



Weekly Report

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*The debt is running wild,
but high oil prices continue
to save the country*

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The yearly Special Borrowing Law for the 2012 fiscal year became law during its second discussion in the National Assembly (AN) on December 13, 2011. The Law states that gross borrowing for 2012 will be for VEB 110.98 billion (US\$25.81 billion), and if we include the Central Government's debt service payments owed this year that are at VEB 10.35 billion (US\$2.41 billion), we have that the net borrowing for 2012 will be at VEB 100.63 billion (US\$23.40 billion).

Despite the fact that the recent tendency with the Venezuelan oil basket has been to post steadily increasing average prices per barrel of oil, and that the outlook for international oil prices seems to point to prices continuing to increase, which assures us of increasing incoming revenue; and keeping in mind the high cost of financing our debt; borrowing policies continue to be aggressive acquiring debt as if there is no tomorrow, with no signs of a change, even less in an election year.



Borrowing aimed at short term objectives

The Venezuelan Government continues to design its borrowing policies to satisfy short term needs, and turning a blind eye to problems which need to be solved that will have very severe long term implications. In Venezuela, bond issuances have become part of the exchange mechanism, as the demand for US-dollars is much higher than the supply. So bond issuances have become one of the mechanisms used to increase supply, and counter-act the fundamental dynamics of the exchange market.

Keeping this in mind, it's clear to see that the viability of these borrowing policies won't be possible without significant adjustments being made to the country's overall economic policies, government spending, and a reconsideration of medium and long term political objectives.

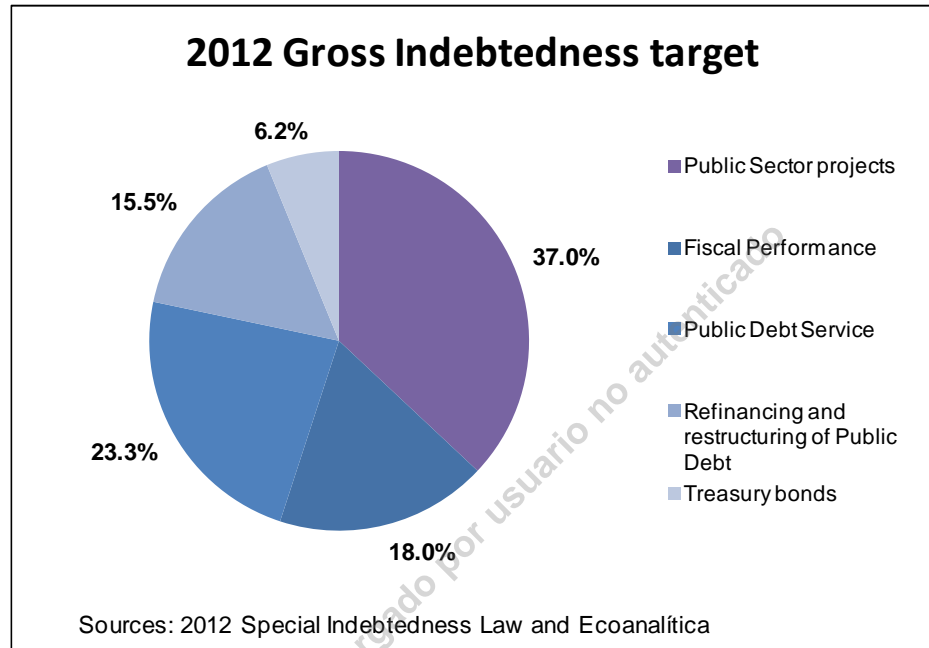
The benefits of borrowing

According to the Borrowing Law, a total of eight Ministries receive financing from borrowing: the Ministry of the People Power for Environment; for Overland Transportation; for Electric Power; for Agriculture and Land; for Basic Industries and Mining; for Defense; for Health; and the Office of the Presidency.

Part of the borrowing is earmarked to be used to cover needs in priority areas and sectors deemed strategic by the Administration, related to improving transportations, the National Electric Power Grid, defense, the water system, and activities related to the steel industry, just to name a few. The problem is that only 37.0%, which is to say, VEB 41.08 billion (US\$9.55 billion), will actually be used for one of these purposes.

The rest of the resources obtained through borrowing will be used for: fiscal management, VEB 20.0 billion (US\$4.65 billion); debt service payments (domestic and foreign), VEB 25.82 billion (US\$6.01 billion); debt refinancing and restructuring, VEB 17.19 billion (US\$3.99 billion); and Treasury Bills, VEB 6.89 billion (US\$2.39 billion).





Debt continues to increase

We can see that both the domestic debt and the foreign debt have evolved through the years, reaching the high levels we have today. Preliminary figures of the Ministry of Planning and Finances indicate that the domestic public debt was US\$34.69 billion in 2011, an increase of 65.2% with respect to 2010, when it was US\$26.83 billion.

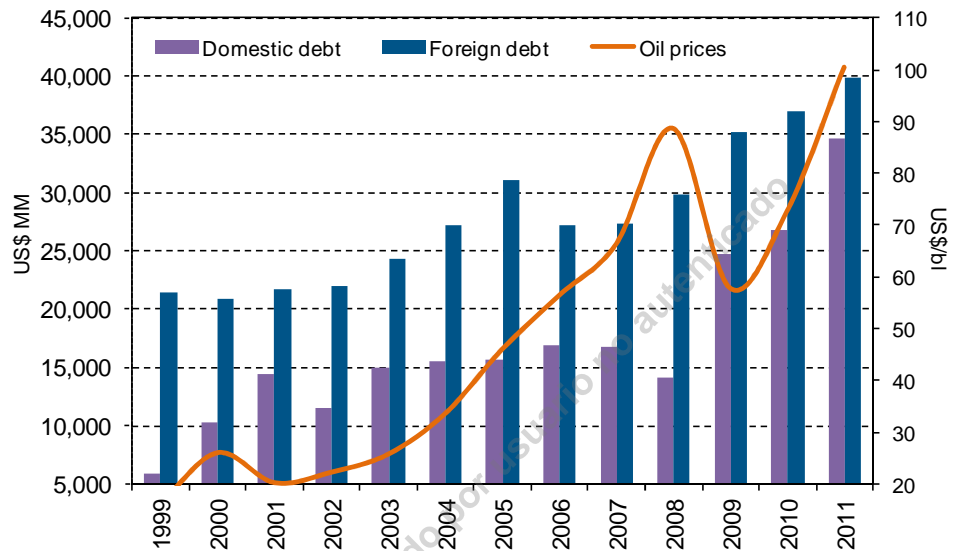
The foreign debt was US\$39.90 billion last year, an increase of 7.8% with respect to 2010, when the foreign commitments of the Central Government were US\$37.03 billion.

