), Petróleos de Venezuela S.A. (PDVSA) released its operations and financial report for the first semester 2009 (covering up to June 30). PDVSA has not been a member of the U.S. Security Exchange Commission (because it doesn't meet some of the Commissions requirements, such as release audited quarterly reports) since 2006. The fact that all the figures released in PDVSA's report have not been audited or verified by any other entity other than the company itself, no matter how apparently transparent or truthful the report may seem, leaves one with a sense of doubt and it makes it incredibly difficult to rely on any of the information presented.

With only a month left before the end of the year, pressures have been increase on the oil company due to the significant increase in its obligations and the rumors of yet another issuance in order for it to collect revenues to cover its debts. This has led PDVSA to delay the release of its semester report by three months past the day which was originally set for the release of its first semester report. We, at **Ecoanalítica**, would like to focus on three



important subjects that have followed the oil company during the course of 2009: its issuances, its investments, and the increase the company's workforce (payroll) and its implications on recent labor conflicts.

The drop in crude oil prices: PDVSA feels the impact

The 54% drop (from US\$95.50/bl to US\$45.90/bl) in the average price of the Venezuelan oil basket in the first semester 2009 compared to the same period in 2008, as well as production levels dropping, severely impacted the oil company. PDVSA oil revenues dropped by 52% compared to the first semester 2008 going from US\$67.67 billion to US\$32.49 billion.

Spending on the other hand went down by 46% compared to the previous year going from US\$51.62 billion during the first semester 2008 to US\$27.63 billion during the first semester 2009. The first part of the year saw a drop in royalties and extraction tax revenue, there was also a clear cutback in purchasing crude oil and oil by-products for around 53%, almost equal to the drop in oil revenues.

A less profitable company

Profits also took a dive compared to the previous year. According to EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortization), during the first semester 2009, PDVSA shows an EBITDA figure of US\$8.17 billion, significantly lower than the company's yield during the previous two years. In 2008 it posted an EBITDA figure of US\$51.32 billion and in 2007 it showed US\$22.66 billion, in other words a drop of 84.1% in 2008 and 64% in 2007.

| | EBITDA (MM US\$) | | | |
|-------------------------------|-------------------------|----------------|----------------|----------------|
| | H1-2006 | H1-2007 | H1-2008 | H1-2009 |
| Net Income | 2,845 | 896 | 9,504 | 3,173 |
| Financial Expenses | 310 | 222 | -448 | 395 |
| Income Tax | 2,050 | 1,177 | 6,574 | 1,471 |
| Depreciation and Amortization | 1,479 | 1,795 | 2,353 | 2,740 |
| Social Development | 6,719 | 7,243 | 7,674 | 386 |
| EBITDA (MM US\$) | 13,403 | 11,333 | 25,657 | 8,165 |

Sources: PDVSA and Ecoanalítica

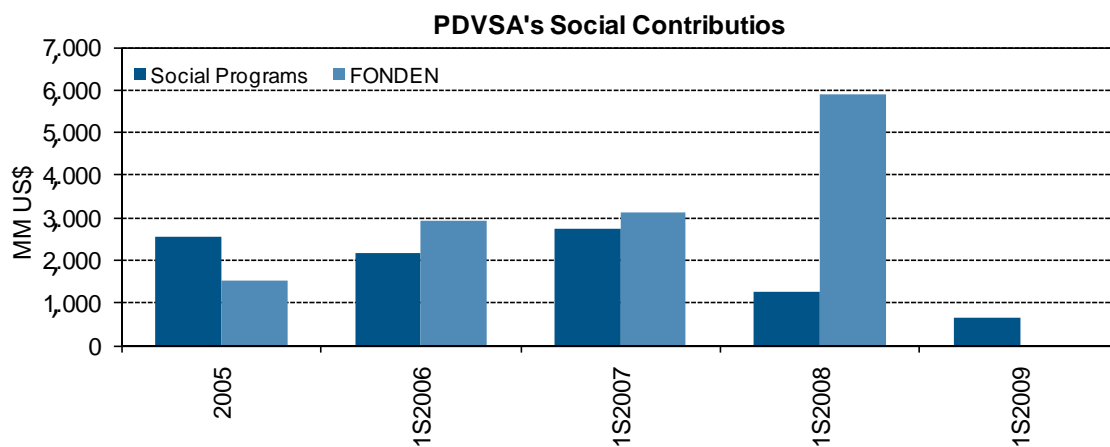
Social contributions drop

With respect to the company's contributions to social development (Missions, special programs, and FONDEN), PDVSA used US\$642 million during the first semester of 2009, down by 91.1% compared to the first semester of 2008 when it contributed US\$7.19 billion and 83.3% less than what it contributed during the first semester of 2007 (US\$5.51 billion). It's important to highlight two important points here. Since FONDEN was



created in 2005, this is the first time that PDVSA hasn't transferred resources into its account during a semester. The two previous semesters, PDVSA contributed over US\$3.0 billion. Furthermore, PDVSA contributions to the Missions and special programs dropped by almost 50%. While the Mercal, Barrio Adentro Missions (I, II and III) and Vuelvan Caras Missions didn't receive funds, PDVSA contributed US\$50 billion to the Alba Caribe Fund.

In the current situation that PDVSA finds itself, it should be earmarking its resources to increase its productive efficiency, the main purpose of any company, instead of supporting special programs and social objectives, which should be the direct responsibility of the State.



