



Weekly Report

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Transferring international reserves and Cadivi operations: Two sides of the same coin

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Last week, the most outstanding economic news of the period was the decision of the Central Bank of Venezuela (BCV) and the Administration's decision to transfer the nation's international reserves, both gold reserves as well as operational reserves. What impact does this measure produce? Another issue is CADIVI's performance during the first semester of the year which in no way bears any relation to increased oil prices during the same period. Why is this? This Report will look at how both issues reflect one problem: how the Administration manages foreign currency.

From rumor to fact

The decision to transfer international reserves didn't come from the boardroom of the BCV, product of a high level meeting; instead, the subject became an issue after information detailing how the nation's international reserves are constituted and where they are located was introduced to the general public, because said data was included in a report issued by the BCV and delivered to the President. As a public document, this report came under public scrutiny. At the end of the report,



the BCV suggests that international reserves be transferred to Brazil, Russia, and China, and that the nation's gold reserves be brought and kept in the BCV vaults in Caracas.

This report generated comments by none other than the Minister of Finance, Jorge Giordani, the president of the BCV, Nelson Merentes, and President Chávez. It also generated a debate within the National Assembly, and what began as a suggestion in a low level report, and turned into the source of much gossip around Parliament, the Ministries, and the economic circles around the nation, last week became a fact as the Administration officially announced that it is going to make changes with the international reserves.

**You don't only
have to be
honest... you
have to look it**

At *Ecoanalítica*, we believe that in principle, the BCV has the power to make changes and movements regarding how international reserves are managed, reviewing in what and how they are being invested. In this instance we are only referring to operative reserves (liquid), despite the fact that gold is a liquid asset, it's difficult to sell at a moment's notice

With respect to Venezuela's operative reserves, 59.2% are in the International Payment Bank (Basel, Switzerland) and 84.2% of this in the European continent. Only 11.3% are in the United States. The Administration's plan is to move the operative reserves that are not in Basel (40.8%) to Brazil, China, and Russia. We believe this movement is unnecessary because it generates unnecessary transfer costs, especially if the transfers are made to off-shore accounts, in other words, accounts in US-dollars and/or Euros belonging to these countries.

With respect to moving gold reserves from vaults located outside of Venezuela, to the BCV vault in Caracas, as it was up to the beginning of the 90s, we see nothing wrong with this move. But, what does worry us is the reason that seems to be motivating the Administration and the BCV to carry out this move. The reason has nothing to do with market risk analysis, but rather due to a fear of these assets may be confiscated at some point in the future. Now, one has to wonder: why?

**When you see
your neighbors
beard burn, soak
your own**

At *Ecoanalítica*, we are convinced that the main reason behind moving the international reserves is political, especially with respect to moving the gold reserves back to Venezuela. And this has even been admitted by the public officials involved in the transaction. Recent articles published in the *Financial Times* have highlighted how M. Gaddafi's regime had their asset frozen that were kept in the United States and Europe, but that the 150



tons of gold bars kept in the Central Bank of Libya is what allowed for the financing of the army for so long in order to fight the uprising.

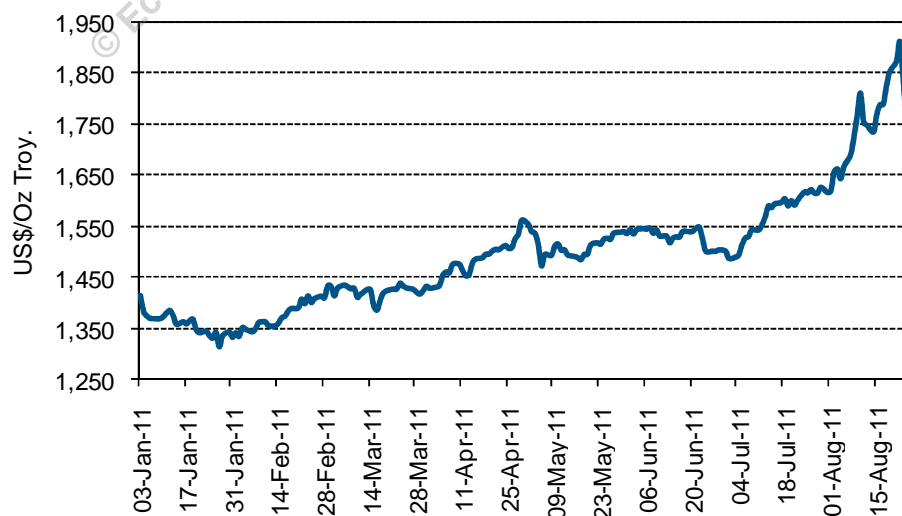
It's important to point out that Gold is not a monetary liability or used as a currency in any country unlike holdings in a specific currency (e.g. US\$, EUR, VEB), therefore it is very difficult to track, to confiscate, and to freeze its movements. The Administration seems to be very aware of this and placing a high value on this fact.

The problem is something else

Beyond these considerations that we have mentioned here regarding our international reserves, the real problem that we have been mentioning for quite some time now, is the low levels that the operative reserves are at. In a report we published in May, we mentioned that keeping more than 60% of our reserves in gold is risky. We still stand behind this statement. Currently, there are less than US\$10.0 billion in operative reserves, which is equal to 3 months worth of imports.

