



Weekly Report

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*What does the black market
wants?*

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Ever since exchange operations were declared illegal, the behavior of the official exchange rate has become a mystery. An issue everybody is aware of, but no one talks about. In this report, we mention some aspects of this specific market.

A paradoxical stability

It is clear that in Venezuela, exchange controls led to the presence of an unofficial or parallel market. Since 2003 with Cadivi, it has existed with different variations, a topic we have discussed in many of our reports. The parallel market was an escape valve for the rigidity imposed by Cadivi. However, in the first half of 2010, the Administration declared these operations illegal, closed brokerage firms and associations, and gave an unprecedented change to the way exchanges are handled in the country. The escape valve was closing, but not completely.

Before, the parallel market and its exchange rate were very volatile, but this volatility reduced when the Administration injected liquidity through



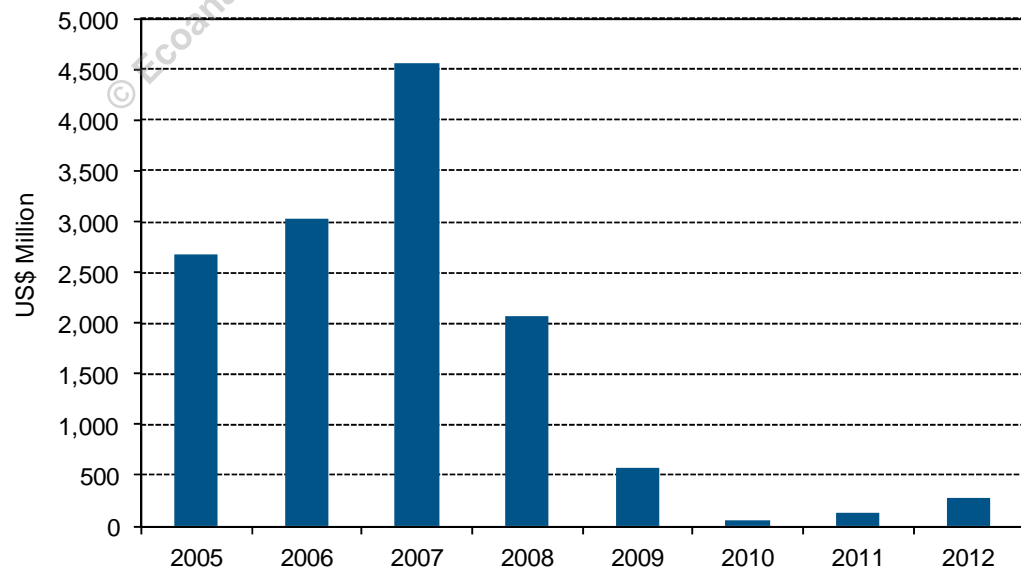
different entities. With the fall of oil prices in 2009, the Administration didn't have as much currency as in the past, and the trend of the official exchange rate moved upwards. This, together with other reasons, like political readjustments in the economic cabinet, led the Administration to declare these operations illegal and establish a new official, restricted exchange rate, called Sitme.

When this happened, what lay ahead didn't look promissory, since the unofficial market was representative. It was thought that the black market exchange rate (now clearly illegal) would rise like foam. But paradoxically, this hasn't happened: contrary to what happened when it was allowed to exist, the "black" exchange rate hasn't been very volatile, and has remained stable. Although we cannot publish its rate, we can say that ever since it was declared illegal, its variation has been 10.8%.

The role of the corporate segment

In our opinion, the corporate sector and large enterprises have been the most affected by the elimination of the parallel market, because it provided them with currency to confront the delays of Cadivi, and also for reasons of exchange coverage in a country with high inflation and a chronic trend to devaluate to correct fiscal imbalances. If we add to this Cadivi's debt with respect to dividends, this is an explosive combination.

Dividend payments and royalties



Sources: Cadivi and Ecoanalítica





A necessary clarification

Regarding dividends, there are two concepts: the dividends declared before Cadivi, which it registers as debt, and the global dividends, which include the undeclared amount before Cadivi (the reason is that companies cannot introduce new amounts until those that are registered are paid up). Regarding the first point, according to our sources at the BCV, this amount is around US\$ 2.87 billion (by the end of December, 2011). When undeclared dividends are included, the amount increases to around US\$ 9.43 billion, an unofficial calculation by the Central Bank.

It is important to note that so far there are no public estimates by official entities regarding the dividend debt: The authorities have been very secretive regarding this point.

