



Weekly Report

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*Law for Fair Costs and Prices:
out of sync with reality*

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The first semester of 2011 is behind us now, and before we begin to look at the second semester, we'd like to take a final look at how inflation behaved during the first six months of the year, and what impact the new *Law for Fair Costs and Prices* will have. At **Ecoanalítica**, we estimate that inflation will close out the year at 27.2%, with the Administration continuing with its price control policies and importing priority items.

How inflation has fared

At the close of 2010, the accumulation of inventory of imported products at the exchange rate of VEB 2.60/US\$ and the delay of the adjustment on controlled prices, that led to shortages of certain items, led the inflation to lose momentum at the end of 2010.

But the devaluation which took effect in January 2011, "*unifying*" the exchange rate at VEB 4.30/US\$, and doing away with the so-called preferential exchange rate of VEB 2.60/US\$, along with the implementation of a number of scheduled adjustments to be made on controlled prices, effectively revived inflation after having stalled in

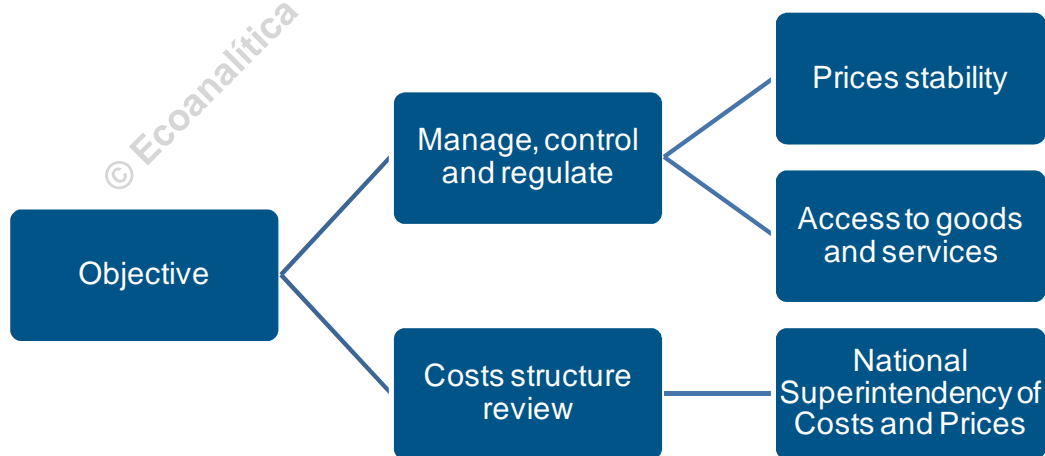


December 2010. Added on to this, the Administration's increase in public spending, which in turn increases liquidity, that leads to more bolivars circulating in the market, all looking to buy the same "limited" number of products. This all leads to prices increasing.

The price adjustment affected a number of basic food items (bread, pasta, rice, corn flour, sugar, and beef), which had an almost immediate effect on inflation, pushing it higher. The same, but not quite so immediate an effect on inflation, was the increase in price of construction materials at the production level due to problems in supply. Consequently, the many projects that are underway have been delayed and/or are advancing at a very slow pace which has led to project costs increasing.

The result of all this is that inflation has been steadily increasing during the first six months of 2011 and has reached an accumulate level of 13.0%. This has led the Administration to implement a new mechanism in an attempt to stop inflation from repeating its first semester performance: *the Law for Fair Costs and Prices*.

Enforcement of the Law for Fair Costs and Prices



Sources: O.G. N° 39715 and Ecoanalítica

Control vs. Price Gouging, Corruption, Inflation...

The "Law for Fair Costs and Prices," which was enacted through the Enabling Law on July 18, 2011, establishes that not only will cost structures be reviewed, but that fair prices and profit margins will be set. This will apply to all sectors within the economy, and all economic activity;