Comparing this indebtedness with that of 2008, one of the high oil price periods, we see that the total debt increased 69.3%, since for that fiscal year the debt was for US\$44.06 billion, while for 2011 it was US\$74.59 billion. Thus, we can appreciate the high level of indebtedness during the present Administration.





Domestic debt, foreign debt and oil prices



Sources: Ministerio de Planificación y Finanzas, Menpet, BCV and Ecoanalítica

At some time, oil prices were an excuse

Between 2009 and 2011, the debt increased considerably. In 2009, the Administration increased its debt due to the drop in oil income, since that year the Venezuelan oil basket was US\$57.7/bl on average, a drop of 35.3% compared to 2008, when it was US\$88.6/bl. Although later the prices recovered, to US\$72.7/bl in 2010, public credit operations continued to increase.

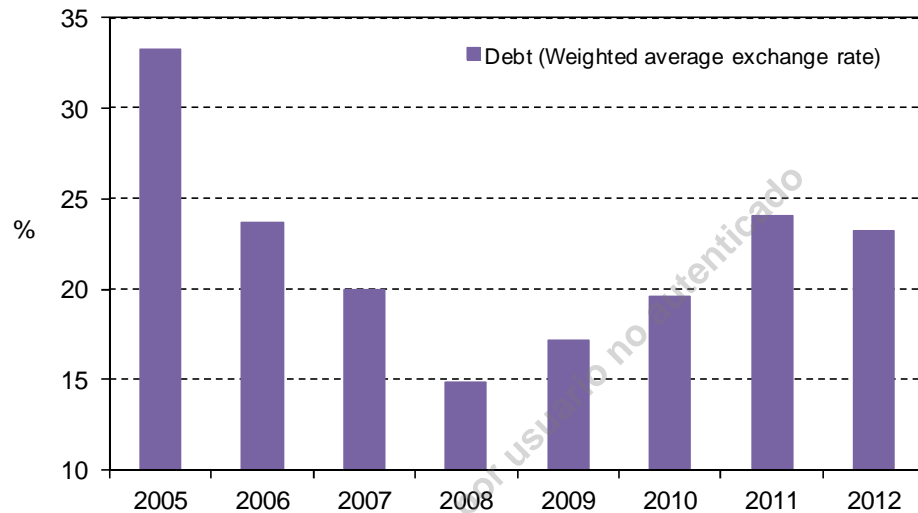
In 2011, an additional debt was negotiated to cover the expenses of the "misiones". We also have to consider the loans negotiated with China, and the performance of the oil industry, which in the last years has increased the issue of bonds and has looked for more financing.

Analysts have said that although the debt levels are manageable (by the end of last year it represented 23.6% of GDP) and the payments are guaranteed given the behavior of oil income, the trend is concerning, particularly the costs it generates, because these instruments pay high interest rates.

Investment banks have warned that the country's total debt, in dollars and in bolivars, is growing very fast. At *Ecoanalítica* we project that by the end of 2012, measured in terms of the size of the economy, the total debt of the Central Government will reach 23,2% of the Gross Domestic Product (GDP), which is very concerning.



Central Government Debt as % of GDP



Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

The effects of indebtedness are felt immediately

This greater indebtedness in the last years is already reflected in the future payments of the Nation's commitments. The 2010 draft budget revealed that the Central Government now has to allot more ordinary spending resources to debt servicing.

What about the debt service?

As indebtedness (promoted by the Administration) continues to rise, the debt service (amortization and interest payments) represents a greater burden for the country's budget needs.

In Venezuela, the Budget Law, which contemplates the Central Government's income and expenses, reveals that in 2004 the debt service represented 25.6% of budgeted expenses. This was a historically high number, marked by the complexities of the country's political and economic environment at the time of designing the budget for that year (oil strike, drop in GDP and oil income). However, the government's indebtedness policy during the oil boom (2004-2008) translated into a partial debt re-purchase, which caused a reduction as a percentage of GDP and contributed to lower the service and its proportion in the nation's budget, representing only 9.3% of the budgeted expenses in 2009.

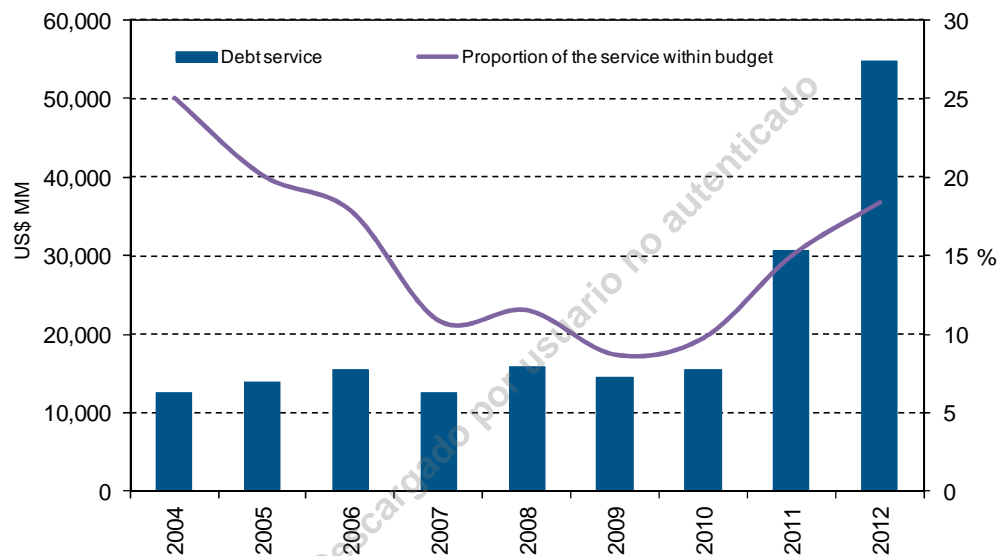
2011: Prices go up and the service goes up

However, as we said before, the drop in oil prices led the Administration to use bond issues to compensate the reduction in oil funds. However, although during 2010 and 2011 the income improved, indebtedness continued rising. This public debt increase led and will continue to lead to



a greater debt service, and its weight can be perceived in the 2011 and 2012 budgets, when the service went from 12.2% to 18.4% respectively.

