



Weekly Report

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By:
Asdrúbal Oliveros
Maikel Bello

WHAT'S CHÁVEZ' GAME?

"I worry about the future, because it's the place where I'm going to live the rest of my life"

(Woody Allen)

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Since the constitutional referendum vote victory last February 15, President Chávez' Government has stepped on the accelerator and moved forward in a number of fronts to implement his 21st Century Socialism project, and this has once again polarized the country. This is happening now, in the middle of an international economic crisis which has led to oil priced plummeting thereby cutting the Administration source of resources drastically. Why is the Administration doing this? What can we expect to happen in the coming months? We will share our impressions about these delicate matters in this Report.

Some pending matters

During the last few months, the Administration has chosen to be confrontational, the most recent cases being the close of 34 radio stations, the approval of the Electoral Law, and lastly, the promulgation, in record time, of the Education Law. All these things have happened almost simultaneous and a significant portion of the population have rejected all or some of them in varying degrees; so much that some polls show the President having dropped up to 10 points in popularity.



Each one of these events, along with the Administration's push to increase the State's participation in the Venezuelan economy, serves a specific purpose. With respect to the closing of the radio stations, the Government is looking to gain more control over the means of communication. Though we are not experts on the subject, there doesn't seem to be any doubt that the close of the stations and the recent threats made against the television station Globovisión, is the Government's way of persuading the media to be more "moderate."

The Electoral Law represents a step backward, but since it is not the central theme of our report, we will not go into details, but suffice to say that this Law also offers the Opposition parties an opportunity, if through this law they can capitalize on the people's current discontent, the Opposition could come away with most of the seats in Parliament during the upcoming election. It's a golden opportunity. Currently, the Administration is confident of its control of the national Electoral Council, with the majority of the rectors being loyal to the government, it's also confident that the economy is on its way to recovery (in other words, that oil prices are on their way up), and lastly it feels confident that the Opposition is incapable of designing a unifying strategy to challenge them in the upcoming election.

And the Education Law, without getting into all the details of all its implications, was approved behind closed doors and without consensus, not even consensus from within the party base, a fact that will surely become a problem. It seems like the Administration, as it prepares to move forward into the future, wants to make sure that it has more effective control measures in place regarding education, especially when it comes to the university scene and student councils and teacher union.

The next steps

After ten years of being in power and many of the country's social problems not having improved to the people's satisfaction, such as personal safety, housing, healthcare, and inflation, just to name a few of the more pressing issues, the Administration has once again begun to show its more radical side and being much more confrontational, a strategy that has been politically successful in the past. Therefore, the Administration has begun to aggressively move forward on four fronts:

- **Legislative.** The agenda includes a number of very polemic laws such as: the Social Property Law, the reform of the Organic Labor Law, the



Telecommunications Law, the Journalism Law, the Communal Council Law, the General Bank Law, among others.

- **Economy.** The Administration is looking to minimize the effects of an economy that is clearly slowing down. In order to do so, it will once again fall back on high levels of public spending and redesigning social Mission programs. On this front, two elements stand out:
 1. A new “package of measures” with emphasis on the exchange issue, because the Government knows it has a lot to gain if it can eliminate the uncertainties and distortions surrounding currency exchange operations. So, in order for an increase in public spending to be beneficial in the future, this exchange issue also has to be dealt with. The main objective is to lower the swap-market exchange rate, and then to devalue the official exchange rate, probably during the beginning of next year.
 2. Increasing controls and nationalization policies in response to rising inflation, in the first instance; and in the second instance, as a mechanism to control and submit the private sector to adhering to government policies. In order to do so, the Government will continue to increase subsidies for the PDVAL and MERCAL networks and the most likely to be nationalized will be: agro-industry, medicines, healthcare system, and insurance.
- **Political Institutional.** The Administration is looking to gain time before it has to face next year’s election. The “unpopular” agenda it is planning to implement has to be moved up and be executed as quickly as possible so that it can have plenty of time to begin recovery, strengthen its political base, and mend fences before the next election. But the Government will continue to move forward on new fronts in order to tire and distract the Opposition from its electoral objective. Our recommendation to the Opposition is that it focuses on, and makes the upcoming election its priority, where it has clear opportunities to gain ground. However, the Opposition must be aware that the Administration will use all its mechanisms to avoid losing control of the legislative power.
- **International front.** With regard to Colombia, the issue with the U.S. military bases represents an irreconcilable difference between the Governments’ of Colombia and Venezuela, and we believe that the



Administration will never accept this state of affairs. We expect Chávez' relations with Bogotá will be much like current relations are with Lima, in other words, a dead end; but the trade dynamics between both countries will be different. On the other hand, the Administration will continue with PETROCARIBE and ALBA. With regard to the first mentioned, PDVSA is the most affected (these countries owe PDVSA almost US\$ 6.0 billion). And with regard to ALBA, member countries will continue to benefit from the trade agreements which are in their advantage.

Looking towards the future

Paraphrasing Moisés Naím, we can expect a Government which will be strengthening itself with regard to domestic issues and affairs, albeit with increasing social demands which will become the Administration's Achilles Heel. The reason that we mention this is that it has to do with the country's political environment: economic recovery expectations (oil prices going up along with an aggressive borrowing plan); a definite increase in institutional controls implemented by the Administration; and a weakened Opposition, with little capability to take advantage of the current discontent reigning among the people.