Low levels of operative reserves have serious negative effects on the economy. This is the main reason that despite recent high oil prices, CADIVI has not substantially improved its performance. And the effects haven't been worse due to the fact that gold prices on the international market have been climbing steady during the last few months.

Gold prices



Sources: Forexpros and Ecoanalítica





What's happened to CADIVI?

CADIVI has released its first semester 2011 figures which show that foreign currency authorization for imports (including ALADI agreements) have only increased by 5.2% compared to the same period last year. On the other hand, during the same period of time, oil prices increased by 51.4%. Furthermore, the total amount of foreign currency authorized by CADIVI (imports plus other items) increased by 11.7% during the first semester 2011 compared to the previous year.

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

Exchange policy is vital to economic recovery

In Venezuela's current economic situation, the exchange policy, or what is practically the same thing, the design of the mechanisms allowing one to access foreign currency, plays a very critical role. It is the element that most worries companies, and this is logical in a country so dependent on imports; and not only imports of finished products, but of intermediate goods and raw materials.

Plus, given the current state of the economy, foreign currency is not only important for imports, but also to stimulate out-going capital as a protection mechanism for personal and corporate assets.





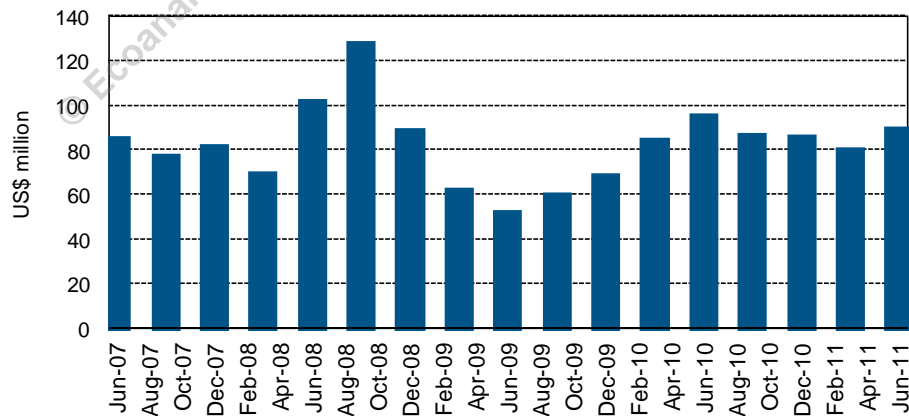
What should we expect in terms of exchange policies in the coming months? As we mentioned in our last Outlook Report, the supply of foreign currency will be tied to how international oil prices evolve, the ideological platform the Administration is promoting, and first and foremost, keeping product shortages at bay.

The root of the problem has nothing to do with where the reserves are...but that their levels are low

After the restriction of foreign currency began in 2009 and the elimination of the parallel market in 2010 the exchange market has become clearly segmented. On the one hand there is CADIVI, catering to big corporations and servicing priority goods. The SITME handles small and medium sized companies, and a not so transparent black market, that is steadily growing and gaining ground, handles the rest.

CADIVI is like a private club, if your company has entered the system and has been getting foreign currency requests authorized, everything should continue as it has been as long as the Venezuelan oil basket is trading over US\$85 per barrel. In other words, CADIVI is working moderately well, for those already in the system. If you're already in the CADIVI system it is very important that you remain there and for no reason get excluded.

Average daily disbursements for imports



Sources: Cadivi and Ecoanalítica

Regarding the SITME, the outlook is not so positive. So far this year, the SITME has liquidated US\$5,197billion in foreign currency, this equals US\$34.6million per day. Meanwhile, according to sector analysts, the demand for foreign currency is at around US\$90 million or US\$100 million



a day. For the SITME to perform better the supply of foreign currency has to increase, which means new bond issuances in the primary market or private issuances by BCV or PDVSA. As we have mentioned in past Reports, we believe that for SITME to improve BCV and PDVSA have to get in the game and sell foreign currency. If this happens during what's left of 2011, SITME's supply could increase by around US\$6.0 billion. If the SITME continues to perform as it is and all other factors remain the same, we don't expect the daily average supply to be more than US\$40 million. It's important to point out that if the SITME does receive an added boost to its supply from let's say PDVSA or FONDEN, these are resources that the BCV is not receiving, which is why operative reserves are so low.

And if oil prices drop?

So far this year, the BCV has transferred approximately US\$3,250 billion to FONDEN. So, at the release of this Report, international reserves are at US\$28,089 billion, down by 25.6% compared to where they were at last year at this time when reserves were at US\$37.763 billion.

Current international reserve levels are enough to cover XX months of imports. This is less than the average coverage reserves provided during the last five years which was for approximately ten months of imports. This is the main problem public policymakers should be focusing on and not where the reserves are located.

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Economic Tips

Tax contribution in seven months. President Chávez has reminded the National Tax Authority (Seniat) that it has to collect additional tax revenues this year; in a seven-month period, Seniat has already transferred the national treasury 72% of the tax contribution foreseen for this year. According to the figures released by Seniat, as of end-July, tax contribution amounted to VEB 79.46 billion, so that, the goal of VEB 110.0 billion, set in 2011's expenditure budget, is about to be reached. Collection from January to July accounted for a 42% increase in nominal terms and 12% in real terms vs. the same period last year.