A significant weight

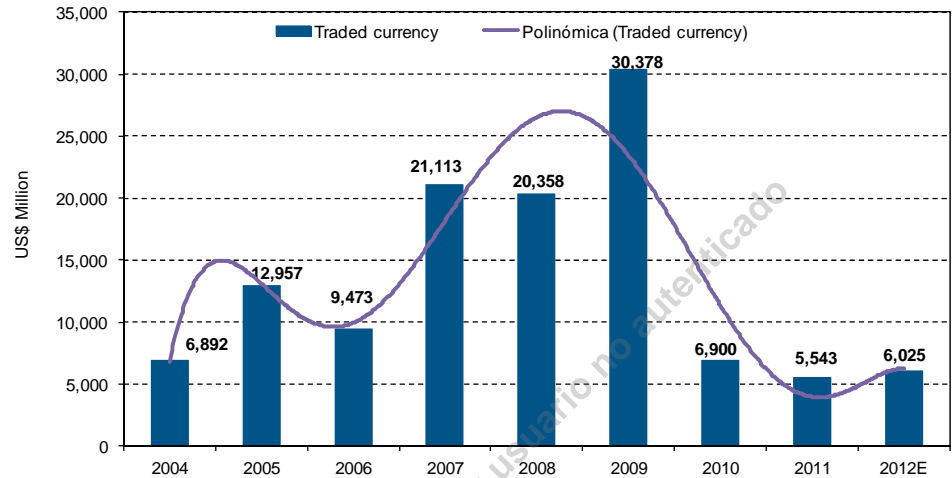
At **Ecoanalítica** we believe that one of the factors that prevented the black market from depreciating significantly these months has been that the large corporations and companies have not had a large participation. According to our analysis, for the 2007 - 2009 periods, 80% of the operations in the parallel market could be catalogued as “capital outflows and coverage”. It is clear that the parallel market wasn't and isn't a market for imports.

Also, from this category of “capital outflows and coverage”, 72% of the operations were made by companies that can be considered large and medium. Thus, the legal and reputation risk these companies face have prevented them from actively participating in the new emerging black market. According to our estimates, this market could be moving around US\$ 18 – US\$ 25 million per day. In 2009, the parallel market moved US 123.9 million, a drop of 79.8%.





Size of parallel market



Source: Ecoanalítica

Good things are short lived...

The question is in the short/medium term, can we expect an upward trend in the black market exchange rate? We believe so, and the reasons are clear, which we now will explain.

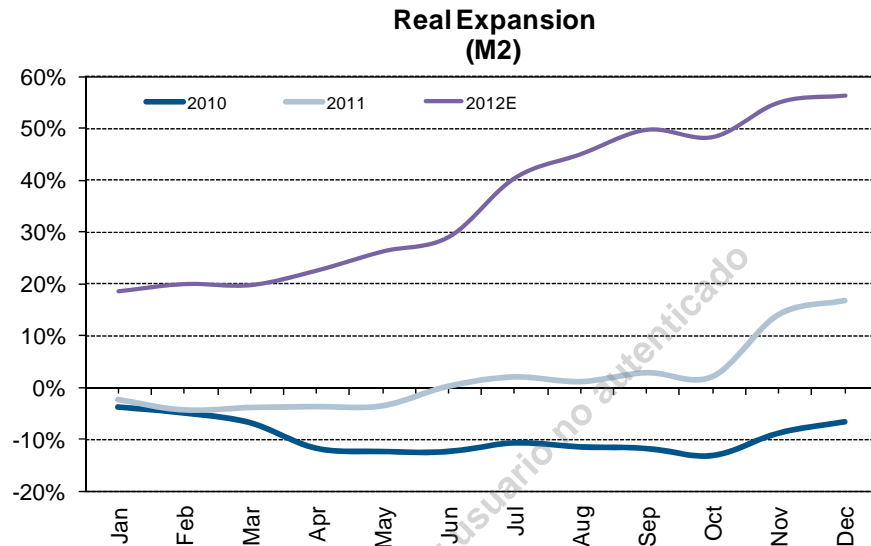
Explosion of liquidity and spending

By the end of December last year, monetary liquidity (M2) increased 16.7% with respect to the same month in 2010, while in 2010 it had increased 6.5% with respect to 2009. This year, liquidity has reached 18.6% when during the same period last year, it had decreased 2.3%.

In an electoral context, a greater nominal increase in spending for the next months (thanks to the rise of oil prices, and a fiscal deficit monetization policy) will lead to greater monetary injection of fiscal origin; therefore, we believe that the growth of monetary liquidity in the hands of the public (M2) will be around 56.4% in 2012, which would be the greatest increase since 2006.

Although we have said it several times, we think we must repeat it: foreign debt issues, the acquisition of currency through Cadivi at a higher exchange rate, the stimulus to save in foreign currency (due to negative real interest rates) and a Sitme that will negotiate 10 – 20% more than what it did the year before, are factors that join to prevent monetary liquidity from increasing to the levels of the last electoral year (2006) when it was 74.7%.





Sources: BCV and Ecoanalítica

Political uncertainty

Together with this mass of bolivars that the economy will receive, we must add the political uncertainty due to the elections of next October. Today it is difficult to forecast a winner, but both sides have great possibilities of winning. This, together with a context of high liquidity and high inflation, will make economic agents look for mechanisms to protect their capital, which will affect the rate of the black market. If we add to this the fact that corporations and large enterprises, given the lack of dividend payments by Cadivi, may decide to start getting coverage, this will definitely exert pressures on the unofficial exchange rate.

