



Weekly Report

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*Unsustainable fiscal policy in
Venezuela: out-of-control
borrowing*

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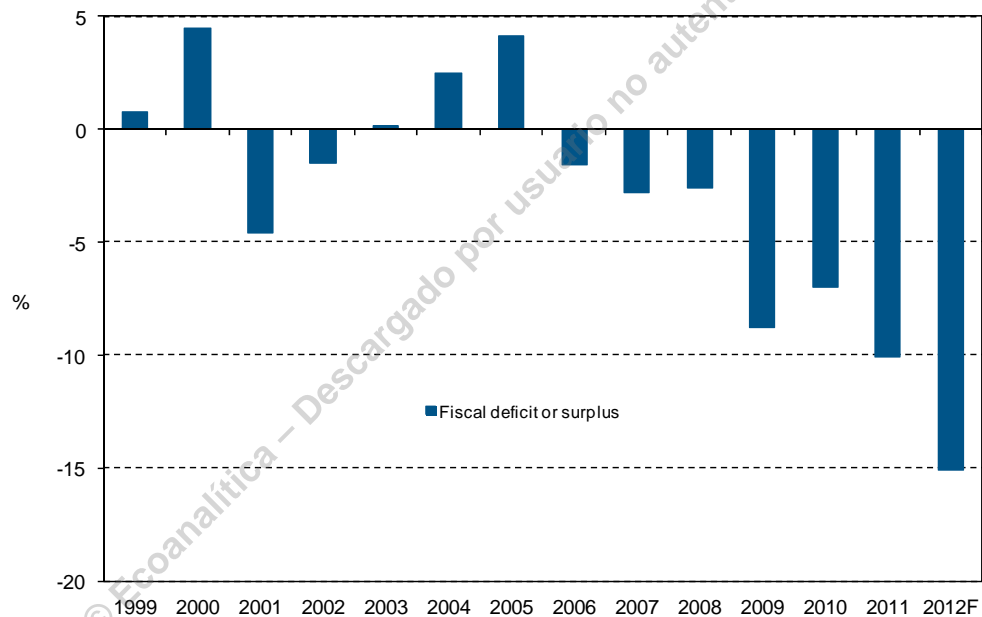
The behavior of public spending these last few months has followed the traditional patterns of public spending during a presidential election year. As of the last quarter 2011, public spending has increased at an accelerated pace. This has affected public finances, evidenced by Central Bank of Venezuela (BCV) figures that reflect that, despite the fact that oil revenues have posted a real increase of 9.6% during the first quarter of the year, the government's fiscal deficit has increased by 76% in real terms during the same period, reaching VEB 30.97 billion.

This increase in the deficit occurred during the first three months of the year when Venezuelan oil basket prices were still reflecting an increasing trend. But, as of the middle of the month of March, Venezuelan crude oil prices have been steadily dropping. And, despite the fact that as of the end of June, international oil prices have begun to stabilize, if oil prices continue to slide, the consequences this will have on Venezuelan public finances will be felt by all Venezuelans.



In this context, when we analyze the Restricted Public Sector (SPR) figures, which include Central Government and non-finance sector public company figures (EPNF), we estimate that the SPR will close out 2012 with a financial deficit of 15.1% of GDP (financed mainly with debt). It's important to point out that in 2006 (the last presidential election year), with oil prices at US\$ 56 per barrel, this same deficit closed that year out at 1.6% of GDP.

Fiscal Balance of the Restricted Public Sector (% GDP)



Sources: MPF and Ecoanalítica

The debt is accumulating...

As we have mentioned before, in order to satisfy the Administration's voracious appetite for fiscal spending, it hasn't been enough that oil revenues have been increasing, so it has been financing its increased level of fiscal spending by an accelerated rate of debt issuances.

According to figures released by the Ministry of Finance, at the close of the first quarter 2012, total central government public debt was at US\$86.50 billion, up by US\$7.21 billion, which is to say that government borrowing increased by 9.1% during the first quarter 2012 compared to the close of 2011, when the public debt was at US\$79.29 billion.

The debt is becoming more diversified

On top of the more traditional methods for the government to acquire debt, the Administration, through a number of legal reforms, has added a number of new alternative instruments and mechanisms by which to



acquire more debt. Now, institutions such as the Simón Bolívar Fund for Reconstruction, Fonden, the National Bank for Housing, and others, are allowed to issue debt, along with the traditional means of issuing debt through the Ministry of Planning and Finance (MPF).

This year, the State has acquired debt through a number of new instruments in order to finance specific Administration projects such as the agriculture plan and the Housing Mission. During the first six months of 2012, around VEB 36.25 billion of debt has been acquired through these new instruments.

With the accelerated rate of borrowing by the Administration and these new means of borrowing which have been created, the maximum amount of borrowing allowed for the year was modified thanks to the Special Law for Complementary Borrowing. This Special Law allows the Administration, during this fiscal year, to acquire debt for more than the maximum level set in this year's Special Law for Borrowing (VEB 64.53 billion). It allows the Administration to borrow an extra VEB 30.0 billion.

