



Weekly Report

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SOME PARADOXES OF THE CHAVIST ECONOMY

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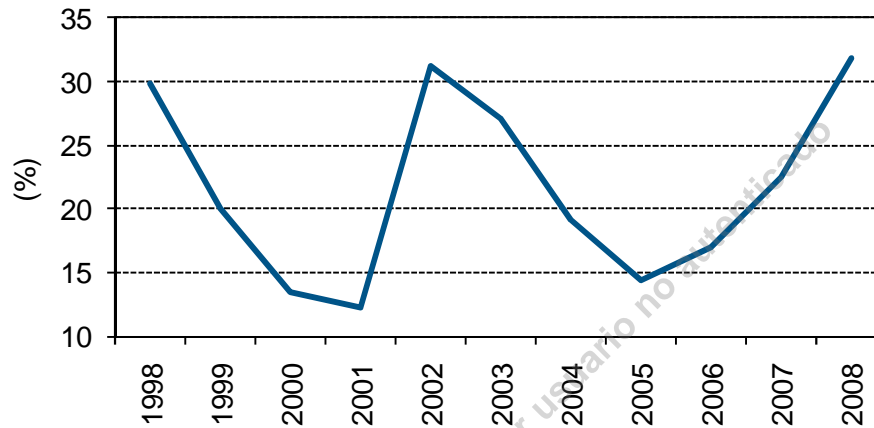
Recently we participated in a seminar in Washington held by the American Enterprise Institute (AEI) about the future of Venezuela. One of the points we highlighted there had to do with the paradoxes that exist in the current Administration's economic plans. By studying these paradoxes, it allows us to have an idea of what's to come in the future and to focus on some of the more difficult to understand topics concerning the economy of Venezuela.

A Government for the poor, but with high inflation

The Venezuelan government claims to be a government for the poor but has failed to control inflation, despite the fact that inflation has serious regressive effects on income distribution (more deteriorating purchasing power of the poorest because have the capacity to trade and hedge their earnings are much less resilient than those in the most advantaged sector). As can be seen in the graph, the drop in inflation during the first few years of Chávez' Administration is due to exchange policies introduced and implemented by the Caldera Administration. The second drop in inflation is due to the effects of the oil strike.



Inflation (end of the year)



Sources: BCV and Ecoanalítica

Looking to the future, inflation will continue to be a serious problem, which is difficult to accept from a Government that says it is trying to help the poor. The Government believes that it can minimize the impact of inflation by increasing subsidies. The truth of the matter is that subsidies have a very limited reach. Some analysts have pointed out that the recent nationalizations of companies looks to increase subsidies and thereby reduce inflation. But the truth is that the nationalized companies are much more inefficient today than they were before they were nationalized. A good example of this is SIDOR.

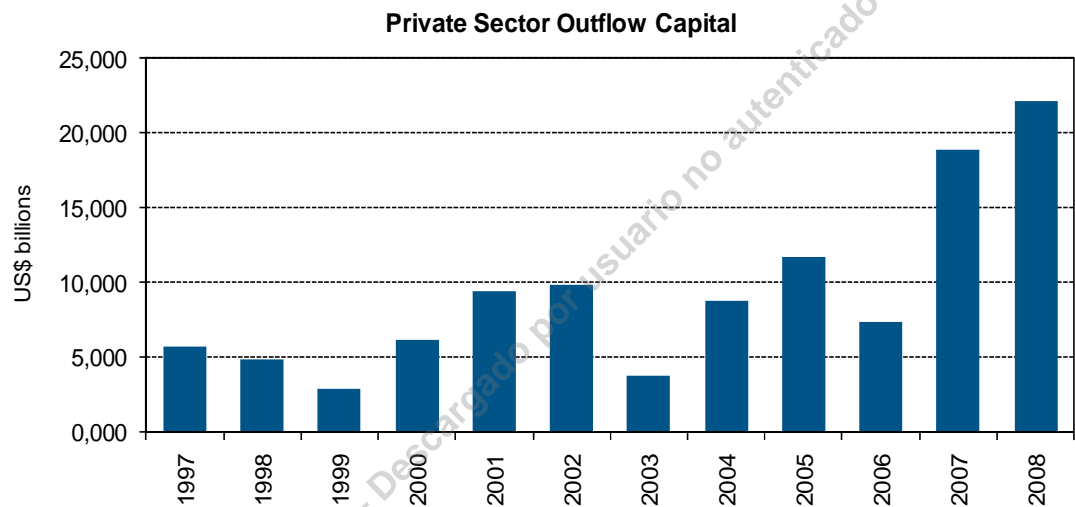
An exchange control with outgoing capital levels higher than ever before

