



Weekly Report

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2011 National Budget: Looking beyond the obvious

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The official National Budget which was announced by the Minister of Planning and Finance, Jorge Giordani, really didn't surprise many of the analysts. It's just more of the same things we've become used to over the years. The Budget was drafted keeping in line with what we like to call a "conservative scenario," which focuses on covering all essential areas and at the same time giving the Administration the greatest amount of freedom and discretion over the use of all available resources in order for it to be able to continue to push forward with its socialist communal economy scheme. This Report will focus on some of the areas which are not so clear with regard to the 2011 National Budget.

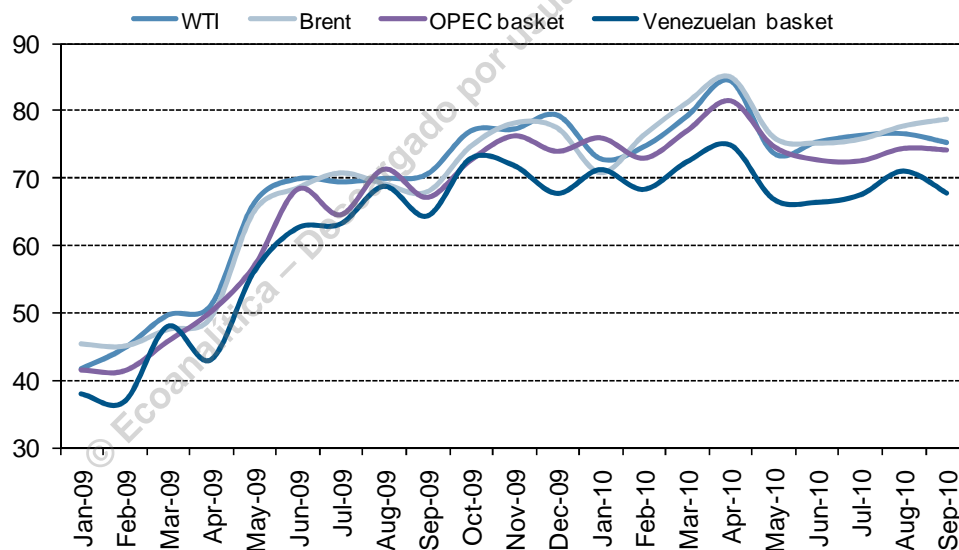
There is nothins new under the sun

Since things don't seem to change much in Venezuela, the 2011 National Budget, presented before the National Assembly last week, once again set the average price of a barrel of crude oil used to calculate the Budget at US\$40 per barrel (the same price it was set last year). This is the price that is used to calculate the country's future revenues for the year, and based on



this figure, calculate spending. Like many of the past years, everyone knows that the average price of a barrel of crude oil will be much higher, most likely hovering at around 73 US\$/bl., but by underestimating the amount of revenue coming in during the year, and consequently, underestimating spending for the year, this almost guarantees that the Administration will collect substantial amounts of extra-ordinary resources, which by law it has complete control over and a free hand to wield as it sees fit. And in order to balance the underestimated spending budget, the Administration has become quite comfortable in authorizing supplementary appropriations, which allow it to decide exactly where the budget needs to be “balanced” and where it doesn’t.

Oil prices (US\$/bl)



Sources: MENPET and Ecoanalítica

It’s important to point out here that this practice of purposely underestimating the Budget was not invented by President Chávez’ Administration, rather, he inherited it from the previous Administrations, maintained the practice, and he has developed it and taken it to a different level. So much so, that the Administration didn’t even bother to index the price of a barrel of crude oil for 2011, and government representatives are saying that the country has surpassed the economic crisis.

It’s not enough to eliminate the distortions

The fact that when the 2011 National Budget was being drafted, the average price of a barrel of oil was underestimated even more than usual, makes us think that when it was being drafted, those responsible, didn’t



bother to look around and appreciate the situation the Venezuelan economy is going through.

The government estimates that the Venezuelan economy will grow by 2.0% next year, and even though it is much more optimistic than we are at **Ecoanalítica** with our estimate of 1.4% growth, the government's estimate is still below the average growth rates of most of the other Latin American countries for the coming year. Furthermore, it's very worrying that the government is still insisting that the country will close the year out with the inflation rate at between 23.0% and 25.0%, while we are projecting that inflation will be at 30.6%. This is very serious considering that most of the other countries in the region have already gotten their inflation problem under control and have posted back to single digit inflation rates.

The new Budget shows no signs of the Administration preparing to implement important changes with respect to its economic policies. Rather, it seems that the Administration is solely focused on further developing and pushing its socialist system, which is based on the communal system which we will talk about later.

