



# Weekly Report

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*Growth during the First Semester: The model is wearing thin...*

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*"Venezuela is recovering, turning the page from recession and moving towards sustained growth, not only in 2011, but also in 2012".  
Jorge Giordani.*

The Central Bank of Venezuela (BCV) recently disclosed the growth and balance of payment results for the 2<sup>nd</sup> quarter 2011 and 1<sup>st</sup> semester 2011. In this report we will try to make a brief analysis of the behavior of GDP figures for this 1<sup>st</sup> semester 2011 that is just over, which clearly show that although the Venezuelan economy is still growing, it appears to be losing strength as time goes by, and everything seems to indicate that the formula commonly used thus far to energize the productive apparatus by increasing public expenditures (high oil prices + pre-electoral year) apparently doesn't have the same desired effects as in previous periods; on the contrary, it seems to be losing its expected effectiveness.

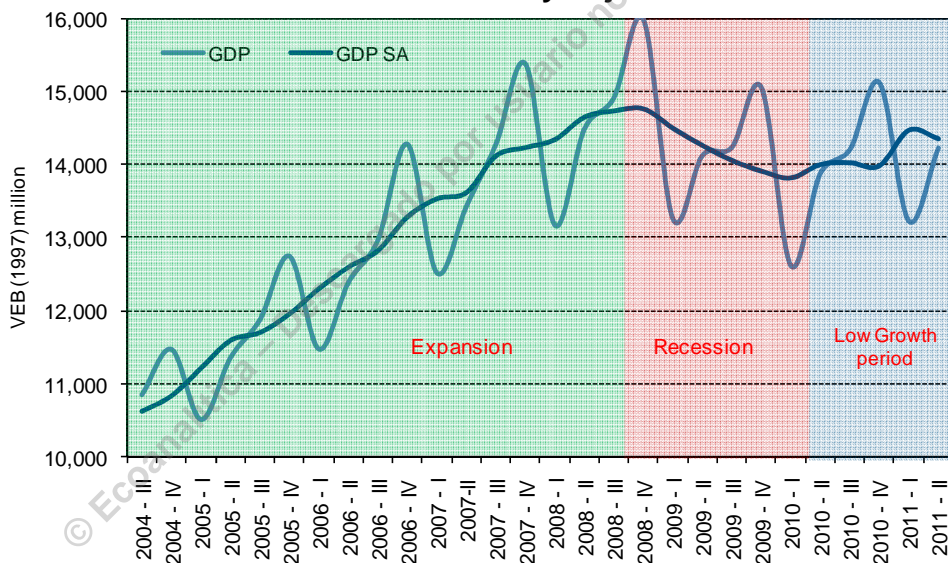
**There is no rebound effect**

Nelson Merentes, President of BCV, said that in the 1st quarter of 2011 the economic activity grew and there was no rebound. Moreover, the



official said that "the term rebound doesn't exist in the economic literature or in economic theory", and added "we will see in the next quarters who is right". However, at the end of the 2nd quarter of 2011, contrary to what Merentes said, the results indicate that the rebound effect does exist and here is the proof. If we analyze GDP growth, seasonally adjusted annualized rate (SAAR) in this period, we have that the GDP fell 3.2% compared to 1<sup>st</sup> quarter 2011, then, despite Government's claims that Venezuela's GDP grew 4.8% in that period, we must clarify that comparison became one of the worst results recorded in at least the past 15 years.

**GDP Vs. Seasonally Adjusted GDP**



Sources: BCV and Ecoanalítica  
Seasonal adjustment made by X12 method

### It seems like we lost our bounce

According to preliminary figures of the BCV, Gross Domestic Product (GDP) (at constant prices), grew 2.5% in the 2<sup>nd</sup> quarter 2011, significantly lower than the growth registered in the 1<sup>st</sup> quarter 2011, of 4.8%. This shows how the Venezuelan economy experienced a slowdown, even greater than expected by government authorities, which estimated a much higher rate for this 2nd quarter 2011 than the one recorded in the 1<sup>st</sup> quarter 2011.

These statistics released by the BCV indicate that although the economy is still in an upward trend, the growth is losing strength quickly, indicating that the country is not fully recovered from the recession of the last few years.



Proof of this is that the 2.5% growth rate is not even close to what is required to vanquish recession, since the GDP of the 2nd quarter 2011 is still considerably lower than the one registered in the same period in 2008, when growth was at its best level, 7.8%.

We must not deny that these data for the 2nd quarter 2011 clearly show an increase compared to the 1.7% drop in the 2<sup>nd</sup> quarter 2010, supported by an increase in most economic activities. This result together with the 4.8% increase in the 1st quarter 2011, explains the 3.6% increase for the 1<sup>st</sup> semester 2011, compared to the 3.2% drop reported for the same period in 2010. Nevertheless, it is still much lower than the level reached in 2008 (6.6%).

**The boom is no longer what it was**

According to BCV, the performance of the different economic sectors indicates that oil activity increased only 0.1% in the 1<sup>st</sup> semester 2011, while non-oil activities increased only 4.0%. This is in contrast to the growth rates for the same period in 2008, of 3.7% and 6.9% respectively, when the Venezuelan oil basket had an average price of US\$102/bl, a similar figure to the US\$98/bl of 1<sup>st</sup> semester 2011.

