



## Weekly Report

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***Impact of public spending in  
liquidity and prices:  
A prelude of what is about to  
come?***

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The performance of the Central Government (CG) during the first semester of the year (1S2011) was marked by a greater public spending, supported by three main elements: (1) the recovery of oil prices (2) the unification of the official exchange rate which generates a higher contribution from oil to the treasury, and (3) the increase in non-oil collection (Seniat).

The increase in government spending for the year not only impacts the Gross Domestic Product and the popularity of President Chávez; it also has an impact on monetary liquidity, which directly affects the demand of goods and services by the population, thus affecting price formation in the economy, which in turn helps explain the high rate of inflation in the country. This report will discuss the impact of this increase in public spending on monetary liquidity and its possible consequences in the short term.



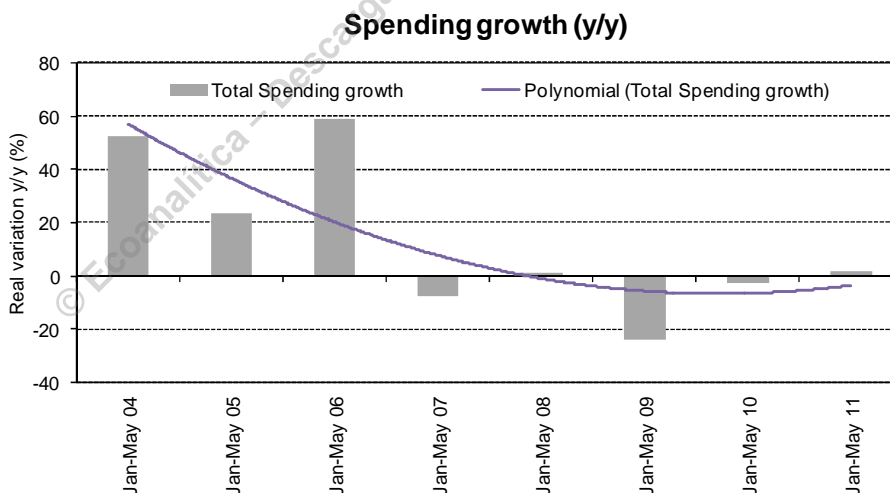


**Holy oil**

Recently, the Central Bank of Venezuela (BCV) published the official figures of the CG's fiscal performance for May 2011, showing that the accumulated income from January to May had a y/y increase of 43.9% in nominal terms, which in real terms (not counting inflation) translates into a growth of 13.2%. Here it is important to mention that oil income increased 32.5% in real terms, compared to the same period in 2010, when it reached VEB 28.8 billion (US\$6.7 billion). Income from Seniat was VEB 54.9 billion (US\$12.8 billion), an increase of 10.1% for the first five months of the year, compared to the same period the year before.

**How much has the government spent?**

With respect to spending, we see that it increased 1.9% in real terms during the first five months of the year with respect to the same period the year before. Although this result is significantly lower than in the 1st quarter of 2011, when real spending increased 7.4% y/y, it behaved completely different to the same period of the two previous years, when it fell 2.5% and 23.8% for 2010 and 2009, respectively.



Sources: CBV and Ecoanalítica

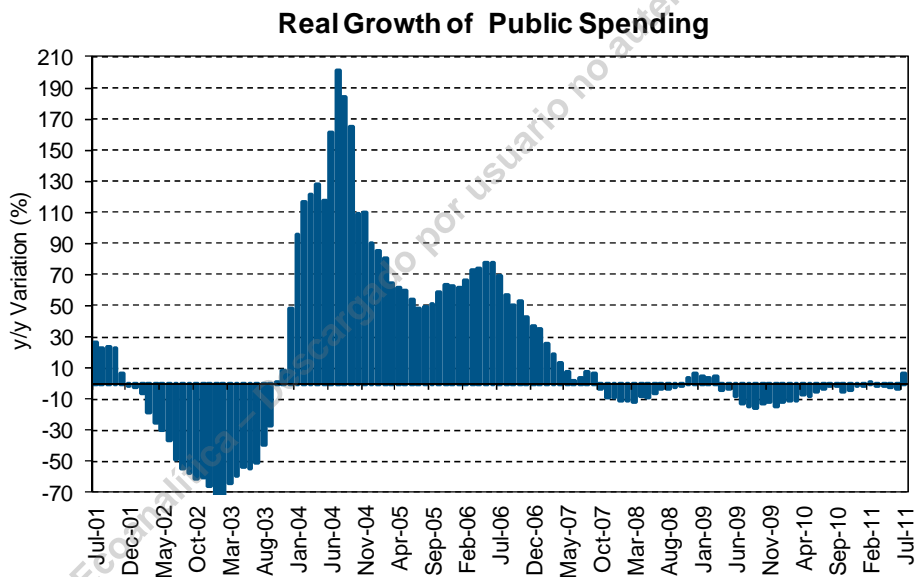
**What does the ONT say?**

Analyzing the payment schedule of the National Treasury (Oficina Nacional del Tesoro - ONT), which presents up to date information, different from the information reported by the BCV because the former includes the execution of funds that don't go through the BCV, we see that public spending (which doesn't take into account disbursements for public debt) has increased in a different proportion. By the end of August of this year, the accumulated spending increased 6.2% in real terms compared to



the same period in 2010, indicating that real spending has increased for the year.

Considering the performance of these two public spending indicators (BCV and ONT), at **Ecoanalítica** we expect this behavior to continue until the end of the year, and to increase the next year, which will increase monetary injection of fiscal origin, with significant effects on monetary aggregates during the period.



