



# Weekly Report

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***PDVSA: Less and less to give***

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The first semester 2010 is about to close and PDVSA still hasn't released its audited 2009 financial balance statements. This is much like what happened last year, though this year the delays and lack of transparency have become worse. Just a few days ago, some official PDVSA figures (albeit preliminary) were quoted in the press. They were part of PDVSA's 2009 Year End Report which was turned over to the National Assembly in March. At **Ecoanalítica**, we were able to get a look at these figures, and though they are not audited and are only preliminary figures, it gives us a better idea of the state of the company's finances and operations. In this Report, we will focus on analyzing the company's financial aspect and in the following one we will look at its operations.

**2009: A difficult year. Was the final balance positive?**

According to PDVSA's 2009 Year End Report, the drop in oil prices led net earnings to close the year at US\$6.53 billion, down by 30.7% compared to 2008. The Venezuelan crude oil basket averaged US\$/bl 57.8, down by 32.3% compared to the average price registered in 2008 or US\$/bl 86.5. Despite the fact that these figures seem to indicate that PDVSA's performance was in accordance with the international oil scene, this Report



will present a detailed review of the figures and we will consider a number of aspects that don't only have to do with earnings obtained.

**Points to highlight**

With respect to the aforementioned Year End Report, the following elements are worth highlighting:

- Between 2008 and 2009, PDVSA's accounts receivable increased by 47.3%, settling at US\$15.92 billion. This is a bit difficult to understand in the midst of a more than 30% drop in the average price of the Venezuelan oil basket, which should imply that it be a lot easier for PDVSA's clients to make payment on crude oil shipments, even when taking into consideration the international economic crisis.
- The financial information and balances released in the Report are not presented in their usual (as presented in previous years) itemized form, thereby making it much more difficult to analyze. Along these lines, it's curious to note that accounts payable to PDVSA suppliers is not booked separately, but included in the category "other liabilities." The total balance of this account, which includes other sub-accounts such as, "accounts payable to PDVSA suppliers" and "pending income tax payments," increased by 23.3%. This leads us to believe that liabilities to suppliers and to the State have increased. The point to keep in mind here is that when a number of PDVSA's contracting companies were expropriated last year, one of the arguments used to justify the action was that this would help to control and lower accounts payable. The figures reflected in this latest Year End Report seem to indicate quite the opposite.
- Contributions made to the Nation, which include royalties, taxes, FONDEN transfers, and social programs dropped by 55.2%. This drop was to be expected due to the drop in oil prices on the international market, but the fact that royalties dropped by 53% stands out. We will analyze this point a bit further on.

Also keep in mind that these financial figures have not been audited and therefore they are not necessarily accurate or properly clarified. Unfortunately, nowadays, we don't know very much about Venezuela's state-run oil company.





| <b>Profit Loss Statement of Pdvsa</b>          |                 |                |               |
|--|-----------------|----------------|---------------|
|  | 2008            | 2009           | Variation     |
|  | US\$ million    |                |               |
| <b>Total Income</b>                            | <b>126,364</b>  | <b>72,946</b>  | <b>-42.3%</b> |
| Purchases of crude oil and derived products    | -39,500         | -23,407        | -40.7%        |
| Operating expenses                             | -22,385         | -16,990        | -24.1%        |
| Depreciation and amortization                  | -5,220          | -5,329         | 2.1%          |
| Royalties, extraction tax and other taxes      | -23,462         | -12,500        | -46.7%        |
| Contributions to social development and Fonden | -14,733         | -1,865         | -87.3%        |
| Other expenses (income), net                   | -7,427          | -3,462         | -53.4%        |
| <b>Total Expenditure</b>                       | <b>-112,727</b> | <b>-63,553</b> | <b>-43.6%</b> |
| Profit before income tax                       | 13,637          | 9,393          | -31.1%        |
| Income Tax                                     | -4,281          | -2,865         | -33.1%        |
| <b>Net Operating Profit</b>                    | <b>9,356</b>    | <b>6,528</b>   | <b>-30.2%</b> |

Sources: Pdvsa and Ecoanalítica

**Old news:  
PDVSA  
increased its  
debt**

PDVSA's consolidated debt closed 2009 at US\$21.68 billion, up by 43.6% compared to the previous year. This figure was released by PDVSA a couple of months back. The net increase in borrowing of US\$6.59 billion was explained by the issuance of Petrobonos 2011; Petrobonos 2014, 2015 and 2016; as well as the issuance of investment certificates to FOGADE and BANDES for US\$1.0 billion and US\$500 million respectively. Notwithstanding, PDVSA's debt levels are still within acceptable levels, comparable to other big international oil companies, even including last year's increase in borrowing. Once again we stress that the important thing here is not the amount being borrowed, but how the resources borrowed are being used. There is a very significant lack of transparency with regard to this issue.

**Tax  
contributions  
to the State**

During a year in which oil prices dropped, it was logical to assume that PDVSA tax contributions to the State would drop. Taxes paid to the State dropped from US\$37.98 billion to US\$21.44<sup>1</sup> billion. What we would like to highlight here is the 53% drop in royalties, when according to the Report, Venezuelan oil basket prices dropped a little more than 30% and domestic oil production dropped by 7.5%. These figures don't add up or make sense. Either oil production dropped a lot more than the Report states or the oil deliveries that PDVSA sends to China, and "discounts" the cash payment of royalties, is not being considered in the Year End Report.