Logic dictates that one introduces an exchange control to stem the flow of outgoing capital. However, in Venezuela, the exchange control is used as a political tool. And what is worse, the exchange control mechanism has actually increased the flow of outgoing capital. In the last two years, private sector outgoing capital has topped US\$ 40.0 billion. This in a country where the private sector barely exports US\$ 4.0 billion, it's quite clear to see that this amount is coming from the public sector. How? Through the issue of public foreign debt, from the Government as well as from PDVSA, the sale of Argentinean bonds, structured notes, and other instruments.





Unfortunately, we will continue to see this in the Venezuelan economy. The private sector doesn't trust the Government, and we estimate that outgoing capital this year will be around US\$ 14.0 billion, mainly through public debt issues.



Sources: BCV and Ecoanalítica.

A number of analysts doubt whether the Chávez Government actually has resources stored away in out-of-budget accounts. They substantiate this claim by pointing to the Administration's plan to increase borrowing this year. At **Ecoanalítica**, we believe that these resources do exist, and that Chávez is just trying to get his hands on as much resources he can now, because the future is uncertain. He doesn't want to be left without funds again like what happened during the general oil strike in Dec. 2002/ Jan. 2003. His Administration is using the same logic that the person who hoards food does: buy and hoards now, because you don't know if there will be anything left to buy later on. The Administration's objective is security, despite the fact that it is assuming a lot of debt at a high financial cost. This is secondary; the important thing is to have the resources there, within easy reach.

Our last update, regarding the total amount of extraordinary resources available to the Administration (at the close of July) puts it at US\$ 42.40 billion, in different funds, of which around US\$ 17.20 billion are in US-



dollars and the rest is bolivars. With all these resources, the Administration is planning to borrow around US\$ 42.0 billion, which does not include the US\$ 4.0 billion that Russia may be financing for Venezuela.

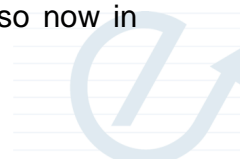
We believe that the Government will continue with its nationalization plan. A big part of these funds is earmarked for them. This is reinforced in a medium term scenario by the increase in oil prices.

Government Resources	Jul-09 (US\$ MMM)
Cash	42,4
In VEF	25,2
BANDES	0,2
BDT	-
Deposits in the financial system	17,5
Fondo Miranda	2,3
National Treasury	2,6
FONDÉN	2,6
In USD	17,2
FONDEN	8,9
Other Funds	6,7
PDVSA	1,6
Total	42,4

Source: Ecoanalítica

How elastic is the definition of the word “strategic” for the Chávez Government

Three years ago, the Government pointed out that it was going to nationalize the oil operation agreements and the strategic associations because oil was a strategic resource for the country, and it should be under the Government’s total control. The following year, electric power and telecommunications also became “strategic” resources, and they were subsequently nationalized. Then came the cement and the steel industry and now this week the Government decide to expropriate the coffee companies Café Madrid and Fama de América. In other words, every year, the definition of what is strategic changes for the Government; so now in





Venezuela, all the companies are wondering which sector is next. This kind of an environment does not inspire much private investment.

The nationalization have cost the Government more than US\$ 22.0 billion, without including other smaller nationalizations, and properties, farms, and ranches. In our opinion, what is “strategic” for the Government is associated to key sectors that the Government wants to control. Today, the sectors that are most vulnerable in Venezuela are the food industry, pharmaceutical laboratories, private clinics, and the financial system.

**The jobs are found
in the private
sector**

All the studies show that the private sector is the only one capable of generating new jobs for the poor people. The public sector has very little room to maneuver in this regard, and the jobs it does have to offer are for people with skills and degrees, and a fairly high level of formal education. The public sector is only responsible for 4% of jobs for workers coming from the poorest levels of society, according to a study carried out by the Economic Research Institute of the UCAB (university). While the private sector employs 11 million people, the public sector employs 2.1 million people and almost 80% of these come from the middle class.

But despite this fact, the private sector is being pushed aside in Venezuela. Any stimulus that may come from the public sector looks to strengthen other types of property. Plus, companies must work subject to price regulations (public service tariffs, essential goods prices, and exchange controls), supply regulations (import licenses, CADIVI, export obstacles, inventory regulations), and labor regulations.