Sources: Oficina Nacional del Tesoro (MF), BCV and Ecoanalítica

**How much is the monetary injection of fiscal origin?**

This higher level of spending accumulated for the year made monetary injection of fiscal origin to be higher than the one recorded for the same period in 2010.

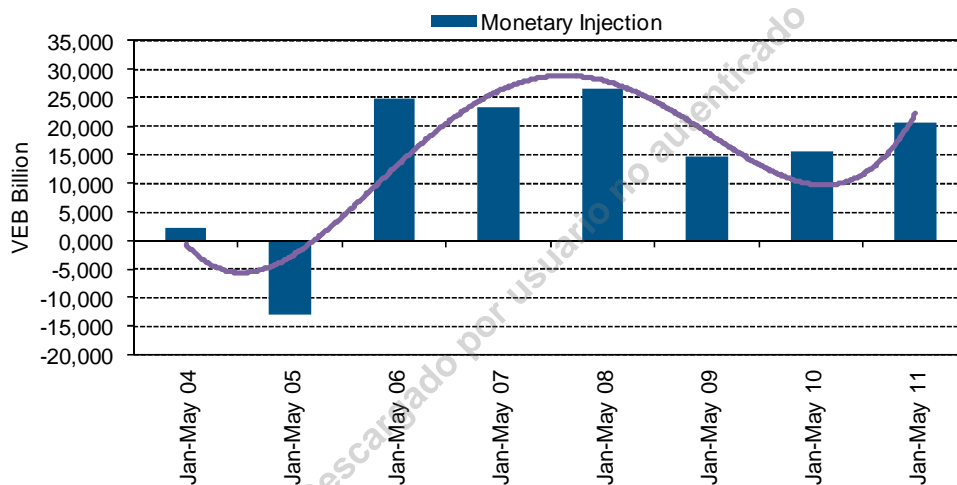
To establish if fiscal monetary injection is positive, we must take into consideration the total spending of the CG including the net granting of loans, and the domestic public debt service (not including the foreign public debt service) minus domestic tax collection and domestic indebtedness (DPN and Treasury Bonds).

Thus, primary money creation of fiscal origin was VEB 20.6 billion, for a nominal increase of 32.9% with respect to the same period in 2010 and a real growth of 1.1% (compared to a real drop of 1.1% in the accumulated value up to March 2010 with respect to 2009), the greatest increase since



2006 (year of the Presidential elections). Thus, considering the lower outflow of capital from the private sector for the period (US\$10.9 billion in the 1<sup>st</sup> semester of 2010 vs. US\$6.6 billion in the 1st semester of 2011) we understand why monetary liquidity (M2) has increased for the year.

### Fiscal Monetary Injection



Sources: CBV and Ecoanalítica

#### One positive element

For *Ecoanalítica* it is important to underscore that after almost two years, the BCV released the updated monetary base indicator, essential to formulate monetary policy, and to analyze the economic situation of the country. The review of the entity is due to legal changes and the consolidation of financial innovations that took place in the country, which to a greater or lesser degree affect the concepts to calculate the base, and thus monetary aggregates.

#### New components

Regarding the segregation of the components of liquidity in its monthly calculation base, there is the introduction of transferable savings deposits (through debit cards). Also, in the second component of monetary liquidity, quasi-money, non-transferable savings deposit were included (not associated to a debit card) as well as the balances from share certificates (assigned investments).

#### Venezuelans with a lot of liquidity

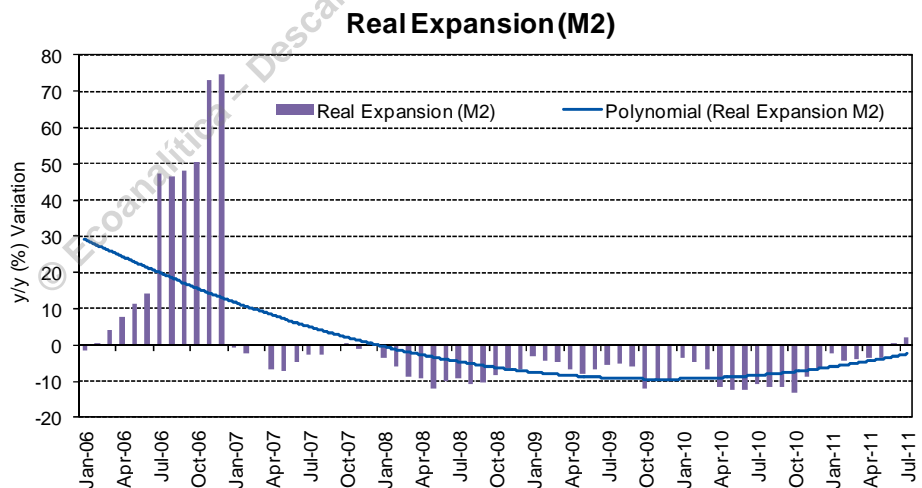
With these new considerations, we see that up to July, monetary liquidity (M2) continued growing based on the increase in circulating money (M1 = coins and bills + on demand deposits + transferable savings deposits), which increased 43.6% with respect to the same period the year before. In



contrast, the so called quasi money (non-transferable savings deposits + term deposits + share certificates) had a y/y drop of 24.8%.

