



Weekly Report

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GDP and Balance of Payments 2011: The prescription barely helps the patient

By:
Asdrúbal Oliveros
José Luis Saboin
Adriana Morillo
Pedro Ocariz
Ecoanalítica's Team*

*María Gabriela Benítez, Pilar Navarro and Anabella Ron

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The Central Bank of Venezuela (BCV) published, as is customary, the Gross Domestic Product (GDP) figures at constant prices, and the Balance of Payments (BP) corresponding to 4Q2011, which at a glance tend to be optimistic, but fall apart when analyzing the performance of key sectors. This supports what we have repeatedly stated at **Ecoanalítica**, that public spending is still not having the desired effects in the productive sector, and thus in economic growth. This result is the prelude of the economic performance for 2012.

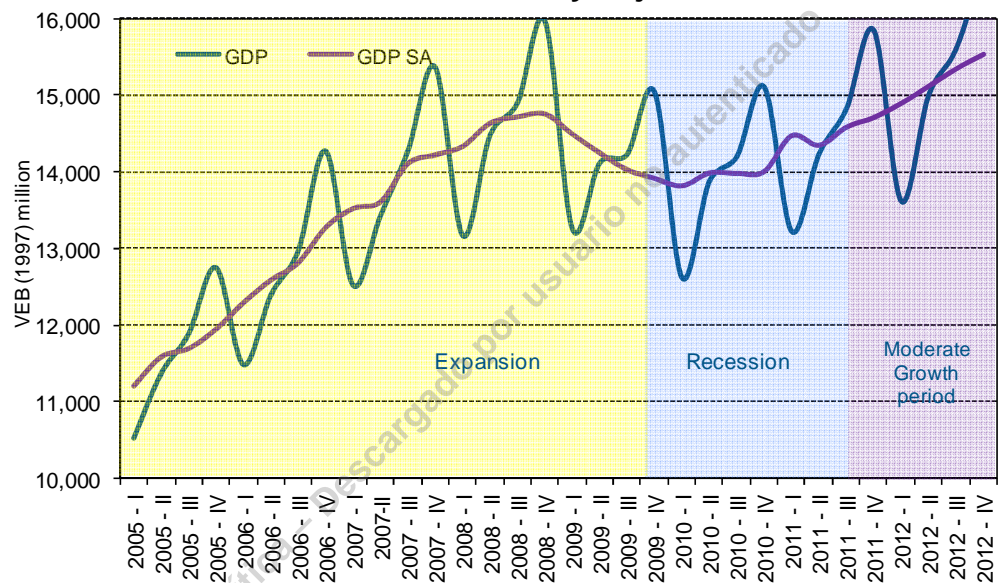
The result was better than expected, yet not outstanding

According to BCV's preliminary reports, GDP increased 4.9% in 4Q2011 with respect to the same period in 2010, which translates into a 0.9% growth in the Seasonally Adjusted GDP; thus, the Venezuelan economy would be accumulating three consecutive quarters of growth, with the latter being the highest result recorded for at least the last fourteen quarters.



Now, if we compare the result of 4Q2011 with that of 4Q2005, also a pre-electoral year, this result doesn't leave much to be desired, since it would be 6.2 percent points below the GDP growth in 4Q2005, when it was 11.1%, as can be seen in the next graph:

GDP Vs. Seasonally Adjusted GDP



Sources: BCV and Ecoanalítica
Seasonal adjustment made by X12 method

This favorable performance in 4Q2011 was due to the growth of the oil sector (1.8%), and the non-oil sector (5.1%) during the period. The result, from the institutional point of view, reveals an expansion of 5.1% for the private sector, and of 3.8% for the public sector for 4Q2011 compared to the same period in 2010.

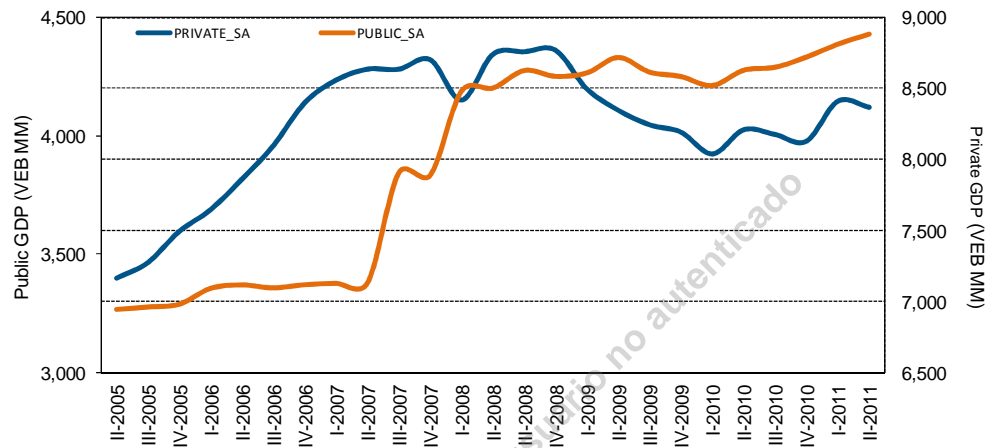
The annual result is not different

The 4Q2011 figures, together to the 3.9% growth during the first nine months of 2011 resulted in a 4.2% growth by the end of last year. In it, the oil sector grew 0.6%, while non-oil activities grew 4.5%. In institutional terms, the above mentioned GDP behavior led to increases of 3.8% and 4.0% in the private and public sectors respectively. The private sector had growth in most of its activities. On the other hand, in the public sector, there were significant increases in financial services, communications, and general government services.





Public GDP Vs. Private GDP (Seasonally Adjusted - SA)

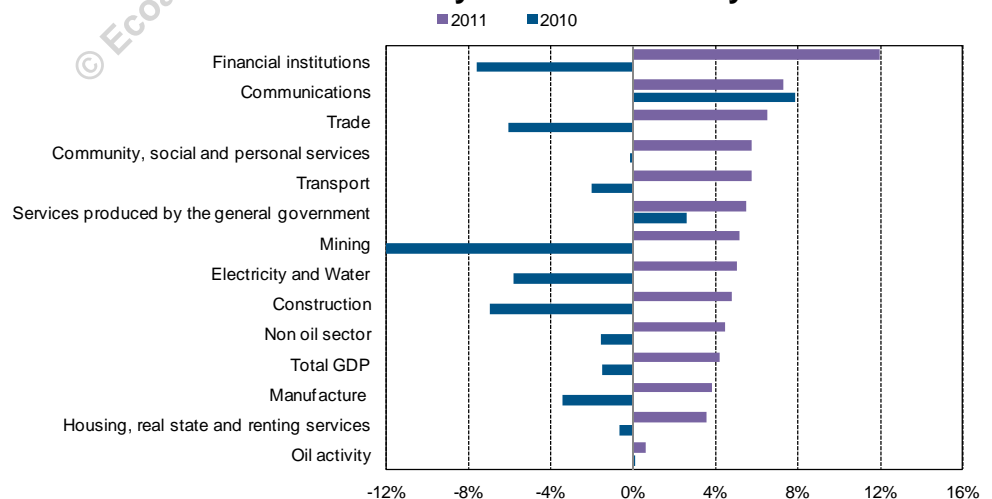


Sources: BCV and Ecoanalítica

Non-oil activities continue to grow, despite the limitations

With respect to the favorable behavior of non-oil GDP in 2011, the greater growth was in the following sectors: financial institutions and insurance (12.0%), construction (4.8%), communications (7.3%), general government services (5.5%), trade (6.5%), water and electric power (5.0%), and manufacturing (3.8%).

