



Weekly Report

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What are the presidential candidates saying about the economy?

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There is less than a month before the opposition will hold their primary election in order to select their presidential candidate who will once again go up against President Chávez in the upcoming presidential election to be held in October 2012. On January 23, the *Mesa de la Unidad Democrática (MUD)* (Unified Democratic Table) will present its platform proposal that will be the base for its program on how it will run the government, if an opposition candidate were to win the presidential election.

In this Report, we will present a summary of the platform the six opposition candidates are running on, focusing on those issues highlighted in their media campaign.

Two models

6 candidates are competing in the primaries for the presidential nomination to represent the opposition coalition on February 12. Each one of the candidates has their own economic plan. But, it's important to point out that despite the differences that may exist between them, one significant



difference stands out in comparison to the current economic model currently being followed; in other words, not a single opposition candidate is planning on continuing to develop the chavista economic model. Having said this, there will be some policies and programs that will continue as they are now, as they are slowly modified in the transition from one economic model to another, and as the new government decides which measure must be given priority over another. And it is regarding this last point that there is no consensus among the opposition candidates, and there are important differences between what one candidate says compared to another.

**Henrique Capriles:
The most important things are social measures and gradual changes**

In different statements, while talking about the economy, Henrique Capriles R. (HCR), has pointed out that in his economic program, he would accept proposals from all the sectors, even those that are part of the current Administration, and that he would continue to build social programs and improve those that already exist. So for HCR's team, it's very important that the transition from one Administration to another be achieved with the least amount of trauma as possible, applying any new measures gradually.

HCR and his team have already pointed out two areas where any change contemplated must be done extremely gradually: price control and the exchange control. *"You can't abolish price controls if you can't ensure that the exchange control won't skyrocket. If you were to abolish price control today, the value of currency would depreciate 4 or 5 times,"* said HCR in an interview with the newspaper El Mundo Economía y Negocios. And during the last few weeks, HCR has also stated that if wins the presidential election, he would follow the Brazilian model, defending the idea of the State as promoter and not owner.

What role would oil play?

With respect to the oil industry, in an interview talking about the oil sector and all the people that were fired from PDVSA, he said: *"I think one has to know what PDVSA's real situation is before issuing an opinion, (but) PDVSA workers have resources that they have accumulated throughout their years of service, you can't just brush it aside, years of work, it's an important debt, we have to sit down and review it."*

But, unlike other presidential candidates, such as: Pablo Pérez, Leopoldo López, or María Corina Machado; HCR has not presented a well defined proposal regarding his plans for the oil sector, an area that in our opinion, that his team has to improve on significantly.



**State and
Private
Sector
strong**

With respect to the companies that have been expropriated, Capriles Radonski assures that his objective is to make them “productive”, sometimes calling on workers to become shareholders and at other times mentioning the owners “who simply had their companies taken away for political reasons.” With respect to jobs, HCR will focus on creating and promoting small and medium sized businesses, and helping those recently graduated.

In summary of HCR’s platform, in his own words: “the State intervenes, promotes, strengthens; but always looking for a person to be independent, which is achieved through private effort.” His economic model has the public and private sector walking side by side, “together”.

**Pablo Pérez:
The State as a
springboard
for
development**

The presidential candidate, Pablo Pérez (PP), has focused on two issues: the oil industry and creating jobs. Pablo Pérez has stated that he will “break with the rentist populist culture,” and underlined the need to once again manage PDVSA with “the criteria of excellence.”

PP has stated that his first action as President of Venezuela would be to gather all PDVSA shares for the State, as it states in Article 303 of the Constitution.

**More control
over PDVSA**

PP has also stated that PDVSA needs to be monitored more closely, with periodic technical and financial auditing in order to know more precisely just how well PDVSA is performing: operationally, commercially, financially, and judiciously; as well as evaluate operative agreements for the Orinoco oil belt, and offshore operations; and review agreements made based on political-ideological interests, such as those with Cuba, PETROCARIBE, the *Acuerdo de Caracas* (Caracas Agreement), and cooperation agreements with China.

Another strong point of his platform for the oil industry is the creation of a Single Stabilization and Economic Development Fund, in order to cover for the volatile nature of incoming oil revenues, and the Program for Integral Social Security, with mandatory payments made by workers, which would begin by first covering the debt owed to retired workers and later be extended to health, education, job training, and housing. These two points, in our opinion, have yet to be addressed in detail by the candidate and/or his team.





**Jobs via
spending**

Another key program in his economic plan is *“Empleos Productivos para Salir de Abajo”* (Productive Jobs to Rise from below) which highlights the need to create incentives for private sector initiative, reactivate the oil sector, build houses, rebuild the country’s infrastructure, and reactivate agriculture, all through expansive fiscal spending policies (via spending and investment).