The participation of circulating money in monetary liquidity (M1/M2) reached 92.7% in the first seven months of the year, maintaining the trend of several years, and is a true indicator of the public's preference for the most liquid instruments, thanks to the negative interest rates in real terms, which reduces the stimulus to save in bolivars, and increases the willingness to save in strong currency.

Thus, monetary liquidity (M2) reached VEB 355.6 billion by the end of July, increasing 34.6% y/y, while during the same period the year before, it had increased 11.6%. Also, for the year, and with respect to December 2010, liquidity increased 19.9% when in the same period the year before, it had increased 6.0%. However, analyzing it in real terms, there is an increase of 2.0% for the year, something that was not observed for this variable since 2007, and reflects the expansion of public spending.



Sources: CBV and Ecoanalítica

**And the banking sector recovers...**

Also, this excess liquidity in the banking system reached an average of VEB 24.5 billion in the January – August period, which means an increase of 77.6% y/y. Liquidity levels in the banking sector are well above the average registered during the recession, when it reached VEB 18.3 billion.

**More liquidity, less risk?**

For *Ecoanalítica* it is important to note that economic recovery (based on the rise of oil prices) and the two years of electoral campaign, will increase monetary supply of fiscal origin for 2011 and 2012. This combination (high



prices and the electoral campaign) will also help to at least thwart an increase in the aversion to risk by economic agents.

Nevertheless, foreign debt issues, the acquisition of currency through Cadivi at a higher exchange rate, the stimulus to save in foreign currency (due to negative real interest rates) and a Sitme that will negotiate twice what was granted the year before, despite the fact that options to remove capitals will prevent liquidity to increase to levels similar to those of the last electoral year (2006) when it increased 61.2%.

**What do we expect?**

An increase in liquidity, with a reduction of the monetary base for the year, implies an increase in the money multiplier, indicating an economic recovery during the first half of the year. Thus, **Ecoanalítica** expects monetary liquidity to be at levels similar to those of 2007 and to increase around 36.2% in 2011; we also expect the expansive effect of spending on this monetary variable to be 34.0% in 2012. These figures are significantly higher than the average growth during the 2007-2010 period (24.9%).

This increase in liquidity for the year, among other factors (like the increase in the price of regulated goods), has pushed prices higher than expected by economic policymakers, rising y/y inflation to 25.8% in August, when the goal was to have it between 23-25%. Considering that the months to come are the ones with the greatest pressure on prices, given the increase in demand due to payment of benefits and bonuses, everything seems to indicate that inflation will be higher than the Government plans.

Given this scenario for 2011 and the expectations for 2012, it seems that inflation may once again reach 30%. However, the government has an ace under the arm, the law of fair costs and prices. Although it has been proven empirically that attempts to contain the free game of supply and demand are worse than the disease, in the short term it has results, particularly with elections on the way. However, **Ecoanalítica's** estimates for 2012 is an inflation of around 26%, only one (1) percent point less than the one expected for this year. Of course, the government is aware that there are worse enemies than inflation: scarcity and shortage of supplies; we will see what happens.





## Economic Tips

**Barrel of oil will be budgeted at US\$50.** *Ecoanalítica* expects that the underestimation of the barrel of oil could remain at US\$40 in the draft public budget for 2012 and at most, it will reach US\$50. This is a mechanism to reduce transfers to the constitutionally established allocation of money for governor's and major's offices.

**61% of complementary indebtedness in 3 months.** According to figures of the Ministry of Planning and Finances, it is obvious that after using up almost all the amount authorized by the National Assembly (NA) in the Indebtedness Law to place debt bonds, the Government allocated VEB 27.613 billion of the VEB 45 billion approved in the Complementary Law, representing 61% of said amount.

**The ceiling is higher.** Adding the VEB 54 billion approved by the National Assembly (NA) in the Indebtedness Law of 2011, and the VEB 45 billion approved in the middle of the year through the Complementary Indebtedness Law, we see that the "ceiling" of domestic public indebtedness is almost VEB 100 billion.

**33% for salaries and 21% for debt servicing.** According to figures of the Ministry of Finances, 33% of the debt was allocated to pay salaries, labor liabilities, and grants for the different "misiones". On the other hand, 21% was used to pay the debt service.

**BCV will be responsible for purchasing gold.** According to the agreement between the Ministry of Basic Industries and Mining (Mibam) and the Central Bank of Venezuela (BCV), and within the framework of the Organic Law that Reserves Gold Exploration and Exploitation Activities to the State, the BCV will be responsible for the acquisition of gold in the country, resulting from mining activities. This agreement was published in Official Gazette N° 39.762 and establishes that the BCV will acquire gold and its alloys; it also will define the terms to transform convert and/or market the mineral.

**Unemployment was 8.3% in August.** According to the monthly labor force report of the National Institute of Statistics (Instituto Nacional de Estadística - INE), the unemployment rate in Venezuela was 8.3% in August, 1.3 percent point less than in the same period of 2010 but 0.3 points higher than in July of this year. According to the report, in August 267,611 people employed in the private sector lost their jobs, for a total of 1,092,886 unemployed by the end of last month.



**Informality increases.** According to figures of the INE, 56.2% of employees were in the formal sector, while 43.8% were in the informal sector. This represents an increase of 0.4 percent points in informality compared to the same period the year before, which means that 94,295 people are now working in this sector.

**The 2011 National Census could finish before expected.** Luis Gerónimo Reyes, national coordinator of the 2011 Population and Housing Census, said that the census could finish before November 30th. Reyes said that 24% of the population, around 8,000,000 people, has already been registered. *"More than 1,900,000 homes have already been registered"*, he said. He also said that preliminary figures, made public a few days ago, are not reversible: *"the gaps may decrease or increase, but some things won't change, for example, that there are more women than men"*.