Sources: PDVSA and Ecoanalítica

What happened to PDVSA's obligations?

During all 2009, PDVSA authorities announced that it would pay what it owed to the contractor service companies if they would cut their rates by 40% and after this adjustment was made the company would define its payment schedule. Company spokespersons insisted that the company was honoring its debts and paying the service companies, but company balance statements showed service company debt increasing by 8% (US\$589 million). On June 30, PDVSA accounts payable was at US\$8.15 billion, while at the close of 2008, the same account was at US\$7.56 billion.

Despite the fact that PDVSA received an injection of cash through financing, it posted a negative cash flow amount (-US\$363 million) for the period. This was mainly due to the drop net profits, due to the fall of crude oil prices, and the US\$700 million it contributed to CORPOELEC, which will be paid back with electric power service. However, the previous year's excellent performance left the company with a cash flow amount of



US\$4.12 billion, which dropped by 30.1% compared to the first semester of 2008.

The report also shows that the amount of incorporated assets with the nationalizations only reached US\$1.03 billion, while the amount paid in compensation for the nationalizations, suggested by the Ministry of the People's Power for Planning and Development was around US\$3.0 billion.

PDVSA'S debt

The significant drop in oil revenues and the increase in obligations due to the nationalizations forced PDVSA to look for additional sources of financing. First, it turned to FOGADE and the BANDES in order to cover its obligations. These two entities acquired investment certificates for US\$1.50 billion. Then, due to the magnitude of its obligations, PDVSA carried out two issuances of bonds for a total of US\$6.26 billion. By the end of June, PDVSA's debt was at US\$16.21 billion, and if you count the two bond issuances, its debt was at US\$22.48 billion, making the company's equity risk increase from 23% to 31% (this is without counting equity increases which correspond to the second semester 2009).

Despite the fact that PDVSA increased its debt and that its risk increased by almost 10% in a single year, the company's overall debt situation is about the same as the average of the main big oil companies around the world (BP, Chevron, Petrobras, Pemex, Royal Dutch Shell, Total, Exxon) which are at around 29% at the close of 2008. So, in a more optimistic context, PDVSA still has margin to acquire more debt, and the fact that it has acquired more debt does not mean that it is in any way close to bankruptcy.

| | Borrowing Capacity | | | | | |
|---------------------------|--------------------|-------------|-------------|--------------|--------------|--------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Total Debt (MMUS\$) | 3,720 | 3,433 | 2,914 | 16,611 | 15,095 | 22,475 |
| Patrimony (MMUS\$) | 41,996 | 47,176 | 53,103 | 56,062 | 71,513 | 71,497 |
| Debt/Patrimony (%) | 8.86 | 7.28 | 5.49 | 29.63 | 21.11 | 31.43 |

Sources: PDVSA and Ecoanalítica

Investments: more refining, less production

Investments earmarked for property, plants, and equipment reached US\$4.90 billion, down by 29% compared to the first semester 2008, when investment reached US\$6.91 billion.

If we look at these investments we find that for exploration and production, US\$2.67 billion were allocated, down by 43% compared to the previous year. If we look at investments for refinery, trade, and supply, we see that PDVSA invested US\$848 million, up by 41% compared to what it spent



during the first semester 2008. On the international scene, the trend seems to be the same with investments increasing by 14% reaching US\$494 million. This seems to support what could be PDVSA's new strategy, to increase refining; but at the cost of less production.

Production continues to fall

As we pointed out in our previous Weekly Report, the figures released by the Central Bank of Venezuela (BCV) regarding oil activity dropping by 9.5% in the third quarter 2009, spearheaded by a drop in oil production; the country's main oil refineries stopping operations (scheduled and unscheduled); the nationalization of oil contracting companies, and the labor problems (among other things) which have ensued because it; and OPEC oil production quotas (which were not often followed) seem to indicate that the company's investment levels are below what is expected and what is needed to increase production capacities and to even maintain current production levels.

The payroll: a year full of labor problems

The report released by PDVSA points out that on June 30, 2009, it employs 83,457 workers (though a number of different sources state that by the close of 2009 the company will employ more than 90,000 workers), up by x% compared to December 2008, when it employed 78,739 workers. This difference is mainly due to the nationalizations of the strategic associations and other industry related nationalizations which have taken place. It's important to point out that with the nationalizations and the added responsibilities in other sectors (gas, food, social programs) that the company has, PDVSA's payroll has increased by 145% compared to the number of people it employed in 2003.

So many new workers being added to the company has also led to problems with the new collective bargaining agreement being discussed for the 2009-2011 period and which expired on January 21, 2009. This has caused a number of problems. Union elections haven't been able to be held (cancelled 7 times) and a number of protests and strikes have occurred throughout the year.

It's unavoidable that PDVSA's labor costs increase. Currently, the minimum wage in the oil industry is at VEF 1,322.80. The new collective bargaining agreement which is being discussed wants to increase this minimum wage to VEF 3,422.80 a month, putting the cost of this labor agreement at VEF 9.46 billion (US\$4.40 billion), an amount which represents an 18.2% increase compared to the last collective agreement that PDVSA signed which cost VEF 8.0 billion, based on a payroll of 67,900 workers.





