



Weekly Report

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***PUBLIC SPENDING AND GROWTH:
WILL IT BE ENOUGH?***

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Last week, the Central Bank of Venezuela (BCV) released the 2009 second quarter figures which showed economic growth dropping -2.4% compared to the same quarter last year. The Administration has pledged to stop this slide and is committed to increase public spending. The question is: will this be enough?

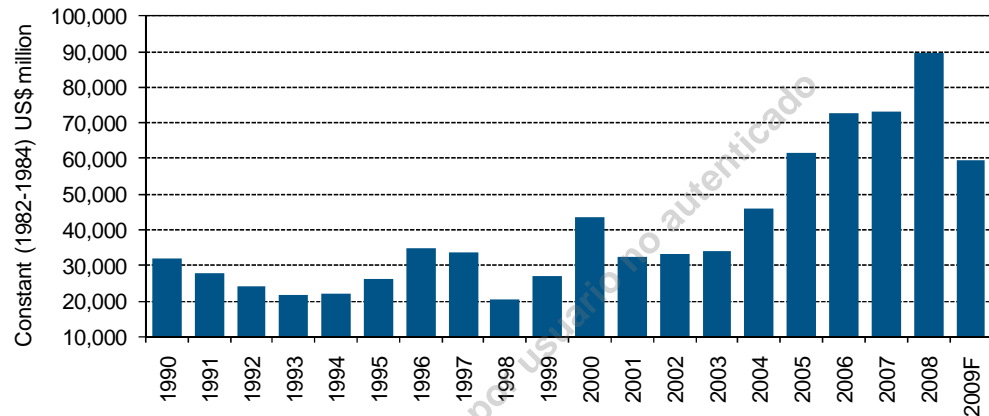
**Up until last year,
the party was still
on**

In 2008, the real price of the Venezuelan oil basket reached historic high levels averaging US\$86.5/barrel. With this price, and production levels greater than what they were in the 70s and 80s, Venezuelan oil revenues reached their highest levels ever in real terms, in other words, taking inflation into account. Last year, President Chávez took in more than US\$245 million a day in oil exports; in 1999, that figure was at US\$75 million a day.





Oil Income - Venezuela

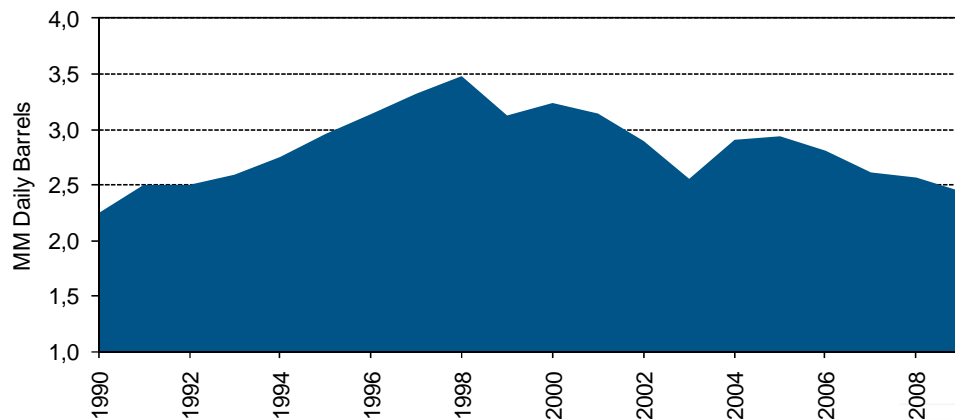


Sources: MENPET and Ecoanalítica

Current oil production is greater than what it was in 1974 and 1982

Besides this increase in price, Venezuelan oil production had continually been increasing since 1989 up to 1998 by more than 1.4 million barrels. Despite the fact that current oil production is at 900,000 barrels below maximum levels registered in 1998, we are producing 214,000 barrels more than what was produced between 1974-1982, and this led to oil revenues in 2008 being more than three times that the previous historic high levels reached in 1981.

Average Oil Exports - Venezuela



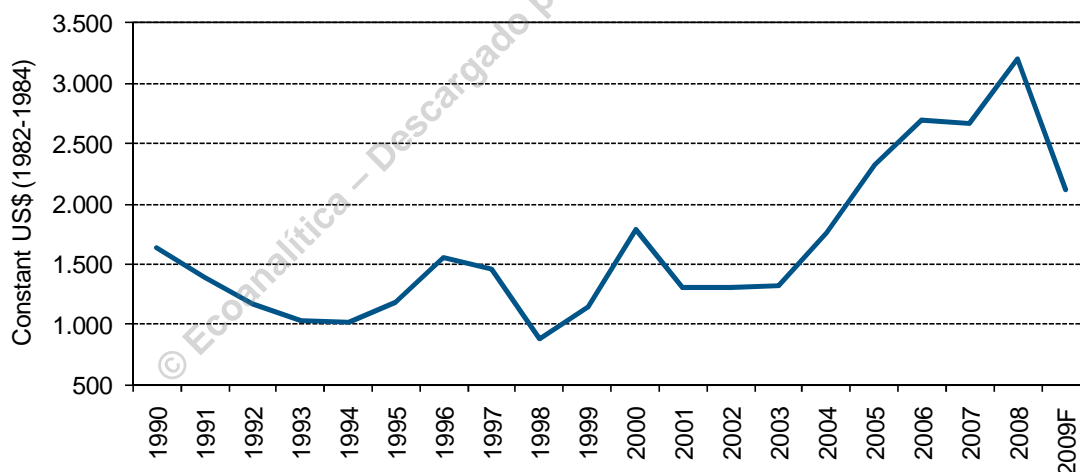
* Figures of 2009 correspond to first semester
Sources: Bloomberg and Ecoanalítica



