



# Weekly Report

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## *Balance of Payments Results, Exchange Measures, and IMF Transfers: A Bolivarian Mixed Salad*

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Recently released Balance of Payments (BP) results for the first semester 2009 show the effects of oil prices dropping and the adjustments being made in the exchange market. Economic agents continue to be nervous, anxiously awaiting upcoming Administration announcements in a week which surprised many with an unusual increase in international reserves due to an injection of liquidity from the International Monetary Fund (IMF).

**No surprises here** The Central Bank of Venezuela (BCV) recently released some foreign sector indicators along with first semester 2009 economic growth figures. With respect to the BP, it reflected the hard times that Venezuelan economy is currently going through due to the fall of oil prices and the adjustments the Administration has been making with respect to the exchange market.

According to BCV figures, first semester 2009 BP registered a deficit of US\$13.77 billion in the Current Account, significantly more than the slight deficit (US\$ 924 million) it posted during the same period last year. This is due to a more than 50% drop in exports. The Current Account deficit isn't more severe because imports dropped by 2%, which is understandable when you take into consideration the significant drop in CADIVI liquidations



for imports, the increase in the percentage of imports being financed through the swap-market, and the increase in public sector imports.

### Significant drop in the Capital Account deficit

The Capital Account is also posting a deficit of US\$ 11.74 billion, considerably less than what was registered during the same period last year when the deficit was at US\$ 25.99 billion (-56%). What's interesting is to see where the deficit is coming from with respect to institutional sectors: the private sector Capital Account went from US\$12.58 million during the first semester 2008 to US\$9.4 million during this year's first semester, a drop of 25%; while the public sector Capital Account dropped by 83% going from US\$13.41 billion to US\$2.34 billion during the same period.

BALANCE OF PAYMENTS PUBLIC SECTOR (General Summary)				BALANCE OF PAYMENTS PRIVATE SECTOR (General Summary)			
	2008-IS	2009-IS	Var (%)		2008-IS	2009-IS	Var (%)
<b>Current Account</b>	46.575	20.490	-56%	<b>Current Account</b>	-21.575	-22.446	4%
<b>Goods</b>	47.093	20.845	-56%	<b>Goods</b>	-16.759	-17.633	5%
<b>Oil Exports</b>	49.321	22.867	-54%	<b>Non-Oil Exports</b>	3.330	1.555	-53%
<b>Import of goods f.o.b.</b>	-2.228	-2.022	-9%	<b>Import of goods f.o.b.</b>	-20.089	-19.188	-4%
<b>Services</b>	-108	-102	-6%	<b>Services</b>	-4.017	-4.056	1%
<b>Others</b>	-410	-253	-38%	<b>Others</b>	-799	-757	-5%
<b>Capital Account</b>	-13.409	-2.339	-83%	<b>Capital Account</b>	-12.582	-9.400	-25%
				<b>Investment of Portfolio</b>	716	1.351	
<b>Reserves Variation</b>	12.658	18.151	43%	<b>Direct Investment</b>	383	-1.619	

Sources: BCV and Ecoanalítica

### Imports will drop even more in the future

Another aspect which stands out regarding first semester 2009 foreign sector and BP figures has to do with the import of goods and services. According to the BCV, private sector imports were at US\$ 19.19 billion, down by 4.5% compared to the same period last year. According to our estimates, CADIVI liquidations for imports, including ALADI agreements, dropped by 36% during the same period. It's a bit premature to say that the difference between these two figures was financed by the swap-market, given seasonal factors and the delays CADIVI has been showing in liquidating already authorized currency requests, but the amount financed by the parallel market is undoubtedly increasing compared to the same period last year.

Furthermore, the significant difference between these two indicators leads us to believe that during the third and fourth quarter of the year, the private sector drop in imports will be even greater, because companies are not