Debt service



Sources: Budget Laws and Ecoanalítica

The weight of the debt service increases in the budget

This higher debt service can also be seen in 2012, with increases of 10.5% and 116.1% in nominal terms, in amortization and interest payments respectively (66.2% and 71.5% in real terms) compared to last year's budget. Both items consume 3.5% and 14.9% of the budgeted expenses of this year, respectively. These increases in debt service are partially influenced by the higher coupons that the Government has issued its bonds in the last years that has generated interest payments higher than 2004.

It is important to highlight the present weight of the internal debt service. The spending to pay domestic debt interests was estimated at VEB 7.30 billion, five times higher than the amount estimated in the 2011 budget, when it was only VEB 1.47 billion. This plan reflects the acceleration of placements of internal debt launched by the Executive profiting from the high levels of liquidity that has captured the banks since the start of economic recovery in the fourth quarter of 2010.

An increasingly heavier burden

Another thing to take into account is the fact that the last foreign debt issues have been done paying a very high coupon, which of course makes the future servicing more expensive. The main reason for this is only to



maintain the implicit exchange rate around VEB 5.3/US\$, or the Sitme rate (upper level).

As we have said at *Ecoanalítica*, the Administration and the BCV should accept an upward adjustment of the Sitme rate, which would allow the issue of a lower coupon and reduce the debt service, since in our opinion, a devaluation of this exchange rate would not have a great impact on inflation, because the currency requirements of strategic items for the State, like food and medicine, are covered through Cadivi at a rate of VEB 4.3/US\$; thus, it doesn't make any sense to make costly debt issues to artificially maintain an exchange rate that at most, finances 10.0% of imports.

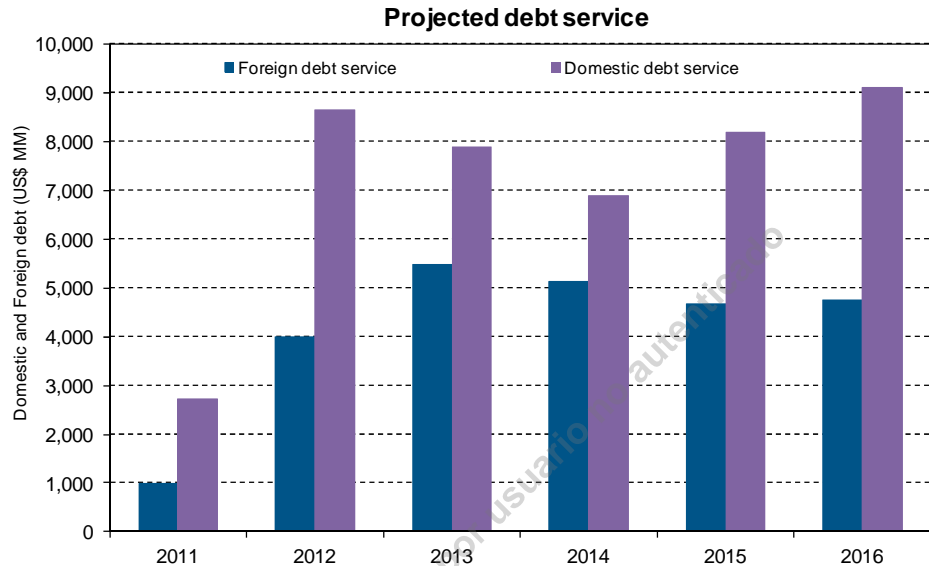
**Even for
Nigeria it is
cheaper to
issue debt...**

As an example of the little economic sense of the Administration's indebtedness policy, issuing debt with very high coupons to maintain an implicit exchange rate artificially overvalued, and the cost it represents, we can analyze the case of Nigeria: as a report in Barclays Capital says, it is an oil producing country with a deep political and religious instability; nevertheless it issues bonds at a 6.7% coupon, that is, 60% less than the bonds of our oil industry (16.59%).

According to the October 2011 public debt service payment schedule prepared by the Ministry of Finance, by 2012 the total service will reach US\$12.6 billion. Of this amount, US\$3.90 billion will be destined to pay the foreign debt and US\$8.60 billion for the domestic debt.

By 2013, the burden will be similarly high. Finance data reveal that the debt service will be US\$13.30, and the greater weight will be in the domestic debt. Foreign debt payments during that year are estimated at US\$5.40 billion and domestic debt payment are expected to be US\$7.80 billion.





Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

**The future:
two
scenarios,
one way**

At **Ecoanalítica** we have projected the central government's debt in two possible scenarios, depending on the results of the October 7 elections.

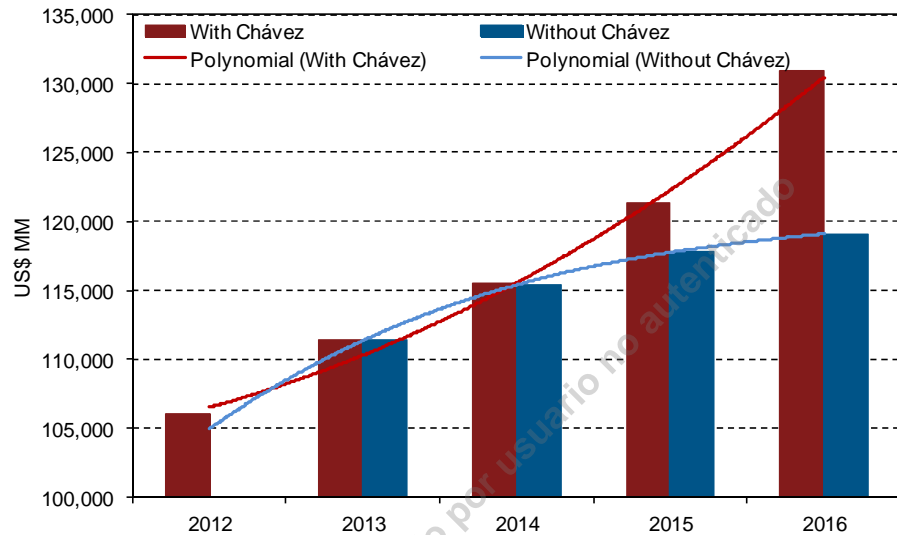
It is obvious that the 21st Century Socialism model has based its program on an increase in public spending, acquiring debt to fulfill its objectives, which are short term, but complacent in terms of popularity.

