



# Weekly Report

Year 8, Number 33  
Week V, August 2012

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## *Balance of Payments figures 1S2011: The same old story*

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The Central Bank of Venezuela recently released its economic activity figures as well as the preliminary Balance of Payments figures for the first semester 2012. The Balance of Payments figures for the first semester 2012 show the effects of the drop in oil prices during the second quarter and we can see how the Administration uses the same strategies used in previous years, such as the cutting back on the amount of public sector assets it has positioned abroad in order to cut the capital account deficit.

### **Oil prices static with an increase in imports: surplus drops**

According to the BCV figures, the Balance of Payments figures during the first semester 2012 registered a US\$1.40 billion deficit, which translates to a drop of 41.7% compared to the deficit posted during the first semester 2011 (US\$2.40 billion). This cut in the deficit of the global balance of the Balance of Payments is due to the 41.2% cut in the negative balance of the Capital and Financial account (which dropped by 77.0% on a y/y basis just during the second quarter 2012) and settled down US\$9.31 billion at the close of June. However, a fact that stands out is that the Errors and



Omissions account increased by 41.7% during the first semester 2012, settling at US\$2.30 billion.

The Balance of Payments Current account posted a surplus of US\$10.21 billion, down by 33.5% compared to the surplus of US\$15.35 billion it posted during the first semester 2011. Current account performance is due to the 8.7% drop of the surplus of the Balance of Payments trade balance which was at US\$22.48 billion, caused by the 5.5% drop in the export of goods during the second quarter, determined by the 3.3% drop in the average price of the Venezuelan oil basket during this period.

<b>BALANCE OF PAYMENTS</b>			
<b>General Summary</b>	<b>H12012</b>	<b>H12011</b>	<b>Var.</b>
<b>(MMUS\$)</b>			
<b>Current Account</b>	10,212	15,351	-33.5%
<b>Goods</b>	22,481	24,629	-8.7%
<b>Oil Exports</b>	47,324	43,560	8.6%
<b>Non-Oil Exports</b>	2,177	2,384	-8.7%
<b>Import of goods f.o.b.</b>	-27,020	-21,315	26.8%
<b>Services</b>	-7,502	-5,156	45.5%
<b>Others</b>	-4,767	-4,122	15.6%
<b>Capital Account</b>	-11,614	-17,754	-34.6%
<b>Public Sector</b>	-4,888	-9,883	-50.5%
<b>Private Sector</b>	-6,256	-5,745	8.9%
<b>Reserves Variation</b>	-1,402	-2,403	-41.7%

Sources: BCV and Ecoanalítica

### Fenced in by oil revenues

Posting a GDP economic growth level of 5.4% during the first quarter would lead anyone to believe that the Venezuelan non-oil productive sector had recovered somewhat, however, non-oil exports dropped by 8.7% on a y/y basis settling at US\$2.18 billion. According to the BCV, this drop was influenced by the 8.7% drop in public foreign sales and the 13.7% drop in private sector exports.

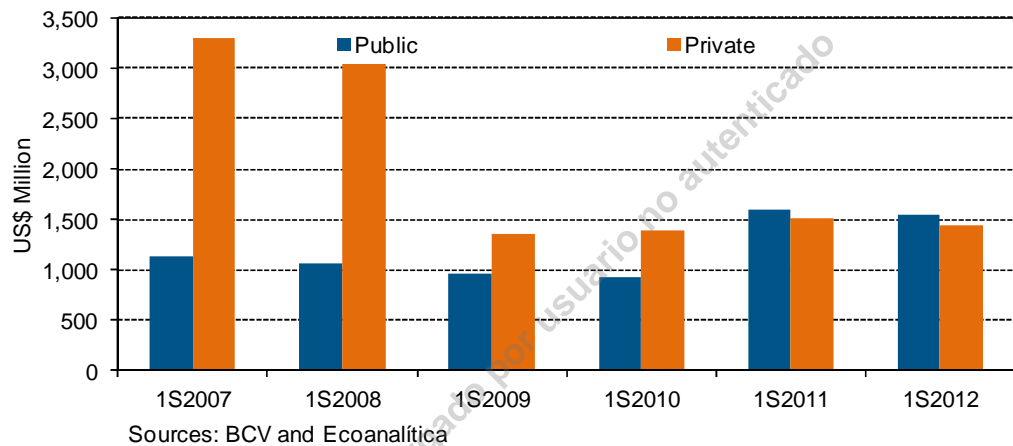
According to the BCV, during the second quarter 2012, public sector exports increased in chemicals and fertilizers, and items such as methanol, urea, ammonia, and propylene, but dropped in items such as steel, iron, and aluminum. Private sector exports dropped in items such as ammonia, gold, ferrosilicon, iron and steel products and aluminum alloys.

So, the drop in non-oil exports correlates to what we have observed with GDP figures that indicate that the sector of tradable goods continues to be doing poorly. Venezuela is far from achieving diversification when it comes



to exports and moving away from being so dependent on oil revenues, which are subject to the volatile swings of the international crude oil market.

### Non-Oil Exports



### Imports gearing up... this time oil

When we analyze imports we find that the Balance of Payments figures show imports up by 26.8% on a y/y basis for the first semester 2012. When we look closer, we see that oil imports increased by 86.2% while non-oil imports increased by 18.4%; however, non-oil imports increased mainly during the first quarter 2012, during the second quarter the variation in imports was almost nil, up 1.1% on a y/y basis. This is not something new, since oil prices dropped during the second quarter, coupled with already existing foreign currency restrictions against the private sector; it's no surprise to anyone that imports would not continue to increase in volume, continuing at the rate of the first quarter.

