



Weekly Report

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*Is it a good idea to continue to
acquire debt in bolivars?*

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Ever since the exchange control was implemented in Venezuela, acquiring debt in the local currency (bolivars) was always something to be encouraged, since real interest rates were negative. But now, the question is: should companies continue to follow this strategy of acquiring debt in bolivars?

Interest rate and consumption

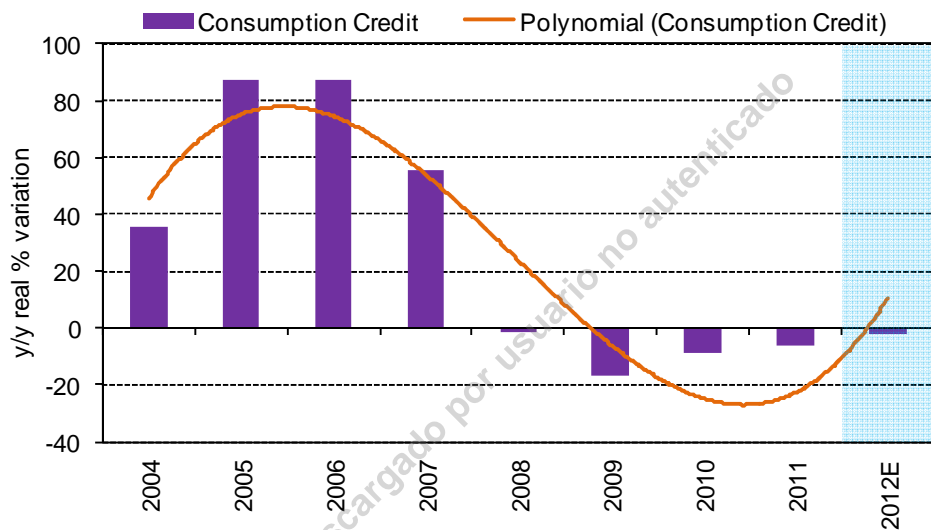
The Central Bank of Venezuela (BCV) has recognized in a series of documents that it has released, that negative real interest rates caused by an excess of liquidity generated by a combination of the oil boom the country was going through at the time and the implementation of the exchange control; both which were a positive influence and helped to generate a consumption boom. In fact, if we look at the loan portfolios compared to credit cards and car loans, you'll see how positive they performed in real terms during the boom.





The key was to acquire debt in order to consume and economic agents have done so without any problems.

Real growth of Consumption Credit



Sources: Sudeban and Ecoanalítica

Interest rates and investment

The positive effect wasn't only limited to consumption but it also affected investment. There are elements here that go beyond negative real interest rates and have to do with the implementation of required loan quotas for certain sectors and subsidized interest rates (under market value).

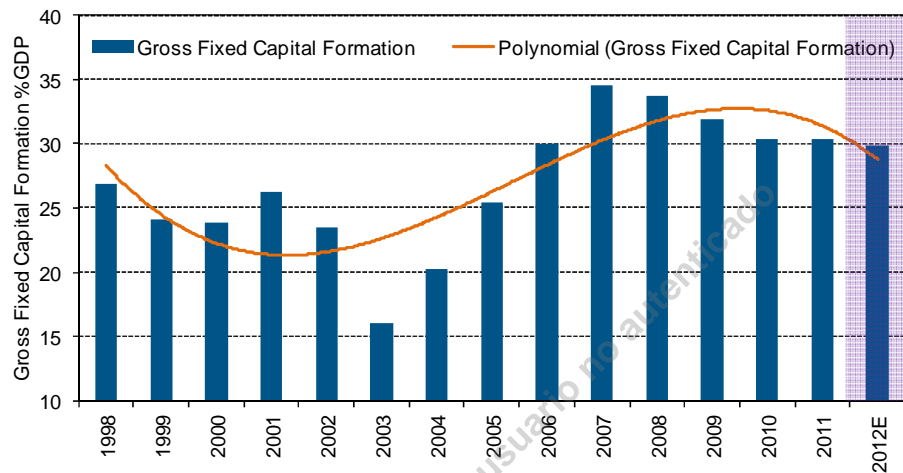
The BCV has also pointed out the positive effect the lowering of interest rates has had on increased investment.

For example, according to figures released in the Economy Reports published starting in 2008, the BCV reveals interesting elements with respect to investment in Venezuela. Let's keep in mind that what we call investment is Gross Fixed Capital Formation (GFCF), a concept that includes investment in transportation equipment, machinery and equipment, buildings and construction.





Investment as % GDP



Sources: Central Bank of Venezuela and Ecoanalítica

What does the BCV say?

The BCV highlights three elements:

1. A general characteristic that shows investment spending, its high volatility, especially when compared to the rest of GDP components.
2. In Venezuela, the investment rate (measured as the relationship between GFCF and the GDP) showed sustained and rapid increase between 2004 and 2007 and, despite having dropped slightly in 2008 to 31.4%, this value continued to be one of the highest of the last decade. The Report shows that investment spending in Venezuela during the boom was significantly higher than in other Latin American countries during the same period, where investment spending increased moderately and reached an average of 20% in 2008.
3. The significant increase that investment rate showed in Venezuela was backed by a significant increase in non-residential spending, which includes buildings, other constructions, machinery and equipment, and transportation equipment.

