



Weekly Report

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The new national finance system: What's missing and what's coming...

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During this past year, Venezuelan's have seen how the Administration's process to more firmly establish its socialist project has moved forward; and how it has focused on passing a series of specific laws in order to consolidate the revolution. And now, that the results of the parliamentary election are in and have become official, and the new distribution of parliament representatives is known, this push to approve the aforementioned laws before January, when the newly elected representative take office, will become more intense. And given that the current (sitting) Parliament faces no opposition and are at the beck and call of the Administration, there is no doubt that many of these laws will be approved before January.

This Report will take a look at the economic implications and consequences of the approval of the national socialist finance system laws, namely: the Organic Law of the National Finance System, the Insurance Activity Law, the Stock Market Law, and the Banking Activity Law.



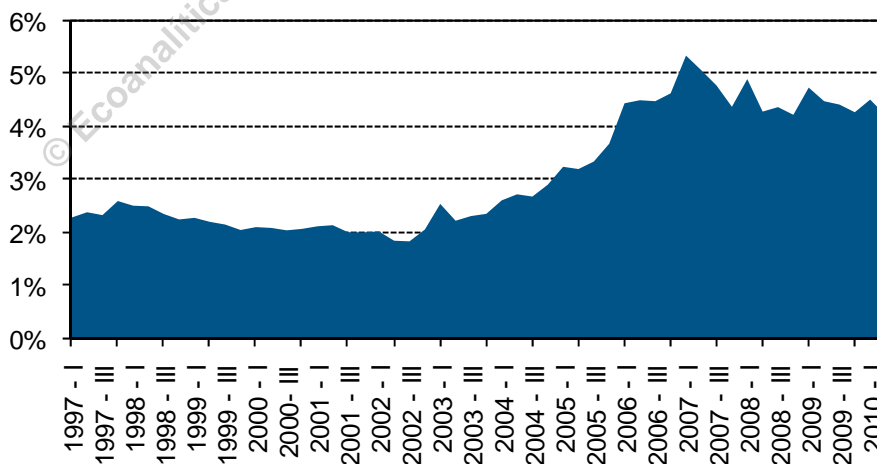
Which ones are approved and which have yet to be approved

Only one of these laws hasn't been approved yet: the Banking Activity Law. According to Ricardo Sanguino, president of the National Assembly Finance Commission, it should be under discussion within the next few days and appear in the *Gaceta Oficial* no later than the month of December. (A law appears in the *Gaceta* once it has been passed, making it official.) Once this law has been approved, it will complete the regulatory framework for the new socialist finance system alongside the Organic Law of the National Finance System, the Insurance Activity Law, and the Stock Market Law.

This doesn't seem so important, but it is...

Despite the fact that the finance sector is not the weightiest part of the GDP, since 2003 it has become more and more of a factor. In 1999, the finance and insurance sector represented 2.2% of GDP, and for the following two years it hovered at this level until it dropped to 1.9% in 2002, year of the General Oil Strike. In 2003, it began to steadily increase reaching 4.9% of GDP in 2007. Between 1999 and 2009, the finance and insurance sector grew by 41.6%. These figures are important not only because of the relevance of the sector, but also the fundamental role that the finance sector plays in the dynamics of the economy of any country.

Banking sector / GDP ratio



Sources: BCV and Ecoanalítica

Banks and finance entities supply funds for investment projects. This is true in every country around the world. And like most businesses, these entities want to generate profits, and therefore, only grant loans when the economic environment is suitable. Whether an economic environment is "suitable" for granting loans is usually defined by a country's regulatory framework of its



finance market, and by how easy it is to do business in said country. As we have mentioned a number of times in other Reports, in Venezuela, it has become quite complicated to do business. The Organic Law of the National Finance System (LOSFIN), approved during its second discussion on April 8th this year is the base for the new finance market. It's a regulatory framework for insurance activities, banking activities, and stock market activities. It introduces a series of important changes with regard to how these sectors will continue to operate in the future.

The base of the system

This new law creates the OSFIN (Higher Organization of the Finance System). This organization is in charge of supervising the banking, insurance, the stock market, and any company related to finance activity. The organization is presided by the Minister of Planning and Finance, post currently held by Jorge Giordani. The organization is empowered to modify legal regulations in order to guarantee the viability of the revolutionary project, for example, by creating new loan quotas or redefining the focus of financing to areas the Administration considers a priority. This organization will also be able to access any information it wants related to bank deposits.

