



Weekly Report

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*Pdvsa like Pemex: The equity
risk reaches 98%*

By:
Asdrúbal Oliveros
José Luis Saboin
Anabella Ron
Ecoanalítica's Team*

* Adriana Morillo, María Gabriela Benítez
and Pilar Navarro

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This Weekly Report will focus on the financial report released by Petróleos de Venezuela S.A. (PDVSA), considered the fourth largest oil company in the world by Petroleum Intelligence Weekly, on June 30, 2011, and the Consolidate Financial Debt (CFD), on December, 2011. It's important to keep in mind that since PDVSA has not a part of the U.S. Security Exchange Commission since 2006, a commission which requires all members to release audited company financial statements ever quarter, it is not required to follow this procedure. Consequently, the release of PDVSA's financial report, which has not been audited by an independent entity, rather all the figures have been generated by the company internally, leads to a lot of uncertainty.

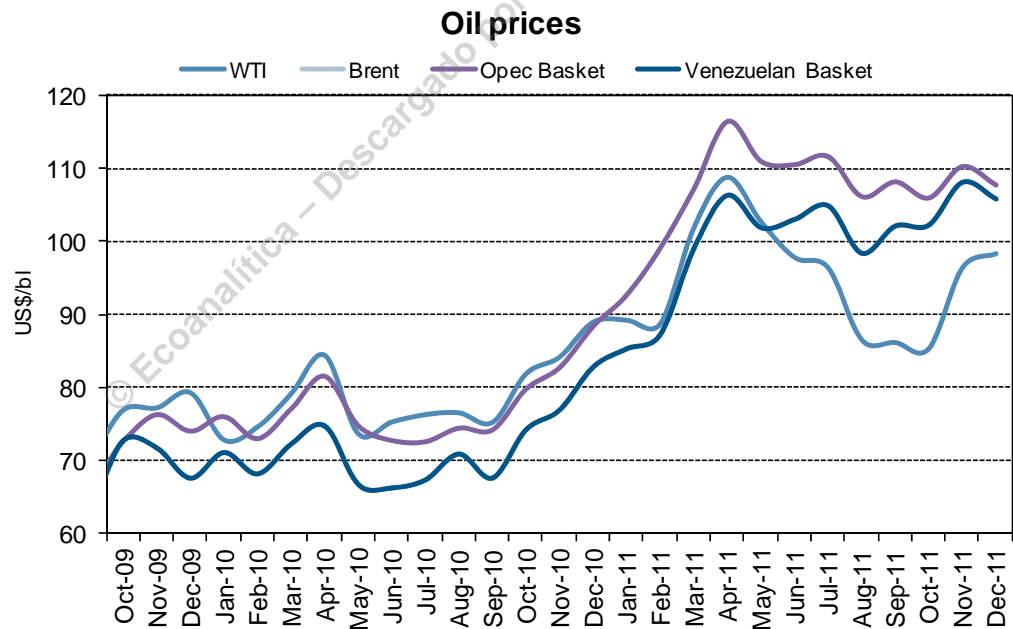
A rising market

As we have stated throughout 2011, international oil prices and the oil market in general was commanded by two fundamental elements: the problems brewing in the Middle East and conflicts in North Africa; and the worldwide uncertainty in the financial markets due to fears of a new global



recession threatening due to fiscal problems facing a number of Euro-Zone countries.

But, despite these fears, the increase in demand for crude oil by China and other emergent markets (up by 1.5 mb/d compared to 2010) was the determining factor when all was said and done with respect to how oil prices performed throughout 2011. Thanks to the increasing demand of these countries, the Venezuelan oil basket averaged US\$100.8/bl in 2011, up by 40.7% compared to 2010. With respect to the outlook for 2012, at **Econalítica**, we would like to underline that if any of these emergent economies were to stumble, their economies slowing down for any reason, it would have an immediate effect on the international oil market and crude oil prices. But as things stand right now, there is nothing to indicate that this will happen.



Sources: MENPET and Ecoanalítica

Crude oil prices increase in an election year: PDVSA is a force

Taking into account how Venezuelan crude oil price have performed during the period in question (first semester 2011 compared to first semester 2010), one can see that there has been a 39.2% increase in prices, going from US\$70.1/bl to US\$97.6/bl.

Said increase was reflected on PDVSA's financial figures, where total revenues increased by US\$17.22 billion going from US\$46.91 billion to



US\$64.14 billion. This allowed the Administration to increase its public spending as well as the use of its quasi-fiscal resources, which we will discuss in a moment. Consequently, PDVSA's expenses increased by 56.2% on a y/y basis, leaving a difference of US\$21.88 billion, going from \$US38.95 billion to US\$60.83 billion and net profits reaching US\$4.18 billion, compared to the US\$2.59 billion posted in 2010. This translates into an increase of 61.9%

Profit Loss Statement of Pdvsa (US\$ Million)			
	H12011	H12010	Variation
Total Income	64,135	46,911	36.7%
Purchases of crude oil and derived products	-20,325	-14,801	37.3%
Operating expenses	-6,628	-5,171	28.2%
Depreciation and amortization	-3,140	-2,936	6.9%
Royalties, extraction tax and other taxes	-8,539	-6,537	30.6%
Contributions to social development and Fonden	-18,163	-5,157	252.2%
Other expenses (income), net	-2,169	-3,033	-28.5%
Total Expenditure	60,832	38,945	56.2%
Profit before income tax	3,303	7,966	-58.5%
Income Tax	-607	-4,705	-87.1%
Net Operating Profit	2,696	3,261	-17.3%

Sources: Pdvsa and Ecoanalítica

For its part, earnings before interest payments, taxes, depreciation and amortization (EBITDA) at the close of the first semester 2011 totaled US\$28.09 billion, up by 56.1% compared to the EBITDA figure posted in the first semester 2010 of US\$17.99 billion. The EBITDA represents a 43.8% margin compared to total revenues for the period.