**Leopoldo
López:
“Made in
Venezuela”**

From Leopoldo López’s (LL) point of view, the policies implemented by the current Administration have made Venezuela an addict and dependent on imports, especially when it comes to food items, many of which used to be produced in Venezuela. This, of course, destroys the potential for many jobs. So the center piece of LL’s proposal for the economy is to promote domestic production in order to promote wellbeing and the progress of the Venezuelan people, and to truly develop food sovereignty. His slogan: Made in Venezuela. This brings back memories of former President of Venezuela, Herrera Campins’, slogan, *“Buy Venezuelan”*. LL’s proposal focuses on three areas: security, extreme poverty, and jobs. He says that inflation can be lowered to single digits by reactivating the country’s production apparatus and stabilizing prices.

Despite the fact that lately LL has been focusing on the issue of safety and security, one of the other points that he has spent a lot of time on has been jobs. He has also stated that he believes in a market economy and not a capitalism of the State.

LL has stated: *“we’re going to dismantle the exchange control as fast as possible, but keeping an eye out for the opportune moment and guaranteeing the amount of US-dollars the people need... it’s important that the economic actors begin to visualize what economic policies will be like regarding issues such as exchange rates, inflation, and price stability”*.

He has stated that he would eliminate price controls and rely more on subsidies, granting them to the sectors that need them the most among the food sector and other goods and services. He’s pointed out that economic growth is a priority, that policies that stimulate growth are a necessity in order to promote social wellbeing.

**María C.
Machado:
People’s
Capitalism**

Among the presidential candidates for the opposition, María Corina Machado (MCM) is the one who presents a platform that is almost completely opposite of that of chavismo. She has called it the People’s Capitalism. She has said that *“in order to defeat chavista socialism we*



must present superior ideas that are able to inspire millions of Venezuelans.”

Carlos Blanco, general coordinator for MCM’s plan for the government if elected, has stated that the main objective for the future government of MCM is to reduce poverty by developing the concept of the People’s Capitalism. In Machado’s proposal, private property (over goods and services as well production) will be considered a human right.

MCM will promote “modern jobs” with decent and dignified salaries; financing schemas (medium and long term) will be developed for the lower income strata. In order to generate these jobs, a judicial reform will be necessary to define clear rules so that companies will invest in Venezuela; and a head-on war against crime must be engaged in order to guarantee the security of the people.

MCM also states that Petróleos de Venezuela (PDVSA), the Central Bank of Venezuela (BCV), and the National Bolivarian Armed Forces would all have to be renewed in order to bring them in line with the objectives of her government if elected.

**Diego Arria:
Recovery of
confidence**

Despite not having a very clear proposal, on a number of occasions, Diego Arria, has said that he would focus on creating good jobs and expanding the formal economy creating development and opportunity, searching for competitive dynamics and improvements: “a person’s first job doesn’t have to be his/her final destination”.

In order to achieve this, his economic proposal centers on recovering the confidence of domestic and international players by creating clear economic rules: “in the end, it’s all a problem of confidence, this is what has done away with the production sector,” said Arria. He is emphatic about reverting the policies implemented by the current Administration, and many of the decision makers must be judged by their failures; but as he says, “first of all reverting the policies, as soon as possible.”

**Pablo
Medina:
Sequestered
powers or
Constituent**

Much like Arria, Pablo Medina has presented a defined proposal so far. The main issue when he speaks revolves around installing a Constituent National Assembly as soon as he is elected, because according to him, without a Constituent “whom ever gets elected President will find that he is a prisoner.” He insists that President Chávez used the Constituent to kidnap the country and that will be the only way to set it free.



When talking about the economy, he says that he would keep the exchange control but that he would turn CADIVI into “cosmic dust,” because it is a source of corruption. He also states that the government is bloated and jobs have to be cut to make it leaner and that the companies that the government took over, most of them have been destroyed. Companies must be freed with the participation of the workers and the private sector. He wants to create a public works project as a means of creating jobs. And he also states that the economic laws passed by this Administration should all be annulled.

Beyond the candidates... the important thing is change

As the campaign by opposition candidates in the primaries continues to develop and we hear speeches that introduce important differences with respect to a candidate's view of the economy and the priorities of the country, there are also a number of issues in which they agree, for example the need to create a health macroeconomic environment, lowering inflation, the exchange control, and reorganizing public finances.

Another important point is that the MUD has drafted a program to serve as a base for an eventual government led by an opposition candidate that has been created with the participation of more than 400 experts and technicians from different fields and the teams of different candidates.

The challenge

The document drafted by the MUD points out that part of the electorate sees as a positive fact the increase in consumption, the creation of Missions, and the reduction of poverty since 2003, and they don't feel threatened by socialism. This group believes in the official version of what the current Administration is doing and doesn't question the sustainability of the socialist economy promoted by the Administration.

The part of the electorate supports (or ignores) the loss of the BCV's autonomy and the discretionary use without oversight of FONDEN resources, among other things. And what's worse, is this group is willing to believe in the most incredible promises, such as the construction of houses in impossible time schedules, or that inflation will be controlled by price control measures.

So it's important to create a message that will reach and include this group; an economic proposal that will be sustainable without neglecting social issues.

The danger

In the event an opposition candidate were to be elected president, a democratic government has to keep in mind that a program can be



blocked and even reverted by a significant group of the electorate if it tries to stop the advance of socialism. This is even more relevant when you consider that a new sitting President will be surrounded by chavista sympathizers in all the other Public Powers from the previous Administration.

