



Weekly Report

Year 8, Number 10
Week II, March 2012

*The government and International Reserves:
Do you remember the measly billion?...*

By:
Asdrúbal Oliveros
José Luis Saboin
Pilar Navarro
Pedro Ocariz
Ecoanalítica's Team*

*María Gabriela Benítez, Adriana Morillo and Anabella Ron

Reproduction or distribution prohibited

In a context of high oil prices, and restrictions in the foreign currency market, the systematic drop in international reserves has made their administration a controversial issue that has affected our economic performance and the wellbeing of citizens, more specifically in the last few weeks, when liquid reserves reached their lowest level since 1997.

In this weekly article, we will analyze the way international reserves have been managed the last 8 years, stressing two elements that have become important throughout the last few years: the drop in operational reserves, the revaluation of gold, and their effect in our economy.

The story of the measly billion...

As we know, since 2004, the present government started to talk about the concept of optimum reserves. In January 2003, and in January 2004, in a context of oil price increases, and a recently implemented foreign currency administration regime, international reserves increased 74.8% reaching US\$24.29 billion, which unleashed the debate about the cost of



opportunity of maintaining an “excessive” amount of reserves, given the potential income that investing these resources in the economy could generate, while on the other hand, it was stated that the cost of maintaining a high level of reserves is very low, given the capacity to respond to any adverse foreign shock. The main points of this argument were: how to define an *optimum* level of reserves, and what to do with the excess reserves.

The transfers started

As we all know, this debate concluded with the modification of the Law of the Central Bank of Venezuela (BCV), which established an optimum reserve level at US \$28.0 billion, and the creation of the National Development Fund (FONDEN) in July, 2005. Since then, the latter has fed from the foreign currency transferred by the BCV as well as from Petróleos de Venezuela (PDVSA).

PDVSA's ordeal begins

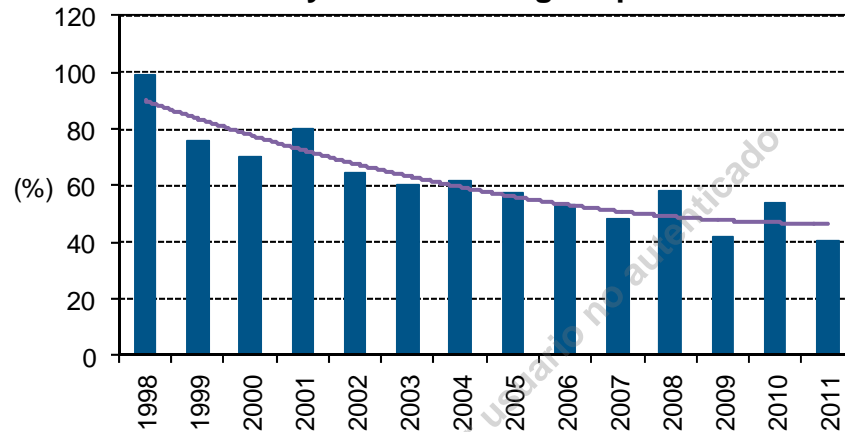
In the beginning, FONDEN received monthly transfers from PDVSA, which the latter didn't keep for *“its operational payments abroad and its investments”*, and didn't sell to the BCV to *“meet its operational and functioning expenses in the country, and its fiscal contributions mandated by the law”*. However, after the creation of the special contributions law due to high oil prices, the burden on the state-owned oil company has been increasing, with its resulting effect on our reserves.

This constant increase in foreign currency transfers can be seen in the reduction of the proportion of currencies given by PDVSA to the BCV from oil exports; between 1998-2004, PDVSA gave the BCV a quarterly average of 74.0% of its foreign currency from exports. Now, between 2004 - 2011 the average is 52.3%, and during 2011 it was only 41.2%. This proves the change in the laws and in paradigm.





Proportion of foreign currency at BCV delivered by PDVSA through exports

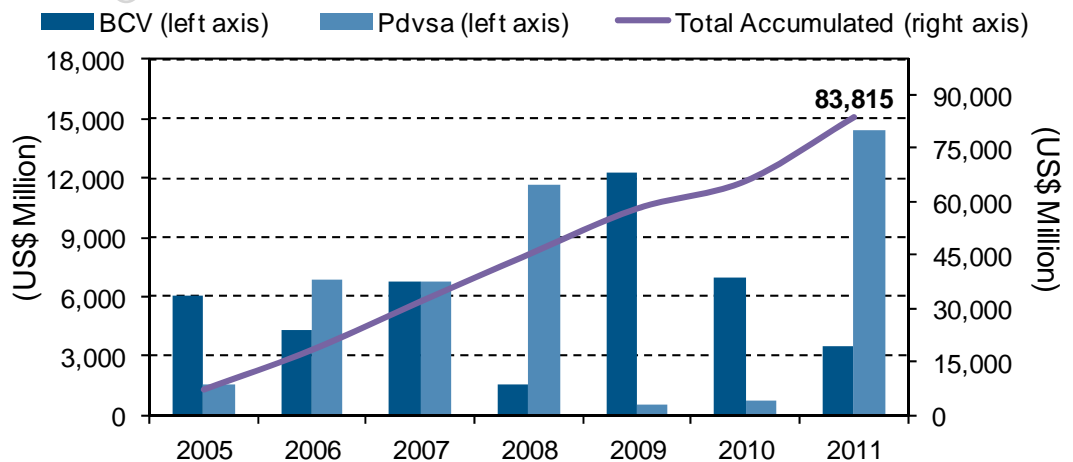


Sources: BCV and Ecoanalítica

**Already
US\$83.81
billion...**

In sum, in the last 7 years, a total of US\$83.81 billion has been transferred to FONDEN, of which US\$43.38 billion correspond to the BCV (US\$2.0 billion are for 2012) and US\$42.43 billion to the state-owned oil company. For 2012, the finance office estimated that the initial contribution of the official entities to FONDEN will be US\$7.90 billion.