At **Ecoanalítica**, we believe that with this law in the books, there is no need for the Administration to nationalize the finance sector. It has all the control over the sector it can possibly want, achieving all the objectives it would have achieved by nationalizing the sector, and it will be in a position to create any number of obstacles, making it almost impossible for finance entities to generate profit. This will significantly slow growth within the sector, especially for medium sized banks that have to take more risks in order to develop, and have less room to maneuver in the event of a problem with liquidity.

The stock market almost disappear

With respect to the new Stock Market Law (*Gaceta Oficial* 39.489), brokerage houses and societies will be completely excluded from carrying out operations with public debt bonds, plus they will not be allowed to have such instruments in their portfolio, in other words, they will not be able to carry out currency swap operations, which was what killed parallel exchange rate operations. And, to make matters even worse, public entities, public companies, socialist production companies, and public entities savings trusts were all excluded from being able to participate in the stock exchange, further reducing possible brokerage action.

The Public Stock Exchange, not so much a reality as it is a mystery

Another important byproduct of the Stock Exchange Law is the creation of the Public Stock Exchange, which will be exempt from the rule prohibiting traditional brokerage houses and operators from trading bonds and the



restrictions imposed on capital market operations. The new Stock Exchange will only have to abide by the regulations set by the National Securities Superintendents Office, the entity which will replace the National Securities Commission, after they have been previously approved by the OSFIN. As the President has mentioned, the new public stock exchange will be the vehicle by which the Government and PDVSA will issue debt.

There are a number of aspects about this new public stock exchange that are not very clear. At **Ecoanalítica**, we find it hard to believe that there will be public companies listed on the exchange, trading their stock on the exchange, when in order for this to occur, not only does a company have to offer its shares up for sale, but they also have to be attractive to the investor, offering some kind of return in profit. How can this happen when a socialist company is not supposed to generate profits. Why would an investor invest in a company that will never grow in value? This is the fundamental principle of stock markets all around the world, but it doesn't seem to be the purpose for the creation of this new public stock exchange. And to think that it is being created just so the Government and PDVSA can issue debt seems to be a bit limited; plus these types of transactions are already taking place through banks with the SITME system.

Insurance activity will drop...

Another part of the regulatory framework is the Insurance Activity Law which will eliminate some elements from health policies such the need to be issued an emergence key code by the insurance company before a private clinic will recognize coverage and admit a patient. It will also eliminate the clause that allows insurance companies to refuse coverage to the elderly or people with preexisting conditions. It will make dental coverage mandatory. With respect to automobile and property insurance, companies will not be able to adjust the cost of your policy after any accident you may have. Many of these changes are social in nature and more than benefit the person insured, but given the level of risk insurance companies incur, and the difficulty they have fighting against factors such as inflation, the main reason an insurance policy rate increases, some kind of middle ground has to be found for the solution. If not, these types of measures will make the insurance business too risky and make it impossible to make a profit. This in turn, would put the sector at risk, as we see happening in other sectors.

These types of regulations in the health sector have made some companies question whether they are willing to continue to offer the service. They consider cutting health insurance and just stick to property and automobile insurance, usually areas of higher risk, but now, with these new measures, maybe that's not the case anymore. In the end, we see this making it much more difficult to do business in the insurance sector, as well as affecting the



sector's growth, and just like the banking system, this might force some companies out of the market.

And what's to be expected of the banking activity...

The only law of the set that has not been approved yet, the Banking Activity Law, will probably be approved by December. All the modifications made to the General Banking Law and the modifications introduced by the LOSFIN are included in this law. Some of the modifications included will limit the banking system's ability to integrate different finance sector business under one roof. For example, if a bank also works with an insurance company and/or a brokerage house, the law will regulate this and force the bank to separate these activities since a bank will only be allowed to carry out financial intermediation.

Another modification, which has been highlighted by the National Assembly Finance Commission, is that banks will be obliged to finance communal companies and social production companies, plus grant loans to sectors that are not traditionally profitable in Venezuela. This is worrying if one considers that communal companies do not strive to generate profit. This being the case, how can one expect them to make their loan payments? In other sectors, the capacity to generate profit is so limited that any loan granted would have to be granted with such unfavorable conditions for the bank, with negative real interest rates and grace periods, that any semblance of doing any real business is gone.