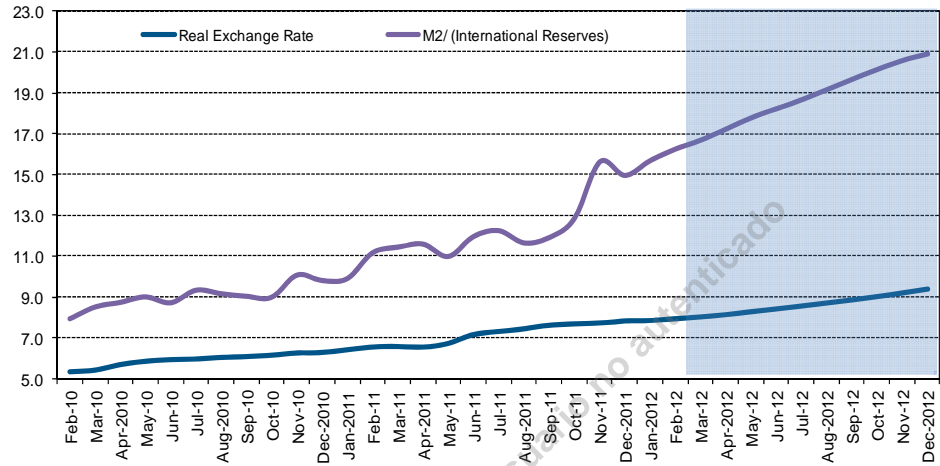
What do markers say?

In previous analysis regarding the behavior of the unofficial exchange rate, **Ecoanalítica** reached the conclusion that it was limited by two indicators: the lowest level was the Real Exchange Rate index (RER) for the Venezuelan economy, taking into account its 5 main trade partners, and the highest level was the M2/reserves indicator. In other words, the official exchange rate never went below the RER, and its limit was always the M2/reserves indicator.





Real Exchange Rate Vs. M2/(International Reserves)



Source: Ecoanalitica

By the end of January, the RER was VEB7.8/US\$ and the M2/reserves indicator was VEB15.7/US\$. In the previous graph we can see how these two indicators project towards the end of 2012. Thus, the RER at the end of 2012 would be VEB9.4/US\$. And this is the lowest level, don't forget.... A word to the wise is sufficient!

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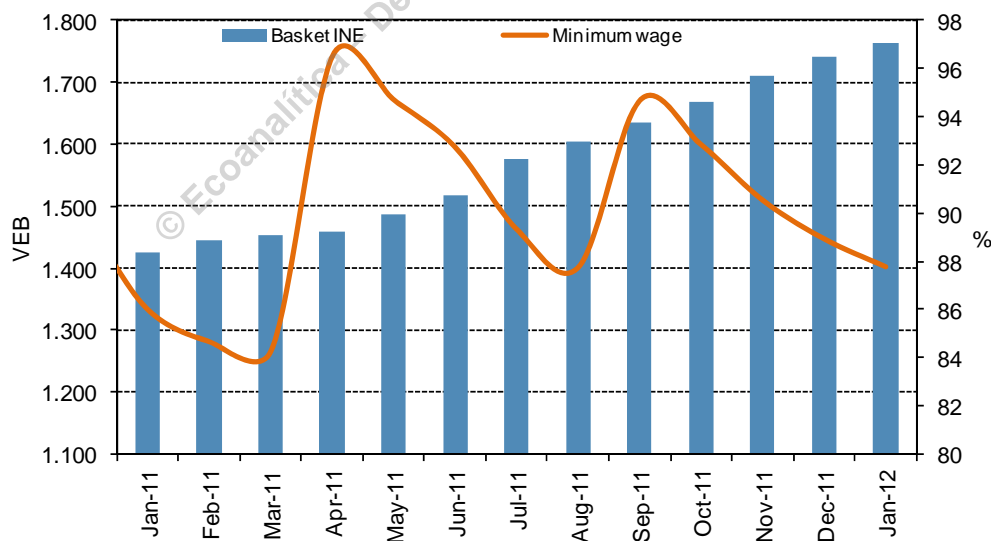
Economic Tips

Food basket gained 1.3% in January. According to figures released by the National Statistics Institute (INE), the food basket value was VEB 1,764.2 in January, up 1.3% from December and 23.0% from January 2010, thus meaning that the reference food basket increased VEB 567.7 in one year.

Fruits and vegetables registered the highest cost. VEB 508.1 was used to buy these products. The second most expensive group was cereals and derivative products, for which VEB 268.0 was used.

Minimum wage only covers 87.8%. The above signifies that minimum wage isn't enough to buy basic foodstuffs, because a worker earning the minimum wage (VEB 1.548.2) could only buy 87.8% of the basket estimated by INE.