EBITDA (MM US\$)						
	H1-2006	H1-2007	H1-2008	H1-2009	H1-2010	H1-2011
Net Income	2,845	896	9,504	3,173	2,585	4,186
Financial Expenses	310	222	-448	395	2,608	1,995
Income Tax	2,050	1,177	6,574	1,471	4,705	607
Depreciation and Amortization	1,479	1,795	2,353	2,740	2,936	3,140
Social Development	6,719	7,243	7,674	386	5,157	15,776
Gran Misión Vivienda	-	-	-	-	-	2,387
EBITDA (MM US\$)	13,403	11,333	25,657	8,165	17,991	28,091

Sources: PDVSA and Ecoanalítica

PDVSA reports a positive cash-flow figure of US\$3.01 billion during the period in question, up by 315.9% compared to what was generated in the



first semester 2010 (a deficit of US\$951 million). This was mainly due to increased profits due to higher international crude oil prices.

**Nothing new:
PDVSA
borrowing
increased**

According to figures recently released by PDVSA, the company increased its borrowing up until the end of 2011 by 39.8% compared to the close of 2010, going from US\$24.95 billion to US\$34.89 billion; with the bulk of this being in bond issuances maturing between 2012 and 2027. In PDVSA's balance this reflects a debt of US\$32.97 billion. By increasing the amount of the debt, PDVSA also increased its risk to 44.1% in 2011 (approximately 11 percentual points in one year). This last calculation doesn't take into account any increases in assets corresponding to the second semester 2011 because the balance released by PDVSA which is up until December 31 only includes the Consolidated Financial Debt. But based on reports released in previous years, we can conclude that the inter-semester difference of the asset is practically nil.

Borrowing Capacity

	2006	2007	2008	2009	2010	2011
Total Debt (MMUS\$)	2,914	16,611	15,478	21,897	24,950	34,892
Patrimony (MMUS\$)	53,103	56,062	71,513	74,389	75,314	79,162
Debt/Patrimony (%)	5.5	29.6	21.6	29.4	33.1	44.1

Sources: PDVSA and Ecoanalítica

At **Ecoanalítica**, we believe that it is important to point out that PDVSA's company risk level was at 21.6% in 2008, when crude oil prices were high, averaging US\$ 94.1/bl. Last year, the country's economy went through a similar situation, with venezuelan crude oil prices topping US\$100/bl. However, despite existing analogy, the difference between debt/assets between these two years was at 22.4 percentage points. This reveals that PDVSA's total debt has been increasing at an accelerated rate this past few years and that company assets have not been keeping pace enough to compensate for the debt acquired, despite high international crude oil prices.

**And the debt
owed to
China?**

It's important to point out that according to official PDVSA information, crude oil shipments to China made by the oil company in payment for the China Fund are not registered as crude oil sales and they are not considered as debt on any of PDVSA's financial statements. According to the president of PDVSA, Rafael Ramírez, the mechanism governing this fund and others like it is as follows:



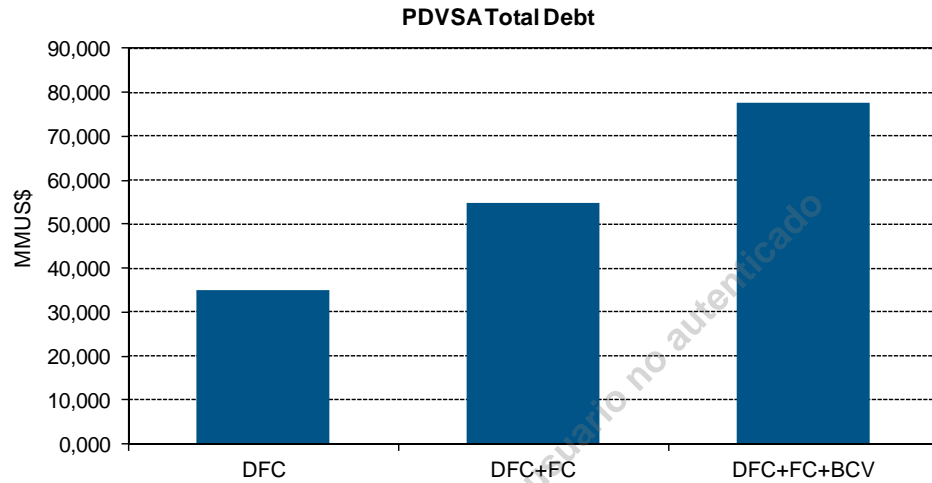
1. PDVSA, acting in name, and representing the Republic of Venezuela, sells Venezuelan crude oil to China National Oil Corporation (CNOOC).
2. The client, CNOOC, pays for that crude oil through a collection account (a BANDES account in the CDB).
3. The CDB receives the payment in the collection accounts in BANDES name. Currently, there are three collection accounts (3 Funds) in US-dollars and Yuan.
4. The CDB collects a debt service payment (based on estimated sale prices between US\$40-US\$50/bl which is the price/cost of the payment), plus quarterly interest.
5. Once the debt service is collected, a surplus is left in the collection account, which in principle, is transferred to the Venezuelan National Treasury, since PDVSA has discounted it as a type of royalty payment, and now, PDVSA, through BANDES, receives these resources to use to pay royalties, extraction taxes, and to cover part of production and refining costs.