Transfers to Fonden



Sources: BCV and Ecoanalítica





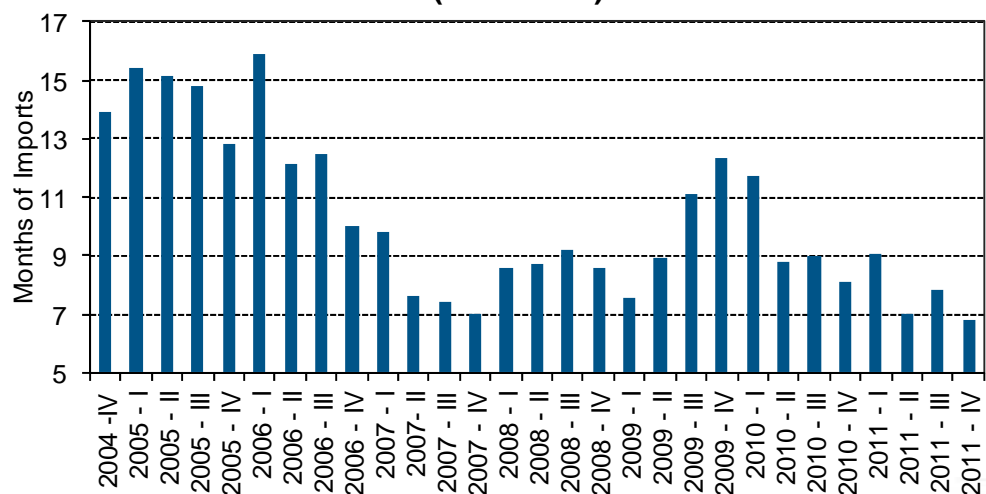
Thus, and thanks to the legal changes we mentioned in other reports throughout the years, a structure was created to manage foreign currency, which operates as a wicked circle, where not only the BCV receives less foreign currency from oil exports, but whenever the reserves go beyond a level established as “*optimum*” everything that is above said level is considered excess reserves and must be transferred to FONDEN, allowing the Administration to take hold of a significant amount of foreign currency, which in the previous legal framework, would have been part of the international reserves.

Is it really optimum?

The modern economic literature refers to an “*optimum*” level of reserves from the perspective of maintaining a precautionary fund to reduce vulnerability abroad, in a relationship between the exchange regime and capital movements. Two of the more widespread discretionary rules are the reserve/import ratios (a coverage indicator), and the reserves/foreign debt service ratio.

For a port economy like the Venezuelan, the coverage indicator is important. It has gone from 16.3 months of imports in 2004 to 7.7 in 2011. As can be seen, the deterioration is obvious. Although there is no agreement in the literature or among economists about what is the optimum level of this index, **Ecoanalítica** believes it should be between 18 and 24 months of imports. Today, we are far from that.

**Coverage indicator
(2004-2011)**

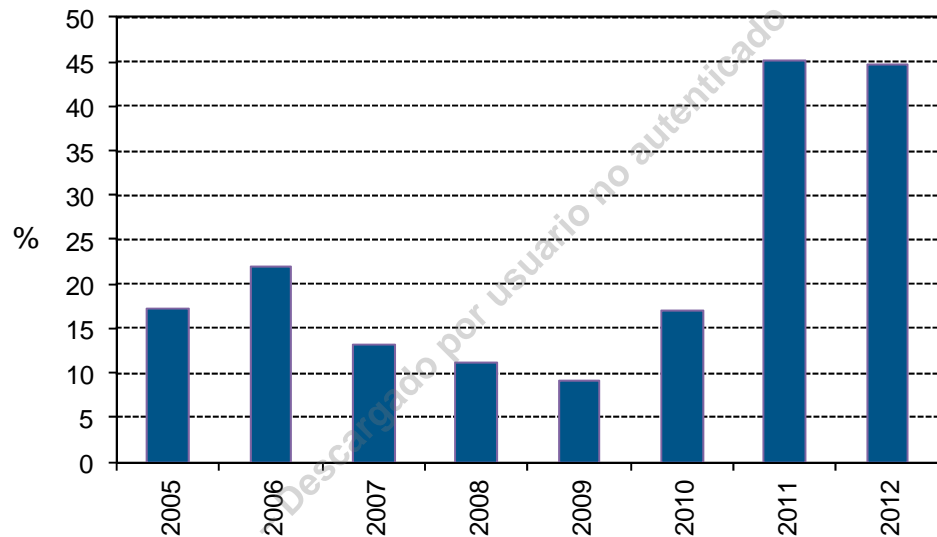


Sources: BCV and Ecoanalítica



Another relevant indicator is that of reserves vs. amortization of the central government's foreign public debt. The next graph shows this evolution, and the obvious deterioration, which it would become worse if the concept is expanded to include PDVSA.

Foreign debt payments / Reserves



Sources: BCV, MPF and Ecoanalítica.

These two are not solid criteria, given how complex it is to establish a proper level of foreign reserve assets for an economy like the Venezuelan, where external vulnerability is high, since it is an economy that depends on a single natural resource, with high levels of capital flight. However, no matter if they are not ideal, they reveal the obvious deterioration of our reserve levels, and our frailty before any shocks from abroad.

In essence, the optimum level of international reserves is established to allow the Administration to pay mainly for imports and public debt servicing, and the remainder goes into a parallel spending structure that is managed by the Administration at its own discretion. However, in a framework of high foreign indebtedness, and the reinforcement of the import model, it is interesting to see that the Administration decided to reduce the optimum reserve level to US\$26.80 billion, so in our opinion, establishing the optimum level of reserves is not the result of a rigorous study, but rather the requirement of resources of the State's parallel budgets, much more in an election year.





Gold, the savior

Now then, the present government has not only been fortunate because of the high oil prices, which has allowed to maintain high oil incomes despite the fall in production, but also, because since 2004 the revalorization of gold has meant that, although the burden on PDVSA has increased significantly, and thus less foreign currency has systematically entered the BCV, the latter has been able to continue transferring resources to FONDEN, causing a constant drop of liquid reserves, and an increase in the proportion of gold in our total reserves.

More gold than anything else

According to The World Gold Council (TWGC), last month, monetary gold had a 75.0% share in Venezuela's International Reserves (IR); this represents the fourth largest share of gold in IRs in the world. It is also important to note that according to the TWGC, Venezuela is presently in place number 15 in the list of countries with the largest amount of gold in its IR, since it has 372.9 tons in its inventories.

