



Weekly Report

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*First Semester 2011 Balance
of Payments Figures:
We're "okay" but doing poorly*

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With the economic activity figures having been released, as well as Central Bank of Venezuela (BCV) Balance of Payments figures for the first semester 2011, this Weekly Report will take a look and see if our foreign indicators are in such good shape as they seem to be.

**High oil
prices =
positive
account
balances?**

According to the BCV, Balance of Payments figures for the first semester 2011 showed some positive signs; for example, it registered a Current Account surplus of US\$16.5 billion, up by 95% compared to the figure registered during the same period in 2010. This increase was spearheaded by a 41% y/y increase in oil exports which were at US\$43.6 billion; a 51.7% increase in the average price of the Venezuelan oil basket; and a 4.4% increase in volumes exported, according to BCV figures.

Ecoanalítica believes that the fact that export volumes have increased is something extremely positive given the outlook that we had a zero growth this year in exports. This makes the nation less vulnerable before any drop



in oil prices and suggests greater willingness by PDVSA to increase its production and meet the investment plan so impaired, or is the same Plan Siembra Petrolera.

Non-oil exports also increase by 40% compared to the same period last year putting them at US\$2.3 billion. According to the BCV, this positive figure was due to a 77.3% increase in public sector foreign sales and a 32.9% increase in private sector exports.

BALANCE OF PAYMENTS			
General Summary	1S2010	1S2011	Var (%)
(US\$ million)			
Current Account	8,458	16,526	95%
Goods	15,097	24,495	62%
Oil Exports	30,911	43,584	41%
Non-Oil Exports	1,664	2,328	40%
Import of goods f.o.b.	-17,478	-21,417	23%
Services	-4,554	-5,184	14%
Others	-2,085	-2,785	34%
Capital Account	-15,585	-18,929	21%
Public Sector	-4,125	-13,209	220%
Private Sector	-9,189	-4,279	-53%
Reserves Variation	-7,127	-2,403	-66%

Sources: BCV and Ecoanalítica

BCV figures also show that the Service Balance deficit increased by 14% due to the negative balance in transportation services due to the increase in imported merchandise transportation costs and that the balance of profits reflected a deficit mainly due to interest payments of debt (US\$779 million) and for public sector loans (US\$580 million).

The Capital Account posted a 21% increase in its deficit during the first semester of the year, mainly due to capital transaction carried out by the public sector. But, due to the Current Account surplus, the Balance of Payments ended up with a slight deficit of US\$ 2.4 billion.

The Public Sector building up steam...

With respect to imports, Balance of Payments figures show a 23% y/y increase during the first semester 2011. This increase reflects the increase in CADIVI foreign currency liquidation for imports and with the substantial increase in public sector imports. If one looks at imports by sectors, one



finds that public sector imports increased by 32% while private sector imports only increased by 18%, settling at US\$8.3 billion and US\$13.1 billion respectively. According to BCV figures, the increase in imports of public sector goods is due to Cooperation Agreement signed with Russian Federation as well as the acquisition of maritime transportation equipment and the purchase of chemical substances and products.

At **Ecoanalítica**, we continue to believe that as the State continues to gain more and more control over the nation's economy, the proportion of public sector imports with respect to total imports will continue to increase. Public sector imports during the first semester 2011 represented 39% of total imports, up by 3 percentage points over public sector imports during the same period in 2010, and 2 percentage points the sector's imports during the first quarter 2011. These figures appear to support our theory.

BALANCE OF PAYMENTS PUBLIC			
SECTOR	1S2010	1S2011	Var (%)
(US\$ million)			
Current Account	22,455	33,373	49%
Goods	25,326	36,374	44%
Oil Exports	30,911	43,584	41%
Import of goods f.o.b.	-6,312	-8,307	32%
Services	-2,603	-2,754	6%
Others	-268	-247	-8%
Capital Account			
Public Sector	-4,125	-13,209	220%
Reserves Variation	18,330	20,164	10%

Sources: BCV and Ecoanalítica

Public sector Balance of Payments figures also show a significant Current Account surplus of US\$33.4 billion, up by 49% compared to the same figure registered last year. With such a significant trade surplus one would think that the public sector would have been able to accumulated foreign currency and thereby avoid a Capital Account deficit. But this is not the case.

The public sector continues to draw capital

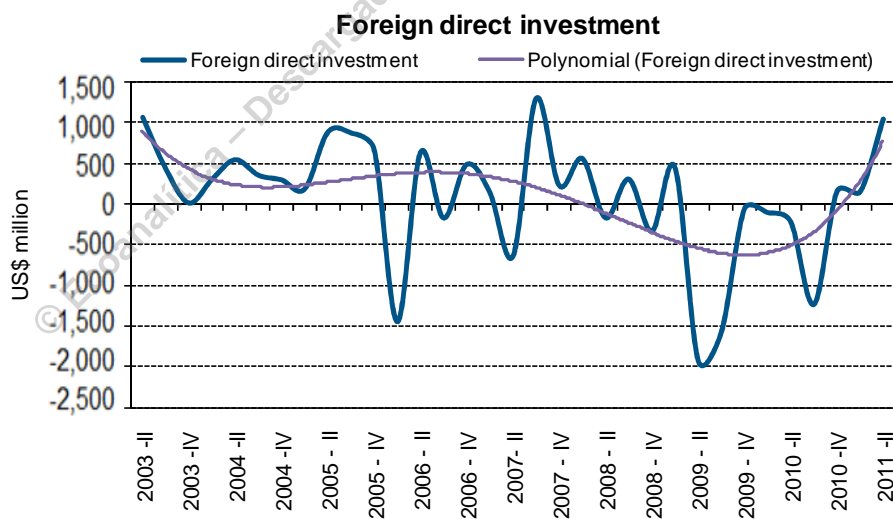
The public sector Capital Account posted a US\$13.2 billion deficit, up by 220% compared to the deficit registered last year during the same period. This is due to the public sector's increase in placement of assets abroad through transfers to mechanisms managing parallel funds. BCV figures show that the increase in public sector assets, contrary to the drop they