**The
opposition is
clear**

A very positive point that appears in this Report is that most of the candidates are aware of the need for gradual change, to be flexible, the need for succession, speed, complementarity, good partial results, compensate the losers, and clear and coherent communication regarding the objectives and the mechanisms.

It's important to emphasize the defects and the dangers of the Chávez Administration without falling into the same dilemma that the President has introduced: that of choosing between public or private property; between socialism or capitalism; between the IV or the V Republic. The message needs to focus on the need for both the public and private sector to co-exist; the need for planning, markets, regulation and freedom; to suggest a balanced message and vision, between polarized extremes.

The question in October will be: will the electorate buy such a message? We'll see.

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Economic Tips

Central Government expenditures increased 16.4%. BCV published the figures of the Central Government's fiscal performance for October 2011; they show that total expenditures increased 16.4% during the first ten months of last year, in real terms y/y, higher than the accumulated figure for the previous month, when it was 11.2%. On the other hand, this is significantly higher than in the same period of the previous year, when the Government's total spending dropped 8.7% in real terms y/y.

Income increased 20.6% in real terms y/y, higher than in the previous period when dropped 7.3%; among them, oil income increased 42.8% and non-oil income increased 12.8%, both in real terms with respect to the same period the year before.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	Jan-Oct 2010	Jan-Oct 2011	Nominal Variation	Real Variation
Total Revenue	141,244	217,542	54.0%	20.6%
Non-Oil Revenue	104,219	150,034	44.0%	12.8%
Oil Revenue	37,024	67,508	82.3%	42.8%
Central Bank Earnings	-	-		
Total Expenditure	165,656	246,134	48.6%	16.4%
Fiscal Balance	(24,412)	-28,592	17.1%	-8.3%
Non Oil Balance	(61,437)	(96,100)	56.4%	22.5%
Debt Amortization	3,969	453	-88.6%	-91.1%
Financing Requirements	28,381	29,045	2.3%	-19.8%
Foreing Debt	6,467	31,307	384.1%	279.1%
Domestic Debt	30,881	45,327	46.8%	15.0%
Tresury Bonds	26,128	41,588	59.2%	24.7%
Tresury Debt	4,754	3,739	-21.3%	-38.4%
Others	(8,967)	(47,590)	430.7%	315.7%

Sources: BCV and Ecoanalítica

2011 tax collection figures. According to figures released by the SENIAT, the State tax collection entity has collected VEB 147.442 million in the 2011. Of this figure,



VEB 36.770 million (24.9%) correspond to Income Tax collection, and VEB 84.348 million (57.2%) correspond to the VAT. In real terms, tax collection during 2011 is up by 12.6% compared to the same period last year. This shows how domestic demand has recovered. Income Tax and VAT collection compared to the same period last year were also up in real terms, 3.6% and 17.0%, respectively.

Concepts (VEB Million)	2010	2011	Nominal Var	Real Var
Total Income	102,611	147,442	43.7%	12.6%
Income Tax	27,813	36,770	32.2%	3.6%
VAT (Internal)	56,523	84,348	49.2%	17.0%
Customs revenue*	8,828	15,017	70.1%	33.3%
Other Internal Revenue	8,148	9,177	12.6%	-11.7%
Spirits	2,192	2,762	26.0%	-1.2%
Cigarettes	5,452	6,011	10.3%	-13.6%
Inheritance	222	273	23.3%	-3.3%
Random games or bets	231	129	-44.0%	-56.1%
Others	1,350	2,130	57.8%	23.7%

Sources: Seniat and Ecoanalítica.

* Includes VAT on imports.

US\$114 billion. According to Jorge Giordani, Minister of Planning and Finance, this is the amount the government has administered through the Chinese Fund and Fonden from 2005-2011. The Minister pointed out that *“the authorization of the one billion (in 2003) triggered a positive change. Fonden was created; funds with China were signed; and the law on windfall (oil) profits was passed,”* which made it possible to structure the *“new Bolivarian financial institutional framework.”*

Debt grows in spite of oil boom. From 2004, Venezuela enjoyed once again a long oil boom, receiving US\$504.15 billion over the last seven years; however, like in the past, debt grows rapidly.

Manageable Debt? President Hugo Chávez stated in his State of the Union address to the National Assembly (AN) that the *“country’s total debt in 2011 was 23,6% of the Gross Domestic Product (GDP), while in former administrations, it was 70%. The current debt level is normal and acceptable and we are going to manage it sensibly”*. However, the debt amount quoted by president Chávez is that part that corresponds to the Central Government and it does not include PDVSA’s obligations or financing agreements signed by the Executive or debts arising from nationalizations or labor debts. According to **Ecoanalítica’s** calculations, when these commitments are added, the debt represents about 46% of GDP.



Public Investment leads the way. president Chávez stressed that the economic activity grew 4% last year, thanks to the increase in public investment. He added that GDP represents US\$328.0 billion. *"This year's target is at least 4-5%. 2012 is a transition year and we want a minimum increase of 7% for the next 6 years."*

A great year for Seniat. The head of the Venezuelan tax authority (Seniat) assured that 2011 was a great year for Seniat, because the *"collection target was exceeded by almost VEB 46.0 billion."* The official highlighted that a surplus in Income Tax collection was recorded and *"almost 47% of the set target was reached in customs and foreign trade,"* and added that the target for the new fiscal year is VEB 156.3 billion.

