



Weekly Report

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*Beyond 2012: one thing for
sure is debit*

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According to figures released by the Central Bank of Venezuela (BCV), public debt increased by 52.9% in just 18 months up until the close of 2010. And so far this year, the Administration has kept on borrowing with the same intensity, if not even a bit more aggressively, taking into account the recent approval of the Special Supplemental Borrowing Law. At **Ecoanalítica**, we believe it is important to analyze and evaluate just how viable this recent wave of borrowing is; and now, in the wake of one of the largest bond issuances in the history of Venezuela (US\$4.20 billion), is a good time to do it.

Multiple Needs

The Administration's aggressive borrowing policy has allowed it, among other things, to finance expensive social programs, such as: the Housing Mission, the Labor Mission, and the AgroVenezuela Mission, thereby enhancing its image before the people and its popularity leading up to the presidential election to be held next year (2012). These debt issuances have also allowed the Administration to collect revenue to make public



debt service payments as well as injecting the necessary volume of instruments into the System for Transactions of Securities in Foreign Currency (SITME) so that it may continue to operate. All in all, the public debt has not reached toxic levels since it still represents a relatively manageable percentage of GDP; but, the rate at which the Administration is borrowing is still quite alarming.

A pertinent question

Considering the rate at which the Administration is borrowing, it's important to ask: Is the Administration's current rate of borrowing sustainable in the medium term? At **Ecoanalítica**, we believe that it isn't sustainable. If oil prices were to drop, this would leave the Administration in a very vulnerable position. It wouldn't be able to finance priority imports or meet its obligations regarding debt service payments.

Oil and borrowing

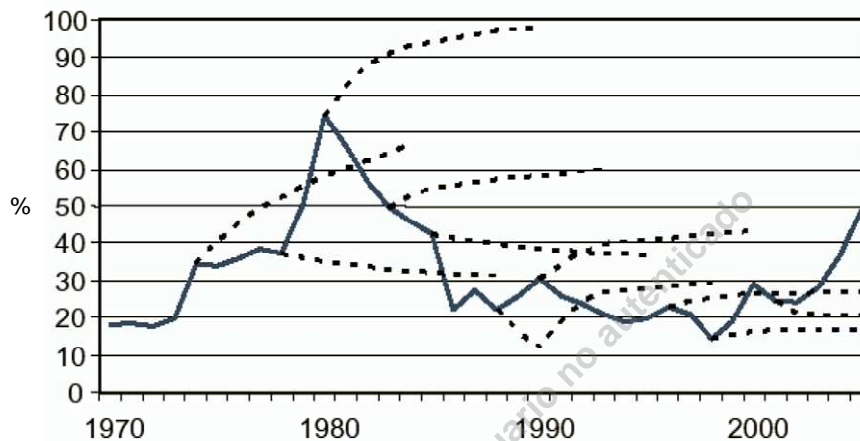
The performance of an economy such as the Venezuelan is directly tied to international oil prices, since the export of oil and oil byproducts are the country's main source of revenue. So, in Venezuela's case, its sovereign risk is very much at the mercy of the volatility associated with crude oil prices on the international oil market.

Trying to estimate said volatility is very difficult to do since oil prices respond to a series of geopolitical, economic, and commercial factors, any one of which could send oil prices soaring or plummeting by a single event. Looking over historical data, it's easy to see that oil price projections very rarely correspond to how crude oil actually traded on the international market, as the following graph reflects. The graph shows World Bank projections (dotted line) for those years and the solid line shows how crude oil actually traded on the market. It's easy to see that projections and actual performance quite often have very little in common.





Real Oil Price and forecasts (World Bank)



Sources: World Bank and Ecoanalítica

It all depends on what oil prices will do

Let's look at how the public debt will be serviced in the coming years, specifically between 2012 and 2015, and consider three scenarios in which the price of crude oil on the international market fluctuates between 15.0% and 33.0%, thereby affecting the Venezuelan oil basket price, and see what impact this will have. The point of this exercise is to evaluate how much a drop in oil prices will affect the Administration's capacity to make public debt service payments.

For the purpose of this exercise, we will assume that the Administration will continue with its current policies, including the rate at which it is borrowing. In order to project Venezuelan debt service payments for the 2012-2015 periods, we will use the latest figures released by the Ministry of the People's Power for Planning and Finances and Pdvsa.

Space for borrowing

The first scenario will evaluate the impact on debt service payments if oil prices increase at an average pace of 5.3% from year to year, and during the same period of time domestic crude oil production improves by 4.7%. With these parameters in mind, and even when the total debt service (Republic + Pdvsa) increases by 12.4% during the 2012-2015 period, the national public debt will not represent more than 18% of cash flow generating oil exports deposit in government coffers.

This percentage could even be 5 percentage points less than the amount stated, if the State would not set aside an average of US\$17.72 billion of yearly revenue to cover the agreements it's made with other countries



(including China). The cost of said agreements is reflected in an average drop of 22% of oil export revenue.

Base scenario Variables	2012F	2013F	2014F	2015F
Exports (which generate cash) (US\$ million)	1.75	1.75	1.80	1.86
Venezuelan Basket Price (US\$ /bl)	96	101	107	112
Exports (U.S. \$ million)	65,029	68,962	73,963	80,215
Oil (which generate cash) (US\$ million)	60,964	64,973	69,897	75,966
Non-Oil (US\$ million)	4,065	3,989	4,066	4,249
Imports (US\$ million)	47,245	42,112	45,116	49,787
Total external debt service Public PDVSA + (US\$ million)	11,526	12,428	13,183	12,954
Total external debt service / oil exports	18.9%	19.1%	18.9%	17.1%
Imports + total external debt service / oil exports	96.4%	83.9%	83.4%	82.6%

Sources: Ministry of Planning and Finance, PDVSA and Ecoanalítica

Is there no danger?