reflected during the same period last year (down US\$1.43 billion), is mainly due to the increase in deposits in the Fondo Gran Volumen (Great Volume Fund) associated with the agreement signed with China, the Development Fund (FONDEN), the oil industry, and the monetary authorities. Also, loans granted to clients tied to energy agreements and others tied to oil business were increased.

Significant increase in foreign direct investment

The Direct Investment Account reflected an important surplus of US\$1.04 billion compared to the same figure it posted last year during the same period. According to BCV figures, this surplus was due to cutbacks in foreign investment and the sale of a refinery in Europe by PDVSA. Furthermore, there were positive flows of direct investment by foreign partners coming into Venezuela. This was due to the bond participation in the Orinoco Oil Belt projects. There was also an increase in the balance of profits reinvested and dividends to be paid of private companies, mainly financial companies.



Sources: BCV and Ecoanalítica

The other side of the coin

Contrary to what the public sector Balance of Payments figures reflected, the private sector Balance of Payments figures reflect a 21% increase in the Current Account deficit. As we have mentioned a number of times before in past Reports, this is quite normal in an oil country where the public sector is very competitive in the foreign sector of the economy, while the private sector is not very competitive with its trading partners.





BALANCE OF PAYMENTS PRIVATE			
SECTOR	1S2010	1S2011	Var (%)
(US\$ million)			
Current Account	-13,939	-16,847	21%
Goods	-10,171	-11,879	17%
Non-Oil Exports	937	1,231	31%
Import of goods f.o.b.	-11,108	-13,110	18%
Services	-1,951	-2,430	25%
Others	-2,085	-2,785	34%
Capital Account			
Private Sector	-9,189	-4,279	-53%
Investment of Portfolio	125	41	-67%
Direct Investment	-319	814	-355%
Private Capital Flows	-10,875	-6,577	-40%
Reserves Variation	-22,771	-20,538	-10%

Sources: BCV and Ecoanalítica

Controls have their effect

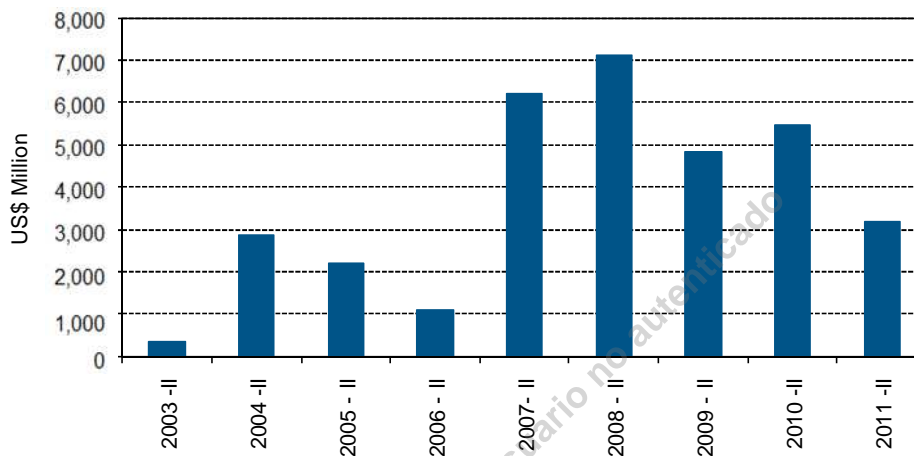
In IS2011, the BP of the private sector shows a reduction of the capital account deficit of 53%. As we have mentioned before, at **Ecoanalítica**, we believe that this private sector Capital Account deficit is associated with the collateral effects of having eliminated the swap-market.

As foreign exchange controls get stretched to their limits, private sector coverage mechanisms begin to cutback. At **Ecoanalítica**, we continue to recommend having a coverage strategy in place.





Private capital outflows



Sources: BCV and Ecoanalítica

What's going on in the foreign exchange market?

Another aspect that stands out with respect to Foreign Sector Balance of Payments figures for the first semester 2011 has to do with the nature of import of goods and services. According to BCV figures, private sector imports for the period were at US\$13.1 billion, up by 18% compared to the same period last year. On the other hand, BCV figures regarding CADIVI foreign currency liquidation for imports (including ALADI) are at US\$16 billion for the first semester 2011, a decrease of 4.7% for the period.

It would be arbitrary to point out that the difference between these figures, which is around US\$791 million, was financed by another mechanism (the SITME for example), given that seasonal factors and the delays in liquidating foreign currency that CADIVI has require that one have access to yearly consolidated figures before being able to credibly issue such a statement. Even so, we can state that this difference shows an increase in the assignation of foreign currency, compared to the same period last year, it also shows a deterioration in the foreign exchange allocation that it is not in step with the increase in foreign currency revenue due to oil exports as happened in 2007.