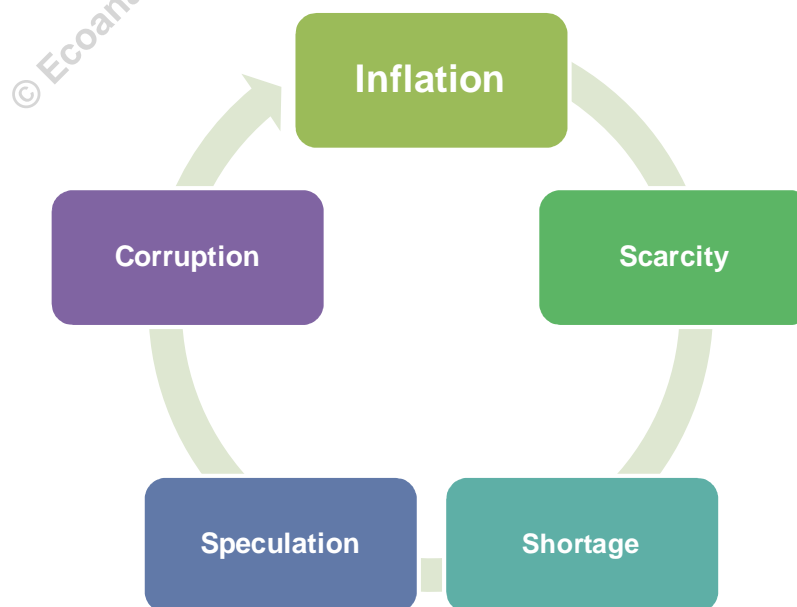


from manufacturers to distributors, and over regulated and non-regulated goods and services that are of general public interest.

This law was specifically created, according to the Administration, to attack price gouging, in its opinion, the main cause of inflation. However, at **Ecoanalítica**, we believe that instead of controlling price gouging, as a direct cause of inflation, we can see this law turning into a potential generator of corruption and a factor which could spearhead the creation of a black market for a number of products covered by this new regulation.

And what makes it even more probable that corruption will become an overriding factor with the implementation of this new law is that it will be overseen and implemented through a control mechanism called the Superintendency of Costs and Prices which grants too much power to inspectors and superintendents with respect to fixing prices. This leaves the door open for any official from the militia, the INDEPABIS, or Communal Council, anointed by the Superintendency of Costs and Prices, to make decisions that will affect small and/or medium sized companies. We have seen in the past how a situation like this can lead to blackmail, with business owners being forced to pay in order to save their company and remain in business.

Consequences of the Law for Fair Costs and Prices



Sources: O.G. N° 39715 and Ecoanalítica





How will the Law be enforced?

The greatest fear merchants and business owners have is that the Administration will continue to regulate prices and profits without having seriously evaluated production and/or operating costs.

Another question is: How will cost structures be reviewed for every company operating in the Venezuelan market? And to take this one step further, just imagine the number of companies that will be regulated by this new mechanism, and then multiply that by the number of products each company has. This will be impossible to manage.

And if at the economic level it is totally unmanageable, how will it be from the legal point of view, keeping in mind the hundreds of thousands of products of goods and services involved that will have to adapt to this regulation.

Article 10 of the new Law states that all subjects for which this law is “*applicable*” must “*register and maintain their company information up-to-date in the National Registry of Prices of Goods and Services.*” The National Superintendency of Costs and Prices will be in charge of this Registry, and according to Article 31, it will have the power to “*fix prices, administer, supervise, control, and sanction all those who fail to comply with the regulation.*” It will also “*issue criteria regarding the use of spending methods, company profits, and be free to inspect and investigate.*”

Minister of Commerce, Edmée Betancourt, assures that regulated prices will no longer exist after this Superintendency is created. Betancourt points out that for now, the Law will be applied to all products in the basic basket and other first necessity items, such as: foods, medicines, school supplies, textiles, foot wear, and education services. These will be the first items to have a Maximum Public Sales Price (PMVP). The plan is that every product on the market will have one.

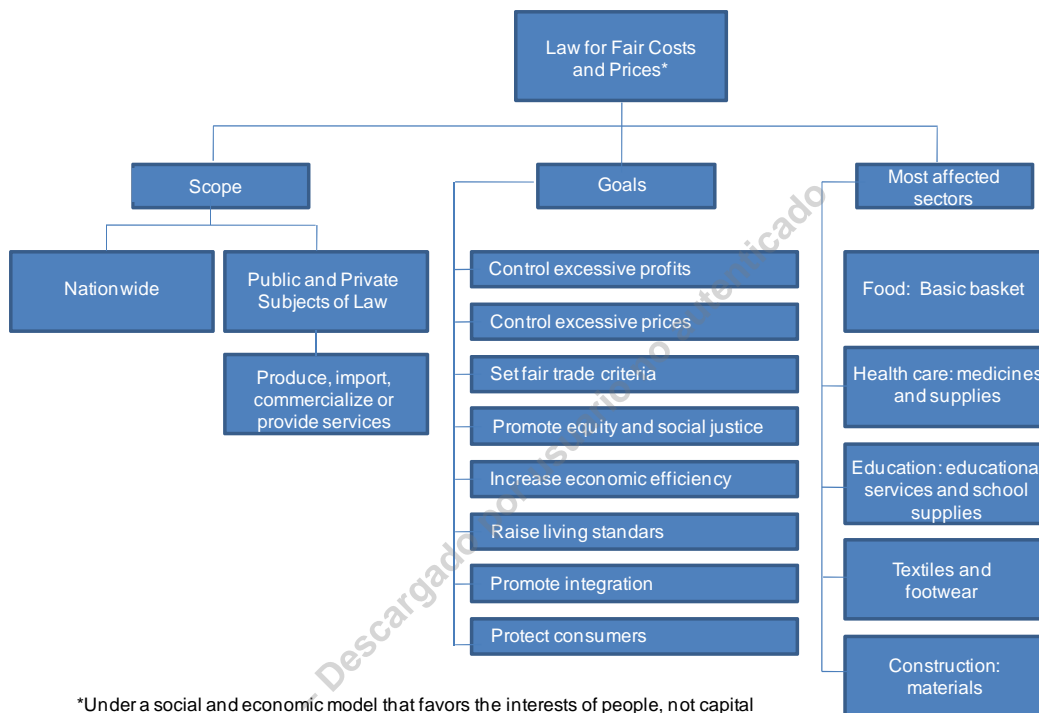
The Minister assured that all product prices will be analyzed so that every product will have a cost study and its appropriate PMVP.

