



# Weekly Report

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*Sitme, shortages, and recession...  
What's on the horizon for venezuela?*

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The new exchange system has been operating for over a month now without suffering any major changes. Everyone seems to agree that the consequences resulting in its having been implemented will be: inflation, insufficient supply of goods, and overall shortages. When will these consequences become evident? Will the Administration consider implementing changes to the SITME system?

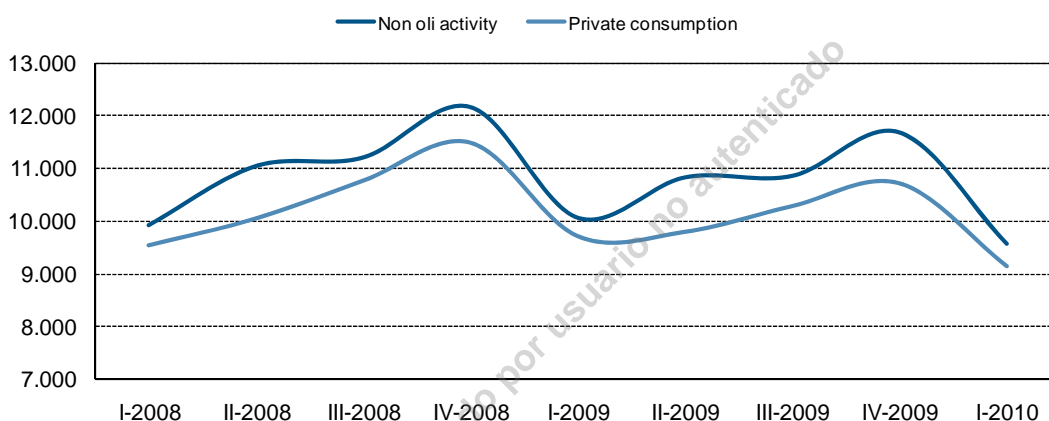
## **The recession**

The new exchange system outside of CADIVI called SITME has begun to operate when Venezuelan economy is in the midst of a very severe recession. The Central Bank of Venezuela figures for the first quarter 2010 show that on a y/y basis, non-oil activity has dropped by 4.9%. The outlook for the second quarter doesn't look any more promising, and all the economic indicators point to the recession being far from over and that it is in fact getting worse. At **Ecoanalítica**, we estimate that for the second quarter 2010 the non-oil sector will continue to drop and be at 5.7%, which means that for the first semester 2010 the non-oil sector shrank by 5.3%.



This is an important fact because it affects consumption and overall business activity. It reflects a scenario of decreasing demand, of scarcity and shortages for a significant number of products.

### Non oil groth vs private consumption



Sources: BCV and Ecoanalítica

### Inflation

Though the country is in the grips of a recession, inflation continues to increase. During the first semester 2010, inflation increased by 16.7%, compared to the 12.4% it accumulated during the same period last year. It's important to highlight that the inflation rate for food and non-alcoholic beverages has increased by 25.5% during the first 6 months of the year. And it's not just the recession, but the fact that the people's buy-power has also diminished significantly during this period that has led the population to change its buying habits and consequently a drop in consumption.

### The SITME system

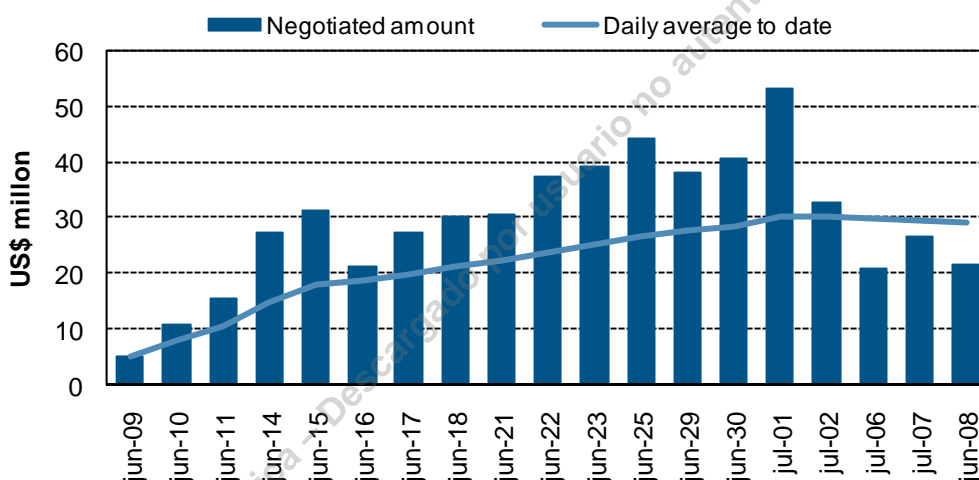
In the just over a month that the new exchange system SITME has been in operation it has sold US\$648.2 million in bonds, which represents US\$28.2 million a day. It's important to point out that during the first semester 2009, the so-called swap-market trading in foreign currency was at an average of US\$95 million a day.