What are the finance markets like in developed countries?

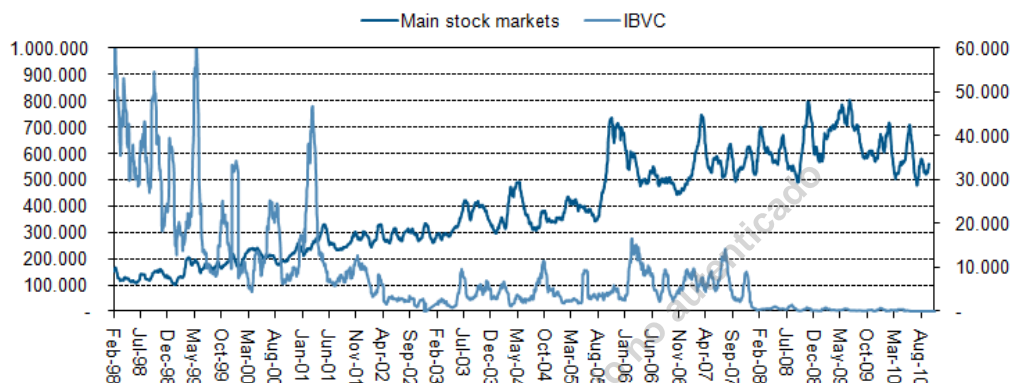
In general, developed countries have very high levels of bancarization and well developed financial markets that offer their citizens the possibility to access a number of different finance instruments by which they can improve their quality of life.

In the chart below we can evidence what is the behavior of stock markets in countries like USA, Germany, France, Japan and the United Kingdom, and what has been the evolution of the Caracas Stock Exchange (IBVC) in volume of transactions. This large difference is due to the fact that, these countries have encouraged the participation of companies and individuals in the securities markets, which is in line with the investment that a country needs to develop, allowing companies to raise capital invest in projects that promote growth, which, as we see, has been declining in Venezuela.





Average Volume of transactions of the main stock markets vs The volume of transactions of the IBVC (Thousands)



Source: Bloomberg and Ecoanalítica

What to expect

We believe that these new regulations could discourage growth in the different activities within the finance sector, and in the worst case scenario, lead them to deteriorate. However, this is in line with the socialist project, where there is only room for a very limited number of private sector participants, unlike the ballooning public sector and communes. So we believe that the finance sector will follow suit, with more public banks and insurance companies play a more prominent role, and a new public stock exchange.

One of the best ways to see how dynamic a country's economy can be is by looking at its finance system. In Venezuela's case, the finance system shrank by 8.7% during the first semester 2010, while the economy shrank by 3.5%. It's true that this drop reflects the disappearance of a number of banks that were in bad shape and also the disappearance of a number of brokerage houses, after the swap market was closed down, notwithstanding, we don't expect the situation to get much better. These new laws do very little to pave the way to economic recovery, rather they are more like an anti-stimulus plan for general finance activity. This will make it even harder to recover from the crisis that has hit the countries in our region and around the world.

All this explains why next year's projected growth rate is at 1.4%, significantly below the average of the other countries in the region.





Economic Tips

Seniat's September tax collection goals were met but decreased in real terms.

During September, Seniat was able to collect VEB 8.95 billion in taxes, 20% more than the amount collected in September of 2009 but with a purchasing power 6.6% lower due to an inflation of 28.5% in the last 12 months. Seniat's collection reaches VEB 73.78 billion in the first three quarters of 2010, 89.5% of the 2010 tax collection goal of VEB 82.4 billion, a 24.2% increase in nominal terms but a 3.3% decrease in real terms.

Public payrolls grows by 79.2%.

According to official numbers released by the National Institute of Statistics (INE), from August of 2000 to August 2010, public payrolls have grown by 79.2%, going from 1,293,227 people to 2,317,822, an increase by 1,024,595 public employees, so the percentage of the population holding public jobs increased by nearly 5 percent points going from 14.6% to 19.4%. Private payrolls have increased by 27.5% over the same period, going from 7,546,800 to 2,626,500. Since May of 2005, when the Government's private company nationalization policy started, public payrolls have increased by 42.5%, going from 1,625,701 people to 2,317,822 in August of 2010.

Labor market absorbed only 4.5% of the active population's growth.

From August of 2009 to August of 2010, 242,665 people entered the job market. Over the same period, only 10,889 people got a job, which means the labor market absorbed only 4.5% of the additional labor offer.

