



Weekly Report

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By:
Asdrúbal Oliveros
José Luis Saboin
Gabriel Villamizar
Ecoanalítica's Team*

Venezuelan banks: The exception to the rule?

*Pilar Navarro and Ma Andrea Manuzzato

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At a time when banks around the world are still suffering the aftermath of a global recession and are beginning to feel the effects of the current debt crisis in Europe, Venezuelan banks seem to be the exception to the rule. Representing only 5.4% of Gross Domestic Product (GDP), today the Venezuelan banking sector is emerging as one of the “engines” driving the economy, posting amazing growth of 34.4% at the close of the second quarter of 2012 (2Q2012), and average growth of 24% for the last four quarters. Such is their importance that they have now been classified as a “strategic” sector by the government, with the result that they have not escaped from government intervention.

What do the banks do?

The banking business is, without a doubt, one of the fundamental pillars of any economy. The banks channel the funds from agents that have surpluses (savers) to agents with a deficit (borrowers), influencing the net yield of deposits, the appropriate allocation of resources to the most profitable investment options, and, ultimately, having a decisive influence on economic growth. In addition, they provide services that facilitate



payments and they are a safe means for providing the general public with the liquid funds they want.

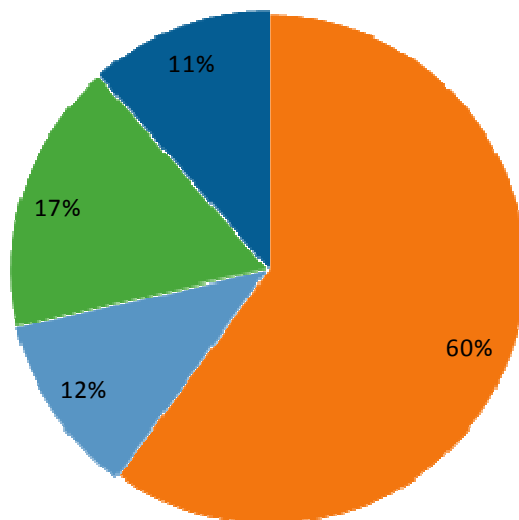
Venezuelan banks today

In Venezuela, the banking sector is made up of a number of institutions that, with the prior authorization of superintendent's office in charge of banking affairs (Sudeban), engage in financial intermediation activities, financial intermediation being defined in current legislation¹ as *“the attracting of funds under any arrangement and their placement in loans or investments in securities.”*

According to information provided by Sudeban, as at the end of August, the number of operating banking institutions was 35, broken down as follows: universal banks, 21; commercial banks, four; banks with special laws, four; and development banks, six. Twenty-five (71.4%) of these banks are privately owned and ten (28.6%) are owned by the State. The most representative sector within the banking system is found in the universal and commercial bank subsystems, which account for 71.4% of banking institutions legally authorized to operate in Venezuela.

Venezuelan Banking System Structure

- Universal Banking
- Commercial Banking
- Development Banking
- Banks under special laws



Sources: Sudeban and Ecoanalítica

¹ General Banking Sector Institutions Act, Article 5.



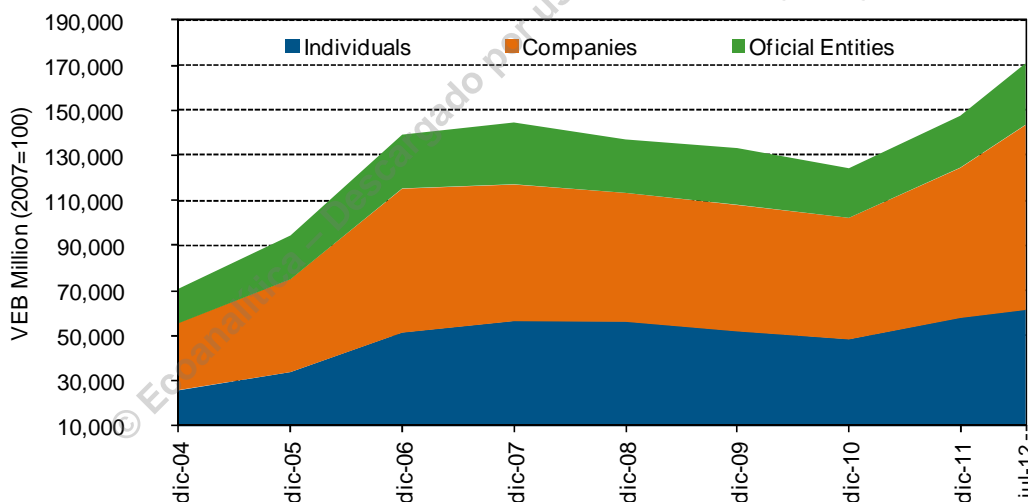


The banks' resources... do not belong to the banks

As we mentioned earlier, the banks engage in the task of channeling funds they obtain under different arrangements, among them credit assistance from the Central Bank of Venezuela, funds traded on the interbank market, and deposits obtained from the general public².

Deposits from the general public have been, by far, the biggest source of the funds that are at the banks' disposal, which are broken down, by type of institutional agent, as follows: deposits by private individuals, 30.1%; deposits by corporations, 40.3%; and deposits by government agencies, 13.3%; whereas, depending on the term of placement of these deposits, we observe that deposits in current accounts represent 64.3%; deposits in savings accounts, 18.9%; and time deposits 0.6%.

