



Weekly Report

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*Balance of payment figures:
more questions than answers*

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The Central Bank of Venezuela recently released the Balance of Payment figures for the first semester 2010, and a few weeks ago it also released the 2009 Yearend Economic Report, which highlighted the Balance of Payment figures underlining how both the private and public sector did in this area, something it doesn't do when it releases quarterly figures. These latest figures released by the BCV are a bit suspicious and leave a lot of questions which need to be answered and explained by BCV technicians.

**Up until now, we
have always had
reason to
believe that BCV
data was reliable**

At *Ecoanalítica*, we have always stated that we had no reason to doubt the figures released by the Central Bank of Venezuela. We know their technical team and recognize their qualifications. It's not easy to manipulate economic data in order to generate figures that are favorable for the government. Up until now, the BCV has never tried to do this. In fact, in our Reports, we use BCV figures to show the weaknesses and vulnerability of the current Administrations economic policies.



First: 2009 figures

When the BCV released its Balance of Payment figures in the 2008 Yearend Report, three things clearly stood out, even cause a fair amount of concern:

1. The Public Sector Errors and Omissions Account registered a deficit of US\$ 31,836 million; but the Public Sector posts a surplus of US\$4,950 million in its Capital Account.
2. The Private Sector registers a Capital Account deficit of US\$ 18,990 million and the Errors and Omissions Account posts a surplus of US\$27,053 million.
3. The drop in the Private Sector Investment Portfolio, which went from a surplus of US\$ 4,024 million in 2008 to US\$ 1,508 million in 2009.

We don't understand why the Errors and Omissions Account is so high

We understand that the Balance of Payment figures include the analysis of a number of different sources of revenue and that the Errors and Omissions Account gathers any statistical discrepancies which may occur. In the 2009 Balance of Payment, said account equals US\$ 4,783 million. But, when you begin to separate all the private and public sector sources included in the Balance of Payment, the figures are quite alarming and the BCV need to explain this.

How does the BCV see all this?

It's important to mention that the BCV defines the Errors and Omissions Account as an account that "reflects discrepancies derived from the use of multiple sources and possible estimation errors and omissions. Methodologically, at the sector level (public and private), this account also includes, the counterpart of the operations registered in the Current and Financial Account, which imply the transfer of resources in foreign currency between sectors and which don't generate movement in the international reserves." In other words, swap-market operations, which were very large amounts, could have been registered here. But this is just one of the possible hypotheses. This is why it is very important that the BCV be more explicit with respect to where these figures are derived from.

The situation has become much more serious since the implementation of the exchange control

With respect to the Public Sector, the 2009 Errors and Omissions Account shows a deficit of US\$ 31,836 million, a figure which is higher than the amount in the international reserves today. The BCV need to explain to the country exactly what is being included here. One could imagine that public bond operations could be included or PDVSA financial management figures, but at *Ecoanalítica*, we believe these items should be registered in the Financial Account and in the Investment Portfolio



What is most worrying is that the Errors and Omissions Account figures begin to increase substantially after the implementation of the exchange control mechanism. The Errors and Omissions Account averaged a deficit of US\$ 1,975 million between 1997 and 2003, while between 2004 and 2009 it averaged US\$ 3,022 million, in other words, an increase of 53%. The BCV Board has to clarify exactly what is being included in this account because these figures are representing more than just discrepancies in estimates and omissions.

Balance of Payments Public Sector (US\$ MM)

	2006	2007	2008	2009
Current Account	53,289	58,677	84,609	49,709
Goods	53,731	58,226	84,866	50,231
Oil Exports	57,972	62,640	89,128	54,201
Import of goods f.o.b.	-4,241	-4,414	-4,262	-3,970
Services	-105	-160	-284	-199
Others	-337	611	27	-893
Capital Account	-10,336	-4,710	-9,716	9,023
Public Sector	-10,336	-4,710	-9,716	9,023
Reserves Variation	42,953	53,967	74,893	58,732
Public Capital Outflows	-8,183	5,623	-846	7,423