However, if the opposition takes power, a change in model which emphasizes other variables, different from the present government's public spending, could change the indebtedness trend in the mid and long term, making the total debt fall gradually throughout the years, as can be seen in the following graph.





Central Government debt projections



Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

**But for now,
this is what
we have...**

The Venezuelan debt has dangerously increased in the last few years, as has its service, due to the high perception of risk, so we believe that the indebtedness policy must be reviewed by the government that is elected on October 7.

However, at **Ecoanalítica** we don't foresee changes in the indebtedness policy for 2012. On the contrary, we expect no improvements in the indebtedness policy in the short term, given the electoral target; in fact, we expect that between the republic and Pdvsa debt issues will reach US\$12.0 billion in the first three quarters of this year.

In the future, with a restricted access to foreign exchange, an artificially appreciated exchange rate, and a low level of operational reserves, the Administration will have no other way than to acquire foreign debt at a very high cost, all this in the face of an economy that has become increasingly dependent on imports, which is a dangerous bet.



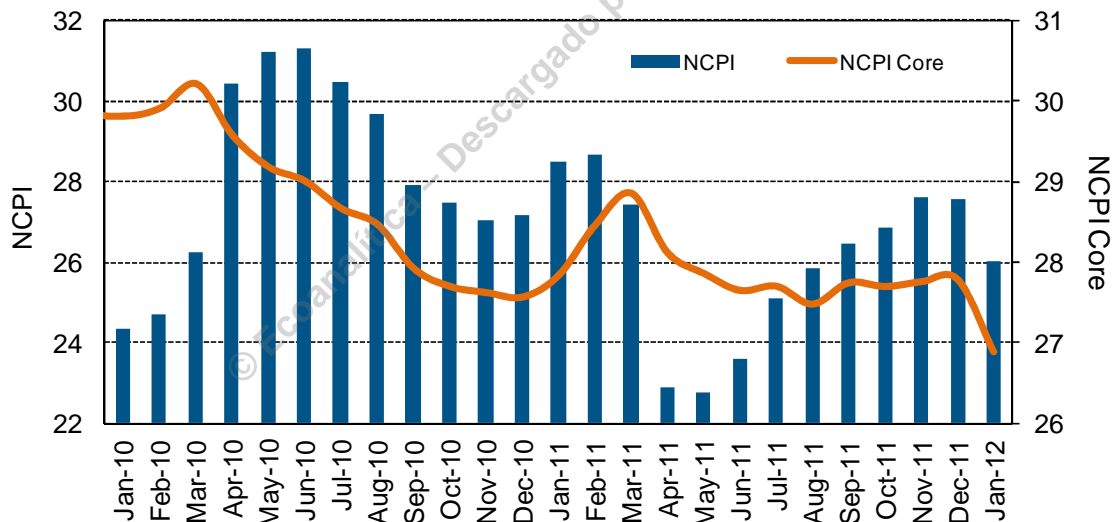


Economic Tips

Inflation reached 1.5% in January. According to figures published by the Central Bank of Venezuela (BCV), National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for January was 1.5%, or an accumulated inflation of 26.0% since January 2011. According to the press release by BCV, these figures represent the best result observed in 8 months.

Meanwhile, core inflation registered an increase of 1.5% in January. The accumulated inflation since the last 12 month registered 26.9%

NCPIVs. NCPI Core (y/y variation)



Sources: BCV and Ecoanalítica

Alcoholic beverages and tobacco had the highest inflation in January. Among the 13 categories studied by the BCV, in January alcoholic beverages and tobacco had a higher accumulated inflation than the national inflation, with a variation of 3.3%, followed by Food and non-alcoholic beverages and restaurants and hotels, with 2.0% and 1.9% respectively.

The poorest are the ones that suffer the most. Although the accumulated inflation in January since the same month last year in the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 26.3%, during the same



period, inflation for class I of the population, which includes the poorest families, increased 30.1%. Classes II, III and IV registered a variation of 27.7%, 26.0% and 25.1% respectively.

Inflation in controlled products increased with less strength in January. The price of these products increased 1.2%. At the same time, non-regulated goods had an inflation of 1.7% in January, resulting in a variation of 23.7% since January 2011.

Maturín has the highest inflation. The geographical results of the INPC show that the greatest variation for January was in Maturín, with 2.1%, followed by Cd. Guayana and San Cristobal with 1.6%. The areas with the least variation in January were, Barquisimeto with 1.1%. and Maracaibo with 0.8%

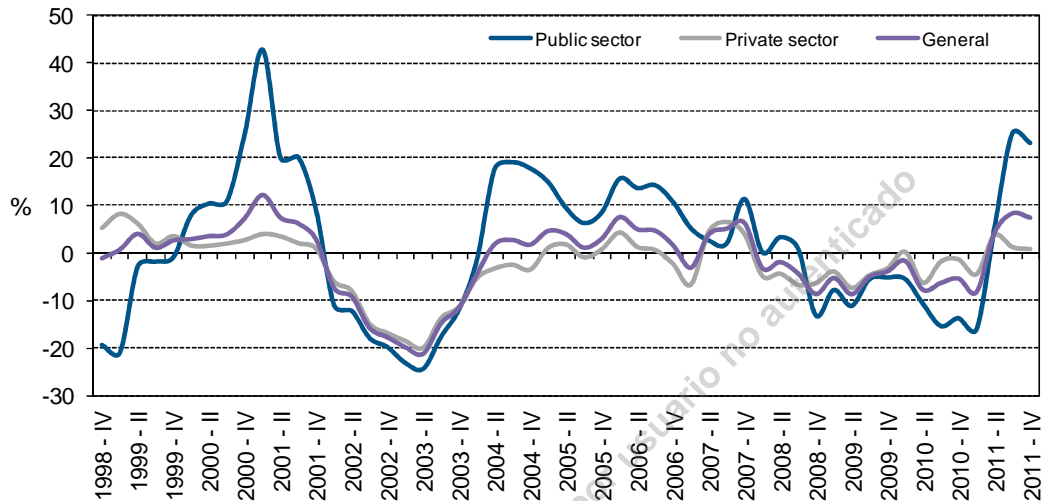
Scarcity index increases. In January, the scarcity index reached 16.2%, which means that out of every 100 products that consumers requested in stores, supermarkets and the establishments throughout the country, 16 were not available. This is the highest level of scarcity since May 2008, when it was 16.3%, and represents an increase of 1.0% compared to 15.2% in December, although it is still far from the peak level of 24.7% in January, 2007.