The Minister continues to say that since the Administration has been forced to look to international markets to import items whose demand can't be covered by domestic supply, it has become aware of production costs which will help this process.





Scope, goals and most affected sectors by the Law for Fair Costs and Prices



*Under a social and economic model that favors the interests of people, not capital
Sources: O.G. N° 39715 and Ecoanalítica

It's easier said than done...

According to the Executive Vice-president of the Republic, Elías Jaua, this is not an attempt to attack the private sector with the approval of this Law; if you are not price gouging you have nothing to fear.

Having said this, there is no doubt that the Administration has its eye on companies associated with food production and that provide services. These companies will most likely be the ones that feel the effects of this new Law the most. The Law will allow the Administration to dispose of the private property without having to pay indemnity or going to court. This translates into the market being intervened by the State and the new Law is seen as a political tool.

This Law could force the private sector to auto-regulate itself in order not to be sanctioned by the new Law, but this in turn could have serious repercussions on the supply of products and the quality of goods. Because if prices are regulated without taking into consideration each company's cost structure and the specific sector in which it does business, the company will have to look for alternative measures in order to stay in business.



From the point of view of the market, this State-controlled mechanism to regulate prices will take the place of the market's inherent dynamic of supply and demand defining the price of products. The Administration, in anticipation of further losing control of inflation, has decided to not let market dynamics set product prices.

Many of the business associations and some of the economic actors in the Venezuelan economy have been very quick to warn about the risks of creating a State-run economy. They warn that by imposing controls of this type in a high inflation economy such as what Venezuela is going through at the moment will severely affect incentives to produce and create parallel markets (black market) which are hard to control.

**The cure
worse than
the ailment**

According to the Administration, the new Law looks to guarantee economic security at all levels of society, promoting a healthy economy with new ways of social production. But in practice, we see that regulating profits does not imply consumer protection, rather the complete opposite, since these measures lead to the creation of black markets and shortages of products and make it difficult to access goods and services, which in the end, will increase in price and have a negative impact on the quality of life.

The Minister of Food, Carlos Osorio, stated that the new Law has been attacked by the opposition "*which doesn't think about the people but in the interests of capital.*" But the fact is that in order to be able to produce you have to evaluate the amount of capital invested and how to recover this investment in a specified period of time, which is the whole point of doing business.

**More bark
than bite**

Though it is true that this new Law has added another negative twist in how business is done in Venezuela, at **Ecoanalítica**, we believe that it will only be applied very selectively, with emphasis on the food sector (food basket), construction materials, and school uniforms and supplies (in this first stage, given that the school year is about to begin). It's obvious that the Administration will not be able to over-use this law given that it will quickly lead to product shortages increasing, which politically speaking, would hurt the Administration even more than high inflation. The Administration's aim is to stop inflation from getting any higher, in a context of increased public spending, looking forward to the presidential election to be held in 2012.





Economic Tips

Bond issuance announced. The Ministry of Finance formally announced its upcoming issuance of a bond maturing in 2031, with the total amount being issued set at US\$4,200 million. Buyers will receive a semester coupon (interest rate) of 11.95%. As in previous issuances, investors will be able to buy bonds in bolivars and then later sell them abroad and receive US-dollars.

Natural persons will be able to buy bonds. The upcoming bond issuance will allow natural persons to purchase bonds, with a minimum purchase amount set at US\$3,000. The bond process indicates that around 60.0% (around US\$2,500 million) of the total amount issued will be earmarked for natural persons and companies that don't qualify as being part of the "productive sector." The issuance will begin on Wednesday, July 27 and end on Friday, July 29. The bonds will be liquid on August 5, the date the buyer will be able to dispose of the bonds acquired.

