



Weekly Report

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F.A.Q: What's behind the performance of the Venezuelan economy in 2011?

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During the traditional cycle of Reports and Accounts before the National Assembly by State Institutions in the beginning of the year, the Central Bank of Venezuela (BCV) published in its web page its Report to the National Assembly on the 2011 economic results (IAN2011). This report has a series of questions and answers that have been frequently asked by our clients.

How much did liquidity increase in 2011?

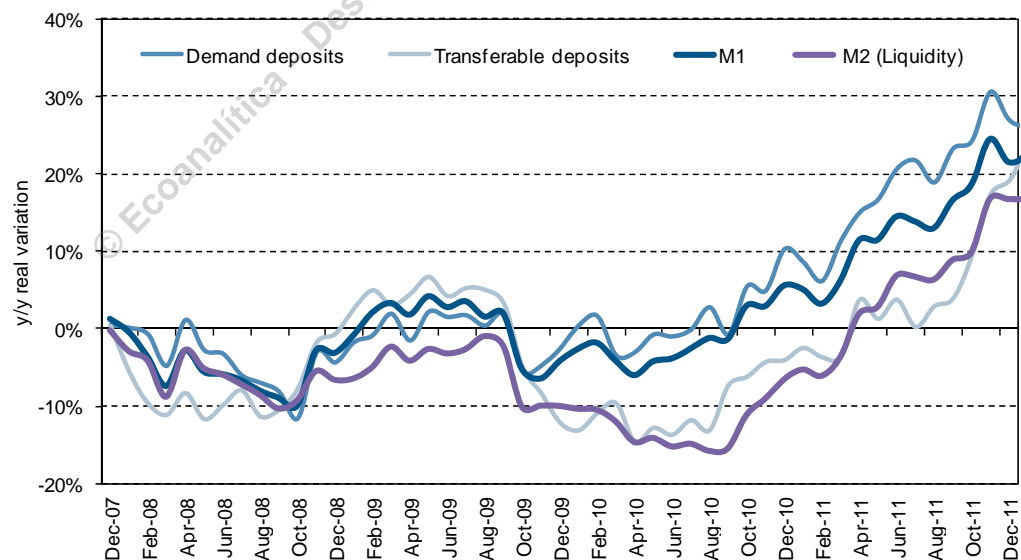
In IAN2011, the growth of the monetary base, or high power money, was determined by *"the net financial performance of the public sector"* for VEB 155.11 billion, of which VEB 108.13 billion correspond to Pdvs. **Ecoanalítica** has been saying this for a long time: the growth of the monetary base during this period is mostly due to the BCV's financing of the oil industry, thus becoming one of the main actions that, from government entities, is feeding inflation, and the worst part is that it is the BCV itself doing it.



In this sense, wider monetary aggregates increased significantly in 2011, compared to recent periods. In nominal terms, circulating money (M1) and monetary liquidity (M2) increased 55% and 50.6% at the end of 2011 with respect to the end of 2010, due to the increase of sight deposits and transferable savings deposits, in the case of M1, and in the case of M2 because of the slowdown in the drop of quasimoney. However, the BCV highlights that a large part of the demand for liquidity in 2011 continued in liquid instruments, like cash and sight deposits (74% of the average aggregate during the period).

Another element affecting the behavior of wider aggregates was the secondary creation of money, which according to BCV was reflected in the increase of the average monetary multiplier, where liquidity went from being 2.56 times the primary money in 2010 to 2.7 times in 2011. These factors allowed circulating money to increase its growth rate in real terms from 5.6% in 2010 to 20.2% in 2011, and the increase in liquidity in real terms of 16.3%, from a low of 6.5% in 2010.

Real growth of monetary aggregates



Sources: BCV and Ecoanalítica

How did the labor market behave?

The BCV informed that in agreement with the economic recovery of 2011, unemployment rate dropped 0.3 percent points compared to 2010, and was 8.2% at the end of last year (or 1,092,517 unemployed). This was fostered by the “renewed dynamism” in the number of unemployed people, which increased 1.9%; however, although this was greater than the year



before (0.7%), the BCV said that it was less than the increase of the last ten years (3.0%).

Is it really the working population the one that drives employment?

Although the BCV report states that unemployment remained “almost stable” the fact is that the number of unemployed people increased in 2011 more than the number of employed people, with an increase of 2.8% (or 7,343,135 people), thus the unemployment rate was 35.5%. According to the report, this rise was associated to the increase in the number of people in other situations (retired, pension holders, and renters) and those that are studying.

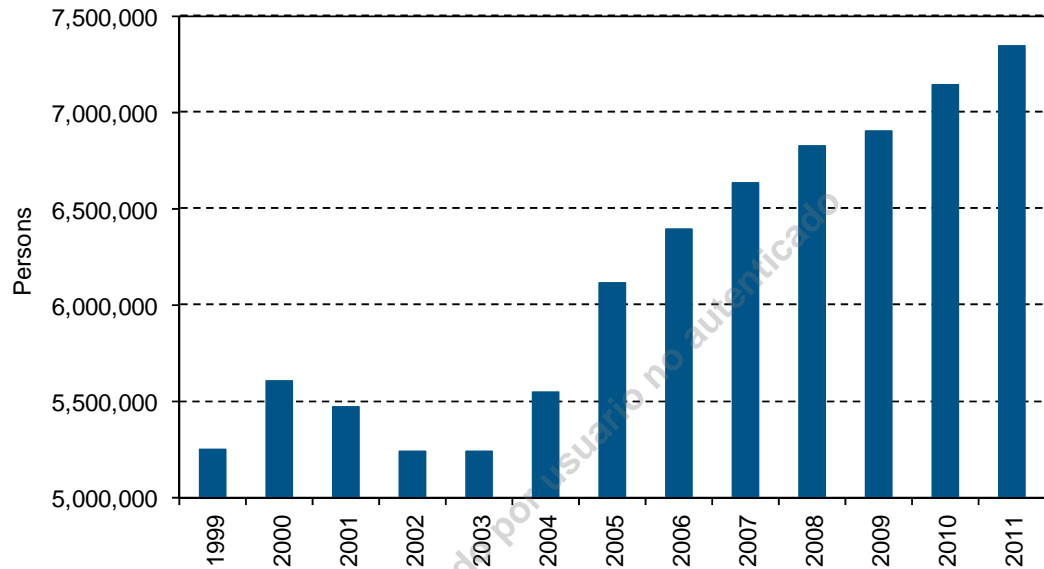
Ecoanalítica believes that the drop in unemployment was related to the systematic increase of the inactive population associated to government aids (misiones), which has led to an increasing number of people receiving State subsidies, whether as scholarships, or as poverty aids, which are not counted among the unemployed. This in our opinion had a strong impact on labor market figures, since the absolute increase of the working population (222,393 people) is almost the same as the increase in the inactive population (203,130 people).

