



Weekly Report

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*The State managing the economy:
Truth or myth?*

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With the belief that 21st Century Socialism is becoming more firmly entrenched and with the increasing number and accelerated rhythm of expropriation and nationalizations, the State's presence in the economy of the country has become larger. However, we are not sure if this is actually a fact or an urban myth. This is why this Report will analyze the State's role in the country's economic activity, its policies, and the performance of the Gross Domestic Product, describing how it has evolved and what has become of the dynamics that exist between the State and private companies

**The
Administration's
objective**

The Administration is looking to implement its 21st Century Socialism and one of the key factors towards achieving this is creating a State that plays the main role with respect to GDP activities, leaving the private sector with a 30% participation in the economy, following an economic model which focuses on creating value for the communities without earning profits, and if profits are earned then these should be invested in the people. Meanwhile, a number of businessmen and leaders in the business community have pointed out that in order to generate value in society it's necessary for



companies to be able to make a profit, since said profits are what allow companies to invest and grow, plus, the ability to make profits makes them much more efficient.

The context in which this is developed

It is important to point out that the Venezuela State has always characterized itself as being rentist and paternalist, leading society to have a structural dependency on the aims of the Administration in power, in this case an Administration that is not interested in increasing the production of non-oil goods and services and which plays favorites with a selected few. During the current period, the Administration's push to implement its socialist model has gathered steam, and the economy is more dependent on public spending than ever before. Meanwhile, the State continues to be totally dependent on its oil revenues and the price of oil, which as we have reported, went down significantly last year, and though prices are recovering in 2010, they are nowhere near their record levels of 2008. So, the Administration has been forced to cut back on spending in real terms, 10.8% during 2009 and 8.1% during the first five months of 2010, if you compare to the same period in 2009.

This is curious since 2010 is an election year, and historically during an election year, public spending goes up. This makes us think that the Administration is aware that by increasing public spending it will exacerbate the current already complicated economic scenario, since increasing spending will lead to more liquidity and higher inflation. However, as we have pointed out before, in order for the Administration to continue to implement the political and economic models en route to achieving its 21st Century Socialism, it needs to continue to fuel the economy through public spending. And in order to continue to be able to maintain these levels of public spending, the Administration needs to increase its revenues, even if it means devaluing the currency; which it did, increasing its fiscal revenues in local currency.

This is why the Administration needs to increase oil production. Despite the fact that oil prices have begun to recover compared to last year, the oil revenues that are being generated (current exports are at 2.2 million barrels a day) are still not enough to guarantee the viability of the Administration's socialist project in the medium term, even with the considerable amounts of extraordinary resources it has available to manage at its discretion. This is why the Administration has entered into strategic alliances with China and other countries to develop projects on the Orinoco Oil Belt. It couldn't have done this by itself, not in the time limit required.



In addition, the table shows that the resources owned by the Government, apart from what is in the budget and the future income and can be use in discretionary spending, have been declining consecutively without increasing the expenditure, which gives the Government another reason to worry about

Government Resources	May - 2009 (US\$ MMM)	May - 2010 (US\$ MMM)	Variation (%)
In VEF	24	21.1	-12.1%
BANDES	0.1	0.1	0.0%
BDT	0.0	0.1	
Deposits in the financial system	15.2	12.2	-19.7%
Fondo Miranda	3.5	3.7	5.7%
National Treasury	3.2	3.1	-3.1%
FONDEN	2.0	1.9	-5.0%
In USD	19.3	13.1	-32.1%
FONDEN	11.3	9.1	-19.5%
Other Funds	7.4	2.3	-68.9%
PDVSA	0.6	1.7	183.3%
Total	43.3	34.2	-21.0%

Source: Ecoanalítica

How the State has turned into a business enterprise

For quite a number of years now, the Venezuela State has been a fundamental part of the Venezuelan economic apparatus and has played the role of businessman, ever since PDVSA was nationalized in the 70s. However, since 2006, the current Administration has increased the State's role of businessman by carrying out a series of nationalizations, which have increased in number and frequency lately, and which total cost now comes to US\$23.32 billion. The reason for this, according to the Administration, is that the State has to have more control over "strategic sectors" of the economy. His concept has evolved quite a bit. It began with what one might agree somehow, and consider to be, a "strategic sector" of the economy: the oil sector, the electric power sector (in wich they already show its unefficiency with the electric crisis of this year), and the telecommunications sector. Now, a "strategic sector" also includes: the steel sector, the cement sector, tourism, banking, and the production, distribution, and sale of food items. This shift in concept has allowed the State to become involved even in the manufacture and sale of what one may call luxury items, such as automobiles and cell phones.





Nationalization Costs (MMM US\$)

Canceled	
Electricidad de Caracas	1.10
CANTV	2.00
Oil companies(Statoil, Total, Chevron)	3.45
Sidor (Payed)	1.07
Banco de Venezuela	1.05
Sub-Total	8.67
Future Expenditure	
Éxito chain and Hotel Hilton	0.72
Cement companies	1.90
Sidor	0.90
Oil Companies (Exxon, Conoco, ENI)	7.25
Oil contractor	1.95
Petrochemical	0.62
CVG contractor	1.30
Cargill	0.05
Sub-Total	14.65
TOTAL	23.32

Source: Ecoanalítica

The other components of the strategy

At the same time the Administration has been carrying out a series of nationalization, it has also increased the number of properties that it has expropriated and business it has occupied, such as the sugar mills it has taken over and the coffee producing companies, just to name a few. The reasons given for these actions are varied: hoarding the product, lack of productivity, etc. Oftentimes the charges presented are caused by the Administration's anti-market economic policies, such as price controls, exchange restrictions, and the threat to private property. The Administration has also created a number of mixed companies, such as the new automobile assembly companies.