Skyrocketing debt

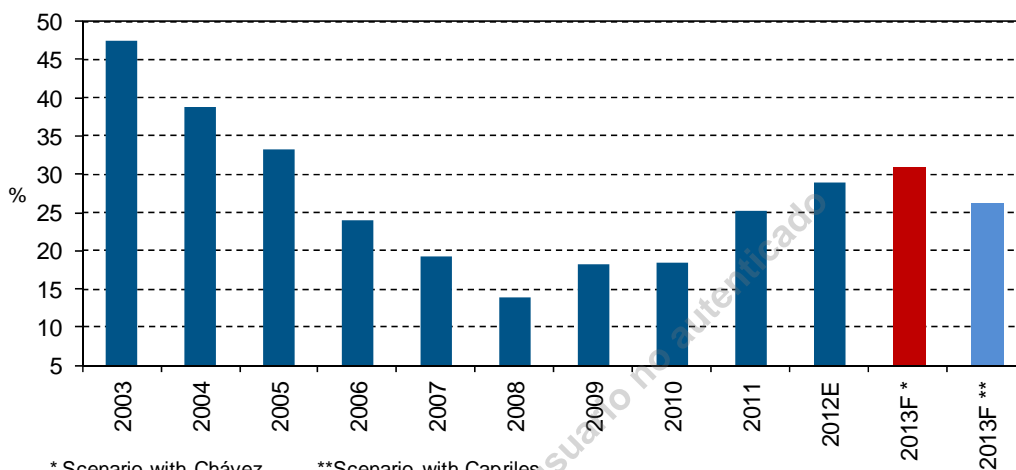
In view of how the debt is skyrocketing, at **Ecoanalítica** we have calculated that by the close of 2012, Central Government domestic debt will be at around VEB230.00 billion and total central government debt (domestic and foreign) will be at around US\$101.67 billion, representing 29.0% of GDP. This would reflect an increase in debt of 28.2% compared to the close of 2011.

And, it's clear that the further oil prices drop, the more the Administration will look to borrow in order to cover their fiscal needs; and as things look worse for the coming year, so too will the balance of the debt increase by the end of 2013.





Total central Government debt (Share of GDP)



* Scenario with Chávez

** Scenario with Capriles

Sources: MPF and Ecoanalítica

And the end of the story...

And, if we add the total of the central government debt to the Pdvsa debt, and the Chinese Fund debt, and the debt acquired through the funds for the housing projects and the agriculture sector, and the pending debt for the nationalizations, our estimate of the total debt at the close of 2012 would be around US\$196.92 billion. This would reflect a 25.2% increase compared to the close of 2011 and be equal to 56.3% of the GDP. This shows how the debt acquired by the current Administration is progressively inflating.

Public Debt (MMUS\$)

	2011	2012E	% var.
Public debt:			
Central Government	79,290	86,500	9.1%
Internal	35,840	42,922	20.0%
External	43,450	43,578	0.3%
Agricultural and housing funds	-	5,302	-
Pdvsa	34,892	43,300	24.1%
Chinese Funds	20,200	20,000	-1.0%
Nationalizations	22,952	23,641	3.0%
Total	157,334	178,743	46.2%

Sources: BCV, MPF, Pdvsa and Ecoanalítica

What about 2013?

With respect to the outlook for 2013, at *Ecoanalítica* we expect that, in the case that "chavismo" continues in power, there will be the inevitable



devaluation and the need to continue borrow will ease up since the presidential election and the campaign is over. This will cut the total public debt by 2.0%, settling at US\$193.06 billion. However, due to the drop in economic activity, the debt will represent 63.7% of GDP for the year and be 7.5 percentage points over the level posted in 2012.

If Capriles were to win the presidential election in October, at *Ecoanalítica*, we estimate that in 2013 the total public debt will drop by 12.6%, mainly due to eliminating the issuing of debt through the non-traditional mechanisms introduced by the current Administration. We estimate that the debt will represent 44.8% of GDP, down by 11.4 percentage points from the levels posted in 2012.

	Public Debt (MMUS\$)					
	2012 E	%GDP	With Chávez 2013 F	%GDP	With Capriles 2013 F	% GDP
Central Government	101,673	29.0	93,595	30.9	100,564	26.2
Internal	53,095	15.2	42,588	14.1	52,564	13.7
External	48,578	13.9	51,007	16.8	48,000	12.5
Housing and agricultural funds	5,302	1.5	4,772	1.6	4,295	1.1
Pdvsa	46,300	13.2	49,685	16.4	44,717	11.6
Chinese Fund	20,000	5.7	19,000	6.3	15,000	3.9
Nationalizations	23,641	6.8	26,005	8.6	11,820	3.1
Total	196,916	56.3	193,057	63.7	176,395	46.0

Sources: BCV, MPF, Pdvsa and Ecoanalítica

Not much room to do anything

Lastly, given the vulnerability of the fiscal accounts, it's clear that no matter who wins the presidential election in October, significant adjustments in this area will have to be made. In the past, President Chávez has already faced this situation and he has applied a formula that we all know too well: cuts in spending, restrict foreign currency to the private sector, devalue the currency, and in some cases, raise taxes. 2013 won't be the exception, and if need be, parts, if not all, the same old formula will be implemented. If the opposition were to win the presidency, the situation becomes much more complex. Fiscal matters must fit within the framework of a global economic plan, with an adequate communication strategy to "sell" the need for implementing gradual changes (adjustments) in these matters. So, fiscal matters will not be healed over night, no matter who wins the presidential election.