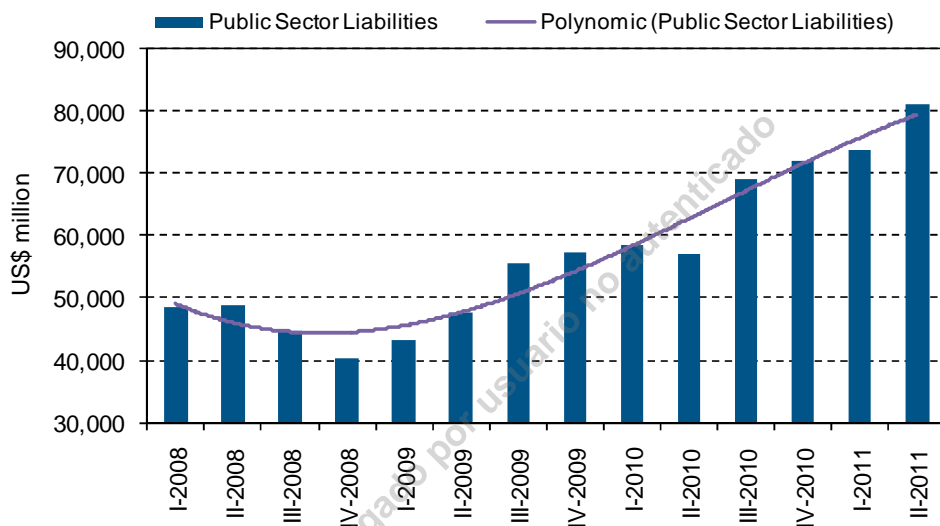
How is the debt?

State liability levels increased during the first semester 2011, with public sector liabilities increasing to US\$80.99 billion reflecting a 41.8% increase between June 2010 and June 2011. This includes payments received within the framework of Large Volume Finance Agreement with China, issuance of public bonds (PDVSA and the Republic), and to a lesser



degree oil sector accounts to be paid and loans granted by multilateral organisms.

Public Sector Liabilities



Sources: BCV and Ecoanalítica

Are we really doing okay?

Despite the fact that the first semester 2011 Balance of Payments figures seem to reflect a number of positive balances, there is no doubt that these figures, more than ever, are firmly tied to the ups and downs of international oil prices.

At **Ecoanalítica**, we continue to insist that the inherent volatility of the international crude oil market, and the fact that the Venezuelan economy is so dependent on this resource, being virtually its only source of foreign currency, makes for a scandalously fragile and vulnerable situation. And if the Administration would only try to make the economy less dependent on the oil industry by using the torrent of resources coming in due to oil exports to create incentives for the private sector and generate savings to be used (with counter-cycle policies) whenever oil process drop, then our economy could be at least a little bit less vulnerable.

But the Central Government insists on promoting policies which increase our vulnerability as the public sector increases its range of influence taking over sectors of the economy which have traditionally been in the hands of the private sector; with the end result being as reflected by non-oil sector exports and imports show. In the end, we are more vulnerable domestically, at the mercy of shocks occurring in foreign markets.



Economic Tips

Inflation continues to increase. The National Consumer Price Index (NCPI) released by the BCV and the National Statistics Institute (INE) show the month to month inflation rate for the month of August 2011 up by 2.2% which is less than the previous month's inflation rate and higher than the inflation rate in August 2010 (1.6%). So far this year, the accumulated inflation rate is at 18.6%, below the rate recorded at the same time last year (19.9%). The y/y variation at the close of August is at 25.8%, down significantly from the 29.7% posted during the same month last year. On a month to month basis, core inflation was down by 1.7%.

NCPI figures geographically. According to figures released by the BCV, 7 of the 11 regions studied registered lower inflation rates in August compared to the previous month: Caracas, from 2.5% to 1.7%; Valencia, from 2.7% to 2.4%; Barquisimeto, from 3.1% to 2.7%; Maracaibo, from 2.6% to 2.2%; Maturín, from 2.8% to 2.6%; San Cristóbal, from 2.0% to 1.7%; and the rest of the nation, from 2.9% to 2.4%. The following areas registered increases in inflation: Ciudad Guayana, from 2.4% to 2.5%; Barcelona-Puerto La Cruz, from 2.3% to 2.4%; Mérida, from 1.8% to 2.0%; and in Maracay inflation remained constant at 2.5%.

Central Government spending increased 2.0%. The Central Bank of Venezuela released the figures of the Central Government fiscal management for April 2011, which shows that total spending grew 2.0% in real terms during the first four months on-year basis, resulted in significantly lower than in the 1T2011 when increased 7.4%. However, if we analyze the payment schedule of the National Treasury, which has information available to date, we see that real spending has increased in different proportions.





FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	January-April 2010	January-April 2011	Nominal Variation	Real Variation
Total Revenue	46,065	65,038	41.2%	10.5%
Non-Oil Revenue	34,649	47,900	38.2%	8.2%
Oil Revenue	11,416	17,138	50.1%	17.5%
Central Bank Earnings	-	-		
Total Expenditure	61,184	79,703	30.3%	2.0%
Fiscal Balance	(15,119)	(14,665)	-3.0%	-24.1%
Non Oil Balance	(26,535)	(31,803)	19.9%	-6.2%
Debt Amortization	755	260	-65.6%	-73.1%
Financing Requirements	15,874	14,925	-6.0%	-26.4%
Foreign Debt	53	991	1766.4%	1361.2%
Domestic Debt	14,775	17,162	16.2%	-9.1%
Tresury Bonds	11,200	14,054	25.5%	-1.8%
Tresury Debt	3,575	3,108	-13.1%	-31.9%
Others	1,046	-3,228	-408.7%	-341.7%

Sources: BCV and Ecoanalítica

Public spending increased by 15.0% and consumption by 3.2%. According to figures released by the National Treasury Office, public spending increased by 15.0% from January up until July 30, 2011 in real terms (indexed to inflation). But consumption, one of the main indicators of economic growth only increased by 3.2%, leaving much to be desired.

Difference. In addition to the lag between the publication of the figures presented by the BCV with respect to the schedule of payments the National Treasury, exists a substantial difference between these two data sources, and the reason is because the figures published by the National Treasury Office (ONT in Spanish) collect data from both accounts held in the BCV as well as other accounts of the national banking system, while the BCV limits itself to collect spending that passes through its coffers.

Supplemental Appropriations for VEB 63.34 billion. Between January and July 2011, 172 supplemental appropriations have been authorized for a total amount of VEB 63.34 billion. This figure is 31.0% over the original figure approved for the 2011 National Budget at VEB 204.21 billion.

BCV policies pave the way for the issuance of debt. Thanks to the monetary policies that the BCV has been implementing in which it makes sure that papers used to absorb money from the market do not compete with bonds and T-Bills that the Finance Ministry needs to place in order to increase government revenues, the



banking systems financing of the government has increased by 57% during the last six months.

Drop in investment slows the economy. Despite the fact that oil prices are high (maintaining an incredible average price of US\$ 99.30) and that government spending is at an all time high since 1998, GDP seems to be slowing down, going from 4.8% in the first quarter 2011 to 2.5% in the second quarter. The key could be that investment dropped 3.6% during the second quarter, registering its lowest level in five years.

The labor market doesn't recover. Despite the fact that official statements say that the economy has left the recession behind after two consecutive quarters of growth, the average unemployment rate between January and June 2011 according to the INE is at 8.8%; exactly the same figure registered last year for the same period during which the GDP dropped by 3.5%. This shows that for this period, the labor market has been stagnant.

There is due process involved in transferring reserve gold. President Hugo Chávez stated that there is a certain amount of due process and legal procedure involved with transferring reserve gold back to the country. This process is the responsibility of the Central Bank of Venezuela and not the Executive Office.

Government debt reaches US\$68.60 billion. Figures released by the Ministry of Planning and Finance show that the balance of the government's foreign and domestic debt is at US\$68.60 billion. This is less than what was registered at the close of 2010 (US\$71.70 billion). One also has to keep in mind that the devaluation at the beginning of the year cut the value of the domestic debt.

Domestic liabilities are at US\$32.20 billion. According to figures released by the Office of Public Finances, the domestic debt at the close of the first semester 2011 is at US\$32.20 billion (VEB138.50 billion). At the close of 2010, the domestic debt was at US\$34.70 billion. After the devaluation this amount dropped to US\$26.0 billion, then during the second quarter the debt increased by 20.2%.

At the close of June 2011, the foreign debt was at US\$36.40 billion. Finance figures show that the foreign debt at the close of June was at US\$36.40 billion. During the second quarter 2011, the foreign debt service was at US\$2.0 billion, with US\$1.20 billion being applied to the principle and US\$660 million for interest payments.

And in the future? Increased borrowing will be reflected in future service payments. Finance figures show that between 2011 and 2013 domestic and foreign debt



payments that will be due will surpass US\$27.0 billion. Foreign debt payments are estimated at more than US\$10.0 billion and domestic debt payments at US\$17.0 billion.

...and we continue to borrow. And even though the Administration continues to authorize more debt issuances, it is also borrowing money from other countries. It has signed loan agreements for over US\$30.0 billion with China, Russia and Brazil.

Workers earning up to VEB 4,644.6 will receive food coupons. The minimum wage adjustment which entered into effect on September 1 pushed the top salary range eligible for food coupons up. The Food Law for Workers states that all who earn up to three minimum wage salaries are entitled to food coupons. The value of the food coupon per work day remains the same, between VEB 19 and VEB 38, equivalent to between 0.25 and 0.50 tax units.

Minimum wage less than in 2007. With the 10% increase in minimum wage (now at VEB 1,548.21 a month), a part of the purchasing power of salaries lost due to inflation during the last few years was recovered. In real terms, the minimum wage is worth VEB604.50 (the value it was at in 2007) and this is the first time in four years that the value of the minimum wage gains a little ground. However, it is still 1.7% less than the minimum wage in 2007 (VEB 614.80), and 37.5% less than when minimum wage was worth the most in 1985, at VEB 968.30.

Repatriating gold reserves opens the door for issuances in gold bonds. According to statements made by the president of the Mines Institute of Bolívar state, Armando John Madero, *"Repatriating gold reserves opens the door for the opportunity to issue bond certificates backed by gold, so that Venezuelan can invest."*

China Fund. According to figures released by the Ministry of Planning and Finance, between Venezuela and China loans have been issued equaling up to US\$ 32.0 billion, they have been made in a number of installments, with the first installment already having been paid back and the second installment due to be paid back next year, according to Minister Giordani. Over 80% of the resources in the China fund have been earmarked for agriculture, electric power, and defense projects.

