



Weekly Report

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Consolidated Growth?

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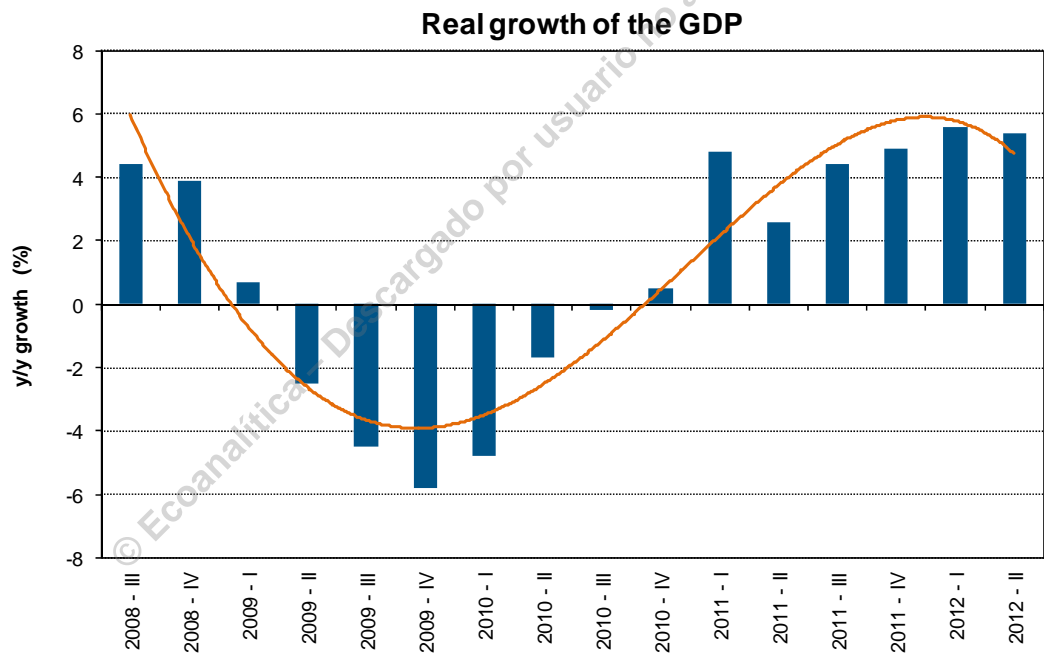
The Central Bank of Venezuela (BCV) recently released its figures corresponding to the GDP for the second quarter 2012. According to the BCV's initial estimates, the GDP grew by 5.4% during the second quarter 2012, compared to the same period last year, thereby posting seven consecutive quarters of economic growth. This growth rate posted, at constant price, was mainly due to growth registered in the oil sector and in the non-oil sector, both up by 1.0% and de 5.7%, respectively. If we add the second quarter GDP growth rate to the 5.8% GDP growth rate posted in the first quarter we have, the GDP grew by 5.6% compared to the same period in 2011.

**Good news
spread
immediately**

The BCV announced that these figures "reaffirm and consolidate the path of sustained growth that the country's production apparatus is going through," growth, which according to the Central Bank began during the fourth quarter 2010, which coincides with the period that international oil prices began to recover, our main and almost only export product.



Spokespersons for the Administration pointed out that these economic growth figures prove that the current economic model is viable and sustainable, and that the road to growth is already paved. Other members of the government have taken their statements even further, with the Minister of Planning and Finance, Jorge Giordani, stating that he believes “Venezuela can grow by between 5% and 6%, in a sustained manner, during the next six years when the new phase of the socialist plan begins.” During this phase, it’s expected that the government will be spending around US\$600 billion in social spending, a very serious statement with serious implications.



Sources: BCV and Ecoanalítica

The growth formula

There are two points of view that are currently explaining how Venezuela is achieving this “consolidated” growth that the Venezuelan economy is having. One of the explanations, put for by Minister Giordani, states that the increase in “social productivity” fueled by increased social investment (public spending) is the main force behind the growth rate of the Venezuelan economy, and that it will be essential in maintaining the economy growing. The other explanation comes from Central Bank of Venezuela which states that the increased availability of imported goods earmarked for production, consumption, and investment; as well as the increased amounts of loans being offered by the financial system, and the Administration’s policy to invest in the construction sector have been the



determining elements that have led the GDP to post the figures it has posted in the second quarter.

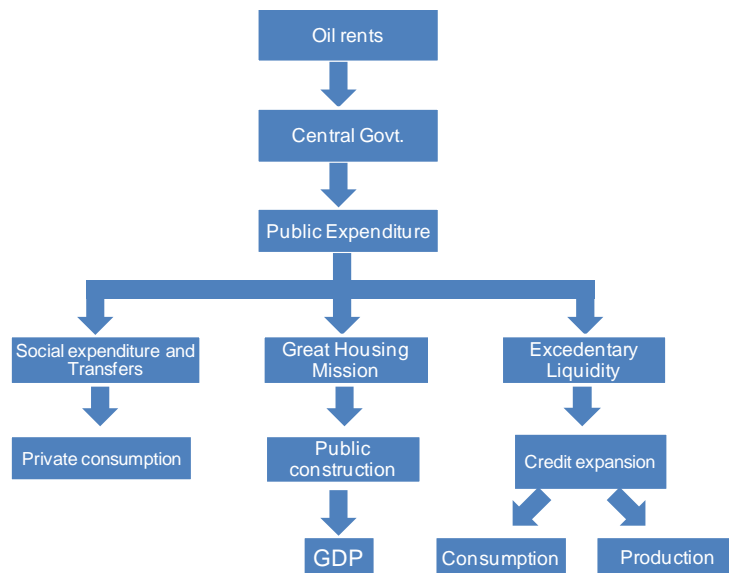
All roads lead to Rome

The truth of the matter is that all the elements mentioned by the BCV have one thing in common, other than having influenced, directly or indirectly, in GDP growth, and that is that, for better or worse, they are all areas that have been intervened by the State and by which the State is directly participating in the Venezuelan economy, key to the success of the socialist model being implemented by the current Administration.

