



Weekly Report

Year 6, Number 28
Week V, July 2010

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*The chavist economic model and its
viability in the medium term*

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Currently, Venezuela not only finds itself in the middle of an economic crisis that has been made worse this year by the electric power crisis, uncertainties with the exchange system, and fiscal spending being cut, but it is also facing a series of significant changes to the structure of the Venezuelan economy, especially regarding legislative issues, being introduced by the Administration and the National Assembly. The question we ask ourselves is: What are the costs that President Chávez will have to assume in order to continue with this strategy?

**The new
economy: the
people's power
and communes**

As stated in a report published in the newspaper *El Mundo*, the Communal State began to be built in 1999, according to chavista theorists. They point out that in the Constituent and in the new Constitution, the foundation was laid for what was to become this new system. The first expression of what was to be called, the people's power, materialized in the communal councils, which were sanctioned by law in 2006. This event preceded the approval of the Organic Law of the People's Power, which is still being discussed in the National Assembly.

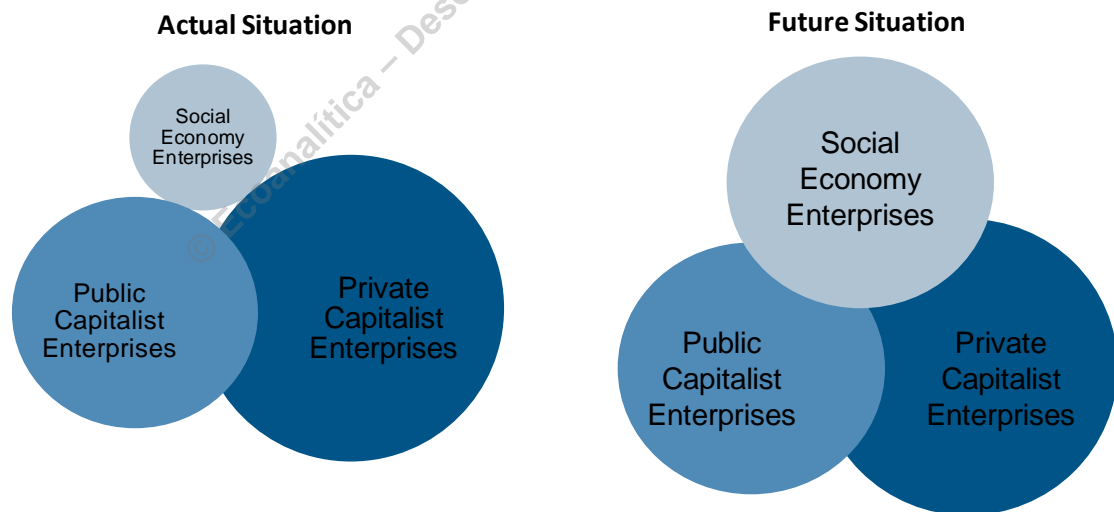


In the beginning of its latest term, the Administration established the Simón Bolívar Project, First Socialist Plan 2007-2013 (PPS). This public domain document establishes the guidelines of the new economic design being contemplated by the Administration. Chapter IV of this document refers to the Socialist Productive Model.

What is the essence of this model?

This model will basically be made up of social production companies (EPS), along with state-run companies and “private capitalist” companies. The EPS are defined as “companies dedicated to the production of goods and services where the work has its own meaning...no social discrimination exists in the workplace...no privileges exist in the workplace associated with job hierarchy...and they are based on worker participatory planning.”

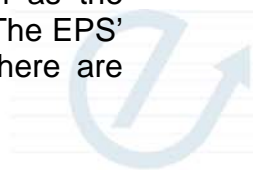
This is the starting point which is supposed to lead to an economic model that will become the heart of the new socialist economy, intersecting between EPS, state-run companies, and private companies. The emergence of mix-companies has not been discarded.



Sources: Ministry of People's Power for Planning and Finance and Ecoanalítica

Economic backing and legal backing

This new economic structure has been backed by the State, especially by the Executive and Legislative powers. The Executive powers has backed this new structure by awarding significant allotments of the National Budget to be put at their disposal, as well as creating Ministries, such as the Ministry of the People's Economy and the Ministry of Communes. The EPS' that have been created are given preferential treatment when there are





public issued tenders and job contracts to be awarded, they also have a more flexible tax regimen.

From the legislative point of view, the Administration's efforts have been focused on passing laws which support the new system. At least seven laws have come out of the National Assembly that develops the concept of a Communal State.

The core

One of the main laws that have been passed, significantly creating the core of the new system is: the Organic Law of the People's Power. This law creates the framework that develops the means of participation and generates the mechanisms to carry them out. This law is based, according to National Assembly representative, Ulises Daal, on everything that is in the Constitution. It's the "People's Power Constitution," according to Daal.