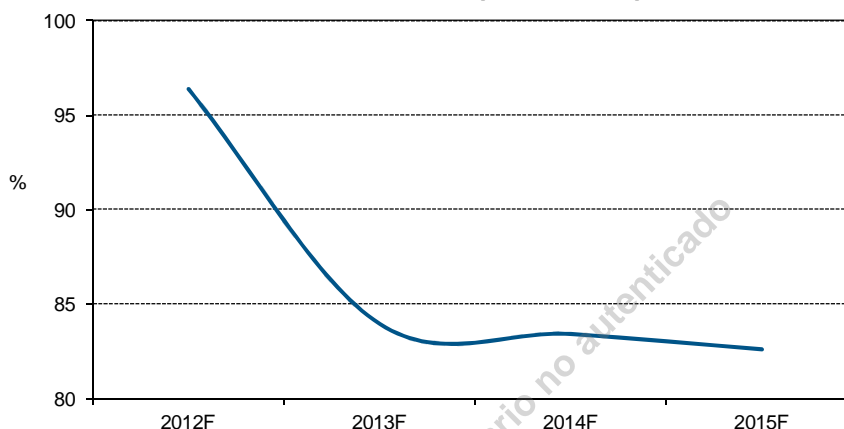
Though it's true that these levels of debt are sustainable in the medium term, let's not forget that imports are also dependent on foreign currency brought in by oil exports. If we assume that imports increase at an average rate of 4.0% (y/y), then the demand for foreign currency coming from oil exports is considerable.

In this scenario, imports plus total debt service payments may come to equal US\$58.77 billion, which represent 82.6% of uncompromised oil export revenues at the close of 2015. This figure is 13.8 percentage points less than what imports plus total debt service payments will consume of uncompromised oil export revenue at the close of 2012, which is estimated to be at 96.4% of total oil exports.





Debt Service + Imports / Oil Exports



Sources: Ministry of Planning and Finance, PDVSA and Ecoanalítica

It's a time bomb

This scenario shows that there is still space for public sector borrowing, as long as oil prices continue their tendency to increase. But a drop in oil prices would immediately put the Administration in a tight spot, making it difficult to make debt service payments.

If oil prices drop... May God have mercy on us all

In the second scenario, the price of oil on the international market drops by 25%, and the Administration has to earmark 25.5% of oil export revenue in order to be able to cover debt service payments. Oil revenues drop by US\$16.99 billion compared to the levels they were at in the first scenario and service payments for the public debt and Pdvsa still average US\$13.39 billion for the period in question.

Scenario II (25% drop in oil prices)

Variables	2012F	2013F	2014F	2015F
Exports (which generate cash)	1.75	1.75	1.80	1.86
Venezuelan Basket Price (US\$ /bl)	71.79	76.09	79.90	83.89
Exports (US\$ million)	49,788	52,719	56,489	61,224
Oil (which generate cash) (US\$ million)	45,723	48,730	52,422	56,975
Non-Oil (US\$ million)	4,065	3,989	4,066	4,249
Imports (US\$ million)	47,245	42,112	45,116	49,787
Total external debt service Public + PDVSA (US\$ million)	11,526	12,428	13,183	12,954
Total external debt service / oil exports which generate cash	25.2%	25.5%	25.1%	22.7%
Imports + total external debt service / oil exports which generate cash	128.5%	111.9%	111.2%	110.1%

Sources: Ministry of Planning and Finance, PDVSA and Ecoanalítica

At **Ecoanalítica**, we believe that a 25.0% drop in international crude oil prices, as is the case in this scenario, would make it very difficult for the

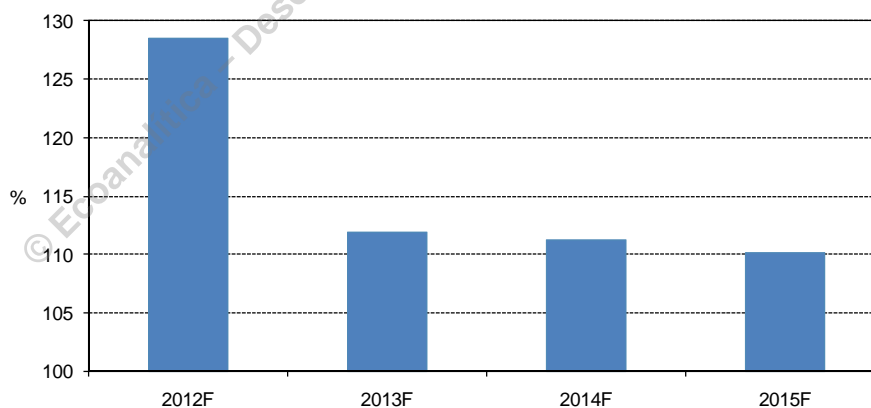


Administration to be able to cover what it owes in debt service payments, since the debt service payments and the foreign currency needed to cover imports could represent up to 128.5% of oil revenues in 2012. If this were to happen, the public sector would require more foreign currency than would be available, and in order not to default on debt service payments, the Administration would have to: (1) use international reserves; (2) issue more debt; or (3) lower the amount of imports by up to 27.0% in 2012.