Growth by economic activity



Sources: BCV and Ecoanalítica

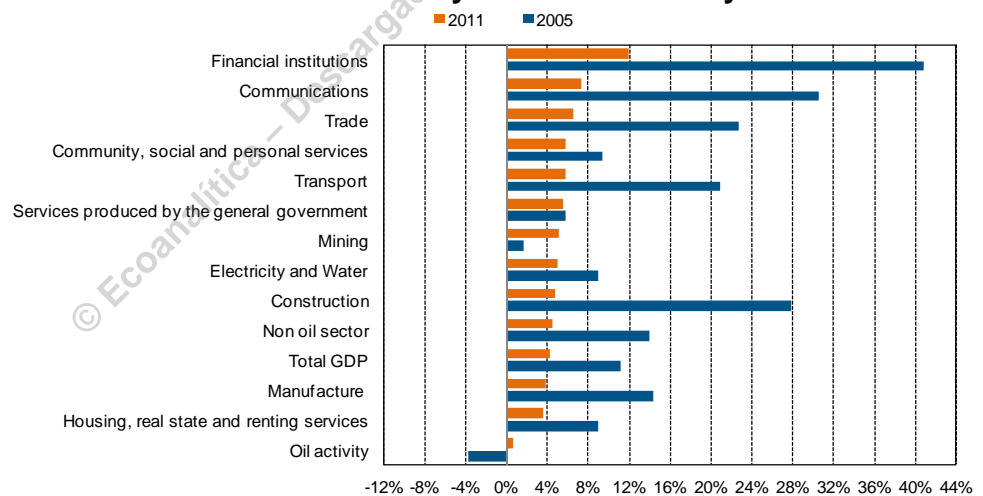
This “positive performance” in most of the non-oil sector activities is related to an increase in domestic aggregate demand, consumption (not



investment) spending, a greater availability of imported products, a greater availability of electric power, and higher public spending, driven as expected by the increase in the price of the Venezuelan oil basket, which reached US\$/bl 101.06 at the end of 2011. BCV highlights that this growth during the period was also driven by improvements in the construction sector, due to the execution of works for the Gran Misión Vivienda Venezuela, and the impact of this program in related productive chains.

However, analyzing the result by class of economic activity, not everything is as positive as it seems, since comparing the GDP statistics of some non-oil activities, the fact is that they are mostly lower than what was recorded five years ago, and the comparison is more significant, if we compare them with the figures for 2005, when the average price of the Venezuelan oil basket was US\$/46.0, much lower than the record price of 2011.

Growth by economic activity



Sources: BCV and Ecoanalítica

The best example of this situation is the industrial sector

According to BCV data, the manufacturing sector, one of the key sectors of the economy, returned last year to the 2005 level. Comparing the manufacturing GDP statistics, we see that the production by the end of last year is 7.3 percent points lower than six years ago. Likewise, the expansion of the manufacturing sector in the last five years has been only 1.4% much lower than the growth of areas like trade or telecommunications.





Other data that reveals this situation is the production volume index of the private industry, published monthly by the BCV, which shows that up to September of last year at least six of its sub-sectors had a lower production than in 1997, for example: textiles, common metals, automotive vehicles, and trailer and semitrailer trucks, among others.

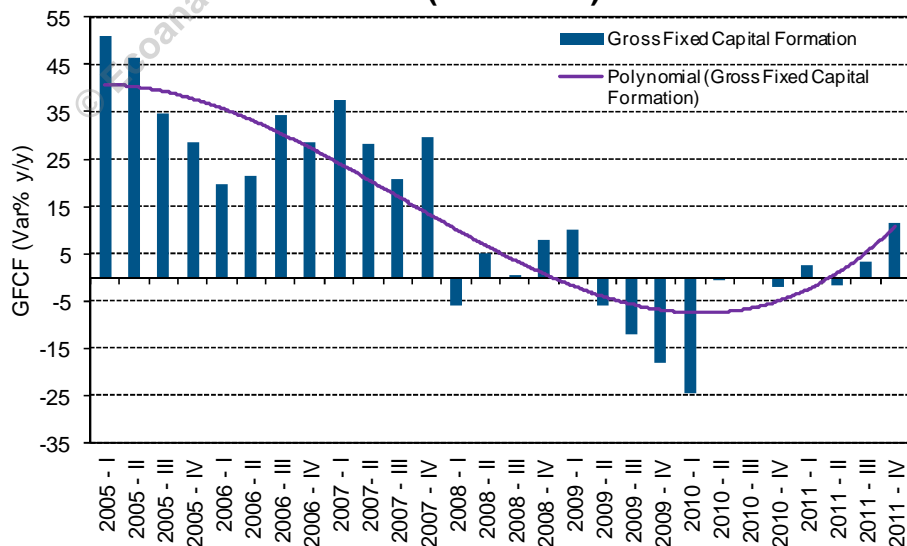
Global supply and demand: much ado about nothing

Aggregate demand increased 7.3%, due to the combined effect of the significant GDP growth (4.2%) and the import of goods and services (15.4%). On the other hand, global demand increased as a result of the increase in domestic aggregate demand (7.6%). This result is associated to the growth in gross fixed investment (4.4%), final consumption expenditure by the general government (5.9%) and private final consumption expenditure (4.0%).

Investment grows but only half way

This is due to the adverse environment for the industrial sector, which negatively affects investment, a key factor for production increases. There are barriers to invest, while the market continues to grow. Based on this, in the next graph we see the figures supplied by the BCV for Gross Fixed Capital Formation (GFCF), which grew only 4.4%, significantly lower than the high level of 38.4% in 2005.

Evolution of Gross fixed capital formation (2005-2011)



Sources: BCV and Ecoanalítica

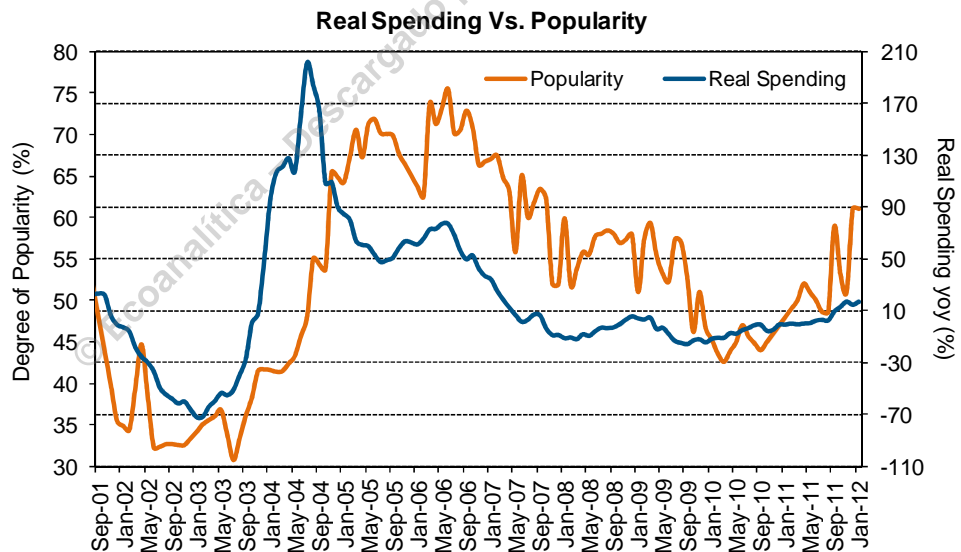


The BCV hasn't still published private investment figures, but those that are available show that between 2007 and 2010 this indicator dropped 43.6%, hindering the possibility of increasing domestic supplies.