Though the communal councils were the first to be created, the law that regulates them opened up the participation mechanisms, and in 2009 it became an Organic Law. All this leads to the creation of the Law of Communes, which establishes the rules and mechanisms for creating self-government by the citizens in territorial areas designated by the law. Among the principles that define how a commune is created is that it must be a single contiguous region or zone, with a cultural identity, economic potential, similar customs and habits, in order to guarantee its viability. One could say that these two laws are the core of the new system.

The others

The other laws that compliment the new system are the Organic Law of Public Communal Planning, that in theory brings together public sector planning with the People's Power through the National System for Public and People's Planning which include the Government Federal Council, State Councils for the Coordination of Public Policies, and the Local Councils for Public Planning. Two new figures are included here: the Communal Planning Council and the Communal Council as members of this national system.

There is also the Organic Law of the Social Comptroller's Office aimed at looking for control mechanisms for the investment of resources and its being implemented by the Public Power as well as by entities of the People's Power, also keeping an eye on private sector activities of general interest. There is also the Law for Communal Economy that establishes the principles, rules, and procedures for creating a communal economic system based on the projects developed by the organizations belonging to the People's Power in the community in order to develop a new productive model.



According to representative Daal, the objective here is to do away with the system of division of labor which capitalism establishes. In this new structure there are no bosses or hierarchy, and the profits must be reinvested in the company or the community where the production occurs, just as it is established in the PPS.

Two more

The two other projects that will be taken up again in the National Assembly are the Social Property Law and the reform of the Commerce Code. Last year, the Citizen's Participation Commission drafted a proposal that detailed the functioning of the different forms of social property. Now the National Assembly representatives want to continue to develop this further and they intend to include aspects such as the definition of the distribution and commerce system of social property businesses. The representatives will review the Social Property Law once the discussions on the other laws that make up the legal framework of the socialist model are finished.

So, the new socialist model is being established through the People's Powers Law, the Public Planning Law, the Law of Communes, the Communal Economic System Law, and the Social Property Law. Also adding the Law for the Social Comptroller's Office and the reform of the Commerce Code. The first three laws mentioned are currently being discussed in the Assembly.

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Laws	Characteristics
Popular Power and Participation Law	Includes the construction of a communal state, which sustains the social property
Public Planning Law	States that the communal power will be aimed at achieving food and economic independence in order to guarantee the sustained growth of a social economy
Laws of the Commune	Organizations of social territorial government that form the base of a Communal State. They have varied functions: social control, self-government, self-management, defining geographic regions and the production of goods and services.
Law to Promote and Develop Communal Economy	The socialist productive model will be based on social property, oriented towards the elimination of the capitalist model of labor division. There will be equality in all aspects. It establishes the barter system as a means of exchange.
Social Property Law	Defines the different types of social property and economic benefits granted by the State to those companies based on social property. The main focus is to satisfy needs not generate profits. It creates schemes of commerce and supply of goods and services different from capitalist ones.
Law of the Social Comptroller's Office	Defines the methods of control and vigilance practiced by citizens on an individual or collective base with respect to the management of the People's Power, public management, and private enterprises that affect the public wellbeing. Socialist ethical principles are promoted.
Reform of the Commerce Code	Substitutes luxury for economic activity, regulates company profits, demands social contributions from private companies and the incorporation of the socialist productive model.

Sources: National Press and Ecoanalítica

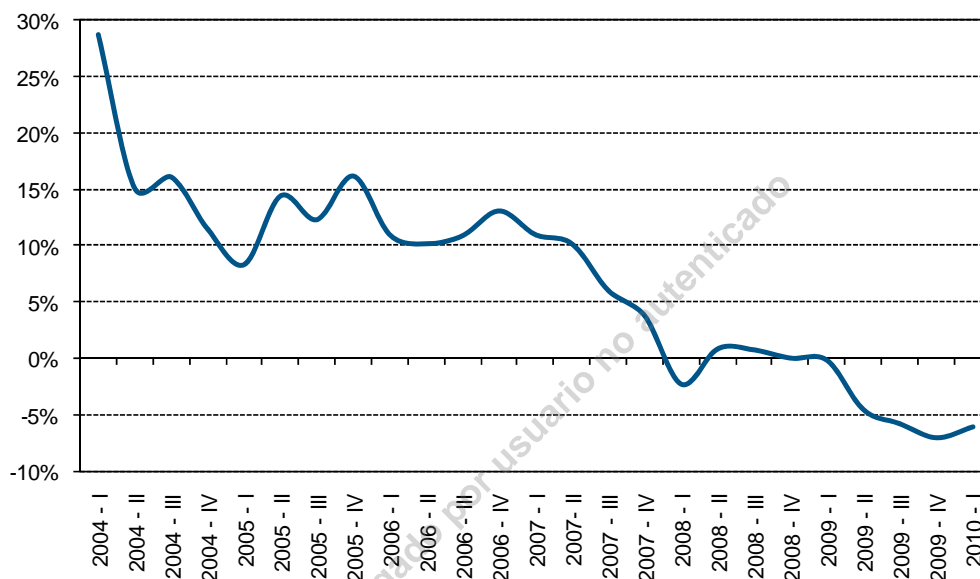
Has all this had an impact on the economy?