Sources: BCV and Ecoanalítica

2009 Private Sector outgoing capital

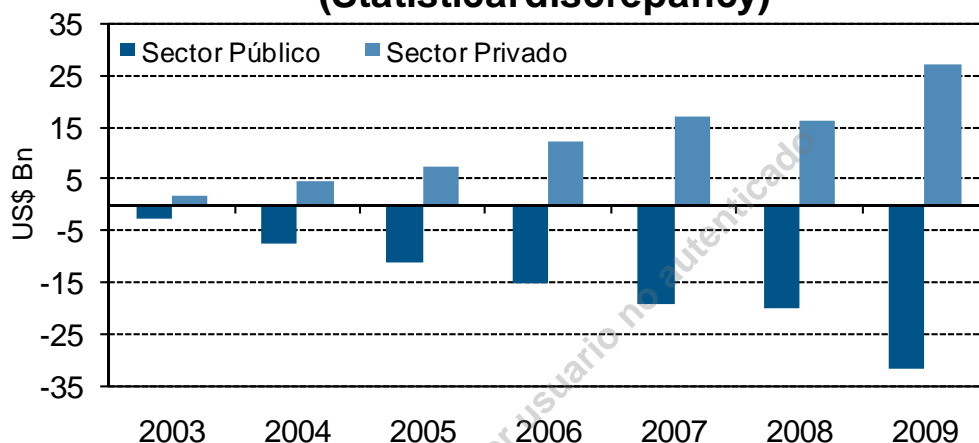
In August this year, when the BCV released its corrected global 2009 Balance of Payment figures, at *Ecoanalítica*, we estimated the amount of Private Sector outgoing capital for the year. The figure we came up with was US\$ 23.50 billion, the highest amount ever of outgoing capital since these figures began to be released in 1997. And now, when the BCV finally released its 2009 Yearend Report, we find that last year, the Private Sector did not register any outgoing capital amounts. Instead, the figures show that US\$ 6,689 million in capital came in.

At *Ecoanalítica*, we don't have problem admitting that our calculations may have been wrong, though they are based on BCV figures from August 2010. But it is very difficult to believe that capital came in last year. Once again, we insist that the BCV give a detailed explanation as to how they calculated these figures.

These distortions have become worse and worse since the implementation of the exchange control. Between 1997 and 2002, the deficit in the errors and omission account was only averaging at US\$ 1,068 million; while between 2003 to 2009 it registers a surplus of US\$ 12,310 million.



Errors and omissions account (Statistical discrepancy)



Sources: BCV and Ecoanalítica

We don't have any coherent or reasonable explanation for this phenomenon. But, we believe it is related to the bond operations and financial operations, but even this is not enough to justify such a high amount, especially if you take into account that in 2009, Private Sector exports were only at US\$ 1,805 million. The key is the Public Sector. The Error and Omissions Account registers a deficit of US\$ 31,836 million, in other words, the Private Sector surplus for the same account represents 85% of the Public Sector results.

Balance of Payments Private Sector (US\$ MM)

	2006	2007	2008	2009
Current Account	-26,827	-40,614	-47,217	-40,579
Goods	-21,736	-35,247	-39,210	-31,078
Non-Oil Exports	7,606	6,370	6,010	3,394
Import of goods f.o.b.	-29,342	-41,617	-45,220	-34,472
Services	-4,305	-6,792	-8,070	-7,418
Others	-786	1,425	63	-2,083
Capital Account	-11,162	-19,095	-18,401	-27,846
Private Sector	-11,162	-19,095	-18,401	-27,846
Investment of Portfolio	-1,766	-3,071	4,024	1,508
Direct Investment	-508	1,008	349	-3,105
Private Capital Flows	-7,364	-17,002	-21,501	-24,415
Reserves Variation	-37,989	-59,709	-65,618	-68,425

Sources: BCV and Ecoanalítica

The BCV has to generate confidence

For some time now, a greater and greater number of people have been losing faith in the Venezuelan economic indicators generated by the INE



and the Ministry of Planning and Finance, and to a lesser extent, the BCV. But now, after the release of the economy's 2010 first semester results, distrust in the BCV has been increasing, because people feel that the figures have been manipulated to please the Administration. And this distrust is backed by recent changes made to the BCV Board of Directors, and changes which have been announced are coming.

So, the BCV owes us an explanation. It has to tell us why the Error and Omissions Account has increased so much, an amount which can't be explained away by saying it is due to statistical discrepancies. In order to convince people, to have people believe, you have to have credibility. In other words, economic agents have to be able to believe that the BCV is using technical criterion to calculate its statistics. If a number of economic agents begin to believe that official statistics are being manipulated by the Administration in order to cover up economic problems, then they will never believe in the Administration's intentions and plans to stimulate the economy and promote economic growth. Instead, speculation will grow and defensive postures will be implemented, as Administration promises and economic policies will be seen as overestimation and unsustainable. This will severely impact any future positive effect these measures may have on the economy.

The BCV has to generate confidence

Second quarter 2010 figures show the current account registering a US\$2,621 million surplus, up 29.9% from the amount of US\$2,017 million reported for the same period in 2009. The main reason that made these results possible was a US\$1m548 million increase in oil exports, up 11.3% on a year-to-year basis, even though oil prices have gained 13.2%. This confirms our thesis about oil production stagnation.

Slight drop in imports

In addition, with a slight 1.0% drop, imports surpass by far the 9.7% contraction in non-oil exports. Furthermore, the balance deficit on service account expanded 9.7% (US\$205), whereas balance on rent and transfers jumped 183.0%, from US\$400 million up to US\$1,132 million, mainly due to a 34.9% increase in investment rent.