INE's food basket Vs. Minimum wage's purchasing power



Sources: INE and Ecoanalítica

Buying food in Caracas is more expensive. According to INE, while the value of the food basket was VEB 1,764.2 in January, in some cities, the price of the basket was over the country average. Caracas is the most expensive city to buy food with VEB 2,037, VEB 273.0 more than the national basket; Caracas is followed by Maracaibo (VEB 2,006.5), Maracay (VEB 1,836.0), Ciudad Guayana (VEB 1,806.8) and San Cristóbal (VEB 1,755.7).



According to CENDA, food basket costs VEB 3,437. According to CENDA (the Workers' Documentation and Analysis Center), the food basket (CAT) in January cost VEB 3,437.7, for a month-to-month increase of VEB 58.4 (1.7% more than in November). As a result, CAB registered a year-to-year variation of 35.6% (VEB 1,411.9).

Sugar price increased 6.1%. The increase in the price of sugar and similar products (6.1%) was the most significant in January, influenced by the increased in the controlled price that took place on January 4th. Other items that recorded significant increases were milk, cheese and eggs (5.7%), nonalcoholic beverages (3.3%), seed, oleaginous seeds and beans (2.2%) and cereals and derivative products (2.0%). Beef and its derivative and oils registered the least variations with 0.2% and 0.6%, respectively.

Family income only covers 45.0% of the basket. The minimum wage, VEB 1,548.2 has a purchasing power of 45.0%, thus leading to a deficit of VEB 1,889.5 (55.5%) to purchase foods; therefore, a family requires a little more than two minimum wages to be able to cover their basic food expenses.

Poor people feel shortages. According to the study "*Pulso al Consumidor*," prepared by Datos, 80% of Venezuelans believe that there are shortage problems. This indicator, corresponding to 4Q2011, is the highest since 2Q2008. Analyzing figures in detail, it can be observed that this perception is not exclusive of the highest purchasing power sectors, because 78% of the E population bracket (the one with the lowest income) feels that Venezuela is going through a shortage problem.

Seniat expects Income Tax high collection levels. The tax authority (Seniat) expects to collect VEB 42.0 billion this year for Income Tax, as informed the Head of Internal Taxes, Fanny Márquez Cordero. In the first quarter of 2012, a collection of VEB 11.0 billion is expected.

Financing sources are expanded. Not only PDVSA and Seniat guarantee the additional income the administration needs to expand public spending; now, the new state-owned companies and banks have to contribute extraordinary resources.

The Socialist Effectiveness Fund manages the resources transferred by Banco de Venezuela and Banco del Tesoro, as well as those from Lácteos Los Andes, Industrias Diana, Bolivariana de Puertos, the Agricultural Socialist Development Fund, Corpozulia, Café Venezuela, Venetur, Maiquetía Airport and Socialist *Arepa* restaurants.





The Head of State highlighted on February 15th, at the Cabinet meeting, that Banco de Venezuela and Banco del Tesoro will contribute VEB 1.09 billion to that scheme, corresponding to November and December, 2011 and January 2012 profits. Chávez also said that the other official entities have to be more efficient and urged Guayana's companies to pay dividends to the State.

Almost VEB 4.0 billion for social investment. According to information provided by the chairman of the Finance Commission of the National Assembly, Ricardo Sanguino, the Commission has approved 7 supplementary appropriations for the year-to-date, for a total of VEB 3.93 billion, earmarked for social investment.

Foreign debt increases 15.8%. According to figures published by the Central Bank of Venezuela (BCV), accounts payable in US dollar increased 15.8% in 2011, from US\$83.24 billion in 2010 to US\$96.42 billion; with this, foreign debt alone accounts for 30.6% of GDP.

Zero tariff for food from Colombia. Negotiations between Colombia and Venezuela within the framework of the Partial Scope Agreement will allow 91% of tariff that were marketed through CAN between 2006-2010 to be applied zero tariff, once the bi-national agreement enters into force. The items to be granted tariff preference include beef, rice, milk, sugar and oils.

The remaining 9% of the trade historical patrimony corresponds to 90 items and subitems, to which *"a level over the tariff applied to third countries by Venezuela will be applied,"* the Minister of Trade of Colombia, Sergio Díaz-Granados, informed.

Interest rates. The lending rate for the second week in February was at 18.2%, increasing by 1.5 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 3.0% going from US\$26,931 million during the second week of February to US\$26,119 million during the third week. Compared to the same period last year, international reserves have decreased by 5.6%.

Monetary liquidity. Monetary liquidity in the second week in February decreased 0.2% compared to the previous week settling at VEB 440,913 million. The M2 has increased 48.5% year-on-year.

Sitme figures. So far this year, US\$1,355 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$38.7 million a day,



with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$333 million (32.6%) over the same period of 2011, when negotiated US\$1,022 million. Meanwhile, in February so far have been negotiated US\$574.9 million, representing an increase of 74.4 million (14.9%) compared to February 2011. Lastly, during the third week of February the amount traded reached US\$168.6 million, traded US\$133.4 million less than last week when US\$201.9 million were traded.

