



Weekly Report

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*Recession and a contraction in spending:
The right recipe?*

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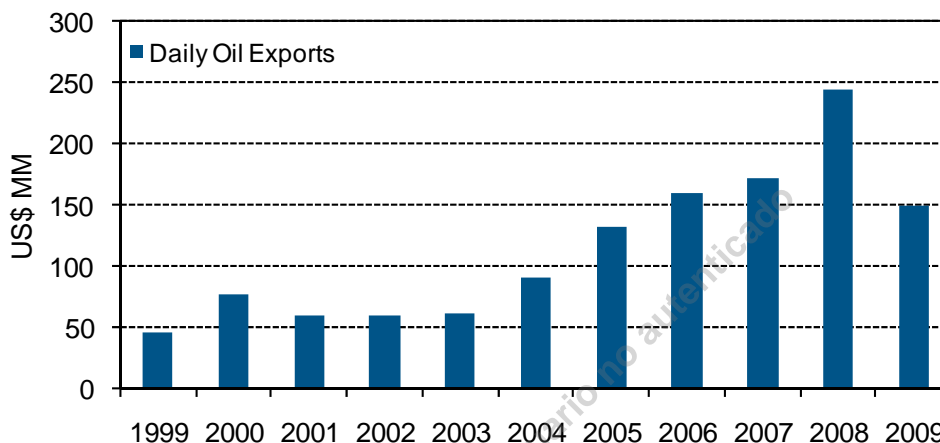
Last week, we commented on the Restricted Public Sector figures for last year, which showed a high financial deficit and a contraction in spending. Moreover, the economy dropped by 3.3% over the same period. The Administration has said that its intention is to reverse the trend of declining growth and, to that end, it is getting ready to speed up government spending. The question is will this be enough?

**2008 the last
year of the
spending spree**

In 2008, the real price of the Venezuelan oil basket reached one of its historic highs when it averaged US\$86.5/bl. With this price and production volumes higher than those obtained in the 70s and 80s, oil revenues in Venezuela achieved their highest level ever in real terms (i.e. allowing for inflation). That year, President Chávez received more than US\$245 million a day from oil exports. In 1999, that figure came to US\$75 million.



Daily Oil Exports Amounts



Sources: BCV y Ecoanalítica

Since President Chávez took office in 1998, fiscal policy has passed through two clearly different stages. Initially, the new government started off under the banner of fiscal responsibility and even set up a savings mechanism for accumulating funds to be used in times of crisis. Ten years later, the recovery in oil prices is setting the course of fiscal policy, which has been marked by a growth in public spending and an increase in the size of the State.

In 2009, things changed

Last year, the Venezuelan oil basket plummeted by 34.8%, which was translated into a reduction in oil revenues of US\$ 34.93 billion. The Administration resorted two mechanisms to deal with this situation: an aggressive policy of borrowing and a contraction of public spending in real terms. Besides that, there was also a restriction of foreign currency. The result was a contraction in economic activity.

Spending: the engine of growth in the *Chavista* era

Fiscal policy has passed through several stages. The first stage covers the period 1999-2002. The main features of this stage were the reduction in the number of ministries, the reform of the system for administering finances to set ceilings on spending and borrowing, and changes in taxation that meant a reduction in value added tax to 14.5% and the levying of a bank debit tax. It would be fair to say that, during this stage, the government handled things with criteria typical of the "fourth republic" since it adopted an orthodox approach to the management of the country's finances.





During this stage, public spending expanded or contracted depending on revenue flows, which is why what prevailed in this stage was what we have called the “small storekeeper’s” policy, where the level of spending is dictated by what enters the State’s coffers.

When oil prices started to climb at the end of 2003, the Administration embarked on a new stage in fiscal policy, whose main features were the expansion of spending and the use of extrabudgetary funds. During this period, extraordinary spending went from 2.7% of GDP in 2004 to 11% of GDP in 2008, and then fell to 5.1% in 2009.

The size of fiscal injection

At *Ecoanalítica* we have updated to 2009 our indicator of the size of fiscal injection under the Chávez administration since 1999. We have called this indicator “real expansion in spending.” Real expansion in spending shows the restricted public sector as a whole, which is similar to a “black box” with inflows and outflows but no indication of processes and relationships among the different entities making up the public sector.

So, real expansion in spending is made up of the expansion in the restricted public sector’s spending measured as the difference year-on-year of the financial deficit (in US\$ millions) plus the amount of the difference year-on-year of overall revenue (oil and non-oil), also in US\$ millions.

In the case of oil revenue, since PDVSA’s figures are net figures, we have chosen the difference year-on-year of oil exports as the best proxy.

Using the real expansion in spending indicator, we find that in two years only under the Chávez administration up until 2008 was fiscal policy contractive. We are talking of 2002 and 2003, precisely the years of greatest political and economic conflict.

Now we have to add 2009, when this indicator was once again negative, reflecting a contractive policy that deepened the recession. In fact, the drummer to which Venezuela is marching is not the same one being followed by its peers in the Latin American region that applied fiscal stimulus programs to underpin their economies.