Structure of Deposits according to agent



Sources: Sudeban and Ecoanalítica

Venezuelans don't save

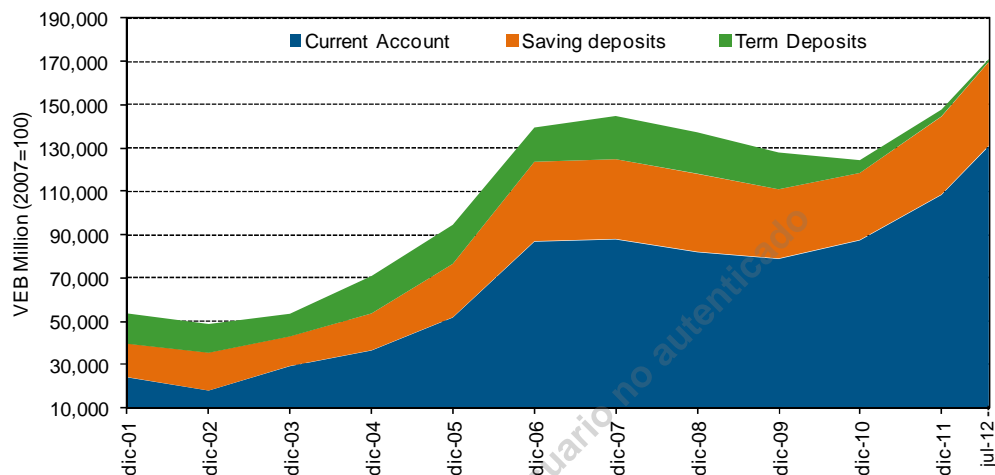
It is worth noting the drop in time deposits' share of total deposits, which represented 19.5% of total deposits at the close of 2001 and fell to only 0.7% at the close of the first semester of 2012. The biggest drop in the proportion of time deposits occurred after the implementation of exchange controls in 2003, which, added to the low level of liquidity of those deposits and a yield below inflation, meant that they became totally unattractive.

² Deposits from the general public are the funds kept on deposit at the banks by all agents belonging to the nonfinancial public and private sectors.





Structure of Deposits according to account



Sources: Sudeban and Ecoanalítica

...and the banks benefit

The dramatic drop in the most costly deposits and negative borrowing rates in real terms have meant that banks face significantly lower costs. If to this we add the implementation of exchange controls, the virtual disappearance of the debt and securities markets, and an environment with high rates of growth in liquidity, we are justified in saying that, from the point of view of attracting funds, the banks could not face a better scenario.

Where does the money go?

Banks have traditionally been used as a safe place for depositing money. However, today, this is just one of their facets. Most of the money deposited in banks does not just sit there; it is constantly on the move. In Venezuela, only around 20.2% of the funds are kept available, a kind of "petty cash fund" with which the banks meet depositors' needs for cash, and which includes the obligatory reserve at the Central Bank (legal reserve), deposits in other banks, provisions, and, of course, the cash available at the branches.

As for the other 79.8% of the remaining funds, 30.7% is allocated to investments in securities and 49.1% is placed in loan portfolios, the latter being the banks' main business. The loan portfolio produces around 20.7% of total revenues obtained by the sector. Securities issued by the Venezuelan State account for 70% of this portfolio, with the remaining 30% being made up by securities issued by companies in the private sector, a clear indication of the securities market's lack of vitality.



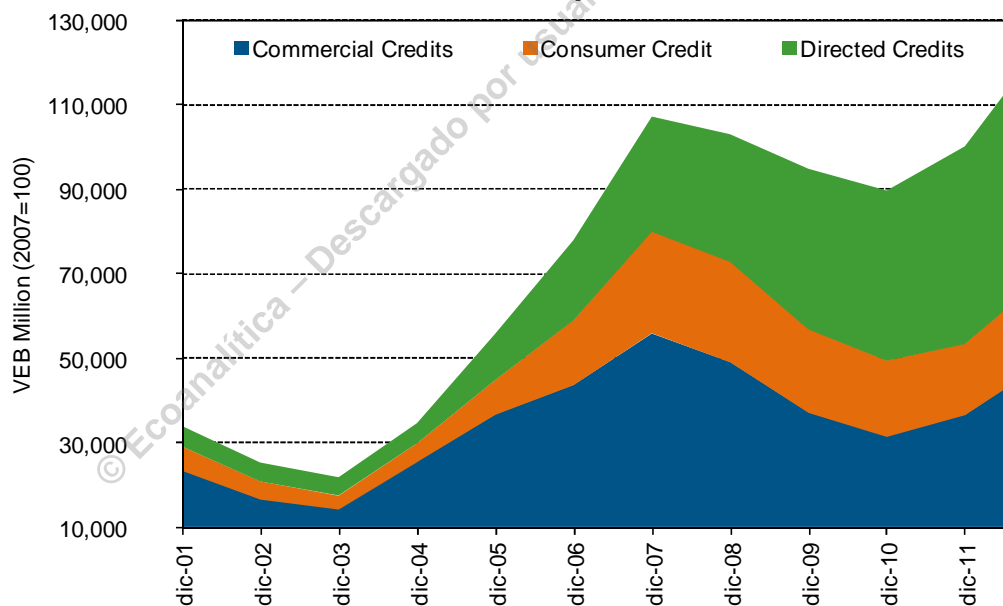


Most of the resources are allocated to lending, the *raison d'être* of today's banks, which, according to the latest monthly report from Sudeban, provides 57.9% of the sector's revenues and which has been heavily regulated in recent years in terms of quantities (compulsory loan quotas) and prices (preferential rates).

Is directed credit profitable?