With respect to the *“increased availability of imported goods,”* this is due to no other reason that more foreign currency being available to import goods; foreign currency supplied and made available by the State as a mechanism to cover the domestic demand for goods, and to be able to a rein on inflationary pressures.

Regarding the *“increased amounts of loans being offered by the financial system,”* this has been helped along by the increased levels of liquidity produced by increased public spending by the State. And lastly, concerning government policies to invest in the construction sector, which has in fact fueled it improving its performance, specifically public sector construction projects; but it has also pushed out other players from participating, namely the private construction sector.

Rent and public expenditure, “engines of the economy”



Source: Ecoanalítica





Rentism, all over again...

In summary, the recipe being implemented is that same as always, increased public spending, fueled by increasing oil prices; and depending on how steady the increase in prices is, or if they falter, public spending is backed by a strong and aggressive borrowing policy. These resources are earmarked for a select number of sectors in order to create economic growth, which in no way can be sustainable, if the flow of incoming revenue is compromised, affected by some unforeseen event and/or circumstance.

The resulting figures are deceptive

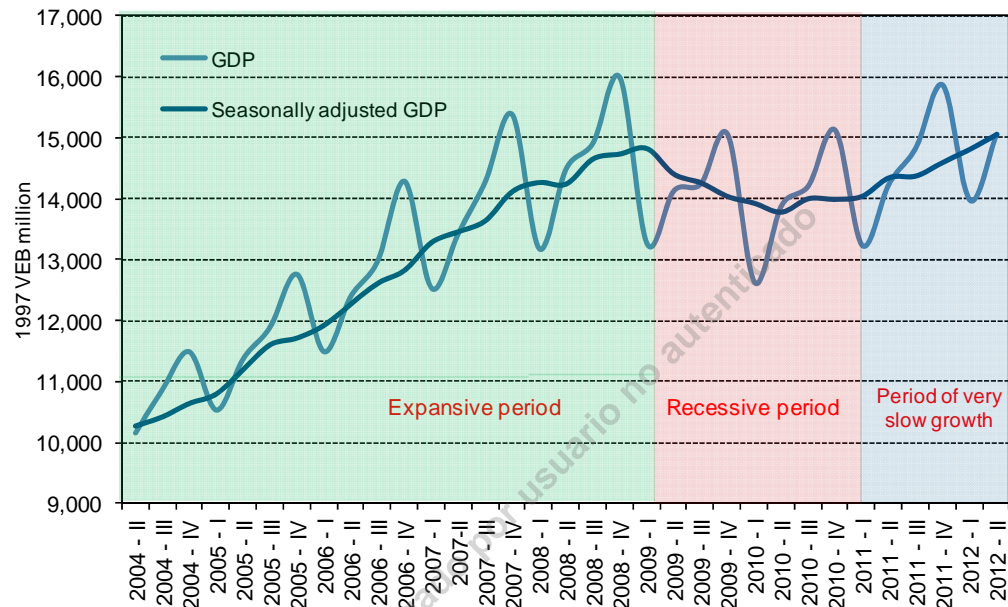
According to BCV figures, the growth registered is up by almost 3 percentage points compared to the 2.6% registered during the same period in 2011, which would lead one to believe that the economic policies and model being followed is working. But if you look at GDP growth figures adjusted seasonally (SAAR), you will find that the figures only varied by just 0.6% compared to the first quarter 2011, in other words, the (short term) effects of the cycle in question are eliminated. The real GDP variation compared to the first quarter is much lower than 5.4%. Seasonally adjusted GDP variations by sectors show a 0.2% growth rate for the oil sector and 0.9% growth rate for the non-oil sector.

So, the bottom line is that, while a growth rate of over 5% is nothing to sneeze at, compared to the first quarter 2012, we could say that the GDP growth rate has remained stagnant, and we are not in fact in the presence of a dynamic and growing Venezuelan economy.





GDP Vs. seasonally adjusted GDP (VEB 1997)



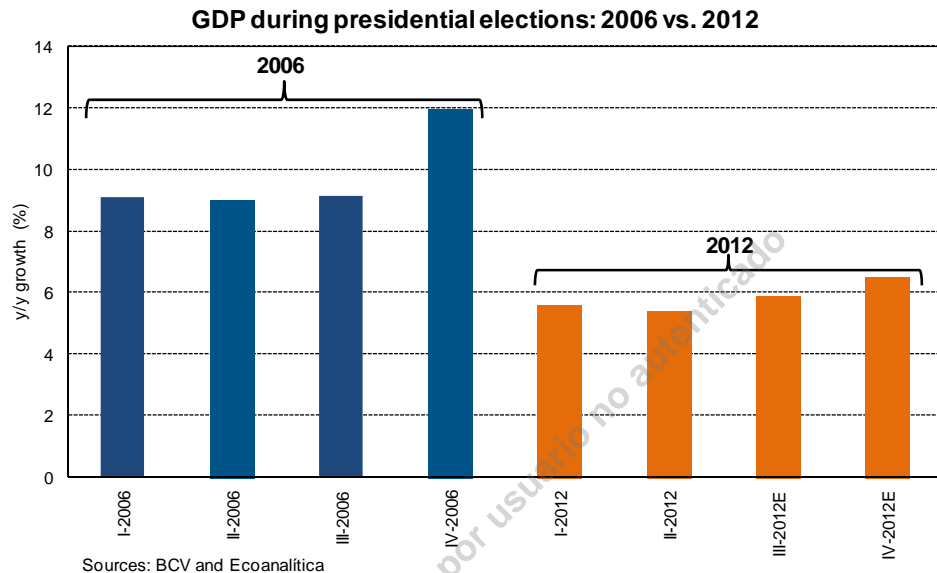
Sources: BCV and Ecoanalítica
Seasonal adjustment achieved through the X12 method

The election effect

Another aspect one has to consider is that 2012 is a presidential election year. During an election year, the Administration in power will do everything in its power to increase domestic demand, and to generate GDP growth, in order to create the sensation of overall general wellbeing among the people. Therefore, it's interesting to compare the currently released GDP figures with those from other election years.