Restricted Public Sector (Current MM US\$)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010E
Differential - Non Oil Income	815	1,784	(4,602)	(1,826)	7,174	9,706	9,546	1,558	14,344	11,894	(10,360)
Differential - Oil Income	11,139	(6,129)	(213)	497	10,842	15,272	9,829	4,668	26,488	(34,927)	6,999
Differential - Total Expenditure	7,259	6,145	(11,570)	(1,919)	8,272	13,479	22,778	10,017	24,121	2,021	(21,051)
Real Expansion of Expenditure	19,213	1,800	(16,385)	(3,249)	26,288	38,457	42,153	16,243	64,953	(21,012)	(24,412)
GDP Growth	3.7	3.4	(8.9)	(7.8)	18.3	10.3	9.9	8.2	4.8	(3.3)	(4.7)

Sources: MPPPF and Ecoanalítica



The illusion of harmony evaporates

Up until 2008, the figures are eloquent when it comes to understanding the magnitude of the boom enjoyed by Venezuela. That year, the real expansion in spending indicator was US\$64.95 billion; in other words, real expansion in spending in 2008 quadrupled the figure for 2007 and was more than 30 times real expansion in the first year of Chávez's term in office. It was even 1.5 times more than real expansion in 2006, when Chávez was reelected. It is worth noting, however, that the impact of this expansion on the rate of growth was less, as that year we grew by nearly 5%, whereas in 2006 we grew by nearly 10%.

Things in 2009 were very different. That year, the indicator was negative, coinciding with poor performance of the economy. So, not only did public spending generate less growth (as the 2008 figures show), but the Administration also had to cut spending as a result of the slump in the oil market.

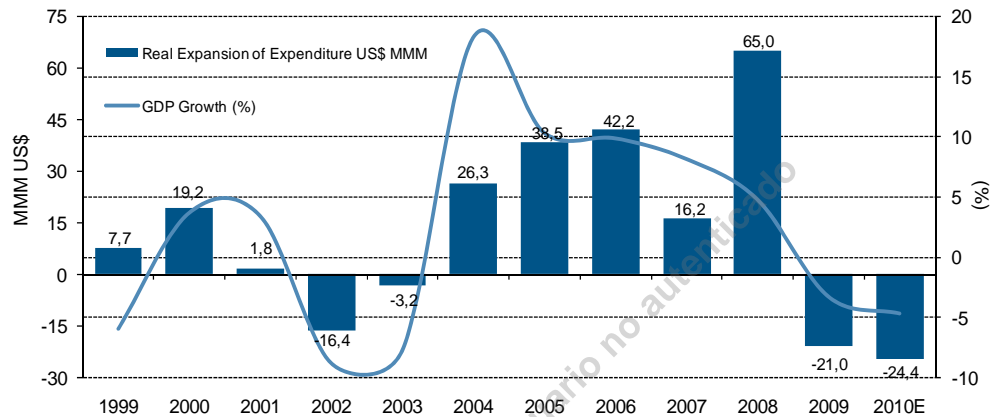
In net terms, fiscal expansion between 1999 and 2009 was US\$176.12 billion. Taken in terms of estimated GDP for 2010, this gives fiscal expansion of 84.2 points of GDP. Unfortunately, we do not have restricted public sector figures for previous years, but we believe that this level of fiscal expansion is unprecedented in recent economic history.

The results for 2009 and those for 2010 –which will probably be somewhat similar- make it clear that the fiscal expansion that grew steadily between 2004 and 2008 was unsustainable. In fact, this argument is also supported by the singular fact that fiscal expansion from oil in the period 1999-2008 accounted for 39.0% of total net expansion. In other words, this extraordinary increase in fiscal spending was explained by the behavior of rising oil prices.





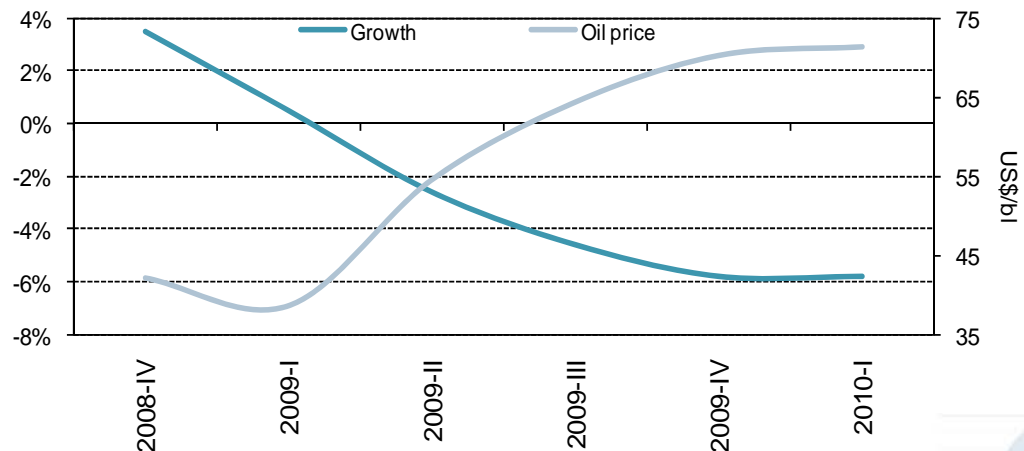
Real Expansion of Expenditure and GDP Growth



What's happening in 2010?