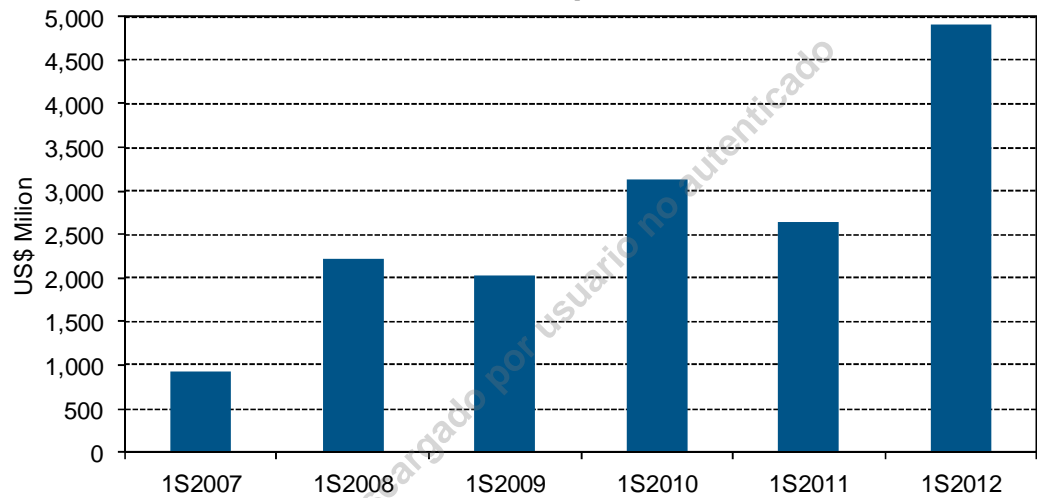
At **Ecoanalítica**, we have begun to take notice and look closer at the increase of oil imports, usually characterized by the increase in purchases of oil derivatives such as naphtha and additives for gasoline, due to the deterioration of the Venezuelan refining system that during the beginning of 2012 suffered a number of shutdowns and now tragically, reaching a climax with the explosion that occurred at the Amuay refinery last week.

According to the opinion of a number of oil analysts, the situation at the Amuay refinery will take a lot longer than the Administration expects to start up operations again. The efficiency of the Amuay refinery and the whole industrial park there looks like a very difficult and uphill battle, not only for the coming few months but also in the midterm; so one must not



rule out that oil imports will significantly increase during the third quarter 2012, or at the very least, continue with the tendency and the rate of the last three quarters.

### Oil Imports



Sources: BCV and Ecoanalítica

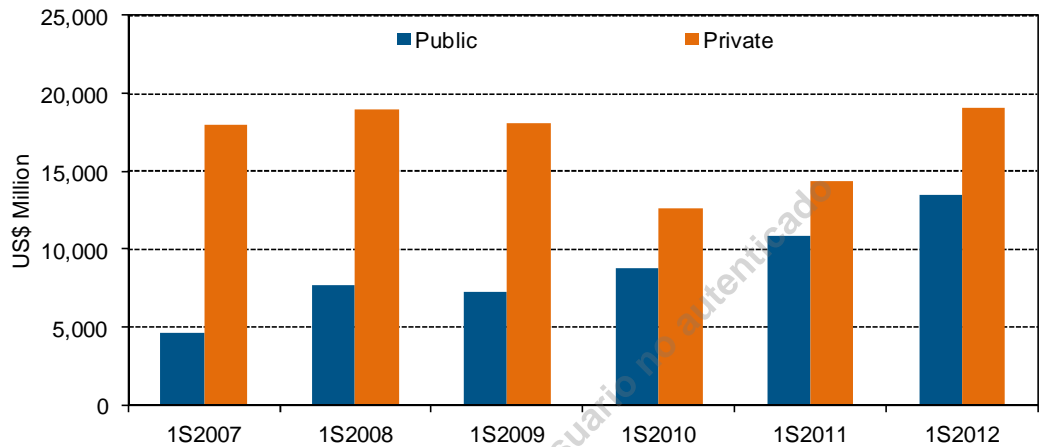
### It's a question of "priorities"

So far this year, we have seen that imports have increased significantly, in the private sector as well as the public sector. With respect to public sector imports of goods and services, these increased by 24.2% on a y/y basis reaching US\$13.51 billion; meanwhile, private sector imports increased by 32.9% during the same period, reaching US\$19.10 billion. However, when looks solely at the import of goods, we see that public sector imports only increased by 15.1% on a y/y basis; while private sector imports of only goods increased by 34.8% on a y/y basis. It's clear that the private sector has been more dynamic when it comes to imports than the public sector, so far this year.





### Imports of goods and services



Sources: BCV and Ecoanalítica

#### How are imports being financed?

When we analyze the amount of foreign currency being liquidated for imports through the different official mechanisms such as Cadivi, including those carried out through the Aladi agreement and the Sucre, we have a total of US\$10.92 billion, which is equivalent to 57.2% of the imports reported by the Balance of Payments. If we add US\$3.71 billion, equaling the amount liquidated for imports through the Sitme, assuming that 90% of the amount negotiated at market value<sup>1</sup> will be used to that end, then we have that US\$14.63 billion or 76.6% of private imports were covered by official mechanisms.

This leaves US\$4.47 billion left over, equal to 23.4% of the total amount imported, which was not financed by any of these mechanisms. It's important to point out that if we compare this amount to the amount that was left over after at the close of the first quarter 2012, we will see that there is a drop of 7.7 percentage points.