Number of informal employers has decreased by 15% in the last 12 months.

According to statistics published by the National Institute of Statistics (INE), the number of informal employers (micro-entrepreneurs employing less than five workers) was reduced by 15% between August of 2009 and August of 2010, reaching 300,842 employers of this kind.

Cenda basic food basket up to VEB 2,333.

The price of the basic food basket, as calculated by the Center for Documentation and Analysis for Workers (CENDA), reached VEB 2,333, a 0.4% increase compared to August, or VEB 9.5. Over the first three quarters of 2010, the Cenda food basket accumulates a 21.1% variation or VEB 407.8 and 32.1% in the last 12 months. The minimum wage, set at VEB 1,223.9 since May of 2010, covers only 52% of the basic food basket.





Government paid US\$98 million to Colombian exporters. The Venezuelan Government paid US\$98 million owed to Colombian exporters to reach a total of US\$200 million since August, after presidents Hugo Chavez and Juan Manuel Santos held a meeting in Bogotá and reinstated diplomatic relations. US\$568 million are still due and are scheduled to be paid as a bi-national commission created in August corroborates the authenticity of said liabilities.

Venezuela and Bolivia made their first transaction with Sucre. The Venezuelan Government bought 5,000 tons of soy oil from Bolivia and paid in Sucre, the new currency that can be used by member-countries of the Bolivarian Alliance for the Americas (ALBA) for regional trade. Venezuelan companies are allowed to import goods and services from other ALBA member countries using Sucre, for which they can pay in Bolivars to the BCV and exporters from any ALBA country will receive their payment in local currency through their respective central bank. The exchange rate of one Sucre is determined multilaterally between the central banks of ALBA member countries.

Sitme figures. To date, US\$2,871,4 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$32,6 million a day, with an implicit exchange rate of VEB 5.3/US\$. Last week the traded amount reached US\$242.8 million, US\$43.1 million more than last week when braided US\$199.8 million.

Interest rate. The lending rate for the first week in October was at 18.1%, up by 142 base points compared to the previous week. Time deposits and savings rates were steady at 14.6% and 12.6%, respectively.

International reserves. International reserves decreased by 0.2% going from US\$29,431 million during the fifth week in September to US\$29,369 million during the first week in October. Compared to the same period last year, international reserves dropped by 11.4%.

Monetary liquidity. Monetary liquidity for the fifth week in September was up by 0.8% compared to the previous week settling at VEB 260.27 billion, up by 11.4% year to date in nominal terms and 8.6% in the last 12-months.





Oil Tips

China to participate in the Orinoco Oil Belt. China's participation in the Orinoco Oil Belt project was authorized in the Official Gazette published last Monday. This project would help reach an extraction of up to 400,000 bpd of extra-heavy crude oil from the Oil Belt over a period of 25 years from its kickoff, according to the agreement reached between the two state-owned oil companies Petroleos de Venezuela (PDVSA) and China National Petroleum Corporation (CNPC). Additionally, the negotiation terms establish the Chinese firm will own 40 percent of the shares and Pdvsa will hold the remaining 60 percent.

US crude oil imports increase. During last week, the US purchases of crude oil to Mexico and Saudi Arabia increased by nearly 450,000 barrels in average, closing at 1,261 million and 1,242 million bpd, respectively, according to the US Energy information Agency (EIA). According to the EIA bulleting, in the last 7 days, Venezuela has delivered an average of 920 thousand barrels of crude oil per day to the United States. However, last week's main crude oil supplier to the US was Canada, delivering an average of 1.59 million bpd.

Chavez expropriates Venoco and Fertinitro. In last week's Alo Presidente, the companies Venoco and Fertinitro were expropriated by President Chavez. The decision to expropriate Pdvsa's grease and lubricants' supplier and the fertilizer factory was suggested by the minister of Energy and president of Pdvsa, Rafael Ramirez. Chavez had already threatened to expropriate Venoco in 2008 due to the scandal involving a briefcase full of money introduced to Argentina by Guido Antonini Wilson, one of Venoco's advisors.