So far, we only have the economic results for the first quarter of the year, which indicate a drop of more than 5%. However, market consensus is that economic activity will decline by 3.6% this year, whereas **Ecoanalítica** estimates a contraction of 4.7%. In this context, what stands out is that, so far, the Administration has not implemented an expansive fiscal policy to try to shore up the economy. Based on National Treasury figures, public spending contracted by 3.9% in the first semester compared to the same semester last year. Worse still, this contraction in spending is occurring in a context of recovering oil prices, compared to a year ago, as shown in the following graph.

Oil price vs Economic growth



Sources: BCV, MENPET and Ecoanalítica





What is the logic behind this contraction in spending?

At *Ecoanalítica*, we have developed our “detective” skills, gleaning data from different sources, in order to be able to put together the extrabudgetary funds jigsaw puzzle. According to the National Treasury Office, at the close of 2009, the government had VEF 39.5 billion in different funds and accounts (the Miranda Fund, for example), normally used to finance additional credits. As for resources in liquid (uncommitted) dollars, where handling has tended to be most opaque, according to the Finance Ministry, at the close of 2009, the Venezuelan Government had some US\$10.26 billion, broken down as follows: US\$4.83 billion in FONDEN, US\$1.13 billion in the National Treasury, US\$2.77 billion in Banded, and US\$1.53 billion in the Chinese Fund.

These figures are very similar to our estimates for the State’s extraordinary resources. A review of these funds reveals that they have accumulated some US\$2.5 billion so far this year. In addition, we have estimated how much the government has been “saving” in the new Independence Fund, where PDVSA’s profits are being deposited and which totaled some VEF 30 billion by the end of July.

These results prompt us to wonder why (or for what purpose) central government spending (National Treasury Office data) has, as we have already mentioned, shrunk by 3.9% in real terms in a context where the economy is plunged in a heavy economic recession and while large amounts of money (in bolivars and dollars) are being piled up in public coffers (and “piggy banks”). Put another way, the contraction in spending is more than a problem of availability of funds. It would seem to be a deliberate policy by the Administration that could be explained by Minister Giordani’s intention to contain inflation.





Summary of availability of funds from the National Treasury Bureau at 31/12/2009

Sources of financing	Available resources VEF million
Interest and investment operations of the National Treasury Bureau	7,900
Miranda Fund V	6,586
Legal sources pending to assign at 31/12/2008	9,126
Legal sources current to 31/12/2009	1,295
Corrections	1,282
Renot Fund	290
Cantv dividends	633
Alan II Fund	761
Alan III Fund	9,407
Premium bond issues 2019-2024	2,015
Extraordinary Income	200
Total	39,497

Sources: National Treasury Bureau and Ecoanalítica

Chávez's problem: generating growth

Between 2004 and 2007, escalating oil prices triggered public spending. Purchase orders began to flow and machines that had been shut down were started up. All that was needed was to make use of the resources that were already there and, in this context, the expansion in public spending was extremely effective. This stage was one of easy growth. However, in order to for growth to continue, investment and technological improvements were needed. So, the result is that, even with a significant increase in oil prices, room for growth is limited.

It is extremely shortsighted of the Administration to aspire to shore up the economy without the participation of the private sector, the main investor and employer. At *Ecoanalítica* we are convinced that, in order to once again achieve high levels of growth, and even to reach levels that are in line with our potential, it is important to include the private sector in the stimulus plan. If the Administration continues with its policy of exclusion, growth will be fairly low, even in a scenario of recovering oil prices and, therefore, a clearly expansive fiscal policy.





Economic Tips

US\$3 billion sovereign bond issue: This week, the Planning and Finance Ministry is launching a sovereign bond issue for a total of US\$3 billion. The bond matures in 2022, has a coupon of 12.75%, redeemable six-monthly, and the minimum bid is US\$3,000, with increments of the same amount. Fifty percent of the issue is earmarked for companies in the “National Productive Sector,” in other words, companies registered with the Foreign Currency Administration System Users Register (RUSAD). The rest of the issue will be for investors, both private individuals and companies.

The procedure: Reception of bids opened on Tuesday, August 10, at 9:00 a.m. and will close on Friday, August 13, at 12:00 p.m., at which time participants must have 100% of the amount of their purchase order deposited in their account at the bank through which they are placing their bids. The results of the award will be announced on Monday, August 16, at 10:00 a.m., and settlement will be on Monday, August 23, at 8:00 a.m.