IRE reaches 7.4% in 4Q2011. According to figures published by the BCV, the wage-earning workers Remuneration Index (IRE) in the fourth quarter of 2011 registered a recovery in real terms of 7.4% over the same period last year. This recovery was driven by a considerable recovery in the public sector, which experienced an increase of 23.2% in real terms, while the private sector just increased 0.8% in real terms, both over the same period of 2010.





Real wages index



Sources: BCV and Ecoanalítica

IRE recovered in 2011. After four years dropping, the IRE finally seems to be improving, closing the 2011 with a positive variation of 1.9% in real terms. This improvement was influenced by the public sector behavior, which showed a better recovery, with a cumulative variation of 8.3%, whereas the private sector dropped 0.9% in real terms.

The government opens the spending stream. According to figures from the public finance office, in the first month of the year, the Treasury's disbursements skyrocketed, with a nominal inter-annual increase of 79.7%, or 41.7% in real terms. In the first quarters spending is usually restrictive, and generally the government increases its disbursements towards the second quarters; however, in 2012 this trend seems to have shifted.

Additional credits shoot up. Even though we only finished the first month of 2012, budget shortages and the need to maintain spending levels have led to the expansion of the budget approved for 2012, through additional credits. From January 17 to date, additional credits have been approved for VEB 199.4 million.

Reserves fall 7.9%. In 2012, international reserves have dropped 7.9%. This behavior was induced by transfers from the Central Bank of Venezuela (BCV) to the National Development Fund (Fondo de Desarrollo Nacional - Fonden). According to BCV figures, last February 3rd there was a transfer for US\$500 million to Fonden, so in only one month, the entity has given US\$1.0 billion to that mechanism.



This doesn't end here. Reserves are still above the level established by the President as the new optimum level (US\$26.80 billion) so new transfers are expected.

Liquid reserves of the BCV increase 174%. According to the balance of the BCV for the end of the second semester of 2011, and after selling part of the bonds portfolio, the entity has increased the amount of dollars in cash that the country has to cover the imports and the debt servicing in foreign currency. Liquid reserves increased 174% compared to the end of June, 2011, at US\$4.67 billion. Although it is a significant increase, the amount of liquid reserves is still low in an economy that is increasingly dependent on imports.

Gold represents 66.7% of reserves. Venezuela has the highest proportion of international reserves in gold of Latin America, but in fact, in the last five years and a half, the gold ingots that are part of the international reserves only increased 2.5%, at 365.8 tons; however, thanks to the price increase, gold bars are worth more dollars, and went from representing 19.0% of the total international reserves in 2005 to 66.7% presently.

1% of the reserves go to ALBA. In the framework of the Summit of the Bolivarian Alliance for the People's of Our America (Alba) on February 4th, President Chávez said that 1% of the Venezuelan international reserves, or the equivalent of almost US\$300 million, is to be part of the reserve fund of the Alba Bank. Also, Chávez said it was possible to place an amount of the gold that was repatriated, as part of the Venezuelan reserves in the Alba Bank.

Interest rates. The lending rate for the fourth week in January was at 17.5%, decreasing by 1.3 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 3.8% going from US\$28,628 million during the fourth week of January to US\$27,542 million during the previous week. Compared to the same period last year, international reserves have decreased by 6.4%.

Monetary liquidity. Monetary liquidity in the fourth week in January increased 0.2% compared to the previous week settling at VEB 444,557 million. The M2 has increased 51.1% 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

Fitch ratifies Pdvsa's rating and the bonds increase. Fitch, one of the main risk rating companies in financial markets, ratified Pdvsa in category B+ stating that the country's main company has the capacity to pay its bonds upon maturity, if there are no drastic changes in its present financial conditions. Fitch's report explains that even in a complicated scenario in which Pdvsa has a substantial production drop, it would maintain the same investment levels and increase its debt, so its rating would continue being B+.

Investors received Fitch's report with optimism, and the value of Pdvsa's bonds increased between 3 and 4 percent points, and the security that matures in 2022 was quoted over 90% for the first time since it went into the market. This optimism even reached the bonds issued by the republic, and the one that matures in 2031 will end at 90.3%, the highest value it has had since it was issued. Financial sources consider that Fitch's report indicates that Pdvsa has delivered its last balances to rating agencies, a movement that could mean that bonds will be issued soon.

Crude oil sales to the US dropped 20% in November. Venezuelan crude oil dispatches to the US is still falling, according to data of the US Energy Department. In November, 2011, United States imported approximately 707,000 barrels per day (kb/d) of Venezuelan crude oil, a drop of 20% in the average dispatch volume, compared to November of 2010, when Venezuela sold an average of 884 kb/d.

United States is still Venezuela's first trade partner in terms of crude oil sales volume. Pdvsa's last annual report, corresponding to 2010, indicates that that year, Venezuela's oil exports amounted to 2.41 million barrels per day (mb/d), of which 1.17 mb/d (61%) went to North America; 202 kb/d (11%) to the Caribbean; 25 kb/d (1%) to Central America; 25 kb/d (1%) to South America; 364 kb/d (19%) to Asia, and 135 kb/d to Europe.

But Venezuela's approach to Asian countries like China and India, among others, and the implementation of the Chinese Fund financing scheme, has meant that the



importance of the United States as a destination of Venezuelan oil exports has decreased. Between 2009 and 2010, oil sales to the United States dropped 3.0% or 25 kb/d, from 958 kb/d to 933 kb/d. Regarding by-products, exports to the US territory dropped 31% or 38 kb/d, from 123 kb/d to 85 kb/d. At the same time, sales to Asia increased 4.0% or 21 kb/d, going from 520 kb/d to 541 kb/d.

Pdvsa announces the 2012-2018 investment plan for the FPO. Rafael Ramírez, Minister of the People's Power for Oil and Mining, and President of Petróleos de Venezuela, S.A. (PDVSA), said this Tuesday in San Tomé during the 1st Strategic Meeting of the Superior Entity for the Development of the FPO, that the investment for the integral development of the Orinoco Oil Belt (Faja Petrolífera del Orinoco - FPO) will reach US\$236.0 billion between 2012-2018.