If we compared the figures recently released by the BCV which show the GDP growing by 5.4% for the second quarter 2012, to the figures posted during the same period in 2006 (the last time a presidential election was held in Venezuela) we can see that the growth rate registered in 2012 is significantly lower to the 9.0% growth rate posted in 2006. And this, despite the fact that the Venezuelan oil basket price in 2006 was only at US\$61.6/bl; quite modest compared to the US\$103.5/bl that Venezuelan oil basket prices averaged during the second quarter 2012. This shows that despite the "election effect" and that oil prices are higher and increased public spending, the recently posted GDP growth rate is not very high.





The private sector continues to show the way

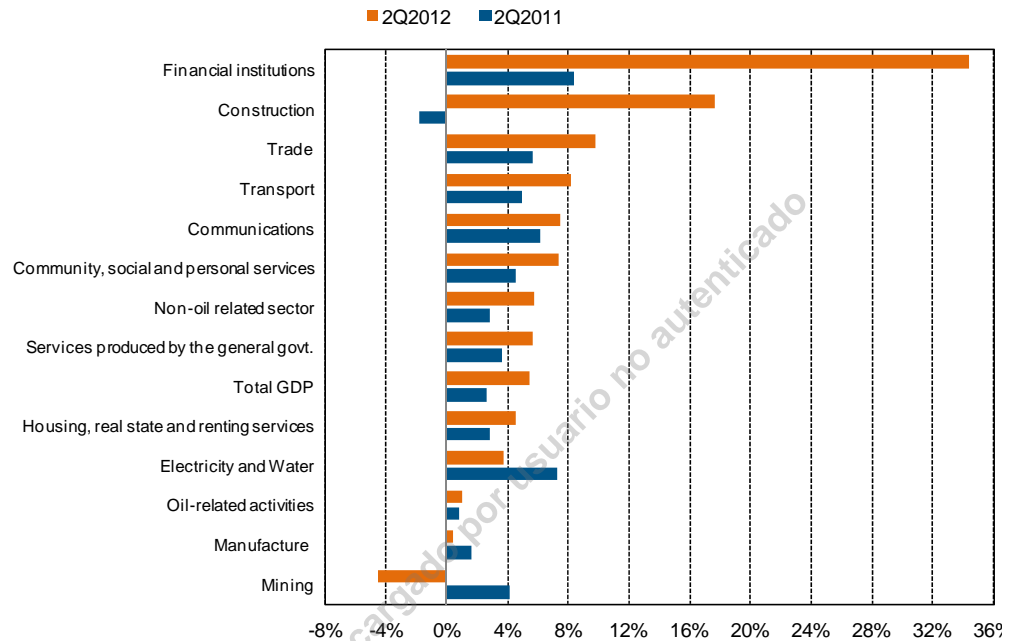
From the institutional point of view, the private sector continues to show the way and post the greater growth figures, up by 5.6% in its overall aggregate value which is also higher than the aggregate growth rate it posted during the same period in 2011 of 1.9%. Positive growth was posted by most private sector activities. Meanwhile, the public sector also posted positive growth figures, up by 4,0% during the second quarter 2012, due mainly to providing an increased amount of services to the general government and favorable performances in public sector activities and financial services, with the State now being the largest bank in the country. This sector has increased just 0.3 percentage points compared to the rate registered during the second quarter 2011.

BCV figures show that for the second quarter 2012, growth figures were generally positive for all non-oil sector activities, such as: financial institutions and insurance, up 34.4%), construction, up 17.6%, commerce, up 9.8%, transportation and storage, up 8.2%, communications, up 7.5%, community services, up 7.4%, general government services, up 5.6%, business services, up 4.5%, electric power and water, up 2.4%, and agriculture, up 2.2%.





Growth by economic activity



Sources: BCV and Ecoanalítica

Industry still in trouble

Manufacturing, one of the key sectors of the economy, with around a 14.1% participation of total GDP and an 18.1% participation of total non-oil sector activities, registered a positive growth rate of 0.4%, and even though most of the sectors registered significant growth, such as: textile, up 26.7%, common metals, up 24.5%, wood products, up 20.7%, paper, up 17.4%, rubber and plastic, up 14.5%, printing, up 13.0%, and vehicles, up 10.9%, food production, which represents 32.6% of the total sector, was down 9.4% in the second quarter 2012.

As we have pointed out in previous Reports, this sector doesn't seem to be improving, despite the fact that the agriculture production sector has bounced back a bit, up 2.2%. The situation is so worrying that the State has had to supply its own state-run supermarket chains with up to 30% of imported food items.

An imbalance to consider

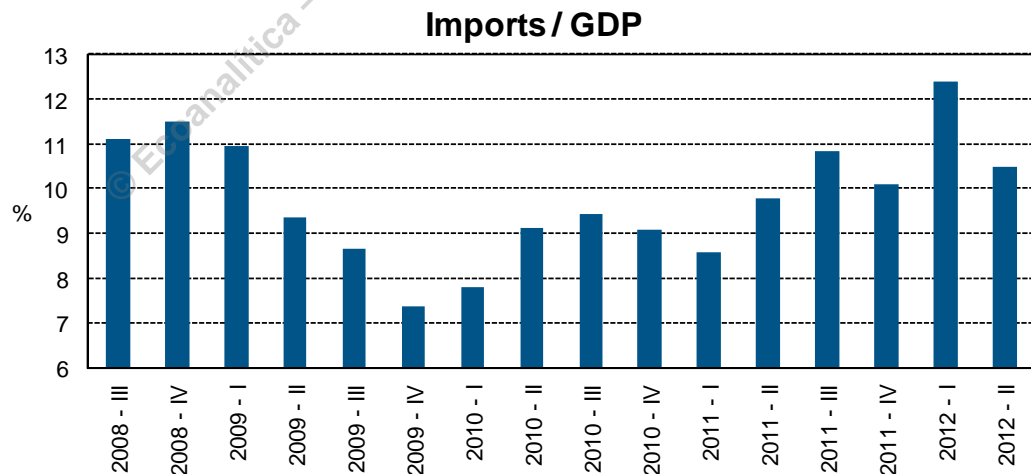
Despite the fact that the GDP posted a 5.4% increase in growth rate, it hasn't been able to cover the 11.1% increase in aggregate demand, fueled mainly by the increased dynamics of the domestic aggregate demand which increased by 13.1% due to increases in private sector final consumption spending, up 6.8% which is tied to adjustments in purchasing power and higher employment levels; and general government final



consumption spending, up 5.7%; and fixed gross investment, up 15.9%, given the increase in value of works under construction and the importing of capital goods. Meanwhile, export demands dropped by 6.4%.

