



## Weekly Report

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By:  
Asdrúbal Oliveros  
Maikel Bello

### **BCV AUCTIONS: WHERE'S PDVSA?**

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The rumor circulating around the press room is that in September, the Central Bank of Venezuela (BCV) will begin to initiate a new system to auction US-dollars in order to take pressure off the exchange market. This could be a very important advance with regard to the exchange issue, but its reach will be limited if it does not include PDVSA in the reform.

### **With Merentes, a new era has begun**

At *Ecoanalítica*, we admit that we didn't think that there would be any substantial changes with the arrival of Nelson Merentes to head the BCV. We felt that his role would be limited to avoiding inflationary pressures and help with acquiring public debt. Now, our perception of his role has changed. Nelson Merentes has been put into office to play an important role and he has his sights set on the Venezuelan exchange situation. Alongside Jorge Giordani (Minister of Planning) and Ali Rodríguez (Minister of Economy and Finance) he is aiming to reduce the distortions which exist in the exchange market to their lowest possible levels. In fact, Merentes announced in his interview with *Barclays Capital*, that his main objective is to lower the swap-market exchange rate.



These men know perfectly well that the way the swap-market has been working up until now, it is only a source of speculation and uncertainty, not very transparent, and this has translated into profits for some. This can only change with very specific reforms.

### Little by little

One can say that a first step has been taken by allowing the public titles (TICC, PDVSA bonds 2017, 2027, 2037, and Petrobonos 2011) to be traded in the Caracas Exchange Market. By allowing this, it recognizes swap-market operations and it is a sign of transparency, since prices will be accessible to the public. It's difficult to understand how this measure was passed while the stupid measure which makes it illegal to mention the parallel market (swap-market) exchange rate still exists.

With these operations, economic agents will be able to structure their coverage operations, in US-dollars and bolivars, much easier depending on their individual needs.

### In charge of the auction

Press sources say that the BCV and CADIVI will divide exchange functions. According to this, starting on September 1 the foreign currency issued to banks, savings and loans, and brokerage houses will be controlled by BCV. In this way, the Central Bank of Venezuela will control imports and foreign obligations. The formula would be that the financial system will use the auction to acquire foreign currency. CADIVI will continue to liquidate foreign currency for essential items such as food, medicines, first necessity products, and the quota for travelers at an official exchange of VEF 2.15 per US-dollar.

In essence, this would be the initiation of a dual exchange system that officially recognizes that there is another exchange rate on the market other than the official exchange rate. This would be a positive thing since it would eliminate a lot of the uncertainty and also help to streamline CADIVI operations.

### We are in 2009... Not 2004

Now, this would be an ideal mechanism if the current institutional mechanism in place were the one that was in place in 2004. But we are in 2009. And the fact of the matter is that the foreign currency that the BCV receives and manages is a far cry from what it managed in 2004. Now the BCV only receives a limited portion of foreign currency coming from oil exports, on average 40%. The other 60% is managed by PDVSA, at its discretion. At *Ecoanalítica*, we have been pointing out how PDVSA has



slowly become more and more autonomous in terms of financial and exchange issues, and it influences the Venezuelan economy as much as, or even more than, the Central Bank of Venezuela can. We've often mentioned that most the legal changes made to the BCV did not benefit it.

### **A bit of history**

In summary, PDVSA has always been managed with quite a bit of autonomy, especially with regard to the company's investment decisions and financial management, but it was obliged by Law to turn over all the foreign currency collected from oil exports to the Central Bank of Venezuela. The BCV would authorize PDVSA to manage a certain amount of the foreign currency, enough for it to pay foreign operational costs and investments. This was known as the PDVSA rotary fund. In this context, introducing auctions would be a guaranteed success.

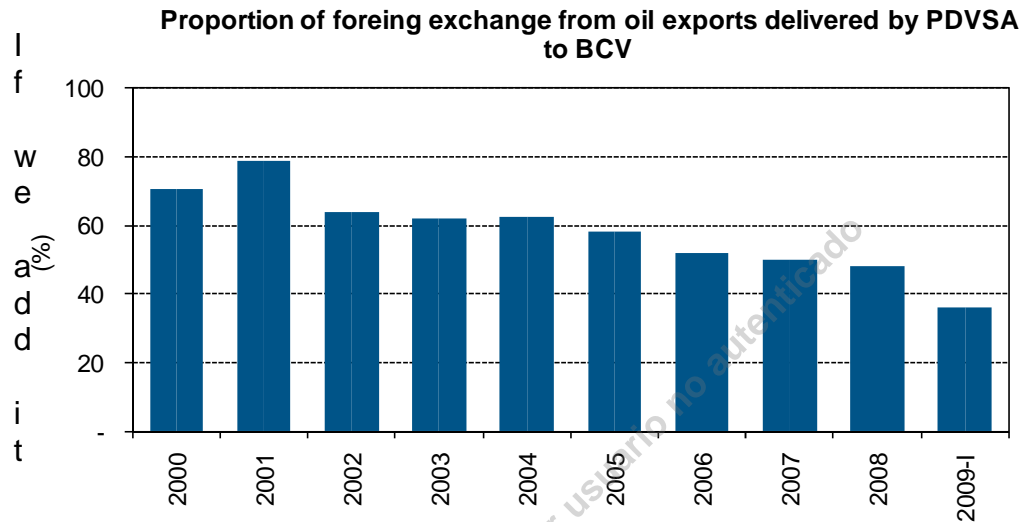
But, in July 2005, this dynamic changed. The BCV Law was modified, especially Article 113, which would now allow PDVSA to keep foreign currency. Then in November, the Exchange Agreement No. 9 is established, and its Article 1 reads that PDVSA "will sell to the Central Bank of Venezuela only the amount of foreign currency necessary for it to cover operational costs... and the taxes that by law it is obliged to pay in accordance with the amount estimated in the Budget Law of the Republic."

