



Weekly Report

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*Who controls the State?
The radical's turn*

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"A radical is a man with both feet firmly planted in the air"

Franklin D. Roosevelt

A few weeks ago, our Report focused on the presence and importance of the military (pragmatics) in the running of the Venezuelan State. Now, this Report will take a look at the radical members within the government, those who wish to advance and further develop the 21st Century Socialist model.

Divided we stand It's important to point out that within the chavista movement there are a number of different currents and beliefs, but when it comes to economic policies, we believe that there are only two trains of thought: one that is more pragmatic in nature and the other more radical. This Report will focus on the direction the radical members of the chavista movement wish to steer the economy and the State and what roles they play.



Fenced in by oil revenues

After President Chávez' was reelected, and more specifically, after the Constitutional Reform was approved that established that a president may run for reelection for an indefinite number of times, the economic policies of the chavismo movement have been under the almost absolute control of the more wing of the Administration. They are responsible for a number of signature actions, such as:

1. Promoting the policy of increased nationalizations and expropriation.
2. Eliminating the swap-market and establishing an exchange policy that caters to priority sectors.
3. Implementing price controls and passing the Fair Costs and Prices Law.
4. Controlling key sectors of the economy such as: agro-industry, construction, pharmaceutical, and banking, among others.
5. Increasing State and public sector imports.
6. Creating parallel spending structures that report directly to the President of the Republic, with almost no oversight.
7. Promoting the communal economy model as an alternative to the "traditional" private sector.

These actions, along with others, have played a role in leading the Venezuelan economy, during the last few years, to reflect lethargic economic growth levels and high inflation levels, just to mention two relevant and key indicators.

From the Garibaldi Group to Miraflores

The key figure within the radical wing of the chavismo movement firmly entrenched within the ruling ranks of the Administration is Jorge Giordani. Through him, there is a connection to the famous Garibaldi Group of the *Universidad Central De Venezuela* (UCV), and more specifically, CENDES. If you do an Internet search for Garibaldi Group, you'll find that the founder of the group, Jorge Giordani, an Italian communist, named the group after the *Brigada Garibaldi* which he was a member of, and fought in, during the Spanish Civil War.

Giordani, known as the "*El Monje*" (the Monk), "*El Monje rojo*" (the Red Monk), and "*El Rasputín del chavismo*" (the Rasputin of chavismo), just to name a few, has been with President Chávez since the beginning; but he has never had so prominent role in the Administration as he does today, at the helm of the Ministry of Planning and Finance, since being named to the post in 2010. Since then, Giordani has been in control of directing the economy, without rivals. He has a reputation for being an honest man,



totally committed to the revolution; characteristics which have led him to be named to one of the positions with most power within the Administration.

His main obsession is that the chavista revolutionary process; the socialist model of government being implemented, continue to be promoted and developed without being perverted. And it's due to this obsession that he has done all that he can do to limit the power that the pragmatic members within the chavista group can wield; especially in two key areas: Pdvsa and the Central Bank of Venezuela (BCV). Giordani, more than a Minister of Finance, is a watchdog, a guarantee that different power groups don't come into conflict and divide up the resources among them. So intent is he in achieving this that Giordani has sacrificed the efficiency of the State. So much so, that the magazine, *América Economía*, in its February 2012 edition, named him the worst Minister of Finance in Latin America (ranked out of 18 countries).

Giordani has shown intense animosity toward brokerage houses and the finance sector in general, clearly evident in the decisions he has made during the last few months. He also doesn't like the traditional multinational companies from the West. He has been the one to promote the agreements signed with China and Brazil, as a means of limiting Venezuelan private sector companies' role in the business of imports.

As things stand, and if there is to be a change in the current economic model being implemented, the first thing that would have to happen is that Minister Giordani would have to be removed from the Cabinet. Today, this seems very improbable. But, if the chavistas were to win in the upcoming presidential election in October, Giordani's position in the Administration is not 100% guaranteed.

**More from the
UCV:
*La Unidad 77***

Giordani isn't alone. His main ally is the current vice-president, Elías Jaua. Recently, the newspaper *El Nacional* published an article by the journalist Fabiola Zerpa in which she looks into the *Grupo 77* and Jaua's role in the group. Known as the "*encapullado*" (the hooded one), Jaua is the father of this Administration's agriculture polices; promoting the State; ironclad control over the private sector; and the displacement of traditional associations for new emergent groups tied to chavismo. Jaua, as the executer and spokesperson from the vice-presidency, has been the one to promote the so-called "*leyes cerco*" (fencing in) laws used to limit the role and operations of the private sector; for example: the Fair Costs and



Prices Law, the package of people's power and communal Laws, the finance sector laws, the real estate sector laws, just to name a few.

Jaua's biggest and most notorious weakness is that he doesn't command the respect (or control) of the chavista party machine. In other words, his leadership is limited. Most analysts don't believe he has a realistic chance to take over the leadership of the party in the case Chávez were to have to be replaced and/or a transition of power.

