



Weekly Report

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Exchange market: between the stagnation of Sitme and the surprise of dividends

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A year after the creation of Sitme, at **Ecoanalítica** we consider that this new mechanism, although with possibilities to operate more efficiently, continues doing so the same way as the first day: in a very limited manner. Also, last week the Vice President of the Republic, Elías Jaua, said that the government will start a new phase in its relation with multinationals. In this report we will see what's new regarding exchange matters.

Happy Birthday Sitme!

When Sitme started operating, at **Ecoanalítica** we said that the system was quite open, particularly due to the fact that the scheme could be modified in the future, and we hoped it would be that way. 365 days later, we are still waiting for this change, which would benefit many companies, including State owned companies (mainly Pdvsa) and therefore all Venezuelans.

Its initial offer was approximately US\$2.7 billion, of which US\$2.0 billion belonged to the private banking sector and the BCV, and about US\$700 million belonged to public banks. At present we must say that the offer has



not improved much, or rather, has not increased as it should in order to meet the demand.

In fact, today Sitme's offer is US\$6.57 billion (not considering future issues), of which US\$350 million belong to private banks, and US\$925 to banks in the public sector, while the rest is in the hands of the BCV. In this respect, it is worth noting the increase in the participation of public banks in the system: of the total managed by the financial system 26% corresponded to the public banks, and today that share has increased to 73%.

It doesn't seem what it is

At that time, Nelson Merentes, President of BCV said that the total demand for dollars that they estimated for that market for the remainder of the year would be between US\$5.0 and US\$6.0 billion

Considering what was negotiated last year - around US\$5.08 billion – we realize that the president of BCV was not referring to demand but rather to the estimated amount they would allocate in the system. This, considering that the initial offer had to almost double, with new bonds (issues) to nourish it, although Merentes stated that it had to be fed through the companies that needed to bring foreign currency to the country. Evidently this didn't happen.

Although the president of BCV was very clear in stating that the new exchange system would not be destined to the flight of capitals, or the repatriation of earnings, when analyzing the balance of payments for last year, we realize that this wasn't so either.

Considering the amount of private imports in the balance of payments, and the currencies liquidated by Cadivi for private imports + the Aladi agreement, we find a differential of approximately US\$2.11 billion, that can be attributed to imports through Sitme, which correspond to goods and services that are not included in lists 1 and 2 of the goods that were established a priority by the Administration, goods and services that were included on the list but that hadn't received dollars from CADIVI in the last 90 days, and lastly, capital goods.





Imports by exchange rate

	2007	2008	2009	2010E	2011P
Cadivi	67%	78%	58%	35%	46%
Cadivi 2.6	0%	0%	0%	25%	0%
Cadivi 4.3	67%	78%	58%	35%	46%
Public imports	19%	22%	24%	34%	37%
Swap/black market	14%	1%	18%	1%	2%
Sitme				5%	15%

Sources: BCV, Cadivi and Ecoanalítica

What wants to be avoided is being fostered

But this is not what is important, what is noteworthy is that of the total amount liquidated by this mechanism last year, only 42.0% corresponded to imports, and the rest was for remittances, study abroad, travel, special cases, sales of tangible assets, etc. That is, the rest of the foreign currency negotiated at Sitme, contributes, one way or the other, to the flight of capitals. So what the President of BCV said is not what is happening in reality, although even we thought it would be so.

Our first observations showed that the priority of this scheme is based on the “natural” imports of the defunct parallel market: US\$3.5 billion (specifically trade activities, services, and telecommunications) y and the financing of “Cadivi” Imports US\$4.9 billion, not counting the flight of capitals. These numbers are clearly beyond the US\$6.0 billion that the President of BCV mentioned a year ago.

What is clear is that the demand for foreign currency in this mechanism is much greater and its offer is very insufficient. The average amount negotiated daily in this system since its creation is US\$34.1 million, equivalent to 36.0% of what was negotiated in the former parallel market. In this sense, we could say that Sitme, as it is working presently, is inefficient. Even more so when the estimated private capital flight for last year was around US\$21.24 billion, a decrease of 11.4% with respect to 2009, but similar to 2008 levels (US\$21.50 billion). Before the exchange control and its implications, the average amount for private capital flight was about US\$ 6.48 billion.

What is the future of Sitme for the rest of the year?