**What to look for
in 2010?**

In a context of increasing oil prices during the coming year, we should expect PDVSA to improve performance. But it's not only through increased revenues that you maintain the business the size of PDVSA. It's important that next year's strategy include improving efficiency and making investments in all its key areas, paying off its debts, and generating wellbeing throughout the company workforce in order to overcome production problems and to begin to fulfill the objectives of the Oil Seeding Plan.





Economic Tips

BCV eases marginal bank reserve requirement. From November 30th on, banks will have to maintain a reserve at the BCV of 23 of every 100 bolivars deposited over the balance as of July 14, 2006, compared to 25 percent before. This will help Banks to have more funds available to meet their liquidity needs. Interbank rate has increased over recent days as a result of the increased liquidity needs derived from the intervention of the Bolívar and Confederado banks and the liquidation of Banpro and Canarias.

Another two measures. The BCV reduced the penalty for banks that do not comply, as well as the discount rate (-1%) for the financial sector.

Financial crisis? It is worth highlighting the financial soundness of most of the main banks in Venezuela. This helps dealing with the current crisis, which is affecting a little part of the financial system (the 4 intervened banks account for 5,7% of the total deposit in the banking system for end-October). In this context, intervention and liquidation of affected banks are appropriate.

Will public sector insurance policies be transferred? Seven insurance companies concentrate the most part of public sector insurance policies and manage policies worth about VEF6.6 billion. Recently, deputies of the Social Development Commission of the National Assembly expressed that the objective is to transfer those policies to Bolivariana de Seguros. According to the reform of the Insurance Law being discussed at the National Assembly, State-owned companies are exempted from complying with the requirements concerning promotion, shareholding structure, and declaration of the origin of the economic resources, to incorporate a partnership.

Will unemployment close under 8%? Elías Eljuri, President of the National Statistics Institute (INE), pointed out this week that unemployment rate for 2009 is expected to close under 8%, despite GDP contraction. He added that GDP drop over the first nine months of the year was partly due to the 300,000 oil barrel cut agreed to maintain oil prices at the OPEC's level.

Another fund? The Iranian-Venezuelan Fund already has US\$200 million and it is expected to have another US\$200 million for year-end, to finance joint projects, according to the Minister of Finance, Alí Rodríguez. Ahmadineyad inaugurated the Fund's headquarters in Caracas. The fund is estimated to reach US\$1.0 billion of capital before the end of 2010. This money will be contributed 50-50 by both countries.



This information was provided by Rodríguez at the request of President Hugo Chávez during the presentation of the report of the Iranian-Venezuelan cooperation, with the attendance of the Iranian president, Mahmud Ahmadineyad.

Origin of the funds. Chávez ordered Rodríguez that funds to be contributed by Venezuela to the Fund be taken from institutions other than Government, such as private and public banks, the Central Bank of Venezuela, or through bond issues or other financial instruments.

Interest rates. Lending interest rate for the third week of November was 19.0%, down 8% from a week before. Term deposit and savings rates were at 15.2% and 12.6%, respectively, for an increase of 26 base points for the time deposit rate. Savings rate remained unchanged.

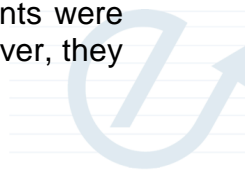
International Reserves. International reserves fell 0.8%, from US\$33.64 billion in the third week of November to US\$33.36 billion in the fourth week of the same month. This represents a decline of 15.6% in comparison to the same period last year.

Liquidity. According to the last information available, liquidity increased 0.4% in the third week of November, compared to the second week of the same month, to VEF229.69 billion. For the year-to-date, liquidity has risen 17.7% and 23.8% as compared to the same period 2008.

Oil Tips

Domestic exports drop. Venezuelan oil exports to two of their major international markets, the U.S. and Asia, drooped as a result of the fall in production. According to PDVSA's financial and operational report as of June 30, 2009, the decline in the U.S. market (which currently accounts for 53% of total sales) was 4%, because shipments decreased to 1.4 mb/d from 1.5 mb/d for the same period 2008. In the case of Asia, a destination that would have become the industry's new target, sales dropped 33%, or 152.000 b/d.

The U.S., in turn... The U.S. Energy Information Administration (EIA) points out that Venezuelan exports reached 1.2 mb/d in September, down from the 1.4 mb/d exported by PDVSA four years ago. For the year-to-date, the lowest levels of shipments were recorded in April and June, when they did not reach one million barrels. However, they exceeded 1.3 mb/d in May.





Colombian production grows. Colombia estimates that its oil production will exceed 800,000 b/d in 2010 on average, thanks to the incorporation of new reserves and the use of state-of-the-art technology (which comes from Venezuelan expertise) for the development of already discovered deposits. Colombian oil production was more than 700,000 b/d in last October, according to the director of the National Hydrocarbon Agency, Armando Zamora.

Terms of the Carabobo bidding process. The Minister of Energy and Petroleum, Rafael Ramírez informed that the definite terms of the seven blocks bidding process will be given this Monday. He assured that the confidence of foreign oil companies in Venezuela has been strengthened despite speculations.

PDVSA buys and sells more food products. The financial statements for end-June 2009 report that purchases of food and mass consumption products reached US\$789 million, as compared to US\$280 million for the same period last year, for an increase of 181%. In terms of sales, the figure was US\$754 million, compared to US\$367 million for the end of June 2008, or an increase of 105%.

However, PDVAL influences accounts receivable. The report highlights that the increase by more than 20% in accounts receivable is due, among other things, to complaints about PDVAL food inventories that did not meet specifications. These complaints amount to US\$247 million.