The gap between the aggregate supply and the aggregate demand has had to be covered by imports, which are up by 24.6% during the second quarter 2012. This figure highlights an important imbalance, which is that despite all the efforts of the Administration to promote economic growth, and the success it has had with improving production in sectors that produce non-tradable goods (finance intermediation, construction, and commerce), production in the sectors that produce tradable goods, has not done quite so well.

The improved performance of the non-tradable sectors has fueled economic growth but without being able to satisfy and/or cover most of Venezuelan's needs. This is why imports continue to be so important and to increase. And what's even more worrying is that the sectors that have reflected increased growth, can't due to their nature, contribute to increase the flow of incoming foreign currency. This means that the oil industry is still the only one financing imports.



Sources: BCV and Ecoanalítica

True sustainable growth

The gap in growth between domestic production and domestic demand would be less if sectors such as the manufacturing sector, which as reported, only grew by 0.4%, could be able count of the benefits that the construction sector has received. The development of the manufacturing sector would help cover some of the current needs that are being covered by imports. Plus this is a sector that can produce goods that can be



exported, and thereby become a source of incoming foreign currency which would help ease the pressure created by covering the import of goods not produced domestically. This would also help ease the dependency on oil export revenue which currently contributes 95% of all the incoming foreign currency.

But, the manufacturing sector exists in a state of uncertainty, unable to have access to a regular flow of foreign currency to cover operational needs, and a legal framework that does not clearly define property rights, which is continually changing the rules of the game.

In the end, the increase in GDP growth has been the product of public policies aimed at specific sectors, focused on fulfilling “social” objectives, financed by foreign currency from oil exports, and the country continues to depend on a single activity to develop other activities and to cover the costs of imports.

An increase in GDP that would go hand in hand with an increase in demand, fueled by the increase of activities that are not dependent on the oil industry or its revenue, would make us a country better prepared to weather any adverse events on the international scene. This type of growth would be preferable, though most like at a lesser rate.

The end result is that the rentist model, so criticized by the current Administration, is what has been consolidated. And yes, the road to growth has been paved, but unfortunately, by the incredibly fickle and volatile evolution of the price of oil.





Economic Tips

Petro-Orinoco's are baptized. On Wednesday 22 August, President Chavez on national television baptized Petro-Orinoco bonds with a bit of petroleum from the Orinoco belt. These bonds will cancel debts of labor liabilities to state workers. These are backed by Petroleos de Venezuela and have an annual interest rate of 18%. Besides, the president promised to pay them in two years.

Results of the BP for the 1H2012. According to figures released by the Central Bank of Venezuela, the balance of payments recorded a deficit of US\$1,402 million on the 1H2012. For this same period, the balance of payments shows a surplus of US\$10,202 million in the current account, a deficit of US\$ 11,614 million in the capital and financial account and a negative balance of US\$ 2,203 million in the errors and omissions account.

BALANCE OF PAYMENTS			
General Summary (MMUS\$)	1H2012	1H2011	Var.
Current Account	10,212	15,351	-33.5%
Goods	22,481	24,629	-8.7%
Oil Exports	47,324	43,560	8.6%
Non-Oil Exports	2,177	2,384	-8.7%
Import of goods f.o.b.	-27,020	-21,315	26.8%
Services	-7,502	-5,156	45.5%
Others	-4,767	-4,122	15.6%
Capital Account	-11,614	-17,754	-34.6%
Public Sector	-4,026	-12,009	-66.5%
Private Sector	-7,588	-5,745	32.1%
Reserves Variation	-1,402	-2,403	-41.7%

Sources: BCV and Ecoanalítica

Tax collection in July. According to figures released by the National Integrated Service for Tax Administration (Seniat), VEB 15.4 billion were collected in taxes for the month of July. Of this amount, VEB 3.9 billion (25.4%) are Income Tax, while VEB 5.4 billion (34.9%) were collected as VAT.

In real terms, July tax collection was up by 7.3% compared to the same period last year. The Customs revenue increased in 4.1% and the VAT decreased in real terms



compared to the same period last year. Revenue collected as Income Tax went up by 15.3% in real terms compared to the same period last year.

Concepts (VEB Million)	Jun-11	Jun-12	Var (%)	Real Var	1S 2011	1S 2012	Nominal Var	Real Var
Total Income	12,022	15,395	28.1%	7.3%	79,468	103,625	30.4%	4.4%
Income Tax	2,835	3,903	37.7%	15.3%	79,468	28,488	-64.2%	-71.3%
VAT (Internal)	5,317	5,381	1.2%	-15.2%	33,946	46,214	36.1%	9.0%
Customs revenue*	1,275	1,585	24.3%	4.1%	7,882	10,059	27.6%	2.2%
Other Internal Revenue	748	1,473	96.9%	65.0%	4,634	8,432	81.9%	45.6%
Spirits	189	112	-41.1%	-50.7%	854	637	-25.4%	-40.2%
Cigarettes	530	935	76.5%	47.8%	3,552	5,477	54.2%	23.4%
Inheritance	21	24	16.4%	-2.5%	129	174	35.1%	8.2%
Random games or bets	9	16	86.1%	55.9%	96	58	-39.3%	-51.4%
Others	204	354	73.7%	45.6%	887	1,204	35.8%	8.7%

Sources: Seniat and Ecoanalítica.