Ecoanalítica has stated that the daily average of foreign currency that could be negotiated this year would be around US\$40 million. However, if we compare the daily average negotiated during the first 6 months (that is, last year) of US\$35.8 million, with the US\$32.5 million negotiated daily in the first 6 months of the year, it is evident that Sitme has been liquidating less currency. Specifically, the drop is 9.2%. But this is an ambiguous conclusion, since seasonality plays a determining role: in the last 3 months



of 2010, when the Venezuelan economy tends to be more dynamic, the daily negotiated average was US\$43.1 million.

In this sense, we continue expecting that the daily average for this year will be between US\$35-US\$40 million. This amount could increase as oil prices continue rising, and the ideological floor of the economic model requires remodeling due to the loss of 2012.

Will it continue to be limited?

Also, the offer will continue to be limited. This year we estimate it will reach US\$11.97 billion, which since it is calculated at face value, give us a net amount of approximately US\$10.0 billion. In the end, we believe it must be clear that the way in which Sitme has been operating, it depends significantly on new issues of bonds, for it to continue, and this ties up more resources from the Republic (or Pdvsa) in the future, as shown in the following table:

(US\$ Million)*	
BCV	5,300
Private Financial System	350
Public Financial System	925
New issues	5,100
Other actors	300
Total	11,975

Source: Ecoanalítica

*calculations done at face value

So for us, Sitme is becoming a mechanism that will give priority to the following:

- Non-priority imports → linked to commercial activities, services, and telecommunications, sectors where the main operators are small and medium enterprises.
- Migration from CADIVI → The above mentioned sectors + alcoholic beverages, and tobacco, computers, electric and electronic items. This leaves the window open for the construction sector, and that related to paper, cardboard, and wood.
- Machinery and equipment (Capital goods)
- Remittances
- Expenses to study abroad, travel, and special cases



- Sale of tangible assets

But it could expand

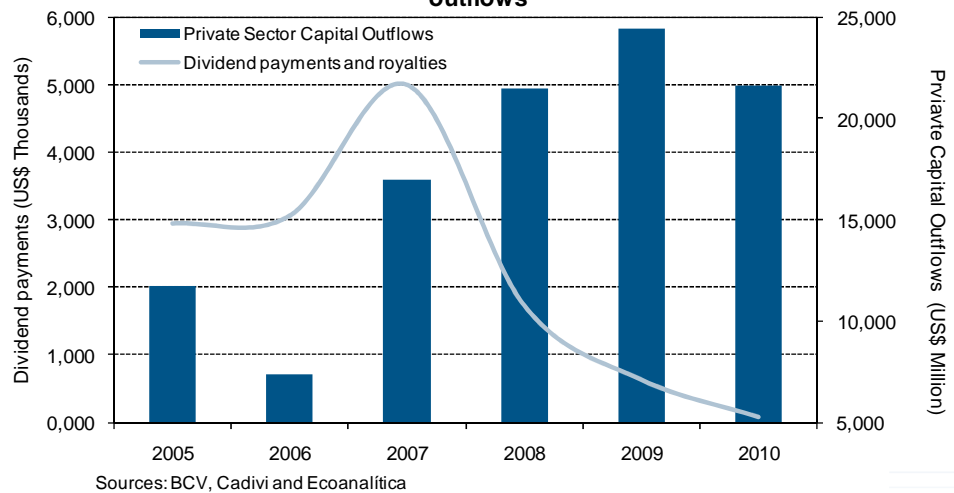
Finally, we would like to highlight, as we have been saying since the system was created, that the offer could increase, but the ideological barriers (under the premises of endogenous development, which is just the supremacy of the State) doesn't allow it, even though oil prices support it. Nevertheless, this could change if the following entities are allowed to participate:

- Private exporters: US\$400 million
- PDVSA: US\$5.0 billion
- Fonden: US\$5.0 billion
- Other public enterprises (including the national treasury): US\$1.1 billion

What is coming regarding dividends?

After the issue of currency assignment through Sitme, the second important element is the payment of dividends. This is an extremely sensitive issue for the majority of the companies, particularly multinationals and large size companies. Almost since 2009, dividends have not been paid in a significant amount to the companies. According to extra official information, the debt of *dividends* declared before Cadivi is around US\$ 2.9 billion. However, if we add the *dividends projected and/or to be declared*, this amount would reach US\$ 8.75 billion.