But not everything is looking up for the President and his Administration. Chávez has been in power for ten years, which is the equivalent of two terms in office for presidents of the 4th Republic, and the people are getting more demanding. It's not just about increasing public spending (increasingly inefficient as time goes by, as we will analyze in our upcoming Weekly report), but also on what and how it has spend. The next presidential election is a long way off still, but Chávez needs to come up with something new, he can't keep on repeating the same scheme of previous years, that won't guarantee a victory anymore. And this is due to the issue of efficiency. The President believes that he will be able to guarantee his victory with bigger Government, and tougher laws, controlling the media, and making sure the private sector is following in step with his policies. With all due respect, we are not quite sure this will be the case.





Economic Tips

Venezuela's economy shrinks 2.4% during the second quarter. On Thursday August 20 the Central Bank of Venezuela published growth figures and balance of payments for the second quarter of the year and also reviewed some previous figures. As was expected the economy has contracted over the same period last year, in this case 2.4% and the growth rate of the first quarter was revised to 0.5% from a previous measure of 0.3%; in this way the GDP in the first half of 2009 shows a contraction of 1% in inter-annual terms.

Furthermore, it showed an improvement in current account. According to figures published by the BCV, as expected, the recovery in oil prices resulted in the second quarter of 2009 allows a current account –CA– surplus, after two consecutive quarters of deficit, leaving CA 86.8% lower compared with the same quarter of 2008.

It was also noted a deterioration external accounts. It also revealed a decrease in external asset position, contrary to what was observed in the second quarter of 2008. This allowed a raise of US\$1.495 million in international reserves. Looking at the data of the semester, we see a similar trend: a marked decrease in the current account and a lower accumulation of assets abroad.

...Mainly in the public external accounts. On the side of the public sector's liquid assets abroad, it is clear that there was a decrease of \$ 4.57 billion from first to second quarter. In relation to trade receivables, we see that they increased by U.S. \$ 1.62 billion, much of this account is associated with the accounts receivable from PDVSA, especially those arising from the Petrocaribe agreement. Note that the capital outflows through the Petrobonds will be recorded in the third quarter.

And how were private external accounts? In the second quarter the outflow of private capital was on the order of US\$4.79 billion, which mean that capital outflow was accelerated compared to the first quarter, but well below the same period last year.

Government prepares measures to take pressure off the swap-market. President Chávez announced last Sunday that the Government is preparing economic measures to balance the distortions created by the swap-market. He also continued to say that economic measures were also being prepared to maintain economic growth,



investment, and international reserves, oil and industry. A few days later, the Minister of Economy and Finance, Alí Rodríguez Araque, ratified these announcements saying that the Ministry was preparing measures to stimulate economic growth due to the drop in oil prices which has led to a significant drop in imports of necessary goods for production. No details were released though the exchange policies are at the center of these measures.

Fiscal management continues to post a deficit. According to the Central Bank of Venezuela's (BCV) monthly report for April, fiscal revenues for the first quarter 2009 were at VEF 36.94 billion, down by 36.4% in real terms compared to the same period last year. Government spending was at VEF 46.13 billion, down by 27.8% compared to the same period last year, but still posting a deficit due to reduced revenues; 60% of financial needs were covered by domestic borrowing.

FISCAL BALANCE CENTRAL GOVERNMENT (VEF Millions)	April 2009	April 2008	Nominal Variation	January- April 2009	January- April 2008	Nominal Variation	Real Variation
Total Revenue	11,595	13,788	-15.9%	36,935	44,866	-17.7%	-36.4%
Non-Oil Revenue	7,464	9,008	-17.1%	25,367	28,523	-11.1%	-31.3%
Oil Revenue	4,131	4,519	-8.6%	11,568	16,082	-28.1%	-44.5%
Total Expenditure	11,120	16,004	-30.5%	46,132	49,312	-6.4%	-27.8%
Fiscal Balance	475	-2,216		-9,197	-4,446		
Primary Balance	1,596	-1,332		-5,663	-1,126		
Non Oil Balance	-3,656	-6,996		-20,765	-20,789		
Debt Amortization	109	579		787	3,369		
Financing Requirements	-366	2,795		9,984	7,815		
Foreign Debt	23	38		116	61		
Domestic Debt	3,749	21		6,156	21		
Tresury Bonds	2,952	21		4,523	21		
Tresury Debt	797	0		1,633	0		
Others	-4,138	2,736		3,712	7,733		

Sources: BCV and Ecoanalítica

Domestic debt for the first semester 2009. According to the Minister of Finance, first semester 2009 public debt totaled US\$ 44.85 billion, with domestic debt increasing by US\$6.25 billion compared to December 2008, up by 44%. Foreign debt increase by only 0.1% to total US\$29.89 billion in June 2009. As we have mentioned in previous Reports, at *Ecoanalítica*, we expect the domestic debt to increase by around US\$11.0 billion during the second semester, and the foreign debt to increase by US\$14.40 billion during the same period.



PDVSA bought back around US\$1.0 billion in bonds. PDVSA has recently decided to buy back US\$1.0 billion of its bonds. According to a number of sources, the company bought back US\$700 million in bonds which were issued in 2007 and mature in 2017, 2027 and 2037, and it bought back US\$300 million in Petrobonos. A report released by Barclays points out that the fact the PDVSA is able to buy back bonds is a sign that the company's cash flow has improved.