* Includes VAT on imports

Worker's Food Basket (CAT) reaches VEB 3,685.3. According to the report of Worker's Documentation and Analysis Center (Centro de Documentación y Análisis para los Trabajadores - Cenda), the cost of the *Basic Food Basket* (Canasta Alimentaria de los Trabajadores - CAT) was VEB 3,685.3 in July 2012, an increase of 0.8% with respect to the prior month, and 22.2% with respect to July, 2011. So far this year the basket has a cumulative change of 9.1% (VEB 306.0).

The behavior of the CAT in July was marked by an increase in five of its eleven items: fish 4.6%, cereals and products 3.7%, roots, tubers and other (vegetables) 2.9%, meat and meat preparations 1.9% and milk, cheese and eggs 0.9%.

Family income only covers 48.3% of the basket. According to the report of Cenda, the new minimum wage VEB 1,780.5, effective from May 1, 2012 has a hypothetical purchasing power of 48.3% and a deficit only to food acquisition of 51.7% (VEB1904.9). That is, despite the recent 15% increase in the minimum wage it is still insufficient, as a family today requires twice the minimum wage just to cover their basic expenses on food.

Construction is still the driving force. According to statements by Jorge Giordani, Minister of Finance, "*construction was the driving force*" that affected the general results of the economy, increasing 17.6% compared to the same quarter last year, and with a fourth consecutive quarter of growth. According to BCV data, in this sector, oil and non-oil activities increased 16.5%, and construction in general (including projects by official entities in infrastructure and housing) had a variation of 67.7%.

Construction rebounding. In 2Q2012 this sector grew 17.6% due to the buildings made by both the public and private sectors, said Jorge Giordani, Minister of



Planning and Finance. The fact is that this growth has a lot to do with the poor performance of this sector in 2Q2011 when it fell 1.8%, and the expansion of the Gran Misión Vivienda which drove public construction to the detriment of private construction.

Asking the private sector for help. Giordani said that to grow between 5% and 6%, the country needs to invest between US\$600 and US\$700 billion in the second socialist plan 2013-2019. *"This means that the contribution of the private sector, particularly in construction and industry, has to increase in order to meet this demand, which will be permanent"*, he said. Giordani added that the private sector not only must contribute in oil matters but also in construction.

VEB 3.3 billion in additional credits. The National Assembly (NA) approved additional credits for VEB 3.3 billion, of which VEB 2.0 billion will be to cover the salary expenses of several organizations, VEB 919 billion to cover budget requirements of the TSJ, VEB 134 billion for the Ministry of Transport, VEB 219 billion for the Ministry of water and air transport to pay for labor liabilities, and the Ministry of Oil and Mines will receive VEB 35 billion to be transferred to Carbozulia, to cover 50% of the labor liabilities of its affiliates.

Spending in 2012 is already over last year's total. With the last VEB 3.3 billion approved, the total amount of additional credits rose to VEB 87.6 billion for the year, 14.0% more than what was approved during the same period last year. This higher level of additional spending has made this year's budget, forecasted at VEB 297.8 billion, reach VEB 385.4 billion, 3.6% more than last year's VEB 372.0 billion.

Interest rates. The lending rate for the second week of August was at 17.6%, increasing by 0.7 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 1.6%, going from US\$25,995 million during the second week of August to US\$25,581 million during the third week of August. Compared to the same period last year, international reserves have decreased by 9.4%.

Monetary liquidity. Monetary liquidity grew 1.4% in the second week of August compared to the previous week, settling at VEB 537,701.8 million. The M2 has increased 53.9% in relation with the same period last year.





Sitme figures. So far this year, US\$6.56 billion 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\$1.42 billion (27.7%) over the same period of 2011, when US\$5.1 billion were negotiated. Lastly, during the third week of August the amount traded reached US\$128.6 million US\$23.3 million less than last week when US\$151.9 million were traded, with a daily average of US\$38.0 million.

Oil Tips

Pdvsa isn't growing. Oil GDP results for 2Q2012 (1.0%) don't correspond to the Extraordinary Investment Plan that Pdvsa announced at the end of 2011, which intended to increase production by 500,000 barrels per day this year, a variation of 3 to 3,5 million barrels per day (mb/d). *Ecoanalítica* considers that the variations in oil GDP between April and June barely indicates an increase of kb/d.

Pdvsa and CVG signed the Orinoco agreement. Rafael Ramírez, President of Pdvsa, and Rafael Gil Barrios, President of the Corporación Venezolana de Guayana (CVG), signed on Monday August 21 the Orinoco Agreement. *"It's the framework that will allow us to sign a set of agreements"*, said Ramírez, adding that several areas for development open up with the agreement, like agriculture, livestock, and agro industry, among others.

Pdvsa will invest in Guayana. In the framework of the Convenio Orinoco, Rafael Ramírez, Minister of Oil and Mining said that he expects to have an investment plan together with the CVG, to link the production of Guayana's Basic Industries with the industries down-stream, to supply even Pdvsa itself. These plans were also announced by President Chávez during a visit to the basic industries.

Pdvsa will give 10% of the Petropiar upgrader to the basic industries. President Chávez announced that *"Pdvsa will transfer 10% of its shares in the Petropiar heavy crude oil Project, operated together with Chevron, to CVG"*, to *"help the finances of the aluminum and steel companies"*. The Venezuelan Oil Company has 70% of Petropiar, and Chevron 30%. We will see if CVG, which has failed tremendously managing two highly productive sectors like aluminum and steel, will be capable of doing something with the new resources coming from the oil industry.



New leak. Last Saturday, August 18 there was a leak in the pipeline that transports crude oil from the Oficina tank yard to the José Antonio Anzoátegui industrial complex, *"because a crack was found in the pipeline while performing the inspections prior to the major maintenance planned for the area"*. Pdvsa informed that on Sunday, August 19 the leak was controlled.

The Chinese pay better. According to Rafael Ramírez, Minister of Oil, China *"pays a better price compared to the US market"* and 640 kb/d are already been sent to that country. The fact is that the barrels sent to China are in payment for the loans of the Venezuelan State, and are part of the Government's policy to sell less crude oil to the United States.