Dividend payments and royalties (Cadivi) Vs. Private Sector capital outflows





For the moment, the information we have is that BCV raised to the Economic Cabinet the issue of an account point to pay declared dividends for US\$ 2.7 billion, although the effective payment would be approximately US\$1.7 billion. The difference would be a “*negotiation*” with the companies to reinvest their dividends in the country.

There are surprises in life...

Last week, Elías Jaua, Vice president of the Republic said that the government is starting a new phase in its relation with multinationals, and will propose foreign companies to reinvest in Venezuela part of the profits that they are planning to take to their parent companies. The Vice president explains: *“We are thinking about modalities that obviously are not binding, they are only proposals”* adding that the two most important variables are to *“convert those profits into actions to create mixed companies with the Venezuelan State”* and *“to expand their productive capacity with the support of the National Government”*.

Jaua stated that for the Government, areas that are considered strategic *“are those that are strategic for the life of the people, food, car parts, and also everything related to telecommunications”*.

The situation helps

The issue of the payment of dividends is particularly important at this time. As long as the Administration keeps putting off this decision, the investment plans of the companies seem to be paralyzed, and the possibility to leave the country remains, in the case of foreign companies. This has a particular significance in the food and medicine sectors, since it can worsen the scarcity that from the political point of view is counterproductive for the re-election plans of the government. In sum, at ***Ecoanalítica*** we believe that the electoral dynamics may favor the payment of partial dividends to the companies.

But it won't be easy...

However, the problem lies in the dividends to be decreed, because we don't rule out that the Administration, through Cadivi will put barriers to acknowledging these dividends, since what is supposed to be paid is what Cadivi recognizes.

During the same event last week, Vice President Jaua said that the Government is thoroughly reviewing every application, and that they are *“cross checking the reported earnings with respect to the declared income tax, or the request for dollars through Cadivi or import licenses”*. He added that: *“we must check that all the data handled by the different institutions where the companies report agree with the earnings they are requesting to repatriate dividends”*.



Economic Tips

Inflation continues to show better results. The national Consumer Price Index (NCPI), prepared by the BCV and INE, recorded in June 2011 a monthly variation of 2.5%, unchanged from the previous month and higher than June 2010 (1.8%). The accumulated variation of the NCPI in the first half of 2011 stood at 13.0%, well below that the one seen in the same period in 2010 (16.3%). The year on year change in the index, was 23.6% in June, significantly lower compared to the same month of 2010 (31.3%). Meanwhile, core inflation showed a positive variation of 1.9% in June, this represents the lowest monthly increase observed in the course of this year, showing a year on year variation of 27.6%.

Results of the CPI by geographical area. According to figures published by the BCV, 9 of 11 domains of study in June showed a lower rate from May: Caracas, from 2.9% to 2.2%; Maracay, from 3.2% to 2.1%; Ciudad Guayana, from 2.9% to 2.2%; Barcelona-Puerto La Cruz, from 2.7% to 2.5%; Valencia 2.6% to 2.2%; Maracaibo, 2.9% to 2.8%; Merida, from 2.8% to 2.3%; Maturin, from 2.4% to 2.3%; and San Cristobal, from 2.4% to 2.0%. While Barquisimeto showed an increase from 2.1% to 2.6% and the rest of the country went from 2.4% to 2.6%.

Venezuela: the only oil producer that increased its debt. After eight years in which the price of oil has been high, crude exporters except for Venezuela, remain firm on the strategy to save part of the income and reduce their debt. Despite the fact that the price of the Venezuelan oil basket has constantly increased: US\$57.01 in 2009, US\$71.97 in 2010 and US\$98.23 during the first quarter of 2011, an accelerated indebtedness plan has begun. Figures from the International Monetary Fund (IMF) reveal that the public sector debt with respect to GDP is increasing rapidly: 24.6% in 2008, 32.7% in 2009, 38.7% in 2010 and the projection is that this year it will be 40.2% and increase again in 2012 to 42.1%.