According to the 2008 Economy Report, the only one to address in detail the subject of investment: *“investment spending carried out by economic agents during the last 10 years represented 60% of the total (19% of GDP) and has traditionally been more volatile, given that it has responded with greater sensitivity to the changes in the feelings and expectations of the*



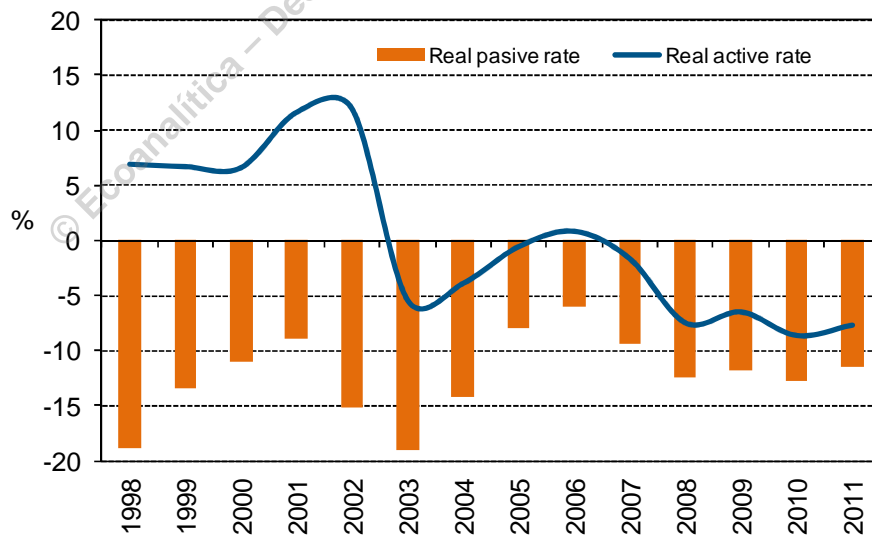
future development of the country's economic activity.” The Report goes on to say that “private investment was more diversified than public investment (12.4% of GDP) and it has tended to concentrate on infrastructure works, buildings and other construction projects”.

Why did investment increase?

According to the BCV, one of the elements that helped promote the wave of investment during the 2004 – 2008 period was the exchange control, or looking at it from a different point of view, the fact that some Venezuelan companies had access to foreign currency at the official exchange rate that was clearly overvalued. This made it easier to acquire foreign capital goods, specifically, transportation equipment, and other machinery and equipment, their yearly rate increase during the expansion phase averaged 40% and 36% respectively.

Also linked to the implementation of an exchange control, or rather, resulting from it, investment was propelled by persistent low real interest rates.

Real interest rates



Sources: BCV and Ecoanalítica

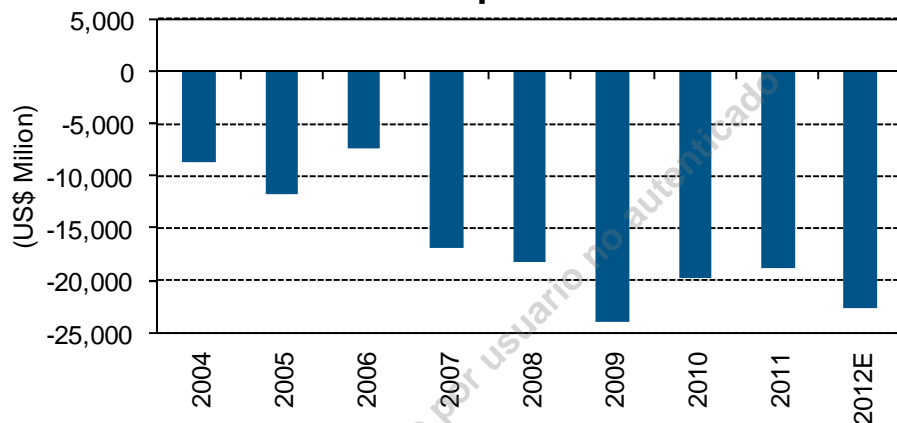
Interest rates and capital outflows

Negative real interest rates didn't only generate positive effects; they also had their negative consequences, namely, out-going capital. Based on figures released by the BCV, at **Ecoanalítica**, we calculated private sector out-capital between 2004 and 2011 at US\$ 125.8 billion. A part of this was



the local private sector, acquiring debt in bolivars to take it out in US-dollars.

Private Capital outflow



Sources: BCV and Ecoanalítica

The corporate sector gets the most benefits

Despite all the distortions, and that all the sectors benefited from lower interest rates, after the items fixed with quotas, the corporate segment was the one that benefited the most. Given that their risk perception is lower than that of a small or medium sized company, their interest rates were lower.

The future? Tied to the exchange control

Venezuela is facing a presidential election like none other it has faced before, given all the uncertainty and questions created by the President's illness. No matter what happens or who wins the election, the exchange control is in the eye of the hurricane. In our opinion, exchange policies need to be reviewed and we believe that changes will have to be made, no matter what the outcome of the presidential election. Of course, said changes won't be the same and will depend on what economic model will be implanted.

If chavismo wins again

If the chavista economic model continues after October (the presidential election is on October 7, 2012), the exchange control will probably not be dismantled, but some reforms are likely to be introduced in the medium term, and we are convinced that the official exchange rate will be adjusted during the first quarter 2013. We expect that the Cadivi exchange rate will be modified to VEB 6.3/US\$ which would imply a devaluation of 46.5%.

