



Weekly Report

Year 5, Number 38
Week II, October 2009

By:
Asdrúbal Oliveros
Maikel Bello

THE VENEZUELAN ECONOMY: BETWEEN THE PRESIDENT'S PROJECTIONS AND THOSE OF THE IMF

Reproduction or distribution prohibited

During the last few days, President Chávez and the International Monetary Fund (IMF) have both released their macroeconomic projections for 2010, and as could be expected, the both differ diametrically. At **Ecoanalítica**, we believe that both reports focus on extreme scenarios and do not accurately depict the most likely course of events for the coming year.

Chávez' bet

As most of you well know, the 2010 National Budget Proposal includes a series of suppositions based on key macroeconomic variables, such as GDP, exchange rate, and inflation. It's been common practice for ever Administration, and especially this one, to underestimate some of these key variables, thereby presenting a very conservative Budget. This allows the Administration a much freer hand when it comes time to manage the fiscal budget throughout the year. Though the draft for the 2010 national Budget won't be presented before the National Assembly until next week, according to Ricardo Sanguino, president of the National Assembly Finance Commission, President Chávez has already "announced" some of the details.

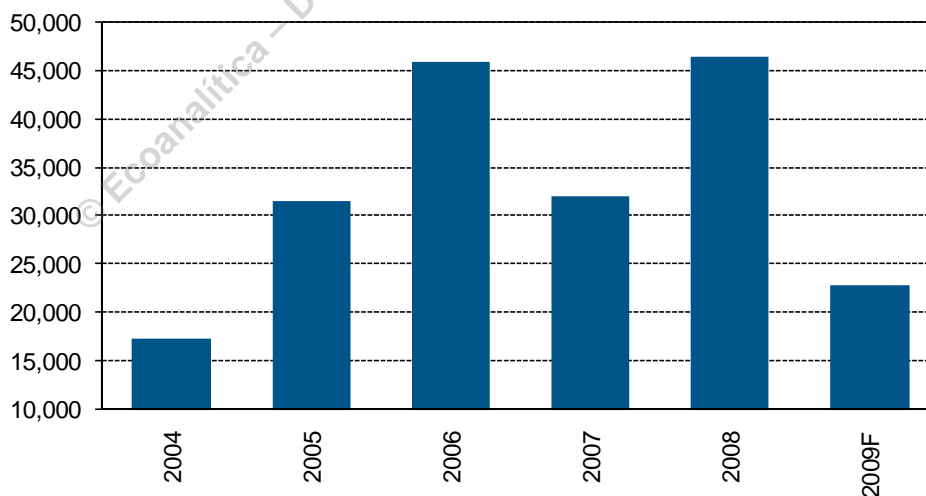


The price of crude oil set at US\$ 40 per barrel

According to President Chávez, the National Budget will be based on the price of crude oil averaging US\$ 40 per barrel throughout the year. This is a very conservative estimate. 2010 oil market projections are estimating the price of WTI to be at around US\$73 per barrel, which means that the Venezuelan crude oil basket should be at around US\$65 per barrel. We have always said that this strategy may seem like the Administration is purposely being very conservative to ensure it will be able to manage its fiscal accounts in a more orderly and controlled fashion. But what this underestimation is hiding is that the Administration still has access to US\$30 billion in surplus resources for 2010.

This has become common practice in the last few years in Venezuela, especially during the oil bonanza years. 2008 was a perfect case in point. The National Budget was based on an average crude oil price of US\$ 35 per barrel. The price for the Venezuelan crude oil basket in 2008 reached US\$ 86.5, giving the Administration an extra US\$ 21.55 billion in extraordinary resources to use as it saw fit.

Surplus Resources (MM VEF)



Sources: ONAPRE and Ecoanalítica

Growth according to Chávez

President Chávez is calculating that economic growth next year will be at 0.5%, a figure that seems quite low for a government prediction, especially if you consider that the worst of the world crisis is over. But then again, if oil prices drop or don't increase a bit more, this could also be a quite optimistic figure, which is in line with what the IMF is predicting.