And how are International Reserves faring? Sources close to the Ministry of Finance report that the Government is considering lowering international reserves, leaving reserves at an "optimum" level below US\$30.0 billion. Some are even considering the possibility of lowering reserves to US\$10.0 billion, but it's being pointed out that this would increase the US-dollar trading price because it would the circulation/international reserves ratio.

Government to regulate resources deposited in FONDEN. President Chávez stated that FONDEN transfers must be restricted due to the price of oil falling below US\$50 per barrel, which doesn't generate a surplus. In fact, with regard to the requirements of the Electric Power sector, the President said that FONDEN would only earmark US\$500 million to the sector and the rest would come from the China Fund and CORPOELEC savings; he continued to say that there was only approximately US\$2.0 billion left in the fund which was not already designated to a project. According to our calculations, the amount of funds already earmarked is around US\$ 7.0 billion.

BCV modifies Exchange Agreement No. 9. The Ministry of Finance and the BCV have modified the Exchange Agreement No. 9 to allow the mixed companies in the petrochemical sector to be able to keep foreign currency accounts. Said regulation was published in the *Gaceta Oficial* dated August 11 and states that PDVSA and mixed companies will be allowed to have accounts abroad in order to make payments. The BCV expects that there will be another regulation published soon establishing how these accounts will be monitored. This modification gives more power to PDVSA in terms of exchange policy management.

CADIVI authorizations for imports dropping. CADIVI announced that it has authorized US\$1.20 billion to the health sector during the first seven months of the year, which represent 17% of the total authorized for ordinary imports this year. This means that the total amount authorized up until July for ordinary imports is US\$7.06 billion, down by 54.3% compared to the same period in 2008. At *Ecoanalítica*, we would like to point out that the latest information that we have available indicates that CADIVI has been liquidating previous debt with importers; therefore we estimate that



during the last three months, the level of foreign currency liquidated has been greater than that authorized. So this drop is referring to new imports assumed this year.

Colombia believes that the trade limitations between Colombia and Venezuela can be managed. Minister of Trade, Luis Guillermo Plata, and the president of Bancolombia, Jorge Londoño, believe that the situation between Colombia and Venezuela can be controlled. Currently, Venezuela is Colombia's second most important trade partner after the United States. It's estimated that the exports to Venezuela generate around 900,000 jobs.

Interest rates: According to the latest information available, the lending rate for the first week of August was 18.9%, up 170 basis points from the last week of July. Term deposit and savings account rates were 14.5% and 12.6%, an increase of 2 and 0 basis points.

International reserves: The international reserves posted an increase of 0.6%, going from US\$31.09 billion at the close of the first week of August to US\$31.28 billion in the second. Compared to the same period last year, the reserves have dropped by 13%.

Money supply: According to the latest information from the Central Bank, money supply at the end of the last week of July posted an increase of 1.8% compared to the third week before, to VEF 219 billion. Money supply has increased by 12.75% so far this year and by 34.24% compared to the same period last year.

Oil Tips

MENPET export figures. In a press release issued by the Ministry of Energy and Petroleum to Reuters, PDVSA crude oil exports were at 2.41 million barrels per day in June, down by 3.7%. Domestic consumption was down by 38,000 barrels a day, going from 548,000 barrels a day in June to 510,000 barrels in July.

As always figures are different on each source. According to OPEC, Venezuelan crude oil exports for the month of July were at 2.27 million barrels a day, up slightly from the month of June. When including domestic consumption, which is at approximately 550,000 b/d, total production is at 2.8 million barrels a day, down from



the 3.1 million barrels a day figure the cartel reported in its latest yearly statistics report.

Exports to United States. Based on a report released by the Chamber of Venezuelan-American Trade and Industry (Venamcham), and based on information from the U.S. Census Bureau, oil exports to the U.S. dropped by 52.7% at the close of the first semester; following the expressed wishes of the Venezuelan Government to be less dependent on oil trade with the U.S. During the last few years, the number of barrels of oil a day delivered to the U.S. have dropped while delivery to other countries such as Cuba and countries in the Asian continent have increased.

PDVSA spreading the wealth. The recovery of oil prices with regard to the Venezuelan oil basket so far this year (by 96.5% since December 2008) has allowed the oil company to deliver approximately 70% of its programmed fiscal contribution for the year (VEF 26.0 billion) in seven months, according to information released by the Ministry of Finance. Part of the dividends which the company will deliver have been advanced (VEF 4.30 billion) last July, VEF1.20 billion (28% of what's been estimated) of the VEF 17.20 billion programmed from royalties; in seven months the company's contribution was at VEF 17.60 billion generating a surplus of VEF 400 million.

Income tax and other contributions. Income Tax contributions were programmed for VEF 12.90 billion of which only 42% (VEF 5.40 billion was received between January and July), a bit slow. With regard to other taxes such as extraction tax, export registry and surface tax, in seven months VEF1.60 billion was delivered out of the VEF 3.30 billion which is programmed. FONDEN is making weekly deposits of US\$25 million for a seven months total of close to US\$500 million.

Single rate for PETROCARIBE? According to information released by the Executive Secretariat, a change to the current financing proposal is being proposed which is based on the price of crude oil. The alternatives that are being studied look to divide the cash payment obligations by establishing a single rate which would eliminate the fluctuation of those payments based on the volatility of oil prices, and through a lowering of the percentage of the amount to be paid in cash below the level established in the current agreement at current prices. At *Ecoanalítica*, we believe that in a context where the debt owed by these countries is at almost US\$6.0 billion, it's worth asking if this measure is prudent taking into consideration the current state of PDVSA's accounts receivable keeping in mind the amount of debt it has recently acquired.