Less oil revenues and more tax revenue. According to figures released by the SENIAT, during the first semester 2011, total tax collection closed at VEB 67,450 million, of which VEB 19,119 million (28%) were collected via Income Tax, this figure is down compared to the same period in 2010 when Income Tax collection represented 31% of the total tax collected. During the first six months of the year, taxes collected via Value Added Tax (VAT) was at VEB 37,150 million, with VEB 28,630 million collected domestically. In real terms, compared to the first six months of last year, tax collection is up by 11% which points to a recovery in domestic demand.

Concepts (VEB Million)	jun-10	jun-11	Var (%)	Var Real	1S10	1S11	Var Nominal	Var Real
total Income	8,441	12,457	47.6%	17.9%	47,927	67,447	40.7%	11.0%
Income Tax	2,259	2,998	32.7%	6.1%	14,621	19,119	30.8%	3.1%
VAT (Internal)	3,649	5,660	55.1%	24.0%	20,378	28,630	40.5%	10.8%
Customs revenue *	1,643	2,910	77.1%	41.5%	8,862	15,129	70.7%	34.7%
Other Internal Revenue	745	798	7.1%	-14.4%	3,487	3,886	11.5%	-12.1%
spirits	157	179	14.6%	-8.4%	585	665	13.7%	-10.4%
cigarettes	547	590	7.9%	-13.8%	2,670	3,023	13.2%	-10.7%
inheritance	17	20	15.6%	-7.6%	94	109	15.9%	-8.6%
Random Games bets or	20	9	-55.7%	-64.6%	111	89	-19.6%	-36.6%
Others	145	92	-36.6%	-49.3%	578	683	18.2%	-6.8%

Sources: Seniat and Ecoanalítica.

* Includes VAT on imports.



Shortages due to Costs Law. According to the president of the Chamber of Commerce of Caracas, Víctor Maldonado, the new *Law for Fair Costs and Prices* is just another law introducing additional control mechanisms. The impact this new Law will have is *“more shortages, less diversity of products, a more uniform and simple market where you will only be able to find the supposedly necessary products and more repression applied to companies.”*

Work tables to fix prices. According to the Minister of the People's Power for Food (Minpal), Carlos Osorio, the work tables to evaluate costs structures will begin with personal hygiene and household products, clothing, and food items that are not being regulated, such as: vegetables and fruits, among others in accordance to the Fair Costs and Price Law published in the *Gaceta Oficial N°39.715*.

Financing from the banking sector. According to a report released by the Superintendency of Banking Sector Institutions (Sudeban), the national banking system increased its number of loans issued to the productive sector of the economy by 45%, going from VEB 71,470 million in June 2010 to 103,620 million in June 2011. The report explains that at the close of June 2011, banking institutions loan portfolio nationwide earmarked 52.80% to the commercial and consumption sector and 47.20% for productive activities.

Juvenile unemployment increased in June. According to data from the National Statistics Institute (INE), the juvenile unemployment rate was at 19.5% in June, up by 1.8 percentage points in a year. In June, a total of 420,899 people between the ages of 15 and 24 did not have a job. This represents 36.7% of the unemployed population.

Basic Basket for Foods, Goods, And Services (CAB). According to figures released by the Center for Documentation and Analysis for Workers (Cenda), the CAB Basket in June cost VEB 5,638.10, up by VEB 149.66 (2.7%) compared to the month of May which also registered a price increase in the Basket of VEB 193.79 (3.7%). Prices increased the most in Basic Public Services, up 10.2% due to the 100% increase in subway fares in Caracas; personal hygiene and household articles, up 3.9%; and food items, up 2.6%.

CAB Basket accumulated increase in price. During the first six months of the year, the CAB Basket had an accumulated increase in price of 13.2%, which is equal to VEB 659.60. This means that two minimum wage salaries (VEB 2,823.16) will only cover 49.9% of the cost of the Basket. Families will need to make four minimum wage salaries in order to cover the cost of the whole Basket.





Scarcity index has gone up during the Chávez Administration. According to figures released by the Central Bank of Venezuela (BCV), it looks like price control measures have had a negative effect on the availability of products. During the last 8 years, consumers have had to live through periods of significant shortage of products. The scarcity index closed out the month of June at 12.1% (a normal reading would be under 5%).

Promoting Trade. The Governments of Venezuela and Malaysia strengthened their trade relations this week through an agreement signed by the *Banco del Comercio Exterior* and the Export Import Bank of Malaysia, thereby creating a platform for trade and investment. The main objective of the agreement is to create an inter-institutional alliance in order to strengthen trade relations and the flow of investments between both nations.

Interest rates. The lending rate for the third week in July was at 18.45%, increasing by 0.15 perceptual points compared to the previous week. Time deposits also were decreased by 0.04 perceptual points to reach 14.50%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.61%.

International reserves. International reserves decreased 2.8% going from US\$30,280 million during the third week in July to US\$29,430 million during the fourth week in July. Compared to the same period last year, international reserves have increased by 3.0%.