In Venezuela, experience has taught us that borrowing is pro-cyclical; therefore issuing more debt is out of the question in a scenario where oil prices are low. So a significant drop in oil prices opens the door to fiscal adjustment via the devaluation of the currency.

So, a rate of borrowing that is sustainable as long as oil prices are at around US\$104/bl could be devastating and extremely expensive politically and socially if oil prices were to drop down to around US\$76.1/bl in 2013.

Debt Service + Imports / Oil Exports



Sources: Ministry of Planning and Finance, PDVSA and Ecoanalítica

Things could always be worse

In the third scenario, oil prices drop on the international market by 33.0% and oil revenues drop by US\$22.08 billion compared to the levels they were at in the first scenario. Service payments for the public debt and Pdvsa average 27.4% of uncompromised oil revenues. This level of debt is clearly unsustainable if we also consider import needs, together they would represent up to 142.8% of uncompromised oil revenue.



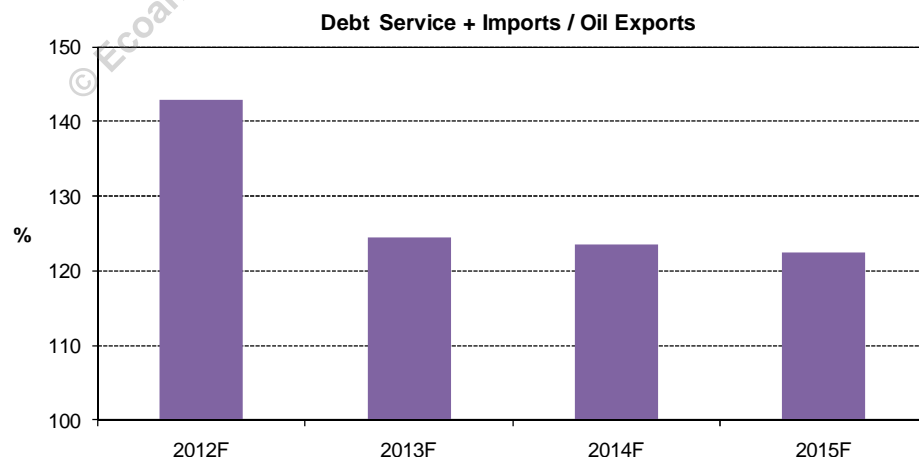


Scenario III (33% drop in oil prices)

Variables	2012F	2013F	2014F	2015F
Exports (which generate cash)	1.75	1.75	1.80	1.86
Venezuelan Basket Price (US\$/bl)	64.61	68.49	71.91	75.50
Exports (US\$ million)	45,216	47,846	51,246	55,526
Oil (boxed) (US\$ million)	41,151	43,857	47,180	51,277
Non-Oil (US\$ million)	4,065	3,989	4,066	4,249
Imports (US\$ million)	47,245	42,112	45,116	49,787
Total external debt service, Public + PDVSA (US\$ million)	11,526	12,428	13,183	12,954
Total external debt service / oil exports	28.0%	28.3%	27.9%	25.3%
Imports + total external debt service / oil exports	142.8%	124.4%	123.6%	122.4%

Sources: Ministry of Planning and Finance, PDVSA and Ecoanalítica

A 33.0% drop in oil prices would compromise the Administration's ability to finance its debt service payments and at the same time cover the economy's import needs. In this scenario, an increase in costs associated with any more borrowing is out of the question; therefore new issuances will not be financing the deficit. This means that the Administration will have to use international reserves and implement severe fiscal adjustments via a devaluation of the currency in order to cover the deficit of the Budget.



Sources: Ministry of Planning and Finance, PDVSA and Ecoanalítica

Time is just the moment before what is about to come

Despite the spectacular increase in oil prices on the international market during the last decade, around 383.0% in nominal terms, and the high cost associated with financing public debt, the Venezuelan Government continues to implement a borrowing policy that only responds to short term



needs. In Venezuela, bond issuances have become an instrument of the foreign exchange policy. The official exchange rate is so “*cheap*,” that it creates a demand for US-dollars which surpasses the supply, thereby forcing the Administration to issue new debt denominated in hard currency. If things continue as they are, the viability of the public debt in the medium and long term will only be possible by implementing economic policy adjustments, significant cutbacks in government spending, and a reconsideration of medium and long term political objectives. There is no doubt that the policy of managing the exchange market via debt issuances has run its course and that the Administration has to lower the level of public debt. Current high oil prices are the only thing that’s saving the economy from collapsing, and if the past has taught us anything is that you can’t count on oil prices.

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Economic Tips

Inflation moves forward. According to figures released by the Central Bank of Venezuela (BCV) and the National Statistics Institute (INE), the National Consumer Price Index (INPC), registered in July a monthly variation of 2.7%, which is superior to that observed during the previous month (2.5%) and in the same period of 2010 (1,4%). With this result, the INCP registered an accumulated variation of 16.0% in the first seven months of the year, two percentage points below that observed during same period of 2010 (18%).

INPC by groups. A breakdown of the results of July shows that the highest relative growth occurred in the prices of food and nonalcoholic beverages (4.8%). This was the only group whose variation was above the global average (2.7%). Four groups were below 1.0%, housing services (-0.2%), communications (0.2%), household rents (0.7%), and alcohol and tobacco (0,8%). Meanwhile, core inflation continues to show favorable results with a monthly variation which remained at 1.9%.