However, since in fact it is PDVSA that is taking care of paying this debt, deliveries of Venezuelan crude oil which reached 430,000 b/d at the close of 2011, we annex the amount reflected in the report of the DFC. According to estimates of *Ecoanalítica*, debt with China currently stands at US\$19.95 billion, which would raise the debt of PDVSA at the end of 2011 to US\$ 54,84 billion, affecting the risk assets of the company and leading indicator debt / equity ratio of 44.1% to 69.3%

**The new deal:
a line of
credit with
the Central
Bank of
Venezuela
(BCV).**

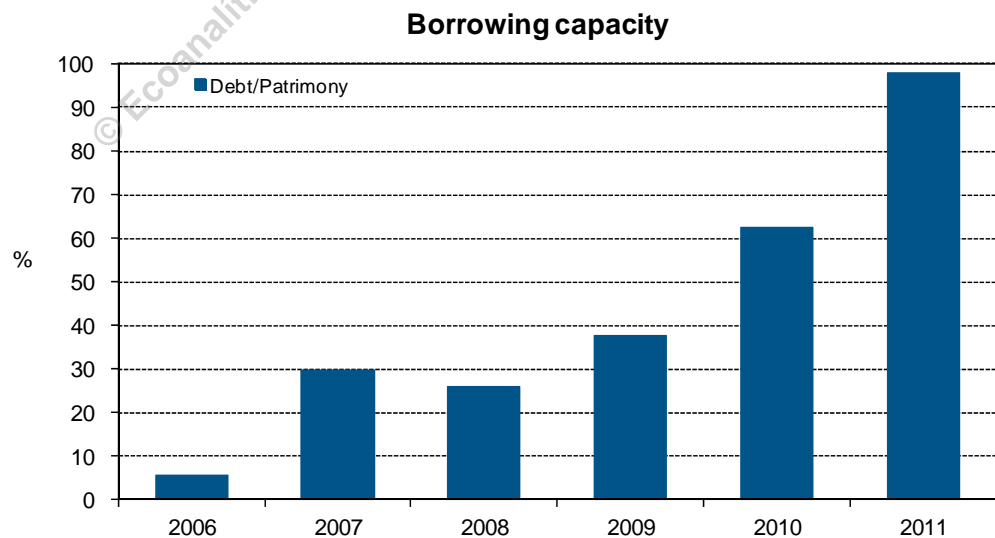
And there is more. The Administration never ceases to surprise us. While analyzing the updated figures of the monetary base, we found that PDVSA has significantly increase the amount of debt it owes the Central Bank of Venezuela (BCV). The latest information that we have seen shows that up until the first week in July 2011, PDVSA owed the BCV VEB 43.56 billion (equals US\$10.13 billion at the official CADIVI exchange rate). Then, by the week of December 23, 2011, PDVSA's debt to the BCV had increased by 124.2% reaching VEB 97.68 billion (US\$22.72 billion).

This behavior suggests that this account is functioning as a kind of line of credit that allows PDVSA to meet its obligations owed in bolivars and to make its contributions to social development. This new twist in the way the oil company is borrowing resources reflects poor management of public sector resources, and makes the BCV a direct creditor of PDVSA and an indirect creditor of the National Treasury at the cost of higher inflation, as increased liquidity of 17.6% in real terms in 2011 confirms.



Sources: Pdvsa and Ecoanalítica

So now, if we add the amount PDVSA has borrowed from BCV to the running total of PDVSA debt we have been calculating here, at the close of 2011, PDVSA's debt reached US\$77.56 billion, further increasing the company's risk level, taking the debt/asset indicator to 98%



Sources: PDVSA and Ecoanalítica

Considering this, we note that the relation debt/equity of Pdvsa is more than 65%, highest than the average equity risk of the world biggest oil companies like BP, Chevron, Petrobras, Royal Dutch Shell, Total, Exxon,



Gazpron, Eni, Conoco Phillips, among others, which stood at 32.4% in 2011. In this situation, a fall in the price of oil could bring the company into bankruptcy.

**Equity Risk
World Biggest Oil Companies**

BP	41%
CHEVRON	10%
PETROBRAS	44%
ROYAL DUTCH SHELL	42%
EXXON	13%
GAZPRON	22%
ENI	52%
CONOCO PHILLIPS	35%
Total average (debt to equity)	32.4%

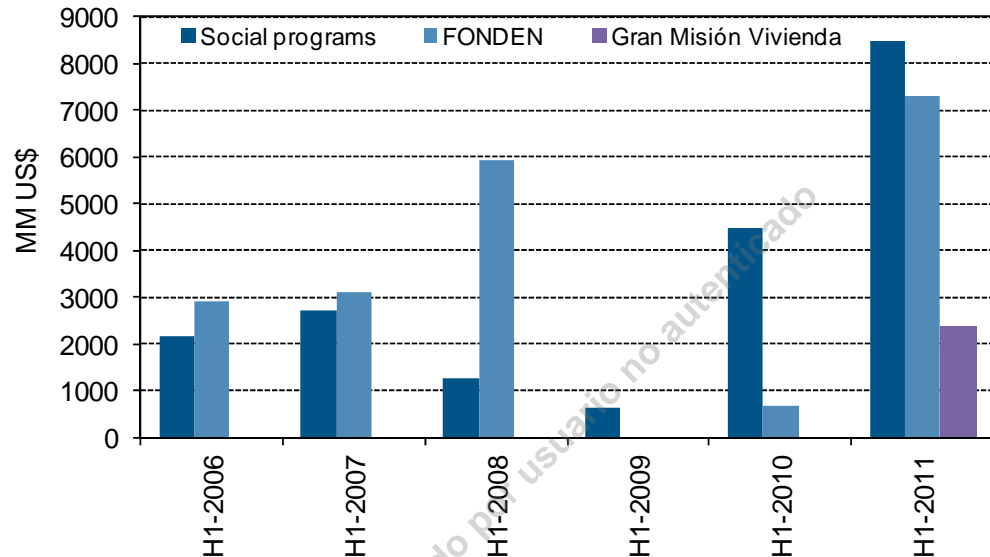
Will Social Investment guarantee victory?

With respect to the transfers and contributions made to social development (Mission, social programs, and FONDEN), the total amount spent for the first semester 2011 was US\$18.16 billion, up by 252.2% compared to the US\$5.16 billion spent during the first semester 2010. This is no surprise being that the political cycle leading up to the 2012 presidential election in October began in 2011; and that the Administration's main objective is reelection; and that the Administration's tried and true formula for winning elections is to increase public spending in order to create an illusion of well being and bonanza in order to increase its popularity.