Paraguaná Refineries have already had six failures in 2012. A new accident occurred Sunday night, February the 5th, at Pdvsa's Cardón refinery, when a bottoms pump failed in plant DC-4 causing a fire that burned until after 1am next day. This is the sixth failure in the Amuay and Cardón refineries of the Paraguaná Refining Complex (Complejo Refinador Paraguaná -CRP) this year. The fire caused the total loss of the bottoms pumps, shutting down the Atmospheric Distillation Unit of the CRP-Cardón, which has a processing capacity of 150 kb/d. A press release of Pdvsa indicates that the unit will be activated "*within seven days at the latest*".

Shutdown in Amuay will last two months. The catalytic unit programmed maintenance at the Amuay refinery started on January 30 after being postponed for some weeks. And although initially it was expected to last 120 days, sources from the CRP said that the works could last half that time. The shutdown of the Amuay refinery's Catalytic Disintegrator (DCAY) could last around two months, after Pdvsa's decision to repair only the essential operations, during the time that the plant is shut down.

Crude oil spill reported in Jusepín due to pipeline failure. A Pdvsa crude oil transportation pipeline in Jusepín, Monagas state, broke on Saturday, January 4, causing an oil spill in the area. The information was supplied by José Bodas, Secretary General of Futpv, who explained that the spill spread from Punta de Mata to Jusepín, affecting and stopping the light crude oil production in the area.

This spill has caused a crisis in Monagas. The break in Pdvsa's oil transportation pipeline in Jusepín has caused an energy and water supply crisis in several municipalities in Monagas. According to information supplied by the Governor's office of Monagas and by the state-owned company Aguas de Monagas, the waterworks plant in the low area of the Guarapiche River stopped indefinitely due to the pollution



caused by the spill. The Governor's office informed that the water service will resume once chemical studies are performed to establish the safety of the water.

Futpv calls on Ramírez to discuss Pdvsa's contract. Wills Rangel, President of the Unitary Federation of Oil Workers Venezuela (Federación Unitaria de Trabajadores Petroleros de Venezuela -Futpv), reiterated the request made to Rafael Ramírez, Minister of Oil and President of Pdvsa, for the company to sit down with the workers to discuss the oil collective bargaining agreement. Rangel, who is also an external director of Pdvsa, informed that last week, the collective bargaining agreement was presented to the board of directors of the State owned oil company.

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

Automotive industry started 2012 with a drop in production. The year hasn't brought substantial changes in the automotive industry. In January, car production dropped 2.5% with respect to the same period 2011, according to the Automotive Chamber of Venezuela (Cavenez). Figures released by the chamber that gather the seven assembly plants operating in the country show that in January only 5,720 vehicles were assemble, about 125 below the number of cars assembled in the same period in 2011.

Chávez admits that Venirauto assembly plant isn't doing well. President Hugo Chávez admitted that the state-owned car assembly plant Venirauto isn't operating properly. *"We were studying what can we do for the company to continue operating; but last year, production dropped due to the lack of components,"* Hugo Chávez said at the 11th Summit of ALBA. The main reason used by President Chávez to justify the poor performance of the plant was the trade blockade imposed on Iran.



Authorities deny medicine shortages. Due to different reasons, some medicines have been scarce on the local market since early year. As a result of this situation, Oswaldo Velásquez, vice minister of Health Resources, denied medicine shortages. The statement was published in a press release by Cadivi reporting a meeting of authorities with representatives of the pharmaceutical sector.

According to the (Cifar), medicine distribution will “normalize” this month. The Chamber of Pharmaceutical Industry (Cifar) assured that medicine distribution will “normalize” this month. “Distribution should be normal in a short term,” Ángel Márquez, vice president of Cifar, said in an interview in Globovisión TV channel. Márquez pointed out that scarcity index is 25.0%, but explained that this is due in part to December drop, when some laboratories usually reduce their activities.

Social security policies will be responsibility of businesses. Legislation on social security matters, especially with regard to pensions and health care, has been waiting more than ten years for the administration to take definite actions in the area. However, the new Labor Organic Law is supposedly taking care of these matters, according to a draft paper to which *El Universal* newspaper had access. According to this paper, work centers or businesses will have substantial responsibility in covering working class’ needs.

Exchange control holds telecommunication investment back. The Chamber of Telecommunication Service Companies (Casetel) believes that a meeting with the Administration and Service Commission of the National Assembly would be positive in evaluating the reality of the telecommunication sector. José María de Viana, Casetel chairman, assures that “it’s certain that investment level in this area hasn’t been enough.” He explained that the number of users has remained more or less the same, but that the types of use have been changing due to the expansion of the so-called smart phones; therefore, in his opinion, capacity in the area of data transmissions should be expanded.

Sundecop failed to announce prices. Once again, the Office of the National Superintendent for Fair Costs and Prices (Sundecop) left manufacturers, importers, distributors and marketers of health and personal care products and mineral water and fruit juice waiting, because the entity didn’t announce the decision concerning costs that will be applied from now on to cost structures in these sectors.

Chávez announced that prices of 19 products will be reduced. The administration will cut prices of 19 personal care and household cleaning products, including sanitary pads, diapers, shampoo, razors, deodorants, detergents, household chlorine, toilette paper, toothpaste and food products such as baby food, pasteurized juices and mineral water. “Fair prices of all these products will be



announced in short and all of them are going to drop,” President Hugo Chávez said in an event to commemorate the 13th anniversary of his administration.

Lack of raw material threatens iron and steel industry. Jorge Roig, president of the Association of Iron and Steel and Mining Industries, informed that the sector companies are suffering a raw material shortage that soon might force them to stop operations. *“The Venezuelan iron and steel market is completely out of raw materials. This jeopardizes housing plans, tinsplate food containers and the automotive sector,”* Roig said.

Cemex is counting on a payment from Venezuela to reduce debt. Bank of America Merrill Lynch raised its recommendation for shares of Mexico’s Cemex to “purchase” from “neutral”, due to expectations that the cement company could reduce its debt and postpone significant deadlines that are to be due in 2014. According to a report, Cemex could raise about US\$1.50 billion or more over the upcoming months through the sale of non-strategic assets, bonds that Venezuela used to pay the nationalization of Cemex’ assets, and the possibility that its affiliate company in Colombia begins to be quoted on the market. Bank of America Merrill Lynch considers that in that case, Cemex could refinance its bank debt thus pushing its 2014 maturities for later.

