



## Weekly Report

Year 8, Number 28  
Week IV, July 2012

*Cadivi performance during the  
1S2012 and Exchange Agreement  
Nº20: A lot of change but  
everything stays the same*

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A new Exchange Agreement was published in the *Gaceta Oficial* last Friday the 20<sup>th</sup>, introducing a series of important changes in how the Sitme will continue to function. During the same week, the Commission for the Administration of Foreign Currency (Cadivi) released its statistics for the amount of foreign currency distributed during the first semester 2012. Both these reports are not isolated and together reflect the Venezuelan exchange scene and allow us to get an idea how foreign currency will continue to be distributed in the coming months.

**More foreign  
currency flowing  
to fewer sectors:  
Cadivi's  
realignment**

Cadivi has recently released its figures for the amount of foreign currency authorized during the first semester 2012, with the total amount of foreign currency authorized up by 3.6% compared to the same period last year. Also included in the report were the amounts of foreign currency authorized for imports (including Aladi Agreement and the Sucre, both mechanisms mainly used for importing), down by 0.7% compared to the same period last year reaching US\$11.86 billion compared to the



US\$11.94 billion it posted in 2011. During the same period, oil prices were by 10.5%.

**The new model is implemented**

How oil prices are behaving can't be seen as an isolated issue. Since 2009, the Administration has been very involved with three areas of the exchange process: 1. The strategic sectors Cadivi will benefit and those it won't; 2. The significant increase in State imports; and 3. Limiting non-official market operations (though it created the Sitme). So this, not necessarily depending on if oil prices increase, implies more foreign currency for the private sector. Unfortunately, the contrary can be said if oil prices drop, the main sector affected will be the private sector.

CADIVI's authorized amount (US\$ Million)				
Item	1S - 2012	1S - 2011	Var(%)	2012 Market Share
Imports*	11,720	11,582	1.2%	77.6%
Credit Cards	1,220	811	50.4%	8.1%
Airlines	643	620	3.7%	4.3%
Remittances	402	392	2.6%	2.7%
Special Cases	279	133	109.2%	1.8%
Students	219	242	-9.3%	1.5%
Cash for travel	214	160	33.7%	1.4%
Telecommunications	113	89	27.5%	0.7%
ALADI Convention**	113	343	-67.2%	0.7%
Insurance and Reinsurance	54	28	92.6%	0.4%
Consulates and Embassies	43	30	45.5%	0.3%
Retirees and Pensioners	42	28	51.4%	0.3%
Sucre**	26	15	66.9%	0.2%
Foreign Investment	14	91	-84.5%	0.1%
Services	4	1	293.0%	0.0%
Ext .Private Debt	3	16	-83.1%	0.0%
<b>Total</b>	<b>15,108</b>	<b>14,580</b>	<b>3.6%</b>	<b>100.0%</b>

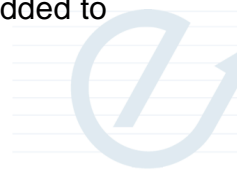
Sources: CADIVI and Ecoanalítica

\*Includes regular imports and imports through ALADI and Sucre

\*\*Excludes imports

**The Sucre: an option worth evaluating**

At *Ecoanalítica*, we believe that it is important to explain how foreign currency authorizations for imports have behaved during the last few quarters. Despite the fact that the amount of foreign currency authorized for ordinary imports increased by 6.7% compared to the same period last year, when the imports from the Aladi and Sucre conventions are added to the data, the total of imports increased by 1.2%.





With respect to the Sucre, given that since Sucre operations through the Central Bank of Venezuela (BCV) began during the middle of last year, Cadivi has accelerated the rate of its approval of foreign currency for these operations. This must be taken into account by our clients (the amount approved has multiplied by 4).

It's important to mention that the Sucre is a short and medium term option, since as more and more foreign currency requests via this mechanism begin to be processed it will begin to bog down. This is the same thing that happened with Aladi operations during the last few years, with foreign currency approval dropping significantly.

Besides foreign currency authorizations for imports, there has also been an increase in foreign currency authorizations, with authorizations for credit card quotas up by 50.4%; for airlines, up 3.7%; and for cash used for travelling, up 33.7%. Foreign currency authorizations have dropped for students, down 9.3%. This drop concurs with the announcements made by the Ministry of Higher Education, introducing its changes and new list of degree programs that will have priority when it comes time to process foreign currency requests to study abroad.

**But, what's important is: how much did BCV liquidate?**

The total amount of foreign currency liquidated by the BCV was up by 7.2% compared to the same period last year. However, foreign currency liquidations for imports (including Aladi Agreement and Sucre operations) were only up 2.9% compared to the same period last year, going from US\$10.61 billion posted during the first semester 2011 to US\$10.92 billion during the first semester 2012.

Besides the increases in liquidation of foreign currency for Aladi Agreement and Sucre operations, credit cards, airlines, and cash for travelling abroad, there were also increases in liquidations for special case items and telecommunications. But, despite these increases in liquidation, there is still a general feeling of disappointment for the small amount by which liquidations for imports increased.





