# Weekly Report

Year 8, Number 11
Week III, March 2013

## *Price controls: adjustment delays will be felt soon*

By:
Asdrúbal Oliveros
José Luis Saboin
Jessica Grisanti

Ecoanalítica's Team*

*Pilar Navarro, Gabriel, Villamizar, María Andrea Manuzzato and Vanessa A. Flores

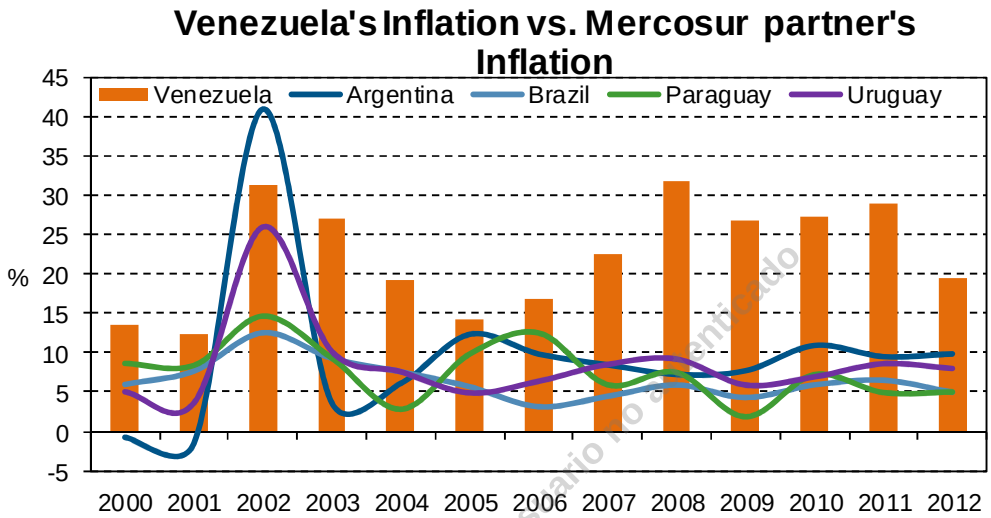
© Ecoanalítica – Descargado por usuario no autenticado

Reproduction or distribution prohibited

Venezuela is in an environment where public sector intervention through price controls makes scarcity and shortages the daily bread of producers and consumers. This situation limits the role of prices as guarantors of balance, and doesn't guarantee the proper use of scarce resources.

The latest figures of the Central Bank of Venezuela (BCV) show an obvious slowdown of inflation, since it closed in January at 3.3% and in February it had a variation of 1.6%. For the first two months of the year, there is an accumulated 6.5% increase, while during the same period in 2012 it was only 2.8%.

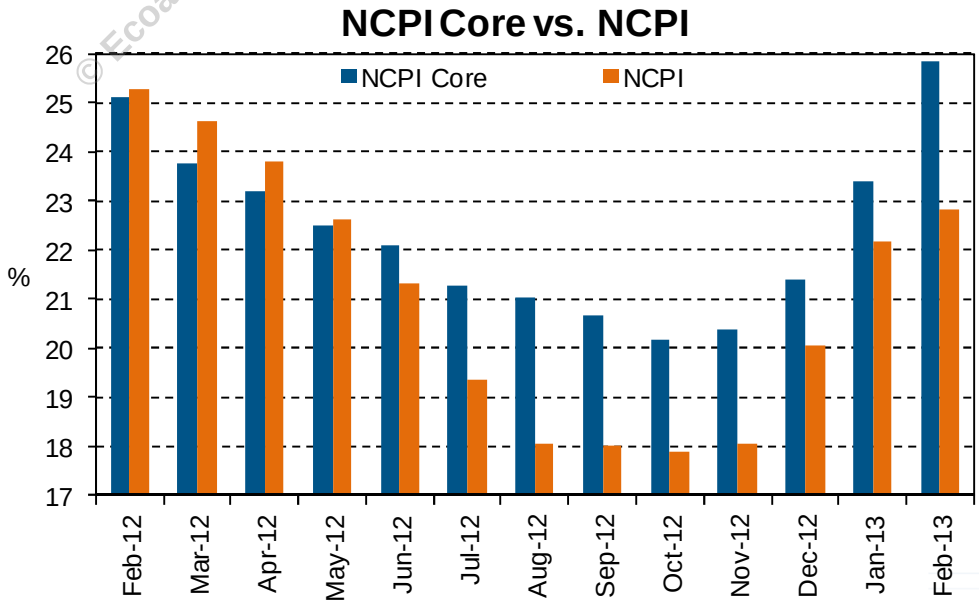
Last year, the feat of fulfilling the inflation target was met, and 2012 ended at 20.1%, 7.5 percent points less than in 2011. However, Venezuela is still among the countries with the highest inflation in the world, according to estimates of several international organizations. In the region, Venezuela, is one of the countries that still has inflation problems, and within Mercosur, it is the country with the highest inflation.




Sources: BCV, IMF and Ecoanalítica

**In more detail**

Despite the apparent slowdown of inflation in February, it is necessary to review in more detail the figures presented. The inflationary core, the BCV indicator that isolates seasonal factors and the temporal impact of price controls, increased 3.3% in February, and the accumulated level for the year is 6.6%. In the same period last year, the indicator was 1.3%, indicating that it will be unrealistic to reach the inflation target established by the BCV for 2013.

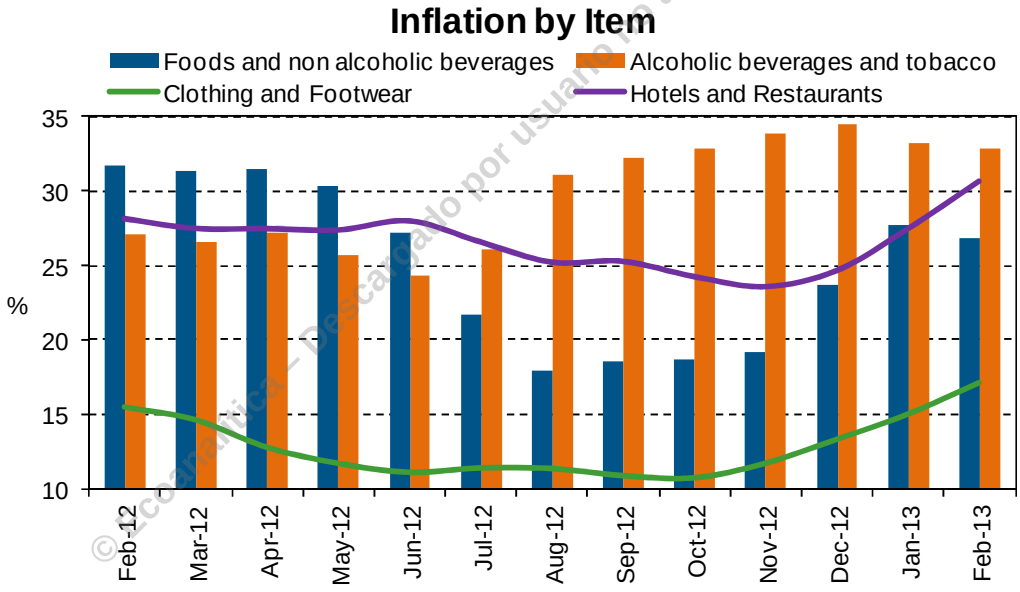



Sources: BCV and Ecoanalítica

© Ecoanalítica – Descargado por usuario no autorizado

**No price controls, but no hard currency sources either**

Analyzing the National Consumer Price Index (Índice Nacional de Precios al Consumidor -INPC) by sectors, we see that it dropped considerably in food and non-alcoholic beverages, with an intermonth variation of 0.4%, evidencing the strong regulation in this sector. On the other hand, goods and services like clothing and shoes (2.4%), alcoholic beverages and tobacco (1.9%), entertainment and culture (2.9%), restaurants and hotels (3.9%) receive little hard currency from Cadivi and are not subject to price controls, so they set their prices using the parallel dollar as reference, so while the new system replacing it isn't made official, the prices of these products will continue to rise.




Sources: BCV and Ecoanalítica

© Ecoanalítica – Descargado por usuario no autenticado

Of the 11 cities studied in February, Maracay had the highest inflation at 2.5%, followed by San Cristóbal, at 2.4%. The areas with the least variation in February were Barquisimeto at 1.3% and Caracas at 1.4%.