Chávez optimistic The Administration is calculating that inflation next year will be around 20% to 22%. Here the President is being way too optimistic. In a scenario as difficult as what is being predicted for next year, and with inflation being a structural problem, to be able to keep inflation down to the levels suggested by the President seems to be wishful thinking. If the President insists on these levels of inflation as being the ones the Government will be able to maintain during the year, then the same thing that happened in 2008 will happen in 2010. In 2008, the Administration first announced that inflation would be kept at 11%, then it had to adjust this estimate to 19.5%, and later it had to adjust it one more time to 27%. The same thing happened this year. The 2009 National Budget Law Proposal estimated that inflation would be at 15%, then, half way through the year, from New York, Minister Rodríguez Araque announced that the inflation closing out the year will be at 26%

And once again social matters are in the spotlight Once again, government spokespersons are making sure to point out the Administration's tendency to increase social spending in 2010. According to the Ministry of Finance, in 2006, resources allocated for social spending in the National Budget were at 40% of the budget; in 2007, 41% of the budget; in 2008 45%, and this year it is expected to reach 46.2%. For next year, it's expected to remain around 40%.

But... However, it's important to point out that of the percentage calculated as "social spending," not all of it is used in direct social spending. Around 60% of what is included as "social spending" is used for paying wages and salaries and labor benefits. Therefore, the so-called "social investment" is more accurately around 16% of the total National Budget. In 2009, according to our estimated calculations, social spending will represent 18% of the total Budget, down by 2 percentage points.

What Chávez didn't say When FONDEN was established in 2005, it was pointed out that its contributions and spending would be included in the 2007 National Budget Law Proposal. The fact of the matter is that neither in 2007, or in 2008, or in 2009 has the Administration included FONDEN in the Budget. An important point, for example, is to define an estimate of the contributions which will be made by the Central Bank of Venezuela (BCV) and PDVSA to FONDEN in 2010. In fact, the only mention in the 2009 National Budget Law is of a "triangulation mechanism" constituted by PDVSA, BCV, and FONDEN: *"PDVSA, jointly with the BCV, are feeding the National Development Fund with resources coming from hydrocarbons and surplus international reserves. FONDEN is also fed by resources generated by the Hydrocarbon*



Windfall Tax Law (...) which will allow the Venezuelan State's finances to be strengthened."

With regard to BCV contributions, the BCV Law established in Article 75 the following:

"The BCV must inform the Executive Office, in a timely manner, about the behavior of the economy, on the optimum level of international reserves... It must also present the Executive Office with the results of a study where the optimum level of international reserves have been estimated, in order to more accurately establish a national budget and to also include this information in the year policy agreement which is signed by the president of the BCV and the Executive Office in accordance with what is established in Article 320 of the Constitution of the Bolivarian Republic of Venezuela."

We hope that the 2010 National Budget does not follow the example set in previous years and will explicitly include FONDEN's budgeted revenues and spending which will significantly influence the underestimation of the true dimension of Venezuela's public spending.

The IMF

In its latest report titled "World Economic Outlook," the IMF said with regard to Venezuela's economy and its performance that Venezuela would continue to be the Latin American country with the highest levels of inflation due to its fiscal policies and expansive monetary policies. The IMF estimates that inflation in Venezuela for 2009 and 2010 will be at 29.5% and 30.0%, respectively.

With respect to economic growth, the IMF increased its previous estimates slightly. In February 2009, it released that it expected Venezuela's economic growth in 2009 to shrink by -2.2% and in 2010 to shrink by -0.5%, in its most recent report released in October 2009, it estimates that the economy will shrink by -2.0% in 2009 and -0.4% in 2010.

Furthermore, the director of the IMF Western Hemisphere Department, Nicolás Eyzaguirre, recently declared that Venezuela only has a small margin of room to maneuver and apply countercyclical policies in order to stimulate the economy, and therefore, it will be the only Latin American country which will not come out of the recession in the coming year.