The risk oil production represents

Something which stands out is when Minister Giordani states that crude oil production, for the purposes of calculating the Budget, was set at 3.1 million barrels a day. When according to PDVSA's first semester report, total crude oil production was at 2.92 million barrels a day. This is just one of many flares that signal that the information included in the Budget is to be questioned.

At **Ecoanalítica**, we believe that the production figures stated in the Budget are not very realistic when you take into account that overall production figures have been sliding due to the lack of investment in maintenance and exploring new sites. And, despite the fact that it seems like PDVSA is finally getting down to business and focusing on areas that have been sorely neglected, this is not an industry that at the flick of a switch production suddenly becomes better. This is a process that takes time and resources, which are not necessarily readily available.

The figures...

The 2011 National Budget states that current revenues will be at VEB 163.69 billion, up by 31.9% in nominal terms compared to the 2010 Budget. And, even though this current revenue figure doesn't seem too shabby, when you do the math, it's just an adjustment for inflation. In real terms, the current revenue figure is only up by 2.2%. Furthermore, the government has pointed out that its estimates for current revenue for the close of 2010 is at



VEB 174.11 billion, a figure which is higher than what has been budgeted for 2011. A little further on in this report you will see that the same thing happens with spending.

At *Ecoanalítica*, we expect that fiscal revenues for 2011 will be around 25.4% of the GDP, while, Minister Giordani has put forth a Budget that according to his estimates fiscal revenues will be at around 15.0%. Quite a big difference, due to the fact that the Minister is calculating fiscal revenues based on the underestimated “official” average price for a barrel of crude oil stated in the National Budget.

	MEF 2011	Ecoanalítica 2011
GDP Current Prices (VEB Million)	1,092,517	1,178,335
Oil price Venezuelan Basket (US\$/bl)	40.0	74.0
GDP Growth(%)	2.0	1.4
Inflation (%)	23.0-25.0	30.6
Oficial Exchange Rate - end of year (VEB/US\$)	2.6/4.3/5.3	2.6/4.3/6.5
Oficial Exchange Rate - average (VEB/US\$)	2.6/4.3/5.3	2.6/4.3/6.5
Total Income	15.0%	25.4%
Non Oil Income	10.8%	13.9%
Income tax	2.8%	3.6%
Duty	0.8%	1.0%
VAT	5.6%	7.2%
Others	1.7%	2.1%
Oil Income	4.1%	9.5%
Income tax	0.6%	1.4%
Duty	3.1%	7.2%
VAT	0.4%	0.9%
Central Bank profits	0.0%	2.0%
Total expences	18.7%	29.5%
Primary expences	16.7%	25.6%
Interests	2.0%	3.9%
Internal Debt	1.1%	2.2%
External Debt	0.9%	1.7%
Fiscal Balance	-3.7%	-4.1%
Primary Balance	-1.7%	-0.2%
Fiscal Balance excluding oil income	-7.9%	-15.6%
Amortization	n/a	4.4%
Financial Needs	3.7%	8.5%
Total Debt	3.7%	4.1%
External Debt	n/a	2.2%
Internal Debt	n/a	1.9%
Others	0.0%	4.4%

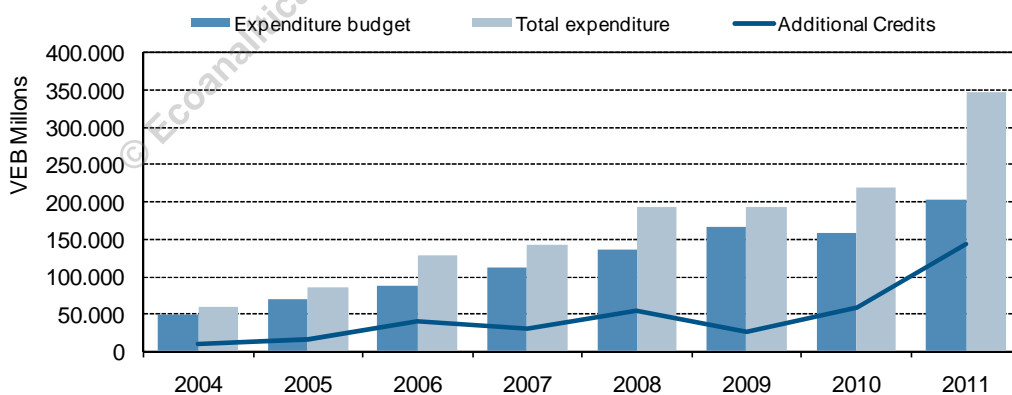
Sources: MF and Ecoanalítica



Now, looking at public spending figures included in the Budget, we find that the money supply coming from fiscal spending will be increased by 28.1% in nominal terms, compared to the 2010 Budget. This amount, fixed at VEB 204.20 billion, will of course be constantly modified throughout the year by supplementary appropriations authorized by the President and approved by the National Assembly, as we mentioned before. An important point to mention is that the National Assembly only requires a simple majority to approve said appropriations.