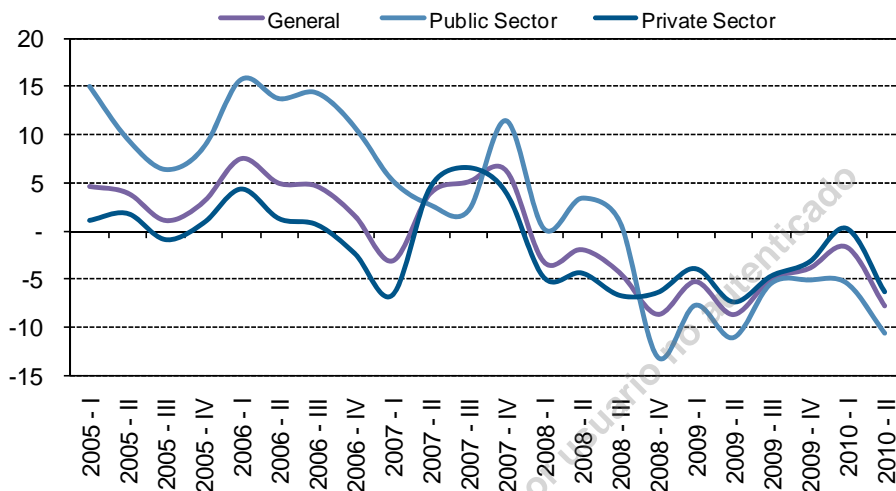
The Central Bank will be able to buy and sell sovereign bonds via SITME. The Central Bank of Venezuela will be able to intervene in the Foreign-Currency-Denominated Securities Transactions System (SITME) via the buying and selling of sovereign bonds or bonds of the Republic, thanks to a resolution published in the Official Gazette.

Real wages continue to fall. According to the remunerations index published by the Central Bank, the purchasing power of the average wage of Venezuelans shrank by 8.7% in the second quarter of the year compared to the second quarter of 2009. No further wage increases are planned this year, which means that the fall in wages will be greater in the third and fourth quarters.





Real wage index (y/y %) (Base: IQ-1997)



Sources: BCV and Ecoanalítica

Additional credits for VEF 31.2 billion have been approved. So far this year, the National Assembly has approved a total of VEF 31.2 billion in additional credits, bringing the original fiscal budget for 2010 of VEF 159.4 billion to VEF 190.6 billion to date. Forty-five percent of extrabudgetary spending is earmarked for settling payroll liabilities.

First disbursement of the Chinese loan: US\$9.5 billion. The Planning and Finance Ministry has announced that a first US\$9.5 billion tranche of the US\$20 billion loan agreed with the China Development Bank -50% in dollars and the rest in yuan- are to be released and used over the next three years on 19 projects in agriculture, energy, oil, industry, infrastructure, transportation, and mining. Forty-four percent of these US\$9.5 billion will be allocated to the electricity sector, US\$3.07 billion to agricultural and land projects, US\$1.2 billion to energy and oil, US\$536 million to technology and intermediate industries, and US\$425 million to basic industries and mining.

Republic pays Sovereign Bond 2010 on maturity. This week, the Central Bank paid US\$1.5 billion in Sovereign Bonds 2010 on maturity, after the National Treasury issued the order for their payment.

Sitme figures. To date, US\$1,161.8 million have been negotiated through the new Integrated System for Foreign Currency Transactions (Sitme), averaging US\$27 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week US\$144.9 million were negotiated, 28.9% more than the week before, when it reached US\$112.5 million.



Interest rate. The lending rate for the fifth week of July was at 16.98%, down by 217 base points compared to the previous week. Time deposits and savings rates were at 14.5 and 12.6%, respectively. This reflects a 68 base point drop for time deposits while savings remains steady.

International reserves. International reserves dropped by 1.1% going from US\$28.22 billion during the fifth week in July to US\$27.9 billion during the first week of August. Compared to the same period last year, international reserves dropped by 10.8%.

Monetary liquidity. Monetary liquidity for the fifth week in July was up by 1.7% compared to the previous week settling at VEF 256.87 billion, accumulating and increase of 9.0% year-to-date and up by 17.3% compared to the same period last year.

Oil Tips

Pdvsa to increase its payroll to 123,177 employees in 2010. Pdvsa's 2009 operational and administrative report indicates its payroll as of the end of last year was of 91,949 workers both in Venezuela and abroad, incorporating 13,755 employees after the nationalization process of linked services. Comparing with the 86,790 workers in Pdvsa's payroll in 2008, 2009 saw a 16.7% increase. The number of employees with direct relation from contracting companies reached 10,801. After Pdvsa's payroll grew by 87.0% in four years, its latest report projects it will increase to 123,177 workers in 2010, *"due to the company's new businesses and affiliated companies."*

About Citgo... The same report also mentions they will handle the Citgo case differently: *"Due to its current financial situation, we have implemented a policy of freezing the hiring of new internal and contracted workers, so we expect the number of full-time employees to remain at its current level."*

No new nationalizations projected. After Pdvsa's take-over of Helmerich & Payne's drills a few weeks ago because an agreement about the obligation payments had not been reached, the president of the oil company, Rafael Ramirez, said they hadn't projected the nationalization of any more drills in a short term. According to Baker Hughes, in July Pdvsa incorporated 6 new drills to extract crude oil, thus increasing the number to 62 so far this year, which represents a 21.6% increase compared to the same period of 2009.