PDVSA: also in the banking business. According to information published in the *Gaceta Oficial*, PDVSA and the Banco del Tesoro will be co-founders in the Banco Ruso-Venezolano in an agreement with the Banco VTB y Gasprombank of Russia. This bank's aim will be to finance the oil industry as well as mining, electric power, metallurgic, infrastructure, machinery construction, and petrochemical projects.

PDVSA depends on Colombian natural gas. The Ministry of Energy and Mines of Colombia, through the natural gas exchange program Colombia-Venezuela, supplies between 280 y 300 million cubic feet a day of methane gas, a figure which doubles the 150 million cubic feet per day that were projected for this year. Said information verifies the tendency reflected last year when 147 million cubic feet per day were supplied, tripling the projected amount of 50 million cubic feet per day -51.7% of what that amount was for supply the Venezuelan oil and petrochemical industry-.

However, it is not really needed. The exchange program is mainly aimed at supplying fuel for the operation of three important electric power plants in Zulia state. But, figures released by the National Management Center for Electric Power for up until the month of June show that only two plants are being supplied by Colombian hydrocarbons. The Rafael Urdaneta plant is supplied by diesel from PDVSA, even though it was part of the agreement to be supplied with natural gas to lower costs.

An adjustment in price for fuel to Colombia expected. The supply agreement approved by PDVSA and Ecopetrol expires on August 21, and the Venezuelan Government has not announced whether it will be renewed. The agreement contemplated the supply of 11 million liters of gasoline a month to North of Santander and 8 million liters to the Colombian La Guajira region. The Minister of Energy and Petroleum announced that Venezuela will continue with the supply agreement but under other conditions, which seems to indicate that there will be a price adjustment.

Collective bargaining agreement for oil sector delayed again due to delays in the FUTPV election. The current agreement expired in January and it covers more than 90,000 workers. Despite the fact that union leaders say that collective bargaining agreements can begin backed by current labor unions, one of the conditions introduced by PDVSA board members is that the elections must be held before talks can begin. The recent drop in oil prices may also have a lot to do with the delay, since the oil industry worker payroll is a quite significant part of the company's budget.

Spill in the Eastern coastal region. A supposed hydrocarbon stain of approximately 420 m² in size coming from tankers anchored in the bay of Pozuelos, Anzoátegui state. The company announced that a cleanup plan has been initiated and that



environmental conditions will be returned to normal and the ecosystem preserved in accordance to the laws established by the International Maritime Organization.

Agreements between PDVSA and PETROPAR. After months of negotiations and obstacles in some of the clauses in the agreement, both companies reached an agreement for PDVSA to supply gasoil to Paraguay. A first supply could be expected as soon as this month for 35 million liters and for September a shipment of 70 million liters more. PDVSA supplies 60% of the gasoil consumed in Paraguay and it owes the company US\$300 million.

PDVSA in the Paraguay-Paraná axis. With the creation of the new mixed company shipping company between PDVSA and Argentinean Fluviomar an exchange program of “fluids” for food will begin. The company will use the Paraguay-Paraná water way axis made up by Argentina, Uruguay, Paraguay, Brazil and Bolivia. This company was created due to the freeze with relations with Colombia. The Government estimates that thanks to this agreement, the trade balance with Argentina will increase by US\$1.0 billion. In 2008 it reached US\$1.40 billion.

Crude oil prices close the week out on a downward trend. According to Bloomberg, oil prices were down at the close of the first week in August. WTI closed the week out at US\$67.51 per barrel (p/b), down by US\$3.42, a 4.8% drop compared to the US\$70.93 p/b posted the previous week. Meanwhile, Brent lost US\$2.63 to close the week out at US\$71.44 p/b, dropping 3.6% compared to the US\$74.07 p/b reached the previous week. The week began with oil baskets continuing their downward trend with WTI trading at US\$66.75 p/b and Brent trading at US\$70.54 p/b. The main causes for this are attributed to the surprising drop in consumer confidence reported last week which dropped world energy demand estimates.

Venezuelan crude oil drops. The Venezuelan oil basket price dropped by almost 1% during the second week in August closing at US\$67.15 p/b compared to the US\$67.73 p/b it closed at the week before. Despite the drop in price, the yearly average price for Venezuelan oil is at US\$49.79 p/b.





Business Sector Tips

Urban Lands Law. According to the National Assembly, the recently passed Urban Lands Law is aimed at stimulating construction on unused lands in urban areas, threatening with declaring them public use assets. According to article 33 of the new Law, lands that have administrative proceedings open by virtue of the same Law can be legally invaded. Furthermore, the State has the power to declare of public use those lands that have been “abandoned by their owners; that do not have been improved or any other property determined by the Executive,” that is, the Government has full power to decide what lands are of public use. The Law also provides for that “buildings in ruins, with construction defects, deteriorated, that have been constructed more than 60 years ago, or that have been declared uninhabitable, must be disposed of.

House demand drops. According to estimates of the Metropolitan Real Estate Chamber, demand for new homes (primary market) in the Great Caracas area dropped 30%, and demand for used housing units (secondary market) fell by 15%. Although the ban on including the consumer price index in presales contracts had not been approved at the time corresponding to these estimates, the activity had already been decreasing and representatives of the real estate sector point out that the actions taken by the Ministry of Public Works and Housing as well as future measures will have greater impact on purchase-sales transactions.