**Amount disbursed by the BCV (US\$ Million)**

Item	1S 2012	1S 2011	Var(%)	2012 Market Share
Imports*	10,918	10,611	2.9%	75.9%
Credit Cards	1,317	846	55.8%	9.2%
Airlines	635	583	8.9%	4.4%
Remittances	385	374	2.8%	2.7%
Special Cases	238	123	94.1%	1.7%
Students	232	225	3.2%	1.6%
Cash for travel	210	154	36.7%	1.5%
ALADI Convention**	149	322	-53.7%	1.0%
Telecommunications	125	73	71.4%	0.9%
Insurance and Reinsurance	52	31	66.5%	0.4%
Retirees and Pensioners	43	29	48.2%	0.3%
Consulates and Embassies	43	30	45.4%	0.3%
Sucre**	19	7	180.3%	0.1%
Foreign Investment	13	6	110.5%	0.1%
Ext .Private Debt	3	4	-26.1%	0.0%
Services	1	4	-81.1%	0.0%
<b>Total</b>	<b>14,383</b>	<b>13,421</b>	<b>7.2%</b>	<b>100%</b>

Sources: CADIVI and Ecoanalítica

\*Includes regular imports and imports through ALADI and Sucre

\*\*Excludes imports

**And what about imports?**

Even Before we get into the amounts that were authorized by sector for imports, at **Ecoanalítica**, we feel that it is important to point out the following:

Since the end of last year, the import statistics released by Cadivi per sector have included imports via Aladi Agreement and Sucre operations. We feel that this is a very positive point that allows us to get a clearer more detailed look at how imports are doing through these two mechanisms. This also gives a clearer picture of how Cadivi is doing. So, the following table includes imports via Cadivi, Aladi, and Sucre.





Amount disbursed by the BCV* (US\$ Million)				
Sector	1S2012	1S2011	Var%	2012 Market Share
Food	3,254	2,165	50.3%	29.8%
Health	1,784	2,668	-33.1%	16.3%
Trade	1,028	911	12.8%	9.4%
Chemistry	986	828	19.1%	9.0%
Automotive	936	1,386	-32.4%	8.6%
Machinery and equipment	617	459	34.4%	5.7%
Services	370	371	-0.4%	3.4%
Rubber and Plastic	338	303	11.5%	3.1%
Textile	252	137	84.0%	2.3%
Electric-related	224	82	174.6%	2.1%
Metallurgy	196	111	76.7%	1.8%
Graphics	151	115	31.1%	1.4%
Paper - Cardboard - Wood	148	88	68.7%	1.4%
Telecommunications	127	366	-65.4%	1.2%
Informatics-related	123	159	-22.9%	1.1%
Electr. domestic appliances	109	149	-26.4%	1.0%
Electronics	71	54	31.5%	0.6%
Construction	47	78	-39.1%	0.4%
Non-metallic Minerals	45	49	-7.5%	0.4%
Books and School Supplies	43	40	9.7%	0.4%
Communication - Press	29	37	-21.3%	0.3%
Veterinary	28	41	-32.7%	0.3%
Science and Technology	7	14	-51.6%	0.1%
Tobacco and Alcoholic Drinks	5	1	281.8%	0.0%
<b>Total</b>	<b>10,918</b>	<b>10,611</b>	<b>2.9%</b>	<b>100%</b>

Sources: CADIVI and Ecoanalítica

\*Includes regular imports and imports through ALADI and Sucre

**Many changes to keep everything the same**

Of the total amount of foreign currency liquidated by Cadivi during the first semester of this year, 75.9% of it corresponds to imports, followed by 9.2% that corresponds to foreign currency requests for credit card purchases.

**Adjustments that surprise**

When we look at the import figures by sectors we immediately notice that food imports jumped by 50.4% compared to the same period last year, and represented 29.8% of the total amount of foreign currency liquidated for



imports, which is the same as saying 22.6% of the total amount liquidated by Cadivi during the semester. And, reflecting the complaints being voiced by the health and medicine sectors that they are in serious need of more foreign currency, the amount liquidated to these two sectors dropped by 33.1% compared to the same period last year, and represented 16.3% of the total amount of foreign currency liquidated by Cadivi for imports. The other sector which had a significant drop in the amount of foreign currency it was liquidated was the automotive sector, down by 32.4%.

These figures from the health sector and the automotive sector, in our opinion, are showing the new adjustments the Administration is making with respect to Cadivi. The new schema has the State importing more items for the health sector (especially medicines) while private sector companies working in these sectors should migrate to the Sitme for their foreign currency needs.

Drops in the amount of foreign currency liquidated to sectors such as construction, down 39.1%; and telecommunications, down 65.4%, show that these sectors are no longer considered priority sectors for Cadivi. Other sectors such as: chemicals, electrical, textile, paper/carton/wood, metallurgy, services, rubber, and plastics have all registered significant increases in the amount of foreign currency liquidated to them.

But, as all exchange controls tend to be, the system is inefficient and the problems at its core are getting bigger and bigger, especially when it comes to financing private sector imports, repatriating profits, and coverage operations.