Ramirez to BP: They need to ask permission. As part of its plan to sell assets for a total of US\$30 billion to cover costs related to the oil spill in the Gulf of Mexico, British Petroleum (BP) has considered to sell its assets in several countries such as Venezuela, Colombia and Vietnam. IN Venezuela, the Russian consortium TNK-BP stated interest in purchasing those assets, however, Rafael Ramirez, president of Pdvsa, doesn't think it can be done that easily, stating *"no company is allowed to decide over its assets in Venezuela. No one can negotiate assets without the authorization of the Venezuelan state."*

Unfinished works. Maracaibo's councilor, Joaquin Chaparro, denounced Pdvsa's unfinished works in the Pinto Salinas sector, west of the city. The works are related to the completion of a social development project that contemplated the execution of over 1,500 housing units to be delivered in three months, four years ago. This project is estimated to benefit 400 people.

Algeria in the Mariscal Sucre Project. Both the minister of Energy and Oil, Rafael Ramirez, and the president of Sonatrach, Noredine Cherouati, signed a Letter of Understanding that will allow the assessment of the Algerian national oil company's participation in the Gran Mariscal Sucre projects (upstream) and Del-ta Caribe Oriental (downstream). The company is interested in participating in both projects, so there is a possibility of Sonatrach integrating both projects with a participation of at least 10%.

Pdvsa and Fonden: Chaven builds them... Pdvsa's financial statements indicate that in a period of two years Fonden transferred funds to the oil industry to increase its equity, compensate accounts receivable and cover non-oil-related projects. In December of 2009, the oil industry received US\$2 billion from Fonden, part of the additional contribution made by the corporation's shareholder. Pdvsa's balance sheets indicate that such contribution was used to support the financing of non-oil-related activities carried out by Pdvsa during 2009.

Pdvsa and Fonden: Previous contributions. In December, 2008, Pdvsa received US\$5 billion from Fonden to cover activities carried out in 2008 and 2007. The company's audited financial statements show that, from that amount, US\$2.39 billion were used to compensate accounts receivable related to loans granted by Pdvsa to companies for the development of the electric and petrochemical sectors. The remaining amount was included in Pdvsa's consolidated equity as of December 31 of 2008 as an additional shareholder contribution to compensate disbursements made due to the acquisition of electric companies in the first semester of 2007.

Strike at Isla refinery. Workers of the Isla refinery in Curacao (managed by Pdvsa) started a strike in the plant that produces 320,000 barrels per day. The plant has been





shutdown since March due to energy problems in the Curacao Utilities Operating electric plant. The only part of the refinery that remains operative is its lubricant complex.

International oil baskets. At the close of the New York market last Thursday, August 12, the WTI was at US\$76.0/bl, showing a 7.3% decrease compared to the US\$82.0/bl of the previous Thursday. The Brent decreased by 9.3% to reach US\$76.5/bl, compared to US\$83.6/bl of Thursday, August 05.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$72.7/bl on Friday August 6, up by US\$3.5 from the US\$69.2/bl registered the previous week. Meanwhile, the basket's annual average increased to US\$69.8/bl.

Business Sector Tips

Sucre on the rise. Non-traditional imports and exports between the States that ratified the Single Regional Compensation System (SUCRE) as their exchange currency will reach US\$400 million in 2010. The president of the Regional Monetary Council, Eudomar Tovar, certified that the use of the monetary tool will provide an increase in exchange operations among Bolivia, Cuba, Ecuador and Venezuela, as countries ascribed to the SUCRE zone. So far, there have only been business transactions with the SUCRE between Venezuela and Cuba and Venezuela and Ecuador, but according to Tovar, everything is being prepared for the first operation between Caracas and La Paz and Quito and Habana.

Colombian exports to Venezuela down by 73.7%. According to INE numbers, Colombian exports to Venezuela during June were 73.7% lower than in the same month of 2009. The numbers released by the National Statistics Administration Department of Colombia (DANE) indicate that most of the exports fall was suffered by the meat sector, which reported a 100% contraction. Going over the numbers of the first semester, we can see Colombian exports to Venezuela decreased by 71.7%, reaching only US\$760 million. During the first semester of 2009, Venezuela received 17.3% of Colombia's exports, while during the first semester of 2010, this ratio decreased to barely 3.9%, according to DANE, with Ecuador replacing Venezuela as Colombia's second largest commercial partner, to which Colombian exports increased by 37.3% between January and June of 2010.





Changes in gold normative. Venezuela to relax the restrictions applied to private firms currently limiting their gold sales to only 30% of their production. The new regulation, to be published within days, will allow firms to increase their exports to 50% thus maintaining an investment of approximately US\$200 million planned for 2010-2011 which could have been affected.