Another fact worth mentioning with respect to these amounts is that they correspond to the nominal value of the bonds. Given that each bank has a different stock of public debt bonds, with different prices at the international level, it is very difficult to know exactly just how much the new system has placed. What is clear is that the amount is much less than what the authorities have been currently announcing.



As we have pointed out in previous Reports, the SITME system has focused on a certain number of import items and to a lesser degree on certain cases involving natural persons. Out-going capital operations have been completely excluded and are not allowed in the new system, these operations made-up 70% of the “old” swap-market operations. So, the new system is focusing on the other 30% which mainly have to do with imports.

### Negotiated amount Sitme



Sources: BCV and Ecoanalítica

### When will shortages become evident?

In a previous Weekly Report where we discussed the issue of imports and the SITME system, we pointed out that it would lead to shortages for a significant number of products. When the Administration decreed the elimination of all swap-market operations, we said that in the space of two months shortages would be noticed. Swap-market operations were terminated on March 19, and to date, severe shortage problems have yet to become evident. In fact, the BCV, in its June inflation report that shortages improved from 14.5% in May to 12.3% in June.

Furthermore, according to information gathered from a number of different business associations, to date, there is inventory for up to an average of 45 to 60 days. The reason for this has already been pointed out: the recession and the drop in consumption. Plainly put, people aren't buying like they used to, they are buying less. From the point of view of the commercial sector, people's loss in buying-power has led them to limit their purchases to the items found in the food basket, eliminating personal hygiene items,





household cleaning items, and snack items when they go to the supermarket.

### Interesting Facts

According to the Automobile Chamber of Venezuela, June sales were down by 27.7% compared to same period in 2009. Liquid steel production (2009) dropped by 424,000 tons, reaching a total of 3,807,952 tons, this represents a 9.9% drop in relative terms, and so far this year it has gotten worse.

According to a Conindustria report, local industry demand dropped from 54.73% during the fourth quarter 2009 to 52.18% in the first quarter 2010, with small and medium sized industries being the ones to use less steel, only using 52.1% and 43.4% of their total capacity, respectively. In the construction sector, during the first quarter of 2010, 14,000 housing units were built out of which 3,000 correspond to public sector construction projects, representing a 50% contraction in the construction of housing units by the Venezuelan Government, compared to the same period of 2009. This significant fall is mainly due to the slow process of transferring resources, which is evident in the fact that, to this day, only 15% of the budget has been executed.

In a recent survey released by Consecomercio, first quarter 2010 commerce and service sector sales were down by 29.4% on a y/y basis. Services most affected were: Customs services, down 38%; telecommunications sector and supermarkets, down 37%; automobile repair shops, 35%; auto parts, 34%; franchises 28%; and bakeries 18%. The survey also reports that 76.3% of those asked said that they were unable to carry out import operations during the first quarter, and 83.5% said that they did not look to CADIVI to cover their foreign currency needs for import; and of those who did request foreign currency from CADIVI, only 27% received what they requested.

According to the newspaper *El Nacional*, the sales volume of mass consumption items from independent supermarkets and stores has dropped by between 20% and 25% so far this year, according to a study carried out by the retail sector. Consumers are not only facing a loss in buy-power, but finding a shortage of goods being offered in the market.