BALANCE OF PAYMENTS (General Summary)	2009 - II	2010 - II	Var (%)
Current Account	2,017	2,621	30%
Goods	4,538	6,079	34%
Oil Exports	13,756	15,257	11%
Non-Oil Exports	837	775	-7%
Import of goods f.o.b.	-10,055	-9,953	-1%
Services	-2,121	-2,326	10%
Others	-400	-1,132	183%
Capital Account	608	-2,022	
Public Sector	4,378	1,028	-77%
Private Sector	-3,770	-3,050	-19%
Reserves Variation	2,625	599	-77%

Sources: BCV and Ecoanalitica

The State is giving it all it has

We want to highlight that this import drop was not higher because public sector imports grew 78.1%, whereas those of the private sector shrank 22.8% on a y/y basis, vs. a contraction of 42%, also on a y/y basis over the last three quarters. The importance of this data lies on the fact that public sector imports increased more than normal, because the government had to make a number of purchase abroad due to the electric power crisis. How did the first semester 2010 end up looking?

If we look at first semester 2010 figures we'll see that the current account remarkably recovered in the first quarter, registering a balance of US\$9.137 billion, vs. a US\$2.260 billion deficit for the same period in 2009. This figure confirms what we said about oil exports and recession, because the former expanded 111.8% and imports contracted 18.1%. Balance on service for this period shrank 3.3%, whereas balance in rents and transfers expanded 55.0%.

Furthermore, capital and financial account recorded a deficit balance of US\$2,022 million, whereas it registered a US\$1,298 million surplus for the same period in 2009. Reviewing cumulative figures for the year, we can verify a year-to-year increase of 42.6% in the capital account deficit, reaching a negative balance of US\$13,437 million.





One also has to mention that direct foreign investment in Venezuela dropped by 9.5% during the first semester of the year compared to the same period in 2009.

And 2010?

We at **Ecoanalítica** forecast that the current account will register US\$15,400 million, a quite higher level than the US\$8,561 million of 2009, mainly driven by exports amounting to US\$62,100 million. While this figure is better than 2009, it does not get close to the 2008 level and it is simply the result of crude oil prices that have recovered, but not at a level enough to sustain the economy. In terms of imports, our projection puts them at US\$37,200 million, below the US\$38,442 million of 2009.

With respect to the capital account, we forecast a US\$21,000 million deficit, with an increase in capital outflow for both the public as well as the private sector. This amount accounts for an increase of US\$7.0 billion with respect to 2009 deficit.

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Economic Tips

The CPI showed a variation of 1.6% for the month of August. The National Consumer Price Index calculated jointly by the Central Bank of Venezuela (BCV) and the National Statistic Institute (INE) showed a month-to-month increase of inflation of 1.6% during the month of August. So far this year, inflation has increase by 19.9%, up by 4.3 percentage points compared to the same period last year when it was at 15.6%; meanwhile the y/y national inflation level dropped slightly from 30.5% to 29.7%, still three percentage points higher than what it was at last year in August (26.7%).

The Greater Metropolitan Caracas Area CPI increased by 1.4%. The Caracas area CPI increased by 1.4% compared to the previous month and for the third month in a row posted a y/y variation which dropped, settling at 30.0%. Accumulated inflation for the year is at 20.3%, up by 2.9 percentage points compared to the accumulated level last year during the same period.

Caracas area core inflation. The month to month core inflation variation (including goods with regulated prices and strong seasonal pressure) for the Caracas area was at 1.7% for the month of August, the y/y variation dropped slightly for the fifth month in a row settling at 30.25%; while yearly accumulated inflation is at 20.3%.

National core inflation. National core inflation posted a month to month increase of 1.9% for August, while the y/y variation dropped for the fifth consecutive month going from 30.2% in March to 28.5% in August, and accumulated inflation settled at 18.7%.

Shortages and diversity. The shortage indicator for the Caracas area was at 9.6% during August after registering 9.5% during the month of July. During the last three years, this indicator has rarely been in single digits. The Diversity indicator for products in the market also continued to improve for the fifth consecutive month settling at 176.1 points.

Food basket increased 1.5% in August. The food basket calculated by the Analysis Center of the Federation of Teachers (Cendas) estimates that the monthly purchases of food for a family of five reaches VEB 2,588.61, for which the minimum wage (1,223.89 VEB) covers only 47.5% of it. Compared with August 2009, the basket has increased by VEB 823 or 37%





Giordani: There is no possibility that **Venezuela will default payment. The Minister of Planning and Finance**, Jorge Giordani, stated that there is no chance that Venezuela will default on its payments, “in all Venezuela’s history it has always honored its obligations, especially during the last ten years thanks to the political will of the government headed by President Chávez dedicated to honoring them.”