Even taking into account population increases, we are close to maximum historic levels

If we wanted to analyze the Administration's capacity to solve the population's problems, we would have to calculate how much oil revenue there was per person in 2008 and compare these figures with the current situation. Oil revenues per person in 2008 were at US\$3,204 per person, a new high, topping the previous high of US\$1,774 per person registered in 1974. In other words, the Government received US\$44.5 per day per family, which equals US\$1,335 a month, at the current official exchange rate (VEF2.15/US\$) this would equal VEF 2,870 a month for each Venezuelan family. So, the Administration, at the official exchange rate, took in oil revenues in 2008 which equaled 3 minimum wages for every Venezuelan family a month.

Oil Income per capita - Venezuela



Sources: BCV, MENPET, INE and Ecoanalítica

Fiscal policies these last few years

Since President Chávez took office in 1998, fiscal policies have followed two very clearly defined paths. In the beginning, the new Government practiced very responsible fiscal policies, and in that framework, even created savings mechanisms for crisis situations. Ten years later, surging oil prices defined fiscal policies which have since been defined by increased public spending and expanding the size of the State.





**1999-2002:
Storekeeper's
Policy**

The first stage of the fiscal policy goes from 1999 to 2002. It's characterized by the cutback in the number of ministries, the reform of the financial administrative system in order to establish spending and borrowing ceilings, and changes in the tax regime that implied a decrease in the VAT rate to 14.5% and the implementation of the Bank Debit Tax. One could say that the Government followed "Fourth Republic"-style criteria during this stage, because its performance was orthodox.

The measures taken were partly the result of the oil price behavior. Between 1999 and 2001, oil prices ranged between US\$19/bbl. and US\$23/bbl., and over the same period the Government insisted on defending oil prices, which entailed cutting back on production. During that stage, public spending expanded or contracted according to revenues. Therefore, the rule during this period was maintaining a storekeeper's policy, as *Ecoanalítica* has called it: the amount you spend depends on what enters the State's coffers.

This adjustment was orthodox, following rules almost identical to those of the IMF that Chávez so much hates. Therefore one could ask now whether President Chávez would follow the same orthodox path in a similar scenario.

**Second stage:
Fiscal voracity**

When by the end of 2003 oil prices started to rise, the National Executive started a new stage in the fiscal policy mainly characterized by the expansion of public spending and the use of out-of-budget funds.

Furthermore, multiple elections have taken place during this stage and, as a consequence, public spending became the driving force which guaranteed support for the Government. The oil price increase from US\$ 35/barrel in 2004 to more than US\$85/barrel allowing Restricted Public Spending (RPS)¹ to increase from 31.9% of GDP in 2004 to 34.0% in 2008. But extraordinary spending went from 2.7% of GDP in 2004 to 11.0% in 2008.

A portion of the spending was applied to social programs or "missions" that appeared before the 2004 recall referendum, remuneration payments and transfers to entities. The State has used those additional funds to

¹ The Restricted Public Sector includes besides the Central Government, PDVSA, Social Security and nonfinancial public enterprises





participate in the production model. This has been reflected in the RPS figures.

How has public spending impacted growth?

At **Ecoanalítica**, we have updated our indicators that measure the fiscal expansion Chávez' Administration has carried out since 1999. We've called this updated indicator "real expansion for spending" (RES). The RES shows the RPS as a whole, just like an "account" with deposits and withdrawals without taking into account the process and the relationship between the different public entities which make up the public sector.

So, the RES is made up by the expansion of the public spending of the RPS measured as the inter-annual differential of the financial deficit (in US-dollars) plus the inter-annual differential of global revenue (oil and non-oil) also in US-dollars.

With regard to oil revenues, since PDVSA figures are released in net form, we've chosen the inter-annual differential for oil exports as the best proxy.

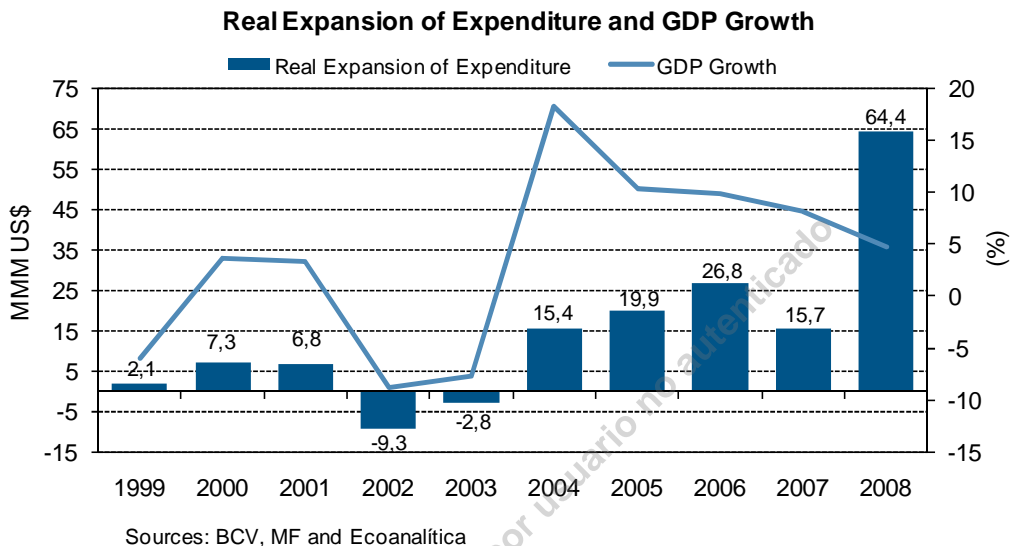
Using the RES indicator, we see that the Chávez Administration cutback on public spending only for two years, 2002 and 2003, two years which were also the most politically and economically problematic.