**Third among the worst.** According to the Economic Freedom of the World 2011 Report, carried out by the Fraser Institute in Canada, Venezuela is in place 139 of a list of 141 countries, only ahead of Myanmar and Zimbabwe. In the global ranking, Venezuela obtained 4.3 points of the 10 possible. Specifically, Venezuela got low scores in areas like the size of the government, with 4.9 units; legal framework and property rights were it obtained an average of 2.6 point out of 10 possible.

**Interest rates.** The lending rate for the third week in September was at 18.0%, decreasing by 0.4 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 0.3% going from US\$31,466 million during the third week of September to US\$30,360 million during the fourth week of September. Compared to the same period last year, international reserves have increased by 2.0%.

**Monetary liquidity.** Monetary liquidity in the third week of September increased 0.4% compared to the previous week settling at VEB 356,100 million. The M2 has increased 32.9% year-on-year.

**Sitme figures.** So far this year, US\$6,083 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.6 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the fourth week of September the amount traded reached US\$183.7 million, US\$18.7 million more than last week when US\$165.0 million were traded.





## Oil Tips

**An increase in Venezuela's crude oil exports.** The figures show an increase in its hydrocarbon exports. Official figures published by the Joint Organisations Data Initiative (JODI) and released by Reuters, show that exports from Venezuela increased in June by 39 thousand barrels per day, despite a small drop in crude oil production.

**PDVSA debt with suppliers fell 50%.** The significant debt of US\$10,900 million with its suppliers, reported by Petróleos de Venezuela (PDVSA) at the close of 2010, has halved, according to statements by the Minister of Energy and Petroleum and president of PDVSA, Rafael Ramirez. This figure implies that the current debt of the state oil company amounts to a total of US\$5,450 million. PDVSA highlighted that *"we place a priority to meet fiscal commitments, without sacrifices for the people"*.

**Early production in 2011.** Rafael Ramírez insisted that for this year, the first barrels of early production of the Orinoco Belt will be produce specifying that volume will be 146.000 barrels per day, but without giving any information regarding specific dates, or which projects or partners are going to be the first to remove barrels of the Belt. According to **Ecoanalítica**, the volume per day will be around 70.000 barrels.

**Should seek funding.** At the same time that he was maintaining optimism regarding the growth in production, Ramírez sent a message to the partners of PDVSA, reiterating that they should seek their ways of funding to develop projects in the Orinoco Belt, without the cash flow of PDVSA and keeping in mind that the Venezuelan government may suspend operation permits to joint companies for not meeting their volumetric goals.

**Not to the demands.** Minister Ramírez said, emphatically, that the Venezuelan government and PDVSA "will not accept a penalty imposed by any court because of the exercise of sovereignty", referring to demands for arbitration by the nationalization of the assets of ExxonMobil and ConocoPhillips, among others.

**Pdvsa continues negotiating with ExxonMobil.** Taking the La Ceiba and Cerro Negro projects, operated by the US Company ExxonMobil in the Orinoco Oil Belt, and now under the control of Petróleos de Venezuela (Pdvsa), could be very costly for the country. One of the compensation scenarios possible, according to Rafael



Ramírez, President of PDVSA, even has a defined amount: *“Our proposal is US\$1.0 billion for their assets”*.

**Some statements by Ramírez indicate that...** The Venezuelan oil company is not willing to *“pay the amount that ExxonMobil expects, since it considers it exorbitant, abusive, and has the intention of charging the people for their sovereign exercise of its oil policy”*.

**...others, like Escarrá say the opposite.** Carlos Escarrá, Attorney General of the Republic, said that *“we are working” in an agreement with ExxonMobil in this case. “The State is aware it has to pay, just as it has to pay for the expropriations”, he said.*

**One more.** The company Helmerich & Payne sued Venezuela in a US court for *“taking by force”* eleven of its exploration platforms. Helmerich & Payne *“wants payment for the appropriation of their drilling business in Venezuela, in violation of international law, and non compliance with the contract”*. This is the third suit by this company.

**Oil policy could affect the development of the Belt.** The US Government's Energy Perspectives Report 2011-2035, explains that *“it is assumed that the present political barriers of some countries rich in natural resources to increase production will disappear at some point after 2015.”* For example, Mexico and Venezuela have laws restricting foreign property of hydrocarbon resources. These policies have discouraged domestic and foreign investments, and have hindered the capacity of both countries to increase or even sustain their production.

**After 2015...** The document indicates that after that year, less restrictions could be expected, allowing foreign capitals to participate in oil production, which will increase for example, crude extraction in the Orinoco Oil Belt.

**And if prices go down?** If prices go down, the government of Venezuela could propose better conditions in oil contracts and a stabilization of the investment environment, as a way to attract foreign investments to exploit the Orinoco Oil belt and other oil reservoirs.

**Venezuela invites Mexico to invest in the Orinoco oil belt.** The government of Venezuela invited Mexico, on Monday, September 26th, to participate as an investor in the Orinoco Oil Belt, an area with extra heavy crude oils that was nationalized in 2007. Nicolás Maduro, Minister of Foreign Affairs of Venezuela, informed the press that a binational energy committee will be created to analyze Mexico's investment possibilities, and guarantee the exchange of experiences in research, exploration and marketing of crude oil.