We believe that when this happens, the Administration may decide to make some adjustments to its exchange policies. A change that may be



introduced is that the parallel market may once again be legalized and become a major player again, releasing a lot of the pressure that has generated since it was declared illegal. In other words, an escape valve is needed to release the pressure. This proposal has been suggested by the pragmatic side of the President's advisors, led by the president of the BCV.

If this were to happen, interest rates wouldn't suffer any significant changes, probably a slight pressure to increase. So, the general recommendation to acquire debt in bolivars still is valid and a good idea, and if the parallel market were to be reactivated, then this would be the mechanism to use to acquire foreign currency.

**And if the
Opposition
wins...**

There is no doubt that if Henrique Capriles wins the presidential election that there will be significant changes in economic policies. The foundation of Capriles's message is that change will come gradually. The economic team working with the Capriles is clear on the fact that the exchange control has to be dismantled. They are also clear that it has to be done gradually, but it can't take too long either.

Dismantling the exchange control in stages will create changes in monetary policies and how the finance system will operate; the latter will affect interest rates and its spread. It's impossible to contemplate designing a new exchange policy without also having to adjust and increase interest rates.

We expect that this adjustment to the interest rate will be gradual but it will especially affect the corporate segment given the subsidized rates that it has been enjoying for the last few years. This will also be reinforced by the gradual adjustment of the quotas which were fixed.

So, our recommendation is to keep close tabs on the political scene and the presidential campaign these coming months. If it looks like the Opposition victory is imminent, it would be advisable to lower the amount of debt the company is carrying in local currency (bolivars). It's worth pointing out that the gradual nature of most of these changes that are coming if the Opposition wins will favor the private sector, giving it time to react and make the appropriate changes.

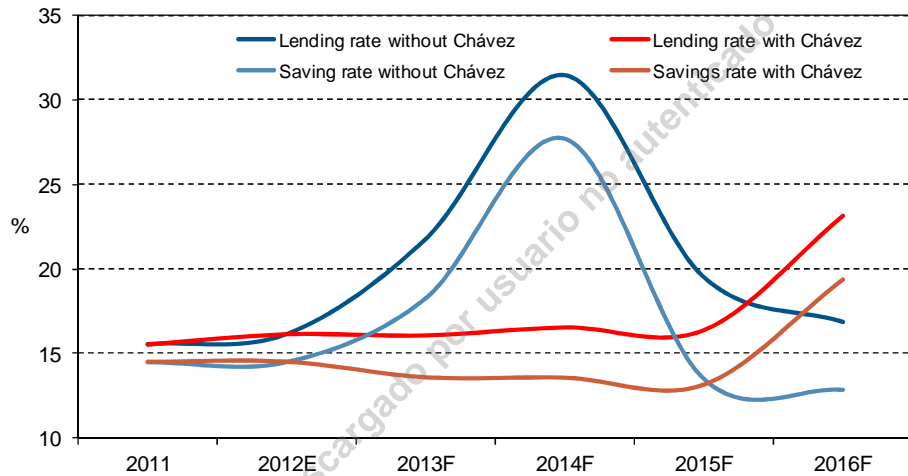
**How does the
future look?**

According to our most recent calculations, if the chavismo stays in power, the average market lending rate in 2012 will be at 16.2% and the savings rate at 14.5%. In 2013, we expect the average market lending rate to be at



16.1% and the savings rate at 13.6%; as you can appreciate no significant changes. If the Opposition wins the presidential election, the average market lending rate in 2013 will be at 21.8% and the savings rate at 18.3%.

Projected interest rates with and without Chávez



Sources: BCV and Ecoanalítica

What must be overcome?

The current economic model has been performing with steady slow growth in certain economic sectors backed by the public sector, the so-called strategic sectors. Add to this other sectors that are dependent on public-private sector arrangements, something that is increasing given that the private sector knows the local market better than the public sector. But all this has generated negative impacts on investment and employment. In summary, the economy looks to be headed to a future where it is exclusively propelled by the public sector and growing way below its full potential. Public policies must be changed and re-designed in order to change this.





Economic Tips

Debt with workers will be paid with bonds. The President Hugo Chavez announced that this year will create the National Savings Fund for the Workers (NSFW) to cancel the debt for benefits through the issuance of bonds called Petrorinocos. Workers have the option to hold the bonds until maturity and collect an annual dividend or sell stock, after the expiry of a period of two years in which there can be negotiated.

The fund will support the bonds. This will happen through resources that will receive various pipes and this year is scheduled to receive a total of US\$1.70 billion, and honored old liabilities plus what is generated from May with the new Labour Law. The first resource is that PDVSA will create a new subsidiary, called Social PDVSA, with 4% of the shares of each State in companies that exploit the Orinoco Oil Belt and deposit their dividends in the NSFW, bringing this year US\$116 million. The NSFW will also receive what companies cancel that are operating in the Faja as an extraction tax and other taxes which represent 3.33% of gross revenues. This mechanism must provide this year US\$1.40 billion.

Hugo Chavez announced the creation of a Popular Savings Fund (PSF). This fund will provide part of their dividends to NSFW for the payment of benefits and this year is expected to make a payment of US\$210 million. He said that since the projections are made on how to receive the payment of debt NSFW work for both roads until 2036, considering an estimated oil price of 100 US\$/bl.

The subsidiary of PDVSA will received some funds. This will happen during the next 24 years the NSFW should receive a total of US\$5.64 billion, for tax collection, US\$24 billion and PSF, US\$7 billion

Tax collection for the month of February. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 11.93 billion in taxes were collected for the month of February. Of this amount, VEB 1.92 billion (16.1%) came from Income Tax, and VEB 6.38 billion (53.5%) from the VAT.