So, since 2005, PDVSA is only obliged to sell the foreign currency necessary to cover its operational costs and taxes in bolivars. This means the company is now allowed to keep funds in US-dollars and bolivars, and what's worse, take part in currency exchange operations through any one of the many mechanisms currently available.

### **Who controls PDVSA**

It's obvious that with these changes, PDVSA's power over the economy is quite significant, given the amount of foreign currency it is directly managing. According to BCV statistics, on average since 2005, PDVSA has only turned over 53.9% of the total amount of oil exports to the Central Bank. So, the company is managing the other 46.1%. Of course, the statistics could be hiding the discrepancies in oil production and exactly how bad the accounts receivable situation is, especially with regard to PETROCARIBE agreements. But even with these imbalances, the amount being managed is quite considerable and it gives PDVSA power that it never had before in the past.





Sources: BCV and Ecoanalítica

**The BCV could auction a bit more than US\$ 250 million a week**

It's clear to see that if this institutional framework isn't changed and the controls over PDVSA are not reinforced, there is not much the auction mechanism will be able to accomplish. Let's look at the figures: in 2009, based on the average price of oil this year which is at US\$ 53 per barrel for Venezuela, we can calculate that PDVSA's total cash revenues will be at US\$ 39.795 billion and we expect the company to handover around US\$ 25.821 billion to the BCV. Now, if we take away the foreign debt service (US\$ 3.32 billion) and what CADIVI has approved up until the month of April (US\$ 9.693 billion), there is US\$ 12.808 billion left. From this amount you still have to cover CADIVI authorizations for priority items and the amount that will be auctioned. We estimate that CADIVI authorization for basic items will be around US\$ 8.287 billion, which leaves US\$ 4.521 billion to use for the auctions. This is equal to US\$ 266 million a week.

But given CADIVI restrictions, the non-priority sectors need foreign currency for around US\$ 10.23 billion, plus import financing that doesn't come from CADIVI (around US\$ 9.80 billion). So the US\$ 4.521 billion that is available for auctioning is not even close to the around US\$ 20.03 billion that is needed.

**The swap-market will continue as strong as ever**

As you can see, the auction mechanism is not enough unless one of these two measures are implemented: PDVSA has to increase the amount of foreign currency it delivers to the BCV, or the Administration will continue to



feed the swap-market with the placement of bonds or direct payments from entities such as FONDEN. We feel that the Administration will probably choose the second option over the first. In summary, the foreign currency auction mechanism will be functioning right alongside the swap-market, especially when it comes to financing outgoing capital.

#### **PDVSA is the key**

*Ecoanalítica* has been pointing out that Venezuela is immersed in scenario full of uncertainty with regard to the exchange market. A new institutional reform is needed to exercise more control over PDVSA and its operations. Giordani, Rodriguez Araque, and Merentes seem to be aware of this. The auction mechanism is a step in the right direction, but with major changes required. So, we have Merentes intentions of lowering the swap-market exchange rate, so he can repeat what he did when he was Minister of Economy and Finance. We all wonder, will he be able to pull it off?

#### **Our recommendation**

With today's exchange rate and taking these considerations into account, our exchange coverage model suggests that for the one month to one year period, using current lending interest rates, our clients should remain neutral with respect to the purchasing and selling of foreign currency. The implicit value of the US-dollar that you would get by going into debt today, in order to insure your foreign currency for the period of between a month to a year, does not represent a significant advantage other than the security of knowing how much each US-dollar will cost in the near future.

The reason being that we are still very skeptical that the Administration will introduce any institutional control over PDVSA, and the BCV has yet to make any official announcement with respect to the auctions.

## **Economic Tips**

**New issues increase country's debt by 52.7%.** After a meeting with government officials, economist Alejandro Grisanti, of Barclays Capital, wrote a report in which he states that the Ministry of Finance (MEF) will issue bonds in bolivars for around VEF 21.10 billion during what's left of the year, and it will also issue titles in US-dollar denomination for around US\$8.0 billion. Barclays Capital points out that if you measure the issue of bonds in bolivars at the official exchange rate and you add the



borrowing that the Administration has already done in the first semester of 2009, the country's debt, including that issued by state-run companies would increase by 52.7% going from US\$64.70 billion to US\$98.80 billion. With respect to the state-run companies, it's expected that the Corporación Venezolana de Guayana (CVG) will place bonds on the market for around US\$1.50 billion, backed by gold, and that CORPOELEC will also place bonds on the market for around US\$1.50 billion.