PDVSA Social Contributions



Sources: PDVSA and Ecoanalítica

When taking a closer look at PDVSA's social contributions during the first semester 2011, one finds that 13.1% of the total amount invested went to the recently implemented "La Gran Misión Vivienda Venezuela" (The Great Housing Mission Venezuela), 40.1% went to FONDEN, and 46.7% went to social programs and the Missions. It's important to point out that FONDEN transfers during the first semester 2011 increased by 954.6% compared to the same period in 2010, going from US\$691 million to US\$7.29 billion.

Workers complain

With the company reporting a rosy financial outlook, one wonders why the workers are protesting about working conditions and problems with operations. Since the beginning of the year, oil workers have been stating that problems within the company continue to persist.

"Refineries are working at 63% capacity and operations are unstable," stated Ivan Freites, secretary for the Unified Federation of oil Workers. Necessary investments haven't been made and maintenance schedules aren't being followed.

The Oil Seeding Plan has been delayed by several years, and the decisions made by the people in charge of PDVSA with respect to maintenance and operations has adversely affected production and refining levels. At **Ecoanalítica**, we have a hard time understanding how a



company that releases such a glowing finance report can have so much discord and discontentment among its workers and surrounding operations.

**One
Objective at
the cost of an
industry**

There is no doubt that in 2011, PDVSA further committed itself to the strategy of borrowing by a number of means, such as: bond issuances, financing through the public bank and foreign banks (mainly China, Japan, and Italy), and now also the Central Bank of Venezuela. This increased borrowing will in the future have a negative effect on the company. Meanwhile, fiscal demands along with increased fiscal spending leading up to the 2012 presidential election will undoubtedly have a negative effect on oil industry investments, causing the company to further neglect key areas, thereby making the company more vulnerable to any sudden drop in international oil prices.

So far this year, international oil prices have remained high, the Venezuelan oil basket averaging US\$108.3/bl. One would expect a better performance out of PDVSA with such prices, but the efficiency, excellence, and maintaining an oil company the size of PDVSA is not only dependant on high revenues.

At **Ecoanalítica**, we feel that it is very unfortunate that the country has not reaped greater benefits out of the considerable revenue made from oil exports because of the inefficiency of PDVSA's management, shackled by the will and demands of the Administration. We believe that the implementation of a new oil strategy is imperative, operations need to become more efficient, investments must once again be focused on solving the industry's problems, first in line being increasing production, and to seriously try to meet "*Oil Seeding Plan goals*".





Economic Tips

Last shipment of repatriated gold arrives in the Ventral Bank of Venezuela (BCV): Around 8:15 in the evening, last Monday, January 30th, the last shipment of 14 tons of gold that was repatriated into the country from different international bank institutions came to the Central Bank of Venezuela. Nelson Merentes, president of the BCV, informed that 160 tons of monetary gold, equivalent to US\$9.0 billion, were brought into the country over the past two months.

Less foreign currency for students: According to Manuel Barroso, president of Cadivi, *“allocating foreign exchange for children to study basic education and high school abroad isn’t a priority for the State;”* therefore, Cadivi has been instructed not to process applications for foreign currency for basic education and high school, except for a few cases, such as when parents are separated and one of the lives with the children abroad. According to Barroso, the provision will be ready before March.

Bonds of the Republic increase their value: In an environment where investors bet to a possible political change in Venezuela, due to president Chávez’ health problems and the strengthening of the opposition, the value of the Venezuelan bonds traded abroad has reached record highs. The bond maturing in 2031 closed at 86.5%; Global 22 bond closed at 95.6%; Global 26 at 87.65%; and PDVSA 2022 closed at 87.75%.

If bonds continue improving, the Ministry of Finance and PDVSA could sell new papers at a higher price and, at the same time, pay lower interest rates. On January 10th, the National Assembly (AN) authorized the administration to issue new debt. The administration could place up to VEB 71.0 billion or its equivalent in dollars in new debt. According to Barclays Capital, the fact that the AN has granted this authorization so quickly signifies that the administration could again go out to the market in a short time.

VEB 3.7 billion in two weeks: Pressured by the necessity to increase income in order to cover public spending expansion, the Ministry of Finance began to sell bonds and treasury bills and in only two weeks it has received VEB 3.7 million. Although during the first weeks of 2012, the Ministry was able to place bonds at an interest rate lower than that of end-2012, this week it should assume high costs. Fixed income papers, which had been placed at a 15.8% rate in the first operation of this year, were allocated at 18.0% on January 25th, just like Vebonos.



The solution is worse than the problem. Prices have been controlled for nine years and in this period, inflation has taken a giant lap: between February 2003 (when price controls started) and December 2011, cumulative inflation has been 528.0%. This has diminished wages and salaries; therefore workers today buy 15.0% less than in 1998. However, president Chávez assured that price controls “*are necessary; they are part of a strategy of State intervention in the economy and it’s one of the elements of the transition from capitalism to socialism.*”

Fonden: counts don’t tally. Jorge Giordani, Minister of Planning and Finance, informed that Fonden received US\$82.6 billion between 2005 and 2011, of which US\$42.3 billion corresponded to contributions by PDVSA and US\$40.3 billion to transfers from BCV. With regard to expenses, Fonden webpage presents a list of 312 financed projects worth US\$29.7 billion, which accounts for 36.0% of the amount received up until today. The difference is of US\$52.9 billion.

...furthermore, taking into account that according to **Ecoanalítica’s** estimates Fonden had an availability of US\$7.7 billion in end-2011, there is a difference of US\$45.2 billion, i.e. the whereabouts of 55.0% of Fonden funds isn’t known.

Interest rates. The lending rate for the third week in January was at 18.8%, increasing by 1.4 percentage points compared to the previous week. The time deposit rate remained since July 2011 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 0.6% going from US\$28,792 million during the third week of January to US\$28,628 million during the previews week. Compared to the same period last year, international reserves have decreased by 3.5%.