In real terms, February tax collection was up by 5.8% compared to the same period last year. Both the Customs revenue and the VAT increased in real terms compared to the same period last year, by 39.9% and 11.8%, respectively. Revenue coming in due to Income Tax went down by 3.3% in real terms compared to the same period last year.



Concepts (VEB Million)	Feb-11	Feb-12	Var (%)	Real Var	Jan-Feb 2011	Jan-Feb 2012	Nominal Var	Real Var
Total Income	8,999	11,925	32.5%	5.8%	18,162	23,683	30.4%	4.1%
Income Tax	1,587	1,922	21.1%	-3.3%	3,223	4,153	28.9%	2.9%
VAT (Internal)	4,555	6,382	40.1%	11.8%	9,131	12,278	34.5%	7.3%
Customs revenue*	1,618	2,836	75.2%	39.9%	4,639	5,725	23.4%	-1.5%
Other Internal Revenue	429	629	46.6%	17.0%	1,038	1,425	37.4%	9.7%
Spirits	25	51	104.7%	63.4%	64	102	59.9%	27.7%
Cigarettes	368	544	47.8%	17.9%	901	1,261	39.9%	11.7%
Inheritance	16	28	73.0%	38.1%	31	49	55.6%	24.2%
Random games or bets	19	6	-67.6%	-74.1%	40	14	-65.9%	-72.8%
Others	61	156	156.0%	104.3%	131	222	70.3%	36.0%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports.

Income Taxes have increased by 34% in the Central Region. According to information from Humberto Gutiérrez, a manager at the SENIAT, income tax filing from the Central Region (Aragua, Carabobo, and Cojedes states) has increased by 34% so far this year. To date, 14,600 income tax filings have been received, while during the same period in 2011, only 10,700 income tax returns were filed. Gutiérrez attributed this increase to people becoming more aware of their fiscal responsibilities, and their civic duties, and the SENIAT's campaign to increase awareness among the communities throughout the year.

2011 surplus financing 2012 spending. The office of Public Finance figures show that at the close of 2011, government ordinary and extraordinary revenues reached VEB 381.0 billion, but that not all these resources were used on projects leaving a surplus of VEB 71.30 billion. These resources have been being used to cover the supplemental appropriations being authorized so far this year and that equal VEB 11.90 billion.

Interest rates. The lending rate for the third week in March was at 17.6%, decreasing by 0.2 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 0.5% going from US\$27,552 million during the second week of March to US\$27,405 million during the third week. Compared to the same period last year, international reserves have decreased by 6.9%.

Monetary liquidity. Monetary liquidity in the third week in March increased 1.3% compared to the previous week settling at VEB 461,619 million. The M2 has increased 51.7% year-on-year.



Sitme figures. So far this year, US\$2,310 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$39.2 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$634 million (37.8%) over the same period of 2011, when negotiated US\$1,677 million. Lastly, during the third week of March the amount traded reached US\$168.8 million traded US\$ 15.6 million less than last week when US\$184.4 million were traded.

Oil Tips

PDVSA reveals the 2011 Report and Accounts. It says that although Pdvsa increased investments in core sectors (exploration, production, and refining), the injection of funds for social development was 80% higher than the investments made for its own activities. In 2011, oil related activities were assigned US\$15.1 billion, compared to US\$10.6 billion in 2010. According to the State owned company, *“the greatest effort was to maintain oil production levels, to develop off shore gas projects, increase production in the Faja, and strengthen our own electric power network. Efforts were also made in refining projects and the acquisition of well equipment”*.

The effort was not reflected in production. The company highlights efforts in resource disbursements, but in the end, extraction levels in 2011 were similar to those of 2010. Production remained at 2.90 mb/d, and the volume of crude and products exported was 2.40 mb/d.

Pdvsa’s income increases 35% and social contributions 41%. In 2011, thanks to the 40% increase in the value of the local barrel, Pdvsa’s income was US\$127.80 billion. Preliminary industry figures in the 2011 Report and Accounts show that the resources obtained by the State owned company through crude oil sales increased 35% with respect to 2010 when it was US\$94.9 billion.

Pdvsa’s social contribution. Figures show that Pdvsa’s social contribution in 2011 was US\$27.0 billion, an increase of 41% with respect to 2010 when it was US\$19.2 billion. The State owned company underscores that of this amount, US\$4.70 billion were destined to the Gran Misión Vivienda, which is coordinated by the oil company.

Pdvsa’s accounts receivable increase. Crude oil trade through international agreements and fuel sales to official entities affected Pdvsa’s finances. Preliminary



figures about the performance of the oil industry, contained in the 2011 Report and Accounts, show that accounts receivable increased 44% in one year, going from US\$20.0 billion to US\$28.90 billion. In the report, the State owned company explains that *“this increase in commercial accounts receivable was affected by the increase in the price of the Venezuelan oil basket, and the debt of Corpoelec, Pequiven and CVG from the sale of liquid and gas fuels”*.

It is unlikely that 3.5 mb/d will be extracted in 2012. Pdvsa's Strategic Plans for the 2006- 2012 period established that by the end of this year, national crude oil production would be 5.8 mb/d. Presently, Pdvsa's production, is around 3 mb/d according to official data; the goal for the end of 2012 is to exploit 3.5 mb/d. However, according to the Venezuelan Association of Petroleum Engineers, and to the National Academy of Engineering and Habitat, that won't be possible.