Looking back

There have been times when we have criticized the analysis of multilateral organisms with respect to Venezuela, especially those released by the IMF, for being out of touch with the country's reality, especially with regard to the



institutional changes which have taken place in the country during the past few years. For example, did the IMF consider the impact of the swap-market exchange rate on next year inflation, the transfer of international reserves being made to FONDEN, or how private investment is dropping, and the disorganized state of fiscal matters. On the other hand, to say that the economy will shrink by 0.4% is not totally out of the question, but in our opinion it's not a probable scenario.

IMF Global outlook

	Units	2008	2009	2010
Gross domestic product, constant prices	Annual percent change	3.0	-1.1	3.1
Inflation, end of period consumer prices	Annual percent change	4.5	2.7	2.7
Trade volume of goods and services	Annual percent change	3.0	-11.9	2.5
Commodity Price Index includes both Fuel and Non-Fuel Price Indices	Index, 2005=100	172.1	117.6	134.6
Commodity Non-Fuel Price Index	Index, 2005=100	151.0	120.4	123.3
Commodity Industrial Inputs Price Index	Index, 2005=100	145.5	105.8	110.9
Crude Oil, Simple average of spot prices; Brent, WTI and the Dubai Fateh	Dollars per barrel	97.0	61.5	76.5
Commodity Food and Beverage Price Index	Index, 2005=100	156.5	134.8	135.5

Sources: IMF, World Economic Outlook Database, October 2009 and Ecoanalítica

They almost never get it right

The following Table shows IMF projections for the Venezuelan economy during the last few years according to the figures it just released in October and the results of the BCV. Though the results don't merit much commentary, you can see that IMF projections for Venezuela don't carry to much weight.

IMF Outlook vs. BCV figures

	2004		2005		2006		2007		2008		2009		2010	
	IMF	BCV	IMF	BCV	IMF	BCV	IMF	BCV	IMF	BCV	IMF	Ecoanalítica	IMF	Ecoanalítica
Economic Growth	7.7	18.3	3.5	10.3	4.5	10.4	3.7	7.7	6.0	4.8	2.0	-1.1	-0.4	1.4
Inflation	40.8	19.2	31.3	14.4	18.0	17.0	15.4	22.5	21.0	31.9	35.0	29.0	32.0	35.0

Sources: IMF: World Economic Outlook Database, BCV and Ecoanalítica

*IMF outlook made in September or October of the previous year in each case

Ecoanalítica's outlook

Our projections are a bit more optimistic than the IMF, but more conservative than the Administration's. We estimate that the economy in 2009 will shrink by 1.1% and that in 2010 it will be back in the positive side and grow by 1.4%, propelled by public spending and consumption recovering, as has been the trend lately. It's important to keep in mind that 2010 is an election year; therefore, incentives to increase public spending in order to improve election results will be very much in play. At **Ecoanalítica**, we agree with Eyzaguirre's statement regarding countercyclical policies, a



perfect example were the anti crisis measures announced in March, which purpose was to “adjust” public sector cash flow levels and not spark economic activity.

Nothing changes

As always in Venezuela, oil prices will decide everything. The economic recovery has still not stabilized due to very relaxed fiscal and monetary policies being implemented by the main economies in the world. The key factor will continue to be consumption recovering, especially in the United States and Europe. It's not clear whether the OPEC will continue to promote its production cutback policy and the drop in investments continue to paralyze many projects around the world.

These factors will play a fundamental role in how oil prices will react. However, most analysts agree that prices will recover slightly this year and continue to recover in 2010. And with this in mind, the Administration will continue to propel economic growth through public spending by implementing an aggressive borrowing plan, even at the cost of higher inflation.

Economic Tips

2019 and 2024 Sovereignty bond placement. Bond placement results for the 2019 and 2024 bond were released on Tuesday, October 6. The Minister of the People's Power for Economy and Finance (MEF) received US\$19.14 billion in bond purchase orders, equaling 48,777 purchase orders. In the end, US\$4.99 billion in bonds were placed, in equal parts between the 2019 and 2024 bond, almost US\$2.0 billion more than what was originally planned. 44,456 of the purchase orders were placed (91%) at a price of 140%. Fitch granted a qualification of B+ to the group of Venezuelan bonds that are traded on the international markets.

