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***DESPITE INCREASED
OIL REVENUES, THE
EXECUTIVE OFFICE IS
NOT SHOWING VERY
IMPRESSIVE
NUMBERS WITH
REGARD TO LABOR***

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THE CLIENT

After eight years of being in power, during which the Government has received more than US\$300 billion in oil revenues, labor market figures are still quite worrisome. In the twelve months prior to February, only 189,849 jobs have been created, and of these, 44.5% (84,486 jobs) were created in the public sector and only 105,363 new jobs were created in the private sector. We're in the middle of an economic boom showing significant economic growth without creation of jobs. The private sector increased its production by more than 10%, but only employees 1.2% more people. Without creating more jobs, it's impossible to increase salary purchasing power. In **Ecoanalítica's** opinion, the economic policies being applied by the Government aren't creating a business environment that inspires the private sector confidence to invest thereby creating new jobs.

A million 322 thousand people are looking for, but can't find jobs

According to the National Statistics Institute (INE), during February, one million 322 thousand people or 10.9% of the economically active population is unemployed. Women and young adults are among those most affected. A third of those unemployed are young adults between the ages of 15 and 24 years old. This group is showing an unemployment rate of 19.1%. Unemployment for women is showing a rate of 12.1%, which is higher than that for men.

Peculiarities in defining employment

During the last three years, the INE has made a series of methodological changes which help reflect smaller unemployment numbers. For example, The INE considers that working age people, who are in any way being educated by any of the mission programs, aren't unemployed, but defines them as students and part of the economically inactive population. So, people that are in the missions, who go to school 3 to 4 hours during the weekend, and get paid a third of minimum wage for doing so, aren't considered unemployed. Instead they serve to inflate the number of students in the system. **Ecoanalítica** estimates that around 750,000 people were not included in the ranks of the unemployed to be defined as students.

An employed person is one who worked more than 4 hours the previous week

Another change which is worth noting is the drop in the number of hours one has to work to be considered employed. Before, for a person to be considered employed he or she had to have worked at least 8 hours in a week. This number of hours per week has now been lowered to 4. According to **Ecoanalítica's** latest home survey, it's estimated that around 500,000 people worked less than 15 hours a week. If we add the two previous figures with the number of unemployed, we find that around 2.6 million Venezuelans are either unemployed or underemployed.

Economic growth without creating jobs

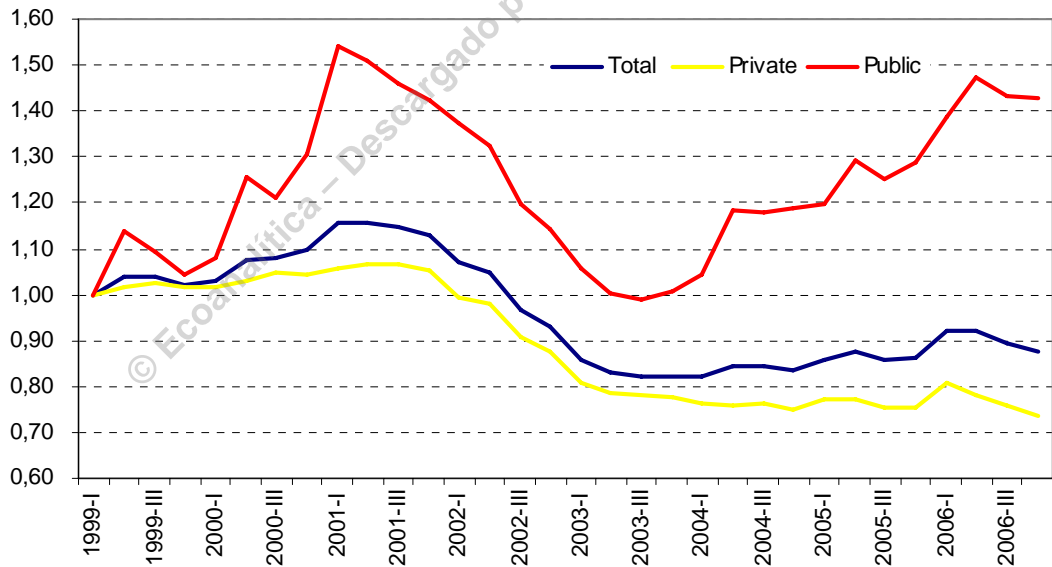
In the twelve months prior to February, only 189,849 jobs have been created, and of these, 44.5% (84,486 jobs) were created in the public sector and only 105,363 new jobs were created in the private sector. We're in the middle of an economic boom showing significant economic growth without creation of jobs. The private sector increased its production by more than 10%, but only employees 1.2% more people. During the same period the working age population increased by 417,149 people, which represents 220% of the new jobs created, and the economically active population grew to 241,474 people. This means that of the total number of people that entered the job market