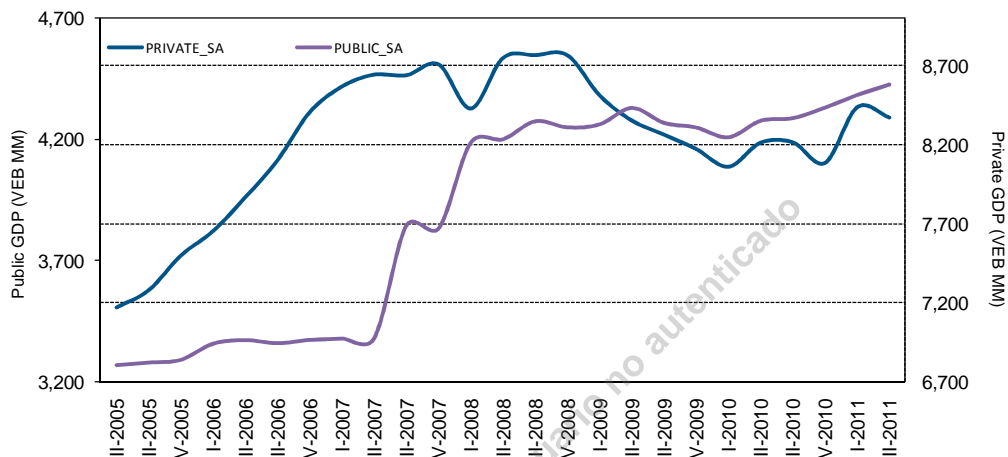
From the institutional point of view, the private sector had a variation of 3.2% in the 1st semester 2011, due to an increase in most of its activities, after two continuous years of falls. The public sector grew 3.9%, based on manufacturing, general government services, and financial and communication companies. Nevertheless, these figures are still far from the growth reached by this sector in 2008 (24.2%).

To **Ecoanalítica** is clear that the new economic model not only limits private sector growth, but also the public, as it grows within it, grows little or insufficient (the bureaucracy, inefficiency and corruption, to name a few could also be determinants of poor public sector performance) to stimulate an economy whose ultimate dynamic corresponds to the private (58% of total GDP), so that if two sectors grow below its potential we have no choice but to take low economic growth rates in the future, for a country with an immense potential, not only in natural resources but also human resources. So, what we called boom when oil prices were rising, now we can only call it: breath.





**Public GDP Vs. Private GDP (Seasonally Adjusted - SA)**



Sources: BCV and Ecoanalítica

**Between public spending and lack of private investment**

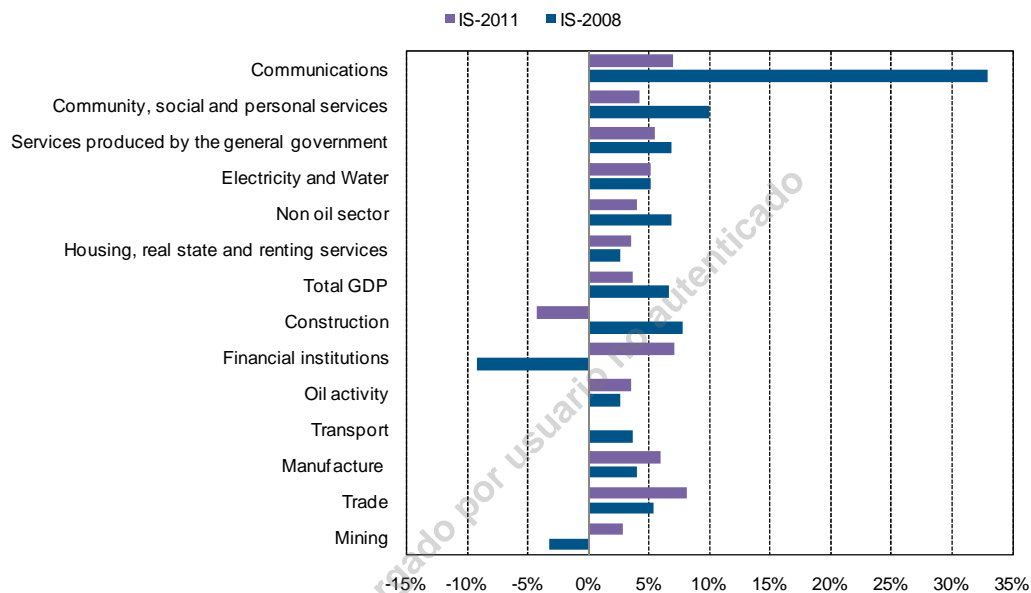
A positive result in the added value of non-oil activities was associated with the widespread growth that manifested in: financial institutions (7.1%), electricity and water (5.2%), trade (8.1%), communications (7.0%), transport services and storage (5.9%), services produced by the General Government (5.5%) and manufacturing (4.6%). This is due to increased imports of raw materials and production-oriented inputs, greater availability of imported goods, especially for the industrial sector, and the recovery of hydroelectric generation. However, most of these results were significantly below the figures recorded in the same period in 2008.

The results were helped in large part by the recovery of aggregate domestic demand (6.2%) mainly due to the perceived consumption expenditure of the public (6.7%) and private (3.1%) sectors, grounded in increased government spending (which was generated in part by the increases in the fiscal contribution of the oil sector and the collection of Seniat), the minimum wage increase decreed by the Executive (in the past month of May), adjustments in the framework of the collective agreements in the private sector, among others.

Here we must mention the behavior of investments in this period, a key variable in the economy, which is linked to the purchase of machinery and equipment that allow an increase in production, and thus lead to hiring more personnel, which fell 3.6% in the 2<sup>nd</sup> quarter 2011, the lowest level in three years, and its result at the end of the 1<sup>st</sup> semester 2011 reveals a drop of 0.1%.