Monetary liquidity. Monetary liquidity in the third week in July increased 0.9% compared to the previous week settling at VEB 337,800 million. The M2 has creased 34% year-on-year.

Sitme figures. So far this year, US\$4,539 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.7 million a day, with an implicit exchange rate of 5,3 VEB/US\$. During the third week of July the amount traded reached US\$207.9 million, US\$34.06 million more than last week when braided US\$173.8 million.





Oil Tips

Venezuela, world leader in oil reserves. According to the 2010-2011 Annual Statics Bulletin released by OPEC, Venezuela has the largest volume of confirmed oil reserves in the world at 296.50 billion barrels of crude oil, up by 40% compared to confirmed reserves registered in 2009-2010 period.

After Venezuela comes... Saudi Arabia follows Venezuela on the list of countries with the highest volume of confirmed oil reserves with 264.50 billion barrels of crude oil; then Iran with 151.00 billion; Iraq with 143.00 billion; Kuwait with 101.50 billion; and the United Arab Emirates with 97.80 billion.

Worldwide oil reserves. Total worldwide confirmed oil reserves are at 1.47 trillion barrels of crude oil at the close of 2010, up by 131.00 billion compared to the close of 2009. The total global volume is at 1.7 trillion barrels of crude oil, with 81% of it being held by OPEC country members.

OPEC demand to increase. According to an OPEC report, the demand for crude oil will increase by 30.66 million bl/d, during the second semester 2011, with the world market demand at 89 million bl/d. This suggests that OPEC will have to increase its production by 1.7 million bl/d with respect to current production volumes in order to balance supply in response to global demand.

Fuel freight prices adjusted. The Ministry of Energy and Oil (Menpet) published the new values of fuel freights in *Official Gazette* on July 21 of 2011. Menpet's General Domestic Market Directorate will now be able to determine the optimal transportation routes as well as arrange the use of fuel transportation units of companies offering this service to the sector in order to guarantee supply.

Gasoline retailers expect profit margin adjustment. The last increase took place in mid 2010. This year, after the increase of the minimum wage and other costs, gasoline retailers are expecting the price adjustment announced by Menpet to be finally published in *Official Gazette*, to help gas station's complicated finances.

Fuel production down 30%. The secretary of Technical Professionals of the Single Federation of Oil Workers in Falcon, Ivan Freites, warned that the fuel production capacity of the Paraguaná Refining Complex (CRP) of 12,850 tons per day was currently below the 8,500 tons per day, a 30% reduction. *"It is all consequence of*



current policies, in which there is no investment in the industry or the underpaid and unhappy workers,” he said.

Orinoco Oil Belt contracts affected by Pdvsa’s obstacles. Pdvsa’s intention to speed up the processes at the Orinoco Oil Belt in order to meet the production goals of 2012 is not being achieved. Bureaucracy and slow administrative process have been often named as causes for the lack of execution of projects by mixed capital companies in which Pdvsa is the major shareholder.

Hydrocarbon spillage under control. A hydrocarbon spill occurred last Friday, July 22, in the Petrochemical and Industrial Complex Division General Jose Antonio Anzoátegui. Authorities assured having immediately contained the spill avoiding environmental impact and human damages. According to the information provided by Raul Parica, union leader for the Single Federation of Oil Workers (Futpv), the volume of crude oil spilled exceeded 10,000 barrels.

This incident is not the only one occurred in this Terminal. Seven injuries were reported a few weeks ago, situations caused by the bad maintenance conditions of oil facilities. Likewise, last year, the Terminal shut down a few facilities, affecting the national oil industry’s crude oil shipping capacity. Terminal Jose Antonio Anzoátegui handles the largest volume of oil in Latin America, exporting up to 1.3 million barrels per day.

International oil baskets. At closing time on July 22 in the New York Exchange, the price of the WTI was US\$97.64/bl, a slight decrease of 1.2% compared to the US\$96.50 reported the previous week. The Brent decreased by 0.4% to reach US\$117.21/bl, compared to the previous week’s US\$117.67/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$107.01/bl on Friday July 22, a 1.2% boost compared to the US\$105.75/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$98.97/bl.





Business Sector Tips

Cadivi allocated US\$874 million for the industrial sector. The Currency Administration Commission allocated US\$874 million to the iron/steel, chemical, petrochemical and oil byproduct sectors during the first semester of 2011. So was informed by the president of the Venezuelan Association of Iron/steel and Mining Industrials, Jorge Roig, who celebrated this initiative of the National Administration in benefit of industrial entrepreneurs.

Auto part manufacturers and currency allocations. Cadivi liquidated nearly US\$116 million between January and June of 2011, a similar amount to that granted during the same period of 2010, which represents barely 8.9% of the currency required by the sector for its annual operations.