**CVG bonds could pay a high yield...** The recent drop in crude oil prices and CVG's poor financial situation has led investors to increase the risk perception of Venezuelan bonds. Global 27, the Venezuelan bond which is most traded has dropped by 3.5% of its value from between July 1 to July 23. Supposing that CVG were to issue bonds in the not too distant future, it would have to pay a very high yield.

**BCV absorption operations and MEF domestic debt issues.** During the week of July 13 to July 17, the BCV placed VEF 710.80 million in deposit certificates, VEF1.03 billion less than what it placed the previous week. The MEF auctioned off Treasury Bills for VEF 228.30 million, a placement that represents a VEF 62 million increase compared to the previous week, and it issued domestic debt for VEF258.40 million, down by VEF 53.20 million compared to the previous week. The MEF expects to issue domestic debt for more than VEF 11.0 billion during the third quarter.

**Unemployment at 7.8% for the month of June.** The National Statistics Institute (INE) informed that the unemployment rate for the month of June was at 7.8%, which indicates that the labor market has not been severely impacted by the international crisis. With respect to institutional sectors, the formal sector represents 56.0 % of the working population (6,657,150 people). During the same month last year it was at 57.1 %, (6,662,953 personas). Respect to June 2008, the rate of unemployment increased 0.24 points percentage, and the occupied population changed from 11.660.847 people to 11.888.179 people.

**BCV will authorize the currency possession of the institutions of the public sector.** According to the resolution N° 09-07-02 of the BCV, the institutions of the public sector different from the Republic (excluding PDVSA) will have to be authorized by the monetary authority to maintain funds in foreign currencies. Also, in case of asking for the acquisition of currencies to the BCV, with the purpose of maintaining currency accounts, they will have previously to be authorized by the monetary authority.

**Legal bank reserve limits drop for development banks.** In accordance to resolution N° 09-07-01 of the BCV, development banks, which aims are to develop, finance, and



promote microfinance activities, and their loan intermediation index is at least 70%, must maintain a minimum legal bank reserve of 12% the total amount of the base of net reserve obligations and the total amount which corresponds to the marginal balance. The created a 5 percentage point drop in the minimum legal bank reserve percentage for development banks with these characteristics.

**International reserves.** International reserves remain almost the same at 30.69 billion in the end of the third week of July, with a fall of just 0.02%. Compared to the same period of the last year, these have fallen 9.48%.

**Liquidity.** According to latest information provided by the BCV, the liquidity at the end of the second week of July showed a fall of 1% over the previews week, when placed in VEF 209.409 million. So far this year, liquidity has increased 7.8% and has increased by 32% compared to the same period last year.

**Interest rates.** The active interest rate for the third week of July was 19.7%, representing an increase of 46 basis points in relation to the previous week. Time-deposit and savings rates were steady at 14.5% and 12.6%, respectively.

## Oil Tips

**PDVSA paid its suppliers US\$2.66 billion.** Minister Rafael Ramírez has announced that PDVSA has paid its suppliers US\$2.66 billion of the amount owed thanks to the revenue generated by the auction of 2011 Petrobonos. According to the Minister almost all of what was owed has been paid, with a debt of US\$536 million still outstanding.

**PEQUIVEN posts losses for VEF 111 million in 2008.** Despite the fact that it had 47% more revenue to work with than 2007, during 2008 PEQUIVEN posted losses for VEF 111 million, since its labor costs increased by 63%, its accounts payable increased by 194%, and other debts due to delays in PDVSA payments increased by 278%. In total, costs and spending increased by VEF 3.101 billion going from VEF 6.342 billion in 2007 to VEF 9.238 billion in 2008.

**PDVSA absorbed 6,672 of the workers from the expropriated contracting companies working on the lake.** PDVSA's Internal Director of Production and



Services, Ricardo Coronado, said that 6,672 workers of the more than 8,000 workers working at the 76 companies which were expropriated, most of them working on the Lake of Maracaibo, had been hired by the company.

**El Palito maintenance affects domestic refinery and unions.** El Palito refinery stopped operations for a scheduled maintenance that was supposed to last 60 days, it has now been more than 150 days, and no official statement has been released to explain why. The shutdown could increase the drop in the refining process that the refinery has been posting since last year when refining dropped by approximately 100,000 b/d. According to statements made by union representative Robert González, the 13 states that the refinery supplies are being covered by deliveries from other refineries, furthermore, he said that 300 workers and 12 delegates had been fired for irregularities having to do with the shutdown.