As we mentioned a quarter ago, said figure can't be attributed to some sort of proxy financing for imports from some other mechanism (the unofficial market for example), given the delay effect that exists when dealing with foreign currency liquidations to the private sector. So, in order to be able to calculate the exact weight of each of the financing mechanisms for imports it's necessary to have yearly figures, and not quarterly figures, affected by seasonal factors (January vs. December) and the delay effect (Cadivi debts fluctuate between 90 and 180 days).

<sup>1</sup> One assumes market value for the papers traded via Sitme at around 80%.





**The private sector is preparing and believes in the country**

Apart from the importance that of the seasonal element and the role it plays in this matter, at *Ecoanalítica*, we believe that this atypical fact may be tied to the political economic cycle. Facing a very limited increase in the assignation of foreign currency for the private sector during the first semester 2012, it has been forced to use its foreign resources to restock inventories and/or pay suppliers, or simply use the foreign currency that was assigned (for this period and for previous periods). The proof is in the 73% increase in the variation of inventories during the first semester 2012.

There is no doubt that this stands out due to the current political uncertainty that exists in the country which is a fundamental factor when considering coverage operations. We believe that this is due to the election. The private sector would seem to be anticipating a devaluation of the currency and preparing itself for the period after the presidential election. Nevertheless, in our opinion, the private sector should be careful to take into account the delays in liquidating foreign currency with a devaluation that seems imminent. And despite the fact that we are not expecting a max-devaluation, Cadivi may discriminate between sectors when it comes time to liquidate, as it has done in the past.

**What happened to the second quarter?**

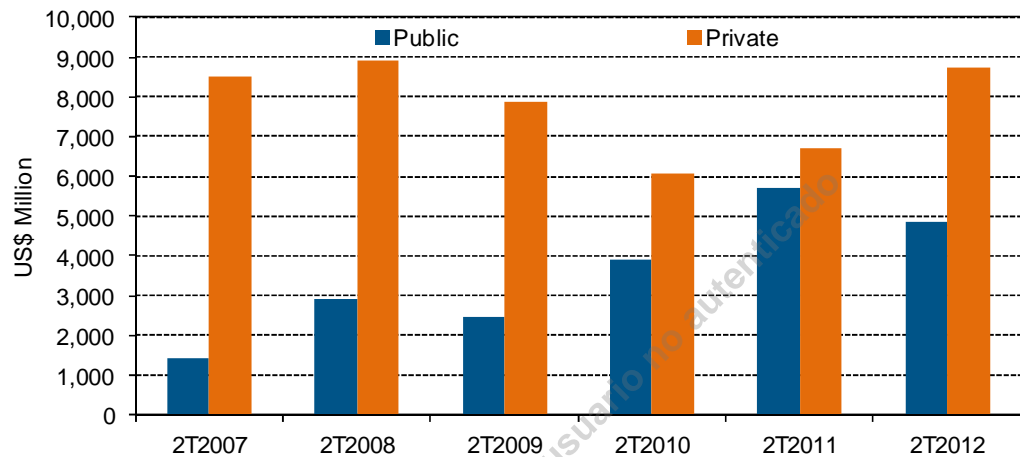
It's important to point out that, during the second quarter 2012, public sector imports of goods dropped by 15.2% compared to the previous year. The BCV points out that the drop was mostly in equipment and communication apparatuses and military equipment, while increases were posted in food items (poultry, beef, and rice), fertilizers, electric power generators, machinery and equipment (gas turbines and tractors) and products associated with the oil industry (replacement equipment, naphtha, additives for gasoline, pipeline, connections, and valves). As you can see, it's all about what's a "priority."

With respect to the private sector, the BCV points out that "private sector purchases focuses on the categories of chemical substances and products having to do with the pharmaceutical industry; machinery and equipment; food, mainly animal and vegetable fats and oils; cattle, and products made of metal, mainly structures and metal constructions." Said categories, all together, represent 66% of the total amount of imports for the sector.





## Imports of Goods



Sources: BCV and Ecoanalítica

The BCV also points out that of the total amount of foreign purchases, 54% was aimed at intermediate consumption, 28% for gross formation of fixed capital, and 18% for final consumption. With respect to where imports were coming from, 59% of the imports that came in during the second quarter 2012 were from the United States, China, Brazil, and Colombia, all continuing to be the main foreign suppliers for Venezuela.

### Public sector foreign assets diminish; are the alarms ringing?

The Capital and Finance account posted a dropped of 41.2%, it's deficit during the first semester 2012 reaching US\$9.31 billion compared to the US\$15.84 billion it was at for the first semester 2011. These figures can be mainly explained by the behavior of the sub-account Other Investments, which lowered its deficit by 43.9% going from US\$22.36 billion during the first semester 2011 to US\$12.55 billion in the first semester 2012.

The BCV stated that the lower deficit of the Other Investment account for the first semester 2012 was due to a drop in public assets of US\$4.47 billion, basically from the foreign deposits of the National Development Fund and the Long Term and Great Volume Fund (Chinese Fund), as well as drops in foreign bank accounts held by Pdvsa and the National Treasury associated to payments that have been made. Commercial assets to oil clients showed an increase, those registered directly by the oil industry as well as those derived from energy agreements.

When analyzing the line item, International Investment Position, especially public sector assets in currency and deposits, we find that these dropped by US\$9.15 billion during the second quarter 2012 compared to the



previous quarter, going from US\$40.82 billion in March to US\$31.67 billion at the close of June. This balance is what at **Ecoanalítica** we call: State out-of-budget resources.