Zerpa's article in the *El Nacional* highlights Jaua's work with the Grupo 77, while he was at the head of the Ministry of Agriculture and Land. This post also includes managing the important business of foods. The size of this sector is quite significant. For example, this year, the amount used for food imports will be at around US\$ 13.86 billion according to **Ecoanalítica** calculations.

Zerpa's article mentions a number of key names, members of the chavista radical wing: Richard Canán and Yván Gil, president of Agropatria. The Unidad 77 points to the strategic control of the food and medicine sectors, vital for the State. During the last few months, the Administration has intensified its grip over a sector it had previously neglected: the medicine sector.

How pure is the model: the Francisco de Miranda Front

According to its Facebook profile, the Francisco de Miranda Front (FFM) is "an organization dedicated to the formation, organization, and mobilization of the communities around the country." Regarding the group's foundation, it states: "The Francisco de Miranda Front comes to be as a result of a conversation between commanders Chávez and Fidel... as a result of the coup carried out in 2002 by the fascists and puppets of imperialism. The idea solidifies on June 29, 2003, in the city of La Habana, Cuba, and is defined as: an anti-imperialistic force, disciplined, dynamic, and organized, fundamental in the fight to eradicate poverty in all its manifestations and to achieve social equality in Venezuela."

With more than 25,000 young people as members, the FFM has been formed for nine (9) years now. It has been a support group for the instrumentation of social programs. FFM members are convinced that the transition to socialism must be achieved, and they have been behind the consolidation process of what's been called the "People's Power" (especially with respect to all things having to do with the communal councils and the communes).



One of the FFM's key members is Erika Farías, Minister of the Office of the Presidency. Farías is the founder of the FFM and part of the most radical wing within chavismo. She has held four posts within the Administration: Minister of Food, Minister of Communes, and Minister of the Office of the Presidency, twice.

The radicalization of the chavismo movement has been sustained mainly by the FFM. This group will play a key role in the medium term, since it could become a type of "guardian" of revolutionary principles, of the purity of the revolution, and could come into conflict with other factions within chavismo. It's not out of the question that this group may even breakaway from the chavismo movement under certain circumstances.

**Everyone's
friend in the
revolution:
Nicolás Maduro**

The current Minister of Foreign Affairs, Nicolás Maduro, has a long history within chavismo, and has also significantly evolved politically along the way. Today, Maduro is a star within the party. He is the founder of the MVR party with which chavismo won the election in 1998. For there, he went to the National Assembly and in 2006; he was appointed Minister of Foreign Affairs. He has been a members of the Cabinet (5 years) longer than most of the other members. He has always been the subject of a long standing rumor: that he will replace Jaua as vice-president.

Something that stands out about Maduro is that he is independently on good terms with all the different groups within chavismo. And this is why his name always comes up as a possible successor to Chávez. It's not really clear which group one would identify Maduro with, whether a pragmatic or a radical. This may be why he is so well liked, that it's not clear what his political ideology is exactly.

**Those behind
building a new
economic
model**

Lastly, we would like to highlight two Ministers within the Economic Cabinet who have been applying economic measure in order to more firmly implement 21st Century Socialism. They are Ricardo Menéndez and Jorge Arreaza.

Menéndez was a professor at the Universidad Central de Venezuela and a student council leader. He has a degree in urban planning and a Doctorate in urbanism. He's a university teacher, specialist, with more than 18 years of experience in the areas of spatial and temporal analysis in urban-regional studies.

Menéndez is responsible for implementing and furthering foreign currency restrictions for the private sector, increasing public sector (State) imports,



and building a new industrial sector that is backed by the Venezuelan State with the so-called social production companies.

Jorge Arreaza has a degree in international studies, with post-graduate studies carried out in London. He has taught at the school of international studies at the UCV, where supposedly met the President's daughter. He worked at VTV (government channel), president of the Gran Mariscal de Ayacucho Foundation, vice-minister of Scientific Development and Technology, and Minister of Science and Technology. He is married to the President's daughter, Rosa Chávez.

Since the news of the President's illness, Arreaza's influence within the Cabinet has increased. He has defied the advice of its more pragmatic members and defended the point of view that the revolution has to firmly implemented, even during the presidential campaign. The Fair Costs and Prices Law and the increased regulations aimed at medicines both carry his seal of approval.

Arreaza is one of those who believes that if the President is reelected, the revolution has to become more radical and be made irreversible.

Chavismo is... uncertainty

The Chavismo isn't a monolithic unit, rather a collection of different groups, with different interests, and in many cases, with opposing interests. Looking to the future, if the chavismo movement wins the upcoming presidential election in October, it's a virtual Pandora's Box. It's impossible to tell how the different chavista groups will realign themselves, and there is no way of telling if Chávez, reelected but sick, will continue along the same path; or what he will do; or for how long.