The State's role as an employer

It is no surprise that with the current measures being implemented by the Administration, the State has increased its role as employer. Though the private sector continues to employ 80.5% of the active working population. But it has increased its payroll in 36.1% between 2006 and 2009 giving us a first look at how big and important will be the presence of state in the economy.



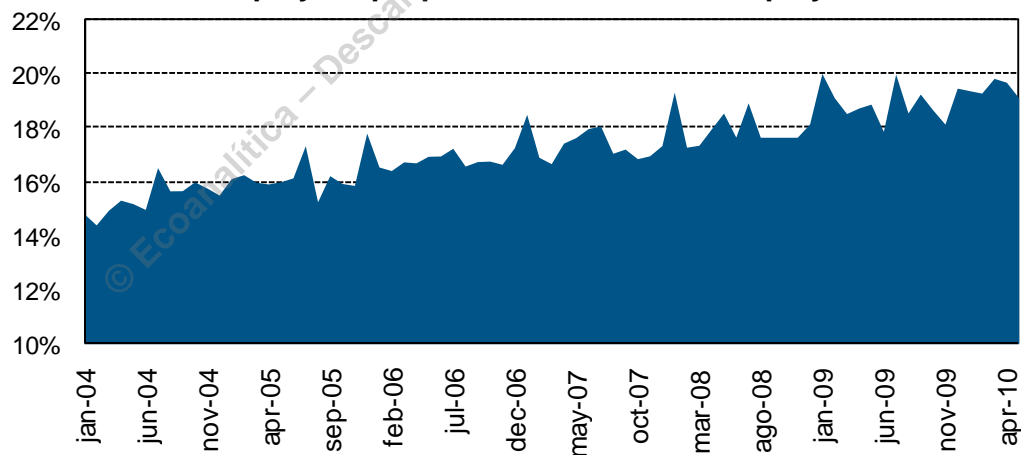
How are the responsibilities distributed?

If you look at the GDP figures released by the BCV, itemized by institutional sectors, you may come to think that nothing has really changed, since the public sector portion of the economy hasn't even reached the level it was at in 1999. It looks like nothing has changed. The problem with basing our conclusions with only this information to back them up is that these figures do not reflect the fundamental dynamics of the country's economy.

The truth of the matter...

The truth of the matter is that the Administration has made headway in its attempt to play a more important role in the economy, not only because it has taken over a number of "strategic sectors" which we have already mentioned, but because it is increasing regulations on private sector activities, carrying out punitive policies on the management of private sector merchandise. This makes it a lot easier for the State to penetrate new sectors, since these measures make it almost impossible for companies to invest, offering them no guarantees on their investment, thereby stifling any possible growth.

Public employers proportions above total employers



Sources: INE and Ecoanalítica

At **Econalítica**, we believe that the private sector's participation in the economy is still vital and fundamental if there is to be any economic growth. Private companies are more efficient than public companies, case in point, *Empresas Polar*, which is under the threat of expropriation being that it is part of the food production and distribution sector of the economy, a sector considered to be strategic by the Administration.

The role of the State in each sector

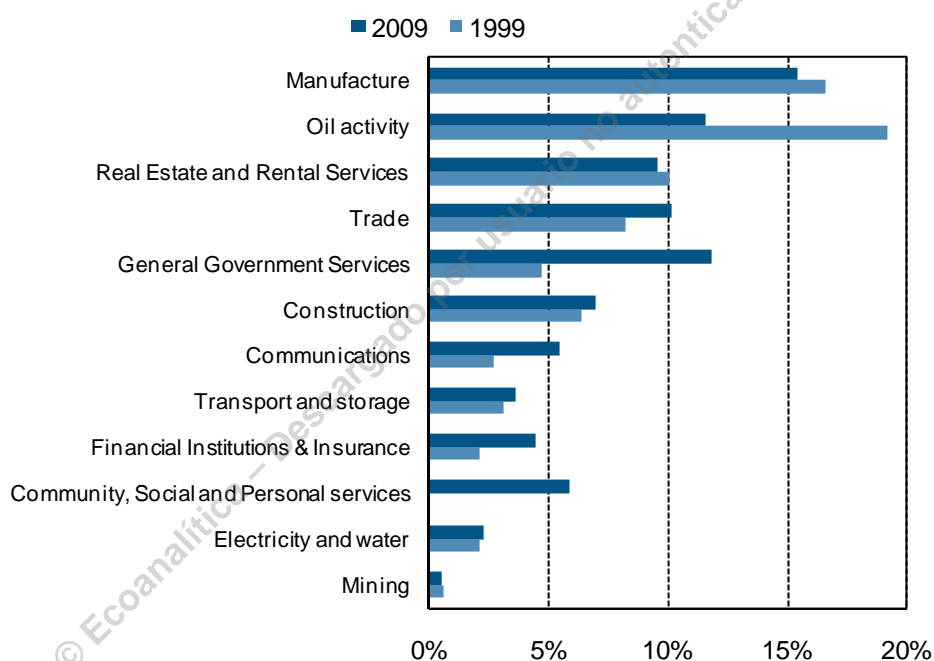
If we look at the GDP figures released by the BCV, itemized by sectors of the economy, and then we compare their performance in 2009 with 1999,





we would see, as is to be expected, that the Government Services Production column increased with respect to total GDP. This reflects an increased dependency of the economy on this sector with an accumulated growth of its share of 7.1 pp going from 4.7% to 11.8% of the GDP, when for example; oil activity shrank by 7.6 pp, going from 19.2% to 11.6%.