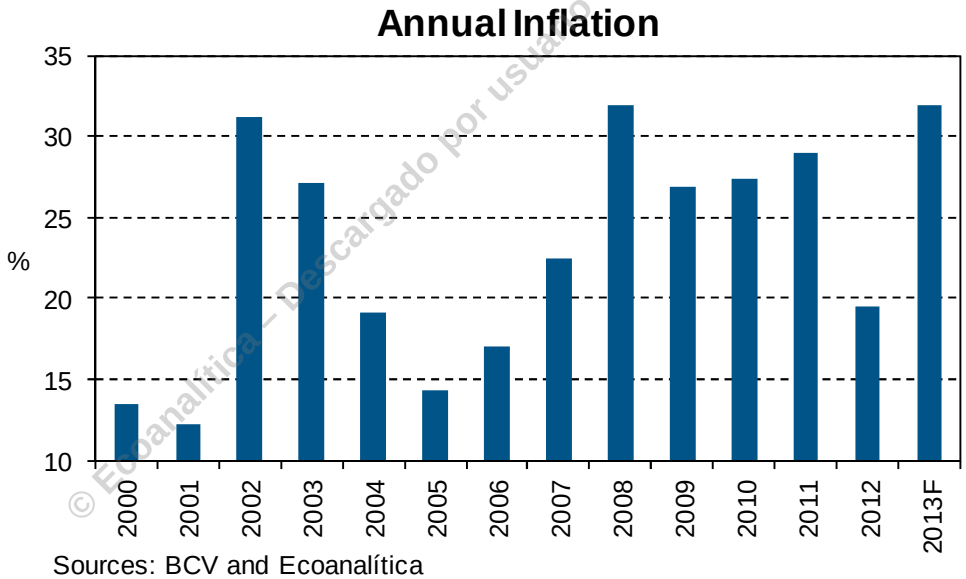
**Controls and more controls**

The Government's says that the main cause of inflation is "speculation", and since 2003 it has established regulations whereby it decides when and how much to increase the price of a long list of foods and other products; however, the economy has not behaved as they expected.

For the year, the authorities have not updated any of the prices of the long list of regulated products, and altogether, these products represent 21.6% of the INPC basket. According to figures published by the BCV, the price

of regulated products increased 1.7%, and compared to the same period last year, they increased 18.2%.

To analyze the ineffectiveness of this regulation, just look back some years. When there were no exchange controls, the administration of Hugo Chávez was more successful in controlling inflation. In 2000, inflation was 13.4% and in 2001 it dropped to 12.3%, the lowest in the last 11 years. Amid the great political instability of 2002 and 2003, inflation increased and the Government resorted to price controls, a strategic tool that was implemented indefinitely. During the exchange control, between February 2003 and February 2013, the accumulated inflation is 1,101%.

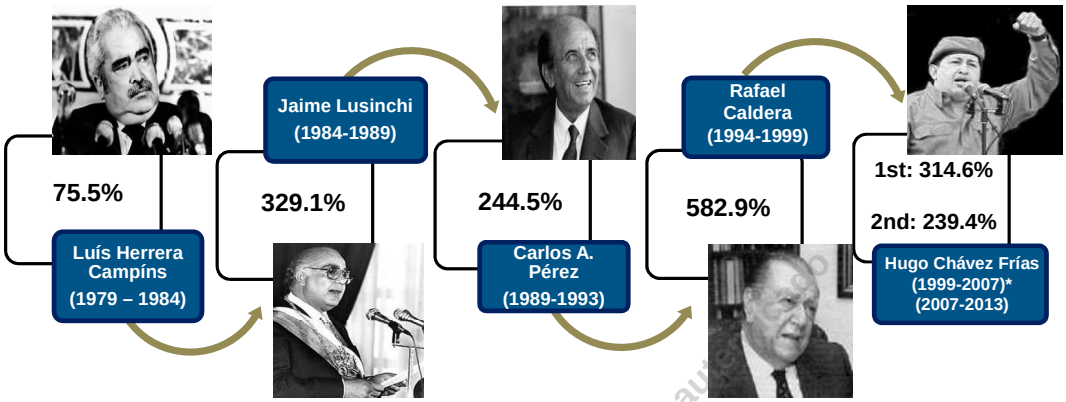


Sources: BCV and Ecoanalítica

© Ecoanalítica – Descargado por usuario no autorizado

**The result is no surprise…**

Control policies have not been issued exclusively by this government. Luis Herrera Campins, implemented the first regulation, and inflation rose to 75.5%. During the government of Jaime Lusinchi, with price controls, sanctions and fines, inflation went from 15.7% in 1984 to 40.3% in 1987. Likewise, Carlos Andrés Pérez also implemented some regulations and inflation rose to 45.9%. Rafael Caldera approved the maximum sales price, but inflation didn't slow down and there were severe supply issues. If price controls were efficient, in the ten years since Chávez's government implemented "old school" measures, shouldn't we have stable prices and fully supplies?

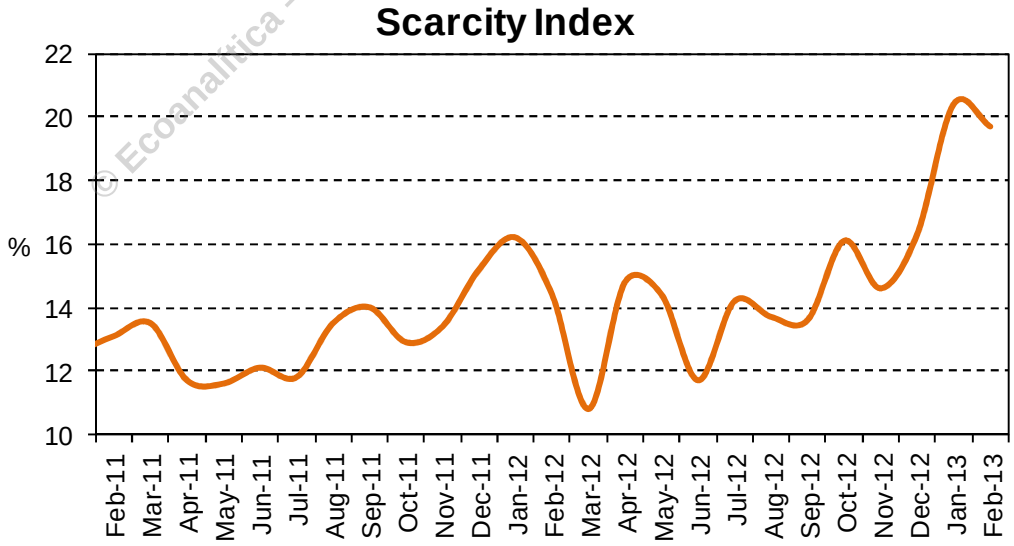



* During this period took place a constitutional referendum, which interrupted the presidential mandate in 1999. For that year, new elections were made and President Chavez was reelected.

© Ecoanalítica – Descargado por usuario no autorizado

**Our karma: shortages**

Problems obtaining hard currency, and production declines of some items, translate into constant and severe shortages. At the end of 2012, mass consumption items, mainly food, had severe shortages, among them corn meal, wheat flour, sugar, sunflower seed oil, vegetable oil, and corn oil, where the scarcity index was XX% in February. Even though it dropped, it is still high by any standards.




Sources: BCV and Ecoanalítica

For the second month of the year, although the shortage index fell, it is still high, and out of every 100 products that consumer request in the network of stores, almost 20% were not available. In an environment where many producers have not been able to obtain hard currency at the official

exchange rate, and without the much expected official mechanism replacing Sitme fully implemented, ***Ecoanalítica*** believes that high shortage levels will continue while the liquidation of currency to import raw materials and capital goods are hindered.

**Marginal increases and almost forgotten**

Exchange controls have become very specific, varying even with product presentation. In general, price increases of products in their different presentations have been few, and don't cover production costs. The last adjustment made to the sunflower seed oil and corn oil blend was in 2011 of only 37% approximately.

Likewise, there are products that are lagging, among them pasteurized milk, sandwich white bread, paddy rice type A and B, sardines, poultry, beef, cleaning and hygiene products like soap, hair conditioner. This group also includes diapers, bar deodorants, shampoo and toothpaste. These products represent approximately 17.5% of the basket, and a price update would have a strong impact on inflation.

