



Weekly Report

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*The BCV's 2011 Yearend Message:
Sustainable Growth?*

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On December 31, the president of the Central Bank of Venezuela (BCV), Nelson Merentes, issued the bank's 2011 Yearend Address titled, *"In 2012, economic growth will be consolidated for the benefit of all Venezuelans."*

Stated in the Yearend Address, among other things, was the recovery of the Venezuelan economy after two consecutive years of recession. Despite the fact that the official figures to support this claim were more or less the same as our calculations, said economic growth was mainly sustained by a significant increase in public spending leading into this electoral year which begins with the presidential election scheduled for October and continues with regional elections to be held on April 2013. After the last elections are held, the inevitable and unavoidable economic adjustments will have to be made.

While we continue to wait for the "final" official figures to be released in February, we will use the figures stated in the Yearend Address and make



our first analysis of Venezuela's economic performance in 2011, and evaluate just how sound the promise of "consolidating" said growth in 2012 is.

The economy recovers but leaves the oil sector behind

Preliminary BCV estimates for 2011 show that GDP grew by 4.0%, spearheaded by the non-oil sector growth, up 4.3%, and the oil sector, up 0.6%. At **Ecoanalítica**, our figures show GDP growth up by 4.1%, with non-oil sector up 4.4% and the oil sector up 1.2%.

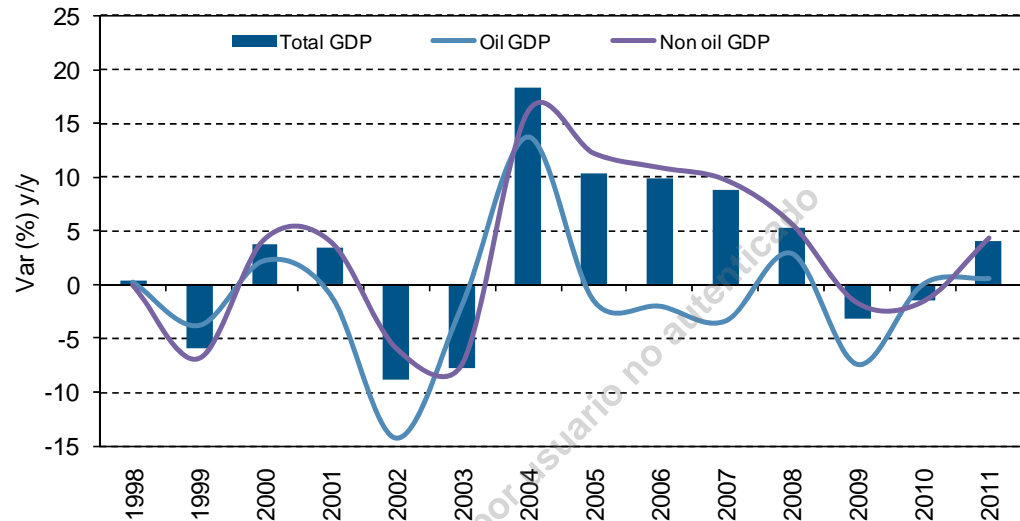
With respect to oil activity, the 2011 Yearend Address points out that crude oil and natural gas extraction was up 0.5%, unlike the previous year when extraction had dropped. It is important to keep in mind that these figures are in context with the production quotas fixed by OPEC that were in effect up until December 2011. Meanwhile, refining activity posted a 1.3% increase.

With this in mind, it's worth mentioning what we wrote in one of our Weekly Reports in March 2011: *"At **Ecoanalítica**, given the pressure that the Administration is putting on PDVSA, given the current political cycle and the presidential election scheduled for next year, we believe that any recovery in crude oil production this year will be very hard to come by, and if oil production does increase, it will not be by very much."* The same, of course, can be said for the year 2012, though it seems that the Administration is determined to back PDVSA, since Chavez, in his latest broadcasts, has repeatedly stated that crude oil production will increase by 500,000 barrels per day this year, thereby reaching the "mythical" crude oil production figure of 3 mb/d that hasn't been achieved since 1998, when the Chavez Administration first took power. So, let's wait and see what happens.





Evolution of GDP: Total, Oil and Non Oil



Sources: BCV and Ecoanalítica

Non-oil sector recovery was generalized

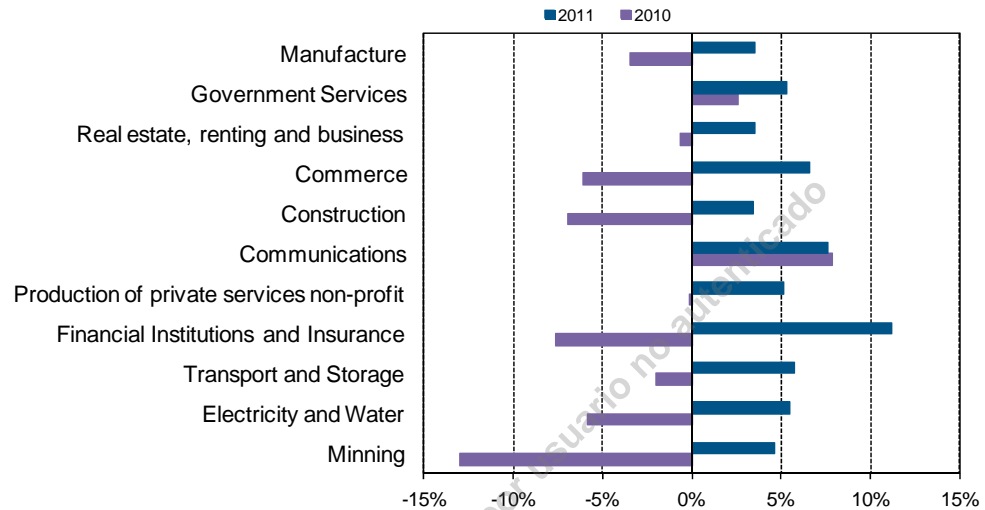
The 2011 Yearend Address states that “the evolution of the non-oil sector GDP was related to the dynamics produced by the commerce of goods and services (6.6%), general government service production (5.3%), and manufacturing (3.5%), economic activities which make up 36.4% of total economic productive activity and which performance this year was behind 1.8 percentage points of the total GDP growth rate.”

Other areas which posted growth rates were: financial institutions and insurance (11.2%), communications (7.6%), and electric power and water (5.5%); also real estate, corporate, and rental services (3.5%), and construction (3.4%). The BCV points out that this last sector (construction) showed a significant increase during the second semester 2011 after a number of issues with production and distribution of basic construction materials (cement and steel cable) improved with the recovery of Guayana’s basic corporations and the beginning of Great Venezuelan Housing Mission. This allowed the construction sector to close out the period on a positive note.