Private investment in the construction sector is registering a steep fall. Home construction in 2012 won’t be an easy task, because the adverse conditions that surrounded the construction sector in 2011 will continue to prevail in 2012. This is the conclusion reached by some experts in the home building sector. Juan Francisco Jiménez, chairman of the Venezuelan Construction Chamber (CVC), said that although the number of home units built in early-2012 isn’t known, the envisaged panorama isn’t encouraging. Jiménez highlighted that investment in the private construction sector has been dropping and pointed out that if the situation doesn’t change, it could substantially drop.

Ten companies were expropriated per week in 2011. Last year, 499 companies were expropriated in the industrial sector alone; that is, an average of ten expropriations per week, according to data released by Conindustria. Moreover, this pace tends to accelerate, because 80% of total occupations have taken place since 2009.

After 16 months of being expropriated, Agropatria has debts and lacks inputs. Since the administration expropriated Agroisleña in October 2010 and assumed its control, the company has experienced several changes, in addition to its name. Input shortages, delays in the delivery of fertilizers and seeds and in the payment of crops characterize the administration of the now called AgroPatria.



Corpoelec implemented plan to increase collection. Corpoelec implemented a 100-day marketing plan to optimize and increase collection levels. This project, which was launched on January 1st, will centralize and unify collection systems so that quick and real-time access to collection indicators and percentages is possible, a press release by the state-owned power company stated.

World Economy Tips

Obama tightens Iran sanctions. US President Barack Obama signed an executive order imposing stricter sanctions on Iran's assets on American soil. The US Treasury Department reported that the new sanctions will affect Iranian Central Bank's assets as well as those of other state-owned entities. *"I have determined that additional sanctions are warranted, particularly in light of the deceptive practices of the Central Bank of Iran and other Iranian banks to conceal transactions of sanctioned parties,"* Obama said in a letter to Congress. These sanctions are additional to others adopted over recent months by the US administration and by Europe to try to curb Iran's nuclear program.

China's growth rate could halve in case of Europe crisis worsening. China's expansion could be cut almost in half this year if Europe's debt crisis pushes global economy into recession, thus putting pressure for Beijing to take a "significant" fiscal package, the International Monetary Fund said. The IMF already shortened in January its forecasts for China's growth from 9% to 8%. The report on China, which was published on February 6th, showed that under the IMF's pessimistic forecast for global economy, China's growth rate could loss another four percentage points from the current IMF's estimate.

Greece in deal to recapitalize Banks. Athens tries to seal a pact with its lenders to receive a ransom of 130,000 million Euros, before turning completely to the hard task of convincing the country's political leaders to support the painful reforms that will involve additional help. On the verge of bankruptcy, Greece must conclude the negotiations on financial assistance from foreign lenders and obtain political agreement on the bailout in order to receive funding in time for the country to pay 14,500 million Euros in bonds that mature in mid-March.

Current economic situation threatens global food security. The uncertainty that is overshadowing the global economic scene is forcing the governments of Latin



America and the Caribbean to be alert to the threat of another worldwide recession, and what this could represent to their food security, was just one of the statements that were highlighted during the Food and Agriculture Organization meeting held on February 3rd. According to the Organization, the concern for food security becomes an issue when employment rates and incoming revenues begin to drop which have a negative effect on the poor's access to food.

Call for the Sucre to be used more to build an ALBA economic zone. The President of Ecuador, Rafael Correa, said that the construction of an economic zone for the Bolivarian Alliance of the People of our Americas (ALBA), must adhere to the political will of the member countries, and above all, in the use of the unified System for Regional Compensation (Sucre) in order to avoid dependency on foreign currencies. The economic zone for the ALBA was an issue discussed on the agenda of the XI Ordinary Summit of the ALBA, held in Caracas. The leaders proposed a new trade exchange structure with socialist values and complementarity.

Brazil's Central Bank intervenes to stop the Real from going up. The Central Bank of Brazil intervened on February 3rd in the exchange market for the first time so far this year purchasing US-dollars on the futures market in an attempt to stop the real from going up and protect the competitiveness of domestic companies. The Real dropped after news of the auction was released, trading down 0.3% settling at BRL1.73/US\$. The Real has appreciated by 8% so far this year, due to US\$6.5 billion in net revenue coming into the country during the first four weeks of 2012.

Brazil to meet with Argentina due to trade problems. The Secretary of Foreign Trade of Argentina, Beatriz Paglieri, will be meeting this week with her Brazilian counterpart, Tatiana Prazeres, in order to analyze the impact of new import controls implemented by Buenos Aires in their bilateral trade negotiations. The ramifications of the anticipated declaration system that began to operate this past January 1st will be analyzed. The system forces anyone that is importing goods to Argentina to present an Anticipated Sworn Declaration of Import which will be analyzed by different state organizations that will validate the operation within three days.

Colombian inflation drops in January. The President of Colombia, Juan Manuel Santos, announced that the inflation rate posted in January 2012 was lower than the inflation rate in January 2011, according to a report released on February 4 by the National Administrative Department of Statistics (DANE) of Colombia. The report states that for the first month of 2012, inflation was at 0.73%, down by 0.18 percentage points compared to the 0.91% posted in January 2011. "That's why it's important to keep inflation low, because high inflation is a factor that creates inequities. Low inflation makes it easier to implement policies that produce more equity in this country," stated the President.



Political Tips

Primary election is closer than ever. Venezuela has started the countdown to February 12 primary election, from which the candidate that will face President Hugo Chávez in October 7th election will emerge. The five candidates that will participate in the primary are wrapping up their campaigns, although by this time the fight appears to be a two-candidate race.

The Democratic Unity Alliance (MUD) accused President Chávez and General Rangel Silva to the OAS. Enrique Ochoa Antich, Coordinator of MUD's Social Struggle Commission, visited along with a delegation the headquarters of the Organization of American States (OAS) to report President Hugo Chávez for the commemoration of February 4 coup attempt. According to Ochoa Antich, this is a date that cannot be praised by a democratic government, because *"this is a violation to the letter and spirit of the Constitution."*

Election commission calls citizens to vote early on F12. Teresa Albanes, president of the MUD's Primary Election Commission, presented an update as to F12 primary election. According to Albanes, 46,000 voluntaries who will work in the election process throughout the country will be ready next Thursday 9th.

According to Keller and Datanálisis, any candidate can defeat Chávez on October 7. Datanálisis' José Antonio Gil Yépez and Alfredo Keller from Kelleer y Asociados agreed to state that any candidate that wins the primary election can defeat Chávez in October 7 presidential election.