Trade surplus with the US increases. According to figures of the US Trade Department, between January and November, Venezuela achieved a favorable balance of US\$28.86 billion in its trade balance with the US, up 43.9% from the same period in 2010 when the amount was US\$20.06 billion.

Informal employment rate grew 24.4% in 13 years. According to figures published by the National Statistics Institute (INE), in 13 years, the number of people working in the informal sector of the economy went up 24.4% from 4.5 million in December 1999 to more than 5.7 million at end-2011. Furthermore, according to the report published by the INE, between December 2010 and December 2011, informal employment rate went from 43.7% to 44.8% of the total working population, meaning that in 2011, 185,788 Venezuelans entered the informal economy.

There are 500,000 street vendors in Venezuela. Elías Eljuri, INE President, reported that there are 500,000 street vendors *"or less"* in Venezuela, meaning that not everybody that works in the informal sector of the economy is devoted to this activity.

Eljuri estimates that poverty will reach 3.5% in 2012. Eljuri also informed that extreme poverty for 2012, provided that all social plans are properly applied, *"could drop substantially, to about 3.5% and unemployment should drop to 5%."* Up until the first half of 2012 (last figure released by the INE), extreme poverty was 8.9%; unemployment rate closed 2011 at 6.5%.

Food basket increased by 1.8% in December. According to INE's figures, the food basket cost VEB 1,741.3 in December, up 1.8% from November, and VEB 30.9 in absolute terms as compared with November's VEB 1,710.4.





Products that registered the highest variations include: coffee, tea and cereals, ground coffee (12.85%), beans (3.31%), black beans (5.62%); powdered milk (2.12%), hard white cheese, 3.12%.

Fedecámaras estimates that inflation will exceed 30% in 2012. Jorge Botti, Fedecámaras president, stated that the country could experience a favorable economic growth close to 5% in 2012; however, growth could be accompanied with high inflation levels. *"This year is going to be marked by an enormous increase in public spending, which could lead the economy to grow more than 4%; however, it will be accompanied with a huge inflation rate that could easily exceed 30%,"* Botti assured.

Interest rates for January 2012 were published. The Central Bank of Venezuela (BCV) published the interest rates for severance and longevity payment, vehicle installment payment, credit card operations and financing for tourism sector. Credit card operations will be levied with a maximum rate of 29.0% and a minimum rate of 17.0%, and banks are allowed to charge 3.0%/year for late payment.

Interest rate for severance payment was set at 15.0%, 16-4% lending rate and 14.5% for savings rate. The BCV also established the maximum preferential interest rate to be applied by banks to credits for the tourism sector.

Furthermore, the BCV fixed at 15.6% the maximum interest rate to be applied to credits for the acquisition of vehicles.

Interest rates. The lending rate for the first week in January was at 13.8%, decreasing by 2.7 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 November 2011, placing well at 12.5.

International reserves. International reserves decreased 1.9% going from US\$29,846 million during the first week of January to US\$29,279 million during the previews week. Compared to the same period last year, international reserves have decreased by 1.0%.

Monetary liquidity. Monetary liquidity in the first week in January decreased 0.1% compared to the previous week settling at VEB 444,384 million. The M2 has increased 50.3% year-on-year.

Sitme figures. So far this year, US\$362 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$32.9 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the second week of January



the amount traded reached US\$137.6 million, averaging US\$34.4 million a day, traded US\$18.5 million less than last week when US\$156.1 million were traded.

Oil Tips

OPEC: Venezuela raised 2% its oil production in 2011. Venezuelan oil production was increased by 2% in 2011, according to statistic data published in the monthly report of the Organization of Petroleum Exporting Countries (OPEC). Data provided by secondary sources state that Venezuela produced an average of 2.38 million b/d (mb/d) in 2011, up around 50,000 b/d from 2010's average (2.33 mb/d). Venezuela's output according to OPEC is substantially different from the volume reported by the government that puts local production at almost 3 mb/d.

OPEC producers' ranking. According to OPEC report, Venezuela was the sixth largest producer of the Organization in 2011, measured based on its production volume. The first place was occupied by Saudi Arabia with an average of 9.28 mb/d, followed by Iran with 3.61 mb/d, Iraq with 2.67 mb/d, Kuwait and Arab Emirates with 2.52 mb/d each. Last year, OPEC member countries increased their production by 1.8% (a mean of 29.8 mb/d) on average.

The country might clash with other countries due to Exxon case. Venezuela might have conflicts with other States if Venezuelan authorities decide to conclude payments to ExxonMobil. The US oil giant has currently an arbitration trial at the World Bank's International Centre for Settlement of Investment Disputes (ICSID). Rafael Ramírez, Minister of Energy, pointed out last week that the case of Exxon compensation was a closed chapter and added that arbitration with ConocoPhillips at ICSID will proceed.

