



Weekly Report

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*The parallel structure
of Government Spending:
a political control mechanism
for Local Governments?*

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Since 2004, the current Administration has been building a parallel structure for public spending. The main characteristic of this mechanism is the discretionary use of resources by the President, even though he would never admit it. In this Report, we will try to evaluate how parallel spending increases at the cost of transfers of resources to regional and municipal governments, significantly affecting their performance based on the 2011 National Budget figures.

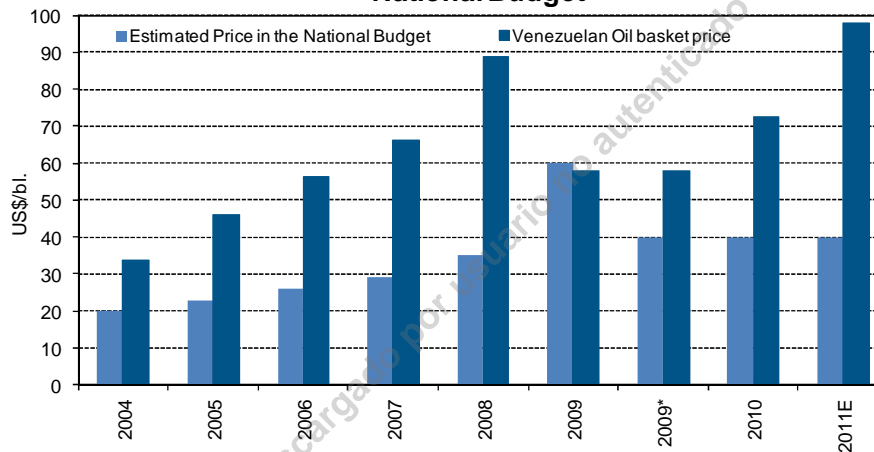
**Where it all
starts:
National
Budget
discussions**

Each year, in accordance to the Constitution, the National Assembly must discuss and approve the National Budget Law for the following year. All fiscal planning for the following year should be based on National Budget figures. In an oil producing country such as Venezuela, estimating what the average price of oil will be on the international market for the coming year is key in defining the parameter of the National Budget. During the last few year, with the National Assembly completely controlled by representatives from the government party and/or its allies, it has approved National Budget Laws that have clearly underestimated what



one would expect the average price of oil would be in the coming year. This makes it impossible for the National Budget to be an efficient fiscal and legal instrument. To a lesser degree, the SENIAT has also underestimated estimates of expected non-oil revenues.

Venezuelan Oil basket price Vs. Estimated price in the National Budget



Sources: National Budget Laws, Menpet and Ecoanalítica

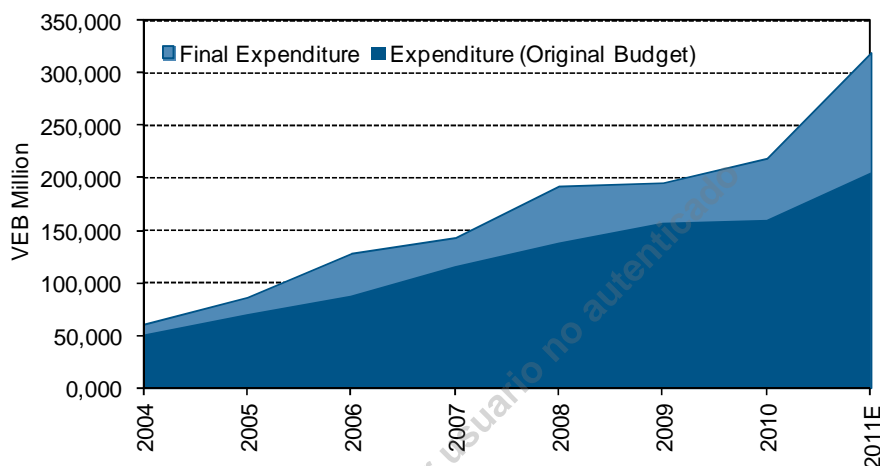
* In 2009, due to the fall of oil prices, the government reduced the price estimated in the budget.

This underestimation of oil prices and the judicial-institutional vacuum that exists in our country with respect to how surplus revenue is managed during a specific fiscal period is the main source of revenue for so-called out-of-budget spending. Every year, supplementary appropriations are approved by the National Assembly which significantly inflate the originally Approved National Budget. In 2010, for example, the original National Budget was approved by the Parliament and set at VEB 159.41 billion. By the close of 2010, the National Budget, via supplemental appropriations, had ballooned up to VEB 245.66 billion. This represents an increase of 54.1%. So far in 2011, the originally approved National Budget has been inflated by VEB 86.62 billion, increasing it by 42.2%





Expenditure (Original Budget) Vs. Final Expenditure



Sources: National Budget Laws, UCB, NTO and Ecoanalítica

It's much more

Keeping in mind what we have just said, it's important to state that though all out-of-budget spending (approved due to insufficient funds or via supplemental appropriations) could be cataloged as "parallel" spending, the same can't be said for the inverse. There is parallel spending carried out by the Administration that does not go through National Assembly approval and/or authorization. Government spending executed through FONDEN, PDVSA, BANDES, and the China Fund, just to name a few, is done so at the sole discretion of the Executive Office, giving the President an enormous amount of power when it comes to deciding how "budget" spending will be executed.

From month to month, at **Ecoanalítica**, we keep track of the amount of resources available in these funds. At the close of the month of August, the Government had placed VEB 130.29 billion of these resources, equivalent to 63.8% of the originally approved 2011 National Budget and 150.4% of supplementary appropriations so far this year. The Administration also has US\$ 14.80 billion in foreign currency at its disposal, to be used for whatever reason the President of the Republic sees fit, without any oversight whatsoever.