Note needs to be taken of how directed portfolios –whose purpose is to get “*the financial system to support and boost the productive sectors*”– have been increasing their share. From accounting for less than 15.0% in 2001, today they represent around 45.3% of the total loans portfolio and should reach 55.0% by year-end based on existing regulations.

Credit Purpose



Sources: Sudeban and Ecoanalítica

The establishing of compulsory loan portfolios has had a direct impact on the proportion of funds that the banks can allocate to granting consumer credit, an activity that is undoubtedly the most lucrative for the banks. Besides, the fact that several of the regulated portfolios enjoy a preferential interest rate is a major obstacle to generating revenues via lending, which has undoubtedly affected the profitability of the banks.

How's business?

However, it seems as though business could not be better, at least from the point of view of return, with a return on equity (ROE) averaging 31.3%



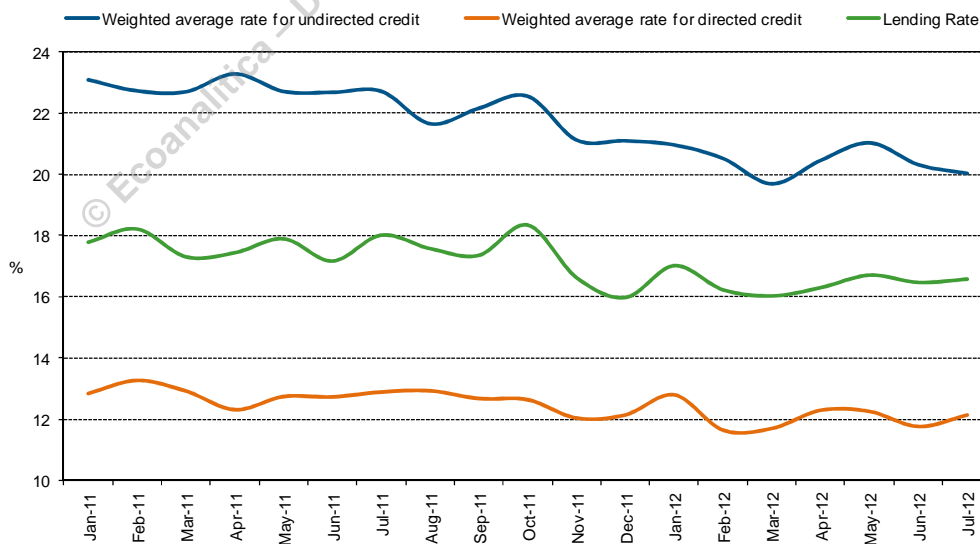
between 2001 and 2011 and a return on assets (ROA) of 3.5% on average over the same period.

As for their performance, the significant reduction in transformation costs, which represented 10.7% of average assets at the close of 2001 and today represents 0.5%, is proof that we have banks that are more cost efficient, have not neglected the quality of their portfolios –given that the default rate is 1.24% below the average for the past 11 years of 3.35%-, and have preserved intermediation levels (an indicator of the volume of activity).

Is there room for improvement?

At *Ecoanalítica* we consider that the conditions of the banks could improve if the regulations for loan portfolios to which the sector has been subjected were to be relaxed. Based on data published by the Central Bank and Sudeban, we have calculated weighted lending rates for the entire directed portfolio and for the total of the non-directed portfolio (commercial and consumer credits), so as to give an idea of the rate the banks might charge in a less regulated environment.

Lending rates in the banking system



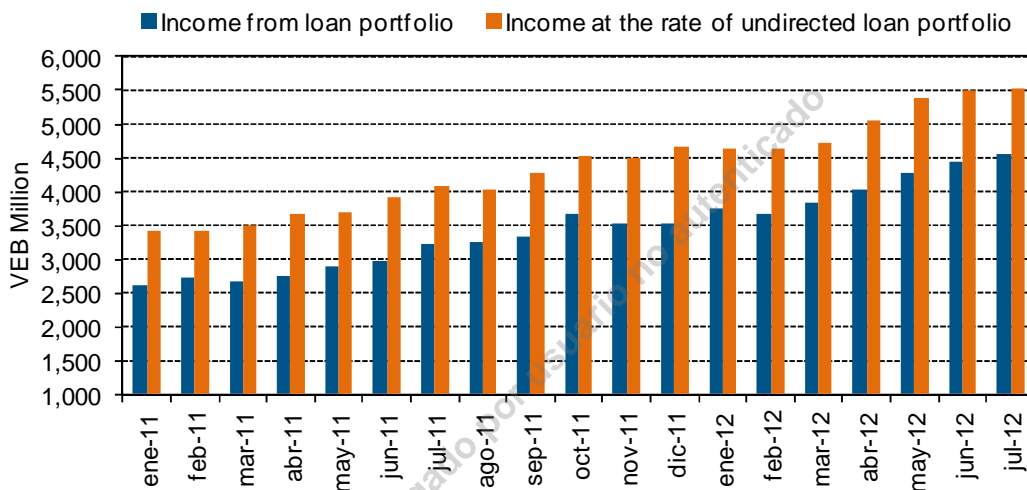
Fuentes: Sudeban, BCV y Ecoanalítica

If one wished to be more precise, based on the weighted rates thus calculated, one can estimate the banks' revenues and compare a regulation-free scenario with the present scenario, which reveals that, in the last year (2011) at least, the banks failed to obtain earnings of VEB



950 million per month on average as a result of having to comply with regulations governing prices and quotas by type of economic activity.

Portfolio Incomes



Sources: Sudeban, BCV and Ecoanalítica

The reduction in transformation costs could be interpreted, therefore, as a defensive response by the banks to counteract the increase in regulations, which have affected and distorted their capacity to generate revenues to a large extent and which could put not only their profitability at risk but also, eventually, their financial soundness.