Economic Tips

New lists at Cadivi. The lists of goods considered as priority to receive foreign currency from Cadivi was recently updated in a resolution published in the Gaceta Oficial (Official Gazette) N° 39,980. These lists defines which goods imports are allowed to receive dollars from Cadivi at a VEB 4.3/US\$ fixed exchange rate¹.

Cheap dollars are only for a few. In turn, the imports of those those goods excluded from this resolution will not be granted dollars at the official exchange rate (VEB 4.3/US\$). Thus, importers will have to use Sitme as an alternative (legal) mechanism to obtain currency for their activities. The exclusion of these goods from the Cadivi system could give Sitme more dynamism as a consequence of pressures on the demand of foreign currency.

Administration seems to have taken its foot off the accelerator. Despite being in the middle of a presidential campaign race, the Administration seems to have taken its foot off the primary spending accelerator, one of the main engines for aggregate demand. According to figures from the ONT, office that handles most current statistics, primary expenditure was down by 33.2% in real terms this past July compared to June 2011, with an accumulated variation of 6.8%, way below the increase of 57.7% that it registered in July 2006, the last year a presidential election was held.

Deficit of VEB 30.97 billion during the first quarter of 2012. According to figures from the Central Bank of Venezuela, the gap between revenue and central government ordinary spending reached VEB 30.97 billion during the 1Q2012, a variation of 76% in real terms compared to the same period of 2011, due to increased operational spending by the Administration and transfers to the Missions. The deficit increased despite an increase in the incoming revenue compared to the previous periods.

More payments made. During 1Q2012, ordinary spending was at VEB 94.12 billion, up by 23.8% in real terms compared to the same period in 2011, when it was at VEB 60.67 billion. This is due to the Administration having to increase payments given the

¹ Lets Recall that in list number one we find those goods thar are priority that do not require Certificate of failure or Certificate of No National Production to make requests to Cadivi.



increasing size of the State and the implementation of an economic model where the public sector plays a key role.

And revenues? During the first three months of the year, incoming revenue to the State equaled VEB 63.15 billion, up by 8.1% in real terms compared to the same period last year when only VEB 46.64 billion in revenue came in. This increase is due non-oil revenues up by 9.6%, compared to the same period in 2011, settling at VEB 48.13 billion; Pdvsca contributions via royalties and taxes only increased by 3.5% despite high oil prices, given that the oil company's contribution is calculated based on a US\$70/bl. price.

FISCAL BALANCE				
CENTRAL GOVERNMENT	1Q 2012	1Q 2011	Nominal	Real
(VEB Million)			Variation	Variation
Total Revenue	63,150	46,641	42.2%	8.1%
Non-Oil Revenue	48,132	35,059	44.4%	9.6%
Oil Revenue	15,018	11,582	37.2%	3.5%
Central Bank Earnings	-	-		
Total Expenditure	94,120	60,674	55.1%	23.8%
Fiscal Balance	(30,970)	-14,033	120.7%	76.1%
Non Oil Balance	(45,987)	(25,615)	79.5%	43.3%
Debt Amortization	829	260	219.3%	154.8%
Financing Requirements	31,799	14,293	122.5%	77.6%
Foreign Debt	5	991	-99.5%	-99.6%
Domestic Debt	31,100	11,736	165.0%	111.5%
Treasury Bonds	30,330	9,788	209.9%	147.3%
Treasury Debt	770	1,948	-60.5%	-68.5%
Other	694	1,566	-55.7%	-64.6%

Sources: Ministerio de Planificación y Finanzas, BCV and Ecoanalítica

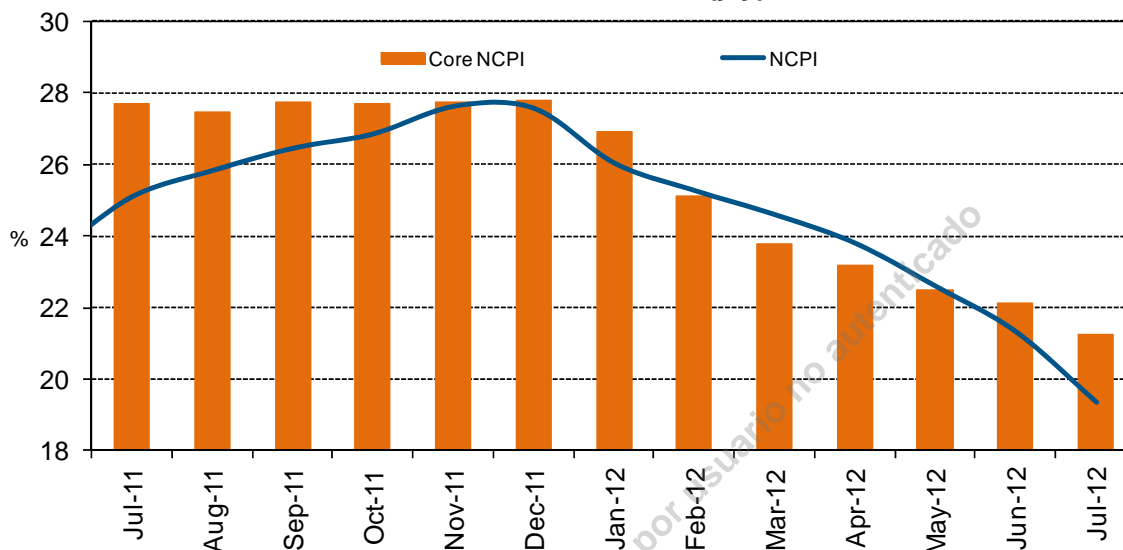
Inflation reached 1.0% in July. According to figures published by the Central Bank of Venezuela (BCV), the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for July was 1.0%, or year on year inflation of 19.4%. According to the press release by BCV, these figures represent a deceleration for the seventh consecutive month.