Sectors that most grew



Sources: BCV and Ecoanalítica

GDP tradable activity increased by 2.0% (0.6% Oil and 3.8% Non-oil), while producers of non-tradable goods increased by 5.6%.

Contrary as Clinton...Is the State stupid?

When analyzing the evolution of the GDP by institutional sectors, one could see that the public sector as well as the private sector showed growth rates that were very similar, 4.0% and 3.7% respectively. The Yearend Address mentioned the performance of the finance and insurance sector, both public and private sector (13.6% public sector and 10.4% private sector). It should have also highlighted the excellent performance of the public communication sector (9.3%). This figure shows that economic growth policies are aimed at the public sector, within the framework of consolidating 21st Century Socialism. At **Ecoanalítica**, there is no doubt that when the private sector grows, economic growth levels are more dynamic. Let's not forget that 58% of the GDP still corresponds to the private sector.

Which investment grows?

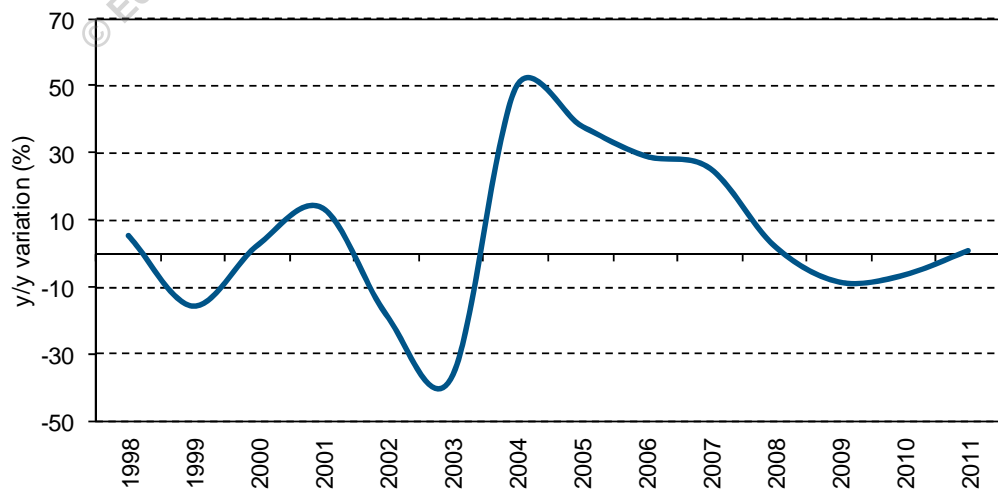
The 2011 Yearend Address states that *"in general, there is no doubt that the recovery observed in 2011 was helped along, among other factors, by the fact that the electric power crisis was solved, which significantly affected the performance of the production sector in 2010--, the increase in supply of foreign currency by official sources, and the increase in investment made by the public sector, aimed at key activities that promoted nationwide economic growth."*



At **Ecoanalítica**, we believe that this statement is only partially true. It's true enough that the problem with the electric power grid was not as bad as it was in 2010, but it is far from having been "solved;" the blackouts that still continue quite frequently in the areas outside of the capital city and in the interior of the country confirm this. As to the increase in the supply of foreign currency by official sources, this statement is not completely true. Official foreign currency liquidations increased only by 1.3% compared to 2010, in other words not enough to cover the demand.

And lastly, but not less important, when the 2011 Yearend Address refers to "an increase in investment made by the public sector aimed at key activities that promoted nationwide economic growth," we feel that this needs to be explained; because the component related to investment, in other words, gross formation of capital, showed at the aggregate level a variation of 1.0% during the period. The BCV also states that it is important to point out that investment experienced a certain amount of volatility during the year and a heterogeneous behavior among its components. In other words, this means that investment did not follow growth, which makes us think that the investment that the BCV is referring to is the investment that is known as social investment; which is the same as the current transfers that the Administration makes to different social sectors, especially those in the low income bracket.

Gross Fixed Capital Formation



Sources: BCV and Ecoanalítica





Public Sector Consumption increases more than Private Sector Consumption = election year

The 2011 Yearend Address highlights that final public sector consumption (6.0%) was one of the main reasons for the growth registered by domestic aggregate demand (6.6%), compared to the 0.5% drop it registered in 2010. This figure was also helped along by the 3.7% increase in household consumption, responding positively to the increase in real salaries, the transfers made by the government, and the employment level.

And the Balance of Payments?

According to the preliminary estimates made by the BCV, the Balance of Payments posted a surplus in the Current Account of US\$31.50 billion, mainly due to a 40.2% increase of the price of the Venezuelan oil basket compared to the price it reflected in 2010. On the other hand, the Capital and Financial Account posted a US\$32.57 billion deficit, associated with the increase of public sector deposits abroad equaling US\$ 17.98 billion. The global balance posted a US\$ 3.99 billion deficit (1.9% of GDP) at the close of 2011.

BALANCE OF PAYMENTS (General Summary)	2010	2011	Var(%)
Current Account	12,071	31,502	161.0%
Goods	27,132	48,281	77.9%
Oil Exports	62,317	89,391	43.4%
Non-Oil Exports	3,428	4,505	31.4%
Import of goods f.o.b.	-38,613	-45,615	18.1%
Services	-9,191	-10,320	12.3%
Others	-5,870	-6,432	9.6%
Financial and Capital Account	-17,973	-32,566	81.2%
Foreign Direct Investment	-1,462	2,755	-
Portfolio investment	2,437	1,793	-26.4%
Other investment	-18,737	-37,114	98.1%
Errors and Omissions	-2,158	-2,924	35.5%
Reserves Variation	-8,060	-3,988	-50.5%