Public spending = the backbone of the economic model

Oil prices are still strong and defying, for our benefit, the law of gravity. The average price of the Venezuelan oil basket was US\$/bl 101.06 at the end of 2011; however, this didn't translate into greater spending, since although the real growth of public spending in 2011 was significant in real terms (22.6%), it is still lower than in 2005, when the average price of the oil basket was US\$45/bl, but the real growth in spending was 26.2%.

Nevertheless, the economy is still apathetic to this level of spending, which used to have good results both in consumption as in popularity levels, particularly if we consider that 2011 was the prelude to 2012, so decisive in political terms.



Sources: Oficina Nacional del Tesoro (MF), BCV, Datanálisis and Ecoanalítica

This also supports what we have been saying in our reports, that the national productive sector is harmed by the mistaken economic policies implemented by the national government.

Balance of Payments: doesn't respond to growth

According to figures published by the BCV, the Balance of Payments had a deficit of US\$4.03 billion in 2011, a reduction of 50.0% with respect to 2010 (US\$8.06 billion). This reduction in the deficit is due to a favorable result in current accounts (US\$27.20 billion), thwarted by the negative



balance in capital and financial accounts (-US\$27.61 billion) and the negative balance in the errors and omissions account (-US\$3.61 billion). 2011, was the third consecutive year in which the balance of payment had a deficit, even though the economy stopped showing negative results, together with the significant increase in oil prices.

BALANCE OF PAYMENTS (General Summary)	2010	2011	Var (%)
Current Account	12,071	27,205	125.4%
Goods	27,132	46,161	70.1%
Oil Exports	62,317	88,131	41.4%
Non-Oil Exports	3,428	4,471	30.4%
Import of goods f.o.b.	-38,613	-46,441	20.3%
Services	-9,191	-10,496	14.2%
Others	-5,870	-8,460	44.1%
Capital Account	-20,131	-31,237	55.2%
Public Sector	1,086	-17,583	-
Private Sector	-21,006	-13,654	-35.0%
Reserves Variation	-8,060	-4,032	-50.0%

Sources: BCV and Ecoanalítica

The current account almost saves the day

In this sense, the current account surplus of US\$27.20 billion represents an increase of 125.4% with respect to 2010 (US\$12.07 billion). This growth was driven by the favorable behavior of the trade balance, which increased 70.1%, reaching US\$46.16 billion, thanks to the rise in the value of exports.

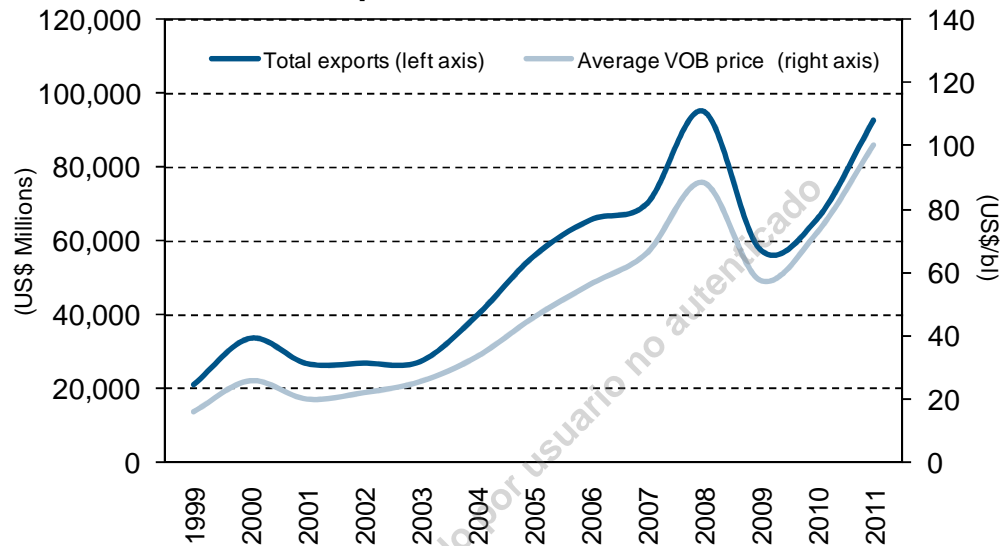
At 2008 levels... Thank-you oil basket!

The export of goods in 2011 reached US\$92.60 billion, a 40.9% increase compared to 2010 (US\$65.74 billion). According to the BCV, this was due to the 41.4% increase in oil sales, reaching US\$81.13 billion, but driven by the 40.4% increase in the average price of the Venezuelan Oil Basket (VOB), since the volumes traded increased only 2.2% in 2011.





Exports Vs. VOB Price



Sources: CBV, Menpet and Ecoanalítica

At **Ecoanalítica**, we reinforce the thesis that the only foundation of this growth model is a volatile oil price. We must note that despite the present upward trend of oil prices in the international market, it isn't guaranteed, so we are more sensitive to any external shock.

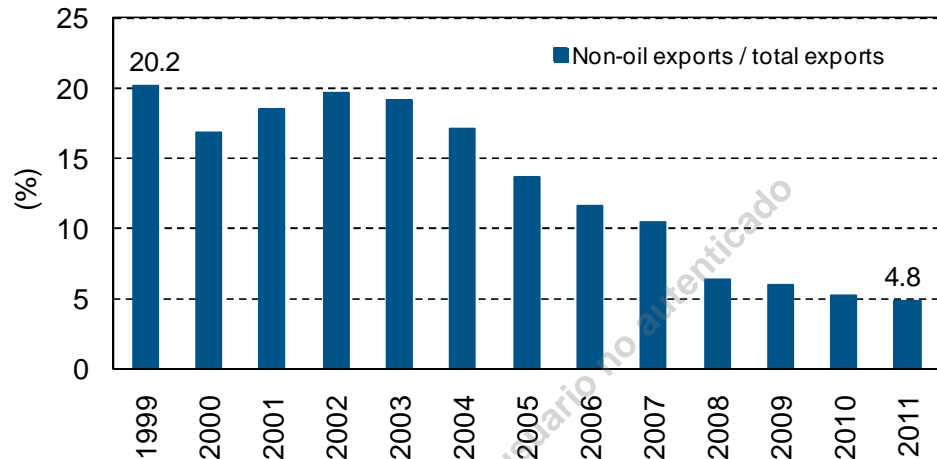
Non-oil exports: recovering, but...