Jobs sold in PDVSA. Senior officials of PDVSA Occidente were interrogated at the DISIP last week, due to alleged irregularities. According to deputy Saúl Castellanos, the alleged corruption incidents include the sale of jobs for VEF20,000-30,000 each. According to the report, 1,200 people that were not in the nationalized contractor companies' payroll entered PDVSA. It is presumed that these people bought their jobs or were hired due to influence peddling.

Plans to create a Socialist Oil Bank. The first 20 of 75 clauses of the collective bargaining contract for 2009-2011 have been approved. These clauses include the provisions related to payment for temporary disability, workers' social solidarity, aids for cooperatives, weekly work for earned wages and rotation of shifts, etc. In the clauses still to be discussed, FUTPV tries to transform the current Corporación de Asistencia y Bienestar Crediticio y Social de Fedepetrol (CACREF – the corporation for workers' social welfare), through which PDVSA withholds between 2% and 15% of oil workers' wages, which are deposited in a financial institution that will be governed by the legal framework of the Bank Superintendent's Office.

PDVSA will pay agreement between Venezuela and Russia. The cooperation agreement for the development in the areas of energy, finance and trade between



Venezuela and Russia, includes a Russian goods and services supply program for US\$6.4 billion. The second stage of the program calls for that PDVSA “on behalf of the republic” will pay US\$3.3 billion over a period of three years.

PDVSA bring vessels from Spain. In a transaction worth US\$1.5 billion, the construction of two vessels for oceanographic research was ordered in Galicia. PDVSA informed that in order to optimize docking and undocking maneuvers of vessels arriving in Guaraguao and the Jose Industrial Condominium in Anzoátegui State, the company will receive four tugboats in 2010, which will be bought as part of the Venezuela-Cuba Agreement.

Sixteen drilling rigs shut-down due to lack of payment. Although PDVSA has reported that debts to its suppliers are being paid according to schedule, the oil service company PETREX decided to shut down 16 drilling rigs. CNPC followed suit and refused to lower rates (PDVSA has asked for a discount due to drop in oil prices) for the services rendered. PETREX’s action affected a group of about 500 workers. In the case of CNPC, uncertainty is greater because, workers still don’t know their labor status in the company.

PDVSA buys Termobarrancas. PDVSA will take over operations of the Termobarrancas 150 MW thermal power plant, in Portuguesa State, in early December, thereby completing a process that was agreed months ago with Spain’s Repsol. With this operation, PDVSA will be performing development and exploitation activities in the Barrancas Block, located in the states of Barinas, Portuguesa and Trujillo, where some gas hydrocarbon fields, such as Sipororo, are also found.

International baskets. At the close of New York market, WTI was worth US\$76.5/bbl. on Thursday December 3rd, down 2.0% from US\$78.0/bbl. since last Thursday’s close. Brent increased, but in a lower proportion, to US\$78.4/bbl, compared to US\$77.0/bbl. on November 26th.

Local basked price. The Venezuelan basket price fell just US\$0.9 last week to close at US\$71.8/bbl. on November 27th, in comparison to US\$72.75/bbl. a week before. Meanwhile, the average for the year-to-date was US\$55.8/bbl. up US\$15.8. The Venezuelan basked has maintained an upward trend since last March.





Business Sector Tips

New CADIVI's provision. The new provision of CADIVI (No. 099) was published in the Official Gazette No. 39,316 on November 30th. This provision sets forth the new restrictions for the use of travelers' foreign exchange. The maximum amount allowed is US\$3,000, but according to different conditions. The maximum amount for the most part of the Americas is US\$2,500, for trips longer than 8 days; whereas for short stays, the amounts vary between US\$1,000, US\$500 and US\$300. The maximum amount for Colombia will be US\$700 and the minimum, US\$300, for trips of less than 8 days. The travelers make take a maximum of 10% of the maximum yearly amount every month from ATM's, whereas the maximum cash allocation will be US\$500 or €400, unless the trip is to Colombia, Panama or any Caribbean Island, in which case it will be US\$300.

U21 under analysis. The brokerage firm U21, belonging from Banco Canarias, is being investigated by the Attorney General's Office and the National Securities Commission. The investigations revealed that statements record obligations for about VEF2.3 billion for the close of October. This amount increased 128% from August to September, due to the use of mutual liabilities, a product offered by the firm. The amount of these obligations may be backed with the firm's assets. However, the problem lies in its bonds with Banco Canarias. It is not clear to what an extent the brokerage firm may be affected or if it is involved in the bank's irregularities, due to the lack of transparence in the transactions between these two institutions. Furthermore, the company equity backs up less than 1% of its assets.

Also Interbursa. The Disip paved the headquarters of Interbursa, as part of the investigation on the intervention of the broken banks, owned by Ricardo Fernandez Barrueco. According to the attorney were seized important elements for the investigation. At the same time, Juan Domingo Cordero, member of the board of this investment bank, said that they are working and responding to their clients, and that they are in absolute transparency and comply with the authorities.

Between 8 and 10 years. This is the term of the possible sentence of Ricardo Fernández Barrueco and José Camacho Uzcátegui, his legal counselor, accused by 11th Control Court, for embezzlement of investors' resources, undue appropriation of credits and association to commit a crime. Article 185 of the Bank Law provides for that credits cannot be granted to any shareholder having more than 10% of shares. Loans to Fernández' companies for about VEF398 million, or US\$185 million at the official exchange rate, were detected in Banco Bolívar alone.