But, only 20% of CADIVI's debt was covered. According to a statement released by the Ministry of Finance, 47.2% of the bonds were placed with legal persons (US\$2.36 billion), and the rest was placed with natural persons (US\$1.81 billion) and financial institutions and brokerage houses received US\$ 800 million. Up until the close of the first semester 2009, CADIVI's debt with the private sector was at US\$12.0 billion, which means that this issue covered a fifth of the debt.



And the price? In the short term, the 2019 and 2024 bonds could be traded at an average of 70%, but as the curve recovers the price on the international market could go up to over 73%.

What will happen to the swap-market? Many investors got more bonds than they planned (natural persons) so they will probably be selling off their bonds by next week which will flood the market with dollars and lower the swap-market exchange rate.

And then, more issues. The Finance Minister Alí Rodríguez said that the government plans to issue more bonds “soon”, following the \$5 billion sale of dollar bonds that was designed to strengthen the swap market. *“There are going to be more issues.”* Rodríguez told reporters on Wednesday 7 in Caracas, that the new bonds could be sold by either the government, or state oil company PDVSA.

Inflation continues to rise. According to the information published by the BCV, inflation between the months of August and September was at 2.5%, and the year-to-year inflation rate was at 27.3%. The Caracas Metropolitan Area CPI was at 2.6%, and inflation accumulated from September 2008 was at 28.9%. These figures indicate that inflation has once again accelerated despite the controls being implemented.

Food basket at VEF 1,766.3 in September. According to information released by CENDA, the cost of the basic food basket for the month of September was at VEF 1,766.30, up by 4.1% compared to the month of August. The new minimum wage salary which went into effect on September 1, 2009 (VEF 967.00) only covers 54.7% of the food basket.

Waiting for Giordani measures to be announced. The Minister of Planning and Development, Jorge Giordani, announced that in the coming days a series of economic measures will be announced. He said that the President has nothing to shy away from announcing the measure since he has always meet situations head on and never hides anything from the people.

Public companies to be able to import with more ease. The National Assembly approved in its first discussion the Law to Simplify Administrative Procedures for Import and Export of State-run Companies. This law established that import and export operations for state-run companies will not have to obtain or present licenses, certifications, and other documents, for example those having to do with health regulations and other control mechanisms to protect people, animals, and plants. The areas of health and security will also be governed by this regulation.

2010 Budget may not be favorable to regions. Vestalia Sampedro, secretary of Planning, Budget, and Management Control for the state of Carabobo, warned that if



the Administration fixed the price of a barrel of oil at US\$ 40 for the purpose of calculating the Budget, state and municipalities would not receive enough resources to carry out investment works or develop social programs. Furthermore, he requested that the Government pay the VEF 3.50 billion that it owes regional and municipal governments this year, because the amount is proportional to the differential produced by the increase in oil prices.

Venezuela up four spots in the Human Development Index. The United Nations Development Program released its report which included the Human Development Index. The Index shows Venezuela moving up four spots from 62 to 58 out of the 182 countries included. This Index includes three social aspects: life expectancy, literacy, and the distribution per capita of the GDP. With respect to these aspects Venezuela scored 95.2% in literacy, remained at 73.6% with respect to life expectancy, and went from US\$11,402 to US\$12,156 with regard to the distribution of the GDP between 2007 and 2008. Norway, Australia, and Iceland topped the list.

INE optimistic. The economic plans and measures that the Administration is planning to implement in 2009 will allow the GDP to close the year out in the positive, stated the president of the National Statistics Institute (INE), Elías Eljuri. He continued to say that oil prices recovering have allowed the Government to invest more resources in activating the economy.

Rates of interest. According to the BCV's last available information, the lending rate of interest for the fourth week of September was 18.8%, which represents a decrease of 23 basis points in relation with the third week of the same month. For its part, the long term rate and the savings account rate placed in 14.5% and 12.6% respectively, which means a contraction of 13 basis points for the long term rate, whereas the savings account rate was kept constant.