© Ecoanalítica – Descargado por usuario no autenticado

| Products | Presentation | Regulated Price (VEB) | Last update | Months of Lag |
|---|---|---|---|---|
| **Oils and Greases** | | | | |
| Mix Edible Oil | 1L | 6.54 | 04-14-2011 | 23 |
| Sunflower Oil | 1L | 9.35 | 10-03-2011 | 17 |
| Corn oil | 1L | 10.69 | | |
| **Sugar** | | | | |
| Refined Sugar, Integral, with Aspartame and Refined with Honey | 1 Kg | 6.11 | 01-04-2012 | 14 |
| Sugar Washed, Brunette, Blonde and flavored Papelón | 1 Kg | 5.88 | | |
| Bulk of Sugar in Wholesaler or Distributor | 50 Kg | 5.24 | | |
| **Coffe** | | | | |
| Roast and Ground Coffee | 1 Kg | 46.66 | 12-03-2012 | 2.9 |
| Whole-bean Coffee | 1Kg | 46.67 | | |
| **Bird Meat** | | | | |
| Benefited Chicken whole and / or crushed in all categories (only exceptions relate seasoned and smoked) | 1 Kg | 15.61 | 07-28-2011 | 19 |
| Bone-in chicken thighs, skinless or skin in all products, Modalities and Denominations | | 18.87 | | |
| Boneless chicken drumstick, with skin or skin in all products, modalities and Denominations | | 33.02 | | |
| Boneless Chicken Breast, in all forms, Modalities and Denominations | | 37 | | |
| Chicken breast with bone, with or without skin in all products, Modalities and Denominations | | 24.03 | | |
| **Beef** | | | | |
| Prime Beef | 1 KG | 22.74 | 06-17-2011 | 21 |
| Beef of Second | | 15.38 | | |
| Beef of Third | | 13.12 | | |
| **Pork and Other Meats** | | | | |
| Pork Chop | 1 KG | 16 | 08-11-2008 | 55 |
| Pork Rib | | 14 | | |
| **Milk and Cheese** | | | | |
| Nutritional Formulas for Infants, Initial Formulas | 1 Kg | 21 | 03-26-2010 | 36 |
| Soymilk | 1 kg | 27.59 | | |
| Whole Milk Powdered (Can) | 1 Kg | 30.27 | 10-03-2011 | 17 |
| Whole Milk Powdered (Envelope) | 1 Kg | 26.7 | | |
| Pasteurized Milk in all presentations, Modalities and Trade Names | 900cc | 5.83 | | |
| Hard white cheese in all presentations and Denominations | 1 Kg | 31.96 | 12-12-2011 | 15 |
| Semi-hard Cheese in all its Modalities and Trade Names | 1 Kg | 27.2 | | |
| Gouda Cheese | 1 Kg | 48.6 | | |
| Yellow Cheese | 1 Kg | 48.08 | | |
| Edam Cheese | 1 Kg | 52.89 | | |
| Munster Cheese | 1 Kg | 51.45 | | |
| Molten Cheese | 1 Kg | 55.25 | | |
| **Bread, Pasta, Foodstuffs and Cereal** | | | | |
| Wheat Bread Salty of Bakery | 1 Kg | 5.52 | 03-21-2011 | 24 |
| Normal White Sandwich Bread | 800g | 5.3 | 04-17-2009 | 47 |
| Nutritional Pastas made with Wheat Blend | 1 Kg | 4.33 | 03-21-2011 | 24 |
| **Rice, Sorghum, Corn and Precooked Flour** | | | | |
| White rice Type I (1% to 10% broken grains) | 1 Kg | 7.2 | 12-03-2012 | 55 |
| White rice Type II (greater than 10% and up to 18% broken grains) | 1 Kg | 6.69 | | |
| White rice Type III (greater than 18% and up to 25% broken grains) | 1 Kg | 6.34 | | |
| Precooked Flour of Corn | 1 Kg | 5.93 | 12-03-2012 | 3 |
| White Corn | 1 Kg | 1.5 | 05-02-2011 | 22 |
| Yellow Corn | 1 Kg | 1.33 | | |
| **Fish** | | | | |
| Sardines Caladero level | 1 T | 810 | 09-01-2009 | 43 |
| Canned Sardines in Vegetable Oil, Tomato Sauce and Hot Sauce | 125 g | 1.23 | 06-22-2009 | 45 |
| **Several Supplies** | | | | |
| Pasteurized Fruit Juice | 250 ml | 5.05 | 03-29-2012 | 11.2 |
| | 1 L | 13.5 | | |
| Compotes | 113 g | 5.04 | | |
| Mineral Water | 600 ml | 7.51 | | |
| | 1 L | 20.04 | | |
| **Cleaning and Hygiene** | | | | |
| Erinse-off hair conditioner | 250 ml | 22.88 | 03-29-2012 | 11 |
| Bath Soap, in bar | 100 g | 7.14 | | |
| Bath Soap, Liquid | 250 ml | 30.31 | | |
| Hair Shampoo | 350 ml | 26.9 | | |
| Toothpaste | 100 ml | 17.09 | | |
| Softeners and Rinses for Clothing | 1,8 L | 40.76 | | |
| Deodorant Stick | 60 gr | 16.53 | | |
| Deodorant Liquid, in gel or spray | 160 ml | 28.09 | | |
| Baby diapers (Size S) | 20 und | 42.11 | | |
| Baby diapers (Size M) | 20 und | 62.54 | | |
| Baby diapers (Size L) | 20 und | 71.55 | | |
| Pañales para Bebé (Talla XL) | 20 und | 58.8 | | |
| Pañales para Bebé (Talla XXL) | 20 und | 66.42 | | |
| Sanitary Towels | 20 und | 29.19 | | |
| Toilet Paper | 4 rollos | 17.61 | | |
| Shavers, Disposables (2 Knives) | 2 und | 22.74 | | |
| Dishwasher Liquid | 500 ml | 21.59 | | |
| Dishwasher in Cream | 470 g | 15.12 | | |
| Detergents | 1 Kg | 30.91 | | |
| Chloro | 1 L | 16.24 | | |
| Wax to Floors | 828 ml | 16.14 | | |
| Cleaners (Disinfectants) | 1 L | 13.02 | | |
| Panela Soap to Wash | 250 g | 7.23 | | |

Sources: Idepabis and Ecoanalítica

© Ecoanalítica Descargado por Usuario no autenticado

**There are always to versions of the same story**

Price controls not only limit the profit of producers, but also, many of the prices established are below production costs. At present, rice production in Calabozo, Guárico is in its worst moment, since in the last months, the price of agrochemicals, fertilizers and other raw materials has increased. The set price is VEB 2.50 per kilo, and the Producer's Association of Guárico says that it is insufficient to cover production costs, which is estimated at VEB 4.32.

On the other hand, livestock owners of the southeastern region of Los Andes estimate that the cost to produce 1 Liter (Lt) of milk is VEB 9.4 at the farm door. This product is regulated at VEB 3.6 per Lt., a gap of 161% compared to its production cost, and the last adjustment was in October 2011.

Besides condemning producers to work without the necessary resources, they have to compete with the government's subsidized imports.

**A variable called elections**

In order to improve the purchasing power of Venezuelans, the Government delayed the increase of some products until the ruling party won the last elections of October 7, when the adjustment of the price of rice, coffee, and corn meal was authorized.

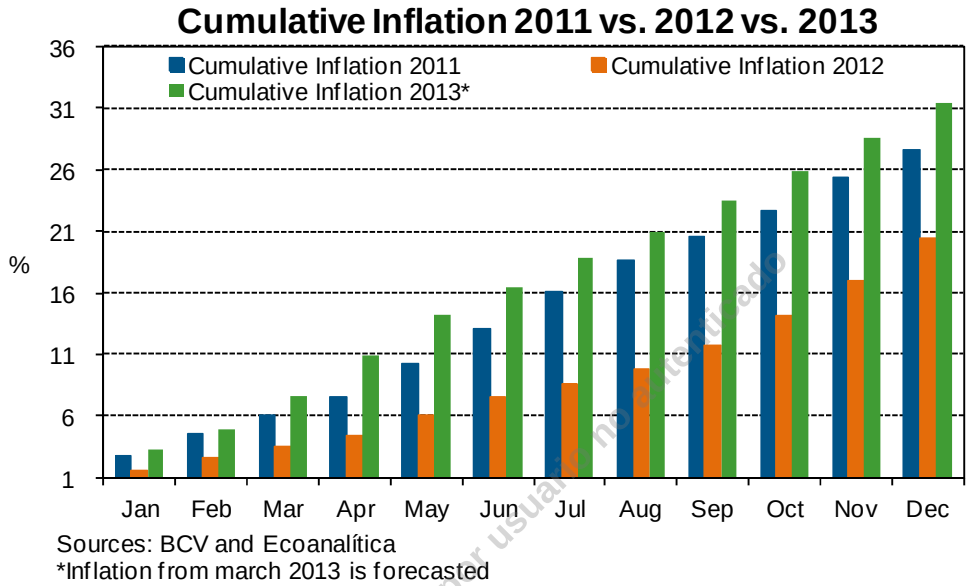
After the last adjustment, it was expected that the price of other lagging products would be adjusted; however, with the death of President Hugo Chávez, and now the electoral campaign, where president in charge Nicolás Maduro hopes to win the elections, these economic decisions were postponed.