“Closed door” intervention is now official. The Minister of Finance and Economy, Alí Rodríguez, officially announced the “closed door” intervention of Banco Canarias, Banpro, Bolívar and Confederado, due to the results of the “open door” inspection of recent days. Furthermore, the decision to liquidate the two first banks had been already made, whereas it is still unknown whether the other two banks are going to be rescued or liquidated.

Only VEF10,000. Clients of the intervened Banpro and Banco Canarias may withdraw their money starting today, through Banco de Venezuela. The president of Fogade, Humberto Ortega Díaz, stated in a press conference that, according to the law, deposits below VEF10,000 in Banpro and Canarias, the two banks that are going to be liquidated, will be covered. He explained that 97% and 91% of the clients of these banks, respectively, fall into that category. Fogade has 21 days to respond to this group of clients. At the same time, deposits in Confederado and Bolívar will be frozen until further notice.

US\$264 million objected. Funds paid by Ricardo Fernández through Galopy Corporation, specifically on March 4th and June 30th, for VEF112.6 million and VEF129.49 million, respectively, for the acquisition of Banco Bolívar, were objected in repeated occasions. Galopy again paid VEF21.178 million on March 25th to purchase 20% of Banpro, plus a last payment for VEF270 million on October 31st for the purchase of Canarias, which was also objected because the origin of the funds was not clarified.

MMC plant shut down. Eleven workers have permanently interrupted the operations of the car assembly plant of Mitsubishi Motors in Anzoátegui State, claiming unjustified firing and poor work conditions. According to MMC, the Ministry of Labor certified work conditions and authorized the firing of these workers.

Government’s car assembly plant. Jesse Chacón, Ministry of Science, Technology and Intermediate Industries, assured that the Government is working on the creation of the State Automotive Corporation. This company will concentrate all the links of the car production chain controlled by the State. Last week, the Government bought 64.04% of Venirauto car assembly plant, which has a target of 16,000 vehicles for 2010.





World Crisis Tips

Crisis in Dubai. Dubai World, Dubai's largest corporation and one of its growth engine, declared last week its intention to restructure, asking its bond holders for another six months to pay the coupons that have to be amortized this month. This restructuring involves an amount of US\$26.0 billion in bonds. Financial markets in the United Arab Emirates were severely hit downwards with drops of up to 8.3% in Abu Dhabi. Global markets were also affected last week, although in a lesser degree and the effect seems to be dissipating. S&P lowered its rating on Dubai's sovereign debt, but Moody's decided to maintain it unchanged.

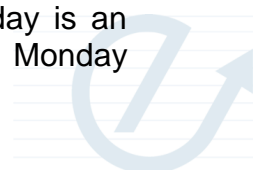
To the rescue. The Central Bank of the Arab Gulf informed that it will make available a special liquidity fund for the UAE's financial system, at a rate 0.5% over the interbank rate, in order to avoid a possible local financial crisis. Abu Dhabi's Government also stated that it will selectively assist Dubai's companies. The general perception is that global effect of Dubai World's crisis will be temporary, although regional effects may have a more permanent nature.

Home sales continue to rise. Sales of new homes increased 6.2% in October, to 430,000 units sold, exceeding Consensus expectations for 405,000 sales. An analysis that considers seasonality of the sales shows that last month sales were 5.1% higher than in the same period 2009. Prices have also remarkably recovered (just 0.5% under October 2008), whereas year-to-year decline was 14.5% this past February.

Personal income and spending: little recovery. Disposable personal income improved 0.4% from previous month due to lower tax payments. Adjusted for real terms, income rose 0.2% from October 2008. Personal spending gained 0.3% in part thanks to an 8.6% recovery in motor vehicle spending (up 3.5% from October 2008), after the September drop when the "money for junk" program ended.

Black Friday sales up 0.5 percent. Black Friday is a date that is celebrated every year the day after U.S. Thanksgiving Day (fourth Thursday of November), when retailers compete to offer the greatest deals to boost December sales and shift their books from red to black. This year's sales were 0.5% higher than in 2009, at US\$10.6.

Amazon.com shares hit all-time high on "Cyber Monday". Cyber Monday is an extension of Black Friday's sales which takes place on the Internet. This Monday Amazon.com shares gained 2% to an all-time high of US\$135.





Inflation in Europe accelerates. Eurostat estimated euro area inflation at a 0.6% month-to-month rate in November, as a result of price increases of 0.2% in October and 0.1% in September. The trend is clearly upwards; an analysis of the average inflation rate from August to October, excluding seasonal factors, shows that prices would grow at a yearly pace of 2.7% and this rate would be even higher if November inflation ends up being 0.6%. This is a clear sign that the Bank of Europe will raise the reference interest rate in 2010, probably during the second half of the year instead of 2011, as previously expected. Unemployment, in turn, remains at 9.8% in October.

UK economy has bottomed out. After three consecutive quarters, the Central Bank of England finally expects British economy to register a positive GDP growth rate of 0.2-0.4 percent in the last three months of the year, and forecasts a 1-1.5 percent growth for 2010. UK GDP contracted 0.3% in the third quarter 2009. Unemployment remains high, at 7.8%, after having grown one percent in the last previous quarter, although it is lower than in other European countries. The British government estimates that unemployment will continue to rise for a few months before taking a decreasing path.