Restricted Public Sector (MM US\$)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Differential - Non-Oil Income	2.496	801	1.799	(4.656)	(1.819)	7.174	7.427	8.500	1.785	14.717
Differential - Oil Income	4.557	11.139	(6.129)	(213)	497	10.842	15.198	10.369	4.117	24.888
Differential - Total Expenditure	(4.929)	(4.612)	11.178	(4.429)	(1.515)	(2.575)	(2.745)	7.955	9.826	24.826
Real Expenditure Growth	2.124	7.328	6.848	(9.298)	(2.836)	15.441	19.879	26.824	15.728	64.431

Sources: Ministry of Finance and Ecoanalítica

The numbers for 2008 clearly show the magnitude of the boom Venezuelans experienced. Last year's RES was at US\$ 64.43 billion, in other words, 4 times what it was in 2007, and more than 30 times what it was during Chávez' first year in office. It was even 2.4 times greater than in 2006, when Chávez was reelected. But note that the impact this expansion had on the growth rate was less; last year the economy grew by 5% while in 2006 it grew by almost 10%.





In net terms we see that fiscal expansion from 1999 to 2008 is US\$ 146.47 billion. If we see this in terms of estimated GDP for 2008 it equals 46.7 points of GDP. Unfortunately, we don't have the RPS figures for the previous years, but we believe that this fiscal expansion has no precedent in recent economic history.

Analyzing the figures, we distinguish three periods:

1. For the period 1999-2001, it reflects moderate expansion of US\$ 16.30 billion, which as an annual average would be US\$ 5.43 billion.
2. For the period 2002-2003, it reflects cutbacks in fiscal spending for US\$ 12.13 billion. This is the only period of Chávez' Administration with fiscal cutbacks.
3. For the period 2004-2008, it reflects fiscal expansion for US\$ 142.30 billion which equals a yearly average of US\$ 28.46 billion. In other words, the fiscal expansion for these five years is almost equal to the rest of the periods and has a yearly average that is five times greater than the 1999-2001 period.

Based on these figures, and with ever increasing fiscal expansion over time it is clear that this situation is not sustainable. This is also supported by the fact that fiscal expansion from oil revenues during the 1999-2008 period



represents 51.4% of total net expansion. In other words, the significant increase in fiscal spending is related to the high oil prices.

How has public spending impacted growth?

Recent RES figures and economic growth figures are in line with Reinier Schliesser, professor of the Universidad Metropolitana's, findings released in an interview published in the newspaper *El Universal* recently which states that the economy began to slowdown during the first semester 2008, when the price for a barrel of oil was topping US\$ 100, which indicates that there is a bit more involved than just oil price dynamics. The economic slowdown had begun before the international crisis hit.

Schliesser points out that between 2004 and 2007, rising oil prices spurred on public spending, purchase orders began coming in and machinery which previously had been dormant began to operate again. You only needed to use the resources that were already there, and in this sense, increased public spending is very effective. This is the easiest stage of economic growth. But, in order to sustain growth, you require investment and improved technology. So, the end result is that even with a significant increase in oil prices, the space to grow is reduced.

Schliesser says, "the economy is like a car that's real close to a wall. We can speed the car up with public spending, but we aren't going to move very far, because we're going to come up against the wall, which we can only knock down with more investment and technology."

With the private sector or bust

The Administration is taking a very myopic point of view if it pretends to run the economy without including the private sector, which is the country's main investor and employer. At **Ecoanalítica**, we are convinced that in order to get economic growth levels back up to acceptable levels and especially up to our potential level, it is important to include the private sector in any stimulus plan. If the Administration continues with its exclusionist policies, economic growth will be very limited, even in a scenario that has oil prices bouncing back with increased public spending.





Economic Tips

On the measures. Now that the BCV's figures have been released, the government announcements concerning exchange issues are imminent. We have received unofficial information from the BCV that measures will be centered on increasing debt issues indexed in foreign currency in order to close the exchange market gap. It has been dismissed, for now, that the BCV may auction dollars for the private sector.

The creation of new laws that may provide for new taxes has been dismissed. The Chairwoman of the Tax Subcommittee of the National Assembly Finance Committee, Hiroshima Bravo, stated that there are no plans to create new taxes, but that the Committee is considering other measures that may boost the production system. In this regard, Bravo pointed out that these measures include streamlining the foreign exchange quota allocation process to production sectors, among others, through CADIVI and protect local industry.

Supplementary appropriations for VEF 17.2 billion authorized by the National Assembly. In a period of almost eight months, the National Assembly (AN) has authorized public spending increases through supplementary appropriations amounting to VEF 17.2 billion, which have been financed by the Miranda Fund and extraordinary revenues of the National Treasury Office, among others.