***Ecoanalítica*** considers that once the elections of April14 are over, the Administration will have to face the price lag of products like fresh cheese, pasteurized milk, chicken, and beef, among others that have not increased in more than one year.

**Far from the target**

In 2012 the government's inflation target was met, since it closed at 20.1%. This won't be the case for the year, when the price variation will be influenced by the exchange rate adjustment, together with possible fiscal adjustments and less liquidity than in 2012. ***Ecoanalítica*** considers unlikely that the inflation in 2013 will be between 14% and 16%, as established in the budget law for this fiscal year, and estimates that for 2013 inflation will be around 31.4%

©Ecoanalítica – Descargado por usuario no autorizado




Inflationary pressures have not disappeared: prices will increase while economic agents try to protect from possible price increases, and the same solution is implemented for the same problem. The present control policy is counterproductive, since it doesn't stimulate domestic production; rather, it shows that the present model deserves a review.

© Ecoanalítica – Descargado por usuario no autorizado

## Economic Tips

**The BCV will auction currencies.** At a press conference the BCV's President Nelson Merentes, and Finance Minister Jorge Giordani, announced that the new Foreign Exchange Management Supplement (Sicad) will consist on a dollars auction Vickrey under a scheme in which legal persons registered in RUSAD can participate to import foreign goods.

**Less pragmatic than thought.** Companies involved in the new system must provide the revenues to participate in the auction mechanism to the financial intermediaries, along with their position, these will give the BCV the current documentation. When the request goes to the issuer the Higher Authority will decide which companies will enter the auction, where currencies are finally allocated.

**The dollars from afar.** Once they have decided who will receive the currencies they will deliver a letter of credit to the applicant companies, and the BCV the organ responsible for directly canceling to providers abroad. *"At no time will the authorized companies to manage money,"* said Finance Minister Jorge Giordani.

**What about individuals?** BCV President Nelson Merentes did not rule out that in the coming weeks the Government and the BCV analyze the possibility of including individuals (students, travelers and retirees, for example) in the new system, as foreseen in the Sitme. *"We will continue working on the issue as you have a methodology and some recommendations will forward the Executive to be studied, analyzed and approved according to the needs of the population,"* said Merentes.

**There are dollars to supply the market.** The Minister of Energy and Petroleum, Rafael Ramirez, said there are enough dollars to meet the needs of foreign exchange. Ramirez estimated that this year PDVSA will sell a total of US$41,470 million at BCV, amount close to the 2008 oil boom year, representing a 33.2% higher than paid by the issuer in 2012. Ramirez also provides that the state oil will transfer a total of US$ 9,600 million to Fonden this year.

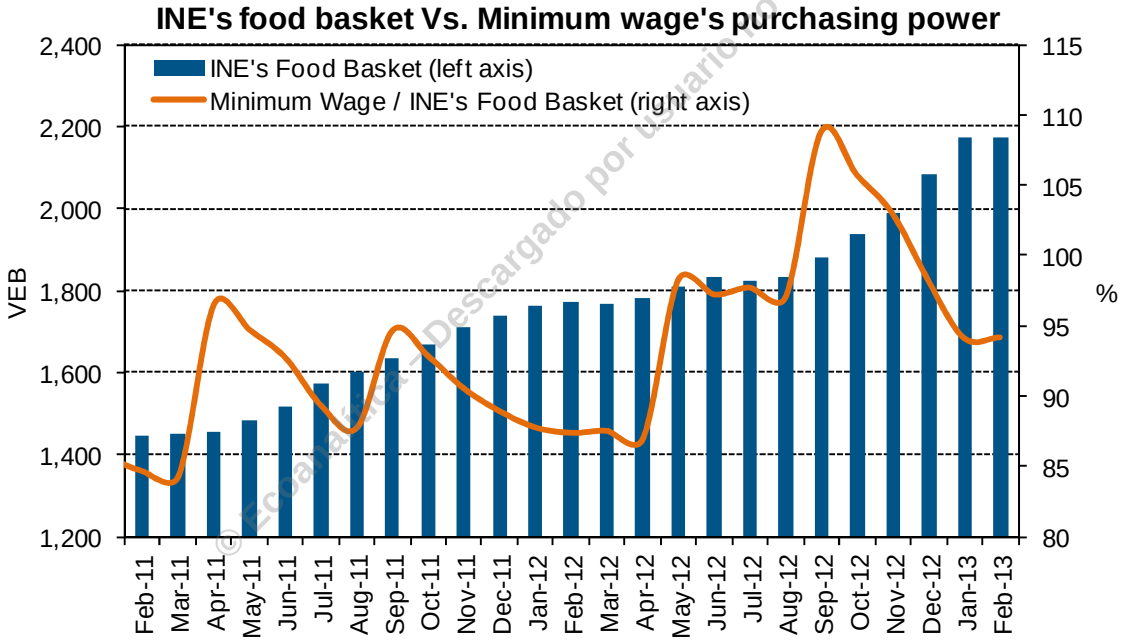
**Food basket decreased by 0.06% in February.** According to figures published by the National Statistics Institute (INE), the value of the food basket was at VEB 2,174 in February, resulting in a decrease of 0.06% from the previous month and an increase of 22.7% compared to February 2012, which means that in a year the regulatory food basket increased VEB 402.4.

© Ecoanalítica – Descargado por usuario no autenticado

**The item that had the highest increase** was sardines (16.5%), followed by hard white cheese (8.79%), fresh tuna (6.98%); Corocoro (6.66%), Potatoes (6.4 %), and canned tuna with 4.25% rise. Among the most significant price declines are experienced by the headings: Tomatoes (-36.9%) Melons (-18.14%), Paprika (-16.6%), onions (-15.19%) and Carrots with a decrease of 7.67% compared to the previous month.

**Minimum wage covers only 94.2%.** All this means that the minimum wage is still insufficient to purchase basic foodstuffs, as a worker who earns a minimum wage of VEB 2048 can only buy 94.2% of the basket that calculates the INE.

© Ecoanalítica - Descargado por usuario no autorizado




Sources: INE and Ecoanalítica

**The basic basket reaches VEB 9,671** According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Basic Family Basket (Canasta Básica Familiar - CBF) in February 2013 was VEB 9,671, an increase of 1.2% with respect to the prior month, and 20.4% with respect to February, 2012.

**The behavior of the CBF in February** was marked by an increase in four of its seven items, among them: among these are: food (1.9%), clothing (1.5%), housing (1.0%) and toiletries (0.6%).

**Bottomless pit.** Broadening the scope of the Bicentenary Fund was announced by Nicolas Maduro on Monday March 18, three years after its creation. Maduro said that this decision was valued by the economic team of the Bolivarian administration, which decided to expand the scope of the Bicentenary Fund and renamed it Alba-Mercosur Bicentennial Fund. Maduro said it approved a total of US$1,000 million to be injected into the Bicentennial Fund, to invest in technology, growth of production capacity and create a revolving fund to build the export route.

**Shortages will become more acute.** Even though growing shortages have forced the administration to announce a replacement for Sitme, which is expected to increase hard currency allocation for firms so that to normalize import flow, Pedro Palma, ***Ecoanalítica's*** Director warned that it will be impossible to prevent products from disappearing from shelves in the short term. "*Stocks are depleting and they cannot be replenished overnight, although dollars begin to flow*," Palma assured.

**Stagflation in 2013.** According to economist Pedro Palma, figures for the two first months of the year would clearly show that inflation is running at 25%-27%. However, Palma states that inflation in February was attributable to a seasonal factor resulting from the decrease in prices in agricultural products. Therefore, inflation would likely exceed 30%. Furthermore, Palma pointed out that present circumstances lead him to believe that 2013 will be a year of economic recession and, in the best of cases, stagnation.