Oil Tips

Lack of investment affecting oil activity. According to the director of the International Center for Energy and Environment and professor at the IESA, Francisco Monaldi, oil activity is facing a number of limitations and one of them is not enough investment. He continued to say that the oil industry has infrastructure problems because the necessary resources haven't been injected, which is reflected in the main areas of the state-run oil company. This is why the economist and expert in the oil industry declared that *"production is dropping. PDVSA's oil extraction has dropped by 50%. Venezuela has 56 drilling rigs that are operating and in order for production to increase it needs to have at least 90 drilling rigs operating. In the 90s, there were 120 drilling rigs operating."*

Doubts about how much Orinoco Oil Belt production can be increased. PDVSA has announced its intentions to increase oil production in the Orinoco Oil Belt this year by 455,000 barrels daily (kb/d), going from 1.18 million barrels a day (mb/d) being extracted from the Belt to 1.63 mb/d. This plan, which has already increased production by 30 kb/d according to PDVSA, will take serious investment, something the oil company has neglected to do because of the numerous social agreements it has to fulfill by order of the Administration.

Oil Seed Plan had earmarked US\$18.0 billion to be invested in the oil industry in 2011. PDVSA figures show that last year, US\$15.10 billion was invested, around 84% of what was intended.

Lagging. Venezuela didn't take advantage of the raw materials boom, strengthening its economy as did the rest of the countries in Latin America. During the last eight years, Venezuela has taken in US\$542.0 billion in exports. Despite this, public debt has steadily increased, the currency has been devalued significantly, as the price of a US-dollar has increased by 169%. Barclays Capital reports that during the last twelve



years, the Venezuelan economy grew by a yearly average of 2.3% while the rest of the countries in Latin America grew by 3.5% and OPEC countries by an average of 6.3%.

Crude oil prices spike due to threats by Iran. Iran announced that it would suspend its deliveries of crude oil to a number of European countries, thereby causing international oil prices to begin to rise. Most experts predict that oil prices will continue to trade at high prices throughout the year, *“based on tensions between Iran and the West, after Tehran announced on Sunday, February 19, that it would suspend its sales of crude oil to France and the United Kingdom,”* said analysts from JBC Energy.

Iran also threatened to suspend crude oil sales to other countries in Europe, namely: Germany, Spain, Italy, Greece, Portugal, and Holland being the most likely candidates if Europe continues its “hostile actions” against the Islamic Republic, according to statements made by the president of the National Iran Oil Company (NIOC), Ahmad Ghalebani.

Venezuela to send shipment of diesel to Syria. A shipment of low sulfur diesel shipped on the tanker *Negra Hipólita*, flying Venezuelan colors and operated by an affiliate of PDVSA was scheduled to arrive in the Mediterranean port of Baniyas last week. This is the second shipment of fuel to be sent from the refinery at Puerto la Cruz headed to Syria since November 2011.

Catalytic unit paralyzes Cardón refinery. A problem with a valve in the reactor shutdown PDVSA’s Cardón Refinery on Monday, February 20. The valve in question had been repaired two years ago, say sources within the company, and they add that plant installations were being contaminated. It’s estimated that this unit currently processed around 40 kb/d of high octane fuel, with a nominal production capacity of 60 kb/d. It’s not certain that the refinery will be back in operation this week. This means that the refinery will not be producing gasoline, underlined a number of sources.

President Chávez retakes the proposal of poly-duct toward the Pacific Ocean. The project to build a poly-duct that Venezuela and Colombia have been discussing for a few years was retook past week by President Chávez, who recalled that this work would favor oil trade with Asian countries. Chávez explained that this poly-duct would start in Caicara del Orinoco, in Bolívar State, would cross the Venezuelan and Colombian Llanos and from then to the Pacific Ocean.

With this proposal, President Chávez explained... that to take oil to China, the big Venezuela oil tankers cannot cross the Panama Canal, but they have to go to Africa



to reach their final destination. *“Imagine if we would have this straight rout to China, Japan, to Asia. This is a very important project and we have retaken it with (Colombian President) Santos. Both countries have presented China with the proposal; this could be a three-nation project and Japan is interested. This could be a multiple agreement,”* he proposed.

Maturin is in emergency due to oil spill. In Maturin, capital city of Monagas State, 80% of the population has no drinkable water, because the oil spill polluted the water processing plant in that area. PDVSA’s executive director of environmental matters, Ramiro Ramírez, said that works to contain the movement of the oil spilled in the river are progressing satisfactorily. Although they stated that 90% of the oil spill was already controlled, *“crude residues continue in the river and they haven’t reached the last control point,”* Ramírez assured.

International oil baskets. At closing time on February 17th in the New York Stock Exchange, the price of the WTI was US\$100.8/bl, a 2.6% increase compared to the US\$98.3/bl reported the previous week. The Brent increased by 1.6% to reach US\$118.3/bl, compared to the previous week’s US\$116.5 bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$110.8/bl on Friday February 17th, a 2.2% increase compared to the US\$108.3/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$108.4/bl.