US\$500 million transferred to FONDEN. US\$500 million were transferred to FONDEN during the month of August 2011. Meanwhile, international reserves recovered after having dropped down to US\$ 27.0 billion, now they are at US\$29.07 billion. Of this amount, \$29.06 billion is in the BCV, while \$3 million were transferred to the Macroeconomic stabilization fund (FEM).





Oil Tips

"The logic demands" a rise in gasoline prices. Energy Minister, Ali Rodríguez Araque, said on Wednesday September 8th that *"the logic calls for a higher gasoline prices and electricity rates"*, something that President Hugo Chávez has not believed as "prudent." The minister also noted that *"This is irrational and eventually will have to make those adjustments"*, and declared that the same policy of state subsidy exists in the case of electricity. In Venezuela, filling a tank of 50 liters of gasoline costs the equivalent of one dollar.

Subsidy will reach US\$10,281 million in 2011. In Venezuela subsidizes an average of VEB 2.58 per each liter of gasoline sold. According to our estimates in 2010, the subsidy on gasoline was US\$7,275 million, representing 3.1% of GDP. If prices are maintained, the subsidy would reach US\$10,281 million, increasing 41.3% compared with the 2010.

11,200 barrels are incorporated to oil production. PDVSA joined the first 11,200 bl/d production in the Orinoco Oil Belt, fulfilling the commitment in the *Tricolor Plan* for the closure of August 31, 2011. The sum of barrels to the national production was achieved by drilling 26 of the 67 wells that are planned for this year in the 5 projects within the Tricolor Plan.

WikiLeaks published Pdvsa's pension fund transfer. One of the documents of the Department of State published by WikiLeaks reveals the alleged transfer of Pdvsa's funds from the United States to Europe. The wire, originated in the United States Embassy in Caracas in July of 2007, quotes a high executive of Pdvsa who informed that Petroleos de Venezuela (Pdvsa) had been ordered to withdraw its funds from US banks "since several years ago."

WikiLeaks published alleged Chinese re-sale of Venezuelan oil. The terms of the financial and oil agreements signed between Venezuela and China have not been completely clarified to the public opinion. But according to the US diplomacy documents published in WikiLeaks, several of these agreements are less than profitable for Venezuela.

Oil workers celebrate meetings in Orinoco Oil Belt companies. Oil workers of South Anzoátegui and Monagas have mobilized to express their discomfort with the incompliance with several clauses of the oil industry's collective labor agreement.



Jose Bodas, executive secretary of the Single federation of Oil Workers (Futpv) said last week that they had celebrated meetings in Petropiar and Petrocedeño where Futpv members stated their concerns about the lack of payment of benefits such as overtime, seniority and travel expenses.

Pdvsa's fiscal contribution keeps growing. The Central Bank of Venezuela's (BCV) monthly report indicates that during the first third of 2011, Pdvsa handed 38% of its projected fiscal contribution of VEB 45.2 billion. According to the report, the oil industry's tax contribution reached VEB 16.7 billion, for a 1.5% increase in real terms, compared to the same period of 2010, where Pdvsa's tax contribution reached VEB 13.3 billion.

Natural gas keeps making news. Venezuela's wealth in hydrocarbons has got it certified as the nation with the largest oil reserves and one of the ten largest natural gas reserves, with an exploitation capacity projected for the next 270 and 130 years for oil and gas, respectively. Engineer Luis Alberto Terrero, president of the Venezuelan Association of Gas Processers (AVPG), assures that around non-conventional natural gas *"there is a world-scale geopolitical effect. Nations who traditionally used to import energy are now producing it, as a group of actors achieved energetic independence."*

Pequiven's temporary workers demand labor debt payments. Nearly 500 Pequiven workers blocked the road between the states of Falcon and Carabobo on Monday, September 5, demanding compliance with the payment of labor liabilities derived from the contracts of construction of Pequiven Carabobo's ammonia plant.

Paralyzed part of operations in the Gulf. The United States remained closed its oil production capacity in 61.4% in the Gulf of Mexico after the passage of Tropical Storm Lee. Management Agency of Ocean Energy of the U.S. said that also stopped on Monday September 5th 46% of natural gas production, compared to 44.3% of Sunday 4th September. The stoppage reached 858,935 bl/d and 2,438.5 million cubic feet of natural gas.

Colombia with batteries installed. The government of President Juan Manuel Santos has set a goal of reaching a production of 1.15 million bl/d of oil at the end of his term in 2014. The hydrocarbon sector accounts for 5.4% of Gross Domestic Product (GDP) in Colombia and is one of the fastest growing activities in the country. According to the government figures, Colombia has proven oil reserves of about 2,500 million barrels.

Colombian production registers record. Colombia reached last August oil production of 953,000 bl /d, a record in the history of the country and is close to the



target of one million barrels by the end of the year according to official figures released on Thursday September 1st.

International oil baskets. At closing time on September 2 in the New York Exchange, the price of the WTI was US\$87.9/bl, a 4% increase compared to the US\$84.5 reported the previous week. The Brent increased by 3.5% to reach US\$113.3/bl, compared to the previous week's US\$109.4/bl.

Local oil basket price. The Venezuelan oil basket price decreased last week, closing at US\$101.9/bl on Friday September 2, a 4.7% expansion compared to the US\$97.3/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$98.9/bl.