Countries with Higher Participation of Gold in their International Reserves

	Participation (%)	Stocks (t)
Portugal	91.5	382.5
Greece	83.1	111.6
United States	76.7	8,133.5
Venezuela	75.0	372.9
Germany	73.9	3,396.3
France	73.0	2,435.4
Slovakia	67.7	31.8
Netherlands	62.7	612.5
Cyprus	59.3	13.9
Austria	58.6	280.0

Sources: TWGC and Ecoanalítica

It weighs the same, but it is worth much more

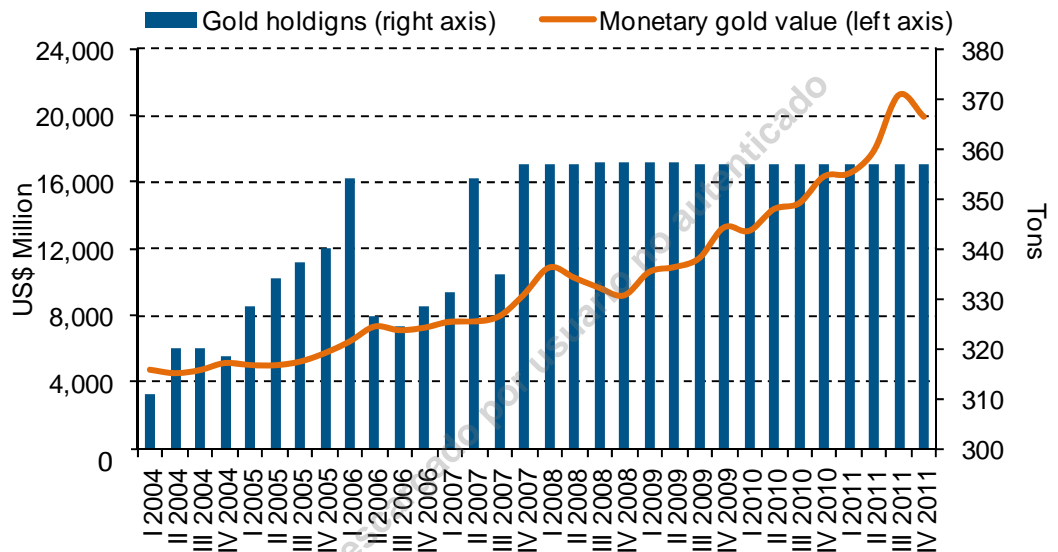
This significant share increase is the result of the significant increase in the price of gold in international markets, particularly since 2004 when it started to rise. At the end of 2011, the price of gold increased 251.5% with respect to the end of 2004. In this sense, **Ecoanalítica** considers that it is a risk if this increase in participation doesn't correspond to an increase in our gold inventories, since they have increased only 4.4%¹, while the value

¹ The last addition to the stock of gold was in August 2011 for 7.2 tons; before that, in October 2010, 1.9 tons were added.



of the reserves in monetary gold increased 289.7% at the end of 2011 with respect to the end of 2004.

Gold Holdings



Sources: BCV, TWGC and Ecoanalítica

This appreciation of the value of gold since 2004, together with the minute increase in the gold stock in tons, gave Venezuela's IRs US\$14.61 billion in 2011; that is, if we subtract from the closing amount of our reserves in 2011, the effect of the increase in the price of gold, they would have only reached US\$15.27 billion. Moreover, in 2011 the appreciation of gold only increased our IRs by US\$3.27 billion.

And if the balloon pops?

Undoubtedly, the high price of gold has been a key element to maintain the level of our IRs, and if they fell, it would be very detrimental for the Venezuelan economy.

At **Ecoanalítica** we believe that despite the good expectations regarding the international gold market, the present price levels are not guaranteed, and we are not exempt from their fall; moreover, we have seen how for some months, the price has dropped from last year's records, lowering the value of our total reserves.

Although gold is a synonym of safety in the capital market, its share in our IRs makes us highly dependent on its prices. This, in our opinion is

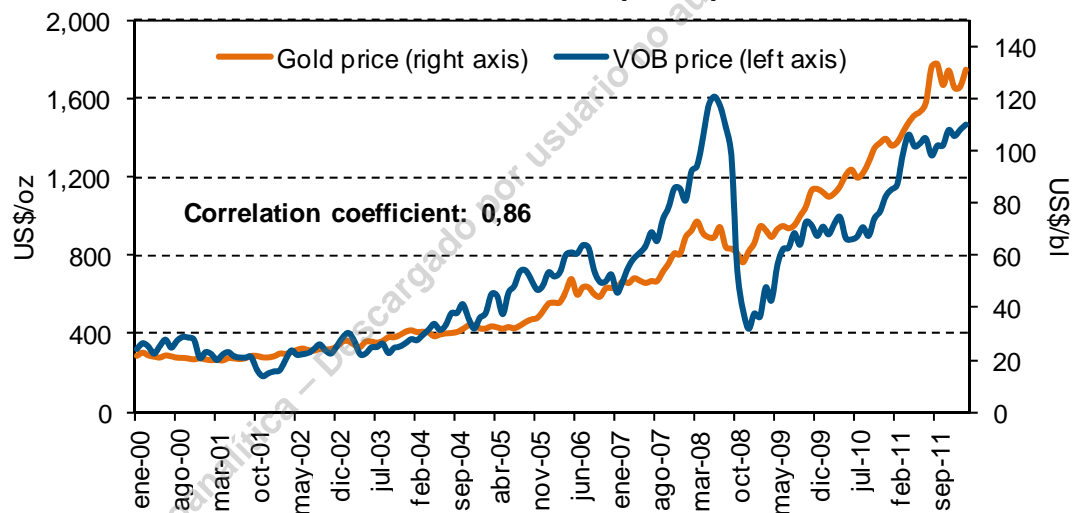


another risky bet by the government, since we already are dependent enough on oil prices to add another risk factor to our economy.

Now we not only depend on oil

Together with this, oil prices are highly correlated with gold prices; one reason for this is that a rise in oil prices is detrimental for the world economy, which motivates investors to safeguard their capital in gold, which affects the price increase of this mineral.