<sup>1</sup> This includes royalties, extraction taxes, income tax, dividends, and other taxes.



Social spending was the item most affected in this account dropping 84%, affecting resources distributed to the government missions and other social projects (US\$1.81 billion), Fonden (US\$575 million), and PDVSA which contributed a total of US\$2.39 billion in 2009 to social development.

### Contributions paid to the Nation

|  | US\$ million  |               | Variation      |               |
|--|---------------|---------------|----------------|---------------|
|  | 2008          | 2009          | US\$ million   | %             |
| Royalty                                  | 24,639        | 11,486        | -13,153        | -53.4%        |
| Extraction Tax                           | 3,111         | 1,711         | -1,400         | -45.0%        |
| Income Tax                               | 7,955         | 6,022         | -1,933         | -24.3%        |
| Dividends                                | 2,000         | 2,000         | 0              | 0.0%          |
| Surface Tax                              | 178           | 158           | -20            | -11.2%        |
| Log export Tax                           | 92            | 64            | -28            | -30.4%        |
| <b>Sub-Total Tax Contribution</b>        | <b>37,975</b> | <b>21,441</b> | <b>-16,534</b> | <b>-43.5%</b> |
| Social Programs                          | 2,726         | 1,812         | -914           | -33.5%        |
| Regular Fonden                           | 6,677         | 569           | -6,108         | -91.5%        |
| Extraordinary Fonden                     | 5,730         | 6             | -5,724         | -99.9%        |
| <b>Sub-Total other contributions</b>     | <b>15,133</b> | <b>2,387</b>  | <b>-12,746</b> | <b>-84.2%</b> |
| <b>Total Contributions to the nation</b> | <b>53,108</b> | <b>23,828</b> | <b>-29,280</b> | <b>-55.1%</b> |

Sources: PdvsA and Ecoanalítica

### How much was invested?

PDVSA's 2009 Year End Report states that the company invested US\$15.43 billion in its domestic branches compared to US\$15.44 billion in 2008, a difference of only US\$16 million. At first glance this doesn't look so bad, but when you look at the areas that were invested in, then the situation changes a bit. Investments in actual oil industry operations dropped by US\$1.16 billion, while non-oil investments (such as food items) increased by US\$1.15 billion. But the most dramatic is that investments in exploration and production dropped by US\$1.74 billion (-18.5% compared to 2008).

At **Ecoanalítica**, we believe that this point defines the reason why it will be almost impossible for PDVSA to develop the enormous reserves Venezuela has by itself.





### Investment disbursements

|                                 | 2008          | 2009*         | Variación    |
|---------------------------------|---------------|---------------|--------------|
| Exploration and production      | 9,434         | 7,688         | -18.5%       |
| Refinement                      | 1,719         | 2,461         | 43.2%        |
| Pdvsa Gas                       | 2,245         | 1,553         | -30.8%       |
| Trady and supply                | 106           | 638           | 501.9%       |
| Food sector                     | 701           | 1,191         | 69.9%        |
| Non oil sector                  | 631           | 1,033         | 63.7%        |
| Others                          | 608           | 864           | 42.1%        |
| <b>Sub-Total Own Management</b> | <b>15,444</b> | <b>15,428</b> | <b>-0.1%</b> |

\*Figures for 2009 were estimated by PDVSA, based on actual results to November 30, 2009 and the projection of operations for the month of December 2009.

Fuentes: Pdvsa y Ecoanalítica

### Strategic importance in developing the Orinoco Oil Belt projects

During the last few months we have seen how the Administration has become much more flexible with respect to its requirements for developing the Orinoco Oil Belt projects. In our opinion, this change is due to the fact that the Administration has finally woken up and realized that it doesn't have the resources to develop and extract all the reserves that it has certified since 2006 (134.45 billion barrels), not to mention the technological capabilities and the financing it would require.

This is why one of the new requirements included in the Carabobo block auction was that participants must insure PDVSA's financing to develop its projects. Venezuela does not have the capacity to extract and refine all the heavy oil it has, and it's important for the Administration to ensure that there will be enough foreign currency coming into its coffers in the future. Because, if domestic oil production continues to drop, a slight increase in oil prices will not be enough to cover the drop in oil export volume.

One of the sources of the Administration's power is that it has significant amounts of foreign currency coming into its coffers which don't make it dependent on the performance of the domestic economy. It doesn't have to create incentives for the private sector or ensure that the economy develop in a productive manner to ensure its Administration's working capital. For example, in a recession year, it can devalue the currency and as if by magic it has dramatically increased its public revenue (measured in local currency) see our third weekly report of this year: *How much money will the administration get out of the devaluation?*. Once again we stress how important it is for the Administration to insure that it has a significant amount



of foreign currency coming into its coffers in the coming years as a means of insuring its hold on power.

Therefore, we see more direct foreign investment aimed at the oil industry. The Administration is expecting through what it has called “early production” around an additional 400 million barrels per day production by 2012 from the new Orinoco Belt projects, and by 2016 it expects production in the Junín and Carabobo blocks to reach 2 million barrels a day. We are not saying that these goals will be met but we are convinced that the Administration is motivated to try to meet these goals.

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## Economic Tips

**The Banco Central formalizes SICOTME.** The BCV released resolution number 10-06-02 where it states in Article 1 that primary placement of securities and bonds denominated in foreign currency issued by the Republic, its decentralized entities, or any other body, may only be done through the Primary Placement System for Securities in Foreign Currency (SICOTME), a part of the BCV. Article 2 states that only financial institutions authorized by the BCV will be eligible to carry out said transactions.