**Tied to oil now more than ever.** The essential condition to resume growing rates of 6% would be for oil prices to rally over coming years, Petro Palma explained. Palma also stated that today more than ever, Venezuela depends on oil rent, at a time when "*PDVSA has many limitations to increase oil production (…) and the response capacity of the production apparatus is lower than that in 2004-2006*."

**Private businesses have reduced 44.5% in 12 years.** Figures released by the National Statistics Institute (INE) show a progressive decline in the number of private businesses. Over the past twelve months, they have lost 13.6% and contraction in 12 years has reached 44.5%. This means that in January 2001 there were 672,642 private businesses, of which there are just 373,204 left today, according to INE. Legal uncertainty, control and expropriation policies are only a few of the causes for this phenomenon.

**Not everything is a bed of roses with Sucre.** The Executive Director of the Ecuadorean Business Committee, Roberto Aspiazu Estrada, assured that the delay in dollar allocation by Cadivi to Andean businesses in some cases reaches 150 days, even in transactions done through the clearance mechanism known as Sucre. Given this delays, the Andean business leader says that after April 14 presidential elections,

© Ecoanalítica – Prohibido su uso por usuarios no autorizado

they will propose a series of recommendations to bring trade relations back to normal.

**Compliance with working hours will be checked.** Inspectors of the Labor Ministry and members of the Higher Labor Council will be active by May 7 to see to it that working hours cut is being complied with. More than 10 months have elapsed of the one-year term granted to businesses for them to adjust their working hours. Oswaldo Vera, member of the Higher Labor Council said that "*the number of working hour per week is 40, with two consecutive days free*."

**Supplementary appropriations grow 11%.** 2013 began with a spending pace faster than that registered in 2012, which is reflected in a higher volume of supplementary appropriations. In two and a half months, the National Assembly (AN) has authorized VEB 10.3 billion in extraordinary operations, up 11% from the amount authorized in the same period in 2012 (about VEB 9.3 billion). As a consequence, budget, which initially was estimated at VEB 396.4 billion, has already grown up to VEB 406.7 billion.

**U.S. warns about economic slump in Venezuela.** The U.S. intelligence services, closely following events in Venezuela after President Hugo Chávez' passing, warned about the economic slump the country might experience. The document delivered to the U.S. Senate states that the next administration will have to fight against the consequences of an ever increasing deterioration in business environment, as well as the growing economic imbalances.

**Interest rates.** The lending rate for the first week of March was at 16.4%, up by 0.3 pp compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves go down 0.04%, going from US$27.943 billion during the second week of March to US$26.933 billion during the second week of March. Compared to the same period last year, international reserves have decreased by 2.3%.

**Central government expenditure.** On Friday March 15th according to figures from the National Treasury Office (ONT) primary spending was VEB 9.43 billion, which means an increase of 84.1% when compared to the previous week when it was VEB 5.12 billion; when compared to the same period last year we observe a decreased of 11.5%.

© Ecoanalítica - Descargado por usuario no autenticado

**Monetary liquidity.** Monetary liquidity (M2) was increased 1.1% in the second week of March compared to the previous week, settling at VEB 704.83 billion. The M2 has increased 60% in relation with the same period last year.

## Oil Tips

© Ecoanalítica - Descargado por usuario no autenticado

**AIE, Venezuela's newest enemy.** Venezuela rejected the AIE's report. The AIE "*was created to counter the Organization of Petroleum Exporting Countries (OPEC); therefore I dismiss AIE's opinions, I see them as something an enemy of mine has said*," Minister Ramírez said. Ramírez also stated that PDVSA "*is in normal operational conditions*" and has plans to increase production up to four million barrels per day by 2014.

**Seventh time lucky.** After six consecutive downward sessions, the price of OPEC reference basket rallied last Friday up to US$106.62/bl, from the US$105.88/bl of past Thursday's session. The increase amounted to US$0.74.0 or 0.69%.

**Concerns about Cyprus.** Brent crude oil was losing more than one dollar per barrel due to concerns about a possible capital flight of banks in Cyprus, after the Parliament announced the decision that depositors should hand over a part of their savings to finance the country's bailout.

**Recovering ground in the U.S. and Europe.** West Texas Intermediate (WTI) gained 42 cents, closing at US$93.45/bl, up 1.76% from the price registered in early week. Brent's price, in turn, increased 0.36% in London's future market, closing at US$109.82/bl.

**Demands to Obama.** Lawmakers and experts exhorted President Barack Obama to accelerate ratification of cross-border hydrocarbon agreement signed with Mexico in 2012. "*I see many opportunities in Mexico… If Pemex is to attain a true reform by opening its energy sector, Mexico is going to thrive and strengthen the U.S. energy security*," the chairman of the Foreign Affairs Committee of the House of Representatives said in defending the ratification of said agreement.

**Obama stops gasoline price increase.** President Barack Obama recently proposed the creation of an Energy Security Fund worth US$2.0 billion, within the next 10 years to finance research in more efficient and clean technologies. "*The only way to stop gasoline prices from growing once and for all is ceasing to depend on oil*,"

Obama stated when he presented the proposal. This announcement damages oil countries, because the U.S. is one of the world's major oil buyers.

**Demand to the Supreme Court.** Last week, Brazil's Congress passed a la won oil royalties according to which, oil royalties will be equally distributed among the 27 Brazilian states. In response to the Law, Governor of Rio de Janeiro and Espiritu Santo presented a claim with the Supreme Court, on the grounds that the new decision damages their states. In the case of Rio de Janeiro, the passing of the law will make the state loss 3.4 billion or reals per year (close to US$ 1.6 billion). Authorities in Rio de Janeiro and Espiritu Santo claim that 80% of proven oil reserves of Brazil are found in the maritime basins in those states.

**End for the fight between brothers.** Recently, Sudan and South Sudan, after a one-year dispute, signed an agreement to restart oil export form the South through Jartum oil pipelines. Authorities estimate that production would restart in two weeks. It's worth pointing out that both Sudan and South Sudan strongly depend on oil revenues.

**Russia: Mid-term goal.** According to recent announcements by Russia's Minister of Energy, Alexander Novak, the country expects to develop at least 510 million tons of oil for this year, which is equivalent to the same volume lifted in 2012. However, Russia has decided to get 540 million tons/year by 2030.

**International baskets.** When market close in New York, WTI traded on last Friday March 15th at US$ 92.4/bl, which means an increase of 2.1% from US$90.5/bl recorded the previous week. Meanwhile, Brent decreased by 1.0% to reach US$109.7/bl compared to the previous week when it reached US$110.8/bl.

**Local basket price.** On Friday, March 15th the Venezuelan oil basket price closed at US$102.1/bl an increase of 0.5% compared to US$101.5/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US$ 103.8/bl.

## Business Sector Tips

**Food private production is down.** Food, beverage and tobacco production in Venezuela grew 5.9% in 04Q2012, for the first positive result after having closed in red numbers over six quarters in a row. However, private manufacture registered a

© Ecoanalítica - Descargado por sitio no autorizado

lower level than 2011. BCV figures show that food, beverage and tobacco private production dropped 3% in 2012, after having grown for three subsequent years.

**Waiting for a change.** Food companies believe that a change in economic policy and more flexible controls are required for the industry to have the chance to reactivate and increase its production levels. Foreign currency allocation will be determining to guarantee food supply.

**The Law doesn't help either…** Entrepreneurs of the food sector expressed that the new Labor Organic Law (LOTTT) requires some adjustments, because it has already impacted production. Entrepreneurs added that the shortening of working hours and restrictions in terms of extra hours will bring about production delays.

**People are still travelling.** The president of the Association of Airlines of Venezuela (ALAV) reported that the sale of tickets for Holy Week season has been developing regularly; however, they expect sales to be slightly lower than last year's sales volume. Furthermore, the ALAV representative noted that the prices of tickets for domestic flights are controlled; therefore, rates didn't increase.

**No dollars for medicines.** The president of the Venezuelan Pharmaceutical Federation pointed out that medicine shortages have increased recently, up to 35%-40%, mainly due to delays in foreign currency authorizations at Cadivi.