Sources: BCV and Ecoanalitica

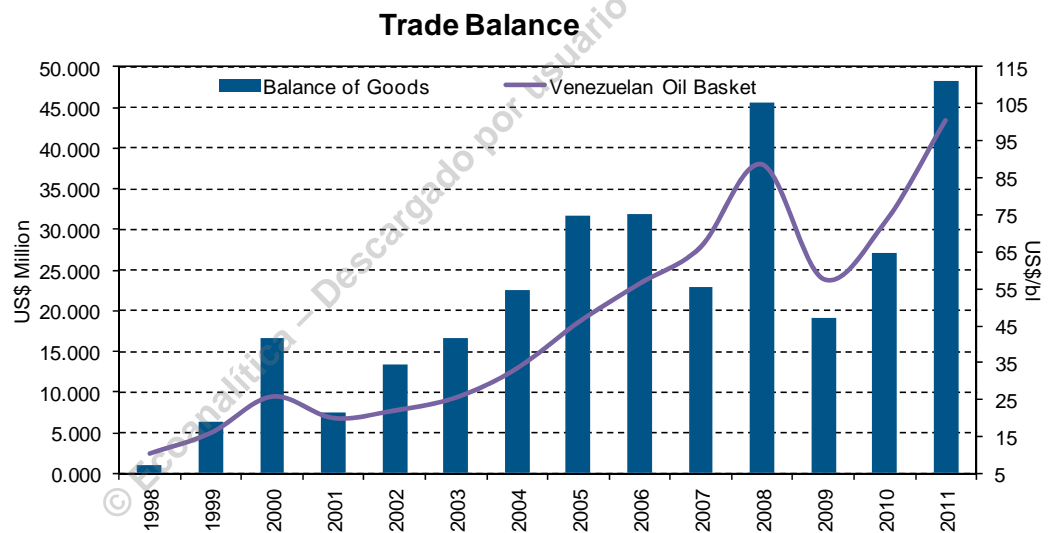
The Super Current Account

With respect to the Current Account balance, Venezuelan exports increased by 42.8% compared to 2010 reaching US\$93.89 billion, of which US\$89.39 billion correspond to the oil sector. This increase in revenue corresponding to oil exports was due to increased crude oil prices on the international market as well as increased volumes of crude oil exported.



Non-oil exports posted an increase of 31.4% compared to 2010 reaching US\$4.51 billion. The increase in non-oil exports was mainly due to an increase in exports of aluminum products, chemical substances, and carbon. Broken down by institutional sector, the public sector posted a significant increase, up 37.4%, and the private sector, up 26.1%.

Meanwhile, imports were estimated at US\$45.62 billion, up by 18.1% compared to the US\$38.61 billion posted by imports in 2010. It's important to point out, as we did in our Reports all last year, that the Public Sector has continues to increase its percentage of total imports imported, going from 34.2% in 2010 to 35.1% in 2011.



Now it's the State that's responsible for most of the out-going capital

The Capital and Financial Account balance was explained by operations registered in the Other Investment Account that allowed an increase in Venezuela's foreign assets. Public assets mainly increased by an increase in deposits in Investment Funds financed by China and FONDEN. The private sector also increased its foreign assets by an estimated US\$11.21 billion.

The deficit posted by the Other Investment Account was compensated for in part by the positive balances of the Direct Investment Account and the Portfolio Investment. With respect to the Direct Investment Account, profits reinvested in mixed oil companies stood out as did the increase in obligations to direct investors, namely dividends due from private non-financial sector banks and companies. The net flow of Portfolio Investment



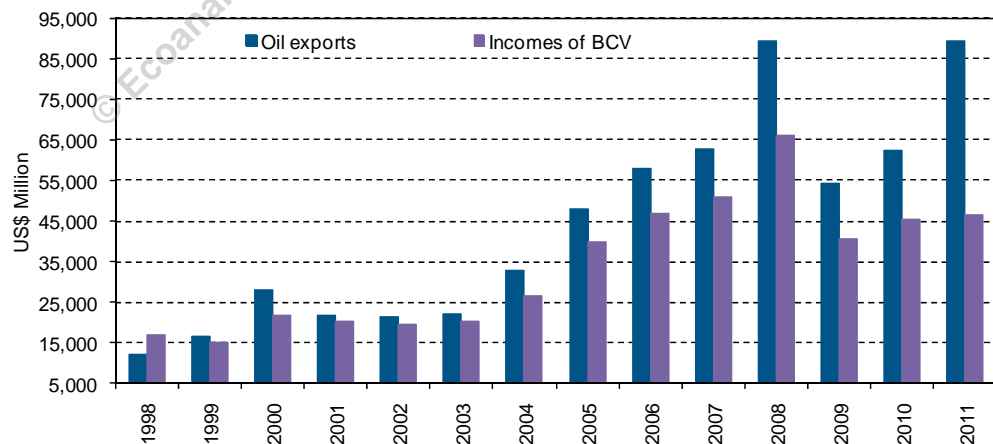
was determined by an increase in obligations of US\$2.23 billion that include the issuance of 2017 and 2022 bonds by PDVSA and the 2031 bond by the government which were taken to the secondary market through the SITME and other authorized exchange operators. BCV international reserves were at US\$29.90 billion on December 30, 2011.

Fewer US-dollars for the BCV = fewer US-dollars out for the economy

With respect to foreign currency flows, the 2011 Yearend Address stated that reported revenues equaled US\$46.51 billion, slightly higher than 2010 (US\$45.38 billion). But the BCV sugarcoats this figure by saying that the increased amount received is due to increased foreign currency sales by PDVSA to the BCV that increased by 9.9% this year compared to 2010 settling at US\$ 36.73 billion. But the truth of the matter is that the amount of foreign currency that the BCV is receiving is progressively become less and less, especially if we compare to the amount of foreign currency it received before 2004, when Exchange Agreement Number 9 was signed.

Foreign currency leaving the BCV totaled US\$ 49.33 billion, down by US\$4.43 billion compared to 2010, with US\$24.81 billion corresponding to the amount used by exchange operators to supply foreign currency for imports and US\$ 3.50 billion transferred to FONDEN.

BCV Incomes of Foreign Currency vs. Oil Exports



Sources: BCV and Ecoanalítica

Another lost decade?

Though it's true that the Venezuelan economy has reported the highest amounts of revenue in its history during the chavista era, overall economic growth has been much too volatile and insufficient, when compared to previous Administrations and when compared to the economic performance of our regional neighbors. It's quite evident that the economic



model being implemented in Venezuela is very inefficient and expensive, and what is worse is that its only engine isn't oil anymore, but ideology.

An economic growth rate of 4% for 2011 is positive. But it would be interesting to know just how high this growth rate could have been if the investment figures for Venezuela would be similar to those that are average investment rates for Latin America. Or better yet, if Venezuelan public sector investment would at least focus on efficiently investing in production activities. We'll never know. What we do know is that the decade where Venezuela posted its highest ever revenues levels is also the decade with the highest level of violent deaths registered, at least since the war for independence... and we have yet to diversify the economy.