**Dividends, a balloon that had to burst...**

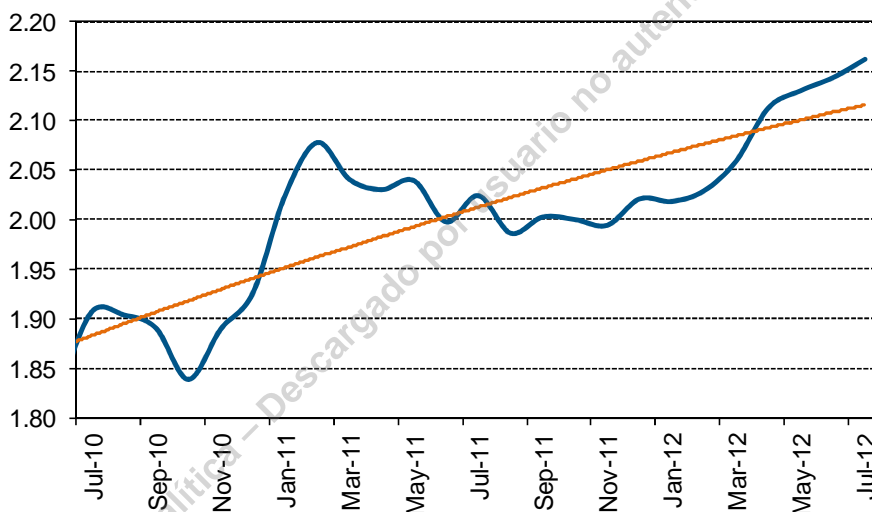
Given when we look at the figures that represent foreign currency approvals for paying private foreign debt and foreign investment (components related to the repatriation of dividends by transnational companies and investment to expand production capacity) we find that these reflect no noticeable difference, and remain a non-priority item for Cadivi. And this, despite the significant debt owed by the State to multinational companies and corporations, many of them tied to strategic projects being carried out by the Administration.

At the beginning of this year, at *Ecoanalítica*, we pointed out that if this posture by Cadivi continued for the coming months, that the corporate sector would have no other choice but to look to the unofficial exchange market to resolve the issue. This of course would mean the end of any stability in the referential exchange rate and bring enormous pressure to



bear on the unofficial exchange market. The political uncertainty leading into the presidential election in October is the main element which is forcing the corporate sector to make this decision. This and the fact that there are fewer and fewer domestic options available for investing the liquidity generated over the last few years. And what's worse is that the unofficial exchange market has been steadily increasing during the last few months.

Market Pressure Index\*



Source: Ecoanalítica

\*This index is constructed as the ratio between the price of the parallel exchange rate and official exchange rate

### Exchange Agreement N20: the necessary improvement?

Last Friday, June 20, a few modifications made to the exchange schema went into effect with special emphasis placed on expanding the Sitme's supply. So far, we have seen no changes made to Cadivi operations, not in amounts, nor in the requirements to access the Sitme.

We can say that the new measure introduced three changes:

- First, in a way, it makes operations for foreign contracting companies working for the State easier, allowing them to manage their resources in foreign currency in Venezuela, sell them at the official exchange rate, and/or transfer them to their accounts abroad. It also allows for exchange operations to take place between these companies and others located in Venezuela. We'll look at this point in more depth in our next Weekly Report.



- Second, as the BCV announced, the measure is trying to make it the process easier for natural persons to use. As it was, the system excludes people who do not have a bank account abroad. This measure makes it fairer for those who don't have accounts abroad, but it is also an incentive for corruption, just as what happened with the prepaid internet foreign currency quota issued by Cadivi.
- Lastly, and what we believe is most important, the measure expands the supply of securities in the Sitme, with PDVSA's contribution in the system increasing by 30% the current daily amount for the period between August and December.

**The key issue:  
PDVSA's future**

How as we have said, the most important element of the new Agreement is Article 4, which states that companies of the State (mainly PDVSA) that receive foreign currency through their export activities must use up to 5% of their average monthly balance held in foreign currency to acquire bonds issued in foreign currency by the Republic or its decentralized entities, so that they may be traded in bolivars through the Sitme.

At **Ecoanalítica**, we believe that this in fact is giving PDVSA the power to sell foreign currency through this mechanism in order to increase the supply of foreign currency through the Sitme for the coming months. According to our calculations, the increase would be for around US\$1.39 billion for the rest of the year.

For now on, until October, the Administration is not going to stop the flow of foreign currency for imports, but we think that Cadivi will be handling priority sectors along with public sector imports. Slowly, but steadily, the State expects to migrate more and more importers to look for their foreign currency needs through the Sitme.

In this context, the new Exchange Agreement is just a way to allow PDVSA to play a more active role in the Sitme. At **Ecoanalítica**, we don't rule out that the 5% amount currently set may be increased in the medium term.

At **Ecoanalítica**, we want to point out that this measure is only buying time, and if the steady drop in oil prices goes on for more than what is expected, the Administration's margin to maneuver will disappear. The Administration will always act hoping that oil prices will bounce back again so that it can continue to implement the economic model they have been using these past few years.



**Another  
implication of  
the new  
Exchange  
Agreement**

In The new Exchange Agreement also make it easier for the different outlets that have been operating the unofficial market as it shifts the demands of international banks to local banks that are usually much more lax, making the exchange operation much easier. The black market is more alive than ever.

With the implementation of this new mechanism, the main cost that we as Venezuelans will have to pay will be in inflation. Cutting the scope of Cadivi's operations will increase operational costs for all those companies which will no longer benefit from the official (Cadivi) exchange rate. And with PDVSA exchanging foreign currency through the Sitme in order to increase its supply, an operation that will directly affect the level of international reserves, which in turn will generate nervousness in the international bonds market, affecting the price of public debt foreign bonds. At the close of 2012, international reserves could close at around US\$ 29.9 billion.