Results of the GDP components at the end of the second half of the year. According to the figures released by the BCV, GDP contracted 2.4% in the second quarter of 2009 as compared to the same period one year before, whereas imports dropped 7.7%, thereby leading to an aggregate supply contraction of 4.0%. Aggregate supply fell due to a drop of 8.8% in exports and a decrease in household consumption (-2.7%) and investment (-2.4%). Public spending was the domestic aggregate demand component that grew the most (2.9%).

Government plans to boost production system by increasing investment. The Minister of Economy, Alí Rodríguez Araque, announced that the Government will increase investment in the construction sector and design projects to boost economic activity. The Minister added that the Administration disaggregated manufacturing sector components to design plans per sector and subsector, with a view to overcoming problems that have been occurring in manufacture, trade and transportation sectors.



Caracas Stock Exchange is able to trade bonds denominated in foreign exchange. The President of Caracas Stock Exchange (BVC), Víctor Julio Flores Rojas, stated that the BVC is able to handle auctions with bonds denominated in foreign exchange. Flores added that the Stock Exchange has already designed mechanisms along with the Executive to auction Treasury bills using the Trading System (SIBE), the BCV's Securities Custody System (SICET) and the Registration and Custody System of the Venezuelan Exchange and Securities Commission (SITRAD). Víctor Flores points out that this mechanism can be adjusted so as to auction any instrument, specifically bonds denominated in foreign exchange to be traded in bolivars.

Minister of Economy and Finance estimates 26% inflation... Minister Alí Rodríguez Araque stated that, due to price deceleration, inflation will close the year at 26% or lower. It's worth noting that 2009 Budget law estimates a 15% inflation rate for 2009. Almost two months ago, Rodríguez Araque, during a visit to New York, had estimated inflation around 28%. The Minister pointed out that one of the inflation determining factors is the differential between the official exchange rate and the swap rate, and that there are a number of ways to shorten this spread, although he did not mention any one of them.

Gasoline increase? Rodríguez Araque stated that gasoline price could be increased in the mid-term. Since 1996, one liter of gasoline in Venezuela costs US\$0.045, a negligible price as compared to the rest of the world.

PDVSA sold 41.6% foreign exchange to the BCV. According to the BCV's figures, PDVSA sold US\$5.086 billion to the Bank in 2009 second quarter, equivalent to 44.2% of foreign exchange received from oil exports. In this regard, PDVSA sold US\$9.38 billion to the BCV in 2009 first quarter, i.e. 41.2% of foreign exchange derived from oil exports.

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 0.5%, going from US\$31.32 billion at the close of the second week of August to US\$31.46 billion in the third week. Compared to the same period last year, the reserves have dropped by 17.4%.



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

Suspended gasoline supply agreement with Colombia. The agreement according to which Venezuela supplies around 20 million liters of gasoline to Colombia reached one year on Tuesday, August 18th, and according to the Minister of Energy and Petroleum, Rafael Ramírez, “*there is no reason whatsoever to renew it,*” adding that only international gas stations under the brand SAFEC, located in Táchira State border area with Colombia, are going to supply gasoline. The Minister announced a plan to “control Venezuelan fuel smuggling toward Colombia.”

SAFEC gas stations will sell 20 liters per vehicle. With this new measure to avoid fuel smuggling on the border, the quota of gas and diesel sold per vehicle is cut from 40 to 20 liters. Selling fuel to motorcycles was forbidden at these stations that can supply vehicles with Colombian license plates. Military troops and officials of the Ministry of Energy and Petroleum (MENPET) are overseeing the opening and closing of local gas stations and controlling the supply of tank trucks from the filling plant.

PDVSA increases its payroll and values assets. According to Energy Minister/President of PDVSA, Rafael Ramírez, thanks to worker censuses, PDVSA absorbed 8,500 workers from companies that were nationalized in May. With this decision, PDVSA’s payroll has now 90,000 workers. Once this process is completed, PDVSA plans to start the asset valuation process. Labor debts are going to be discounted from the final valuation amount. Ramírez announced that oil and non-oil projects are to be developed on the East Coast of Lake Maracaibo, where most of the expropriated companies are located.

More oil workers’ protests. Part-time workers of the companies expropriated on the East Coast blocked the gates to 17 docks on August 17th, to protest for the delay in the censuses PDVSA is carrying out to exclude distortions in the payroll inclusion process. According to union leaders in the area, 2,780 part-time workers were left out from



PDVSA's payroll. They also explained that the protest has not affected the state-owned oil company's operations, because they are deviating lake units toward other docks in the area.

BCV: Oil income drops by 50.8%. According to the Central Bank of Venezuela, oil exports totaled US\$13.756 billion in 2009 second quarter, for a drop of 50.8% in comparison to the same period in 2008. This behavior it's due to the impact of the drop in the prices of the Venezuelan oil basket, which averaged US\$53.88/bbl. In 2009 second quarter, reflecting a drop of about 53%. It is worth noting the problems concerning PDVSA's production and export figures, which are inconsistent with OPEC's, IEA's and some international consultation firms' figures.

FUTPV election: September 16th. The electoral roll for the election of the oil workers' union federation (FUTPV) has been reviewed after one of the labor unions, Vanguardia Obrera Socialista (VOS), challenged the roll and requested that 3,277 workers were excluded from it. The union also requested to review the situation of 41 of the candidates that are running for the presidency of the union federation. These 41 candidates had to submit (deadline: last Friday) evidence that they have been working in the oil industry, after which the process would be wrapped up with the swearing of the electoral commissions and the preparation of the election material.