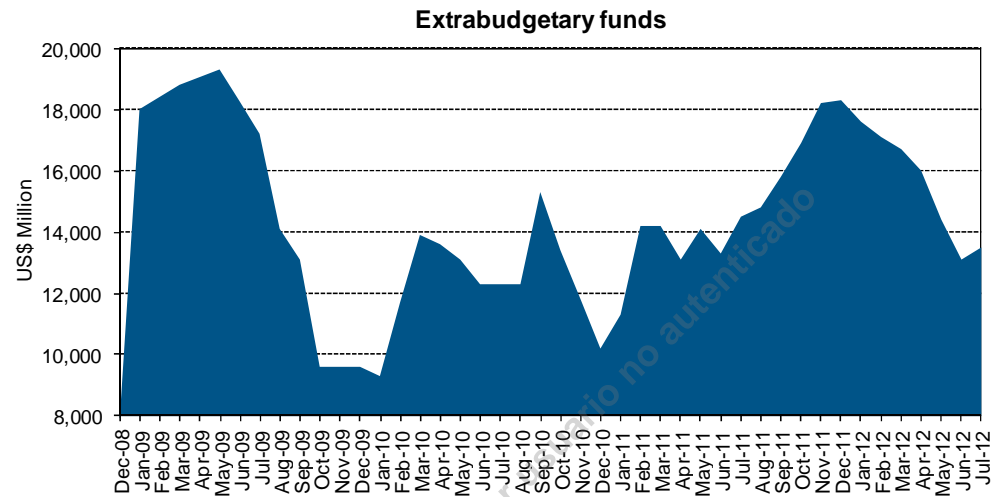
### **Out-of-budget resources**

In an economy such as the one Venezuela has at the moment, totally vulnerable to whatever course oil prices may take, and the foreign debt increasing by leaps and bounds, the balance of this account is very important and of special interest to analysts, businessmen, and the Administration. So, a drop of US\$9.15 billion and you can be sure the alarm bells are ringing, and the subject of devaluation is on the table. It's important to keep in mind that the Administration uses these resources as a type of "emergency fund," no matter if the so-called emergency is of a political or economic nature. A good example of this is the balance of this account at the close of 2009 (when the economy dropped by 3.2%), the account dropped by US\$12.21 billion compared to the beginning of the same year closing at US\$16.27 billion.

With respect to the holding of these out-of-budget resources (not reserve assets) there are a number of different criteria and estimations by analyst that keep tabs on Venezuela. The main difference among these lies in how readily available said resources are. At **Ecoanalítica**, we believe that it is necessary to take into account that according to government spokespersons, around 50% of the resources in the Chinese Fund (especially the Great Volume Fund) require action be taken by a second party (the Chinese government) in order to have access to these resources, in other words, they are not readily or immediately available. And by the same token, other restrictions apply to Fonden and to Pdvsa's foreign accounts.

So, taking into account the question of just how immediately available these resources are, in other words, the ones that are totally free and clear, **Ecoanalítica's**, estimate of extraordinary resources points to an increase of US\$4.0 billion in the month of July due to a transfer of US\$5.0 billion from the international reserves to Fonden.





Source: Ecoanalitica

**Another important: the devaluation is imminent**

In our opinion, the fact that foreign extraordinary resources have diminished is not the only reason to expect that there is devaluation on the horizon; it's more like a complimentary fact. One also has to take a hard look at the fiscal situation (the public sector deficit is expected to be at around 17% of GDP), the overvaluation of the currency during the last two years (101.2%), the exchange agreement 20, and the reinstatement of Cadivi's lists, as reasons of equal weight that point to a devaluation in the works. So, take your precautions and be prepared.





## Economic Tips

**Unemployment rate at 7.9%.** According to numbers released by the National Statistics Institute (INE), unemployment rate increased 0.5 percentage points in July, as compared to the previous month. Compared to July 2011, the rate decreased 0.1 percentage points; this means that in the seventh month of the year 1,065,947 people didn't have a job.

**Inactivity rate increases.** According to inactivity rate figures published by INE, shows that increased 0.5 percentage points compared to July 2011, to settle at 36%. Within this, men inactivity experienced an increase 1.2 percentage points, settle at 22.6%. Women inactivity, in turn, decreased 0.4 percentage points, and stood at 49.2%.

**Informality rate increases.** According to INE's figures, at end-July, 5,147,189 people were employed at the informal sector (41.6% of working population), which results in a decrease of 1.4 percentage points compared to July 2011. Formal sector, which employs 58.4% of working population, increased 1.4% with respect to the same period in 2011.

**Accounts in dollars may be opened starting in September.** Nelson Merentes, president of the Central Bank of Venezuela, said during an interview granted to TV channel Globovisión, that before September 15 individuals will be able to open accounts in dollars in financial entities around the country. Although the minimum amount that will be required isn't yet known, Merentes said that it could be US\$400 or less.

**BCV doesn't expect devaluation.** Asked about the possibility of the BCV devaluating the currency in the beginning of 2013, Merentes stated that "*it isn't expected*" and in any event, these "*are not measures that can be anticipated, they are taken if necessary*". Devaluation would allow the government to face more comfortably its domestic debt, which has been increasing significantly this year.

**Inflation will close under 20%.** Nelson Merentes, president of the Central Bank said that by the end of this year, inflation will be below the target established in the national budget (between 20% and 22%). The idea was to reduce the trend to a single digit and safeguard the purchasing power of Venezuelans, for which Merentes said that the main condition is to produce more food like beef and pork.



**Labor liabilities will be paid with Petrorinocos.** The national government started paying the social benefits debt through bonds called “Petrorinocos”, which will yield 2.6 percent points over the average active rates published by the BCV every month, and a maturity of 10 years a starting from the date of issue. The bonds may be exchanged for cash at the offices of Banco de Venezuela.