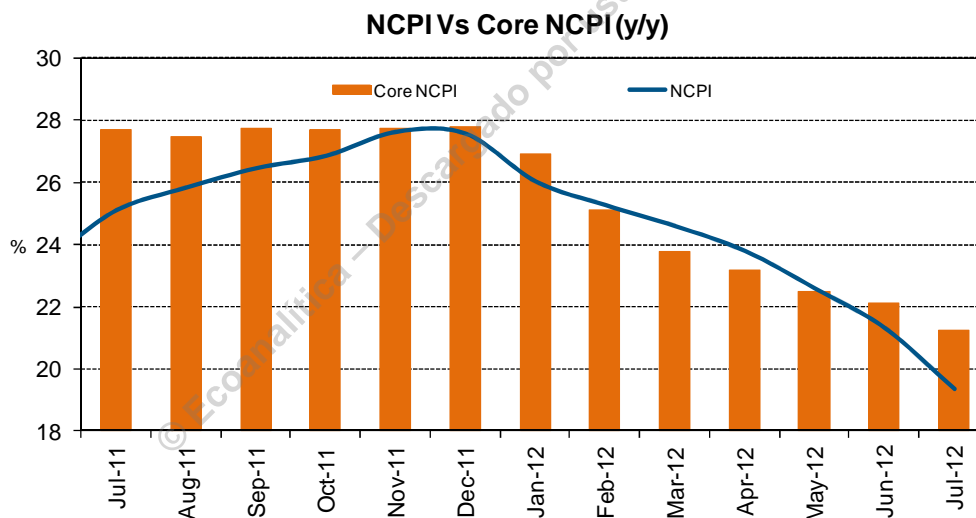




Economic Tips

Inflation reached 1.1% in August. According to figures published by the Central Bank of Venezuela (BCV), the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for August was 1.1%, or year on year inflation of 18.1%. According to the press release by BCV, these figures represent a deceleration for the eighth consecutive month.

Meanwhile, core inflation registered an increase of 1.6% in July. The year on year inflation registered 21.1%.



Sources: BCV and Ecoanalítica

Alcoholic beverages and tobacco had the highest inflation in August. Among the 13 categories studied by the BCV, alcoholic beverages and tobacco showed the highest inflation compared the national average (1.1%), with a variation of 4.9%, followed by recreation and culture with 2.7%, transportation with 1.7%, and restaurants and hotels with 1.3%.

Geographic results. Of the 11 cities surveyed, the greatest variations were observed in Maracay with an inflation of 1.4%, followed by Ciudad Guayana, Maturín and Valencia with 1.3%. The city with the least variation in July was San Cristóbal with 0.7%.





Scarcity index decreases. In August, the scarcity index decreased from 14.2% to 113.7%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 14 were not available.

The debt train isn't stopping. According to figures published by the Ministry of Planning and Finance, at the end of June the total debt of the Central Government was US\$93.50 billion, 18.1% higher compared to 2011 when it was US\$79.20 billion. The increase occurred in an environment where the average price of oil is over US\$100/bl and in which the State has maintained a policy of intensive indebtedness.

Higher domestic debt. The increase in the total debt of the Government goes together with a higher domestic indebtedness, according to data from the Ministry of Finance. At the end of June, the domestic debt was US\$50.20 billion, while at the end of last year it was US\$35.80 billion, a 40% increase. **Ecoanalítica** believes that by the end of the year, the domestic debt of the central government will be close to US\$ 54.0 billion, a 50.8% increase compared to 2011.

What about the external debt? According to information published by the Office of Finance, at the end of the sixth month of the year, external debt registered a balance of US\$43.30 billion, only 0.2% less than recorded in December 2011. Regarding this, the Minister of Finance, Jorge Giordani, said that this is because there have been no new dollar issues, a policy expected to continue at least this year.

Spending is back on track. According to figures released by the National Treasury Office (ONT), in August disbursements by the Treasury recorded a m/m increase of 17.8% in real terms and a 43.7% y/y, after an atypical reduction recorded in July. Meanwhile, the cumulative expenditure during the first eight months of the year, recorded a y/y increase of 13.1% in real terms.

VEB 10.9 billion in additional credits. The finance commission of the National Assembly (NA), approved additional credits for VEB 10.9 billion, of which VEB 10.00 billion will be to cover labor liabilities of the different public sector entities, VEB 799 million to be distributed between the Vice Presidency of the Republic and the Ministries of Health and Environment, while the Ministry of Housing will receive VEB 101 million to care for the housing emergencies in the areas affected by the rains.

Expenditure exceeds the approved budget. With the latest VEB 10.90 billion approved early this week, the total amount of additional credits during the reached VEB 84.90 billion. The higher level of additional credits has increased the budget to VEB 381.93 billion, up 28.2% over the VEB 297.84 billion approved for this year.



New minimum wage. Starting on September 1, the second 15% increase of the minimum wage entered into force (the first entered into force on May 1), so the minimum wage will be VEB 2,048, an increase of 32.3% with respect to the minimum wage of 2011 which was VEB 1,548, but of only 12.1% in real terms. The second part of the raise is expected to benefit more than 4 million Venezuelans.