This may be suggesting two things. First we must note that, if we count the share of the inactive population that is able to work, beyond the perverse incentives generated in the population by government aids, the current level of unemployment will increase, or it could imply that this “inactive/unemployed” population lives under a precarious condition. Second, and related to the first point, the fact that the inactive population grows similar to the working population, indicates, among other things, that policies to reduce unemployment are insufficient, despite the economic growth.





Inactive population



Sources: INE and Ecoanalítica

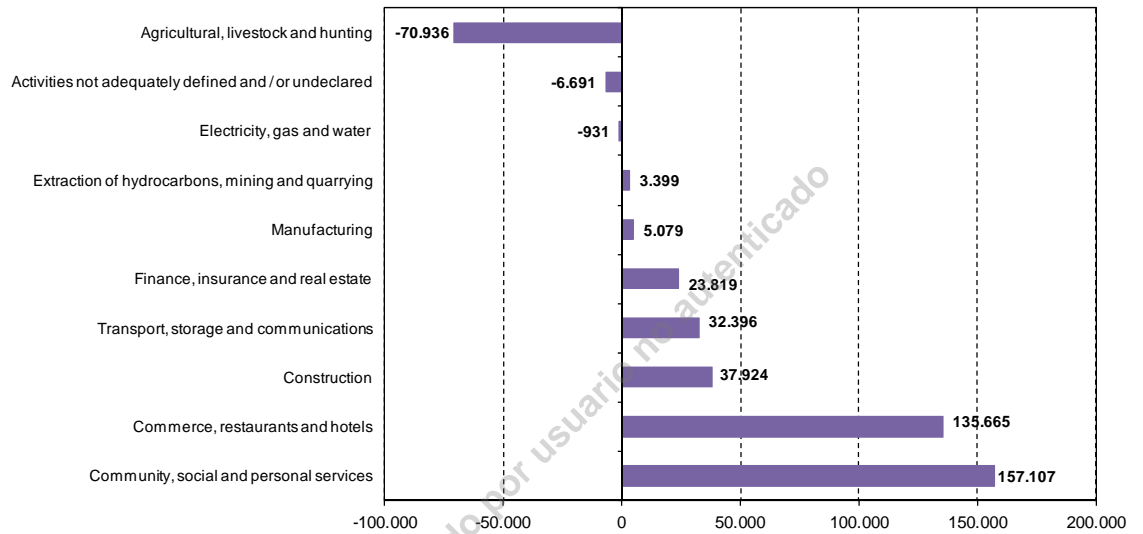
Which sectors were the main employers?

BCV informed that the economic activities with greater increases in employment were communal, social, and personal services (157,107 people) and trade, restaurants, and hotels (135,665 people). On the other hand, the sectors that had a reduction in the number of employees were, paradoxically, electricity, gas, and water (931 people less) and agricultural, livestock, and hunting activities (70,936 people). The manufacturing sector remained almost unchanged, employing only 5,079 more people, reflecting the country's industrial stagnation.





**Changes in employment by economic activity
(Annual change 2S201)**

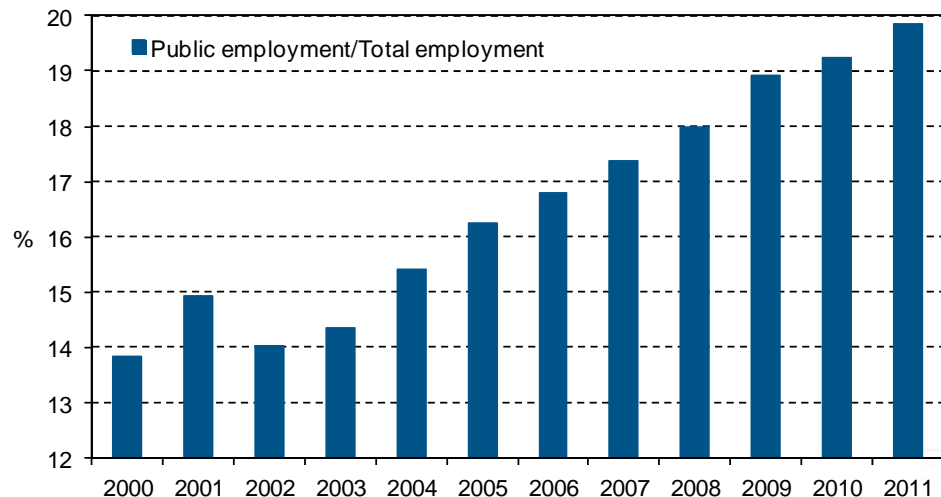


Sources: INE and Ecoanalítica

The public sector payroll continues to rise

Regarding the composition of the labor force by institutional sector, the greatest movement was in the public sector, with a 6.5% increase in the number of workers (149,072 people), while in the private sector, employment increased 1.7% (167,759 people). With this, the participation of public employment in the total number of employed people was 19.8%, the second highest value since the first semester of 1986.

Public employment Share



Sources: INE and Ecoanalítica



Government's strategy in not working at all

The three fundamental instruments of the present Government's labor policy, framed within the *21st Century Socialism*, which is being intensified in an electoral context in an attempt to increase the feeling of wellbeing in the population, has not been showing, so far, the desired results:

1. **The increase in public employment.** As we saw, the Government has been expanding the public sector, making it the most dynamic employer in 2011, and increasing its participation in the total number of employed people, compared to a private sector that is under attack, and doesn't respond the same way to spending, but still employs close to 80% of the working population.
2. **The increase of purchasing power.** In 2011 the government implemented a series of salary increases, for example the fractionated increase of the minimum wage by 25% (extensive to pensioners and retired people), and the scale adjustment of tabulators of public administration employees, which meant an average increase of 45% for workers in this sector, particularly for physicians (30%), the military (50%) and teachers; thanks to these salary increases, the real remuneration index, after falling for 2 years, finally had a positive variation, at 2.9%, driven mainly by a 9.4% increase in public remunerations, and only 0.3% in private remunerations. However, with a high and persistent inflation in the last two years this increase was insufficient: the consumption grew only 4.0% last year and the first quarter of 2012 appears to have showed negative results.
3. **Policy of subsidies and transfers.** The sectors with the lowest incomes, and that escape from the area of influence of the previous two points, are captured by the Government through its subsidy policies (Misiones) which intensified last year (Misión Hijos e Hijas de Venezuela, Misión En Amor Mayor, Misión Madres del Barrio). This issue, together with the above, neither seems to point to generate wellbeing.