Traditionally robust sectors such as telecommunications also report a slowdown in sales, with operative revenues dropping by 8.1% in real terms on a y/y basis.





**Without a crisis  
there won't be  
any changes**

There is no doubt that as things stand, the SITME system will lead to more restrictions for companies trying to get access to foreign currency, especially for importing goods and services. More than a problem about the amounts being placed, which we estimate will be around US\$6.0 billion for the rest of the year, it's the fact that there is no criterion, nothing to discriminate between the size of the companies or the sector, and this is benefitting certain companies and hurting others.

One can't expect any substantial changes to be made to the system until the shortage problems become painfully obvious, which should be occurring around September. In the meantime, the Administration is planning a foreign debt issuance (it still hasn't decided if it will be PDVSA or the Republic) aimed at increasing the SITME supply of foreign currency and at the same time offer some relief to big companies with urgent needs allowing them to have access to larger sums of foreign currency than what the SITME allows.

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## Economic Tips

**SENIAT Tax collection.** José David Cabello, the superintendent of the SENIAT, stated that it collected VEF 47.92 billion, down by 1.6% in real terms on a y/y basis, despite the fact that the entity surpassed its tax collection goal by 32.2%. The VAT collection also surpassed its goal by 46.7% collecting VEF 20.30 billion, but also dropping by 9.9% in real terms when compared to the previous year. This shows how the recession is affecting fiscal revenues.

**First semester fiscal figures:** The monthly report for the month of June released by the National Treasury Office, under the Ministry of Planning and Finance included the figures corresponding to the first semester of the year, according to which regular income was at VEF 79.86 billion, up 135.5% from the estimates of 2010's Budget Law and represents a 4.4% decline in real terms on a year-to-year basis. This drop may be explained by the 2.9% drop in non-oil revenues which settled at VEF 48.20 billion. The SENIAT played an important role here only taking in VEF 47.92 billion in tax collection during the semester, down by 1.6%. Oil revenues registered VEF 23.37 billion, up in real terms by 11.9%.

**Government spending:** The fiscal management report released by the National Treasury show that government spending for the first semester 2010 was at VEF 94.73 billion, including VEF 9.18 billion corresponding to 2009 budget. This amount represents a real variation of -1.6% compared to the same period the previous year. VEF 82.70 billion is still pending to be executed, because the budget was adjusted to VEF 177.39 billion due to an upward adjustment of VEF 18.1 billion.

**CPI by sectors.** The N-CPI by sectors for the month of June shows prices going up less than they did the previous month with 8 of 13 sectors showing price increases less than the average. Sectors with increases less than the average were the following: alcoholic beverages and tobacco, 2.8%; restaurants and hotels, 1.6%; transportation, 2.1%; food and non-alcoholic beverages, 2.0%; health, 1.3%; education services, up 0.6%; communications, 0.4%; household services not including telephone, up 0.1%. Three of the five groups left had prices increases higher than last month: recreation and culture, up 1.7%; clothing and foot ware, up 1.8%; household equipment, up 2.6%; and housing rent and miscellaneous goods and services remained steady with 0.9% and 2.3% respectively.

**CPI by cities...** Inflation figures for the month of June: 2.2% in Maturín and Barquisimeto; 2.0% in Maracay and Mérida; 1.8% in Valencia; 1.7% in Barcelona-



Puerto La Cruz and San Cristóbal; 1.6% in Ciudad Guayana; and 1.0% in Maracaibo. For the rest of the country inflation was at 1.8%.

**Goods and Services.** Prices for Goods and Services went up in June but not as much as they did in May, going from 2.8% to 2.0% and 2.4% to 1.5% respectively.

**Shortages.** The Shortages Indicator for the Caracas Metropolitan Area released by the BCV showed a drop compared to the month of May going from 14.5% to 12.3%. This represents a significant improvement since the indicator has not been at these levels since November 2009 when it registered 11.8%.

**The basket increases.** The cost of the family food basket for June was at VEF 2,484.73, up by 2.8% compared to May 2010. In one year, this basket of basic products has increased by 47.3%, according to the Documentation and Analysis Center of the Venezuelan Federation of Teachers. A family that depends on one minimum wage salary of VEF 1,223.89 a month will only be able to cover just 49.3% of the food basket.