**Unauthorized operations.** Article 4 states that any operation which does not adhere to said Resolution in accordance to the Law related to the SICOTME by any of the authorized institutions will lead to the suspension of any participation in the system (temporary or definitive), and reincorporation to the system will only occur if authorized by the BCV and if circumstances that warrant said reinstatement exist. Article 5 states that the BCV will carry out inspections whenever it deems necessary, to supervise operations and act as an intermediary in the foreign currency market, in order to verify that all regulations and procedures are being followed.

**Supplementary appropriations.** According to the National Assembly Finance Commission, so far this year, VEF 15.30 billion in supplementary appropriations have been authorized, inflating the 2010 National Budget by 9.6% which is now at VEF 174.70 billion.

**Budgeted borrowing being carried out slowly.** The Ministry of Planning and Finance programmed the issuance of VEF 35.0 billion in debt throughout the course of the year (in accordance with the 2010 Debt Law), with VEF 20.0 billion of said amount earmarked to cover current spending. So far this year, only VEF 1.70 billion of said amount has been placed as of the middle of June 2010, which represents 8.5% of the total. However, one has to keep in mind that the devaluation of the currency at the beginning of the year generated a significant amount of extra revenue for the Administration, and therefore, it may not place the maximum allowed for this year.

**Interest rate.** The lending rate for the third week in May was at 18.4%, up by 33 base points compared to the previous week. Time deposits and savings rates were at 14.6 and 12.6%, respectively. This reflects a 2 base point growth for time deposits while savings remains steady.





**International reserves.** International reserves dropped by 1,0% going from US\$27.90 billion during the second week in June to US\$ 27,63 billion during the third week in June. Compared to the same period last year, international reserves dropped 7.6%.

**Monetary liquidity.** Monetary liquidity for the tercera week in June was up by 0.3% compared to the previous week settling at VEF 24.05 billion, and up by 1.8% in nominal terms and down by 11.2% in real terms compared to the same period last year.

## Oil Tips

**Pdvsa's Contribution to missions reduced by 84%.** According to information in the oil company's Annual Report and Accounts, its contribution to social expenditure through missions, endogenous development centers, community contributions, agricultural programs and the Alba Caribe Fund, has been reduced by 82% when comparing 2009's donations with those of 2007. In 2007, Pdvsa outlaid US\$5.3 billion in social expenditure, then, US\$1.09 billion in 2008, even though the oil industry's revenues were bigger that year; and last year, the number went down to US\$942 million.

**By mission.** The mission with the most contributions in the last two years was Mission Ribas, receiving US\$689 million in 2009, over five times more than 2007's donations (US\$133 million). The most affected mission was Barrio Adentro, a program that received 3.2 billion in 2007, US\$130 million in 2008 and only US\$9 million in 2009. For home construction, Pdvsa reduced its contribution from US\$659 million in 2007 to US\$143 million in 2009. In mercal the reduction was by over 99%, from US\$916 million in 2007 to only US\$6 million in 2009, although in this case it was due to the creation of Pdval.

**Orinoco Oil Belt production at one million 40 thousand b/d.** One million 40 thousand barrels of crude oil per day is the average production at the Orinoco Oil Belt, according to statements issued by the President of Corporacion Venezolana de Petroleo (CVP) and the oil belt's executive director of Production, Pedro Leon. He also said the oil belt's crude oil upgraders were operating at 85% of capacity.

**Contaminated surface at the Maracaibo Lake.** According to the preliminary report of the Zulian Parliament, nearly 1,000 Km<sup>2</sup> of the Maracaibo Lake are contaminated by substances derived from the oil industry. The president of the Commission of



Indigenous People, Environment and Natural Resources of the Legislative Congress of the Zulia State, Virgilio Ferrer, said the report revealed the lake's degree of contamination caused by the exploitation of crude oil. He also said representatives of Pdvsa, the Ministry of Environment and Iclam had refused to appear at the Legislative Congress to be interrogated about the crude oil stain that was observed three weeks ago on the lake's west coast.

**Pdvsa and Petropar's delayed interest payments.** According to an independent audit carried out by the Paraguayan oil company Petropar, Pdvsa tried to collect a delayed payment interest rate of 18%, while the Cooperation Agreement of Caracas established a 2% rate. However, the former president of Petropar, Cibar Granada, signed contracts in 2007 in which Petropar accepted the delayed payment interest rate of 18% also allowing that rate to be unilaterally adjusted by Pdvsa. The Paraguayan Comptrollership declared this debt to Pdvsa illegal, for not complying with the Energetic Cooperation Agreement of Caracas; up to September of 2009, Petropar owed US\$XX million to Pdvsa plus an additional US\$XX million in interests.

**BP to stop paying dividends for US\$7.5 million.** After a meeting held by BP's managers and President Barack Obama, the oil company decided to create a fund to compensate the Gulf victims for the disastrous oil spill and suspended the payment of US\$7.5 billion in dividends for this year. BP will pay US\$3 billion in compensation during the third quarter of 2010 followed by US\$2 billion during the fourth quarter, and then 12 quarterly payments of US\$1.25 billion to complete the US\$20 billion offered in compensation. So far, the spill cleaning has cost BP another US\$2 billion and its shares in the London stock market are at their lowest level since 1997 at only US\$4.95.