for the first time, only 78.6% found jobs, which increases the number of unemployed people by more than 50,000.

Without creation of jobs it is impossible to reactivate salaries

Based on salary and consumer prices indexes that the Central Bank of Venezuela (BCV) publishes, **Ecoanalítica** has put together a real salary index. During the eight years that this administration has been in power, real salaries in Venezuela have fallen by 12%. This means that a person's salary in Venezuela, today, buys 12% less than what it did in January 1999. This figure hides two opposing realities. For the one million eight hundred thousand people that work in the public sector, real salaries have increased by 43%. For the nine million people that work in the private sector and whose salaries are unfortunately fixed according to the laws of supply and demand, salaries have fallen by 26%.

**Real Wages Index
(IQ-1999= 1,00)**



Sources: BCV and Ecoanalítica

The key to eradicating poverty is the creation of jobs

During the last few years, yearly averages of 400,000 new workers have entered the job market. This means that if Venezuela were to want to reach full employment capacity by 2015, it would have to create 520,000 new jobs a year. A study being done by the Universidad Católica Andrés Bello's *Proyecto Pobreza* points out that

Weekly Report

to eradicate poverty in 30 years, or by 2037, it's necessary to create more than 500,000 jobs a year. These figures are a long way from the number (less than 200,000) of new jobs created in 2006, the year Venezuela registered its highest level of real oil revenues in history.

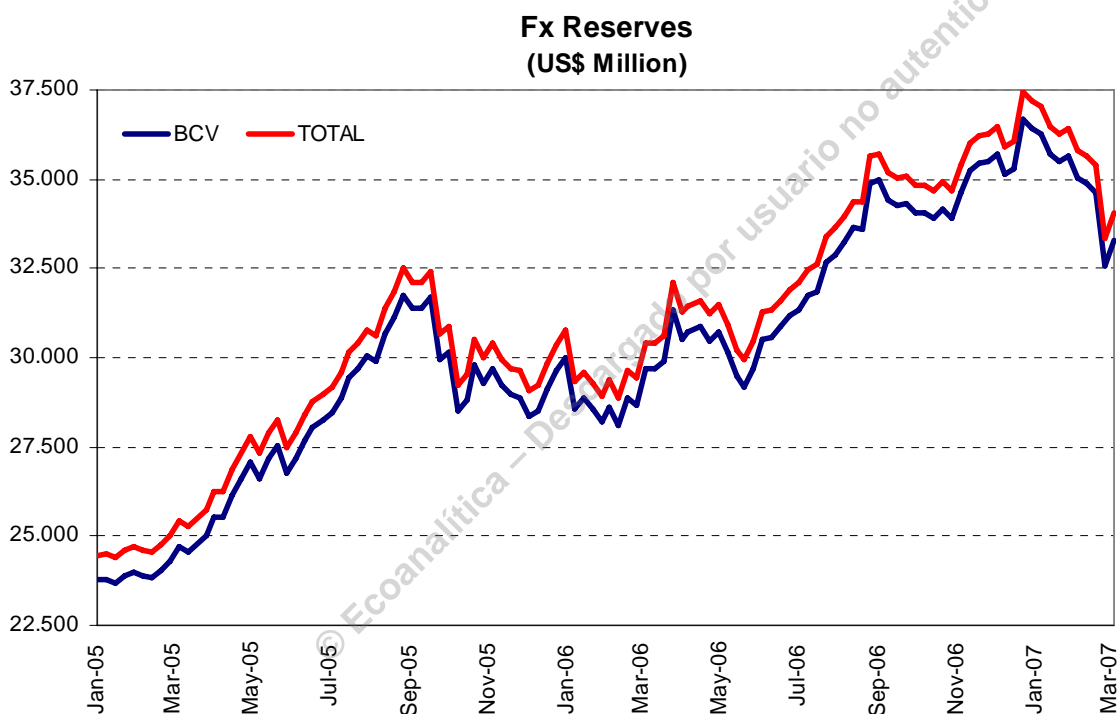
A change in economic policies is urgently needed