**There is no “third” exchange rate. In the opinion of the director of the BCV, José Félix Rivas, the new SITME system has not created a third exchange rate. Rivas points out that “if the population and companies need foreign currency, the main entity to receive these types of request is CADIVI. Those spreading information alluding to the fact that there is a third exchange rate are just the forces of those speculators and price gougers who we have had to deal with these past few years and have just become a bit louder this past month.”**

**Why create the SITME.** The SITME is just a part of the exchange system having only to do with the supply of securities denominated in foreign currency. By creating the SITME, the power financial capital had on the economy is reduced. “We are creating privileges for the real economy, for worker’s revenues, and the transactions necessary to cover basic needs, as well as importing items to promote production... The SITME benefits the country because now the State is controlling, regulating, and disciplining it.”

**Interest rate.** The lending rate for the first week in July was at 16.9%, down by 115 base points compared to the previous week. Time deposits and savings rates were at 14.6 and 12.6%, respectively. This reflects a 12 base point increase for time deposits while savings remains steady.

**International reserves.** International reserves dropped by 0.3% going from US\$29.13 billion during the first week in July to US\$29.03 billion during the second week in July. Compared to the same period last year, international reserves dropped by 5.9%.



**Monetary liquidity.** Monetary liquidity for the first week in July was up down by 2.3% compared to the previous week settling at VEF 247.16 billion, so far this year, liquidity has gone up by 4.8% in nominal terms and down by 8.3% in real terms compared to the same period last year.

## Oil Tips

**Oil spill experts in Cuba.** According to Adonay Ochoa, coordinator of the Food, Agriculture and Rural Development Table, the crude oil spill affecting the flora and fauna at the Maracaibo Lake was not detected on time *“because Pdvsa’s equipment and technicians in charge of preventing this kind of accident were in Cuba, working on the detection of a possible contamination of Cuban beaches due to the oil spill in the Gulf of Mexico.”*

**Meanwhile at the Lake.** The president of Corpozulia, Gral. Carlos Martinez Mendoza, accused the State’s governor of the lake’s contamination, since the Government of Zulia was supposed to use 20% of the resources received via the Law of Especial Economic Appointments (LAEE) to clean the lake.

**Domestic market consumes the most expensive gasoline.** Including this year, it’s been a decade since the price of gasoline was frozen. The distortions in this market have increased considerably, boosting inflation. In response, gas station owners state sales have reverted; now, instead of selling more of the cheapest gasoline (91-octane), 70% of sales are of the most expensive one (95-octane).

**Regressive subsidy.** According to analysts, solving this problem seems impossible, since it would directly affect the lowest social classes; which represent a key element for the Government. We at **Ecoanalítica** think the ongoing gasoline subsidy is actually regressive (benefiting the richest) and any possible increase in the price of gasoline would have to be accompanied by subsidies focused on public transportation, among others.

**OPEC: Venezuela increased its oil reserves.** According to the Organization of Petroleum Exporting Countries’ (OPEC) Annual Statistical Bulletin, Venezuela increased its proven oil reserves by 22.5% between 2008 and 2009, reaching 211 thousand barrels. OPEC experienced a 4% increase in its reserves, to reach 79.6% of



the world's proven existence of oil, as a result of the Venezuelan oil reserves' behavior.

**... but poor in terms of production.** Even though OPEC ratified the increase of Venezuelan crude oil reserves, it warned that crude oil production was 2.3 million barrels per day, a situation Pdvsa didn't want to admit for 7 years and that could justify the lack of abundant money, since what they say the produce and export could be overestimated numbers. From 18,000 active wells in 2004 destined to the traditional production of conventional crude oils, the number went down to 16,000 wells, as per Menpet's 2009 Memory and Accounts.

**Colombian crude oil production increases.** By 2011, Colombia could exploit up to 1 million barrels of oil per day, an unprecedented quota. The country currently produces around 970,000 barrels per day, and might just meet its goal if production keeps increasing.