International Reserves. The international reserves showed a decrease of 0.2%, when million passing from US\$33.41 billion at the closing of last week of September to US\$33.35 billion in the first week of October. With regard to the same period of the previous year, the international reserves have diminished 14.2 %.

Monetary liquidity. In agreement with the last available information in the BCV, the monetary liquidity at the end of the fourth week of September registered an increase of 0.5% with regard to the third week of September, having been located in VEF 221.491 millions. In what goes of the year, the liquidity has increased 14.0% and has increased in 31.4% in comparison with the same period of the previous year.





Oil Tips

Carabobo oil block tender to be held by 2010. The President of PDVSA, Rafael Ramirez, announced that a new schedule was approved for the selection of partners, which is due to get started on November 12, with the final submission of the conditions governing the process, and since January 28 of 2010, bids will begin to be received, and then the selection of partners will take place. He also stated he won't be assigning any new areas of the Orinoco Oil Belt after the Carabobo oil block tender, and that he will be devoted to developing the areas already assigned.

PDVSA waiting. Colombia warned last week they will be cutting back on natural gas shipments to Venezuela and Ecuador, stating that they must guarantee domestic supply. In light of that, the vice president of PDVSA, Asdrúbal Chávez, stated that Venezuela *"is fully prepared to face an eventual cut of Colombian natural gas."* *"We don't see a problem in changing some of the plants where we use natural gas to be able to use liquid fuels. We will have to adapt to that reality."*

PDVSA buys Conoco's share in the Deltan platform. PDVSA announced the acquisition of ConocoPhillips' share in Block 2 of the Deltan Platform, an offshore natural gas project, without specifying the cost of the operation. The decision was made weeks after Conoco announced they would be taking PDVSA's share in the Mery Sweeny unit of a refinery in Texas. PDVSA added that after adding on Conoco's share, it'll have a 61% holding in a mixed company to be created with Chevron, with an estimated production of 750 million cubic feet per day.

PDVSA partners up with Africa. During the second Africa-South America Summit (ASA), Venezuela signed 8 energy-related agreements. Among the agreements signed is highlighted the one with South Africa (PETROSA) for the development of mature oil fields in Venezuela; there was an advance regarding said country's participation in Block 1 of the Deltan Platform; the development of GTL technology (Gas To Liquid) to produce diesel from natural gas, and its participation in a block of the Orinoco Oil Belt. South Africa's storage capacity is also being evaluated, since it is on the route of Venezuelan shipments to China.

Cheap oil for Africa as well. Agreements for the energetic cooperation between Cape Green, Niger and Sudan were also established in the Africa-South America Summit. Likewise, Venezuela could supply oil to Kenya at low cost and provide them with technical assistance to help them produce their own crude oil.



PETROPAR pays with bonds and food. According to statements by the Paraguayan chief of the presidential cabinet, Miguel Lopez Perito, the Paraguayan State oil company could pay part of its debt through the purchase of company bonds; also stating the possibility of paying a part of the debt with food exports, such as soybean and meat.

The agreement with PETROPAR... Initially, there is talk about covering the amount of US\$10 million and the agreement contemplates freezing US\$162 million for a year, refinancing of US\$60 million to 15 years and the creation of a trust fund for US\$10 million that PETROPAR is supposed to pay this year, plus the whole debt is consolidated at an annual interest rate of 2% higher than the Libor rate.

PDVSA and PETROBRAS postpone Abreu e Lima. Brazil and Venezuela once again postponed the signing of an agreement to partner-up in the construction of an oil refinery in the state of Pernambuco, Brazil, with a processing capacity of 230,000 b/d to be concluded by 2011. The signing was scheduled for last Sunday, when the President of Brazil, Lula da Silva, was in Venezuela. However, the president of PETROBRAS didn't accompany Lula because *"the agreement was not completed, there was no time,"* said a Brazilian source.

Municipalities with oil activity are not getting paid. The lack of resources has kept the most important civil works from being executed in the Freites municipality in Anzoátegui, leading to the elimination of several social programs. Mayor Evelyn Urdaneta explained that 80% of the budget cannot be executed due to PDVSA's refusal to pay the debts due to tax retentions. As of today, PDVSA owes VEF 72.98 billion and its Directors have refused to pay this amount.