The Government wants companies which aims are not focused on generating profits but which fundamental values lies with solidarity to the Government. This is a contradiction, to say the least. But this is what is being discussed in Venezuela now, within the framework of the possible approval of the Social Property law.

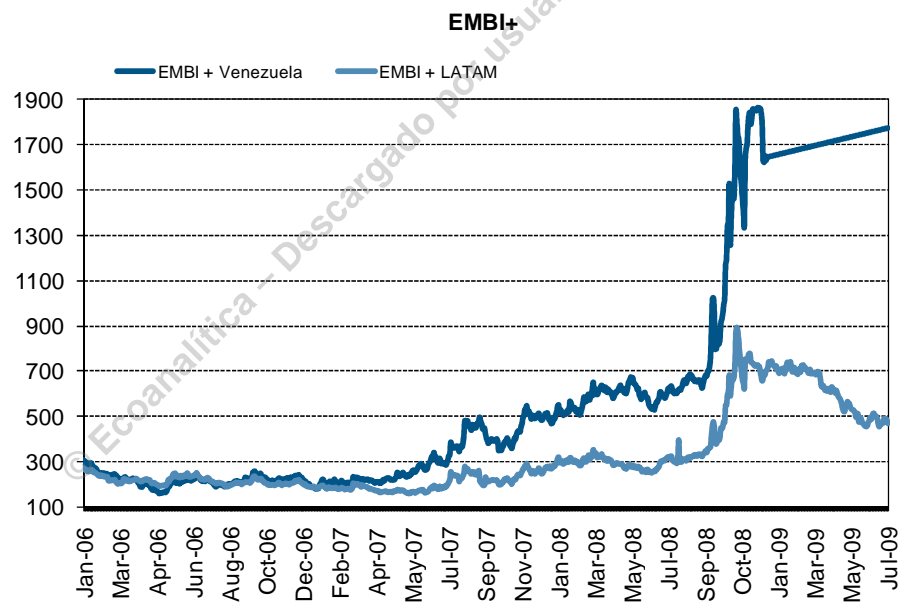
In the medium term, Venezuelan companies will be subject to this pressure. If the economy recovers, companies will look to take advantage of the consumer boom which may follow. This is what a number of companies have done during the last few years, companies that excel at selling, but have not made any significant investments in the country.

**High country risk
with low level of
debt**

This final example shows that it's not only the domestic private sector that doesn't have any confidence in the current Administration, but also



international investors are reluctant to enter the local market. We are convinced that from a financial point of view, Venezuela is quite capable of covering its foreign debt. The debt service only represents 8% of exports, but despite this, Venezuela's country risk is high, one of the highest in Latin America. The last bond that the Government issued, the so-called "Petrobono" has a yearly yield of more or less 20% in US-dollars. It's hard to believe. The idea is that the institutional framework is deteriorating, along with PDVSA's financial situation, coupled with the Administration's lack of respect for international and domestic agreements. In fact, if the Administration continues with its policy to issue foreign debt, it will have to do so at a very high cost.



Sources: Bloomberg and Ecoanalítica





Economic Tips

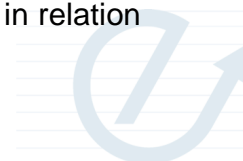
Inflation will accelerate. According to the data from BCV, the National Index of Consumer Prices presented an intermonth variation of 2.1% in July, the second highest intermonth variation this year. According to this index, the inflation of the past 12 months was 26.2%, and so far this year, prices have risen on average 13.1%. Furthermore, the Consumer Price Index for the metropolitan area of Caracas presented a variation between June and July of 2.4%. From these results we inferred that in the second half of the year will have higher growth in prices due to the lag in CADIVI liquidations, and hence greater pressure on the parallel market, among other stationery factors.

Monetary policy guidelines for the second semester. According to the BCV, monetary policies for the second semester of the year could imply, if necessary, an adjustment of the policy instruments at its disposal along the same lines as those made during the first semester of the year. The spokesperson also said that the BCV would continue to introduce conditions to promote loans to the productive sectors as well as to ensure the appropriate functioning of the national financial system in coordination with public entities. At *Ecoanalítica*, we do not rule out a new lowering of interest rates during the coming months.

SENIAT didn't meet customs tax collection goal. According to SENIAT figures at the close of the first semester of the year, tax collection from customs (customs tariffs + import VAT) was at VEF 7.55 billion, down in real terms by 21.9% compared to the same period in 2008. This supports the theory that says that the economy is slowing down despite the slight recovery of oil prices during the second quarter.