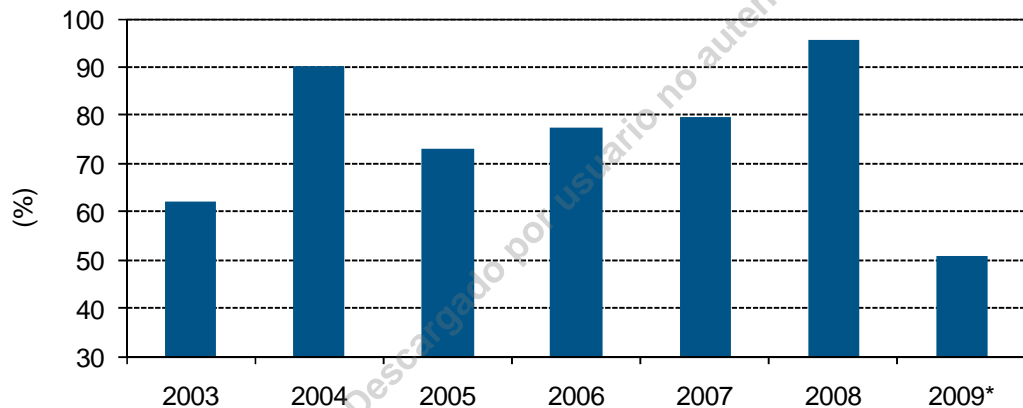


willing to continue to import through CADIVI until it reduces the debt it already has outstanding with the private sector.

### How much will the swap-market finance?

On the other hand, according to preliminary calculations carried out by **Ecoanalítica**, at the first semester, the swap-market has financed around US\$ 9.43 billion in imports, 49.1% of the total amount of imports. In the same period of 2008, this percentage was at 21.4%.

Exchange Coverage



Exchange Coverage = Imports by CADIVI / Total Imports  
\*Figures correspond to first semester  
Sources: BCV and Ecoanalítica

### How much has PDVSA put in the pot?

First semester 2009 figures also allow us to see just how much foreign currency PDVSA was moving, taking into consideration seasonal factors and the delays liquidating currency for imports. According to the figures released by the BCV, it received from PDVSA the net equivalent of US\$9.38 billion; a smaller amount than what the oil company turned over to the BCV during the first semester of 2008 which was US\$, but a bigger proportion of the total PDVSA' income (41% vs. 33.5%). This amount can be influenced by the different funds PDVSA is managing at its discretion, by the volume of oil exports, and the company's accounts receivable. However, first semester 2009 figures ratify what we have been saying that PDVSA is a major player, and must continue to be a major player, in any exchange strategy being designed for the future.

**What's been said?** With the swap-market exchange rate having increased significantly, everyone is waiting to hear what the new measures will be implemented to control the parallel exchange rate. Chávez and Merentes have spoken regarding this issue. Chávez highlighted that he is not willing to adjust gasoline prices, but *"I don't rule out that it could happen, it depends on how*



*the economy behaves.” But Chávez’ tone seems to rule out any harsh measure on the horizon: “we don’t have a fiscal crisis, we have savings enough, and the economic growth is coming back online.” Merentes said that “by this week, at the latest,<sup>1</sup> we will announce the economic measures which will have two objectives: reactivate the manufacturing sector, and deal with the swap-market.”*

More than a week has gone by and we are still awaiting the announcement. We expect that these announcements will, like Merentes said, focus on two areas. A strategy to lower the exchange differential by issuing debt and papers indexed to the US-dollar. This is a priority, despite the negative effect it will have on the country’s debt curve. Inside the BCV they say that there will be enough time to take care of the debt curve when oil prices recover. The announcements will also focus on the manufacturing sector including soft loans from public banks and hopes that measures will be taken to streamline CADIVI foreign currency liquidations, especially for priority imports for amounts less than a million dollars. As one can see, these are all short term measures, in other words, to close out the year. There is dire need of a long term strategy, especially for 2010. In our opinion, it seems that the Administration still doesn’t have one, or at least can’t agree on one.

### **The IMF gets involved**

This past August 28, the IMF injected resources through Special Drawing Rights (SDR) in order to strengthen reserves and provide the financial system with increased liquidity. Venezuela received US\$3.43 billion; this amount is proportional to the quota that Venezuela contributes the IMF. The IMF injected US\$250 billion to global economy and the organization allocated another US\$33 billion on September 9<sup>th</sup>, as a one-time allocation to correct the imbalance created by the fact that a total of 42 countries joined the IMF after the initial allocations of SDRs.

Once accounted these funds in the reserve account of the countries, they may retain or sell SDRs for other currencies, either by voluntary agreements with other members or by calling on the countries designated by the IMF in ensuring market liquidity SDR.

From an economical point of view, this represents globally creating money, divided up among countries depending on their IMF quotas, and it has done so at the request of the G-20 last April.

<sup>1</sup> Statements made by the president of BCV on August 30 this year.