GDP distribution 1999 Vs 2009



Sources: BCV and Ecoanalítica

One of the sectors the State has also increased its control over is the electric power and water sector. It has increased its contribution in the sector by 0.2%, taking into account that the Administration has not made the necessary investments in the sector to avoid the crisis we had last year. And, despite the fact that the Administration has finally started to address the problem, it is quite probable that next year will be even worse. Also, this sector only represents 2.3% of GDP.

The State has also increased its control in the communications sector and the financial sector, by 2.8 pp and 2.3 pp, respectively. These are sectors where the State has begun to play a more significant role. Together, these sectors represent 10% of the total GDP.





With respect to the mining sector and the manufacturing sector, where the State has also increased its participation have dropped with respect to the amount they contribute to the GDP by 0.1% and 1.2% respectively. The mining sector is not so significant being as it only represents 0.5% of total GDP, but the manufacturing sector is quite relevant, representing 15.4% of total GDP. This sector is mostly managed by the private sector.

The most important

The commerce sector and the construction and real estate services sector, which represent 26.7% of GDP and is mainly managed by the private sector. They have not been significantly “intervened” by the State, not because these sectors don’t fit the Administration’s definition of “strategic sectors,” but rather because it is content to control them through regulation or making them directly or indirectly dependent on the State. This is done through price regulation, exchange controls, being a source of financing for projects, or if need be, by threats and bullying. The Administration is content to let these sectors be run by companies that have the knowhow to guarantee their continued operation. But when the Administration deems it necessary, it can always step in and expropriate or nationalize them.

And what about investment

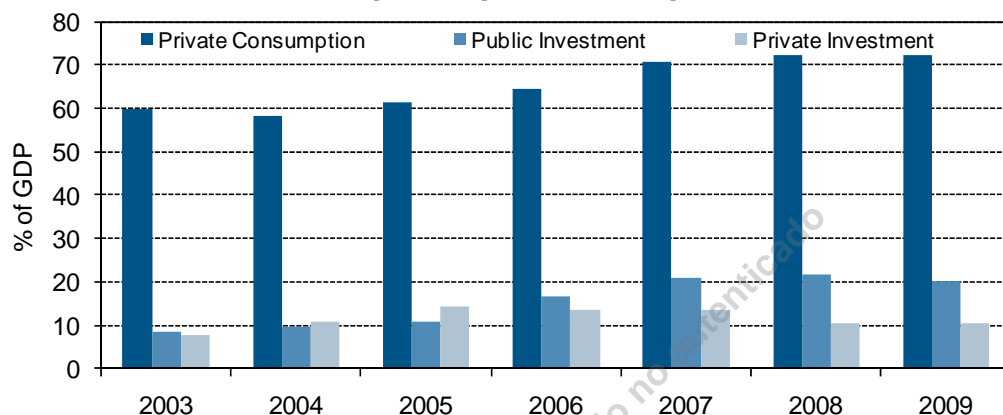
It’s important to point out that due to the private sectors majority participation in the economic activities of the country, it should be responsible for the lion’s share of investment. However, during the last few months, investment has been dropping significantly, and this is a key factor to economic growth.

Consumption has been continually increasing since 2003, including last year, though at a much reduced pace. But this did not stimulate investment beyond 2008. One could think that this is not only due to the world crisis but to other factors such as price controls, the lack of competitiveness produced by the exchange controls, the expropriations and threats to companies, the lack of legal security to defend ones property, and other things that do not lead to creating incentives to invest. As you can see in the graph, though public investment has been gaining ground, it’s not enough to guarantee the level of GDP.





Private consumption, public and private investment



Sources: BCV and Ecoanalitica

Conclusion

You can see that despite all the expropriations and nationalizations and regulations the Administration has been implementing, it has still not taken over the more important components of GDP. It's true that it has already taken control of some of the more important pieces, and that in the course of implementing its 21st Century Socialism it plans to take over the rest, President Chávez has said so repeatedly. If things continue the way they are going, the socialist model the President is implementing will continue to expand, leading the economy to a centralized planning system, the centerpiece of all socialist systems. If this happens, we could say that the so-called curse of the resources¹ will become more pronounced and much more evident, making the country even more dependent on oil to be able to guarantee its wellbeing.

Before signing off, we would like to add a series of fundamental characteristics to guarantee economic growth which were published in the Commission for Growth and Development Report headed by Michael Spencer, winner of the Nobel Prize in Economics, and that we currently lack:

- The need for governments to be global, pragmatic, and credible, not intervening in markets, maintaining price stability and fiscal responsibility, promoting private investment

¹ The way in which natural resources affect policies and investment priorities and education in a country, and everything revolves around who controls said resources. (Thomas Friedman)



- Invest in infrastructure in association with the public and private sector, where the first one will resist the temptation to increase its fiscal revenue through these works, and the second accept the commercial risk of the projects
- And create a competitive structure, promote growth and productivity.