We have more salaries, but what about inflation?

Regarding prices, the BCV report states that there are structural restrictions to increase production, particularly in the agricultural sector and the food industry, (private sector inhibitions to make investments, inadequate production structures, and bottlenecks in key sectors of the economy) which, given a greater domestic aggregate demand, caused in

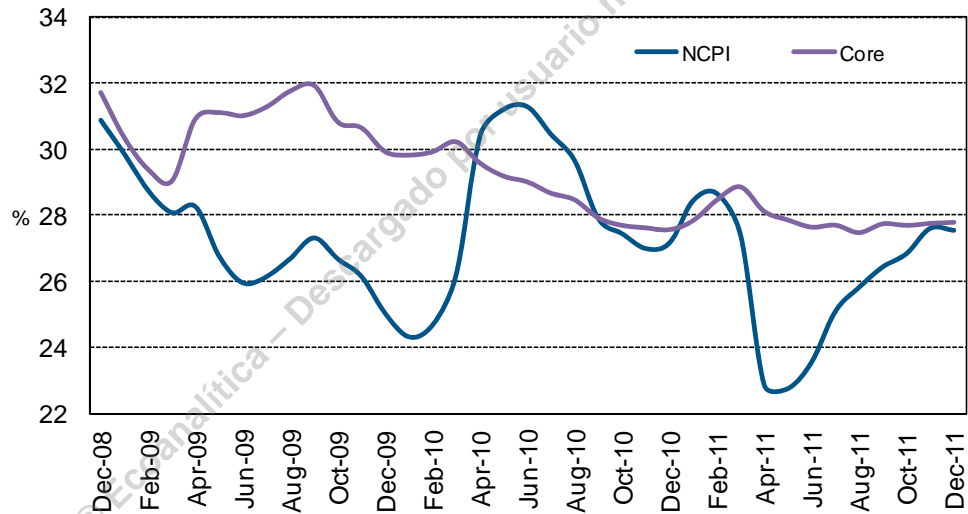


part by an increase in real remunerations of salary earners and government transfers, make of inflation a persistent phenomenon.

Given all this, how did stability come about?

According to the BCV report, the national consumer price index (INPC) in 2011 (27.6%) was similar to that in 2010 (27.2%); however, the underlying inflation, or inflationary core (an indicator that excludes from the basket seasonal factors and goods subject to regulations) is still above national inflation (27.8%), which could indicate, if the gap continues to widen, that sooner or later inflationary pressures will be felt in 2012.

NCPI Vs. NCPI Core (y/y)



Sources: BCV and Ecoanalítica

According to the BCV, the “price stability” was due first to the favorable effect of the greater offer of foreign currency through Cadivi and Sitme. Through both channels, US\$42.77 billion were granted (of which Sitme represents 15.6%), an interannual increase of 10.8%. Of this amount, US\$36.09 billion correspond to the private sector (7.9% more than in 2010) and US\$6.67 to the public sector (29.1% more than in 2010).

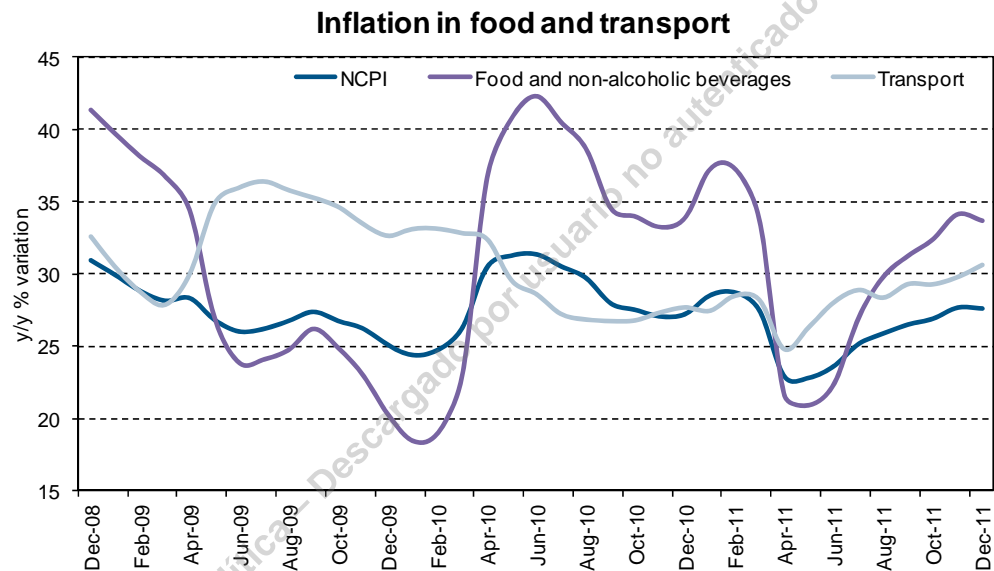
Second, to a greater availability of food through public marketing chains (Mercal, Pdval and Bicentenario).

Why was inflation higher in food and transportation?

Both groups had the highest increases of 2011 (33.6% and 30.6%). According to the BCV report, inflation in both items was affected by the adjustment made to regulated goods, and to food and public transportation rates; in the case of regulated products, the government couldn't continue



postponing the problem, and had to make substantial adjustments in their long list of controlled goods, that in some cases, were more than 6 years overdue. This made the price of these goods vary 30.3% in 2011, 8.3 percent points higher than that in 2010 and quite higher than the inflation of non-controlled items (25.8%), which had a reduction with respect to 2010 (31.0%).



Sources: BCV and Ecoanalítica

What are we importing and where from?