In *Ecoanalítica's*, point of view, it is quite clear that the current administration's economic policies don't create incentives for productive investments, creation of jobs or respectable salaries. The high risk felt by the private sector to invest, the exchange controls which subsidize imports, and consequently, create jobs for our main commercial partners abroad instead of creating them domestically, fiscal squandering, increased capital flight by the public sector, encouraging the rentist model, among other things, are policies which stimulate the vicious circle of low productivity, low investment, limited increase in new jobs, and salaries with less purchasing power.

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Economic Tips

The first transfer. The Central Bank (BCV) board authorized the transfer of US\$2.0 billion of the international reserves to FONDEN last February 28th, so that, by the close of March 20th, international reserves stood at US\$34.11 billion. In the span of a month, international reserves have fallen US\$1.61 billion, and by US\$3.33 billion for the year.



Sources: BCV and Ecoanalítica

And not the last. The transfer is in accordance to what's stipulated in the reformed BCV Law which states that if by year end international reserves surpass an "adequate level," the surplus must be transferred to FONDEN. In accordance with this rule, the BCV board must calculate the reserves optimum level each year. In 2006, according to BCV president, Gastón Parra Luzardo, this optimum level was estimated at "less than US\$30 billion, give or take." Considering that by close of 2006, reserves totaled US\$36.67 billion (excluding the FEM), during the first half of this year, a little more than US\$6.0 billion should be transferred to FONDEN.

Counterproductive effect. This policy of transferring international reserves produces at least two negative effects. One, it creates losses for the BCV of VEB13.3 trillion, these to be added on to the losses resulting from the previous transfers, which are hidden within their financial balances and are significantly higher than the losses published as a result of cumulative operations. And two, independently of where it's been allocated, reserve transfers increase circulating bolivars, and consequently, absorption operations.

Cabezas spoke. From the Inter-American Development Bank's (IDB) yearly meeting in Guatemala, Minister of Finance, Rodrigo Cabezas, pointed out that the PDVSA bond issue will be worth US\$ 5.0 billion and that it will be publicly announced before Easter. Three bonds are expected to be issued, with maturity of 10, 20, and 30 years.

Zero devaluation. Cabezas also dispelled any rumors that the Government may be about to devalue the currency, which is plausible given that the Government isn't facing problems in the fiscal area thereby allowing it to maintain the current official exchange rate.

High level of growth and the inflationary goal is raised. The Government is forecasting that the economy will grow at a rate of at least 7% and that inflation will be at around 14% (higher than the 12% forecasted in the National Budget). It's important to point out that we feel it will be very difficult to limit inflation to 14% if current economic policies aren't modified. Cabezas also stated that the Executive has planned to gradually dismantle the VAT during a maximum period of three years in order to stimulate the population's savings.

More severe controls. The National Assembly Finance Committee considers that price control actions must be expanded, and therefore urges INDECU to increase its vigilance over controlled product prices. For its part, the Executive is expected to continue taking anti-inflationary measures in order to control inflation.

OIL TIPS

Two consecutive weeks. For the second week in a row, the Venezuelan crude and by-product basket dropped US\$1.01, to end up at an average US\$51.69 per barrel. The cumulative mean thus far in 2007 is US\$49.34 per barrel.

Down a notch. According to the Energy International Agency (EIA), Venezuela went from fourth to fifth on the list of mayor US crude suppliers, delivering 955,000 bd in January, less than the average of what is supplied by Canada, Saudi Arabia, Mexico,

and Nigeria. This figure is 90,000 bd (8.6%) below the volume of Venezuelan crude delivered to the US last December, and 273,000 bd less (22.2%) than what was delivered in January 2006. This is the sixth month in a row that Venezuelan crude deliveries to the US have fallen.

The quotas weren't modified. The 144th OPEC conference ended last week without any surprises concerning the authorized production quotas, which remained the same with regard to what was agreed to upon during the last meeting in December. This reconfirms the last two supply cutbacks, the first one in November for 1.2 million bd, and the second in February for an additional 500,000 bd, which leaves a total of authorized production of around 25.8 million bd, excluding Angola and Iraq.