**Citgo analyzing the possibility to modify their indebtedness plan.** Around May, Citgo presented a prospect of bond issuing for US\$1.5 billion, though this Pdvsa-affiliate debt issuing could be modified, issuing only US\$300 million in foreign markets and processing two financing plans for US\$1.2 billion.

**International oil baskets.** Near New York market's closing time, Friday June 25, the WTI was at US\$78.39/bl, showing a 1.56% increase compared to the US\$77.18/bl of the previous Friday. The Brent remained constant at US\$77.23/bl.

**Local oil basket price.** The Venezuelan oil basket price increased this week, to close at US\$68.48/bl on Friday June 25, US\$0.79 more than the US\$67.69/bl of the previous week. Meanwhile, the basket's annual average decreased to US\$70.2/bl.





## Business Sector Tips

**Presidential order.** The President of Venezuela, Hugo Chavez, said last week the liquidation of US\$500 million by the Currency Administration Commission (Cadivi) was authorized as part of an extraordinary currency allocation carried out through the Central Bank of Venezuela (BCV) for the amount of US\$1 billion to meet pending application liquidations. President Chavez explained the currency would be destined to, in a first stage, taking care of 1,802 companies for amounts ranging from US\$1 million to US\$1.5 million, and the second stage would take care of 582 companies with amounts ranging from US\$1.5 million to US\$3 million. These companies represent 80% of the total with pending applications and belong to the sectors of food, health, trade, metallurgy, chemistry, information technology, textile, graphic, machinery and equipment and automotive.

**Cadivi update.** Among the statements issued by President Chavez, he mentioned that US\$11.06 billion had been authorized for imports as to June 15 of 2010, representing a 23.1% increase compared to the US\$8.99 billion authorized during the same period of last year.

**More US\$ for the footwear, stationary and graphic sectors.** A press release issued by the Currency Administration Commission (Cadivi) indicates the US\$ authorized so far this year for imports in the footwear, stationary and graphic sectors represents 136.8% more than those authorized during the same period in 2009. The amount authorized to be liquidated for these sectors' imports between January 1 and June 18 reaches US\$332.8 million.

**Forbidden.** The Banks' Superintendence (Sideban) issued a resolution forbidding national banks, starting June 18, from performing operations such as "placements, transfers, trades, swaps, trust funds" with financial institutions in countries categorized as tax havens by the Organization for Economic Co-operation and Development (OCDE). Among the countries included in this list are Belize, Panama, Montserrat, Costa Rica, Cook Islands and Vanatu, among others. Sudeban said financial institutions had 10 days to submit the documentation of transactions carried out and that positions or operation carried out should be "completely guaranteed, penalized, cancelled, reversed, unincorporated or liquidated."





**Payment to Banco Federal clients.** President Hugo Chavez said the Deposit Guarantee Fund (Fogade) would begin paying Banco Federal deposit holders with amounts up to VEF 30 thousand starting Friday of next week, beginning with senior citizens. According to Edgar Hernandez Behrens, 96% of deposit holders, 273,406 people, belong to this group.

**Further bank audits ruled out.** Administration executives, after having participated in a meeting with the country's private banking system representatives, guaranteed the solidity of these banks and denied the rumors circulating about further bank audits as part of the "economic war." Elias Jaua, executive vice president of Venezuela, said "the financial system is absolutely healthy, strong and reliable (...) No further audits are scheduled for now, no institutions are forcing the Government's actions."

**1,300 Mw incorporated.** The minister of Electric Energy, Ali Rodriguez Araque, said that, even though "the system still has flaws that are being addressed," the necessary actions are still being taken to avoid a crisis in water level and depth as could have occurred this year, reason why thermoelectric generation units are continuously being incorporated, accumulating 1,300 new megawatts as of June 18, representing 22% of the proposed goal of 5,900 megawatts.

**Confiscations continue.** 606 tons of chicken were confiscated last week by Bolivarian National Guard officers due to the fact that, according to them, the chicken was being hoarded by the distributor El Frio, in the Cojedes state. Governor Teodoro Bolivar participated in the operation as well as the regional director of Indepabis, Marilyn Angulo. The merchandize was appraised at VEF 6 million and is to be sold by Mercal.

**Coffee sector: Another sector in increasingly bad conditions.** Even though the prices of many regulated items have been adjusted this year, the difference between these prices and production costs make the activity even more complicated, causing supply shortage compared to the product's demand. During the last ten years, coffee production has decreased by 58.3%, going from 3.6 kilograms to 1.5 kilograms per capita.

**However...** According to numbers from the Ministry of Agriculture and Lands' Integral Agricultural Development Plan, the coffee-planted surface was 189,440 hectares in 2009, compared to the 150,000 planted in 2004, which represents a 26.2% increase. However, an increase of 8 to 30 quintals of production per hectare was expected, a goal that has not been met since production is still at 7 and 8 quintals per hectare.

**Labor problems at Llano Arroz.** Workers of the company Llano Arroz took over, peacefully, the company's facilities requesting labor vindications and protesting for an



alleged deviation of production distributed through the Corporacion de Abastecimiento y Servicios Agrícolas (Supply and Agricultural Services' Corporation, CASA) which has been presenting irregularities for a long time. The workers' measure is supported by the Communal Councils of Calabozo, Guarico State, where the company is domiciled.