### Growth by economic activity



Sources: BCV and Ecoanalítica

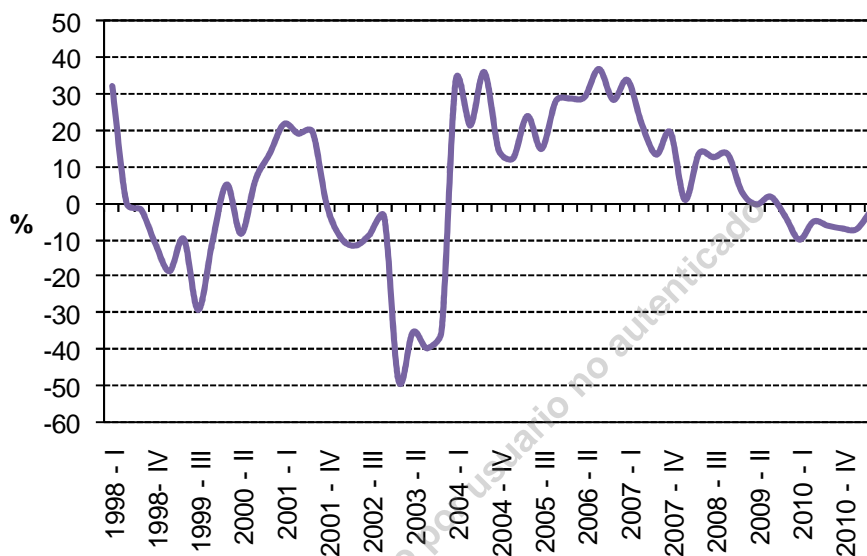
#### Much ado about nothing

Regarding results in the construction sector, important for job creation, it exhibited a drop of 4.3% in its aggregate value during the 1st semester 2011; however, we must note that it was due to a lower availability of products required for construction in the private sector, contrary to what could be expected, considering that the main producer (of rods and cement) is the Venezuelan State; thus, the difference in construction figures between the public and private sector is still great, given the execution of a greater number of works in the oil sector, and the advances in infrastructure for the Gran Misión Vivienda Venezuela, which by the end of the 1<sup>st</sup> semester 2011 had only finished about 33,650 housing units, of which only 13,802 units were built by the public sector, and 19,848 by the private sector.





### Construction Sector GDP (Var% y/y)



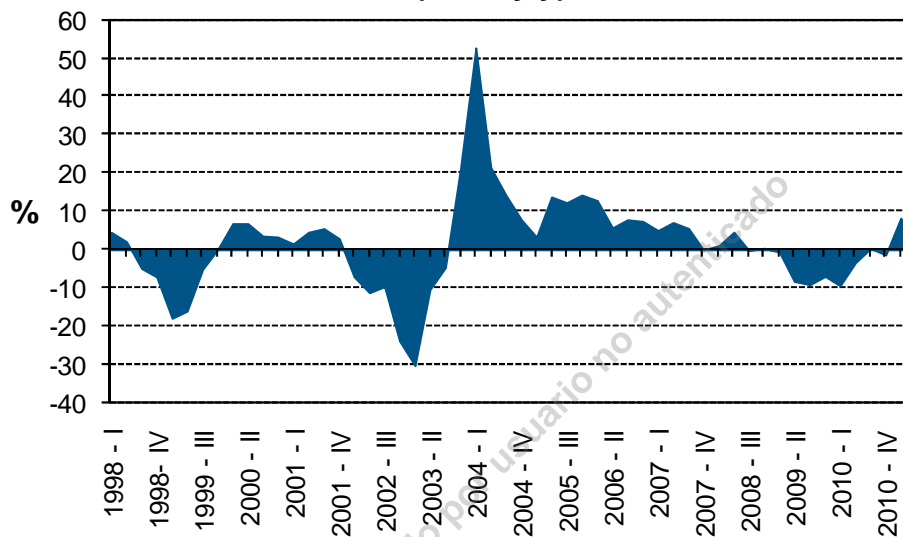
Sources: BCV and Ecoanalítica

In the case of the manufacturing industry, which together with construction is one of the most important sectors driving the economy in general, it experienced a great slowdown, going from 8.3% in the 1<sup>st</sup> quarter 2011 to 1.3% in the 2<sup>nd</sup> quarter 2011, due only to the obstacles that productive activities must face. But in the last period particularly, the result was due to the 1.3% drop in the production of foods and beverages, due to the strong rains, the delays in availability of inputs, the volatility of imported raw material prices, and the drop in chemicals products of 6.4%, and machinery and equipment of 27.3%.





### Manufacturing Sector GDP (Var% y/y)



Sources: BCV and Ecoanalítica

We must remember that manufacturing and construction represent 14.9% and 6.3%, respectively of total GDP, with a total weight of 21.2%, more than one fifth of the economy. This clearly reveals its importance in the performance of the productive apparatus.

**And the formula... no longer works?**

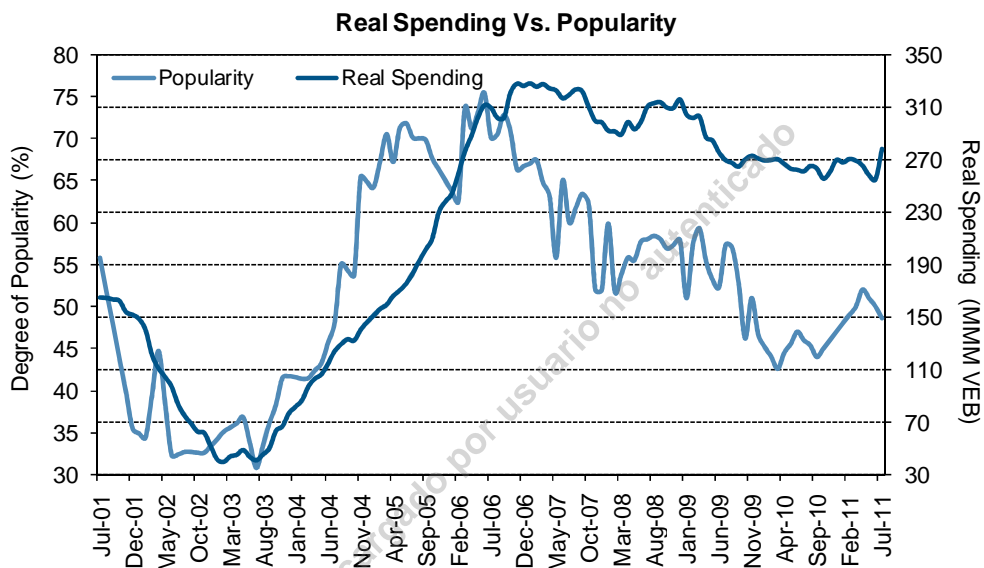
So far, and as reported by official statistics, the price of oil still seems to defy gravity and so far this year has remained at a staggering average of US\$98.7/bl, while the government spending in real terms, despite having increased from the previous two years, is still below what was executed in the same period in 2006 (last presidential election year), and thus, the economy has begun to respond somewhat apathetic to this expense that has a significant impact in levels of popularity<sup>1</sup>.