Another point that we would like to point out is that all this new legal architecture has taken place while the Venezuelan economy has been sliding severely. It's important to keep in mind that the Venezuelan economy dropped 3.3% last year. From the private sector's point of view, the situation looks even worse, the private sector GDP has been dropping for 5 quarters and the drop in investment has been drastic: down by 8.1% in 2009 and 27.9% in the first quarter 2010. However, as we mentioned last issue, the private sector is still carrying most of the weight with respect to GDP and the labor market. In fact, 8 out of every 10 jobs in the formal economy is generated by the private sector and 2/3 of all investment comes from the private sector also.





Private Sector GDP Growth (y/y)



Sources: BCV and Ecoanalítica

Investment indicators make it clear that one of the main components of the current economic crisis in Venezuela is the private sector's lack of confidence in the current scenario the country is presenting. In a context of macroeconomic deterioration, foreign currency restrictions, and public spending cutbacks, you add to this the perception that there are no guarantees to for private property, and an aggressive expropriation campaign by the Administration and the current legislative calendar, it's no wonder.

At **Ecoanalítica**, we continue to believe that the Administration is not looking to eliminate private property but that it is trying to develop a new sustainable model based on the State. As things stand right now, certain parts of the private sector are not sure exactly what role they are to play in this new model, while other very important parts of the private sector are convinced that this new model will exclude them. As long as this uncertainty exists, the private sector will continue to go through the motions of doing business without attempting to inject much need dynamics into the economy.





The Government's vicious circle

We have always insisted that the country's economic policies ran second to the viability and survival of the Administration's political endeavors. So, first and above all else, the Administration's focus is on President Chávez getting reelected in 2012. But, there are a number of aspects that are going to make this a very difficult task to achieve. If we limit our observations to the economy, it's going to be a very hard sell to win votes and get reelected when the country's global economic scenario is in deterioration. According to the latest surveys by Consensus, while average economic growth between 2000-2004 was at 1.8%, and between 2005-2009 it was at 6.0%, between 2010-2014 it will only be at 0.6%. In terms of inflation, between 2000-2004 it was at 20.8% and between 2010-2014 it will be at 30.6%.

Long-term trends - 5-year average	Consensus Ecoanalítica			
	2000-2004	2005-2009	2010-2014	
Population (million)	25,2	27,5	29,7	29,5
GDP (US\$ billion)	106	254	363	330
GDP per capita (US\$)	4.207	9.160	12.194	11.125
GDP (%)	1,8	6,0	0,6	0,6
Fiscal Balance (% of GDP)	-3,1	-0,3	-3,6	-2,5
Inflation (%)	20,8	21,7	30,6	31,7
Current Account (% of GDP)	9,3	10,8	6	7,3
External Debt (% of GDP)	37,0	23,5	20,7	19,9

Sources: BCV, INE, FocusEconomics and Ecoanalítica

So, Chávez' Administration is facing a dilemma, a vicious circle if you will. It is trying to implement this new economic model which in turn is paralyzing private sector activity, and given that the private sector still carries the majority of the burden of GDP economic growth, paralyzing the private sector equals inducing general economic downfall, which in turn will lead to the President losing the support of the voters. So, paradoxically, this constitutes an incentive for the Administration to try to reactivate the economy in the medium. It doesn't necessarily mean that the Administration will achieve this goal, but its Achilles Heel is that the more it advances its project to implement its new socialist model the more vulnerable the chavista political project will be in the long run. All that is left to see is what the Administration will be willing to sacrifice, and what change it will implement to avoid the economic collapse of the country. The coming months will be quite interesting.





Economic Tips

Ministry of Finance releases first quarter 2010 public foreign debt figures.

Central Government public foreign debt figures released by the Ministry of Planning and Finance show a 0.3% drop in debt during the first quarter of the year with the total balance at US\$35.03 billion. This stability is due to the fact that there were no debt issuances during the first quarter 2010, this is why it only dropped 0.3% in debt bonds and obligations to settle at US\$29.79 billion.

	2009-Q1	2010-Q1	Var %
External Debt (US\$ million)	35,168	35,027	-0.4
Bonds and other	29,872	29,788	-0.3
Comercial Banks	1,087	992	-8.8
Bilaterals	913	881	-3.6
Multilaterals	3,293	3,363	2.1
Providers	2	2	0.0

Sources: Ministry of Planning and Finance

Foreign debt service. Ministry of Planning and Finance figures show that during the first semester 2010 domestic debt service was at US\$874.10 million, of which US\$680.80 million were interest payments, and US\$193.30 million payment of the principle. New borrowing increased by US\$138.80 million, through multilateral borrowing for US\$131.90 million, and new debt with commercial banks for US\$6.80 million. Ministry of Planning and Finance estimates debt service payments for the rest of the year will equal US\$2.16 billion.