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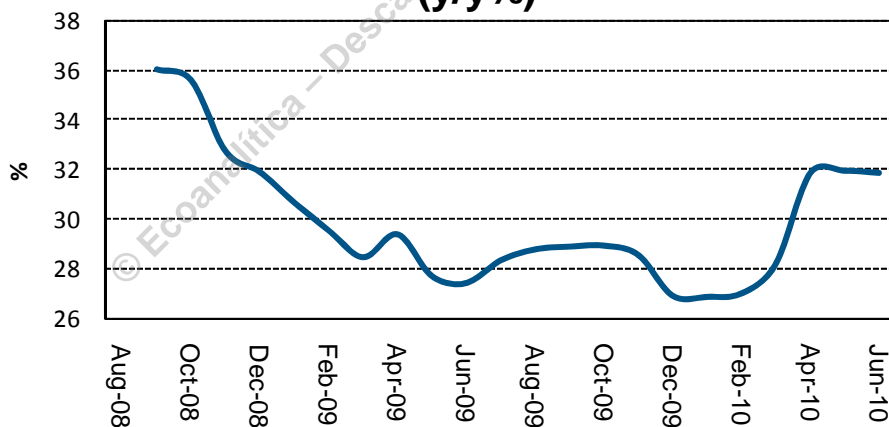


Economic Tips

Inflation in June. The National Consumer Price Index (NCPI) published by the INE with the BCV, indicates that for the month of June the m/m price variation was 1.8%. With this the cumulative inflation for the first half stood at 16.3%, while the y/y change achieved 31.3%. Meanwhile the CPI m/m variation for the Metropolitan Area of Caracas was 2.0%, reaching a y/y inflation of 31.9% and an accumulated price increase of 16.8% for the first half of the year.

And the core inflation ... The core inflation for the NCPI, recorded 2.1% (m/m) in June. With this we can see that the cumulative change for the year reached 13.6%, while the year on year at 29.0%.

National Consumer Price Index (y/y%)



Sources: BCV and Ecoanalítica

2009 Economic Report. The 2009 Economic Report released by the Central Bank of Venezuela (BCV) include, among other things, 2009 Balance of Payments figures by sectors; the public sector Current Account figures, with a positive balance of US\$41.43 billion, mainly due to high export levels (US\$55.79 billion), while the private sector posted a negative balance of US\$32.11 billion, due to the high level of imports (US\$29.15 billion), all leading to a global tally of US\$8.56 billion. This, however, represents a 47.5% drop in surplus for the public sector and a 22.7% improvement in the deficit for the private sector.





The Capital Account... The public sector Capital Account figures register a surplus of US\$4.95 billion while the private sector registered a deficit of US\$18.99 billion all totaling a negative balance of US\$14.04 billion. If we compare 2009 figures with 2008 figures we see that the public sector went from a negative balance in the Capital Account (US\$11.74 billion) to a positive balance and the private sector improved its deficit by 45.1%.

The Errors and Omissions Account. In the Errors and Omissions Account by sectors we find that both the private and public sectors increased their previous balances with the private sector increasing its previous deficit by 58.7% to settle at US\$31.84 billion, while the public sector increased its surplus by 61.4% to settle at US\$27.05 billion, leaving an overall negative balance in the Errors and Omissions Account of US\$4.78 billion.

Unemployment figure for the month of May. The National Institute of Statistics (INE) employment figures for the month of May show that the number of public sector employees dropped by 4.2% to settle at 2,261,522 people. During the last consecutive 12 months, the number of public employees has dropped by 98,812 or 0.8%. The number of private sector employees dropped by 0.4% to settle at 9,593,444 people. During the last consecutive 12 months, the number of private employees has dropped by 0.6% or 55,701 people.

Bond Issuance. The Ministry of Planning and Finance announced that a bond issuance is expected soon of VEF 19.50 billion.

Promote socialism. The 2011 Yearly Operative Plan presented by the Ministry of Planning and Finance, where the guidelines of next year's Budget are introduced, will be aimed at expanding Bolivarian socialism in accordance with the 2003-2013 Development Plan and it will focus on projects to improve the national electric power infrastructure grid.

Sitme figures. To date, around US\$531 million have been negotiated through the new Integrated System for Foreign Currency Transactions (Sitme), averaging US\$29.5 million a day, with an implicit exchange rate of VEF 5.3/US\$.

Interest rate. The lending rate for the fourth week in June was at 18.1%, down by 36 base points compared to the previous week. Time deposits and savings rates were at 14.5 and 12.6%, respectively. This reflects a 5 base point drop for time deposits while savings remains steady.





International reserves. International reserves increased by 5.2% going from US\$27.7 billion during the fourth week in June to US\$29.13 billion during the first week in July. Compared to the same period last year, international reserves dropped by 4.5%.

Monetary liquidity. Monetary liquidity for the fourth week in June was up by 0.7% compared to the previous week settling at VEF 241.64 billion, so far this year, liquidity has gone up by 2.5% in nominal terms and down by 11.5% in real terms compared to the same period last year.

Oil Tips

Angolan Oil Company to invest in Anzoátegui. Sonangol, Angola's state-owned oil company, signed a memorandum with Pdvsa and Cupet (Cuban Oil Company) agreeing to develop two oil fields in the Anzoátegui state. These fields are estimated to have an initial production capacity of 20,000 b/d, and the total production will be of 94 million b/d over a period of five years. Pdvsa will own 60% of the shares, while the other two companies will own 20% each.