Business Sector Tips

It’s been 3 months since the 19 items price has been frozen. It’s been 3 months, and still no one knows what the new list price of these 19 items that have had their prices frozen since November 22, 2011 will be. Vice-president of the Republic, Elías Jaua, promised that the new prices would be in effect starting March 1, but the fact that the companies still don’t have any information regarding the prices makes it highly unlikely that this deadline will be met; as has occurred twice before.

Agriculture sector needs to refinance its loans. The consequence for agriculture producers that are facing sales prices lower than production costs, and the less than favorable weather that has affected crops as well as harvests around the nation the



past three years are severe. On the one hand production has been down, and on the other debts increase.

Sales drop for nine basic items, according to Cavidea. The New Year is off to a bad start for the Food sector. The Venezuelan Chamber of the Food Industry (Cavidea) figures show that sales are dropping on a number of items.

...**Cavidea report for the month of January** shows a significant drop in the sales of the following items: ketchup, down 18.4%; sardines, down 9.7%; canned goods, down 5.8%; sugar, down 5.46%; and pasteurized and powdered milk, down 4.2%.

Food exports dropped 92.0% over 13 years. According to Alejandro Gutiérrez, professor and researcher at the University of Los Andes (ULA), agricultural and food exports recorded US\$689 million at end-1998 and 13 years later, they have registered US\$ 55 million, or a 92.0% drop.

According to INE, in the cumulative January-November period, vegetable and livestock exports went from US\$36 million in 2010 to US\$39 million in 2011, up 8.2%. This increase was mainly due to the increase in prices of some products on the international market, due to which more dollars were received by tons sold of primary products.

However, in terms of finished foodstuffs, beverages and tobacco, the INE said that exports in the first 11 months of 2011 (data available) reached US\$24 million, down 67.8%, as compared to US\$77 million exports between January and November, 2010.

Bank credit portfolio gained 49.7% over twelve months. The Bank Superintendent's Office (Sudeban) reported that net credit portfolio of Venezuelan banks closed January 2012 at VEB 265.4 billion, up 0.15% from the previous month. Sudeban explained in a press release that this balance accounts for 43.4% of the bank total assets and, in comparison to January 2011, the net credit portfolio gained 49.7%.

Internet users grew 16.7% in 2011. According to data released by the telecommunication authority (Conatel), the number of people that contracted Internet services increased by 474,388 over 12 months to 3,200,000, in comparison to 2,800,000 at the end of 2010. Internet service penetration, in turn, closed 2011 at 40.2%, that is, 11.700.000 people, 9.4% more than in 2010.

Created Siderurgica new administration board. The interim administration board of Siderúrgica del Turbio (Siderur) was established on February 17, in compliance with



Resolution 047 of the Ministry of Industries, published in the Official Gazette No. 39,866. According to the Gazette, the new board will be chaired by Ramón Ernesto Perdomo, vice minister for basic industries.

Pepsi-Cola Venezuela denies Sundecop inspection. In a press note, the firm states that it received a document request note on February 9, which was delivered by Sundecop's officials at Empresas Polar offices.

Sundecop postponed announcement of prices for price-controlled items. The National Superintendent's Office for Costs and Prices (Sundecop) fuels uncertainty. After convening 385 companies to a meeting at Sundecop headquarters to deliver "documents of interest," the companies' representatives left Sundecop without knowing the new prices of 19 items which prices were frozen in November.

Sundecop began to deliver documents to companies that are being inspected to determine prices of 19 products that are still frozen and that, according to vice president Elías Jaua, will be announced on March 1st, now.

According to Sundecop, once they have been delivered the respective documents, the 385 firms will have five calendar days, starting from February Wednesday 22nd until Sunday 26th "to present the remarks their consider necessary."

Minimum monthly percentages of the agricultural loan portfolio for 2012 fiscal year have been set. The resolution was published in the *Official Gazette No. 39,866* dated February 16, 2012. The allocation of the agricultural portfolio should be centered on strategic items.

49% of the total quarterly agricultural portfolio should be earmarked for financing primary agricultural production of strategic products and a maximum of 10.5% to finance infrastructure for strategic products.

In the case of non-strategic products, up to 21.0% could be earmarked for the financing of primary agricultural production; only 4.5% for the financing of infrastructure and the same percentage for marketing activities.

Banks are waiting for the issuance of agricultural bonds. The administration is moving forward with the plan intended to assure more financing for the agricultural sector and increase control over loan destination. Banks are obliged to purchase bonds issued by the State and the moneys will be deposited in a fund managed by the administration that, from now on, will allocated credits for farmers.





Gambrinus Corp, a firm related to Polar, sued Venezuela before ICSID. According to documents obtained by Reuters, Gambrinus Corp brought to international arbitration on December 2, 2011, a claim against Venezuela for the nationalization in October 2010 of Fertilizantes Nitrogenados de Oriente (Fertinitro).