Exxon can't make-up its mind. ExxonMobil still hasn't made-up its mind whether it will continue to be a shareholder in the *Cerro Negro* heavy crude upgrader after Venezuela decided to become the controlling stockholder of these projects that are being operated by foreign groups in the Orinoco Belt. The oil company said that it was conducting talks with the Government about issues like "valuation, sanctity of the contract and compensation."

Venezuela's largesse. According to the Government, Venezuela is supplying the Latin American region with almost 200,000 bd through preferential mechanisms, which costs add up to around US\$4.0 million a day or more than US\$1.45 billion a year, calculating the barrel of oil at US\$50.00.

The beneficiaries. The active quotas of the Caracas Energy Agreement foresee a maximum supply of 44,000 bd to Uruguay, 9,000 bd to Paraguay, while Bolivia will receive 12,000 bd. Petrocaribe jointly supplies 143,000 bd (including its most recent members Haiti and Nicaragua), while Cuba and Argentina have separate integral agreements for 98,000 bd and a variable supply of diesel, respectively.

And San José too. Even though we haven't heard much about its status for a long time, the San José Agreement through which Venezuela and Mexico provide the region with 160,000 bd is still active.

PEQUIVEN didn't meet goal. According to the figures released by PEQUIVEN for 2006, the company's net income dropped by 15% compared to 2005, and settles at VEB534.8 billion. This was mainly due to increased costs and spending. While revenues increased by 10%, spending increased by 15% spearheaded by a 36% increase in spending on personnel and a 55% depreciation of its use goods.

BUSINESS SECTOR TIPS

30% of CANTV will remain on the stock exchange. According to the Minister of Telecommunications, Jesse Chacón, CANTV's Public Acquisition Offer is about to begin, all that's pending is the reply from the US Security Exchange Commission in NY. According to a statement from the ministry, the Venezuelan State will own 70% of CANTV stock, and along with the ministry of finance, a scheme is being studied that will allow the remaining 30% of shares to be converted into a national savings mechanism in order to strengthen the Stock Exchange.

Issue in bolivars. The Inter-American Investment Corporation will place on the Venezuelan market a bond issue worth US\$100 million. The agents placing the bonds will be BBVA Banco Provincial and BBVA Securities. The Venezuelan bank will be responsible for structuring and placing the public offer of this company's first issue in Venezuela, with a bond program denominated in bolivars which will reach the equivalent of US\$100 million. The Inter-American Investment Corporation is an independent multilateral financial entity which forms a part of the Inter-American Development Bank Group (IDB).

First time in Venezuela. Once the authorization has been received from the National Security Exchange Commission, the bonds will be placed on the domestic market. The Inter-American Investment Corporation has placed this type of paper in other countries, but this will be the first time in Venezuela. In the past, the CAF, a similar entity, has successfully issued papers on the domestic market.

Mercal losing ground. A study by the consulting firm Latin Panel shows that for the last quarter of 2006, the Mercal chain lost share in the Venezuelan products of mass consumption market, falling from 14% in the second quarter to 10% in the fourth quarter. Among stores preferred by shoppers, it went from 19% to 16%.

Independent supermarkets improve. According to this very same study, independent supermarkets increased in importance by 6 points, going from 25% to 31% between December 2005 and December 2006, while Mercal dropped 4 points, registering the biggest setback among related companies dropping from 13% to 9% in the same period. In a span of seven months, this network lost 10 market share points, going from 56.7% in May 2006 to 46.53% by the close of last year. In 2006, Mercal represented 13% of all bolivars spent by families to buy food.