Claims to ICSID against Venezuela add up to US\$43.5 billion. Venezuela accumulates 11 claims at the World Bank's International Center for Settlement of Investment Disputes (ICSID), adding up to US\$43.5 billion, out of which US\$40 billion correspond to Exxon Mobil and Conoco Phillips, presented before the ICSID in 2007, so a sentence could be dictated soon obligating Pdvsa to pay its debts due to the expropriation of these companies' assets. Pdvsa representatives have stated the company is willing to pay should that be the decision of the international arbitration organization.

One more arbitration. On June 16, the ICSID admitted a new arbitration process against Venezuela, this time introduced by OPIC, an affiliated company of the Taiwanese state-owned oil company CPC Corp, being this the third arbitration submitted before the ICSID this year alone, after the claims filed by the companies Tidewater and Exterran, both US companies.

Despite the international claims, nationalizations will continue. Despite the large number of international arbitration processes started before the ICSID, the national policy bets on the continuity of nationalizations, especially in the oil sector, according to a statement issued by Minister Rafael Ramirez last week and ratified this week about the Oil Sovereignty Plan. According to Ramirez, "According to our legal



framework, all primary oil production activities must be continuous and can not be stopped under any circumstances.”

Panama could be included in Petrocaribe. President Hugo Chavez will soon visit Panama to sign a number of agreements including that nation’s possible incorporation to the Petrocaribe agreement, said the Panamanian Vice President and Chancellor, Juan Carlos Varela.

Natural gas investment plans not fulfilled. Since the early stages of the Chavez Administration, at least 15 non-oil-related natural-gas search and development and exploitation projects have been announced, but most of them have not been started. The objective of the 2005 Oil Scattering Plan, modified in 2008, is to increase natural gas production to 12.5 billion cubic feet per day by 2013, through an investment of US\$16.7 billion, with which Venezuela would become a natural gas exporter. However, in 2009, the average daily production was X million cubic feet, while in 2005 it was 9.9 billion. It is understandable that due to a lack of profitability these investments were not carried out, since international natural gas prices have accumulated a downfall by x% since 2008 due to an excessive world supply of natural gas.

Despite the crisis, the world’s oil refining capacity grew. According to BP’s last Statistical Review of World Energy 2010, the world’s oil refining capacity kept growing in 2009 despite the global crisis, reaching 90.66 million barrels per day, nearly five million over the current worldwide crude oil production. Even though it sounds paradoxical that investment in refineries kept growing despite the fall of crude oil prices in 2009, the reason for this is that the investments executed in 2009 were started long before the world crisis began, so the refining capacity kept increasing despite many other investment projects were cancelled.

Gulf of Mexico’s oil spill cleanup costs for BP reach US\$3.1 billion. British Petroleum assured this week they had already spent US\$3.12 billion in the cleanup process of the oil spill that still won’t stop, meaning a weekly cost of nearly US\$500 million, since one week ago the total cost of the cleaning process reached US\$2.65 billion.

Oil cleanup vessel arrives allowing the clearing of 7,200 tons of crude oil per day. The third crude oil cleanup vessel arrived to the Gulf of Mexico this week, after being delayed due to the effects of hurricane Alex. With this third vessel, the cleaning capacity will increase to 7,200 tons of crude oil per day, almost the 8,200 tons being spilled every day.





International oil baskets. Near New York market's closing time, Thursday July 8, the WTI was at US\$75.7/bl, showing a 3.8% increase compared to the US\$73.0/bl of the previous Thursday. The Brent increased by 4.1% to reach US\$74.4/bl, compared to US\$71.5/bl of Thursday, on July first.

Local oil basket price. The Venezuelan oil basket price decreased last week, to close at US\$67.4/bl on July 2, US\$1.1 less than the US\$68.5/bl of the previous week. Meanwhile, the basket's annual average decreased to US\$70.1/bl.

Business Sector Tips

Consecomercio estimates sales plummeting. A study published by the National Council for Commerce and Services (Consecomercio) indicates the sales in the economy's tertiary sector decreased by 29.4% during the first quarter of 2010, and according to the survey, the contraction would be by 65% in 2010.

Debt is still US\$1.5 billion. According to the newspaper El Universal, sources from the automotive sector indicate the currency liquidation debt the Currency Administration Commission (Cadivi) has with the industry reaches US\$1.5 billion as of May of 2010. However, this number is smaller than the one reported early this year by the Venezuelan Automotive Chamber (Cavenez), US\$1.8 billion. This delay has forced several companies to reduce production and, in some cases, to even fear a possible forced shutdown.

44 companies expropriated. Carlos Tejera, general manager of the Venezuelan-American Chamber for Trade and Industry (Venancham) said so far 44 companies affiliated to the said organization have been expropriated or confiscated, with a value between US\$20 and US\$25 billion.

Econoinvest operations shut down. Tomas Sanchez, president of the National Securities Commission (CNV), announced the temporary shut down of Econoinvest Casa de Bolsa's operations due to an ongoing legal investigation that has revealed serious irregularities of all kinds, without specifying much about those situations, and said the measures taken aimed to protect investors, whose funds were guaranteed.

And one more. The National Securities Commission shutdown Finalca Casa de Bolsa for audit due to irregularities detected such as non-transparent transactions with unclear fund destinations and origins. The CNV said the company's situation could



cause a severe damage to clients and the stock market in general. With this shutdown, over 30 stock brokerage houses and brokerage firms have been closed for audit.