Purchasing power increases. The minimum wage will be more than VEB 2,700 (per worker) since it includes the minimum wage and the bonus established in the Food Law, which increases the purchasing power of Venezuelan workers. Family income will also increase, to at least VEB 5,400, considering that the Sampling Home Survey performed by the National Institute of Statistics indicates that on average, every Venezuelan home has two minimum wages.

Agricultural GDP will be accounted for separately. Elías Jaua, Vice President of the Republic, informed during an interview with the newspaper *"El Universal"* that agriculture will no longer be included in the category "other" of the Gross Domestic Product (GDP), and by the end of the year, the Central Bank of Venezuela (BCV) will start to publish a separate index that represents the behavior of agricultural activities. Its measurement will be partially based on the demand for products, labor force, placement of the crop, crop surface, and the value of production.

Interest rates. The lending rate for the third week of August was at 17.4%, increasing by 1.0 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 increased 0.5%, going from US\$25.30 billion during the fifth week of August to US\$25.43 billion during the first week of September. Compared to the same period last year, international reserves has decreased by 18.6%.

Monetary liquidity. Monetary liquidity (M2) grew 0.6% in the third week of August compared to the previous week, settling at VEB 549,660.6 million. The M2 has increased 55.7% in relation with the same period last year.

Sitme figures. So far this year, US\$7.10 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43.0 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.60 billion (28.5%) over the same period of 2011, when US\$5.50 billion were negotiated. Lastly, during the fifth week of August the amount traded reached



US\$259.40 million US\$15.60 million more than last week when US\$243.80 million were traded, with a daily average of US\$51.80 million.

Oil Tips

Little by little. That's how insurance companies will pay Pdvsa for the damages in the Amuay refinery. Payments are subject to the time companies will take to establish and quantify the losses. The Amuay case is complex, because many things have to be identified: the signs, the type of gas that leaked the maintenance level of the plants, etc. Thus, Pdvsa may start receiving compensations within 60 days, but payments will be completed in two years.

Amuay resumes activities. Rafael Ramírez, Minister of Oil and President of Pdvsa, informed that the Amuay refinery started operations with no difficulties, after the crude processing units were reactivated during the weekend. So far, distillation units 2, 3 and 4 started operating, with a total of 264,000 barrels processed per day (kb/d). Ramírez added that operations have resumed not only in processing but also dispatches to the domestic and foreign markets, and this week, ships and trucks carrying asphalt, fuel oil, and gasoil among others, have been dispatched.

There was maintenance, says the minister. Rafael Ramírez, Minister of Oil and President of Pdvsa, said that "the Government isn't ruling out any hypothesis in the investigations about the explosion in the Amuay refinery" and said that Pdvsa invested US\$6.0 billion in maintenance between 2007 and 2012, and is subject "to a structure of insurance and reinsurance; its operations are part of a set of international regulations that prevents us from neglecting maintenance".

We do invest.... What is left. Performance reports, and the Report and Accounts of the oil company reveal that between 2007 and 2011, contributions for social development, not including Fonden, were twice the investments made in key areas like refining. In 5 years US\$24.30 billion were destined to the misiones and productive projects, while the injection of resources for refining US\$11.80 billion. To support its refineries, Pdvsa has had to resort to indebtedness.

The petrochemical failure of the revolution. 5 years ago, an investment of US\$20.00 billion was announced "to make Venezuela a giant producer of fertilizers"; today, just analyzing the situation of the Ana María Campos complex is enough to



see that the Venezuelan petrochemical industry is far from being successful, producing less than half of what it produced 10 years ago, and using a little over 50% of its installed capacity.

Pequiven: red figures. 2011 results indicate that Petroquímica de Venezuela (Pequiven) obtained an operational income close to VEB 4.50 billion, but its costs and expenses were more than VEB 5.0 billion. Besides subsidies to fertilizers, Pequiven authorities acknowledge in their reports that the reason for the operational losses was that a large part of its resources were destined to other purposes. In the specific case of the Pequiven complex Ana María Campos, last year it produced 1,574,397 tons, when the goal was approximately 2,033,624 tons. As we can see, Venezuela is still far from being a "giant in petrochemicals".

Imports to the US increase 178.3%. According to the monthly report of the Energy Information Agency of the Department of Energy of the United States (EIA-DOE) in June, the exports of that nation to Venezuela reached a record 103 kb/d, the highest volume since the agency is publishing these statistics. This represents a 178.3% increase with respect to the same period in 2011 (37 kb/d). The data from the organization indicate that 42% of Venezuela's imports correspond to special naphtha (44 kb/d), while 23% is MTBE, methyl tert-butyl ether, an additive used for gasoline production in the country.

Gasoline is not being imported. The same report of the EIA indicates also that 14 kb/d of gasoline for vehicles was imported, approximately 2.2 billion liters per day. Regarding the acquisition of gasoline abroad, Rafael Ramírez, Minister of Oil and Mining said that these purchases are to reduce freight costs, and a triangular business is performed by purchasing fuel in one country to transfer it to another. The official guaranteed that the gasoline consumed in the country is not imported, and even ruled out that there would be a need to buy fuel abroad, given the events at the Amuay refinery.