**PDVSA turns to extraordinary loans to finance social spending.** During the last two weeks, the National Assembly has approved a VEF 129 million in additional loans to PDVSA (financed by CANTV dividends and resources from the National Treasury) in order to cover agriculture, fishing, infrastructure, education, health, and electricity programs that will be carried out during the second semester. Plus, last week another VEF12.2 million was approved to attend to Missions in Táchira state. These operations have been attributed to how oil prices are behaving and not to excessive spending.

**PDVSA tax contribution dropped by 47% during the first semester.** This drop was in part due to the drop in oil revenues, and in part due to the accumulation of obligations. PDVSA's tax contributions coming from royalties, Income Tax, and other tariffs, was for VEF 15.1 billion, down by 47% compared to the previous semester when it contributed VEF 28.7 billion. Furthermore, the oil company still has to pay VEF 4.0 billion of its 2008 Income Tax.

**PDVSA: To negotiate collective bargaining agreements.** Now the oil company will be force to negotiate the conventions covering its daily payroll due to the drop in revenues caused by falling oil prices as of the end of 2008. The president of the company made an announcement regarding the drop in revenues, costs, and spending that the company has and asked that the workers "keep their feet on the ground and be clear about the situation the company is going through." In order for the negotiations to take place, there is only one requirement: a new FUTPV board of directors must be elected, to represent the 40,260 workers.

**Won't negotiate with enemies...** the Minister of Energy and Petroleum and president of PDVSA, Rafael Ramírez, said that he would not discuss the oil sector contract with



enemies of President Hugo Chávez. In this sense, and with regard to the "Labor policies and Collective Negotiation" plan, it's the Administration who will decide what collective bargaining conventions will be discussed this year.

**PDVSA resumes transfers to FONDEN.** According to statements made by President Chávez, in view of the recovery of oil prices, PDVSA has begun to transfer approximately US\$25 million a week to the National Development Fund (FONDEN). This gives the Administration more fiscal robustness in a scenario of increased borrowing.

**Citgo refining unit closed due to fire.** One of Citgo Petroleum Corporation refining units, an affiliate of PDVSA, was subject to a fire while a valve was being repaired. Said unit, where high octane gasoline components are produced and which has a production capacity of 156,000 b/d, closed this Tuesday by order of U.S. state authorities. It wasn't clear if the whole facility was closed or just certain areas.

**Oil market in figures.** Currently, worldwide oil consumption is at a four year low; U.S. inventory holding for crude oil, gasoline, and other by-products are at maximum levels not seen in the last 19 years; U.S. consumption averaged 18.85 million b/d during the first semester, 7% less than last year's average; OPEC production increased for the third month in a row in June reaching 28.2 million b/d, increasing the amount by which the quotas are not being met.

**International oil price bounce back.** According to Bloomberg, oil prices bounced back at the close of the third week in July. WTI closed at US\$63.56 per barrel, up by 6.1% or US\$3.67, while Brent gained US\$4.76 to close the week out at US\$65.38 per barrel, up by almost 8% compared to the previous week. WTI and Brent began the week trading high at US\$63.98 and US\$66.44 per barrel respectively.

**Venezuelan oil basket drops by US\$ 1.14.** On Friday the 17 of July, the Venezuelan oil basket closed at US\$55.27 per barrel. The average price for the year is at US\$47.69 per barrel. Price updates were not available at the moment the Report was released but we expect prices to recover slightly by the close of the week of July 24.

## Business Sector Tips

**CADIVI: new travelling quota system still not implemented.** The new system which will be implemented and has been expected for a few months now will be delayed



even further due to problems with the computer platform and because the administration thought it best to wait until after the vacation season.

**CADIVI delays make it impossible for many travelers to use quotas.** The national Association of Users and Consumers (ANAUCA) receives more than 100 complaints a week from Venezuelans that are already travelling abroad and are not able to use their travelling quota of US\$2,500. This is especially happening to smaller banks which don't have so many assets in US-dollars abroad and which don't have enough resources to back the purchases made by their clients when CADIVI delays too long in reimbursing the banks the foreign currency that has been used.

**Delays in liquidation.** CADIVI owes between US\$40 and US\$50 million to the graphic arts sector according to the Association of industries of Graphic Arts. This will considerably increase the price of school supplies for the coming school year. The Venezuelan Association for Paper and Related Items expects that prices will increase by 30% or more compared to 2008.

**Regional newspapers in danger of closing due to lack of foreign currency to import paper.** According to the National Union of Press Workers, a number of regional newspapers that employ a total of 800 workers may be forced to close down due to a lack of paper because CADIVI has not paid debts owed to paper importers for the past five months. CADIVI representatives declare that they have liquidated the necessary foreign currency to import paper.

**Vegetable production increased by 2.2% in the first semester:** According to the Minister of Agriculture and Lands and the Minister of Food, during the first semester of the year the production of vegetables increased by 2.2%, livestock 7%, fish-farming 35%, and fishing 5%, compared to the same period last year.

**Sugar.** There was a new law published in the Gaceta Oficial this week which states that sugar mills must earmark 60% of their production to local retail sellers (at regulated prices) and only 40% for industrial uses (at unregulated prices). Sugar imports this year have broken all records with 510,000 tons imported.