**Sidor to be reactivated.** An agreement signed between Corporacion Electrica Nacional (Corpoelec) and Siderurgica del Orinoco (Sidor) authorized the relaxation of the electric rationing plan in the latter and other companies of Guayana. With this measure, the iron-steel company's production should increase from 20%, current capacity, to 60% of its total capacity, an objective to be achieved by the end of July. A production of 0.83 thousand tons of liquid steel is currently projected by year end, when 3.1 million tons were produced in 2009, out of which 1.8 million tons were destined to domestic needs.

## World Crisis Tips

**China frees-up the Yuan.** The People's Bank of China announced last Saturday June 19 the end of the exchange rate parity with the US\$, which was set at 6.83 CNY/US\$ since July of 2008. The announcement was made one week before the G20 meeting in Toronto, where an increased pressure over China to reevaluate its currency was expected. The Bank of China made clear that a strong appreciation of the Yuan was not within China's best interests; that the exchange rate would remain stable and its appreciation would be slow and gradual, proving the Yuan will not have a free flotation with respect to other currencies, but a dirty flotation (with the intervention of the Bank of China).

**US Leading economic index up by 0.4%.** The Conference Board's composite index of leading indicators increased by 0.4% during May, after having remained unchanged during April, showing an annual growth rate of 7.2% during the last three months. The index of coincident indicators increased by 0.4% as well, after a gain of the same size reported last April. It is worth mentioning that all four components of this coincident index (industrial production, personal income in real terms, sales and employee payrolls) showed improvement during May.

**US Industrial production. Continuous recovery.** US Industrial production increased by 1.2% during May, after having grown 0.7% in April, to reach an annual rate of 8.1% in the first five months of 2010. Among the industries showing more improvement is the automotive industry with a 5.5% growth during May, accumulating over 33% (y/y)



of growth compared to May of 2009; computer production grew by 1.4% (14.3% y/y) and machinery production grew by 1.9% (13.3% y/y). The use of installed capacity also improved to 74.7% from 73.7% in April, and 68.5% in May of 2009.

**US prices down.** The US CPI went down for the second consecutive month, falling by 0.2% in May after a 0.1% decrease in April. Energy commodities played a role in the fall of consumer prices, since gasoline prices went down by 5.2%. The inflationary core increased by 0.1% after two months of stability, accumulating an increase of barely 0.3% during the first five months of 2010. The accumulated inflation of the last 12 months in the US is 2%. The producer price index contracted by 0.3% during May, after a previous fall by 0.1%, however, in y/y terms, the index is still 5.1% higher, due to the significant decrease of wholesale prices observed from the beginning of the crisis in September of 2008 to March of 2009.

**Germany and Italy show solid growth, not so much for France.** With the crisis, industrial product orders dropped nearly the same in these three large economies, in Italy, orders contracted by 63.3%, while in Germany (with the slightest fall), orders went down by 61.1%, from its pre-crisis peak to early 2009 when numbers started to increase. Since the beginning of the recovery of industrial product sales, 36% have been recovered in Germany, 20% in Italy and only 8% in France; the difference is basically due to the fact that Germany's industrial demand depends almost exclusively on foreign demand, while France is much more dependant on its domestic market. During April, German and Italian industrial sales continued to grow at a monthly rate of 3.3% and 4.7% respectively, while France had a setback by 3.4% compared to March.

**UK retail sales increase.** Retail sales reported a 0.4% increase in May compared to April, which, excluding vehicle sales, translates into a 0.6% increase, accumulating a 2.2% growth compared to May of 2009, slightly better than consensus expectations (2.1%).

**Japanese economy continues to recover.** The Japanese All Industry Index increased by 1.8% during April, placing it on the 42 percentile of its historical data of the last five years, a significant improvement from the 29 percentile it occupied the previous month. The industrial sector shows the best improvement located at the 63 percentile in the last five years, while the construction sector is the weakest located at its lowest in the last five years (percentile 0).





## Political Tips

**Chavez: "IACHR manipulated."** The President of Venezuela assured in an interview with BBC London that the Inter American Commission on Human Rights (IACHR) was "manipulated" and that it had "supported presidential coups." After defending the Venezuelan political system, saying "no country is more democratic than Venezuela," Chavez addressed different topics, from his relations with Iran and the US, to the independence of the Judicial Power, defending his political model at all costs.

**President of the National Assembly assures there are irregularities in the Afiuni case.** Cilia Flores, president of the National Assembly (NA) requested a campaign to prove the irregular elements that compromised Judge Afiuni after releasing banker Eligio Cedeño. This request was introduced after the first discussion of the reform to the Judges' Code of Ethics in plenary session of the National Assembly, in which parliamentary Juan Jose Molina demanded the Administration to avoid showing inderence with the Judicial Power.

**National Assembly to monitor municipal chambers.** According to Representative Tulio Jimenez, having control over some mayors is necessary since they "consider themselves omnipotent and think they are not controlled by anybody and allow themselves to run over anyone they please." With this, the National Assembly's (NA) Internal Affairs Commission will request a meeting with representatives of the Supreme Court of Justice (TSJ), the Comptrollership of the Republic and the People's Ministry (MP) to solve the problem presented in some municipalities in their attempt to disregard the labor of town councilors with the creation of parallel municipal chambers.

**Democracy must not be imposed from outside.** The OAS secretary general, Jose Miguel Insulza, said "democracy is not imposed from outside," indicating Venezuela should solve its problems internally. The Secretary said: "We can send 50 (OAS) missions, but the problem of democracy in Venezuela will ultimately be solved in Venezuela." The organization has received different critiques from sectors assuring it has been too weak facing attacks against democracy in countries such as Venezuela, to which Insulza reminded OAS would only act when a member country requested it.