Auto-parts at risk. The continuity of operations of auto part manufacturers is at risk due to the lack of currency, said Jose Luis Hernandez, president of the Chamber of Venezuelan Automotive Product Manufacturers (Favenpa). As of mid-May of 2010, Cadivi had only assigned these companies 24 million US\$, barely 10% of the 223 million US\$ they received in 2009, the rest of their operations were carried out through the late swap market, but the creation of the Sitme closed that door for them.

More than food. The State expects to consolidate a distribution and commercialization network for more than just food. The vice president of the Republic and former minister of Agriculture and Land, Elias Jaua, said they would move forward in the unification of a social distribution network for first need goods and products, with aims to the Venezuelan people being able to find everything they need in the Government network's points of sale "*so they don't need to go to private establishments.*"

Revision of agricultural prices demanded. Fedegro asked the National Administration to issue an urgent statement regarding prices. In a press release, the professional group states that one month after the rice harvesting period began and a few days after the corn harvesting period, the Administration was evading the topic of setting the prices of agricultural products, while imported food products are abundant. "*We request the opportune definition of prices before scattering seeds,*" they added, after reminding they presented the authorities with the production cost estimates of regulated-price crops for 2010.

Vehicle sales as of July. According to the bulletin released by the Venezuelan Automotive Chamber, between January and July of 2010, vehicle sales contracted by 22.4% compared to the same period of the previous year, to total 70,251 units. Broken down, the sales of vehicles assembled in Venezuela decreased by 8.6%, for a total of 62,929 units, while the sales of imported vehicles decreased by 66.2%, accumulating only 21,665 units sold.

As to production. According to the data provided by Cavenez, 9,525 vehicles were produced in July, a 24.2% y/y growth compared to the same month of 2009. During the first five months of 2010, a total of 60,724 vehicles were produced, 13.8% less than in 2009, when 70,425 units were produced.



Financial Agreement. Within the scope of agreements signed between Venezuela and the Federative Republic of Brazil, last Friday Banco de Venezuela and the Brazilian Caixa Economica Federal signed a commitment letter with aims to deepening and expanding the cooperation between both financial institutions. According to the agreement's terms, the idea of this action is to provide financial services to the people, particularly to those residing in the Venezuelan-Brazilian border regions. The objective of this alliance is to expand financial relations with small and medium-sized enterprises, making special emphasis in strategic projects promoting the development of both South American nations.

62.5% paid to clients of Banco Federal. The Administration has paid to 204,491 Banco Federal accountholders through Banco de Venezuela, said Hugo Chavez last Sunday during his radio/TV show Alo, Presidente number 363. The Head of State highlighted the fact that these payments were made in July and reached a total of VEF 1,346 million. He also mentioned the total amount to be paid by the National Government to all Banco Federal clients reached VEF 2,145 million, of which 62.5% have already been paid.

Sudeban established new rules. The Superintendence of Banks issued a resolution indicating all financial institutions *"that have experienced accumulated losses affecting their equity during the last three months will not be allowed to open or transfer agencies, offices, branches, counters of any kind and other customer service centers."* The new rules include the services offered by banks through special-schedule counters and forbid the charging of commissions higher than those established for regular offices.

Law of insurance companies in effect. Two months after its approval in the National Assembly (May 25), on Thursday, July 29 was published in the Extraordinary Official Gazette N° 5,990 the new Law of Insurance Activities. This regulation is within the guidelines of the Organic Law of the National Financial System, and one of its highlighting points is the prohibition to financial groups to participate in different sectors, for instance, insurance and banking. The fourth transitory provision indicates insurance and reinsurance companies that are part of an economic or financial group shall carry out the necessary operations to make the legal and accounting separation of each on of their companies within a term of 180 days.

The Mega-market of Bartering. The Bicentenario was the official currency used at the mega-market of bartering, through which prosumers (producer and consumer combined in the same person) were able to exchange pieces of craftsmanship for vegetables or clothes, among other products. This currency can not be exchanged by money, and has no value outside this market. The currency is available in four denominations, 0.50; 1; 5 and 10 bicentenarios.



Expropriation in Guanta. The Mayor of the Guanta Municipality, Jhonathan Marin, expropriated yesterday the piece of land where the Cargo Logistics Company Nuevo Milenio C.A. (Frigor), in charge of storing frozen foods, used to operate, located at Avenida Jose Antonio Anzoátegui in said city. Marin announced they would immediately start land studies and making projections to build 550 social interest apartments in the area. He said the land was appraised in VEF 200 million.

Less and less merchandize. The reception of merchandize in the La Guaira Port dropped by 70.0% in the first semester of 2010 compared to the same period of 2009. For the president of the La Guaira Chamber of Commerce, this is directly related to the lack of currency. However, the best times begin in August, since the port will start to receive Christmas merchandizes, so the situation is expected to improve, although the outlook is not very encouraging thanks to the Sitme restrictions and the recession.