As was the case with the estimated current revenue figure in the 2011 Budget, being less than the estimated current revenue figure for the close of 2010 (not at all realistic), public spending figures are showing the same behavior with the estimated public spending figure at the close of 2010 at VEB 219.05 billion being higher than spending estimated for the 2011 Budget. This is just another example of how the figures in the 2011 Budget are not very credible and it also supports the argument that spending will be significantly adjusted via supplementary appropriations.

**Expenditure budget, Total Expenditure and Additional Credits
(2004 – 2011)**



Sources: Asamblea Nacional, ONAPRE and Ecoanalítica

At **Ecoanalítica**, we expect public spending in 2011 to reach 29.5% of GDP, which is 10 percentage points higher than the official estimate included in the 2011 National Budget. But this year's underestimation of public spending (and by the same token, current revenues) is motivated by the Administration's need for total control and discretion when it comes time to use the resulting extra-ordinary funds (generated by the underestimation). This ensures that said funds will go to projects that



guarantee the viability and development of the Administration's socialist agenda and economic policies.

What about the deficit?

With the revenue and spending figures used in the 2011 National Budget, the resulting deficit would be at 3.7% of GDP, lower than the last Budget which was at 3.9%. Furthermore, by what one can see in the Budget, borrowing will only increase by 14.6% in nominal terms, which is not even indexed to this year's inflation rate. This would be a positive thing if it were to signal that the Venezuelan economy was successfully on its way out of the recession and therefore doesn't need so much public spending stimulus. However, the fact of the matter is that even the government's own indicators show that this is not the case. This leads us to believe that the public spending budget was underestimated more than usual and therefore will be significantly modified throughout the year via supplementary appropriations, as we stated before.

Something we mustn't forget

As we have repeatedly been pointing out, the mechanism to finance public spending by using extraordinary resources via supplementary appropriations has been increasing year after year, and this year will not be the exception. These resources are not included in the original National Budget, and are used at the complete discretion of the Administration. Our latest calculation of the extraordinary resources available to the Administration puts the amount at US\$46.4 billion.

Borrowing Law

The new Borrowing Law shows that the amount of borrowing has been increasing year after year. For 2011, borrowing has been set at VEB 52.202 billion (US\$20.08 billion), up by 14.3% in nominal terms if compared to the 2010 Borrowing Law.

The National Budget shows that the public debt balance for the first semester of the year is at US\$64.11 billion, with US\$34.871 billion corresponding to foreign debt and US\$29.244 billion domestic debt (calculated at a VEB 2.6/US\$ exchange rate). This amount only includes Central Government borrowing and not PDVSA, and it is at 30.5% of GDP. But, if we include PDVSA and the bond issuances of the second semester, then borrowing would reach 42.4% of GDP, which begins to be quite worrying if we take into consideration what is being planned for next year in the Borrowing Law.

The 2011 Borrowing Law draft does not specify what portion will be designated for foreign borrowing and how much for domestic borrowing. We



expect that the portion designated for foreign borrowing will be significant to keep feeding the SITME system.

What are the government's priorities?

If you base your analysis on where the Budget has earmarked most of the spending, and not just this year but in general, Security and Defense continue to receive a heavy portion of revenue, at 7.8% of total spending budgeted. Last year it was at 8.0%, notwithstanding, the amount continues to increase and is at US\$6.09 billion.

Healthcare also continues to get a nice piece of the spending pie (7.8%), though down by US\$342 million, which leaves it at US\$6.12 billion. Education is down by US\$1.78 billion and is left with US\$11.72 billion, which represents 14.9% of the total spending budget.

Housing, which has often been mentioned by the President as being of great importance, drops to 0.8% (was at 1.0% in 2010). And, even though the amount of the spending budget increases to US\$27.3 million, this is a pittance if one takes into consideration what is being spent on Security and Defense, a fact that hasn't been appreciated by many.

What is the role of the communes?