This suggests that, given the size that it has acquired the public sector within the economy, coupled with high inflation that affects "all", this spending, that in real terms has increased only 8.1% so far this year, should grow at a rate far greater, even seem that it should be greater than the increase in spending that occurred in 2006 (35%) to generate the stellar growth rates of previous years and that sense of social welfare that allowed the government to reach levels of around 60% popularity (as

<sup>1</sup> Remember that according to studies of *Ecoanalítica*, the real increase in public spending has a correlation of 80% with increasing levels of popularity.



currently stand around 45% according to national surveys). It thus appears that the recipe is no longer working.



Sources: Oficina Nacional del Tesoro (MF), BCV, Datanálisis and Ecoanalítica

### Dreams vs. reality

At the end of the 1st quarter 2011, Jorge Giordani, Minister of Planning and Finances said that *"we overcame the recession and will grow"* adding that *"there is political ill will, and lack of integrity from the sectors, preventing them from acknowledging that the economic recovery is due to the policies implemented by the Administration"*.

However, an analysis of official statistics clearly show that these policies have for the most part been erratic, since their implementation, far from generating benefits for all economic sectors, have rather caused a hostile and discouraging business environment, marked by legal insecurity due to the laws approved, for example the Law of Fair Costs and Prices, to confiscations, exchange and price controls, licenses and permits, expropriations, and to the severe and constant reviews, which make investments lose ground, and increasingly restrict production capacity.

The strategy implemented in the last twelve years to generate *"sustained"* economic growth rates have not had the best result, since we still need to include in the formula an important variable, namely optimum investment levels (together with high expenditure and consumption levels). Given their absence, the possibility to grow at high rates or at least in a sustained manner seems to be wishful thinking.



In this sense, contrary to the opinion of the economic cabinet, at **Econalítica** we believe that GDP growth in the first semester 2011 is not the preamble of a sustainable expansion. The set of socially convenient policies (but inefficient in practice) will continue to be economically inefficient. Given this situation, our forecast is that by the end of the year, economic growth will gradually lose force, and be close to 3.1%.

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## Economic Tips

**Finally!** After two years of not releasing official numbers, the Central Bank of Venezuela finally published the updated monetary base indicator, indispensable to formulate the nation's monetary policy and to analyze its economic reality. The statement indicates the review carried out by the BCV followed legal changes as well as the consolidation of financial innovations occurred in the nation that affect in one way or another the concepts involved in the calculation of the monetary base and other indicators.

**BCV financing of Pdvsa.** The update of the monetary base revealed that, as of the end of July of 2011, the BCV has financed Pdvsa with VEB 42.53 billion. The latest reform to the BCV law opened the door to make bills to solve cash flow problems in public companies, establishing in article 49 that the BCV could *"grant loans with warranties over credit securities issued by the Republic or its decentralized entities."*

**Venezuela's international reserves are enough for only two months.** Venezuela's operative international reserves are currently at US\$6.7 billion, their lowest level in the last 12 years, a figure that would only be enough to finance two months of imports. Although there are different opinions, consensus beliefs indicate a nation's international reserves should be enough to cover at least eight months of foreign purchases.

**Government to use extraordinary income without limitations.** Thanks to the reform of article 7 of the Law of Financial Administration, the National Administration will now be able to perceive additional income from the same source for more than three consecutive years and still consider them as *"extraordinary income"*, keeping them out of the national budget. Previously, when the executive created a tribute in a fiscal year and then extended its application, during the fourth year that tax revenues went to be seen as recurring income (ordinary) and had to be included in recurrent expenditure (budget), now the Government may have no limitations of the additional revenue.

**Less money for regional governments.** Thanks to the same reform, this additional income will not be part of the nation's budget allocation, thus restricting access to these resources to regional governments and facilitating the transfer to parallel funds.



**Only 9.4% of supplementary appropriations have gone to missions.** So far this year, the National Assembly has authorized 105 requests for supplementary appropriations for a total amount of VEB 77.33 billion, engrossing the National Budget by 37.8%. Out of this total, only VEB 7.28 billion were used in social missions.

**New minimum wage does not cover the basic product basket.** The pending 10% salary increase ordered by President Chavez for 2011 will take the minimum wage to VEB 1,548 as of September 1. However, thanks to the increasing inflation (according to BCV, the inflation accumulated until July of 2011 reached 16.0%), this increase is still not enough to cover the basic product basket which, according to INE, as of July of 2011 cost VEB 1,576.

**Venezuela is back in the fifth place.** For a very long time, Venezuela held the region's first place in the basic remuneration ranking, but the devaluations of the last few years have made the minimum wage in USD get smaller and smaller. Thanks to the latest adjustment, the minimum wage in Venezuela will go from US\$327 to US\$360 per month, placing it fifth, behind Argentina (US\$550), Panama (US\$450), Paraguay (US\$410) and Chile (US\$338).

**Debt grows as well as funds.** The statistics of the Central Bank indicate that, while the Central Government's due bills reached US\$84.72 billion as of the end of June of 2011, the Administration keeps increasing the number of US Dollars deposited in parallel funds such as the "*Fondo Gran Volumen*" related to the agreement with China, the "*Development Fund*" (Fonden), the "*Fondo Súbito Social*," the National treasury, Pdvsa, and the BCV itself, all of which total US\$35.18 billion as of the end of June.