Caracas remains one of the most expensive cities. Geographically speaking, 8 of the 11 cities studied in July reported a higher inflation than in June: Caracas, from 2.2% to 2.5%, Maracay, from 2.1% to 2.5%; Ciudad Guayana 2.2% to 2.4% Valencia 2.2% to 2.7%, Barquisimeto, from 2.6% to 3.1%, Maturin, from 2.3% to 2.8%, and the rest of the country 2.6% to 2.9%.

INE: Un-regulated products up. According to the National Statistics Institute (INE), the Normative Food Basket was at VEB 1,518.00 at the close of June, up by 2.13% compared to the previous month. According to a report released by the INE, products that were not regulated increased in price by 2.25%, slightly higher than regulated products which were up by 1.95%.

Items that increased the most. According to the Normative Food Basket of the INE, sugar and sugar byproducts increased the most in price during the month of June, up 5.08%; followed by lard and oils, up 3.55%; fruits and vegetables, up 4.7%; and cereals and cereal byproducts, up 2.53%. Between January and June, Basket prices have accumulated an increase of 10.74%, with the cities of Maracay and Caracas reflecting the highest inflation.

Demand for US-dollars. Banks were flooded with requests for bonds during this past bond issuance (Bono 2031). Bank computer platforms crashed due to the avalanche of clients trying to logon to the system to introduce their bond request



forms. As in past issuances, the bonds were of US-dollar denomination but could be purchased with local currency (bolivars). It's estimated that the demand for bonds tripled the supply (US\$4.20 billion) offered by the Republic.

Surprises in how Sovereign Bond 2031 were assigned. The Ministry of Finance released its criteria that would govern the issuance of Sovereign Bond 2031. Natural persons and business that produce non-priority goods requesting between US\$3,000 and US\$6,000 received 100% of their request. Natural persons requesting more than US\$6,000 did not receive anything. Bonds will be liquidated on Friday, August 5.

CADIVI figures for the first semester 2011. According to the latest figures released by CADIVI, during the first semester 2011 the total amount of foreign currency authorized was at US\$14.58 billion, up by 13.0% compared to the first semester 2010 when US\$13.06 billion were authorized. Of this amount, US\$9.49 billion was liquidated during the first semester and US\$81.1 million were approved daily for import companies.

Amount disbursed 2010 (US\$MM)			
	IS2010	IS2011	Var(%)
Imports	9,367	9,494	1.4%
Students	148	242	63.1%
Special cases	75	133	76.7%
Airlines	583	620	6.3%
Ext Private Debt	5	16	202.4%
Consulates and Embassies	28	30	6.2%
Insurance and Reinsurance	48	28	-41.5%
Foreign Investment	21	91	342.0%
ALADI Convention	1,880	2,341	24.5%
Retirees and Pensioners	30	28	-6.4%
Remittances to family	312	392	25.6%
Credit Cards	465	811	74.5%
Cash for travel	76	160	110.6%
Services	0	1	142.5%
Telecommunications	18	89	394.7%
Sucre	0	104	-
Total	13,057	14,580	11.7%

Sources: CADIVI and Ecoanalítica

Less foreign currency in second quarter 2011. CADIVI figures reveal that between April and June 2011, foreign currency request forms for around US\$7.53 billion were approved, down by 6.0% compared to the same period in 2010 when US\$8.01 billion was authorized. For the first time, official CADIVI figures were released regarding



approved foreign currency through the regional Sucre agreement. A total of US\$32 million was authorized.

Priorities clearly defined. 81.2% of the foreign currency authorized by CADIVI during the first semester 2011 was for imports (including Aladi). 46.7% of the total went to food items and the health sector, 5.6% went to credit card allotments. CADIVI authorized US\$620 million to the airlines (4.3% of the total). The commerce sector received 17.3% less foreign currency during the first semester 2011. The sector represents 8.1% of total imports.

Amount authorized (US\$ million)			
	IS2010	IS2011	Var(%)
Food	2094	2064	-1.4%
Commerce	1942	2376	22.4%
Health	1018	1228	20.6%
Automotive	935	772	-17.3%
Metallurgist	702	460	-34.4%
Chemistry	674	732	8.7%
Machinery and Equipment	359	216	-39.9%
Services	212	148	-29.9%
Telecommunications	198	107	-46.3%
Rubber and Plastic	262	258	-1.5%
Computer	89	117	31.7%
Construction	212	303	43.0%
Electronic	62	77	25.3%
Grafic	67	77	15.2%
Electrical appliance	53	42	-21.7%
Textile	163	71	-56.4%
Non Metallic Minerals	69	127	83.8%
Electric	65	83	27.4%
Paper - Cardboard - Wood	87	110	26.3%
Comunications - Press	8	1	-92.1%
Books and School Supplies	26	38	48.4%
Science and Tech	15	14	-4.7%
Vet	32	38	20.9%
Tobacco and Alcoholic Drinks	26	35	32.6%
Total	9,368	9,494	1.4%

Sources: CADIVI and Ecoanalítica

Banking sectors marginal capital reserves will fuel the economy. According to BCV vice-president, Eudomar Tovar, the measure to lower bank's marginal capital reserves from 17% to 14% will fuel economic growth and improve the quality of the



lives of Venezuelans. The stability of the Venezuelan banking system is what has allowed the BCV to free up VEB 8.60 billion to earmark to the housing sector.