BoJ will take measures to prevent yen from continuing to appreciate. Last week, the yen rose to a 14-year high against the dollar, thereby hurting competitiveness of Japanese exporters which are the main engine of the world's second largest economy. The new Japanese government (elected only two months ago) has strongly criticized the BoJ's monetary policy as not enough active to maintain price stability (October deflation was the highest since 2001) and avoid exchange rate appreciation. The BoJ Governor, Masaaki Shirakawa and Prime Minister Yukio Hatoyama will meet next week to agree on a more active monetary policy that may involve larger purchases of government's bonds to fight against deflation.

Political Tips

Banker who doesn't obey... President Hugo Chávez threatened with nationalizing private banks if they do not comply with their obligation to grant credits to neediest sectors. Chávez urged the Attorney General, Luisa Ortega Díaz, to jail the people that are responsible for the irregularities that gave rise to the intervention of four banks in November.





18.4% increase in labor conflicts. According to the Law School of the Universidad Católica Andrés Bello (UCAB), the number of labor conflicts in September and October increased by 18.4%. 62 labor protests occurred in October, eight more than the previous month. Most of the conflicts happened in the public sector (98%), in power companies, PDVSA, SIDOR, Metro de Caracas and MERCAL. Workers of the educational and judicial sector, municipalities and governor's offices also staged conflicts and private sector workers at MMC Automotriz and Pepsi Cola also protested. However, October has been one of the less conflictive months of 2009.

Community Council Law passed. The plenary session of the National Assembly passed the definite text of the Bill to reform the Community Council Law, which will be forwarded to the National Executive for its enactment and publication in the Official Gazette. This law will regulate the creation, organization and functioning of community councils as a means to directly exercise people's sovereignty, and their relation with public power entities in the formulation, implementation, control and assessment of public policies as well as plans and projects linked to community development. Article 51 stipulates that Community Councils shall establish four (4) funds: Social Action, Operational and Administration Expenses, Social Savings and Credit, and Risks, in order to favor the harmonious development of their activities. These funds will be administered by the Community Administrative and Financial Unit, upon approval of the Citizens' Assembly and with the justification of the Community Coordination Collective. All matters concerning the funds operation will be governed by the Law regulations.

Chávez is pleased with Mujica's victory in Uruguay. In a communiqué released by the Ministry of Foreign Affairs, President Hugo Chávez congratulated the Uruguayan people on the democratic process where, according to official data, Mujica had obtained 53% of 97% of counted votes. Mujica promised to follow the same economic lines of President Tabaré Vázquez, and expressed that concerning foreign policy he is more akin to Brazil's Lula da Silva than to presidents like Chávez.

Human Rights award for Humberto Prado. Last week, the Center for Human Rights Studies of the Universidad Central de Venezuela and the Embassy of Canada in Venezuela granted Humberto Prado, director of the Observatorio Venezolano de Prisiones (OVP) the 2009 Human Rights award, for his fight for human rights of prisoners in Venezuela and the improvement of the living conditions in the country's penitentiaries.

IFJ Secretary General visits Venezuela. The Secretary General of the International Federation of Journalists (IFJ), Aidan White, and the Deputy Secretary General, Francisco Audije, visited Venezuela to meet representatives of press and broadcasting media workers and entrepreneurs, NGO's that defend freedom of expression, and



Venezuelan unions. A meeting with the Attorney General, Luisa Ortega Díaz, was also requested; however the Attorney General's Office did not answered.

FARC and ELN will follow Chávez' political model. The Colombian newspaper "*El Tiempo*" recently reported that FARC and ELN guerrillas have decided to follow a political line based on social projects similar to those of President Chávez, specifically "*missions*". The newspaper informs that the State's security organs are concerned about the support network that the Bolivarian project has been developing in Colombia. Vis-à-vis this information, David Corredor, leader of a Bolivarian movement in Colombia, asked President Hugo Chávez to declare before the Colombian National Electoral Country to dismiss reports about an alleged interference of Venezuela in Colombia's political affairs.

The suspension of Hospitalization, Surgery and Maternity insurance policies caused a stir in the public sector. Last week, President Chávez announced that Hospitalization, Surgery and Maternity private insurance policies would be barred from public administration. This announcement provoked complaints by oil, iron and aluminum worker unions, because the impact of this decision on workers' income is not being considered.

Extradition of bankers will be requested. The Ministry of the Interior and Justice asked Interpol to capture the executives of the intervened banks, for their extradition.

Russia is building weapon production plants. Moscow Embassy to Venezuela recently informed that Russia is building weapon production plants in Venezuela to manufacture AK-103 automatic rifles and ammunition cartridges, and that contracts are being signed for the delivery of 53 military helicopters to Venezuela. Ambassador Vladimir Zaemskiy did not give any detail on the date when the plants, that will be located in Aragua State, will be completed. Details concerning the US\$2.2 billion loan that Russia would grant Venezuela to buy 92 tanks and an S-300 missile system were not provided.

Venezuela disapproves of countries that recognized Honduran elections. The Venezuelan Government disapproved of those countries that recognized elections in Honduras, as an attempt against democracy, and described the U.S. stance as "disgraceful", for having recognized the elected government before the official results were announced.