Meanwhile, core inflation registered an increase of 1.0% in July. The year on year inflation registered 21.3%.





NCPIVs Core NCPI (y/y)



Sources: BCV and Ecoanalítica

Educational Services had the highest inflation in July. Among the 13 categories studied by the BCV, in July Educational services showed a higher inflation than the national average, with a variation of 2.9%, followed by transportation with 2.6%, alcoholic beverages and tobacco with 2.2%, and health with 1.6%.

Geographic results. Of the 11 cities surveyed, the greatest variations were observed in Maracay with an inflation of 1.9%, followed by Ciudad Guayana with 1.1%. The city with the least variation in July was Mérida with 0.7%.

Scarcity index increases. In July, the scarcity index increased from 11.7% to 14.2%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 14 were not available.

IRE reaches 5.6% in 2Q2012. According to figures published by the BCV, the wage-earning workers Remuneration Index (IRE) in the second quarter of 2012 registered an increase in real terms of 5.6% over the same period last year. This recovery was driven by a recovery in the public sector, which experienced an increase of 9.6% in real terms, while the private sector just increased 3.7% in real terms, both over the same period of 2011.

IRE maintains its upward tendency in 2012. For the fifth consecutive quarter, the IRE recorded a positive change in real terms, product of the first of the adjusts of minimum wage planned for this year and the implementation of a new scale for the



National Public Administration wages, measures that have impacted more on the public sector, which recorded an average variation of 20.4% in real terms, while the private sector has averaged only 3.4%.

Government earmarks funds to strategic sectors. With the revenue received via the placement of indirect debt in the banking system, the Administration has given it the task of granting loans to farmer and to finance the building of houses. The bonds acquired by the banks are accounted for by the banks as part of the required credit portfolio which must be earmarked for the agriculture sector or housing projects, without knowledge of which farmer or real estate project is already being financed, information which is only in the hands of the government now.

Eljuri or Merentes, who is right? The president of the National Statistics Institute (INE), Elías Eljuri, stated that if the downward trend with inflation continues “*we will have an inflation rate of less than 20%.*” Meanwhile, the president of the BCV, Nelsón Merentes, has stated that by the close of 2012, the inflation rate will be at between 20% and 22%. Whichever the case, the one thing that is true, is the lack of credibility that exists of any inflation predictions coming from a government entity; even more so now that the two main entities with respect to this issue disagree with each other.

Inflation: Controlled or repressed? While government entities such as the BCV and other government spokespersons state that the policies that have been implemented have been successful in the fight against inflation, there are those that point to the fact that what the government has done is simply repressed inflation by not allowing necessary price adjustments to be implanted in price controlled goods, which now represent half of the goods monitored by the BCV to measure inflation. The Administration has opted to postpone these price adjustments until after the presidential election in October, in order to favor Hugo Chávez’ reelection bid.

Liquidity increased by 1.8%. According to BCV figures, during the month of July, liquidity increased by 1.8% compared to the previous month, and 25.2% in real terms compared to the same period of last year. Despite this significant increase, government spokespersons insist that the Central bank has a handle on the situation, and dismiss that fact that this may add inflationary pressures. At **Ecoanalítica**, we believe that monetary expansion could have been greater if not for the domestic debt policy by which the government has been able to collect the bolivars circulating.

Good bye to the rentist model. During the Mercosur summit held in the city of Brasilia, President Hugo Chávez stated that it is in Venezuela’s interest to “transform the national economic model, so-called the rentist model.” According to what the President stated, this change would imply promoting agricultural and industrial development in Venezuela, taking advantage the availability of raw materials and



resources available to the country, as well as the opportunities afforded by the new markets available due to having joined Mercosur.

Interest rates. The lending rate for the first week of August was at 15.9%, falling by 1.2 percentage points compared to the previous week. The time deposit rate remained unchanged 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 2.0%, going from US\$27,141 million during the fourth week of July to US\$26.594 million during the first week of August. Compared to the same period last year, international reserves have decreased by 9.3%.

Monetary liquidity. Monetary liquidity rose by 1.3% in the fourth week of July compared to the previous week, settling at VEB 531.492 million. The M2 has increased 49.0% in relation with the same period last year.

Sitme figures. So far this year, US\$6,180 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.6 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.31 billion (27.0%) over the same period of 2011, when US\$4.87 billion were negotiated. Meanwhile, US\$ 786 million were negotiated in July, which represents a decrease of US\$ 178 million (-18.4%). Lastly, during the first week of August the amount traded reached US\$178.0 million US\$18.5 million more than last week when US\$159.5 million were traded, with a daily average of US\$35.6 million.

Oil Tips

While the supply increases the demand drops. According to a report released by *Barclays Capital*, two things are currently driving the oil market: 1) the demand in China, which during the second quarter 2012 posted an average increase of 0.7%, the lowest it has posted since the first quarter 2009. 2) OPEC oil supply which has for the last seven months been over 31 million barrels a day (mb/d), the second time this has happened since October 2007. According to Barclays, most of the dynamics of the market are derived from these two figures and have caused a fairly negative outlook for the rest of the year.