Regarding the foreign sector, the BCV report explains that the import of intermediate consumption goods (raw materials) represented 56% of the total imported, while the goods destined to gross capital formation represented 23%, and finally, final consumption goods were the remaining 21%.

By institutional sector, we see that the public sector increased its non-oil imports by 37.8%, used, as the BCV states, to acquire more food products, specifically through the Corporation for Agricultural Supply and Services (Corporación de Abastecimiento y Servicios Agrícolas - CASA), as well as basic chemical substances. Private sector imports increased 17.8% and its foreign purchases were mainly for foods, machinery and equipment, particularly for construction. The BCV highlights in its report that in the last quarter of the year there was an increase in the purchase of metal structures and constructions.

The main trade partners were the United States, China and Brazil.



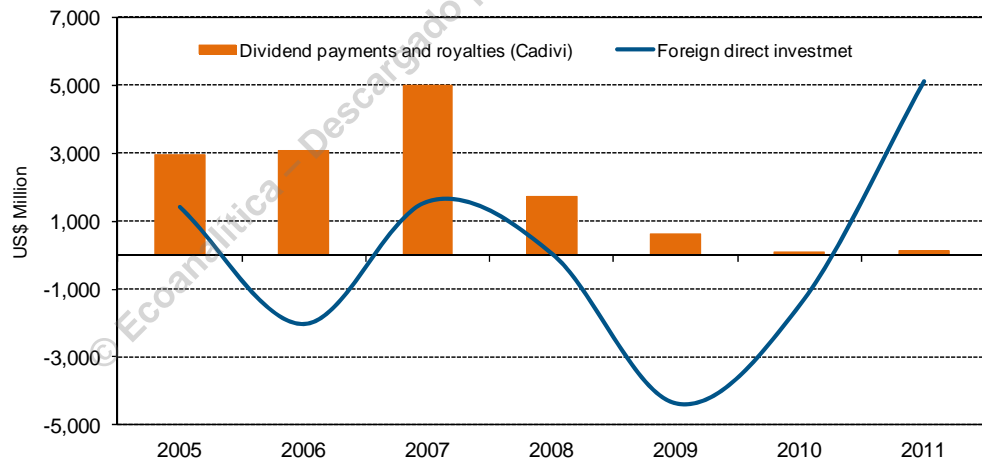


What was the reason for the positive balance in the Direct Investments Account?

Without reservations, BCV states in its report to the AN that the positive balance of the Direct Foreign Investments Account was not due to investment flows into the country in 2011, but rather the foreign currency that had been held up by foreign companies that, given an exchange control that doesn't provide currency to repatriate dividends, are forced to reinvest the mass of bolivars in their hands.

The BCV says: *“the deficit in the other investments account (US\$35.21 billion) was partially compensated by the positive results of the direct investments account (US\$5.12 billion), specifically the reinvested profits of mixed oil companies, and the increase in liabilities towards direct investors, due to dividends payable of private banks and non-financial entities”.*

Dividend payments and royalties (Cadivi) vs. Foreign direct investment



Sources: Cadivi and Ecoanalítica

How much did spending increase?

According to preliminary figures of the BCV, the increase in government spending in nominal terms was 51.4% (almost twice the amount in 2010 when it was 26.0%), and considering inflation, gives a real growth of 18.7% during 2011. In GDP terms, spending increased 3.1 percent points, and was 26.1%.

Among the main components of spending, all behaved similarly: current spending increased 51.1% in nominal terms, capital spending increased 45.4%, and loans, although there is no specific amount, the report says it increased more than 50%.





Regarding current spending, the 9.9% increase is noteworthy, for public debt interest payment. The BCV said that this behavior was due both to *“the increase in the balance of the debt accumulated from previous years, and the impact of the unification of exchange rates, which affected foreign interests, as well as the part of the domestic debt formed by securities in dollars.”*

Another factor that affected the increase in current spending was salary increases (40.7%) and the increase in employment in the public sector.

**What about
fiscal
income?**

The growth in spending was supported by the growth in total income. In it, oil income increased 33.9% (supported by the price increases in the Venezuelan oil basket) and non-oil income increased 64.6%.

The increase of non-oil fiscal income was due basically by the 73.3% increase in income from customs, and 48.8% in VAT. The increase in income from customs *“was due to the increase in imports and the effect of the exchange rate unification”* while VAT collection was driven by the real increase in final consumption spending.

**Bitter, not
better**

The results of IAN2011 reveal a new element of concern for **Ecoanalítica**. While over the BCV report to the NA highlights a positive economic performance, which was championed by the policies and actions, orchestrated and executed from the public sector, such performance does not translate into an improvement of welfare for the population. The worst thing is that we are in mid-April and the situation has not shown a significant change, in fact consumption is not responding to public spending increases. In our opinion, the Government is running late, at least economically, to the election race.





Economic Tips

Inflation reached 0.9% in March. According to figures published by the Central Bank of Venezuela (BCV), National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for March was 0.9%, or an accumulated inflation of 24.6% since March 2011. According to the press release by BCV, these figures represent a deceleration of the rate for the fourth consecutive month.

Meanwhile, core inflation registered an increase of 1.3% in March. The accumulated inflation since the last 12 month registered 23.8%

Health had the highest inflation in March. Among the 13 categories studied by the BCV, in March Health had a higher accumulated inflation than the national inflation, with a variation of 1.9%, followed by restaurants and hotels with 1.7%, entertainment and alcoholic beverages and tobacco with 1.4%, and education with 1.3%.

CPI reached 1.0% in March. According to figures published by the Central Bank of Venezuela (BCV), consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for March was 1.0%, or an accumulated inflation of 24.2% since March 2011. According to the press release by BCV, these figures represent the best monthly result observed since August 2007.

Higher inflation for the poor. Although the accumulated inflation in March since the same month last year in the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 24.2%, during the same period, inflation for class I of the population, which includes the poorest families, increased 29.7%. Classes II, III and IV registered a variation of 26.5%, 25.8% and 22.33% respectively.

Inflation in controlled products increased 28.2%. The price of these products increased 0.93%. At the same time, non-regulated goods had an inflation of 0.89% in March, resulting in a variation of 28.3% for controlled goods and 22.2% non-regulated goods since March 2011.