Now also to India. Striving to diversify its clientele, particularly in the Asian market, Pdvsa is not stopping. Rafael Ramírez, Minister of Oil and Mining, informed that Pdvsa will make an agreement with the Indian company Reliance, to supply heavy crude oil, which in the long term could reach 400 kb/d. At the end of 2011, Venezuela sent India 165 kb/d of crude oil, and 1 kb/d of products, on average.

Will coke be used or not? Rafael Ramírez, Minister of Oil and Mining, informed that there is a project to install a coke burning plant, to transform this heavy crude by-product into material for the steel mills and into fuel for thermoelectric plants, thus using part of the 6.5 billion tons of coke that Pdvsa generates each year. Ramírez didn't give any details about the project and its costs, only that they have already been contracted.

Nothing for Syria. Minister Ramírez confirmed last week that for now, no more barrels will be sent to Syria, country that is basically under civil war, and whose government has had to import oil to confront the armed conflict. Up to May, at least three fuel shipments were sent, as part of the 20 kb/d supply agreement signed in 2010 between Syria and Venezuela.

US\$100 is a fair price. Rafael Ramírez Minister of Oil and Mining, said during an interview for the newspaper "El Universal" that a price of US\$100/bl *"is comfortable and fair"* and reiterated that *"Venezuela has to capture as much of the rent as possible"* for the development of the country. Ramírez said that he understood the position of consumer countries, who may not be able to pay U\$140 or U\$200 per barrel, thus considers that U\$100/bl *"could be a scheme were an agreement is reached"*.

US wants to maintain prices at bay. The White House confirmed that it is considering releasing oil from the so-called Strategic Reserves, and is closely following the evolution of the world oil market. Josh Earnest, presidential spokesman



said that *“releasing part of the strategic oil reserves is an option under study”*, which would reduce the upward trend of oil prices, something that US sanctions against Iran has weakened.

Mexico has a great problem. After reaching a peak of 3.2 mb/d in 2008, oil production in Mexico has plummeted; last year production didn't reach 3 mb/d, due to the age of the wells (and thus their lower production), and years of lack of investment. Experts consider that Mexico could revive its production if it allowed a greater foreign investment, but with the present policy, it may even have to import crude oil by 2020.

International baskets. At the time of foreclosure in New York, WTI was traded on August 17 at US\$93.8/bl, which shows an increase of 1.1% compared to US\$92.8/bl recorded the previous week. Meanwhile, Brent rose by 3.2% to reach US\$ 114.8/bl compared to the previous week, when it reached US\$111.8/bl.

Local basket price. The Venezuelan oil basket price rose last week to close at US\$102.2/bl on August 17, resulting in a increase of 1.6% compared to US\$100.6/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.4/bl.

Business Sector Tips

Almost 2 billion tons of food marketed. As informed by Carlos Osorio Minister of Food, the government has marketed 1,964,278 tons of food in basic needs distribution chains during 1S2012, through the “Mercados de Alimentos” (Mercal) network, “Productora and Distribuidora Venezolana de Alimentos” (Pdval), and “Abastos Bicentenario”. He said that in 2003 the National Government marketed 45,661 tons of food, while in 2011, 3,759,607 tons were offered, and they expect to distribute more than in 2011.

Osorio: “70% of food is produced domestically”. Carlos Osorio, Minister of Food, said that 70% of the food consumed in the country is produced domestically, while the remaining 30% are imported. The official said that up to 1998, close to 50.7% of the food was domestic, while 49.3% were imported. Osorio also said that at present 16 million people acquire products in the 22,300 establishments of the state's food networks.



The figures don't add. However, BCV figures show that food, beverages, and tobacco dropped 9.4% in the 2Q2012. With this, the sector had five consecutive quarters of drops, and a concerning acceleration of the contraction, because during the first quarter of 2012 the drop in the production of food, beverages, and tobacco has been 6.9%

Rise in production costs is smothering the food industry. Pablo Baraybar President of Cavidea, explained that the price controls for the food sector, rather than leading to less inflation and more products, has led to disinvestment, scarcity and high prices. Baraybar said that the lag in prices prevents companies from having a fair profit, and that the installed capacity of the food industry is the same since 2006 because investments have stopped in the sector making demand greater than supplies.

The government expects to finish 110,000 homes in 2S2012. Through Gran Misión Vivienda Venezuela, the government is planning to accelerate the construction of housing solutions in 2S2012. Minister Ramírez made a balance of the Misión and said that in 7 months, 91,829 units were built; of these, 24,117 corresponded to the private sector, and 67,700 to the public sector. For 2012, the goal is to build 200,000 units, and they expect to finish 110.000 units to achieve it.

Provea corrects the government's housing figures A report of the Venezuelan Program for Education-Action in Human Rights (Programa Venezolano de Educación-Acción en Derechos Humanos - Provea) states that *"up to May 15, 44,954 units had been awarded, 22.0% of the amount announced"* on May 16 by Andrés Izarra, Minister of Communication. Provea spokesperson's highlighted the lack of official information, as well as of international agreements, and the disparity in the figures given by officials.

Cuban medicines for everybody. According to figures of INE, in 2006 pharmaceuticals were imported from Cuba for US\$10.7 billion. At the end of 2011 the amount was US\$292.2 billion, an increase of 2.613%. The traditional suppliers of the sector didn't show that increase: Germany 204%, Switzerland 128% and the US 153%. For 2012, purchases from Cuba amount to US\$126 billion, almost US\$4 billion more than what was purchased from Germany, a giant in the pharmaceutical industry.

The Farmapatria network expands. The government inaugurated establishment No. 14 of Farmapatria, a network created in alliance with Fundafarmacía, which has social purposes and belongs to the Pharmaceutical Industry Chamber (Cámara de la Industria Farmacéutica - Cifar) and the Venezuelan Medication Chamber (Cámara Venezolana del Medicamento -Caveme). In the event, Carlos Osorio, Minister of



Food, said that 13 new establishments will be opened, and insisted that medications cannot be considered *"from the capital point of view"*, but rather as a *"service to mankind"*.