**Private hospital will have to rework their budgets.** In a study conducted by the Venezuelan Association of Clinics and Hospitals (AVCN) showed that the adjustment to working hours, plus the definite enforcement of the Labor Organic Law will increase labor costs in this sector by up to 32%, since new personnel has to be hired. "*The increase in payroll expenses is associated with the hiring of new workers to cover the two consecutive free days*;" AVCH representative explained and added that the increase depends on the type of clinic.

**Possible shortages of pasta.** Businesses member of the Venezuelan Association of Pasta Manufacturers (Avepastas) said that their operations are critical, after 24 months without adjustments to pasta prices. The Association remembered that the last price increase in this product took place in March 2011, and it is still insufficient because current production costs exceed that price.

**Not enough due to the increase.** The expected increase of one bolivar in parking lot fees, postponed by the Ministry of Commerce until April 1st won't be enough to cover the increase in running and infrastructure maintenance costs that will result from the entering into force of the new Labor Organic Law and devaluation, the vice-

© Ecoanalítica – Descargado por usuario no autorizado

president of the National Association of Owners and Administrators of Parking Lots explained.

**No change.** Car assembly plants operating in Venezuela announced that they are already prepared for the full entering into force of the Organic Labor Law. An industry's source reported that they won't create additional production shifts or hire new workers in response to the cut in working hours and two subsequent free days. Currently, the seven assembly plants are working a single shift and will manufacture the units they are able to assemble in that time.

**Downward trend.** The most recent statistical data released by the Automotive Chamber of Venezuela show that in January-February 2013, 7,762 vehicles were produced, down 53.5% from the same period in 2012, when 16,694 units were assembled. Notwithstanding, the downward trend persisted this year: in January, just 5,817 vehicles were manufactured, whereas in the same month in 2012, 10,974 units were assembled, down 46.99%.

**Damaging ban on alcoholic beverage sales.** The ban on alcoholic beverage sales which was implemented on March 6th significantly impacted revenues of this sector. The president of the association that gathers these businesses stated that during the first week of ban, they lost VEB 5.0 million, which accounts for about 25% of their monthly sales. The representative of the association reported that 85,000 "*licorerías*" (outlets almost exclusively devoted to sell alcoholic beverages) are operating in Venezuela plus other outlets that are authorized to sell alcoholic beverages, among other products, the sale of which may account for 40%-50% of their total sales.

**Unreachable targets.** Government representatives recently reported that the number of homes built within the framework of *Misión Vivienda* (housing program) in 2012 amounts to 11,300. However, for the first quarter of 2012, 34,729 units were built, which represents about 11,500 per month. In 2013, about 5,600 units per month have been built, down 48% from the previous year. Minister Ramírez stated that the target of the government housing program for this year is 380,000 homes, that is, about 30,000 per month. "*You cannot afford not thinking positively; but circumstances show that it will be very difficult to reach that number*," the president of the Venezuelan Construction Chamber said.

**Lies and more lies…**The Socialist Front of Workers of the Electric Power Sector in Monagas state denied rumors about Corpoelec being sold to the People's Republic of China. Gregorys Lisboa warned all workers of the state-owned firm not to believe those lies. "*Our corporation is socialist, serves the people and will continue to do so. We are asking workers of this sector to stay calm*," Lisboa assured.

© Ecoanalítica - Reproducido por suscriptor autenticado

**Some go up, some go down.** In February, the Reference Food Basket cost VEB 2,174, down VEB 1.13 from January. According to the National Statistics Institute (INE), the most significant price increases in February include fresh sardines (16.5%), hard white cheese (8.7%) and prices that went back include tomatoes (-36.9%), melon (-18.1%), peperoni (-16.6$%), all in comparison with the previous month.

**Troubles for the dairy industry.** Cavilac, Asoprole and Aniquesos asked the government to meet with them to evaluate the corrective measures required to bolster domestic production. Representatives of the dairy and pasteurized juices industry expressed their concerns about difficulties they are finding to keep production, due to the long overdue (more than 15 months) price adjustment of these products.

**What has happened to adjustments?** The Association of Industries in the sector of edible vegetable fat and oils (Asograsas) talked about the critical situation they are undergoing due to the delay in price adjustments of price-controlled oils. The Association informs that cooking oil price has been regulated since April 2011 at 6.54 VEB/lt; in the case of pure corn oil, the last price increase took place in October 2011 to 10.69 VEB/lt, that is, 17 months without adjustment.

**Potato intervention.** Potato producers in Carabobo state will request the Ministry of Agriculture and Lands (MAT) to fix the minimum sale price for this product, since no agreement was reached between farmers and the processing industry. Aldemaro Ortega, producer from Carabobo state, informed that PepsiCo offered farmers an increase of VEB 0.20, "*which isn't ideal*" because it doesn't cover production costs.

**Either you want it or not.** The Ministry of Agriculture and Lands warned that imports to cover potato deficit will be conditioned by the purchase of local production, meaning that businesses that don't buy local production won't receive import permits.

© ECOANALÍTICA – Documento de uso exclusivo del usuario no autorizado

## World Economy Tips

**U.S. inflation at 0.7% in February.** The U.S. consumer price index gained 0.7 (m/m) in February, while no variations were registered in January, as shown by data of the U.S. Employment Department. On a year-to-year basis, the Index grew 2.0%. Excluding food and energy, prices increased 0.2 (m/m) and 2.0% (y/y) in February.

**Americans are borrowing less.** A measurement of debt burden faced by American families showed a record low in 4Q2012, which further reflects an improvement in home finances; this should boost consumer spending and become a growth engine. The debt-service ratio for homes –an estimate of the debt payment share with respect to available income- dropped to 10.4% according to the Fed, the lowest value of the series that was first registered in 1980.

**The Fed will maintain its stimulus policy.** Fed officials will discuss the potential risks of the Fed's stimulus plan, but the Bank's president, Ben Bernanke, has already pointed out that he believes that cost of doing nothing is higher. The Federal Reserve will surely continue purchasing US$85.0 billion per month in assets backed up by mortgages and Treasury bonds in an attempt to encourage investment and bolster a weak economic recovery.

**The eurozone didn't create jobs at year-end 2012.** According to data released by Eurostat, the eurozone wasn't able to create new jobs at the end of 2012, in spite of the increase in the economic activity during Christmas season. Jobs in the eurozone lost three tenths over the last three months of 2012 with respect to the previous quarter, for the fourth quarterly drop in a row. The contraction in the number of jobs was more pronounced in Spain, where employment rate fell 1.4% in 4Q2012.

**The EU should check its banking system.** According to the IMF, the European Union (EU) should take bold surveillance actions to improve banks' soundness. The IMF pointed out in its first formal analysis of the EU financial sector that the block has made significant progress but that further measures are required because the region's financial stability remains fragile.

**EU and IMF agree 10 billion euro Cyprus bailout deal.** International lenders reached a 10-billion euro deal to protect Cyprus against bankruptcy. The EU finance ministers and the IMF's Christine Lagarde agreed on a package, lower than originally conceived, required to recapitalize Cyprus' banks that were harshly hit by Greece's sovereign debt restructuring last year.

**Moody's revises downward Argentinean foreign bonds due to default fears.** Moody's Investors Service lowered its rating for Argentina's bonds issued under the foreign law Caa1, due to the growing default risk given the legal processes brought in by investors that are claiming titles defaulted ten years ago These holders of the so-called holdouts are claiming before U.S. courts that they expect to recover 100% of the face value of their titles, which Argentina restructured almost totally through two swaps launched in 2005 and 2010.

© Ecoanalítica – Distribuido por usuario no autorizado

**IDB is warning about a new global slowdown.** A new global economic slowdown would have a "discouraging" effect on Latin America and the Caribbean, unless deep reforms are implemented in a region that will grow 0.5% less over the upcoming five years than in years before 2008's crisis, the Inter-American Development Bank pointed out. According to Juan José Ruiz, IDB's chief economist, global growth will be "*below its potential over coming years*."

**Latin America was able to reduce poverty.** According to a report by the UN Development Program (UNPD), millions of people in Latin America have come out from poverty thanks to innovative social programs that are being implemented in the region. UNPD points out that Brazil, Chile and Mexico are the countries with the best performance in terms of social development.

**But high informality rates continue.** With 56% of informal workers, Latin America and the Caribbean have the world's highest informality rate, which requires a labor reform that has to be translated into higher economic growth, an IDB study points out. According to the IDB, informality "*is a distinctive and persistent feature of labor markets in Latin America and the Caribbean*," thus turning LAC into the "*region with the highest informality rates in the world*."