Geographical results. Of the 11 cities surveyed in March, the greatest variations were observed in Merida with an inflation of 1.22%, followed by Barquisimeto with 1.18% and Valencia with 1.12%. The areas with the least variation in March were Ciudad Guayana with 0.63%, and Barcelona-Puerto La Cruz with 0.70%.



Scarcity index decreases. In March, the scarcity index decreases from 14.4% to 10.8%, which means that out of every 100 products that consumers requested in stores, supermarkets and the establishments throughout the country, 11 were not available.

Inflation is contained. During 1Q2011 inflation showed signs of weakness and accumulated an increase of 3.5% vs. 6% in 1Q2011. Although these results are positive and have benefitted the poorest families, underlying inflation or the inflationary core, which eliminates the effect of controls and seasonal factors, reveals that the force driving prices is far from defeated. In March, the inflationary core increased 1.3% and has increased 4.5% for 2012, indicating that the force driving prices up is far from being defeated.

Yield of Petrorinocos. To pay for the social benefits debt, some of which are 15 years overdue, the State will give public employees bonds in bolivars, known as Petrorinocos. Workers may sell the bonds in the Public Stock Market, once their freeze period is over, or keep them until their maturity and collect their annual interest rate. President Chávez said that the BCV and the Ministry of Finances will establish the coupon using as a reference the rate that has been established for arrears interests in benefit payments, which indicates that their return will be below inflation, around 15%.

Minimum wage increase will be 32.25%. Chávez announced that the minimum wage will increase 15% on May 1st, and 15% more on September 1st, for a total increase of 32.25% during 2012. This will take the base salary of workers to VEB 1,780.45 in May and to VEB 2,047.52 in September. The Head of State said that the amount is equal to US\$ 76 at the official exchange rate, making Venezuela the Latin American country with the highest minimum wage.

The government will require almost VEB 20.05 billion. To pay for salary increases that will benefit more than 3,900,000 people only in the public sector, the government will need almost VEB 20.05 billion (US\$4.66 billions) which will come from the oil rent and taxes.

Misiones don't reduce informality. The government's employment "*misiones*" are official aid plans that don't generate employment with a decent salary to cover the basic needs of workers and their families, according to the principles of the International Labor Organization. After two "*misiones*" and six employment plans implemented by the Administration since 2000 (not counting the Gran Misión Saber y Trabajo created at the end of 2012 (sic)) the rate of informal work is still over 40%



and according to studies by the Universidad Católica Andrés Bello, the figure could be around 52%.

Tailor-made Law. With the modification of the Organic Law for the Financial Administration of the Public Sector, published in *Official Gazette N° 39.893*, the government may continue increasing its debt, and also make issues without the authorization of the National Assembly or the BCV.

Debt: the sky is the limit. The change of article 81 states that *"once the amount authorized as per the annual indebtedness law is used up, public credit operations may be carried out over said authorized amount, destined exclusively to finance the public debt service, as long as the circumstances are sudden, unexpected, or difficult to foresee at the moment the annual indebtedness law entered into force"*.

Venezuela's rating is ratified, but that could change. Fitch ratified Venezuela's debt rating as "B+" but warned that it could reduce its credit rating in the next two years, due to the huge state expenditures for the campaign of President Hugo Chávez to be reelected in October's elections.

Interest rates. The lending rate for the fourth week in March was at 14.1%, decreasing by 2.5 percentage points compared to the previous week. The time deposit rate remained since July 2011 reach 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 1.7% going from US\$27,581 million during the third week of March to US\$27,125 million during the fourth week. Compared to the same period last year, international reserves have increased by 0.8%.

Monetary liquidity. Monetary liquidity in the fourth week in March increased 0.5% compared to the previous week settling at VEB 470,025 million. The M2 has increased 53% year-on-year.

Sitme figures. So far this year, US\$2,593 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$39.3 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$576 million (28.6%) over the same period of 2011, when were negotiated US\$2,017 million. Meanwhile, in March were negotiated US\$825.9 million, representing an increase of 181.8 million (28.2%) compared to March 2011. Lastly, during the First week of April the amount traded reached US\$168.8 million, traded US\$59.6 million less than last week when US\$197.1 million were traded.



Oil Tips

Recovery factor used for the Faja reserves is questioned. The government recently published the new certified crude oil reserves figures in Venezuela, which are around 297.0 billion barrels. Most of these correspond to the Orinoco Oil Belt, which has more than 220.0 billion barrels that can be extracted. In fact, the oil reserves are much larger, but not all can be developed. In the case of the Faja, it is thought that 20% of the reserves can be produced (recovery factor).

More technology required. Rubén Caro, Vice President of the National Academy of Engineering and Habitat, explained that with steam injection, recovery can be 8% or 8.5%. He said that to have a better recovery, great investments and new technologies would be necessary, to extract extra-heavy crude oils.

Refineries lack maintenance. The condition of the oil facilities is one of the questions that the present PDVSA administration is asking. The constant incidents that have occurred are attributed to employee's lack of skill and lack of maintenance. In 2011, there was a lack of materials, which hindered the execution of maintenance work. According to PDVSA's 2011 Report and Accounts, there were 31 programmed shutdowns for maintenance work in all the country's refineries, but only 6 were completed, that is 19.3% of the goal. Most of these works were deferred for 2012.

The Amuay case. In the case of the Amuay Refinery (part of the Paraguaná refining complex) the original 2011 plan contemplated the execution of nine maintenance jobs, of which only two were carried out. Cardón had only one of the thirteen programmed shutdowns, while in the Puerto La Cruz refinery, none of the three planned shutdowns occurred. In the national system, El Palito was the only one that completed its program, and had its three maintenance works executed.

Non-programmed shutdowns increase. While on the one hand, maintenance work isn't done, the number of days that units in refining plants are out of service increase. Adding the days of all units, the total is 1,750 days out of service. This is 18.6% more than the 1,475 days out of service in 2010. The Puerto La Cruz refinery had the worst performance compared to last year. In this plant, the increase of days out of service was 103%, going from 131 in 2010, to 266 days at the end of last year, according to Pdvsa.





Low production of gasoline. Plant incidents have affected crude processing in the country's refineries. One of the consequences is reflected in Pdvsa's report and accounts, regarding gasoline production in 2011. Although crude extraction increased in 2011, gasoline refining dropped 4.3%. While in 2010 393 kb/d were produced, last year, it fell to 376 kb/d.