Sales volume maintains momentum. In June, Venamcham's Consumption Product Committee reported a strong 13% recovery in sales volume, while the y/y cumulative average was -4%.

Numbers reveal growth in sales value. According to the latest numbers provided by Venamcham, the value of mass consumption product sales reflects a strong 46% adjustment in June, for a y/y and six-month average of 26%. Overall, the sector's portfolio remains healthy, showing relative improvement by 34%.

Entrepreneurs express their opinions toward Sitme. Regarding access to SITME, in Venamcham's surveys, 50% of respondents stated their access to foreign currency through this mechanism has gotten worse, 38% remain the same and 12% believe it has improved.

Pdvsa and Missions aim to build more homes. Pdvsa's responsibilities are not only connected to the oil and gas industries, but they also need to focus on reaching the goals of the Housing Mission Venezuela, assigned to the oil company by the President of the Republic.

What happened with the petrocasas (petro-homes)? Members of the student movement Generacion Libre, gathered in front of Pdvsa's offices in the Bolivar Norte Avenue in Valencia, at the Camoruco Mall, to demand the National Government to offer an explanation about the situation of 5,000 petrocasas in construction in the Carabobo state for the last four years without completion.





Administration analyzes ways to reduce home costs. The National Government, within the framework of the Housing Mission Venezuela, is analyzing options to reduce the costs of these housing solutions. The Minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, said during a meeting with governors, they were analyzing the components of the construction of these housing units and stated “*we have elements to reduce the costs of housing units.*”

Income limit to access mortgage loans eliminated. In *Official Gazette N° 39,716* of July 19, the Ministry of Housing modified the mandatory mortgage portfolio decree and eliminated the top limit established for mortgage loans, so now, families making more than 4 minimum wages (VEB 5,629) are allowed to ask for housing loans.

Koch sues Venezuela. The American firm Koch Industries filed an arbitration plea against Venezuela on July 19 before a World Bank Court for the nationalization of its assets in a fertilizer plant, although the amount of the lawsuit was not specified.

Extension expired. So, what happens now? The extension period established by the Governments of Hugo Chavez and Juan Manuel Santos to maintain the commercial agreements between both nations after Venezuela's withdrawal from the Andean Community (CAN) expired on July 21. This situation has raised concerns for the absence of official statements.

Peru and Venezuela extend tax preferences. On July 22, the governments of Peru and Venezuela agreed to extend the tax preference between both nations for an additional 90 days, said Peru's ministry of foreign trade, Eduardo Ferreyros.

...Ecuador didn't fall behind. As with Peru, Venezuela and Ecuador also agreed to grant privileges to their bilateral commerce, and established tax preferences and the use of the Sucre (Regional Unitary Compensation System), as virtual currency, according to *Official Gazette N°39,719*, published last Monday, July 25.

Corn prices will not be adjusted again. The cost in the chain of production of cereals showed no variation, so the National Administration ruled out the possibility of adjusting the prices of white and yellow corn, said the Vice Minister of Agro-productive and Agro-alimentary Circuits, Yvan Gil, who reminded that a 30% increase in the price of cereals at producer level was established recently as well as a 40% decrease in the prices of farming supplies.

Foreign food prices keep rising. The FAO index for food prices shows a 1% increase in June compared to May of 2011, however, between June of 2010 and the same period of the current year, the indicator shows a cumulative increase by 39%.



Public banking system increased government financing. Official statistics indicate that between December of 2010 and June of 2011, government-run banks such as Venezuela, Tesoro, Industrial, Bicentenario and Agrícola have injected VEB 14.81 billion (US\$3.4 billion at the official exchange rate) to the government through the acquisition of bonds and treasury bills. As a result, in the first semester of 2011, the amount of bonds and treasury bills held by public banks has increased by 60%, reaching VEB 39.35 billion.

Toyota resumes activities. Toyota de Venezuela finished the week in normal conditions, despite the differences between the workers' union and the company's management. A source linked to the company informed that, since July 19, they have been working in peace and vehicle production has been resumed. *"The plant is fine, we've been open since Tuesday, July 19"*, the source said.

Priorities established for construction materials. The National Administration established priorities in the sale of cement and steel bars to cater to the Great Housing Mission Venezuela and other infrastructure works.

Government reedits failed measures. Jorge Roig, first vice president of Fedecamaras, assured that the price control policy implemented by the National Government has only offered *"good hopes,"* as there have been no results.

Price scale to regulate private hospital costs postponed. The price scale to regulate private hospital costs scheduled to come into effect July 25 was postponed because the National Government accepted a proposal to celebrate meetings with the sectors affected by this measure, so was informed by the president of the Association of Private Hospitals, Hipolito Garcia.