Directing of credit, good or bad?

But regulation has not only affected the banks' profitability, it has also forced them to invest the public's money in less profitable and more risky options and has made credit more expensive for everyone applying for financing in sectors not covered by regulation, sectors where the banks will attempt to offset the greater risk and lower profitability of the compulsory loan quotas.

Recently, we have noted how, with adjustments in the percentages of loans aimed at sectors such as manufacturing and agriculture and the practice of almost forcing the banks to acquire securities issued by the State, lending has been further restricted; and, while the intentions are good, in practice they do not seem to be.

Economic and financial literature has produced a number of ideas. Alternative programs such as direct transfers by the State or funds set up by the public sector would make it possible to finance all those activities



that need a “push” and that are not being “correctly” catered to by the credit market in ways that generate fewer distortions, provided these programs or funds have mechanisms to ensure the correct use of the loans, their effectiveness, and the reduction of the risk of nonpayment by applicants. Such mechanisms do exist in Venezuela; however their effectiveness depends on political whim, which has been considerably exacerbated in this administration.

In *Ecoanalítica*'s opinion, this issue should be opened to public debate in Venezuela. While the idea of the compulsory loan quotas is well intended, monitoring of loans granted by the banking system must seek to become daily more efficient. The same goes for state funds, which should be purged of political vices.

**Great power
implies great
responsibility**

Exchange controls have “protected” Venezuelan banks from the crisis that is affecting the world economy and the elimination of competition in the field of finance by the State has allowed them to make adjustments in terms of liabilities. However, this situation has put them in the “crosshairs”, as now it is the banks that carry the full burden of intermediation and they have become the only source of internal financing for private and public agents. The role the banking sector plays today in Venezuela will be of the utmost importance in the future.

**Everyone has
a hand in the
future**

Today more than ever the banks are essential actors in Venezuela's economic growth, and both their development and the development of a larger financial market, based on more prudent and less restrictive supervision, are becoming increasingly necessary in order to take maximum advantage of the potential that this market can contribute to the country, not based purely on economic and financial criteria, much less on political criteria. The well-being of society as a whole should be the central axis around which they function.





Economic Tips

2013 Budget is being prepared. The ministries of Planning and Finance, and Petroleum and Mining, as well as the Central Bank of Venezuela are preparing the estimates of the macroeconomic variables on which 2013 budget will be based. Official sources point out that given this year's inflation results, the scenarios recently analyzed forecast inflation will range between 12% and 15%. In addition to price levels, authorities forecast an oil price of US\$50/bbl., as established this year.

Not a single word about exchange rate. The reference exchange rate is one of the indicators estimated to prepare a budget; however, official sources point out that details haven't been provided yet. They add that oil production estimates hasn't been presented by PDVSA (in 2011, extraction target was 3.1 million b/d). As to the behavior of the economy, given the favorable results obtained in 1S2012, a variation between 5% and 6% is expected.

Starting September 17th... BCV's board published in the *Official Gazette* No. 40,002 dated Friday, September 6th the resolution setting the rules on how the new dollar-dominated accounts in Venezuelan banks will operate. Banks won't require minimum deposit to open the account and the documents to be presented will be the same required to open accounts in bolivars. The dollars to be deposited will be those obtained through the Sitme system, dollar-denominated bonds issued by the Republic or other legal operations. For the time being, dollars in cash cannot be deposited in the account. Also, dollars cannot be transferred from one account to another account in Venezuela, and cannot be used for writing checks.

Currency overvaluation "has to be dealt with". Within the framework of Venezuela's accession to Mercosur, Rodrigo Cabezas, president of the Latin American Parliament (Parlatino), assured that currency overvaluation is a complex process. *"It's something that has to be dealt with and this can be carried out within the framework of exchange rate control."* Cabezas said that *"overvaluation makes exports more complicated"* and added that given Venezuela's accession to Mercosur *"exports have to be industrialized and sectors have to be prioritized and investments have to be made."*

Chávez: August inflation dropped 50%. President Hugo Chávez stressed that August inflation dropped 50% as compared with August 2011. *"Inflation in August 2011 was 2.2% vs. 1.1% in August 2012."* *"This is a result of the successful administration's and national policies and cooperation of many Venezuelans (...)"*



With the Law on Fair Prices and Costs we have fought gouging, which is one of the factors that has influenced gouging the most,” President Chávez added.

Foodstuff inflation has slowed down strongly. The Minister of Planning and Finance reported that inflation for food and nonalcoholic beverages was 0.5% in August, whereas the national average was 1.1%. The Minister explained that of the 13 products measured to estimate the indicator, foodstuffs and nonalcoholic beverage in August had a weight of 36.6% and pointed out that agricultural products fell 0.7%.

The Central Bank of Venezuela (BCV) also speaks about food. The report published by the BCV states that food prices have registered a strong deceleration over the last five months, with the annual indicator going from 31.5% in March to 17.9% in August. This deceleration represents a difference of 13.6 percentage points in basic food prices, including tomato, onion, pepperoni and potatoes. The report also reveals that cumulative inflation in foodstuffs slowed down by about 63% in January-August.

What happens with food? While the BCV is celebrating that inflation in food prices is slowing down, which can be attributed to higher production, better distribution and the Law on Fair Prices. The truth is that the drop is largely due to imports with cheap dollars (Cadivi allocations for food increased by 50.3% in 1S2012) and the delay in controlled price adjustments, which have been postponed until after October.