Traffic jams are an inefficient use of gasoline barrels. The almost inevitable traffic jams cause environmental and economic harm. Nelson Hernández, Management and Energy consultant, says that cars held for 30 minutes in traffic "is equivalent to around US\$619 million". In the specific case of Caracas "in the first three months of this year, the traffic chaos has worsened, so much so that 3 or 4 hours are required to go from one place to the other, using the express lanes", according to Celia Herrera, President of the Venezuelan Association of Transportation and Road Engineering of the Universidad Central.

Pdvsa investigates causes of explosion in Petrocedeño. Rafael Ramírez, President of Pdvsa and Minister of Oil and Mines, said that investigations are underway to find out the causes of an explosion that occurred on Sunday, April 8th in Petrocedeño leaving one death and three injuries. "On Sunday, our teams started the investigations required whenever a worker dies", he said, lamenting the death. The accident occurred in the facilities of Petrocedeño, formed by Pdvsa, the French company Total, and the Norwegian StatoilHydro.

Another crude spill in Monagas. On Monday, April 2, a Pdvsa pipeline broke at the entrance of Punta de Mata, in the La Orchila sector. Technicians and workers of the state-owned oil company gathered in that part of the national road El Tejero-Maturín, to clean the crude oil. The spill occurred close to the Amana Operations Center, 30 meters away of a natural lake where cleaning works continue, as company sources explained. The spill was controlled last week. It is presumed that internal and external corrosion made the pipe break due to the oil pressure.

Pdvsa activates contingency plan for spill in the Catatumbo River. Pdvsa informed on April 9th that it is paying attention to the break in the Petróleos del Norte pipeline, allegedly caused by an attack, which was detected on Saturday, April 7th by the Colombian oil company, Ecopetrol. In a communiqué Pdvsa says that the oil spill occurred last Saturday in the Catatumbo river, in Colombian territory. A preventive contingency plan was activated to avoid a possible spill in Venezuelan territory, minimize environmental impact, and avoid affecting third parties.

International oil baskets. At closing time on April 6th in the New York Stock Exchange, the price of the WTI was US\$103.5/bl, a 2.2% decrease compared to the



US\$105.9/bl reported the previous week. The Brent decreased by 0.7% to reach US\$123.9/bl, compared to the previous week's US\$124.8/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$115.0/bl on Friday April 6th, a 1.3% decrease compared to the US\$116.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$112.3/bl

Business Sector Tips

Automotive industry closes the first quarter with a favorable performance. After four years of constant drops, the estimates of the local car assembly companies are becoming a reality and are on the road to recovery. According to data of the Venezuelan Automotive Chamber (Cámara Automotriz de Venezuela- Cavenez) in the first three months of 2012, 29,261 cars were assembled, a 20.8% increase with respect to the same period in 2011.

March results were also favorable. According to figures of Cavenez, in March, 12,567 units were assembled, 32.2% more than in the same month of 2011. If this trend continues for the rest of the year, the projections of the industry which were an increase in production of 15% to 20% could become a reality and around 120,000 vehicles could be produced during the year.

A periodic review of medication prices is suggested. Freddy Ceballos, President of the Venezuelan Pharmaceuticals Association, considered that the Superintendence of Fair Costs and Prices must periodically review the cost of medications. *"New prices cannot be implemented without analyzing whether it can work or not; for this, the Sundecop must carry out a control every three to four months"*, he said to "Actualidad" in Unión Radio. Ceballos also thinks that the cost of controlled medicines must also be analyzed, since it hasn't been done for nine years.

Price of rice, corn, sorghum, soy, and sunflower is set for producers. Elías Jaua, Vice-President of the Republic, informed on Tuesday that the maximum prices of *"six types of cereals, in terms of unitary costs for the country's agricultural producers"* were established. At the end of the Ministerial Council N° 814, from the Miraflores Palace, he said to the Venezuelan News Agency (Agencia Venezolana de Noticias - AVN) that for August, the rice crop must be paid to producers *"at VEB 2.50;*



white corn at VEB 2.20; yellow corn at VEB 90; sorghum at VEB 1.70; soy at VEB 3.80; and sunflowers, which are in the harvesting period, at VEB 4.10".

"After price controls, what comes are shortages". Pablo Baraybar, President of the Venezuelan Food Industry Chamber (Cámara Venezolana de la Industria de Alimentos - Cavidea) said that this is not the first time there is a price control; *"we have had price controls since 2003"*. He explained that that year, a similar situation as the one today, with the Law of Fair Costs and Prices, occurred.

No price reviews due to the impact of salary adjustments. Elías Jaua, Vice President of the Republic, said the National Superintendence of Fair Costs and Prices (Sundecop) didn't take into account the impact of the minimum wage increase to set the prices of 19 categories of products, but added that *"it doesn't affect the maximum sales price"* of these items.

State Agro-industrial Policy has not been successful. The government of President Hugo Chávez has focused on strengthening the presence of the State in the food sector, both in primary production as well as in the agro-industrial area, although the progress made has been mostly through expropriations, confiscations, and rescues. However, these measures have not necessarily led to a greater productivity. In the balance presented in the 2011 Reports and Accounts by the Agriculture, Land and Food Offices, to which most of these companies are ascribed, the inability to execute projects and improve productivity was evident, due to financial limitations.

Inventory recovery stabilized the price of cereals. According to FAO, world cereal reserves have increased 1,000,000 tons in March, compared to the previous month, at 519,000,000 tons. This rise is mostly due to the increase in expectations regarding rice supplies.

Informal sector at the sidelines. The minimum wage increase has been unilateral, leaving out fundamental issues like the country's productivity. Business leaders have said that salary increases must be done as part of a *"general policy"* where the whole sector is taken into account. Given that the purpose of annual adjustments is to level out the base salary with the expected price increase of the basic basket for this year, this increase *"is assumed as an inflation marker"* so it leaves out almost 6,000,000 Venezuelan workers that live in the informal economy and must face the cost of living (health, education, food) at a disadvantage, and with no social protection.

Education and Housing, the most Popular in "Saber y Trabajo". Projects in education and housing are the most popular in the registry of the Gran Misión Saber y Trabajo (GMST) which at the end of its third phase has 1,190,749 people, informed



last Tuesday Ricardo Menéndez, Vice President for the Productive Economy Area, during a press conference broadcast by Venezolana de Televisión.