ICSID is expected to rule that assets have to be paid at their market value. The arbitration case that is being dealt with at the World Bank's ICSID due to the dispute between ExxonMobil and Venezuela could be closed with a substantial compensation paid in favor of the US oil company if the arbitration panel follows the bilateral treaties signed by Venezuela. The bilateral treaty that is in force provides for that *"compensation (for the expropriation of assets) will represent the market value of the investments affected immediately before measures are taken or before such measures are revealed to the public. Furthermore, compensation will include interest at a normal commercial rate calculated until the payment date."*



Arbitration trials have led the State to consider ways to protect itself. In 2011, president Chávez pointed out that “ICSID is one of the instruments of world dictatorship. If Venezuela considers that it should pull out from this entity, we will do it.” However, although the administration takes actions to denounce the agreement on settlement of disputes, experts in arbitration interview assured that claims that have been brought to the ICSID are proceeding normally. Experts point out that the State cannot say that it will not obey the rulings, because this could result in a State-State controversy.

Experts add that refusal to pay could force claimants to resort to stronger measures that would imply searching alienable assets in other countries. Assets that would be alienated are those that aren't protected against embargo. Actions could comprise assets of PDVSA and the Republic.

Venezuela and Peru energy bonds grow stronger. Aurelio Ochoa, president of Peru's National Hydrocarbon Agency, Petroperú, recently informed that Peruvian government will open a bidding process in the second half of the year comprising 30 lots of oil and natural gas, in an effort to develop their incipient energy sector. PDVSA is one of the companies interested in Peru's energy potential. It's worth remembering that both countries signed nine agreements on January 7th this year to strengthen cooperation and bilateral relations.

Eight refinery breakdowns over the last 30 days. The local refining system has suffered different incidents over the past 30 days, which have affected oil by-product output. According to reports by oil workers and PDVSA press statements, since December 2011 at least eight breakdowns have occurred in El Palito (140 kb/d), Amuay (645 kb/d) and Cardón (310 kb/d) refineries.

304 events with 68 deaths are reported in PDVSA since 2003. According to FUTPV oil workers reports, 304 accidents have occurred in different PDVSA's facilities since 2003. Iván Freites, secretary of oil workers union in Falcón State and member of FUTPV's Executive Committee, assured that as a result of the 304 accidents, 68 workers died and 264 were injured.

Oil workers' protests. Oil workers undertook protest actions due to the oil industry's situation, alleging that the collective contract has not been complied with and discussions for the new contract haven't started. Iván Freites stated that PDVSA's workers in different operation areas will resume union meetings, peaceful demonstrations, protests and will stage a go-low.

Payments and collective contract discussions are demanded in refineries. Oil workers in the Paraguaná Refining Complex (CRP) in Falcón State and of El Palito



Refinery in Carabobo State protested demanding payment of debts that have been outstanding for seven years and compliance with several clauses of the collective contract, as well as for the oil industry's operational situation. In a press statement, representatives of the Falcón state's oil union remembered that these debts were supposed to be paid in last November.

International oil baskets. At closing time on January 13th in the New York Stock Exchange, the price of the WTI was US\$101.0/bl, a 0.3% decrease compared to the US\$101.3/bl reported the previous week. The Brent increased by 1.5% to reach US\$112.5/bl, compared to the previous week's US\$110.8/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$109.0/bl on Friday January 13th, a 0.7% increase compared to the US\$108.3/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$108.7/bl.

Business Sector Tips

Auto production has been dropping for three years in a row. Auto production has contracted for four years in a row. In 2011, the seven assembly plants operating in Venezuela only assembled 102,409 units, down 1.9% from 2010. Data released by the Automotive Chamber of Venezuela (Cavenez) confirm the deterioration this sector has suffered since 2007. Auto production dropped 40.6% in only four years, from 172,418 to 102,409 units.

The automotive sector continues to face an adverse situation. According to figures released by Cavenez, only 120,689 autos were sold last year, down 3.6% from 2010. If last year's sales are compared with those of 2007, which was a record year for car assembly plants, contraction is 75.5%. That year, 491,899 cars were sold, that is, 371,210 autos more than those sold in 2011.

Neither assembly plants nor the State attained their target. Performance of local assembly plants continues to be questioned. Neither Venirauto nor Corporación ZGT, responsible for producing vehicles of the Chinese brand Chery, attained their 2011 targets. Víctor Mariño, Venirauto general manager, stated that the Venezuelan-Iranian company assembled 3,773 autos, as informed by the Venezuelan News



Agency (AVN) last Wednesday. The figure only represents 23.3% of the 16,188-unit production target for last year, according to 2010 report.

Agricultural loans increase, but production drops. Between November 2010 and November 2011, banks' total credits jumped 54%; when inflation effect isn't included, the increase is 20%. However, according to official statistics, production hasn't improved, as stated by Juan Carlos Loyo, Minister of Agriculture and Lands, who claims that drops have been registered at least in six high-consumption products, including white and yellow corn, soy bean, palm oil, sugarcane and plantain.

Food imports increased 12% in 2011. According to Cadivi's statistic data for 2011, food imports amounted to US\$6.30 billion, up 12% from 2010. While the increase has remained constant over the past three years, the figure is still below 2008's record when food imports amounted to US\$7.57 billion.