**Venezuela and Bolivia at the ALBA Summit.** Chavez and Morales, Presidents of Venezuela and Bolivia, respectively, confirmed their attendance to the ALBA summit with indigenous and afro-descendent authorities on June 24 and 25 in Ecuador. The



meeting will be kicked off by the Ecuadorian President, Rafael Correa, and will welcome ministers and delegates from all other five ALBA member countries. The main topic of discussion will be the *“Analysis of the transition from Colonial State to multicultural, interlocutor and multinational State models.”*

**Fides liquidated and Compensation Fund created.** The special Law of Liquidation of the Intergovernmental Fund for Decentralization (Fides) was sanctioned in a plenary session of the National Assembly. This instrument will allow the elimination of this economic instance and will give way to the recently created Inter-territorial Compensation Fund (FCI), in charge of financing public investments promoting the balanced development of regions.

**Evaluating the possibility of sending a mission to Venezuela.** Patricio Walker (DC) and Andres Allmand (RN), both Chilean Senators, will introduce a draft in the Chilean Senate proposing the designation of a delegation of Congress observers to “supervise” the parliamentary election of September 26 in Venezuela. This action would become the first explicit pact of the Alliance with the DC in the Sebastian Piñera Administration, indicating a clear position of transversal questioning –with the help of UDI- to the domestic policies of the Hugo Chavez government.

**Requested investigation of Minister Rafael Ramirez.** Roberto Enriquez, national president of Copei, requested the Attorney General’s Office to investigate the possible responsibilities in the importation stage by private companies that have obtained importing licenses referred to by Rafael Ramirez, president of Pdvsa. He also requested the summoning of Pdval, Pdvsa and Bariven, so they can inform which company or companies are offering container-storage services for said companies.

**Attempts to generate bank runs.** President Chavez informed in a national broadcasting that different sectors “have been working to try to generate bank runs” as part of an economic war plan. Chavez said the national government was assuming the commitment to respond to saving-account holders in recently closed financial institutions. He also emphasized that the country’s most solid banks were Banco de Venezuela and Banco Bicentenario. Finally, he told Venezuelans not to pay attention to rumors.

**Law suit against Governor of Apure admitted.** Jesus Aguilarte Gamez, Governor of the Apure State, is to appear at the Supreme Court of Justice (TSJ) to explain why his office refused to transfer the corresponding economic resources to the entity’s Legislative Council in 2009.

**Chavez changes of ministers and ministries before 26S.** President Chavez removed several officials who are candidates for National Assembly and even



eliminated the Ministry of Public Works and Housing to be replaced by the office of Transportation and Communications led by Francisco Garces and the office of Housing and Habitat, by Ricardo Antonio Molina. Diosdado Cabello, who was the Minister of Public Works and Housing is one of seven ministers who will be candidate for Congress on 26 September. The removal of this ministry was justified in order to "improve the effectiveness and efficiency of care of people ..."