On the other hand, non-oil exports increased 30.4% compared to 2010, reaching US\$4.47 billion, which is quite encouraging. However, its participation in total exports continues to drop since 2003, at 4.8%, revealing the lack of diversification in the economy, which is increasingly dependent on oil exports.





Non-oil exports

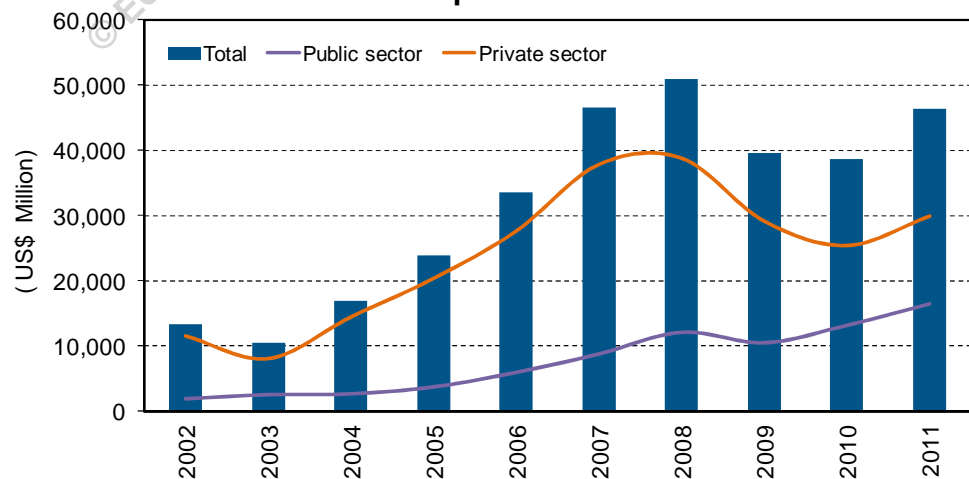


Sources: BCV and Ecoanalítica

More and more from abroad

Likewise, the import of goods increased 20.3% reaching US\$46.44 billion. According to the BCV, this increase is associated to a greater dynamism in domestic aggregate demand and the growth in economic activity. Private sector imports reached US\$29.94 million, an increase of 17.8% compared to 2010 (US\$25.41 billion) and public sector imports increased 2.0%, from US\$13.20 billion in 2010 to US\$16.49 billion in 2011, mainly because of foreign purchases of food and agricultural items.

Imports of Goods



Sources: BCV and Ecoanalítica



Capital and financial accounts: US\$10.0 billion more in deficit

Regarding capital and financial accounts, it showed a deficit of US\$27.61 billion, 55.0% higher than in 2010 (US\$17.81 billion). This growth was driven by an 89.5% increase in the other investments account, which obtained a negative net flow of US\$35.21 billion.

According to the BCV, the upward behavior of other investment account assets was due, in its private component, by a sustained foreign currency supply for this sector, debt bond issues, the assignment of public funds to companies linked to priority government investment projects, and direct payments from the oil industry to private contractors. Regarding the public component of the other investment accounts assets, its negative flows increased 131.4%, going from US\$11.97 billion in 2010 to US\$27.70 billion; this was driven by the 374.5% increase in the currency and deposits account deficit, which reached US\$16.51 billion.

In turn, the public liabilities of the other investment account dropped significantly (-29.0%), according to BCV, due to net payments to foreign suppliers by the oil industry, and the amortization planned in the financing programs of the Chinese government. However, in 2011 new loans were granted to the government and Pdvsa by bilateral and multilateral organizations.

Direct investment improves

Likewise, direct investments improved considerably, with a surplus of US\$5.12 billion in 2011 when in 2010 it had a negative result of US\$1.46 billion.

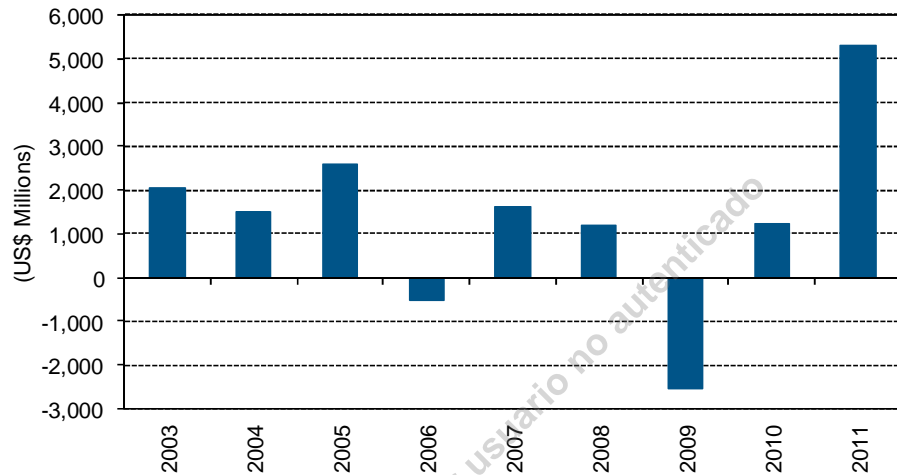
Particularly, direct investment in the country

Direct investment in the country, due to the contribution of international partners, grew considerably: 338.5% in 2011 with respect to 2010, or US\$5.30 billion, counteracting the 93.5% drop in foreign direct investment, which had negative flows for US\$173 million, led by the sale of Pdvsa's assets abroad.





Foreign Direct Investment



Sources: BCV and Ecoanalítica

Capitals continue to migrate

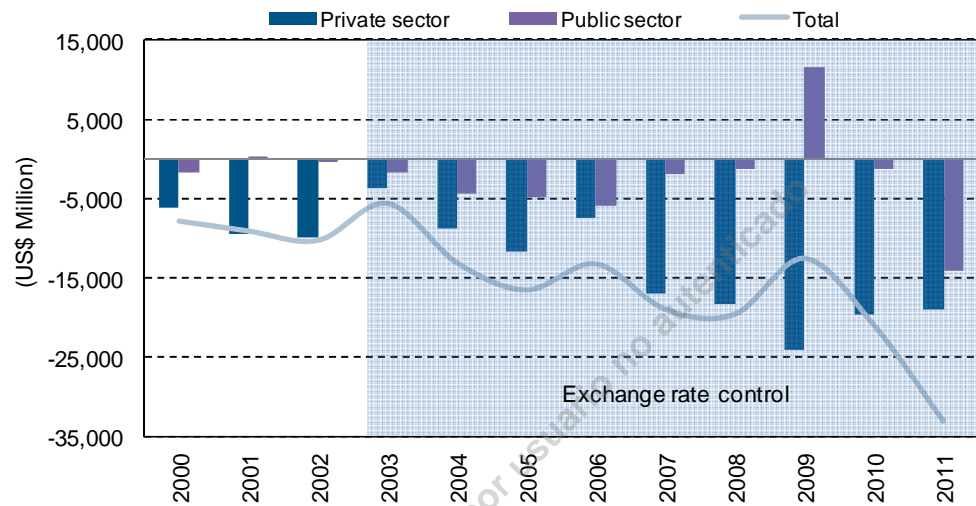
In 2011, capital worsened and once again broke a record reaching US\$33.08 billion, an increase of 57.9% compared to 2010 (US\$20.95 billion). The private sector, which takes capital out of the country as a mechanism to protect its assets, took out US\$18.90 billion in 2011, 4.1% less than in 2010 (US\$19.72 billion). However, the public sector took out US\$14.17 billion, an increase of 1,053.3% with respect to the previous year, when it was US\$1.22 billion. According to the BCV, the State took capital out to pay advances for imports, trade credits and oil industry deposits; but, could it be that the government is losing trust on the bolivar?