Gold Price Vs. Venezuelan Oil Basket (VOB) Price



Sources: TWGC, Menpet and Ecoanalítica

Now we not only depend on oil

Although it is unlikely that in the mid term it will happen, a drop in oil prices could also translate into a drop (although softer) in the price of gold. This is due to the high correlation that exists between these two indicators (0.86 points since January 2000). With this perspective, a drop of both our foreign currency income and our RIs, it would be negative for the Venezuelan economy.

At the same time, we could say that given the pro-cyclic characteristics of our economy, in an outlook as the one we described, Venezuelan bonds would follow the same trend, with a drop in price, consolidating what would be a possible collapse of the Venezuelan economic system as we know it.

It is too much

At **Ecoanalítica** we consider that the present participation of monetary gold in our IRs is too high. It must be clear that we don't support a reduction in gold inventories, quite the contrary, we welcome it. What is

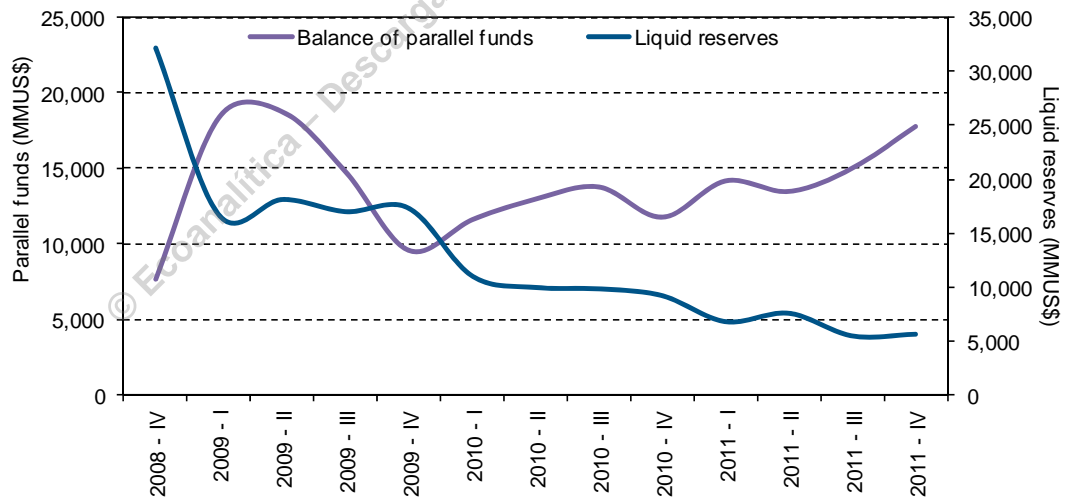


important is that the increase in the price of gold isn't used as an excuse to significantly reduce the liquid reserves. In our situation, establishing a "proper level of reserves" has meant an IR composition that is not healthy for the country.

A step backwards: BCV will receive more foreign currency from PDVSA

For *Ecoanalítica*, it is obvious that the change in the composition of reserves is due to the appetite for liquid resources, with no control by the Administration, where the high exposure to gold leads to an inflated level of total reserves, but with an insufficient level of liquidity. Just an example: in these years, the increase in the price of gold led to an increase in transfers to parallel funds, and negatively affected the level of liquid reserves, which went from US\$32.19 billion in 2008 to US\$5.58 billion at the end of 2011, a reduction of 82.6%, while transfers to parallel funds have increased 131.2% going from US\$7.70 billion in 2008 to US\$17.80 billion at the end of 2011.

Liquid reserves Vs. Parallel funds



Sources: BCV and Ecoanalítica

Given the stir caused by the drop in operational reserves to their lowest level since 1997, and in an electoral year, where the lack of foreign currency affects key public opinion variables like inflation and scarcity, the Administration modified the Law of Special Contributions due to Extraordinary and Exorbitant Prices in the Hydrocarbon Market, so that the BCV receives more foreign currency, and thus generate a feeling of wellbeing and effectiveness of its policies.





Let us remember that with the reform of April 18, 2011 the payment of said contributions was done fully in foreign currency and went directly to FONDEN; now, with the modification of February 27, 2012, the text says that FONDEN, which now receives contributions both in foreign currency and bolivars, will sell to the BCV the currency at the exchange rate in force, and from that amount, the BCV may transfer to FONDEN 50% every time the sale is done, unless the level of liquid international reserves allows for a larger transfer.

With this change, the BCV becomes a sort of filter between PDVSA and FONDEN, limiting the amount of currency that the latter receives (because now it will also receive bolivars) and opens the possibility for the operational reserves in the hands of the BCV to increase (since the BCV keeps 50% of the currency). Thus, and considering the estimated total amount to be paid this year by PDVSA for this item, at **Ecoanalítica** we estimate that the BCV will receive around US\$6.78 billion. This amount will increase its liquid reserves, so that it can be allotted both to the public and private sectors, to make imports, and pay other commitments in foreign currency.

Managing reserves as a grocery store

Presently, there is an additional key factor added to our constant foreign vulnerability associated to the volatility of oil prices: the price of gold. A sudden decrease in its value may cause the sudden reduction of our reserves. However, at **Ecoanalítica** we expect that the recent reform made to the taxes on sudden gains, will allow the diversification of our reserves, and reduce this weakness.

At **Ecoanalítica**, we believe that the present level of our reserves is not a concern in the short term, since, as we said in our previous weekly report, the oil geopolitics seem to benefit us and high prices are expected, so we don't foresee any foreign shock that will reduce the income in foreign currency this year. What is concerning, and there are no signs of change, is the discretionary management of our reserves, and the lack of transparency in their use.





Economic Tips

According to CENDA, food basket costs VEB 3,459. According to CENDA (the Workers' Documentation and Analysis Center), the food basket (CAT) in February cost VEB 3,459.4, for a month-to-month increase of VEB 21.6 (0.6% more than in January). As a result, CAT registered a year-to-year variation of 32.2% (VEB 842.7).

Food increased 3.9%. The increase in the price of foodstuffs (3.9%) was the most significant in February. Other items that recorded significant increases were fish (3.7%), fats and oils (1.7%) and milk, cheese and eggs (1.4%); three other registered slight declines: vegetables (-1.3%), seed, oleaginous seeds and beans (-0.8%) and fruits and vegetables (-0.4%), while two items retained their last month's prices: cereals and cereal products and sugar and the like.