**Barclays doesn't foresee a drop in oil prices.** China and its high demand of oil guarantee that the Venezuelan crude oil basket will continue defying the law of gravity, according to Alejandro Grisanti, from Barclays Capital. *"China has thrown itself into its domestic market, making its 1.3 billion inhabitants consume more, thus we forecast that this will continue to grow this year at a rate of 9%, while the price of the Brent will have a constant increase between US\$5 and US\$10 per year, to reach US\$185 in 2020"*, he said.

**Sustained high prices could increase competitiveness.** The trend of high oil prices could improve the competitiveness of exploitation costs of non-conventional hydrocarbon sources, like the heavy crudes of the Orinoco Oil Belt, the oil sands in Canada, or the deep water reservoirs of Mexico, said the US Department of Energy.

**Automation plan of gas stations in Táchira is expanded.** Rafael Ramírez informed that they intend to stop gasoline smuggling to the neighboring country with an automated fuel dispatch system in Táchira, Venezuela. Fuel will be supplied at 107 state-owned gas stations only to vehicles that have a bar code in the windshield, which will send information to a data base in Caracas, for greater control.

**International oil baskets.** At closing time on September 23<sup>rd</sup> in the New York Stock Exchange, the price of the WTI was US\$85.4/bl, a 3.8% decrease compared to the US\$88.8 reported the previous week. The Brent decreased by 2.5% to reach US\$109.6/bl, compared to the previous week's US\$112.3/bl.

**Local oil basket price.** The Venezuelan oil basket price decreased last week, closing at US\$102.5/bl on Friday September 23<sup>rd</sup>, a 2% decrease compared to the US\$104.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.22/bl.

## Business Sector Tips

**New normative to import goods.** The requirements and procedures to receive a Currency Acquisition Authorization (AAD) for importing goods were established in providence N° 108 published in *Official Gazette N° 39,764*, of September 26. The update establishes some adjustments to the previous normative, in effect since June of 2011, and has the intention to improve import and export processes and grant an added value to incoming merchandizes.



...According to this new normative, the entity in charge of distributing USD at the official exchange rate of 4.3 VEB/US\$ indicates entrepreneurs will now have “an additional sixty continuous days from the expiration of their Currency Acquisition Authorization to submit the corresponding documents upon completion of the imports, thus guaranteeing leverage to the nation’s productive sectors.” Cadivi’s resolution establishes both means and methods of payment.

**Cemex in the agenda.** As part of the political dialogue between the governments of Venezuela and Mexico, both nations agreed to hold a meeting on October 10 in Caracas to discuss economic, productive and commercial issues related to the opening of a new direct flight route between both capital cities to be operated by Aeromexico. The issue of the indemnification of Cemex will also be in the agenda.

**Putting a stop on speculation.** The National Government will set suggested retail prices for new vehicles and establish profit and sales margins for assembly plants and dealers, announced the minister of Science, Technology and Intermediate Industries, Ricardo Menendez. According to Menendez, the speculation in the automotive sector is such that, while a car model is sold in Venezuela for US\$38,000, the same model is sold in Colombia or Ecuador for US\$17,000.

**It’s not the dealers’ fault.** Dealers insist the solution to this problem is not to regulate prices, claiming the problem is “upstream”, as car prices are the consequence of distortion at different levels of the industry.

**80% less vehicles in dealers.** Four years into the government policy implemented in the automotive sector, the industry’s contraction is evident. The difficulty to produce and import faced by the seven manufacturers that operate in Venezuela since the normative came into effect only allow establishments to receive, at best, 20 cars per month, said an anonymous source from the industry. We have been working with wait lists for three years, and it’s not because the demand is bigger, it’s because the supply has decreased by 80%.

**To each his own.** Manufacturers defend a 30% profit margin while the Government expects to establish it at 10%. Somewhere between those ends must be the price regulation for new vehicles to be established by the National Government, not to forget the additional margin earned by dealers over the prices they get from manufacturers.

**Growing at others’ expense.** Two companies were created to expand the socialist automotive sector. *Official Gazette N° 39,761* of September 20 made official the expropriation of auto parts company KSB and the assets of the company Pastas Cariolli. According to the presidential resolutions, the objective of this measure is to



*“consolidate the industrial capacity of the public sector in the activities of the automotive sector for the Venezuelan people.”*

**Argentina seen as a role model.** According to statements issued by Superintendent, Karlin Granadillo, in the TV show Toda Venezuela, broadcasted by VTV, *“Each region can have different cost structures, so we are analyzing the possibility to determine regional prices and studying the feasibility.”* Granadillo added that Argentina had proclaimed prices by neighborhood, so they would study this system and contact the specialists who created it.

**Waiting.** Carlos Tejera, general manager of the Venezuelan-American Chamber of Industry and Commerce (Venancham) says none of the companies that belong to this organization have received foreign currency to repatriate their dividends. He added that Venancham’s calculations indicated their members had repressed dividends for US\$8 or US\$9 billion, corresponding to the last four fiscal years.

**Aiming at expansion in Colombia.** Alimentos Polar moves forward in its growth strategy in Colombia. As a matter of fact, they announced an upcoming investment for US\$50 million with which they expect to double their sales within three years. Jose Antonio Pulido, general manager of the company in Colombia, said to the publication Portafolio that overall, the company’s investments were aimed to the consolidation of its market share in order to make it grow.