Domestic debt. Ministry of Planning and Finance figures show that domestic borrowing is up by 20.3% so far this year to settle at VEF 63.97 billion. Of this amount, VEF 10.85 billion was placed in bonds and other securities, with VEF 10.06 billion public debt bonds (+20.1%); VEF 744 million in Treasury bills (+23.3%); and VEF 87 thousand in promissory notes (+20.8%).

Domestic debt service. Ministry of Planning and Finance figures for the first quarter 2010 show domestic debt service at VEF 4.34 billion, with interest payments equaling VEF 1.19 billion and VEF 3.15 billion in payments against the principle. New domestic borrowing totaled VEF 11.81 billion, mostly in national public debt bond placements (VEF8.495 billion) and Treasury bills (VEF 3.32 billion). Ministry of Planning and Finance estimates that domestic debt service payments for the rest of the year will equal VEF 7.54 billion.



Unemployment figures. According to figures released by the national Statistics Institute (INE), unemployment closed the month of June with the number of public sector employees dropping by 0.2% to settle at 2,265,371 people. During the last 12 consecutive months, public employees have increased by 141,585 people (1.0%). With respect to the private sector, the number of employees has increased by 0.2%, or 152,824 people to settle at 9,746,268 people. During the last 12 consecutive months private sector employees have dropped by 1.0%, or 68,781 people.

Formal sector employment figures. INE figures show formal sector employment at 56.0% and informal sector figures at 44.0%.

Number of employers continues to drop. INE figures show that the number of employers continues to drop. During the last 12 months, the number of employers has dropped by 24.9%, and so far this year they have dropped by 22.9%.

A “novel” loan. According to José Meléndez, finance secretary of Sutiss, SIDOR got a loan for VEF 2.0 billion through the BCV in order to pay outstanding debt owed to contractors, and that SIDOR would make sure that the contractors paid their workers the 10 bolivars a day raise owed to them. Meléndez explained that this interest free loan will allow the company to settle its VEF 3.0 billion debt it had with over 460 contractors (8,300 workers).

Cepal with conservative outlook. The Latin American and Caribbean economy registered a rapid and important recovery after the international crisis and it is estimated that the economy will grow by 5.2% this year, but during 2011, the rhythm of growth will drop down to 3.8%, according to projections made by the Economic Commission for Latin America and the Caribbean (Cepal). With respect to Venezuela, the Cepal estimates that the economy will drop by 3%. Originally, the Cepal had estimated that the Venezuelan economy would grow by 2%. In 2011, it's estimated that Venezuela will recover by 2.5%.

Sitme figures. To date, around US\$907,5 million have been negotiated through the new Integrated System for Foreign Currency Transactions (Sitme), averaging US\$26.7 million a day, with an implicit exchange rate of VEF 5.3/US\$.

Interest rate. The lending rate for the fourth week in July was at 19.2%, down by 159 base points compared to the previous week. Time deposits and savings rates were at 15.2 and 12.6%, respectively. This reflects a 9 base point increase for time deposits while savings remains steady.





International reserves. International reserves dropped by 1.7% going from US\$29.03 billion during the first week in July to US\$28.54 billion during the second week in July. Compared to the same period last year, international reserves have dropped by 7.5%.

Monetary liquidity. Monetary liquidity for the third week in July was up down by 2.3% compared to the previous week settling at VEF 251.72 billion, so far this year, liquidity has gone up by 6.8% in nominal terms and down by 9.4% in real terms compared to the same period last year.

Oil Tips

Pdvsa on “yellow alert”. The minister of Energy and Oil, Rafael Ramirez, informed that Pdvsa was currently on “*yellow alert*” after President Chavez’s warning of being willing to suspend the oil supply to the United States should an aggression occur. “*As the minister of Energy and Oil, I can say we have given all the operational instructions and have set our oil industry on ‘yellow alert,’ we are ready to suspend oil supply to the United States if our country becomes victim of some kind of military aggression.*”

Oil exports to the US in April. The data provided by the US Energy Information Administration indicate the oil industry supplied 950,000 barrels per day in April, compared to 1.06 million barrels per day in March, a m/m fall of 10.4%. Comparing with April of 2009, shipments have increased by 6.6% since 891,000 barrels were exported daily during that period.

Overall in crude oil and oil byproducts. Checking the detailed information we can see how the sale of oil to the United States reached 851,000 barrels per day, 14.0% less than in March when 984,000 barrels were supplied every day. Oil byproduct industry sales increased. In April, there was a supply of 99,000 barrels per day, 28.0% more than in March when 77,000 barrels were sold daily.