It isn't possible to increase production by 500 kb/d this year. Fernando Sánchez, Vice President of that Academy, said that it isn't possible to increase production by 500 kb/d in 2012. The engineer stated that the approach of Pdvsa's management to develop those barrels is wrong. *“The extra heavy crude oil of the Faja is limited by the upgraders, which are not at their best performance”*. He added that to produce an additional 500 kb/d it is necessary to add three more upgraders to process the extra heavy crude oil of the Orinoco Oil Belt. *“To have these facilities available, time is required”*, said Sánchez.

Look into traditional areas. According to oil experts, a more viable alternative for the State owned company is to recover production in the so called traditional oil exploitation areas, since due to lack of maintenance Pdvsa is not producing at least 400 kb/d.

The global environment is ideal to attract oil investments. The Venezuelan oil industry is going through a good moment. Despite the fact that oil activities are 13% less than a decade ago, that expansion plans have not occurred, and that operational issues constantly affect the facilities, Venezuela is in an excellent position. This is according to economist Alejandro Grisanti, who says that the geopolitical condition of Venezuela is the best advantage in these times. *“Venezuela, given its geopolitical situation, is in an exceptional moment, the best possible moment to reinforce and look for more investments in the oil sector”*, he said.

The Government of Venezuela is negotiating with a Canadian company. This company is the Rusoro Mining with Russian capital for the nationalization of its assets in gold mines in the South American country, said on Tuesday the Oil and Mining Minister, Rafael Ramirez. *“They have expressed their willingness to stay with*



us, we have invited us to settle for joint ventures is a bargain that will announce when finished," said the minister.

Pdvsa improved the electric power infrastructure in Petrocaribe countries. The government delegated Pdvsa to invest in the national electric power system, given the problems that have affected it, but the support of the State owned company has also extended to countries that are members of Petrocaribe and to Bolivia. According to the 2011 Report and Accounts, *"the conditions of the electric power infrastructure of Central American and Caribbean countries attached to the Petrocaribe agreement were improved, to overcome weaknesses in electric power generation, storage, and distribution of fuel, and to minimize the impact that the intermediaries have in costs, since they take advantage of these weaknesses"*.

19 of the 76 clauses of the oil contract were approved. In the discussion of the oil collective bargaining agreement, 19 clauses of the 76 that are included in the 2011-2013 agreement have been approved.

International oil baskets. At closing time on March 23th in the New York Stock Exchange, the price of the WTI was US\$106.7/bl, a 0.5% increase compared to the US\$106.2/bl reported the previous week. The Brent decreased by 0.5% to reach US\$124.6/bl, compared to the previous week's US\$125.2/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$116.9/bl on Friday March 23th, a 0.3% increase compared to the US\$116.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$111.7/bl

Business Sector Tips

Electric power sector received an additional VEB 2.10 billion. The Finance Commission of the National Assembly authorized an additional credit of VEB 2.10 billion to the Electric Power Ministry, for personnel and project expenses. In less than three months, the electric sector has already received VEB 3.50 billion. In the last few weeks, the request for funds by official entities has been constant, and those that request more resources are the electric power companies.





New integral management system for industries and trade. Through a resolution, the Integral Management System for Industries and Trade will be published soon, which will consolidate the information of all the productive companies and industries of the country, as informed by Ricardo Menéndez Vice President for the Productive Economic Area, and Minister of Industries. According to Menéndez the new system will collect, through an on line program, the record of each productive activity carried out by companies, and will help speed up the procedures before different State organizations.

Already the third wave. In the first three days of the third wave of the Gran Misión Saber y Trabajo, 90,047 have registered, and so far 756,320 Venezuelans are registered in this new social program, as explained by the Vice President for the Productive Economic Area and Minister of Industries, Ricardo Menéndez.

The real estate sector has been excluded. Aquiles Martini Pietri, President of the Venezuelan Real Estate Chamber, said that the private sector is increasingly being execrated and removed from the construction sector. During the forum *"The Real Estate Sector in 2012. Perspectives and challenges for its development"*, he said that *"in 1998 the participation of the private sector was 42.5% but today, it is 21.5%. We are participating 50% less"*.

Venezuela and Argentina consolidate digital TV. Hugo Chávez Frías, President of the Republic, mentioned this Tuesday the achievements of the Argentinean Government, with the development of land digital television, and thanked the support provided by the South American country to Venezuela, in the expansion of this technology. *"We know how the land digital television project is moving forward in Argentina and I want to thank you for your support"*, said the Head of State to Argentinean President Cristina Fernández, through satellite contact.

Excess liquidity causes an increase of public bonds in Banks. According to statistics of the Bank Superintendence (Sudeban), during the first two months of this year, the State securities portfolio in the financial system increased 16%, and was VEB 119.00 billion. This portfolio is expected to increase even more, once the Administration issues bonds for VEB 10.0 billion, to obtain resources destined for the agricultural sector.

Sudeban demands client data from the banks. Last Thursday, the Bank Superintendence sent financial entities a letter notifying them that client data must be delivered in full, in May of this year at the latest.

Request more information. The Superintendence is implementing the Integral Financial Information System (Sistema de Información Integral Financiero - SIF),



which contemplates the delivery of more information to the authorities, something that concerns the bankers. *"We are concerned that the information may end up in unscrupulous hands; delivering these data weakens the banking secrecy"* said the president of a bank who wants to remain anonymous.

Banks stop the collection of payment of agricultural credits under litigation.