PEQUIVEN supplies to agricultural producers. The Corporation informed through a press release that they will supply 500,000 tons of fertilizers to agricultural producers throughout the country to complete 2009 winter sowing cycle and start the 2009-2010 north-summer cycle that starts in October. The activation of the Socialist Fertilizers Distribution Network was also announced, so that *"products directly reach farmers without going through intermediaries that may be present in the end-user distribution system."* The network will have 100 tank trucks contributed by PEQUIVEN to transport fertilizers directly from the Morón Complex to the collection centers in each state of the country.

PetroMonagas reactivated. PDVSA launched a number of production actions such as the development of 100,000 b/d by PetroMonagas (former Cerro Negro) that had been closed to fulfill production quotas set by OPEC. Production cuts made by PDVSA to meet OPEC's quotas corresponded essentially to the companies on the Orinoco oil belt, which had private stockholders; however, former Petrozuata, which is 100% State owned, was left intact. PetroMonagas was processing at half speed because its units cannot be shut down; therefore, they decided to process lent crude oil, such as Morichal 12° API and the production from Sinovensa's field that does not have upgrader.



Shutdown postponed. A planned shutdown (September 15th) of Petropiar (former Ameriven) for major maintenance has been postponed for November (no specific date), though it was already a year past-due. Petropiar will continue to produce 145,000 b/d of syncrude for export. The production of 100,000 b/d of PetroMonagas was restarted and this, along with the postponement of Petropiar's maintenance shutdown, could be related to cash flow issues at PDVSA due to the lower oil prices that are now close to US\$50/bbl., compared to US\$83/bbl. last year.

What about Petrocedeño? Petrocedeño has cut production of Zuata and Sweet syncrudes, which are the best and most expensive crude oils from the Orinoco oil belt, due to the damage provoked by the fire that occurred at the plant two weeks ago, which are at the repair final stage.

Problems in Amuay. The Amuay's cracking unit, which produces 100,000 b/d of gasoline and had been stopped, was restarted last Saturday and is producing crude with a load of 80,000 b/d.

New rules on the oil futures market. The US Commodity Futures Trading Commission (CFTC) has reached an agreement with the Financial Service Authority from London to unify regulation measures for oil futures. The agreement will include information sharing between both agencies; improvement in access to information on all transactions in order to investigate suspect traders that may disturb the market; and a new framework among regulating entities to take emergency measures.

Oil price goes up again to US\$70/bbl. According to Bloomberg, oil prices dropped at the end of August third week. WTI closed at US\$73.89/bbl. rising US\$4.29, for an increase of 6.2% from the US\$69.60/bbl. level of the prior week. Brent gained US\$2.75 to close the week at US\$74.19/bbl., up 3.8% from the US\$71.44/bbl. previous level. Earlier this week, baskets experienced a slight increasing trend, with the WTI registering US\$74.43/bbl., and Brent US\$74.26/bbl.

Domestic oil basket with a slight drop. The price of the Venezuelan oil basket slightly fell (US\$0.05) in the third week of August, closing at US\$67.18/bbl., compared to US\$67.23/bbl. a week before. In spite of the price drop, the average for-the-year-to-date reaches US\$50.32/bbl., 20.5% above the budget price.