We must remember that January market the 9th year of the exchange control policy in Venezuela. At that time, the main goal of this policy was to reduce capital flights which concerned President Hugo Chávez so much. However, since the beginning of exchange controls in the country, capital outflow could not be contained; even worse, it has increased considerably and reached its maximum historical level last year.





Capital outflow



Sources: BCV and Ecoanalítica

An ineffective model

Ecoanalítica believes that some factors that are vital for economic growth are worsening, such as the reduction in non-oil exports with respect to total exports, capital outflow, and the close relation between trade balance surpluses and the average price of the Venezuelan oil basket, all of them a result of the vulnerability of the country's present economic model. Also, it is difficult to understand that despite the growth in 2011, and the strong increase in oil prices, the balance of payment has not even shown a slight surplus.

Based on all the above, **Ecoanalítica** forecasts that for 2012 growth will continue to be positive though modest, because it will continue to be stimulated by the increase in public spending as a result of the growth in the volatile oil price; thus, by the end of this year, we project a GDP growth at constant prices of 4.8%.





Economic Tips

Central government debt increased 10.5%. According to the Ministry of Planning and Finance, at the end of December 2011, central government debt was US\$79,920 million, 10.5% up than 2010 when it was US\$71,769 million. Within this total, US\$43,450 million was external debt and US\$ 35,840 million was domestic debt, both recorded increases of 17.3% and 3.2% respectively.

Foreign debt grew 235.9% in 13 years. Although the current administration in its early years was set to reduce foreign debt, since 2007 the trend was reverted and foreign debt grew over US\$30.0 billion, thus marking a point of no return. Public foreign debt closed 2011 at US\$96.42 billion; when this amount is compared to the US\$28.45 billion posted in 1998, a variation of 235.9% in nominal terms is obtained. The BCV figures show that a third part of foreign debt corresponds to obligations contracted by Petróleos de Venezuela.

Public debt to China increased by 82.1%. At end-2011, outstanding payments to the Chinese Development Bank registered a balance of US\$21.3 billion. At end-2010, debt to the Chinese Development Bank was US\$11.7 billion, thus implying an increase in absolute terms of US\$9.6 billion for the year (82.1%).

Funds increase. According to Citi calculations, the administration has a parallel budget that includes several funds. This budget amounts to US\$30.4 billion. A Citi report details that since 2005, the administration has structured an additional budget through Fonden, the Chinese Fund and other mechanisms used by PDVSA and the National Treasury Office. Since December, these special funds increased US\$17.0 billion.

Aggressive domestic borrowing. The current administration has preferred to increase borrowing in the country instead of abroad, something understandable considering that commitments are assumed in bolivars, at low interest rates and that a very substantial part is placed in the portfolio of state-owned banks. As a consequence, domestic debt for the first six weeks of the year will increase 13% up to VEB 148.0 billion.

Central Government expenditures increased 25.3%. BCV published the figures of the Central Government's fiscal performance for November 2011; they show that total expenditures increased 25.3% during the first eleven months of last year, in real terms y/y, higher than the accumulated figure for the previous month, when it was



16.4%. On the other hand, this is significantly higher than in the same period of the previous year, when the Government's total spending dropped 6.9% in real terms y/y.

Income increased 24.0% in real terms y/y, higher than in the previous year when dropped 2.3%; among them, oil income increased 37.2% and non-oil income increased 18.6%, both in real terms with respect to the same period the year before.

FISCAL BALANCE			Nominal Variation	Real Variation
CENTRAL GOVERNMENT (VEB Million)	Jan-Nov 2010	Jan-Nov 2011		
Total Revenue	162,536	259,605	54.0%	24.0%
Non-Oil Revenue	115,761	176,924	44.0%	18.6%
Oil Revenue	46,775	82,681	82.3%	37.2%
Central Bank Earnings	-	-	-	-
Total Expenditure	196,541	317,341	61.5%	25.3%
Fiscal Balance	(34,005)	-57,737	69.8%	31.8%
Non Oil Balance	(80,780)	(140,417)	73.8%	34.9%
Debt Amortization	4,140	1,467	-64.6%	-72.5%
Financing Requirements	38,146	59,204	55.2%	20.5%
Foreing Debt	6,486	45,832	606.7%	448.4%
Domestic Debt	31,599	45,327	43.4%	11.3%
Tresury Bonds	26,845	41,588	54.9%	20.2%
Tresury Debt	4,754	3,739	-21.3%	-39.0%
Others	61	(31,955)		

Sources: BCV and Ecoanalítica

In Gazette! By Decree N°8,807 published in Official Gazette N°39,871 on Monday 27 February, the President of the Republic modified the Law for Special Contributions on Extraordinary Prices in the International Hydrocarbons Market. That law was enacted in April 2011 and stated that the resources generated by the tax also called "*sudden gain*" pass directly to Fonden on currencies. This decree was amended Articles 2 and 10.

The amendment of Article 2 states that the purpose of use of resources derived from this special tax is to be used preferably for the financing of large missions created by the National Executive and infrastructure projects, roads, health, education, and other.

The amendment of Article 10 states that in case the Fonden requires delivery of Bolívares, Pdvsa will sell to the BCV currency at official exchange rate and of this



amount to be transferred to the Fonden, the BCV will transfer 50% of currencies sales, unless the level of liquid international reserves allow to transfer a larger amount. With this change, the BCV becomes a filter between PDVSA and Fonden, limiting freedom to spend currency of Fonden and opens the possibility of increased operating reserves held by the BCV.

Financing sources are diversified. The administration decided last year that sources to finance public spending had to be broadened and, as seen in the previous table, of the amount of VEB 377.6 billion that entered the treasury coffers between January and November, VEB 67.2 billion (17.8%) correspond to miscellaneous operations, which, according to the BCV, correspond to dividends of state-owned companies, bonuses and other funds. The share of these miscellaneous operations is increasing, because in January-November 2010, income from that source amounted to VEB 26.19 billion, or 12% of the total.

Basic family basket reaches VEB 7,971. According to the report of Cendas (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros), the Basic Family Basket (CBF) cost VEB 7,970.9 in January 2012, for a 0.9% increase with respect to December last year and 24.7% from January 2011.

CBF behavior in January was determined by the increase in six of the seven groups composing it, including: food (1.2%), home rent (1.1%), children and gentlemen footwear and apparel (0.9%), health (0.8%) and personal care and household cleaning products (0.7%).

Cendas: food basket reached VEB 3,602. Food also increased and food basket reached up to VEB 3,601.9, up 1.2% from December and 28.2% from January 2011, when it cost VEB 2,810.4; therefore, according to Cendas, 2.3 minimum wages are required to cover food.