© Ecoanalítica – Descargado por usuario no autorizado

## Political Tips

**Capriles R. "the tour around the country began".** Henrique Capriles Radonski (HCR), former government for Miranda and presidential candidate for Venezuela, published through Twitter that "*Soon I will tour all of our beloved Venezuela*". A MUD source said that on March 12, the opposition's political campaign started throughout the territory.

**He started in Táchira.** Unidad candidate, HCR, started his national tour in Táchira, for the presidential elections of April 14, and although the authorities closed the airport of La Fría without warning, his followers waited for him at the Miranda de La Grita square. HCR said: *"I'm filled with emotions, being in this land. We had to overcome some obstacles: the airport of La Fría was closed by order of Nicolás Maduro…"*

**Don't get dressed…. You aren't going.** The presidential candidate addressed the interim president Nicolás Maduro in la Grita, and said: *"Don't make a mistake*

*Nicolás, don't hide behind the President's image, let him rest in peace. Nicolás, you are not brave enough to confront me in a ring. We must understand that this is the struggle of the people against a corrupt government, filled with incapable people like you",* said Capriles.

**Continuing in Mérida.** In Mérida, before thousands of followers, candidate HCR challenged Maduro: *"I will defeat you with votes. Get your people out, because this is mine. You don't have the people with you, because the people followed Chávez, not you".* He urged to take advantage of the new opportunity that Venezuelans have for a better future.

**No to the "*package*"**. Presidential candidate HCR, reiterated in Maracaibo that the first measure when he assumes power will be to decree an adjustment of at least 40% to the minimum wage and *"revert Nicolás' package".* He said that Venezuela *"has it all"* and that the only thing missing is good government. *"The only thing necessary is a leader with a team that loves this country deeply, and comes with words of respect and unity".*

**Rejection of the use of "cadenas" by the ruling party candidate.** Ramón José Medina, deputy executive secretary of Unidad, rejected the abusive use of the nationwide "cadenas" (mandatory simultaneous government broadcasts) by the ruling party candidate, since they are propaganda. "*When Henrique Capriles talked on March 10 he said that this is a fight against a system, against a clique that intends to take hold of the State…* " said Medina.

***"A great opportunity for Venezuela".*** Henri Falcón, governor of Lara and head of the national campaign of candidate HCR, said that a victory is possible, and is convinced that this is the "*great opportunity for Venezuela*". In an interview with CNN, he said that the ruling party candidate, president in charge Nicolás Maduro, is not Hugo Chávez. However, he said that Maduro uses State resources, like radio and television simultaneous mandatory broadcasts (cadenas) for his presidential campaign.

**US-Venezuela relations.** Roberta Jacobson, spokesperson of the US State Department for Latin America, said in an interview published by newspaper El País of Spain, that Obama's government wants to establish a "*working, productive, and positive relation*" with "*any Venezuelan government*" that emerges from the presidential elections of April 14. "*We believe that there are areas, like drug trafficking or trade relations, where we can work together to restore trust and move forward in the relation"*.

©Ecoanalítica. Descargado por usuario no autenticado

**A new system for the "Misiones".** In order to strengthen and improve the execution and scope of social plans, president in charge Nicolás Maduro, announced on April 16, the creation of the National System for the "Misiones", in the framework of a posthumous homage that the members of the different programs paid to deceased head of state Hugo Chávez at Teatro Catia, in western Caracas. Maduro urged to care for the "Misiones" as if they were children, who "*need to improve and become perfect*".

**Venezuela accused the IAHRC of being biased**. Felipe González, commissioner of the Inter American Human Rights Commission requested the Venezuelan Human Rights Agent Germán Saltrón, to renew the request to visit Venezuela. *"Human Rights have been used by the US for decades to destabilize and defeat progressist governments…",* said Saltrón. The Venezuelan representative said that Venezuela "is one of the states with the most advanced Constitution in Human Rights issues".

© Ecoanalítica – Descargado por usuario no autorizado

## Legislatives Tips

**Antimonopoly Law Approved.** The National Assembly plenary session approved in first discussion the Anti-Monopoly Law, the project now goes to the Finance Committee for final reporting. The deputy, Jose Avila, said that text *"provides for participation, and that the proceeds of the fines will go to the National Fund of Community Councils".*

**Polemic on LOTTT intensifies.** As the date when the new Labor Organic Law (LOTTT) will enter into force (May 7th) approaches, polemic around the new Law intensifies. Government officials claim that the Law "*rescues labor as a social fact and defends proletariat*," whereas other experts warn that "*the law is a mechanism that brings about high costs for employers, which will damage businesses, especially small and medium-size ones*."

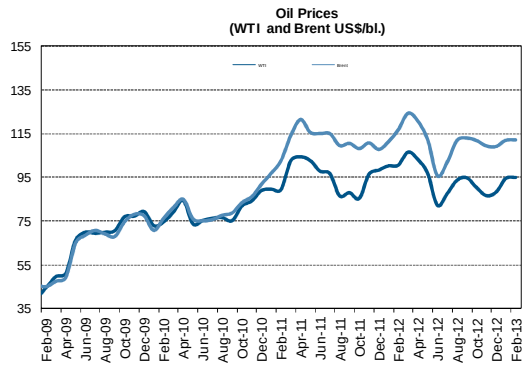
**Next creation decree**. Acting President Nicolás Maduro informed past Monday that his administration is preparing a decree to create a Corporation for the Integral Development of the people of Miranda State, which will be headed by Foreign Minister Elías Jaua. This new corporation will address and promote missions in the state, such as *Gran Misión Vivienda Venezuela*, *Barrio Adentro*, *Barrio Adentro Deportivo* and *Misión Cultura*, as well as infrastructure works, such as the Caracas-

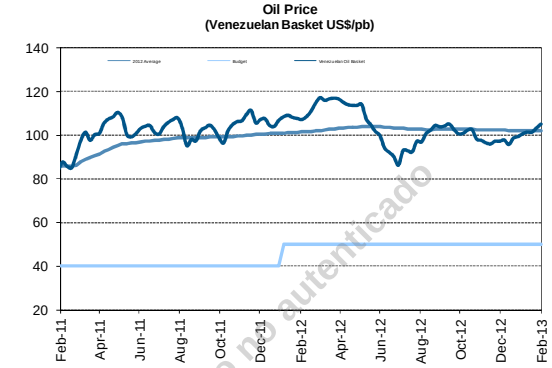
Guarenas-Guatire railway and line 5 of Caracas Metro, which is currently under construction.

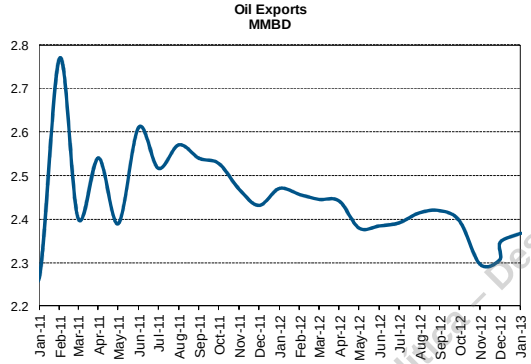
**In case people may miss it…**Ban on selling and buying alcoholic beverages and carrying firearms will be applied in Holy Week, the Minister of the Interiors Néstor Reverol informed. The ban will be applied starting in March 22nd.