Cadivi has authorized US\$3.980 billion for food and beverage imports. Cadivi informed that it has authorized US\$3.980 billion for the year to August 11 for food and beverage imports. The total authorized by Cadivi for food and beverage imports in 2008 was oUS\$7.577 billion.

Although others say that foreign exchange authorized for the food sector dropped 35%. Reportedly, unidentified sources at Cadivi reported that foreign exchange authorized in the first half of 2009 for the food sector dropped 34.8%.

Bank profitability. According to recent data released by SUDEBAN, the Venezuelan banks have maintained an average profitability level between 24% and 25% for the year to date. However, average profitability fell to 19.2% from 24.8% in July from the previous month. SUDEBAN reports that this drop is due to specific problems in some banks that are reorganizing their managerial and financial schemes. Furthermore,



according to SUDEBAN official information, the Venezuelan bank loan portfolio grew 1.68% in the month of July.

Loans for cars are reduced. According to recent data released by SUDEBAN, car loan quota in July amounted just to 8.82% of bank portfolio, whereas car loans in July 2008 accounted for 10.54% of bank portfolio. This is a direct consequence of union conflicts and the lack of currencies faced by the automotive sector in 2009.

INDEPABIS bought 1,500 tons of sugar from Coca-Cola. INDEPABIS bought 1,500 tons of sugar from Coca-Cola at regulated price in order to supply the domestic market. Coca-cola accepted selling the sugar from its raw material stock so that the Government could meet sugar shortages in the domestic markets.

Chávez authorized US\$1.15 billion + VEF 600 million for CORPOELEC. President Chávez approved US\$1.15 billion for Corporación Eléctrica Nacional earmarked for investment and maintenance of capital equipment. US\$500 million will come from FONDEN, another US\$500 million from the Chinese-Venezuelan binational fund, and the remaining US\$150 million will be collected from CORPOELEC's debtors. Furthermore, VEF 600 million were authorized to pay labor debts; however, resources required to pay these debts amount to VEF 1.20 billion; the remaining VEF 650 million, according to President Chávez, will be collected from the public sector debts to CORPOELEC, which has due debts for electric power service for VEF 1.60 billion. If the debts are not paid, the service will be suspended.

AVEX estimates that non-oil exports will not exceed US\$1.50 billion. According to estimates of the Venezuelan Exporter Association, non-oil exports will not exceed US\$1.50 billion this year, since exchange rate at 2.15 VEF/US\$ destroys national industry's competitiveness; backlogs at CADIVI to allocate foreign exchanges to import raw materials and capital goods are also a contributing factor to the drop in imports.

Trade exchange through Táchira state border fell by 70%. Trade exchange between Venezuela and Colombia through Táchira state border has fell by about 70% since the conflict between both governments started.

And more restrictions. The Government will restrict medicine imports to increase domestic product and, therefore, reduce consumer prices, as reported the Minister for Trade, Eduardo Samán. The Minister explained that Venezuela is capable of producing most (98%) of the medicines the country requires and pointed out that it is necessary to avoid the so called "lousy patents," that is, patents on small changes incorporated to the product, which do not represent any innovation at all.



Telecommunication investments increase by 26.2%. Investment in the telecommunications sector increased to VEF 643 million (26.2%) during the second quarter of 2009, more than the figures recorded in the same period in 2008, as per press release by the National Telecommunications Commission (CONATEL). This entity also released growth figures per sector: mobile phones reached one line per inhabitant; fixed telephony grew by 18.1% (24 lines per every 100 inhabitants); internet users increased by 42.3%; and cable TV increased by 14.4%.

CANTV keeps its profitability. The National Telephone Company of Venezuela released its financial statements for the first semester of 2009, which informs us that the net profit of the company during the period January-June was VEF 952.84 million, that is 45.4% more than the same period in 2008, in real terms (discounting the effect of inflation) earnings were 12.9% higher than the first half of 2008.

CANTV: continued increase in accounts receivable to the Government. Accounts receivable to the national government for June 30 amounted to 419,583 FEV, 35% more than twelve months before, although in real terms they grew only 4.8%.

CANTV: revenues and expenditures are lower in real terms. It is interesting to note that although profits grew 12.9% in nominal terms, both contracted by 5.3% and 11% in real terms, respectively. I.e. the increase in profits reflects a cost reduction greater than that of income: this is the result of the tariffs for services have not been adjusted by inflation.

World Crisis Tips

France and Germany are the first European countries to come out from recession. Both European countries released official growth figures for the second quarter of 2009, which show a 0.3% growth on a year-to-year basis, after a 3.5% and 1.3% contraction in Germany and France, respectively. Together, the European Union contracted only 0.1% during the second quarter after having contracted 2.5 in the first quarter of 2009.

Japan also grows in the second quarter. Japan's official growth figure for the second quarter of 2009 show an annualized quarter-to quarter growth of 3.7%, after registering a contraction for four months in a row, like France and Germany. It is worth



mentioning that Japan's recovery will be slow, given its strong dependence from abroad. Japan will not follow its long-term growth trend until the rest of the world recovers from the crisis.

Hong Kong also grew. Hong Kong Special Administrative Region also left recession during the second quarter, registering an annualized quarter-to-quarter, seasonally adjusted growth of 3.3%; on a year-to-year basis, Hong Kong's production contracted 3.8%, after having decreased 7.8% in the first quarter.