The reason. The vice minister of Petrochemical Activities, Asdrubal Chavez, said the expropriation was ordered because "Venoco was feeding from supplies produced by the oil and petrochemical industry, displaying significant differences in the prices of lubricants which exceed the value of Pdvsa's products by 50%." For the Government, this makes no sense, since for the state company it is not primary to make revenues in the domestic market, while for a private company, such as Venoco, it is necessary to do so in order to sustain profitability. However, Venoco is expected to continue producing with the same quality and quantity, now that it belongs to the Venezuelan State.





What Venoco represents. The expropriation of Venoco and its affiliated companies by the National Government represents a take-over of the medium-type final-use lubricant retail market and of the industrial grease and lubricants' market. Venoco's products represent 18.0% of the domestic market as a supplier for the automotive and industrial sectors. Also, according to Asdrubal Chavez, vice minister of Petrochemical activities, Venoco handled 14% of the national lubricant production, 50% of solvents and 100% of the manufacture of raw materials for detergents. The lubricant market has an estimated production between 220 and 240 million liters per year, so Venoco's lubricant and grease production would be 41 million liters per year.

BP restructures operations. British Petroleum (BP) is currently restructuring operations in order to reduce costs and focus on growing markets such as China and India to increase its revenues which have been considerably affected, according to a statement released by the unit chief in an internal document. The unit's new leadership structure will be in effect from December 1, and includes the elimination of at least one executive position.

Hydrocarbon Reserves in the region increase. Hydrocarbon findings in Latin America continue to increase, making the region's reserves grow, an attractive allure for oil companies all over the world looking to explore these old deposits. Alan Garcia, president of Peru, announced last week the finding of over 1.7 trillion cubic feet of natural gas in two wells drilled by the Brazilian giant Petrobras in Peru's southern region.

Abren 27 estantes de Pdvsa gas Comunal. La petrolera venezolana abrió 27 estantes en el municipio Elías, en Trujillo, con la finalidad de beneficiar cerca de 2.200 familias que se encuentran alejadas de la localidad, ofreciendo precios justos, sin especulación por parte de las empresas privadas del sector de gas licuado de petróleo.

27 shelves of Pdvsa Communal gas open. The Venezuelan oil company opened 27 shelves at the Elias municipality in Trujillo, to benefit nearly 2,200 families that are secluded from the location, offering fair prices without the typical speculation of private liquefied oil-gas companies.

Labor problems in the sector continue. Oil workers of the Anzoátegui state are demanding the approval of the new collective labor agreement, since their current contract expires on January 21. The negotiation of the new agreement put on hold last December 21 since Pdvsa has not issued a counter-offer to the contract; however, negotiations are expected to be resumed within days. This situation adds to the several complications Pdvsa has already had with unions from different areas of the country, a reality striking practically all national industries.



Pdvsa resumes operations in Bonaire. Starting Thursday October 7, Pdvsa resumed operations at the Bopec Terminal in Bonaire, where all activities had been put on hold since September 8 due to a fire occurred in the terminal's fuel tanks caused by an electric storm.

International oil baskets. At the close of the New York market last Thursday, October 14, the WTI was at US\$82.8/bl, showing a 1.4% increase compared to the US\$81.7/bl of the previous Thursday. The Brent increased by 0.3% to reach US\$83.9/bl, compared to US\$83.6/bl of Thursday, October 7.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$74.5/bl on Friday, October 7, up by US\$4.9 or 7.1% from the US\$69.6/bl registered the previous week. Meanwhile, the basket's annual average kept constant in US\$69.6/bl.

Business Sector Tips

Car sales still down. The automotive market remains complicated, according to the latest report issued by the Venezuelan Automotive Chamber (Cavenez), which shows a 12.5% y/y contraction in this sector for the first nine months of 2010. Breaking the numbers down we can observe that sales reached 93,319 units between January and September, a reduction by 13,313 units compared to the same period of the previous year. This decrease is mainly due to the fall in vehicle imports since the industry has only been able to market 9,678 units in the said period, 59.1% less than in 2009, while the sales of vehicles assembled in Venezuela increased by 0.8% to reach the remaining 83,641 units.

Another worrying indicator. According to a study carried out by *The Economist* and the Andean Development Corporation (CAF), "Global microscope on the business environment for microfinance 2010," Venezuela is ranked last, which represents the worst performance. The report indicates that "microfinance in Venezuela is suffering from a weak regulatory structure and a low-level market development."