A reduction in legal reserves is already in the Gazette. Nelson Merentes, President of the Central Bank (BCV), decided to reduce the legal reserves from 17% to 14%. The resolution was published in *Official Gazette N°39.705*. Edmée Betancourt, Minister of the People's Power for Trade said that these resources will foster the completion of the objectives of the "*Gran Misión Vivienda Venezuela*" (Housing mission) which expect the construction of 156,000 housing solutions in 2011, 200,000 for 2012, to reach 2,000,000 in 2017.





Cost and results of expropriations between 2007-2009. In the book *Gestión en rojo* published by IESA, economists Richard Obuchi, Anabella Abadí and Bárbara Lira, analyze the performance of 16 companies that have gone to the State. The authors established that the cost of nationalizing these companies is around US\$23.26 billion, an amount that is over that PDVSA appointed during that period to investments in oil exploration and production, and equivalent to 82% of international reserves at the end of the week of July 3 (US\$30.43 billion).

Nationalized companies have not achieved the production goal. The book investigates the performance of the State through 16 small and medium enterprises, acquired by the administration of Hugo Chávez: Inveval, Azucarera Sucre, Arroz Cristal rice processing plant, Fama de América, La Caicareña and Venirauto, Cantv, La Electricidad de Caracas, Banco de Venezuela, Sidor, Seneca, Cemex, Lafarge, Café Madrid and Lácteos Los Andes. The common element of the 16 companies studied is that they have not reached their production goals and depend on the money that the States gives them.

Chavez's return makes the price of bonds fall. According to Thompson Reuters, Venezuelan bonds dropped considerably on Tuesday, July 5th, after the surprising return of President Chávez to the country. The Venezuelan reference bond, with a maturity in 2027 fell 2.13 points to 74.25%, with an increase in performance of 13.12%. These bonds had increased when Chavez was in Cuba.

Government denies impact on the bonds. On the other hand, Jesús Faría, Vice president of the Finance Commission, denies the opinion related to the recovery of Venezuelan bonds after the temporal absence of the Head of State. *"I think this is not logical from the economic point of view. Our government is working and has continued with its tasks"*, he said.

The term to transfer custody of bonds to BCV is extended. The BCV extended the term for financial entities to transfer the custody of the bonds issued or backed by the Nation that they have in their portfolio. The initial term expired on June 30, and through a bulletin, the BCV informed about the decision of the Board of Directors to set August 15th as the deadline. The transfer of custody of the bonds is due to the need to adapt to the new Law of Banking Institutions.

Food prices rise. According to the team of Últimas Noticias, the price of regulated and non-regulated food items increased 16% between December 2010 and June 2011, almost 6 percent points more than general inflation, at 10.3% reported by BCV in its monthly bulletin, and higher than the 9.5% mentioned by that entity for the food sector in that period.



Interest rates. The lending rate for the first week in July was at 16.69%, decreased by 0.64 perceptual points compared to the previous week. Time deposits also were decreased by 0.16 perceptual points to reach 14.68%, while the passive has not submitted any variation significant since January 2010, placing well at 12.61%.

International reserves. International reserves increased 0.8% going from US\$29.32 billion during the fourth week in June to US\$29.57 billion during the first week in July. Compared to the same period last year, international reserves have creased by 1.2%.

Monetary liquidity. Monetary liquidity in the fourth week in June creased 3.2% compared to the previous week settling at VEB 335.4 billion. The M2 has creased 39.0% year-on-year.

Sitme figures. So far this year, US\$3.99 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.3 million a day, with an implicit exchange rate of 5,3 VEB/US\$. Last week the traded amount reached US\$152.1 million, US\$6.8 million more than last week when braided US\$145.3 million.

Oil Tips

And the IEA revised the figures... The IEA, revised figures for Venezuelan oil production with an average rise of 400,000 bpd in the last 4 years (2007-10). Thus, it reduces the gap between the EIA and the official figures to 350,000 barrels per day.

Dominica pays debt to Venezuela with food. According to the state-owned Banco de Reservas, the Dominican Republic owes US\$2.02 billion to Venezuela by virtue of the Petrocaribe hydrocarbon sale agreement, which provides for payment with products in exchange for oil received at subsidized prices. By end-2011, the Caribbean country should pay US\$59 million in products; up until now, that country has paid 35% of its debt. For 2012, shipments of products worth US\$74.1 million are expected. The agreement is for 25 years, at a rate of 1.0/year.