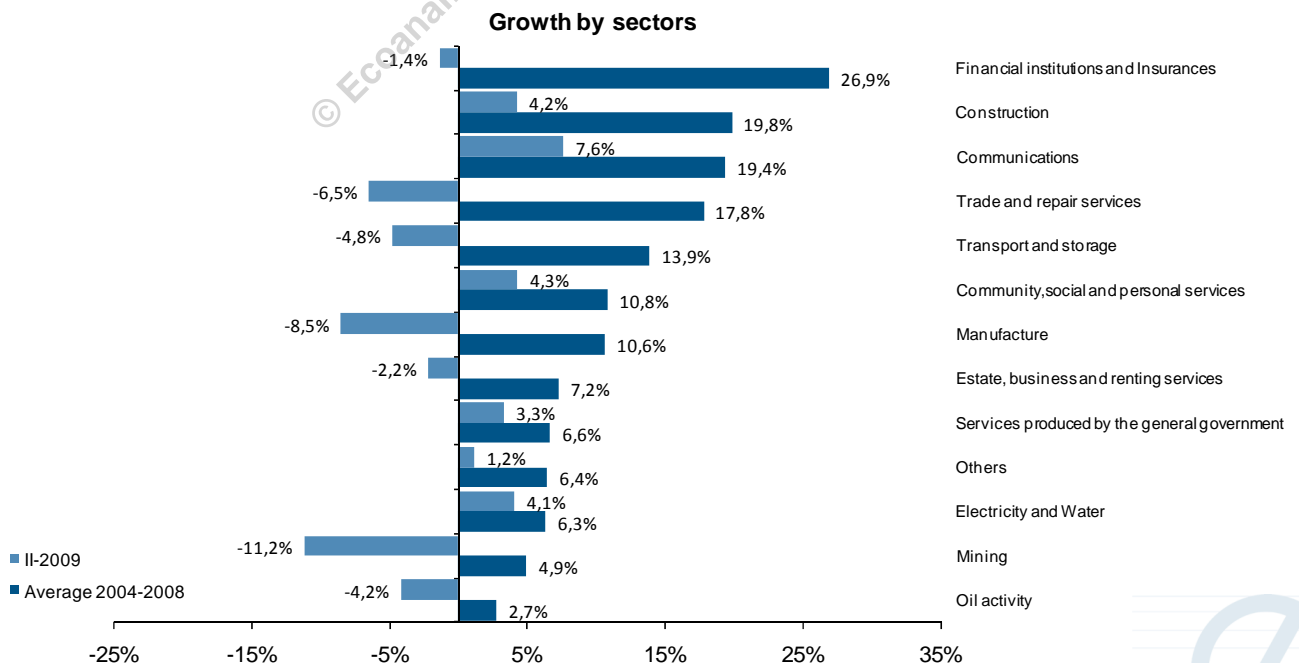




Business Sector Tips

Sector-based results of the Venezuelan economy for 2009 second quarter. The Central Bank of Venezuela published its GDP numbers on Thursday, August 20th, according to which GDP shrunk 2.4%. When growth figures are broken down per sector, the results are much worse.

The most affected sectors. The previous chart shows that some sectors of the economy that had had a more dynamic behavior during the 2004-2008, such as financial institutions and insurance firms, with an average growth of 26.8%, recorded a negative growth rate during 2009 second quarter. The worst contraction was experienced by the mining sector which productivity has been falling over recent years due to the lack of investment and labor conflicts. The global crisis also impacted this sector through a lower foreign demand. Manufacture contracted 8.5% for the fourth quarter in a row, due not only to the crisis, which reflects itself through a drop in foreign demand, and a lower availability of foreign exchange to import inputs at the official exchange rate, but also due to the loss of competitiveness resulting from the higher unofficial exchange rate.



Sources: BCV and Ecoanalítica



Construction. The 4% increase registered in 2009 second half is the result of the boost of public sector construction thanks to the extraordinary funds obtained through FONDEN and the Chinese-Venezuelan Fund; on the contrary, private construction was negatively affected.

New leaders. Caracas is the most expensive city in Latin America and number 12 (of 73) around the world, according to the study "Prices and Wages" carried out by the UBS Bank. The report points out that one of the indicators explaining Venezuela's position is the high inflation rate which was at 30% last year. The study states that "*a trend that is worth mentioning is the fast price increase in Venezuela. Since the survey carried out in 2006, the Venezuelan capital city has gone 37 positions up in the food price ranking, to the 4th place.*" The study explains that basic food basket in Caracas, on which the measurement is based, is twice higher than in other South American countries.

Mitsubishi Motor car assembly plant closes operations in Venezuela. Mitsubishi Motors Automotriz stopped Mitsubishi, Hyundai and Fuso production indefinitely on August 24th, due to the labor conflicts the plant has been experiencing since last year. The company argues that they do not have the security required to continue its operations, as a result of the violence and aggressiveness by its workers and the low production levels due to workers' absenteeism.

Banco de Venezuela will promote tourism. Banco de Venezuela will promote tourism more actively. Its president Eugenio Vásquez pointed out that they are analyzing projects from the Minister of Tourism which would be included in the bank's loan portfolio. According to Vásquez, the bank has already agreed with the Ministry installing point of sales in the Waraira Repano cable railcar and sponsoring the 2009 International Tourism Fair. The bank is also talking with the Ministry of Higher Education to open the first School of Banking Studies.

CADIVI could increase foreign exchange quota for travelers. Minister Barroso pointed out that "*we are aiming at a much fairer allocation system, which allows citizens to obtain a foreign exchange amount higher than the one that is currently authorized.*" The proposal is that, once the new system of foreign exchange allocation for travelers is in place, which will determine the amount to be authorized based on the destination and on how long the trip will last, the quota for trips with a long duration could be higher than the current limit of US\$2,500. Barroso also informed that CADIVI is considering allocating foreign exchange to people under 18 years old.





Banks that restrict the use of their credit cards abroad are to be punished. The Minister of Commerce, Eduardo Samán, informed that they will investigate private banks to fine those that are restricting the use of their credit cards abroad, when travelers' quota has been already approved by CADIVI.

Public banks are highly delinquent (23%). According to SUDEBAN, commercial banks with State capital registered a delinquency rate of 23.09% in July, which is much higher than the one corresponding to the same month in 2008 (14.42%). Public sector universal banks showed an improvement in delinquency rate, from 8.82% to 3.78%. Average delinquency rate of the rest of the financial system is only 2.58%, although this rate also increased from 1.73% in July 2008.

Banco Confederado's new president. The special Stockholders' Meeting of Banco Confederado appointed Fernando De Candia as the bank's new President. De Candia was president of the National Securities Commission between 2005 and 2009. The new president promises to improve service quality and increase the network of the bank's offices (currently 51).

Hotel occupancy drops in the first half of the year. According to data published by Fenahoven, hotel average occupancy rate fell from 75.12% in the first half of 2008 to 58.35% in the same period in 2009.

The Government returns the largest pasta production plant to Cargill. The government took over Cargill's pasta production plant three months ago, on the grounds that the company didn't fulfill the required production volume of price-controlled products. Three months later, the Government decided not to nationalize the plant. The plant's workers welcomed the decision, because, according to the National Federation of Flour Industry Workers, Cargill's workers have a "very good collective contract...the best in Vargas State."

World Crisis Tips

Very cautious at Jackson Hole. The economic conference held every year by the Kansas City Federal Reserve Bank, this year in Jackson Hole, Wyoming, gathering a number of monetary authorities and experts in the field, has been very cautious with its predictions and expectations. Though there are clear signs of the economy recovering,



the situation is not yet stable, and Central banks are not yet ready to begin implementing expansive monetary policies.