Basic basket reached VEF 3,920.87. According to a study carried out by the Social Analysis and Documentation Center (CENDAS), the basic basket increased in price by 1.7% between June and July settling at VEF 3.920.87. CENDAS pointed out that the basket has increased in price by 29.9% during the last 12 months, in other words VEF 901.90, with personal hygiene products and household cleaners being the items which increased the most.

Interest rates. According to latest available information, the active interest rate for the fourth week of July was 19.8%, representing an increase of 14 basis points in relation





to the previous week. Time-deposit and savings rates were steady at 14.5% and 12.6%, respectively.

International reserves. International reserves presented a significant rise of 2.2%, from US\$ 30.43 billion at the close of the fourth week of July to US\$ 31.09 billion in the first week of August. Compared to the same period of the last year, these have fallen 12.6%.

Liquidity. According to latest information provided by the BCV, the liquidity at the end of the fourth week of July showed a rise of 2.2% over the previous week, when placed in VEF 215.227 million. So far this year, liquidity has increased 10.8% and has increased by 32.4% compared to the same period last year.

Oil Tips

PDVSA registered the 2011 Petrobono on the international market. PDVSA notified financial entities this week that they could register the 2011 Petrobono on the international market. This process has an initiation date of August 3 (operation date) and finalized on August 5 (liquidation date). This will allow the paper to be traded on the international market. The ISN code is XS0444611296 and the common code is 044461129.

And another issue is expected... According to sources near the Ministry of Finance, PDVSA is about to issue another bond this month for around US\$3.0 billion. This information follows what we have been reporting the last few weeks.

Exports from Venezuela to U.S. increase. According to the International Energy Agencies latest monthly report, Venezuela exported more to the U.S. in May than Mexico and Saudi Arabia exporting 1.34 million b/d, up by 50% compared to the previous month. At *Ecoanalítica*, we find this increase curious since the oil company is continually insisting and demonstrating that it is diversifying its exports and that it especially is not wanting to sell to the U.S. market.

Drilling companies offer 40% discount. With respect to agreements between PDVSA and drilling service companies, which are considering lowering their costs for cementing, drills, and fluids, PDVSA managed to negotiate a discount greater than



what was expected with some companies this year in order to adjust its costs, said the vice-president of Exploration and Production.

Oil Unions: 20,000 workers not absorbed. Despite the fact that PDVSA plans to absorb 8,000 workers from the 74 companies it expropriated, around 20,000 will be left without a job. There is also a question as to the mechanism by which the workers chosen to join the company since a number of workers employed by the companies nationalized were not rehired.

Requesting intervention. Former workers working for companies on the eastern shore of Lake Maracaibo that were expropriated are requesting that the National Assembly become involved and look into the PDVSA hiring process which was to absorb workers from said companies.

Still have to wait. The creation of PDVSA Bank is not one of the company's priorities at the moment. According to the 2008 management report, the only priorities the company has at the moment are to increase production and refining, plus finance the social projects initiated by the Government.

Gasoline supply guaranteed. According to statements released by PDVSA, domestic gasoline inventories, distribution and every part of the supply chain are all in order to guarantee the nationwide supply of fuel to all gas stations.

The natural gas is for the Russians now. With respect to natural gas compression activities in the Eastern fields that were nationalized in May, PDVSA announced an agreement with Gazprom which is considering creating a mixed company (gas and oil) in Venezuela, including technology transfer and technical assistance. The aim is to recover drills and drilling barges as well as gas compression works for oil activity, a contract it previously had with U.S. Exterran.

PDVSA in Brazil. President Chávez has confirmed that by September an agreement should be signed that would incorporate PDVSA with PETROBRAS in the building of the Abreu e Lima refinery in Pernambuco state in northern Brazil.

Agreements between Spain and Venezuela. The Minister of Foreign Affairs of Spain was in Venezuela for three days last week. During that time a number of agreements were signed (energy and energy related matters, and transportation), among them, expanding the Repsol company on the Orinoco Belt, increasing the supply by 1.8 million barrels a year to Spanish refineries, and a study to build an electric power plant.



Additionally, the Spanish company Repsol YPF agreed to sell PDVSA all its holdings in natural gas and electric power in the country totaling US \$188.50 million of which US\$ 88.50 million correspond to Termobarrancas electric plant, plus all the assets related to Barrancas gas exploitation project equaling US\$ 100 million.