### Ironical

The IMF argues that this injection won't be inflationary because it is such a small amount in relation to the global GDP (0.33%), world trade (<1%), and reserves (3%), and because it expects the global scale output gap to persist until 2014. In Venezuela's case, it received around US\$ 3.48 billion, which have increased international reserves, but given the country's weak institutional framework, it will all probably end up in FONDEN, to help finance out-of-budget spending. It's important to point out that according to our estimates, FONDEN was supposed to receive the equivalent of US\$ 6.0 billion by the beginning of next year, the IMF transfer represents 58% of that amount.

A sad paradox: those resources were supposed to strengthen the foreign sector but in Venezuela's case, it will be used to monetize the fiscal deficit increasing inflationary pressures.

### The Administration has one chance

In the past we have pointed out that the Administration could redesign a strategy for the swap-market backed by a short term Venezuelan debt issue in VEF/US\$ preceded by an aggressive debt buy-back plan. The Government could use an amount equivalent to US\$ 3.0 billion (product of the IMF transfer) to do this. In a medium term plan, this could close the gap between the two exchange rates and generate confidence among the economic agents. It's all up to the Ministry of Finance and the Central Bank of Venezuela; they will be the ones to decide.

## Economic Tips

**Potential debt repurchases and measures to improve debt profile are being studied.** The Minister of Finance, Alí Rodríguez Araque, expressed a few days ago that measures are being studied to improve public debt profile and control the swap market. In this regard, one repurchase would be one of the measures to manage public debt. Concerning the swap market, one of the proposals being analyzed is taxing imports that are considered not essential.

**Price of imported products increased more than 25% on average.** According to BCV's figures, prices of imported goods increased by 25.7% at wholesale level during the first eight months of the year, way over the 11.5% increase registered in the same period in 2008. This result is one of the factors signaling an implicit devaluation of the



local currency, because, according to BCV's data, the Bank delivered US\$ 13.676 billion to the private sector during the first six months of the year, for a drop of 36.4% compared to the same period last year.

**National Treasury Office (ONT) revenues produce huge resources for the Executive.** In a period of eight months, the National Treasury office (ONT) produced resources for VEF 5.5 billion by means of investment operations. These resources are being used to cover part of the off-budget spending, through supplementary appropriations. Until last August, the National Assembly authorized VEF 20.2 billion in extraordinary operations. The Fondo Miranda V, the Fondo Alan II and resources from the National Treasury have been the financing sources of that spending.

**The government had executed 57% of the budget spending until August.** According to figures being released by the Ministry of Finance, 57% of the budget were executed from January to August; VEF 110.0 billion were already spent from an allocation of VEF 176.6 billion (August level). A large part of the resources has been used for current spending, including labor payments, contributions for the regional governments and other official entities' commitments.

**And how has been spending at the ministerial level executed?** Based on information from the Ministry of Finance, the Ministry of Labor executed the largest amount of funds. Based on an allocation of VEF 11.4 billion, the Ministry spent VEF 10.3 billion in eight months. The Ministry of Food spent VEF 3.1 billion with only VEF 811 million to be executed. The Ministry of the Interior and Justice has executed 63%, i.e. VEF 35.4 billion, of its allocation.

**International reserves.** International reserves showed an increase of 8.8%, from US\$31.20 billion at the end of the fourth week of August to US\$33.95 billion in the first week of September. It's worth highlighting that the transfer of Special Drawing Rights (SDR) from the IMF to Venezuela was made on September 4<sup>th</sup>; therefore reserves increased 10.8% (US\$3.222 billion) between September 3<sup>rd</sup> and 4<sup>th</sup>.

**Interest rates:** According to the latest information available, the lending rate for the last week of August was 20.3%, up 88 basis points from the third week of August. Term deposit and savings account rates were 14.5% and 12.6%, a reduction of 6 and 0 basis points.

**International reserves:** The international reserves posted a decrease of 0.8%, going from US\$31.46 billion at the close of the third week of August to US\$31.20 billion in the fourth week. Compared to the same period last year, the reserves have dropped by 18.1%.





**Money supply:** According to the latest information from the Central Bank, money supply at the end of the third week of August posted fell by 0.7% compared to the second week of the same month, to VEF 218.84 billion. Money supply has increased by 12.7% so far this year and by 34.8% compared to the same period last year.