Bernanke repeats. President Obama will appoint Ben Bernanke to a second term of four years at the head of the Federal Reserve Bank when his current term expires on January 31. Obama said that "*due to his background, his temperament, his courage, and his creativity,*" he has helped to avoid another Great Depression. The nomination has to be ratified by the Senate, which will be anything but easy due to the role the FED played in managing the financial crisis and the very critical opinion many legislators have with respect to this. But in the end, it is expected that he will be approved. He has already received the formal approval of the president of the Senate banking committee, Christopher Dodd.

U.S. consumer confidence is up. The Conference Board consumer confidence indicator for the month of August is up considerably compared to the month of July settling at 54.1 points (1985=100) up from 47.4 in July. The Present Situation Index increased from 23.3 in July to 24.9 in August and the Expectations Index reached 73.5 points up from 63.4 points in July, the highest it's been since December 2007 (75.8): most of the 5,000 homes surveyed improved their short term expectations for the economy, the labor market, and especially concerning future income.

Changes in estimates. The Government of the United States is lowering its estimate of the 2009 deficit, but it is increasing its estimate regarding the next 10 years. The Government now estimates that the 2009 fiscal deficit will be at US\$1.60 trillion, US\$80.0 billion less than what was expected in March, due to the TARP program being over estimated. But the deficit that is expected to accumulate over the 2010-2019 period was increased from US\$2.70 trillion to S\$7.14 trillion, due to lower medium term economic recovery expectations. The White House estimates that the deficit will close the year out at US\$1.58 trillion, US\$262.0 billion less than what it previously had estimated, and that the deficit accumulated over ten years will reach US\$9.0 trillion (US\$2.0 trillion more than expected).

Also the debt. Total public debt will top 66% of the GDP in 2010 and it will increase to 68% by 2019. According to White House estimates, 2010 total public debt will reach 66.3% of GDP and will continue at similar levels until it reaches 68% in 2019, more than double what it was in 2001 when it was at 33% of GDP, but a little more than half of what it was in the 40s after World War II.

Caterpillar sales drop 48%. During the second quarter 2009, construction and mining machinery sales dropped by 48% compared to the same period in 2008. Caterpillar is



one of the 30 companies that are part of the Index that make up the Dow Jones, with a share of 3.7%.

The Purchasing Managers Index, (PMI) improves in the Eurozone. The PMI increased by 50 points in August from 46.3 points in July. This Index managed by Markit is made up from information from a survey taken by 3,000 companies in 16 countries in the Eurozone. A value of 50 points or more indicates that an industry is growing, less than 50 indicates that an industry's production is dropping.

Stabilizing. August figures for European industrial production has finally stabilized after 15 consecutive months of losing ground (PMI<50). Most European industries are posting much better results and many countries are coming out of the recession.

Russia coming out of recession. According to statements made by vice-Minister of Economy of Russia, Andrei Klepach, "the recession is over but the crisis has yet to be overcome," this in reference to July seasonally adjusted economic growth rate of 0.5%, while during the first quarter the GDP dropped by 10.2%.

Mexican economy shrank by 10.3% during the second quarter. Mexico had its biggest drop in history (10.3%) since it began recording GDP figures in 1981. The drop is mainly due to the world crisis but made much worse by AH1N1 flu outbreak which severely impacted tourism and local business.

And also Chile. The Chilean economy shrank by 3.4% during the first semester of the year after posting a drop of 4.5% during the second quarter, informed the Central Bank. During the first quarter, the GDP dropped by 2.3%. Second quarter figures are slightly worse than expected with the market having predicted a drop of 4.4% due to the international crisis.

Israel: The first Central Bank to increase its rates. The Central Bank of Israel increased its base rate by 25 points yesterday up to 0.75%, a decision that according to the Central Bank, led by the prestigious economist and former adjunct director of the IMF, Stanley Fisher, "suppose a balance between the need to moderate inflation and the need to continue to support to the recovering economy" and "it continues to represent an expansive monetary policy." This is the first rate to be increased since the signs that the economies around the world were beginning to recover appeared.

More evidence that Asia is leading the recovery. GDP increased by 2.3% compared to the previous year in Thailand, after two months of dropping severely. Export order indexes showed improvement (+2.4%) and industrial production



improving to -8.1% compared to -11.3% the previous month and -43.3% in January in Taiwan.

The BID expects unemployment in Latin America to average 9.5%. According to the Inter-American Development Bank, by the end of the year, unemployment in Latin America could reach 9.5%. In 2008 it was at 7.4%.

CEPAL projects a 13% drop in trade in Latin America and the Caribbean. According to the latest report from the CEPAL, the volume of exports in the region will drop by 11%, the worst drop in 72 years (since 1937), while imports will drop by 14%, the worst drop in 27 years (since 1982).

Data from Cepal report. During the first semester 2009, mining products and oil exports in the region dropped by 50.7%, while manufactured and agriculture products dropped by 23.9% and 17%, respectively. Export destinations most affected were the United States (-35.3%) and Europe (-36.3%). Inter-regional exports dropped by 33%.

Krugman prediction. 2008 Nobel Prize winner in Economy, Paul Krugman, predicted that Latin America would overcome the crisis “faster than the advanced countries,” following the recovery of the Asian countries. The economist, who participated in a leadership conference in Bogotá, spoke about the world current economic condition and considered that Latin America was “better prepared” to face the current crisis than in had been in previous crises.