How are the statistics of the GMST? Projects in education represent 25.7% of the interest, while housing represents 20.2% of those registered. 10.6% registered to work in the Orinoco Oil Belt; 10.3% in medical-health areas; 7.8% in agriculture and forests; 7.6% in the industrial area; 6.3% in the care for disabled people; 4.3% for public works, and 3.5% in petrochemical projects, among others.

Employment Misiones have not reduced the high rate of informality. Government misiones in the area of employment have generated more expectations than productive jobs, given the political approach and the propaganda with which they were conceived. Rolando Díaz, sociologist and labor consultant, says that the “misiones” are government aid plans that don’t generate employment with decent salaries to cover the basic needs of workers and their families, according to the principles of the International Labor Organization.

FMO demands Sidor to pay debt for supplies. Members of the Worker’s Control of the Iron Ore extracting company, CVG Ferrominera Orinoco, urged the board of directors of the “Alfredo Maneiro” Siderúrgica del Orinoco (Sidor) to pay the accumulated debt, which they say is more than VEB 600 million.

Corpoelec defined as a collection of decision errors. Víctor Poleo, specialist in electric power activities, considered that the creation of Corpoelec in 2007 “is forced and unviable” and represents a “failed institution”. In his opinion, the electric power state owned company “is a collection of decision errors, most of them tragic, judging them by their effect on the performance of the sector and the nation”.

Withdrawals from housing savings subject to conditions. The government, through the National Bank for Housing and Habitat, administers the resources of the Mandatory Housing Savings Fund (Fondo de Ahorro Obligatoria de Vivienda -Faov), but the availability of these savings is subject to certain conditions. Employees and employers contribute to this mechanism, an equivalent of 3% of the whole salary. These contributions finance the acquisition of housing solutions, and also, workers have a housing savings account used to pay for mortgages or remodeling, according to the Housing Law.





World Economy Tips

Consumer credits slowdown in the US. Consumer credits in the US slowed down more than expected in February, although loans were still requested to buy cars and pay for education, as revealed last Friday by figures of the Federal Reserve (Fed). Total consumer credits increased by US\$8.73 billion, significantly less than the increase of US\$18.60 billion in January, and the US\$12.0 billion increase expected by economists.

Wall Street falls after US employment reports. The main US stock indices lost more than 1% last Monday, April 9, affected by sectors linked to growth, after last week's report on job generation for March, which was weaker than expected. The Dow Jones average fell 138.46 points, or 1.06%, to 12.921,68 points. Standard & Poor's 500 lost 17.77 points, or 1.27%, to 1.380,31 units. The Nasdaq Composite lost 43.42 points, or 1.41%, to 3.037,08 units.

Spain expects a difficult year, with more unemployment. Luis de Guindos, Minister of Economy and Competitiveness of Spain, said that 2012 will be a difficult year for the Spanish economy, despite measures adopted to emerge from the crisis. *"This year will be difficult. The government is aware of this, and doesn't want to create false expectations. It will be hard, with less growth, and unfortunately, more unemployment"*. He also said that the Spanish economy will fall 1.5% this year, but that in 2013 the *"trend is expected to move upwards, and this will put an end to the destruction of work posts"*.

Inflation in China rises due to food prices. China's annual inflation increased to 3.6% in March, driven by food prices. The figure surprised investors, who had expected pressure on prices to loosen and alleviate monetary policies. However, this won't change Beijing's view that price pressures in China are on their way out, and that supporting an economy that is slowing down is the priority. According to Reuters, analysts say that China is in a good position to fulfill its inflation goal of 4% in 2012.

Iranian sovereign fund could reach US\$55.0 billion. Mahmoud Ahmadinejad, President of Iran, said on Saturday that the Iranian National Development Fund (presently valued at US\$35.0 billion) which was created last year to obtain income from oil and gas industries, for the benefit of future generations, could reach US\$55.0 billion in March of 2013 if oil prices continue high, in an apparent attempt to defend their economic performance in view of a growing isolation. Let us remember that



Washington and the European Union have intensified their sanctions against the Islamic Republic, alarmed by their disputed nuclear program.

UN Assembly will debate about financial speculation. The United Nations General Assembly will hold this week a high level debate on financial speculation and the volatility of food and basic products prices. The Assembly, headed by Qatari diplomat Nasir Abdulaziz Al Naser, is pursuing international consensus in this debate, trying to reduce the excessive volatility of food prices and speculation in raw material markets.

Emerging countries will continue in the limelight. Emerging countries including Peru, will continue in the limelight, and will have an increasing participation in world production levels, said Barclays Capital during the weekend. Piero Ghezzi, Executive Director of the investment bank, said that this positive fact won't change because for example, Peru proved the benefits of having credible and solid fiscal and monetary policies. In this sense, he said that Peru's perspectives are positive in the short term, for this five year period; however, beyond this time frame it will have to face some challenges.

Brazil complains because of US monetary policies. Dilma Rousseff, President of Brazil, showed her disagreement with the US monetary policy and didn't make much progress in commercial matters during the meeting last Monday, April 9th at the White House with US President, Barack Obama, evidencing the tensions that exist between the two largest economies of the continent. The Brazilian authorities blame low interest rates and the bond purchasing programs of the US and Europe for causing the "*monetary tsunami*" that has swamped Brazil with liquidity and caused a rise of the Real, making the exports of the South American country less competitive.

Argentinean economy strong in 1Q2012. In the first quarter of the year, the Argentinean economy showed signs of strength, amid the persistent international financial crisis. Although the GDP for the first month of the year was recently revealed (5.5% higher than in January of 2011) the results of important sectors for the economic structure of the country reveal that the first quarter was positive. In fact, tax collection closed the period with a 29.1% increase, compared to the first three months of the last year, and trade balance in the first two months was a favorable US\$1.89 billion, 68.7% higher than the US\$1.12 billion obtained during the same period in 2011.





Political Tips

Chavez: "April 11th was a day that marked the history of Venezuela." President Chávez commemorated the tenth anniversary of the events of April 2002 with a "gathering of friends" broadcast on national radio and TV, where he gave his point of view of the facts: *"The Empire and the bourgeoisie in 2002, succeeded in combine the perfect equation: the civic-military union."* During the conversation, the President said that *"April 11 was a day that marked the history of Venezuela"* and that certain factors still remain conspiring against his government.