Monetary liquidity. Monetary liquidity in the third week in January decreased 0.3% compared to the previous week settling at VEB 444,689 million. The M2 has increased 51.7% year-on-year.

Sitme figures. So far this year, US\$821.8 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$37.4 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the fourth week of January the amount traded reached US\$207.4 million, traded US\$11.9 million more than last week when US\$195.5 million were traded.





Oil Tips

PDVSA's contribution to National Treasury grew 33% in 2011. Oil price behavior allowed PDVSA's fiscal contribution to increase 33.0% last year. Rafael Ramírez, Minister of Energy/PDVSA president, pointed out that contribution to the Central Government, consisting of Income Tax, royalties and dividends, amounted to VEB 81.0 billion. This amount is higher than funds transferred in 2010, which were VEB 60.8 billion. While oil prices averaged US\$101/bbl. last year, funds transferred to the National Treasury were estimated on a barrel at US\$70, because that was the price provided for in the adjustment to the contribution corresponding to crude oil extraordinary prices.

PDVSA claims that it will expand production in 2012, thanks to the Orinoco Oil Belt. Rafael Ramírez visited the Junín block of the Orinoco Oil Belt on January 24th. There, he said that increase in Orinoco production planned for this year will be of 455,000 barrels daily (kb/d), from 1.18 to 1.63 million barrel daily (mb/d).

Ramírez stated that investment was 31% higher in comparison to 2010 Ramírez said that PDVSA invested US\$15.1 billion in 2011, up 31.0% from the amount reported by Ramírez in 2010, when PDVSA invested US\$11.5 billion. PDVSA 2010 Management Report states that investment planned for 2011 was US\$18.357 billion (including contribution by partners) within the framework of the Oil Sowing plan.

Comfortable with the debt. Minister Ramírez also referred to PDVSA financial debt, which closed 2011 at US\$34.8 billion, for an increase of 40% in the year. Ramírez stated that *"we feel comfortable with this debt level. We should remember that we're an expanding oil industry; that we're not stagnated,"* adding that *"our investment won't be taken out from our cash flow, but from financing. It's good news that PDVSA continues receiving financing."* He highlighted that PDVSA has more than US\$75.0 billion in equity and assets over US\$162.0 billion.

PDVSA stated that Paraguaná Refining Complex (CRPI isn't operating at full capacity). Despite breakdowns that have occurred in recent weeks at the different units in Amuay and Cardón refineries at Paraguaná Refining Complex (CRP) and in El Palito refinery in Carabobo state, PDVSA assures that refining operations are developing regularly. Rafael Ramírez said that *"refineries are operating normally. CRP is processing 750 kb/d, Puerto La Cruz refinery is producing 189 kb/d, and El Palito refinery, 130 kb/d"*. According to PDVSA 2010 Management Report, nominal



capacities of these refineries are de 955 kb/d, 178 kb/d and 140 kb/d, respectively, which implies that CRP is operating at 79.0% capacity.

Amuay shutdown is expected to last 120 days. Amuay's catalytic cracking unit could be shut down for up to 120 days, starting next week, according to oil workers in Falcón state. They stated that CRP workers are in agreement with this shutdown, "*because maintenance is required.*" Workers highlighted that troubles are related to the low safety levels at which oil facilities are operating.

This shutdown calls for... an investment of US\$149 millions and requires 2.800 workers, up to a peak of 3,500 people engages in maintenance works. Jesús Luongo, General Manager of the plant, said that "*\$1.657 billion has been invested to keep units operating.*"

Although maintenance is necessary, workers warn about product inventories such as gasoline and other fuels in relation to Amuay, the country's largest refinery, repair works. The plant shutdown also affects the alkylation unit where 20 kb/d of olefins, which are used in the catalytic plant to improve gasoline rating, are processed. Workers point out that fuel inventories in CRP tanks are at 75.0% capacity, meaning that "*there should be about 10 days of fuel inventory*"

Gasoline transportation companies complain about lack of support by PDVSA. More than 3,000 workers of Empresa Nacional de Transporte (ENT), PDVSA affiliate that handles about 50% of gasoline deliveries throughout the country complained about the company's operational and managerial situation Through a press release, they expressed their support for Tulio Echenique, driver of a gasoline tank-truck who was involved in an accident occurred in the Pan American road on December 2, 2011, pointing out that they "*reject the irresponsible time-wasting policy of ENT's Legal Department, because every time an accident happens, instead of supporting us immediately, they turn a blind eye and drivers have to work things out as they can.*"

Fuel smuggling in Táchira state border continues. Despite restrictions imposed by authorities in Táchira state to fight gasoline smuggling toward Colombia, above all Cúcuta, fuel continues to cross border illegally, as reported by La Nación newspaper. The large volume of fuel that is still illegally sold in Villa del Rosario and La Parada is evident. The price of the container has depreciated in those places precisely due to the large volume of fuel that has entered illegally into the area.

International oil baskets. At closing time on January 27th in the New York Stock Exchange, the price of the WTI was US\$99.2/bl, a 0.6% decrease compared to the



US\$99.8/bl reported the previous week. The Brent decreased by 0.8% to reach US\$110.2/bl, compared to the previous week's US\$111.1bl.

Local oil basket price. The Venezuelan oil basket price decreased last week, closing at US\$107.6/bl on Friday January 27th, a 0.4% decrease compared to the US\$108.0/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$108.2/bl.

Business Sector Tips

Delinquency rates at banks are at their lowest levels of recent years. The Office of the Superintendent for Financial Institutions (Sudeban) pointed out that average delinquency (extremely past due debts to the banks) at private banks is 2.7% and 5.0% at state-owned banks. The three largest banks of the system (Mercantil, Banesco and Venezuela) have the lowest delinquency rate, averaging 1.21%.