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Economic Tips

Central Government expenditures increased 11.2%. BCV published the figures of the Central Government's fiscal performance for September 2011; they show that total expenditures increased 11.2% during the first nine months of last year, in real terms y/y, higher than the accumulated figure for the previous month, when it was 7.1%. On the other hand, this is significantly higher than in the same period of the previous year, when the Government's total spending dropped 6.3% in real terms y/y.

Income increased 10.8% in real terms y/y, higher than in the previous period when it was 7.3%; among them, oil income increased 31.0% and non-oil income increased 3.0%, both in real terms with respect to the same period the year before.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	January- September 2010	January- September 2011	Nominal Variation	Real Variation
Total Revenue	127,090	178,502	43.9%	10.8%
Non-Oil Revenue	91,381	119,219	34.5%	3.0%
Oil Revenue	35,709	59,284	68.4%	31.0%
Central Bank Earnings	-	-		
Total Expenditure	149,707	210,899	40.9%	11.2%
Fiscal Balance	(22,617)	-32,397	43.2%	13.0%
Non Oil Balance	(58,326)	(91,681)	57.2%	24.0%
Debt Amortization	3,704	260	-93.0%	-94.5%
Financing Requirements	26,320	32,657	24.1%	-2.1%
Foreing Debt	6,467	19,052	194.6%	132.5%
Domestic Debt	30,258	42,875	41.7%	11.8%
Tresury Bonds	25,505	39,136	53.4%	21.1%
Tresury Debt	4,754	3,739	-21.3%	-37.9%
Others	(10,405)	(29,270)	181.3%	122.0%

Sources: BCV and Ecoanalítica

Amount of currency authorizations increase by 7.5% on 2011. According to the press release issued by the Currency Administration Commission (Cadivi), since January 1th to December 31 of 2011 the Commission authorized a total of US\$31,398 million, representing an increase of 7.5% compared to 2010, when it approved US\$29,183 million.



80.8% was assigned to imports. Cadivi reported that for ordinary imports, the ALADI agreement and the SUCRE agreement was allocated US\$24,565 million, representing 80.8% of total approvals. The list of authorizations for import is headed by the Food Industry with US\$6,307 million allocated, followed by Health (4,645 million), Automobile (US\$3,138 million) and Trade (US\$2,355 million).

New issue? According to a source linked to the Ministry of Planning and Finance, the firm signed the conditions for a new issue of bonds of the Republic that could be launched this January. Although the details of the operation are unknown, it is expected that the annual interest rate is about 12%. The source added that the decision has the support of the Minister Giordani, who welcomed most of the bonds are intended for public banks, so it is possible that the new securities end up in the coffers of the institutions of the State and not in the hands of companies, private banks or private individuals.

Inflation reached 27.6% in 2011. According to figures published by the Central Bank of Venezuela (BCV), National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for December was 1.8%, or an accumulated inflation of 27.6% for 2011, 0.4 percent points over that registered in 2010 when it was 27.2%.

Food and beverages had the highest inflation in 2011. Among the 13 categories studied by the BCV, in 2011 foods and non-alcoholic beverages had a higher accumulated inflation than the national inflation, with a variation of 33.6%, followed by transportation, and restaurants and hotels, with 30.6% and 30.1%, respectively.

The poorest are the ones that suffer the most. Although the accumulated inflation for 2011 in the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 29.0%, during the same period, inflation for class I of the population, which includes the poorest families, increased 32.6%.

Inflation in controlled products increased considerably in 2011, since in the last 12 months, the price of these products increased 30.3%, which translates into an increase of 8.3 percent points with respect to 2010 (22.0%). As a paradox, non-regulated goods had an inflation of 25.8% in 2011, or a reduction of 5.2 percent points with respect to 2010 (31.0%).

Caracas has the highest inflation. The geographical results of the INPC show that the greatest variation for 2011 was in Caracas, with 29.0%, followed by Barcelona-Puerto La Cruz with 28.1%, and Valencia with 27.9%. The areas with the least variation in 2011 were Mérida with 24.0%, and Barquisimeto with 26.1%.





If inflation does not fall ... change the measurement. In the yearend message of the president of BCV is reported that in 2012 the BCV will make changes in the way of measuring price index. According to the report, the BCV will *"expand the coverage of the CPI and will include a new basket of goods and services, while developed a new weighting structure."*

Scarcity index increases. In December, the scarcity index reached 15.2%, which means that out of every 100 products that consumers requested in stores, supermarkets and the establishments throughout the country, 15 were not available. This is the highest level of scarcity since May 2008, when it was 16.3%, and represents a significant increase compared to 13.4% in November, although it is still far from the peak level of 24.7% in January, 2007.

Unemployment rate at 8.2% in 2011. According to figures published by the National Institute of Statistics (Instituto Nacional de Estadística - INE), unemployment had no variation in December 2011, compared to the same period in 2010, closing the year at 6.5%; this means that the average inflation in 2011 was 8.2%

By sectors, the greater dynamism was observed in the public sector, which recorded a growth of 5.3% in the number of employees (119,220 people), while employment in the private sector increased by 1.6% (150,717 people).

In 12 years, the public payroll increased 78.6%. According to figures of the INE, at the end of 2011 there were 2,492,049 individuals in the public sector payroll, or an increase of 1,096,723 public employees since President Chávez came to power.

...In 1999 only 1,395,326 individuals were part of the public administration, but due to the policy to nationalize industries and the absorption of people outsourced by the State, the participation of the public sector in the labor market went from 15.5% to 19.7%. In contrast, the private sector reduced its participation in the country's labor market, from 84.5% in 1999 to 80.3% at the end of 2011.

Tax collection in 2011. According to José David Cabello, National Customs and Tax Superintendent, the National Integrated Tax Administration Service (Servicio Nacional Integrado de Administración Tributaria - Seniat) collected VEB 147.4 billion by the end of 2011, 34.0% higher than the collection target for 2011, of VEB 110.2 billion. This collection from January to December represented an increase of 43.7% in nominal terms, and of 12.6% in real terms, with respect to the same period in 2010. For 2012, the collection goal is VEB 156.3 billion.

Fonden contributions estimated. According to the 2012 budget, published by the Ministry of Planning and Finances, it is estimated that this year, the initial contribution



of official entities to the National Development Fund (Fondo de Desarrollo Nacional - Fonden) will be US\$7.8 billion (VEB 33.6 billion).

Pdvsa will make the greatest contribution. According to the mechanism's budget for this year, most deposits will come from Petróleos de Venezuela (Pdvsa), since this scheme is awarded the income from crude oil extraordinary prices. This allotment contemplates Pdvsa's initial transfers for US\$5.6 billion, while the contribution of the BCV would be US\$1.9 billion.

