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## *Wage hike with no labor policy*

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### THE CLIENT

#### **New minimum wage hike**

The president of the Republic announced a 10% increase in the minimum wage from September 1 this year to VEB512,325 a month. This is the second raise this year. Chávez had already increased the monthly amount by 15% last February 1. With this presidential announcement the minimum wage will increase 26.5% by the end of 2006 from VEB405,000 to VEB512,325 a month, over double the inflation of the last 12 months. As has been the common practice of this administration, the measure was not consulted with unions or employers. It is not known what productivity parameters were used to calculate this percentage.

#### **Other "election" measures require high outlay by Treasury.**

The president also announced that teachers would receive a 43% raise this year: 30% from May 1 and another 10% from October 1. The administration also unified the minimum wage, which was divided into special classifications. All Venezuelan workers will now earn the maximum minimum wage, irrespective of whether they work in a firm with less than 20 workers, or are apprentices or domestic workers.

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Temporary, part-time, and apprentice workers will now have the right to receive the food bonus along with the other employee benefits.

**The measure has limited impact on the Venezuelan population because many workers earn less than the minimum wage**

Due to the high level of informality in the Venezuelan labor market, it is important to calculate the percentage of Venezuelans in work who earn less than the minimum wage. The estimate of non-compliance with the minimum wage, which we present below, is based on the latest household survey by sampling (EHPM) for the first half of 2004 in Venezuela.

**The data for the informal sector of the economy are little less than devastating.**

Using the latest household survey, the estimate for the first half of 2004 is that 42.8% of these employed workers earn less than the minimum wage. Add to this the fact that only 15.0% of all informal workers earn a wage equal to the minimum wage means that practically six out of 10 workers in the informal sector earn the minimum wage or less.

**This measure hits the formal private sector harder because the level of non-compliance is lower.**

By size of firm, the EHPM data reveals that 15.2% of workers in large companies earn less than the minimum wage, and 19.7% in small formal firms.

**In March 2006, non-compliance affected 36.3% of the economically active population.**

According to the latest figures published by INE on the employment and unemployment in March 2006, and assuming that the percentage of non-compliance in the formal sector has not changed, about 2,100,000 Venezuelans in the informal sector earn less than the minimum wage. In the formal sector, a certain reduction is plausible because the economy has grown strongly in 2005 and 2006. If we assume a reduction of non-compliance to 10%, about 600,000 workers in the formal sector would be earning less than the minimum wage. If we add unemployed Venezuelans to these figures, the total who earn less than the minimum wage is around 4,350,000. So, in March 2006, 36.7% of the economically active population is either unemployed or earns less than the minimum wage.

**How easy! The minimum wage is raised without defining or solving the main problems of the labor market.**

The government continues in debt to social security. According to SISOV, in 2005 public spending on social security fell to 24.5% of total social expenditure. The long delay in the setting up and application of the social security sub-systems has produced huge losses, with Venezuelans paying the consequences. The core social security regimes (pensions and health) are still on the drawing board. It is more important for Venezuela to build a consensus for a lasting social security policy than to be patching up labor problems less than seven months before the elections.

## Economic Tips

**0.6% inflation in April.** According to the Central Bank, the Consumer Price Index (CPI) gained 0.6% in April, down from April 2005 (1.3%) and from the previous month (0.9%), bringing total inflation for the first four months of the year to 2.0%. Year-on-year inflation in the last 12 months is 11.4%, the lowest since 1986.

**Slowing of rises of controlled prices.** According to the Central Bank report, the month-on-month CPI fell mainly because the inflation rate for controlled goods dropped from 1.0% to 0.5%, favored by the results of basic services (- 0.1%) due to the contraction in residential electricity charges (-0.4%). Controlled items maintained a similar growth trend to the previous month changing from 0.8% to 0.7%.

**Inflation in line with official target.** *Ecoanalítica* believes that the government could achieve its 10% inflation target for this year or even lower. We forecast that inflation will end this year at 9.8% to rebound in 2007 to 13.9% given the fiscal and monetary pressure.