In January, eight of twelve items composing the food basket increased their prices: sugar and salt (16.1%), black bean, peas and lentils (10.5%), coffee (4.9%), fruits and vegetables (3.5%), beef and its derivatives (1.8%), tubers and others (0.8%), cereals and derivatives (0.7%), fish and mollusks (0.6%). Milk, cheese and eggs, in turn, dropped 3.6% and oil 11.4%. The group that includes mayonnaise kept its December price.

Operational reserves at its lowest level. Although the increase in oil prices resulted in higher oil revenues, the country's operational reserves, that is, foreign currency placed at bank accounts that allow covering imports and payment of foreign debt, are at their lowest level of the recent 15 years. At end-2011, the BCV operational



reserves amounted to US\$5.58 billion, equivalent to less than two months of imports, for a steep drop of 82.6% with respect to 2008. This is the lowest amount since 1997.

Before leaving. About VEB 2.56 billion and US\$150 million were authorized as supplementary appropriations by President Hugo Chávez before his trip to Cuba. The funds are basically earmarked for several productive projects and missions.

Fonden will issue debt. President Hugo Chávez announced on February 23 a reform of the Law of the National Development Fund (Fonden), which opens a new door for the administration to issue further public debt. The reform is aimed at Fonden guaranteeing operations of the Ezequiel Zamora Fund, which will be fed with resources from the banks' agricultural portfolio in exchange for bonds.

President said that *"the law is reformed for Fonden to be able to grant guarantees, issue titles and perform financial operations representing borrowing. These operations will be tax free."* To back the reform, President Chávez said that the Fund has uncompromised resources for US\$6.4 billion and VEB 4.4 billion as backup.

Interest rates. The lending rate for the second week in February was at 17.4%, increasing by 0.8 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 increased 1.4% going from US\$26,119 million during the thitd week of February to US\$26,493 million during the fourth week. Compared to the same period last year, international reserves have decreased by 0.1%.

Monetary liquidity. Monetary liquidity in the third week in February increased 0.7% compared to the previous week settling at VEB 443,675 million. The M2 has increased 51.9% year-on-year.

Sitme figures. So far this year, US\$1,556 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$38.9 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$421 million (37.1%) over the same period of 2011, when negotiated US\$1,135 million. Meanwhile, in February negotiated US\$775.6 million, representing an increase of 162.1 million (26.4%) compared to Febraury 2011. Lastly, during the fourth week of February the amount traded reached US\$113.3 million, traded US104.8 million less than last week when US\$218.1 million were traded.





Oil Tips

U.S. will apply sanctions for purchases of Iranian oil. The US Treasury Department said that sanctions would be applied starting from June 28, 2012. Sanctions will affect *“those international corporations or central banks that have knowingly facilitated a significant financial transaction with Iranian Central Bank for the purchase of oil or any oil byproduct.”*

However, Washington stated that the sanctions will be applied depending on *“whether the US considers that there is enough oil supply from other countries to allow for a significant decrease in volume of oil purchased from Iran.”*

Price increases with reservations. David Lipton, director of the International Monetary Fund (IMF) stated at a presentation at the G20 meeting being held in Mexico, that oil price increases pose a new risk for global economy and the situation in Iran should be followed closely.

Orinoco companies will have to put up some gas. At a meeting held this month between PDVSA board and companies participating in the Orinoco Oil Belt, Rafael Ramírez, PDVSA president, demanded PDVSA partners to speed up works for joint ventures that are operating at six different blocks to deliver their first barrels this year.

According to the request, each joint venture (PDVSA and foreign oil companies) shall deliver about 30 kb/d of early production this year, which would contribute a large part of the 558 kb/d that the Venezuelan state-owned oil company has planned to increase in 2012, Reuters reported.

PDVSA is adjusting energy agreements with China. According to PDVSA president, Rafael Ramírez, Petrosinovensa, a joint venture between the Venezuelan state-owned oil company (60%) and China's National Petroleum Corporation (40%), is now expected to produce 330,000 b/d in 2014.

Ramírez stated that this company is currently producing 120 kb/d, and explained that the Chinese Development Bank will contribute US\$4.0 billion to the joint venture Petrosinovensa, so that it can increase its production from 120 kb/d to 165 kb/d this year and reach up to 330 kb/d by 2014.



More rigs first in China. Rafael Ramírez and the president of the Chinese firm Citic Construcciones, Hong Bo, signed an agreement on February 24 for the construction of oil rigs between Venezuela and China. The agreement will make it possible to construct rigs in both countries, starting by the Asian nation.

370 drilling rigs were active at year-end. Rafael Ramírez estimates that thanks to the Extraordinary Production Plan, the number of active drilling rigs will reach 370 at end-2012.

New oil spill is reported in the Eastern region of the country. This time in the Guanipa River in Anzoátegui State. Residents of the area assure that the spill was provoked by a leak in a PDVSA pipeline. The spill is estimated at about 300,000 barrels over water, water fauna and flora. There has been great concern in the neighboring areas, because agriculture and livestock activities are being adversely affected.

Only 1 out of 4 The Secretary General of the Oil Workers' Federation of Venezuela (FUTPV), José Boadas, warns that only one of the four boilers at the El Palito refinery is operating, pointing out that there are not starting engines, which is severely affecting its operation.

Collective bargaining contract is being demanded. Oil workers in Anzoátegui State are demanding that the collective contract is promptly approved, only one month before its expiry. They are demanding that discussions to be resumed. Discussions have been suspended since December 21, because PDVSA hasn't presented a counteroffer for the economic clauses.

An administrative procedure against 25 former managers of PDVSA has been initiated. The oil company's internal audit department started the procedure to determine responsibilities for the internal crisis at the industry during 2002 oil strike.

Resold announces a new oil discovery in Brazil. The Spanish-Argentinean oil group Repsol YPF announced an "*important oil discovery*" in front of the Brazilian costs. According to the preliminary evaluation, this finding contains a big potential of high quality resources with outstanding oil flow rates. Production tests showed 4 kb/d of light crude oil and 807,349 cubic meter/day of gas.

International oil baskets. At closing time on February 24th in the New York Stock Exchange, the price of the WTI was US\$105.3/bl, a 4.4% increase compared to the US\$100.08/bl reported the previous week. The Brent increased by 2.7% to reach US\$121.5/bl, compared to the previous week's US\$118.3 bl.



Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$114.5/bl on Friday February 24th, a 3.4% increase compared to the US\$110.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$109.2/bl.

Business Sector Tips

Long-awaited prices were finally announced. Vice President Elías Jaua announced prices of 19 items that had been frozen since November 22. Prices cuts were as follows: household chlorine, 6%; liquid and cream dishwasher 6%; diapers, 26%; pasteurized fruit juices, 6%; toilette paper, 11%; soap, 8%; detergents, 25%; bathing soap, 24%; bar and liquid deodorant, 18%, disinfectants, 14%, toothpaste, 11%, baby sweetened food, 4%, shampoo, 25%, floor wax, 24%, bottled mineral water, 22%, razors 24%, sanitary napkins, 25%, hair conditioner, 21%; and fabric softener, 25%.