The National Budget shows that the Ministry of the People's Power for Communes and Social Protection was assigned an amount of VEB 2.515 billion (US\$967.30 million), which represents 1.2% of the total spending budget. (slogan: ¡Más que para Vivienda! [More than just for Housing]). It's probably very deceiving to think that this is the total amount that will eventually be awarded to the communes given the importance this project is to the Administration's socialist plan. Even more so if we consider that estimated spending for the Communes and Social Protection issued by Minister Giordani for this year is at VEB 5.70 billion (US\$2.19 billion).

It's quite probable that significant amounts will be authorized via supplementary appropriations to the communes. And, even though the communes don't receive resources directly from government entities, they do benefit from projects carried out by these sectors.

You have to look beyond the obvious

At *Ecoanalítica*, we have never really understood the effort the Administration puts into drafting a totally fictitious National Budget, supposedly controlling spending, and saying that they are being "conservative" with the budget because it can't trust oil prices, when in reality all it wants to do is camouflage the real amount of extraordinary resources coming, which in turns, helps it camouflage exactly how



freehanded it is being with the distribution of these resources; and to hide the real current state of the domestic oil industry, specifically the amount of oil being produced.

And finally, we can't overstate how important it is for President Chávez' political project for him to win the 2012 presidential election. In order for him to do so, he can't neglect the coming year, which is why we don't expect any major changes in how things have been done. The Administration will continue to bank on public spending as a means of satisfying the people and propping up the economy. But, as we have recently begun to see, public spending doesn't have the same capacity to generate growth as it used to. This is no surprise, since public spending is not a valid policy to generate sustained economic growth.

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Economic Tips

Pdvsa bond allocation. On October 25, Pdvsa announced the results of the public offer of Pdvsa 2017 bond. A total of 105,357 orders were received, worth US\$6.98 billion. Bonds were allocated according to the following criterion: individuals requesting US\$3,000 were assigned 100% each and those requesting US\$6,000 or more were assigned US\$5,000. Corporate orders for up to US\$750,000 were accepted in full and those requesting more than US\$750,000 were allotted US\$750,000 each.

Marginal reserve requirement was reduced again from 20% to 17%. This week Venezuela Central Bank (BCV) decided to cut back the marginal reserve requirement again from 20% to 17%, after having reduced from 23% to 20% last week to increase liquidity and facilitate the sale of PDVSA bonds 2017, as published in the Official Gazette No. 39538 of 26 October. With both reductions VEB releases about 14,000 million.

Additional credits increase spending to VEB 203,500 million. So far this year the National Assembly approved additional credits VEB 44.1 billion, increasing public spending to VEB 203.5 billion from the original VEB 159.4 billion.

Nelson Merentes: third quarter contraction will be mild. According to the President of the Central Bank of Venezuela (BCV), Nelson Merentes, growth in the third quarter of the year “will be closer to 0 than to -1.9%, which was the results of the second quarter of 2010 (...) the result won’t be so adverse.” Merentes believe that GDP in the fourth quarter will be slightly higher in comparison to the same period last year.

INE food basket cost VEB 1,335 in September. The average value of the reference food basket according to the National Statistics Institute (INE) was VEB 1,335 in September, thereby implying a 0.3% increase from August. In the first three quarters of the year, basic food prices have increased by 24.6% and 29.72% over the past 12 months. National Consumer Price Index (NCPI) of food and non-alcoholic beverages increased by 27.1% in the first three quarters of 2010 and 34.5% in the past 12 months.

35.7% scarcity index. According to the results of survey Products Missing from Shelves (PFA) 2010, conducted by GS1 Venezuela and released by Cavidea, 35.7% of products aren’t found on shelves in outlets. 189,237 products were reviewed for the study, out of which 67,662 were absent. Even though this is a high percentage, it is 3.4 percentage points lower than 2009’s measurement, which was at 39.1% of PFA.



Interest rate. The lending rate for the second week in October was at 18%, down by 12 base points compared to the previous week. Time deposits and savings rates were steady at 15.4% and 12.6%, respectively.

International reserves. International reserves dropped by 1.5% going from US\$29,673 million during the second week in October to US\$29,218 million during the third week in October. Compared to the same period last year, international reserves dropped by 12.1%.

Monetary liquidity. Monetary liquidity for the second week in October up by 0.25% compared to the previous week settling at VEF 261.52 billion, up by 10.9% year to date and 18.7% in the last 12-months.

Sitme figures. To date, US\$3,287 million have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$33.5 million a day, with an implicit exchange rate of VEF 5.3/US\$. Last week the traded amount reached US\$191.7 million, US\$19.4 million more than last week when braided US\$172.3 million.