At US\$70 per barrel. According to the Bloomberg data base, oil prices continue to increase during the last week in July. WTI closed the last week in July out at US\$69.50 per barrel, up by US\$1.40, while Brent gained US\$1.38 to close the week out at US\$71.70 per barrel, up by 2% compared to the previous week. The first week in August began with prices continuing to climb, passing the US\$70 per barrel mark with WTI trading at US\$71.60 per barrel and Brent trading at US\$73.50 per barrel; this increase in price is based on a weakening US-dollar and better than expected third quarter US economy reports.

Venezuelan crude up. The Venezuelan crude oil basket gained almost 4% during the last week in July and closed at US\$63.16 per barrel compared to the US\$60.90 per barrel it closed the previous week at. The Minister of Energy and Petroleum attributed the increase to a weakening US-dollar. This increase in prices puts the annual average price so far this year at US\$48.60 per barrel which increases the country's revenues due to oil export to US\$22.40 billion and additional resources to around US\$3.90 billion.

Business Sector Tips

Colombian exports to Venezuela reveal de-industrialization process. According to the Colombian National Statistics Administration Department, in 1998, Venezuela sold goods to Colombia for US\$1.31 billion and purchased goods for US\$1.15 billion; while during the first five months of this year Venezuela exported to Colombia goods for around US\$239 million and purchased goods for US\$2.46 billion. The main products purchased are: processed food, automobiles, machinery, plastics, footwear, textiles, all of which equal 80% of said imports.

Government took over warehouses in Puerto Cabello and La Guaira. By mandate published in the official *gaceta* dated July 30, the Government took over the warehouse facilities in the ports of La Guaira and Puerto Cabello using the military.



There is no word on whether indemnity will be paid for the property appropriated which is valued at around US\$78 million.

Puertos del Alba will replace Bolipuertos. By presidential decree, Sociedad Anónima Puertos del Alba (port administration system) will replace Bolipuertos and will carry out its functions as well as administer Cuban ports. The new company will be made-up by 51% shares going to Bolipuertos and 49% to the Industria Portuaria Business Group (ASPORT) from Cuba.

Puerto Cabello workers protesting. In response to the decision to give 49% of the administration of Venezuelan ports to Cuba, and the military takeover of La Guaira and Puerto Cabello ports, the workers in Puerto Cabello went on strike and stopped the traffic in that city. They fear for the future of their jobs.

Government will pay for the expropriation of the cement companies Holcim and Lafarge. The Government has agreed to pay US\$552 million for 85% of Holcim shares and US\$267 million for 89% of Lafarge shares. No date has been set, but in the short term, 40% of the sum will be paid to both companies (US\$378.40 million) and the rest will be paid off in four years at 0% interest. Nothing was released concerning CEMEX payment.

Government took over coffee producers. On August 3, the Government took over the installations of Café Madrid and Fama de América, in order to investigate if the recent coffee shortage was intentionally provoked and if there is black market trafficking of coffee to Colombia. President Chavez announce its expropriation will take place in three months. The Minister of Agriculture and Lands announced that there is no need to import extra quantities to supply the domestic market.

SUDEBAN to relax regulations which determine equity value of assets. The SUDEBAN modified the risk evaluation criteria for loan operations aimed at agriculture, manufacturing, tourism, and micro-credits, so now the banking system is not required to cover 100% of the loan with guarantees, only 50%.

Starting in September, Small and Medium sized companies can trade in the Caracas Stock Exchange. The National Securities Exchange Commission has created a mechanism by which small and medium sized companies may trade in the Caracas Stock Exchange, thereby obtaining financing for capital investment, and at the same time small and medium sized investors will have access to the stock market.





The Industrial Development Bank approved extra resources for the Caroní river hydroelectric project. The Industrial Development Bank (IDB) approved an extra US\$50 million for the Tocoma, hydroelectric project being built on the Caroní river. In 2005, the IDB approved US\$750 million to finance the project which will be able to produce 2,160 MW and will begin operations in 2012.

500,000 tons of sugar imported from Brazil. The vice-Minister of Agriculture Economy from the Ministry of Agriculture and Land, announced that there would not be any shortages of sugar because the 600,000 tons of sugar produced domestically, plus the 500,000 tons imported from Brazil is enough to cover local demand until the next harvest which begins in November.