Government Resources*	August - 2010 (US\$ bn)	August- 2011 (US\$ bn)	Variation (%)
In VEB	31.3	30.3	-3.1%
BANDES	0.6	0.1	
BDT	0.4	0.3	
Deposits in the financial system	18.4	14.2	
Fondo Miranda	2.8	1.8	
National Treasury	7.6	9.3	
FONDEN	1.5	4.6	
In USD	12.6	14.8	17.5%
FONDEN and National Treasure	7.6	6.1	
Other Funds	2.0	6.8	
PDVSA	3.0	1.9	
Total	43.9	45.1	2.8%

Source: Ecoanalítica

Note: The reference exchange rate for the Public Sector in 2010 was 2.6 VEB/US\$. In 2011, after the devaluation, the official exchange rate changed to 4.3 VEB/US\$

*All the figures are expressed in US\$ at the official exchange rate

A government that doesn't want to be corralled?

Some analysts doubt that these out-of-budget funds exist, that if they did exist, the Administration would be so aggressive with its borrowing and be so severe with its restrictions of foreign currency for the private sector. At *Ecoanalítica*, we have always insisted that the this parallel budget does not reflect fiscal comfort, instead, it is there to give the Administration a free hand, without any restrictions, to spend and distribute resources as it wished. And to ensure this degree of freedom, the Administration is willing to cut back on the amount of foreign currency allocated to the private sector and to be very aggressive when it comes to borrowing, thereby ensuring that the parallel structure is always available.

And what about regional and municipal governments?

In past Reports we have analyzed the negative consequences of fattening up these parallel funds at the cost of making more foreign currency available to the private sector and also increasing public sector debt. In this Report we would like to look at how this flow of resources to parallel funds has cut into the flow of resources earmarked for regional, municipal and even communal council governments.

The Constitution states...

There are two legal instances that justify the transfer Central Government resources to regional (Governor's Office), municipalities, and communal councils: 1. Constitutional resource sharing, and 2. The State Inter-territorial Compensation Fund.

Constitutional resource sharing was established in the 1999 Constitution, in Article 167 numeral 4 and Article 179 numeral 4. Through this measure,



the Constitution orders the creation of item that is equal to a maximum of 20% of total ordinary revenue estimated yearly by the Central Government that corresponds to the states. The Constitution also orders that no less than 20% of the aforementioned amount received via Constitutional revenue sharing be distributed to each municipality in the state.

So, one can see that if ordinary revenues are being underestimated in the National Budget, this will directly affect the amount of revenue received by states and municipalities. The only way this could be compensated for is the same rule that applied for Constitutional revenue sharing also applies to surplus revenues, awarding 20% of these to be distributed accordingly. But this is not the case.

AS APPROVED IN THE ORIGINAL BUDGET		
Federal Entities	Constitutional Revenue Sharing (VEB Million)	Territorial Compensation Fund for the States (VEB Million)
AMAZONAS	424	199
ANZOÁTEGUI	1,327	230
APURE	651	143
ARAGUA	1,431	152
BARINAS	843	154
BOLÍVAR	1,369	235
CARABOBO	1,804	161
COJEDES	530	125
DELTA AMACURO	432	158
FALCÓN	933	160
GUÁRICO	826	161
LARA	1,529	173
MÉRIDA	893	131
MIRANDA	2,233	180
MONAGAS	910	288
NUEVA ESPARTA	623	93
PORTUGUESA	912	149
SUCRE	935	137
TÁCHIRA	1,117	141
TRUJILLO	804	134
YARACUY	729	135
ZULIA	2,751	303
VARGAS	543	121
DISTRITO CAPITAL	1,645	138
Total	26,192	4,002

Sources: National Budget Law 2011 and Ecoanalítica



Not at all transparent

It's not all transparent, not only because the price of oil that is estimated for the National Budget is not even remotely close to what an educated, serious, estimate would have calculated; keep in mind that with the average price of the Venezuelan oil basket hovering US\$ 100 a barrel, this puts extraordinary oil revenues at around US\$ 36.79 billion, and this figure does not include additional revenue collected by the SENIAT, and public borrowing (including the Complementary Borrowing Law). Now, it's true that regional and municipal governments receive some of this surplus revenue via supplemental appropriations, but nothing like what they would get if surplus revenue were managed the same as ordinary revenue and distributed in accordance to Constitutional revenue sharing.

How much would they have received?

At **Ecoanalítica**, we calculated what would have happened if the price of oil set for the National Budget would have been set at US\$ 100 per barrel (a much more realistic estimate) instead of the US\$ 40 per barrel that was estimated. Based on US\$ 100 per barrel, we estimated what would have been allocated for Constitutional revenue sharing and what would have been allocated for State Inter-territorial Compensation Fund. We also used **Ecoanalítica's** estimates for Venezuelan oil production which are less than the oil production figures used by the Administration, and a linear increase is established for each item. With these figures, we calculated that Constitutional revenue sharing and State Inter-territorial Compensation Fund would increase by 95%. The following table shows how our calculation reflects on each state.





ESTIMATED		
Federal Entities	Constitutional Revenue Sharing	Territorial Compensation Fund for the states
	US\$ 100/bi	US\$ 100/bi
	(VEB Millon)	(VEB Millon)
AMAZONAS	828	387
ANZOÁTEGUI	2,588	448
APURE	1,269	279
ARAGUA	2,790	297
BARINAS	1,644	300
BOLÍVAR	2,670	459
CARABOBO	3,518	315
COJEDES	1,033	245
DELTA AMACURO	842	307
FALCÓN	1,820	313
GUÁRICO	1,611	315
LARA	2,981	337
MÉRIDA	1,740	255
MIRANDA	4,353	352
MONAGAS	1,775	562
NUEVA ESPARTA	1,215	181
PORTUGUESA	1,778	291
SUCRE	1,823	268
TÁCHIRA	2,179	275
TRUJILLO	1,568	261
YARACUY	1,421	263
ZULIA	5,363	591
VARGAS	1,058	237
DISTRITO CAPITAL	3,208	269
Total	51,074	7,803

Sources: National Budget Law 2011 and Ecoanalítica

How much are they owed?