Political Tips

The strike of Ferrominera del Orinoco' workers has ended. The president of the state-owned Ferrominera del Orinoco, Radwan Sabbagh, claimed that the strike staged by a number of workers demanding the payment of past labor debts has come to an end. However, the General Secretary of the Ferrominera Workers' Union, Rubén González, assured that the strike had not ended.

Is this the road to Socialism? Workers at Cemex reported that the governmental transition committee at the company has violated the Labor Organic Law, since they allow workers to be verbally mistreated and to work hours in excess. The Human Resources Manager, Rafael Paz, pointed out that production means will not be



transferred to the labor mass because “putting this company in the hands of the workers is like letting a monkey drive a car.”

Labor conflicts escalated in July. According to the report on labor conflicts prepared by the Labor Law Department at the Universidad Católica Andrés Bello (UCAB), 96.4% of demonstrations to demand for labor benefits staged in July happened in public sector entities and state-owned companies like PDVSA and SIDOR. The Labor Law Department counted 70 demonstrations in July, for a 9.3% increase from June; however, March was the month with the largest number of conflicts. Despite this decrease, they believe that actions undertaken by workers are escalating due to the lack of answers from government authorities.

Photo reporters reject violence against journalists. A group of photo reporters marched to the National Pantheon to protest against aggressions suffered by a group of journalists when they were demonstrating against the Education Law in Caracas downtown. Fernando Sánchez, president of the Circle of Photo Reporters of Venezuela, expressed that this association considers that this actions against journalists are “*coward and cruel.*”

Chávez congratulated National Guard Officer on having repressed the demonstration against the Education Law. President Chávez, in his TV show *Aló Presidente*, congratulated Colonel Benavides, the Commander of the Regional Command No. 5, Alirio Ramírez, and the Commander of the National Guard, Freddys Carrión, on their behavior during the opposition demonstration against the Education Law. According to Chávez’ opinion, the police, the National Guard and the Army had been used by rich people against the people, but now they are at the service of the people.

Mechanism to reform Organic Education Law requested at the CNE. A number of opposition leaders, including Henrique Capriles Radonski, governor of Miranda, went to the National Electoral Council (CNE) to request a mechanism that allows the Organic Education Law (LOE) to be reformed through people’s initiative. Article 205 of the Constitution provides for that 10% of voters registered in the electoral roll can request a law to be reformed. Ismael García (Podemos party) explained that the proposals to be submitted to the National Assembly will be those emerging from public assemblies that will be held throughout the country and that the goal is to obtain 180,000 signatures to request the reform.

Germán Yépez believes it is inadmissible... National Electoral Council (CNE) Director, Germán Yépez, explained that, in his opinion, a repeal referendum against



the Organic Education Law (LOE) would be inadmissible, because according to the Constitution, laws that guarantee human rights, such as the case of the LOE, cannot be repealed, and both the Constitution and the LOE define education as a human right.

The Republic of Seychelles will open a consulate office in Venezuela. According to the Official Gazette No. 39,247 dated August 21st, the Ministry of Foreign Affairs authorized the opening of an honorary consulate office of the Republic of Seychelles in Caracas, with consular authority throughout the national territory.

Process filed against RCTV and Globovisión for violation LOPNA. The Council for the Protection of Children and Adolescents of the Libertador Municipality notified Globovisión and RCTV Internacional that an administrative proceeding has been initiated for allegedly having violated the Organic Law for the Protection of Children and Adolescents (LOPNA), on the grounds that these TV stations would have impaired the honor and dignity of the young girl that appeared with President Chávez in an event broadcast through national TV on the occasion of the enactment of the Education Law. LOPNA prohibits the participation of children in proselytism events. However, the girl expressed political opinions during the show.

Explaining the issue of the military bases at the UNASUR summit is viable? Former Ambassador Jeffery Davidow pointed out that explaining the use of Colombian military bases by the US is not viable at the UNASUR Summit. In this regard, Davidow explained that this is a matter between these two countries; therefore, the United States doesn't have anything to explain to other administrations.

Already free. Gabriel Uzcátegui Beaumont, the only person detained for the attack against the Cadena Capriles journalists during a demonstration against the Education Law, was released after the Caracas Control Court No. 16 decided to grant him probation. The Attorney General, Luisa Ortega Díaz, reiterated that her office is willing to investigate who is responsible for the aggression against the Cadena Capriles journalists; therefore, she didn't dismiss that new detentions can take place soon.

Will his message be heard in Colombia? President Hugo Chávez urged the Communication Minister, Blanca Eckhaut, and the PSUV party to prepare a political plan that allows his message of union to reach the Colombian people, because he has the right to talk to Colombians, adding that the Colombian bourgeoisie doesn't want Chávez' message to reach the Colombian people. Luis Alfonso Hoyos, the new Colombia's Ambassador to the OAS, informed that Álvaro Uribe's Administration will



object every action related to Chávez' expansionist project in Colombia and that it cannot be allowed the Colombian people to be insulted.

Special electoral registration operation. The CNE Director, Sandra Oblitas, informed that the electoral regulating entity will organize a special electoral registration operation starting in September 1st. Electoral roll registration and data updating centers will be deployed throughout the country. Oblitas explained that the CNE database is currently being refined and that citizens that turn 18 even on the very same Election Day may now register in the electoral roll. Will this be a way to register the largest number of people possible?

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ECONOMIC OVERVIEW