Chávez urged banks to comply with agricultural financing. Last Sunday, January 29th. President Hugo Chávez urged private and state-owned Banks to comply with their obligation to agricultural sector and support, through financing, agricultural and livestock and productive development of the nation. *"Public and private banks in Venezuela: either you operate right away just as you have to with regard to agricultural production, or we'll take measures (...). First of all, State-owned banks' managers are the responsible ones, and private banks, if they don't want to comply with the Constitution or the law, I don't have any problem in nationalizing them,"* Chávez said.

Concerning this subject, Sudeban recently stated that agricultural loans have increased 49.0%. Last Friday, The Bank Superintendent's Office recognized through a press release that bankers, to a large extent, have complied with the requirements *"The agricultural loan has the highest compliance rate. In December 2011, 91.7% of Banks exceeded the minimum required percentage,"* the Superintendent assured

Reactions were swift. Juan Carlos Escotet, president of Banesco, informed through his Twitter account that *"support for the country's productive sectors through financing will continue to be a priority for Banesco in 2012. He congratulated Banesco's Agricultural Bank team that closed last year with a portfolio of VEB 6.675*



billion". This came after president Chávez' warned on "Aló Presidente" that he would nationalize private Banks if they didn't collaborate with the agricultural sector. "

China will back the development of 600,000 hectares. Juan Carlos Loyo, former Minister of Agriculture and Lands, announced that Venezuela and China will recover 600,000 hectares located at different points in the country to develop agricultural projects. Loyo explained that both governments signed an agreement to promote "*one of the most ambitious programs*" among those advanced by both countries. The agreement calls for road repairs, installation of irrigation systems and the construction of agricultural infrastructure and food processing plants.

Agricultural production only grew 1.0% in a year. According to the study Recent Evolution and current Situation of the Venezuelan Food System, developed by the Universidad de Los Andes (ULA), per capita agricultural production declined 9.0% in 2011 as compared to 1998, Alejandro Gutiérrez, professor and researcher at the University pointed out that the 1.0% growth in primary production in 2011 with respect to 2010, reported by the Ministry of Agriculture and Lands, is below the 1.6% annual population growth.

The National Academy of Economics warns about the high level of underemployment in Venezuela. Luis Mata Mollejas, who was recently appointed president of the National Academy of Economics, states that the major challenge for the country is facing the high levels of unemployment and underemployment. "*Everybody in the country is worried about inflation, but we also have to be worried about employment, the existence of a population that doesn't work or that is underemployed and that, therefore, lives out of subsidies granted by the administration.*"

CANT fiber optic increases. Jorge Arreaza, Minister of Science and Technology, didn't want to give any detail on CANTV's dividends for 2011; but he did inform that the fiber optic network achieved 7,071.8 miles at end-2011, 48.4% more in comparison to the 4,807.5 mile network existing when the company was nationalized. Arreaza points out that the target for 2012 is to expand fiber optic to more than 9,942 miles.

Costs of CANTV collective bargaining contract increase by 50.6%. The 2011-2013 collective bargaining contract will enter into force next week. The contract provides for a 50.6% with respect to the contract that expired last year.

"Power generation situation this year will be comfortable" Before assuming the General Secretariat of Unasur (next May in Quito), Alí Rodríguez will visit some



countries in the region to detach from the polemic power sector and fine tune his proposal of an “irreversible” integration

The economic impact of the power crisis is estimated at US\$81.0 billion. Energy experts, notably including Miguel Lara, former general manager of the Interconnected System Operation Agency (OPSIS), university professors Nelson Hernández, José Manuel Aller and Víctor Poleo; Iñaki Rousse, former director of la Electricidad de Caracas; and the international consultant José Aguilar estimated at US\$ 81.0 billion the impact of power crisis on the local economy and the Venezuelans.

These experts pointed out at a press conference that the administration’s objective *“has been to destroy the local productive apparatus and deceive the country,”* because *“the stated goals haven’t been achieved, cost for the nation is huge and the problem hasn’t been solved, as they want us to believe, because the electric crisis hasn’t been solved.”* Available generation capacity isn’t enough to cover the demand; the transmission system is being overused to bring power from Guayana and not to increase rationing.

The number of people registered in the “Misión Saber y Trabajo” (employment and training) continues to increase. Ricardo Menéndez, Minister of Industries, informed on January 27th that a total of 149,844 people had registered in the Misión Saber y Trabajo. Menéndez explained that in the Capital District about 70,369 people had registered, whereas in Miranda State, 67,369 people were registered and 11,575 in Vargas State.

Sidor has plans to produce 3.7 million. Sidor has survived the electric crisis, labor conflicts, the contraction of international markets, low prices of its products, and forced shutdowns. However, its co-management bets for a production of 3.7 million of tons of liquid steel for this year. Orlando Pagés, Domestic Market Plane Manager, and Pablo Díaz, Commercial Manager of Long Products, warn that with the production expected for 2012, the company would attain 2008 levels.

Presidents review progress of Venezuela-Colombia bilateral trade. Venezuela’s Foreign Ministry informed last Friday, that President Hugo Chávez talking on the phone with Colombian counterpart said to president Santos that he was very pleased for the “evolution” of bilateral trade. During the phone call they discussed progress made in joint projects. Trade between both countries increased 31.0% in January-October 2011, in comparison to the same period previous year, according to reports from Colombia.

Public entities rush to buy homes in Venezuela. The necessity to cover housing demand in Venezuela has led state entities to buy homes in housing project on the



secondary and primary market. In late-2011, official entities started acquisition processes in several housing complexes throughout the country. One of the purposes of the measure is to allocate a large number of these homes to families that are still living in refuges. Sources from the construction sector point out that entities that are negotiating the properties are the Vice President office, PDVSA and Ipsfa (military social welfare institute), among others.

The World Bank expects drop in food prices. The World Bank said on Tuesday that global food prices will fall further in 2012, as a weaker global economy impacts consumer demand even as food supply grows. However, the WB warned that a possible increase in oil prices could reverse this trend.