One last observation, this schema should become the prelude to the dismantling of the exchange control, something we have predicted if the Opposition candidate wins the presidential election this coming October. But there is still quite a ways to go...

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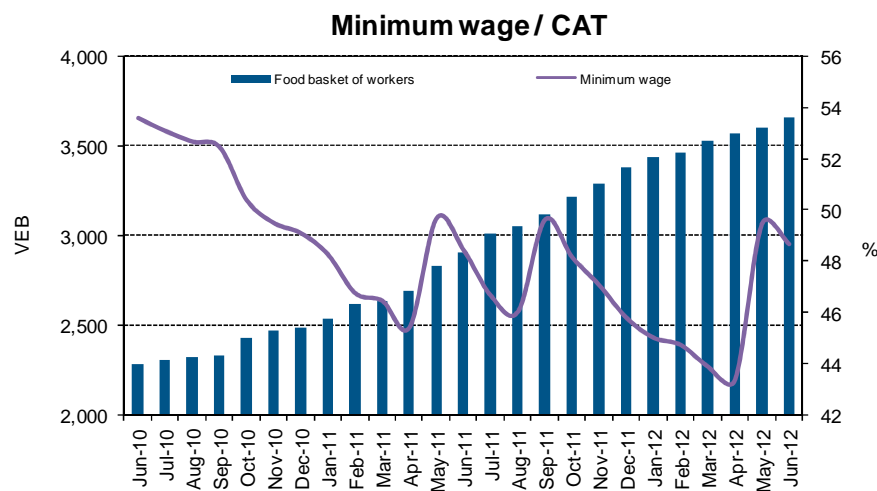


## Economic Tips

**The basic food basket reaches VEB 3,657.** According to the report of the Worker's Documentation and Analysis Center (Centro de Documentación y Análisis para los Trabajadores - Cenda), the cost of the *Basic Food Basket* (Canasta Alimentaria - CAT) for June 2012 was VEB 3,657.2, an increase of 1.6% with respect to the prior month, and of 25.9% with respect to June 2011. So far this year the basket has suffered a cumulative change of 8.2% (VEB 277.9).

**The behavior of the CAT in February** was marked by an increase in eight of its eleven items: non-alcoholic beverages 13.6%, seeds, oil seeds and legumes (beans) 5.1%, fish 4.8%, fruits and vegetables 1.5%, milk, cheese and eggs 1.0%, meat and meat preparations 0.7%, sugar and sugar-related 0.3%, food products 0.1%. Meanwhile, fats and oils, cereals and cereal products, roots, tubers and others had no changes.

**Minimum wage only covers 48.7% of the basket.** According to Cenda's report, the actual minimum wage (VEB 1780.5) has a purchasing power of 48.7%, i.e. there is a deficit of 51.3% (VEB 1876.7) for the purchase of basics food. Then, a family requires for at least two (2) minimum wages to cover their basic needs on feeding.





**Slow-motion devaluation.** At the end of the first quarter, the administration's strategy seems to be that of devaluating the exchange rate in slow motion. The higher amount of disbursements through Sitme (US\$5.72 billion for the year-to-date), the lower amounts allocated by Cadivi and the increasing backlogs of this system lead us to believe that the official exchange rate of VEB/US\$4.30 has its days counted and that devaluation will be unavoidable in 2013, mostly considering in a climate where oil rent is no longer enough to maintain subsidies, growing imports and government spending.

**More dollars for Sitme.** The Exchange Agreement No. 20 allows those public companies that receive foreign currency from their respective activities to use up to 5% of their monthly average balance in foreign currency to repurchase public bonds and sell them to Sitme, which would result in a permanent feeding flow for the system. At *Ecoanalítica*, we believe that this won't represent any advantage for importers that perform productive processes, because the system only authorizes up to US\$350 thousand per month per company.

**Lower indebtedness in foreign currency.** The fact that companies are able to repurchase public debt on international markets will allow the administration to slow down the indebtedness pace in papers denominated in foreign currency to feed Sitme; it would also contribute to maintaining the value of papers on the international markets. At *Ecoanalítica*, we believe that such issues will continue to be necessary to alleviate dollar demand in principle, and that we are witnessing an attempt by the authorities to later apply a higher percentage of official foreign currency to Sitme.

**New fund expected to boost imports to Mercosur.** President Hugo Chávez announced the creation of a "*fund with several hundreds of billions of dollars to support private companies with an exporting profile, as well as public companies.*" This measure was already tested in 2010, but now is intended to promote trade exchange with Mercosur member countries; President Chávez assured that Venezuela has potential to export food, clothing, construction materials and phones. So far, the fund appears to be insufficient, given the evident deterioration of the local industry.

**Venezuela's entry into Mercosur will ease unemployment.** Ricardo Menéndez, Minister of Science, Technology and Intermediate Industries, stated that, if Venezuela manages to meet (thanks to Mercosur) 1% of imports from the common market member countries, unemployment could decrease to 5%, because that 1% of imports from Mercosur "*would represent 240,000 additional new jobs for the country.*" The Minister also insisted that Venezuela's entry into the integration bloc will boost Venezuelan exports.