China and Saudi Arabia drive the market. For Barclays, these two countries affect the market more than anything else. China has replaced the United States as the main regulator with respect to how the oil market will react being that now China is the epicenter of worldwide economic growth. And, oil production in Saudi Arabia has always mattered more than oil production in all the other countries, determining supply and the key piece within OPEC.

Demand has to takeoff. Despite the fact that Saudi Arabia's oil production is high, it hasn't been increased significantly this year. Barclays points out that the problem lies with purchases being weak due to worldwide uncertainties, and this has created a glut in supply. It's demand that has to return to normal and stop oil prices from falling. Prices falling below US\$90/bl have generated purchases but it is still too soon to tell if these were just purchases taking advantage of low prices or if it is a sign of demand bouncing back.

Among the first... despite everything. Despite the fact that Venezuelan exports to the U.S. have been falling "significantly," Venezuela is still the third main supplier of crude oil to the U.S., following Canada at 2.40 mb/d and Saudi Arabia at 1.23 mb/d. Venezuela, on average, is sending 930 mil barrels a day (kb/d), closely followed by Mexico, with 820 kb/d, and Colombia which has increased its shipments to 500 kb/d.

Pdvsa and Ancap reach a payment agreement. After two years of negotiations, the Uruguayan oil company, Ancap, signed an agreement with Pdvsa for the advanced payment of a debt of US\$860 million for the acquisition of crude oil², through a Venezuelan bond purchasing operation. The Minister of Petroleum and Mining, Rafael Ramírez, stated that *"Uruguay wins in the sense that these bonds are at a nominal price which is favorable to Ancap, and we win because we collect on a 15 year debt today."*

Pdvsa and YPF hand in hand. The Argentinean Minister of Planning, Julio de Vido and the Venezuelan Minister of Oil and Mining, Rafael Ramírez, established an agreement to strengthen the energy cooperation between YPF and Pdvsa. An agreement was reached to incorporate YPE to one of the mixed companies in the Orinoco Oil Belt that is currently producing and incorporating Pdvsa in gas and oil exploration projects in Argentina.

Pdvsa in the Falklands? The president of Pdvsa, Rafael Ramírez, announced that the oil company was analyzing the possibility of carrying out gas and oil exploration with YPF in the Falkland Islands. Ramírez continued to say that these operations

² Since 2005, Ancap has an agreement with Pdvsa to pay 75% of the crude oil purchased at 90 days and the other 25% it pays in 15 years at 2% interest.



would be jointly funded. But due to Venezuela's recent economic woes, one can only say... seeing is believing.

Pdvsa and YPF take up delayed projects. Pdvsa's plan with respect to the Ayacucho 6 block is to form a mixed company with the Argentinean Company. However, in a number of Pdvsa reports, there is evidence that the project has been significantly delayed; even the certification of probable and confirmed reserves has not been finished. This task was awarded to the Argentinean Company Enarsa. The objective of the plan is to reach the production of 100,000 barrels a day of a mix of heavy and light crude oil.

A reflection in the mirror. Petrobras, 5th largest oil company in the world, announced a net loss of US\$ 663 million during the second quarter 2012, stating that the cause for this was "the devaluation of the local currency and the out-of-touch prices of domestic diesel and gasoline prices." The company is going through hard times at the moment after internal auditing uncovered a company in shambles, projects delayed or not being carried out, forcing the complete board of directors to be replaced. Petrobras has insisted in the domestic price adjustment of both these products.

Coke deliveries improving. Pdvsa reported that through its Petroanzoátegui Up-Grader assigned to the Orinoco Oil Belt project, for the month of July, it delivered 275 thousand tons of coke, sent to six ships, from the Terminal for Solids located in José Antonio Anzoátegui Industrial Complex. This is the largest amount of this product to be dispatched toward European, Middle Eastern, and South American markets ever. This is due to an adjustment made to the frequency variation mechanism (electronic equipment which increases the speed of the load) which increased the loading capacity by 500 to 1,400 tons of coke an hour.

No oil yet in the sea of happiness. After having drilled two well in Cuban waters without any success, PDVSA has confirmed that it will continue to explore deep water wells in Cuban waters despite the fact that no significant quantities of oil or gas are being detected. The first well drilled by the Spanish Company Repsol, was also not successful. The Cuban oil company, Cubapetróleo stated that it, along with 22 other foreign companies will continue to explore its Exclusive Economy Zone.

Nothing here and nothing there. Despite all the good will existing between the governments of Brazil, Argentina, and Venezuela, most of the energy projects proposed between Pdvsa and Petrobras and YPF have all remained on paper. On the one hand, Petrobras has lost interest in carrying out projects with PDVSA due to financial and nationalistic differences, and with YPF and other Argentinean Companies it has become difficult to find financing for important projects outside of



Argentina, and Pdvsa is currently not capable being a majority contributor for projects of this size.

Brent crude oil price skyrockets. Brent crude oil prices have jumped significantly due to fears that its supply will fall due to maintenance work being carried out on a number of North Sea drilling platforms. Another factor that has influenced prices is tensions in the Middle East and the impact of the hurricane season. All this has led prices to top the US\$110 bl. level where it hasn't been at since May.