Family income only covers 44.8% of the basket. The minimum wage, VEB 1,548.2 has a purchasing power of 44.8%, thus leading to a deficit of VEB 1,911.2 (55.2%) to purchase foods; therefore, a family requires a little more than two minimum wages to be able to cover their basic food expenses.

2011 Census: 27% of the houses were built as of 2001. According to the preliminary results of the 2011 Census released by the National Statistics Institute (INE), the number of houses in the country doubled since 1990 and currently there are a total of 8,230,140 houses. Of these, 27.0% have been built as of 2001. According to the figures, in 2000, there were 6,242,621 houses in the country, while in 1990 this number was at 4,110,019 housing units, which means that almost half of the 8,230,140 houses that exist were counted in the 2011 census. Currently, the figures show that the average number of people living in a house has dropped from 5.3 in 1981 to 3.9 in 2011.

2011 Census: More than 40% of houses have air-conditioners. According to the preliminary results of the 2011 Census showed that in general, the presence of electrical appliances increased in households around the nation, the increase in houses with air-conditioners was exceptional during this past decade. From 15.9% homes having air-conditioners in 2001 it has jumped to 40.5% of homes, according to figures released by the INE. Water heaters, on the other hand, are not so used as before going from being in 15% of homes in 2001 to 8.5% of homes today. This is the electrical appliance least used in the homes surveyed.





2011 Census: The population of Venezuela will be at 28,800,000. The total population residing in Venezuela will be at around 28,800,000 people. This figure includes the people surveyed (27,150,095) plus all omissions which was at around 6% according to the 2011 Census.

Resources placed abroad increase. Although Hugo Chávez' Administration has increased Venezuela's debt at an alarming rate and at very high interest rates, at the same time the Administration has also placed an increased number of assets abroad, as can be seen in the Central Bank of Venezuela (BCV) Balance of Payments figures for the close of 2011. Thanks to "the increase in deposits by government entities, of the investment funds administered by BANDES, of the Central Bank (excluding reserves) and public companies," public foreign assets increased by 85.0%, going from US\$19.88 billion to US\$36.84 billion when comparing the fourth quarter 2011 with the same period in 2010.

Out-of-budget funds without limits. Government out-of-budget funds have been increasing, according to our estimates, at the close of January totaled US\$52.0 billion between foreign currency and local currency calculated at the official exchange rate. This represents an increase of 52.8% compared to January 2011. The total of resources in foreign currency is at US\$17.60 billion divided in FONDEN which has US\$6.90 billion, and PDVSA with US\$2.10 billion, and other funds which have US\$8.60 billion. Resources in local currency (bolivars) calculated into US-dollars at the official exchange rate are at US\$35.10 billion. Most of these resources are deposited in the finance system (US\$19.30 billion), with the National Treasury reflecting deposits for US\$12.10 billion, and the Miranda Fund that mainly feeds SENIAT transfers holding US\$ 2.0 billion.

The TCR could double. The combination of a frozen exchange rate with an inflation rate much higher than that of the United States and the rest of Latin American countries creates a situation which overvalues the local currency. This creates an imbalance where imported goods are cheaper than those made locally. This leads to an increase in purchases abroad. At the close of January, the real exchange rate (TCR) was at VEB 7.8/US\$. At *Ecoanalítica*, we calculate that by December of this year, thanks to the inflation of the coming months, the real exchange rate, taking into account our 5 main trading partners, will increase to VEB 9.4/US\$. This is more than double the official exchange rate which is at VEB4.3/US\$.

Interest rates. The lending rate for the fourth week in February was at 14.3%, decreasing by 2.3 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 3.1% going from US\$28,598 million during the first week of March to US\$27,793 million during the second week. Compared to the same period last year, international reserves have increased by 2.0%.

Monetary liquidity. Monetary liquidity in the first week in March increased 2.0% compared to the previous week settling at VEB 455,512 million. The M2 has increased 50.9% year-on-year.

Sitme figures. So far this year, US\$1,943 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\$571 million (41.6%) over the same period of 2011, when negotiated US\$1,372 million. Lastly, during the first week of March the amount traded reached US\$186.8 million traded US\$27.8 million less than last week when US\$214.6 million were traded.

Oil Tips

International Energy Forum begins. The main consumers and producers of energy in the world are getting together this week in Kuwait for the 13th International Energy Summit. Most of the talk will be focused on the current upward trend oil prices are reflecting and a number of geopolitical events around the world. Ministers and representatives of the 88 countries attending the forum that jointly represent 90% of the world supply and demand for natural gas and oil, will be attending the Summit.

The main issue on the agenda will be the volatility of crude oil prices that were over US\$100/bl for almost all last year and reached record highs, not seen for over 2 and a half years in London, posting more than US\$128/bl due to the tense situation in the Middle East.

Summit being held under exceptional circumstances. “The threats regarding the Strait of Hormuz, the Euro Zone crisis, price gouging and increasing oil prices complicate the situation,” acknowledged the Kuwaiti oil Minister, Hani Husein.

Oil pipeline between Venezuela and Colombia. The increasing number of projects and energy agreements between Venezuela and China, have once again put the project of an oil pipeline between Colombia and Venezuela back on the table. This so



that crude oil from Venezuela may reach the Pacific Ocean and be shipped directly to China and other Asian markets. The construction of the oil pipeline, Orinoco Oil Belt-Tumaco, being negotiated by the Venezuelan and Colombian authorities has an estimated cost of US\$6.73 billion, according to the proposal drafted by PDVSA.

This oil pipeline is not a new idea. The Orinoco Belt-Tumaco oil pipeline is part of a bilateral plan drawn up in 2006, though with substantial changes having been made on the route of the pipeline from the Orinoco Oil belt. The plan calls for the pipeline, from the Venezuelan side, to be 767 km long with a pipe diameter of 46 inches, starting from the Junín Block of the Orinoco Oil Belt, crossing the towns of Rabanito, Requena, Cabruta, San Fernando, Mantecal, Totumito, Guasdualito, El Amparo and Guafita.

On the Colombian side, a number of proposals are being considered for the route, with the one proposed by the Colombian Company Ecopetrol standing out. It would be 1,365 km long, going from the connection at Caño Limón and crossing the towns of Banadía, Arguaney, Porvenir, Apiay, San Fernando, Orito and Tumaco, on the Colombian Pacific coast.