Makro paid due taxes. Makro paid VEF 19.95 million in municipal taxes to the Caracas City Hall for the period 2006-2010, said Carlos Salas, municipal superintendent of Tax Administration.

Expropriations due to high rents. The Government of the Aragua State, following President Chavez's official speech, started expropriating buildings with excessively high rents. The Legislative Council of Aragua authorized Governor Rafael Isea to carry out any expropriations deemed convenient.

Number of travelers increased. As of May of 2010, the number of people who took domestic flights increased by 26% compared to 2009, reporting 679,003 people, while international flights increased by 2% also compared to 2009, with 626,872 people.

Agricultural production down. Carlos Machado Alison, representative of Fedenaga, said in the organization's annual assembly that the agricultural sector's production had dropped by 9% during the last 12 months and that currently 48% of the meat consumed in Venezuela is imported.

Smaller harvest surface. The lack of investment caused by price controls has caused a 54% decrease of rice sowing surface during the past year, to reach 100,000 hectares, compared to the 214,000 hectares harvested in 2009, according to Fedenaga. The production cost of one kilogram of rice is between VEF 1.42 and VEF 1.45, and the Government regulates it at VEF 1.2 per kilogram.

Corn production also affected. Corn production has been affected by the intense rains causing significant obstacles to meet this year's sowing goal. Only 100,000 hectares out of the projected 200,000 were sowed in Guarico, while in Portuguesa, only 60,000 hectares were sowed out of 157,000 projected. These problems will force an increase of this product's import.

Over 20,000 tons of black beans to be imported. The ALBA Socialist Leguminous Mixed Commission and the Agricultural Supplies and Services' Trading Company announced they are currently in negotiations to install a commercial branch in Nicaragua to import 20,000 tons of black beans to Venezuela.

Importers with high expectations. Nueva Esparta entrepreneurs, represented by the Chamber of Commerce, Free Port and Production, are asking the Government for a monthly allocation of US\$100 million to allow the special customs regime to continue



working and in exchange are offering a contribution of 1% of all imports to the State's social area.

World Crisis Tips

US Nonmanufacturing index decreased in June. The June composite index for the service and construction services from the Institute for Supply Management (ISM) suffered a slight contraction during June to go from the 55.4 held during the previous three months to 53.8, although it is still at one of its highest levels since the early 2007, and is still much higher than its lowest 37.2 points reported at the end of 2008. This index's correlation from its appearance in 1997, with the real US GDP growth, has been of 65%. It is worth reminding that a score over 50 points indicates sector expansion, and vice-versa.

US Manufacturing index contracted as well. The ISM manufacturing index also decreased in June compared to the readings of the previous three months, falling to 56.2 points from 59.7 in May, significantly below the 59 points expected by market consensus.

US Unemployment falls to 9.5% but not for good reasons. The US Bureau of Labor Statistics reported an unemployment rate of 9.5% in June, 0.2 percent points lower than May's rate and 0.4 points below April's rate. However, the unemployment rate reduction is not due to the creation of new jobs, on the contrary, the number of non-farm payrolls decreased by 125,000 people due to the loss of 225,000 temporary jobs generated the previous month to carry out the census. The unemployment rate reduction was due to the fact that the labor force decreased by 652,000 people, mainly because the average duration of unemployment increased to its post-war record of 35.2 weeks; 45.5% of unemployed people have been looking for a job for at least 27 weeks.

US growth expected to slow down. Altogether, both ISM manufacturing and nonmanufacturing indexes, as well as the Bureau of Labor Statistics' employment situation report, indicate the US GDP growth will be smaller than that of the first quarter of 2010. The president of the Federal Reserve Bank of Dallas, Richard Fisher, told the Japanese business daily Nikkei he estimated the GDP growth to be between 2% and 3% this year, with higher probabilities to be closer to the lower end, while the required growth for the labor market to recover is more than 3%. Economist



consensus predicts a 3.4% (seasonally adjusted annual rate, SAAR) growth for the second quarter of 2010, after a rate of 2.7% (SAAR) during the first quarter.

Euro zone unemployment remains unchanged at 10%. At the Euro zone, the seasonally adjusted unemployment rate remained constant at 10% in May, since the previous month, while in the European Union as a whole, the unemployment rate also remained stable but at 9.6%. The Eurostat estimates that during May, 23.13 million people were unemployed in the European Union, out of which 15.79 million were in the Euro zone. Unemployment rates vary from country to country, from 4% and 4.3% in Austria and Holland to 20% and 19.9% in Latvia and Spain, respectively. Looking at the labor market's behavior during the past year, we are also able to observe different trends among countries, being Austria and Germany two of the best behaved, going from 4.9% and 7.6% in May of 2009 to 4% and 7% in May of 2010, respectively; while Estonia and Latvia have had the worst performances going from 11% and 13.5% to 19% and 20% respectively, during the same period.

Euro zone service sector keeps growing but losing momentum. In June, Markit's (an important financial information services company) service sector index decreased to 55.5 points from 56.2 reported in May. Just like the ISM indexes, a reading above 50 points indicates sector expansion, but the index's setback indicates a slower growth rate. This score is also located in the index's historical series' percentile 73, so it's actually more positive than it seems. The service sector is perhaps a less important marker as leading indicator of GDP growth, but is highly significant in the creation of new jobs.