Oil Tips

Venezuela will sell all non-strategic assets. The president of Pdvsa, Rafael Ramirez, said the "course of action has been consistent: remove the oil opening, review and remove foreign assets internationalization (...) we'll be doing it little by little." Later he clarified that the Government's interest is to get out of the assets considered as non-strategic, including Citgo, something that the President Chavez said last monday.

BP commits to selling assets to cover oil spill. British Petroleum agreed to sell four oil fields located in deep water in the Gulf of Mexico for US\$650 million to the Japanese firm Marubeni Corp. The oil company committed to selling assets for up to US\$30 billion to cover the expenses incurred to clean the crude oil spill and compensate the victims.

Pdvsa: Income up, revenues down. Last week, Petroleos de Venezuela presented its financial statements for the first quarter of 2010, evidencing an increase in the company's income generated by the high oil prices. However, the commitments



acquired by Pdvsa affected the company's net revenues. According to official numbers, the company's sales income was of US\$46.7 billion, a 47.2% growth compared to the same period of 2009. However, with the higher commitments acquired, the Pdvsa's net revenue was US\$2.6 billion, a 14% fall compared to the first semester of 2009.

Pdvsa bond issuance to honor payments to the Treasury Department. The publication of Pdvsa's financial statements showed that the oil company used the funds obtained with its latest bond issuance to pay the promissory notes submitted to the Treasury Department. According to the information provided, "on August 15 Pdvsa issued bonds for US\$1.5 billion with expiration in 2014, in coordination with the BCV and the Ministry of Finance. In this operation, Pdvsa received US\$1.1 billion and part of the funds was used to honor Pdvsa's obligation with the National Treasury Department acquired in December of 2009."

Cadafe's debt with Pdvsa increases. Pdvsa's financial statements revealed that as of June 30 of 2010 and December 31 of 2009, the state oil company compensated accounts receivable from Cadafe for US\$219 million, VEB 942 million at an exchange rate of VEB 4.30/US\$ and US\$267 million (VEB 574 at VEB 2.15/US\$), respectively. Now, it is detected that Pdvsa's accounts receivable from Cadafe increased by US\$202 million between June 2009 and June 2010, even though the National Electric Corporation (Corpoelec) is no longer attached to Petroleos de Venezuela.

... But Pequiven owes more. The debts of Pdvsa's affiliate, Pequiven, increased. As of the end of June 2010 and December 31 of 2009, the petrochemical company's accounts receivable accumulated US\$295 million and US\$333 million, respectively, for funds provided to be used as working capital.

Social programs could be detrimental for Pdvsa. President Chavez has made Pdvsa responsible for several commitments and projects in areas such as construction, education, nutrition and infrastructure, on top of the social missions. An official Pdvsa document presented to the US financial authorities within the framework of the issuance of company bonds indicates that *"the Bolivarian Republic of Venezuela, as the company's sole owner, may lead the holding towards reaching specific macroeconomic and social objectives that could negatively affect the results of our operations and our financial condition."*

Pdvsa invests in Iran's largest natural gas deposit. In his international tour, President Chavez signed an investment agreement for US\$780 million to develop stage 12 of the natural gas deposit of South Pars. Pdvsa's disbursement implies the funding of 10 percent of the total investment in the aforesaid stage.



Losses due to sales discounts to Belarus. Petroleos de Venezuela (Pdvsa) is already sending oil to Belarus with discounted prices. A few days ago, the president of Belarus, Aleksandr Lukashenko, asked for a 30% discount in the price of oil, the same discount percentage offered by Russia up until December 31 of 2009. This request aims to reach a total of 4 million tons of crude oil during 2010, an average of 80,000 barrels per day. To Pdvsa, this decision translates into selling crude oil at US\$48.50 per barrel instead of at an average price of US\$70.

Cuban earnings from Venezuelan oil. The relationship between Cuba and Venezuela has cost our nation shipments for almost 100 thousand barrels of oil per day. According to Gustavo Coronel, oil geologist and former director of Pdvsa, the amount of crude oil shipped to the island represents revenues between US\$750 and US\$950 million per year from processing Venezuelan oil.

Citgo out? The Venezuelan Government's current oil policy guidelines are setting the base to exit the US market. For this, they are contemplating reducing exports to the United States. Such a reality began when Venezuela decided to reduce the terms of the supply agreements for the Citgo system from 10 years to 1 year with a 1-year extension, thus being legally able to get rid of them. By not having available supplies, Venezuela would have the opportunity to sell the refineries to the United States without violating any agreements.