**Sundecop contributes to price stability.** Karlin Granadillo, National Superintendent of Costs and Prices, pointed out that the controls of 19 product categories have made it possible to reduce the National Consumer Price Index (INPC) by one percentage point, and that supply of those products remains stable. Granadillo announced that the second phase of Sisap (national price administration system) will be launched over the upcoming weeks, so further price controls over new products may be expected.

**Additional resources for socialist companies.** Last Tuesday, President Hugo Chávez approved additional funds for socialist companies and for the creation of an “engine district” between Barinas and Portuguesa States, where irrigation systems shall be installed for agricultural development. The investment sums up to US\$32 million, which have been taken from the National Development Fund (Fonden). Revenues obtained through these companies are expected to be earmarked for the Socialist Efficiency Fund, a petty cash of sorts available to the national government.

**Empresas Polar determined to remain in Venezuela.** Lorenzo Mendoza, president of Empresas Polar, assured that, the commitment of Empresas Polar to Venezuela is going to be the same on October 8<sup>th</sup> (the day after presidential elections) as it is today, and as the one assumed almost 72 year ago when the company was created. Mendoza said that “*he wants to continue betting for Venezuela*” and that he will try to overcome difficulties, referring here to rumors about the Polar group of companies moving out of the country.

**Food absorbs 37% revenues.** According to statistics by the Central Bank of Venezuela, Venezuelan families use on average 37.1% of their monthly income to buy food and nonalcoholic beverages. Aware of this fact, the administration has resorted to imports to increase supply and price controls to slow down inflation. These measures seem to have an effect, but they could lose their effectiveness given the trend towards an increased monetization of spending, a phenomenon observed earlier this month.

**Interest rates.** The lending rate for the second week of July was at 17.1%, increasing by 2.9 percentage points compared to the previous week. The time deposit rate remained since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves decreased 2.8%, going from US\$27,658 million during the second week of July to US\$26.886 million during the third week of July. Compared to the same period last year, international reserves have decreased by 8.9%.



**Monetary liquidity.** Monetary liquidity decreased 0.03% in the first week of July compared to the previous week, settling at VEB 518.087 million. The M2 has increased 50.7% in relation with the same period last year.

**Sitme figures.** So far this year, US\$5.80 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43.0 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.29 billion (28.7%) over the same period of 2011, when US\$4.51 billion were negotiated. Lastly, during the third week of July the amount traded reached US\$209.5 million, US\$17.4 million more than last week when US\$226.9 million were traded, with a daily average of US\$45.4 million.

## Oil Tips

**Like a slowcoach.** The completion of PDVSA's Extraordinary Investment Plan is advancing like a slowcoach. The plan called for increasing oil production by 500 thousand barrels per day (kb/d) by 2012, from 3.0 million barrels per day (mb/d) up to 3.5 mb/d. According to monthly reports by OPEC, which are including production data provided by member for the first time production grew by 41 kb/d in the first half of 2012, which is only 8.2% of the target. Minister of Petroleum and Mining Rafael Ramírez has pointed out that production should be close to 3.2 mb/d by July, and that the target set would be attained in the last quarter of 2012, when 150 kb/d are then put into stream.

**Until they finally reached an agreement.** Las Friday, July 20, president of the gas and oil workers' union (FUTPV) Wills Rangel announced that a new collective contract had been finally signed. Rangel explained that the new contract calls for an increase of VEB 40 of the minimum wage and that the gas and oil workers would be receiving their new benefits by July 30, in particular the food card that was increased to VEB 2,700 and the increase of vacation allowances.

**Less smuggling thanks to TAG.** According to Minister of Petroleum and Mining and President of PDVSA Rafael Ramírez, the Automated Fuel Sales Program (known as the "chip" or TAG system) is not a sporadic measure, but a measure that is being developed since 2008, intended to substantially curtail gasoline smuggling at bordering states with Colombia.



**Consumption dropped 38% in Táchira State**, from 130 million of liters per month (28 kb/d) to 80 million liters per month (16 kb/d). In Zulia State, where the system has been implemented recently in Mara and Guajira Municipalities, 14 million of liters of gasoline were consumed in September, whereas today demand amounts to 8 million of liters per month, for a decrease of 43% in demand.

**PDVSA to issue more papers.** Last Thursday, July 20<sup>th</sup>, PDVSA issued bonds worth VEB 1.5 billion, which were bought by banks and deposited with Zamora Fund to finance the agricultural sector. In total, PDVSA has plans to issue bonds worth VEB 3.0 billion, which will be used by banks to comply with the 15% mandatory loan that banks must earmark for agricultural loans.

**Chevron and PDVSA are fine tuning details** concerning the US\$2.0 billion financing that Chevron<sup>1</sup> will grant to the Petroboscán joint venture. The JV will receive long-term financing (the last installment will be paid in 2025), at Libor + 4.5, without additional costs. This financing will be used for the construction of works to maintain and expand current average oil production of 115 kb/d from Boscán oilfield and comply with the remediation plan required by the Ministry of Petroleum and Mining, PDVSA informed in a press statement.