**Venezuela’s purchase of dairy products from Chile on the rise.** Chilean dairy exports to Venezuela are growing, making Venezuela the second largest buyer. According to information issued by the Chilean Ministry of Agriculture’s Office of Agrarian Studies and Policies (Odepa), Chile’s exports of dairy products to Venezuela reached US\$139.5 million between January and August of 2011, representing a 33% growth, compared to the same period of 2010. The increase is explained by *“a combination of growth in export volumes and increased price,”* said the director of Odepa, Gustavo Rojas.

**Oil is the problem.** Empresas Polar’s Mazeite plant is working at 40% of capacity due to the shortage of raw materials. In several opportunities, Alimentos Polar has explained the Government that production prices are clearly below sale prices due to the high cost of the imported component. If Polar takes part of its own corn to produce oil, it would affect the production of corn flour “Harina PAN”, which would be much worse.

**Construction companies also obligated to rent out properties.** Residential complex promoters with more than 10 properties will also be obligated to rent out



10% of their units without profit, according to the draft of the law to regularize and control tenancy.

**Less stock, not even national raw materials.** According to the qualitative survey carried out by INE on 542 companies of the manufacturing sector between June 20 and July 1 of 2011 about imported raw materials stock availability, 31.9% of respondents said they had less of one month of materials available to manufacture their goods, 58.6% said they had supplies for one to three months. In the case of national materials, 34.6% said they had less than one month available, and 53.5% between one and three months.

**Planta Centro moving backwards.** Once again, a malfunction was reported in the thermoelectric plant Planta Centro, located in Carabobo, subtracting nearly 300 megawatts from the National Electric System. According to workers of the electric sector, Planta Centro's generation declined to 310 megawatts after the removal of machine number one.

**No recovery for the hotel sector.** Instead of increasing, the hotel sector's occupation during summer vacation, between July and September, reported contraction, by 20% in high-capacity and occupation outlook destinations such as Margarita, Anzoátegui and the costs of Falcon and Miranda. Besides the rooms and areas already occupied by refugees, the main reason for the contraction during the last vacation period seems to have been the economy, since many vacationers decided to stay home. Other elements such as safety and inefficient hospitality services were also a factor in this contraction.

**Samsung keeps growing.** The South Korean giant increased its mobile phone market share in Venezuela from 24% in 2010 to 28% so far in 2011, while larger home appliances have gained market by 30%. Samsung is currently first in refrigerator sales and second in air conditioners in Venezuela, its fifth largest Latin American market.

## World Economy Tips

**Growth of Latin American Nations, according to IMF.** The International Monetary Fund (IMF) rates Argentina as the Latin American nation to grow the most as of the end of 2011, showing a positive variation above the region's average with a +8%



Gross Domestic Product (GDP). Chile comes second, with an estimated growth by 6.5%. Paraguay is expected to repeat last year's good performance, with a 6.4% increase, while Peru's economy is expected to grow 6.2%. Uruguay completes the list with a 6% growth projection, one percentage point above the region's average.

**Colombia. Government and entrepreneurs aim to reduce effects of the crisis.**

The Government of Juan Manuel Santos and his economic team will celebrate a meeting with Colombian entrepreneurs to find solutions to the eventual effects of the global crisis on the nation's economy, exploring formulas to avoid slowing down the Colombian productive sector. *"It is increasingly necessary for Colombians to get coordinated to be prepared,"* warned the minister of Finance, Juan Carlos Echeverry.

**US senate passes law to avoid government shutdown.** The US senate passed a bill on Monday, September 26, to avoid government shutdown and release funds (US\$2.65 billion) to aid the victims of recent disasters. The complex agreement put an end to a dispute that jeopardized an aid fund for thousands of Americans and put the Government at risk for the third time this year.

**Wall Street up at opening time.** US shares opened 1% up on Tuesday, September 27, thanks to expectations of Euro zone officials working on a plan to extend a regional rescue package to relief the debt crisis.

**Asian stock markets bounce back in hopes of Euro Zone action.** Asian stock markets bounced back from several-month lows last Tuesday, September 27 in hopes that Euro Zone officials would take action to contain the debt problems in Greek and avoid a financial collapse.

**S&P does not expect propagation of debt crisis to Spain and Italy.** A propagation of the debt crisis from Euro Zone's weakest countries to Spain and Italy could have a negative impact on the German agency's ratings, but that is not the expected outlook, said Standard & Poor's (S&P) last Tuesday, September 27. *"Of course we see an expansion of the debt differentials in Spain and Italy, but we still think the ratings are relatively stable. They're large countries with the economic strength to manage their problems,"* said S&P analyst , Ralf Bender.

**Gold price down due to big commodity sales wave.** Gold went down 2% on Monday, September 26, affected by a new wave of commodity coverage sales, encouraged by another large gain in the metal's margins. Gold fell 1.8%, to reach US\$1,627.29 per ounce, after having dropped by over 7% to reach a 45-day low of US\$1,534.49. Gold has lost 11% in four sessions, its worst decrease for that period since February of 1983.



**Mexico reports trade surplus in August.** Mexico's seasonally adjusted trade balance of August reported a slight surplus by US\$71 million. In July, the second largest Latin American economy reported a US\$277 million deficit, revised by the National Institute of Geography and Statistics (Inegi). *"The change in the seasonally adjusted trade balance between July and August was a result of increased oil revenues, which went from US\$722 million in July to US\$1,487 million in August,"* said the institute in a report.

**Peru: VI International Foreign Trade Summit.** On Tuesday, September 27, Peruvian foreign affairs, foreign trade and tourism ministries as well as the Lima Chamber of Commerce (CCL) presented their proposal for the VI International Foreign Trade Summit to take place next October 5 in Lima. The CCL said the summit's motto would be: Companies expanding towards the world: Strategies to take advantage of globalization. They explained the event would be a platform for executives of different transnational companies to present their management models.