Giordani: Economy will grow at a healthy and solid pace. The Minister of Planning and Finance, Jorge Giordani stated that recent GDP figures showed a positive change and have slowly begun to recover heading toward sustainable growth.

INE: inflation to close 2010 below 30%. The president of the INE, Elías Eljuri, stated that the goal is to close out 2010 at below 30% and they expect next year to be much lower.

Ministry of Finance states that TICC operations are not illegal. The general director of the Legal Department of the Ministry of Finance stated in a communiqué addressed to the National Office of Public Loans that transactions with Covered capital Interest Bonds (TICC, short term bonds denominated in US-dollars but purchased in the local market with local currency) do not violate the Crime Exchange Law. Brokerage houses and banks that carried out exchange operations with these instruments did not break the Exchange Law.

Sitme figures. To date, US\$1,817.2 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$28,4 million a day, with an implicit exchange rate of VEB 5.3/US\$. Last week the traded amount reached US\$168.4 million, US\$28.8 million more than last week when braided US\$139.6 million.

Interest rate. The lending rate for the first week in September was at 17.3%, down by 9 base points compared to the previous week. Time deposits and savings rates were at 14.8% and 12.6%, respectively.

International reserves. International reserves increased by 2.7% going from US\$28,396 million during the fourth week in August to US\$29,153 million during the first week in September. Compared to the same period last year, international reserves dropped by 14.1%.

Monetary liquidity. Monetary liquidity for the fourth week in August was down by 0.4% compared to the previous week settling at VEB 257.30 billion, and up by 9.1% year to date in nominal terms and down by 16.3% compared to the same period last year.



Oil Tips

Pdvsas pays dividends. Starting in August, Pdvsas started paying dividends to the national treasury, paying VEB 1.1 billion, representing a total of 26% of the VEB 4.3 billion, to be transferred during the year. Also, through taxes Pdvsas has contributed in the first eight months of the year, VEB 23.2 billion in royalties, VEB 5.3 billion in income taxes (ISLR), and from other taxes it has paid VEB 3.6 billion, for a total of VEB 33.3 billion. This amount represents a reduction of 9.1% in real terms, if compared with the same period in 2009, mainly due to a drop of 36.7% in income tax contributions, and 2.1% in royalties, both in real terms.

Oil rent must be the instrument to build socialism. During a presentation commemorating 50 years of the Organization of Petroleum Exporting Countries (OPEC), Rafael Ramírez, President of PDVSA, said that the oil policy of the Bolivarian Government is sovereign, popular and revolutionary, characterized by the use of the oil rent as the instrument to build socialism. He also said that before, multinational oil companies drained the nation, with conditions and rules that only benefitted them.

Asking for more participation in decisions. PDVSA's workers and trade unions have no participation in decision making, contrary to what happens in the basic companies of Guayana and Corpoelec, and they demand being taken into account. Trade union representatives say that despite their insistence, and President Chávez's talks about worker's control, they have not been included, and this won't change unless they take the initiative.

Dialog between EU and OPEC. A high level meeting took place between several ministers and commissioners of the European Union (EU) and representatives of OPEC, where they agreed to review what is necessary to increase security in oil and gas facilities; carry out a study to review the potential of technological advances in transportation, to introduce them in the different regions, and their impact on demand; and review the causes of the shortage of personnel with expertise in energy and how to develop this aspect. The next meeting will be in June 2011, to review these items and the progress made.

Production drops and prices drop. OPEC's crude oil production dropped in August to its lowest level since November 2009, to an average 26.7 million barrels per day, although production stayed at 7.4% above the average of the same period in 2009. This drop reflects the interruption of production in Nigeria and Iraq, plus the



reinforcement of the other countries to improve pumping compliance. However, despite the drop in production, analysts project a drop in the price of the barrel to less than US\$70 per barrel, a trend that has been fulfilled.

US reserves increase. US crude oil reserves increased by 3.4 million barrels in the last week, to accrue 361 million barrels, as published by the US Department of Energy. This level represents an increase of 5.3%, with respect to the same period in 2009.

A platform caught fire, tripping the alarms. An oil platform in the Gulf of Mexico caught fire on Thursday the 2nd, and was extinguished by Coast Guard helicopters. There are no traces of leaks, but investigations and surveillance will continue, so as to avoid a disaster like the one by British Petroleum. However, 13 platform workers said that they saw a spill 1.5 km long and 3 wide, but Coast Guards have not located it. The platform is located 130 km south of Luisiana, United States.

Gasoline prices continue to fall. Gasoline prices fell for the third consecutive week, averaging US\$2.68 per gallon, the lowest level of the summer in the US, and the second lowest of the last five summers, when they are supposed to be the highest, since demand increases because people go on vacation using their cars.

Petrobras searching for more capital. The Brazilian oil company announced that it issued new shares for 128 billion Brazilian reales, equivalent to US\$73.5 billion. If this public share offer is placed in full, Petrobras will increase its capital by around 49%, considering that its present market value is 260 billion reales or US\$149.4 billion, the majority of which belongs to the Brazilian State.