The pipeline. The pipeline would transport around 880 kb/d of heavy crude oil upgraded to 16 degrees API starting in the second quarter 2016. This is when the Chinese crude oil upgraders are expected to be operational from the mixed companies Petroúrica and Petromacareo, a joint venture between PDVSA and China National Petroleum Corporation (CNPC) and Petrovietnam, in the Junín Block of the Orinoco Oil Belt. Besides the upgraders being operational, the infrastructure connecting Junín block and Carabobo block must also be operational.

PDVSA negotiating to buy part of refinery in Vietnam. PDVSA's interest in having oil refining capability in Asia could become a reality in the short term if it completes the purchase of 49% of the shares of the Dung Quat refinery in Vietnam. The sale of these shares are being offered PDVSA and two other oil companies from Japan and South Korea, reported Reuters.

PDVSA had already announced in August 2011 that part of its 2011 – 2019 Refining Plan included the participation of the Dung Quat refinery in Vietnam, with a purchase of 24.0% of the shares equaling an estimated investment of US\$1.68 billion. The Dung Quat refinery is the only one operating in Vietnam and cover approximately 33.0% of the local demand of oil by-products.

PDVSA bonds on the Hong Kong stock exchange? Two weeks ago, PDVSA and the Chinese company Citic Group, signed an agreement to evaluate the participation of the state-run oil company on the Hong Kong stock exchange. On Wednesday,



March 7, president of PDVSA and Minister of Oil, Rafael Ramírez, stated to Reuters that *“PDVSA hasn’t ever done anything on the Hong Kong exchange and the idea is to negotiate through Citic operations of any kind, but mainly in bonds, on that exchange.”*

Ramírez pointed out last week that... *“we are trading a lot with our bonds and we are looking at the Hong Kong Exchange, where hundreds of millions of US-dollars in transactions are carried out, and it’s a natural place for us to try to do business.”* The Minister did not mention anything about amounts or when this would happen, though he did rule out any bond issuances in the short term, since delaying the devaluation of the bolivar and increasing debts to be paid to suppliers are squeezing the company’s finances.

Chevron to finance Petroboscán. The mixed company Petroboscán, integrated by 60% PDVSA and 40% Chevron, will receive a private loan for US\$2.0 billion from Chevron headquarters in the United States, announced Reuters, quoting sources close to the operation. *“The loan conditions have already been negotiated”* with PDVSA, said the source. Petroboscán has a capacity to produce 115 kb/d of Boscán heavy crude oil from the western region of the country.

Regulate sale of fuel in states along the border. The *Gaceta Oficial* N° 39.875 dated March 2, 2012 announced the regulations for the *“installation, functioning, operation, and regulation”* of the technological system of the sale of fuel in states along the border, dictated by the Ministry of Petroleum and Mining. Users must register in the Fuel Supply Control System (Sisccombf), in order to be issued an electronic identifier that one must have in order to purchase fuel within the parameters of the government regulation. PDVSA has 180 days to install the system in all gasoline stations in the designated area.

Questioning amount of crude oil spilled on Anzoátegui state coast. The executive secretary of the Unified Federation of Oil Workers of Venezuela (Futpv), José Bodas, stated that he questioned the official information reported regarding the amount of crude oil spilled from the single buoy mooring at the Jose Terminal in Anzoátegui state. The incident with the Harabi oil tanker caused a spill which lasted more than an hour with a loading line that pumped around 3,000 barrels an hour. So it’s questionable that only 100 barrels of oil were spilt as was stated by government officials from the Public Ministry.

PDVSA prepares third shipment of diesel for Syria. Venezuela is preparing a new shipment of diesel for Syria, part of a supply contract that the Chávez Administration plans to continue to carry out despite the political turmoil currently engulfing said nation. Though it is not known whether the shipments are being negotiated between



PDVSA and the state-run Syrian oil company Sytrol, which has been sanctioned by the United States and the European Union, shipping operators insist that the tanker used for these deliveries could be forbidden to dock in other ports.

Discussions regarding the collective bargaining agreement for oil workers began last week. The president of the labor union Futpv, Wills Rangel, notified that on March 9, the commission handling negotiations for the collective bargaining agreement 2011-2013 approached the Ministry of Labor. It's expected that negotiations should begin in earnest this week.

International oil baskets. At closing time on March 9th in the New York Stock Exchange, the price of the WTI was US\$106.2/bl, a 1.8% decrease compared to the US\$108.2/bl reported the previous week. The Brent decreased by 0.2% to reach US\$123.8/bl, compared to the previous week's US\$124.0/bl.

Local oil basket price. The Venezuelan oil basket price decreased last week, closing at US\$115.8/bl on Friday March 9th, a 1.1% decrease compared to the US\$117.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$110.7/bl

Business Sector Tips

Car sales recovered in February. New car sales in Venezuela increased by 20% in February 2012 compared to the same month last year, according to a report from the Automobile Chamber (Cavenez). 11,637 automobiles were sold in February, up from the 9,698 that were sold in the same month in 2011. According to the report, sales increased by 82.9% in February compared to the previous month when 6,364 cars were sold.

An arbitrary decision led to 19 items being regulated. The National Superintendent of Costs and Prices, Karlin Granadillo, stated that the decision made by the Administration to regulate the price of the 19 items in question was not arbitrary. It was due to the fact that these items consistently increased in price. Furthermore, the decision was made after having surveyed 16,000 different companies as well as comprehensive auditing of the manufacturers and importers in order to get a detailed view of their cost structure.



Sundecop guarantees the supply of regulated products. Granadillo continued to say that talks were being held between companies that manufacture the products and that prices were cut by between 4% and 25%, and guaranteed that there would be no shortages. "The work that was done was to guarantee that this wouldn't happen."

Consecomercio entered an appeal to nullify the Fair Costs Law. The National Council for Commerce and Services (Consecomercio) presented before the Supreme Tribunal of Justice (TSJ) an appeal to nullify against the Fair Costs and Prices Law. "*The Law violates the economic rights established in the Constitution and the rights of consumers,*" stated Carlos Fernández, president of Consecomercio.