**Blaming others.** More than a week after two oil spills occurred in La Peña, a rural area in Anzoátegui State, nearby populations denied reports by Adeldo Molero, from the Executive Direction of the Orinoco Oil Belt, and Lorenzo Aguilera, manager of Ayacucho division of Petróleos de Venezuela (PDVSA), who pointed out that the oil pipeline was broken with a saw and not due to lack of maintenance. Residents of the area describe PDVSA position as “malicious, because they are making serious accusations against the population,” and demand the area to be cleaned up.

**The Ana María Campos Complex is ready.** Last Sunday, July 22nd, President Chávez opened the Ana María Campos Complex, located in the east coast of Maracaibo Lake, Zulia State, which will produce plastic-derived products. President Chávez said that this new plant would help replace plastic imports.

**International baskets.** At the time of foreclosure in New York, WTI was traded on July 20 at US\$89.5/bl, which shows a decrease of 4.9% compared to US\$85.3/bl recorded the previous week. Meanwhile, Brent rose by 5.0% to reach US\$ 104.6/bl compared to the previous week, when it reached US\$99.6/bl.

<sup>1</sup> Chevron-Texaco is the only US oil Company that accepted six years ago the formula imposed by the Venezuelan government on private companies, for them to create joint ventures with PDVSA for the development of Venezuelan crude oil. Conoco-Phillips and Exxon rejected the decision and moved out of the country.



**Local basket price.** The Venezuelan oil basket price fell last week to close at US\$92.3/bl on July 20, resulting in a decrease of 0.5% compared to US\$92.8/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 106.2/bl.

## Business Sector Tips

**The administration only thinks about medicines.** While Venezuela's agriculture is suffering from price backlogs and is waiting for the administration to review costs and adjusts controlled prices of priority foodstuffs, Sundecop is centered on gathering information on the pharmaceutical sector. Food has been pushed into the background. Sources from Sundecop informed that prices will be reviewed after September, because Sundecop has plans to release the resolution with adjustments of medicine prices in September.

**More unemployment in the construction sector.** Octavio Campos, director of the construction workers' union, reported that bilateral agreements signed by the administration with China, Russia, Belarus, Iran and Cuba for public work projects have left 50,000 Venezuelan workers in the construction sector jobless, despite the high unemployment level of this sector. China is at the head of this displacement with 30,000 Chinese workers that were brought into Venezuela for the *Gran Misión Vivienda* (housing mission), whereas in the case of Belarus, Russia, Iran and Cuban, even though Venezuela workers are hired, professionals and managers engaged in the works come from those countries.

**More and more beef imports.** According to Foreign Trade figures released by the National Statistics Institute (INE), imports of live cattle increased 66.3% in January-May 2012, up to 104,496 tons for which US\$384 million were paid. This year, most live cattle came from Brazil, about 77,615 tons at a cost of US\$309 million, and from Colombia which reached 24,669 tons until May, for a total of US\$70 million.

**Frozen beef imports** in January-May reached 47,789 tons at a cost of US\$249 million, up 194.7% from the 16,216 tons bought in the same period in 2011.

**Agricultural imports doubled.** According to the foreign trade report released by INE, vegetable and animal imports grew 105.4%, from US\$1.04 billion in January-May 2011, to US\$2.14 billion in the same period in 2012. In the case of food industry,



which also includes beverages and tobacco, imports rose 27.1% to US\$1.02 billion, as compared to US\$805 million in January-May 2011. In some specific items, increase is more significant, such as in the case of rice, the imports of which gained 435.9%.

**More imports, less inflation.** A press note released by the Central Bank of Venezuela states that the measures taken by the government to guarantee access to food through Mercal and Pdval outlets, as well as an effective price control and subsidies are factors that have significantly helped to lower inflation in the first half of 2012. In June, variation in prices of food and nonalcoholic beverages was at 0.8%, down June's average variation (1.4%). Looking at import figures, we can observe the administration's secret as to food prices.

**Socialist losses.** In 2007, the last year in which Ternium was in private hands, Siderúrgica del Orinoco (Sidor) distributed benefits for US\$704 million. Three years later, the imbalance between income and expenses was at US\$120 million and US\$359 million in 2011. Pedro Acuña, engineer and representative of workers owners of class B shares, informed that for the first time since the company was renationalized, *"its board gathered to review operational, production and financial statements,"* and added that *"Sidor's operative and financial situation is much worse than what we have always claimed; a big effort over upcoming months is essential to save the company."*

**...and setting sensible goals.** Sidor's Installed capacity of liquid steel production is 5.1 million tons per year, but the deterioration of its facilities has forced the state-owned company to revise downward its production expectations. According to Pedro Acuña, *"all facilities have lost their operational capacity"* and the target lowered from 3.7 million tons to 2.7 million tons by the end of 2012 is recognition of the lack of routine maintenance in the areas of the state-owned company. *"Sidor's problem now is recovering the capacity once installed and that has now been lost due to the lack of routine maintenance and management,"* Acuña added.

**Socialist efficiency.** Workers at Tubos de Acero de Venezuela, S.A. (Tavsa) report that since the firm was nationalized (in May 2009), *"a significant production drop and widespread deterioration of the company's facilities and equipment"* has occurred. Before the nationalization, the company produced 54,000 tons of pipes; today only 10,000 tons are produced, for a drop of 81.5%.