Weekly Report

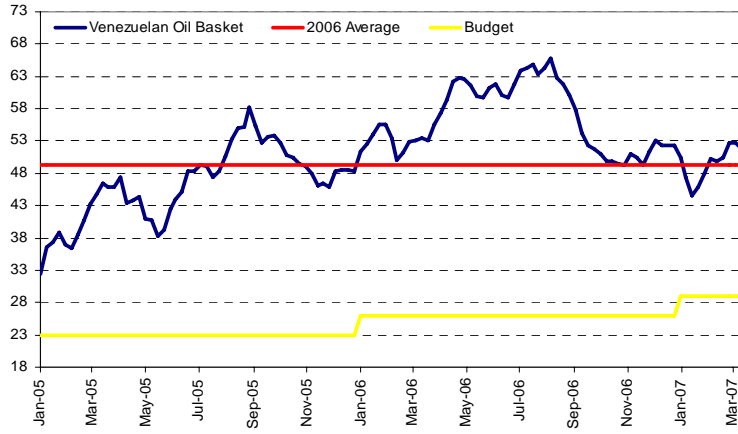
85% of Venezuelans are poor. According to a study conducted by the World Bank and the World Resource Institute, 85% of Venezuelans live in relative poverty. The study points out that the 21.4 million Venezuelans that live in relative poverty, or at the base of the economic pyramid, concentrate 57.9% of the country's total income. The percentage of low-income consumers that Venezuela registers is identical to that seen in much poor countries in the region like Honduras, Jamaica, Guatemala or Surinam. Venezuela is only ahead of Haiti, Ecuador, and Bolivia, where the base of the economic pyramid is made-up of 90% or more of the population. On average, 70% of the population is made up of low-income consumers in Latin America.

Inventories fall. Retail food businesses, part supplies, pharmacies, as well as distributors and wholesalers have reduced consumer product inventories in the last few weeks, according to the president of Consecomercio, Noel Álvarez. In fact, many businesses have decided to rotate their inventory much more frequently, since the definition of "hoarding" in the new law against price gouging it's not very clear.

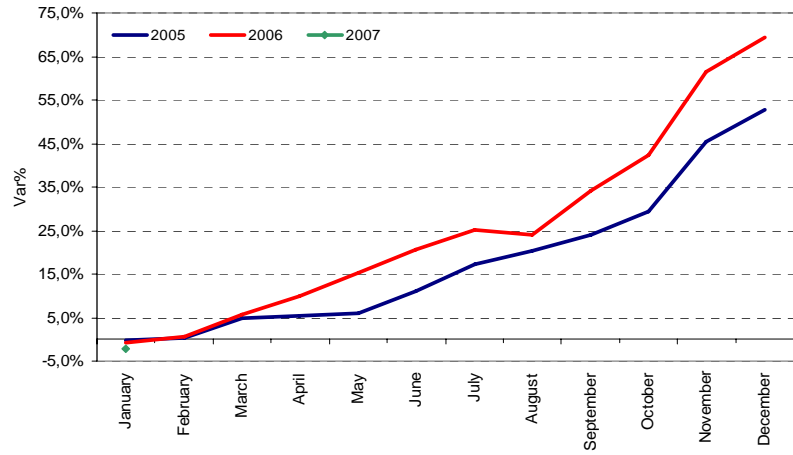
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ECONOMIC OVERVIEW

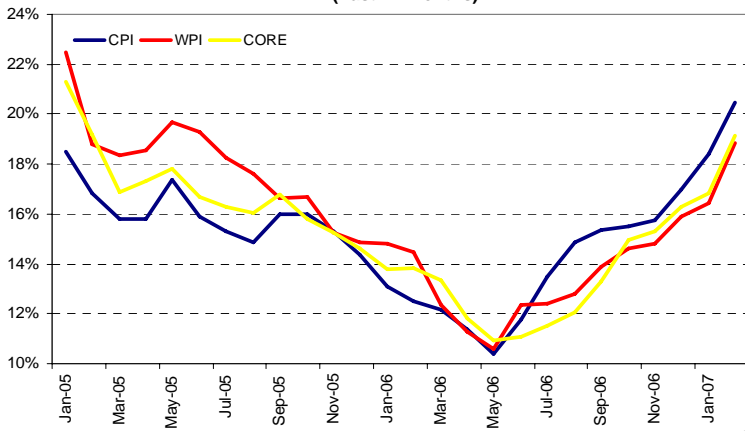
Oil Price
(Venezuelan Basket US\$/pb)