How much did they give out in 2011? Up to the first half of last year, the state-owned oil company transferred to Fonden US\$7.2 billion, thanks to the adjustments due to sudden earnings income. The transfers made by the BCV to Fonden in 2011 were for US\$3.5 billion. The BCV law states that the entity has to make deposits twice a year, after estimating the optimum level for the reserves.

But it could be more... A few weeks ago, the Head of State said that the proper level of international reserves was US\$26.8 billion, and stated that everything over this amount should be given to Fonden. At present, the assets in the hands of the BCV are around US\$29.7 billion.

Interest rates. The lending rate for the fourth week in December was at 15.9%, increasing by 0.5 percentage points compared to the previous week. The time deposit rate remained reach 14.5%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.5%.

International reserves. International reserves decreased 0.2% going from US\$29,902 million during the fourth week of December to US\$29,846 million during the previews week. Compared to the same period last year, international reserves have decreased by 3.1%.

Monetary liquidity. Monetary liquidity in the fourth week in December increased 0.4% compared to the previous week settling at VEB 444,976 million. The M2 has increased 51.1% year-on-year.

Sitme figures. In 2011 US\$8,778 million was negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$35.8 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the first week of January the amount traded reached US\$173.2 million, traded US\$17.1 million less than last week when US\$173.2 million were traded, averaging US\$31.2 million a day





Oil Tips

Oil prices rise in anticipation of sanctions against Iran. The preparations for a new round of sanctions by the European Union (EU) against Iran, due to its nuclear program, have led to a rise in oil prices. Oil markets moved upwards with news that the EU obtained a preliminary agreement to ban oil imports from Iran, thus increasing tensions between the West and Teheran. An Iranian official said that his country has alternative ways to maintain its exports of 2.3 million barrels per day (mb/d), including shipping more crude oil to China. Europe is Iran's second client, with 450,000 barrels per day (kb/d).

Pdvsa's contribution to the treasury in 9 months. According to the BCV's monthly bulletin, between January and September 2011, PDVSA paid the treasury VEB 57.6 billion. The report states that the contribution of the state owned company was 53% higher than during the same period in 2010, of VEB 37.6 billion. Although last year oil prices were above US\$100 on average, funds allotted to the treasury were made at US\$70 per barrel, since that was the top price contemplated in the adjustment made to the contributions due to extraordinary oil prices.

Petroperú will participate in the Ayacucho block. During their first bilateral meeting, Humala and Chávez, Presidents of Peru and Venezuela respectively, agreed on the participation of Petroperú in the Orinoco Oil Belt. Chávez said: *"Today we have a new partner in the Oil Belt, Petroperú. Thank-you, President, for visiting the Orinoco Oil Belt, and we hope to see Petroperú soon here, in the Ayacucho (block)".* However, they didn't specify when Petroperú will start operating in the Faja.

Pdvsa technicians will go to Peru for consulting. During his meeting with Humala, Chávez said that staff members of Petróleos de Venezuela (Pdvsa) will provide consulting services to Petroperú to increase production in mature fields. *"We must increase oil production in Peru"*, said Chávez, and added that the consulting will extend to petrochemicals. Humala thanked Chávez's support, and said that he was *"very happy to start working on this"*.

Pdvsa partners want more participation. In an oil developing scheme in which Pdvsa centralizes decisions, minority shareholders, both foreign and domestic, hope that the state owned oil company will take them into account in decision making, management, technical, and operational aspects of the industry. Sources in the oil



sector explain that Pdvsa's partners consider that the skills and capacities of private partners are being underused.

Let us remember that Pdvsa... is the majority shareholder in the upgraders at Petrocedeño, Petropiar and Petromonagas in the Orinoco Oil Belt; it also has mixed schemes in light and medium crude oil mature fields, as well as in the new projects in the Faja, which must be fully operational by 2019, so cooperation between the state owned oil company and its partners is necessary.

The Santa Inés refinery is expected to process 100 kb/d. The Batalla de Santa Inés refinery was announced in 2005, as part of the Oil Sowing Plan, but it is only now being built. Pdvsa's business plan envisages the first phase of the Santa Inés Refinery to start operating in 2013, which will process around 100 kb/d.

Gasoline supplies guaranteed, despite maintenance work in El Palito. Pdvsa informed that the FCC Unit in the El Palito Refinery will be out of service for five days, to repair a problem in the system. During the five days that this maintenance work is expected to last, there is enough inventory and supplies to meet gasoline and fuel demands in the central region of the country, as informed to Reuters.

The Cardón refinery also had an incident. On January 6th, furnace F-301 exploded at the reforming complex of Pdvsa's Cardón Refinery, causing its shutdown, as informed by Iván Freites, Secretary of the Oil, Gas and Petrochemical Industry Trade Union of Falcón. The incident forced a feed reduction from 305 kb/d to 245 kb/d in the Cardón Refinery. Freites said that contractor workers are uncertain about when the operations will resume after the incident.

Venezuela rules out an agreement. Rafael Ramírez, Minister of Energy and President of Pdvsa, said to Reuters that Venezuela rules out an agreement with ConocoPhillips, so it will continue the arbitration process it has been holding against the oil company. The first decision issued in the end of 2011 by the International Chamber of Commerce (ICC), established a compensation of US\$907.6 million to be paid by Pdvsa to Exxon.

...But 2012, a decisive year for Venezuela given the Presidential elections, could be marked by other court decisions, like the International Center for the Settlement of Investment Disputes (ICSID), which could involve other payments. Ramírez stated that *"there's no way"* ICSID's decisions about the Exxon case will be ruled in 2012.

Only part of what ExxonMobil demands will be paid. Regarding the decision of the International Chamber of Commerce (ICC) Tribunal, Hugo Chávez President of the Bolivarian Republic of Venezuela, confirmed the position of Petróleos de



Venezuela, S.A. (PDVSA), that ExxonMobil will be paid only US\$250 million. The Venezuelan Head of State also said that the decisions of the International Center for the Settlement of Disputes (ICSID) will not be recognized, if ExxonMobil goes before that entity.

International oil baskets. At closing time on January 6th in the New York Stock Exchange, the price of the WTI was US\$101.3/bl, a 2.6% increase compared to the US\$98.7/bl reported the previous week. The Brent increased by 2.8% to reach US\$110.8/bl, compared to the previous week's US\$107.8bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$108.3/bl on Friday January 6th, a 1.5% increase compared to the US\$106.7/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$108.3/bl.