**"Breaking news."** Workers of the same company report that *"it cannot be justified that at Tavsa's yards 8,000 tons of pipes are piled, whereas PDVSA Industrial, the company that runs the pipe factory, continues to import pipes from Brazil, Argentina, Mexico and China."*



**Vulnerable Caracas.** The Caracas Power Assurance Plan belongs to the past. Power generation for Caracas mainly depends on the interconnection system mainly fed from Guri. *“Plants that were opened cannot operate due to insufficient natural gas supply, it is hugely expensive and complex to maintain full-time operation with the use of liquid fuels,”* Cesar Quintini, an expert in the area, reported.

**More expensive than in Australia.** Quintini reviewed the characteristics of the plant that is being installed in Guarenas, near Caracas, commissioned by Derwick Associates, and determined that a surcharge of 30% was observed in the generation of one kilowatt, because of the use of gas oil. Quintini makes this comparison with respect to a similar plant that is also operating with GE equipment in Perth, Australia, where the cost is US\$1,315 per kilowatt, whereas the cost in Guarenas is at US\$1,708.

**Let's hope it rains.** One of the reasons why the crisis hasn't worsened in Caracas is that the Guri Dam isn't having the same troubles it had in 2009-2010, when water level approached its critical level of 240 meters above sea level. Corpoelec report as of July 12<sup>th</sup> states that water level at Guri is almost 30 meters above its critical level, at 270 meters above sea level.

## World Economy Tips

**Rescue plan for Spain approved.** Eurozone finance ministers have authorized, via telephone conference, an agreement to lend Spain US\$120 billion that shall be used to strengthen Spain's banks. This comes after the growth of the interest rate of Spanish 10-year bonds of over 7%, a level that appears to be unsustainable, and the exceeding of Spain's premium risk of more than 600 points on Friday for a record high.

**Moody's warns about European economies.** Moody's released a negative forecast for a possible downward adjustment in Germany, Holland and Luxemburg (AAA) sovereign debt rating, whereas that of Finland was kept unchanged and stable. The credit rating agency based its decision on the “growing uncertainty” in Europe due to the debt crisis, the “increasing” fears for a possible exit of Greece from the euro zone and that countries like Spain and Italy may end up needing a bailout.



**The euro loses value on uncertainty.** The euro-to-yen exchange rate reached its lower level in 11 years, due to growing concerns about Spain's economic condition. One euro was exchanged for 94.7 yens, an exchange rate that hadn't occurred since November 2000. The Spanish province of Valencia asked the central government for financial assistance last Friday, thus triggering new fears about the debt issue in Spain. This has discouraged investors of the euro, leading them towards relatively safer markets.

**The brazilian real also weakened.** The Brazilian real recorded a strong drop with respect to the US dollar on Friday, to BRL/US\$ 2.01, as tensions for Europe's perspective pushed investors to purchase dollars and, after a moved week in the US, attention of the financial world focused on Europe again.

**Trade grows, but production drops.** According to data from the National Planning Office attached to the Dutch Ministry of Foreign Affairs, global trade showed a slight growth, from a y/y growth rate of 2.9% in April to 3% y/y growth in May, whereas global production growth fell from 4.24% in April to 3.72% in May (both on a year-to-year basis); it would appear that the second half of the year will be less dynamic.

**China wants to invest in Africa.** In another sign of China's looking for new markets to invest part of its reserves in foreign currency, China's president Hu Jintao assured African governments that they would be granted loans for up to US\$20.0 billion, which will be delivered over the next three years. These moneys will be earmarked for infrastructure works, aid for the agricultural sector and entrepreneurial development. Recently, China consolidated itself as the main trade partner mayor and investment source of the African continent. Africa, in turn, is a significant source of raw materials for China.

**USA: Newly-built home market recovers.** The housing market continues to slowly respond to low interest rates. In June, new home construction gained 6.9% with respect to May (23.6% y/y) reaching 760,000 new homes, the highest number during the economic recovery and way above the 735,000 homes expected at the beginning of the month; the strongest boost came from the construction of multifamily homes with a 12.8% growth from May (28.5% y/y), whereas the construction of home for single families grew 4.7% (21.7% y/y).

**Microsoft closes quarter with losses.** The computer software firm posted its first loss in 26 years as a stock company. Microsoft representatives announced a quarterly loss of about US\$500 million, which contrasts with gains for almost US\$6.0 billion for the same period in 2011. Microsoft blamed the purchase for US\$500 million in 2007 of its online ad service aQuantive for the loss, because it didn't yield the expected profits.



**Market tension and volatility.** The New York Stock Exchange – NYSE closed down on Monday on negative news from Europe. Dow Jones lost 0.8% and Nasdaq 1.2%, whereas Frankfurt lost 3.2%, Paris shrank 2.9%, London 2.1%, Milan 2.8%, Madrid 1.1%, and Athens fell 7.1%. Losses were limited in US markets, while short operations were forbidden in Europe until next October, given the extreme volatility on European markets.

## Political Tips

**Chavismo is divided for governors' elections.** While the President/candidate for reelection, Hugo Chávez, claims that "*O-7 belongs to Chávez*" and reminds his allies that they have to focus on October, pro-government parties are already thinking of December. PSUV-member Diosdado Cabello will hold a nationwide consultation, after which the national direction will determine the candidates for governors' elections in December. Parties like PCV, Tupamaros and MEP have demanded PSUV to define an eventual agreement, but they haven't been given any answer; therefore a perfect alliance for this election could be ruled out.