Temporary administrative board for Envases Internacional designated. *Resolution N° 85*, published in *Official Gazette N° 39,718*, made official the designation of the administrative board to take over and temporarily use the movable and real estate properties and facilities of the company Envases Internacional, S.A., was.





World Economy Tips

Deadline for the US. US legislators are getting close to their deadline (August 2) to raise the debt ceiling to US\$14.3 billion in order to avoid default. *“If you listen to all of the rhetoric and read all of the print, August 2 has the potential of being one of the worst days ever, if the debt ceiling isn’t raised,”* said Hank Smith, chief investment officer at Haverford Trust Co. in Philadelphia.

Wall Street falls due to debt discussions. Stock fell in Wall Street on Monday, July 25, due to the stagnation of the negotiations to raise the debt ceiling and avoid default, although investors are convinced the parliament will reach an agreement before the deadline. As another sign of the negative atmosphere, the falls widely exceeded the advances, though it was a session of moderate declines.

Europe looks for Greek debt swap by the end of August. Executives and bankers of the euro zone are planning to voluntarily exchange Greek bonds in the hands of private companies for securities with longer yields, in order to minimize the period in which Greece is in partial default. Greece’s private creditors will take on a 21% loss with their bonds, as part of a €37 billion contribution over the next three years for the rescue plan, agreed in a euro zone summit last Thursday.

Moody’s warns Greece would be declared in default. Last Monday, July 25, the rating agency Moody’s reduced Greece’s sovereign debt rating and said Greece would *“almost certainly be declared in default as a result of the new rescue package of the euro zone.”* This is the second warning of default, after euro zone leaders agreed last week for the private sector to take part of the burden in a rescue agreement offering better terms for Greece’s loans in order to bring the nation afloat and avoid contagiousness in the block.

European exchange markets fall after positive streak. European stock suffered a setback last Monday, July 25, putting an end to a four-session positive streak, dragged by the banking sector and renewed concerns over the debt in the euro zone outskirts and the stuck negotiations over the US debt.

Asia’s exchange markets up as USD falls. Asian exchange markets showed improvement on Tuesday, July 26, after some good results attracted buyers, while the USD reached a low point against the Swiss franc after a speech of US President Barack Obama offered no signs of advance in the debate over the US debt. Short



speculators bet against the USD after Obama warned that a US default would be an *“imprudent and irresponsible result,”* offering no signs of imminent commitment.

Brazilian deficit reaches US\$3.3 billion. The Central Bank of Brazil reported a current account deficit for US\$3.3 billion in June, US\$800 million less than the amount reported in May when the current account reached US\$4.1 billion.

Real threatens Brazilian competitiveness. Brazil’s Minister of Finance, Guido Mantega, assured his office would continue to analyze measures to slow down the hasty appreciation of the Real, which reached a 12-year high early this week (R\$1.544/US\$), to keep it from continuing to affect the competitiveness of Brazilian exports.

Better sure than confident. On Monday, July 25, Colombian Minister of Agriculture, Juan Camilo Restrepo, announced the reopening of Colombian exports to Venezuela with a new *“extra-safe”* payment modality through credit letters backed by commercial banks. This measure looks to reestablish the commercial activity between these two nations, in an atmosphere of political and economic inconveniences.

World Bank helps Honduras. This Central American nation will receive support from the World Bank and the Government of the United States of America to fight drug trafficking and crime, so was stated last July 25 by Honduran Vice minister of Safety, Armando Calidonio, after a meeting celebrated with authorities of both countries in North American territory. It is estimated that the World Bank will grant a loan for at least US\$65 million for special government programs.

Uruguay requests issuing bonds in the US. This week, Uruguay will present an application to enroll at the US Securities and Exchange Commission for up to US\$560 million in bonds. This procedure takes place after the Uruguayan Minister of Economy, Fernando Lorenzo, informed they were looking to generate a financial support for US\$3 billion to allow the nation to have access to international markets through the US Stock Exchange market with bond investments.

Political Tips

Radonski consolidates as the first option for the opposition. According to Datanalisis, if the primary election for the opposition candidate were celebrated



today, the Governor of Miranda would get 49.9% of the votes. The second opposition option to face Hugo Chavez is the Governor of Zulia, Pablo Perez, who would get 11.6% of the votes. The former mayor of Chacao, Leopoldo Lopez, appears as the third option among voters (in a technical tie with Perez), obtaining 9.3% of the votes.

Pretrial has a high political cost. The governor of Miranda, Henrique Capriles (PJ) Radonski said the political cost of attempting a pretrial of merit against him, accepted by the Supreme Court of Justice, was *“too high”* for the Government of Hugo Chavez, and assured there was *“no case”* because there were no reasons to indict him.