Still in fifth place. After April’s sales, Venezuela became the United States’ fifth crude oil and oil byproduct supplier with 0.95 mb/d. The first four are Canada with 2.48 million barrels per day (mb/d), then Mexico with 1.27 mb/d, Saudi Arabia with 1.25 mb/d and Nigeria with 1.12 mb/d.

As to production... According to the EIA, oil production in remained at 2.1 mb/d levels in April, although the authorities indicate it reaches 3.0 mb/d. Seeing this, it is important to remember that Pdvsa admitted in its 2009 Memory and Accounts that



production had had problems due to the low supply of natural gas, which kept them from meeting steam injection and generation commitments and caused the subsequent failure to meet crude oil extraction plans. Besides these situations, there were also electric failures and delays in payment to supplying companies, which caused delays in supply arrival.

Pequiven 2009 Results: Loss. According to Venezuela's Petrochemical Corporation's (Pequiven) 2009 Memory and Accounts, the company ended the year with an operational loss of VEF 397.11 million and a negative balance of 589,533 tons between programmed production and effective production in all lines, both in fertilizers and in raw materials for plastic byproducts.

Pequiven 2009 Results: Subsidies. These results also evidence that, as of the end of last year, the company destined VEF 400 million to subsidize the price of its fertilizers, which obviously had a clear impact on the state corporation's finances.

Pequiven 2009 Results: Implications. The commercialization of industrial products in the Venezuelan market did not reach the projected goal, since the budget established a volume of 1,205,800 tons and only 926,505 tons were placed, leaving a negative balance of 279,295 tons. Considering Pequiven is an almost monopolist supplier of petrochemical products, both for the manufacturing industry and the agricultural sector, these setbacks must have had significant consequences on both sectors' production. To summarize, Pequiven closed last year with a sales incompliance percentage of 17%, measured in product volume and with production indicators 16% below the established goals.

Problems with the Caracas Metropolitan Area gasoline supply. Representatives of the gas stations sector indicate that, even though there is enough fuel stock in the inventories, the Metropolitan Area of Caracas is facing difficulties with the supply, apparently due to problems with the transportation sector. However, they assure the trucks that are operative cannot cover the whole demand and, though a few units have been acquired, they still haven't been suited for gasoline transport. Not to mention the multiple malfunctions that keeps affecting the national fuel production, especially in the El Palito and Amuay refineries.

First portable gas station. Pdvsa West opened Venezuela's first portable gas station located in the main building of La Concepcion, Zulia State, able to supply over 350 vehicles per week.

Pdvsa finances thermoelectric plant in Bolivia. A thermoelectric plant (using natural gas) financed by Pdvsa and costing US\$60 million to produce 100 megawatts was inaugurated in the Entre Rios municipality, in the center of Bolivia. This plant will



reinforce the National Interconnected System to produce 1,300 megawatts required for the electric coverage of Bolivia's nine departments.

And a mixed company was created... Bolivia's energy authorities highlighted the creation of the National Andean Electricity Company. This company is integrated by Bolivia's ENDE, holding 60% of the shares, and PDVSA, holding the remaining 40% of the shares.

International oil baskets. With an hour left of trading in the New York market before closing last Thursday, July 29, WTI was at US\$78.40/bl, showing a 0.8% decrease compared to the US\$79.0/bl it was at the previous Thursday. Brent increased by 0.1% to reach US\$78.5/bl, compared to US\$78.4/bl it was trading at the previous week.

Local oil basket price. The Venezuelan oil basket increased last week closing at US\$68.4/bl on July 23, up by US\$0.64 from the US\$67.8/bl it was trading at the previous week. Meanwhile, the basket's annual average decreased to US\$69.8/bl.

Business Sector Tips

Venezuelan bank sanctioned due to relations with Iran. The European Union ordered the freezing of all funds in Banco Internacional de Desarrollo de Venezuela (BIDV), an affiliate of Export Development Bank of Iran, due to links with the Iranian nuclear program. The BIDV, which had previously been sanctioned by the US Treasury Department, denies having collaborated with nuclear activities in Iran.

Bank earnings down. In a report published by the Banks' Superintendence (Sudeban), we can observe how the banking system's earnings during the first half of 2010 dropped by 21.6% in real terms, to reach VEF 3.20 billion, compared to the same period of 2009. Analyzing with the profitability indicator in terms of equity, we can observe a decrease by 4 percent points, going from 24.4% in 2009 to 20.4% in 2010.

Seguros Carabobo raided. The insurance company Seguros Carabobo, related to the shut-down Econoinvest Casa de Bolsa, was raided by the auditing board of the aforementioned brokerage house, along with Cicpc officers and a Public Ministry Attorney. The commission took over 15 boxes of materials with information allegedly related to Econoinvest.