**Why are 66% of the nation's reserves in gold?** Venezuela's current international reserves reach US\$28 billion, the minimum level established by the BCV and the National Administration. A few weeks ago, President Chavez decided to revalue gold bricks every six months. According to the Government, thanks to this, the international reserves will increase, thus allowing the transfer of extraordinary reserves to the National Development Fund.

**More supplementary appropriations.** During the session of Tuesday, August 30, the National Assembly discussed the authorization of six supplementary appropriations to be destined to three ministries: Internal Affairs and Justice, Defense and Environment. Three supplementary appropriations correspond to the Ministry of the People's Power for Internal Affairs and Justice for VEB 90 million, VEB 34 million and VEB 56 million, respectively.



**Interest rates.** The lending rate for the third week in August was at 15.24%, decreasing by 3.67 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 increased 1.6% going from US\$28,134 million during the third week in August to US\$28,579 million during the fourth week in August. Compared to the same period last year, international reserves have decreased by 25.5%.

**Monetary liquidity.** Monetary liquidity in the third week in August increased 0.1% compared to the previous week settling at VEB 349,726 million. The M2 has increased 35% year-on-year.

**Sitme figures.** So far this year, US\$5,335 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the third week of August the amount traded reached US\$178.7 million, US\$57.8 million more than last week when US\$120.9 million were traded.

## Oil Tips

**Oil GDP reflects sector contraction.** The high prices of oil and the benefits they should imply for the oil sector do not reflect in the oil activity's GDP, which over the last three years has been behaving erratically with marked contractions. The BCV reported that during the second quarter of 2011, the oil sector's GDP grew by 0.8%, growing only 0.1% in the first semester of 2011. Although this growth of the second quarter is much better than the -0.5 contraction reported in the first quarter, it is evident that the oil activity is not developing at the expected pace.

**Pdvsa's official numbers reflect a decrease in production.** Pdvsa assures it produced 2.97 million bl/d as of the end of 2010, within the framework of OPEC's production quota reduction, in effect since 2009. This number is evidence of the decline in crude oil extraction, as in 2008, when the oil GDP grew by 2.9%, the crude oil production averaged 3.26 million bl/d.

**Oil income so far this year.** US\$43,584 million entered the nation from oil and oil by product sales during the first semester of 2011, according to calculations provided by



the Central Bank of Venezuela. Compared to the first semester of 2010, when the figure reached US\$30.911 million, Venezuela's oil exports income has increased 41%. The total amount recollected by Venezuela during 2010 was US\$62,317 million.

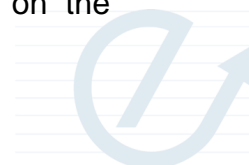
**BCV numbers indicate a higher oil income.** The Central Bank of Venezuela's (BCV) payment balance indicates that in the first semester of 2011, Venezuela has received US\$43.58 billion for oil exports, a 41% jump compared to the same period of 2010. This increase is basically due to the higher barrel prices, as the nation's oil production dropped in the first quarter and slightly recovered by 0.8% in the second to obtain a minimum increase by 0.1% during the first semester.

**OPEC income to increase in 2011.** the US Department of Energy says that, as a whole, the members of the Organization of Petroleum Exporting Countries (OPEC) could receive US\$1.01 trillion for oil exports in 2011 and US\$1.1 trillion in 2012. Last year, OPEC earned US\$778 billion for oil sales, 35% more than in 2009.

**Pdvsa increases its commitment for non-oil areas.** With the so called "Mining Arc" for the exploitation of gold and other minerals, the National Administration is counting on Pdvsa's financial muscle to contribute to the mining field. The creation of two mixed capital companies between Pdvsa and Corporacion Venezolana de Guayana (CVG) within the framework of the nationalization of the gold industry, represents yet another responsibility for the State's oil company, which in the last years has had to expand its scope of action from the oil and natural gas industry to the fields of food, iron and steel and services.

**National Administration authorized the creation of a mixed capital company between Pdvsa and Minerven.** President Hugo Chavez Frias authorized the decree to nationalize the gold industry and the strategic plan in the Orinoco Oil Belt and the Mining Arc. Said program established that Pdvsa, through its affiliated companies, shall create mixed capital companies with other state-owned industries. August 23 marked the first step with the authorization for Petroanzoategui to form an alliance with Minerven. President Chavez said *"this plan is the base for the development of the Orinoco region. With the creation of companies and agreements, we will be able to articulate the development of the oil and mining area in a single strategy in order to build the socialist model."*

**Petropar will be able to pay Pdvsa as it wishes.** The debt for US\$269 million the Paraguayan state oil company, Petropar, maintains with Pdvsa for the sale of fuels, will be paid off in a period of two years, according to Sergio Escobar, president of the Paraguayan oil company. The official explained that after a meeting with Asdrubal Chavez, vice president of Pdvsa, they agreed to honor the debt based on the company's cash flow availability.





**International oil baskets.** At closing time on August 26 in the New York Exchange, the price of the WTI was US\$84.52/bl, a 1.2% decrease compared to the US\$85.97 reported the previous week. The Brent increased by 0.4% to reach US\$109.41/bl, compared to the previous week's US\$109/bl.

**Local oil basket price.** The Venezuelan oil basket price decreased last week, closing at US\$97.29/bl on Friday August 26, a 0.7% contraction compared to the US\$97.96/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$98.77/bl.

## Business Sector Tips

**BCV share transfers to be suspended.** The National Securities Superintendence decided that brokerage houses in administration, liquidated or suspended to operate, will not be allowed to dispose or transfer their shares in the Caracas Stock Exchange. Through *Resolution 141*, the Superintendence determined the need for the assets owned by the different brokerage houses and firms to remain as warranty for at least two years.

**51 occupied housing complexes transferred to Minvivienda.** The measure was published in *Official Gazette N° 39,740*, dated August 22. The resolution, signed by Minister Edmee Betancourt, specifies that, besides those 51 complexes, all of those not included in the list have occupation measures ordered by Indepabis or are in the process of the application of such actions.