Cadivi approved 13% more foreign currency for medicines. Cadivi authorized US\$4.64 billion for health sector imports in 2011. This result accounts for a 13.1% increase in comparison to the amount authorized for the same sector in 2010 (US\$4.10 billion).

"Misión Trabajo" demands greater commitments to the State. While the Executive is fine tuning the details of its social program (Misión Saber y Trabajo), demands for those who want to be a part of the active population increase. Jorge Arreaza, Minister of Science and Technology, pointed out that people registered in these missions should be willing to participate in the training process, which will last depending on the profile to be developed, and be committed to some of the State's strategic projects.

Training in Gran Misión Trabajo will be permanent. Maryann Hanson, Minister of Education, informed that raining of people registered in the *Gran Misión Saber y Trabajo* will be permanent. Hanson explained that training will last between three months and three years, depending on the respective requirements, but that this is a process that "never ends".

More than 100,000 people have registered in the Gran Misión en Amor Mayor. A total of 133,600 elderly have registered in the Gran Misión en Amor Mayor in the states of Miranda and Vargas and in the Capital District. Registration process in the States of Zulia, Lara, Aragua, Carabobo, Falcón, Mérida, Táchira, Trujillo and Yaracuy began last Monday. The process will continue in the Metropolitan Area of Caracas.





The Orinoco Oil Belt has the highest demand in registration. The National Executive highlighted that registration in the *Gran Misión Saber y Trabajo* has been broadly accepted in the States of Miranda and Vargas and in the Capital District. According to official figures, last Saturday (the first day of registration) 13,680 people registered in the mission, most of whom are willing to be involved in the strategic plans at the Orinoco Oil Belt and the State's public works.

Polar's workers agree to submit conflict documents. About 1,200 Polar's workers, who are members of Sintracertiv (the beer, wine and soft drink workers' union) are willing to submit a conflict document to demand the discussion of the collective contract.

Sidor is producing at 50% of its installed capacity. Even though union representatives and entrepreneurs from Guayana report that basic industries are increasingly deteriorated, President Hugo Chávez assures that they are being recovered. President Chávez claimed in his State of the Union address for 2011 that *"liquid steel production in 2011 grew 39% with respect to 2010, from 1.8 million tons to 2.5 million tons,"*

Electric subsidy is closet o 16.0 billion per year. Vice President Elías Jaua informed yesterday that subsidy provided to electric sector users amounts to VEB 16.0 billion per year, as part of the government policy to avoid the impact of price increases on the poorest population sectors.

Meanwhile, food subsidy reaches VEB 6.0 billion in Mercal outlet network. According to Vice President Jaua, products at these outlets are being sold below the controlled prices,

Regarding public transportation... In an interview broadcasted through Venezolana de Televisión (state-run TV channel) commenting on the President's State of the Union address, Vice President Jaua stated that the Caracas subway's rate of VEB 1.5 per trip can be maintained thanks to a VEB 2.0 billion subsidy, *"otherwise, people would have to pay VEB 5."*

In summary, total subsidies amount to VEB 24.0 billion, or about US\$5.5 billion at end-2011.

The administration assures that the worst part of the electric crisis is over. In his State of the Union address, president Chávez said that the electric crisis was one of the country's three *"toughest"* problems, along with lack of personal security and inflation. Chávez pointed out that the government raised 38% investment in the electric sector in 2010-2011, from VEB21.82 billion to VEB30.10 billion.



During his State of the Union address, president Chávez highlighted that the Ministry of Electric Energy and Corpoelec increased the electric power generation capacity and specified that 1,682 megawatts were added to the national electric grid and 1,215 MW were added by refitting hydrothermal units.

New prices set by the Law of Costs and Prices will be announced soon. The Superintendent's Office for Costs and Prices will announce soon the new prices of products that have been frozen since late 2011, including mineral water, fruit juices, baby food, diapers, shampoo, deodorants, shavers, toilette paper, sanitary napkins, creams, chlorine, waxes, detergents and dishwasher soap.

Venezuela bought 37.5% of 2010's Cuban exports. Cuba's National Statistics Office (ONE) published data concerning the behavior of Cuban foreign trade for 2010. The numbers show that Venezuela bought 37.5% of Cuban sales for that year, with 1.72 billion Cuban pesos, surpassing China that was in the second position with 677 million Cuban pesos (14.7%). Total imports were 4.6 billion Cuban pesos.

Trade exchange between Cuba and Venezuela amounted to 6.02 billion Cuban pesos. As a result, the trade balance closed the year with a favorable balance to Venezuela (2.57 billion).

World Economy Tips

S&P downgrading affects the euro zone. The euro traded last January 16th at a 17-month low with respect to the US dollar, out of fear that mass downgrades for euro zone countries and stagnation of Greek debt could aggravate the debt crisis in the region. Standard & Poor's (S&P) downgraded credit rating of nine countries of the euro zone, including France, at a time when talks between Greece and its private creditors on a bond swap agreement were interrupting, thus increasing the risk of a default in Athens and darkening last week's little optimism.