US consumer confidence drops for the second month in a row. The U.S. consumer confidence index went down to 63.2% in August from 66 in July, the lowest level since March; the current situation index fell from 70.5 to 64, the lowest since April; and the expectation index dropped from 63.2 to 62.1, the lowest also from March.

U.S. price consumer remain constant. Inflation in the US in July was -0.1%. As a consequence, price level remains 2.1% below July 2008 level. One of the contributing factors to this low inflation rate was that gas prices decreased 0.8% this month, after having increased 17.3% in June. Finished product prices for producers decreased by 0.9% in July, after increasing by 1.8% the previous month.

Industrial production begins to recover. Industrial production in the US registered a slight improvement of 0.5% in July, as compared to the prior month. This is the first improvement since October 2008 and the second since December 2007, when industrial production reached a peak. Since then, production has lost 14.6%. July increase was due to an increase of 20% in car production with regard to June, although in year-to-year terms, it is still 32% lower. Concerning the other industries, manufacture gained 1%; technology, 0.4%; mining, 0.8%; machinery, -0.5%; and public services, -2.4%.

The Empire State Index increases. The Empire State Index went up to 12.1 point in August from -0,6 in July. This index is calculated by the Federal Reserve and measures companies' perception with regard to their businesses. An index of more than zero indicates that most companies believe their businesses improved the current month as compared to the previous one, and vice versa. It is worth noting that 12.1 points is the highest index since November 2007, well over the 3 points index expected by the market.

US real estate market. The confidence index of home builders, compiled by the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index,



grew 2% in July to 18%, for its highest level since June 2008, and its second monthly improvement in a row; however, new home construction works already started and permits for new constructions fell 1% and 1.8% in the same month as compared to the previous one.

Remittances will drop. Latin America and the Caribbean will receive around US\$62.0 billion in remittances this year, for a 11% drop from last year, as reported by the Inter-American Development Bank (IDB). The estimate prepared by the IDB's Multilateral Investment Fund (MIF) implies a drop in income flows similar to the one that occurred in 2006, as a consequence of the impact of the global economic crisis on industrialized countries that receive the largest number of immigrants from the region, such as the US, Spain and Japan. The MIF warned that the drop in remittances could affect more than four million people throughout the region and that about one third of them would be in Mexico, the country that receives the largest number of remittances in the continent.

Political Tips

The Organic Education Law enacted. The Organic Education Law was published in the Official Gazette Extra No. 5,929. It is worth highlighting that the bill was passed in the early morning, after the representatives of the opposition parties Podemos and Frente Popular Humanista left the National Assembly building. The Minister of Education, Héctor Navarro, warned that those who do not obey this law will be considered a criminal, referring to the calls made by the opposition leaders to disobey this Law. Opposition leaders pointed out that they will not comply this Law and will promote a repealing referendum, in addition to other protest actions. University students and the Catholic Church have also rejected the new Organic Education Law.

Chávez warns of additional changes in educational regime. President Chávez recently stated that he has prepared new actions that will change how education is conceived in the country. He stressed that he will soon donate the books that are required for the education of the poorest population sectors. However, he did not specify whether these books are oriented toward a single line of thought or contain wide contents and subjects per study areas. He also declared that 67 new schools and high schools will be ready and that 429 educational institutions will be fully equipped in



September. Finally, president Chávez pointed out that some laws that are still in effect are against the process the country is going through.

Review of Spanish properties in Venezuela begins. The Spanish Minister of Foreign Affairs and Cooperation informed that the governments of Spain and Venezuela will begin to jointly review more than one hundred cases of Spanish citizens whose properties in Venezuela have been expropriated or invaded and who have not received any compensation.

Protests for interruption of gas deliveries from Venezuela to Colombia. A group of people residing in Cúcuta recently blocked the Francisco de Paula Santander bridge for a few hours to protest for interruptions in the gas supply from Venezuela. The Secretary of Government in Cúcuta, Antonio Villamizar, stated that some of the protesters demanded that president Álvaro Uribe's government should pay them a subsidy to compensate for losses due to interruptions in Venezuelan gas supply.

PSUV started its process of socialist patrols formation. In order to organize the spiritual and political bases of party militants, the coordinator of the Socialist Education System of the Partido Socialista Unido de Venezuela (PSUV), Jorge Arreaza, started the education process of patrols in socialist ideas. The PSUV patrols, which are already established, will start its process of political education with the column *Las Líneas de Chávez*, written by president Chávez on August 16th.

TSJ ratified César Pérez Vivas as governor of Táchira state. In a ruling No. 129 issued on August 13th by the Electoral Chamber of the TSJ, the Tribunal denied to annul the results and repeat the election of Táchira's governor, which was held on November 23rd and won by César Pérez Vivas. The TSJ rejected charges of the candidate of the Partido Socialista Unido de Venezuela (PSUV), Leonardo Salcedo, who considers that he was a victim of a massive electoral fraud.