Europe retail sales at a standstill. Euro zone retail sales increased by 0.2% in May compared to the previous month, while in the European Union they increased by 0.4%, after having dropped by 0.9% and 1% respectively. The most relevant part of these statistics comes from the y/y comparison: compared to May of 2009, retail sales are only 0.3% higher in the euro zone and 0.5% higher in the European Union.

Greece will achieve its fiscal deficit objective. According to the president of the Central Bank of Greece, George Provopoulos, the Greek nation will achieve its objective of reducing its fiscal deficit to 8.1% this year from the 13.7% of 2009, thus meeting its deficit goal. During the first semester of 2010, they were successful in reducing their deficit at an annual rate of 42%, so they will be able to reach their fiscal objective with no need to apply further austerity measures than those already agreed.





US wins. 64% of Latin Americans think the United States have a positive influence on the region while 34% think the same about Venezuela, according to data taken from the 2010 Latinobarometro poll, published in Santiago de Chile. The US positive image increased by sixteen points in twelve months, up from 58% in 2008 to 74% in 2009, during the first year of the Barack Obama Administration, the main responsible for this leap, according to the editor of Latinobarometro, Marta Lagos.

Dominican Republic, the exception. Only in the Dominican Republic (66%) and Venezuela (54%), more than half the people think Caracas' influence is positive, while in ten of the region's countries less than a quarter of the people share the same thought. Only two other countries, Argentina and Paraguay, showed majority.

We did too. In Venezuela, approximately 60% of citizens has a good opinion about the US, perceives its influence in the region as positive and believes it treats the country with respect, but only a third (32%) considers bilateral relations are good.

US again. In response to a question about the perception of seven international powers and countries, the United States took the first place with 74% favorable opinions, followed by Spain (65%), Japan and the European Union (both with 63%), Canada and China (58%) and Cuba (41%). Spain has a better image at the Dominican Republic, Chile and El Salvador, where at least three out of every four people have a positive opinion, while the country with the worst perception is Panama, in which less than half of citizens have a good review of Spain.

It could improve. President Hugo Chavez stated his confidence in possible improvements in Venezuela's relations with Colombia. *"I hope our relations with Colombia, which turned critical, begin to change. I have faith in that,"* said the Venezuelan president during the closing act of a Foreign Relation Minister meeting in the Latin America and the Caribbean Summit celebrated in Caracas. Days later he said this improvement would only be possible within an environment of mutual respect.

Ramirez admits something. The minister of Energy and Oil, Rafael Ramirez, talked about the spoiled food containers, admitting the authorities have acknowledged the existence of 30,000 tons of food that "does not comply" in 1200 containers in Puerto Cabello where *"the problem is located."* Minister Ramirez said Pdvsa was at the disposition of the Public Ministry to provide all the information required within the framework of the investigation and reminded a group of people was already under investigation and a few others had been arrested.





Over 17 million. The National Electoral Council (CNE) authorized the final Electoral Record including 17,772,768 voters, out of which 17,575,975 are Venezuelans empowered to vote at the Parliamentary Elections of September 26, 2010. The 57,010 voters living abroad enrolled in embassies and consulates are included in this record, these will not be voting in the Parliamentary Election in accordance with article 64 of the Constitution.

Locations are ready. The location of political parties in the electronic voting cards to be used at the parliamentary election has already been defined. PSUV and its allies will occupy the upper side, while most parties integrating the Democratic Unity Table (MUD) will be located at the lower end. Only Copei and Proyecto Venezuela will be in a different location.

PPT protested. The selection of positions by block obligated Patria Para Todos (Country for All, PPT) to choose practically last, despite being the third most voted party in the 2005 election. This situation caused the secretary general of the blue banner party, Jose Albornoz, to denounce a shady deal between the PSUV and the parties integrating the MUD to harm PPT. Albornoz urged CNE rectors to respect the Electoral Law and not to allow this kind of “illegal actions.”

Ready for campaign? According to Ramon G. Aveledo, coordinator of MUD, the Unity Table will issue weekly statements on the issues of highest public impact, however, he was clear in saying they would not broadcast the way the President Chavez does. *“We can not take up air time at our will,”* he highlighted. Born as an electoral alliance, a stage that was completed with the enrollment of unitary parties all over the country, the Unity Table must now face its transformation towards politics, something that’s still unclear, some members of the campaign team admit. It’s not easy either, since not all parties have the same vision. There are those who want to reproduce Chavez’s confrontational style and those who want to try more “eclectic” speech lines.

And Ledezma asks for a mobilization. The Metropolitan Mayor, Antonio Ledezma, said he would meet representatives of the Democratic Unity Table in upcoming days to propose them to call Venezuelans to mobilize against the Constitutional violations that were evident in the National Government’s latest actions.

PSUV requests an investigation of... the opposition. The funding received by Venezuelan opposition political parties and non-governmental organizations from international donors moves in the illegal currency market in order to “increase” the amounts of allocations, said a report prepared by the Foundation for International Relations and Foreign Dialogue (Fride). According to PSUV spokespersons, this would be in violation of the Law of illicit exchange operations.



Need for a plural National Assembly. 69% of Venezuelan voters agree that the next National Assembly should be plural and both official and opposition parties should be represented in it, according to the latest survey released by Hinterlaces. Although 21% of voters were identified as opposition and 27% as pro-Chavez, when they were asked about which candidates they'd vote for, 28% said they would vote for those nominated by the opposition, while those in favor of Chavez stayed at 27%. Independent candidates were backed by 22% of respondents.