## Oil Tips

**PDVSA and PETROPAR started negotiations.** The president of PETROPAR, Juan González Meyer, informed that negotiations are centered now on writing off US\$37 million referred to a difference detected in 2008 invoicing, corresponding to the presidential transition period in Paraguay, when a technically bankrupted PETROPAR with a debt of US\$350 million was inherited (75% corresponding to PDVSA that supplies 80% of the gasoil consumed in Paraguay).

**The agreement is to freeze.** Based on this, an agreement was reached to freeze the US\$162 million debt contracted between 2003 and 2008 (former administration) for one year “until a payment modality for that amount is found.” This year debt (approx. US\$70 million) will be negotiated at 15 years with a grace period of two years.

**... But with problems.** Negotiations held in Asunción between a delegation from PDVSA and PETROPAR resulted in no agreement, because the Paraguayan company rejected a “usurious interest” charged by PDVSA. The Minister of Industry and Commerce of Paraguay, Francisco Rivas, assured that the VENEZUELAN state-owned oil company applies a 18% rate to a large part of the late debt for gasoil supply, whereas PETROPAR’s authorities recognize only a 2% rate. Rivas added that negotiations have not ended and will continue when the mission’s consultations with authorities in Caracas have concluded.

**Prolonged shut downs in refineries have negative effects.** The prolonged shut downs for programmed maintenance in three of the country’s main refineries has decreased gasoline inventories and could affect availability of Petroleum Liquefied Gas (PLG), which is used for household purposes, not to mention the effects on production. The 92,000 b/d-capacity Cardón refinery was shut down 150 days over the scheduled term in 2008. Amuay (108,000 b/d) was recently shut down due to operational problems with the cat cracking unit and it is estimated to be restarted in the upcoming days. This reality has forced PDVSA to bring gasoline from its Isla refinery in Curacao to meet its commitments.



**El Palito, in turn...** The western refinery (77,000 b/d) was shut down for maintenance on March 5<sup>th</sup>, for a 60-day period, and the process to restart the Fluidized Catalytic Cracking (FCC) unit began last Tuesday September 1<sup>st</sup>, with an estimated time of two weeks, after completing maintenance and a procedure to increase its production capacity of gasoline components, as PDVSA informed through a press release.

**Repsol will double production in Barúa in 2010.** The joint venture company Petroquiriquire (60% PDVSA and 40% Repsol) will start producing at the Barúa-Motatán field in Zulia state in 2010. Repsol pointed out that they expect to double the production at the field, from 36,000 b/d to about 65,000 b/d starting from 2010. According to the Energy and Mining Committee of the National Assembly, Repsol must pay US\$207 million for the rights granted.

**BP discovers deposit in the Gulf of Mexico.** British Petroleum announced the discovery of a “huge” oil deposit located in deep waters of the Gulf of Mexico, about 248.5 miles southeast Houston, adding that crude oil has been found in multiple spots of the area. A drilling of 35,000 feet, one of the deepest drillings carried out so far by the petroleum and gas industry, was made for this prospection.

**And the giant Brazil.** The gigantic hydrocarbon reserves found by Brazil in the region known as Presal will allow the country to escalate from the current 16<sup>th</sup> to the 8<sup>th</sup> place on the list of the countries with the largest reserves in the world. Lula da Silva will insist in granting urgency character to the approval of the regulatory framework of the Presal area by the Congress, despite the protests by the opposition sectors. Brazil has today about 14,000 million bbl. of reserves, which may increased up to 80,000 million only with the Presal areas that were already granted under license. The Presal is a new and huge hydrocarbon exploration horizon in very deep waters in the Atlantic Ocean, located at a depth between 16,400 and 22,900 feet, below a salt layer up to 6,561 feet thick.

**PDVSA sends its first shipment to El Salvador.** The first fuel shipment from PDVSA to El Salvador arrived last Thursday with 90,335 bbl of diesel. The agreement between PDVSA and Alba Petróleos of El Salvador (ALBAPES), a mixed company between PDV Caribe and the Asociación Intermunicipal Energía para El Salvador (ENEPASA), calls for the shipment of 7,000 bbl/day. This shipment has allowed improving the delivery time and costs related to energy in a country like El Salvador with serious deficiencies in this sector.

**PDVSA is not meeting its commitments with workers.** 70% of PDVSA collective contract is not being complied with, particularly in clauses related to security, thus leading to unease among workers at the operational areas, according to several union leaders. The contract provides for, among other things, supplying security material,



health services and basic inputs like cold water supply for oil workers in the production areas. They also reported that economic clauses referred to the payment of vacations, special shifts, and salaries at contractor companies.