World Economy Tips

Fed: Interest rates low through 2014. The US Federal Reserve (Fed) announced last week that the country's main interest rate is likely to stay exceptionally low at least through end-2014. Fed chairman, Ben Bernanke, explained that this is the "best guess", although it could change depending on economic conditions.

Consumer spending stagnated. U.S. consumer spending was flat in December as households took advantage of the largest rise in income in nine months to boost their savings, setting the tone for a slowdown in demand early in 2012. The Commerce Department said on January 30th that spending was the weakest since June.

UE leaders meet to analyze a new bailout fund. EU leaders will sign off on a permanent rescue fund for the Euro-Zone at a summit on Monday and are expected to agree on a balanced budget rule, with unresolved problems in Greece casting a shadow on the discussions.

European countries should help boost growth. The head of the International Monetary Fund, Christine Lagarde, said Saturday that some countries that use the euro have the flexibility to boost growth to help shore up the ailing Euro-Zone economy, which is widely expected to sink back into recession. Speaking at the World Economic Forum in Davos, Christine Lagarde said the 17 nations that use the euro should not undertake dramatic spending cuts to reduce debts at the same pace or to the same degree.



Fitch cuts ratings of five Euro-Zone countries. In its statement, Fitch said these countries have near-term vulnerability to monetary and financial shocks. Fitch downgraded Friday, January 27th the credit ratings of Belgium, Cyprus, Italy, Slovenia and Spain, indicating there is more than a 50% chance of further ratings cuts in the next two years.

World economy will grow only 0.5% in 2012. Annual United Nations World Economic Situation and Prospects report forecasts average economic growth of 2.6% this year and 3.2% in 2013. According to the report, this prospect will apply *“unless there is rapid action to create jobs, prevent sovereign debt distress and shore up fragile banks.”* Assumptions include a 50% cut in Greece sovereign debt, a lower economic stimulus in the U.S. in the short term, and the compliance with the economic policy commitments agreed upon by the G-20 at Cannes last November.

World Bank lowers its economic growth forecast. The World Bank has warned that the crisis in the Euro-Zone will lead to a sharp slowdown in growth in rich and poor countries this year and could spiral into a rerun of the 2008-09 recession. In its half-yearly health check on the global economy the Washington-based institution said the world had *“entered a very difficult phase characterized by significant downside risks and fragility”*. The bank lowered its forecast for global growth in 2012 from 3.4% to 2.5% but said governments should be preparing for a downturn as bad as that which followed the collapse of Lehman Brothers in 2008.

Japan posts 1st annual trade deficit in 31 years. Data released by Japan's Finance Ministry show that Japanese imports totaled US\$32.0 billion more than exports. Japan's economy was severely damaged when the country was hit by an earthquake and tsunami in March 2011.

Japan population shrinks. Japanese population is expected to shrink by one third in the next half century, a government report says. The Health and Welfare ministry estimates that 40% of the population will be of retirement age by 2060 and that life expectancy - already one of the highest in the world - will continue to rise. A low birth rate and a rapidly aging population are perceived as an additional burden on an already highly indebted economy.

Asia increases acquisitions of Latin American companies. In late-2011, mergers and acquisitions in Latin America with Asian capitals grew 43% and show an increasing trend, a report prepared in Spain by Transactional Track Record (TTR) in collaboration with IE Business School says.

Brazil: primary fiscal surplus reached US\$73.360 billion. Brazil closed 2011 with a primary fiscal surplus in line with the official target; but the administration's plans to



reactivate a decelerated economy suggest that budget discipline could go back this year. The country reported a primary budget consolidated surplus of BRL128.7 billion (US\$73.36 billion), Brazil's Central Bank said Tuesday 2011 figure is equivalent to 3.1% of Brazilian GDP, as the administration expected.

Ecuador is the third country with the highest growth rate in Latin America and the Caribbean. Ecuador is the third country in Latin America and the Caribbean in terms of real GDP growth in 2011, a report prepared by the National Secretariat for Planning and Development (Senplades) says. Ecuador grew 8% with respect to 2010 and its growth rate is higher than that of larger countries in the region such as Chile (6.3%), Colombia (5.5%) or Brazil (2.9%).

Political Tips

Social model should advance beyond 2013. The 2007-2013 Socialist Plan will end next year. The plan calls for the construction of the 21st century Socialism; however, details on the next nation plan haven't been provided. President Chávez has reiterated his interest in moving forward with the model. President Chávez showed his preference for direct social ownership *"I like the concept of direct social ownership very much and I take the opportunity to remind it. But not every social economy should be a state economy (...)"* Chávez said.

Chávez' popularity is stronger than ever. Edmond Saade, director of Datos pollster, explained in his presentation to Venancham's Forum 2012 Perspectives, that *"the impact on President Chávez' popularity depends on whether the individual is receiving money from the government, either through missions, because someone in the family works for a state institution or because they buy at the state-owned outlet network."*

Almost 50% of Venezuelans desires a new president. According to Datos, 49.0% of the interviewed people want a new president, whereas 43.0% don't. Datos reports that 68.0% of the population is going through their worst economic phase; 37.0% looks the government's performance as positive and another 37.0% say it's negative; however, 46.0% say they're chavistas, 31.0%, opposition and 23.0%, neutral.

The present is what counts. According to information gathered by Datos, 27.0% of the population is being benefited from two or more government sources, that is,



about 5,200,000 people. Most people thinks on a short-term basis; 78.0% falls all rights with their way of living and 73.0% says that their standard of living is positive; but when they were asked about their children's future, 52.0% said they are concerned about this issue.

Better than never. According to Datos' most recent survey, the country's situation is seen as follows: 50.0% of the population believes that the country started 2012 well, whereas 46.0% said it didn't. In spite of inflation, they perceive that they have a better standard of living and that they have enough money.

Concerning the political system, 32.0% prefers socialism; 55.0% prefers social democracy, 5.0% is for capitalism and only 2.0% likes communism. Joseph Saade, Datos president, assured 3,000,000 people will participate.