El Palito saves the day. Williams Arévalo, deputy manager of the El Palito refinery (located in Carabobo), said that this refining complex is guaranteeing the timely supply of fuel for the central-western part of the country, dispatching around 22.5 billion liters of gasoline per day to 10 states. Arévalo said that at present, the El Palito refinery handles between 73% and 75% of fuel storage, and urged the population to continue trusting the oil industry, and not be manipulated by rumors of alleged shortages.

International baskets. Last Friday, in New York, WTI closed at US\$95.6/bl, which shows a decrease of 0.8% compared to US\$96.5/bl recorded the previous week.



Meanwhile, Brent fell by 1.5% to reach US\$ 112.7/bl compared to the previous week when it reached US\$114.4/bl.

Local basket price. The Venezuelan oil basket price closed at US\$103.7/bl resulting in a decrease of 0.6% compared to US\$104.4/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.3/bl.

Business Sector Tips

Loan portfolio grew 24.5% in July. According to last figures released by the Bank Superintendent's Office (Sudeban) in July, net credit portfolio of commercial and universal banks grew 53.2% in nominal terms and in real terms (excluding inflation), it meant a y/y increase of 24.5%, up almost 14 percentage points (pp) from the real increase experienced in July 2011 (10.5%).

More micro credits. In relation to the structure of the banks' loan portfolio in terms of economic destination, all sectors showed y/y increases in real terms, led by micro credits (+42.2%), which posted the highest increase since February 2006, followed by commercial credits (+35.9%), placements earmarked for the manufacturing sector (+29.5%), tourism (+22.9%), agricultural credits (+18.3%), consumption credits (+7.8%) and finally mortgages (+4.6%).

Commercial credits' share increases. Concerning the share in the loan portfolio, commercial loans grew a little more than 3.0 pp, from 36.3% in July 2011 to 39.6% in the same month 2012, followed by a 0.5 pp increase in micro credits, reaching to 4.3% of total portfolio. Consumption credits, in turn, recorded a marked drop, from 19.7% in July 2011 to 17.1% in July 2012. Similarly, the share of mortgages and credit cards decreased to 12.6% and 12.0%, respectively.

Delinquency drops. Concerning portfolio quality, improvements were reported in all credit destinations. Therefore, delinquency indices in micro credit portfolio (Due Portfolio + Portfolio in Litigation / Gross Portfolio) registered an annual decline of 2.6 pp, from 4.2% in July 2011 to 1.6% in the same month 2012, followed by 1 pp, 0.3 pp and 0.2 pp drops in delinquency in portfolios earmarked for mortgage, manufacturing and agricultural sectors to levels of 1.8%, 0.3% and 2.2%, respectively.

US\$999 million for airlines. This is the amount that the Foreign Currency Administration Commission (Cadivi) authorized for national and international airlines



since January 1 to August 30, 2012. The Commission presented this information in a press release after a meeting with several representatives of chambers of the sector, to optimize and evaluate specific and personalized applications of the companies.

Idle capacity at 44.0%. According to a survey by Conindustria, the manufacturing industry had an average idle capacity of 44.0% in 2Q2012. According to the survey, the companies experience a continuous drop in investments for machineries to expand the production lines or replace equipment, which translates into a stalled production.

Less currency. On the other hand, Conindustria said that in 1S2012 restrictions in the delivery of foreign currency increased for non-priority sectors, which had to resort to Sitme, however, the number of approvals in the dollar auction of the BCV is insufficient, so companies had to reduce the imports of raw materials and products.

SMEs also have problems with Sitme. Also, individuals that try accessing Sitme to obtain dollars are basically ignored, and blame both the system and particularly the banks. Small and medium enterprises, which are allegedly the main target of the system, face obstacles, particularly those that import "non-priority products".

An extension awarded to pharmacies. The Superintendence of Costs and Prices (Sundecop) extended the term given to pharmacies to register their cost and prices data at the Automated Price Administration System (Sistema Automatizado de Administración de Precios -Sisap); the extension is until September 30, however, spokespersons of the sector insist that it isn't enough given the amount of information that the entity requires. The fine for not registering on time the data requested is VEB 30,000, which according to the Venezuelan Federation of Pharmacists, would make many small stores close.

Now the certificate. After changes in the tariff headings, transferring some goods from the health sector to list two of Cadivi, and despite the promises of the Administration to accelerate the issue of Non-Production Certificates (Certificados de No Producción - CNP), spokespersons of the sector claim that the companies take between one and two weeks to do all the checks before issuing the foreign currency authorization approval. This situation affects patients the most, because this blocks lead to shortages in the market.