Business Sector Tips

Vehicle production still can't see the light at the end of the tunnel. The national car production shrunk 2.9% compared to last year, according to the Venezuelan Automotive Chamber (Cavenez). According to the industry's monthly bulletin, between January and August of 2011, 69,682 vehicles have been assembled, 2,095 units less than in the same period of 2010. Comparing only August 2010 to August 2011, there's an 11.7% contraction.

Profitability should be limited. The debates over the creation of the Law of Costs and Fair Prices' regulation are not over, as the Minister of Commerce, Edmee Betancourt, proposes that commercial profitability should not exceed 10%. She insisted that the Law of Costs was the people's request, in response to *"the high speculation demonstrated in the nation."*

New agreements signed with China. On Monday, the National Government signed three cooperation agreements with Chinese companies for US\$470 million to boost the production and shipping of the iron generated by Empresa Socialista Ferrominera del Orinoco in the Bolivar state.

Venezuela and Ecuador support the Sucre. Among Ecuador's expectations for this year is to expand its commercial dynamics with the ALBA nations and for 50% of its commercial operations with Venezuela to occur using the Single Regional Compensation System (Sucre, acronym in Spanish). So was informed by Veronica



Lagarde, representative of Ecuador before the Permanent Commission for the Sucre, during a meeting of the economic mechanism celebrated in Caracas last Friday.

Commercial obstacles persist. The entrepreneurs of Colombia's Colombian-Venezuelan Chamber of Commerce have stated their interest in doing business directly with the different ministries of the Venezuelan Government, so was informed by the president of the organization, Magdalena Pardo, who also said there were still logistics obstacles in the bilateral commerce, despite the political willingness stated by the presidents and chancellors of both nations.

Home construction moving slow but moving. The minister of Housing, Ricardo Molina, said that this week, official entities, communities and private companies increased the number of finished housing solutions and assured they had completed more than 45,000 homes.

Resources reprogrammed for electric sector projects. The National Assembly's Finance Commission authorized a reprogramming of the Law of ordinary indebtedness for the Ministry of Electric Energy for VEB 3.7 billion in the field of project contracting and VEB 546 million in disbursements. This adjustment means that some projects will have to yield resources to others with further progress.

Electricity projects have received US\$4.6 billion from Fonden. The authorities assure that, among investment priorities, are the electric projects and state that only in 2010 more than US\$5 billion were injected to the electric system, although official numbers indicate that a similar amount was allocated over a period of five years. The information of the National Development Fund (Fonden) about the resources by project indicates this mechanism has distributed US\$4.6 billion among electric programs.

Regulated price threatens the corn flour industry. The National Administration authorized the 20.4% increase to the regulated price of precooked corn flour, taking it from VEB 3.37 per kilogram to VEB 4.06 per kilogram, according to Official Gazette N° 39,748. However, the industry disagrees with the adjustment as the prices were, once again, revised below the minimum value they require to maintain production.

Rice prices were also adjusted. Likewise, the new prices of white rice in presentations type I, II and III were also published, from now on costing VEB 5.62, VEB 5.23 and VEB 4.96, respectively per kilogram, a 26% increase.

Raw milk adjustment under evaluation. The president of Fegaven, Balsamino Blandria, said that last Wednesday the organization had a meeting with representatives of the Ministry of Agriculture and Lands to evaluate the cost structure



and the development of incentive programs for the dairy and meat activity. According to Belandria's statements, both parties are discussing a producer-level price increase by 50% to 60%.

Industries' used capacity barely exceeds 50%. The industrial sector remains dormant, employing barely 52.8% of its installed capacity, according to the 2Q2011 situational survey prepared by the Venezuelan Confederation of Industrial Businesses (Conindustria).

Production and sales seem to be plummeting down. According to the study carried out recently by Conindustria, 43% of industrial businesses assured their production had decreased in 2Q2011, while 42% reported a contraction in sales.

Expectations are still negative. The expectations for the third quarter of 2011 are not so positive either, according to Conindustria's survey. Companies' perspective index for the July-September period reached 3.1 points in a range going from 0 to 5. *"Industrials do not have great expectations of improvement for the third quarter of 2011,"* says Conindustria's press release.

Franchises appear to be a good option. Franchises grew by 7% in 2010, and everything indicates the percentage will be similar at the end of this year, according to a study prepared by the Venezuelan Chamber of Franchises. According to this studio, this percentage is only 3% lower than the average of the last ten years.

Electric workers haven't been heard. Since last week, worker unions attached to the National Electric Corporation have been protesting to claim, among other aspects, financial control over the organization.

IADB authorized US\$100 million to improve water services. On August 30, the Inter American Development Bank (IADB) authorized a loan to Venezuela for US\$100 million to expand and improve the nation's water services and treatment facilities for nearly 11,000 families in 68 rural communities in townships of less than 5,000 inhabitants.





World Economy Tips

Gold price up for possible US relief. On Monday, September 5, gold went up to more than US\$1,900 per ounce, due to increased speculations over the possible implementation of a new monetary relief wave in the US after the weak unemployment figures published Friday, September 2. Another factor behind the jump in the price of gold was the reappearance of concerns over the debt crisis in the euro zone.