Collection vs. Growth. The increase in real terms in the non-oil collection for the same period has no relation whatsoever to the recovery in the economic activity (non-oil GDP growth). For the time of writing this note, the BCV had not published collection figures for the second quarter of the year.

Concepts (VEB Million)	Jul-10	Jul-11	Var (%)	Real Var	Jan-Jul 2010	Jan-Jul 2011	Nominal Var	Real Var
Total Income	8,206	12,023	46.5%	16.2%	56,132	79,467	41.6%	12.2%
Income Tax	2,162	2,835	31.1%	4.0%	16,783	21,954	30.8%	3.7%
VAT (Internal)	3,697	5,318	43.8%	14.0%	24,075	33,947	41.0%	11.8%
Customs revenue*	1,618	2,918	80.3%	43.0%	10,480	18,047	72.2%	36.5%
Other Internal Revenue	642	748	16.7%	-7.5%	4,128	4,635	12.3%	-11.0%
Spirits	162	189	16.6%	-7.6%	747	854	14.3%	-9.4%
Cigarettes	440	530	20.3%	-4.6%	3,110	3,553	14.2%	-9.4%
Inheritance	14	21	42.6%	13.1%	109	130	19.4%	-5.3%
Random games or bets	20	9	-55.3%	-64.5%	130	98	-25.0%	-40.5%
Others	92	204	121.0%	75.2%	666	884	32.8%	5.3%

Sources: Seniat and Ecoanalítica.

* Includes VAT on imports.

63% of reserves are gold. The BCV account statement as of the end of the first half of the year shows that the operative portion of international reserves is lower as bet for gold grows. Operative reserves, that is, hard currency placed in bank accounts or easily salable instruments, which make it possible to cover imports and debt payments, amount to US\$4.81 billion, for a 71% drop with respect to the amount for 2009's second half.

BCV proposes replacing dollar. The proposal to redistribute international reserves, presented by the BCV and the Ministry of Finance to President Chávez, calls for that the Republic stops from using dollar for its operations. This measure would be taken out of fear that the Federal Reserve may freeze part of the dollars that Venezuela has to support the currency, pay foreign debt and imports.



The Money is moving, but the currency holds. At least this appears to be the mechanism through which the Republic will mobilize its operative international reserves that are deposited in banks in Switzerland, the UK, France and the US to financial institutions in Russia, China or Brazil. BCV's president, Nelson Merentes, explained that transferring the international reserves doesn't imply that US dollars be exchanged for Chinese yuans, Russian rubles or Brazilian reals.

Transferring gold will reduce liquidity in the Republic since it is believed that, the liquidity of gold depends mainly on its location. Given the greater depth of financial markets, gold is more liquid the closer it is to buyers, which are usually located in the United States, Europe or Japan.

50% of supplementary appropriations were earmarked for labor debt payments. Labor obligations assumed during the year have force the Government to look for resources through different ways and request more supplementary appropriations from the National Assembly. In almost eight months, the NA has approved VEB 76.8 billion in supplementary appropriations, and of this amount, VEB 38.5 billion have been used to cover wage and pension adjustments, in addition to debts with public sector workers.

Employment increases, but employers decline. The National Statistics Institute (INE) reported that unemployment rate fell 8% at end-July, for a 0.7 percentage points drop as compared to the same period last year. The INE's president, Elías Eljuri, pointed out that this indicator suggests that the labor force market has an effective performance.

The private sector absorbed the labor market increase. Of the 12,268,388 people that had a job in July, 2,312,776 worked for the State, whereas 5,145,912 people, including workers, employees and employers, were working for the private sector.

Based on INE's data, two of every ten Venezuelan workers depend on the Government, as well as four out of ten private companies, three of every ten worked independently and one of every ten Venezuelans worked at another kind of business at the end of July.

The number of employers continues to decline. While the number of people that found new jobs grew, the number of employers has dropped. Official data show that last month, the number of employers was 398,711 people, down 1.8% from last year.





Job creation went back 86% in 2010. The Central Bank of Venezuela (BCV) indicated in its last economic report that labor market lost dynamism in 2010, with 86% less jobs created than last year.

S&P lowers rating of Venezuela's debt. Standard & Poor's (S&P), one of the three largest rating agencies which provide investors with information about risks of investing in state-issued debts, believes that Venezuela is less secure now. The agency lowered Venezuela's rating from BB- to B-, a rating that describes the country as *"more vulnerable to adverse business, financial and economic conditions, but capable of meeting its financial commitments now."* This measure is mainly due to the fact that S&P's new methodology gives a greater weight to the political factor.

Second Chinese loan will be paid off in 2012. The Minister of Planning and Finance, Jorge Giordani, pointed out this week that the Venezuelan government will pay off in February 2012 the second trench of the credit facility it signed with China, earmarked for the Heavy Fund.

The government has placed bonds for VEB 63.8 billion. Despite the behavior of oil and tax revenues, the government has decided to raise the country's indebtedness levels. According to the Finance Ministry bonds for VEB 63.80 billion have been placed between January and the middle of August.