Government debt during the last 11 months. Between September 2010 and July 2011, through the sale of bonds in foreign currency and the loan made with Japanese companies, the Ministry of Finance and Pdvsa have borrowed around US\$16.50 billion; this is equal to having asked for a US\$50 million loan every day for the last 11 months. This calculation includes the issuances and reopening of the bonds that will mature in 2013, 2015, 2016, 2017, 2022 and 2031, issued this week, as well as the US\$1.50 billion loan Pdvsa acquired in Japan.

Interest rates. The lending rate for the fourth week in July was at 18.90%, increasing by 0.45 perceptual points compared to the previous week. Time deposits also were decreased by 0.07 perceptual points to reach 14.57%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.61%.

International reserves. International reserves decreased 1.4% going from US\$29,429 million during the fourth week in July to US\$29,020 million during the fifth week in July. Compared to the same period last year, international reserves have decreased by 6.7%.

Monetary liquidity. Monetary liquidity in the fourth week in July creased 1.7% compared to the previous week settling at VEB 334,067 million. The M2 has increased 36% year-on-year.

Sitme figures. So far this year, US\$4,654 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day, with an implicit exchange rate of 5,3 VEB/US\$. During the fourth week of July the amount traded reached US\$187.9 million, US\$19.9 million less than last week when braided US\$207.8 million.

Oil Tips

Oil portfolio under evaluation to finance suppliers. Pdvsa's debt accumulation with good and service suppliers has led them to explore different mechanisms to reduce these financial obligations and oxygenate the finances of supplying companies so that this time they can have the financial and operative capacity to cater to the "emergency" acceleration of Orinoco Oil Belt crude extraction projects.



Pdvsa's president, Rafael Ramirez, said *"we have been talking to the public banking system to open an oil industry portfolio. These ideas have been proposed by suppliers themselves."*

Pdvsa's debts on the rise. On July 27, Petroleos de Venezuela (Pdvsa) announced the consolidated results of its business year 2010, reporting a strong increase in debts with suppliers, indicating that, as of December 31 of 2010, the company's due debts reached US\$10.9 billion, a 55% increase compared to the US\$7.02 billion owed to suppliers at the end of 2009.

Pdvsa paid US\$182 million to suppliers in bonds in 2010. Pdvsa's debt with its suppliers closed at US\$10.9 billion at the end of 2010 and one of the payment methods used by the State oil company last year was repurchasing its own bonds and granting them to its suppliers.

As for Pdvsa's income and profit... During 2010, Pdvsa received US\$92.93 billion for the sales of oil and byproducts, with a US\$3.16 billion profit, indicating the company's income grew by 28.5% compared to the US\$73.82 billion reported in 2009 and its profit declined by 28% compared to the US\$4.39 billion reported in 2009.

And Pdvsa's exports... The company reported a 10% drop, as crude oil and byproduct sales averaged 2.41 million bl/d in 2010, nearly 267,000 bl/d less than 2009's average of 2.68 million bl/d. The state-owned oil company explains this decline was *"mainly due to the slight decrease in production and the increased fuel consumption in the domestic market."*

And production is down. The state-owned company reported that production was dropping by approximately 1.2% in 2010, going from 3.01 million bl/d in 2009, to 2.97 million bl/d in 2010. The company's production potential remained almost the same between 2009 and 2010, going from 3.52 to 3.51 million bl/d respectively. Ramirez said they expect to increase the company's production capacity by 15.0% every three years.

Pdvsa invests US\$2 billion to increase production. Pdvsa maintains its plans to increase production in the Orinoco Oil Belt, and announced they would invest US\$2 billion in 2011 to increase the extraction of heavy crude oils from the oil belt. Rafael Ramirez and Eulogio del Pino, the president and vice president of Pdvsa respectively, explained that this initiative was part of the Tricolor Project, by which the blocks of Carabobo, Junín and Ayacucho will add 146 thousand bl/d of crude oil to the current production of 900 thousand bl/d.





Serious environmental problems due to oil spills. National Assembly Representative, Carlos Vargas, warned about contamination in the towns close to the Cryogenic Complex Jose Antonio Anzoátegui due to the presence of hydrogen sulfur, coke and sulfur dioxide. *“The environmental problems are quite serious and are caused by an inefficient control and handling of highly contaminant and hazardous waste and materials,”* he said.

Fires. On July 16, a fire was reported in the crude oil upgrader Petropiar, with a processing capacity of 180,000 bl/d, causing a 10% reduction in the load capacity of the Orinoco Oil Belt’s crude oil upgrader. A wild fire was reported in gate I of the Amuay refinery in Falcon, near the tank area. The fire spread quickly due to hydrocarbon residues in the area.

Requests to declare oil areas in emergency. Due to wild fires, boiler and equipment failures and the collapse of plants and refineries the government should declare the emergency status in oil facilities, said Jose Bodas, Secretary General of the Single Federation of Workers of Oil, Gas and their Byproducts of Venezuela (Futpv). He said there had been three fires in oil refineries in less than thirty days.

International oil baskets. At closing time on July 29 in the New York Exchange, the price of the WTI was US\$98.7/bl, a slight increase of 1.1% compared to the US\$97.64 reported the previous week. The Brent increased by 0.6% to reach US\$117.94/bl, compared to the previous week’s US\$117.21/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$107.84/bl on Friday July 29, a 0.7% boost compared to the US\$107.01/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$98.4/bl.