International baskets. At the time of foreclosure in New York, WTI was traded on August 03 at US\$88.8/bl, which shows a decrease of 0.6% compared to US\$89.3/bl recorded the previous week. Meanwhile, Brent rose by 1.2% to reach US\$ 105.9/bl compared to the previous week, when it reached US\$104.6/bl.

Local basket price. The Venezuelan oil basket price fell last week to close at US\$96.8/bl on August 03, resulting in a decrease of 0.3% compared to US\$97.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.6/bl.

Business Sector Tips

The State is the main bank in the country. According to the figures released by the Bank Superintendent's Office (SUDEBAN), at the close of first semester of this year, the public banking system controlled 34.5% of all deposits, granted 24.5% of all loans and possessed 35.8% in assets which makes the State the main bank of the country, and despite what many thought, entering the banking sector has not led to greater losses or inefficiencies, as the VEB 3.70 billion in profits for the public banking system for the first semester reflect, and the public banks: Venezuela, Bicentenario and Tesoro, account for an index of less than 1% in overdue payments.

Automobile production down by 22.0% in one month. Spokespersons for the auto industry have been alerting throughout the year of the difficulties they are having in obtaining foreign currency. Many of the seven automakers members of Cavenez are cutting back on production in order to make their materials last so as not to have to completely shutdown. This being the case, June and July figures show that production has dropped by 22.0% going from 10,573 cars to just 8,244 cars produced in a month.



Domestic car production down by 40% since 2007. Between 2007 and 2011, domestic car production dropped 40.7% and, paradoxically, this drop in production coincides with the government's automotive police which was implemented aimed at promoting domestic auto production/assembly. The auto sector expected to begin to recover this year, however, and despite the fact that President Chávez assured that the auto industry would be having a party because the country had joined Mercosur. But the reality is that joining Mercosur has come right at the same time that domestic production is dropping due to the inability to obtain foreign currency.

Insurance companies have subscribed 4,554 solidarity policies. According to the Superintendent's Office of Insurance Activity, since this type of insurance policy has begun to be offered in March, and up until the close of May, companies have subscribed a total of 4,554 solidarity policies, for a total of 3,246 people, of which 2,697 (83.1%) are elderly (over 60 years old). The report also highlights that out of the 4,554 contracts subscribed, 2,488 belong to the health sector (54.6%), 1,265 to the funeral sector (27.8%) and 801 to the personal injury sector (17.6%).

The price of corn is up on the international markets. The drought which has affected 18 corn producing states in the United States has shot corn prices up on the international markets, warned the July Weekly Report of the International Livestock Market. The report points out that the price of corn has gone up by 51% since the middle of June, and it's expected that prices will remain high for now.

Non-oil exports also drop. Between January and May 2012, "non-traditional exports" of products and raw materials from Venezuela dropped by 14.4%, only reaching US\$1.23 billion compared to the US\$1.44 billion they reached last year during the same period, according to foreign trade figures released by the National Statistics Institute (INE).

Agriculture will be a "sensible product," according to a statement made by vice-president, Elías Jaua, with respect to Mercosur, and it will only be liberated to enter into competition in 2015. This is how Jaua defended the country's joining the Mercosur, and he continued to say that agriculture was in better shape today because it has an irrigation system in the states of Guárico, Apure, Barinas and Zulia, that will help to increase production and thereby lead to exports to Brazil and the Caribbean.

The worst moment. Rodrigo Agudo, an expert in the agro-food sector, warned that with the farmlands in a weakened state, it's not likely that we will compete with the giants such as Argentina and Brazil that produce 86% of the food items of the market. Agudo continues to say, *"this is a bad time to ask the domestic production*



apparatus to join Mercosur,” after years of recession evidenced by the increase in imports and the drop in products being exported.

Meanwhile, the Confagan sees everything rosy. The president of the National Confederation of Farmers and Cattle Ranchers, José Agustín Campos, classified Venezuela's joining Mercosur as a positive thing. *“Mercosur is an immense geographic territory, with immense coverage for workers and businessmen. Venezuela won't be just a receiver country but a player.”* He also stated that within the Import policies of Mercosur, Venezuela could become a force with fruits and vegetables.

Private sector construction in a downward spiral. Despite the fact that the BCV hasn't released its housing figures for the year yet, Aquiles Martini, president of the Real Estate Chamber of Venezuela, that the GDP of private sector construction is down by 10% in the second quarter 2012, according to sector calculations. Our sources say that overall GDP construction figures will increase by 18% to 20%, but the private sector construction figures will once again drop, for the 10th consecutive quarter.

Puerto Cabello bogged down. The different bottle necks that have occurred in the main seaport of the country, Puerto Cabello in Carabobo state, have practically brought the whole port to a standstill, with cereals and wheat topping the list of products delayed, crucial raw material for the production of bread and pasta. At a meeting held on July 31 at the vice-president's office attended by representatives of the industry and the government, the government promised to speed up the process for ships that have been waiting to dock for days. Simón Nobile, president of Avepastas, informed that stocks are very low at the moment, waiting for shipments of wheat, with companies lending each other raw material in order to maintain production.

Installations improving in order to streamline the ports economy. President Chávez said during his campaign visit to the state of Carabobo, that *“advances have been made with the modernization projects of the two main ports in the country which will allow trade to increase by 300%.”* The President continued to say that the projects, developed by Chinese companies, could be finished by 2014.