The BCV has been providing the National Treasury with money for 11 years. In 2000, the government made the decision that the BCV would be one of the sources of revenues for regular spending and productive projects; therefore, by means of requests and legal reforms, the BCV has transferred profits and reserves for this end. Over 11 years, the Bank has given the National Treasury US\$50.0 billion, of which US\$8.7 billion were exchange profits and US\$41.3 billion to international reserves.

Interest rates. The lending rate for the second week in August was at 18.91%, decreasing by 0.21 percentage points compared to the previous week. The time deposit rate remained reach 14.50%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.61%.

International reserves. International reserves decreased 2.1% going from US\$29,750 million during the fifth week in July to US\$28,134 million during the first week in August. Compared to the same period last year, international reserves have decreased by 25.5%.

Monetary liquidity. Monetary liquidity in the second week in August creased 1.1% compared to the previous week settling at VEB 346,921 million. The M2 has increased 38% year-on-year.



Sitme figures. So far this year, US\$5,171 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.5 million a day, with an implicit exchange rate of 5,3 VEB/US\$. During the first week of August the amount traded reached US\$120.97 million, US\$31.16 million less than last week when US\$187.9 million were traded.

Oil Tips

Joint Venture agreement closed. PDVSA and PetroChina signed the agreement for the development of the project and the creation of the joint venture that will be responsible for implementing the development of a planned refinery in Jie Yang, known as Nanhai, within the framework of the Energy Cooperation Agreement between PDVSA and China National Petroleum Corporation, signed in March 2007. According to this agreement, both companies will work through joint ventures to produce and upgrade 800,000bl/d of heavy and extra heavy crudes from toe Orinoco Oil Belt, which will be processed in three refineries to be built in China.

PDVSA now has until September. The deadline to close the agreement between Petrobras and PDVSA for the construction of the Abreu e Lima refinery in Pernambuco was extended. Last August 20th, a document that sets the deadline for PDVSA's payments at end-September was signed. PDVSA will assume 40% of the credit approved by Brazil's National Bank for Social and Economic Development (BNDES), provided this last country accepts guaranties offered by PDVSA.

Petrobras will wait until November. If BNDES doesn't accept PDVSA's guaranties, November will be the deadline for the Venezuelan state-owned oil company to pay its contribution. The project initially agreed by both companies calls for an investment of about US\$16.25 billion in a 230,000 b/d refinery to be built in the Northeast region of Brazil, which would enter into operation in 2013 and in which Petrobras will have 60% and PDVSA 40%. According to Paulo Roberto Costa, Head of Petrobras's Supply Department, the Brazilian oil company would be willing to assume the whole investment in the event that PDVSA doesn't make the payments.

PDVSA owes US\$352 million for the purchase of companies. The 2010 annual report published by the Venezuelan state-owned company states that the following companies were purchased in 2010: Fluvialba International Limited (Fluvialba) in Argentina, for US\$190 million; Accroven for US\$335 million, including the payment of



this company's financial debt for US\$150 million, deducible from the negotiation; and MCT, for US\$75 million. At the end of 2010, PDVSA still owed US\$ 352 million in cumulative debt and other liabilities derived from the purchase of these companies, with its total financial debt amounting to US\$24.95 billion.

Controversy about Jose Cryogenic Complex continues. In order to clarify any doubt that the inhabitants of the communities neighboring the Oil, Petrochemical and Industrial Complex José Antonio Anzoátegui may have, the Venezuelan Gas, Oil and Derivative Union (FUTPV) proposed to appoint a mixed commission which would be entrusted with conducting an “*environment epidemiological evaluation*” to “*be able to make an accurate diagnosis of the impact of coke in the area.*”

Three spills in August. In less than 15 days, three oil spills occurred in Maracaibo Lake. The first occurred on August 2nd, the second on the 13th and the last happened on Monday August 16th. The last two resulted from a hydrocarbon leak around the Tía Juana flow station. PDVSA claims that it's still implementing a contingency plan to collect oil spills from the lake and control the situation.

Venezuela and Iran agree to increase coordination within OPEC. In a statement issued by the Ministry for Foreign Relations, President Chávez pointed out that in a telephone talk with his Iranian counterpart Mahmoud Ahmadinejad, both agreed to raise coordination levels within OPEC to mitigate “*the disastrous effects of the crisis on the dominating powers' economies.*”

Companies bought by PDVSA are generating losses. The report presented by the State-owned oil company states that as of December 31, 2010, the companies bought by PDVSA were losing money. These companies purchased since 2008, engages in both the industrial and agricultural sectors, were first registering US\$12 million profits for PDVSA, according to the 2009 annual report, but they posted losses for US\$14 million in 2010.

Analysts forecast lower oil consumption in the US. Although the US oil consumption recovered last year with an increase of 400,000 b/d and analysts admit that the US economy's weakness could result in an increase in demand as a part of a recovery process, they are also warning that this weakness should lead, in the short term, to a drop in oil demand. Furthermore, almost two weeks ago, the US Energy Department, the International Energy Agency and the OPEC downward revised their oil demand estimates.