Business Sector Tips

25% of foreign currency authorized is for health sector. CADIVI has authorized a total of US\$ 2.38 billion between January and up until the 30 of June 2011 for the health sector. This figure is up by 27.3% compared to the US\$1,866.80 authorized during the same period in 2010.





Industrial production down in April. The thermometer that the BCV uses to measure private sector industry production volume was down by 4.8% this April compared to April 2010.

First quarter private industry figures paint a different picture. Thanks to the fact that during the first quarter 2011, the private sector industry stopped two consecutive years of recession, production figures for the first four months of the year is up by 5.2%.

Taxes are a burden on companies. Almost half of a company's revenue goes to pay taxes, which slowly is becoming an irreversible drain on the private sector.

On the eve of new trade agreements. With the President of Colombia, Juan Manuel Santos in attendance, the twenty-second edition of Colombiamoda in the city of Medellín was inaugurated. The occasion opened the door for the President to mention the negotiation of new trade agreements with Venezuela.

Price gouging is the evil and the private sector is the culprit. With the implementation of the new Fair Costs and Prices Law, a new price list will be set for products said, Minister of Food, Carlos Osorio. This will allow for deviations caused by the existing price structure to be corrected, deviations which exist from production stage to import stage and up until it is sold to the public.

Administration to set profit margins. The new Fair Costs and Prices Law will allow the Administration to have a say in a company's profit margins, according to lawyer, Juan Manuel Rafalli. This is the main reason this new law was passed, since a series of other existing laws gave the Administration plenty recourse to fight price gouging and/or hoarding.

Sectors concerned about the new law. The passing of the new Fair Costs and Prices Law has generated a lot of speculation among the productive sector, especially the food sector, which fears that on certain products about to be reviewed (raw milk, cheese, pre-cooked corn flour, chicken, and coffee) will not go through now.

Shopping center sales plummeting. Quite opposite from the economic growth figures which have been recovering, shopping center sales have been dropping by between 10% and 12% during the first semester 2011 compared to the same period in 2010.





Cost of pasta, bread, and milk up by 30%. The National Statistics Institute (INE) reported that during the first semester of 2011 the cost of beef, pasta, wheat bread, powdered milk, and mayonnaise increased by 30% due to price adjustments.

Fixed prices for all food items on the market. Price gouging is the evil and the private sector is the culprit is the message Minister of Food, Carlos Osorio, repeated over and over, during the meeting held by representatives of the Administration and producers.

Workers demand that the Increíble 6 mining project in Bolívar state begin. Workers from a mining company backed by Russian capital protested outside of the *Corporación Venezolana de Guayana* demanding that the Increíble 6 mining project become operational after over US\$45 million has been invested in exploration.

Fegaven joins in the chorus of complaints. Balsamino Belendria, president of the Federation of Bolivarian Cattle Ranchers and Farmers of Venezuela (Fegaven) stated during a meeting with representatives of the Administration that the price of raw milk should be reviewed since dairy farmers are not able to continue waiting for an adjustment in the price while production materials have increased by an average of 70%.

Administration to listen to labor petition from electric power sector. After a significant protest held outside the Ministry of Electric Power, during which workers denounced that 50% of their collective bargaining agreement was not being complied with, the Administration agreed with union representatives to open talks and create a work table to listen to their demands.

Organic celerity for labor law demanded. A total of 24,000 signatures were compiled by workers and union leaders of different regions in the nation and submitted before the National Assembly to demand celerity to the *“creation of a new Organic Labor Law (LOT), and the Law of Socialist Workers Councils.”*

Coffee farmers expect lower yields than in 2010. Even though the Ministry of Agriculture and Lands has high expectations as to this year's coffee production, coffee farmers are not quite so optimistic with this year's harvest. The prolonged rains have caused production to be lower than expected, nearly 800,000 quintals, so producers estimate the Administration might need to import nearly 1,000,000 quintals next year.

Tenancy law looks to free rent payments from charges. Many aspects of the draft of the Law to Regulate and Control Home Tenancy, being prepared by the National



Assembly's Administration and Services Commission for its posterior plenary discussion, raise concerns among landlords.

Mortgage loans modified. The conditions to rule the granting of loans to acquire first homes were recently adjusted by a resolution published in *Official Gazette N° 39,716*. The new regulation includes the elimination of the salary limit previously established to obtain access to these loans. In the previous edition, households with a monthly income exceeding five minimum wages (VEB 7,037) were excluded from mortgage loan benefits.

Mandatory loan portfolios to be assessed. Ricardo Menendez, minister of Science, Technology and Intermediate Industries (Mctii), announced his team would hold a meeting with representatives of the private banking sector to follow up on the behavior of the mandatory loan portfolios.

5.0% of the banking sector's profit will go to the Ministry of Communes. The reform to the Law of Banks authorized in December established that financial institutions were now required to contribute with 5% of their pre-tax profit to finance communal council projects, but did not specify the mechanism to be used to provide the funds

World Economy Tips

Wall Street keeps reporting loss. S&P 500 fell on Monday, August 1 in Wall Street for the sixth consecutive day, as the deadline for the American Government to authorize an agreement to avoid default gets closer, and as response to new signs of stagnation in the local economy.

The Deadline for the US... is Tuesday at midnight. Although many investors think a default is very unlikely, the threat of a credit rating reduction keeps pushing confidence, as last week was the worst for Wall Street in one year. A last minute agreement to increase the American debt ceiling overcame its biggest obstacle at the House of Representatives, dispelling the possibility of default, but didn't completely clear the fear of Washington losing its credit rating.