**Convinced of O-7 victory.** Carlos Ocariz, candidate for governor of Miranda State and head of *Comando Venezuela* for the same state, at a swearing ceremony of electoral witnesses of the Baruta municipality, underscored that it is important for people to be involved in the election process. "*Everybody has to go out to vote; I'm convinced and I'm telling it from the bottom of my heart: Henrique Capriles is going to win.*" Ocariz added that the Command is at the end stage of an organization effort in Miranda State ahead of October 7<sup>th</sup> election.

**Chávez: "*Majunchismo*' has only 2 and a half months left.** At a campaign rally in Maracaibo last Saturday, President Hugo Chávez claimed that "*Majunchismo*" has only two and a half months left to "*continue running*" and try to win the presidential elections; Chávez also reiterated that he will rule the country for another six years.

**Chávez will have to hand over power.** Liborio Guarulla, governor of Amazonas State, predicted that candidate Henrique Capriles will win October 7<sup>th</sup> presidential election and that, therefore, Chávez will have to hand over power, because "*he has to obey the will or the people.*" "*If he's sane, if he's a democrat, he should hand over*



*Miraflores*” the Governor said at an event to present the new political party that will replace PPT and Movimiento Progresista de Venezuela

**CNE turns a blind eye.** Presidential candidate Henrique Capriles Radonski believes that the National Electoral Council (CNE) “*doesn’t guarantee balance between campaigns.*” Capriles complained that President Hugo Chávez continues to use radio and TV national broadcasts “*for political campaign*” instead of informing about the administration’s activities and achievements. According to CNE’s rules, each candidate is allowed one three-minute spot per day. Opposition candidate also said that he “*will report Venezuelans of each abuse by the other candidate.*”

**Agreement signed before CNE.** Despite contrary stances concerning its content, six of the seven presidential candidates signed the agreement proposed by the CNE; according to Henrique Capriles, the text prepared by the CNE looks like it was done by Chávez himself; members of *Comando Venezuela* pointed out that the agreement leaves open relevant issues like electoral opportunism; President Chávez, in turn, said that “*the agreement prepared by the election authority is outstanding and perfect.*”

**Charges and demands abound.** Enrique Márquez, Juan Carlos Caldera and Julio Borges, representatives of *Comando Venezuela* (Capriles’ campaign command) asked the National Electoral Council (CNE) to enforce the election agreement signed and to “*demand President Chávez and Minister of Communication Andrés Izarra to refrain from doing “cadenzas” (national TV broadcasts) that directly and indirectly promote Chávez’ candidacy,*” they also requested that “*abusive government’s propaganda*” be removed from public buildings and websites of public entities.

**Respect for election rules.** Jorge Rodríguez, head of *Comando Carabobo* (Chávez’ campaign command) claimed that no other candidate respects the election rules like President Hugo Chávez, in response to reports by opposition representatives about the improper use of institutional ads by the administration. Rodríguez said that “*Capriles Radonski is the candidate who violates the most the CNE regulations and has been campaigning for more than one year now.*”

**Carter Center invited to October’s presidential election.** CNE heads agreed to invite Carter Center as part of the international observer program for October 7<sup>th</sup> presidential election; the organization hasn’t still answered the invitation; up until today, only the Election Council of Unasur has been invited as international escort for October 7<sup>th</sup>, which would be its first official participation in an election process.





## Legislative Tips

**New appeal against Tax Stamp Law.** The Legislative Council of Aragua State reformed the Tax Stamp Law in November 2011 so as to provide for that businesses have to pay tax stamps for certain procedures, based on their surface area. This has led businessmen in that state to challenge this reform because its “*amounts are unpayable.*” Three business associations of Aragua State (the Chambers of Commerce and Production of Cagua and Santa Cruz, the Chamber of Commerce, Industry and Tourism of Colonia Tovar and the Chamber of industries of Ricaurte District) presented an appeal requesting the Law to be repealed, Conindustria reported in a press note. This is the second appeal after the one presented by Empresas Polar before the TSJ.

**Isea defers the reform.** Rafael Isea, Aragua’s governor, announced that the reform of the Tax Stamp Law will be postponed, because the “issue has been politicized by businessmen in the region.” The Governor explained that the signing of the reform into law was scheduled for July 20<sup>th</sup>, but that now the process has been paralyzed. Isea urged businessmen who have been demanding for months the law to be modified “*to channel their demands through regular channels so as to properly discuss the issue.*”

**The appeal has been dismissed.** The Constitutional Chamber of the Supreme Tribunal of Justice dismissed the appeal that the Association of City Real Estate Owners (APIUR) presented against Article 73 and the ninth interim provision of the Home Renting Law. Article 73 provides for that the method to determine the value of a property will only take into account the reposition value, size, depreciation, seismic vulnerability and geographical area. APIUR objected the article because it excludes factors that add value to the property, including location in the city or service available, and ignores the owner’s investment to buy the property.

**The ninth interim provision** grants a 12-month term to withdraw moneys deposited at courts where rents under litigation are paid, because otherwise, they will be transferred to the Fund for the protection of tenants and small lessors, created by the Law. The organization rejected the measure, because those funds (deposited by tenants to comply with the payment obligation in case of conflict or if the property owner cannot be located) belong to the property owners.





## ECONOMIC OVERVIEW