Other Tips

Paraguay withdraws petition of Venezuela's accession to MERCOSUR. The Paraguayan government withdrew the petition of Venezuela's accession as a full member to MERCOSUR from the Senate, in order to prevent it from being rejected at the Senate ordinary session. According to Telesur, the President of Paraguay,



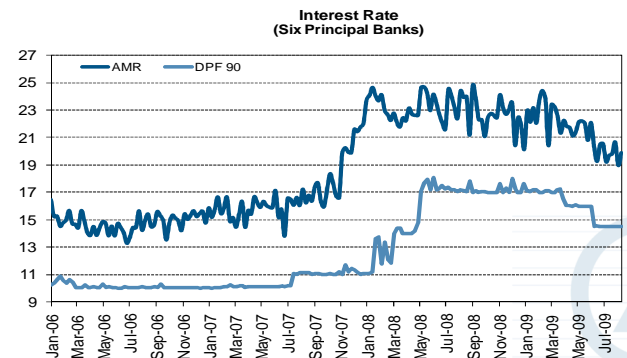
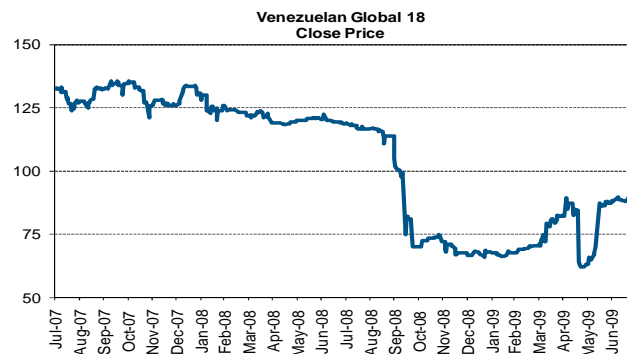
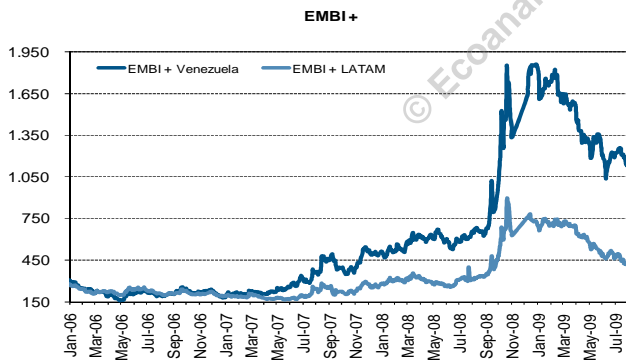
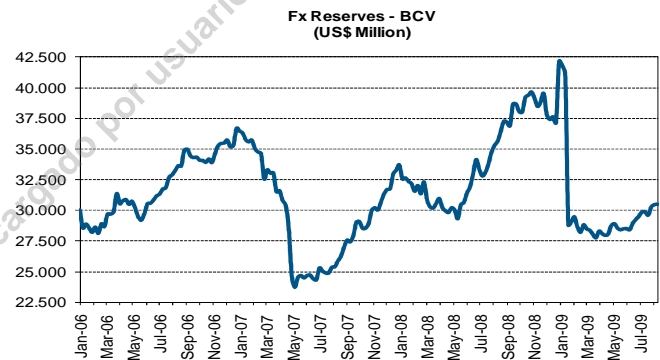
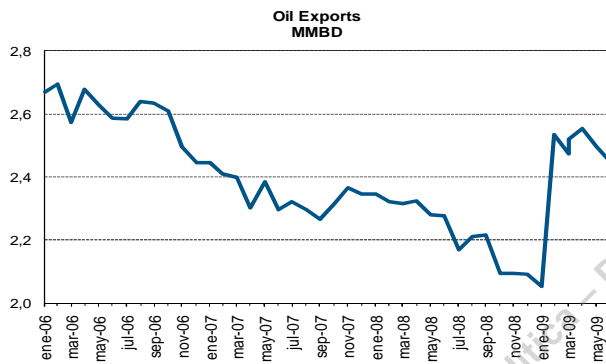
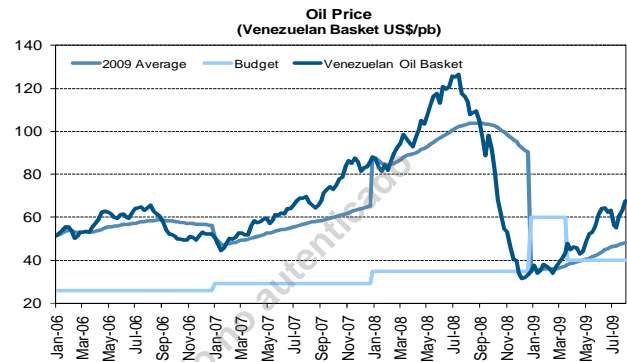
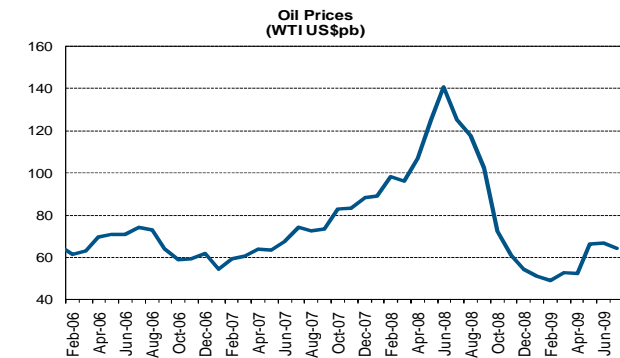
Fernando Lugo, requested the President of the Senate, Miguel Carrizosa, to withdraw the approval of the accession protocol of Venezuela to the multilateral trade bloc.