Corruption in assigning agriculture loans will be punishable by jail time. The vice-Minister of Integral Rural Development for the Ministry of Agriculture and Land announced that under no circumstance will corruption by its employees be tolerated by the Agriculture Bank of Venezuela, with regard to the granting of agriculture loans. Anyone with any information regarding acts of corruption concerning loans may call 0800-agricul.

Drop in car sales affects insurance policy sales. During the first semester of this year, automobile sales dropped by 47% and consequently, the sale of vehicle insurance policies dropped by almost 50% during the same period, according to industry representatives.

World Crisis Tips

U.S. economy shrank by 1% in the second quarter. The U.S. Trade Department reported that the U.S. economy shrank by 1% between April and June; less than what was expected (1.5%), after having shrunk by 6.4% in the first quarter. Officials expect that the third quarter post a slight increase in economic activity, but one must keep in mind that these are just preliminary figures which when revised are usually rounded down.

Construction improved in April. U.S. construction spending increased by 0.5% in June compared to the previous month, though it is still down by 10.2% compared to June 2008. June public construction works increased by 1%, and residential works by 0.5%.



Automobile sales still dropping, but at a slower rate than expected. The U.S. Government's cash-for-clunkers strategy seems to be working, though July automobile sales continued to drop, they did so at a slower rate than expected. Ford even increased its sales by 2.3% compared to July 2008 sales. Most other car companies report increased sales compared to the previous month, but still down compared to the previous year.

U.S. pending house sales increase by 3.6% in June. For the fifth consecutive month the pending house sale index has improved compared to the previous year. In June 2009, the index registered an improvement 6.7% greater than June 2008. This is another indicator which points to the U.S. real estate market improving.

U.S. average income dropped but consumption increased. In June, U.S. average income dropped by 1.3% compared to the previous year after having increased in May by 1.3%. How can this be? In May, the U.S. Government awarded a onetime only help for US\$250 to more than 50 million people through the social security, which is why income increased in May followed by a drop the following month. Despite this, consumption increased by 0.4%, but this is in nominal terms, in real terms consumption dropped by 0.1% compared to June 2008.

The European Central Bank (ECB) kept its interest rate by 1%. On Thursday, August 6, the ECB decided to keep constant its main interest rate at historic low set in May at 1%, also the deposit rate remained at 0.25% and the marginal lending rate at 1.75%. The ECB also announced that it will continue with its plan to purchase bonds of €60,000 million to further enhance liquidity in the euro area. The Bank of England also decided to keep its interest rate, in this case 0.5% and announced the injection of additional £50.000 million.

The Purchasing Managers Index (PMI) improves in the Eurozone. The PMI increased to 46.3 points in July compared to the 42.6 points it registered in June. This index carried out by Markit is from a survey taken from 3000 companies in 16 different countries in the Eurozone. A value of 50 or above indicates that an industry is growing, and lower than 50 indicates that an industry is shrinking. The latest figures indicate that Europe's industrial production is still shrinking but at a much slower rate and soon it should top the 50 mark.

Eurozone: private sector loans shrinking. Europe's money supply for the month of June continues to shrink. The M3 shows a drop of 3.5% compared to the previous year. This is being reflected in private sector loans which are down by 1.5% with



respect to family loans, and 2.8% in loans to non-finance sector companies. This drop in private sector loans is due to the crowding out effect that generates an increase in public borrowing. In June, public sector loans increased by 10.8% compared to the previous year.

Fitch and Moody's ratify AAA rating for Spain's long term debt. Both rating companies recently ratified Spain's long term debt to the maximum AAA level (minimum risk), they believe that despite the fact that the crisis has affected them severely, that damages are not permanent, plus the government's fiscal deficit reduction plan due to begin 2010 was very well received. At the beginning of the year, both rating companies felt Spain was at risk of having its rating lowered, and Standard & Poors lowered the country's rating from AAA to AA+ in January, but now influenced by Fitch and Moody's new evaluation, it may also increase its rating.

Consumer confidence in Spain increasing. Consumer confidence in Spain increased by 9.7 points in July compared to the previous month settling at 76.1 points. Though it seems a bit paradoxical, the labor component also improved (Spain has the highest unemployment rate in Europe at 18%). Improved consumer expectations, is very closely related to the lowering of the European CPI.

Brazilian industrial production increases less than expected. Brazilian industrial production increased by 0.2% in June compared to May (less than the 0.35% which was expected), and it is still 11% below what it was 12 months ago. Compared to June 2008, 22 of the 27 sectors dropped in terms of production, with vehicles and machinery being the most affected with drops of 18.9% and 27.4%, respectively.