The following table is a summary of the global amount of revenue that the Administration owes regional and municipal governments, and even communal councils. The debt reaches VEB 35.01 billion.





Summary: Estimated Debt to the Regions 2011

	Budget (VEB Millon)	Estimated Budget Ecoanalítica (VEB Millon)	Debt (VEB Millon)
Constitutional Revenue Sharing (1)	26,192	51,074	24,882
Territorial Compensation Fund:			
States	4,002	7,803	3,802
Municipal	3,003	5,856	2,853
Community Councils	3,659	7,136	3,477
Subtotal TCF (2)	10,664	20,795	10,131
TOTAL (1+2)	36,856	71,869	35,013

Sources: National Budget Law 2011 and Ecoanalítica

To date, and with the approval of supplemental appropriations, the Central Government so far this year has transferred to regional and municipal governments an additional VEB 6.90 billion in Constitutional revenue sharing and an additional VEB 1.50 billion for State Inter-territorial Compensation Fund. This would leave a balance owed to regional governments of VEB 26.51 billion. And of course, this is only for this year. Think of the amount of revenue owed to regional governments due to past underestimation of National Budgets and accumulation of surplus revenue.

What does the Administration get out of it?

It's clear that this "centralized" financing has allowed the Administration to create a wide network of clients, friendly to its designs, and suffocate other regional and municipal governments that do not toe the line and share ideological goals. Michael Penfold, has addressed this subject in depth in his book "Dos tradiciones, un conflicto: El futuro de la descentralización" (Two Traditions, One Conflict: the Future of Decentralization). Penfold points out that *"Chávez made sure that the states and the municipalities did not benefit from the biggest oil bonanza in Contemporary Venezuelan History. Through this strategy, the President guaranteed that neither Mayors nor Governors would have the financial muscle to compete directly with the Executive Office come election time nor would they have the resources to manage their governments effectively."*

Four elements are key in order to understand the future of decentralization in Venezuela: 1. Governors and Mayors capacity to coordinate; 2. the role of the communal councils; 3. Fiscal sustainability and the use of extraordinary funds, and 4. The appearance of elements that will allow Central Government power to be reduced, thereby creating the opportunity for new institutional arrangements.





Economic Tips

IMF lowers growth prospects for Venezuela. The International Monetary Fund (IMF) published its global economic outlook on Tuesday, September 20th. According to its most recent evaluation, the IMF estimates that the Venezuelan economy will grow 2.8% in 2011 (previously 3.3%), lower than the figure recorded for South America which was at 4.5%; Argentina and Paraguay stand out with 8.0% and 6.4% growth projections, respectively, for 2011. The IMF estimates Venezuela's inflation at 25.8% for 2011, the highest in the region, followed by Argentina with 11.5%. Finally, according to the IMF figures, unemployment rate will be at 8.1% in 2011.

The BCV is considering keeping part of the gold abroad. Sources say that the BCV board is considering keeping part of the gold of the international reserves in financial institutions abroad, so that it may be easily converted into liquid money if necessary. It's still unknown the number of gold bars that will remain out of the country and of those that will be brought to Caracas as ordered by President Hugo Chávez. Venezuela has a total of 211.35 tons of gold abroad, worth US\$11.05 billion.

Central Government spending grew 1.9%. The BCV published the Central Government fiscal management figures for May 2011, which show that total spending grew 1.9% in real terms, on a year-to-year basis, over the first five months of the year. This figure is very similar to the one accumulated from the previous month, when the Administration total spending lost 2.5% in real terms, on a year-to-year basis.

Income, in turn, expanded 13.2% in real terms, on a year-to-year basis: oil revenues grew 32.5% and non-oil revenues, by 5.8%, both in real terms with respect to the same period of the previous year (year-to-year).





FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	January-May 2010	January-May 2011	Nominal Variation	Real Variation
Total Revenue	61,318	88,249	43.9%	13.2%
Non-Oil Revenue	44,238	59,487	34.5%	5.8%
Oil Revenue	17,080	28,762	68.4%	32.5%
Central Bank Earnings	-	-		
Total Expenditure	77,971	100,956	29.5%	1.9%
Fiscal Balance	(16,653)	(12,708)	-23.7%	-40.0%
Non Oil Balance	(33,733)	(41,470)	22.9%	-3.3%
Debt Amortization	755	260	-65.6%	-72.9%
Financing Requirements	17,407	12,967	-25.5%	-41.4%
Foreing Debt	70	991	1308.7%	1008.2%
Domestic Debt	19,021	21,170	11.3%	-12.4%
Tresury Bonds	14,528	17,952	23.6%	-2.8%
Tresury Debt	4,493	3,219	-28.4%	-43.6%
Others	-1,684	-9,194	446.0%	329.6%

Sources: BCV and Ecoanalítica

Treasury: public spending increased by 11.3% until August. According to official data released by the National Treasury Office (ONT), public spending has increased by 11.3 from January up until August 30, 2011, in real terms (indexed according to inflation). The discrepancy between the BCV and the ONT figures is due not only to the fact that the ONT figures are more up-to-date, but that they include data from the accounts that the ONT has at the BCV, as well as from other accounts the ONT has at national banks; whereas the BCV only includes public spending that is processed through its coffers.

Eight-month tax collection. According to the Seniat (tax authority) figures, tax collection from January to August was VEB 91.9 billion, close to the global collection target for 2011 (VEB 110.0 billion) set by the Minister of Planning and Finance. This collection level increased by 41.8% in nominal terms and 12.0% in real terms as compared to the same period last year.