**Minister Merentes pessimistic.** According to Finance Minister Nelson Merentes, Venezuela could grow above 7% in the first quarter and in all 2006, compared with last year, buttressed by high oil prices. This projection is much lower than our 9.8% estimate for 2006. High oil prices have stimulated a consumer boom and a more aggressive fiscal policy, which will bring high growth in 2006.

**Government admits pending tasks.** Despite the positive situation of high oil prices, the government admits there are pending tasks in the microeconomic area and income distribution. For *Ecoanalítica* with the current level of oil prices, a Venezuelan economy with a two-digit average unemployment rate and high levels of poverty is unacceptable.

**Nonsense measure.** Light Industry and Commerce Minister María Cristina Iglesias said that the basic offering of the regime's economic policy was to reduce imports and stimulate national production. In the words of Iglesias: "I am doing this study item by item, list after list, and also checking the quantities produced in the country. Our decision is that if Venezuela produces for 50 and we are a 100, the other 50 has to be imported, but if we produce for 100 we cannot import any product if there is sufficient production in Venezuela. This is the ministry's position." Iglesias' antiquated thesis is a throwback to the failed policies of fifty years ago.

**Oil boom becomes importer boom.** In *Ecoanalítica* we have said on previous occasions that current economic policy creates incentives for imports. The real appreciation of the bolivar makes foreign products cheaper and more competitive than domestic products. Moreover, exchange controls act as a "subsidy" for the import sector, as reflected in imports worth US\$23.96 billion in 2005 - the highest level for nine years.

**Labor clearance certificate in force.** The agencies and departments of the centralized and decentralized public administration are requiring from May 1 a clearance certificate for private establishments and firms that wish to contract with the State. Presidential Decree 4.248 sets up two processes: firms are obliged to register in the National Register of Companies and Establishments (RNEE), and to obtain the labor clearance certificate.

## Oil Tips

**Citgo with good dividends.** Citgo President Félix Rodríguez said that Venezuela received US\$1.30 billion in 2005, including almost US\$600 million that the subsidiary paid to PDVSA for the crude sold to its refineries. The rest (US\$785 million) was repatriated in dividends to Venezuela. In reply to a question on the profit on the Venezuelan crude supply agreements, Rodríguez recognized the change in the formula to calculate the oil price between Citgo and PDVSA, increasing the PDVSA profits.

**No compensation for ENI or Total.** According to Rafael Ramírez, Energy and Oil minister and PDVSA president, Venezuela will not compensate the European oil companies ENI and Total for the fields they lost after opposing migration to joint ventures. The minister said that the government "will recognize the investments that

were made in the agreement." He added that "the matter was concluded" and the firms would not be compensated for losses.

**More on Lyondell.** With respect to the sale of the Lyondell refinery in which Citgo, PDVSA's US subsidiary, has a 41% interest and Lyondell Chemical the majority share, the Citgo chief said that the plant made losses for Citgo in 2004 and 2005, but is currently making a profit. "It's a good refinery. What's happening is that we're minority shareholders." Lyondell took legal action against PDVSA in 2003 which abruptly cut off crude supplies to international customers, including the refinery during the strike in that year. PDVSA agreed to pay US\$50 million compensation in inputs.

**Moody's alert.** Moody's rating agency announced that it had placed four strategic associations in the Orinoco Belt under review for possible downgrading after the Venezuelan government announced that it planned to raise the royalty rate and bring in PDVSA as majority shareholder in all the projects. Currently Moody's grants a BA3 rating to the total US\$3.10-million foreign debt held by these projects.

**Another rise in the basket.** The Venezuelan crude and products basket rose 56¢ from US\$62.27 to US\$62.83 per barrel. So far in April, the Venezuela basket has averaged US\$60.29, much higher than in January (US\$53.72), February (US\$52.15) and March (US\$53.74). The average in the first four months of the year is US\$54.91 per barrel.