**Conoco's revenge.** After nationalization of ConocoPhillips' assets by the Venezuelan government in 2007 as part of its plan to increase the state control over the energy sector, the company has now exercised an option to purchase the 50% stake of Venezuela at Merey Sweeny, a unit of the Sweeny refinery in Texas, because, according to the company, PDVSA is not complying with a crude oil supply contract to the plant since early year. The holding curtailed crude oil exports to this refinery this year to comply with the OPEC's quota.

**PDVSA responds...** PDVSA is advancing legal actions against the US oil firm, alleging that the decision to curtail production and stop delivering crude to the plant "is a sovereign decision" to comply with the quota cutback decided by the OPEC, specifically because the crude oil that was being sent to the Sweeny refinery is the most expensive to produce, because it has to be cleaned from impurities.

**Next OPEC's meeting: The quotas remain the same,** basically because the market dynamic has moved in its favor. The prices have remained at the desired levels since the last meeting when the OPEC's basket was selling at US\$61.77/bbl., as compared to US\$69.47/bbl. now, averaging US\$67.44/bbl. throughout this period.

**It is maintained, for now.** Volumes have also been maintained. OPEC's production for July ranges between 26.2 Mbd, which, despite of its being a drop of about 3 Mbd with regard to last year, is 0.3 Mbd over the lowest production level of the year in February. This is evidence of a global economic recovery that has become more marked since last May (previous meeting), because many "key" economies have recovered.

**FUTPV election, now in October.** The date of the FUTPV election was changed for the seventh time. According to the schedule approved in a meeting between the CNE and the Federation electoral commission, election has been moved now to October 1<sup>st</sup>, because details concerning the use of fingerprint readers and voting machines had to be wrapped up. Furthermore, union leaders urged oil workers to hold a mass assembly in the Puerto La Cruz refinery to "demand" the CNE that the interference of PDVSA directive authorities if the election is not allowed.

**PDVSA will export 20,000 b/d of gasoline to Iran.** After his official visit to Iran, president Chávez announced to the Iranian media that the agreement is worth US\$800 million. The president added that the money will be deposited in a fund established in Tehran to finance the purchase of equipment and technology, but he



didn't offer detail on the duration of the agreement. Iran, which, due to its weakness in terms of refining industry, has to import about 40% of its fuel needs, will invest in Dubojubi and Ayacucho fields.

**International oil basket' prices.** WTI closed on Thursday US\$71.9/bbl, recovering from a low of US\$68.0/bbl on Monday 7. London Brent, in turn, recovering US\$3.3 after hitting a low of US\$66.5/bbl on Monday, closing at US\$69.8/bbl on Thursday 10.

**The local basket also drops.** The price of the Venezuelan basket lost US\$3.34 during the first week of September, closing at US\$65.37/bbl., vs. US\$68.71/bbl. a week before. However, the basket annual average was at US\$51.28/bbl., 28.2% over the budget value, thereby generating additional revenues for more than US\$3.1 billion.

## Business Sector Tips

**New CADIVI's provision.** CADIVI, the foreign currency administration commission, informed that Provision No. 098, which establishes the requirements and procedure to request the authorization to acquire foreign currency for imports, was put into force and published in the Official Gazette No. 39,252, August 28, 2009.

**Further increases at MERCAL.** Prices of subsidized products sold at Mercal were changed again. Bean prices were adjusted upwards 66.3% on average. For the second time in the year, Mercal increased the Price of black beans by 67.4%, from VEF 1.69 to VEF 2.83/kg. The prices of this product, along with sugar, were the first to be changed in the network over six years.

**Drop in exports from Colombia to Venezuela.** The National Statistics Department of Colombia (DANE) released a report according to which exports from Colombia to Venezuela dropped 4.5% from January to July 2009, as compared to the same period in 2008. The report also states a 28.8% decrease in imports to Venezuela from Colombia in July, due to the freeze in political and trade relations announced by President Chávez.

**Mitsubishi will be reopened on September 21.** The Japanese unit Sojitz announced on September 8<sup>th</sup> that activities will be restarted one month after having shut down its operations due to labor sabotage. MINTRA, mediator in the conflict, prohibited the circulation of pamphlets which contents may affect the labor environment. Until



activities are restarted, the affiliate company will follow a labor health and security plan in its facilities.