PDVSA extends operations in the Southern Cone. Petr6leos de Venezuela (PDVSA) agreed to extend until end-September its responsibilities in the management of Petrolera del Conosur, which includes two affiliate companies of



Uruguay's Administration Nacional de Combustibles, Alcohol y Portland (ANCAP). The agreement was signed on June 30th, date on which the agreement signed in May 2010 expired. The new agreement provides for that the Venezuelan state-owned oil company will manage the Argentinean firm, in which it has a 47.19% stake, until September 30th.

Citgo is using crude oil that doesn't belong to OPEC countries. In April, imports by Citgo, an affiliate company of Petr leos de Venezuela, showed that 43.2% of the crude oil volume come from different nations that don't belong to the Organization of Petroleum Exporting Countries (OPEC), according to figures of the US Energy Department for the first four-month period of 2011. Average imports were at 565,166 barrels per day in April. Of this volume, about 244,152 b/d corresponded to purchases by Citgo from Russia, Brazil, Congo, Mexico and Colombia.

Venezuela conducted a geological study in Panama. A geological study revealed the existence of oil deposits in four regions in Panama, and before end-2011, a bidding process will be opened to explore and determine the quality and volume of the deposits, the Panamanian Secretary of Energy, Juan Urriola, stated. The study was conducted in a period of seven months by the Venezuelan firm OTS Internacional and reported the presence of oil in the provinces of Bocas del Toro and Dari n, as well as in the central region of Azuero and the Panamanian coastal region on the Caribbean.

Drop in US crude oil inventories. US crude oil inventories would have fallen last week for the fifth time in a row, due to a new decline in imports, analysts estimated on July 5th in a preliminary survey. The eight interviewed analysts forecast an average drop of 2.3 million barrels as of July 1st. "*This is a normal seasonal development,*" Tim Evans from Citi Futures Perspective in Nueva York said.

International baskets. At the time of closing the New York market on July 1st, WTI was selling at US\$92.97/bl, down from the US\$93.22 recorded the previous week. Brent, in turn, lost 2.25% to US\$108.95/bl, as compared from the previous week, when it registered US\$111.46/bl.

Local basket Price. The Venezuelan basket Price fell last week, closing at US\$100.43/bl on Friday, July 1st, down 1.25% from US\$101.7/bl recorded one week ago. Meanwhile, the yearly average of the Venezuelan oil basket was at US\$97.68/bl.





Business Sector Tips

70% of foreign currency are earmarked for purchasing raw materials. The president of Cadivi, Manuel Barroso, stated that of about US\$15.0 billion that have been allocated over the first half of the year, at least US\$12.0 billion have been earmarked for productive imports, or 70% of the total. The largest part of foreign exchange are to be applied to purchase raw materials and goods to continue developing the productive sector.

CAF will finance Guri recovery. The Andean Development Corporation (CAF) authorized a US\$360 million credit for the national electric sector. Jorge Giordani, minister of planning and finance, informed that these resources will be used to refit six turbines at the thermal generation plant, which will secure another 25 years of useful life.

...the resources to be provided by CAF will serve to refit six turbines of the Guri dam. The purpose of that refitting process is to expand the plant's useful life by about 25 years.

The National Electric System will be stabilized by end-2011. The Minister for Electric Energy, Alí Rodríguez Araque, assured that he "*is convinced that the National Electric System will be stabilized by year-end,*" with the incorporation of new power generating units and the refitting of some others.

Corpoelec will have a new transformer. A new power autotransformer purchased by Corpoelec entered into service on past July 5th. This transformer will replace the one that failed in phase number one of the El Tablazo sub-station. The equipment will help transform 400 MW into 230 KV of the grid to make the general energy system more flexible.

The lack of fuel will limit electric power projects. According to Nelson Hernández, professor at the postgraduate course on Economics and Energy Policies at the Universidad Metropolitana, "*failure to implement plans and extreme politicization*" in the oil and electric industries over recent years represent a huge "*loss in energy security*" for the country,



Nationalizations boost employment in the public sector. The state reached its highest employing capacity ever after closing last month with a total of 2,558,131 workers in its payroll, a 13% increase in just a year.

Economic growth doesn't revive the labor market. Economic data for the first quarter of the year reveals an increase in the Gross Domestic Product (GDP), but the labor market results tell a different story. The number of private employers starts to recover, after several years of decline; notwithstanding, payrolls in private companies are still falling.