Congressman José Ureña, President of the Sub Commission of Agro-food Development of the National Assembly, said that during a meeting with bank representatives, it was agreed to suspend the collection of payment of all agricultural credits under litigation. The statistics of the Bank Superintendence indicate that in the last twelve months, agricultural credits under litigation, that is, those where the bank orders a group of lawyers to sue the client and execute the guarantee, increased 22% for a total of VEB 62.800.

Funds for credits to acquire housing are reduced. The Ministry of Housing published the new rules for financing in the housing area. The rule orders banks to destine 15% of the total portfolio to the mortgage sector, and forces to put most of the financing to housing construction, which limits the credits to acquire homes. *Official Gazette N°. 39.890* contains the new conditions of the mortgage portfolio, and states that within the framework of the Gran Misión Vivienda the mandatory portfolio is set at 15% when in 2011 it was 12%.

Cavidea reports a drop in sales of 8 basic items. The behavior of sales of the national food industry during February was not positive, since the tons sold dropped 0.67% compared to the same month in 2011, according to the controlled food index prepared by the Venezuelan Food Industry Chamber (Cámara Venezolana de la Industria de Alimentos - Cavidea).

Decrease sales on 8 basic items. The Trends report prepared monthly by Cavidea, which measures 19 priority foods, revealed that in February of this year, the sale of eight basic items dropped, while seven increased the placement of its products in the market. There was no marketing information for four categories: cheese, chicken, eggs, and coffee.

Trade exchanges between the US and Venezuela could increase between 5% and 10%. Carlos Tejera, General Manager of Venamcham, informed that the chamber is expecting trade exchange figures between the US and Venezuela to increase 5% to 10% with respect to 2011. He recalled that last year there was a record amount of US\$54.0 billion, and considered that it is *"possible that there will be an increase in the import of US products, since it is an electoral year, public spending is increasing, and there are high oil prices"*.



Trade between Venezuela and Colombia may increase 52%. The Venezuelan-Colombian Economic Integration Chamber (Cámara de Integración Económica Venezolana Colombiana - Cavecol) estimates that trade exchanges between both countries will reach \$3.20 billion at the end of 2012, according to its president, Emilia Peraza. If this estimate becomes a reality, the exchange between both nations would increase 52% with respect to 2011, when it was \$2.18 billion.

Debt of the pharmaceutical sector increases due to delays in Cadivi. The replacement of medication inventories in the country is at risk, due to delays by the Foreign Exchange Administration Commission (Comisión de Administración de Divisas - Cadivi) to authorize the liquidation of dollars during the year, say businessmen in the pharmaceutical sector.

Venezuela faces 28 suits abroad. The number of international arbitrations and legal actions against the Republic in foreign courts reached 28 suits for expropriation actions, or contract breaches by the Government. This data is part of the 2011 Report and Accounts of the Attorney General's Office, which was signed by Carlos Escarrá, although the document was presented at the Assembly by his successor, Cilia Flores.

Arbitration processes unresolved. The annual report of the Attorney General's Office states that at the end of last year 23 international arbitration processes were still pending, mostly initiated by multinationals that decided to present the suit at the International Center for Settlement of Investment Disputes, and the remaining 5 correspond to claims presented in 2 courthouses in Switzerland, in the United States, and one in Italy.

Sidor reported losses for VEB 1.50 billion in 2011. Siderúrgica del Orinoco (Sidor) reported losses for VEB 1.53 billion in 2011, despite increases in production and sales. In 2010, the earnings were VEB 57 million, although the power crisis shutdown more than half of its blast furnaces. The main steel plant of the country reported positive operations income in 2011 for VEB 6.43 billion, while from the cost of sale of goods and services, it had a negative balance of VEB 6.77 billion, resulting in a negative gross result of VEB 320 million. The company states that last year's fiscal performance was limited due to *"losses accumulated because of contributions to the energy savings plan, the freezing of sales prices of transformed products, and the increase in the weight of personnel expenses in the cost structure"*.

The present conditions hinder industrial development. Despite having more than one decade in power, official sectors continue saying that it is necessary to move forward to the *"necessary industrialization"*, said President Hugo Chávez on Saturday



afternoon. But behind the words, there is a nation whose industrial park has halved in the last 13 years, going from 14,000 to only 7,000 companies.

The context doesn't help the industry. The context in which these industries operate has also drastically changed during the present Administration. Price controls, a distortion of the concept of expropriation, higher taxes and para-fiscal burdens, and legal insecurities are elements that are present in the economy, which affect private development.

Cadivi reduces foreign currency assignments for imports more than 10%. During the first two months of the year Cadivi, the entity in charge of distributing currency at the official exchange rate, has authorized US\$3.28 billion for imports through regular ways, through the Aladi Agreement and Sucre. The result, according to the report by Síntesis Financiera, is a reduction of 14% comparing this figure with the assignments during the same period in 2011.

...The scissor has not cut uniformly. While the currency approved for the food sector increased 64% and for trade 40%, the automotive industry had a reduction of 39%, and health 37%.

World Economy Tips

The US economy needs to grow faster. With a higher growth, US could produce enough work posts and reduce unemployment, said last Monday, March 26, Ben Bernanke, President of the Federal Reserve (Fed). The head of the Fed added that the recent decline in unemployment, which dropped to 8.3% in February, “*is somehow out of sync*” with the modest growth of the economy. GDP increased 3% in the US during 4Q 2011, but it is expected to drop to 2% in the first three months of this year.