More electoral centers. The National Electoral Council will increase the number of electoral centers for National Assembly elections to be held on September 26, 2010. The places where the new centers will be installed will be announced once the election schedule has been approved. The special operative to register and update data in the Electoral Roll ended this week.



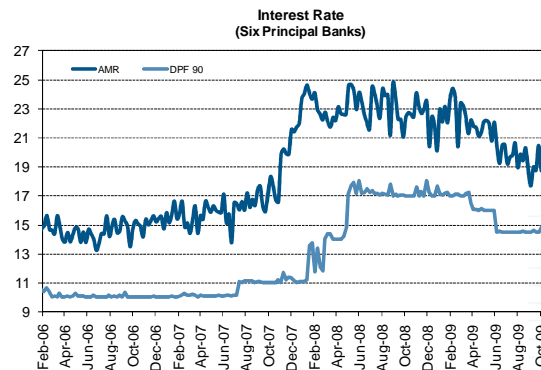
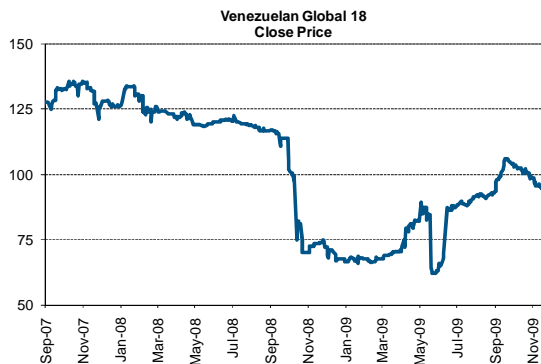
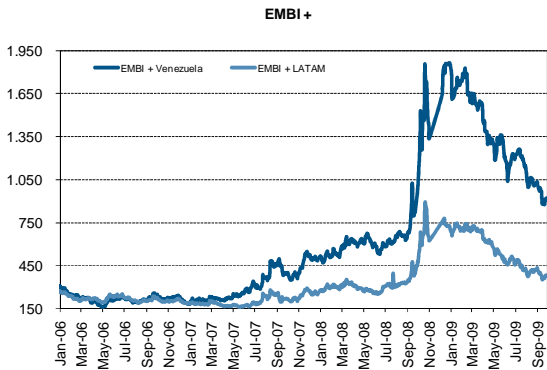
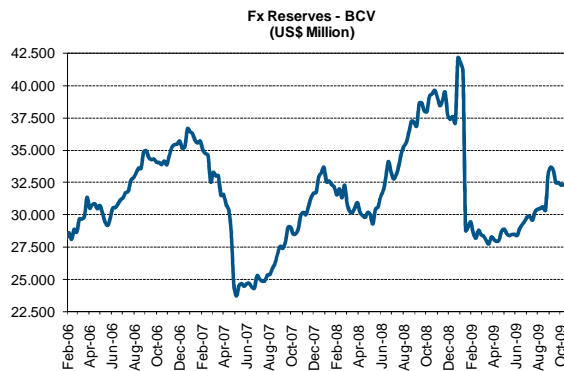
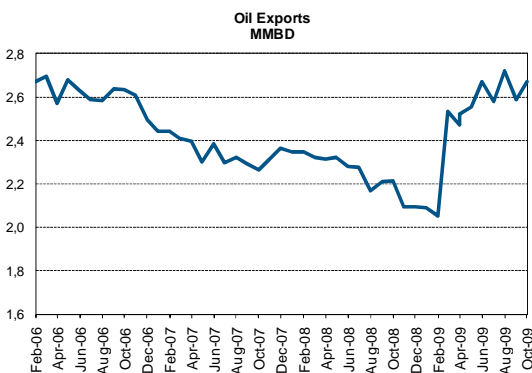
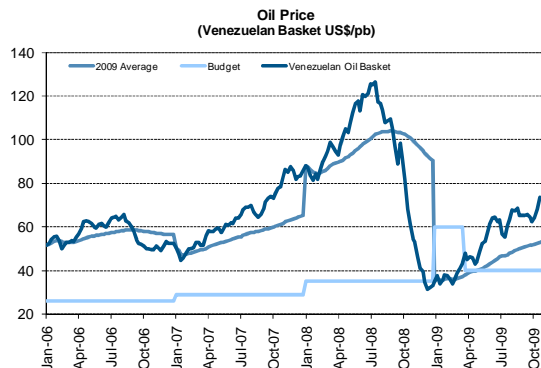
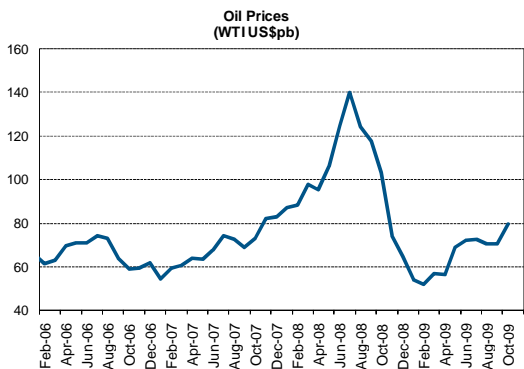
The new governors have been selected. The *Asamblea Nacional* (National Assembly) designed Socorro Hernández and Tania D'Amelio as new governors of the CNE (National Council of Elections), which contradicts the recommendation given by the European Union and the Organization of the American States, about designing governors without bonds to political institutions. They were sworn today at the ordinary session of the *Asamblea Nacional*.