Sugar cane growers awaiting payment. Ángel Rivas, President of the Association of Sugar Cane Growers of Cumanacoa, informed that sugar cane producers in Cumanacoa are waiting for the Central Azucarero Sucre, in the hands of the State, to pay the VEB 7,700,000 that corresponds to the sugar harvest of 2011-2012 which should have been paid five months ago. Producers are concerned about the



conditions of the sector for the next harvest, and informed that they are losing crops due to lack of financing.

Just lies. The balance for 1S2012 of Venezuelan agriculture carried out by the Ministry of Agriculture and Land (MAT), showed that milk production increased 7% during that period, representing 1.8 million liters. Rodrigo Agudo, advisor for the dairy sector and coordinator of the agro-food team of Comando Venezuela (Capriles HQ), said that the national livestock is not large enough to produce that amount of milk.

Demands to reactivate works in Sidor. A group of unemployed people gathered in Gate I of Sidor to demand the reactivation of works that were stopped, and of job posts. In the group, of more than one thousand persons, there are people that have waited more than years and is formed by laborers and qualified workers, because "we have all worked here at some time" said Simón Gutiérrez. Demonstrators demanded the startup of works in Stripping and Continuous Casting, which are complicated and require around 3,500 people.

US\$1.7 billion approved for the National Steel Industry. Ricardo Menéndez, Ministry of Industries, informed that US\$1.7 billion were approved to continue the development of the José Ignacio Abreu e Lima National Steel Industry, located in Ciudad Piar, Bolívar. The total investment in this new steel mill will be US\$3.80 billion and will have a processing capacity of 1,550,000 tons of iron, which will become slabs and hot rolled coils. This project is the result of agreements between Venezuela and Brazil.

Very Slow. That's the pace of the maintenance and generation works of the electric power network since 2009, year in which the electric power crisis was evident in the country. This year, the situation repeats itself, and by the end of August, the National Electric Power Corporation (Corporación Eléctrica Nacional - Corpoelec) had only added 42% of the new megawatts (Mw) expected. According to international consultant José Aguilar, the delays have been due mainly to a lack of resources and problems paying contractors and suppliers.

Corpoelec's new projects. The plan was estimated at 1.407 Mw by the end of the eighth month of the year. However, according to official information, and to international consultant José Aguilar, the state owned company has only placed 580 Mw in the National Electric Power System (Sistema Eléctrico Nacional - SEN). Most of the power that Corpoelec expects to add this year comes from the revamping and maintenance of megawatts out of service, a total of 2.380 Mw for the whole year.

Cantv improves internet connection speed. The Compañía Anónima Nacional Teléfonos de Venezuela (Cantv) after investing US\$26 billion in a year and a half to



improve the internet connection in the country, announced that the minimum speed will be increased to 512 kilobytes per second (Kbps), that is, the minimum navigation speed will go from 256 to 512 Kbps and users that used to surf at 256 won't have to pay anything for the new minimum speed.

Fewer oranges. The excessive rain is causing a 10% drop in the production of oranges, said representatives of the fruit sector, "despite the efforts of farmers to improve their production capacity". However, they expect that a production of around 450,000 tons of oranges will be enough to cover the domestic demand, with the industrial sector absorbing close to 45% of the total production. The production goal was 500,000 tons, and was affected by the rains.

World Economy Tips

Manufacturing sector falls in China. According to figures published by the national statistics office of that country, the purchasing index fell from 50.1 to 49.2, a sign that the nation's manufacturing sector has contracted for the first time in nine months. The report pressures the Chinese government even more to take measures to revert the situation, which goes together with a drop in manufacturing orders.

The United State: More Stimuli. During his annual speech in Jackson Hole (Wyoming), Ben Bernanke, President of the Federal Reserve (FED), defended the purchase of assets by the Central Bank, and said that they have contributed to the earnings in the financial sector, and to the creation of more than two million jobs. Bernanke also said that the FED could be making another round of asset purchases (known as quantitative easing), to promote a stronger economic recovery in a context of price stability.

"Bad Bank to the rescue?" The Spanish Government will create a "bad bank" in which all "toxic" real estate assets of the indebted banking sector may be deposited. The Bank of Spain would establish the value of the assets transferred to the "bad bank" (which should have earnings in the long term) and banks with problems would receive cash, bonds, or shares in exchange. The idea is to help the most affected banks, and end the debt crisis that has deeply affected the nation.

And a "Super bank". The European commission is trying to create a mechanism that allows the European Central Bank (ECB) to directly supervise around 6,000 banks working within the European Union (EU). The proposal, which will be known



with more details in a month, intends to replace the present surveillance system of the national regulating entities, which seem to have failed in forecasting and confronting the difficulties experienced by national banks.

Eurozone: record unemployment. According to the statistics office of the (Eurostat), unemployment in the 27 countries of the Eurozone reached 18 million people in July, the highest number since records started 1995; however, unemployment remained at 11,3%. The country with the highest unemployment in the monetary union is still Spain, with an unemployment rate of 25.1% at the end of July, while Austria had the lowest unemployment of the Eurozone with 4.5%.