End of the electric crisis this year is deceiving. Engineer Manuel Guevara recently stated *“there’s no way to blame the national electric crisis on the previous government. This is not a situational or passenger crisis, it’s a structural crisis; it’s complex and has a wide scope. It’s deceiving to promote the end of the crisis for the end of this year (...) Moreover, it’s an energy crisis, there’s no gas for anything, and gasoil is only enough to cover the local demand.”*

Until 2031. President Hugo Chavez claims he is determined to rule until 2031, and assures his health condition has not made him think about leaving office, so he said in an interview published on July 25 in the newspaper *“Correo del Orinoco.”*

Chavez met with the Castros and Correa in Cuba. Last Thursday, President Hugo Chavez mentioned in Twitter his meeting with the president of Ecuador, Rafael Correa, who traveled to Cuba to talk to him about several regional issues.

No trace of malignant cells. President Chavez surprisingly arrived last Saturday from Havana, Cuba, where he had arrived exactly a week earlier (Saturday, July 16) to start a chemotherapy treatment against his cancer. *“I was subjected to studies (...) and I must tell you they could not detect the presence of malignant cells anywhere in my body,”* he said.

Chavez’s health condition has not affected his popularity. According to the latest Datanalisis survey (1,300 field interviews, urban-rural coverage, margin of error +/- 2.4% ending June 30), people’s appraisal of President Chavez’s Administration (the closest indicator of popularity) reached 50%. Those who view President Chavez’s labor as negative reached 46% (the average in 2011 is 51.7%).

Chavez awaits Jaua’s list of expropriations. President Hugo Chavez said he was waiting for Vice president Elias Jaua to deliver a first list of expropriations. *“He has expropriating faculties,”* ratified the Head of State in an act organized to celebrate the 228 anniversary of the birth of the Liberator Simon Bolivar. *“I delegated expropriating faculties on you, I’m waiting for the first list,”* Chavez said to Jaua.



Chavez contains the demons fighting for succession. Retired General Gonzalo Garcia Ordonez, former chief of Cufan and former Ambassador in Bolivia, believes that at this point, Chavez's power is nominal, being, as he has been, miles away from the nation and receiving severe medical treatment. *"Long distance relationships never work,"* he pointed out, saying *"the governing class already feels an exit point for the President, and that generates ambition for power and collisions between the radical and civilian (communist) wing and the military wing."*

PPT proposed three candidates for the General Comptrollership of the Republic. Patria Para Todos took the first step and proposed three candidates for the General Comptrollership of the Republic on Monday, July 25. The Blue party proposed Javier Elechiquerra, Freddy Gutierrez and Gustavo Pereira to substitute the late Clodosbaldo Russian.

Legislative Tips

Tenancy law. The National Assembly's Administration and Public Services' Commission keeps working on the discussion of 150 articles included in the Tenancy Law to put it up for discussion in plenary session before the Parliament's recess that starts August 15. The president of the Administration and Public Service Commission, Diosdado Cabello, reminded the purpose of the law was to avoid abuse from real estate owners.

Private property guaranteed. PSUV Representative, Claudio Farias said the Tenancy Law guaranteed people's right to private property, *"This legal instrument has no intention to jeopardize people's right to private property."* Congressman Farias said *"the Tenancy law included the creation of a national entity to control rent prices depending on property's location, material and several other elements."*

Law of Peace Justice. Representative Jose Javier Morales explained that, with the reform to the law of Peace Justice, the Parliament was looking to *"adapt the instrument to the Constitution and grant more institutional strength to peace justice by extending peace judges' faculties."* He also said *"we believe this is a fundamental tool for the people to find a mechanism to solve small conflicts that, unattended, might scale to felonies."*



Law of Costs to lead Venezuela into the darkest stage of the USSR. National Assembly Representative Julio Borges (PJ-Miranda) insisted that the path decided by the Government of Hugo Chavez would inevitably lead to continuous increases in food prices as their imports grow.

Revenues destined for a sports government fund. In the draft approved in first discussion by the National Assembly, article 66 indicates that public and private companies with yearly revenues exceeding 20,000 tax units will need to contribute with 1.0% of their annual gross income to the fund.

Law about presidential succession. Yesterday, the President of the National Assembly, Fernando Soto Rojas, received Hermann Escarra in his office, brother of Psuv Representative Carlos Escarra and member of the Constitutional Reform Board of 1999. Escarra proposed Soto Rojas to prepare and discuss a law about presidential succession and creating a parliamentary constitutional council with representation of the organized civil society, in order to guarantee the nation's democratic governability.

Workers urge discussion of Labor Law. Workers of Guayana industries plan to submit four documents before the National Assembly and the Office of the Vice-president of the Republic. They will also deliver the transition program Socialist Guayana Plan, created by workers to request the discussion of the Organic Labor Law and the Law of Socialist Councils of Workers in the National Assembly's 2011 agenda.

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ECONOMIC OVERVIEW