Controlled products grew 8.0% over 8 months. According to BCV, controlled-price products, including food, construction materials, medicines, and parking, among others, increased 8.0 in January-August. The Central Bank admitted that past month, the percentage of non-compliance with price controls was 53.8%. Per cities, controlled prices grew more in Maracay, with a cumulative 9.6%, followed by Barquisimeto, with 9.3% and Maturín, with 9.3%.

The gap is closing. Even though Venezuela continues to post one of the highest inflation indices in Latin America, the gap vis-à-vis other countries is increasingly closing, Nelson Merentes, president of the Central Bank of Venezuela, stated. Merentes added that the goal is closing the year below the budget target and recalled that inflation in Venezuela registered two-digit, including three-digit, figures for over 20 years. Merentes explained that to continue reducing inflation, more food has to be produced and particular plans have to be implemented to relaunch those sectors that are decreasing.

BCV admits critical shortages in eight basic products. Statistical data released by the BCV and the Ministry of Communication and Information shows that shortage



indices of some basic products reached critical levels (over 40%) in August, including powdered milk (100%), sunflower seed oil (86.6%) and corn oil (82.4%). According to this data, shortages in the supply of vegetable oil (63.3%), whole powdered milk (46.2%), peas (43.5%) and pasteurized liquid whole milk (42.8%) have been registered. Also, the report points out that in August, in addition to foodstuffs, vehicles were also scarce with an index of 86.6%.

Interest rates. The lending rate for the last week of August was at 16.4%, decreasing 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 decreased 0.6%, going from US\$25.9 billion during the last week of August to US\$25.7 billion during the first week of September. Compared to the same period last year, international reserves have decreased by 16.9%.

Monetary liquidity. Monetary liquidity (M2) grew 1.9% in the last week of August compared to the previous week, settling at VEB 560.359 million. The M2 has increased 58.1% in relation with the same period last year.

Sitme figures. So far this year, US\$7.3 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43.1 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.60 billion (28.1%) over the same period of 2011, when US\$5.7 billion were negotiated. Lastly, during the last week of August the amount traded reached US\$217.5 million US\$41.9 million less than the previous week when US\$259.4 million were traded, with a daily average of US\$51.9 million.

Oil Tips

Pequiven falls short. Since 2005, Petroquímica de Venezuela (Pequiven) hasn't been able to cover the needs of local plastic producing companies and the situation doesn't appear to be changing in the short run. This year, Pequiven expects to sell about 690,000 tons of resins and of this total, 16% (110,000 tons) will be imported. For 2016, the state-owned firm is expecting to sell one million tons and the share of



imported raw materials will increase up to 35% of that total, as reported by José Luis Pérez, Pequiven director.

A new Refinery at Nicaragua. An official source confirmed that Venezuela will invest US\$6.6 billion in Nicaragua to build a refinery, a petrochemical industry and an oil pipeline that will join the Pacific and the Atlantic Oceans. *“The Nicaraguan government will hold a 49% stake just for the mere fact of its sovereignty,”* Edwin Castro, head of the Frente Sandinista de Liberación Nacional group in the Congress, explained. Castro pointed out that the project, which is currently under construction, will supply Nicaragua’s and Central America’s oil needs.

Meanwhile...in Amuay. The refining executive director of Petróleos de Venezuela (PDVSA), Jesús Luongo, stated that security area around the Paraguaná Refining Complex (CRP), which includes Amuay refinery, are being redrawn after the accident. *“The security area is being redefined and we are first working to repair the homes of the people affected by the explosion,”* Luongo stated and added that 128 housing units have been already delivered and *“more than 200”* are expected to be delivered over the next 15 days.

In one week. Jesús Luongo informed on September 6th that repair works in the Amuay refinery will be completed in one week. Current production is about 264,000 barrels per day (kb/d) and production at the time of the explosion was 450 kb/d, with four operating distillation units and another one that was shut down because of some repair works. Amuay, which is located at the Paraguaná Peninsula, Falcón State (west), has a refining capacity of 645 kb/d.

The target remains the same. Vice President for exploration and production of PDVSA, Eulogio Del Pino, stated that Venezuela will make its best effort to comply with its crude oil production target of 3.5 million barrels per day (mb/d) by year-end, even though up until now pumping is averaging about 3.13 mb/d, according to PDVSA figures. Del Pino added that about 100 kb/d of new Orinoco production are expected to be put onto stream, despite the persistent delays in new projects due to logistic difficulties and growing debt obligations to PDVSA’s suppliers.

Perla will start operations in 2013. Del Pino also informed that “Perla,” the giant gas project in the Gulf of Venezuela, with the participation of PDVSA; Italy’s ENI and Spain’s Repsol, will start early production in 1Q2013, the gas price has been already set by the Ministry of Petroleum and the *“initial volume will probably reach 150 million of cubic feet per day (mmcf/d),”* Del Pino added.

Will they start? PDVSA expects that six new projects at the Orinoco Oil Belt will start early production this year, Rubén Figuera, responsible for the new Orinoco



developments, explained, including Vietnam's Petromacareo, which has a delay of almost one year and a potential production of up to 200 kb/d. Figuera pointed out that these projects will reach a combined production of about 400 kb/d in 2013, although he didn't specified the individual volumes.

PDVSA and ENI fine tune the credit. The US\$2.0 billion financing to develop the Junín 5 block and build a refinery was cut back by Italy's ENI, which has finally paid US\$1.76 billion to PDVSA. *"We did some adjustments, because part of the investment has been already made; we don't need any additional credit,"* Rubén Figuera, executive director for new Orinoco developments, explained.