**Storeowners prepare statement about Law of Costs.** According to a press release issued by a storeowners association, the institution keeps organizing forums and seminars with affiliated chambers nationwide to know exactly the scope of the law that will come into action on November 22.

**Cadivi authorized US\$2 billion to bi-national chambers.** The Currency Administration Commission (Cadivi) informed that, so far this year, it had liquidated over US\$2 billion to Latin American bi-national chambers. Authorities of the institution held a meeting with members of the companies that integrate the abovementioned chambers as part of the permanent meetings held by Cadivi with the different productive sectors of the nation.



**Caracas homes reduced electric consumption.** In the Great Metropolitan Area of Caracas, 82% of homes obtained discounts in their electric bills, as part of the plan for the rational and efficient use of energy announced on June 13 by Resolution 74 issued by the Ministry of Electric Energy.

**Public and private banking institutions contribute to Housing Mission.** For the development and promotion of the Great housing Mission Venezuela, public and private financial institutions are making a money contribution of nearly VEB 12.77 billion, currently invested in work execution, said the Minister of Housing, Ricardo Molina, on Monday.

**Government has finished 29% of the homes predicted for 2011.** The National Government informed that as of August 25 they had finished 44,128 housing units. According to the authorities, most homes will be finished within the next four months. The Minister of Housing and Habitat, Ricardo Molina, assured yesterday that the period between September and the second half of November would be the most productive, with the construction of nearly 110,000 housing solutions.

**Techint started arbitration process in against Venezuela in Icsid for Matesi.** A new claim filed on August 24 by the iron-steel conglomerate Tenaris, part of the Argentinean group Techint, for the case of the nationalization of the iron-steel plant Matesi adds on to the long list of claims and arbitrations faced by Venezuela in the International Center for Settlement of Investment Disputes (Icsid).

**The reason for the process?** Tenaris informed the Buenos Aires Exchange that a procedure had been opened in Icsid against Venezuela for the *“lack of progress in the discussions regarding the indemnification”* the company is entitled to since the expropriation in 2009 of its subsidiary Matesi Materiales Siderurgicos.

**Venezuelan Government has expropriated 401 companies so far in 2011.** *“So far in 2011, 401 companies have been taken over by the State, a situation that not only generates legal uncertainty, but also repels investment and affects the possibilities of increasing production,”* said Conindustria in a press release in response to the expropriations of Forjas Santa Clara, Tetracero and Cartonajes Granics.

**Commercial exchange between Venezuela and Chile affected by foreign exchange control.** According to the statements of the Commercial Attaché to the Embassy of Chile in Caracas and Chief of the Office ProChile, Rodrigo Figueroa Nagel, the foreign exchange control is the main cause of the decrease by practically half in bilateral commerce. The biggest problem is the slow process to receive foreign currency, which generates delays to pay Chilean suppliers. Many of them have extended their credit lines.



**Government expects to increase national milk production to 120 tons per day.**

The National Government expects to increase the national powdered milk production to a total of 120 tons per day to reduce import levels and guarantee supply to the people.

**Sugarcane producers expect price adjustment before the harvest.** The sugarcane production has decreased over the last few years as a consequence of the delay in the adjustment of regulated sugar prices. The lack of profitability has minimized the investment in sugarcane fields and has generated great debts to producers.

**Strike reduces production at Toyota plant.** Since the start of the strike, the automotive company stopped producing 1,100 vehicles in its Sucre plant. Workers, who haven't got paid in more than three weeks, suppliers and dealers have also felt the impact.

**Mining companies have 90 days to migrate to a mixed-capital model.** The process of nationalization of the gold industry granted a 90-day period for mining companies to migrate their operations to the state-controlled mixed-capital company scheme proposed by the National Government.

**Electric workers demand compliance with the collective agreement.** Workers of Corpoelec protested yesterday in different states of the nation to demand compliance with the collective labor agreement and the payment of pending benefits.

**Government creates entity to control the Orinoco Mining Arc.** The presidential decree ordering the creation of the administrative and control entity that will rule the National System for Planning and Development of the Orinoco Mining Arc was published in *Official Gazette N° 39,741*. The entity will be in charge of controlling excess income and dividends reported by state and mixed-capital companies and agreements related with the system, as well as planning, forecasting and controlling the finances of such units.

## World Economy Tips

**Hurricane Irene passed through Wall Street.** The US stock market will open a normal session of operations this week, but a smaller volume of operations and



delays in opening hours are expected as consequence of the damages caused by hurricane Irene and the lack of public transportation. The New York Exchange, Nasdaq and the exchange operator BATS said they would start the week normally. On Monday, Intercontinental Exchange said the opening of negotiations of some futures would be delayed for an hour.

**US spending up in July.** The US consumer spending went up in July at the fastest rate in five months, supported by a strong demand for vehicles, according to a Government report issued last week. The US Department of Commerce said consumer spending had increased by 0.8%, the highest jump since February of 2011, after having fallen 0.1% in June.

**IMF reduced global growth projection.** The International Monetary Fund (IMF) reduced its growth projections for the United States in 2011 to 1.6% from the 2.5% predicted only two months ago. It also reduced its 2012 prediction to 2.0% from 2.7%. The estimated growth for the euro zone for 2011 was also reduced to 1.9% from 2.0%, and the 2012 prediction to 1.4% from 1.7%. The multilateral entity also decreased its world economy growth estimate from 4.3% to 4.2% for the year 2011 and from 4.5% to 4.3% for 2012.

**European stock markets up in first operations.** European stock markets kept going up in the first operations of Monday, August 29, following the path left by Wall Street on Friday, August 26 for the hopes created by the president of the Federal Reserve, Ben Bernanke, about the willingness to apply, if necessary, new short term stimulus measures for the US economy.

**Euro crisis could end in a few years.** This would happen if Euro nations could put their finances in order and control their budgets, according to statements issued by Klaus Regling, chief of the European Financial Stability Facility (EFSF). *“there are good reasons to hope that the crisis will be over in two or three years’ time,”* he said. Regling ruled out the idea of the euro zone disintegrating. Both weak and strong countries have a significant collective interest in the survival of the monetary union, he said.