Business Sector Tips

"True" Prices. The Institute for the Defense of Individuals Accessing Goods and Services (Instituto para la Defensa de las Personas en el Acceso de los Bienes y Servicios - Indepabis) published in its web page an updated list of the regulated prices of more than 100 products in the food basket. The list specifies the different presentations of each food item, the price set by the Bolivarian Government, and a link to the Official Gazette where the price is published.

...Consumers may consult the prices of articles with the highest demand in Venezuela, among them, vegetable oil, sugar, coffee, chicken, beef, milk, cheese, rice, sorghum, corn, precooked corn meal, pasta, and canned foods.

The Administration will discuss "fair prices" with companies. The review of production costs of items with prices frozen since November of last year is coming to an end, and soon the "fair prices" established by the Administration for the 19 categories, among them personal care and cleaning products, non-alcoholic beverages (water and pasteurized juices) and baby food, will be released.

Next will be the price of medicines and hospital services. William Contreras, the Cost and Prices Superintendent, said that Sundecop met with the Ministry of Health to establish priorities, because there are around 6,000 medications and more than 320 active principles that must be analyzed to establish their prices. Also, Sundecop



will evaluate construction materials and vehicle spare parts for the same purpose: regulate excessive earnings and establish the maximum sales price (PMVP) of these products.

Car part dealers consider price regulations inconvenient. The car parts sector warns that regulating car part prices will be complex. A businessman linked to the import of car parts said: *"I think it is very complex. I don't see how they can regulate such a wide universe of items"*. He also stated that in the local market there are wholesalers that have up to 20,000 codes in their product catalog, and if the price established by the National Cost and Prices Superintendency (Superintendencia Nacional de Costos y Precios - Sundecop) doesn't adjust to their costs, they will stop bringing them.

Possible scarcity of medical equipment in the short term. The National Cost and Prices Superintendency (Superintendencia Nacional de Costos y Precios - Sundecop) will start reviewing prices in the pharmaceutical sector. While waiting for the official notice to medical products and equipment importers, they mentioned the present barriers that hinder the import of some products, for example the issue of Non-Production Certificates (Certificados de no Producción - CNP), among other requirements.

Customs seems to be responsible for the lack of medications. One of the reasons for the intermittent appearance of pharmaceutical products in the country is the delay in customs offices when nationalizing them. This has caused delays in the supply of medications, and an increase in production costs. This, according to the President of the Pharmaceutical Federation of Venezuela, Freddy Ceballos, who also said that this is one of the serious problems of the sector at present.

Rationing continues, although the dams are full. The rains during 2011, and also during the first days of 2012 in part of the territory have extended the optimum levels of the Guri dam, which together with the Macagua and Caruachi dams, supply more than 65% of the country's electric power. Their height has been over 270 meters above sea level in the last few months. The record water levels in 2010 at that hydroelectric plant (Bolívar) and at the one in the Andes, and the favorable water levels reported in 2011, have allowed those plants to generate power at full capacity.

The State moves forward by leaps and bounds in the food sector. The government expected to increase its participation in the food market in 2011, and secure 50% of the marketing of basic items, and it reached its goal. Carlos Osorio, Minister of Food, informed that the Venezuelan State already owns 49% of the domestic market with the Mercal, Pdval and Abastos Bicentenario marketing networks, through which it distributed 3,087,793 tons of products during 2009.



Price of sugar is adjusted by 25%. Dialog prevailed in the review of sugar prices. The Administration published in the *Official Gazette* the new prices of sugar in all its presentations, in agreement with what was discussed with sugar cane producers at the work sessions held with the Ministry of Agriculture and Land.

...In this sense, a 25% increase was agreed for consumer prices, so 1 kg. of refined sugar, raw sugar, with aspartame, and with honey went from VEB 4.89 to VEB 6.11, while the 2 kg. package went from VEB 9.77 to VEB 12.21. The 800 and 900 gram packages are regulated at VEB 4.90 and VEB 5.50, respectively.

1 Kg of washed sugar, light and dark brown sugar, and with raw sugar taste went from VEB 4.70 to VEB 5.88, and 2 kg packages went from VEB 9.41 to VEB 11.76. The prices of the 800 and 900 gr. packs were set at VEB 4.70 and VEB 5.29 respectively.

The most significant increase was in the price of sugar at the industry level, since the 1.2 and 5 kilo presentations, as stated in the *Official Gazette*, went from VEB 3.30 to VEB 5.81, an increase of 76%. The 50 kilo package increased 35%, from VEB 3.73 to VEB 5.04 the kilo, bought at the plant.

The sugar price adjustment for wholesalers and distributors was 35%. The pack of the 1.2 and 5 kilo presentation was set at VEB 4.47 per unit, and the 50 kilo pack for wholesalers was regulated at VEB 5.24.

It is considered positive to relax the regulated product quotas. Simón Nobile, President of the Venezuelan Association of Pasta Manufacturers (Asociación Venezolana de Fabricantes de Pastas Alimenticias -Avepastas), considers that the relaxation of mandatory production quotas for regulated items is acceptable for the food industry. However, it is estimated that this decision must be accompanied by price adjustments.

Nicaragua negotiates financing with Venezuela to subsidize electric power. The government of Nicaragua is negotiating with Venezuela a financing between US\$70 million and US\$108 million to avoid a 20.2% increase in electricity rates, according to an official source. David Castillo, Director of the Nicaraguan Institute of Energy (Instituto Nicaragüense de Energía -INE) said in a press conference that President Daniel Ortega is personally negotiating this financing, which would be executed through the Bolivarian Alliance for the Peoples of America (Alianza Bolivariana para los Pueblos de América - Alba), promoted by Venezuela and of which Nicaragua is a member.





Power outages could continue in 2012. The viability of the electric power system will be a determining factor in 2012, particularly to guarantee the electoral process of the year, including voting and counting the results. Miguel Lara, former general manager of the Interconnected Systems Operation Office (Oficina de Operación de Sistemas Interconectados- Opsis), says that the government will try to reduce the gap between power supply and demand, since it is an electoral year. Nevertheless, he warns that there are backlogged projects since 2009, 2010 and 2011, preventing compliance of the goals established by the ruling party.

...**Several analysts** related to the electric sector state that *"there are no significant improvements in distribution and transmission. Users should be prepared to continue having blackouts and rationing"* of this service, while *"the government will be careful to guard its popularity and ensure the broadcast of joint radio and TV government programs (cadenas)"*.