Greek crisis does not compare to other countries. *"We will not repeat enough that the situation in Greece is unique and unlike any other country in the Eurozone,"* said Van Rompuy, who judged Spain and Italy's valuations as *"risible"* and *"astonishing."*



Ever since the extraordinary Euro zone Summit of July 21, in which the new Greek rescue plan was approved, the cost of borrowing in Italy and Spain has increased “*astonishingly*,” he explained. Spain and Italy were once again harassed by the markets on Tuesday, August 2, forcing their governments to trying to calm investors down.

Asian stock markets close in contraction. Asian stock markets suffered a setback on Tuesday, August 2, after weak global and US manufacture data joined the fears for the global economy’s health, while a strong yen led to speculations that Tokyo might intervene. The US manufacturing sector expanded in July at its slowest rate in the last two years, as factories reported a contraction in purchase orders for the first time since the major economies emerged from the banking crisis and the recession of 2008.

High yen could be harmful. Japanese officials said the yen, which grew by almost 5.0% in July, was too appreciated and that could damage an economy that fights to recover since the March’s earthquake, setting markets on alert before a possible intervention. This occurred while investors are getting rid of the US dollars and look for other liquid assets with fears of a decrease in the world’s largest economy credit rating.

Japanese government prepares for currency intervention. On August 2, Japan prepared international markets for a currency intervention after it reached historical peaks on Monday, August 1, indicating they might try to control their currency with a combination of sales of yen and relaxing the Bank of Japan’s monetary policy. “*Japan might intervene in the currency market anytime*,” said Masamichi Adachi, Senior Economist for JPMorgan Securities Japan.

Brazilian, Colombian and Argentinean currency overvalued. According to a study prepared by the magazine The Economist, in which world currencies are compared based on the price of a Big Mac, three South American countries and their respective currencies are the most overvalued in a list of 48 countries of the world. Brazil, Colombia and Argentina are in the region’s top three. The indicator contrasts the average price of a Big Mac burger in different countries with the price in the United States, and then compares them to the respective exchange rate. So, the Brazilian real is overvalued at 149%, the Colombian peso at 108% and the Argentinean currency at 101%, according to this index.

Brazil reported commercial surplus. Brazil reported a commercial surplus by US\$3.14 billion in July, said Brazilian minister of Commerce on August, 1. The country was expected to report a positive balance of US\$4 billion, according to the



median of 11 forecasts in a Reuters' survey. The predictions were between US\$3.4 and US\$4.1 billion. In June, Brazil's commercial surplus was US\$4.43 billion.

Mexico: analysts reduce GDP estimation. Private analysts reduced their estimations for Mexico's Gross Domestic Product (GDP) growth for the second consecutive month to 4.24% from 4.31%, according to a survey prepared by the Central Bank published last Monday, August 1. However, the number is still close to the 4.5% expected by the government for this year, a moderation compared to the 5.4% growth reported in 2010.

Colombia projects high GDP for 2012. On Monday, August 1, the Central Bank of Colombia projected the nation's economy would maintain this year's expansion rate in 2012, averaging 5.5%, in the midst of a controlled inflation close to 3.0%. The Andean country's GDP is expected to expand within a range of 4.5% and 6.5% this year and the next, driven by an increase in the domestic demand reported in household consumption and private investment, as well as increasing exports.

Political Tips

Chavez creates insular territories. The Venezuelan President, Hugo Chavez, recently announced the "creation by decree... of a Territorial Unit, an island territory, whose capital will most likely be located in the Archipelago Los Roques (...) where we will appoint a leader and a new structure of Government. This new territorial unit will be named after the national hero, Francisco de Miranda, who brought the first flag of the country one August 3rd, which is why Chavez set that date as Flag Day.

Maduro had a meeting with Gadhafi emissaries. On Monday, Venezuelan minister of Foreign Affairs, Nicolas Maduro, had a meeting in Caracas with two emissaries of the Libyan leader, Muamar Gadhafi. Unofficial versions say Tripoli is requesting support to Caracas to sell oil.

President Santos prays for Chavez's health. Colombian President, Juan Manuel Santos, took vows today praying for President Hugo Chavez's health, hoping there wouldn't be "*a fatal development,*" in a statement issued in Mexico for Televisa.

Funds authorized for FAN. President Hugo Chavez authorized 239.9 million bolivars for the National Armed Force. VEB 155 million will go to the acquisition of 300 vehicles of different kinds for the nation's defense.



Funds also authorized for the People's Power. President Hugo Chavez also authorized VEB 84 million to provide uniforms for cadets and soldiers and military equipment, as reported in Ministry of Communication and Information's (Minci) website.

One more ministry. After waiting several weeks to appoint the person to be in charge of the new Ministry of Penitentiary Services, President Hugo Chavez unveiled the mystery as he announced that Representative Iris Varela would be taking that office.

First duties. As to the first duties to be assumed by the former representative, President Chavez said the integration of families to prisoners' transformation process and the need to dignify jails was fundamental. He also talked about the need for jails to become a center to form *"new men, transformed, well educated, capable of working, of living in society, prepared for socialism, for love, and it is possible, it is perfectly possible."*

Chavez showed a new look at ministers' swearing in. President Hugo Chavez led the swearing in of new ministers and the Chief of the Honor Guard. The Head of state appeared with a new look as consequence of the chemotherapy treatment he's been receiving to treat a cancer detected last month.