Chinas weight. PDVSA reached an export level to China of 423,000 b/d of oil, of which 57% are applied to pay loans granted by the Chinese Development Bank for project of the Venezuelan government. This percentage accounts for 244,000 b/d



that PDVSA shipped to China last year to amortize the debt, according to PDVSA's 2010 report. This figure exceeds the commitment agreed of delivering "at least" 200,000 b/d as part of the financing. From 2012 on, shipments associated with this loan will increase to 300,000 b/d.

International oil baskets. At closing time on August 19 in the New York Exchange, the price of the WTI was US\$95.97/bl, a 3.3% decrease compared to the US\$83.22 reported the previous week. The Brent decreased by 2.8% to reach US\$109.0/bl, compared to the previous week's US\$106.08/bl.

Local oil basket price. The Venezuelan oil basket price decreased last week, closing at US\$92.26/bl on Friday August 19, a 2.2% contraction compared to the US\$95.15/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.29/bl.

Business Sector Tips

The Administration will expand financing. Ricardo Menéndez, Minister of Science, Technology and Intermediate Industries, informed that the Administration agreed to create working tables with private and public banks to finance a "*strategic project portfolio*." Menéndez explained that these projects, in the government's view, will allow for "*social development, as well as the development of the State and the creation of joint ventures.*"

Cartonajes Granics expropriated. Cartonajes Granics, located in Mariara, Carabobo State, will be expropriated by Presidential Decree No. 8,409. The decree includes "*movable and immovable goods as well as improvements, for the implementation of the consolidation of the public sector's industrial capacity to manufacture cardboard boxes and containers, used in industries in the areas of agriculture, food, footwear, cleaning, beverage, oil, electronic parts, automobile parts, oil by-products and similar products.*"

Construction materials allocated to communities. The Minister of Energy and Oil/PDVSA's President, Rafael Ramírez, said that communities are receiving construction materials from collection centers established by the government. Ramírez pointed out in a public act in Zulia State that organized communities have



the essential products carried on by Construpatria establishments (product distribution centers).

Promise to treble private investment if controls are lifted. Trebling private investment, creating 1,000,000 new jobs and increasing used capacity of the industrial park from 52% up to 70% are goals that can be attained within three years if the regulatory framework is made more flexible and some public policies are changed. This is the conclusion and the main goal of the “Progress and Wellbeing Plan” presented by Fedecámaras on August 19th.

Rusoro claims that gold nationalization will not adversely affect them. The Russian-Canadian mine company Rusoro Mining Ltd. said that the decision recently announced by the Administration, which comprises exploration and extraction, won't have an adverse effect on it, because it is intended for companies that are engaged in illegal activities.

Toyota hasn't set any date to restart car assembly activities. Toyota's labor crisis reached a state of gridlock. More than two weeks after the union decided to paralyze activities in the company, Toyota doesn't know when car assembly may be restarted.

Café Plan to be relaunched. Six years after the creation of the Café Plan, for which at least VEB 700 million were earmarked from 2005 to 2008, the Ministry of Agriculture and Lands announced that this program, which is intended to encourage the coffee-producing sector, will be relaunched. Juan Carlos Loyo, Minister of Agriculture and Lands, announced yesterday on the State-owned TV channel that this time the Plan Café will be designed “*from the grassroots with coffee producers, and not at an office with a group of experts.*”

Prices and supplies will be checked in wholesale markets. Carlos Osorio, Minister of Food, said that the supply and marketing of vegetables in large stockpiling centers and wholesale markets in Maracaibo, Barquisimeto and Caracas will be checked by a joint commission from several offices of the National Administration.

US\$287.3 million are allocated for graphic arts, stationary, and shoes. The Foreign Currency Administration Commission (Cadivi) informed that so far this year US\$287.3 million have been paid to the chambers that include the shoe, stationary and graphic arts sectors.

The sale of 12 regulated foods fell in July. The survey called “Tendencias”, carried out by the Venezuelan Food Industry Chamber (Cámara Venezolana de la Industria de Alimentos - Cavidea) reported that in July of this year, the sale of 12 controlled foods fell, compared to the same month in 2010. The greatest drop was in the sale



of oils (30.77%), sardines (9.44%), margarine (9.31%), wheat flour (8.08%) and ketchup (6.27%). Other items that also fell were pre-cooked corn flour, rice, pasta, cold cuts, oatmeal, tuna, and mayonnaise.

“Aceites Diana” meets 15% of national consumption. Carlos Osorio, Minister of Food, said that oil processing has increased 21% since 2008, with a production of 6,500 tons/month, enough to meet 15% of the domestic cooking oil demand, of around 45,000 tons per month.

Companies are urged to get ready for the Law of Fair Costs. Companies must prepare for the inspections that the authorities will carry out, when the Law of Fair Costs and Prices enters into force. *"Companies must be prepared, and organized; they cannot improvise"*, said lawyer Leonardo Palacios during the forum "How to face a government inspection of fair costs and prices", organized by the Chamber of Commerce, Industry and Services of Caracas.

4,400 tons of coffee has been imported from Nicaragua. Although spokespersons from the Administration say that coffee production is enough to meet the demand, imports are increasing both in terms of volume and in terms of value. A few days ago, Yván Gil, Vice minister for Agriculture, said that this year “not one grain of coffee had been imported”; nevertheless, the Center for Procedures to Export Coffee from Nicaragua reports that 4,400 tons of that item have been sent from Nicaragua to Venezuela.