Concepts (VEB Million)	Aug-10	Aug-11	Var (%)	Real Var	Jan-Aug 2010	Jan-Aug 2011	Nominal Var	Real Var
Total Income	8,702	12,441	43.0%	13.0%	64,835	91,914	41.8%	12.0%
Income Tax	2,441	2,895	18.6%	-6.2%	19,224	24,849	29.3%	2.2%
VAT (Internal)	3,919	5,381	37.3%	8.5%	27,994	39,329	40.5%	11.0%
Customs revenue*	7,455	1,408	-81.1%	-85.1%	5,468	9,291	69.9%	34.3%
Other Internal Revenue	620	743	19.9%	-5.3%	4,748	5,378	13.3%	-10.5%
Spirits	191	234	22.6%	-3.1%	939	1,089	16.0%	-8.3%
Cigarettes	375	478	27.4%	0.7%	3,486	4,031	15.6%	-8.6%
Inheritance	292	242	-17.0%	-34.4%	138	154	11.7%	-11.7%
Random games or bets	198	648	227.6%	158.9%	150	104	-30.5%	-45.1%
Others	837	260	-68.9%	-75.4%	749	1,147	53.1%	21.0%

Sources: Seniat and Ecoanalítica.

* Includes VAT on imports.



More older people. According to preliminary figures released by the 2011 Census, after 21% of the population has been counted, the Venezuelan population is going through a demographic transition process, i.e. the population is getting older. According to the Census manager, Luis Gerónimo Reyes, 56.6% of the people were between 15 and 64 years old in 1981, 62% in 2001 and 66.7% this year. Similarly, people older than 65 years have kept a sustained increase and they accounted for 3.5% in 1981, 4.9% in 2001 and 6.1% in 2011.

And what about the elderly? According to Jorge González Caro, Venezuela's representative to the UN Population Fund, these findings should be useful to design public policies. González explained that projections show that this is a "star moment" in which most population is productive, adding that this period will last 40 years. After that period, the population will be older; therefore, now is the time to design a proper pension system for the time when grown-ups have to depend on the working ones.

Women share is higher. Luis Gerónimo Reyes added that another trend revealed by 2011 Census is the increase in the percentage of women in Venezuela with respect to men. Whereas in 1980, per every 100 women there were 100 men, in 2001 there were 97.9 men per every 100 women and in 2011 the figure is 96.8 men. *"This is explained because women's life expectancy is much higher than men's,"* Reyes added.

How many people won't answer? Elías Eljuri, president of the National Statistics Institute (INE), reported that up until Thursday, September 15th, 6,161,869 people and 1,476,747 homes had been counted, which accounts for 19.5% of those that are estimated to be included in the Census. Eljuri referred that in 2001 Census 6.4% of the people, above the international average (5%), didn't answer. However, according to Eljuri, the Census that is being taken now in Venezuela *"is far below those indices."*

53% of supplementary appropriations are earmarked for wages and salaries. In 2011, the Administration has requested supplementary appropriations worth VEB 86.7 billion, of which VEB 46.0 billion, or 53%, has been applied to meet labor obligations. As per estimates of the Ministry of Finance, supplementary appropriations for VEB 10.0 billion are expected to be approved in the rest of the year, in order to meet the remaining commitments.

Still going up. According to Cendas-FVM, the Basic Family Basket (CBF) cost VEB 7,405.21 in August 2011, for an increase of VEB 180.89 and a variation of 2.5%. The year-to-year variation between August 2011 /August 2010 was 30.4%.





Interest rates. The lending rate for the third week in September was at 18.4%, decreasing by 1.2 percentage points compared to the previous week. The time deposit rate remained reach 14.5%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.6%.

International reserves. International reserves decreased 0.9% going from US\$31,425 million during the second week of September to US\$31,153 million during the third week of September. Compared to the same period last year, international reserves have increased by 4.7%.

Monetary liquidity. Monetary liquidity in the second week of September increased 0.1% compared to the previous week settling at VEB 354,832 million. The M2 has increased 32.2% year-on-year.

Sitme figures. So far this year, US\$5,927 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.4 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the third week of August the amount traded reached US\$165 million, US\$21.7 million more than last week when US\$186.6 million were traded.

Oil Tips

Iran: Economic uncertainty on oil markets. With the end of the conflict in Libya, oil markets could be facing an oil supply increase during the second half of 2012, which, along with the increasing uncertainty about the performance of global economy, would give rise to a time of little increase in oil demand and prices. Last September 8th, Iran announced that it doesn't believe that international oil prices may grow with the Northern Hemisphere winter, due to the permanent volatility in global economy.

Chávez predicts that oil production will double by 2019. President Hugo Chávez assured in September 14th that Venezuela will double its crude oil production within 8 years. In a phone interview broadcasted by Venezolana de Televisión (VTV) channel, Chávez said that *"For 2014, we should be producing close to 4 million b/d. Currently we are producing a little over 3 million b/d. For 2019, we should be close to 6 million b/d; we are one of the few countries in the world capable of registering that production growth."*



Comparing the above to the Oil Sowing Plan... Projections announced by President Chávez surpass the estimates of PDVSA's Oil Sowing Plan, according to which production will reach 4.15 million b/d by 2015, 5.52 million b/d for 2019 and 6 million b/d for 2021. Production growth up to the targets set practically depends on being able to treble oil volumes lifted from the Orinoco Oil Belt, up to 4 million b/d by 2021.