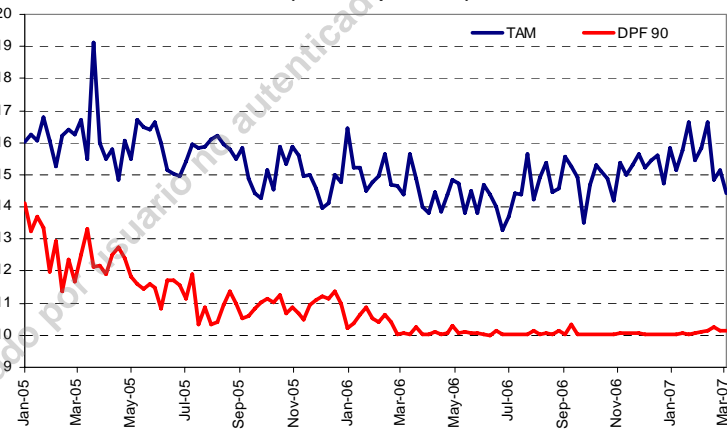
Real Expansion (M2)



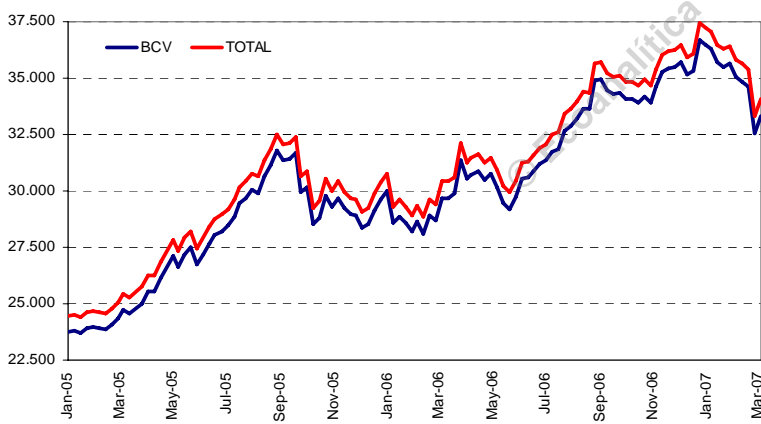
Inflation
(Last 12 Months)



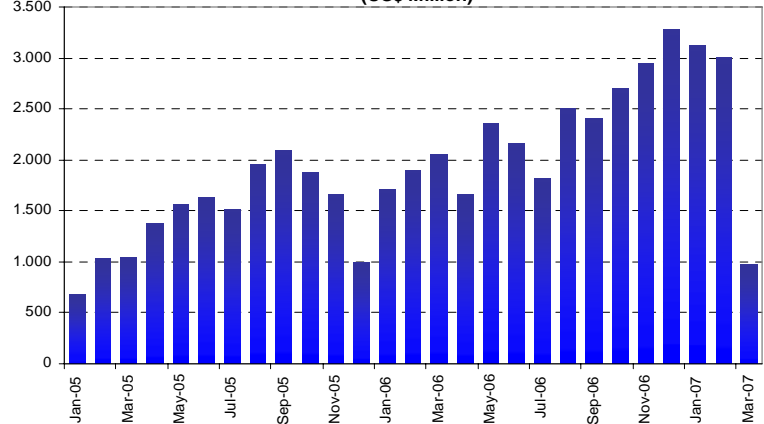
Interest Rate
(Six Principal Banks)



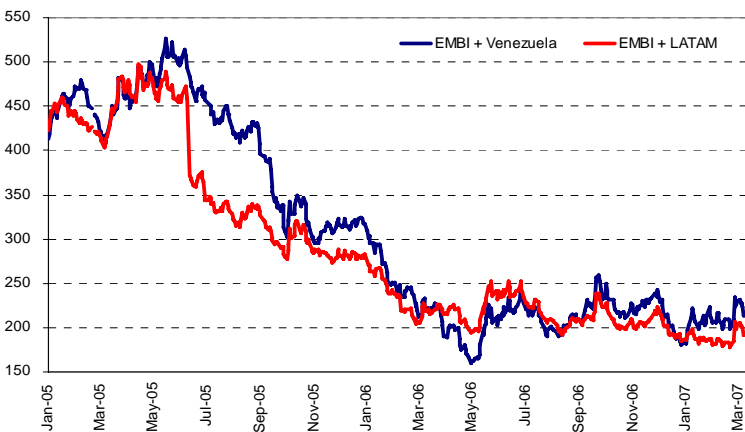
Fx Reserves
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