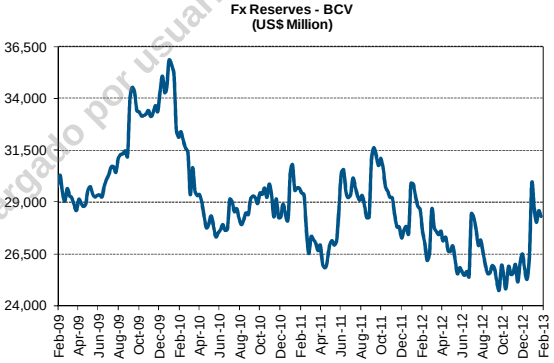
© Ecoanalítica – Descargado por usuario no autenticado

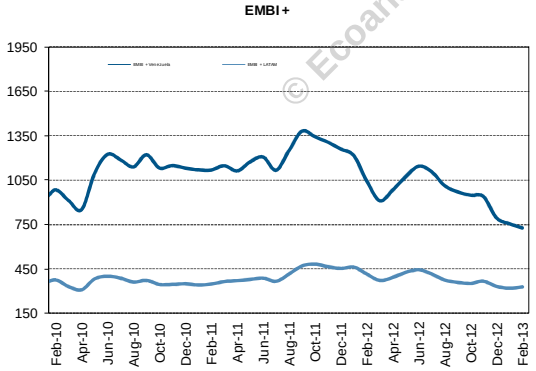
## *ECONOMIC OVERVIEW*

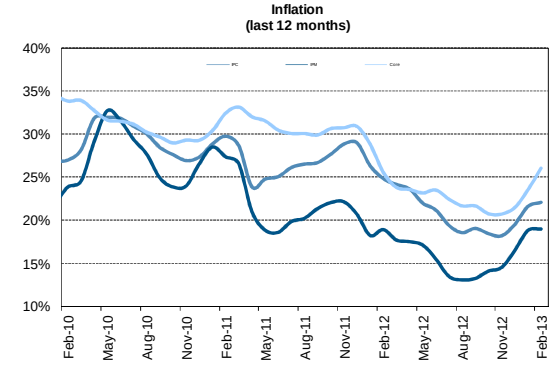


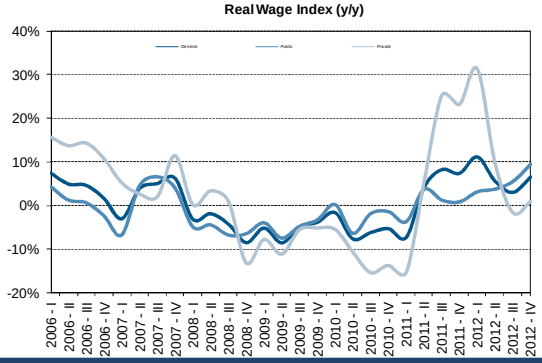



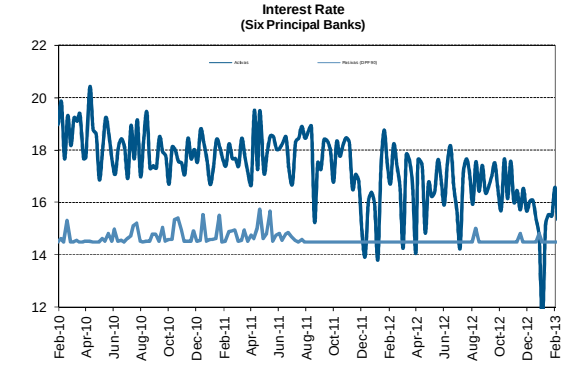



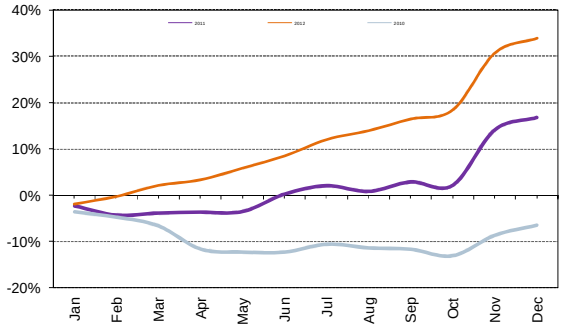



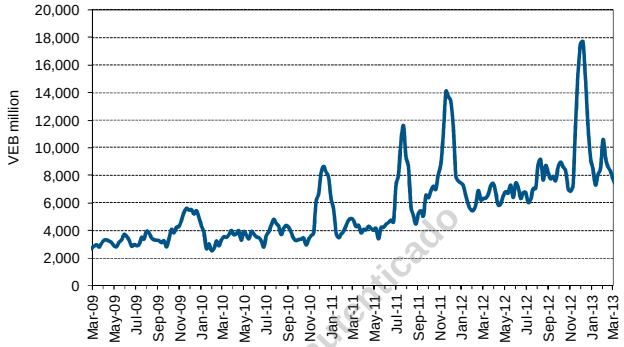




© Ecoanalítica - Descargado por usuario no autenticado

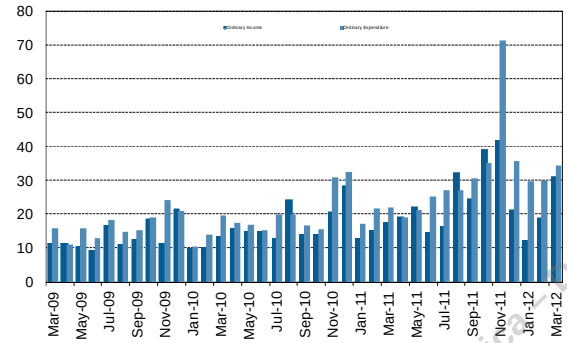
**Real Expansion (M2)**



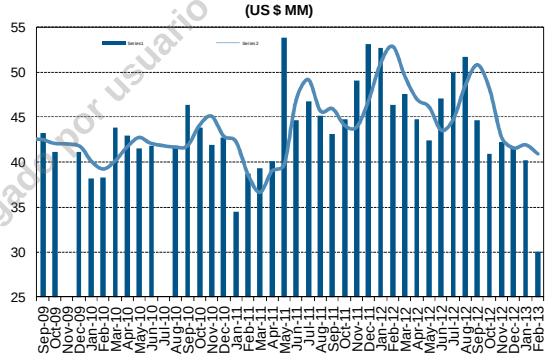

**Primary Spending NOT (Four-week moving average))**



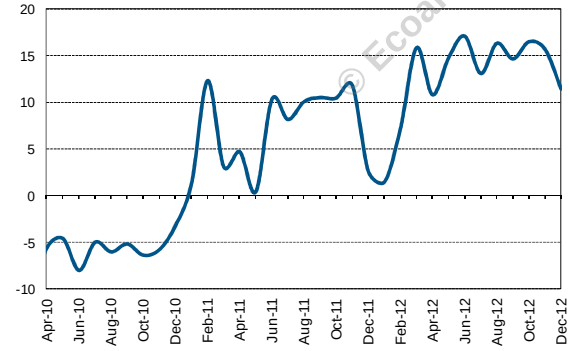

**Central Government (VEB Billion)**



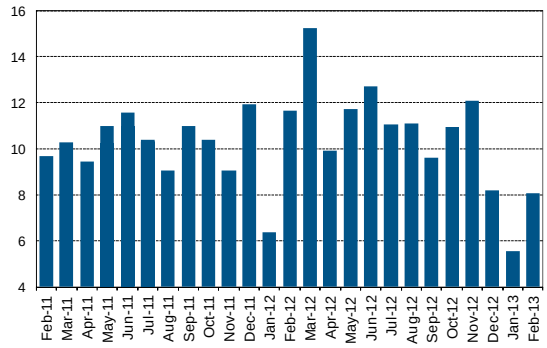

**Resources of the State (US $ MM)**



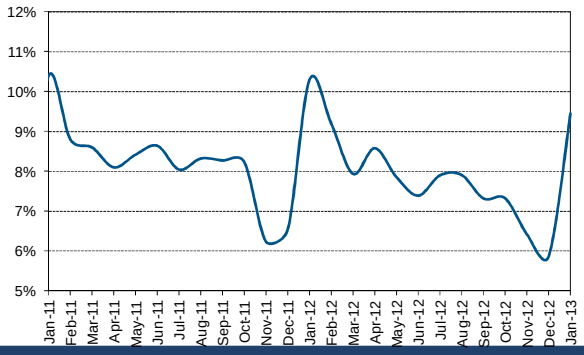

**Volume of Sales (% Variation)**



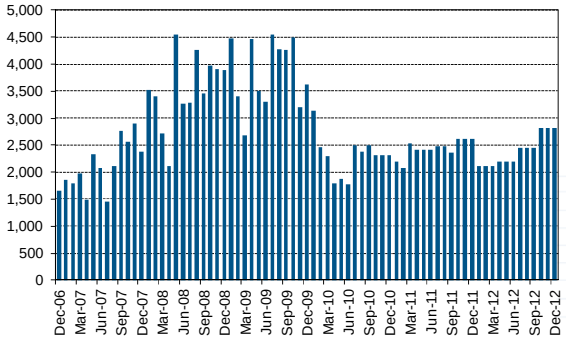

**Automobile Sales (Thousands of Sold Units)**




**Rate of unemployment**




**Cadivi Disbursement (US$ Million)**




© Ecoanalítica - Descargado por usuario no autenticado