FUTPV Election: Finally! The first election of the Venezuelan Sole Federation of Oil Workers (FUTPV, for its Spanish titles) took place last Thursday October 1, after being postponed 6 times. Party N° 7, Vanguardia Obrera Socialista (VOS) is the one with the most votes, 15,009, and 54.3% of the total. Party N° 1 (C-Cura) took second place with 7,557 votes, 27.32% of the total. The executive committee was then presided by the leader of VOS, Wills Rangel, who stated that the negotiations for the union collective agreement must begin right away, pending only the swearing in of the process, and indicating that salary is not the main issue, but other benefits such as health, housing and education.

Behind the election... The winning party was the same one which the president of PDVSA, Rafael Ramirez, offered full support to in July of this year. Party N° 7 had the PSUV's logistics and financial support (according to VOS). The elections took place with complaints of violations to the electoral propaganda regulation by party N° 7,



access restriction to some witnesses and the media to the voting tables, harassment of PDVSA workers by their managers and favoritism showed for VOS.

Local Oil basket price. The price of the Venezuelan oil basket dropped by US\$1.8 during the last week of September, to close Friday at US\$62.5/bl compared to US\$64.3/bl the previous week. Meanwhile, the oil basket's annual average reached US\$52.6/bl, 31.5% above budget.

Business Sector Tips

The National Assembly seems to discard the Law for purchase and sale of vehicles. The law proposed by Representative Elvis Amoroso to regulate motor-vehicle prices seems to be being rejected by the National Assembly, since the AN supports the idea of reaching an agreement between the Government and the Automotive Industry to boost the sector's production in 2010.

The Venezuelan Government prepares measures for the automotive sector. The Minister of Science, Technology and Intermediate Industries (MCTII), Jesse Chacon, the President of the BCV, Nelson Merentes, and the Vice-minister of Intermediate Industries held a meeting with several directors of national assemblers last week to seek solutions to the current problems in the automotive industry, amongst which the most worrying are CADIVI's US\$3 billion debt with the sector and MMC Automotriz's labor union problems.

Labor conflicts continue at CVG. Two CVG union leaders and three workers were arrested while trying to contact the president of the CVG and Minister of Intermediate Industries, Rodolfo Sanz, during an act in the company. The union leaders and workers decided to contact the official clerk directly because he kept ignoring the workers' requests.

The CVG union took the corporation's administrative building. In solidarity with their fellow workers who were arrested, and demanding compliance with the labor agreement, the Union of Corporacion Venezolana de Guayana workers took the company's main administrative building and stated they will continue to halt production units for each day that goes without their requests being answered.





Bigger loss for Sidor in 2009. In 2008, Ternium projected that Sidor would report a loss of VEF 366 million in 2009, now that the CVG is administering the company, this year's projected loss reaches VEF 883 million, and they expect revenues for 2010, but only for VEF 17 million.

Steel production expectations decrease as well. The CVG estimates Sidor will produce 3.2 million tons of steel during 2009, 625 thousand tons less than Ternium's previous estimate. The CVG expects a 22% increase in steel production for 2009. This year, 60% of production will be destined to domestic consumption, and there is a plan to increase this proportion to 70% for next year.

Medicines are back. The liquidation of 70% to 75% of CADIVI's debt with the health sector will fill drugstore shells and boost consumption. The president of the Pharmaceutical Federation expects medicine sales to increase by 12% to 14% by the end of this year. The appearance of new disease and proliferation of old ones, along with the delay in the liquidation of foreign currency and the difficulties to nationalize raw materials generated shortage in this sector.

Bolipuertos still not paying for the equipment it uses. Since August, Bolipuertos is in charge of carrying out merchandize loading/unloading and storage activities in Puerto Cabello and La Guaira, using equipment and machinery of private entrepreneurs who used to manage these activities, without having signed a lease, purchase or expropriation of the equipment.