Bernanke declarations. The President of the Fed added that “*For more significant improvements in the unemployment rate, it may be necessary to have a faster expansion of production and of the demand of consumers and companies, a process that may be supported by continuing with expansive policies*”. Bernanke reiterated his concern about long term unemployment, but stated against that, that a large part of the problem is due to structural problems that cannot be confronted with monetary policies.



Brics Summit starts this week in New Delhi. Dilma Rousseff, President of Brazil, will arrive this week in India to participate in the Fourth Brics Summit, formed by the emerging powers of Brazil, Russia, India, China and South Africa, which will tackle an ambitious economic, political, and commercial agenda, according to Brazilian communication media.

Important issues to be discussed during the Brics Summit. Among the trade issues to be discussed are the idea to create a Brics Development Bank, and to increase trade exchanges between the countries in the block, so as to make it into an economic and political reference in the international scene, and try to buffer the greater effects of the world economic crisis for the remainder of 2012.

Former head of the ECB: “we are still in crisis”. The global financial system has not fully emerged from a crisis that has lasted several years, said last week Jean-Claude Trichet, former head of the European Central Bank (ECB). “*I believe we are still in crisis*”, said Trichet at a conference on monetary policies sponsored by the Fed. The comments of the former head of the ECB took place amid new fears of a wider recession in Europe, while Germany and France informed of unexpected and acute declines in manufacturing in March. Great Britain contributed to pessimism, with a greater than expected drop in retail sales.

EC expresses confidence in the Spanish markets. The Vice President of the European Commission (EC), Olli Rehn, reaffirmed last Sunday their confidence in Spain against the doubts raised by the Italian government after the renewed pressure on the Spanish bond market.

Foreign investments drive Latin America. Uncertainties about the economic recovery of developed countries and the growing insertion of Latin American countries in the globalization process, are key factors that made the Foreign Direct Investment (FDI) of the region increase gradually in the last few years. This is stated in a report on FDI, prepared by the Economic Commission for Latin America and the Caribbean (ECLAC). It mentions that this boom is closely linked to the demand for natural resources, mining, hydrocarbons, and food that is produced on this side of the globe, whose prices are more attractive for the first world companies and governments requiring them.

Argentina-US relations deteriorate. Barack Obama, President of the United States, said last Monday, March 26, that it will suspend Argentina’s trade preferences, because the South American country refuses to pay US\$300 million in arbitration decisions from two investment disputes with US companies. Obama suspended Argentina from the Generalized System of Preferences, which waves tariffs from the import of thousands of products from developing countries. We must recall that the



US imported US\$477 million in goods from Argentina under this program in 2011, equivalent to 11% of total US imports from that country.

Peru is the least vulnerable economy in Latin America... thanks to the high level of Net International Reserves (NIR) of more than US\$55.0 billion, said Julio Velarde President of the Reserve Central Bank (RCB). He said: *“Our international reserves are quite high, and we are the least vulnerable economy in Latin America”*. *“In the event of significant drops in the price of exports, or an interruption of capital flows, we have the defenses to mitigate negative external shocks”*. He said that Peru has the highest ratio of international reserves over short term debt in the region.

Colombia: FTA = more employment. *“Free Trade Agreements (FTA) translate into more employment, trade agreements generate more employment because Colombian products could enter those markets, and more people have to be employed to produce more. Employment, development, and economic growth”*, said Juan Manuel Santos, President of Colombia, last weekend, at the opening of the Agreement for Prosperity Number 67, held at the Capital of El Chocó. The Head of State indicated that after the Summit, he will meet with the US president to talk about the implementation of the FTA. He said that trade agreements are the ones that drive the national economy.

Political Tips

“I say good-bye for a few days, to the Venezuelan people”. Hugo Chávez, President of the Republic, said good bye from the Simón Bolívar Airport in Maiquetía last Saturday evening, when he left to Havana to start radiotherapy treatment. Before departing, the Head of State said good bye *“for a few days, to the Venezuelan people and his comrades in arms”*.

Chávez approved VEB 81 million for maintenance plan in Miranda. Hugo Chávez, President of the Bolivarian Republic of Venezuela, approved last Saturday VEB 81 million for a city cleaning and maintenance plan in the municipalities of the State of Miranda.

US\$500.0 billion have been destined for the social area. Jorge Giordani, Vice President for the Strategic and Administrative Area, said that during the revolutionary process, a social investment of US\$500.0 billion has been made in development



areas like health, housing, and education. He stated that the revolution offers liberating jobs for the people, and doesn't exploit them, as was done during the fourth republic. This statement was given by the official during a Vice Presidents council held this Saturday at the Miraflores Palace.

President Chávez has a advantage over the opposition candidate. Hugo Chávez, President of Venezuela, is headed toward the crucial elections of October with a clear advantage of 13 percent points over the Unity candidate of the opposition, Henrique Capriles, according to a survey by Datanálisis revealed on Tuesday in a private presentation.

New survey of Datanálisis. According to the survey revealed by Datanálisis, which concluded in March, Chávez has a 44% vote intention, compared to 31% for Capriles, in the midst of a war of numbers that unleashed after the opposition primaries held in February, according to several sources. The study, however, identifies those that are undecided as more than 20%, which could represent an opportunity both for the government and for the opposition, six months away from the elections.