New agreement on steel. Venezuela and Cuba are close to signing six new agreements, this time related to the basic and mining industries. The minister of Basic Industries and Mining, Jose Khan, said that one of the most important agreements involved the creation of a great-national company that would establish several companies in Venezuela and Cuba to produce stainless-steel byproducts, besides the exploitation of copper and zinc deposits in Cuba. The eventual incorporation of other countries such as Bolivia, Ecuador and some Central-American countries is contemplated.

Use of natural gas for electric generation keeps decreasing. According to a report issued by the National Electric System Management Center (CNG) for the month of June, the use of gasoil and fuel oil for electric generation increased, while the use of natural gas kept decreasing due to the shortage of gas in Venezuela. Natural gas consumption for the National Electric System during the first half of 2010 reached 2.95 billion cubic feet, which represents an 11.3% fall, compared to the same period of 2009. This is quite important since 43% of electric generation is through the use of natural gas, while 30% and 27% correspond to gasoil and fuel oil, respectively.

Puerto Cabello inactive. The president of the Puerto Cabello Trade Chamber, Santos Ribas, said that Puerto Cabellos congestion with 40 vessels was due to the fact that only 15% of the machinery expropriated by the government remains active. He explained they used to move 12 containers per hour, and now they can barely move up to four, in the case of vessels with no built-in cranes.

Real estate market down. The Venezuelan Real Estate Chamber (CIV) published numbers about the first semester of 2010 regarding the business office and commercial space market, showing a 20% fall compared to the same period of 2009. During the first semester of 2009, 3,227 commercial spaces were sold, while only 2,606 purchase-sale transactions were made in 2010. The number of office spaces sold in 2009 reached 604, compared to 483 transactions in 2010.

Private hospital revenues. The president of the Venezuelan Private Hospitals' Association, Hipolito Garcia, explained that health centers collected revenues between 5% and 7%, a fact that could be verified in their financial statements audited by the National Customs and Tax Administration Integrated Service (Seniat). However, Tirso Silva, a National Assembly representative in charge of the project to regulate the activity, said that private hospitals speculated with medicine, while Garcia reminded that most medicines were regulated by the Government.

Bimbo in trouble. The Mexican group Bimbo released a statement indicating its income in Venezuela suffered a strong fall due to the devaluation of the Venezuelan



currency, difficulties to produce in plants and restrictions imposed by the Government for imports. This has kept Bimbo from covering Venezuelan's demand.

The first one. The Colombian airline, Aires, suspended flights to Venezuela due to authorization problems with the Venezuelan aeronautical authorities, of which solution seems difficult after the diplomatic breakup between Bogotá and Caracas, said the airline in a press release. The company had been operating the Bogotá-Maracaibo-Bogotá route with 11 weekly frequencies since 2000.

300 tons of rotten food in Lara between 2007-09. The case of rotten foods is older in the Lara state. The first report of rotten food was registered in 2007 when over 100 kilograms of decomposing chicken and meat were found buried in the backyard of "Supermercal" in La Ermita, in the town of Quibor. Only in the Jimenez municipality, more than 300 tons of rotten foods have been found between 2007 and 2009, all from the Mercal and Pdval networks, a situation that was reported at the Legislative Council of the Lara state and at the Disip, of which only result was the destitution of the chief of Mercal in Lara, Janeth Rodriguez.

Law to promote tourism. The National Assembly's Permanent Commission on Social Development is currently studying the Draft Law of Social Tourism Promotion, which intends to favor the most excluded sectors and boost tourism as an economic activity in the country. The president of the Parliament's Subcommittee of Tourism, congressman Asdrubal Salazar, said this legal instrument, integrated by 108 articles, could be subject to second discussion in plenary session in September. Recently, President Chavez proposed the Los Roques and La Orchila archipelagos to become tourist destinations for the less fortunate sectors as well.

World Crisis Tips

US leading indicators down in June. The Conference Board's leading indicators index dropped for the second time during the second quarter of 2010, this time reporting a 0.2% fall in June, after having grown by 0.5% in May and contracting by 0.1% in April. Labor market conditions and stock prices were the two components that negatively influenced the index in June. The coincident or contemporary indicators index remained stable compared to May and the lagging indicators index improved by 0.1%. Real personal income and business sales were two components that showed improvement compared to the previous month, while payroll employment fell with the decline in the number of Census workers.



US Consumer confidence decreases. The Conference Board's consumer confidence index decreased by 13.4% during July of 2010 compared to the previous month, reaching 50.4 points, after a 7.2% reduction in June. The present situation perception index had a slight contraction, going from 26.8 to 26.1 points, while the expectations index fell by 8.4% after having plummeted down by 14.1% in June. As to the perception of the present economic conditions, 45.8% of respondents think it's hard to get a job, only 4.3% thought jobs were plentiful, 9% considered business conditions were good, and 43.6% thought they were poor. As to expectations: 23.7% of respondents thought stock prices would increase, while 37.8% thought they would fall.