International oil baskets. At the close of the New York market last Thursday, September 9, the WTI was at US\$74.91/bl, showing a 0.2% decrease compared to the US\$75.02/bl of the previous Thursday. The Brent increased by 0.6% to reach US\$77.62/bl, compared to US\$77.2/bl of Thursday, September 02.

Local oil basket price. The Venezuelan oil basket price decreased last week, to close at US\$70.3/bl on Friday September 03, down by US\$2.6 from the US\$72.8/bl registered the previous week. Meanwhile, the basket's annual average kept constant in US\$69.9/bl.





Business Sector Tips

Foods nationalized. During the inauguration of an electric power plant in the State of Zulia, President Hugo Chávez authorized payment for the shares of Cativen and also signed the expropriation of Friosa. For the shares in Cativen, which includes the supermarket chain CADA and Hipermercados Éxito, US\$600 million will be paid, and in the first stage the Executive will pay 20% of this. Chávez also approved US\$60 million for the expropriation of the food distributor Friosa, located in the State of Bolívar.

And more food. Argentina plans to increase its food exports to Venezuela, for around US\$600 million. The Argentinean Foreign Affairs Ministry said that it is working to increase trade and agreed to add new products to export from Argentina, among them fresh fruit like grapes, apples and pears. Trade exchanges between Venezuela and Argentina are increasing. For example, the Argentinean rice sector, thanks to its exports to Venezuela, has achieved *"its largest operations in history"*, and this year will send 85,000 tons for US\$40 million.

Approvals for currency increase for graphic arts, paper, and shoes. Cadivi met last Friday with the Chambers and Associations of Representatives of the graphic arts, paper, and shoe sectors, to exchange information on their present state of authorizations and payment of currency, as well as to process cases and specific concerns of these users. According to Cadivi's press release, from January 1 to August 31, 2010, these sectors been authorized US\$428.4 million for regular imports. This amount represents an increase of 64% in the authorization of foreign currency, compared to the same period in 2009, when US\$259.9 million were authorized.

Ecuador replaces Venezuela. According to data from the National Administrative Statistics Department of Colombia (Departamento Administrativo Nacional de Estadística de Colombia - DANE), sales from Colombia to Venezuela dropped 73.8% in July, while during the same period sales to Ecuador increased 56%. The United States continues to be Colombia's main client, with exports for US\$1.4 billion in products for July, while to Ecuador, US\$151.6 million were exported. Sales to Venezuela only reached US\$90.3 million during the same period. The volume sold by Colombia to Venezuela between January and July of last year represented 16.5% of Colombia's total exports, but this year, the percentage dropped to 3.8%.



And we have Brazil instead of Colombia. According to statistics from the Brazilian Executive, in the period between January and June 2010 Venezuela bought around US\$271 million in bovines, an increase of 78% in imports, compared to the US\$152 million destined to the import of animals for the same period in 2009. Regarding the purchase of frozen beef, from January to June 2010 Venezuela paid US\$93 million to Brazilian ranchers, 39% more than the US\$67 million paid during the first six months of 2009. Regarding sugar imports, Brasilia reports that until June 2010, Venezuela paid around US\$131 million, when during the same period in 2009 only US\$16 million were paid. These numbers reveal that due to the bilateral conflicts, both countries (Venezuela and Colombia) increased their trade relations with their closest neighbors (Ecuador and Brazil).

Cargo flights between Colombia and Venezuela resume. A Venezuelan delegation led by Alcibiades Molina, vice minister of Transport, went to Bogotá to resume air trade between Colombia and Venezuela, which had been suspended since last year. Aerocivil (Colombia) requested the airlines Aerosucre and LAS to resume their flights with the same frequency they had before (around 30 per week), and the commission led by the Venezuelan vice minister requested Aereocivil to renew the authorization for the Venezuelan airline Vencecar to fly to Colombia.

“It isn’t consumerism, it is necessary consumption”. President Hugo Chávez, in full campaign for the parliamentary elections, announced the creation of a card, which he called "for good living", to facilitate "the necessary consumption" at Biceabastos, a network of stores created by the Government that sells low cost food and articles from the basic basket. It is a sort of credit card for people who have a payroll account and collect their salary through the bank. Financing will be 24 months, at an interest rate that is still being studied, but will be lower than the one in private banks. Hugo Chávez simplified the project, saying that the invention is *“a card with which you take what you want, and it is discounted from your account. It is not consumerism, it is necessary consumption”*.