**Bell against oil spill.** The British oil company installed a sort of bell to try and stop the crude oil spill, sealing the damaged well. With the containment hatch, the oil company is looking to capture the continuous crude oil spill flow which hasn't stopped since the Deepwater Horizon platform sank on April 20.

**Studies about the Gulf oil spill continue.** The causes of BP's oil spill at the Gulf of Mexico are still being investigated by the US Department of Justice, said the Attorney General, Eric Holder. He also reminded the priority right now was to stop the spill caused by the explosion and sinking of BP's platform "Deepwater Horizon" off the coast of Louisiana at the end of April.

**Possible acquisition of BP by Exxon.** Exxon Mobil is studying the possibility to purchase its European competitor, British Petroleum (BP), which is currently facing financial difficulties after the oil spill at the Gulf of Mexico.

**... Which boosted its stock prices up.** The price of BP shares increased by over 8% in London markets, after the "Daily Telegraph" announced the oil company was reinforcing its position to avoid Exxon Mobil's acquisition.

**International oil baskets.** With an hour left of trading in the New York market before closing last Thursday, July 15, WTI was at US\$76.8/bl, showing a 1.7% increase compared to the US\$75.4/bl it was at the previous Thursday. Brent increased by 1.0% to reach US\$75.5/bl, compared to US\$74.7/bl it was trading at the previous week.





**Local oil basket price.** The Venezuelan oil basket decreased last week, and closed at US\$64.4/bl on July 9, down by US\$3.0 from the US\$67.4/bl it was trading at the previous week. Meanwhile, the basket's annual average decreased to US\$69.9/bl.

## Business Sector Tips

**Venezuelan government signed an agreement with CAF for electric projects.** The Venezuelan government signed an agreement with the Andean Development Corporation (CAF) for US\$500 million to invest in the execution of 21 projects contemplated in the Plan to Strengthen the National Electric System, looking to increase electric generation by 4,000 megawatts. With this amount, CAF has authorized loans to the Venezuelan Government for a total US\$3 billion.

**Import authorizations for the first semester.** Manuel Barroso, president of the Currency Administration Commission (Cadivi) said the import authorizations (including the Aladi Agreement category) corresponding to the first half of 2010 reached US\$12 billion, which represents a 27.0% increase compared to the same period of 2009.

**Vehicle sales not yet recovered.** Car sales haven't recovered in 2010. June's car sales report published by the Venezuelan Automotive Chamber (Cavenez) indicates that, compared to the same period of 2009, there has been a 27.7% contraction. 58,672 units were sold during the first half of 2010, 22,459 units less than during the same period of 2009. The longest fall was reported in the sale of imported units, with a 72.8% contraction. However, the national vehicle category has also shrunk, compared to 2009, with a fall around 12.4%. The main obstacle for manufacturers is the liquidation of currency.

**Production either...** During the first five months of 2010, vehicle production decreased by 20.4% compared to the same period of 2009, according to Cavenez. 43,057 units were assembled during this period. 8,504 cars were assembled in May, a 0.3% y/y decrease and a 13.8% m/m decrease.

**Liabilities to be registered at VEF 4.3/US\$.** The Central Bank of Venezuela published a resolution in Official Gazette number 39,461, dated July 8 of 2010, indicating that financial institutions and insurance companies shall assess and entry assets and liabilities in foreign currency at the exchange rate of VEF 4.3/US\$.



**More audits.** The Superintendence of Banks (Sudeban) formalized in Official Gazette number 39,461 the auditing procedures of six companies related to Banco Federal. The companies are: Sociedad Mercantil Nelson C.A., La Reintegradora C.A.; Promotora Inmobiliaria Urbana C.A.; Catina C.A., Central Económica Ceneconsa C.A.; and Dinerva C.A. Other companies were also put under audit, though the procedures have not been formalized yet, Almacenadora Federal C.A., Inversora La Federación C.A., Sociedad Mercantil Caney I C.A., Sociedad Mercantil Caney II C.A., Sindicato Ávila C.A. and Refucio Horizontal C.A.