At his presentation in the forum Economic Perspectives for 2012, Keller said that the primary election process has brought about a new political reality in the country. He stated that 70% of the Venezuelan population is demanding the opposition democratic unity. *"Primary election has become for the first time a common denominator encouraging and motivating a large majority of citizens. As a result, PSUV party is no longer the main political party in the country."*

Similarly, Datanálisis' José Antonio Gil Yépez said that primary election has allowed the Venezuelan society to reorganize around a new alternative model of power and that any opposition candidate can win next October presidential election. This is the reason why the administration has tried to discredit opposition candidates. *"With the primary, the opposition is showing that it's democratic, because its candidate is being*



elected through people's vote; whereas the government's candidate was hand-picked."

Triumphalism is all right, but they have to be alert. In an event in Catia sector of Caracas, President Hugo Chávez referred to the recently published polls measuring his administration's popularity. According to these polls, *"if presidential election was held today, we would win with an advantage of 60% or 50%; however, be aware of triumphalism, because presidential election is still 9 months away."*

President Chávez assures that Armed Forces are Chavista. *"Armed Forces are Chavista. They carry Chávez in their hearts and Chávez carried them in his heart and soul,"* President Chávez stated in a speech to commemorate the 13th anniversary of his administration.

Venezuela and Haiti sign framework cooperation agreement. President Hugo Chávez signed a framework cooperation agreement with Haiti, which is intended to strengthen bilateral relations between both countries, develop trade exchange and complementariness, among others. *"I announce that we have signed a number of agreements with the President of Haiti, aimed at strengthening bilateral relations."* Chávez added that *"we have to continue to assist Haiti; we have to invent, create, do. We have to look for a thousand ways to help and cooperate with Haiti,"* President Chávez said after signing the agreement.

Legislatives Tips

The reform of the law against organized crime was approved. At the plenary session of the National Assembly (AN) held on January 31, the draft reform of the Organic Law against Organized Crime and Terrorism Financing was approved in its second discussion. According to Diosdado Cabello, AN president, the law will be forwarded to the Supreme Tribunal of Justice for this latter to establish the organic and constitutional character of the Law.

The Law has 89 articles, including 25 new articles and 30 that are being reformed to increase sentences against organized crime. According to the AN government's fraction, the law is intended to *"prevent, investigate, prosecute, typify and penalize"* organized crime and terrorism financing, as provided for by article 1, with a view to strengthening the Venezuelan State's personal security police.



AN passed a law that, according to the opposition fraction, breaches at least 20 articles of the Constitution. Representative José Antonio España explained that *“this law violates the right to association and protest and assumes that everybody is a suspect.”* España says that with the creation of the National Office against Organize Crime and Terrorism Financing, *“the Attorney General’s Office will be stripped from the monopoly of conducting criminal procedures.”*

The reform of the Special Law on Legal Stamps was approved. The Draft Law on the Partial Reform of the Special Law on Legal Stamps for the Capital District was approved in its first discussion last January 31. The reform is intended to adjust registration fees of articles or incorporations or by-laws changes of mercantile societies to the reality.

The Finance Commission conducted a comparative study between the percentage paid by legal stamps issued by the Capital District and those paid in other states. As a result of the study, the Commission proposed reducing the aliquot from 10% to 2%. *“In this regard, we consider that article 13 of this Law should be modified, specifically number 3, letters A and B”.* Representative Ramón Lobo, member of the Commission, explained that *“according to calculations, the percentage currently paid is higher than those established in neighboring states.”*

National Assembly will investigate arms in hands of children. The AN instructed the Interior Commission on January 31 to join the investigation of the Attorney General’s Office on the case of firearms being delivered to children in a demonstration staged in the 23 de Enero sector of Caracas. The proposal was submitted to the plenary session by Representative Freddy Bernal, who accused opposition members and communication media of *“manipulating”* pictures showing children holding alleged rifles. Bernal pointed out that *“this revolution doesn’t need illegal armed groups.”*

Mobile phone companies are in sight. The Administration and Service Commission of the National Assembly will invite mobile phone companies (Digitel, Movilnet and Movistar) to a meeting for them to talk about the situation of this sector, due to the faults that have occurred over recent weeks. Representative Claudio Farías informed that the meeting will exclusively focus on recent problems with the service offered by these companies and that the draft law regulating mobile phone and cable TV service, which is included in law discussion agenda for 2012 will be discussed later.

Surgeons and insurances in the crosshairs. Since a large group of women affected by defective Poly Implant Prostheses submitted proofs and evidence concerning their cases to the Commission on Social Development of the National Assembly, the Commission accused insurance firms, surgeons and private hospitals



for not assuming expenses resulting from the “*public health problem*” caused by the implants. Representative Oswaldo Vera reported that private hospitals are charging for surgeries to remove and replace the implants and urged the State to take legal actions.

The National Assembly will monitor farm loans. The chairman of the Finance and Economic Development Commission of the National Assembly, Ricardo Sanguino, informed that upon review of Sudeban’s report on loan granting in 2011, compliance with farm loan requirements in Venezuela will be monitored. Sanguino underscored the fact that 60.1% of farm loans were granted to 145 individual and legal persons and that a large part of them were granted in the Capital District. Sanguino informed that monitoring will begin public banks and then in private banks.

Two hours less. Within the framework of the discussion of the Law on Social Process, reducing workday is being considered. The draft law proposes two hours per day for workers’ self-training, which have to be complied with within the workday and provides for that workday “*consists of the effective time devoted to the production of goods and the rendering of services, collective, comprehensive, continuous and permanent self-training,*” among other activities.

More Holidays. The Draft Labor Law also provides for five new holidays, without including those decreed as holidays by the national, state, and municipal government and the laws. Upon the entering into force of the law, which is scheduled for May 1st, 2012, Carnival Monday and Tuesday, Holy Wednesday, December 24th and 31th will be holidays and working on these dates is prohibited.

However, exceptions provided for in the current Labor Organic Law remain in those cases of workplaces of public, social or national interest, special circumstances and for reasons of national security and defense.

Days of special interest: Six new dates described as “*days of special interest*” will be included. The dates would be January 23rd (day of the people’s insurrection against the military dictatorship); February 4th (day of the people’s insurrection from barracks due to the Venezuela’s Bolivarian program), February 27th and 28th (days of the people’s anti-imperialist insurrection for people’s democracy); March 18th (day when the working class took the power and day of the establishment of the Communal in Paris); and April 13th (day of people’s dignity), among others.





ECONOMIC OVERVIEW