Pressure on Euro Zone to Boost Defenses. According to economic analysts, mass euro zone ratings downgrades are unlikely to shake up investors too much, but with Greek debt talks at an impasse, pressure has been loaded on the bloc to shore up its defenses and glimmers of optimism from last week have been firmly doused. *"The euro zone crisis is now dominating market activity again, after a period in which better economic news from the U.S., and easier monetary policy in China had helped*



markets move higher," said Dominic Rossi, chief investment officer, equities, at Fidelity Worldwide Investment.

Europe is the biggest threat to the global economy, JP Morgan's chief executive Jamie Dimon told last Sunday that *"Europe is the biggest threat to the global economy."* *"I thought Europe would muddle through. I still believe that,"* Dimon is quoted. However, the executive said he now thought there was a chance of over 60 percent that Europe could make it, and no longer a 90 per cent chance, as he had previously believed. *"We urgently need a solution. The longer the problem drags on, the less likely it is we get off lightly,"* he stated.

China's economy expanded at its weakest pace in 2 years. China's economy expanded at its weakest pace in 2-1/2 years and it appeared headed for an even sharper slowdown in the coming months as export demand fades and the housing market falters. The fourth-quarter year-on-year growth of 8.9 percent, although slightly stronger than the 8.7 percent that economists polled by Reuters had predicted, may give Beijing yet another reason to gently ease monetary policy, most likely by reducing the amount of reserves that large banks must hold.

HSBC: Emerging market growth remained sluggish in the fourth quarter of 2011 with manufacturing output recording its sharpest fall in over two years, as inflation-curbing measures hindered growth, HSBC's emerging markets index (EMI), based on 21 service and manufacturing sector purchasing managers' surveys in 16 emerging economies, showed on Tuesday, January 17th. *"Concerns about inflation faded very quickly and now there is a bigger concern about growth and though we are not in 2008 territory yet...(there is) a clear indication emerging nations are slowing down,"* HSBC chief economist Stephen King said.

Inflation in Latin America hit 7% in 2011. The report *"Situation and Perspectives of Global Economy"*, prepared by the UN Conference on Trade and Development (UNCTAD) highlights that only Argentina and Venezuela registered two-digit inflation. On average, price increased 7% in 2011. The report states that inflation in the region remains *"high due to the fast growth of domestic demand and the increase in raw material prices."* The report added that in most Latin American countries active policies to fight price increases were applied.

Brazil: inflation and growth forecast for 2012 is reduced. Economists reduced their inflation forecast for Brazil for the seventh week in a row, to 5.3% from 5.31%, according to a weekly survey prepared by the Central Bank, which was released on Monday, January 16th. Experts also reduced their economic growth forecasts for 2012, to 3.27% from 3.3% the previous week.



Colombia's Central Bank will face pressures in 2012. The Bank of the Republic will face two major challenges in order to keep inflation between 2% and 4%. The first challenge comes from the minimum wage raise of 5.8% and the second, from the effects of the long winter season. The center of studies of the financial system warns that *"risks of inflation rebound will continue to mix elements of aggregated demand boosted by an excessive adjustment of legal minimum wage (at rates close to 6% vs. our recommendation of 5% tops)."*

Guatemala: economic sectors are optimistic regarding the new administration. Banks, tourism, exporters and construction trust that ministers appointed will be able to set priorities required for the country's development. According to analysts, the Partido Patriota hasn't sent clear signs on how the economy will be managed; therefore they should make clear their position with regard to demands being faced by the State. Analysts expect the economy to grow 4.5% in 2012, higher than the projection of 2.9% to 3.3% made by the Monetary Board a few weeks ago.

Political Tips

Protection appears to be necessary. Arbitration trials have made the government to consider some protective measures, as stated in official reports. Last year, president Hugo Chávez pointed out that the World Bank's International Centre for Settlement of Investment Disputes (ICSID) *"is one of the instruments of global dictatorship. If Venezuela considers that it should pull out from this entity, we will do it."* In June 2011, the Ministry of Foreign Affairs presented the Head of State with a document denouncing the agreement concerning the settlement of investment disputes between States.

The document also detailed that the Ministry of Foreign Affairs, along with the General Solicitor, would prepare model clauses that would be presented to countries with which agreements have been signed for them to accept renegotiation of provisions concerning the settlement of disputes.

The nation is to negotiate 25 investment protection drafts. Rafael Ramírez, president of PDVSA, ratified that the country will withdraw from the International Centre for Settlement of Investment Disputes (ICSID) and at the same time it will negotiate treaties signed with 25 different countries on this subject.



The administration insists that it won't recognize the value of lands. Last Friday, during president Chávez' State of the Union address, Deputy María Corina Machado said that "*expropriating is stealing*," because compensation for some expropriations hasn't been paid. Concerning this topic, in those cases in which the government has taken lands, President Hugo Chávez said that he won't pay the value of the land, but of the recognized improvements, because "*those lands always belonged to the nation*."

"They wanted us to pay them per hectare," president Chávez said last Sunday in a telephone interview on Venezolana de Televisión. Chávez added that owners of expropriated lands "*have never been able to prove that they are the legitimate owners*."