International oil baskets. At the close of the New York market last Thursday, October 28, the WTI was at US\$82.4/bl, showing a 0.8% increase compared to the US\$81.8/bl of the previous Thursday. The Brent decreased by 0.6% to reach US\$82.9/bl, compared to US\$83.4/bl of Thursday, October 14th.

Local oil basket price. The Venezuelan oil basket price increased last week, to close at US\$73.9/bl on Friday, October 28th, up by US\$1.1 or 1.5% from the US\$75.0/bl registered the previous week. Meanwhile, the basket's annual average is at US\$69.8/bl.

Business Sector Tips

Ranch of Fedenaga's executive expropriated in Barinas. The National Institute of Lands (INTI) notified last Friday to Egildo Lujan, treasurer of Federacion Nacional de Ganaderos de Venezuela (Venezuela's National Federation of Stockbreeders, Fedenaga) that his ranch "La Escondida" would be expropriated for being



unproductive. Said ranch is located in the Libertador municipality in the Barinas State and has an extension of 800 hectares of which 500 correspond to an aquifer and forest reserve, and the remaining 300 are devoted to livestock production. According to the stockbreeder's statements, this measure is nothing but a political retaliation and intimidation for not silencing his opinions towards this kind of actions.

Wave of expropriations continues. Last Monday night in National Broadcasting, the Administration announced the expropriation of the company Owens Illinois de Venezuela, a US capital company with two plants in Venezuela located in the Trujillo state, and which's main business activity is the production of glass bottles and containers for juices, food, cosmetics and pharmaceutical products. This new nationalization continues with the Administration's process to make Venezuela a socialist country.

INTI to decide all transactions related to agricultural lands. The National institute of Lands (INTI) will decide about everything related to businesses to be carried out by owners of agricultural lands in Venezuela, according to a notice sent to all registries in the country that indicates that agricultural landowners must *"refrain from legalizing and authenticating any documents related to businesses over agricultural real estate properties without the previous authorization issued by the organization's management."*

Coffee growers worried about the lack of product placement in the domestic market. Coffee producers are desperate because three weeks after the 2009-2010 cycle harvest began, they have not been able to place the product in the market, and estimate that between 100,000 and 150,000 coffee quintals have not been placed because imports have taken their market share. They also indicate that large industries such as Fama de America and Café Madrid, both currently managed by the State, have purchased too little of the national production because they have high levels in their imported raw material inventories, and both companies, before being expropriated, used to be their main clients. A similar situation is happening with coffee roasters, which have not stated their willingness to purchase either, since they have inventories up to January. These situations have caused intermediaries to pay very low prices for their products, thus having a negative impact on producers.

Supermarket sales have dropped by 12.0% during 2010. The president of the National Association of Supermarkets and Self service stores (ANSA), Alexander Texeira, said that both the fall of Venezuelans' income and the inflation have affected the sector's sales, both in priority and non priority products, and assured that supermarket shelves were evidence of the current deficiency in the supply of mass consumption products, which are usually punctual, such as milk, cheese and meats. In spite of this, the industry's representative assures that the government's expropriations



in the commercial sector have not affected supermarkets and hopes the sector's sales experience a recovery in the last quarter of 2010.

Powdered milk supply expected to get back to normal next week. The minister of nutrition, Carlos Osorio, held a meeting with representatives of Cavilac, Nestle, among other dairy-related companies, to analyze the situation that has affected the product's supply due to the increase in the price of raw materials in the international markets. Both sectors agreed to the reactivation of foreign purchases of milk, in order to satisfy the demand, and they will discuss the final details to create a new price system for this product line.

Approval of socialist financial laws to be accelerated. According to recent statements issued by the president of the Finance Commission, Ricardo Sanguino, during the last months of this year, National Assembly representatives will speed up the process to approve the laws that will allow the Administration to advance in its socialist productive model, and among the texts to be included with celerity are those related to the financial system, such as the Law of Banking Activity, which will supersede the current Law of Banks, the Law of Public Banking and the Law of the Public Securities Exchange. These reviews will be carried out simultaneously with the Law of Budget 2011, of which public consultation process is usually quite long.

5000 people applied for the "cedula buen vivir" (Good Living Card). According to statements issued by Humberto Ortega Diaz, minister of state for the public banking system, Banco de Venezuela has registered approximately 5000 applications, while Banco Bicentenario started a study process to capture clients interested in the financial instrument recently created by the National Government, also indicating that nearly 500 points of sale, including Mercal, Pdval and Abastos Bicentenario establishments, already installed the technological devices to receive the card as a payment method.