State and workers will manage four funds in Guayana. Under the new financial model proposed as part of the movement towards socialism in the basic companies of Guayana, four funds will be created, that will be managed by the workers and the State. This is the way it is defined in the transition program to install the socialist iron-steel and aluminum corporations, which is part of the 2009-2019 Socialist Plan for Guayana (Plan Guayana Socialista).

Imports of raw oil dropped 8.9% in the first semester. The imports of raw material to manufacture products from oil seeds fell 8.9% during the first semester of the year. Figures from the National Statistics Institute (Instituto Nacional de Estadísticas - INE) indicate that between January and June 2011, 226,000 tons of vegetable oil and food fats were imported, while in the same period in 2010 248,168 tons were imported.

The Administration expects a joint venture to assemble 5,000 cars. The National Government expects to assemble 5,000 cars this year, through the joint venture it has with the Automotive Corporation ZGT, as informed by Ricardo Menéndez, Minister of Science, Technology and Intermediate Industries (Mctii).



World Economy Tips

USA: the patient still needs some care. The expectation is that during his speech on Friday, August 26th, Ben Bernanke, President of the Fed, will announce new measures to improve the economy. With the slowdown in recovery during the first semester of the year, and the economy dangerously operating close to a second recession, the Fed will remain alert for a negative surprise regarding growth.

How will the Fed manage additional remedies? Maybe they will focus on the balance sheet of the Fed, and decide to make small adjustments in the size and composition of its portfolio. Interest rates are already close to zero, and the Federal Open Market Committee, which establishes the monetary policy of the Central Bank, announced its willingness to maintain the cost of loans at very low levels for two years, if necessary. Although US critics say that the new measures could generate inflation, the purchase of bonds will be encouraged. This will push the dollar down, boost the price of raw materials, and generate volatile investment flows towards emerging markets.

Wall Street closes with a slight increase. US shares closed with a slight increase on Monday, August 22th, after four weeks of losses, in a session where investors hesitated to take large risks to purchase without a catalyst. For most of the day, the market was boosted by large capital technological company shares, and by industrial firms.

Gold reaches historical record due to fears of a crisis. On Monday, August 22nd, gold increased more than 2% for a record US\$1,900 per ounce, given the expectations of a new round of monetary relief, which increased the attractiveness of the ingot as protection against inflation. Gold is one of the best performing assets this year, with an increase of 33%.

Manufacturing production in China slows down in August. Manufacturing production in China will slow down for the second consecutive month in August, due to a drop in foreign demand, and a reduction in new orders, as revealed by the Chinese index of purchasing managers of HSBC. This result bears witness to the soft slowdown of the Chinese economy, and doesn't help dissipate market fears that global demand is falling due to debt issues in Europe and the United States.



Growth of the Chinese middle class will boost demand for commodities. The growth of the Chinese middle class (presently around 150 million people) will increase demand for consumption goods. This is a good opportunity for countries rich in natural resources like Argentina to sell energy, industrial products, and food. Of the total Chinese investments destined for Latin America in the last year (close to US\$15.6 billion) 40% went to Argentina. According to Chinese specialists, Latin America is a promising region for business.

Spanish government is planning to reform the Constitution. José Luis Rodríguez Zapatero, President of the Government, said on Tuesday, August 23rd, that Spain is planning to reform its Constitution before the November elections, to include a fiscal debt limit in order to guarantee budget stability in the middle and long term.

Currencies in Latin America will operate with a margin for stability purposes. The currencies of Latin America will operate this week with strong volatility, but they could find a margin to stabilize or even appreciate, through opportunity purchases after the market turbulence of the last few days. Compared to decades before, when the turbulence in central countries hit Latin America strongly, now the region has weathered the storm thanks to the good foundations of their economies.

Growth estimates of Brazil decrease. Growth estimates for the largest Latin American economy fall due to a tighter monetary policy and a slowdown in the global economy. The weekly survey of the Central Bank of Brazil, "Focus", revealed that economic growth forecasts for this year dropped for the third consecutive week to 3.8% on average. Brazil is showing signs of a slowdown, after expanding in 2010 at its faster rate in 24 years; this has caused higher interest rates, in an attempt to contain inflation.

S&P could improve Bolivia's credit rating. Standard and Poor's (S&P) said on Monday, August 22nd that it could increase Bolivia's credit rating in the next two years, if the recent oil and gas investment plans translate into higher economic growth perspectives for the next three to five years.

Paraguay could benefit from the economic crisis. While a new economic crisis wave hits the US and Europe, smashing the most emblematic stock exchanges due to a flight of investors, Paraguay is reaping the benefits from an inflow of capital. Investors are moving away from financial assets like the US dollar and shares from multinationals that mark stocks, and are positioning themselves in real assets, mostly gold.

IDB: Poverty in Peru may decrease. The Interamerican Development Bank (IDB) considers feasible that poverty will decrease in Peru to less than 20% in the next five



years. Fidel Jaramillo, IDB representative in Peru, explained that such a reduction requires three conditions: maintaining a high rate of economic growth, strengthening social programs, and improving the quality of public expenditures. The government of Peru forecasts that its economy will grow between 6% and 6.5% this year, one of the highest rates in Latin America.