...Gambrinus had 10% share in Fertinitro. The main stockholders of Fertinitro were Pequiven (35%) and US Koch Industries (also with 35%). This latter sued Venezuela to ICSID in June 2011, for the nationalization of its assets. The remaining 20% belongs to Snamprogetti, an indirect affiliate company of Italy's ENI.

Venmaíz demands 34.0% increase in corn precooked flour price. Nicolás Constantino, president of Venmaíz, stated that the industry is currently producing with a backlog of 34% in authorized prices. Therefore, Venmaíz is requesting an increase of VEB 1.36 in the price of the one kilo of corn precooked flour, to VEB 5.42 per kilo.

Fedecámaras is optimistic after the primary election. According to Fedecámaras, the high level of participation in primary election organized by the Democratic Unity Panel (MUD) hints to a new political reality. *"It's of outmost importance to construe the results of the primary election; Venezuelans are basically for union, not division,"* Jorge Botti, president of Fedecámaras, stated.

World Economy Tips

U.S.: Government to lower corporate taxes. The U.S. government announced this week that it will seek to lower the corporate tax ceiling to 28% (currently at 35%) and it is planning to finance such a move by eliminating dozens of tax loopholes that are currently being used by corporations to pay less tax. Most analysts are skeptical and doubt the U.S. tax system can be reformed with a sharply divided Congress during an election year, but the issue is sure to become a hot topic leading up to the presidential election.

China reiterates its disposition to help EU. China has offered to help Europe solve its debt problems, said a spokesperson from the Chinese Foreign Affairs Department last Tuesday, February 21, after European authorities had announced its new rescue plan for Greece. *"We support the efforts of the European Union to face the debt problems of the Euro Zone. We've always trusted the Euro,"* affirmed spokesmen



Hong Lei during a press conference. This statement reiterates China's traditional position with respect to helping the Euro Zone, though no new finance agreements between Peking and Europe were announced.

European debt crisis on agenda at G-20 meeting. The European debt crisis will dominate the conversation at the G-20 meeting this weekend, while the rest of the world waits to see how Europe copes with this latest threat. Developed as well as developing nations would like to see guarantees that the EU will do everything possible to limit the impact of the crisis. Some positive answers could help members decide to help reinforce the International Monetary Fund (IMF) in order to help the victims of the crisis.

Fitch lowers Greece's classification. Fitch lowered Greece's credit classification on Wednesday, February 22, dropping it two levels, from CCC to C, suggesting that it will default on its obligations. Fitch considers the negotiations that are taking place to restructure Greece's debt as a de facto default and is planning to lower the country's ratings to Restricted Default once the restructuring operation is completed.

Foreign investment in Mexico up 10% in 2011. Direct Foreign Investment in Mexico was up 10% in 2011 compared to the previous year and settling at its highest level in three years. The U.S. is its main investor. Direct Foreign Investment equaled US\$19.44 billion in 2011, compared to US\$17.73 billion in 2010, stated the Mexican Department of Economy in a report it released. Mexico received the second highest amount of Direct Foreign Investment in Latin America last year after Brazil. .

Argentina: Foreign investment hits record high in fourth quarter 2011. Non-resident direct investment across the Single market and Free from Argentinean Exchange hit a record high during the fourth quarter 2011, settling at US\$1.15 billion, reported the Central Bank of Argentina. Gross revenue through said market equaled US\$1.15 billion and included capital contributions as well as the purchase of local companies. The Central Bank also highlighted mining revenues, at US\$566 million, and the rubber and plastic chemical industry, at US\$134 million.

FDI in China fell in January. Foreign direct investment in China fell for the third straight month in January as firms in crisis-embroiled Europe slashed spending by over 40 percent, casting another pall over the outlook of the world's economic growth engine. The gloomy trend was augmented by China's trade ministry, which warned of grim times ahead and promised action to help struggling local exporters cope with lackluster demand abroad.





Measures to be announces include plans to relieve cash strains suffered by small firms, helping companies resolve trade disputes and improving credit insurance for exporters.

BBVA: Latin America will grow 3.6% in 2012. *“Latin America is in good condition to resist moderation in global growth and has the strength of foreign and fiscal accounts.”* BBVA Research stated that in spite of this, they will show a slowdown *“due, in the first place, to the inflation increase over the expected levels, especially in Chile and Peru, which has limited growth in purchasing power within a context of a strong increase in employment and wages and salaries.”*

According to the economic outlook released by the Spanish bank, in the long term, in 2012-2015, Peru, Colombia and Panama will stand out as the countries with the highest growth rates, over 5%.

Political Tips

President Chávez to be operated on again. Pressured by intense rumors about his health flying around the country since last Saturday, President Hugo Chávez, not only revealed yesterday that he went to Cuba on Saturday to get a checkup, but he also shared some of the results from his tests.