BBVA Banco Provincial assured that it's complying with labor law. BBVA Banco Provincial said in a press ad that firings that have taken place over recent months have been justified on the grounds of severe violations to the obligations provided for by the labor relation.

100 labor conflicts are registered every day. The representative of the Autonomous Front for the Defense of Wages and Salaries and Unions (FADESS), Froilán Barrios, said that labor conflicts have doubled over the past year and that, about 100 workers' protests are staged every day.

Declaring last Monday, July 4th as non-working day will raise cost at ports. Declaring last July 4th as a non-working day will mean higher storage costs at national ports, since the situation forces importers to pay storage services for a higher number of days than scheduled.

Dairy sector is operating at 50% capacity. The rigorous price controls have reduced operational capacity of the dairy sector, which is currently operating at 50% of its installed capacity. According to figures of the industry, for each liter produced, Bs.3.08 are lost, because the real production cost is VEB 7.23/liter and it's regulated at VEB 4.15.

More companies have been expropriated in 2011 than in 2010. The expropriation wave doesn't stop. According to the Venezuelan Confederation of Industries (Conindustria), the state has intervened 384 companies this year. In fact, Conindustria figures show an increase of 64.1% in expropriation as compared to 234 companies taken over last year and counted by Conindustria. Farm interventions aren't included in these calculations.

Three public bank reported capital deficit in May. The report prepared by the Bank Superintendent's Office at end-may of this year reveals that three state-owned banks, Bicentenario, Industrial and Agrícola, don't comply with capitalization requirements.



2010 public investment in housing was the lowest in 19 years. Even though the announcement that official entities would provide more resources for the housing sector, the information from the Venezuela's Social Indicator System (Sisov) reveals that public investment in housing in 2010 was the lowest in 19 years. Of the resource allotted by the government last year for social investment, 8.9% was earmarked for housing, as compared to 23.5% in 1991.

The government only completed 16,954 homes in the first quarter of the year. The government only reached 11% (16,954 housing units) of the construction target for 2011, which is about 153,000 home units.

More than 37 tons of iron bars were sized. Troops of the second platoon of the first company of Detachment 14 in Barinas seized a batch of iron bars of different sizes at the fixed control point La Caramuca, via Táchira State. In a press statement, the National Guard assured that it is alert about the mobilization of materials of strategic interest for the country.

Interacciones Banking of Antigua was intervened. Interacciones Banking, a small financial entity that operates in Antigua, where Venezuelans have deposits worth US\$20 million, was intervened by Antigua's authorities due to insolvency.

Banco del Pueblo was denied additional resources in 2010. Last year's Report of the Ministry for Communes reveals that fund requests made by Banco del Pueblo were not authorized. The report points out that the state-owned bank requested a supplementary appropriation to pay the transformation of the bank, but *"the credit was impossible to obtain."*

World Economy Tips

US at a decreasing growth pace. Activity of the US service sectors grew in June with respect to May, but at a slower pace than expected, due to a drop in new industrial orders, reported the Institute for Supply and Management (ISM) on June 30th. The Purchase Managers' Index of the non-manufacturing sector dropped to 53.3 in June, vs. 54.6 in May, remaining over the 50 level divide between growth and contraction.



Obama is about to reach an agreement concerning taxes. The White House is envisaging the possibility of having enough support from Democrats and Republican representatives in both congressional Chambers in order to put an end to tax cuts, with the aim of passing an agreement on budget deficit. Obama's Administration is engaged in a dispute with Republican lawmakers on how to cut fiscal deficit and reach consensus to raise the country's borrowing limit. The intention is to put an end to tax cuts for richer citizens, which, according to Republicans, will have negative effects on the economy.

Colombian bond to comply with obligations. Colombia placed a 10-year global bond worth US\$2.0 billion on July 5th, the largest operation of its kind in the country's history. The resources raised from the bond will be applied to cover obligations abroad; therefore, this shouldn't have any impact on the exchange market. *"Demand for that issue almost quadrupled the supply, reaching US\$7.3 billion in that issue. The most important is that the cost for Colombia was the lowest in the country's history, or 130 points above the American Treasury Bond,"* president Juan Manuel Santos pointed out.

Colombian currency revalues. The Colombian peso has registered a strong revaluation of 7.9% for the year-to-date. Exporters are especially concerned about this situation. .