Ramírez informed that PDVSA will import 138 drilling rigs from China. PDVSA will continue to use the agreements with the People's Republic of China; this time concerning the supply of drilling rigs and oil exploration and production. The Minister of Energy and Petroleum/President of PDVSA, Rafael Ramírez, informed that the state-owned oil company will import 138 drilling rigs from China, along with other 20 drilling rigs that, according to Ramírez, are being produced in Venezuela.

Petrobras is pressing PDVSA for payment. The Brazilian oil company denied that an agreement has been reached with PDVSA for this latter to finally contribute its 40% share in the refinery that Petrobras is building in Pernambuco and which was initially conceived as a bi-national venture. Petrobras informed that the Abreu e Lima refinery is being built with its own funds while waits for PDVSA to make its payments and assume its part of the debt. Given the need of cash to be able to continue building the refinery, a deadline is being negotiated for PDVSA to pay the corresponding amount.

Petropar will pay its debt to PDVSA in installments. Sergio Escobar, president of the Paraguayan state-owned oil company, informed last Thursday, September 13th that they will be paying the first installment of the millionaire debt to PDVSA before the end of October. The debt will be paid in US\$5 million monthly installments. Petropar expects to pay its US\$286 million debt in three years.

Another reason for shortages. Victor Ovalles, president of the Venezuelan National Union of Workers in the transportation of hydrocarbons, by-products and related products (Suntrahdven), stated that drives working for private companies (about 40% of the domestic market) aren't receiving their corresponding labor benefits. The 15% payment on total invoicing isn't being made.

Power outages continue to affect oil industry. Fuel distribution in Zulia was disturbed from Thursday, September 15th until the weekend, due to a power outage that affected the Bajo Grande filling station that covers demand in that state. Ramón Montiel, president of Avegas, explained that dispatches were stopped last Thursday due to a power outage and that according to PDVSA officials, the situation would be solved on Friday.



Failures in PLC refinery. The catalytic cracking unit at PDVSA's Puerto La Cruz (PLC) refinery has been out of service since last week, José Bodas, executive secretary of the oil workers' union (FUTPV), informed. The union leader stated that the failure occurred when the refinery Operation Management used the catalyst used in the Paraguayan Refining Complex instead of the one that is regularly used, because the supply thereof had been suspended due to lack of payment to suppliers.

International baskets. WTI closed at US\$88.8/bl. last September 16th, up 1.5% from the US\$87.5 a week before. Brent dropped 0.2% to US\$112.9/bl. as compared to a week before when it was sold at US\$113.1/bl.

Local basket price. Venezuelan oil basket closed at US\$104.5/bl. for the week ending September 16th, up 1.2% from the US\$103.3/bl. of the previous week. Meanwhile, the average for the year-to-date of the Venezuelan oil basket is US\$99.13/bl.

Business Sector Tips

Law nationalizing gold mining was published. Decree No. 8,413 issuing the Organic Law reserving for the State gold exploration and mining as well as related activities was published in the Official Gazette No. 39,759 on September 16th.

Power consumption quotas were liberalized. Through the partial reform of Resolution 74 issued by the People's Ministry for Electric Energy on June 10th, the household consumption quotas were adjusted in several states of the country. This resolution was published in the Official Gazette No. 39,759, September 16th and will enter into force from October 1st.

Bilateral trade with Argentina grows. Bilateral trade between Argentina and Venezuela amounted to US\$ 749.2 million between January and July, 2011, up 22% from the same period in 2010. Argentina exports to Venezuela were worth US\$ 742.6 million whereas imports only amounted to US\$ 6.7 million. .

Aladi is doing well. The Latina American Integration Association (ALADI) informed that trade among its member countries grew 26% in the first half of 2011 with respect to the previous year and is expected to surpass its record high. According to Argentina's Carlos Álvarez, Secretary General of ALADI, this growth is due to the



“very good macroeconomic situation” the region is currently going through. Trade within the bloc reached US\$70.2 billion, up US\$15.0 billion from the same period in 2010.

New adjustment of beef prices is being considered. The Administration is analyzing the possibility of a new adjustment to beef prices. A technical report prepared by the Ministries of Trade and Agriculture points out that June’s 29% increase didn’t alleviate the market distortion resulting from beef being sold at surcharge (VEB 38 and VEB 40 for first-class beef cuts that are controlled at VEB 22.7).

Polar assures that Harina Pan is a Venezuelan product. Empresas Polar dismissed claims by the Autonomous Copyright Service (SAPI) that Harina Pan brand is not Venezuelan. “The precooked corn flour (P.A.N.) has always been, is and will continue to be a Venezuelan product,” Polar assured in a press statement. According to Empresas Polar, the information disseminated by SAPI head, José Julián Villalba, are intended to “confuse” consumers and “divert” attention from the corn producers’ problems.

Controls provoked a mess in the automotive sector. The National Assembly (AN) restarted discussion on car prices on last September 13th. Two years after the failed attempt by representative Elvis Amoroso to promote a law to control the automotive sector, a group of representatives retook the issue. According to spokespersons from the automotive sector, controls and restrictions imposed on the different players of the automotive chain are the cause for the market distortion.

The Administration has made procedures for car assembly plants easier. The automotive industry would have managed for the Ministry of Science, Technology and Intermediate Industries to make procedures for imports of auto assembly parts, required by auto assembly plants in 2012, easier.

Pushing again. Car importers haven’t lost hopes. For another year they have started procedures before the Ministry of Trade to obtain import licenses for 2012, as established by the Administration’s automotive policy. Government sources point out that only licenses for vehicles imported from countries with which bilateral agreements have been signed, such as Argentina and Ecuador, will be granted. This means problems for importers of cars and parts from Europe and Japan.

Shortage grows. Food shortages intensified by 15.1% over recent weeks, according to Datanálisis’ supply report. The pollster that includes in its study more than 70 outlets in the Caracas Metropolitan Area found that shortages went from 18.5 points at end-August to 21.3 points in the week ending September 9th.