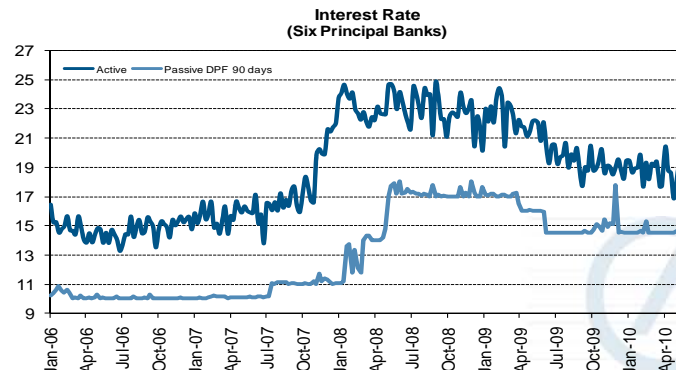
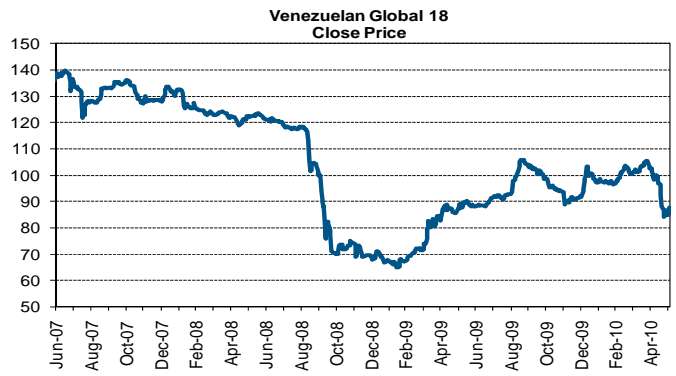
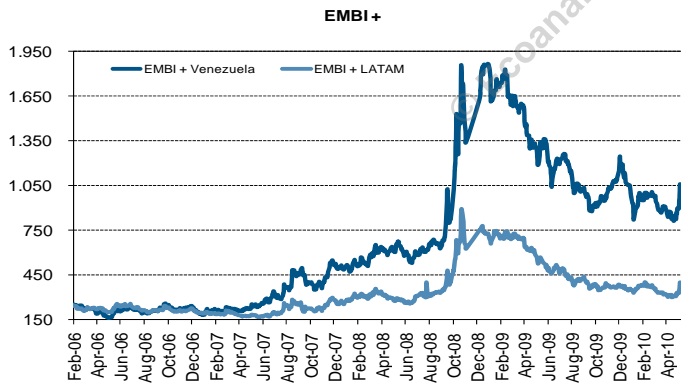
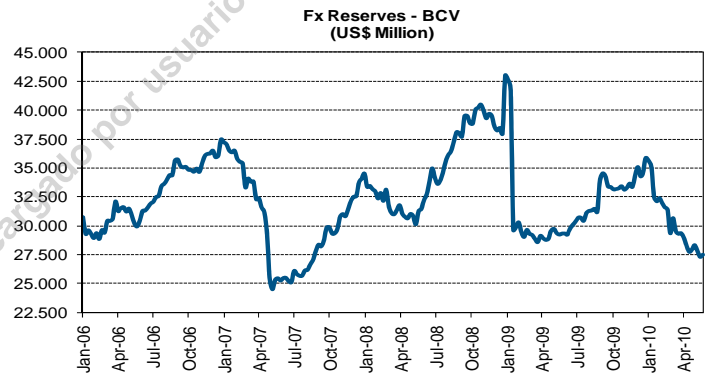
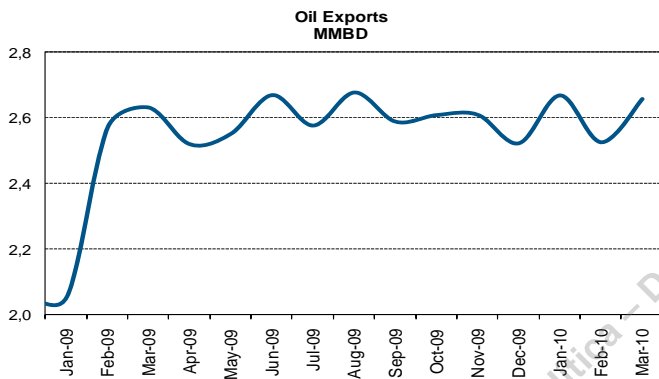
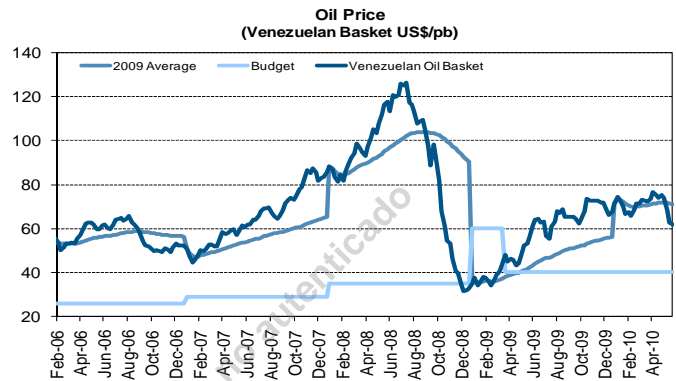
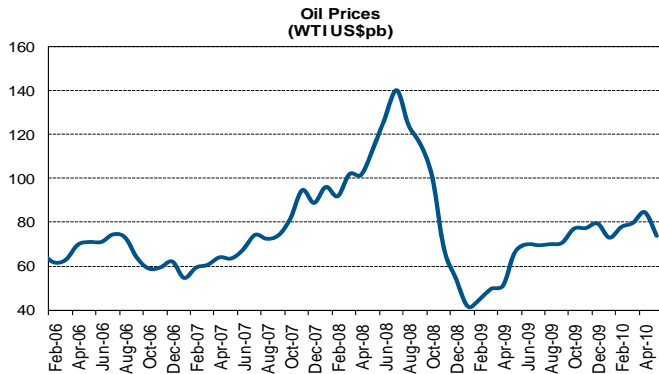
**Replacement list of ministers.** Godoy Maria was appointed as the new Minister of Office of the Presidency, replacing Luis Reyes; Tania Days was replaced on the head of the Ministry of Communication and Information by Mauricio Rodriguez; Hector Navarro was replaced at the Ministry of Education by Jennifer Gil; Victoria Mata was replaced in the Ministry of Sports by Hector Rodriguez; Erika Farías was replaced by Isis Ochoa at the Ministry of Municipalities and María León was replaced by Nancy Pérez in the office of Women and Gender Equality. All ministers substituted are candidates for the elections AN 26 September. In addition, Loyo Juan appointed as new Minister of Agriculture and Lands, charge that will carry out simultaneously with the president of the National Land Institute (INTI), where replacing Elias Jaua, currently executive vice president.

**Former Argentine ambassador denounces bribery in exports from Argentina to Venezuela.** The former Argentine ambassador to Venezuela, Eduardo Sadous confirmed the veracity of his claims on payment of bribes between 15% and 20% paid by Argentine exporters to do business with Venezuela.