## Sectoral Tips

**Bank charges debate continues.** According to Simon Escalona - chairman of the Financial Policy, Banking, Insurance and Financial Coordination Committee of the National Assembly - consultations will be resumed with the organizations involved, including the Venezuelan Banking Association (ABV) to include in the new Banks and Other Financial Institutions General Law an article on regulating bank charges. According to the parliamentarian, the objective is to find a methodology, a technical criterion to prevent the banks from exceeding these charges. He also confirmed that work was being done on the sections of the banking bill on credit and debit cards, user committees and development banks.

**CANTV announces results.** CANTV presented its results for first quarter 2006, highlighting a 32.3% increase in revenue over first quarter 2005. However, EBITDA fell 2.3% in the same period. CAPEX increased a significant 38.5% to US\$77.6 million. Movilnet, the cellular subsidiary, increased its revenue by 75% from the first quarter of 2005. This subsidiary currently represents 45% of the total revenue structure of the

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company. Net profit in the first quarter was US\$85.5 million, down 37.6% from the first quarter of 2005.

**High growth in the construction sector.** The construction sector in the first quarter of this year grew 50% from the same period of 2005, according to estimates by the Venezuela Construction Chamber (CDC). Chamber President Irwin Perret said that this high growth was attributable to major infrastructure works, followed by housing and the commerce sector. Perret expects investment in the sector to reach US\$6.50 billion this year.

**Record sale cement sales.** According to the Venezuelan Cement Producers Association (AVPC), domestic cement sales grew to 535,881 metric tons during the month of March, a record figure above the average of recent years. The AVPC figures show that, in comparison with previous periods, these sales increased 12.04% in the third month of 2006 in relation to March 2005. Consumption per capita in the Venezuelan market is now 230 kilos compared with an average of 170 kilos.

**Electricity rising.** Electricity consumption and demand for power this year grew 6.8% and 5.1%, according to the Interconnected Systems Operating Office (Opsis). In March maximum demand for power grew 5.1% and power consumption 6.5%, while total generation rose 6.8% in the first quarter compared with the same period in 2005.

### Political Tips

**CNE members named.** The National Assembly appointed in the stipulated period the five principal directors and 10 alternates for the board of the National Electoral Council. The board then appointed Tibisay Lucena as president to replace Jorge Rodríguez. Lucena, who had been a principal director of the body, is known for her technical expertise. As expected, the correlation of forces clearly favors the government sector four to one. However, **Ecoanalítica** prefers to be prudent and give the new electoral body time before judging its actions.

**Opposition unity is possible.** At a meeting in Maracaibo, presidential candidates Teodoro Petkoff and Julio Borges, with Zulia State Governor Manuel Rosales who may also run, said they were open to the possibility of primary elections, among other methods of selection, to achieve a single opposition candidate. They expected other candidates to join the initiative. The three politicians concluded a gentleman's agreement or non-aggression pact and set the ground rules for the election campaign while the single opposition candidate is being chosen.

## ***Weekly Report***

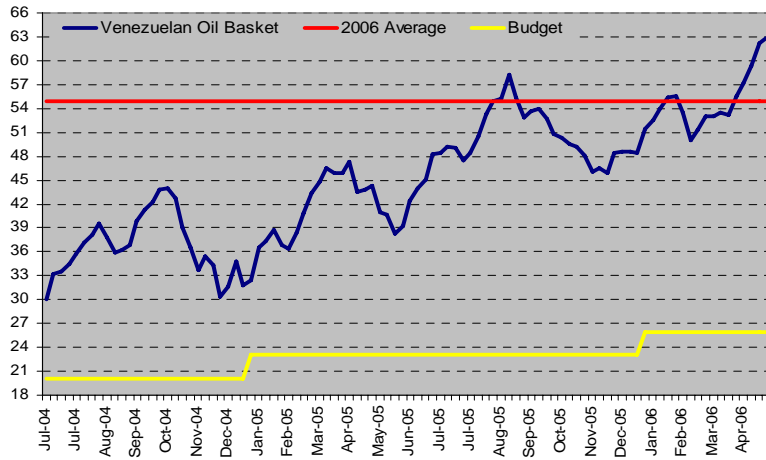
**Positive primary elections.** *Ecoanalítica* believes the only way to achieve a change of government is by building of a new opposition majority. In this task, we see the introduction of the primaries as a positive element which will animate the opposition sector and the "light" Chavistas. The opposition would also have a "winning" candidate to confront Colonel Chávez.