María Corina Machado's words caused pain and discomfort. After answering María Corina Machado's remarks during the endless presentation of his State of the Union address last Friday, president Chávez again referred four times to the Deputy's remarks in his TV show.

President Chávez left open the possibility that María Corina Machado may be punished, warning that "*I don't interfere; entities are independent; she insulted me in front of everybody, but the main punishment is a moral one; I feel sorry for her attitude*."

After her remarks, María Corina Machado said "I spoke with the truth." Deputy Machado (independent), who took part in the walk in honor of the Virgin, like in the past seven years, didn't want to talk about politics. However, with respect to Chávez' statements, who said that "*she isn't at my ranking*," Machado pointed out "*undoubtedly we are on different planes in terms of values and moral strength. This regime has divided, insulted and impoverished the society... I haven't disrespected anybody; I told the truth and truth may be painful. Lying to the Venezuelan people is the worst manner to disrespect a society*," she said.

Misión Trabajo isn't sustainable. Registration of the *Gran Misión Saber y Trabajo* has attracted the attention of a large number of Venezuelans. This makes evident the necessity of a decent and stable job. However, for the CTV (central workers' union of Venezuela) this will only happen if the administration understands the value that the other economic players have to attain goals.

The Foreign Ministry makes withdrawal of Venezuelan personnel from Miami Consulate official. The Ministry of Foreign Affairs issued today a press statement confirming the withdrawal of the Venezuelan personnel from the Venezuelan



consulate in Miami. The document states that the decision was made due to the concern provoked by “*threats against these personnel.*”

Chávez describes US statements as nonsensical. According to president Chávez, statements given last Saturday by Victoria Nuland, spokesperson of the US Department of State, concerning the possibility that Latin American countries that were visited by Iranian president Mahmud Ahmadinejad may be subject to sanctions if they deepen their trade relations with Iran, are nonsense.

And how is president Chávez doing in polls? Chávez launched his electoral campaign late last year. One could think that this step has been taken too early, considering that this could affect his popularity; however, Luis Vicente León from Datanálisis pollster, this strategy implied an increase in Chávez’ popularity to such an extent that it increased over 50%, thus breaking the force balance that had existed over recent months. According to León, this doesn’t mean that Chávez is going to win the presidential election, because, in his opinion, this result only reflects a today’s picture that could become clearer or darker in the next 10 months.

What about María Corina Machado’s popularity after her words at the AN. Luis Vicente León pointed out last Monday that the candidate to the primary election, María Corina Machado, might have improved in terms of her position for the primary election to be held on February 12th; however, this improvement doesn’t appear to be enough to win the primaries. “*She is out in terms of polls; she did something that none of the favorite candidates would dare do because it’s a major risk,*” she stressed.

Legislatives Tips

12,000 proposals have been received for a new LOT. A total of 12,000 proposals have been received by the presidential commission for the creation and writing of the new Labor Organic Law (LOT), deputy Oswaldo Vera informed. Vera said that these proposals will serve to specify the labor benefits provided for by the law. The schedule for public consultations that will take place from January till March was published last week. In April, all proposals will be gathered to prepare a final report that will then be delivered to president Chávez.

LOT discussions are close. Telémaco Figueroa, vice president of the Workers Socialist Union, informed that sessions where proposals for the reform of the new



LOT will be discussed and debated will be held on January 20th and 21st throughout the country.

Over the next fourth months, workshops and forums on LOT will be held in all states of the country, mainly in Bolívar, Anzoátegui, Aragua, Carabobo, Zulia and in the central region states. At those events, topics such as returning to social severance retroactivity, labor stability, social security and protection, outsourcing, workday cutting back, among others, will be discussed.

AN approved five public credit operations. The Commission on Finance and Economic Development of the National Assembly (AN) approved in its session on January 10th the financial conditions for five public credit operations that are planned by the National Executive to cover amounts authorized by the Special Lawton Yearly Borrowing for 2012 Fiscal Year.

The first issue of public debt bunds will help cover the VEB1.26 billion, or its equivalent in foreign currency at the official exchange rate, which was authorized as local contribution for projects to be executed by public entities. The second issue for VEB20.0 billion or its equivalent in foreign currency was authorized and “*is earmarked for 2012’s fiscal management.*”

The third issue of VEB 25.82 billion is to be applied to pay the domestic and foreign debt service. The fourth public debt issue will be used to refinance or restructure public debt; therefore, VEB 17.19 billion, or its equivalent in foreign currency, was authorized. The fifth and last public credit operation involves the issuance of Treasury bills for a maximum of VEB6.89 billion for yearend.

Parlatino will apply Legislative Observatory to framework laws. The head of the Citizen Security of the Latin American Parliament, Walter Gavidia, said that this entity approved a Legislative Observatory to monitor framework laws, “*in order to improve legislation in all Latin American countries.*” Gavidia said that many parliamentarians don’t refer to framework laws that are passed at Parlatino at their respective parliaments; therefore, the aim of this observatory is to monitor those laws and to include them in discussions at plenary sessions in their respective countries.





ECONOMIC OVERVIEW