**Asian stock markets up, while the USD closed under pressure.** The Asian stock markets went up last Monday, August 29 while the USD weakened after the president of the Federal Reserve, Ben Bernanke, left a door open for actions to be taken in order to continue to boost the American economy and fight unemployment. Given the dysfunctional political climate lived on both sides of the Atlantic and the even slighter possibility of viable long-term fiscal measures, the monetary policy seems to be the only viable short and mid-term answer.



**Inflation keeps making the news in China.** The persisting high global prices of commodities and other products are intensifying consumer-level inflation in China and could put Beijing's annual inflation goal (4%) at risk, according to statements issued last Monday, August 29, by the main planning agency of the Asian giant. The National Commission of Development and Reform said that the main cause of the high prices of commodities was the expansive monetary policies of developed countries which, according to the agency, have caused the second largest economy in the world to import inflation.

**S&P launches S&P MILA 40 index.** Last Monday, August 29, Standard & Poor's (S&P) launched the first Latin American Integrated Market Index (MILA) which integrates the operations of the stock markets of Peru, Colombia and Chile. This index will monitor the behavior of prices in the 40 most liquid shares traded in these countries, that is, the Santiago Trade Exchange (Bolsa de Comercio de Santiago, BCS), the Lima Securities Exchange (Bolsa de Valores de Lima, BVL), and the Colombia Securities Exchange (Bolsa de Valores de Colombia, BVC). This will allow them to follow up on the behavior of three of the most liquid stock markets in Latin America.

**Latin American currencies to operate volatile this week.** Latin American currencies would remain volatile this week, following the trend of the previous days with exacerbated moves for the renewed fears about the health of the American economy and the debt crisis in Europe. Latin American currencies closed high last week after the president of the Federal Reserve said the fed would extend its September meeting to two days in order to evaluate the options to boost the economy, a comment that overturned the initial disappointment.

**Brazil: Inflation to go up as growth contracts.** Economists raised their prognosis for Brazil's 2011 inflation to 6.31%, up from 6.28%, according to a weekly survey prepared by the Central Bank published last Monday, August 29. Meanwhile, analysts' estimations for the 2012 inflation remained stable at 5.20%. Also, the projections for the Gross Domestic Product (GDP) growth for 2011 fell to 3.79% from 3.84% reported in the previous study.

**IADB: Peruvian economy is "robust."** The Peruvian economy could face any international crisis, such as the one affecting the United States and Europe, said the Inter American Development Bank last Saturday, August 27. The representative of the international financial organization in Peru, Fidel Jaramillo, maintained that Latin America was now better prepared for the effects of a world recession than it was in the past.





**Argentina guarantees growth.** The Economics Nobel-prize winner Joseph Stiglitz said Argentina had *“done things right over the last years to guarantee a strong growth at very high rates.”* This is evidenced in an increase in exports, which reached US\$39 billion in the first semester, 25% more than in the same semester of 2010. Therefore, according to Stiglitz, *“a historical record will be established with the growth of the nation’s productive capacity and domestic demand.”*

## Political Tips

**Banking system falsifying mandatory loans.** President Chavez threatened to take drastic measures. *“We are going to make them follow the Law or we’ll nationalize those banks, I have no problem with that. We need to fix this situation, they need to meet their agriculture, housing and small and medium sized enterprise loan quotas.”*

**Chavez urges banking system to fulfill mandatory loans portfolio requirements.** President Hugo Chavez received from Minister of Planning and Finance, Jorge Giordanni, a plan to help the private banking system meet their mandatory loans portfolio requirements. *“I have here the list of banks that do not meet the agricultural loans mandatory portfolio, Caroni, Guayana, Del Sur and Provincial. I understand the idea is to help them, well, help yourselves and we’ll help you,”* said Hugo Chavez, and added *“I also have the list of banks that don’t meet the mortgage loans portfolio.”*

**Chavez’s health going well.** Through the social network Twitter, President Hugo Chavez talked about his health and the advances of the third chemotherapy session he would be receiving from today at the Military Hospital.

**Supplementary appropriation authorized for teachers’ salaries.** Last Tuesday, August 23, in a council of ministers, President Chavez authorized an additional appropriation for VEB 5.82 billion to cover the salary raise of Venezuelan teachers, agreed after the signing of the sector’s VI Collective Labor Agreement.

**Almost VEB 22 million for the newspaper Correo del Orinoco.** On Monday, August 22, the National Assembly authorized a supplementary appropriation for VEB 22 million to strengthen the Correo del Orinoco Foundation. The resources will be used to build the institution’s infrastructure and to acquire a printing press to increase the number of issues and achieve a wider coverage in the national territory.



**Public banking system revenues cover military expenses.** On Monday, August 22, the National Assembly authorized supplementary appropriations for VEB 817 million to be financed with the dividends of Government banks. Out of this amount, VEB 365 million will be used to purchase gear for the National Armed Force and Militia in China.

**Resources authorized for the National Sports Fund.** Last Tuesday, President Hugo Chavez Frias authorized VEB 20 million for the National Fund for the Development of Sports. During the Council of Ministers, Chavez said: *“with the authorization of these resources, we are activating this special fund for sports, I’m sure the private sector will contribute with more.”*

**Government has only handed 13,625 houses.** Primero Justicia criticized the housing policy executed by the National Government. The national coordinator of Primero Justicia and National Assembly Representative, Julio Borges, assured that nearly 100,000 families had benefited from the construction of homes by Venezuelan military men in Bolivia. *“While there aren’t enough housing units in Venezuela, our Government gives houses away in other countries,”* said Borges.