**Immediate payment?** Every month, Pdvsa Social is expected to deposit the money to pay the benefits in Banco de Venezuela, and then according to the amount available, a certain number of workers will be called to decide whether they withdraw the whole amount, or if they prefer to save part of what is being paid. Payment will start with the 34,706 teachers and employees of the country’s 17 universities, and the expectation is that around one thousand of them will be called every month.

**Almost VEB 5.0 billion to pay for benefits.** By the end of this year the National Savings Fund of the working class, which pays for the benefits of 5,000 workers, will have around VEB 4.99 billion, as indicated this Friday by Rafael Ramirez, Minister for Oil and Mining. So far, the fund has more than VEB 1.0 billion from contributions made by Pdvsa Social and by mixed companies to the national treasury.

**Size of the debt.** Initial estimates of the government show that the debt with the universities could reach VEB 15.50 billion, around US\$3.60 billion (at the official exchange rate), so at the proposed payment rate, the certified debt with the universities would be paid off in two years and two months, although the government announced that it will find a way to speed up the process.

**Social investment doubled.** Elías Eljuri, president of the National Institute of Statistics (Instituto Nacional de Estadística - INE), said that social investment doubled with the Bolivarian government, to meet the needs of social groups that are in poverty conditions, and honor the accumulated debt in medical care, literacy, and education. Eljuri said that more than US\$500 billion of the US\$770 that have entered the country during the last years has been used.

**BCV now feeds the FONDEN.** According to statements made by Nelson Merentes, president of BCV, the central bank will transfer weekly US\$150 million to the National Development Fund (Fonden). In the past Pdvsa was who provided the resources through the exorbitant profits law, and excess over the level of “adequate reserves” were deposited in Fonden, now everything will go through the Central Bank, who will determine the amounts to be transferred.

**More funds from China.** President Hugo Chavez announced that he already signed the new agreement which will inject US\$ 6.0 billion more to the Chinese Fund, of which US\$ 4.0 billion will be provided by the Development Bank of China and US\$2.0



billion will be provided by the nation. Housing projects are currently financed by the fund, is expected a new contribution of US\$ 6.0million once this section is completely used.

**VEB 1.35 billion in additional credits.** The delegated committee of the of finances commission at National Assembly (NA) approved additional credits for VEB 1.35 billion, of which VEB 1.05 billion will be destined to strengthen social programs in the areas of health, welfare and safety, VEB 224.6 million to the budget deficit of the General Comptroller, VEB 47 million to the Ministry of Transport, VEB 23.7 million to the Ministry of Agriculture and Lands and VEB 17 million to the Government of the Capital District.

**Interest rates.** The lending rate for the third week of August was at 16.4%, increasing by 1.3 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 1.5%, 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 1.6% in the third week of August compared to the previous week, settling at VEB 546,300.6 million. The M2 has increased 56.2% in relation with the same period last year.

**Sitme figures.** So far this year, US\$6.9 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43.1 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.5 billion (28.6%) over the same period of 2011, when US\$5.3 billion were negotiated. Lastly, during the fourth week of August the amount traded reached US\$243.8 million US\$91.2 million more than last week when US\$151.9 million were traded, with a daily average of US\$48.7 million.





## Oil Tips

**Tragedy in Amuay.** In the early hours of Saturday, August 25, there was an explosion at the Amuay refinery, part of the Paraguaná Refining Center (Centro Refinador Paraguaná -CRP)<sup>2</sup>, caused by a gas leak, and leaving 41 dead and 87 injured. Although at the end of that afternoon, the general manager of the CRP, Jesús Luongo, informed that the fire was under control, on Monday three more tanks in the refinery caught fire. Finally, firefighters controlled the flames and the authorities informed that they were now in the process of cooling the tanks.

**The tale of an announced explosion.** Despite the rage of government spokespersons when stating that their opponents are using the tragedy against them, the fact is that the figures presented by Pdvsa itself seem to indicate that the refinery wasn't in optimum conditions. In 2011, 9 maintenance procedures were planned for Amuay, of which only 2 were performed due to lack of materials, so the number of days of non-programmed shutdowns increased 70% compared to 2010 (from 375 to 639 days).

**Possible delays in exports.** According to Reuters, in the docks of the CRP the loading and unloading of ships has stopped, since they were temporarily closed for safety issues. Only two tankers loaded with crude oil left before the accident, so dozens of ships are being towed outside the bay of Amuay. The sources consider that despite measures taken by the authorities, the event will cause delays in exports.

**There are enough inventories.** The fire at the Amuay refinery has increased the pressure on fuel supplies for the local and international market. Although the government has said that there is enough hydrocarbon for 10 days, some don't rule out failures in fuel supplies (of around 15 days) if production isn't reactivated.

**Eeny Meeny.** To guarantee fuel supplies to gas stations, other areas could be affected, like the electric power sector, which depends on diesel supplies to operate the thermoelectric plants.

**Looking for a better share.** According to President Hugo Chávez, the increase in certified oil reserves would give Venezuela "*the right to a higher share within OPEC*". The head of state said that Venezuela is working to increase production capacity, as

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<sup>2</sup>The Amuay refinery has a capacity to process 645 thousand barrels per day (kb/d) and supplies 66% of the gasoline demand, including transfers for blends and finished products for the rest of the country.



part of a strategy to increase OPEC's production share. The oil cartel tends to assign greater volumes as countries improve their productive capacity.

**BCV's assistance to Pdvsa increased.** Despite high oil prices, Pdvsa has had to resort to the BCV to finance itself and meet the greater demands of the Central Government (housing plans, social missions, and investment plans in basic industries). According to the BCV, at the end of July, financial aid for the oil company reached VEB 107.7 billion.