First shipment to Mercosur leaves. Last Saturday morning, Venezuela sent a shipment of 14,000 tons of urea, 262 tons of glass containers from the "Empresa Venezolana del Vidrio" (Venvidrio), and 55,680 liters of the agrochemical "glifosan" to Brazil and Uruguay. This was the first shipment to the Mercado Común del Sur (Mercosur). The government assigned the ships José Leonardo Chirino, Manuel Gual, and José María España, of the "Corporación Venezolana de Navegación" (Venavega) to do the shipment.

Steel complex production reached 117,992 tons. Ricardo Menéndez, vice-president for the economic and productive area, informed that the production of the national steel complex reached 117,992 tons in 1Q2012, while during the same period in 2011 it was 67,000 tons, an increase of 76%. Menéndez said that this complex was nationalized by the government to meet the social needs of the country, and said that close to 20% of Sidetur's dispatches are associated to the Gran Misión Vivienda Venezuela.

New station in Valera. With an investment of VEB 60 billion, the government will start operating the Valera II sub-station in Trujillo, with an installed capacity of 108 megawatts. Argenis Chávez, President of the National Electric Corporation (Corporación Eléctrica Nacional - Corpoelec) said that the work is almost 95% done, so he estimates that by the end of September it will start operating, thus reducing the burden of the other substations in the state.

Banco de Venezuela leader in the financial system. According to the monthly report published by Softline Consultores, Banco de Venezuela remains the leader in the national financial system, with a credit portfolio of VEB 55.32 billion, 16.8% of this banking activity. Likewise, it is the first bank of the country in terms of assets, with VEB 116.82 billion, an annual variation of 63.3%, and the first place in capital, with VEB 8.6 billion for the reference month, for which the annual variation is 76.9%.





World Economy Tips

US: Industry is reacting. Industrial production increased 0.6% in the United States during July, over what was expected (0.5%). This higher industrial production was due to the 0.5% increase in manufacturing, driven by the 1.9% increase in car production, and an increase of 1.3% in utilities, due to the heat during the summer; the use of the installed capacity reached 79.3%

US: Consumers remain confident. The consumer trust index published by the University of Michigan, was 73.6 at the end of the second week of August, an increase of 1.8% compared to the 72.3 recorded at the end of July. During the last ten years, there has been a 61% correlation between the level of trust of consumers, and quarterly changes in personal consumption, so an increase in trust is perceived as a sign of more dynamism in domestic demand.

European economy falls in 2Q2012. According to figures published by the European Union Office of Statistics (Eurostat), during 2Q2012, the GDP of countries using the Euro, and the 27 EU countries fell 0.2% as a whole, compared to the previous quarter, while the GDP of the 27 members only increased 0.1%. Germany's GDP increased 0.3%, while in France it didn't vary, both figures over the expectations.

Inflation remains stable. Inflation in the EU was 2.4% a/a for the third consecutive month, and although it is over the 2% goal established by the European Central Bank (ECB), the inflationary core has maintained its annual variation between 1.8% and 1.9%, an indication that prices may be stabilizing around 2% in the middle term.

EU: another sign of weakness. The EU's trade surplus increased significantly in July, reaching EUR 10.50 billion, compared to EUR 6.80 billion in June; this increase in surplus was driven by a 2.4% rise in exports, while imports have remained stable, as well as the fall in the value of the Euro (which has increased exports and reduced imports), and domestic demand has weakened, which is impacting trade flows considerably.

Spain: non-payment record. According to data by the Bank of Spain, the number of credits granted by the banks and other financial entities in Spain that have not been paid reached a historic high, and in June, arrears amounted to 9.4% (2.7pp more than in June 2011), over the historical maximum of 9.2% in 1994. According to data



from the Bank of Spain the total amount of unpaid credits reaches almost US\$ 200 billion.

Greece avoids non-payment, for now. The Greek government placed bonds at three months for EUR 4.0 billion, and has been able to meet the debt of EUR 3.2 billion in bonds that the ECB had, avoiding a disorderly default that would have forced it to leave the Eurozone. Greek banks have been the largest purchasers of the last issue, since foreign investors are reluctant to loan money to Athens.

But its exit isn't ruled out. According to Erkki Tuomioja, Minister of Foreign Affairs of Finland, several European governments are preparing contingency plans in private, in case of a possible exit of Greece from the Eurozone. Tuomioja said during an interview with the BBC, that the governments are considering all scenarios, including a possible rupture of the single currency.

Lower growth for Latin America. The World Bank (WB) expects the Latin American economy to grow at least 3.7% this year, below the 4.2% recorded in 2011; this slight slowdown is due to the lower growth of the largest economies in the region (Argentina and Brazil). The region is not only affected by the European recession, and its severe debt crisis, but also by the drop in the growth and demand from China.

The great turnaround of the Brazilian economy. The Brazilian government launched this Wednesday the first stage of a wide package of measures to inject more than US\$50.0 billion in the next five years, and thus reactivate the economy. The plan includes the privatization of about 14,000 kilometers of railways, the privatization of ports, and industry incentives. The new package is a change in the official strategy, in which State expenditures and State enterprises played a main role.

Use of the internet as a sales channel increases in Latin America. America Economic Intelligence, stated in a study that the region's general e-Readiness index went from 0.62 in 2009 to 0.80 in 2011. The index compares the level of preparedness of 18 countries in the region regarding the development of electronic trade, considering among other things, the market volume and the technological infrastructure. The rise in the index goes hand in hand with market volumes in the use of internet, as well as the adoption of new technologies by consumers.





Political Tips

An “irreversible” advantage. According to Jorge Rodríguez, head of the Carabobo command campaign, almost two months after the electoral campaign started, the surveys show that the lead of President Chávez is irreversible. Rodríguez highlighted the fact that *“for the first time there is no survey war”* and said that the positive perception of the President, which the pollster Hinterlaces established at 67% and the 61% vote intention of Venezuelans for Chávez, indicate that it is possible, if there is low abstention, that Chávez obtains 70% of the votes.