Costa Rica no longer belongs to the grey list. Costa Rica was deleted from a "grey list" this Monday, July 4th, which contains countries that don't fully comply with international fiscal standards, Costa Rican government and the Organization for the Economic Cooperation and Development (OECD) informed. The country was reclassified as an economy that *"substantially implemented the internationally applied fiscal standard,"* according to a press statement of OECD. In the region, Panama, Guatemala and Uruguay still remain in the grey list.

Chinese debt surges. A report by Moody's rating agency stated that debt of Chinese local government would be much higher than expected. Chinese share, which have been leading the last rally of regional papers, went back after the release of the statement of the rating agency, which assured that debts of China's local governments could be higher than that estimated by auditors, which could expose banks to even greater losses.

Asia: Stock exchange setback. Stock exchange indices in Australia and Japan went back whereas reference MSCI of non-Japanese Asian stock dropped 0.3%, moving away from its high of June 2nd.





Brazil will continue with its efforts to curb the strength of its local currency.

This goal will be attained through interventions in the future and derivative markets, Brazil's Minister of Finance informed on July 5th. Within the framework of an investors' conference, the Minister assured that credit or capital markets of the largest Latin American economy are not experiencing bubbles, despite their high growth indices.

Chilean economy grew in May.

Chile grew more than expected, (about 7.3% on a year-to-year basis), driven by the positive performance of the industrial and trade sector, the Chilean Central Bank announced this past Tuesday. With May's data, the Monthly Indicator of Economic Activity (Imacec) accumulated an 8.5% expansion over the first five months of the year. The indicator, which represents a measurement over 90% of the Gross Domestic Product, recorded an increase of 0.4% in May as compared to April.

Greek bonds are accepted as collateral.

The European Central Bank will accept bonds of the Greek Government as collateral until all rating agencies determine that the country has entered default. If this position is confirmed, the door would remain open for Greece, because it isn't certain whether all rating agencies are going to place the country on the default list in the event that a voluntary rescheduling of its bonds with the participation of private investors is decided.

Political Tips

VEB 490 million were authorized for satellites and tractors. The Minister for Communication and Information (MINCI), Andrés Izarra, announced on his Twitter account that president Hugo Chávez authorized a supplementary appropriation for VEB 491.5 million.

Secrecy is over: the leader is sick. Secrecy about the President's health, which reigned for several weeks, is over. Last Thursday, Hugo Chávez himself confirmed that he had been operated to have a malignant tumor extracted.

Chávez assures his followers that he will win a new battle. In his most recent speech, wearing a military uniform and accompanied with the national color, president Hugo Chávez appeared with his daughters on the balcony of Miraflores Palace to greet thousands of followers that crowded on the Urdaneta Avenue. From



there, president Chávez assured the Venezuelan people on national TV and radio that “*¡We will also win this new battle!*”

President’s illness opens debate on official leadership. “*The possibility of Hugo Chávez’ having more severe health problems has sparked a debate on his potential successors in the event that the President is not able to run for the presidential election,*” a report by Barclays Capital highlights.

Constitution has to be respected with regard to President’s rest. Governor of Miranda State, Henrique Capriles, wished Venezuelan president Hugo Chávez a “*speedy and full*” recovery and at the same time requested Constitutional mechanisms to be activated.

Soon recovery for Venezuelan president. Several South American presidents greeted Hugo Chávez and wished him a soon recovery, pointing out that they were closely following up news about the President’s health. Even Brazil has offered help for treatment.

Ministerial cabinet will be reorganized for the “new stage”. Vice President Elías Jaua announced that president Hugo Chávez will reorganize his working team “*for the new upcoming stage.*”

AN is urged to pass Organic Labor Law (LOT) reform. Vice President Elías Jaua reiterated president Chávez’ call two months ago urging the AN to pass the Organic Labor Law this year.

Passing LOT this year is uncertain. Rep. Alfredo Ramos, member of the Commission on Social Development of the National Assembly (AN), pointed out that the discussion on the Labor Organic Law (LOT) “*is raw*” and that it won’t possibly be passed this year, as requested president Chávez and reiterated Vice President Elías Jaua this week.