"Between partners." Figuera informed that this is a corporate loan "between partners," through which the Italian firm is expected to cover PDVSA's 60% of the investment plus the percentage to be disbursed by ENI. Figuera added that total investment won't exceed US\$16.0 billion, of which US\$9.7 billion will be used for the refinery and US\$6.0 billion for production, which in principle will be of 50 kb/d of crude oil.

Over 100...they expect. At the opening of the II Hydrocarbon Comprehensive Congress "Toward the Orinoco Belt Development" at Puerto La Cruz, the Minister of Petroleum and Mining, Rafael Ramírez, claimed that *"our oil price has exceeded that of WTI for the first time and is better valued worldwide."* Ramírez said that oil price will remain at around US\$100/bl., which the country has defended as fair. *"This year, price is ranging between US\$100/bl. and US\$105/bl., which helps sustain our oil projects. And it will remain so,"* Ramírez said.

"We are developing a strategy together," Minister Ramírez said referring to the importance of incorporating the private sector to the oil sowing plan. *"It has to be done, because requirements of goods and services are many. Our strategy is setting up joint ventures, alliances and support,"* the Minister pointed out. Representatives of 600 firms associated to the Venezuelan Oil Chamber attended the Hydrocarbon Comprehensive Congress and were able to know the projects currently being developed by PDVSA in the Orinoco.

China continues to dominate PDVSA's priorities. The plans of the state-owned oil company are focused on increasing exports to the Asian market up to 2.8 mb/d, 71% of which (2 mb/d) will be exclusively earmarked for China in 2012-2018. This implies an increase of 528.5% over 6 years with respect to the 319 kb/d which were sent to China on average in 2011. Rafael Ramírez explained that part of those deliveries will be for refineries being built in that country, with capacity to process the Orinoco heavy crude oil. *"We are one of the few countries that are in China,"* Ramírez said.



International baskets. Last Friday September 7th, in New York, WTI closed at US\$95.8/bl, which shows an increase of 0.2% compared to US\$95.6/bl recorded the previous week. Meanwhile, Brent grew by 1.3% to reach US\$ 114.2/bl compared to the previous week when it reached US\$112.7/bl.

Local basket price. On Friday September 7th the Venezuelan oil basket price closed at US\$104.1/bl resulting in an increase of 0.3% compared to US\$103.7/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 105.2/bl.

Business Sector Tips

New car sales increase 0.9%. According to data released by the Automotive Chamber of Venezuela (Cavenez), new car sales grew 0.9% in August with respect to the same month in 2011. 89,732 units were sold in January-August, about 11,386 cars more than in the same period in 2011. Of these, 75,470 correspond to local manufacture and 14,262 were imported, with both registering increases of 11.0% and 37.4%, respectively.

Car production dropped 2.6%. According to Cavenez, auto production dropped 2.6% in August with respect to the same period in 2011 and gained 14.8% from July 2012, with 9,464 units being sold. Thus, cumulative production from January to August 2012 was 75,752 units, up 8.8% from the same period in 2011, when the number was 69,628 units.

"This is a historical figure," José Luis Hernández, president of the Chamber of Venezuelan Manufacturers of Auto Parts, referred to the amount owed to foreign suppliers, which currently amounts to US\$150 million. Hernández added that Cadivi allocations have dropped 50%, following a decreasing trend since past November, and that delays average 75 days. Exports, which before could represent between 30% and 50% of the industry's sales, are now almost nonexistent.

Excessive demand. Experts say that the national power grid won't withstand the demand which is about to reach its 2012 peak according to its historical trend. Demand, which currently is at a little more than 16,000 megawatts (Mw), could exceed 18,000 megawatts (Mw) according to official estimates, whereas the entering into service of new generation units and the rehabilitation of existing equipment are



registering delays. These delays are occurring at the highest-demand time. Furthermore, suitable fuels aren't available; therefore, power generation deficit could be estimated at about 1,000 Mw for the election period.

Insufficient adjustment. After the coffee producers push the National Executive to recognize the costs of production, the Minister of Agriculture and Land, Elías Jaua, announced a 33% increase in producer prices of coffee, so the cost per quintal (46 kilos bag) range between 1,350 and VEB 1,600. The adjustment was not well received by the producers, who described the increase as a joke and *"a humiliation to the coffee producers"* and claim that the costs of coffee production range between 1,700 and VEB 2,200 per quintal.

"Everything hints to a success." Ivan Gil, Vice Minister of Agricultural Production Circuits, stated that winter harvest will be successful, after informing that the state-owned Agropatria (born in 2010 after Agroisleña's nationalization) has distributed this year more than 460,000 tons of agricultural inputs, including fertilizers, agricultural chemicals and seeds, to support local producers. Gil pointed out that the state-owned network will be producing more than 20,000,000 kilos of rice seeds, for an increase of almost 100% over the past two years.

Milk production in steep drop. The situation of the dairy industry continues to be delicate. The difference between production costs and the finished product's controlled prices has taken the industry on the brink of bankruptcy. Sector sources informed that the current difference is 25% and that the government told them that pasteurized milk costs won't be reviewed and prices won't be adjusted this year. Currently, the dairy industry is processing 800,000 liters of milk per day; whereas one year ago the average production was 1,200,000 liters per day, down 33.3%.

More raw materials are being demanded. Hugo Dell' Oglío, president of the Venezuelan Association of Plastic Processing Industries (Avipla), said that the sector industries require a higher supply of raw material by Pequiven so as to cover local market demand. Dell'Oglío explained that the sector has registered sustained growth since 2005, but that production by Pequiven hasn't followed the same pace and the firm has been importing resins. Some private companies have also managed to purchase raw materials on international markets to try to cover the deficit.