**The State “will assume the control of importing essential foods,”** declared the Minister of Agriculture and Land, Elías Jaua. The government plans to be the only importer of food by 2010. This could create great uncertainty in the private food sector if the government arbitrarily decides who it will give imported merchandise to.





**Capitalization of the banking system closed the first semester at 10.13%.**

Capitalization of the Venezuelan banking system closed the year out surpassing the minimum level established (8%) according to information released by SUDEBAN. This reflects a favorable performance by the banking sector and is a guarantee of the low risk the system represents to its users. However, this is also an indicator of economic slowdown, since the demand for loans has dropped considerably which allows banks to not only capitalize above minimum levels but also to maintain surplus reserves above average levels compared to last year.

**Domestic car production down by 15% during the first semester.** Labor conflicts and the lack of foreign currency to import auto parts have led to a 15% drop in the assembly of autos in Venezuela. The MMC Automotriz assembly plant which assembles Hyundai and Mitsubishi was affected the most dropping production by 70%, its plant was closed from December 2008 until May 2009 due to a labor conflict, followed by Toyota which dropped by 49%, also due to labor conflicts. Only Chrysler's production figures increased compared to last year (115% higher) since its production was severely affected last year due to CADIVI problems. Therefore, at **Ecoanalítica** it is no surprise that increase in price for vehicles in the first semester 2009 was at 35.2%, while during the same period last year prices didn't increase by more than 10%.

**The second semester of the year looks even worse for the automobile sector.**

The indefinite shutdown of General Motors Venezuela could reduce the supply of new cars in the country by more than 50% if the plant doesn't open this year. Just recently, CADIVI granted the first licenses to import 10,000 cars this year: 38.7% for GM and 61.3% for KIA Motors.

**Aluminum company workers reach agreement with government.** After a number of days of talks and protests, workers from different CVG branches reached an agreement with the Minister of Basic Industry and Mining, Rodolfo Sanz. Labor benefits will be paid in two parts, 50% on July 31 and the other 50% on September 30 and their yearend bonuses will be paid in November just like it says in the collective bargaining agreement.

**Construction sector still being inspected.** The government is currently inspecting the inventory of certain construction companies which are way behind on their projects. Meanwhile, the Ministry of Public Works and Housing is preparing secondary market housing price regulations, and the National Assembly is preparing the law which will cover real estate pre-sale contracts, said law is to allow the INDEPABIS to



intervene in delayed projects, allowing it to take over the administration, development, and culmination of the project.

**Iberdrola to build 1,000 MW electric plant in Cumaná:** Iberdrola Ingeniería, the second largest electric company in Spain is in negotiations to build a natural gas combined cycle thermoelectric plant in Cumaná, Sucre state. The new station, which will be called, Antonio José de Sucre will be able to generate more than 1,000 MW of power and cost around €1.40 billion.

## World Crisis Tips

**It's probable that the recession will end sooner than expected.** These indicators are already showing signs that the recession is about to be over. In June, the leading indicator increased for the third consecutive time by 0.7% and posted a yearly growth rate of 12.8%. This index is made up of 10 variables which historically have proven to have negative tendencies before a recession and positive ones during economic growth, which is why it is a valuable tool to measure economic cycles. According to the Conference Board the low point of the leading indicator usually happens three to nine months before the end of the recession (the low point occurred in March).

**How the end of a recession is determined?** In the United States, the National Bureau of Economic Research (NBER) is a private research group which opinion is usually accepted when it comes to determining when a recession begins or ends. The NBER usually requires the following conditions to signal the end of a recession: three consecutive profits in the ratio between "coincident indicator" and "lagging indicator," three consecutive months with a reading greater than 50 in the diffusion index, three consecutive profits in the "leading indicator" and during those three months its grow rate should be more than 10%.

**How are the TARP funds being used?** The TARP program consisted in the purchase of toxic assets by the government from financial entities in order to more bankruptcies and shrinking loan portfolios. According to the Federal Reserve Fund, 83% of the banks which were helped used at least part of the funds to offer loans, 43% used funds to reinforce capital reserves, 31% to make investments, 14% to cancel debt, and 4% to make acquisitions.





**The FED to keep rates low.** Dennis Lockhart president of the Federal Reserve Bank of Atlanta and a member of the Federal Open Trade Committee declared that despite the fact that the U.S. is expected to come out of the recession very quickly, the FED will keep interest rates at their current levels for this year and the next. Lockhart is aware that maintaining this monetary policy for too long may generate strong inflationary pressures but he says the FED has enough tools to ward against that over time. Most economists agree that the recession will be over during the second semester but that recovery will be weak compared to other recessions.