**Primaries: the clear favorites are Borges and Rosales.** According to public opinion pollster Greenberg, Quinlan & Rosner, among the group of people who said they would probably vote in primary primaries, the leading candidates are Julio Borges with 37% and Governor Manuel Rosales with 27%. Other opposition candidates who have some strength are Salas Romer (6%), Salas Feo (5%), and Teodoro Petkoff (2%). *Ecoanalítica* believes that the difference between Borges and Rosales could narrow in the heat of the campaign because of the resources that the governor has. Everything seems to point to the Salas (father and son) not taking the initiative to run. Lastly, Petkoff's main asset is the most radical opposition.

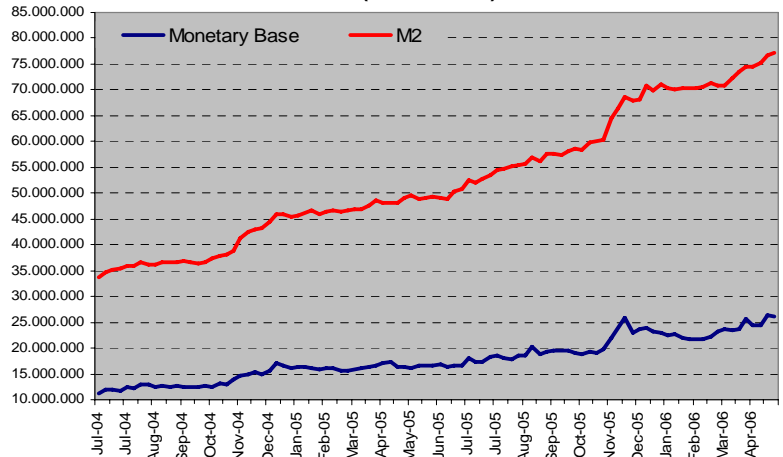
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# ECONOMIC OVERVIEW

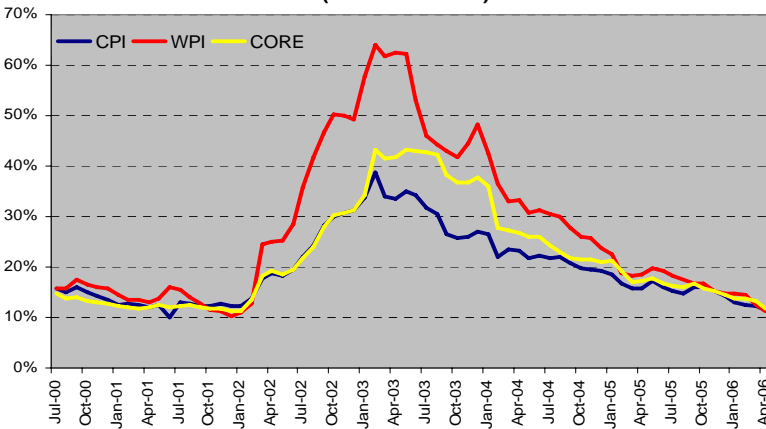
**Oil Price**  
(Venezuelan Basket US\$pb)



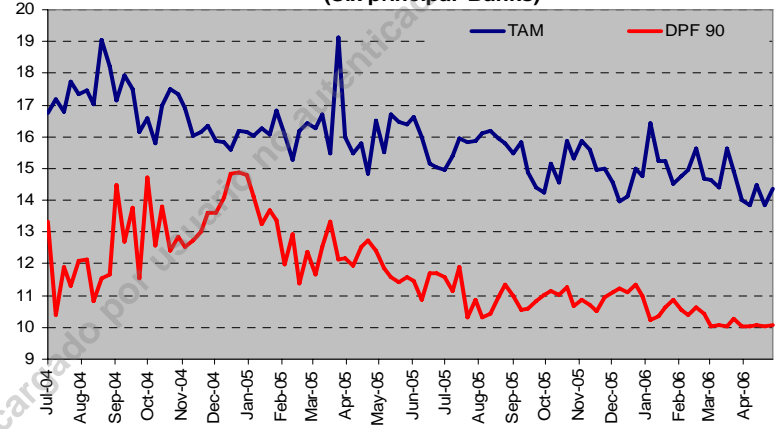
**Monetary Base & M2**  
(Millions Bs.)