Political Tips

Doubts are cleared up. Manuel Rosales, founder of “Un Nuevo Tiempo”, announced on August 17th, from Lima, Peru, that the candidate of that party for the primaries of February 12th, 2012 is Pablo Pérez Álvarez, governor of Zulia. *“It is not my time; it’s the time of the homeland”*, said Rosales in a speech that lasted around 14 minutes, stating that the representative of UNT *“is the hope and aim of those that suffer, the symbol of unity, peace and progress”* for the country.

Proposal to eliminate presidential re-election. César Pérez Vivas (Copei) governor of Táchira, favors a constitutional amend to include the absolute non-reelection of the president. The presidential pre-candidate of the “Mesa de la Unidad Democrática” (MUD) made the commitment to promote his initiative to win the Presidency of the Republic.

The Supreme Court refused to increase the minimum wage to VEB 5,000. The Constitutional Hall refused the request made in April by the National Front for the Defense of Employment, Salary, and Trade Unions (Frente Autónomo Nacional por la Defensa del Empleo, el Salario y el Sindicato - Fadess) to increase the minimum wage of Venezuelans to VEB 5,141. The decision drafted by Judge Arcadio Delgado Rosales, doesn’t even analyze the economic arguments presented by the petitioners to justify their request.

CNE already appointed the technical commission for the primaries. Tibisay Lucena, President of the National Electoral Council (Consejo Nacional Electoral - CNE), said that the organization has already appointed the technical commission that will provide the participation, technical, and logistic requirements for the primaries of opposition parties.

New Ministry of Penitentiary Matters has become a decorative figure. Fleming Veitía, criminal lawyer and member of the Secretariat for Trade Union Justice of



"Primero Justicia", expressed his concern for this serious situation: *"From the moment the new Ministry for Penitentiary Matters was created to now, there have been no serious statements about a State policy plan"*. We consider that the penitentiary system has escaped the hands of the National Government.

At 10 months and 25 days of the release of CNE results... The National Electoral Council (CNE) released the votes of Venezuelans abroad, corresponding to the election of Venezuelan representatives at the Latin American Parliament (Parlatino). However, the results of the referendum about the constitutional amend on December 3, 2007, and about the presidential reelection, on February 14, 2009 have not been released.

President Chávez repulsed the attitude of the opposition regarding the repatriation of gold. Last Thursday, Hugo Chávez, President of the Republic, repulsed via Twitter the attitude of the opposition regarding the repatriation of the Venezuelan gold that is deposited in banks abroad, and highlighted the support given to this measure by congressmen of the "Partido Socialista Unido de Venezuela".

The Head of state can do anything and everything without approval. *"The president does not require the approval of the National Assembly to move the international reserves"*. Congressman Andrés Eloy Méndez informed that the issue of the international reserves will be taken to the National Assembly, as decided by congressmen from the PSUV, who consider necessary to debate before the country, several elements related to that.

The recovery of the President goes extremely well. President Hugo Chávez informed that after the tests performed by the physicians caring for his health condition, all values are normal, and that his body is reacting well to the post-chemotherapy treatment.

Will it be Nicolás Maduro? Heinz Dietrich from Mexico answered a series of questions in *La Verdad*, regarding possible electoral scenarios for next year, considering the new factors in the political scene, like the cancer of the President, who is aspiring to reelection, the agreements that the opposition has recently made, and the announcement of Pablo Pérez as a candidate. He doubts that there is a leader in the Chavismo capable of playing Chávez's role. However, he warns that all the variables in the political scenario will change, and the person with higher probabilities of succeeding him could be Foreign Affairs Minister Nicolás Maduro, if for any reason the Head of State is not the candidate.

This is bourgeois. According to Dietrich, the Venezuelan political model is moving towards a normal Latin American bourgeois regime, with a market economy,



parliamentarism, the division of powers, two large political blocks, and a structural weakness before the pressures and interests of the United States. Indeed, it has never stopped being a bourgeois system, despite the “socialist” discourse of the President.

There is no “chavismo” without Chávez. Heinz Dietrich says that if we understand as “chavismo” the government model that the president has created since 2003, it cannot survive without Chávez. No substitute could rule over his party (PSUV) or lead the public debate in Venezuela, nor have the international influence that Hugo Chávez has achieved.

Chávez distributed school supplies in Miraflores. Last Monday, August 22, Hugo Chávez, President of the Republic, led the initial distribution of 12,000,000 textbooks that will be distributed among students from first to sixth grade in public schools.

Capriles and Pérez may define the primaries. Luis Vicente León, Director of Datanálisis, said that since Pablo Pérez is the new actor and candidate for the primary elections, the campaign is defined between the governor of Miranda, Henrique Capriles and the governor of Zulia.

Capriles leads the polls. Luis Vicente León reminded during an interview in the program “Actualidad” in Unión Radio, that in the polls prior to the decision of Un Nuevo Tiempo (UNT) Henrique Capriles Radonski had a preference of 49.5% for the primaries; second comes the candidate of Un Nuevo Tiempo, Pablo Pérez, with 11%, and Manuel Rosales with Leopoldo López had 9% and 10% respectively.