Decision going to the U.S. in most of the controversies resolved by ICSID. More than half of the controversies resolved by the International Centre for Settlement of Investment Disputes (ICSID) have favored the United States. Rafael Llano, lawyer for the international law offices of White & Case, pointed out that 54% of the 234 ICSID cases have been decided in favor of the United States.

...In fact, a statement released by the Department of Foreign Affairs of Venezuela says that regarding ICSID decisions, "232 of them, out of the 234 cases in its long history, have all been in favor of transnational interests."

Public sector imports and export to be streamlined. *Gaceta Oficial N° 39.880*, dated March 12 published a joint resolution issued by thirteen Ministries which orders the simplification of the administrative paperwork required for exports and imports of goods carried out by entities of the National Public Administration within the framework of International Agreements having to do with trade, production, and cooperation.

Chávez approved resources for the housing, agro, and sugar sectors. The President of Venezuela, Hugo Chávez, last Sunday approved resources for around VEB 17.75 billion; plus US\$2.44 billion earmarked for building new houses (around 163,574 housing units); to accelerate 10 agro-industry projects; 8 sugar mills; and the number 5 subway line for the Caracas subway. The announcement was made during a meeting being held with the Minister's from Cuba.

The Great Housing Mission Venezuela must continue by leaps and bounds. The Minister of Petroleum and Mining, Rafael Ramírez, stated that within the framework of the Great Housing Mission Venezuela, so far this year, 23,176 housing units have been built. Ramírez also said on VTV that for this period the goal is to build 200,000 housing units. Last weekend, the President mentioned that 180,000 houses were already in the process of being built.



Guayana industries investment plans gathering dust. The deficit of resources has delayed by at least 2 years the carrying out of important projects aimed at recovering industrial production. During the last three year the situation has deteriorated and production has steadily dropped.

Dairy sector continued to be affected by price distortions. Lagging milk prices at the producer level for the last nine years of price controls has increasingly hurt the dairy sector. Industries that process pasteurized milk and industrial cheese factories don't have access to raw materials because they are not allowed to pay over the regulated price. This has redirected the supply of fresh milk to smaller local cheese makers, whose products are not regulated.

Private consumption increases, but not as vigorous as before. Luis Vicente León, director of Datanálisis, explains that *"in the studies that we have carried out we have detected that consumer confidence has been affected by the recent cuts in personal income. We expected since this was an election year with increased government spending and high oil prices that there would be more optimism, but focus groups still show that there is a certain amount of pessimism prevailing."*

...And the figures confirm this. According to what was pointed out by Luis Vicente León, the consumer confidence index is another indicator that reflects that families have yet to forget the recession of 2009 and 2010: "Between September and November of last year, the index didn't move and remained at 47.5%. The increase in liquidity is not stimulating consumer to more positive expectation." It's important to point out that when the indicator is below 50% it is considered a negative result.

...Add to the uncertain future the fact that the past years inflation has eroded the purchasing power of salaries, despite recent raises in salaries. At the close of 2011, on average, a salary bought 11% fewer goods than in 2007. "In the consumption of articles of personal hygiene and cleaning, there has been no increase in consumption during the first two months of this year," stated the director of Datanálisis.

Efficiency where the focus will be this year. Last year, maximum power demand from the National Electric Power System (SEN) was 17,100 Megawatts (MW), and for 2012, the Minister of Electric Power, Héctor Navarro, estimates that the peak will be around 17,500 MW. This is an increase in demand of 2.3% compared to 2011. According to Navarro, the Plan for Rational and Efficient Use of Energy Plan has lowered the energy consumption around the country. The Ministry hopes that efficient energy use will be the key to control demand.



...**Furthermore**, Minister Navarro pointed out that energy consumption during the first two months of the year has not topped 16,000 MW, during peak hours on weekdays. This has allowed the SEN to have between 1,200 MW and 1,500 MW of power on reserve. The available electric power generated by the SEN is at around 17,500 MW, of the 25,000 MW installed in the system.

World Economy Tips

U.S. retail sales up in February. U.S. retail sales in February were up, reaching their highest point in 5 months due to consumers turning out to buy cars and a wide range of goods, even despite higher gasoline prices at the pumps, according to information released on March 13. Total retail sales were up by 1.1%, following a reviewed increase of 0.6% in January, stated the Department of Commerce.

Wall Street trading stable after release of China figures. The U.S. stock exchange traded stable last Monday, March 12 in the wake of Chinese economic figures and the Federal Reserve meeting which gave investors a chance to pause after three days of gains. The Chinese trade balance dropped posting a deficit of US\$31.50 billion in February, the worst in over a decade; creating doubts over whether the drop is due to a weakness in foreign demand or a seasonal distortion.

Euro Zone approves help for Greece. The Minister of Finance for the Euro Zone gave their final approval to a second bailout plan for Greece on Monday, March 12. Greece, the source the Union's debt crisis, put its bonds in private hands for new paper with a longer maturity date and half of its nominal value. This measure lowers the debt by more than €100.0 billion. Euro Zone Ministers gave their approval to the €130.0 billion package that should finance Athens up until 2014.

Spain aims to hold the deficit to 5.3% in 2012. The Minister of Economy, Luis de Guindos, said this week that Spain has accepted the objective of holding the deficit to 5.3% of GDP in 2012 demanded by Brussels, which is more demanding than what was proposed by the new Administration, but less strict than what was initially proposed by Spain. "We reiterate Spain's commitment to meet the goal of 3% in 2013. Spain is completely committed to this adjustment," said the Minister in Brussels.



Colombia: Direct Foreign investment up in February. Direct Foreign Investment increase by 24.8% during the first two months of the year compared to the same period last year in Colombia reaching US\$2.74 billion, spearheaded by resources going to oil and mining sector, according to figures released by the Central Bank. Analysts believe that direct foreign investment is the main factor responsible for the appreciation of the local currency which has appreciated 9.3% so far this year, despite intervention by the Central Bank through the purchase of US-dollars.

Expect Chile to keep interest. Chile's Monetary Policy rate will remain at 5.0% in March, while inflation increases to 0.5%, according to a survey by the Central Bank released on March 12. In the midst of a slow deceleration of the economy and increasing inflation in the short term, the interest rate will remain at its current level for a period of 11 months, according to analysts.