23.6% of US new home sales recover. During the month of June, new home sales recovered by 23.6% compared to the historical low reported in May, reaching an annual rate (seasonally adjusted) of 330,000 homes, exceeding consensus expectations by 15,000. Despite the significant recovery compared to the previous month, the sales rate is still the second lowest in the historic series (since 1963), 16.7% below the sales of May of 2009 and the annual rate is lower by 42,000 than the already low sales of 2009.

US Home prices increase slightly. The Case-Shiller home price index, published by Standard & Poors, revealed a 0.5% increase in home prices in May, after a 0.6% increase reported in April. Home prices in 20 of the main US cities average 3.6% higher than those of May 2009.

Manufacture and services keep growing in Euro Zone. The first estimate of Markit's Purchasing Managers' Indexes shows that both the manufacturing sector and the services sector keep expanding. July's manufacturing PMI index reaches 56.5 points, 1.5% higher than the previous month's reading, while the services PMI increased by 0.85% to reach 56.0 points. Any score over 50 points indicates the sector is in expansion, and vice versa.

Euro zone industrial orders increase unexpectedly. Despite the fact that industrial orders contracted by 0.2% and 0.6% in Germany and France respectively, in the euro zone as a whole and in the United Kingdom, purchase orders for industrial goods increased by 3.8% in May, compared to April, when they only grew by 0.6%. This places the last three months' industrial orders annual growth rate at 42.1%. Consumer sales increased at an annual rate of 12.2% in the last three months, while capital good sales grew at an annual rate of 24.9% and intermediate good sales at 46.4%.

Promotion is still foreign but domestic economy improves too. To continue with the topic of industrial orders for May in the euro zone and the United Kingdom, we can



observe that the biggest promoter of European economies is still the foreign market, that is, their growth is boosted by exports, with foreign orders increasing at an annual rate of 54.1% in the last three months. However, we can see the domestic demand is increasing as well, since the annual growth rate of domestic orders for industrial goods in the last three months reached 46.4%, while during the first quarter of 2010 it reported 15.9%.

Euro zone credit expands slightly. According to the European Central Bank (ECB), as of the end of the first semester, private sector loans have increased by 0.3% in y/y terms and home loans have grown by 2.8%, while the liquidity measured as M3 grew by 0.2% in y/y terms, the first positive y/y growth rate reported in this variable since October of 2009. Mortgage loans grew at an annual rate of 3.4% during June, after having presented an annual growth rate of 3.1% in May.

Euro on high trend. During the past 7 weeks, the Euro has presented a clearly high trend, recovering by 9.7% from its low reported on June 7 when it reached 1.19 US\$/€, to July 30, when it exceeded the 1.3 US\$/€.

Political Tips

Colombia: Presence of guerrilla members in Venezuela. Last Thursday, Colombia asked the OAS to send an international commission to Venezuela to corroborate the “active” presence of Colombian guerrilla members in that country, a report that led President Hugo Chavez to announce the rupture of diplomatic relations with Bogotá. During a two-hour presentation filled with satellite images, videos, photographs and geographic coordinates, the Colombian OAS representative, Luis Hoyos, avowed that 1,500 Colombian guerrilla members operated in Venezuela in over 80 camp sites.

Venezuela breaks diplomatic relations with Colombia. The Chavez Administration broke diplomatic relations with Colombia last Thursday to express rejection to Bogotá’s reports to the OAS stating Venezuela was tolerating the presence of 1,500 Colombian guerrilla members in its territory.

New threat to suspend crude oil shipments to the US. Once again, the Venezuelan Government has threatened to suspend the delivery of crude oil to the United States, its first commercial partner. “Should there be some kind of armed aggression against Venezuela from Colombian territory, or from anywhere else, promoted by the Yankee



empire, we, even if we have to eat stones, will suspend the oil supply to the United States of America!," Said President Chavez.

Borders reinforced. Venezuela reinforces the surveillance in its border with Colombia following orders of President Hugo Chavez to remain at *"maximum alert."*

Venezuelan Government will not review Colombian evidence. According to statements issued by the Venezuelan ambassador in the United States, the Venezuelan Government does not plan to analyze the alleged evidence of FARC and ELN presence in Venezuelan territory, since Colombia's report to the OAS was wrong. "Colombia should have delivered in private to Caracas the coordinates of the site where the FARC allegedly operate, instead of launching a media show," said the ambassador.

Nicolas Maduro's peace plan. The Venezuelan chancellor, Nicolas Maduro, presented Unasur member countries a plan to promote peace with Colombia, to solve the recent rupture of diplomatic relations.

Uribe rejects the internationalization of the peace process. The President of Colombia, Alvaro Uribe, rejected any international attempt to carry out a peaceful negotiation process with the terrorist groups of the Colombian Revolutionary Armed Forces (FARC) and the National Liberation Army (ENL). Uribe said that after eight years of policies against these insurgent organizations, they have lost almost have their capacity of ten years ago, and any attempt of peaceful negotiations would help them (FARC and ELN) "take some air." However, Colombian opposition-members root for a peaceful solution, since they consider Uribe's safety policy has not been able to bring peace to their country.