**Goldman Sachs improves its forecast for S&P.** Goldman Sachs raised its forecast for the Standard & Poors 500 Index for the end of the year, from 940 to 1060 points, for an improvement of 12.7%. This decision was the result of last Monday's record high of 951, the highest value of this index for the year-to-date, and of the improved expectations concerning the end of the recession period. Art Cashien, director of operations of UBS Financial Services is among the group of more skeptic economists that do not agree with this stance. Cashien believes that enough changes haven't occurred in real economy to justify these improvements in the market sentiment. He also thinks that the FED must be clearer in terms of what measures will be applied to avoid inflation in the future. Cashien added that actions must be undertaken that are trustworthy enough for the market to stop fearing inflation.

**British economy shrinks 0.4% in the second quarter.** Britain's National Institute of Economic and Social Research (NIESR), equivalent to the US NBER, reported a preliminary economy contraction of 0.4% for the second quarter of this year with respect to the same period last year, after having dropped 1.8% and 2.4% in the two previous quarters, respectively. This drop is worse than expected by the consensus of British firms that were expecting a 0.3% drop, on average.

**Inflation, unemployment and monetary policy.** The Central Bank of England doesn't foresee further inflationary or deflationary problems in the near future. In fact, its highest inflation estimate is 2% for 2012. They plan to maintain interest rate below 3% until the end of 2011 with an increase to 5% in 2012, according to the FED monetary policy. Their forecasts in terms on unemployment are moderately optimistic: unemployment is expected to continue increasing during the second half of the year, but a much slower pace, to 2.76 million of unemployed people from the current 2.38 million figure.

**The Harmonized Index of Consumer Prices in the Eurozone drops in June.** The HICP showed a negative variation on a year-to-year basis, -0.1% in June, for the first time since it began to be estimated, after having remained constant in May (0%). This



drop in the price index was mainly driven by fuel and food prices. The HICP is expected to continue registering negative variations until November, at an average rate of -0.3%; however, we don't expect to see deflation, as such (sustained price drops) in Europe.

**Singapur contracted 3.7% in the second half of the year.** The Asian emerging economy that was severely hit by the crisis showed a much higher growth rate than the expected level, despite the fact that it is still negative on a year-to-year basis, production in the second quarter was 20.4% higher than the one of the first quarter, when it contracted 8.6% on a year-to-year basis. This confirms our expectation of a quick V-shaped recovery in that country.

## Political Tips

**Venezuela not to enter MERCOSUR, for now.** Alberto Grillón, outgoing president of the Foreign Affairs Commission of the chamber of senators stated that for now, Venezuela will not be accepted as a full member of MERCOSUR because its membership request has not been fully studied. Brazil has also postponed approving Venezuela's approval for membership.

**Special subcommittee created to follow-up resources.** The Finance Committee established a special subcommittee to control the execution of supplementary appropriations approved to develop different works, due to backlogs in the completion of a number of projects.

**The Attorney General's Office summoned Tobías Nóbrega for alleged irregularities...** The Attorney General's Office summoned former Finance Minister, Tobías Nóbrega, for alleged irregularities occurred while he was at the head of the Ministry in 2002-2003. The investigation was initiated due to reports about alleged irregularities in the purchase of the Bilbao and CITIBANK buildings, located in La Urbina neighborhood and Carmelitas corner, respectively, as well as in the contracts signed with companies for the remodeling works of both buildings.

**Public hearing requested before the IACHR.** Caracas Metropolitan Mayor, Antonio Ledezma, and Zulia and Táchira state governors, Pablo Pérez Álvarez and César Pérez Vivas, respectively, requested a public hearing from the Inter American



Commission on Human Rights, to report the status of democracy in Venezuela. The IACHR Secretary General, Santiago Cantón, received a number of documents evidencing the intention of the Venezuelan Government to take a series of measures against 240 private radio stations. Antonio Ledezma said that the hearing will take place in next October.

**Insulza, in turn, covers his back.** Concerning the meeting held between the OAS and a commission of Venezuelan opposition leaders Roy Chaderton, the Venezuelan ambassador to the OAS, expressed his concern about the fact that the Organization met Venezuelan regional authorities that backed the coup against Chávez in April 2002. The Secretary General of the Organization of American States, José Miguel Insulza, expressed, in turn, that the meeting was not intended to weaken president Hugo Chávez' Government, but rather strengthening democracy in Venezuela.

**Local cable TV channels are in danger.** If CONATEL administrative provision concerning audiovisual local production services is applied, local TV channels that broadcast via cable could close, because they could be banned from airing advertising spots and propaganda.