Credit portfolio grew in August. According to data from the Bank Superintendent's Office, credit portfolio gained 3.4% at the end of August, 2011 as compared to the previous month and 40.6% with respect to 2010, for a year-to-year growth of 11.1% in real terms.

Consumer credit recovers. According to statistic data released by the Bank Superintendent's Office (Sudeban), consumer credits at national banks continued to recover at end-August, 2011, despite controls over this modality (according to the Bank Law reform, banks cannot earmark more than 20% of their credit portfolio for consumer credits). Cumulative growth reached 14.6% over the first 8 months of the year.

...leading. Figures show that total credit for the commercial and consumer sectors, corresponding to banks, accounted for 53.9% of the total gross credit portfolio and the rest (46.1%) was earmarked for productive activities.

...and delinquency rate drops. Official figures also reflect a drop in delinquency rate (past-due credits and credits in litigation), from 2.8% in July to 2.2% in August, down 0.65 percentage points.

Investment in papers gained more than 50%. Investment in papers of the public and private financial system experienced an increase of 50.2% over the past 12 months, according to information from Sudeban. Total bond figure at the end of August, 2011, amounts to VEB 130.5 billion, 5.7% more in a month.

Three public banks aren't complying with the capitalization index. According to Sudeban report for the month of August, Bicentenario, Banco Industrial de Venezuela and Banco Agrícola are registering capital deficits. Current provisions establish that capital, that is the money with which shareholders back up operations should represent at least 8.0% of assets; Banco Bicentenario capitalization index is 6.0%, that of Banco Industrial de Venezuela is 6.7% and the index of Banco Agrícola is 7.4%.

New Fair Cost and Prices National Superintendent. Karlin Granadillo Ramírez was appointed Fair Cost and Prices National Superintendent through presidential decree published in the Official Gazette No. 39,756 of September 13th. According to the Gazette, Granadillo will *"fight against speculation, based on equality and social justice criteria that make it possible to reach a balance between companies' profits and the cost of goods and services they produce."*

High energy demand will test official measures. The national power system is approaching the months with the highest power demand. The end of vacations, the



beginning of the school year and the growing productive activity of the last quarter of the year impact that significant variable.

Clinics presented their table. The Venezuelan Association of Clinics and Hospitals (AVCH) presented, in a statistical report, the structure of operational and functioning costs to the Ministry of Health on September 14th. The report compiled administrative data and costs of 115 private health care centers, representing about 4,500 clinic and hospital beds. The report was presented to lay the bases of a price scale for medical services provided in private institutions.

Prices are still frozen. Freezing of rates of private health care services, which has been applied since the second week of August, will remain in force until agreements between the parties are signed. A new meeting between the involved parties, at which the government representatives will present their conclusions on the report presented by the clinics, is to be held next week. The first agreements concerning price scales are also expected to be reached soon.

Home demand continues to surpass expectations. The Minister for the Transformation of the Great Caracas, Francisco Sesto, estimates that the need for new homes in Venezuela amounts to 3,700,000. Therefore, the minister believes that the demand could be met over a 10-year period, as the Venezuela's Great Housing Mission continues to move forward.

World Economy Tips

US president is preparing the Buffet Plan: taxes for the richer. Barack Obama presented a plan on September 19th to raise taxes for those declaring more than US\$ 1 million per year. The White House hasn't offered details of the plan with which Obama will fight the long-term budget deficit. The plan will be called the Buffet Plan due to the noise in the media of the proposal the multimillionaire made asking more taxes for the richer.

Obama reiterates his request to increase taxes and cut deficit. Barack Obama calling for unity of his democratic basis will veto any cut to the Medicare health plan if the Congress isn't capable or raising taxes to corporations and rich US citizens in an attempt to cut the US deficit. Obama's recommendations will cut deficit by more than



US\$3 trillion over the next decade. About half of the cut would come from the increase in tax revenues.

Stock Exchanges in Asia drop + euro goes back = refuge in gold and US bonds. Asia stocks dropped and the euro went back 1% on September 19th, whereas investors were concerned about Europe's failed attempts to solve its sovereign crisis debt. A week of disappointing news from the euro zone led market players to reduce their risks and turn to gold and US Treasury bonds, despite the intensified speculations in the sense that the Federal Reserve would announce at its meeting of this week new flexibilization policies to stimulate the country's economy.

Turkey threatens with breaking relations to the EU. Turkey, a candidate to enter the European Union (EU), will freeze its relations to the bloc if the EU grants Cyprus the revolving presidency in 2012, Turkey's Vice Prime Minister, Besir Atalay, said in a statement. This could be a setback in relations between the EU and Turkey, which started talks to join the European block in 2005. The statement also takes place at a difficult time when Turkey is immerse in a dispute with Cyprus for potential maritime gas deposits.

BRIC countries buy debt of the European fund. Some of the emerging BRIC countries (Brazil, Russia, India and China) have already bought debt through the European Fund for Financial Stability and they could buy more debt in what would be a potential aid for the beaten countries of the euro zone, according to Brazil's major business newspaper, Valor Económico: *"We are very pleased to see that some BRIC countries are already investing in our debt,"* Christopher Frankel, financial chairman of the European fund, said.

Containing real's appreciation. Brazil explained how it will implement a 1% tax on operations with exchange derivatives. This measure was announced in end-July and was intended to contain the appreciation of the local currency. The tax will be calculated on a daily basis and will be applied on all net gains in the reference value of the so-called *"long positions in reals"* of investors on the derivative markets, according to a presidential decree. These positions bet that the local currency will increase its value vis-à-vis the US dollar.