Toyota improves its sales outlook for the 2009-2010 business year. The world leading automobile company improved its sales outlook going from 6.5 million to 6.6 million units. The improvement comes from the Japanese market where the company expects to sell 2.02 million units; previously they only expected to sell 1.92 million units. The company's projections for the U.S. and European markets of 1.86 and 0.92 million automobiles respectively remained the same.

Panasonic loses US\$560 million in the second quarter. The Japanese electronics company registered losses between April and June for US\$555.75 million. During the same period last year the company registered profits for US\$766.13 million. Sales dropped by 74% this year compared to last year during the same period. An appreciating Yen makes foreign sales difficult.





Political Tips

Electoral Law approved. The Electoral Law, during its second discussion, was approved on July 31. Said law establishes a system by which the political party receiving the most votes will have a higher percentage of seats in the National Assembly than of votes received, in other words, minority parties will be excluded. Furthermore, the new law allows the National Electoral Council to change the voting circuits, in other words, the populations which elect representatives to the National Assembly, which can work to the advantage of the government party. It also established that high population density voting centers must be thinned out creating new mobile or fixed voting centers depending on the case.

But the most radical is yet to come... According to Article 20 of the Electoral Law, for national and state elections, voter districts may be made-up by a municipality, or a number of municipalities, a parish, or a number of parishes, or a combination of any one of these, as long as they belong to the same state. This will allow the CNE to redistribute the voter districts as it sees fit, which could well favor or work against a specific political party.

And a special law against media crime was proposed. The District Attorney General of the Republic, Luisa Ortega Díaz, declared that she considers that freedom of speech is not regulated in Venezuela, and therefore she suggested that the National Assembly should put limits to free speech and subordinate it to the security of the State. She made these statements in a speech given before the Parliament while presenting her Special Law for Media Crimes with which she is looking to prevent and sanction actions through the media considered to be crimes. Ironically, the Attorney General insisted that this law would not curtail freedom of speech.

Approved in first reading the draft Law on Education. This week the Standing Committee of the National Education in the AN unanimously approved at first reading the draft Law on Education, and ordered its public discussion from August 6. Soon be published in the national media the bill to the realization of the popular consultation, so that the discussion included the different actors of Venezuelan society.

Venezuela guarantees the investments of political allies. The National Council to Promote Investments has highlighted in its 2008 report that Venezuela has prioritized



its investments with nations sympathetic to its political agenda like Vietnam, Belarus, China, Brazil, Argentina, Ecuador, and Russia, among others, and in many cases cooperation agreements have been signed with them. While country not sympathetic with Chávez political model have been confronted with a series of obstacles when it came time to paying indemnity for properties expropriated, the most recent example being Holcim and Lafarge.

More changes expected... The Minister of Trade, Eduardo Samán, declared that the objective of the changes with regard to promoting and protecting investments is to restrict foreign investment to only those countries which are willing to share and transfer technology, as well as other requirements.

Colombia could file charges against Venezuela for presumed ties with the FARC. The Colombian Foreign Affairs Minister, Jaime Bermúdez, declared that his country could file charges against Ecuador and Venezuela before the international courts for supposedly backing the FARC. President Álvaro Uribe and his Foreign Affairs Minister are currently touring Latin America to explain the military agreement it has entered into with the United States.

Government hints to future expropriation of Colombian business. The President spoke of expropriating Colombian business working in Venezuela. These threats can be construed as a type of retaliation against Colombia, and the President continued to say that these and other measures applied in view of the recent aggression of the Colombian government.

The gasoline situation in view of the bi-national conflict. The National Guard has prohibited the pass of cars going from Venezuela into Colombia with full tanks of gasoline, plus more than 100 gasoline stations have been occupied by the military, though the legal resolution only states that the National Guard should occupy the gasoline stations in Ureña and San Antonio. The Minister of Energy and Petroleum stated that the Government is reviewing its agreements to supply fuel to Colombia.

The first 34 radio stations closed due to failure to comply with license renewal requirements. The CONATEL has ordered the close of 34 radio stations which had been transmitting on the AM and FM frequency. The president of CONATEL and Minister of Public Works and Housing, Diosdado Cabello, explained that the measure is the beginning of a series of administrative measures initiated against a number of radio stations due to the expiration of their broadcast license and/or the death of the person awarded the license.