Decree creating the Family Savings and Social Investment Fund was made official. President Chávez signed last Sunday, January 29th the decree creating the Family Savings and Social Investment Fund, intended to strengthen Gran Misión Hijos de Venezuela. President Chávez said on his Sunday radio and TV program "Aló Presidente" that the new fund will be fed with 10.0% of the allocation received by benefited families, which would be equivalent to VEB 43 monthly per child.

President delivers funds for missions. On national TV, at the Universidad Militar Bolivariana in Tiuna Fort, President Chávez delivered the funds for beneficiaries of "Hijos de Venezuela" and "En Amor Mayor" missions ("Great Missions").

Jaua comes back to the Ministry of Agriculture and Lands. On his 378th TV and radio program "Aló Presidente" broadcasted Sunday, January 29th, at the Ezequiel Zamora Production Unit, President Chavez made important announcements: he recognized that in 2011 "results desires in the agricultural sector weren't attained" and appointed Vice President Elías Jaua Minister of Agriculture and Lands. Chávez ordered Jaua to "devote 900% of your time to this task; now you have to devote to agriculture and land." This decision was made official through decree No. 8790, published in the *Official Gazette* N°. 39,853 of January 31, 2012.

New ALBA summit. President Chávez said that Presidents from Bolivia and Ecuador have confirmed their attendance to the new ALBA summit; the date of the summit hasn't been defined yet, but President Chávez said it could be next Sunday, February 5th.

Chávez points out that ICSID clashes with the Constitution. Given the questions arising from the arbitration trials that are open against Venezuela at the International Centre for the Settlement of Investment Disputes (ICSID), President Hugo Chávez



said that it's clear that the country will not obey any order that breaches the Constitution of the Bolivarian Republic of Venezuela.

Legislatives Tips

Legislative agenda for 2012. Even though the legislative agenda for 2012 hasn't been released, Diosdado Cabello, president of the National Assembly (AN), informed that it's composed of 46 laws that have been proposed by the different commissions of the AN. Cabello indicated that laws to be discussed throughout 2012 period of sessions are supplementary to laws being developed by President Chávez, for instance *"some laws that are related to the pension regime have to be conditioned to actions taken within the framework of "Amor Mayor" mission."*

Emolument Law: A new package? A report prepared by the Central Bank of Venezuela (BCV) explains that the administration's intention to regulate wages earned by public servants, through the Organic Law on Emoluments and Pensions for Top Officials of the Public Administration could cause the Venezuelan economy, which grew a little more than 4.0% last year, to register again negative figures.

The Law provides for that the Head of State, representatives, judges of the Supreme Tribunal of Justice, the directors of the National Electoral Council (CNE), the Attorney General, the Ombudsman, and the Comptroller cannot earn more than 12 minimum wages per month. The Law entered into force a year ago and rules wages of top authorities; it also says that it will be applied proportionally to the other public servants.

The BCV warns that if the Law is applied to the entire Public Administration, 1,600,000 public servants would see their wages dropping by 21.7% on average, which would result in a decrease of 10.1% in public spending and a drop between 1-1.5% in GDP. These would be *"undesired macroeconomic and social effects,"* similar to those that would be provoked by a *"fiscal adjustment program,"* popularly known as "paquetazo" (big package).

The Ministry of Planning and Finance supports the Emolument Law. While the BCV forecasts an economic decline, the Ministry of Planning and Finance (MPF), in its report, states that the Law will favor the economy. According to Minister Jorge Giordani, as a result of the adjustment of wages earned by top authorities and,



consequently, of the remaining public servants *“tendency to save of workers earning more than 10 minimum wages will decline and, as a consequence, sumptuary consumption will decrease.”*

The Emolument Law will favor foreign currency market. Giordani also stated in his report that the decrease in the consumption of sumptuary goods will lead to a *“drop in imports of these goods”* and this will favor the *“foreign currency market”*.

Representatives Luis Acuña will chair the NA Foreign Policy Commission. During the meeting of the Consultative Commission, which was held on January 24th at the Federal Legislative Palace, seat of the National Assembly, Diosdado Cabello, AN president, appointed representative Luis Acuña new chairman of the Permanent Commission on Foreign Policy. Acuña replaces representative Héctor Navarro, who was appointed Minister of Electric Energy by President Chávez.

Partial reform of the Special Law on Fiscal Stamps. The first discussion of the Partial Reform of the Special Law on Fiscal Stamps for the Capital District at the AN is scheduled for this week. The reform is intended to reduce from 10% to 2% the aliquot of current rates for the registration of Articles of Incorporation of mercantile societies. This proposal was requested by the Capital District and the Bank Superintendent's Office.

The Commission on Weapon Control expressed its repudiation. Given the images that were posted on the Internet showing minors with their faces covered and carrying firearms, the Presidential Commission for Weapon and Ammunition Control and Disarmament, published a statement expressing its repudiation against the use of children for the promotion of violence; the Commission also urged the competent entities to establish responsibilities with regard to the origin of the images.

Labor Organic Law (LOT) is reviewed in Aragua State. Within the framework of the country-wide workshops for the discussion of the Labor Organic Law, the Bolivarian workers' union and members of the LOT Presidential Commission attended an event at the theater of Maracay Hotel, where proposals presented by workers were analyzed and signatures were collected in support for the approval of the text through the Enabling Law.

The new law provides for cutting back the workday; extending maternity leave to five months; eliminating the test period in companies; eliminating outsourcing and returning to retroactivity.

They have also planned to hold an event in Carabobo State. The upcoming events will be held in the States of Lara, Zulia and Táchira.



AN discussed Law against Organized Crime. In its January 31st regular session, the AN discussed for the second time the Draft Law on the Reform of the Organic Law against Organized Crime. The reform of the Law was approved in its first discussion in year 2011 and one of its goals is fighting this plague in the country

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ECONOMIC OVERVIEW