New air regulation. In Official Gazette number 39,478 was published the “Regulation about General Air Transportation Conditions” which established the “Normative about the Passenger Compensation and Assistance” in case of unjustified denial of boarding, flight cancellation or delays, and regarding luggage for cases of destruction, delay, loss or damages.

World Crisis Tips

According to the WB, Venezuela had the worst reaction to the crisis. According to the World Bank, Venezuela’s economic policy reaction to the global crisis was one of the worst in the world, since it was extremely pro-cyclic. The director of the World Bank, Felipe Jaramillo, said “this is the only country that showed a strong economic contraction last year and that hasn’t recovered, and I think this year it’s the only country in Latin America to have once again an economic contraction, they’re in serious trouble.” Chile was the Andean country with the best reaction to the world crisis.

US non manufacturing index indicates growth improvement. In July, the Institute of Supply Management’s (ISM) composite index for services and construction sectors improved by 0.92% to reach 54.3 points, after having dropped by 2.9% in June. This improvement was boosted by a 2.4% increase in the employment component and a 4.2% increase in new orders; but the component measuring business activities contracted to 57.4 points, its lowest level since February.



US employment down again after Census finished. In May of 2010, US non-farming payrolls increased by 432,000 people, to then decrease by 221,000 in June and by 131,000 in July, as a result of the loss of temporary jobs created to carry out the population Census. Only in July 143,000 of these jobs were lost. The private sector hired 71,000 workers in June, this being the highest number in the last three months, but still not enough to counteract the loss of temporary jobs created by the Census. So far this year, private employment has increased by only 0.6%, after a record loss of 5.2% in 2009.

US consumer credit keeps contracting. In June, for the third consecutive month, the US consumer credit contracted, this time by US\$1.3 billion, after drops by US\$5.3 billion and US\$14.2 billion in May and April, respectively. In y/y terms, consumer credit is 3.5% below its level of June, 2009.

San Francisco FED believes the US could enter a recession in two years. According to a research carried out by the San Francisco Federal Reserve Bank, there is a significant chance for the US economy to reenter a recession within the next two years, as indicated by weak leading economic indicators such as spending and consumer confidence and private companies' hiring.

Europe domestic demand still weak. The Euro zone's economic growth is still led by foreign trade, evidenced in the PMI industrial production indicators showing a strong expansion, while continental retail sales remain weak. During June, retail sales remained constant compared to the previous month, however, looking at the seasonally adjusted annual q/q rate (SAAR), it is possible to observe how during the second quarter of 2010 euro zone retail sales contracted by 2.2%.

German and Japanese exports keep growing. In June, German exports increased by 3.8% compared to May, reaching €33.56 billion, as the Euro had a 2.7% depreciation in the same period, going from 1.26 €/US\$ in May to 1.22 €/US\$ in June. Japanese exports reported a 10.5% growth in the same period, reaching €51.15 billion (expressed in Euro for comparison), although the Japanese currency, the yen, had a 0.85% appreciation, which slightly deteriorated its competitiveness. These data shows us how the global demand is sustainably recovering, even exceeding the yen appreciation in the case of Japan.





Political Tips

Juan Manuel Santos sworn in as President of Colombia. Juan Manuel Santos was sworn in as President of Colombia last weekend, substituting Alvaro Uribe Velez, who was in office for two consecutive presidential periods. In his speech, the new Colombian President talked about reinforcing his nation's unity, the media freedom, and highlighted the objective of freeing Colombia from the guerilla, which will be achieved "by way of reason or force."

Chavez shows sympathy. President Chavez said President Santos had offered a "very interesting" speech, and that he was willing to "turn the page," regarding the current diplomatic situation between Venezuela and Colombia.

Alvaro Uribe denounced President Chavez before the International Criminal Court. On Saturday, hours after handing over the Colombian Government, the attorney of the outgoing President of Colombia, Alvaro Uribe, denounced the president of Venezuela, Hugo Chavez, before the International Criminal Court, and reported the Bolivarian Republic of Venezuela before the Inter-American Commission on Human Rights, due to violation of human rights and the alleged presence of Colombian guerilla members in Venezuelan territory.

New relation with Colombia? After the diplomatic breakup between Colombia and Venezuela, a future meeting between both countries' presidents, Hugo Chavez and Juan Manuel Santos, and their chancellors, was scheduled to take place in Santa Marta, Colombia. This meeting is expected to put an end to the impasse between both nations and to reactivate commercial relations, something that has significantly affected the frontier zone.

Larry Palmer disqualified himself. President Chavez announced to the US Government he wouldn't accept Larry Palmer as ambassador in Venezuela. "How could he be an ambassador in Venezuela? He disqualified himself. The best thing the US can do is find another candidate," Chavez said. However, the US Government said Venezuela had not presented an "official notice" rejecting Larry Palmer as the next US ambassador in Caracas.