Brazil: the most attractive country for investors in Latin America. A poll by PriceWaterhouseCoopers (PwC) carried out among CEOs of more than 500 companies in seven South American countries shows a high interest to invest in the region and that Brazil is seen as the most attractive market followed by Colombia and Chile. Colombia stands out for being one of the markets with the highest number of consumers in the region, whereas Chile is known for its economic and political stability.



Inflation estimates are raised and GDP projection is lowered in Brazil. According to the weekly study Focus of the Central Bank released on Monday, September 19th, economic analysts adjusted upward, from 5.4% to 5.5% in 2012, their forecast for Brazil's inflation this year and the next, even though the president of the Central Bank said that he is perceiving clear signs of deceleration in consumer prices in the largest Latin American economy. This year, inflation would reach 6.46%, slightly higher the previous forecast of 6.45%.

Argentina expects 4.7% growth in 2012. Argentina's government expects the country's economy to grow 4.7% in 2012, in comparison to an estimate of 8.3% for 2011 which was recently reviewed. The expectation of a lower economic growth, included in the draft budget for 2012 sent by the government last Thursday to the Congress, was influenced by the uncertainty provoked by the international financial crisis. However, Argentinean authorities use to underestimate growth and inflation forecasts.

Public spending in Peru will grow in the second half of 2011. According to the Reserve Central Bank (BCR), public spending will grow 8.5% in the second semester of the year, after having dropped 6.4% between January and June. In its Inflation Report: Current Panorama and Macroeconomic Projections for 2011-2013, the BCR forecast that private investment will increase 6.2% in the second half of 2011, as compared to the 15.6% growth in the first semester.

Korea will help Colombia to access the Asian market. In a statement on September 17th, President Juan Manuel Santos highlighted the importance of his visit to Japan and South Korea. President Santos said that this has been one of the most productive trips he has made from the perspective of the Colombian trade policy. According to Santos *"Almost 19 years ago, when I was Minister for Foreign Trade, we travel with a group of business persons to Japan and Korea to begin the opening-up process of these markets, because already at that time we saw how Asia was going to become the engine of those countries that are strategic for Colombia; since then we sowed the seeds."*

Political Tips

The Inter American Court of Human Rights allowed López to be candidate in 2012. If the former mayor of Chacao, Leopoldo López, wants to run for the



presidential or regional election scheduled for the year 2012, no authority may use as a pretext that the General Comptroller has banned him from holding public office to prevent López from running, because the Inter American Court of Human Rights decided that this violated fundamental rights.

Rights were violated. After stating that the former mayor's political rights had been violated, the IACHR, in an unprecedented move, directly ordered the National Electoral Council (CNE) to take the actions needed to *"guarantee that banning from holding public office may be an impediment for Leopoldo López to present as a candidate."*

The IACHR condemns the prohibition imposed by the Comptroller. In its decision, the Court condemned the sanction that the late Comptroller, Clodosbaldo Russián, applied to López, which already prevented him from running for the election as Caracas Metropolitan Mayor, because *"the entity that imposed this penalty was not a competent judge, López was not found guilty and penalties were not applied as a result of a criminal process,"* as provided for by article 23 of the American Convention on Human Rights.

The Court is worth nothing, it's a real zero. In less than five minutes, president Hugo Chávez went from saying that it wasn't his task commenting on the ruling by the Inter American Court of Human Rights in the case of Leopoldo López to explaining that the Court is worth nothing for his government.

IACHR former president says that the decision benefits others. Although the ruling of the IACHR doesn't refer to other cases, the decision ordering that former Mayor of Chacao, Leopoldo López, is able to run as a candidate benefits not only him but also another 404 individuals in Venezuela and other countries that have been also penalized.

The CNE will wait for the TSJ decision in the case of Leopoldo López. Socorro Hernández, member of the board of the National Electoral Council, stated this Monday that they will wait for the Decision of the Supreme Tribunal of Justice regarding the case of Leopoldo López to officially issue an opinion.

Chávez again to Cuba. President Hugo Chávez is in Cuba to receive the fourth cycle of preventive chemotherapy, applied to reduce the risk of cancer cells proliferation and move forward his full recovery.

Chávez signed new agreement with China. President Hugo Chávez signed a long-term (2013-2030) agreement with the Development Bank of China. The Bank's president, Chen Yuan, held a profitable meeting with the Venezuelan president at the



Miraflores Palace. President Chávez pointed out that this new agreement *“implies huge investments in technology, among other areas of development in the country.”*

Chávez will request another enabling law if he wins the election in 2010. *“After the Bolivarian victory on October 7th, I could request a new enabling law; October, November, December, January and February, for a transition from my third to my fourth government. And I would have reasons to say it. And I would be able to do it because it’s not a matter of wanting but of being able to: A National Assembly with a Revolutionary majority.”*

A new university model is proposed. President Hugo Chávez Frías proposed the social-productive university model to be incorporated to the 2013-2019 socialist plan that would be promoted by the national government. During a phone talk with the University Education Minister, Yadira Córdova, the President said that students, university communities and workers, as well as the social economic and productive environment of universities should be incorporated to this project.

National Solicitor analyzes actions against the US Administration. Venezuela is *“analyzing the actions that we are going to take against the US Administration,”* for having published a list that includes Venezuelan civilian officials and military officers, issued by the US Department of Treasury.

Ahmadinejad to visit Venezuela again. President Chávez informed that Iranian president Mahmoud Ahmadinejad will travel to Caracas after his visit to New York to attend the UN General Assembly that will start on September 20th. Both presidents will review several cooperation agreements signed between both nations.

Looking forward a new architecture. The Minister of Foreign Relations, Nicolás Maduro, said that the 3rd Summit of Africa and South America (ASA) to be held soon in Malabo, capital of Equatorial Guinea, is a highly significant initiative for the construction of a new architecture of the South, which will include health, food, and economic and financial development.