PJ accused the Government of mortgaging Venezuela's future. Primero Justicia accused President Hugo Chavez of making the same mistake made by those who ruled in the 70s, by getting the nation in debt in the midst of an oil bonanza.

High vulnerability for money laundering. Venezuela presents a series of factors that represent a high risk for money laundering, said a specialist lawyer and organizer of the VII International Conference against Money Laundering, Alejandro Rebolledo.

President attacks businessmen looking for electoral profit. Political scientist, Herbert Koeneke warns that with new legal instruments to regulate the market, the National Government looks to maintain the people's support, especially from less privileged sectors.

Promises of timely answer for the medical sector. In between pushes, negative responses, tear gas and threats by law enforcement bodies, representatives of medical associations visited the office of the Executive Vice president to state what they branded as an *"ordeal in the Venezuelan health sector."* Vice minister of health, Miriam Morales, participated in the meeting with health workers and promised answers within a few days.



Law of costs is a hallucination. For Heinz Dietrich, *“the hallucinations of the human mind are usually psychiatric or theological issues, but the new Law of Costs and Fair Prices proves these hallucinations are part of the economic cabinet.”*

Government slogan has changed after Chavez’s cancer diagnosis. Apparently, the era of *“rojo rojito de arriba abajo”* (Red from head to toe) has come to an end. The phrase launched in 2006 by Rafael Ramirez, Minister of Energy, defined very well the symbolism of Chavez followers, but it recently changed after the movement’s leader, Hugo Chavez, was diagnosed with cancer.

Official bases upset over president’s change of mind. The presidential critique to the excessive use of the word *“socialist”* and the proposals to modify the motto *“Patria socialista o Muerte”* (Socialist nation or Death) and stop wearing red have not been well accepted by Chavez’s followers. At least that’s the obvious conclusion after checking the pro-government website Aporrea (aporrea.org), in which several opinion articles criticize Chavez’s change of mind.

US economy suffers from “many illnesses at the same time.” Venezuelan Chancellor, Nicolas Maduro, said last Monday that the next meeting between Ministers of Economy and Central Bank Presidents of the United South American Nations (Unasur) had a historical pertinence, after the latest announces of the United States about the increase of their debt ceiling.

Opposition to participate with a single voting card. In union, there is strength. The Venezuelan opposition, grouped by the Democratic Unity Table (MUD), seems to have assumed this quote, and proof of that is the fact that they unanimously decided to participate in the 2012 presidential election with a single voting card including all parties integrating this conglomerate, constituting a unitary campaign headquarters.

Legislatives Tips

Reform to Social Security Law. The Punctual reform to the Social Security law is *“under consultation with the Administration.”* The vice president of the Social Development Commission, Carlos Gamarra, said the scope of the modification of article 6 was being evaluated. Among the options proposed is having the State subsidize 50% of the required pension fund contribution for workers making less than minimum wage.



National Assembly sommon charge of the Tinaco-Anaco construction. Workers of the Tinaco-Anaco road stretch construction appeared before the National Assembly's Social Development Commission to accuse the Chinese corporation executing the works of not complying with worker safety standards, labor pursuit and payment of labor accidents. Assembly members proposed the need to summon representatives of said company and of the competent ministry.

Gaming Commission at the National Assembly. Congressman for the Anzoategui State, Calos Figueroa, will ask the National Assembly (NA) to investigate the national gaming commission for the wave of mass layoffs generated after the closure of gaming rooms nationwide. Figueroa said: *"they are removing mothers and fathers from their workplaces,"* rejecting the high unemployment currently affecting the nation.

Laws affecting citizen participation. The Mayor of Baruta, Gerardo Blyde, asked the Supreme Court to void the Organic Law of the People's Power, the Organic Law of Communes, the Organic Law of the Communal Economic System, as they attempt against citizen participation, establishing that the people's power organizations must devote their actions towards building a socialist model not acknowledging citizen participation for purposes different to socialism.

Magnifying glass on Law of Special Contributions. The Supreme Court of Justice (TSJ) will follow up on the Executive Order Law that creates the Special Contribution for Extraordinary Prices and Exorbitant Prices in the International Hydrocarbon Market in order to determine whether the specification violates the constitution or not.

Draft bill to restrict supply. The review of the Law for the Regularization and Control of Home Tenancy moved forward last Wednesday at the National Assembly's Administration and Services Commission and, among other elements, it was established that the minimum term for a tenancy agreement was 3 years, utilities should be paid by the home owner and warranty deposits would be eliminated. The Tenancy Law was prepared to defend tenants, but different sectors claim its regulation, quite unbalanced, will end up affecting those it's trying to protect.

Penitentiary Code into Organic Law. The National Assembly's Cult and Penitentiary Regime Commission started the second discussion of the Organic Penitentiary Code, after finishing the public consultation required in the mid stage of the bill approval process. In this debate, the commission mentioned the possibility for the code to become an organic Law.





Adoption Law. Representative Odalis Monzon, member of the National Assembly's Family, Women and Youth Permanent Commission assured the referred parliamentary instance was working on the pre-draft to the Adoption Law, guaranteeing the rights of children and adolescents in irregular family situations to having a functional family.

Against the Law of Government Salaries. The Supreme Court of Justice's Constitutional Courtroom approved the eleventh suit of nullity against article 5 of the Organic Law of Salaries, Pension and Retirement Funds for High Executives of the Public Power. It was ordered to notify the decision to the Attorney General, the Ombudsman, the General Procurer and the prosecuting party.

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ECONOMIC OVERVIEW