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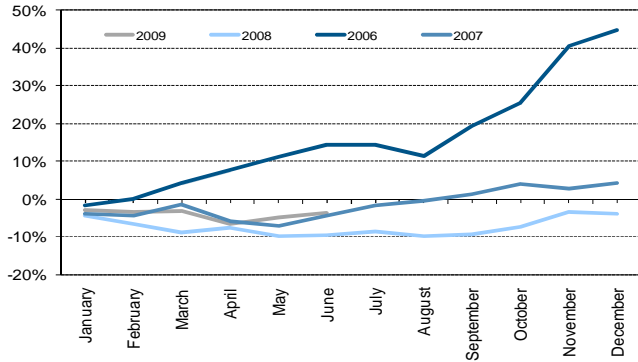


ECONOMIC OVERVIEW

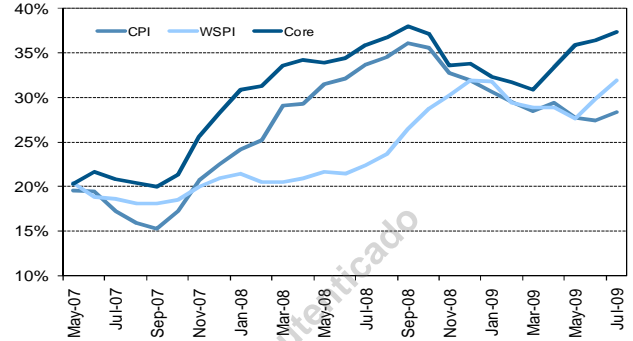




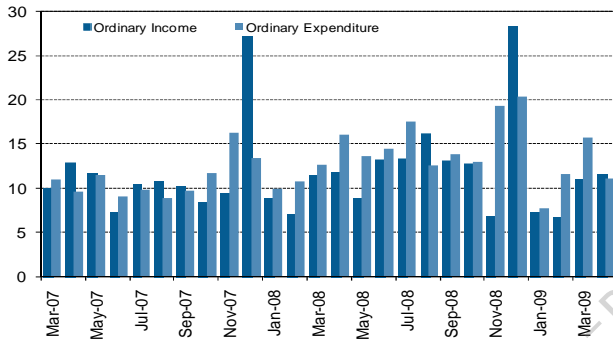
Real Expansion (M2)



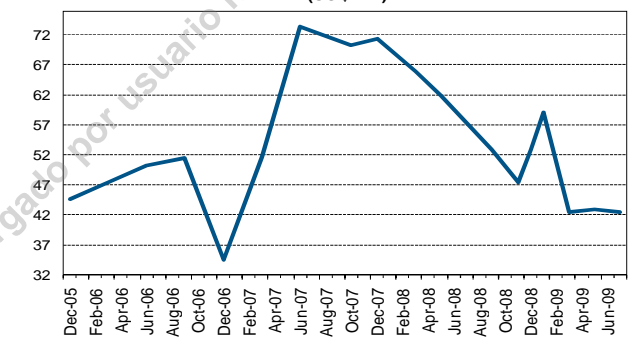
Inflation (Last 12 Months)



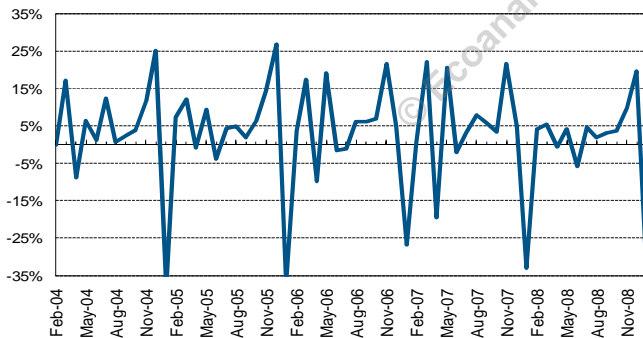
Central Government (VEB Billion)



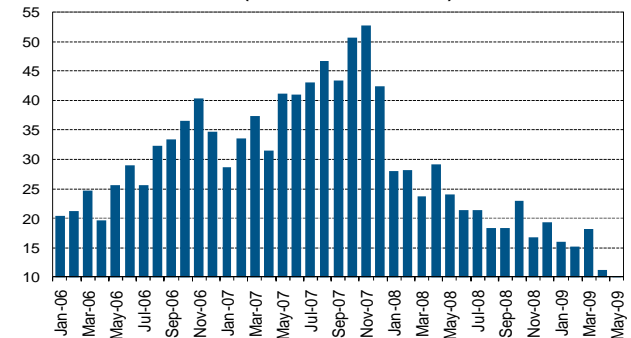
Resources of the State (US \$ MM)



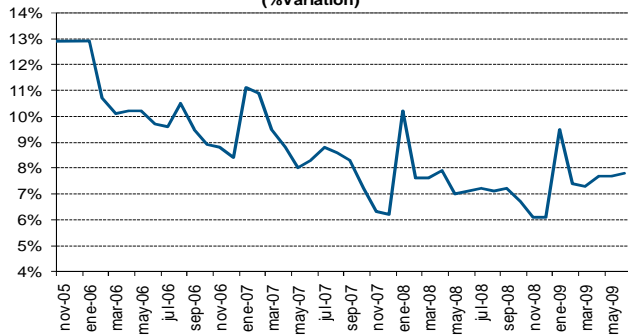
Volume of Sales (% Variation)



Sale of Vehicles (Thousands of Sold Units)



Rate of unemployment (%Variation)



Disbursement (US\$ Million)