A second opinion. On the other hand, the survey by Datanálisis places the intention to vote for Chávez at 46.8%, an advantage of 12.4 pp over candidate Henrique Capriles, who has 34.4% of the votes. According to Datanálisis, the proportion of undecided fell from 23.1% in July to 18.8% in April (*sic*), with 83% of those who were formerly undecided going towards Capriles, so if this trend continues, the fight in October could be close.

Capriles only 2 points away. The pollster Varianzas revealed the results of its last field study, performed between August 2 and 15 of this year. In this survey, opposition candidate Capriles Radonski has 47.2% of the vote intention, specifically 2 away from President Hugo Chávez who has 49.3%, and 3.5% are undecided.

While Predicmática places the intention to vote in favor of Henrique Capriles at 48.3%, an advantage of 4.6pp over President Chávez, who has 43.9% of the votes, and 3.9% undecided. According to Predicmática the vote intention in favor of Capriles increased from 47.7% to 48.3% between June and August, while for Chávez it remained at 43.9%.

The Carter Center will no longer participate. The Carter Center indicated in a communiqué that the CNE authorities invited them to *“be an intermediate option”* and send a small group of experts to participate in some pre-electoral audits, and in the observation during the day of the elections. The Carter Center said, however, that it received the invitation too late *“to evaluate it, to identify and transfer the experts, and to obtain the necessary financing”* so the center rejected the invitation.

In the best of conditions. Leopoldo López, National Coordinator of Comando Venezuela, said that from the organizational point of view, the “Unidad” is in *“the best*



condition it has had in the last 14 years". López also informed that the opposition expects to have 117,000 accredited witnesses during the presidential elections, "so that the process has the greatest flow of people" possible.

Oil was given away by the rulers. During a ministerial conference, Hugo Chávez, President of the Republic, defended himself from the accusations of MUD candidate, Henrique Capriles. "I am still being accused of giving away oil, but it was given away by the other rulers" said Chávez, who also said that before his accession, Pdvsa was "forced" to sell oil below cost to Citgo, or with lower benefit margins for the nation.

"Growth of the economy is fragile". The coordinator of the government program of Comando Venezuela, Ricardo Villasmil, said that the growth of the Venezuelan economy is fragile. He criticized the government for proudly showing "economic growth numbers that have nothing to do with the reality of Venezuelans". According to Villasmil growth has occurred in sectors linked to imports and not to national production or manufacturing, which remain stagnant, so domestic supplies are insufficient to cover demand.

Venezuelans eat imported food. According to representative Hiram Gaviria, Political Secretary for Agriculture and Livestock of the party Un Nuevo Tiempo (UNT), today Venezuela is importing most of its foods. According to the leader, the production of rice and corn, basic for the Venezuelan diet, is insufficient and therefore around 30% of the domestic consumption of these items is imported. He also highlighted the reduction in the production of regulated items like powdered milk and oil, which Venezuelans buy overpriced, despite the fact that they are imported.

And apparently it is more. "The President is so disconnected that he doesn't even know what his ministers say", said Julio Borges, NA representative, referring to the contradictions between what Hugo Chávez said, and what the Minister of Food said regarding food imports. Borges quoted the accounts of the Ministry of Food, which state that through Corporación CASA, 4 billion tons of food were purchased in 2011, of which 3.5 billion tons were imported, so 87% of the food purchased by the government was imported.

Chávez: "My victory is convenient for the rich". Hugo Chávez, President of the Republic, said during an act in the Teatro Municipal de Caracas, that his victory in the October 7 elections "is convenient for the bourgeoisie", and that many rich people are aware that he is working for all, to stabilize the country; this "guarantees the rich that they will be able to continue with their normal life"; the head of state said that according to some surveys, even in that sector he has 30% of the votes.





Legislative Tips

Key aspects of the rental law still not implemented. Nine months ago, the reform of the Real Estate Rental Law entered into force, however, there are still aspects of the law that are not being enforced, like the calculation of rentals and the establishment of the percentage of new units destined for rental; to this we must add the slowness in the sale of real estate destined for rental. So far only the creation of the registry for rental contracts has been fulfilled

Enabling law is over parliament. The evaluation reported by the NGO Monitor Legislativo on the operations of the National Assembly (NA) during the period that ended on August 15 is disheartening. Of 46 laws that were on the agenda, only 7 were approved. Attorney Luis Alfonso Herrera compared the laws that were passed by parliament, and those approved through the enabling law, and said that *"the Enabling Law and the Interior Regulation and Debate were the elements that conditioned the operations of the NA and during this period it was more evident than in prior ones"*.

The NA "has degraded". Representative Eduardo Gómez Sigala said that the debate at the NA has "degraded", and issues like safety have dropped in importance, but he thinks that things may change in September. He said that those leading the NA are the ones with the greatest rejection, *"because they don't tackle fundamental issues. When in September (after the elections) we return to the sessions, we won't have an enabling law. During this year and a half, laws have been issued with the enabling law, underestimating the discussions of the commissions"*.

Case of the Ambassador of Kenya should be investigated. Williams Dávila as well as "Monitor Legislativo" have requested a thorough investigation to the Foreign Policy Commission of the NA about the murder of the Ambassador of Kenya and all the diplomatic irregularities, like the arrest of a US citizen qualified by Chávez's government as an alleged former marine and mercenary, who didn't have the proper service record to occupy the post of first secretary.

Workers demand a discussion about the collective bargaining agreement. The Secretary of the National Assembly Workers Trade Union (Sifucan), José Vicente Rivero, informed that union members were received by the Parliament's Social Development Commission. Parliament members unanimously supported their demands: the discussion and signing of the collective bargaining agreement for 2011



and 2012. They approved a commission to talk with the President of the National Assembly, Diosdado Cabello, and also to go to the Labor Inspector, to request a discussion of the collective bargaining agreement. There are around 4 thousand workers, active and retired, who are affected.

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ECONOMIC OVERVIEW