...this is how the President expressed the news from the Santa Inés Industrial Complex in Barinas: *“A lesion has been detected in the same place the tumor was extracted almost a year ago. It’s a small lesion around two centimeters in diameter, clearly visible. This means the lesion must be removed, and another operations must be preformed, one supposes, less complicated than the first one.”*

...after the announcement, the President warns that it is highly probable that the new lesion is “malignant.” That’s why the operation must be carried out as soon as possible, at the latest by next weekend. *“The operation has to take place in the next few days; I don’t think it will be later than the weekend.”* As far as anyone knows, the operation will take place in Cuba.

President’s contender is at his same level. Luis Christiansen, president of Consultores 21 pollster, pointed out that President Chávez is facing a contender that is at his same level. At the forum 2012 Outlook organized by IESA, Christiansen



presented a poll conducted by his firm and highlighted that in 2006, 52% of interviewed people liked President Chávez; in December 2011, the figure was 51%. He added that presidential candidate Henrique Capriles in 2006 only had 34% of approval; but in December 2011 the number went up to 52%.

“Majunche, you aren’t going to avoid confrontation with Chávez”. Although he tries not to pronounce his name, for the second day in a row, president Chávez devoted part of his speech to the opposition presidential candidate Henrique Capriles Radonski.

... **“Majunche’s advisers have told him not to face up to me. Well, majunche, that’s going to be impossible, because Chávez is your contender now; you’re going to face up to me, majunche, or run,”** Chávez challenged his contender in next October 7 presidential election, during his speech at the graduation of Community Integral Doctors, in Vargas State, broadcasted on national TV.

Capriles defies Chávez to fight under equal conditions. The possibility that the administration once again takes advantage of its infrastructures and funds for President Chávez’ reelection campaign is not a concern for Henrique Capriles Radonski, because he has already experience coping with this kind of problems.

Voters’ turnout doesn’t stand a review. The PSUV party doubts that 2,904 million people have voted in the primary election held past Sunday to choose the candidates of the Democratic Unity Panel (MUD).

Government supporters sued El Nacional newspaper. The group Periodistas por la Verdad sued Miguel Henrique Otero, president-editor of El Nacional newspaper, charging him with *“releasing false information”* in the case of the man who died in Aragua State past Tuesday, during the police raid to seize some election lists.

Enrique Márquez resigned as candidate in Maracaibo. To allow Pablo Pérez to be elected as consensus candidate for the reelection as Zulia State Governor, representative Enrique Márquez, who had been appointed consensus candidate as Maracaibo Mayor, turned down his candidacy, so that Eveling de Rosales can be reelected as Mayor and the MUD can cover candidacies smoothly. *“The circumstances under which the decision of appointing me as candidate for Maracaibo Mayoralty was made are substantially different from the current ones,”* Márquez said.

Pablo Pérez promises one million votes for Henrique Capriles Radonski. *“We all are already in the bus toward progress,”* Pablo Pérez, Zulia State governor, assured Henrique Capriles Radonski at a joint press conference. In his speech, Pérez reiterated that he will be *“another soldier”* that will work to turn Capriles into the new



President of Venezuela. Pérez joined three campaign mottos and summarized them as “*there is a better way for a new Venezuela with a safe future.*”

Legislatives Tips

AN commemorated 193rd anniversary of the Congress of Angostura. The National Assembly (AN) met in Ciudad Bolívar on February 15 to commemorate the 193rd anniversary of the Congress of Angostura, which was installed on February 15, 1819 by Simón Bolívar. This was the second Constituent Congress in Venezuela. February 16's session took place in the Federal Palace in Caracas.

Excessive costs charged by funeral parlors were reported to the AN. The Administration and Public Service Commission of the National Assembly received more than seven thousand reports for the excessive costs charged by funeral parlors in Venezuela, Representative Víctor Martínez, member of the commission, informed. Martínez pointed out that “*preliminary information has determined that the minimum being charged by funeral services in the country amount to VEB 7,500, which in the opinion of the Commission is exaggerated.*”

Law on funeral services will be ready this year. The Commission has already prepared the technical report on costs of funeral services and the draft law is expected to be debated this year.

Law on rent of commercial premises will be discussed also this year. Concerning the draft law to regulate rents of commercial premises and offices, Representative Claudio Farías pointed out that “*last year we worked on the Law to rule and control home rent and matters ruling rents of commercial premises are still pending.*” Farías stated that they are waiting for the technical report “*to work on the law and we expect that the discussion of this legal instruments will be completed in June-July.*”

Tax unit is increased. The Commission of Finance and Economic Development of the National Assembly, at a special session held on February 14, authorized the increase of the tax unit from VEB 76 to VEB 90 that will be in force throughout 2012. Ramón Lobo, coordinator of the Subcommittee on Public Finance, explained that this adjustment represents 17% of the average increase of this indicator over the past six years, which is below 2011 27.6% inflation.



However, for the Income Tax payment corresponding to 2011 fiscal year, the reference basis is VEB 76, as announced by Seniat Superintendent, José David Cabello Rondón.

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ECONOMIC OVERVIEW