**Econoinvest fights back.** According to the auditor of Econoinvest Casa de Bolsa, Nahunimar Castillo, and the president of the National Securities Commission (CNV), the company does not have enough liquidity to cover in-transit operations. However, Juan Ramon Carvallo, legal advisor for Econoinvest, said the company had never been in deficit and that it had always been highly solvent. He also said “the amount of 22 million in in-transit operations referred to by the president of CNV is actually that of checks issued and not delivered to clients, due to the auditing board’s refusal” and that “at the time Econoinvest was put under audit, it had Bs 23 million in its accounts, more than enough to cover the checks issued.”

**Treasury resumes operations.** Econoinvest Casa de Bolsa’s treasury and operations departments resumed operations to assist the auditing board to speed up the release of bonds of clients registered in the Venezuelan Securities Chamber (CVV) and clients’ in-transit operations.

**Trying to put out a fire with a thimble of water.** The minister of Trade, Richard Canan, said the Venezuelan Government would supply 8,785 tons of food within the next few days, through 1,546 special operations.

**Government fails to meet milk labeling standards.** According to Roberto Leon Parilli, president of the National Alliance of Users and Consumers (Anauco), State-managed industries do not meet powdered-milk labeling standards. He also said that 40% of milk production was in the Government’s hands.

**Socialist company.** The socialist company Lacteos Machiques processes over 200 thousand liters of milk per day, and has a production goal of 300,000 liters of milk per day by the year’s end, said the vice-minister of Agro-productive, Food and Agricultural Circuits of the Minister of Agriculture and Lands, Yvan Gil. The plant’s investment was of VEF 18 million.

**Increase of meat production refuted.** Manuel Cipriano Heredia, president of Fedenaga, said the official numbers released by the minister of Agriculture and Lands, Juan Carlos Loyola, showing a 5% increase in meat production, were not true.



**Construction sector moving slow.** Out of 70,000 housing solutions in the private sector's inventory, 20,700 are currently shut down, says El Universal. The newspaper indicates the factors that have caused these shutdowns include developers' inability to collect the PCI, promoters' difficulties to negotiate contracts and the fact that some companies don't have the financial strength to continue with the projects and the risks are too high compared to the benefits.

**Sidor to be reactivated.** Representatives of Siderurgica del Orinoco (Sidor) said the new liquid steel production estimates for 2010 aimed to 1.6 tons. According to Reuters, using unofficial numbers, Sidor's production may have suffered a 63.7% contraction during the first semester of 2010, compared to the same period of 2009.

**Exports to Venezuela down.** Colombian exports to Venezuela dropped by 71.5% y/y during the first five months of 2010, reported the Colombian National Administrative Statistics Department (Dane). Colombia exported US\$2.27 billion to Venezuela in 2009, while the figure reached US\$652 in 2010.

**Private hospitals to be supervised.** The president of the Human Rights sub-commission, Congressman Reinaldo Garcia, announced that twelve private hospitals that have been reported due to the death of patients, who allegedly weren't assisted while waiting for the insurance authorization, would be under supervision. Among these private hospitals he mentioned: Hospital de Clinicas Caracas, Clinica El Avila, both in Caracas; La Viña, Carabobo state; El Paraiso, Zulia state, among others.

## World Crisis Tips

**US trade deficit expands.** The US trade deficit increased unexpectedly in May to reach an 18-month high due to an increase in imports that exceeded the increase in exports. The gap was expanded by 4.8% to reach US\$42.3 billion. The import operations that boosted this expansion were those of automobiles and consumption goods. Bloomberg says the consensus of surveys made to 72 economists indicates the expectation was between US\$37 billion and US\$41.5 billion.

**US budget deficit reduced.** In June, the US Government reported a lower budget deficit than the one reported the same month of last year, boosted by higher a fiscal income, thanks to the economic recovery. Expenditures exceeded revenues by US\$68.4 billion, while in June of 2009 the deficit was US\$94.3 billion. This represents



a 27.5% decrease. As of today, the fiscal deficit accumulated US\$ 1 trillion, and as of the same date of last year it accumulated US\$1.42 trillion, a 29.6% reduction. In this case, the final amount was lower than the lower limit of economists' estimation range, between US\$69 billion and US\$103.9 billion.