Port entrepreneurs are still paying insurance for their machinery. Since entrepreneurs are still the legal owners of the machinery used by Bolipuertos, they must continue to pay their insurance to cover themselves from the risk of damages caused by Bolipuertos. In addition to that, insurance policies have increased 10% to 15% due to the additional risk of the equipment being handled by Bolipuertos' employees.

Almost 60% of establishments visited are fined. Since September 25 INDEPABIS activated a Massive Audit Plan. Over 1200 establishments have already been visited around the country, and 700 of them were fined. INDEPABIS's national audit director stated that the main infraction incurred is a failure to comply with price regulations, indicating that fines are being doubled for second time offenders.

FITVEN 2009: High Expectations. The Venezuelan International Tourism Fair (FITVEN) ended last Sunday. Preliminarily, Mintur reported that upon closure, last Friday, US\$3.5 million had been negotiated, and calculated that the fair had been visited by 45,000 people. A few months ago, Fedeindustria signed an agreement with Mintur to allow affiliated companies to provide products and services to the tourism



sector. Most participating companies were from the textile, confection, footwear, personal hygiene and food sectors.

World Crisis Tips

IMF projections improve. After having projected in April a 1.3% shrinkage of the world's economy for 2009 and a growth of only 1.9% in 2010, the IMF updated its projections this week forecasting a drop of global production by 1.1% and a much faster recuperation with which global production will be 3.1% higher in 2010.

G7 tells banks not to resist the reform. Financial directors of the world's main seven economies warned bankers it was useless to resist to the upcoming reforms. The Secretary of Treasury of the United States added that the reforms will be introduced carefully to avoid debilitating the fragile recuperation, but they will not be marginal. The banking reform should eliminate the way in which bonds are paid to bankers to discourage the excessive taking of risks, to increase capital requirements and the capacity of regulatory organizations to monitor and intervene in the banking system.

G7 urges China to strengthen the Yuan. The Yuan, currency of the People's Republic of China, is under a tight control system in which the only limit that seems to matter is the lower limit, where the price of Yuan is usually located. Finance Ministers and Central Bank Governors of the G7 asked the Chinese Central Bank to release the Yuan to allow it to continue to rise up to a level that helps correct imbalances in global trade, since the current price of the Chinese currency makes their exports way too competitive and hinders local production in many countries of the world.

Unemployment is up in the Unites States. Unemployment in the United States reached 9.8% in September, up from 9.7% reported in August, said the Bureau of Labor Statistics. The unemployment rate has doubled since the beginning of the recession in December of 2007, and the number of unemployed people went from 7.6 million to 15.1 million.

Unemployment is up and the labor market perspectives improve. The Conference Board released its Employment Trends Index (ETI), showing a 0.3% increase from last month, though small, it is the first increase since January 2008. The ETI aggregates eight labor-market indicators, of which four had a positive contribution during September (Initial claims for unemployment insurance, percentage of firms with



positions not able to fill right now, industrial production and real manufacturing and trade sales).

Almost 100 banks closed in 2009. Three more U.S. banks failed last week, bringing the total to 98 this year. This time it was the turn of Warren Bank, Jennigs State Bank and the Southern Colorado National Bank. All three banks together had US\$583 million in deposits and US\$634 million in assets, and in each case, a bigger bank will be taking over the deposits. These new failures will cost the Federal Deposit Insurance Corp (FDIC) about US\$293 million. The FDIC expects the total bill for bank failures to come to US\$100 billion from 2009 through 2013. In spite of that, U.S. deposits are protected because the FDIC is able to tap a US\$500 billion line of credit with the U.S. Treasury.

U.S. service sector grew in September. The U.S. service sector grew in September for the first time since August 2008, according to the Institute for Supply Management's service index. The index reached 50.9 points in September, up from 48.4 in August, higher than expected by the market. The new orders index had the best contribution to the service sector. This is a very important measure since the service sector represents 80% of the United States' economic activity.

Eurozone retail sales up. Eurozone retail trade preliminary estimates show a 0.4% increase in August compared to the previous month, after having dipped for three consecutive months. Retail sales volume shrunk by 0.18%, but retail prices increased by 0.58%. Wholesale prices went up by 0.2% as well, so the crisis' deflationary effects are beginning to revert.