US Treasury bond yield hits 60-year low. The prices of US government bonds were increasing rapidly in Asia on Tuesday, September 6, after a long weekend in the United States, as concerns over the euro zone debt crisis increased. The yields of US treasury reference bonds dropped to 1.91%, a 60-year low, before recovering to 1.94%, still much below the 1.99% level registered on Friday, September 2.

17 banks to be investigated for fraud in the US. Seventeen financial institutions are implicated in a lawsuit presented in the United States by a financial regulator for frauds committed before the subprime mortgage crisis. The list includes Société Générale and Credit Suisse, Bank of America, Goldman Sachs, Citigroup, JPMorgan Chase, Deutsche Bank, HSBC, Barclays and Nomura.

Wall Street futures fall due to fears of European crisis deterioration. US stock futures fell on Tuesday, September 6, and left the S&P 500 on its way to a third consecutive contraction for renewed fears over the sovereign debt of the euro zone getting worse.

Euro reports contraction due to fears over European crisis. The euro suffered a general contraction on Monday, September 5, reaching a three-week low against the USD, due to the doubts over the public defaults in Greece and Italy and an electoral setback of the German government, which generated more fears of further deterioration of the European debt crisis. The single currency dropped to US\$1.41 in the electronic platform EBS, its lowest level since mid-August.

Other currencies fall as well. Other currencies perceived as riskier, including Australian and New Zealand Dollars, also hit rock bottom against the US\$.

Chinese economy could grow below 9% in 2012. The economic growth of China could fall below 9% in 2012, partially due to a weak global economy, according to



statements issued by Chinese clerks last Tuesday, September 6, supporting the expectations of Beijing being on its way to a subtle slow-down.

Asian stock markets contracted again due to concerns over euro zone. Asian and European stock markets suffered a setback on Tuesday, September 6, while gold reached a new historical high due to the fears over the sovereign debt in Europe getting worse, which might unleash a banking crisis.

Italy and Spain debt yields through the roof. The yields of the sovereign debts of Spain and Italy reached a 1-month high on Monday, September 5, and are expected to keep rising, due to the concerns over Italy being capable of setting its public finance in order. The profitability of the 10-year Italian bond went up to 5.6%, the highest level since August 8.

ECB increased public bond purchase. The European Central Bank's (ECB) public bond purchases reached €13.3 billion last week, when it acquired Italian debt to facilitate an auction in the nation, which even then had a weak demand. *"The market's concern will be over how committed is the ECB to follow its bond purchase program,"* said Orlando Green, fixed rent strategist for Credit Agricole.

EU should approve rescue fund strengthening. On Monday, September 5, the president of the ECB, Jean-Claude Trichet, urged euro zone countries to immediately approve the strengthening of the rescue fund decided in July to fight the debt crisis in response to the signs the some countries were progressing slowly. Trichet added that governments were halfway through the necessary reforms to strengthen the fragile financial sector, and urged for stronger governance in the euro zone.

Latin American stock markets reported strong falls. The six main stock exchanges of Latin America operated with strong falls last Monday, September 5, as a result of the performance of European markets which decreased by over 5% in average, due to the fears of a possible global recession.

Brazil's financial market reduces growth expectations. The Brazilian financial market reduced its economic and interest rate growth expectations for this and next year, and raised its inflation scenario, as per the weekly poll Focus, published Monday, September 5 by the Central Bank of Brazil. The projection for the Gross Domestic Product (GDP) expansion in 2011 was reduced from last week's 3.8% to 3.7%, and 3.9% to 3.8% for next year.

Chilean economy slows down in July. Chile grew 4% y/y in July, slightly below the expected growth, part of an expected gradual deceleration of the activity in the second semester. In its monthly report, published Monday, September 5, the Central



Bank of Chile said the expansion rate noted by the Monthly Economic Activity Indicator (Imacec) in July was the lowest since March of last year, when the economy contracted 2% after the devastating earthquake that shook the nation.

Political Tips

President's law of special powers legislating at large and National Assembly out of work. President Hugo Chavez has used his special powers to legislate, mostly in economic matters, accumulating a total of 20 Executive Order Laws, while the parliament has barely sanctioned three legal texts in nine months of sessions.

"I'm feeling healthy, healthy as my nation." On August 30, President Hugo Chavez said he was "feeling healthy" from the cancer he's been diagnosed with, after the chemotherapy session applied that same day as part of the treatment he received in Hospital Militar Carlos Arvelo in Caracas. However, he has not ruled out the possibility of a fourth chemotherapy session.

Electric issue has been neglected. The Head of State said last Monday: *"With the issue of the national electric system we have not stopped doing everything in our hands against a problem that caught us off guard; we need to accept that, it caught us off guard due to different reasons we have already explained."*

Chavez ordered Smurfit Kappa de Venezuela land lots to be put under administration. President Hugo Chavez ordered the Minister of Agriculture and Lands (MAT), Juan Carlos Loyo, to put the land lots of Smurfit Kappa de Venezuela in the Lara and Portuguesa states under administration. *"What's up with Smurfit, Loyo?"* Chavez asked, and then ordered the quick execution of his command.

President Chavez to increase Armed Force salaries. On September 1, President Hugo Chavez announced his decision to raise the salaries of the members of the Bolivarian Armed Force (FANB), but he didn't indicate when it would be effective or the percentage of the raise, he just said he's issue the order soon.