**GM will also reopen.** After a three-month suspension of activities due to the lack of foreign currency to pay for imports, and thanks to the payment agreement reached between the company and the Ministry of Science, Technology and Industry, the plant in Carabobo restarted its car assembly operations this week. The informed that they will produce 150 vehicles per day, representing 33% of the plant full capacity estimated at 450 vehicles per day. Production will be increased progressively. Workers are satisfied with the restart of the activities.

**Kia is still waiting for CADIVI.** Almost two months ago, the Ministry of Commerce granted Kia 10,000 license to import finished vehicles from Ecuador, but CADIVI has not still authorized the foreign currency allocation.

**Venalum has already a price for the purchase of shares.** The State will delay the purchase of the share package of the VENALUM aluminum plant, in hands of a Japanese consortium, waiting for economic conditions in the country to improve, reported the president of the state-owned company, who added that the valuation of the 20% share of the Japanese partners is ready and adjusted according to factors such as growth and inflation. According press sources, the price has been set at US\$510 million. The group of 6 Japanese firms announced that they would leave operations in Venezuela due to a dispute with President Chávez about the prices of the metal.

**Bauxilum curtails production and exports.** The lack of investment and a drop in prices are the factors worrying Bauxilum, which has suspended supplies to its international customers. The president of the company, Jesús Calvo, pointed out that they will delay the shipment of 50,000 tons to guarantee the supply of raw material for two local aluminum plants. Production in some units has also been negatively affected due to failures and lack of modernization. The result is that estimated production for 2009 is 1.4 million tons in comparison to 1.6 million tons last year. The commitment is to recover production so as to have more cash flow and meet labor commitments.

**Power supply cuts in the central region.** While maintenance works are being conducted at Tocoa plant (EDC), Corpoelec will apply scheduled 2-hour/day power supply cuts in Aragua (70 Mw) and Miranda (80 Mw) for 11 days. According to CADAPE sources in Tocoa, 400 megawatts are not being produced and supplied into the system, with the subsequent increased pressures on the sector. These scheduled cuts have to be applied to decrease the load, because consumers are not going to reduce consumption to the desired levels on their own.



**FETRAELEC blames ineffectiveness in investment execution.** According to the Federation of Workers of the Electric Power Industry (FETRAELEC), 13 investment power generation projects have not met the execution milestones scheduled by the Government; the projects started in 2006 have been completed between 5% and 65%, and projects that should have started in 2007 and 2008 have not been launched yet.

**AN wants SUDEBAN to be like a bank INDEPABIS.** The representative chairing the Bank and Insurance subcommittee of the National Assembly, Rafic Souki, states that one of the goals of the reform of the Law of Banks and Other Financial Institution is for SUDEBAN to assume as one of its main roles to address complaints by users of the financial system. INDEPABIS is currently fulfilling this function.

**CADIVI owes more than US\$150 million to tractor importers.** The President of the Venezuelan Chamber of Spare Part and Heavy and Agricultural Machinery Distributors (CAVEDREPA) stated that CADIVI owes between US\$150 and US\$200 million to tractor importers since fourth months ago. According to estimates, the industry needs 14,000 tractors for this year, but at the current pace, they will not be able to import more than 5,000 units.

**More socialist factories.** The Government's industrialization plan calls for the creation of 200 socialist factories over three years. The Vice Minister of Intermediate Industries, Efrén Martín, informed that a total of 21 new plants will be opened by year end, of which 10 are already operating, including the Complejo Agroindustrial Socialista de Altigracia (tomato processing plant); Fábrica Nacional de Bicicletas (bicycle factory); Industria Venezolana de la Piedra (cement); Industria Venezolana de Válvulas (valve factory); Lácteos Machiques (dairy products); and Venirauto (cars).

## World Crisis Tips

**The IMF urges to maintain fiscal and monetary stimulus.** The IMF Director Manager, Dominique Strauss Kahn, stated that global economy is on its way to recovery, albeit slowly. Governments should be careful when retiring fiscal and monetary stimulus, because introducing stimuli too late and withdrawing them too soon has been a common mistake in the past. Repeating this mistake under current circumstances could have serious consequences (a recovery followed by a relapse; a W recovery).