Adjustments in rice and flour in October. Vice-president of the Republic, Elías Jaua, met with representatives of Avepastas, Asovema and Venmaíz in order to guarantee them that the supply of raw material so that the processing plants can remain in operation and not compromise the finished product. He also said that the regulated price of pre-cooked corn flour, white rice, and the regulated pasta will be



adjusted after the middle of October and measures will be taken with respect to the sector.

World Economy Tips

All talk and no action: After creating high expectations with his words, the president of the European Central Bank (ECB), Mario Draghi, has disappointed by putting off the purchase of debt and other unconventional measures, at least until the countries of the euro zone that are in difficulties request help from the European rescue fund. Draghi has also stressed that any request for assistance will entail complying with “*strict and effective conditions,*” which would force applicant countries to implement new adjustments.

Spain between a rock and a hard place: The president of the Spanish Government, Mariano Rajoy, announced that Spain would only consider requesting financial assistance once the ECB announces its plans for the purchase of sovereign bonds. Spain seeks a rescue plan that does not imply taking more funds from the ECB, thereby avoiding increasing demands for economic adjustments. However, time is running out. The Spanish Treasury only has one quarter’s liquidity with which to meet its liabilities. Consequently, a request for assistance has not been discarded.

Spaniards tighten their belts. And in the meantime while waiting for assistance to arrive, the Spanish Government has submitted a plan for cutting spending to 2014 that contemplates a 57% increase in savings plans for the next three years that would give a total of EUR 102.1 billion in adjustments. The announcement seeks to restore confidence in Spain’s public finances and is a sign of the government’s willingness to take measures in the event that further adjustments are necessary.

Germany: conflicting positions. Even though the announcements made by the ECB coincide with the position adopted by the German Government of “*no assistance without compensation,*” according to the latest opinion polls, 76% of Germans hold a different position and consider that a rupture of the euro would be a blow from which the economy would find it difficult to recover, whereas 56% believe that the government “*should do everything possible*” to save the euro, which means that the German Government could find itself pressured by domestic factors and give in so that assistance provided is on softer terms for those requesting it.





Brazil: Good news? Brazil's industrial production closed June with growth of 0.2% compared to May, leaving behind three months running of negative growth. This news is somewhat disappointing. Growth is less than expected (0.8%), particularly after the reduction in sales tax on vehicles failed to have the desired effect in this major branch of industry and when it is expected that credit restrictions for the purchase of vehicles will continue in the coming months owing to the high risk of nonpayment by households.

The job market shows signs of life. New applications for unemployment benefits closed the last week of July at 365,000, an increase of 2.2% compared to the previous week. However, the average number of applications for the past four weeks fell to 365,500, the lowest level since March 2008, which is a good sign for the job market, particularly when, in the past ten years, there has been correlation of 72% between the level of applications and the monthly variation in the number of permanent jobs.

On the other hand, manufacturing orders fell. Orders in the manufacturing sector fell by 0.5% in June, way below the expected increase of 0.3%. This setback was caused by a 2% drop in orders for non-durable goods (-1.7% year-on-year), led by a 2.9% drop in oil orders (-2.4% year-on-year), whereas orders for durable goods rose by 1.3%.

Latin America: food more expensive. Food inflation in Latin America and the Caribbean came to 8.9% in June compared to the same month in 2011, the highest so far this year, according to the United Nations Food and Agriculture Organization (FAO). This increase was influenced by increases in food prices in Argentina, Brazil, Costa Rica, Ecuador, and Mexico. As for overall annual inflation in the region, it continues to slow down. Between January and June, it dropped from 6.9% to 6.0%.

Mercosur to evaluate entry of Ecuador: The members of the Common Market of the South (Mercosur) have a meeting scheduled for September at which preliminary issues will be discussed and analyzed with a view to bringing about Ecuador's entry to Mercosur. Ecuador is currently an associate state and in December last year it made a formal application to become a full member of the regional bloc.





Political Tips

Chávez: *“Mercosur promotes the construction of the big fatherland.”* The President of the Republic, Hugo Chávez, highlighted the importance of Venezuela’s becoming a full member of Mercosur for *“the construction of the big fatherland that promotes the development of the peoples of the continent.”* The Venezuelan President highlighted the potential that Venezuela -with the world’s main oil reserves, recognized by the Organization of the Oil Exporting Countries (OPEC)- has for Mercosur’s development.

Only a Capriles administration will be able to comply with Mercosur. National Assembly Deputy María Corina Machado maintained that only a government headed by Henrique Capriles would be capable of honoring the commitments undertaken by Venezuela as a full member of Mercosur. In Machado’s view, the President is lying when he says that there will be more investment and more jobs, as that investment requires confidence in the government of the day, something that, in the deputy’s opinion, *“the Chávez administration cannot offer.”*

Capriles: We must have a change in model to take advantage of Mercosur. Presidential candidate Henrique Capriles expressed his delight at Venezuela’s entry into Mercosur, although he warned that it will not result in improvements and jobs for Venezuelans as the country has concentrated on importing. In Capriles’ opinion, it is necessary to diversify the economy in order to obtain benefits. *“Joining Mercosur has to be an opportunity that we will take advantage of when Venezuela changes this model and we have a model of domestic production,”* he said.