Region debts reach VEB 15 billion. Congresswoman and member of the National Assembly's Finance Commission, Vestalia Sampedro, estimates that this year, the central Government's debt with the regions reach VEB 15 billion. According to the assembly member, throughout this fiscal year, regional entities have not received



resources for the exchange differential and the contribution to extraordinary crude oil prices, and says they haven't received the funds generated by the jump of oil prices either.

Out of 111,000 homes counted in the census, only 282 rejected the survey. The coordinator of the XIV National Population and Housing Census, Luis Geronimo Reyes, said yesterday *"we have already surveyed 111,099 homes, 468,879 households and only 282 rejected the survey or weren't home."* According to these numbers, the census omission so far is less than 1%.

Partial truth. According to the survey prepared by Hinterlaces regarding President Chavez's illness, 4 out of every 10 Venezuelans believe Chavez didn't say the whole truth about his health conditions.

They should at least leave a temporary substitute. The Hinterlaces poll also revealed that nearly 56% of respondents believe they should name a substitute president while Chavez continues his treatment, which could be vice president, Elias Jaua, while 36% believe the election should be brought forward.

Opposition seems to be resting on its laurels. As to the electoral outlook, Hinterlaces indicates that 62% of Venezuelans think the government's party would have *"little or no chances to win if Chavez couldn't be a candidate,"* while another group criticizes the fact that the opposition has not capitalized on this absence to gain support.

Opposition should bring primary election forward. According to the results of a recent survey applied by Hinterlaces, 63% of Venezuelans think the opposition should celebrate its primary election earlier to choose the candidate who will run against President Hugo Chavez in the 2012 election.

Leopoldo Lopez doesn't fall behind and also aims at the presidential office. Carlos Vecchio, member of the party Voluntad Popular, announced that, should the decision of the Inter American Court of Human Rights be positive, the party would present Leopoldo Lopez's candidacy for the opposition's primary election.

FONDEN figures don't add up. According to a report by National Assembly Comptroller's Commission, since 2005 the National Development Fund (FONDEN) has financed 140 projects using US\$66.06 billion. However, when one adds up the foreign currency actually used in each one of the projects the sum is US\$38.0 billion. This leaves a difference of US\$28.0 billion. As a result of this, Parliament representative, and member of the UNT party, Carlos Ramos, asks: *"where is the rest of the money?"*



Chavez's popularity continues to fall. Explanations are of the firm Datanalisis, which states that *"Chavez's popularity is at 49% for the month of August this year, while the average of this indicator in 2010 was 47.2%".* Analyzing the levels of popularity that the President exhibited between 2010 and 2011, *"this numbers are far from the ones accepted by the Head of State in 2006 when, on average, reached 71.5% of popularity, while in 2007 recorded 61.5% in 2008 reached 56.6% and in 2009 stood at 53%".*

Legislative Tips

Fund to protect tenants and small renters to be created. The National Assembly's Administration and Services' Commission is contemplating the incorporation of new provisions to the reform of the Tenancy Law. One of the aspects to be added to the text is the creation of a fund to protect tenants and small renters.

...Said special fund will feed from the deposits made by tenants in Venezuelan courts that haven't been withdrawn by landlords. When landlords refuse to receive due rent payments, tenants make deposits at courthouses and these funds sometimes spend years without being withdrawn. It is projected that these resources will now feed the aforementioned fund.

...The Fund will be used to pay warehouses. When tenants are evicted, sometimes, their goods are sent to warehouses. With the modifications being applied to the instrument, the payment of these warehouses will now be assumed by the new protection fund.

Percentage of housing units construction companies will destine for rental purposes still under evaluation. The draft submitted in March indicated that 25% of new housing units had to be rented. According to parliament members, that percentage will be adjusted to the new housing plans. According to Representative Diosdado Cabello: *"It's still in discussion. Now, if construction companies claim their business is not to rent, the Government could create administrators to handle these properties."*

The reform to the Tenancy Law incorporates social comptrollership. The technical instance of the National Assembly's Administration and Services Commission authorized, in preliminary session, communal councils and social



organizations to exercise social comptrollership in rental/leasing processes. This means communal councils will supervise rent transactions, including landlords and tenants.

Dinorah Figuera demands Family Commission to be included in the discussion of the Law of Disarmament. Representative Dinorah Figuera, president of the National Assembly's Permanent Commission for Family, along with athlete Yvan Olivares, publicly requested the incorporation of said entity to the discussion of the Draft of the Law of Disarmament, after stating this past August had been the bloodiest month of the year.

Presidential Disarmament Commission plans to carry out weapon audits. The coordinator of special measures of the Presidential Commission for the Control of Weapons, Ammunition and Disarmament, Reinaldo Hidalgo, announced that the instance was designing protocols and methods to be used to begin auditing weapons. Hidalgo said the weapons to be destroyed would be audited in order to use their information in exploration processes about the source of the illegal market, the classification of the types of weapons mostly detected in Venezuela and the types of ammunition.

Second discussion of law against corruption to be held in October. The Law against Corruption, the legal text establishing the competences of social comptrollers, is expected to go into second discussion at the National Assembly in mid October, said assembly member Hector Navarro, who also stated that, if approved in second discussion, this law could be approved and proclaimed in November.

Legal reform to obligate remuneration of underage workers. Representative Francisco Soteldo, member of the National Assembly's Social Development Commission, said that both parliamentary groups have agreed in most topics regarding the reform of the Law of Employment, by which they expect to remunerate underage workers.





ECONOMIC OVERVIEW