Plastic industry in trouble. The president of the Venezuelan Association of Plastic Industries (Avipla), Carlos Celis, said the supply of raw materials to produce plastic by Pequiven was insufficient. The spokesperson said the plastic industry was completely dependent on the petrochemical industry, so if the petrochemical industry's production



decreases, the plastic industry is not able to reach normal production levels, something that has been happening since Pequiven is not capable of supplying to satisfy the sector's demand.

39 construction companies to be penalized. Richard Canan, minister of Commerce, indicated that 39 construction companies would be penalized for charging Consumer Price Index (CPI) adjustments to property prices. Minister Canan said they had received over 1,500 complaints from approximately 7,700 affected families nationwide. The fines for this incompliance will be close to 5,000 tax units and the prohibition to transfer the assets.

“In the state's hands.” Companies like Polar and Cargill should be in the state's hands, just like Agroisleña, said the minister of Nutrition, Carlos Osorio. Minister Osorio said “oligopolies do not guarantee the country's nutritional certainty and the Bolivarian Government has been fighting for this for 11 years,” assuring that the new correlation of strengths in the National Assembly to be installed on January 5 of 2011 would not be an obstacle for the Revolutionary Government's advance.

Consequences to the Agroisleña act. After the announcement of Agroisleña's expropriation, the different associations that encompass Venezuela's agricultural producers have declared themselves in permanent assembly to evaluate the measure's impact on national production. The expropriated company guaranteed not only the reception of national crops in each one of its silos but also the timely supply of agro-chemicals, seeds and materials. The company also produces corn seeds and sorghum, and finances small producers. That's the reason for Venezuelan farmers' concerns that with the transition of Agroisleña to the State, the availability of supplies for different crops might be affected, since the company supplies 70% of the required items.

Accepting the challenge. The president of the Venezuelan Chamber of Construction (CVC), Juan Francisco Jimenez, reiterated this economic segment's willingness to “accept the challenge” involved in facing Venezuela's housing deficit, which reaches 2,000,000 homes. Jimenez proposed, for the purposes of moving forward in the joint venture, that the Government should “shore up” the provision of basic construction supplies such as steel and cement; and the speed-up in the authorization of the necessary currency to acquire equipment, machinery and parts. The CVC executive said the construction sector contracted by 40% during the first semester of 2010, compared to the same period of 2009, going from 49,000 homes to approximately 26,000.

Private sector to have access to the Sucre. Both the Central Bank of Venezuela and Cadivi authorized for private companies to have access to the Sucre for imports





and exports, a mechanism used by Cuba, Nicaragua, Ecuador and Bolivia. With this mechanism, companies will be able to pay their imports with bolivars and will receive bolivars when exporting. The Central Bank will be in charge of disbursing bolivars in case of an export or collecting them when regarding imports. According to the information revealed in the newspaper *El Universal*, upon entering the Cadivi website, companies with a Taxpayer Registry N° that starts with a "J" will have the option to choose the Sucre as currency to carry out their operation.

Internet: Present in consumers' decisions. According to an annual report prepared by the Datanalisis affiliate, Tendencias Digitales, 34.8% of Latin Americans are connected to the internet. This number represents over 200 million people. In Venezuela, this indicator reaches 32.3% and represents 9,306,916 users. As to internet's penetration, Venezuela used to be ninth in the region, but has moved to the eighth position among 20 countries, getting closer to the regional average. Among some of the uses given by Latin Americans to the web, the firm indicated this year the search for product information was in the top 10. In fact, at least 27.8% of internet users claim they navigate the web for those purposes. That means that Internet, beyond being a communicational tool, has an impact in consumers' purchasing decisions, said Carlos Jimenez, director of Tendencias Digitales.

The money was backed. The directors of Grupo Econoinvest said it wasn't true they needed to sell company assets to pay their customers, once the company's liquidation was made formal in Official Gazette, since all the money was backed. They said they fear for the company's equity, and consider inadmissible the fact that there is a delay of almost five months to pay obligations to 46,000 clients, when the documents are safeguarded in the Venezuelan Securities Safe (CVV). The directors of the CVV stated they requested the auditors' authorization several times to give clients' back their securities, but their requests have been denied.

World Crisis Tips

NABE is not optimistic. The latest report by the National Association for Business Economics (NABE) said the moderate recovery of the US economic growth would continue throughout the next year. However, they decided to revise down their 2011 growth perspectives, going from a projection of 3.2% growth to 2.6%, justified by weak expectations about the expansion of private consumption which will be contrasted by a strong growth of investment. The real estate sector is expected to continue to recover, but at a slow rate and without reaching the pre-recession peaks. This behavior will



also be reflected on unemployment, which will continue to recover, but not enough to significantly improve the current levels.