INH Liquidation. As per the Official Gazette No. 39,312, Minister Pedro Morejón was appointed chairman of the Liquidating Board of the National Racetrack Institute (INH). The appointment will be in force from the date of publication of the Gazette, as per Resolution 110 issued by the Vice Presidency of the Republic. The People's Minister for Tourism will be entrusted with the elimination and liquidation of the Institute that rules horse-racing activities in the country, according to article 5 of the Public Administration law. The resolution also appoints María Auxiliadora Belisario and José David Cabello as members of the board.



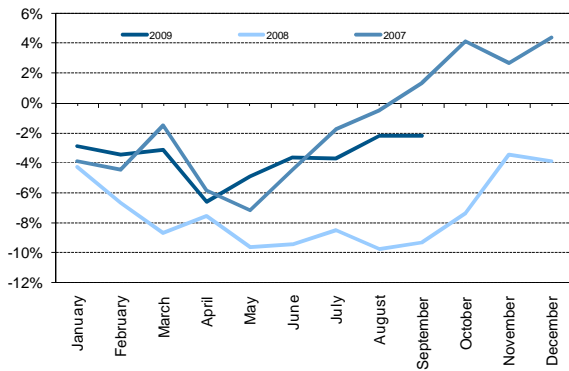


ECONOMIC OVERVIEW

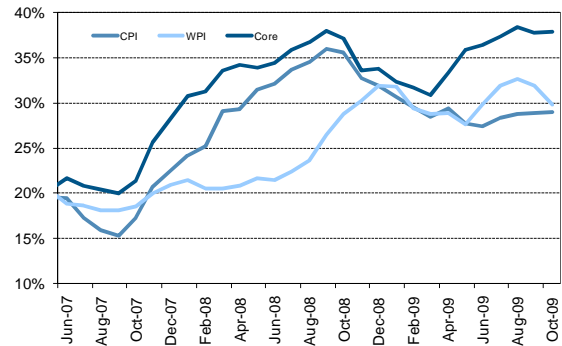




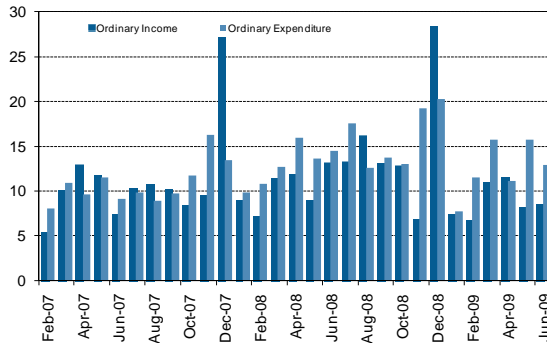
Real Expansion (M2)



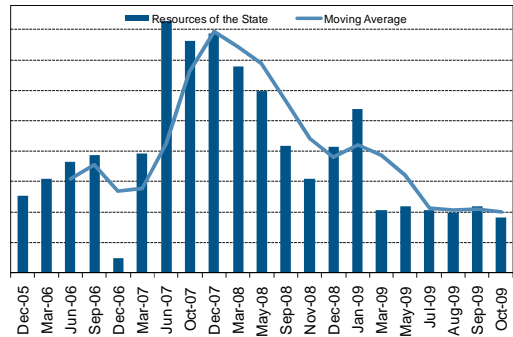
Inflation (Last 12 Months)



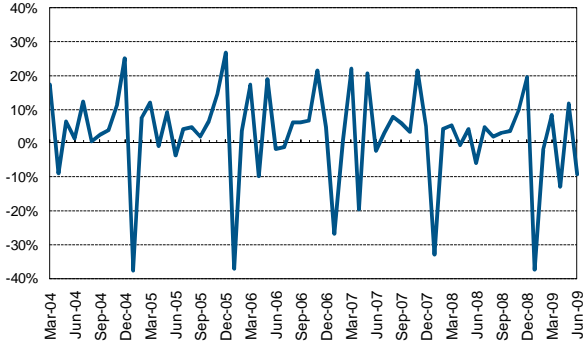
Central Government (VEB Billion)



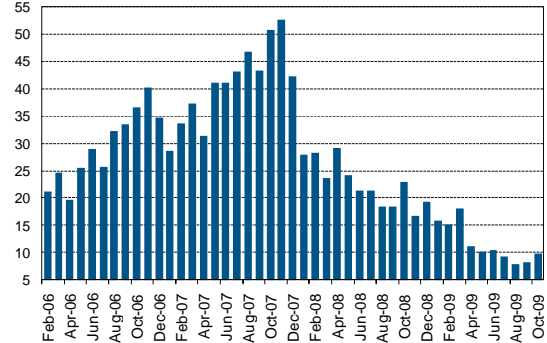
Resources of the State (US \$ MM)



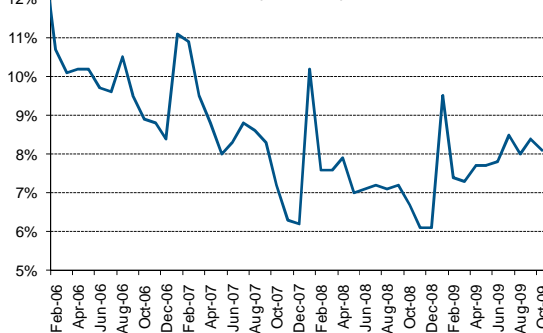
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment (% Variation)



Disbursement (US\$ Million)