“Non-aligned” rule. To reach a solid majority, both sides need to conquer the block of those that are not identified with any side or the “neither-nors” (48%), who are not happy with the current situation but do not want to go back either. 55% of respondents said they were not aligned with any political party, 23% expressed identification with PSUV and 19% like opposition parties.

Manipulation. The Law of Communes does not create a parallel state and is not unconstitutional. It will not put an end to Mayors' offices either, said the first vice president of the National Assembly, Dario Vivas, who stated the criticisms the legal instrument authorized in first discussion by the National Assembly (AN) had received are aiming to put an end to the revolution and President Chavez.

And they already exist. So far, said Vivas, there are 220 communes in creation process and approximately 36 thousand established communal councils. The lawmaker justified the creation of socialist communes, a term that does not appear in the Constitution, by saying they establish the concept of social justice.

Not popular. According to the public opinion study Perfil 21, prepared by the pollster Consultores 21, 6 out of every 10 Venezuelans reject the creation of communes. Alongside, 63% dislike the electric service rationing so that it's enough for everyone, 65% don't want Venezuela to become a socialist country, 67% reject the shutdown of media broadcasters, while 74% rejects an eventual increase in the price of gasoline.

Things aren't looking good. According to C21, for 6 out of every 10 Venezuelans, things in the country are not looking good. Even 5 out of every 10 citizens think the situation will be the same or much worse than today in the next six month. 30% consider the country is progressing, 26.5% think it's paralyzed, and 42% think it's falling.

President Chavez looking bad. Specifically assessing the Chavez Administration, 6 out of 10 Venezuelans rated it as bad. The first five problems identified by Venezuelan people are: crime rate (31%); high cost of life and economy (20.9%); unemployment (16.5%), supply shortage (6%); and access to housing (5.7%). Analyzing the



“responsibility” of the Head of State in the current situation, the trend of holding him directly responsible keeps growing. If in the third quarter of 2009, up to 48% of Venezuelans blamed Chavez for the country’s problems, today the number rises to 57%, to the extent that only 3 out of every 10 Venezuelans consider him *“capable of solving these problems.”*

They want something else. Does the country that Chavez want look like the country you want? According to Consultores 21, 6 out of every 10 Venezuelans answered to this question by saying the country that President Chavez wants to build is different to the one they personally want. In this study, 7 out of every 10 respondents consider President Chavez wants to end private property.

Opposition majority? Even though the study concludes that 52% of Venezuelans would vote today for the MUD candidates and 42% would vote for the PSUV candidates, this data is not representative for the September 26 elections, since they are not national, and it is necessary to assess vote intention separately in each of the 87 circumscriptions and in each one of all 24 states.

Judges’ Code of Ethics ready. Last week, the National Assembly (NA) approved in second discussion the Law of Reform to the Venezuelan Judges’ Code of Ethics. This normative comprises eight articles with the object of regulating the conduct of public clerks in charge of administering justice in Venezuela.

Information censorship. The civil association Control Ciudadano (Citizen Control) warned that the Draft of the Organic Law of Social Comptrollership, approved in first discussion by the National Assembly (AN), is being prepared to hamper the labors carried out by non-governmental human right organizations in Venezuela. This draft establishes provisions that will criminalize the work of human right organizations, said Control Ciudadano. Some of the provisions that caused the alarm of the civil association run by Rocio SanMiguel are the ones contained in the draft’s articles 8 and 12. The first article refers to the obligation to “keep reserve” about the information and documentation obtained in the execution of social control, which establishes a censorship method that is inadmissible in Venezuela.

More military equipment. Twelve Chinese-made K-8 airplanes will be arriving to Venezuela in August to carry out training and safeguarding duties at the Venezuelan border, said the Bolivarian Military Aviation Commander, Major General Jorge Arevalo Oropeza Pernalete. These K-8 are destined to train student pilots at the Bolivarian Military Aviation and to safeguard the sovereign air space, as well as to transfer technology for their final montage and maintenance during their useful life.





Audit of universities. The president of the National Assembly's (AN) Education Commission, representative Maria de Queipo, announced she would request the Attorney General's Office to *"order the audit of universities for the alleged violation of the Law of Education, with the execution of admittance tests ... These tests have an incidence especially in the access of poor sectors to university education. This is a subject I will personally address with the Attorney General, Luisa Ortega Diaz, regarding how this issue should be dealt with."*

Globovision again. President Hugo Chavez, in a national broadcasting, mentioned the possibility to "recover" the shares of the news channel Globovision. He said the president of Federal, Nelson Mezerhane, was also a main shareholder of the news channel, which he rejected. *"There should be a law to keep bankers from being owners of television companies,"* he said. He stated that the two owners of Globovision (Nelson Mezerhane and Guillermo Zuloaga) were fugitives and called those currently in charge of the TV channel to stop following their guidelines. He said: *"We need to see how much Globovision costs (...) that's one of those companies we need to audit to try and compensate accountholders with all the money they took. That money needs to be recovered. That channel's owners are fugitives, so the State might need to recover its shares to come up with the money its owners took with them."*

Safety reinforced in Margarita. The Regional Coordinator of the Identification and Immigration Administrative Service (SAIME), Victor Alviso, announced the reinforcement at Margarita's sea and air terminals with the installation of fingerprint readers, adding to the actions of the island's integral prevention system to prevent the access of people with criminal backgrounds or legal problems. He highlighted the machines' installation is planned for the next 25 to 30 days.





ECONOMIC OVERVIEW