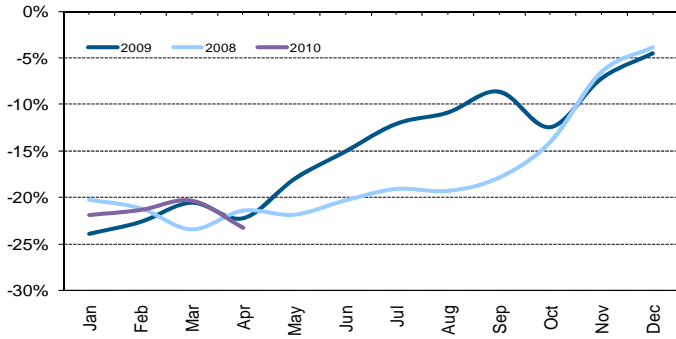


## ECONOMIC OVERVIEW

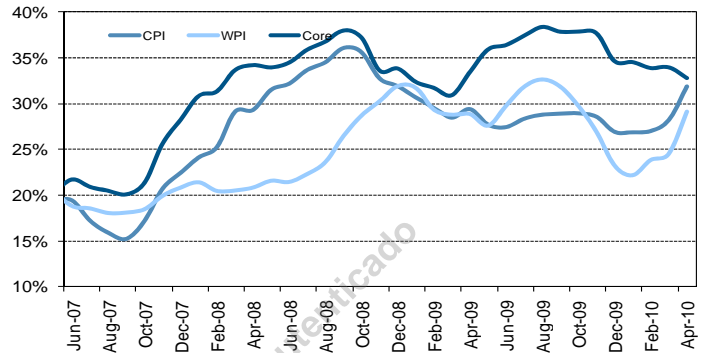




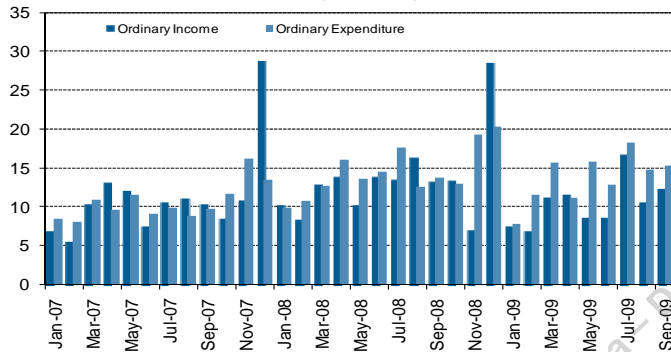
**Real Expansion (M2)**



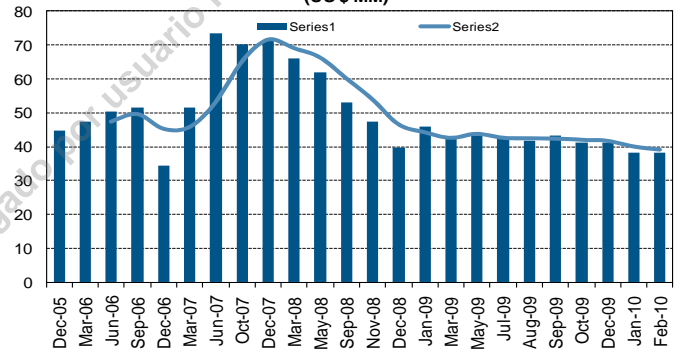
**Inflation (Last 12 Months)**



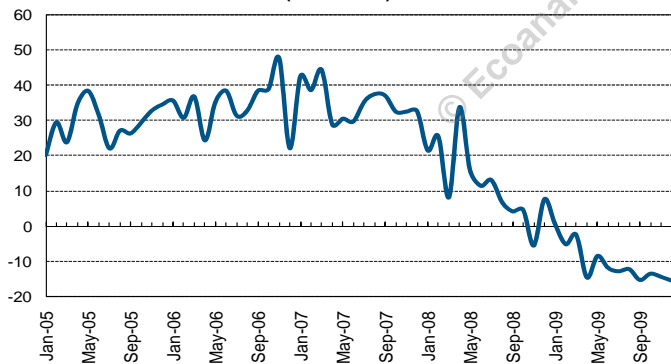
**Central Government (VEB Billion)**



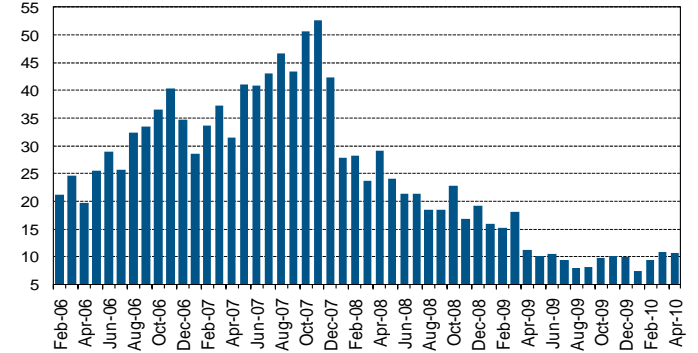
**Resources of the State (US \$ MM)**



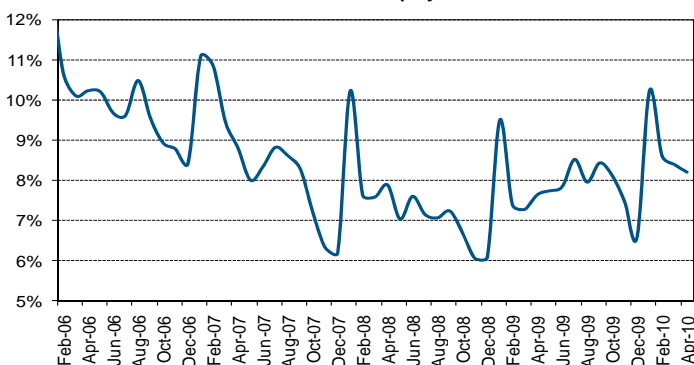
**Volume of Sales (% Variation)**



**Sale of Vehicles (Thousands of Sold Units)**



**Rate of unemployment**



**Disbursement (US\$ Million)**