**G20 met to discuss bank regulations.** The Ministers of Finance and Governors of Central Banks of G20 met last weekend to discuss how to curb bank risks and apply a number of regulations to avoid future financial collapses. They also expressed their agreement with the IMF measures to maintain fiscal and monetary stimulus until economic growth is reestablished in a sustainable fashion (probably by end-2010).

**The IMF revises global growth projections.** The International Monetary Fund slightly improved its global growth projection from -1.4% to -1.3% for 2009; however it went from 2.9% to 2.5% for 2010.

**Unemployment in the US reaches a peak over 26 years.** The US Bureau of Labor Statistics (BLS) released its labor figures for the month of August, which show that unemployment rate reached 9.7% after having dropped from 9.5% in June to 9.4% in July. Youth unemployment, which is always the highest one, is currently 25.5%; 13% among Latin Americans and 15.1% among African Americans.

**Average debt of US consumer drops.** Consumer debt decreased to a 10.4% yearly rate in July for the sixth month in a row with consumer credit contraction. Consumer credit is 4.3% lower than July 2008, for the biggest drop since Post War times (1944).

**Recession in the United Kingdom has ended.** The National Institute for Economic and Social Research (NIESR) in London estimated that Britain's GDP grew 0.2% between July and August, after a 0.3% drop in the April-June quarter. This reaffirms the idea that recession has ended in England. However, the end of recession should not be understood as a return of normal growth conditions. The British economy will likely remain stalled scattered with a few months of growth and others of contraction.

**Germany's industrial production unexpectedly falls.** The Federal Ministry of Economy and Technology in Berlin reported that industrial production in Germany (the first European country to come out of recession, along with France) dropped 0.9% in July, with regard to the previous month, a much worse result of the expected by the market (+1.6%). Exports increased 2.3% in July from the prior month, whereas imports remained flat. Exports have dropped 18.7% and imports 22.3% as compared to July 2008. Notwithstanding, growth prospects for the third quarter are still positive.

**Yuan is increasingly international.** As part of the campaign of the Chinese government to increase yuan's relevance as an international currency, they will purchase IMF bonds for an equivalent of US\$50.0 billion to be paid in yuans. Other similar measures include loans to South Korea, Malaysia and Indonesia also denominated in yuans. Analysts believe that it is only a matter of time for a number of commodities to be traded in the Chinese currency and for it to be used as international reserve asset in Asia, Africa and Latin America.



**Argentina doesn't need assistance from the IMF.** According to Argentina's Minister of Economy, Amado Boudou, "Argentina doesn't need financial assistance from the International Monetary Fund as in the past," although this country has been excluded from the international capital markets since 2002, when they didn't comply with the payment of its debt. According to the Minister, they might reenter credit markets this year.

**Job offer increase in Australia.** The ANZ index of job offers published in press media and the Internet increased 4.1% on a month-to-month basis in August, for the first positive data over a period of 16 months and the highest monthly increase since December 2007. Along with data released last Wednesday, which reported an increase of GDP on a quarter-to-quarter basis higher than the expected one of 0.6%, there is increased evidence of a recovery of the activity and pressure on the central bank to increase rates. This has resulted in a 1.1% appreciation of the Australian dollar against the US dollar, even in a context of decreasing raw material prices.

## *Political Tips*

**Everywhere a protest.** People that are in favor or against President Chávez has protested in Caracas to express their support for or opposition against, as the case may be, the Bolivarian "revolution" installed in Venezuela a decade ago. Concerning the so-called "Not More Chávez" global protest, the largest demonstrations were staged in Colombia, Honduras and Miami. Members of the Democratic Unity Board, which is made up of eleven opposition parties, handed over a document to a security official of the General Attorney's Office, lacking another higher-ranking official, rejecting the policy allegedly applied by the Government and other public institutions to pursue opposition leaders.

**And on the red side.** Thousands of followers of President Chávez, who were dressed in red, the color of the "revolution", and under the motto "Venezuela, a peace zone", marched in the western area of Caracas to the headquarters of the Ministry of Foreign Affairs downtown Caracas. Talking on the phone from Iran, where he was for an official visit, Chávez congratulated his followers gathered at the gates of the Foreign Affairs Ministry "on continuing defeating conspiracy against our fatherland."

**And the world too.** The mainstream protests under the motto "No more Chávez", where people dressed white T-shirts, were staged in Colombia, Honduras and Miami, with thousands of participants; whereas in Caracas a few hundreds of people



protested in Caracas in favor of and against the President. Other cities around the world, like New York, Madrid, Barcelona, Buenos Aires, Santiago de Chile, Panama, Quito, La Paz, Paris or Berlin witnessed protests against the Venezuelan president, with the presence of not more than 200 people each.