No plastic, no packages. Deficit in resin supply which plastic product manufacturers are going through is affecting other industries, especially the food sector. Businessmen linked to the agricultural industry reported that packaging shortages are "serious". Traditionally, the agricultural industry has been working with package inventories of up to 15 weeks, but current availability of packages has made it



impossible to reach this level. *“Many times the product is not sold; without packaging, production lines could be stopped,”* a representative of the industry explained.

“Misión Vivienda” (housing) continues prior to election day. 120 apartments were delivered through the Great Mission Vivienda Venezuela at La Limonera housing complex, Miranda State. This number completes the 776 apartments that have been allocated in the same complex, vice president Jaua informed. Jaua stated that the program has allocated 249,368 homes throughout the country. Past Thursday, September 6th, 2,236 homes were allocated in several states of Venezuela.

Benevolent Sundecop. Karlin Granadillo, Superintendent of Fair Costs and Prices, informed that the extension of 30 working days granted by Sundecop to medical drug firms and the 19 prioritized product was requested by the sector firms and explained that her office *“isn’t trying to affect the productive sector”* and that these measures are intended for all actors linked to price notification to be able to do it; therefore, workshops on how to use the Price Administration Automated System will be organized.

Sidor is operating...hardly. After the explosion occurred on Friday, September 7th at furnace No. 5 of Sidor, which made the steel slab manufacturing unit to be preventatively shut down (although damage wasn’t significant), the iron and steel processing firm put the furnace into service on Monday, September 10th. The steel maker has five fusion furnaces, but with the explosion, only three are operating; in addition, it has three ladle furnaces³, of which only two are producing.

World Economy Tips

Lagarde presses for changes at the IMF. Christine Lagarde, director of the International Monetary Fund (IMF), urged the member states to take measures to implement the reform of their payments, so as emerging economies to have more weight. The reform agreed upon in 2010, according to which IMF resources would be doubled up to US\$767.0 billion, has been ratified by 102 of the 113 states required;

³ A ladle refining furnace is mainly used for vacuum degassing molten steel in argon gas stirring treatment and the alloy composition within the adjustment. Derivatives of sequential casting implantation in continuous casting machines have been spreading in recent years mass processes ladles heated by electric arc. These ladle furnaces, besides contributing to the decrease of the tilting temperatures; enable the steelmaker can perform many metallurgical processes.



but the US, with 16.7% of voting rights, can veto. The deadline to pass the reform is the yearly summit meeting to be held in October 12-14 in Tokyo.

iPhone 5's impact. The fifth generation of the Apple phone, which for many will be the smartphone most sold worldwide, was launched this week. According to JP Morgan analysts, the iPhone 5 launching could add between $\frac{1}{4}$ and $\frac{1}{2}$ percentage points to the annualized growth of the US GDP in the fourth quarter of the year. JP Morgan estimates that about 8 million of iPhone 5 devices will be sold in the US in the last quarter. Sales of iPhones of the prior generation will continue to follow a solid pace. iPhone 5 sales could boost GDP in the fourth quarter by US\$3.2 billion, or US\$12.8 billion at a yearly rate.

U.S. trade balance, better than expected. The Department of Commerce announced today that the U.S. trade balance on goods and services was -\$42.0 billion in July. Exports of goods and services were \$183.1 billion in July compared with \$185.2 billion in June. Imports of goods and services were also lower in July, \$225.3 billion compared with \$227.1 billion in June. The consensus, as reported by Action Economics Forecast Survey, was looking for deficit of \$44.4 billion, with exports at \$184.8 billion and imports at \$229.1 billion.

U.S.: Mixed signals with trade partners. Trade deficits of the U.S. with China and the euro zone continue to worsen and currently they have reached record highs. The U.S./euro zone trade deficit worsened in July (US\$10.9 billion) and with China (US\$29.3 billion). Trade deficit with OPEC has improved substantially. In July, trade deficit with OPEC was US\$8.3 billion below the US\$13.6 billion peak in June 2011. Deficit with North America, which was US\$ 7.1 billion, the lowest since the US\$6.7 billion in July 2010, has improved.

U.S.: Unemployment lower than expected. One day after Barack Obama's speech at the Democrats' Convention, in which he formally accepted his nomination as reelection candidate, U.S. unemployment figures were released. In August, according to figures published by the Bureau of Labor Statistics, unemployment rate dropped from 8.3% in July to 8.1%, but only because more people ceased to look for a job. The economy created 96,000 new jobs in August.

One year more for Portugal. The troika comprised by the European Union, the International Monetary Fund and the European Central Bank granted another year to Portugal government to try to cut its budget deficit to the level agreed when the country received the US\$100.0 billion bail-out last year. The new schedule announces by Portugal government cuts back this year's target to 5% of GDP (before 3% of GDP).



“Super Mario” to the rescue. The Super Mario plan (as named by the European press), which was announced last week by Mario Draghi, president of the European Central Bank (ECB), which consists of the “unlimited” purchase of sovereign bonds if necessary, was like a magic wand that enchanted investors: it led to an immediate drop in Spain’s and Italy’s interest rates. However, various analysts are skeptical and believe that the plan is just “a little breath”.

China’s slow pace. In August, Chinese exports gained 2.7% with respect to the same period in 2011 and, according to projections a 3% increase was expected. Imports, in turn, posted a surprising 2.6% drop, which contrast with the expected increase of almost 3.5%. The Chinese economy is estimated to grow about 7.5% this year, for its lowest percentage over three years. However, analysts stated that under the present circumstances, the target could be difficult to attain.