**Banks show good signs as well.** Bank loans show signs of recovery after the delayed loan payment percentage improved in March reaching 1.79%, compared to 1.94% at the end of 2009, and the lowest level of 3.12% reached in February of 2009.

**However...** American consumers' leveraging keeps falling, reporting a new decrease by US\$9.1 billion in May, representing a y/y fall by 3.9%. This contraction in the use of credit for consumption started at the end of 2008. However, falls have become longer, since a US\$14.9 billion contraction was reported in April.

**The Senate passed financial reform.** On Tuesday, the Senate passed the much-discussed reform of the U.S. financial system with 60 votes in favor and 39 against, now just need the signature of President Obama. The new law places more restrictions on the country's largest banks, the Federal Reserve, the rating agencies and hedge funds, also creates a new consumer protection agency in case of mortgages and credit cards.

**Europe's Gross Domestic Product grows.** Despite all the news, speculations and problems suffered by the European Union and the Euro, a 0.2% growth was reported in the first quarter of 2010, compared to the previous quarter, reported Eurostat. However, compared to the same quarter of 2009 and to seasonally data, the GDP growth would be 0.6% for the Euro Zone and 0.5% for EU27, a very positive result, since they both suffered contractions by 2.1% and 2.3% the previous quarter, respectively.

**Japan confidence and employment improve.** Japan's consumer confidence index increased by 1.4% in June, according to Haver Analytics. The analysis firm highlighted the fact that the employment rate increased by 3.2% in June. Both growths rose in reaction to the unexpected improvement of the industrial production index. Japanese consumers and producers keep gaining confidence as the country recovers from the recession.

**UK growth revisions turned out less optimistic.** The UK GDP revision turned out less optimistic than the initial number, though it didn't change much. The domestic demand increased by 4.8%, but promoted by the public expenditure which increased by 6.2%, while private consumption contracted by 0.5%. Capital formation increased by 19.2%, exports shrunk by 6.6% and imports grew by 6.7%. Finally, the GDP variation resulted in a 1.3% growth.



**German inflation starts to give in.** After having reported a third consecutive month in deflation in June (-0.1%), with a result of -0.7% in the second quarter of 2010, the Bundesbank can relax now, since the y/y variation of the price index is 0.0%. However, the variation accumulated over the last twelve months was 0.8%.

**Intel reports significant increase in sales.** Intel Corporation reported a 34% increase in its sales to reach earnings for US\$2.9 billion in the second quarter of 2010, which represents a great improvement compared to the US\$398 million. The results of 51 cents per share exceeded the estimates of 43 cents per share.

**Falta uno a final de semana sobre la Ley Financiera de EE.UU.**

## Political Tips

**Presidents criticize Colombian anti-drug measures.** Hugo Chavez and Rafael Correa, presidents of Venezuela and Ecuador, respectively, evaluated and criticized the alleged lack of action of the Colombian Government against drug trafficking. In a meeting held at the Palace of Miraflores, the Venezuelan President said “they say we are permissive, but we are at war against drug trafficking,” reminding that “it all comes from Colombia.” Likewise, the President of Ecuador said “we assume the consequences of the absence of the Colombian State in the boarder.”

**Adverse parliamentary election forecast ruled out.** Ramon Guillermo Aveledo, executive secretary of the Unity Table, rejected the official branch’s negative scenarios indicating the Venezuelan opposition will obtain only 40 seats, out of the total 165 in the upcoming parliamentary election. In response, the Venezuelan opposition said that those who outlined this possibility were “mechanically” applying the results of the constitutional amendment referendum of 2009, when President Hugo Chavez received support for his proposal of unlimited presidential reelection, ultimately approved by the people’s votes, which would mean that “nothing has happened from 2009 until now” to affect the official branch’s electoral position.