Investigation on Adán Chávez requested. The National Understanding Front, represented by its leader Jesús Cabezas Castro, requested before the General Attorney’s Office that an investigation be opened on governor Adán Chávez for “*inciting to hatred and violence.*”

Poverty eradication fund is proposed. Voluntad Popular (VP) coordinator, Leopoldo López, stated that 5 million Venezuelans can come out from extreme poverty in five years, for which he proposes the creation of a Solidarity Fund for Social Security and Extreme Poverty, which resources would come from oil rent.



We have to put an end to unviable centralism. The Democratic Unity Table (MUD), on the occasion of the 200 years of the signing of the Independence Act, issued a statement inviting all Venezuelans to rescue the postulates of the Republic founders, including *“a State ruled by a government that respects the will of the people, that is accountable before legally established institutions and which prohibits the use of weapons and force.”*

Conatel opened the 7th file against Globovision. A Globovision reporter interviewed two weeks ago a tearful lady who was afraid that her son, a prisoner at El Rodeo prison, could be dead. According to the head of the National Telecommunications Commission (CONATEL), Pedro Maldonado, that information was generated *“without the reported having confirmed or searched for the origin of the information that the mother of the prisoner was extra officially looking for.”* This fact gave rise to a new sanctioning process against the TV channel.

Magistrates reject the food card. After the entry into force of the Law on Emoluments, members of the Supreme Court of Justice (Tribunal Supremo de Justicia - TSJ) decided to grant a food card with VEB 10,000 monthly to each of the 32 magistrates compensate the forced 50% drop in their salaries. This law caused turmoil in the TSJ, since according to the top levels established, now magistrates are not only the worst paid in the continent, but their assistant attorneys have higher salaries.

Legislatives Tips

AN approved the reform of the Organic Foreign Service Law. The legal instrument is aimed at regulating and organizing the operation of the foreign and consular service of the Republic in order to guarantee its international policy and actions as a function of the national sovereignty and the interests of the Venezuelan people. One of the purposes of this law is to strengthen national sovereignty by promoting the creation of a regional geopolitical bloc.

The Sports Law will be passed. Rep. Robert Serra, member of the Permanent Commission on Social and Integral Development of the National Assembly, assured that they are adding innovative elements to the law, such as the athletes' involvement in sports authority's elections. Serra stated that all matters related to the



public utility topic of the Sports Law is expressed in the current code, as per Article 10 of the new law.

Organic character for the reforms of the justice laws. The chair of the Permanent Commission on Interior Policy of the National Assembly (AN), Rep. Cilia Flores, informed that they are proposing that criminal Code reforms have organic character, as well as the Law on Justice of Peace. Flores stated that they are working on the schedule for public consultation of the law that punishes crimes such as disappearances, torture and other violations to Human Rights during the 1958-1998 period.

Crimes specified in the Anticorruption Law. The General Comptrollers' Office (CGR) proposed that transnational bribery and legitimization of capitals to be specified and punished as crimes in the new Anticorruption Law, so as to bring the national legislation up to level with international treaties concerning the corruption topic. The General Comptroller (acting), Adelina González, highlighted this proposal as one of the most important contributions of the CGR in the public consultation process being developed by the Comptrollership Commission of the AN, intended to reform the Anticorruption Law.

Draft Law on rational energy use. According to Rep. Luis Acuña, the draft Law on Rational and Efficient Electric Power use will be approved by the Permanent Commission on Energy and Petroleum of the AN next Wednesday, and that it will later forwarded to the plenary session for it to be submitted to first discussion before August 15th. This legal instrument is intended to instill and disseminate among Venezuelans the culture of the rational use of renewable resources in general, such as energy and water.

AN speaks out against the Imperial charge. According to the Official Gazette No. 39,706 of July 1st, the AN spoke out against the new Imperial charge by members of the US Congress and State Department against the Bolivarian Republic of Venezuela. Sen. Connie Mack proposed a sanction package against the state-owned airline Conviasa for its direct flights Caracas-Damascus (Syria) and Caracas-Teheran (Iran), which is considered by Sen. Mack a tie that is used to "promote terrorism."

Race to appoint the new General Comptroller started. AN President, Fernando Soto Rojas, announced in plenary session that he had received a letter from the General Attorney, Luisa Ortega Díaz, notifying that the committee that will evaluate the candidates to fill the vacant left by Clodosbaldo Russián will be convened.





ECONOMIC OVERVIEW