**Brazil's consumer confidence down in September.** Brazilian consumers' confidence went down in September for the second consecutive month and reached the lowest level since March, according to Getulio Vargas Foundation's (FGV) Consumer Confidence Index (ICC), which registered a 3.4% fall in September, compared to August. *"The new decline of the index reflects consumers' decreased satisfaction with the current economic situation and increased pessimism about upcoming months,"* said the FGV in a press release.

**Record-breaking of Paraguayan exports.** The head of Paraguay Importers' Center (CIP), Max Haber, said that from 2000 to 2010, the country's imports grew by 500%, and last year they reached record imports as a result of the recovery of the national economy. He said only last year they reached US\$9.4 billion (44% increase, compared to 2009), generating an extraordinary multiplying effect throughout the nation's economy.

## Political Tips

**Opposition forces commit to unity:** The main opposition leaders –governors Henrique Capriles and Pablo Pérez; Caracas Mayor, Antonio Ledezma; Representative María Corina Machado; and Voluntad Popular leader, Leopoldo López, among others – signed their commitment to the national unity project in an



attempt to prevent President Hugo Chávez from being elected for the third time in 2012 presidential election.

**Areas to be addressed.** The Secretary General of the Democratic Unity Panel (MUD), Ramón Guillermo Aveledo, presented the content of the *“Commitment to and Call for a National Unity Government.”* Five months before the scheduled opposition primary election (February 12) and more than one year before October 7 presidential election, Aveledo listed the different problems afflicting Venezuela and the solutions the MUD is looking for. The solution proposals include a commitment to *“re-founding the State,”* decentralization, fight against personal lack of security, reactivation of the economy, social policies, the defense of the Armed Forces institutional character, the Central Bank and the state-owned oil company, PDVSA, and the independence of the different branches of power.

**Beyond elections.** The text of the commitment reads as follows: *“The undersigned commit to jointly support the candidate chosen in February’s primary election as representative of the Democratic Unity for the presidential election;”* adding: *“We understand that this alliance transcend the electoral issue and a mere governance agreement for a few years.”*

**Chávez is better than never.** President Hugo Chávez Frías recently assured that he’s fine and that his recovery is satisfactory, after finishing his fourth and last chemotherapy cycle last week in Havana, Cuba.

**Healthier, but he doesn’t forget expropriations.** Consolidada de Ferrys (Conferry – a ferry carrier) will be transferred to the State, as per announcement made by President Hugo Chávez through a telephone interview broadcasted by Venezolana de Television TV channel last September 26.

**...However, he’s more convinced than never.** President Hugo Chávez stated on September 26 that he has reviewed the results of different polls, other than those mandated by his Administration, which put him with a substantial advantage.

**For the sake of peace and national interest.** President Hugo Chávez pointed out on September 26 that they his Administration is analyzing the Guyana affair and is *“prioritizing national interest within a climate of peace.”* *“We cannot be as irresponsible as the Empire’s lackey who are trying to provoke conflicts to Venezuela,”* the Head of State said referring to the petition presented by the Cooperative Republic of Guyana to the UN Commission on the Limits of the Continental Shelf, requesting the expansion of its Caribbean continental shelf.





**Making it clear their will to defense.** In a public statement, the national Government reaffirmed on September 26 the *“firm defense of the country’s interests,”* in response to a presentation by Guyana’s Government on the continental shelf outer limits.

**The date for the Governor and Mayor elections has been set.** President of the National Electoral Council (CNE), Tibisay Lucena, announced on September 21, that elections for governors and regional legislative councils will take place on December 16, 2012: *“The election for governors and regional legislative councils will be held on December 16, 2012, and local election for mayors and municipal councils will take place on April 14, 2013”*

**CNE will check signatures presented by political parties.** The National Electoral Council (CNE) announced that the review of the signatures presented by 76 political parties as proof of their follower basis up until September 1 will be completed on October 3. The checking of these signatures will allow political organizations to participate in the upcoming elections in 2012 and 2013, and to demonstrate that the information presented is accurate.

**Postponing the election would violate the Constitution.** Roberto Abdul, chairman of Súmate’s directing committee, pointed out that publicly announcing the new election schedule cleared all doubts surrounding the election dates in Venezuela. Abdul stressed that postponing governor and mayor elections and, especially those for municipal councils would be a violation of the Constitution: *“Councilmen, for instance, will occupy their positions for more than five months.”*

**Firmly against the IACHR’s decision.** Venezuela’s General Solicitor, Carlos Escarrá, claimed that the ruling of the Inter American Court of Human Rights with regard to Leopoldo López’ case *“violated principles that are clearly set forth in the first article of the Constitution,”* adding that the decision is plagued with diverse vices. Escarrá added that the ruling *“cannot be constitutionally enforced within the framework of the Venezuelan legislation.”*

**The Administration will obey TSJ’s decision on Leopoldo López ban from holding public office.** The Administration will accept the decision of the Constitutional Chamber of the Supreme Tribunal of Justice (TSJ) concerning the ban against Leopoldo López (Voluntad Popular party), whatever it may be.

**...and the CNE too.** President of the National Electoral Council, Tibisay Lucena, ratified that the Electoral Branch of Power will wait for the decision of the Supreme Tribunal of Justice regarding the case of Leopoldo López.