Indepabis to audit private clinics and insurance companies. The president of the institute for the Defense of People in the Access to Goods and Services (Indepabis), Auro Rosa Hernandez, said the institution would begin the audit process of private clinics and insurance companies in order to make sure there are no speculation or overprice infractions, while checking whether their operation and services meet the regulations regarding the attention of Hospitalization, Surgery and Maternity insurance policies, and guaranteeing that private health centers are meeting the guidelines specified in the Law for the Defense of People in the Access of Goods and Services.

Malfunctions in the electric generation system caused a blackout in the Paraguana Peninsula. A malfunction in the thermoelectric plant Josefa Camejo, Falcon, last Friday, October 22, caused a blackout in the whole Paraguana Peninsula



for over five hours, a situation that, according to statements issued by Hildemaro Leal, manager of Cadafe-Paraguana, was caused by the self-discharge of a thermocouple, generated by a high temperature that caused the loss of “all of Paraguana’s generation system.”

New technologies ideal to offer products. According to statements issued by the founder of the commercial social network Kentriki, Alfonso Luna, companies that do not adapt to the transformation and take advantage of the platforms offered by new technologies to announce their products and services, are at risk. He also assured it wasn’t only about taking advantage of said platforms, but also about making changes in the way companies conceive advertising and their relation with consumers. In this specialist’s opinion, today’s marketing must be integral.

World Crisis Tips

US economy remains weak. US consumer confidence remains weak. According to The Conference Board’s consumer confidence index, people’s trust in the economy improved by 50.2 points, after having hit its lowest point in seven months last September when it reported 48.6 points. However, this level is still quite low to show signs of optimism about the economy, mainly because of the currently high US unemployment rate (9.6%). It is expected that at next week’s meeting, the Federal Reserve begins conversations about a new stimulus package for the economy. So far, the Federal Reserve has injected US\$1.7 trillion to the economy through the purchase of mortgage loans and assets related thereto, and Government bonds.

Home sales improve. The discounts in home prices seem to have had an effect in boosting sales, since the National Association of Realtors reported a 10% increase in sales in September, following a 7.3% increase in August. Sales for that period exceeded consensus expectations of 4.3 million properties by reaching 4.53 million. However, sales are still 19.1% lower than in September of 2009. The average price of homes went down by 3.3% m/m to reach US\$171,700, with this being the third consecutive month reporting contraction. These prices represent a 4.3% increase since February, but are still 25.0% lower than the peak reported in 2007.

Delayed payment rate decreases in USA. The delayed payment rate of open credits has decreased significantly to reach 3.6%, one percent point less than the crisis’ highest. This drop reflects consumers’ consciousness, who have decided to reduce their debts with banks.



Trend change. The Conference Board's Leading Indicators index reported a 0.3% growth during September, reversing the deceleration reported in August when the index reported a 0.1% increase. The last registry implies a quarterly growth rate of 2.4%. However, this growth rate is the lowest since March of last year. To calculate this index, The Conference Board bases its analysis in eight historic data series, of which the two most important are consumption orders and capital goods orders.

Orders bounce back in Europe. Euro zone orders bounced back after July's hard fall (-1.8%), reporting growth by 5.0% and giving Europe back a certain sense of Balance for the economic outline which had been weakened. In July, three of Europe's main economies experienced falls by 2.0% or more, Germany (2.0%), Italy (2.6%) and Spain (5.9%). In the twelve-month indicator, orders recovered by 21.0% as of August, experiencing the biggest growth in the last six months, and reported an accumulated growth by 35.4%.

German financial sector sees good times. The German financial community is more positive about the current situation and more cautious with future projections. The latest survey conducted by the Center for European Economic Investigation ZEW to different sector representatives shows the general opinion of current conditions increased by 12.7 percent points in October, reaching 72.6%, the highest percentage reported since September of 2007. Overall, the financial sector's opinions indicate expectations of increased business and revenues that will boost people's consumption.

Germany: PPI increases. Germany's Producer Price Index (PPI) keeps increasing, and the rate continues to show an increasing trend. It is worth highlighting that the 3-month growth rate of 3.7% (yearly) is lower than the 6-month growth rate of 4.5% (half-yearly), evidencing that even though the PPI continues to grow, the same variable is decelerating.

Political Tips

Nothing new under the sun. According to the NGO Transparency International, Denmark, New Zealand and Singapore head the list of most transparent countries in the world, indicates their study of "perception of corruption," which includes 178 countries, of which Somalia (178), Burma (177) and Afghanistan (176) occupy the last three places. Of Latin America, Venezuela appears as one of the most corrupt



countries in the world, taking position number 164, while Chile (21) is the Latin American role model, followed by Uruguay (24), Puerto Rico (33) and Costa Rica (41). Then come Brazil and Cuba (both ranked 69th) and Colombia (78).