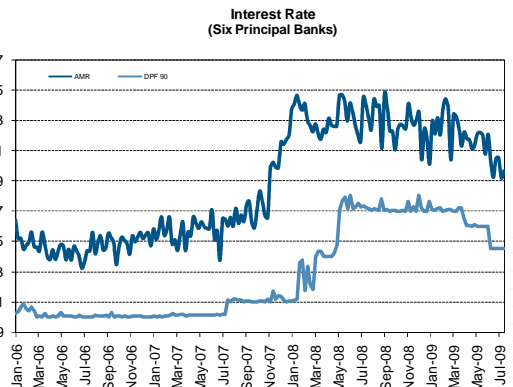
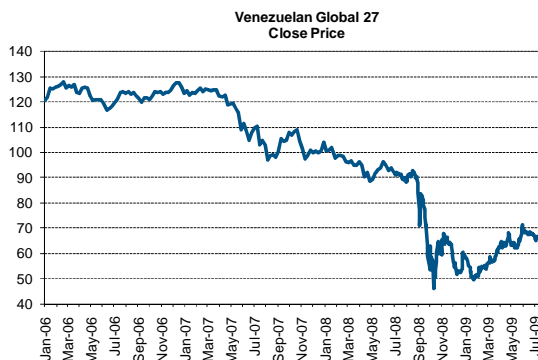
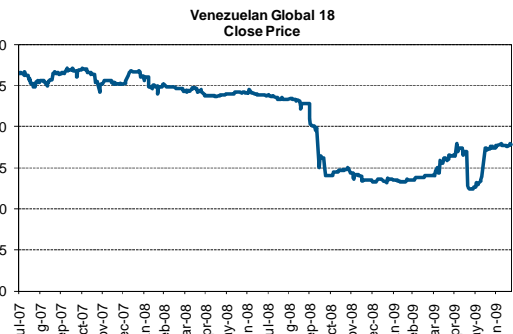
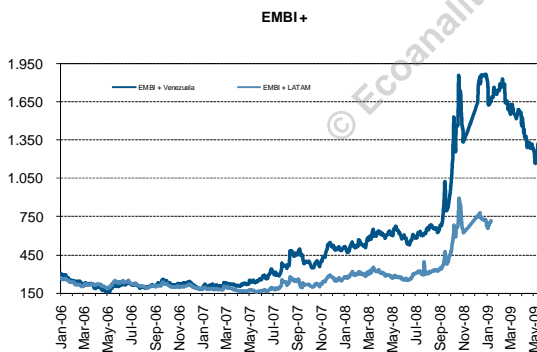
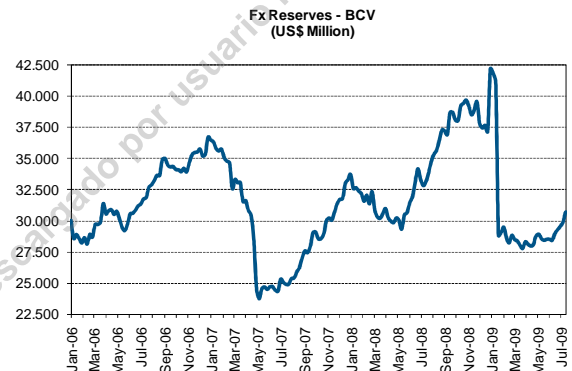
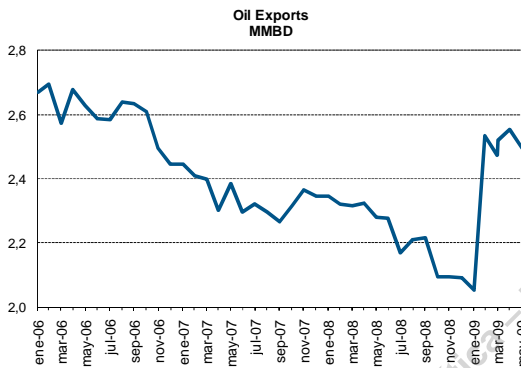
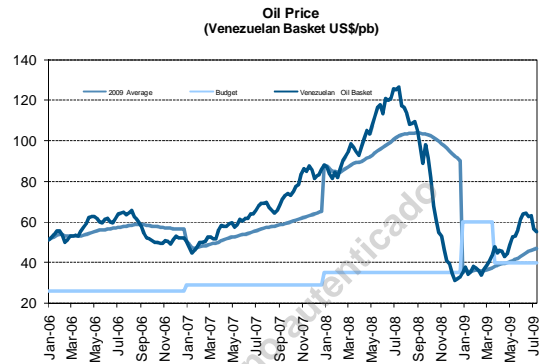
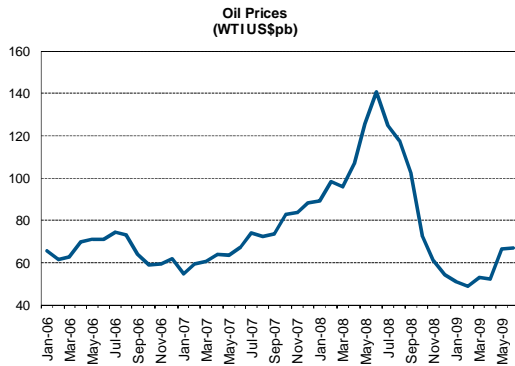
**Expelled from Honduras.** Honduras's Vice Minister of Foreign Affairs, Martha Lorena Alvarado, said that the new Honduran government, under the presidency of Roberto Micheletti, informed Venezuela's diplomatic mission on July 21<sup>st</sup>, that they had 72 hours to leave Tegucigalpa, because Venezuela has interfered in Honduras' exclusive affairs and hasn't respected that country sovereignty. The new Vice Minister of Foreign Affairs pointed out that the staff of Honduras embassy to Caracas will also be withdrawn. However, the Venezuelan mission refused to leave Honduras, claiming that the request was made by an illegal Government that staged a coup and therefore the mission doesn't recognize it.