**Warning: the Enabling law will subtract further resources from the states.**

Representative Vestalia Sampedro (Carabobo) believes that the Administration is trying to suffocate governors' and mayors' offices in 2012, using a new Enabling Law.

**Trends are even.** José Antonio Gil Yépez, president of Datanálisis, stated during an event organized by Venamcham that in May president Hugo Chávez had 28.8% of voters' support, whereas Miranda Governor, Henrique Capriles Radonski, had 13.9%; but currently, Capriles is leading polls with 37.8%, while President Chávez has 35.5%. Yépez added that 61.5% of Venezuelans don't see themselves either as chavistas or opponents.

**Who are the best?** According to the last public opinion poll conducted by the Instituto Venezolano de Análisis de Datos (IVAD), the six mayors that are best perceived by Venezuelans are Carlos Ocariz (Sucre Municipality, Miranda State); Antonio Ledezma (Great Caracas Mayor); Jorge Rodríguez (Libertador Municipality); Emilio Graterón (Chacao Municipality, Miranda State), Enzo Scarano (San Diego Municipality, Carabobo State) and Evelyng de Rosales (Maracaibo Municipality, Zulia State). In this group, only Rodríguez belongs to the Government's party. However, in a list including the ten best mayors in the country, the PSUV party and the opposition are equal.

**In favor of cooperation.** Venezuela's and Colombia's Ministers of Foreign Affairs, Nicolás Maduro and María Ángela Holguín, respectively, agreed to meet the first week of October at Bogotá to review trade, economic and energy cooperation projects that have been signed between both countries.

**Waiting for Chávez for meeting with Santos.** María Ángela Holguín, Colombian Minister of Foreign Affairs, said that they are waiting for President Chávez to complete his last chemotherapy cycle to coordinate a meeting with Colombia's President, Juan Manuel Santos. *"As soon as they say that Chávez is ready, we will meet in Caracas,"* she stated.

**Iran-Venezuela Mixed Commission is set to enhance cooperation.** The 7th Iran-Venezuela Mixed Commission was established in Caracas on September 22. The Commission will review progress made by bilateral agreements in energy, agriculture, housing and infrastructure issues and assess those areas in which cooperation may be enhanced. Vice Minister for Asia, the Middle East and Oceania, Temir Porrás, from the Ministry for Foreign Affairs, headed the meeting along with the Vice President of the Productive Area, Ricardo Menéndez, and the Minister of Roads and Urban Development, Alí Nikzad.





**Democratic unity Governors “invoked God” for the recovery of citizens’ security.** The eight governors that oppose the current Administration, gathered at the Democratic Unity Panel, signed a joint agreement on September 27, in which they demand the National Government to deliver resources to the different governors’ and mayors’ offices without any discrimination whatsoever and the structuring of coherent citizen security policies.

## Legislative Tips

**The first twenty articles of the Rent Law have been passed.** In the discussion of the draft Rent Law, held on September 27<sup>th</sup>, the AN passed by majority 17 articles of the draft Law, which added to the three approved during the last discussion, give a total of 20 articles. These articles set the purpose of the law, giving to the State the right of *“protect the socially responsible rent of houses, pensions and rooms.”*

**...homes built before 2001 will have to be sold.** The sixth interim provision of the draft Rent Law, which will be debated on its second discussion this week, provides for that owners of homes for rent that were built more than 10 years ago (i.e. until 2001) must sell them to *“their legitimate tenants or to any other family or individual residing in the property.”*

**The Administration will fix the value of the square meter in rented homes.** According to the reform of the Rent Law, the administration will be responsible for calculation rent payments; therefore, the Administration will fix the value of the square meter in rented homes. The text of the law provides for that to determine the rent, the current value of the property and the profitability percentage will be taken into account.

**AN rejected US report.** Representatives from Venezuela’s Socialist Party (PSUV) rejected a report prepared by US Department of State, which questions the eviction of a US sect known as “New Tribes”, which had settled in the South of the country. The report speaks about alleged harassing against Catholic and Semitic groups in the country and claims that *“We have learnt that the Venezuelan Administration is paying Evangelical groups for them to support public programs.”*

**Law against “oblivion” will be subjected to second discussion.** On October 18, the AN Commission in Interior Affairs will present the draft Law punishing Crimes,



Disappearances, Tortures and other Human Rights violations for political reasons between 1958 and 1998. Representative José Morales pointed out at the technical working table on the Law against Silence and Oblivion that this law *“doesn’t have a vindictive spirit; therefore it isn’t trying to prosecute anybody; instead, penalizations will be political, moral, and administrative, but, above all, victims of State’s terrorism will be recognized.”*

**Anticorruption Law moves forward.** Representative Nancy Ascencio, member of the Control Commission of the National Assembly, stated that the Commission is working on the Anticorruption Law that is *“becoming increasingly clearer.”* Ascencio added that they already defined public servants’ powers as well as the amounts of the allowances. Deputy Ascencio also underscored that every individual holding a public post will be obliged to report on the activities he is developing.

**Automotive sector under the gun.** The AN Finance Commission is analyzing the cost structure presented by the automotive sector at the first meeting of the commission with different business sectors in this area. The Vice Chairman of the Commission, Jesús Faría, explained that *“we are evaluating the movement of prices at each phase, that is, from the moment the car leaves the assembly plant, through the cars getting to the dealers, too the sale.”* According to the Representative, this is intended to *“characterize and identify highly speculative trends that have been verifying in this sector.”*

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**ECONOMIC OVERVIEW**