Chavez asked peace to the Colombian Guerilla. President Chavez made a call for peace and the release of all those kidnapped by the Colombian guerilla. Chavez



expressed he was willing to solve problems with the guerilla by way of dialogue and not arms.

Rafael Ramirez to continue as president of Pdvsa. Chavez said “the opposition is getting ridiculous with the Pdval issue; we already put the people responsible in prison. High social classes demand the resignation of Rafael Ramirez. There’s no question there. All of our support is to Rafael Ramirez.”

Changes in public banking system. Both the Ministry of Planning and Finance and the Ministry for Public Banking decided to change the presidents of three state-owned banks: Tesoro, Bicentenario and del Pueblo Soberano. The new president of Banco del Tesoro is Marco Torres, replacing Cesar Giral. Kimle left his office at Bicentenario and gave way to Dario Baute Delgado, who left his office at Banco del Pueblo Soberano to be replaced by Leonardo Rodriguez.

AN does not dig any deeper in the Pdval case because the Administration already did so. The president of the National Assembly, Cilia Flores, stated the AN could only establish political responsibilities when there was no action taken by the State in a specific cause, in this case “it was the Government itself who denounced the case of expired foods; the Government urged the investigation and resolution of this case, and people were arrested.” Therefore, the AN supports the Public Ministry and the Judicial Power in getting to the bottom of the Pdval case.

Voting machine audits started this week. The National Electoral Council (CNE) audited all 36,773 voting machines to be used in the parliamentary election of September 26. The voting books, the undeletable ink and the data transmission network had all been previously evaluated.

Finally, good measures. The Ministry of Internal Affairs and Justice resumed last Monday the Safe Highway Program, by deploying 40 National Guard and other law enforcement officers to be patrolling the Francisco Fajardo highway in Caracas 24/7 to guarantee the safety of those who use this road. The program started last Monday at the Altamira interchange where 40 motorcycle officers started patrolling both ways.

Absurd Confidentiality. The silence imposed by the CNE to the members of all four organizations accredited as national observers and the 150 international companions for the parliamentary election of September 26 was criticized by CNE rector Vicente Diaz. Diaz reminds “*observation stops once they deliver the report; from that point on they are not restricted by the normative, and they can release it.*” However, he clarified it is “*healthy for observers not to issue public opinions during the campaign in order to keep their opinions from becoming part of the debate; though it is absurd for the report to be reserved in an institution whose mantra is being transparent.*”



Chavez's guardians. The TV channel CNN en Español broadcasted this week a special show to analyze the unsafe conditions in which Venezuela's largest cities' residents live in, such as Caracas residents, and the role of "urban militias" in this situation, as well as links with irregular groups such as FARC and ELN as well as ETA. The show, hosted by journalist Carlos Montero, used as base for discussion the news report called "Chavez's Guardians" prepared a few months ago by Spain's channel four and CNN Plus. According to this news report, in Caracas ghettos such as 23 de Enero, criminal violence is confused with political violence; Chavez following and opposing groups arm themselves and consecrate armed fights. They also assure having found guerrilla safe houses in Venezuelan territory, of which location is known by Venezuelan military forces.

Fidel: Communism=Socialism. In an interview to Fidel Castro by Venezuelan journalists broadcasted by VTV, Telesur, Radio Rebelde, Cubavision and Radio Habana, the former president of Cuba stated capitalism belonged to prehistory and socialism was the same as communism. He also assured there wasn't *"the slightest chance"* of Colombia attacking Venezuela, *"first of all: because it's not interested, second: because it can't, third: because it doesn't want to, and forth: because the consequences would be disastrous."* He also warned the conditions were given for a disproportional war against Iran and that only the president of the United States, Barack Obama, could avoid it.

Antonio Rivero indicted. The sixth military attorney's office indicted National Assembly candidate Antonio Rivero for crimes of slanderous allegations about the Venezuelan Armed Force and disclosure of private or secret news about the Venezuelan Armed Force. He is scheduled to appear before the Military Public Minister on August 11. The first crime would mean a conviction of three to eight years in prison, while the second establishes 4 to 10. According to Rivero's attorney, once the crimes are indicted, Rivero will have a chance to explain the reasons for his resignation, to sustain his allegations and ask for the truth to be reestablished. He was summoned due to his denounces of alleged collaborations of Cubans with the National Armed Force.

Law of Public Hiring reformed. The National Assembly authorized in first discussion and with parliamentary urgency the reform of the Law of Public Hiring. The draft will allow the confiscation of contractors' assets and equipment. The opposition did not save its vote but argued against the draft.

New university. The National Government plans to announce the creation of the Universidad Militar Bolivariana (Bolivarian Military University) next September. The information appeared in Official Gazette number 39,479 dated August 3 of 2010, in



which the Ministry of Defense's resolution N° 014687 was published, appointing the 12 officers and 2 civilians who will integrate the Commission in charge of getting the new institution started. The document, signed by General in Chief Carlos Mata Figueroa, announces that President Hugo Chavez will order the University's inauguration on September 3, in commemoration of the bicentennial year of the Military Academy.

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