Negative perspectives. The rating agency Moody's has placed the long term debt of the European Union (EU) in the negative, although it maintains its maximum rating, AAA. According to the agency, the change reflects the negative perspective attributed to AAA ratings of sovereign debt of key countries for the European budget, like Germany, France, the United Kingdom, and Holland, which together amount to almost 45% of that budget.

Protectionism the main block. José Manuel Durao Barroso, President of the European Commission (EC), said that the 27 EU member states still want to have a free trade agreement with the Common Market of the South (Mercosur), but the "protectionist postures" of some countries in the South American block are making it difficult, in clear reference to Argentina, accused of "dumping", for exporting biodiesel to the EU at prices lower than those negotiated in its territory.

Japan: political confrontations halts spending. Japan is planning to stop its public spending (except for police, national security, or catastrophe services) to avoid being without cash for October, since the draft law to finance the deficit remains blocked in the Senate of that country by the opposition, in an attempt to force the Government to call for elections.

More expensive food. Food prices increased 10% only in July, according to figures published by the World Bank (WB). The intense drought affecting the United States and Eastern European countries, have increased the price of foods like corn and wheat, which increased 25% in only one month, while soy increased 17% and sugar 12%.





Political Tips

Singing victory. During a press conference, the president and candidate for reelection, Hugo Chavez, said that according to the latest survey of the polling firm Datanálisis, the vote's gap between his candidacy and the candidacy of Henrique Capriles would be at 14.3% in the upcoming October's elections, 2.1% higher than the estimated during the first week of August. Chavez is secure of his "irreversible" victory and said that the advantage conferred by Datanálisis is, "*one of the smaller*" of those recognized.

The gap could be larger. According to the most recent version of the "monitor-country" signature Hinterlaces the president could get 50% of the vote in October, while its counterpart, Henrique Capriles would get 32% of the vote, placing the gap at 18%. The poll was executed before the occurrence of various "negative" events as the accident at Amuay refinery and the fall of a bridge in Cúpira (eastern Venezuela), the Chavez administration would have a positive evaluation of performance at 67%.

Successful drill. Tibisay Lucena, President of the National Electoral Council (Consejo Nacional Electoral - CNE) said that the drill carried out last weekend was characterized for being fast, the voting centers opened early, and the logistics were fully activated. In a balance presented regarding the deployment of the CNE to check the technical aspects of the election, Lucena said that the exercise certified the full operability of the electoral platform that will be used on October 7.

Votes were for Chávez. According to Jorge Rodríguez, head of the Carabobo Head quarters, 86% of the voters that participated in the electoral drill last Sunday, September 2, voted for candidate Hugo Chávez, while only 12% voted for opposition candidate Henrique Capriles. Rodríguez said that of the 1.6 million voters that participated, the majority voted for Chávez and that he won in 1,500 voting centers.

Although votes were not totalized. Vicente Díaz, rector of the CNE, said that there wasn't, and there won't be a totalization of the votes of the drill of last Sunday, and doesn't know how one party or the other did the counting. Díaz assumed that the parties "grouped militants outside the centers to ask" and that he respects the mechanism that they used, but clarified that "the CNE wasn't there".

A neoliberal package. David de Lima, former governor of Anzoátegui, said during an interview for the State TV channel that the implementation of an alleged



“economic measure package would lead to a civil war in Venezuela”. De Lima said that those “neoliberal” measures are part of a plan signed by several members of MUD, and include an increase in the rate of utilities and transport, as well as the elimination of the social misiones, and finally, the privatization of the oil industry, with multinationals as the majority shareholders.

Hidden intentions. Jesús Faría, vice president of the Finance Commission of the National Assembly for Psuv, said that “Capriles represents the interests of the oligarchy”. The representative said that the alleged hidden intentions of the opposition’s government plan have already been informed by its spokespersons, when they declared that exchange controls and price controls are harmful for the economy, and according to them it is necessary to eliminate them to foster investment.

“We are not going to reduce the standard of living”. The statements of De Lima were rejected by Ricardo Villasmil, coordinator of the government plan of Comando Venezuela. During an interview in the TV Channel Televen, Villasmil said that the economy is misadjusted because the Government spends more than it produces, but given the high oil prices, the imbalance may be corrected through an effective execution of public spending. He said: “we are not going to lower the standard of living”, but eliminate “Project that don’t benefit all” and foster “others that do benefit all Venezuelans”.

Nor privatize PDVSA. Villasmil also took the opportunity to clarify that, in the oil proposal of Henrique Capriles, the privatization of PDVSA *“has been never thought”* For the program coordinator, privatization of the oil industry *“is not necessary (...) to retrieve the production” and what we are facing now is a “mismanaged oil boom”*.

Vote with confidence. According to a public opinion poll for Universidad Católica Andrés Bello, as part of the project “Monitor Electoral 2012” performed by Datanálisis, 79.3% of citizens say that they “vote without fear” in the next presidential elections. However, those surveyed didn’t have a positive perception of the finger print capturing machine: 22.9% of the voters believe that using that machine will allow knowing for whom they voted, while 17% say that they don’t know if the vote is secret, while 6% didn’t answer.