**The United States admits that Venezuela isn't cooperating with anti-drug struggle.** A report issued by the US Government Accountability Office (GAO) points out that the increase in drug trafficking through Venezuela and the permissiveness of Venezuela toward Colombian illegal armed groups are an obstacle for the US anti-drug struggle. In the anti-drug annual report, the US State Department assured that Venezuela is one of the major drug transit country in the continent and that no improvement are observed due to the lack of cooperation on the part of the Venezuelan government.



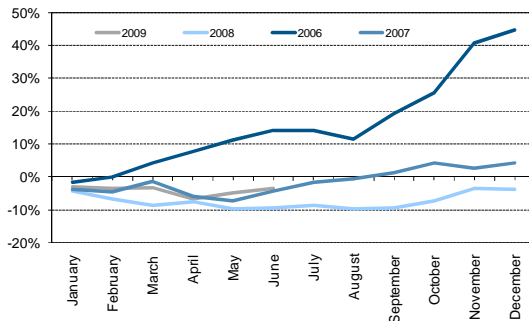


## ECONOMIC OVERVIEW

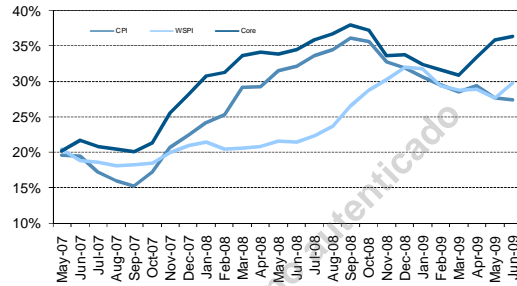




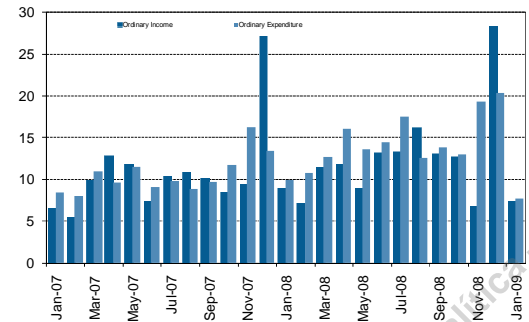
**Real Expansion (M2)**



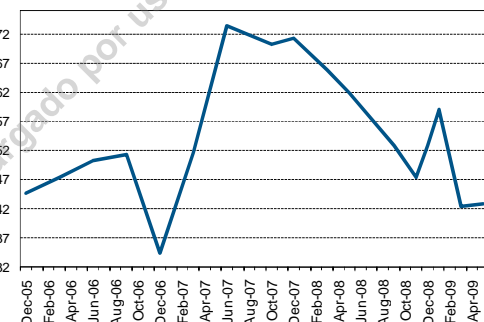
**Inflation (Last 12 Months)**



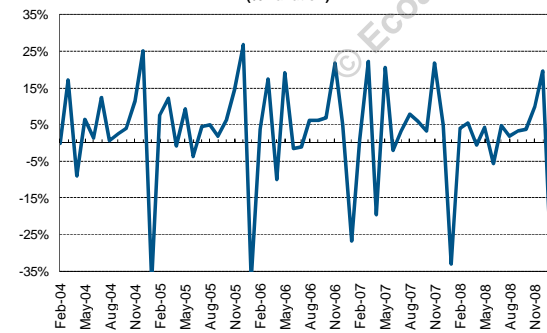
**Central Government (VEB Billion)**



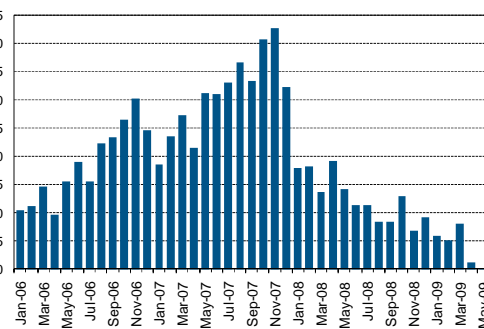
**Resources of the State (US \$ MM)**



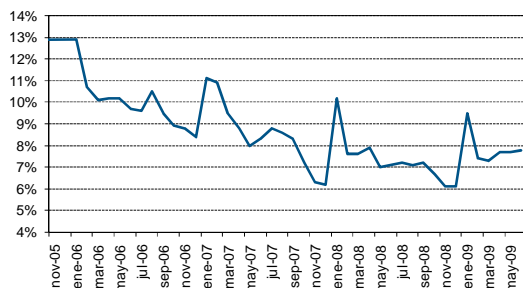
**Volume of Sales (% Variation)**



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



**Rate of unemployment (%Variation)**



**Disbursement (US\$ Million)**