Vice President Jaua said at an event in Guarenas to commemorate events of February 27, 1989, that these percentages are average per item, because each presentation will have its own adjustment. Jaua added that companies “*have a period to appeal.*” “President Chávez instructed us to be *generous.*”

Spanish entrepreneurs aren't interested to invest in Venezuela. The Venezuelan market is less and less attractive for Spanish investors. That is the conclusion drawn from the report “2012: Spanish Investment Outlook in Latin America,” prepared by IE Business School. Asked about the main risks and threats against investment, Spanish entrepreneurs referred to four factors: political instability, lack of legal security for doing businesses, lack of personal security and exchange rate.

When asked about investment behavior in Venezuela this year, only 4% of the people interviewed by IE Business School state that investment will increase; 42% believe that they will remain the same and 8% assure they will decrease.

The panorama doesn't appear to be dark, because the IE Business School study also highlights some Venezuela's strengths: 18% of interviewed points out that Venezuelan market is “interesting”. The other advantage reported by Spanish investors is that related to access to raw material.



The IE Business School study also reports that last year, the presence of Spanish investment in the Venezuelan market declined: in 2010, 67% of interviewed entrepreneurs recognized that their companies were developing some kind of activity in Venezuela; whereas last year that number dropped to 58%.

Input supply for the “Gran Misión Vivienda Venezuela” must be guaranteed. Housing Ministry published in the Official Gazette No. 39,687, dated February 18, a resolution ordering public and private companies engaged in the development, production and sale of sand and stones to guarantee supply for works declared as urgent, corresponding to the “Gran Misión Vivienda Venezuela.” They will also guarantee a fair price in accordance with the law regulating prices for this sector. To keep supply, quarries cannot stop production.

However, representatives from the construction sector point out that difficulties exist in the aggregate area because some quarries in Venezuela have stopped operations and those that are still producing have problems to find machineries and spare parts to guarantee operations. Therefore, they added that companies cannot mine sand and stones enough to meet demand.

China will mine gold in Las Cristinas mine. Before leaving for Cuba to undergo a third surgery for a cancer tumor, President Hugo Chávez announced that he had signed 21 new agreements with different companies and entities of the Chinese government to develop joint work in the financial, oil mining and infrastructure areas. The Chinese company Citic Construcciones is participating in most agreements.

In the mining sector, an agreement with Citic was announced for the development of the Las Cristinas Project, one of the largest gold reserves in the world, with an estimate of 17 million ounces.

Chávez signed decree creating the Ezequiel Zamora Fund. President Hugo Chávez signed at last Thursday ministerial council the decree-law creating the Ezequiel Zamora Fund, which is intended to guarantee that private banks' funds earmarked for the mandatory agricultural portfolio reach small and medium-sized farmers. Vice President/Agricultural Minister Elías Jaua explained the percentage of the agricultural portfolio, which has been fixed at VEB 39.0 billion for this year, will be transferred to the fund, upon the issuance of guarantees. These resources will be executed through public banks.

“Saber y Trabajo” Mission will train 1,350 instructors. “Gran Misión Saber y Trabajo” will train 1,350 instructors starting from next week. The training process will cover three instruction levels: university, middle technicians and knowledge certification. Vice president for the Economic Productive Area, Ricardo Menéndez,



informed that his training phase calls for the establishment of camps in factories and military barracks and will start in those states where the first registration process took place (Vargas, Miranda and Capital District).

Agricultural workshops haven't showed any results. The administration devoted special attention to the agricultural issue earlier this year, due to the little satisfactory performance of this sector in 2011. The situation would be analyzed at the workshops that were held in January.

At the meeting held with vice president Elías Jaua en January, Jaua admitted that the drop in agricultural sector was due, in part, to price backlog, and that the situation would be addressed; therefore he announced that new prices would be published before each crop period.

World Economy Tips

U.S. consumer confidence improved in end-February with regard to early-month estimates, accompanied with better expectations and evaluation of the current economic situation. According to Reuters, which prepared the report, the confidence index rose up to 75.3 on February 24, from early-February preliminary estimation of 72.5.

Variable measuring consumers' perception about their current situation grew up to 83.0 from this month initial estimates of 79.6, reflecting the better economic figures.

This had positive effects on stocks... Stocks grew on February 28, according to data from Reuters' Conference Board, which showed that consumer confidence reached a one-year high in February. Dow Jones industrial average gained 27.3 points. The Standard & Poor's Index gained 3.9 points and Nasdaq recovered 14.0 points.

Europe needs to make further progress. US Treasury Secretary Timothy Geithner said past weekend that Europe has made significant progress in reducing risks for global growth, but that there is more work to do. Europe needs to build a taller financial firewall to prevent the situation from spreading. *"It's important to give credit*



to European leaders for their achievements,” Geithner said at a lunch in the framework of the G20 meeting in Mexico.

Agreement for the eurozone is expected in March. Eurozone countries are likely to boost the combined capacity of their bailout funds during March, in time for a follow-on deal on more crisis-fighting funds for the International Monetary Fund in April, Europe’s top economic official, Olli Rehn, the European Union’s Economic and Monetary Affairs Commissioner, said on Saturday. Rehn added that eurozone countries were in “constructive” talks with Germany, which has opposed boosting the bailout funds.

German minister urges Greece to leave the eurozone. Germany’s conservative interior minister on Saturday came out strongly in favor of debt-stricken Greece leaving the eurozone, arguing that this would improve its chances of becoming competitive again, Hans-Peter Friedrich said in an interview with news magazine Der Spiegel.

WB doesn’t believe that Italy, Spain or Portugal need bailout. The head of the World Bank, Robert Zoellick, said this week that he did not believe Spain, Italy or Portugal needed bailouts to ease massive debt burdens but that reforms needed critical support of Germany and other European leading nations.

China will inject Money into the market if necessary. The Chinese Central Bank recently met with some Chinese banks and told them that it would inject money into the market if it is necessary to mitigate the scarce liquidity, Reuters reported on February 28. Representatives attending the meeting with primary operators on the bank’s open market highlighted the increased market uncertainties as compared to last year, adding that they require more attention.

Aladi and Eclac convene a meeting of Latin American economy ministers. The Latin American Integration Association (Aladi) and the Economic Commission for Latin America and the Caribbean (ECLAC) invited the region’s economy ministers to a debate on convergences and complementarities of current development models in Latin America. The event will be held in Montevideo, Uruguay on march 16 and will be attended by the responsible of the economic areas from Argentina, Uruguay, Bolivia, and Per, among others, as stated by the organization in a communiqué.

Peruvian sol is appreciated and closes in a record high after almost 15 years. The Peruvian currency slightly increased on February 27 and closed at a new record high after almost 15 years, underpinned by dollar offers from companies and despite a new intervention by the Central Bank in the exchange market. “The market has been stable with a slight increasing trend that made the Central Bank intervene.



Corporate dollar supply and some bank operations have push sol upward," a Peruvian exchange agent said.

Political Tips

Chávez is in Cuba with full presidential powers. Cilia Flores, Solicitor General, reiterated that President Hugo Chávez left the country with all powers invested to him as Head of State. Flores added that President Chávez can sign documents, authorize laws, decrees and undertake any other administrative action.