Not even the Finance Ministry is safe. The Savings Superintendence announced the intervention of the Savings Bank of Workers and Hired Staff of the Ministry of Finance, for a period of 90 days; the decision appears in *Official Gazette N° 39.735* of August 15. There is information about fraud committed by the Human Resources Department of the Ministry, and that there is at least one confession.

CAP is coming. The remains of former President Carlos Andrés Pérez will finally be buried in Venezuela after his relatives decided to end the dispute about whether he would be buried in Miami –arguing that CAP didn’t want to return to Venezuela while Chávez was in power- or in Venezuela. The date the remains will arrive was not disclosed.

Everything ready for the census. Everything is ready for September 1st, when 18,000 registrars of the National Statistics Institute (INE) will start knocking on the doors of Venezuelan homes to request information for the 14th National Population and Housing Census. It will cost VEB 529 million. Elías Eljuri, President of INE,



states that the high cost is due mainly to the salary and benefits that will be paid to the almost 22,000 people required to carry out what he calls the most important statistical operation of the country, which this time will last three months (up to November 30th 2011). He explains that since 1950 UN member states made the commitment to carry out census in the years ending in zero and one. He explained that *"They are essential, since they measure structural changes that have occurred in a country in those 10 years"*.

Legislative Tips

Law against racial discrimination was approved. On Monday, August 22, the Organic Law against Racial Discrimination was approved in its second discussion; among other things, it establishes mechanisms to sanction racial discrimination as a punishable act.

...Some of the objectives of this new law are: the creation of a National Institute Against Racial Discrimination (Instituto Nacional Contra la Discriminación Racial - Incodir) in charge of executing public policies to prevent and eliminate discrimination in all areas. It also establishes that public, private, community, or alternative communication media must include in their programming contents geared to preventing, eliminating and eradicating racial discrimination.

Sports Law is Approved. The National Assembly gave the final reading of the Law of Sports, Physical Activity, and Physical Education. During the regular session of last Monday, August 15th, the 89 articles of the legal instrument were ratified, and Héctor Rodríguez, Minister of Sports, made the commitment with representatives of basket ball, baseball and soccer, to quickly elaborate the regulations, taking into consideration their proposals.

Those with more than 3 properties rented will be considered large proprietors. The Administration and Services Commission of the National Assembly established two types of tenants in the legal instrument: small tenants, and multi-tenants. Multi-tenants are individuals or corporations that have more than three housing units rented; these units can be rooms or apartments. It also includes the owners of buildings and pensions. The concept of small tenant will be reviewed in the next meeting.



National Assembly will investigate the purchase of a Colombian channel. A sub-commission appointed by the Permanent Commission for Finances and Economic Development will investigate the alleged purchase of the Colombian channel “Cablenoticias” for US\$10 million by the former director of “Globovisión”, Alberto Federico Ravell. The request to investigate was made by congressmen Ricardo Sanguino during the Plenary meeting of August 9.

Citizen’s control requests the floor at the National Assembly. Rocío San Miguel, president of the organization states that there are serious distortions in the Borders Organic Bill, *“and if they are not corrected, they will accumulate in the national government the special economic allocations that must be delivered to 10 governor’s offices in the borders, and more than 100 municipalities, among the poorest in Venezuela”*; she requested the floor at the Permanent Commission for Defense and Safety of the National Assembly, to present some observations

Meeting to talk about the Disarmament Campaign. On August 16, members of the Presidential Commission on the *“Law for Disarmament and Arms and Munitions Control”*, met for the second time with representatives of private and public communication media, members of the National Association of Advertisers, and representatives of the Venezuelan Federation of Advertising Agencies, to design a campaign for peace and disarmament, and draft the advertising strategies that will be used.

Disarmament Commission expects to travel to Panama and Brazil. To have a deeper discussion on security, and learn about the experiences in those nations, the Presidential Commission on Disarmament scheduled a meeting in Panamá with Daniel Luz, an international consultant on security matters. Also, the commission intends to meet with government officials in Brazil, country with great experience in disarmament policies, to learn about the process to implement the law, and create its bylaws.

AN questioned the mayoralties of Miranda and the Capital District. A Special Commission appointed by the National Assembly met on Tuesday, August 16 to investigate the situation of workers of the government of the Capital District and Miranda, as well as the Mayoralties of the Libertador, Sucre, Chacao, El Hatillo, Baruta Municipalities and the Metropolitan Mayoralty of Caracas to solve the issue of worker’s payment.

The majority of the National Assembly approved the transfer of reserves and the repatriation of gold. Given the claim of congressman Julio Montoya regarding the government’s plan to repatriate gold reserves and transfer the reserves, an extraordinary meeting was called for Thursday, August 18, when after a heated



discussion, the majority of the National Assembly approved an agreement that condemned the *"unpatriotic attitude of the so-called MUD and the interference of foreign political factors for attempting to question the Venezuelan sovereignty in the management of its international reserves"*.

Parliamentary forum through twitter. The congresswoman for Caracas, Dinorah Figuera, president of the Permanent Commission for Family of the National Assembly and a physician, in a parliamentary forum on August 18 discussing the issue of early pregnancy said: *"We decided to start with this issue, since the National Government doesn't have coherent policies to reduce this situation"* and added: *"If the present National Assembly closes its doors to discuss these matters, then we will enter through the window, and twitter is now an excellent way to have a good debate"*.

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