There is a technical tie. According to a survey by Consultores 21 President Chávez and opposition candidate Henrique Capriles Radonski are tied, 7 months away from the presidential elections. Chávez and Capriles are tied (46% to 45%) in the intention to vote, according to the opinion poll, said Bloomberg in an interview with Saul Cabrera, Vice President of the pollster. 9% is undecided according to a survey of 2,000 people, made on March 3 to 13.

If Chávez is not the candidate, there will be a candidate anyway. If the President is not going to be the presidential candidate, the four more popular candidates representing chavismo are, in order, Adán Chávez, Elías Jaua, Nicolás Maduro, and Diosdado Cabello, said Consultores 21. Of the electors that are more committed to vote (72.5%), Chávez goes up to 51%, Capriles 45% and 4% remains undecided. The error margin of the survey is 2.3 percent points.

Gap in favor of Chávez increased 10%. The gap in favor of the candidate of the United Socialist Party of Venezuela (PSUV) Hugo Chávez increased 10%, compared to opposition candidate, Henrique Capriles, said last week Jorge Rodríguez, Head of Command of the Carabobo Battle Campaign. In a press conference in Room 1 of Parque Central, after ending the second meeting of the Carabobo Command, Rodríguez stated that *"the gap has now increased 29 points"*.

***"If they are winning hands down, don't do more "cadenas" (mandatory joint broadcasts)"*.** After being sworn as Presidential candidate for Unity, the governor of



Miranda, Henrique Capriles Radonski, has been to seven states in his plan to have contact house by house. He said: *"Caracas is not Venezuela. They are waiting for me out of Caracas where more than 74% of the population lives"*. He stated that if the intention of the Government was to intimidate him, with the warning of an alleged attack against him, *"they are going to be left wanting"*.

Legislative Tips

Meeting with mobile telephony companies. Last Wednesday, March 21, the members of the Permanent Commission of Administration and Services of the National Assembly (AN), received representatives of Movistar, Digitel and Movilnet. According to the president of the commission, Elio Serrano, the purpose of the meeting was to increase knowledge about the operation of the companies in the area, their expansion and improvement plans, as well as to mention the concerns that have been received in the legislative power regarding this service, so as to work in a solution.

The law could come. Congressman Hernán Alemán recalled that the parliament has the intention of creating a law in the area, to benefit all citizens. Alemán also said that this service cannot be perceived as a luxury, but rather as a necessity, thereby the need to have the pertinent legislation so as to guarantee the protection of users or clients.

Last phase of the consultation for the new LOT. As informed by Carlos López, member of the Presidential Commission to prepare the new Organic Labor Law (Ley Orgánica del Trabajo - LOT), the last phase to collect proposals for the new law, that will be promulgated by Hugo Chávez, president of the republic, will end on April 14. For the close of this last period, which started on Wednesday, March 21, popular assemblies will take place in all the states, to receive the proposals of the sectors that have not yet delivered them, said López.

Disarmament bill will be discussed in June. As announced by Freddy Bernal, president of the Mixed Commission for Disarmament, Arms and Munitions Control of the AN, the second stage of the work program for the Bill will be a series of public consultations in the country, to then discuss the law next June in a plenary meeting. Bernal informed that *"on May 29 we will enter the results of the public consultation (...) so that on June 1 we can present the debate to the Mixed Commission and start*



working article by article" and "if the plan of the commission holds, approximately on June 19 the discussion will go to the National Assembly". The consultation for the law will take place in 18 states of the country.

Artisans request a reform to the Artisan Development Law. A group of artisans from different parts of the country, delivered a draft reform to the Law to Foster and Protect Artisan Development in the Country to AN representatives, to acknowledge it as a cultural job with the social benefits established in the constitution.

This draft has 833 articles. Those articles will include five final provisions and annulments, organized into eight titles. The articles establish the creation of artisan protection zones, and the creation of Artisan Councils. They also contemplate preferences and facilities to export raw materials, a tax payment waiver, the promotion of fairs, samples, contests, recognitions, and access to the credit system, as well as the participation in training and updating programs.

The opposition "celebrates death". This was said by congress woman Blanca Eekhout given the request of congressman Ismael García to include in the agenda of the AN session of March 20 the topic of insecurity, given the latest violent events in the country, among them, the death of the daughter of the Chilean Consul in Maracaibo, in the hands of Cicpc officials. The congresswoman said that the opposition "celebrates death" to use it as a political banner. "This is a destabilization strategy, so the elections of October 7 are not held", she justified. García's proposal was rejected by the plenary, after Eekhout's intervention.

Parliament will request report of the administration of the governor of Táchira. According to the law, Governor Pérez Vivas, from the political party Copei, has 90 days in the beginning of each year, to present his administration report. So far, the regional governor has not presented his Report and Accounts and has not requested an extension from the Legislative Council of Táchira, informed congressman Manuel Peñaloza, who will appear this Tuesday before the Comptroller Commission of Parliament, due to claims of parallel payrolls in the governor's office of Pérez Vivas. When this term is over, the AN will request the governor of the state of Táchira to present the administration report for 2011.

El Aissami Censored. Miguel Ángel Rodríguez independent congressman of the AN, announced that in the next parliamentary sessions, the Democratic Unity section will request a censorship motion against Tareck El Aissami, Minister of the Interior and Justice, as established in article 246 of the constitution. He said that Tareck El Aissami refused to accept that there are sufficient reasons to declare a national state of emergency, given the uncontrolled crime against Venezuelans, and is causing distractions and abandoning his functions to give priority to his political plans.



ECONOMIC OVERVIEW