Those in the opposition are less trusting. Analyzing the perception by political self-definition, the “monitor” of Datanálisis said that pro-opposition electors mistrust more and believe that the secrecy of the vote could be violated. According to the study, 42.6% of pro-opposition electors trust the secrecy of the vote, while 39.9% considers that their choice will be known, and 15% say that they don’t know if their vote will be secret.



Winning...but by very little. Hugo Chávez President of the Republic and candidate for reelection, during a campaign act in Vargas, said that he is winning the elections of October, although not comfortably. Polls like Hinterlaces and GISXXI place Chavez's lead between 18% and 26%, while the studies of Consultores 21 or Varianzas estimate a technical tie between Chávez and opposition candidate Henrique Capriles Radonski.

Calling the working classes. During a meeting with oil industry workers, the present head of state and candidate for reelection, Hugo Chávez, demanded the working class to "deepen and accelerate their role in the transition towards socialism". Chávez reminded them that he hopes that the "Bolivarian revolution" passes the point of no return in the next six years, and the working class will play a fundamental role in this.

From "Revolution" to "Evolution". After making the commitment to never place Venezuelans against each other, and to have the Venezuelan people "work together", candidate Henrique Capriles said that "those who think differently", meaning those who support the government party, are not considered enemies, and that he doesn't plan to eliminate the revolution that they support, but "take out the R and make it into an evolution", which means "to solve the problems" affecting Venezuelans.

No more insults. For presidential candidate of the Mesa de la Unidad Democrática (MUD), Henrique Capriles "those resorting to insult is because they are out of ideas", in response to the insults against him by government candidate Hugo Chávez. The opposition candidate used the opportunity to reiterate his commitment with the future. "Venezuela deserves a President that doesn't insult, but that works to solve its problems".

Prices will continue "controlled". If President Hugo Chávez is reelected, the "Bolivarian" government's action to fight inflation will continue focused on price controls, as informed through the "program for the Socialist Bolivarian Administration 2013-2019". The plan also includes, in economic matters, "strengthening and modernizing the social and state regulation system, to fight usury and speculation" so an increase both in number and in intensity of regulations could be expected.

Touching Fonden would be a Coup. During a telephone contact with the State Channel, Hugo Chávez, President of the Republic, said that it would be "a coup" to suspend the transfers that Petróleos de Venezuela (Pdvsa) makes to Fonden, since that would mean "stopping more than 100 ongoing projects for development". Chávez added that if Henrique Capriles wins, the NA would prevent the new



government from eliminating the transfers that the oil industry makes to the savings fund.

Capriles: We will go from small to large. At the Universidad Metropolitana, presidential candidate Henrique Capriles, explained the main aspects of his program to develop infrastructure, which he said emerged from popular assemblies. The projects that are to be executed during the first 100 days of his mandate will go from the construction of sports areas and housing, to larger works, requirements that will be met "from small to large" he said.

Roads, mobility and modernity. Capriles also presented his diagnosis of the public infrastructure, starting with electric power, of which he said that it is necessary to increase its installed capacity; regarding the road system, he announced that the main highways of the country will be cared for; and regarding mobility, he said that "the future is not that people have their own vehicle, but rather to have quality public transportation" so the idea is to have a better service. He mentioned reactivating and finishing the projects that the present government promised but didn't deliver.

Unidad approaches Socialist International. During the 25th Congress of Socialist International (SI) held in Cape Town (South Africa) the plenary ratified George Papandreou as President, while the Secretary General of Acción Democrática Party, Henry Ramos Allup, was elected vice-president. Socialist International is a global organization of social democratic, socialist, and laborist parties. Presently it groups 161 political parties and organizations of all continents.

Legislatives Tips

Already in the Gazette... up to 100%. The Government continues adjusting the financial scheme to purchase housing, and now ordered banks to grant credits for 100% of the value of the property. In Official Gazette N 39.997, the Superintendence of Banking Sector Institutions published the new guidelines to grant mortgage loans.

With the new resolution, financial institutions may grant those credits for 100% of the cost of the unit with funds from the mandatory mortgage portfolio (money from the entities themselves). According to article 1 of the norm, *"without prejudice of what is established in the norms regulating financing conditions to grant credits for the main home, and considering the payment capacity of the*



debtor, banking institutions may grant mortgage loans to acquire the main home for 100% of the value of the property, given in guarantee according to the appraisal made".

NA and Parlatino express solidarity with the families affected in Amuay. The Board of Directors of the National Assembly (NA) and the Latin American Parliament (Parlatino), chapter Venezuela, expressed their solidarity with the families affected by the incident of Saturday, August 25, in Amuay. *"All the members of the Legislative Power sent their condolences to the families that lost their relatives, and those that are still anxiously waiting for wounded civilians and military who are receiving medical attention",* said the web portal of the Legislative Power.

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ECONOMIC OVERVIEW