Pablo Perez wants the truth. The Governor of the Zulia State, Pablo Perez, insisted in asking the national administration to confirm whether the Colombian Government's denunciations about the alleged presence of irregular groups in Venezuelan territory were true or not, and proposed the creation of a working commission for such ends.

PPT accused the Chavez Administration of polarization. Patria Para Todos (PPT) denounced last Monday that the Venezuelan Government used the Colombian conflict and the alleged war threat for electoral purposes. *"They use a delicate topic to deepen the polarization before the electoral process,"* said councilor Andrea Tavares. As a proof that Miraflores tries to take advantage of this impasse with Bogotá, the PPT spokeswoman highlighted the fact that President Hugo Chavez had not issued a message to bring all Venezuelans together in light of the alleged war danger.





Cardinal Urosa appeared before the National Assembly. Cardinal and Archbishop of Caracas, Jorge Urosa Sabino, appeared last Tuesday July 27 before the National Assembly (AN). The act took place behind closed doors and it wasn't broadcasted on TV via ANTV (The NA channel) as usual. Cardinal Urosa said "it was a very frank meeting with congressmen and women of the National Assembly's coordinating commission, in which the president of the National Assembly, Cilia Flores, first held the floor, and then I was able to express myself at large, stating my position in a document that was submitted to the media."

Cardinal Urosa avows that the AN has authorized unconstitutional laws. Cardinal Jorge Urosa Savino said the laws authorized by the AN affected political pluralism because they aimed to implant a socialist country, thus acting against the Constitution of the Republic. Cardinal Urosa read a document before members of the National Assembly's Coordinating Commission during a session that took place in the legislative instance to hear the prelate's posture regarding his own statements about the laws authorized by the Parliament, which he catalogued as "unconstitutional."

UNT demands resignation of Attorney General. Delsa Solorzano, candidate to the Latin American Parliament and vice president of Citizen Participation for Un Nuevo Tiempo (UNT) demanded the Attorney General, Luisa Ortega Diaz, to step down from her office, after the Public Ministry submitted its annual memory and accounts six months late. Regarding the Attorney General office's annual report, Solorzano criticized its being called "Say no to impunity" and the fact that the numbers of several common crimes remained over 96%.

No to the regulation of access to information. For considering it to be against international human right standards, the Coalition Pro Access to Public Information rejected the decision of the Supreme Court of Justice that declared as confidential the salaries of public employees and established that any citizen wanting data and statistics in the hands of State organizations would need to explain the reasons why they wanted that information and where it would be used. The alliance stated this posture "constitutes a setback in terms of access to information, drifting apart from the constitutional statements guaranteeing citizen participation in the management and transparency of public administration."

Elections will have 150 "ushers." The president of the Electoral Power, Tibisay Lucena, explained to the country's credited diplomatic body that for the parliamentary election of September 26 they would invite 150 personalities as "ushers" to the electoral process. Likewise, Lucena ratified that the Electoral Power would not invite the Organization of American States (OAS) or the European Union (EU) to send International Supervision missions to the September election.



Seal eliminated. CNE rectors decided to eliminate the use of “voted” seals from the voting notebooks to be used on September 26 to identify the citizens who attend to vote. Technicians from the electoral organism who were asked about this measure explained the decision would not have an impact on the transparency of the process because citizens who vote will still affix their fingerprint and signature in the notebooks.

Non-participation doesn't help the PSUV. Abstention is nobody's friend in an electoral process, according to the democratic principle that says participation provides representativeness, but this endemic bug will affect Chavez's followers on September 26 more than the opposition, said the political analyst Jose Vicente Carrasquero. He said the CNE had had a “prudish” performance towards what should have been the spreading of information on how and why vote in the parliamentary election.

Criticism from both sides. Carrasquero said Chavez followers so far had nothing to show off in campaign, which makes propaganda difficult, while the opposition needs a unitary voice. Another official shade is an administration that does not match the presidential speech. Next to the propaganda of governmental success are the high cost of life, the crime rate, the cases of rotten food and the electric problem, said the analyst.

Election suspended at USO. In response to a request issued by the dean of the Sucre Campus, William Senior, along with union leaders, the Supreme Court of Justice's (TSJ) Electoral Courtroom by way of Magistrate Fernando Ramon Vegas Torrealba, dictated a precautionary measure suspending the election of rector and dean authorities programmed for July 28. The request was due to the violation of article 34 of the Organic Law of Education. Under the same argument, the TSJ also ordered the suspension of the election of authorities in Instituto Pedagógico de Caracas and Rubio, and in Universidad Centrooccidental Lisandro Alvarado and Unexpo.





ECONOMIC OVERVIEW