Budget for cement companies expected at VEB 2.4 billion. The Ministry of Planning and Finances published the budgets of state companies, including the income and expenditures of the National Cement Factory (Fábrica Nacional de Cementos -FNC) and the Venezuelan Cement Industry (Industria Venezolana de Cementos - Invecem). The budget for Cementos Venezuela (previously Cemex) is not included, because the company is in a transition phase. The "Fábrica Nacional de Cemento" will have a budget of VEB 860.8 million, and the "Industria Venezolana de Cementos" of VEB 1.6 million.

Government will offer jobs in several areas. Ricardo Menéndez, Minister for Science, Technology and Intermediate Industries, said recently that the government is expecting to offer jobs in several areas that the country needs to develop, among them the oil and construction sectors.

World Economy Tips

Fed may need to purchase more bonds. John Williams, President of the Federal Reserve Bank of San Francisco, considers that the Central Bank will need to buy more bonds, if its estimates of unsatisfactory growth and low inflation are confirmed, reported the Wall Street Journal on January 9th. With the pressure from lower imports and low salaries, Williams expects inflation to drop to 1.5% in 2012 and 2013, from



almost 4% last year. He added that a meager 2.25% economic growth is expected for 2012, and around 3% for 2013.

The Merkozy pair (Merkel+Sarkozy) will look for a formula to foster growth in Europe. The leaders of Germany and France met this week to discuss ways to Foster growth in the euro zone countries, who are suffering from the debt crisis and a rise in unemployment, and to finalize an agreement that reinforces fiscal coordination in the monetary union. They also talked about taxing financial transactions, the “Tobin rate”, promoted by France, and resisted by Great Britain, unless it is adopted globally, which could divide the EU during a Summit that will take place at the end of the month.

Moody's request further budget adjustments from Spain. Moody's considers that the budget measures announced so far by the new Spanish government are insufficient to reach the deficit goals, and believes an adjustment of up to €40.0 billion will be necessary, more than twice what was calculated by the Administration. Although Moody's praised the decisions of Mariano Rajoy's government, which intend to reduce the deficit from €15.20 billion, it considers it difficult to take the deficit to 4.4% of GDP in 2012.

Asian stock markets and the Euro fall due to fears of a debt crisis. The Euro fell against the Dollar and the Yen on Monday, January 9th, and Asian stock markets slid while renewed concerns about the debt crisis in the Euro zone shadowed the signs of strength in the US economy. The rise of the dollar weighed on oil, copper, and gold prices, while opposing signals on the world economy kept Asian credit markets in the dark. Data from last week showed that while there was growth in employment in the US last month, retail sales in the Euro zone fell and the economy weakened at the end of 2011, pointing towards a recession in the block.

China's trade growth falls to a 2 year low. In December, China's exports and imports had their slowest growth in two years, given a drop in domestic and foreign demand, reinforcing the need for Beijing to relax its monetary policy even further. Annual exports grew 13.4% in December, right below the 13.5% forecasted by Reuters through a survey of 23 economists. Imports fell to 11.8% the lowest in 26 months, well below the expected 17%.

Inflation in Mexico ends at 3.82% in 2011. Mexico's consumer price index increased 0.82% in December, more than was expected by the market, raising the annual rate to 3.82%, according to the National Institute of Statistics, Inegi. Price increases were led by foods, beverages and tobacco.





Chile had a trade surplus in 2011. Chile's exports closed at a record level in 2011 despite the complex foreign scenario, given the good performance of copper, the main export of the country. Imports were boosted by the dynamic domestic demand, both in investments and in consumption. The Central Bank informed that Chile reported a trade surplus of US\$10.61 million last year, less than the US\$15.85 million in 2010. However, the international slowdown has led to a sharp drop in the price of raw materials in the last few months, and thus a drop in the positive side of the trade balance, which should continue in 2012.

The Peruvian economy is expected to grow between 5.3% and 6.0% in 2012. Economic agents expect the Peruvian economy to grow between 5.3% and 6% this year, and the most optimistic figures are in the financial system and in non-financial companies, said the Central Reserve Bank (Banco Central de Reserva - BCR). According to the December 2011 Monthly Survey on Macroeconomic Expectations of the BCR, financial system agents and non-financial companies maintained their growth expectations for 2012 at 5.5 and 6.0%, respectively. Meanwhile, economic analysts reduced their projections slightly from 5.4% to 5.3%.

Evo Morales states that Bolivia has left extreme poverty behind. President Evo Morales said last week that Bolivia left behind extreme poverty thanks to the recovery of its natural resources, which allowed investment in social programs. Morales was pleased because begging and financial dependence have been left behind. *"Only a few years in power were enough to achieve what couldn't be done in the previous 186 years"*, reminded the Head of State, who came to power in 2006, after a prior attempt at the presidency. According to Morales, the Bolivian economy has changed and is giving stability to the people.

Political Tips

Chávez intends to improve relations with Guyana. Last Wednesday, the Presidents of Venezuela and Guyana, Hugo Chávez and Donald Ramotar, respectively, talked on the phone. According to a press release of the Venezuelan Ministry of Foreign Affairs, Chávez expressed *"its willingness to strengthen political, economic, and social relations between both sister countries, and made himself available to work together to achieve this purpose"*.





Chávez appoints new Minister of Defense. President Hugo Chávez announced last week that the Head of the Operational Strategic Command, Henry Rangel Silva, was appointed as the new Minister of Defense. The General is replacing Carlos Mata Figueroa, who will be a candidate for the governor's office of Nueva Esparta.

Chávez approved resources to acquire six new airplanes for Conviasa. Hugo Chávez Frías, President of the Republic, approved resources for the Consortium of Aeronautical Industries and Air Services (Consortio de Industrias Aeronáuticas y Servicios Aéreos - Conviasa) to acquire six new airplanes. The information was released by Andrés Izarra, Minister of the People's Power for Communications and Information through Twitter. "*President Chávez approves resources for Conviasa to acquire 6 new airplanes*", wrote Minister Izarra.

Strengthening bilateral alliances. The purpose of the meeting between Humala and Chávez is to set the bases to strengthen bilateral relations through a future Partial Agreement for Trade and Economic Complementarity, according to the Peruvian News Agency, Andina. This agreement will replace the tariff preferences of the Andean Community. Likewise, an agreement will be signed on the migratory status of Peruvians in Venezuela to regulate their condition and facilitate remittances to Peru.

Venezuela and Iran, closer than ever. Hugo Chávez, President of the Republic, received his Iranian counterpart, Mahmud Ahmadinejad, for a meeting in the Miraflores Palace, where they will review the progress made in the agreements signed between both nations in areas like agriculture, industry, trade, and energy. They also evaluated the possibility to sign new cooperation instruments.