President's health has been surrounded by uncertainty. The election panorama for next October 7 presidential election has been surrounded by uncertainty regarding President Chávez' health. Luis Vicente León, Datanálisis director, explained at the Entorno 2012 forum, held by Signium International, that thanks to the matrix based on his recovery, Chávez' popularity significantly increased in November, December and January. *"He managed for the opposition to reach primary election with less popular support than in October."*

However, after his cancer treatment and once the image of a cured Chávez was consolidated, that support faded and President's popularity returned to its regular levels.

But the beginning of the campaign for reelection will be marked by President Chávez' absence due to his relapse. This creates uncertainties even among Chávez' closest friends. According to León, this situation significantly impacts the election panorama. Accordingly, three scenarios are being developed for the upcoming months of campaign. The first scenario is that of a healthy Chávez; the population should believe that he is healthy, even though he isn't, for him to be able to rule during the next six years.

The second scenario described by Datanálisis director is a campaign based on a "sick Chávez", which, in his opinion *"is the worst scenario for Chavismo, because the opposition candidate Henrique Capriles is young, energetic and has no barriers to the future,"* León pointed out. The third scenario is the total absence of President Chávez throughout the campaign, which could be capitalized by the opposition.



Chávez authorized funds for governors and mayors. At a ministerial council held last Thursday in Miraflores Palace in Caracas, President Chávez explained that Apure Governor's Office will receive VEB 23 million and municipalities will receive VEB 21 million.

Of these funds authorized by President Chávez, Barinas will get VEB 27 million for the Governor's office and VEB 16 million for local governments; Carabobo Governor's Office will have VEB 31.5 million and municipalities of the same state will receive VEB 25.9 million. Zulia Governor's Office will be allocated VEB 84.2 million and municipalities, VEB 63.0 million; Sucre Governor's Office will receive VEB25.0 million and municipalities will get VEB18.0 million; Falcón Governor will be allocated VEB 39.0million and municipalities will get VEB 27.0 million.

Chávez guarantees that Venezuela is "zero risk" for foreign investment. President Hugo Chávez stressed that Venezuela is a country with enough resources to provide foreign investment with security and guarantees, after signing new agreements with China and review production and oil reserve figures.

PSUV launches campaign command of Chavez in his absence. The United Socialist Party of Venezuela (PSUV) installed on 27 February, the campaign headquarters to coordinate the campaign activity towards the second reelection of President Hugo Chavez, who is in Havana for treatment of a tumor.

Carabobo Command is getting ready. The government's campaign command "Batalla de Carabobo" formally met with representative from states, municipalities, communal councils and communes for the first time on February 27. All organizations that support President Chávez were invited to participate in the campaign for October 7 presidential elections.

Capriles Randonski doesn't waste time confronting the Government. Governor of Miranda and MUD's presidential candidate sent a message to the national Government saying that he isn't going to fight. For Capriles, *"the confrontation should be against the country's problems."*

TSJ decision to fine Teresa Albanes will be contested. The MUD Electoral Commission for the Primary Election will contest the TSJ decision to fine the commission chairperson Teresa Albanes for having destroyed the voter lists used on February 12.





Legislative Tips

Ministers present reports to the National Assembly (AN). Ministers and Vice President Elías Jaua attended the AN plenary session last Tuesday, February 28, to present their respective 2011 reports. Jaua said that social and economic achievements made in 2011 were presented at the AN. These achievements were promoted by the Bolivarian Revolution *“to continue strengthening our homeland.”*

Special longevity bonus is being studied. The payment of a special longevity annual bonus equivalent to 30 days of wage is one of the proposals presented in a working paper being studied by the presidential commission entrusted with the development of the new labor organic law. The bonus, included in article 61 of the section dealing with longevity payments, will be paid *“at the end of the labor relation, taking into account the wage earned by the worker in the previous month to the date when the labor relation ended.”*

According to the proposal, the labor relation *“shall not be considered ended until the employer pays this bonus, the payment of which shall be made in the presence of the labor authority.”* The days will be accumulated in favor of the worker upon the entering into force of the law, that is, as from May 1, 2012, when the law will be enacted by President Hugo Chávez.

However, if the law abides by the Bolivarian Constitution which provides for that severance payment should be calculated retroactively based on the last wage and that rights will prescribe after 10 years, the final decision is to be made by President Chávez.

More severe fines and penalties. Orlando Castillo, member of the presidential commission that is preparing the new Labor Organic Law informed that the draft law provides for more severe fines and penalties. Castillo said that employers don't obey the decisions because the amount of the fines established by the current law is too low. *“We are planning increasing fines by 25%, 50% and even 100%, including the shutting down of the company, in the case of private companies, if employers don't abide by the law.”*

Concerning the public sector, Castillo pointed out that public servants that arbitrarily fire workers and denies complying with the administrative decision will be



dismissed and will have to pay a fine with his or her own moneys, because “*the State cannot sue the State.*”

AN Control Commission slaps some wrists. The chairman of the Control Commission of the National Assembly (AN), Pedro Carreño, scolded his colleagues and demanded enhanced commitment. “*Sub-commissions met only one in January; the full commission should meet every week,*” Carreño complained. The commission still has 730 corruption reports pending; it has only met three times this year and their goal is to wrap up 60% of the cases before August. According to Carreño, “*the Commission should present at least one report to the full Assembly per month to demonstrate they have political accountability.*”

The AN Control Commission is also targeting a few opposition leaders such as the former governor of Zulia State, Manuel Rosales, and governor of Lara State, Henri Falcón; the metropolitan mayor Antonio Ledezma and the founder of Voluntad Popular party, Leopoldo López. The list also includes a member of the PSUV party, Gian Carlo Di Martino, who is under investigation for alleged administrative irregularities during his time as Maracaibo mayor.

Consultations on disarmament continue. The Presidential Commission for Arm and, Ammunition Control and Disarmament began the second stage of the consultation process on Monday, February 27, Consultations are intended to learn of opinions and proposals concerning disarmament and arm and ammunition control. This process, structured through “consultation workshops”, started on September 26, 2011 and consultations will take place in the 11 remaining states, including Portuguesa, Cojedes, Guárico, Trujillo, Nueva Esparta and Barinas. Consultations in Monagas, Delta Amacuro, Falcón, Vargas and Sucre will take place from March 19-April 1.

AN to investigate embezzlement in Táchira Governor’s Office. In its February 23 meeting, the AN unanimously decided to investigate a VEB 4.5 million embezzlement committed by officials of the Táchira Governor’s Office. Ricardo Sanguino, chairman of the Finance Commission, proposed the opening of the investigation to the Control Commission.

Sanguino recalled that on February 9, Zoraida Parra, a member of the legislative Council of Táchira State, reported the existence of parallel payrolls that benefited people that don’t work at the Governor’s Office. “*Deposits for VEB 300,000 and VEB 400,000 were made in personal accounts,*” Sanguino pointed out. The money embezzled was earmarked to pay labor obligations. Sanguino stated that officials responsible for that irregular act “*were appointed by Governor César Pérez Vivas and are member of Pérez Vivas’ party.*”



ECONOMIC OVERVIEW