Also Globovisión. On August 3, a group of militant supporter of the government, including Lina Ron, violently attacked the headquarters of Globovisión in the La Florida neighborhood, throwing teargas bombs against the station. Meanwhile, the Public Ministry commissioned two prosecutors to investigate the incident. Lina Ron is currently detained by the authorities.

Venezuela 1st in military spending in the region. In 2008, Venezuela spent US\$1.98 billion in military spending of which US\$733 million went to the purchase of military planes and missiles. Venezuela went from 10th to 8th in the world rankings of countries with the highest level of military spending and the purchasing of weapons. To date, the Venezuelan Government has yet to present information about its arms policies or its long term arms buildup plans.

ALBA meeting in Caracas. The Ministers of Economy for the ALBA member countries all got together in Caracas this week for an Economic Council Meeting in order to debate the creation of the "Sucre," a monetary unit to be used for commercial and trade operations between ALBA member countries. Venezuelan Foreign Affairs Minister, announced that on August 9, the Political Council will be held in Ecuador and on the 21, the Social Council will be held in Bolivia.

New Minister of Health. Carlos Rotondaro, was named the new Minister of Health and will continue to be the director of the Venezuelan Institute of Social Security (IVSS). He is replacing Jesús Mantilla. A number of political and administrative factors played a part in this decision due to the critical situation regarding hospital remodeling and shortage of doctors.

Survey: Chavez would lose the election today... According to the latest opinion polls taken by Alfredo Keller & Asociados, if Venezuela were to hold its presidential election today, Chávez would get 41% of the votes. 51% of Venezuelans are of the opinion that the President is turning into a dictator. According to this poll, the President's popularity has suffered due to his Administration's inefficiency and his attacks against private property, the media, democratic rights, plus the transfer of resources to other countries.

...and 78% of the population believes that there is corruption. The report released by Alfredo Keller & Asociados also reveals that 78% of Venezuelans believes that there is corruption within the current Administration, and 64% believes that the President knows of this corruption and is responsible for it. With regard to the problem with personal safety, 80% of Venezuelans believe that crime has gotten worse, and with regard to suppressing private property, 72% do not agree with these policies.



Most people back decentralization... 70% of those surveyed believe that Governors have the right to decide what projects should be carried out in their states and 19% believe that the President should decide. 93% of those surveyed believe that Governors and mayors should be chosen by the people; only 6% believed that the President should choose them. With regard to decentralization, 75% of those surveyed don't not support the measure to take resources away from Governors and Mayors from the districts and regions where the opposition won, while 15% agrees with this measure. 54% of those surveyed rejected the idea of turning Venezuela into a socialist country while 36% are in favor of socialism.

However, the results from the IVAD paint a different picture... According to José Vicente Rangel, the latest survey carried out by the Venezuelan Institute of Data Analysis (IVAD) shows that 64.2% believes that Chávez' Administration has been good, compared to 33.7% which thought the opposite. 49.1% of the population doesn't believe the Venezuelan Government had anything to do with Honduras' political crisis, while 35.8% do believe the Government interfered.

More opinions... According to the IVAD, 58% of those surveyed believe that the Government is doing a good job managing the labor conflicts. 62.9% believe that PDVSA is being managed well, while 32.2% disagree. And lastly, 45% of the population believes that the way opposition is handling itself is deficient.

Other Tips

Good results. The BBVA bank surprised the market with better than expected semester results and a strengthening of its capital ratios, which increased its trading in the market by more than 4%. The BBVA closed the first semester of the year with recurrent attributed net profits of EUR 2.799 billion (US\$ 3.99 billion), 10% less than the US\$ 3.108 billion during the same period last year.

Santander too. The Santander bank also posted profits EUR 5.519 billion, just 4% less than last year. The bank's advisor, Delegado Alfredo Sáez, announced that these figures allow one to expect that these year's results will be much like last year's close which will allow stock dividends to remain the same.



Telefónica not left behind. Telefónica's net profits increased by 10.7% during the first semester 2009 to EUR 3.62 billion (US\$ 5.12 billion), mainly because of its Latin American operations which most of its profits come from. At the end of June, Telefónica registered 264 million clients, up by 7.6% compared to last year. Of these, 160.8 million (+8.7%) correspond to Latin America.

In Venezuela. Telefónica net profits in Venezuela increased by 28.4%, to reach EUR 1.748 billion, Chile's profits dropped by 0.5% to EUR 900 million, in Peru profits increased by 7.7% to EUR 860 million, and in Colombia profits dropped by 9% to EUR 631 million.

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ECONOMIC OVERVIEW