Appliances at a discount. Refrigerators, washers and gas stoves will be sold at a 30% discount in socialist markets, starting in the last semester of this year, according to trade minister Richard Canán. He said that this set of washer, refrigerator and gas stove costs almost VEB 6,000 in other stores, but in socialist markets, they can be obtained for VEB 4,000. These appliances are part of the agreement between the Bolivarian Republic of Venezuela and the People’s Republic of China. The first lot of 31,000 appliances will be distributed in the Gran Abastos Bicentenarios, the food market networks (Mercal), and in savings houses of public entities, among others.

Imports of whisky decreased around 80%. Foreign purchases of this spirit totaled US\$ 37.6 million during the first quarter of 2010, a reduction of 25.9% compared to the





US\$50.8 million spent during the same period in 2009, according to INE. Foreign purchases of alcoholic beverages in general decreased 24.6%, and acquisitions dropped from US\$72.4 million the first 6 months of last year to US\$54.6 million. The situation has started to worry distributors and sellers, because they fear that the supply will be insufficient to meet the demands of the last quarter of the year, the one with the largest consumption.

Amounts over Fogade's guarantee will be paid. David Alastre, President of Fogade, informed that starting September 17, payment to savers with balances over VEB 30,000 will begin in the Banks that were intervened in November and December 2009 (that is, over the amount insured by Fogade). Banco Real will be the financial entity to start paying, and in 15 days maximum, Fogade will present a payment schedule for savings over VEB 30,000 for the other banks that were liquidated.

Laws that favor the new economic model. The Finance Commission will discuss the Banking Activity Law when the next period of sessions begins on September 15. The vice president of the parliament entity, Simón Escalona, said that the proposal has already been made, and that the text (which will replace the Banking Law) will include provisions for entities to finance the new productive model (social property). *"The idea is for the Banks to care for the strategic plans, so most of the resources managed by the main financial institutions are oriented towards small companies, emphasizing the new economic model"*, he said.

Stock market: in extinction. Although it has not been closed officially, the Caracas Stock Market is basically paralyzed due to the interventions since May. Financial sources have said that the National Stock Commission will close the 43 brokerage houses that are intervened, and this would make official the demise of the stock market.

Irregular management. Luis Díaz, member of the Finance Commission of the National Assembly, states that those managing the interventions of the brokerage houses are not being transparent. The assembly member said that the intervention agent of Econoinvest, *"gave himself a salary of VEB 25,000 per month, at a time when the population is being offered a credit card to buy foods from the basic basket"*. In this sense, Luis Díaz urged the National Assembly to start an investigation about the way in which the intervention of brokerage houses has been made.

Private clinics could be intervened. Private health centers could be intervened by the State, as proposed in the bill Regulating Public and Private Health Institutes. Article 84 of the rule, that will be presented during the second period of sessions of the National Assembly, establishes that if *"health care is seriously affected"* the Ministry of



Health may "*intervene or take possession*" of a private institution, to administer it temporarily, either partially or totally.

Domestic tourism increases during the recession. According to statistics of the Venezuelan Association of Travel and Tourism Agencies (Asociación Venezolana de Agencias de Viajes y Turismo - Avavit), during the present vacation period, domestic travel and flow of tourists have increased close to 23% compared to July, August, and September 2009. At the same time, it is estimated that travel and services abroad have dropped close to 20%.

Housing construction drops. Data from the public and private sectors show that there are less housing developments finished for 2010. In the second quarter, 103,466 houses were constructed, 11% less than during the same period in 2009, when 116,628 houses were built. The sharpest drop is in the public sector: official entities built 16,481 houses in three months, while last year, they built 26,861 houses.

Private sector dominates. On the other hand, the private sector constructed 86,985 houses. Regarding houses that have not been started (that have the permits but have not been built) they are 149,356 units, 117,077 private and 32,279 public. These projected solutions are more than those programmed for last year.

CAF helps strengthen the electric power system. The Corporación Andina de Fomento (CAF) informed today that it approved two loans to Venezuela for almost US\$400 million, from the US\$1.8 billion it expects to grant Venezuela during this year. It is a disbursement for US\$126 million that will partially finance the construction of electrical substations for the urban area of Maracaibo, and another for US\$261 million for other zones in the same state in the border with Colombia.

New container terminal in Puerto Cabello. At the end of last week, the head of the Ministry of Transport and Communication, Francisco Garcés, informed about the signing of a memorandum of understanding with the Chinese company Harbour Engineering Company to build the new container terminal in Puerto Cabello. The construction of the new terminal will allow this port to receive ships of up to 70 thousand DWT (dead weight tons), when at present it receives ships of no more than 30 thousand DWT.





World Crisis Tips

G20 approves the economic recovery. Last Saturday, G20 delegates agreed to continue with the global recovery, and acknowledged that it will be faster than what was thought three months ago. The US proposal to reduce the number of European representatives at the International Monetary Fund (FMI) to give more representation to emerging markets is still under discussion.