**Also from public banks.** The National Treasury, Banco de Venezuela, and Banco del Tesoro have also channeled funds towards the State oil company, through credits and certificates of deposit, for around US\$2.50 billion. Rafael Ramirez, president of Pdvsa, said that the leverage has been necessary to meet the investment plan, and the best investment of the local banks is the oil business.

**The State hasn't done it well.** After Pdvsa obtained the majority of shares in the mixed companies of the Orinoco Oil Belt five years ago, which has been termed a Nationalization of the industry, their production has dropped. Between 2006 and 2011 total production dropped 7.9%, because operations that are directly under Pdvsa (own management) have produced 10% less, and there are no signs that this trend will revert.

**Isaac threatens the production of the Gulf.** Tropical storm Isaac is limiting oil production in the Gulf of Mexico, and threatening the refineries, which could increase even more the rising prices of gasoline in international markets. The US Office of Safety and Environmental Control, which supervises offshore oil production, said that 78% of the production in the Gulf of Mexico has been closed, and 346 platforms and 41 towers evacuated. Also, more than 48% of natural gas production in the Gulf has stopped.

**International baskets.** At the time of foreclosure in New York, WTI was traded on August 24 at US\$96.5/bl, which shows an increase of 2.8% compared to US\$93.8/bl recorded the previous week. Meanwhile, Brent fell by 0.3% to reach US\$ 114.3/bl compared to the previous week, when it reached US\$114.8/bl.

**Local basket price.** The Venezuelan oil basket price rose last week to close at US\$104.4/bl on August 24, resulting in an increase of 2.1% compared to US\$102.2/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.3/bl.





## Business Sector Tips

**Entry to Mercosur will benefit national production.** Said Rodrigo Cabezas, president of the Latin American Parliament (Parlatino), Venezuela chapter, who explained that participating in a market with 272 million inhabitants and a US\$3.2 billion economy represents a greater support as a block for future exports, as well as an expansion of the domestic production, which would generate employment.

**Housing plan for the middle class.** On Friday, August 17, within the context of the Misión Vivienda, the Head of State announced a plan to subsidize 10% of the cost of housing, with no down payment and at low interests, to Venezuelan families with a salary equal to four minimum wages, and two weeks after the housing plan was announced, 66,000 people have registered.

**Credits for 100%.** The National Bank for Housing and Habitat, and the Bank Superintendence approved a regulation to authorize credits for 100% of the cost of housing, which will be granted with resources from the Mandatory Housing Savings Fund (Fondo de Ahorro Obligatorio de Vivienda), if the unit doesn't cost more than VEB 300,000, or with the mortgage portfolio, if the cost to be financed is greater. The president of Banavih said that the direct subsidies table is being adjusted, and reiterated that families that earn four minimum wages will have the 10% benefit.

**BAV has given 6,170 credits.** According to information supplied by the Banco Agrícola de Venezuela (BAV), through its twitter account, this institution has given, between January and August, a total of 6,170 credits at a preferential interest rate, and with comfortable installments. The financed funds will be to plant a total of 131,428 productive hectares.

**Food sales drop.** According to a report of the Venezuelan Food Industry Chamber (Cámara Venezolana de la Industria de Alimentos -Cavidea), food sales closed with a negative balance in July, accumulating 17 consecutive months of contractions. Of 19 food items processed and measured by Cavidea, 9 reported a drop in sales; the industry attributes this fall to the restrictions to access domestic and imported raw materials, as well as the unavailability of foreign currency, and the lack of price increases to compensate high production costs.





**Osorio: “90% of the chicken is domestic”.** Carlos Osorio, Minister of Food, said that public imports of beef and chicken have decreased, to favor the placement of domestic production; however, the presentation of the item, and the raising time is not the best. *“I have talked to them (the producers) and told them that they have to wait for the full production cycle. Large imported chickens have a 45-day cycle, and here it is 38 and 40 days. They are too small”*, said the official.

**What delays?** Minister Osorio disregarded the statements of the Venezuelan Food Industry Chamber (Cámara Venezolana de la Industria de Alimentos - Cavidea) regarding delays in the liquidation of foreign currency, which has caused bottlenecks to import raw materials and products, and affects the transformation of foods. *“I don’t know what foreign currency they are talking about. It is irresponsible to generalize. Cavidea and those associated with them hope for scarcity in Venezuela”*, said Osorio and denied that there are restrictions in the approval of guides to mobilize food towards border states.

**Rains wipe out crops in Sucre.** The emergency situation in Sucre is due to the strong rains and the overflow of the Manzanares. The state has approximately 4,000 hectares of sugar cane and other agricultural crops, of which around 2,000 are affected.

**Mercosur and the drop of exports.** Venezuela’s entry to Mercosur coincides with the declining trend of non-oil exports, which only in 2Q2012 decreased 10.2% with respect to 2Q2011. *“If we don’t apply corrective measures, Venezuela won’t go to Mercosur, rather, Mercosur will enter Venezuela”*, warned Carlos Larrazabal, president of Conindustria.

**Textiles, shoes and machinery in the doldrums.** In its last report about the economy, the BCV highlights the growth of different private industry sectors, and although it is good news, the evolution is on a much-deteriorated base. Statistics indicate that textile production increased 26% in 2Q2012 but it is still 9% below the level reached in 1997. The same happens with shoe and leather products, which after growing 1.2% they are 30% below 1997 levels, and in the case of machinery and equipment, production is 38% lower.