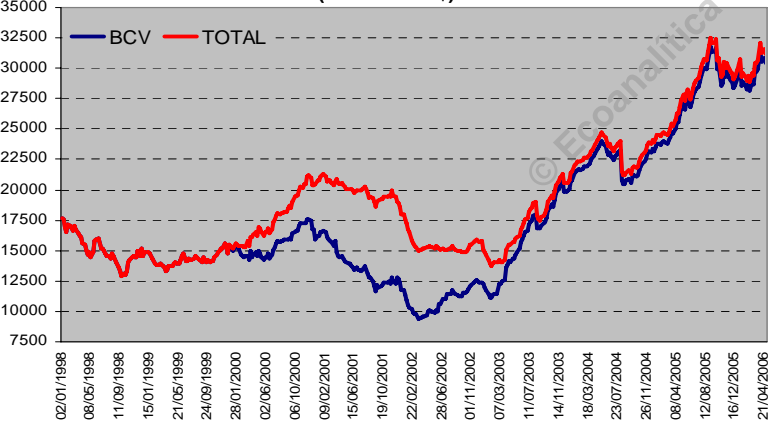
**Inflation**  
(last 12 months)



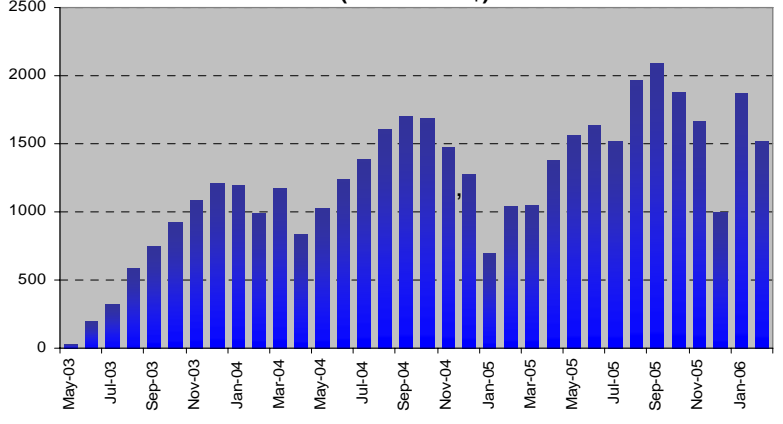
**Interest Rate**  
(Six principal Banks)



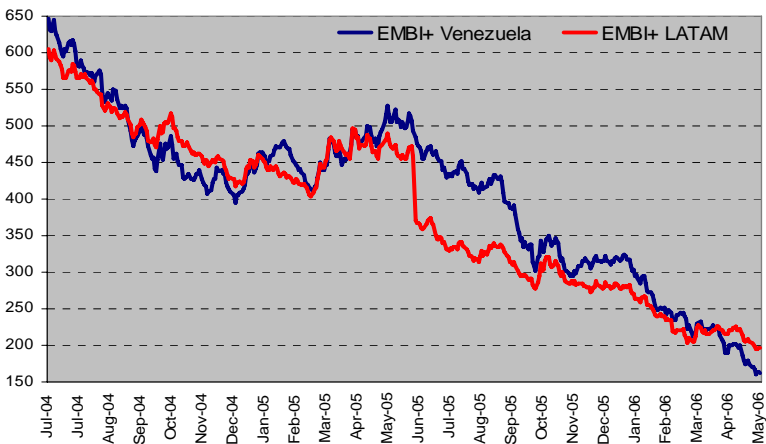
**Fx Reserves**  
(Millions US\$)



**Disbursement**  
(Millions US\$)



**EMBI**



**Central Government**  
(Billions US\$)