Multinationals consider it positive. According to a survey carried out by the UN Conference on Trade and Development (Unctad) on a scale from 1 to 5, the highest being the greatest optimism about the environment to invest, Latin America obtained 3.8 points and 4.2 for 2012. This score places Latin America over the emerging countries of Asia and Africa. With the global crisis, the continent where multinationals saw their investments less affected was Latin America, and 15 preferred countries for investment are in this continent. Four of the countries classified in order are Brazil, Mexico, Chile and Peru.

They are less willing, despite being in agreement. Usually, Republicans agree on approving fiscal incentives for companies, to boost the economy. However, in view of the upcoming elections, they are not quite willing to approve the new economic plan of President Obama for US\$350 billion, to stimulate the economy which apparently is stalling. President Obama's plan would include a reduction in taxes and expenditures in transportation projects.

High unemployment remains. The US unemployment rate increased slightly in August, at 9.6%. This represents a small difference, compared to the same period in 2009, when it reached 9.7%. Unemployment in the private sector increased 0.7% this year, with 67,000 unemployed, a 0.6% increase inter-annually. In the public sector there is a reduction of 0.4% inter-annually, and a reduction of 121,000 unemployed.

Nevertheless... Although unemployment levels are still high in the United States, they are no longer showing a sequential deterioration; in fact, unemployment insurance requests dropped by 6,000 individuals, for a total of 472,000. This is the lowest level of the last four weeks, for a four week mobile average of 485,500 individuals, maintaining the levels of November 2009.

The service sector cannot maintain improvements. The compound Service and Construction Index published by the Institute for Supply Management (ISM) dropped 5.2%, to 51.5 points. This is the lowest level since January of this year, and fell short



from the expectations that placed it at 53.5. However, this still represents an increase (6.8%) with respect to the same period in 2009. All the components of the index dropped.

Automobile sales also fall... Automobile sales fell 0.6% with respect to the previous month, with 11.5 million vehicles. Compared to the same period in 2009 the drop is 19.0% with a seasonal adjustment. This drop is due mainly to a contraction in the sale of light automobiles. Sales were as expected according to the analysts, and they are slightly above the lowest level during the recession, in February 2009.

Work productivity contracts. Work productivity reviewed for the second quarter of the year in the United States dropped 1.8%, when analysts expected a drop of 0.9%. This is the first fall since the last quarter of 2008. However, in the last four quarters there has been a 3.7% increase. It must be noted that the manufacturing sector increased 4.1% with respect to the previous quarter, and 7.5% with respect to the same period in 2009.

Pending housing sales improve. The National Association of Real Estate Agents – NAR, reported an improvement in the sales of finished single family units for June, with an inter-monthly increase of 5.2%, to reach the highest level since April, when it plummeted due to the elimination of US\$ 8,000 in tax credits for first time home owners. This breaks the expectations of the consensus, of a drop of 1.3%.

Trade in Germany drops. Since March 2009 there have been four reductions, July being the worst. The reduction in total orders, both from outside Germany, and domestic dropped 2.2%, compared to June. Foreign sales fell 3.7%, while domestic sales dropped 0.3%.

Political Tips

We are not Iraq. The Head of State denied that insecurity is on the rise in the country, although he acknowledged that it is *"a hard topic"*. *"It isn't true that Venezuela is one of the more insecure countries of the world, and it isn't true that today there is more violence than there was 11 years ago"*, he said. *"We will continue attacking the problem as a whole"*. He denied the comparisons between Venezuela and Iraq made by some sectors regarding insecurity. However, numbers from the National Institute of Statistics (Instituto Nacional de Estadística - INE) indicate that 19,000 people were



murdered in Venezuela in 2009, above the violence indices of Mexico, Colombia, El Salvador and Brazil.

Nobody will prevent me from doing so. President Chávez asserted that he is exerting his constitutional right to participate in the parliamentary elections campaign. *"I am exerting my constitutional right to participate in the electoral campaign. No one will prevent me from doing so. I am just another Venezuelan"*, he added. The Head of State denied that he is violating electoral laws, as denounced by rector Vicente Díaz. *"¿Who can prevent me, a revolutionary, and also president of the PSUV, which I am, to face up to you?, who can prevent me from doing that?, who?"*, and qualified as "disrespectful" the claim made by rector Díaz.

And he also marks the line. President Chávez, demanded his followers, particularly his ministers and vice ministers, to make *"a radical strategic change"* in favor of the "people's power", convinced that his socialist project depends on this. The organized people's power will *"prevent capitalists from taking the government again"* he said.

And He is hope. *"We must care not for what we have achieved so far. What we have achieved is positive, but it is very little compared with what we can achieve in the future. What we must care for the most is the future"*, he insisted.