No control at all. In the first four countries visited during his recent tour (Russia, Ukraine, Iran and Syria), President Chavez signed 40 agreements of different nature, and few people know their contents in the National Assembly (AN). Elected representative Maria Corina Machado said that article 178 of the Constitution establishes that the National Assembly must authorize the President to sign national interest agreements, and if that is the condition of the agreements signed during his trip, they *“are not effective as long the National Assembly does not authorize them.”*

Chavez: We will not accept anyone’s tutelage. President Chavez assured last Saturday in Tripoli that his country would not accept anyone’s tutelage, in response to Washington’s warnings after the announcement of the upcoming construction of Venezuela’s first nuclear plant. Chavez assured Venezuela would not be subjected to any kind of foreign supervision, in statements at the end of a ceremony in the Tripoli Academy of Higher Studies where he received the decoration of Dr. Honoris Causa in humane economy.

Advantages of the nuclear plant... The president of the National Assembly’s Foreign Policy Commission, Roy Daza, said the plan to develop electric energy through the atom is a strategic decision in benefit not only of Venezuela, but of the region. According to a press release issued by the Venezuelan Chancellor’s Office, the representative said that *“if there is a possibility to have the largest number of energy sources and Venezuela’s geographic location allows us to create an axle for South American development I really think we are in very positive conditions.”* He also said this diversification would help Venezuela not to exhaust its oil resources in domestic development, as they continue to search for new energy sources.

That’s what it was... *“The president asked me to donate one million US dollars to Bolivia.”* Getting into the details, the former president of Pdvsa, Guaicaipuro Lameda, said that the donation was for a political party opposed to the then ruling government. Lameda says he answered: *“that would be interfering in other countries’ internal affairs.”*

Jaua: “We will not go after Polar or Cargill.” Vice president Elias Jaua assured that for now there were no plans to expropriate Empresas Polar and Cargill. Jaua said *“there are no actions or measures planned for these two companies. With them, we have started to advance towards a model of diversification, scattering of the monopolies that have developed in Venezuela.”* The minister assured the nationalization and expropriation policy supported in the National Constitution was



headed to dismantling the monopoly and oligopoly apparatus that took over a large part of Venezuela's production factors.

We've failed in the field of prisons. The director of the Venezuelan Observatory of Prisons (OVP), Humberto Prado, said the National Government had failed in the administration of Venezuelan prisons. He insisted that the country's prisons had a capacity of 12,500 inmates and the current count was 43,000. Prado said the Government should evaluate this failure. He asked the competent authorities to *"follow the Constitution's article 272 which states a progressive point, that prisons will be ruled by an administration decentralized to regional or municipal governments."*

Candidates in the race. The National Electoral Council opened the postulation process for the upcoming Governor election in the states of Guarico and Amazonas, and Mayor election in the municipalities of Achaguás (Apure), Miranda (Carabobo), Carrizal (Miranda), Arismendi (Nueva Esparta), Panamericano (Táchira), Miranda and Boconó (Trujillo), Manuel Monge and Nirgua (Yaracuy), Miranda and Maracaibo (Zulia), to be celebrated on December 05.

Primary election in Maracaibo. The primary election for Mayor of Maracaibo, Zulia State, could be celebrated on October the 31st. The result of this election will determine the unity candidate to participate in the Mayor election of December 5. The National Electoral Council (CNE) is expected to inform whether the process can be automated, otherwise, Sumate will take over. Among the pre-candidates to the Maracaibo Mayor Office are Evelyn Trejo de Rosales and Juan Pablo Guanina.

Maiquetia with social priority. The Minister of the People's Power for Transportation and Communications, Francisco Garces, said that the objective of the audit of Maiquetia International Airport (IAIM), currently in process by the National Government, was to review the legal and financial aspects of its operation and to orient its activity towards *social investment*. The review of the IAIM's structure will allow the Government to determine why there aren't enough surpluses to allow the institute to invest in health, education, transportation, and other fields. He said that the auditing board would endorse all expenses and income perceived by the institution due to different concepts such as airport taxes and the leasing of commercial spaces.

What will the new labor law bring? Oswaldo Vera, vicepresident of the National Assembly's Social Development Commission, sees no inconveniences in the approval of the new Labor Law in the new legislative period, since he assures that two thirds of the votes are not required. The government party's proposal addresses three main points: promoting the retroactivity of severance benefits, the progressive reduction of the working day and the defining the parameters of labor-related decisions.



ECONOMIC OVERVIEW