**Lopez case sentence will set precedents.** The Inter American Court of Human Rights will soon celebrate a meeting in Bogota (Colombia) to study *“the possibility of ruling a sentence”* in the case of the disqualification imposed by the National Comptrollership on former Mayor of Chacao Leopoldo Lopez. An eventual ruling rejecting this kind of measure would not only benefit the opposition leader and the 800 Venezuelan citizens who can not run for public office, but will also benefit citizens from other countries carrying similar sanctions.

**INE will not change the questions in the 2011 census.** Roberto Enriquez, president of Copei, said the National Institute of Statistics would not modify the questions objected by them in the Census 2011, so Venezuelans are shielded by constitutional right to decide whether to answer or not the questions they consider to go beyond what is needed to carry out the population survey.

**INE questionnaire meets UN recommendations.** Out of the 69 questions to be applied in the XIV National Census to start September 1, 95% meet the recommendations made by the Latin American and Caribbean Demographic Center (Celade), attached to the United Nations (UN).

**No rush.** The president of Venezuela, Hugo Chavez, urged the National Electoral Council to *“take its time”* to decide the date of next year’s presidential election.



**Russia to provide resources for weapons.** President Hugo Chavez said yesterday that in a few weeks' time, the minister of Finance, Jorge Girdanni, would be traveling to Moscow to *"polish the details"* of a loan for US\$4 billion the Russian Government will grant to Venezuela for the acquisition of weaponry.

**Russia and Venezuela strengthen bonds with new agreements.** On August 23, the Venezuelan Chancellor, Nicolas Maduro, and his Russian homologue, Sergey Levorv, signed three agreements in the fields of science, culture and diplomacy, after a private meeting held at the Venezuelan Chancellor's Office in Caracas to strengthen relations between the two nations.

**Budget allocations denied to Nueva Esparta.** The Governor of Nueva Esparta, Morel Rodriguez Avila, denounced as unconstitutional the management of budgetary allocations to local governments and mayor offices that do not support the revolution, claiming they receive excluding treatment. He assured that in five different occasions, Nueva Esparta had requested funds to cater to damages caused by rains, but the National Government had denied them.

**Urging appointment of General Comptroller.** The political party Patria Para Todos (PPT) believes it is *"extremely worrying"* that powers such as the National Assembly and the Republican Moral Council have not yet activated the mechanisms established in the Constitution to elect the General Comptroller of the Republic. The Blue Party said we should wonder the reasons for *"the negligence related to the appointment of the director of the entity in charge of supervising the correct use of the national budget and therefore fight corruption, a scourge that attempts against the nation's dignity."*

**Postulation to be in October.** The Governor of the Miranda State and pre-candidate to the opposition's primary election, Henrique Capriles Radonski, announced in a formal act his postulation for this internal process would take place in October.

**Power shutdowns could be over by December.** The National Government expects to lift the electric rationing by the end of this year, said Argenis Chavez, vice minister of Electric Development. *"All of these projects and the rehabilitation projects we were able to put into action guarantee the Venezuelan people that by the end of this year we will finally be done with the rationing blocks that have caused so many disturbances to the Venezuelan citizens and, of course, have been a tool for political attacks by the opposition,"* he said in national broadcasting.





## Legislatives Tips

**Electric Energy Law could be ready in October.** Representative Luis Acuña, President of the National Assembly's Permanent Energy and Oil Commission announced the Law for the rational and efficient use of energy could be approved by the end of October. He said the legal instrument's popular consultation process would begin shortly. He also said: *"We hope the law enters the National Assembly secretary's chambers by mid October and to be totally approved by the end of the month."*

**Investigation of Alberto Federico Ravell continues.** The National Assembly will request reports to Seniat, ONA and Cadivi to determine the origin of the resources used by the former director of Globovision in the purchase of the Colombian channel Cablenoticias. Representative Ricardo Sanguino assured the report of the National Antidrug Office would be good to determine whether there had been any laundering of funds of dubious precedence in a transaction that took place, as per Sanguino, in cash.

**Tenants will not be required to give down payments.** In the meeting celebrated on August 24, the technical instance of the National Assembly's Administration and Services Commission approved the following provisions of the draft to the Tenancy Law: Tenants will not be obligated to provide a down payment at the moment of acquiring the property and will have a period of one year to obtain a loan. The provision that establishes that landlords must offer their properties for sale to tenants first remains in effect.

**Disagreement about monthly rents.** The discussion about monthly rents was deferred for the next meeting. In that respect, Representative Tito Oviedo, member of the Commission, said *"we will first of all consider properties' structural and physical conditions, as well as any improvements, location, the land, among other aspects of infrastructure conditions."*

**National Assembly to debate about election of National Comptroller.** An extraordinary session was called by the National Assembly on Tuesday, August 30, to authorize the appointment of a new Comptroller. *"This is a mockery,"* said opposition representatives who assure it is more urgent to appoint a substitute for the deceased General Comptroller, Clodosbaldo Russian, as the nation needs someone



who can effectively fight corruption after being elected by the Assembly's certified majority.

**National Assembly to deliver signatures supporting the Law of Community Media to the CNE.** According to representative Dario Vivas, president of the National Assembly's Permanent Commission for the People's Power and Communication Media, the signatures supporting the draft to the Law of Community Media, designed by popular organizations were submitted to the CNE on Wednesday, August 31. The draft includes an equitable distribution of the radio-electric spectrum. Vivas said that once the signatures were verified, the National Assembly would proceed with the public consultation of the legal text.

**National Assembly plans to call session to debate about the media.** The National Assembly's Permanent Commission for the People's Power and Communication Media is evaluating the possibility to call an extraordinary session to *"summon sectors such as the National Journalists Association (CNP) and non-governmental organizations that look to generate a matrix of opinion (to destabilize the nation) to find out their position about the misuse of communication media."*

**Students propose including student residence costs in the tenancy law.** In a document received by the second vice president of the National Assembly, Blanca Eekhout, students of different universities proposed four articles stating the concept of "worthy student residence" and the costs associated to them, to be added to the Law of Regulation, Control and Tenancy of Housing Properties.





**ECONOMIC OVERVIEW**