Lucena: The statement of Díaz created confusion. Tibisay Lucena, President of the CNE, rejected the statements of rector, Vicente Díaz, about excesses in the electoral campaign and said that they caused confusion among voters. *"We won't allow personal and political postures to create confusion regarding the well known rules of the game, to create an environment of confusion, calling for confusing interpretations and inaccurate numbers that do not correspond with the monitoring hired by the CNE"*. Lucena is surprised that a member of the electoral entity uses the media to make claims that have not been subject to the consideration of the CNE. *"This Electoral Power has never decided, and never will decide in a media show, or by pressure from a political actor. This is the arena of political actors"*.

People's Defense Office: Brito's death should not be used as a campaign. In a communiqué, the People's Defense Office rejects using the death of Franklin Brito as a *"strategy by unscrupulous parties and media, to obtain electoral benefits in the upcoming parliamentary elections"*. It also states that the organization provided due care and responded to his requests, both administratively and legally, and even adopted humanitarian measures in his favor, which negatively affected the rights of individuals outside this conflict.

Franklin Brito's family accused for inducing him to suicide. The Public Prosecutor's Office will conduct an investigation against the family of Franklin Brito, for



alleged “induction to suicide”, a crime punished with 7 to 10 years of imprisonment, according to article 412 of the Criminal Code. Former Prosecutor, Javier Elicheguerra, said that this investigation is “crazy” because hunger strikes are a right established in international treaties, of which Venezuela is a party.

Truths and lies. 77% of voters, regardless of their political tendency, is willing to vote; 34% said they would vote for the ruling party, and 42% for the opposition, as part of the results of the last survey conducted by Alfredo Keller & Asociados. According to this firm, people know which are the false, and which are the true messages of the Government. In the last survey, the following expressions were considered true: “A change of government is necessary” (53%), “Chávez has lost support and the opposition is the majority” (44%) y “The government will take out the property of all, big and small” (45%). The following were considered false: “If the opposition wins, the ‘misiones’ will be eliminated” (45%); “Even if the opposition wins, the Government will have control” (45%), and “They are to remove power from the rich to give it to the poor” (65%).

PSUV accuses opposition parties for violating electoral rules. The coordinator of communication and advertising of the national campaign Bolívar 200, Blanca Eekhout, said that several irregularities have been detected in the campaign of opposition parties, among them: the use of the Venezuelan flag in advertising, which is forbidden; and one ad in Globovisión inviting to participate in a demonstration against insecurity, which doesn’t show the RIF of those that contracted the campaign.

Audit of electoral machines normal. The director of logistics and production of the CNE, Alberto Avena, said on August 28 that 30.5% of the 36,514 voting machines that will be used on September 26, have already been programmed, and ready to be moved to the polling stations. The machine audit process has been normal, with the participation of CNE technicians, political organization representatives, national observers, and external auditors from the universities.

MUD will carry out “Operación Amarre”. The candidate for parliament for Miranda, Enrique Mendoza, informed that the plan called “Operación Amarre”, means that each follower of opposition candidates must contact ten persons to convince them to vote for opposition candidates; according to Mendoza, they should capture 666,214 volunteers. The PSUV has a similar strategy through the so called patrollers; Aristóbulo Istúriz, Head of the Comando Bolívar 200, said last Friday that they had 3 million voters.

Bolivarian Military University to be created. During the celebration of the Bicentennial of the Military Academy of Venezuela, President Chávez signed a decree



to create the Military University, which will include the Army Academy, National Guard Academy, Navy Academy, and the Aviation Academy.

Police bodies “cannot guarantee security in the country”. Soraya El Achkar, secretary of the National Police Council (Consejo Nacional de Policía) the organization in charge of transforming police institutions, stated that the police entities of Venezuela, as they presently exist, “cannot guarantee security in the country”. The official considers that the reforms proposed could be felt in about two years.

Classes delayed. The Minister for the People’s Power for Education, Jennifer Gil Laya, informed that the date to start the 2010-2011 school year will be Monday, October 4th, so that academic activities are not interrupted by the upcoming legislative elections. The head of the education office explained that his decision was made due to a request made by the rectors of the National Electoral Council (Consejo Nacional Electoral - CNE), to change the date of the school year so that they are not interrupted by the electoral activities of September 26.

Fidel: “El modelo cubano ya no funciona ni para nosotros”. En una entrevista publicada en la revista estadounidense The Atlantic, el ex presidente cubano, Fidel Castro, quien entregó el poder a su hermano Raúl Castro en 2006, debido a problemas de salud, respondió que “el modelo cubano ya no funciona ni para nosotros”, ante la pregunta sobre si seguía creyendo que el modelo cubano era algo que todavía merece la pena exportar.

Fidel Castro warns about an imminent nuclear catastrophe. Last Friday, former president Fidel Castro made a public appearance before thousands of young people in Havana, (his first public appearance after his disease took him away from power four years ago). His 40 minute speech focused on the risk of a nuclear catastrophe if, as he believes, the US and Israel attack Iran because of its nuclear program.





ECONOMIC OVERVIEW