Witnesses: the key to fair elections. *Comando Venezuela’s* campaign coordinator, Leopoldo López, pointed out that the biggest responsibility at the October 7 elections will fall to the polling booth witnesses, who will be “key” factors for guaranteeing transparent elections. He also maintained that greater attention would be paid to polling stations in remote parts of the country or that have only a few voters where there have been sizeable margins of differences in voting that could influence the election results.

More prepared than ever: The coordinator of *Comando Venezuela* also stated that candidate Henrique Capriles’ team is working so as to have trained witnesses present at all the polling stations. López said that the issue of protecting the vote *“has never been addressed with such precision and management as on this occasion.”*



Media under investigation: National Electoral Council (CNE) Director Sandra Oblitas announced that there will be administrative investigations of different media for “*their own campaigning*” and “*excesses in advertising*” by the campaign commandos. Among the media that are to be investigated are the television stations *Venezolana de Televisión* and *Televen* and the newspapers *Correo del Orinoco* and *Últimas Noticias*. The director stressed that “*the time for exhortations and appeals is over,*” that there will be no more warnings, and that the appropriate administrative proceedings will be opened.

Dry run with no surprises: CNE Director Socorro Hernández gave assurances that, with the practice voting exercise held by the CNE on Sunday, they were able to verify that all the components involved in the elections (special mention being made of the National Armed Force, the communications sector, Corpoelec, the Ministry of Education, and the CNE’s teams) were properly coordinated. The director announced that the dry run functioned “perfectly” and that voter turnout was “normal.”

Istúriz: “Taking advantage should not be confused with having the advantage.” According to National Assembly First Vice-president Aristóbulo Istúriz, President Chávez cannot give up the nationwide networked radio and television broadcasts, as informing is part of his duties as president. Istúriz does not consider using these broadcasts to be taking an advantage. “*Taking advantage should not be confused with having the advantage. I think that Chávez has an advantage; there is a connection of affection between the people and Chávez. That cannot be regulated,*” he said.

Opposition coordinates transporting of voters to New Orleans. *Comando Venezuela’s* representative in Miami, Gisela Parra, gave assurances that the Venezuelan Opposition would offer voters all the “*support to make it easy for them to get to New Orleans.*” Parra said that, so far, they have spoken with several transportation companies and have put them in contact with Venezuelan voters who will need to travel to New Orleans so that the 19,542 voters resident in Florida, North Carolina, South Carolina, and Georgia can exercise their right to vote.

Chávez: “we’re going to win hands down.” During a campaign event in Carabobo state, President Hugo Chávez assured that he expects to win the upcoming presidential elections with a margin of 20 points more than his contender, Henrique Capriles. “*We won’t lose these elections (...) we’re going to win hands down,*” said the Venezuelan President. He then urged the middle class to think carefully about who they are going to vote for because, he claimed, he is the guarantee of peace whereas “*the bourgeoisie is the guarantee of hatred, division, and fascism.*”





Ameliach is the candidate. The regional leaders of the Carabobo Campaign Commando expressed their satisfaction at the unilateral designation by President Hugo Chávez of Francisco Ameliach as candidate to the governorship of Carabobo. Rafael Lacava, the head of the Carabobo Campaign Commando in Carabobo, said that *“all Carabobo’s socialist militants supported the decision”* and described the President-candidate’s campaign event in Valencia last Sunday as a success.

Dedocráticamente (handpicked by the boss) is how presidential candidate Henrique Capriles described the way in which the government party is choosing its candidates to run at the upcoming elections for governors and mayors. *“Our candidates were chosen by the people, not handpicked by anyone. No to the old practice of handpicking by party bigwigs!”* said the candidate, comparing the regional primaries organized by the Democratic Unity Alliance with the unilateral designation of the pro-government candidates by President Chávez.

Legislative Tips

Regulations against real estate fraud in the works: The Ministry of Housing and Habitat is preparing the regulations to the Law against Real Estate Fraud that went into force in April. It is expected that they will clarify aspects such as guarantees and the profitability of housing projects. A requirement for construction companies to register with the National Directorate for the Management of the Housing and Habitat System is also contemplated.

“Mercosur products will have to adapt to the Fair Costs and Prices Act.” According to Deputy Luis Acuña, *“It is natural that the productive sector is concerned over this integration, but one of the government’s missions is to dispel these fears...”* The deputy explained that items that are sensitive must be protected until they are strong enough to compete; that any of the products that come from Mercosur must adapt to the Fair Costs and Prices Act; and that our companies will be competitive if they adapt their prices to the prices for the same product that comes from abroad.

National Assembly plans to debate a Bill on Pensions and other Economic Allocations. Oswaldo Vera, the chairman of the Comprehensive Social Development Committee, announced that the National Assembly will submit the Bill on Pensions and Other Economic Allocations to public debate before the close of the present



legislative session. He said “*We have a schedule that guarantees that there will be just one pension system for all Venezuelans by next year.*”

Bill on the Human Right to Water: This bill will be presented by the PARLATINO on August 29, the purpose being to raise awareness among the peoples of Latin America with regard to the importance of water for the existence of the planet. Ana Elisa Osorio, the vice-president of PARLATINO Venezuela, stressed that this bill is based on considering the resource of water as a human right that cannot be restricted by discrimination of any kind.

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ECONOMIC OVERVIEW