It was only a bad interpretation. Hugo Chávez, President of the Republic, said on Saturday that he is not accusing anyone of the systematic appearance of cancer in South American presidents and leaders. "*People are taking what I said out of context. I am not accusing anyone. They say that I am accusing the United States*", he said regarding his reflection on December 28th, when he said that the occurrence of cancer in several leaders of the South America continent seemed very strange.

President Chávez congratulates the new heads of the National Assembly. Hugo Chávez Frías, President of the Republic, congratulated last Thursday the new directors of the National Assembly; Representative Diosdado Cabello, as President; Aristóbulo Istúriz, First Vice-President; and Blanca Eekhout, Second Vice-President, for the 2012-2013 period. "I congratulate comrade Representative Diosdado Cabello as new President of the National Assembly! And Aristóbulo and Blanca, as vice-presidents!", said the leader through @Chavezcandanga.



Chávez launches a new Mission and guarantees that he is not in campaign.

After 7 months out of the air and with broadcast issues, President Chávez resumed his Sunday program “Aló Presidente,” this time from the Orinoco Oil Belt, announcing that next Sunday he will render accounts at the National Assembly, as mandated by the Constitution.” During program 376, he launched the “Gran Misión Saber y Trabajo” (Great Mission Knowledge and Work), the third in the last few weeks, and stated that he is not in an electoral campaign, but acting as President of the Republic.

VEB 22.0 billion were directed to three new Missions. President Hugo Chávez Frías since the 2nd Semester of 2011 has been creating new Missions, and these social plans affect treasury accounts. According to what the authorities have said, the “Gran Misión Saber y Trabajo” (Great Mission Knowledge and Work), the “Gran Misión en Amor Mayor” (Great Mission Elderly Love), and the “Gran Misión Hijos de Venezuela” (Great Mission Sons/Daughters of Venezuela) will have in 2012 VEB 22.0 billion. Although the programs were not included in the budget, some already have funds generated by last year’s additional indebtedness.

President qualifies the expulsion of the Consul as “arrogance”. Not only is it “unjustified” and “arbitrary” said Presidente Hugo Chávez last Monday, January 9th, about the expulsion of the Venezuelan Consul in Miami (Florida), Livia Acosta Noguera, from the United States, but also emphasized that it is “one more evidence of the arrogance of this ridiculous empire”. With these words, the Head of State rejected what he considered “an abuse”. He said that he is evaluating, together with the Foreign Affairs Ministry, the response to the US.

Opposition has doubts about the primaries? During his Sunday program, the Head of State said that he knows that the opposition is having doubts about holding the primaries next February the 12th. He asked the opposition if they want the ruling party supporters to be confined to its barracks, and empty the streets that date, to see how many people will vote that day. Chávez stated that the apparently, the opposition doesn’t dare go to the primaries, and their advisors are telling them to blame the government.

Pollster “Ceca-Cifras Online” says that more than 50% is against Chávez’s administration. According to the last two surveys made by the company Ceca-Cifras Online last December, 56.6% of the people surveyed doesn’t approve of President Hugo Chávez’s administration, while 32% approves it, and 11.4% didn’t answer or didn’t give an opinion.





...Regarding participation in the primaries Ceca-Cifras said that 58.2% “will probably vote next February the 12th”; 24.5% hasn’t decided it will participate, and 17.3% said that they won’t go to the polls.

Legislatives Tips

Performance of the NA by the end of 2011. The National Parliament approved 16 ordinary laws, and 193 additional credits for health, education, and housing last year. Among the laws approved by the National Assembly are one for human rights defense, and the Law of Fair Costs and Prices. Also, the Rental Law and the Law against Real Estate fraud were promulgated.

Head of State presents accounts. Next Sunday, January 15, the Administration will present before the National Assembly the Government Performance Accounts for 2011.

Discussion on Commerce Code Reform is resumed. Jesús Farías, President of the Permanent Commission on Finances and Economic Development, said that a priority for the NA is to reform the present commerce code, to include social and communal property. *“It is a very old commerce code that has to be adapted to the new times. There is a legal limitation that prevents the development of social and communal properties”*, said Farías.

Creation of the Anti-monopoly law: According to Farías, the NA will draft an anti-monopoly law in 2012 to *“help the advancement of a diversified productive apparatus”*; since it is considered *“an important law, because speculation emerges from monopolies”*.

The New LOT is essential for national development. Oswaldo Vera, President of the Integral Social Development Commission of the NA, said that the new Organic Labor Law (Ley Orgánica del Trabajo - LOT), to be approved before May 1st of this year, will generate significant changes in production means, so that labor is no longer a merchandise and becomes a true source of progress.

Proposals are received for the creation of the new LOT. Congressman Vera informed that the Presidential Commission to create and draft the new LOT, has received 12,000 proposals. Among the issues that the Commission is evaluating are:



a review of social benefits, the rest regime, the Labor Day, farming out, trade unionism, and collective bargaining agreements.

The goal for 2012 is to achieve social security and gender equality. Congressman Vera explained that the proposal for the legislative agenda prioritizes projects like the Law to Reform the Labor Benefits Regime, the Law to Reform the Organic Social Security Regime Law, and the Organic Law for Equity and Gender Equality.

The NA installed the first ordinary period for 2012. Last Thursday, January 5th, Congressman Diosdado Cabello was elected as new president of Parliament, On the other hand, Aristóbulo Istúriz, was ratified as first vice-president, and Blanca Eekhout, as second vice-president.

In the 1Q2012, the law of Popular Media may be approved. Darío Vivas, President of the Communications Media Commission of the NA, said that the second discussion of the Popular Communications Bill will continue. According to Vivas, the main goal is to “develop, articulate and consolidate” the alternative and community communication process that is created within social organizations and movements.

NA will continue discussions of the Communications Bill. This week, NA representatives continued with the second discussion of the People’s Power Communications Bill, which contains 31 articles. Last December, 16 the discussion reached up to Article 4. Besides this discussion, the presented four reports to authorize additional credits for the Capital District Government.

The rent of commercial and educational premises will be regulated. Representative Ascencio Monasterios said that the rental of real estate for commercial and educational activities will be regulated. He added that funerary services will also be controlled.

Disarmament plan enters into force in 2012. Pablo Fernández, Technical Secretary of the Presidential Commission on Disarmament of the NA, informed that the measures ratified by the Administration for disarmament in the country will enter into force this year.





ECONOMIC OVERVIEW