**On the red carpet.** President Chávez travelled to Venice to attend the premiere of the documental film “Al sur de la frontera” (South the Border), directed by Oliver Stone. Concerning the film, Chávez pointed out that a rebirth is taking place in Latin America and that the documental is a good fashion to pay homage to the Latin American peoples.

**Globovision under investigation again.** The President of Conatel, Diosdado Cabello, requested the Attorney General to open a criminal proceeding against Globovision for having presented text messages at the bottom of the TV screen which were allegedly inciting to a coup, assassinating the President, crimes and disorder.

**More to come.** He also pointed out that another 29 radio stations will be penalized for alleged administrative irregularities. He assured that text messages are filtered by TV channels. The frequency which formerly belonged to CNB, 102.3 FM will be now granted to the National Assembly, due to the wide coverage in Caracas and Mérida, and the good work of this radio station.

**In October.** The team drafting the Labor Organic law (LOT) is working to present the first formal proposal on September 15<sup>th</sup> and the definite in October 15<sup>th</sup>. Representatives Oscar Figuera, Francisco Torrealba, Malaquías Gil, José Mora and Oswaldo Vera belong to this team, which is trying to integrate the proposals made at the meetings with those presented by different sectors. Vera warned that not everybody sent their proposals on changes to be included in the new LOT.

**Freedom of speech to be discussed in Venezuela.** The Centro de Divulgación del Conocimiento (CEDICE) is organizing an event for the month of November to celebrate the 20<sup>th</sup> anniversary of the fall of the Berlin Wall. The event will be named “the Week of Freedom” and will feature José María Aznar; Mexico’s Vicente Fox; Poland’s Lech Walesa and Uruguay’s Julio María Sanguinetti, as well as Eduardo Bertoni, rapporteur for Freedom of Expression of the IACHR; Carlos Lauría, Coordinator of the Committee for the Protection of Journalists, and Humberto Nogueira Alcalá, Dean of the Faculty of Social Sciences of the University of Talca, Chile.

**Chávez plans to purchase Russian weapons.** President Hugo Chávez travelled to Russia to close a deal for the purchase of three submarines with diesel engines, a number of armored vehicles and T-72 tanks, and ten military Mi helicopters.



Venezuela has also plans to buy a number of devices to deter enemy ships. According to President Chávez, his intention is to renovate military equipment. However, Russian officials said they expected no sign contracts on arms supplies to Venezuela.

**And Belarus too.** President Chávez visited Belarus this week to promote trade exchanges and energy cooperation with this country. The Venezuelan president will also meet King Juan Carlos from Spain during his visit to Madrid next Friday.

**Africa-South America Summit.** The Ministry of Communications and Information announced that the 2<sup>nd</sup> Summit of Heads of State and Government of Africa and South America (ASA) will be held on September 26-27 in Margarita Island.

**Israel rejects Venezuela's support for Iran.** Israel's government rejected the statements by the Venezuelan president Hugo Chávez, who stated that there is no evidence that Iran is building a nuclear weapon. Israel and the United States accuse Iran for its intentions to manufacture mass destruction weapons through a civil program.

**Vote of no confidence against the Venezuelan government.** Brazil's Senate approved a vote of no confidence against the Venezuelan government alleging the intention of the Venezuelan President to attempt against freedom of press and democracy. The vote of no confidence points out that although the countries' national sovereignty must be respected, it cannot be allowed an increased dictatorial regime to be installed in a neighboring nation. The Senators also discussed the proposal on media crimes submitted by Attorney General Luisa Ortega Díaz.

## Other Tips

**Leaders in Latin America.** The Brazilian state-owned oil company, Petrobras, and the Mexican telephone company, América Móvil are at the top of the list of the 20 Latin American open-capital companies that recorded the highest net profits in the second quarter of the year, according to a study released by Economática. Petrobras, with profits of about US\$3.96 billion between April and June, and América Móvil, with US\$1.71 billion, lead by far a group that includes 12 Brazilian companies, five from Mexico, two from Chile and one from Argentina. The list was prepared based on the financial result of the second quarter released until September 1<sup>st</sup> by all Latin American firms with shares traded on the stock exchange, according to Economática.



## ECONOMIC OVERVIEW