British industrial production falls in August. British industrial production dropped by 1.9% (SAAR) in August after having improved for two consecutive months. This indicator shows the fragility of the lately commented economic rebound, because an apparent solid improvement trend after a few consecutive months in a specific sector may be reverted unexpectedly.

IDB to grant more loans. The Inter-American Development Bank (IDB) expects to double its loans to about US\$ 15 billion this year, in response to the countries' thirst for credits looking to overcome the effects of the global crisis. The president of the IDB, Luis Alberto Moreno, assured the number is larger than the "typical" – around US\$7 billion – loaned by the institution each year.





Political Tips

LOT report to be ready by October 12. The president of the Social Development Commission, Oscar Figueroa, stated that at most, the report of the Organic Labor Law (LOT) will be ready by October 12 to give way to the public consultation. He informed of the approval of that related to the prescription of labor rights and the labor legal provisions. It is worth mentioning that the reform of the LOT does not set out any changes to the calculation of severance benefits by the State to active employees. However, the State is still in debt for the liquidation due upon the last change of regime, in 1997.

Was the food allocation approved? The president of the National Assembly's Social Development Commission, Oscar Figueroa, announced that, should the reform to the Law of Food Allocation for Workers be approved, companies with a payroll of over 10 people shall be compelled to pay a food allocation. This benefit shall also be paid in idle periods, vacation and leaves of absence not imputable to the employee.

FEDECAMARAS acknowledged as the only entrepreneurial center. The president of FEDECAMARAS, Noel Alvarez, stated that the International Labor Organization issued a press release acknowledging the organization he presides as the only legitimate representative of the Venezuelan entrepreneurial sector, and rejecting the attempt to create by law a sole chamber to represent the entrepreneurial sector, for this would violate ILO's Agreement N° 87 regarding freedom of union and association.

ALBA expects to create a court of arbitration. Representatives of the countries of the Bolivarian Alliance of the Americas are evaluating the possible creation of a court of arbitration for the resolution of investment disputes, in order to substitute the International Center for Settlement of Investment Disputes (ICSID). This court of arbitration would be in faculty to solve investment-related disputes between countries as to arbitration and conciliation procedures.

A fighting militia for December. The Minister of Agriculture and Land, Elias Jaua, informed that the Countrymen Bolivarian Militia, the Ezequiel Zamora Body of Soldiers will be constituted by December of 2009. The group will be ruled by the institutional regulations of the Venezuelan Armed Force and will be commanded by President Hugo Chavez. Jaua also informed the military training will start soon and cores will be posted in the repossessed farms, in the Zamoran estates and in repossessed



agriculture fields and plants, with the purpose of defending countrymen and the Homeland.

Guyana's Venezuelan-claimed territory is an issue once more. The Minister of Foreign Affairs of Guyana, Carolyn Rodrigues, and her Venezuelan homologue, Nicolas Maduro, recently reached an agreement to appoint the Jamaican economist Norman Girvan as UN official in the Venezuelan-claimed territory. Both ministers expect to meet the UN Secretary General, Ban Ki Moon, soon to discuss the issue.

Venezuelan ambassador in Panama summoned. Juan Carlos Valera, Vice-president and Minister of Foreign Affairs of Panama summoned the Venezuelan ambassador in that nation to clarify the reason for a Venezuelan diplomat to be present in a Province Council in Los Santos. The former president Guillermo Ford marked the situation as "disrespectful" for the diplomatic relations between both countries.

Correa visits Venezuela. This week the president Rafael Correa travelled to Venezuela with the intention of checking 34 in force agreements in energetic matter, science and technology and tourism. This visit is in the frame of the proposed mechanisms that the governments of Ecuador and Venezuela do to follow-up to the signed agreements and to strengthen the Bolivarian Alliance of the Americas (ALBA).

© Ecoanalítica. Prohibida su reproducción por uso no autorizado.





ECONOMIC OVERVIEW