OECD indicates a global economic deceleration. The Organizations for Economic Cooperation and Development (OECD) indicates the world economy's growth has been decelerating in the last few months, something analysts believe could be even worse than it is, and that doesn't mean the situation can't get even worse. The OECD growth indicator says the world's economy has contracted by 2.5% over the last three months, compared to the same period of 2009, while the 6-month indicator has contracted by 0.9% and the 12-month indicator shows a 3.8% growth.

OECD about Japan and the United States. In the same report, the OECD said that for the same indicators Japan showed a contraction of only 0.4% in the last three months, and a 0.2% growth over the last 6 months and a 5.1% growth in the last 12 months. In the same indicators, the United States doesn't look as good as Japan, since the three-month measure shows a 3.3% fall, the six-month indicator shows a 0.8% contraction and the 12-month indicator presents a 5.0% growth, almost the same as the Asian country, but the American economy's volatility is evident compared to the Japanese.

Payrolls increase slightly, so everything stays the same. Job creation in the United States still has a long way to go to get back to its golden-year levels. In September, non-farming private payrolls only increased by 64,000 jobs, while in the previous two months, August and July, they had increased by 93,000 and 117,000 workers. However, analyzing global figures we can observe a decrease by 95,000 jobs, a fall that was worse than consensus expectations of a 5,000 increase in US payrolls. So far this year, private sector payrolls have increased by 1.1%, while in 2009 they decreased by 5.2%.

The problem is the signs are confusing. Many indicators show different trends, such as the case of consumers' confidence in the economy, which showed a 2.4% increase between September and October, according to the indicator published by the Investors Business Daily and TechnoMetrica Market Intelligence. The indicator reached 46.4 points, which represents consumers' optimism about the economy since this indicator's reading is done downwards, anything below 50 is positive and anything over 50 is negative.

Germany keeps sending mixed signals. Germany's Industrial Production Index showed a strong increase in August (1.7%), after showing a modest growth in July (0.1%) and a contraction (-0.5%) in June. This indicator results quite positive since it indicates a 5.5% increase in the last few months; 19.4 in the last six months and



11.0% in the last twelve months, showing Germany's growth trend, despite the problems presented by other European Union countries.

Political Tips

Back to the patriotic pole? Last Sunday, President Hugo Chavez urged to reinstate the electoral alliance known as the patriotic pole. *"We are making all the necessary contacts so that all sectors sharing our idea to create a beautiful and humanistic country with an egalitarian society model can get together in a single force to guarantee its total conception."*

PSUV for the 12/05 election: coalition. Starting from the premise announced last Sunday by President Chavez regarding the creation of a new coalition of political parties, the national directors of PSUV are studying the different methodologies that may be used to select the candidates to the election of two governors and ten mayors to be celebrated in December 05 of 2010. CNE will summon elections for Governor of Guárico and Amazonas, and ten Mayors in the following municipalities: Alto Orinoco (Amazonas), Achaguas (Apure), Miranda (Carabobo), Carrizal (Miranda), Manuel Monge and Nirgua (Yaracuy), Miranda (Trujillo), Catatumbo, Maracaibo and Miranda (Zulia).

"Boligarchy piles up a fortune." In his last book, Jorge Giordani, minister of Planning and Finance, criticized the entrepreneurs who have emerged during the Chavez administration. Minister Giordani does not call them boli-bourgeois but uses the Anglicism boligarchs, a translation several English publications have used to refer to the emerging of this private sector only possible thanks to the Government of President Hugo Chavez. Giordani asks these people be reported, kept away from the socialist process, removed of all political-link privileges and judged in court.

Error in Law of Military Enlistment admitted. The National Assembly (AN) in ordinary session, approved in first discussion the partial reform of the Law of Conscription and Military Enlistment, so the deadline established for October 21 and the fines for those who did not comply were eliminated.