**Production of Tocoma will have to wait.** The first unit of the Hydroelectric Plant Manuel Piar, better known as Tocoma, would enter its testing phase at the end of this year, and in 2013, the plant would start providing energy, as announced by the President of the Republic, Hugo Chávez. These statements reveal a new delay in the official plans for the plant, whose first phase was originally expected for 2010.





**New railway will increase transport capacity.** Venezuela and China signed an agreement to create the second railway line of CVG Ferrominera, to increase the transportation capacity of iron ore from 22 to 40 million tons. The project, with a cost of US\$555 billion, will be financed by the Joint Chinese –Venezuelan Fund, and is expected to be executed in 48 months.

## World Economy Tips

**China's slowdown affects the price of commodities.** The growth of China is slowing down, affected by a lower demand for products, and the Asian giant has reduced its production, so it needs fewer amounts of raw materials like iron, copper, zinc, and gold. According to the International Monetary Fund (IMF), in 2010 China consumed 40% of the planet's basic metals, and 23% of the global supply of agricultural products like wheat and corn.

**Greece asking for more time.** Antonis Samaras, Prime Minister of Greece, started a tour through several European countries to ask the leaders of the Eurozone for more time to implement the cuts requested, in exchange for the economic rescue. Greece already has the support of France, who approves the permanence of Greece in the Eurozone, although considers that it must prove the credibility of its austerity program.

**Germany wants Greece in the Eurozone.** During a meeting with Greek Prime Minister, Angela Merkel, German Chancellor said that her country wants "*Greece to stay in the Eurozone*". Merkel also offered all her support for the new Greek government to be able to comply with the reforms required by the European Commission, and reminded her guest that his main task is to comply with the adjustments established by Brussels.

**The Eurozone close to another recession.** As industrial activity stagnates, the economy of the Eurozone seems to head towards a recession. The manufacturing index reveals a contraction in industrial activities for August, the seventh consecutive month of contractions. Besides the fall in industrial production, the drop in manufacturing orders and a reduction in services suggest that the economy of the Eurozone will enter in a recession during the third quarter of the year.

**Juggling.** The ECB is looking for a strategy to reduce the financing costs of the States that have been more affected by the crisis, through the purchase of debt, and



at the same time, allow it to change directions, if necessary, to maintain the pressure on the States so they comply with the adjustments of their deficit, and revitalize their economies. If they do not comply with these adjustments, the ECB will have to stop purchasing debt, to exert more pressure, otherwise it will lose credibility.

**Germany and France financing at negative rates.** The German treasury has placed EUR 1.97 billion in securities at 12 months at an interest rate of -0.0246%, while the French Treasury sold EUR 6.99 billion I titles at three, six, and 12 months, the first two at a negative interest rate, and the last with a minimum interest of 0.005%. The uncertainties of the Eurozone have led investors to look for refuge, sacrificing part of their investment in exchange for the safety provided by the German public debt and the French public debt.

**And Spain at a lower rate.** The recent statements of Jorg Asmussen, member of the Board of Directors of the European Central Bank (ECB), who reminded that the institution will focus on purchasing short-term debt, were enough for Spain to be able to issue debt at lower rates. The Spanish Treasury has placed debt for EUR 3.60 billion, at 3 and 6 months, and rates significantly lower than the month before, for securities at 3 months the rate was 0.946%, compared to 2.434% in July, and at 6 months, 2.026% compared to 3.691%.

**Spain postpones banking reform.** The Spanish government has delayed the reform that will allow the urgent intervention of banks, and liquidate unviable entities, to adapt to the demands of the European Commission, and ensure financial aid for Spanish banks. The Commission considers that the losses of entities that have aids shall be assumed by shareholders, which would be a hard blow for small Spanish savers.

**Inequality increases in Latin America.** A report of the United Nations Agency for Human Settlements Agency suggests that the gap between rich and poor in Latin America is increasing. According to the organization, 20% of the population earns on average 20 times more than the poorest 20%. The study also classified Guatemala as the country with the greatest disparity, while Venezuela was the most equitable.





## Political Tips

**Intellectual Property Law to be reviewed.** The Constitutional Chamber of the Supreme Tribunal of Justice (Tribunal Supremo de Justicia - TSJ) will review two of the articles of the Intellectual Property Law, to establish if they collide with the treaties signed by the Republic, after a request made by the Venezuelan Chamber of Medications (Cámara Venezolana de Medicamentos - Caveme) in March, 2009. Caveme considers that the international instruments protect the patents of medications, while the law doesn't.

**Capriles: we need to know what happened.** After sending his condolences to the relatives of those who died in the tragedy in Amuay, presidential candidate Henrique Capriles offered to collaborate in the solution of the crisis. Capriles he also demanded an investigation about the events, because "Venezuelans have the right to know what happened"; he also qualified President Chavez's statements when visiting the areas affected by the explosion of two gas tanks as "insensitive", when he said that "the show must go on".

**Directors must be interrogated.** Hiram Gaviria, representative at the National Assembly (NA) for Unidad, demanded NA president, Diosdado Cabello, to call for an emergency parliament meeting, summoning the President of Pdvsa, Rafael Ramírez and the Directors of the Paraguaná Refining Complex, to explain what happened in the explosion of 9 tanks of gas, leaving 48 dead and more than 100 injured.

**Voting drill reprogrammed.** Tibisay Lucena, President of the National Electoral Council, said that due to respect "*for the painful situation affecting the country*", the electoral power joins the national mourning, and suspended the voting drill planned for last Sunday. Lucena said that the drill was reprogrammed for Sunday, September 2 "under the same conditions"

**Consciousness, remorse, or cynicism?** In his campaign for reelection, Hugo Chávez included in his repertoire a call for self-criticism, "*I am one of the ones who complain the most about this government*", he said during an act in Barcelona, while lashing against governors and majors. Chávez acknowledged several problems of his government, and says that he will assume his responsibilities, and although he called upon his followers to be "*irreverent in the discussion*", he also asked for "*loyalty in action*".