Peru: economy could grow to 6.0% in 2012. The Minister of Economy and Finance, Luis Miguel Castilla, stated that he estimated that the Peruvian economy could reach 6.0% growth in 2012, despite difficulties in the foreign sector. Peru is in the middle of a bonanza and it's been years since it has been able to post sustained growth so high, which has helped to reduce poverty and create real progress for the people.

Political Tips

Governor of Monagas is removed from the PSUV as cork of lemonade. The Vice President Elias Jaua presented a report about the disciplinary behavior of the Governor of Monagas Jose "Gato" Briceño. The report shows *"the violation of ethical standards of conduct of a member of the United Socialist Party of Venezuela (PSUV)"*. For this reason Jaua, announced: *"In defense of the PSUV and its ethical standards, we resolve to suspend the citizen José Gregorio Briceño for serious offenses against the revolution and started disciplinary proceedings against him"*.

Chávez announces that he will begin radiation therapy. President Chávez announced from Cuba that his health is improving and that he would soon begin radiation therapy. He continued to say that he would return in the next few days to Caracas from Havana, after having been there to be operated to remove a lesion.



Chávez and Santos reviewed cooperation between Venezuela and Colombia.

On Wednesday, Colombia's President, Juan Manuel Santos, arrived in La Habana, Cuba, to meet with Raúl Castro and Venezuela's President, Hugo Chávez. The meeting was held in the health center where the President is recovering, talking about a number of cooperation issues, as well as the Americas Summit.

Chávez wins easily according to a survey. Germán Campos, director of the pollster Consultores 30.11, presented the results of their latest survey of the population based on the current political climate. The results show that 57.5% of the population would vote for Chávez and 26.6% for Capriles.

Chávez needs to show he is well and recovered. A political analyst, Ricardo Sucre, states that President Hugo Chávez needs to show that he is healthy and recovered. Chávez moves in two circles. Calculating the time to arrive for the campaign and what adjustments could be made within the party. I don't see him campaigning or showing that he is still governing." His appearance are like a proof of life.

He's sick but not defeated. Analysts assure that President Hugo Chávez' energetic style of walking around the country, meeting the people face o face, and giving long speeches will most likely have to change drastically due to his illness. Radiation therapy will weaken him even more and he will have to rely on this network of radios and televisions. He won't be able to campaign as he would like to, stated analyst Luis Vicente León, president of Datanálisis.

...being sick doesn't win an election, or does it? After the Opposition primaries that were held on February 12, Capriles Radonski is still 15 points below Chávez. In fact, in certain registers, Chávez gained 10 points at the news of his sickness.

... with respect to the subject of Luis Vicente León, the president of Datanálisis, states: *"Chávez isn't going to win because he is sick. The sickness may earn him some sympathy but not votes, because a sickness short-circuits the future and solidarity is ephemeral."*

...Court the center. In polarized Venezuela, they are known as the *"ni-ni"* (*undecided's*) who don't identify with the opposition or with the chavismo. According to most analysts, this group represents a third of the voters, and both camps know that they will tip the scales to win or to lose.

Latin America renaissance after world crisis. The fourth edition of the forum *"Palabras para Venezuela"* (*Words for Venezuela*), organized by the bank Banesco began last Saturday with a press interview with three former Presidents participating:



Ricardo Lagos (Chile), Fernando Henrique Cardoso (Brazil) and Felipe González (Spain). All three agree that Latin America will be the continent that sets the pace for the next thirty years. And with this positive outlook, each country must remain confident in itself in order to grow economically and then to distribute the wealth to improve social conditions.

Legislative Tips

TSJ could annul 11 Special Powers Laws. The Supreme Tribunal of Justice (TSJ) admitted an appeal to annul Article 3 of the Special Powers Law that the previous National Assembly granted the Administration in December 2010, for 18 months, until June 2012. Consequently, the Parliament that finished its tenure on January 5, 2011, exceeded in the transfer of its legislative jurisdiction and encroached upon the temporal space of the current National Assembly.

...if the Constitutional Chamber were to decide to annul this disposition, every law decreed by President Hugo Chávez after January 5, 2011, would be annulled. This would include: the Emergency Law for Land and Housing; the Law for the Gran Misión Vivienda Venezuela, the Bank reform; the agriculture sector law; and the reform that creates the Central Commission for Planning; the reform of the Organic Law of the FAN; and the most recent Fair Cost and Prices Law.

LOT will increase fiscal costs. The Administration assures that by May 1, 2012, the new Organic Labor Law will be ready. Among other things, it proposes a return to the retroactive scheme of social benefits. If this becomes law it will significantly increase fiscal costs. The Presidential Commission in charge of modifying the law is well aware of this and has released certain parts of the new Law, such as equal salaries, but the social benefits section is still being discussed.

AN begins discussion about renting space for businesses. During its plenary session held on March 8, the Commission for Administration and Services of the National Assembly began to review the Law to Regulate Rent for Business Real Estate. The discussion focused on possible reasons for having to control rent for business real estate, as costs have been reported to be sky high. The rent control would include all types of business space, even those in shopping malls and education centers.



Special subcommittee will investigate alleged duplicate payrolls in Táchira. The special subcommittee will begin to investigate a case of alleged duplicate payroll lists in the Governor's Office in Táchira state on March 15. The president of the Permanent Commission of the Comptroller's Office of the National Assembly, Pedro Carreño, stated that the first meeting will be to approve a definite schedule for the investigation of the charges of embezzlement.

Funeral Service: public and non-profit. The Commission for Administration and Services of the National Assembly began to draft a text that will control funeral services. The report will regulate the cost of funerals which must be declared to be public and non-profit. Among the things that need to be regulated are: legal arrangements, chapel characteristics, transportation, cremation, and services, among other things.

Complaints from Guárico state farmer heard. The Finance Commission of the National Assembly will look into the problem facing farmers in Guárico state who say that the banks are not following the refinancing law, therefore farmers still have loans pending and no access to new financing for agriculture supplies for the planting season. Representatives from Parliament promised to look into the matter and recognized that the corn crop last year dropped.

© Ecoanalítica – Directorio del Tesorero Público





ECONOMIC OVERVIEW