“China can spend if necessary.” Economists fear that the US\$150.0 billion approved by the administration for infrastructure projects won’t be enough to avoid growth from dropping below 2012 official target of 7.5%. In a speech at the opening of the World Economic Forum, Prime Minister Wen Jiabao said that the Chinese government was granting more significance to the development of policies for economic stabilization. If necessary, Beijing will use a special stabilization fund set up from the surpluses accumulated in previous years, to support growth and attain the target.

Political Tips

CNE won’t count election drill results. The National Electoral Council decided not to count the results of the voting drill held Sunday, September 2 which had been requested by Chávez’ Carabobo campaign command. The president of the Electoral Power, Tibisay Lucena, said that *“a request of this nature should be made by both commands”* and that the diatribe originated because *“Venezuela campaign command claimed victory of the simulacrum, which caused the response from the Carabobo command.”*

Capriles reveals actions for the first 100 days. 26 days before presidential election, Henrique Capriles Radonski insisted yesterday in calling voters to reflect. For one hour and twenty minutes, Capriles presented his main election offers, “commitments” as he likes to say, and promised to launch, during the first 100 days



of his eventual administration, a plan of public policies intended to provide personal security, employment, basic services and homes.

Capriles will raise minimum wage and will index it according to inflation. Some of his already known offers were extended. His initial measures, which are to be launched starting January 10, 2013, date of government change according to the Venezuelan Constitution, include raising minimum wage to VEB 2,500 and keep it indexed according to inflation, as long as it doesn't drop to one-digit figures.

Capriles: "If they are socialist, I'm Marxist-Leninist." Opposition presidential candidate for October election in Venezuela made fun of the Venezuelan President past Monday, after Chávez claimed that his administration applies socialist policies. *"This administration imports gasoline from the U.S. and claims that it's fighting against imperialism. This government, which claims having attained independence, imports rice from the U.S."*

Chávez: "If somebody tries to apply the "package," the country would destabilize." Candidate/President Hugo Chávez continues to focus his electoral strategy against the opposition candidate on an alleged economic package which would negatively affect the country. Chávez continues to spread fear throughout the population. *"Contrary to what the right-wing parties claim, the actions I'm taking are intended to stop a civil war from happening in Venezuela; to stop the country from going back; to prevent a new "Caracazo" or 100 new "Caracazos" from happening."*

Chávez asks "rich families" to vote for him. The candidate/president said that he would win on 10/07, but ironically, he's asking bourgeoisie to support him: *"Rich families, which are not intoxicated, should vote for Chávez. Think about it! Chávez is a guaranty of peace and development."* On a telephone talk with PSUV party leaders, Chávez said that the last stage of the election process prepares three scenarios: "perfect campaign, battle and victory," although he didn't reveal how he would attain this.

PSUV party is counting its chickens before they hatch. The PSUV party totaled the 1x10 voter forms, according to which, 6,729,361 voters will lead Hugo Chávez to victory, Diosdado Cabello, first vice president of the party informed. At a press conference in Caracas, Cabello said that the 1x10 voter lists let them know that 886,345 patrols have been organized, in addition to 13,679 Carabobo campaign commands throughout the country and 117,054 polling station witnesses.

In one year, Venezuela will be out of the IACHR. On September 10, 2013, Venezuela will cease to be one of the 25 American countries under the jurisdiction of the Inter American Court of Human Rights (IACHR), unless President Hugo Chávez



backs down and withdraws the document presented to the Organization of American States (OAS) to initiate the process. The OAS Secretary General, José Miguel Insulza, regretted the decision of the Venezuelan government, because in his opinion, the treaty is “one of the pillars of the legal framework protecting the defense of Human Rights in the continent.”

Legislative Tips

The pharmaceutical sector has been granted a 30 day term to process documents. The Ministry of Food published a resolution in the *Official Gazette* No. 40,001, which extends for 30 working days the term to present documents required by the Comprehensive Drug Control System. This measure will apply for those firms marketing or distributing medical drugs throughout the national territory. These documents are required for firms mobilizing medical drugs throughout the country.

Law on Tax Stamps would be unconstitutional. The second reform of the Law on Tax Stamps in Aragua State, which entered into force on August 17, continues to impose exorbitant economic burdens to industries and firms, Pedro Álvarez Finol, president of Cagua Chamber of Commerce, stated. “*This is a confiscatory and unpayable tax, even though it was reduced by 50%.*” The law will govern fees and taxes derived from the issuance of documents or deeds, contracts of works and services, as well as withholdings and collections of tax stamp moneys by public or private entities operating in Aragua State.

Alcoholic beverage marketers support ban to carry weapons. A press note of the Presidential Committee for Weapon and Ammunition Control and Disarmament informed that representatives of the Chambers of Alcoholic Beverage Distributors of Mérida, Lara and Yaracuy States gathered with the technical secretary of the Committee, Pablo Fernández, and let him know their willingness to apply a measure that provides for that armed people are banned from entering businesses where alcoholic beverages are sold.

New Sudeban regulations. A resolution establishing the internal regulations of the Internal Audit Unit of the Bank Superintendent’s Office (Sudeban) was published in the *Official Gazette* No. 40,004 dated September 10th. The regulations sets as its goal developing the organizational structure, functions, powers and responsibilities of



the Unit as fiscal control body, as well as regulating functions of the areas that will comprise it.

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ECONOMIC OVERVIEW