**We must invest in national production.** Henrique Capriles Radonski, candidate for President of the Republic, presented his proposal “Made in Venezuela” to national entrepreneurs. Capriles criticized the government for providing more funds to imports than to promote national production, particularly when “*more than 70% of the products we consume are imported*”.

**Chávez does not want a debate.** After being consulted about the oil issue could be part of a debate with opposition candidate Henrique Capriles, president Chávez ensured that “*that would be like putting Cassius Clay when he was in his prime (...) to fight against Diosdado Cabello*”. Chávez criticized that candidate Henrique Capriles says what he wants to do, but not how; he believes that Capriles is not revealing his project because “*the bourgeoisie doesn’t want to admit that their project is still capitalism*”.

**“The government isn’t invincible”.** In an interview with newspaper El Universal, Ramón Guillermo Aveledo, Executive Secretary of the Mesa de la Unidad, stated that “*the government isn’t invincible*” and although the official party is going to the elections with a great advantage, it has started to lose space on the street, the agenda and the issues, while the massive events that the Unidad candidate has held continue to be a success.

**Opposition violates the rules.** Commando Carabobo presented before the National Electoral Council (Consejo Nacional Electoral - CNE) five claims against candidate Henrique Capriles Radonski and his command for violating campaign norms. Among the alleged faults is the intervention of the candidate in official acts of several governors’ offices, and excessive advertising in a TV channel and in a national newspaper.

**Safety and Life.** During an act in Apure, presidential candidate Henrique Capriles Radonski vied to lead “*a government that defends the life of all Venezuelans*”, which according to him, we don’t have today. Regarding the issue of guerrillas, kidnappings, and drug trafficking in the border states, the candidate urged the Armed Forces to participate in regaining control of the area.

**Chávez reloaded.** According to an article published in “The New Herald” of Miami a campaign could be launched soon to project a younger and healthier president Chávez. According to the newspaper, the campaign would be called “Chávez is another Beta”, and it would be an attempt to reestablish emotional contact between the head of state and the youth, given the success that Henrique Capriles has had in this segment.





**Unasur guaranteed its presence.** After signing an agreement with the CNE, Unasur confirmed participation in a mission to accompany the upcoming presidential elections, to be held in October; this would be a new experience for the organization and the first confirmation of an international organization to attend the elections.

**The government does not hurt for Venezuelans.** Capriles criticized the government's actions regarding the jail issue, after a conflict that occurred in the prison at Yare; "*the government candidate has chained radio and TV stations (...) and has he even expressed solidarity with the families of the youngsters that lost their life in Yare?*" Finally, he proposed the creation of a government that is committed with all Venezuelans.

**National mourning.** President Hugo Chávez decreed three days of national mourning because of the tragedy in the Amuay refinery, Falcón, where there was a strong explosion a little after 1:30 a.m. of Saturday, August 25.

## Legislative Tips

**Rules of the Real Estate Law published.** Last Friday, August 24 in *Official Gazette* N°. 39.992, the Ministry of Housing published a resolution detailing the provisions of the Law against Real Estate Scams, which entered into force last April 30. The regulations increase the steps that construction companies must follow to receive bank loans, and conditions credits for the purchase of housing solutions.

**They decide.** According to the rule, the government through the National Real Estate Company (Inmobiliaria Nacional), will define who are the beneficiaries of the units built with funds of the mortgage portfolio, which will be those registered in the middle class plan. Families that may opt for credits are those earning up to 15 minimum wages (VEB 30,705). Besides loans, families will have subsidies, but the Ministry has not yet published the new tabulator.

**More hassles for construction.** The rules published add that "*all those in construction, sale and pre-sale of housing units must register, regardless of the price of the units, and the financing used*". The Administration is now also regulating the profits of the construction companies, because the earnings of companies from the projects won't be more than 15%.



**The creation of a Truth Commission demanded.** Spokespersons of several political parties demanded, in several declarations, the reactivation of the National Assembly sessions, and the appointment of a Truth Commission to investigate the causes of the tragedy in Amuay. They also demanded that Rafael Ramírez, President of Pdvsa and Minister of Energy, to assume responsibilities and be sanctioned.

**Not to investigate but to spend.** In the next few days, the NA will summon, during this recess period, the Delegate Commission (which works during the vacation period) but not to discuss the explosion occurred at CPR on Saturday, but mainly to approve additional credits. Diosdado Cabello, president of the NA, said that they haven't planned to talk about Amuay in the next session that the legislative power calls, and criticized the political use that the opposition is giving to the tragedy.

**NA says it has not refused to discuss the contract.** Given the protests of NA workers, demanding the discussion of their collective bargaining agreement that is overdue since 2009, Ricardo Durán, director of Communication and Information of Parliament, said that *"we have never refused to discuss the collective bargaining agreement"* of its workers *"but are waiting for the response of the Labor Ministry to plan it"*.

**The law in Aragua is still not published.** The uncertainty of entrepreneurs of Aragua, due to the Stamp duty Law in the state continues. Although the reform of the law was approved two weeks ago by the Legislative Council of Aragua (Cleba), the legal text has not yet been published, and the scope of the change is unknown. Pedro Álvarez, president of Aragua's Chamber of Commerce, said that the authorities are delaying the publication to try to collect the fines that the Tax Administration Service (Satar) applied under the previous law.





**ECONOMIC OVERVIEW**