“The AN will not pass the transition law.” According to Nicolás Maduro, Minister of Foreign Relations and Vice President for Political Affairs, it will be *“impossible”* that the National Assembly approves a transition law and dismissed as *“incoherent and inconsistent”* and *“ridiculous”* the proposal that the Democratic Unity Panel will present through its executive secretary, Ramón Guillermo Avelo. Maduro pointed out that the proposal to be submitted to the AN will be a project to *“speed up the development of the 2013-2019 government program.”*





Media demand full access to the AN. The collective Monitor Legislativo that groups NGOs that defend citizens' rights, such as Espacio Público, Control Ciudadano, Transparencia, among others, urged the AN to grant free access and coverage to the AN sessions. According to Andrés Cañizález, representative of the organization, *“ANTV is a totally biased TV channel that does not give news coverage to opposition representatives in the AN.”*

Rent Law limits property. According to Roberto Orta, president of the Association that gather owners of urban real estate properties (APIUR), the last provisions approved by the AN Administration and Services Commission in the reform of the Rent Law to be sent to the plenary session next week limits private property rights and changes the expropriation figure, because it isn't based on public usefulness and social interest reasons.

Self-criticism from the Communist Party. In a document the Communist Party of Venezuela (PCV) claims that the lack of personal security and unemployment isn't being solved. A political statement issued by the 2nd Plenary Session of the party's Central Committee, points out that *“it is necessary to redouble an offensive concerning the Labor Organic Law, for it to be passed this year by the National Assembly.”* The law has been more than 7 years “shelved” despite the PCV's effort.

They criticize the opposition, but the government too. In one of the sections of the document, the PCV says that *“the opposition, which is heterogeneous and contradictory and is basically led by pro-imperialist forces, takes advantage of the people's discontent resulting from severe structural problems that have not been solved, such as lack of personal security, unemployment, high cost of living, corruption, impunity, etc.; It is a first-line task to develop and apply corrective measures, along with political-social forces and the entire people.”* The party warns about the *“reformist and pseudo socialist sectors that have a significant influence on the so-called process forces.”*

Against cell phone theft. Since yesterday, and according to the Technical Standards for Registration and Blocking of Mobile Phones Reported as allegedly Stolen or Lost, published in the Official Gazette No. 39,759, cell phone operators Movistar, Movilnet and Digitel are obliged to prepare and exchange twice a day – every day – a record of cell phones reported as stolen, in order to prevent them from being activated again. The rule provides for that data must be kept at least for three years and have to be made available to Conatel and the State's security agencies with investigation functions.





Legislatives Tips

Only 4 laws have been passed so far in the year. The National Assembly started its second period on September 16th, and its board convened an ordinary session for September 20th. For the year-to-date, the AN has approved only 4 laws (only two were in the agenda) of the 21 laws that were promised. According to representative Alfonso Marquina, the regulations prepared in December, 2010, (which eliminated fixed dates for plenary sessions) has resulted in the little number of laws approved: *“There are many topics pending and the modification of the regulations that was introduced to minimize the opposition representatives brings about consequences like this.”*

Rent Law to second discussion. On Tuesday, September 20th, the draft Law for the Regularization and Control of Home Rent was discussed in ordinary session, after the AN Permanent Commission on Administration and Services finished discussing the legal instrument and presented a final report for consideration by the plenary session.

Fine will go to the tenants’ protection fund. The new Tenant and Small Lessor Social Security Fund, provided for in the reform to the Rent Law, will be fed with consignations and fines. When fines range between 50 and 1,000 tax units, the moneys collected will be earmarked for the protection fund. Furthermore, consignations (payments made in courts when tenants are delinquent) will also go to the fund, but in this case, the transfer will be made one year after the entering into force of the law.

Rent payments will be deposited in public banks. The proposal included in the draft reform of the Rent Law and that was already approved by the AN Commission on Administration and Services points out that rent payments will have to be made to savings account at public banks. The document provides for that *“payment shall be made to an account at one of the State-owned banks, which shall be opened by the lessor for this purpose. The account may not be closed for the duration of the rent relation.”*

Furthermore... *“Tenants shall not be considered delinquent when the lessor has closed the savings account and the lessor shall not have the right to demand payment. Tenants shall not be asked to fulfill their obligations until the account is opened again.”*



Lessors are also obliged to deliver payment receipts. According to the law, *“lessors are obliged to hand over payment receipts, unless a procedure guaranteeing the effective fulfillment of the payment obligation has been arranged.”*

Tenants shall not rent a property for more than 10 years. The draft Law for Regularization and Control of Home Rent obliges construction firms to earmark 10% of the new homes for rent; however, families that are granted these homes may rent them only for a 10-year period. The draft law contemplates that upon expiration of this 10-year period, owners will have to offer the homes for sale to the tenants

Consultations on the energy consumption control are started. The AN Commission on Energy and Petroleum will start this week consultations on the draft Law for the Rational and Efficient Use of Energy that was approved in its first discussion in mid-July. The consultation schedule will have three levels: large consumers (basic companies, manufacturing industry, and commerce), government (ministries, institutes, states and municipalities) and people’s power (community councils, unions and professional associations, organizations).

The Organic Labor Law will enter a new discussion period. Ten years after the expiry of the obligation to enact this law, Fernando Soto Rojas, president of the AN, pointed out last week that different workers’ groups submitted several projects and a new discussion will be started to integrate the proposals.

46 laws and 43 reforms presented by the Democratic Unity Panel have been rejected. Proposals presented by representatives from the Democratic Unity Panel (MUD) to the AN in 2011 have been rejected without even being discussed. The group of opposition representatives has presented 46 new laws and 43 reforms to current laws, for a total of 89 legal instruments that the government representatives have denied to discuss. These proposals include the reform of the food law and the first employment law.





ECONOMIC OVERVIEW