Chavez begins international tour. President Chavez will strengthen relations with Russia, Iran and Libya. Last Thursday, the Venezuelan president visited Moscow, in the first stage of an international tour that will also take him to Iran, Belarus, Ukraine, Syria, Libya, Algeria and Portugal. The purpose of these visits is to strengthen political



and economical relations through important cooperation agreements. To Chavez: *“It is an appointment of great significance that will allow us to deepen our relations in the multi-polar world.”*

Chavez to strengthen relations. During his trip to Moscow, President Chavez and his homologue Dimitri Medvedev will address topics such as the creation of the Russian-Venezuelan Bank, a project existing since 2008, and the boosting of investment projects in Venezuela, such as the construction of 7,000 homes, investments in the Orinoco Oil Belt and possibly the development of nuclear energy with peaceful purposes, since it is publicly known that Medvedev is willing to help Venezuela in that subject. During his visit to Syria, President Chavez will negotiate the construction of a refinery in the Syrian region of Hombs, with a processing capacity of 140 kb/d.

Candidate proposals for TSJ magistrates now open. Last Monday, the National Assembly (AN) started its process of proposing candidates to main and substitute TSJ Magistrates, who will work for a single period of 12 years, according to Article 264 of the Constitution. Candidates will be proposed before the Judicial Candidacy Committee by their own initiative or by organizations linked to the legal activity. With this, the Committee will make a pre-selection to be presented to the Citizens' Power, which will make a second pre-selection to be presented to the National Assembly for the final decision.

Universities have additional resources. In an ordinary session, the National Assembly (AN) authorized supplementary appropriations for VEB 395 million for Universities. The authorization of these funds took place just 2 days before the march of the Venezuelan Association of Rectors (Averu) called to demand a fair budget for public universities. In light of this, Representative Maria Quipo (PSUV), president of the Parliament's Education Commission, highlighted the Administration's willingness to meet its commitments with the universities and their workers.

Venezuela was not present in the parade for the National Day of Spain. Eight Latin American countries attended in the bicentennial of Spain's Independency, but the Venezuelan flag was not present in the military parade. Carmen Chacon, Spanish minister of Defense explained the absence of the Venezuelan flag in the parade in Madrid for the National Holiday was “self rated.” Isaias Rodriguez, ambassador of Venezuela in Spain, explain he had informed “with enough anticipation” about the reasons why the Venezuelan flag would not be present in the act, and denied its absence was due to some kind of “discomfort” in the bi-lateral relations.

Chavez authorizes VEB 1.1 billion for Mayors and Governors via Twitter. This week, President Chavez made the following announcement via the social network: “Hi,



everybody. I am authorizing one point one billion bolivars for Governors and Mayors. Administer them well.” It is still unknown how these resources will be distributed.

No final draft of the Penal Code in the National Assembly. The president of the National Assembly’s Domestic Policy Commission, Representative Tulio Jimenez, declared last week that, even though there a well advanced Penal Code project exists, “there is no final draft.” However, the AN Permanent Commission for Domestic Policy, Human Rights and Constitutional Warranties announced this week a plan to publish the final report of the new Venezuelan Penal Code’s draft, to be conformed by 900 articles, and to begin its first discussion at the AN.

Some modifications to the new Penal Code. The Penal Code draft to be discussed soon in the AN reduces the sentence for kidnapping from 20 – 30 years to 18 – 24 years, rape sentences are also reduced from 10 – 15 years to 8 – 12 years, and the range increases for theft from 2 – 6 years to 6 – 12 years, as well as for extortion which goes from 4 – 8 years to 10 – 15 years, and homicide goes from 12 – 18 years to 20 – 25 years.

Crimes against Human Rights should not be in the Penal Code. According to Representative Fernando Fernandez, “International crimes should be treated in a different text, as set in the Rome Statute, which established that no international crimes may prescribe because they are the worst punishable acts for which an international court is created. On the other hand, all domestic crimes should prescribe, because you just can’t be chasing citizens forever.”

Other Tips

Diamond, Pissarides and Mortensen won the Economics Nobel Prize. Peter Diamond, Dale Mortensen and Christopher Pissarides were awarded the Nobel Prize in Economics by the Swedish Royal Academy of Sciences, for their labors regarding markets with search costs and their applications to the labor market. Contrary to the classic theory, markets do not empty themselves completely, for instance, in the labor market, even when there is a big unemployment, at the same time there is a large number of vacant jobs, because there are search costs, buyers’ difficulties to find sellers and vice versa, and in many cases, once buyers and sellers have found each other, they can’t reach an agreement, for example, a buyer may think the price is too high, or the seller may think the price the buyer is willing to pay is too low.



ECONOMIC OVERVIEW