**TSJ to review reform of Decentralization Law.** After nearly a year and a half, the National Assembly’s decision to remove State Governments’ faculties to administer and manage ports, airports and highways, the highest court will check whether this reform is aligned with the spirit and text of the Constitution of 1999. A letter signed by Jorge Rosell, Henri Alvarez, Rafael Rodriguez Parra, Ramon Perez Linarez, the



former governor of Lara, Orlando Fernandez, and others, denounced the Parliament's pro-government majority violated article 2 of the Constitution, which establishes that Venezuela is a federal and decentralized nation.

**Chavez: Catholic church tries to manipulate the people.** President Chavez assured that Cardinal Jorge Urosa Sabino "tries to manipulate the people under his cassock." Chavez talked about Cardinal Urosa saying "he is disrespecting the people and the whole nation because he is lying." He also criticized the Catholic Church for not issuing any comments about the arrest of the Salvadorian terrorist Francisco Antonio Chavez Abarca, who attempted to enter Venezuelan grounds.

**NA to decide the role of Church.** In an ordinary session, the National Assembly will issue a statement regarding those issued by Cardinal Jorge Urosa and other members of the Catholic Church against the Venezuelan President and the model he tries to implement. The president of the NA, Cilia Flores, said: *"We, at the NA, are going to engage in a great debate that needs to take place in all instances. We are going to analyze the role of the Catholic Church not only here in Venezuela, but in the world."*

**"We are not with any Government."** Monsignor Baltazar Porras, vice president of the Venezuelan Episcopal Conference (CEV) and archbishop of Merida, said the statements issued by President Chavez about Cardinal Urosa evidenced an increasing situation and that finding single voice is the goal. He also explained: *"the role of the Catholic Church is not to be against any government, and what the CEV has done is to listen to people's concerns and express them so that there is an alert."*

**Chavez denies Marxist socialist model.** The Venezuelan President said whoever said he was trying to implement a Marxist socialist regime *"is either a great ignorant or a great phony."* Chavez highlighted he was building our own democratic socialism, based on the roots of Simon Bolivar, Ezequiel Zamora and Samuel Robinson. About his critiques of Cardinal Urosa Sabino, he said the country was not looking to implement a Marxist socialist model, "that is a lie as big as the sun, we are building a democratic socialism."

**Rejects trial of Chavez.** Luisa Estella Morales, president of the Supreme Court of Justice (TSJ) rejected the demand against President Chavez for considering the plaintiffs were not authorized to present such an action and had not submitted elements to sustain it. The plaintiffs were accusing Chavez of seeking war, justifying their request by alleging that a war with Colombia would be detrimental to us.

**Chavez and Castro the least valued.** According to conclusions drawn by the last barometer of the Real Instituto Elcano, the Cuban president, Raul Castro, and his Venezuelan homonym, Hugo Chavez, are the two political leaders least valued by



Spanish citizens. The study includes the most valued world leaders, and the president of the United States, Barack Obama, is still number one with a 7.6 rating, while the Cuban Raul Castro has a rating of 2.3 and Chavez 1.9.

**Commanders appointed.** President Hugo Chavez appointed Major General Euclides Campos as Army Commander and Luis Mota as National Guard Commander, after retiring the former title holders. Campos will be substituting Major General Juan Paredes, and Mota will take on Major General Freddy Carrion's office. Major General Henry Rangel was appointed Strategic Operational Commander. In the event, Chavez said: *"this is the first time, since the times of Independence, in the early XIX century, that Venezuela has an armed force worthy of its people and the greatness of this nation."*

**Agreement between Venezuela and Brazil approved.** The National Assembly (NA) approved in ordinary session the agreement to unify borderline states and municipalities between Venezuela and Brazil. This agreement seeks to promote social integration and increasing the quality of life of citizens living in Santa Elena de Uairen, Gran Sabana municipality in the Bolivar State, Venezuela, and the locality of Pacaraima, in the Brazilian State of Roraima.

**Only 20%.** A resolution setting the maximum adjustment of tuition in Venezuela's private educative institutions was published in the Official Gazette. The limit is 20% and, set in conjunction by commissions in Education and Trade, do not imply an automatic adjustment, and based on it, each institution's parent and guardian's assemblies shall decide how much to increase. Schools charging more than the limit will be in breach of the law, so the corresponding penalties will be applied.





**ECONOMIC OVERVIEW**