Everything goes to the same bag. President Chávez announced a fundamental change in labor laws, saying that the reform to the Labor Law (Ley del Trabajo - LOT) stipulates that the social benefits of all workers, public as well as private, shall be deposited in a fund that will be administered by the government, and the operation of this fund will be established by *"a special law"*. Chávez added that *"this fund could be used for the construction of housing and other investments for the benefit of workers, as the Constitution states"*.

Chávez left again to Cuba to "continue the battle for health and life". Hugo Chávez, President of the Republic, left last Saturday night for Havana, Cuba, to continue his medical treatment. *"On the tarmac of the Simon Bolivar International Airport, headed for Havana, with faith in Christ Resuscitated! We will live and be Victorious!"* he wrote through his official Twitter account @chavezcandanga.

"This year's battle is decisive to guarantee that this revolution will be irreversible". President Hugo Chávez, asked the United Socialist Party of Venezuela, the Polo Patriótico, and social organizations to deploy actions throughout the country, with a view towards the October 7th elections.

Chávez prayed to Christ: Don't take me yet. President Hugo Chávez, said during a Thanksgivings Mass on Thursday in Barinas. He said that there are reasons to live and to continue living; *"what one has inside and sometimes don't mention, I want to say it today, you are saying it with these beautiful prayers"*. *"This phrase cannot be manipulated; Bolívar said it in a context of love and pain. Jesus Christ, Don Quixote, and me, the three greatest whiners of history"*.

The government "put an end to quality jobs". Henrique Capriles made a statement regarding the minimum wage increase announced by the Head of State, of



32.25%. He said that the national government *"put an end to quality employment"* and said: *"we must soon activate our economy, generate trust, and create millions of jobs"*. Also, he said that the Administration could not do anything about inflation, and *"all those increases are not a real income increase for our workers"*.

Participation close to 80% estimated for the presidential elections. Luis Vicente León, Director of Datanálisis, believes that Capriles' disadvantage is in communications and resources, but that he is showing energy, strength and youth. These three factors could be determining to change the game to an ailing Chávez who has been in power for 13 years. Many things can happen in six months. The truth is that in the meantime, up to five pollsters say that Chávez is ahead of Henrique Capriles in the presidential race.

While Yepéz says that participation could be 78%. Historian Germán Yépez says that the present ruler could get close to 9,000,000 votes, while his opponent could obtain 6,000,000. Moreover, Yépez estimates that Chávez will have 62% of the votes, and Capriles only 38%. *"Of 18,600,000 voters, 78% would participate, with 22% abstention"*, he said. But a result like this will depend on the developments, said politologist and sociologist Leoncio Pinto, and on the capacity of the government to minimize blackouts, shortages, fight insecurity and fight against bureaucracy and corruption.

Pollster ICS: 57.3% could vote for Chávez, and 32.9% for Capriles Radonski. Juan Scorza, Director of International Consulting Services (ICS) informed during the program *Toda Venezuela* broadcast by Venezolana de Televisión, that six months away from the elections, 57.3% of the population would vote for Hugo Chávez. ICS asked in March, if the elections were today, *"57.3% would vote for Hugo Chávez, and 32.9% for Henrique Capriles Radonski, with a remainder of 6.4 who would abstain"*, he said.

Neither for one or the other. Since July, vote intention towards both candidates has been valuated, and Scorza was asked something else: how firm is the decision of for whom not to vote, considering that *"57.3% won't vote for Henrique, and 32.7% wouldn't vote for Chávez"*. Immediately after the primaries, measurements revealed that Capriles Radonski rose 2 points at that moment, however, *"a few days later he went down to 26, stayed at 31 and is now at 32"*. For Scorza there are many interpretations that have to do with the fact *"that many parties have supported that candidate (Capriles Radonski) and Primero Justicia is much more solid, and the support of the other has not materialized"*.

With no distinctions, we reached the same conclusion: to vote is the only way. A month and a half after the primaries of the Democratic Unity Party (Mesa de la



Unidad Democrática - MUD), 75.5% of Venezuelans said that they were "*absolutely sure*" to go vote, and another 15.3% was "*almost sure*" to vote in the presidential elections of October 7, according to the most recent survey by Varianzas, made between March 25 and April 3. According to the estimates, 13,500,00 "*have a strong intention*" to vote that day.

The competition is close. The study, based on 1,900 interviews of homes in the main populated areas of the country, established that the intention to vote between both candidates is 49.3% in favor of reelecting President Hugo Chávez, and 45.1% in favor of Henrique Capriles Radonski. 5.6% didn't respond.

Head to head. Classified according to political self-definition, the Varianzas poll indicates that 43.9% says they are pro-Chavez; 40.2% are in the opposition, and 15.9 take no sides. 1% of those who say they are pro Chavez tended towards Capriles, while 0.9% of those who say they are in the opposition, would vote for Chavez. Varianzas gives its study a confidence of 95%.

About dialog and other things. Varianzas stated that 63.2% of those surveyed support the possibility of a dialog between government and opposition, against 18.5% who reject that idea. 18.3% didn't respond. Grouped according to political self-definition, 65% of those in the opposition, and 59.1% of those for Chavez, support a dialog between both sectors. 70% of independents say that they want an approach between both.

Varianzas states that without Chávez, Radonski would be benefited. Given the hypothesis of the absence of Hugo Chávez as a candidate, Capriles Radonski would have an advantage of 20% or more, if the candidate were Nicolás Maduro, Adán Chávez and Diosdado Cabello –the latter with the worst evaluation-, at 13% if the opponent were Elías Jaua (47.8% vs. 34.4%). In the polarized measurement, of the possible candidates, Cabello raises the option "*none of the two*" to 11.4% which is reduced to 6.4% in the case of Jaua.

Venezuela on the "*black list*" of the IHRC for the tenth time. The Interamerican Human Rights Commission (IHRC) included Venezuela once again in the "*black list*" of its Annual Report on countries that don't comply with the basic Human Rights, despite repeated protests by Venezuela and threats to leave the interamerican system due to actions like this. Restrictive laws, a "*serious*" crime situation, attacks against freedom of speech, and the "*frailty*" of the judicial power seriously affect HR in Venezuela, said the IHRC in its annual report issued last Monday in Washington, according to DPA and AFP.





Legislatives Tips

Communal State full steam ahead. The AN has established little by little, the legal foundations for the creation of a communal State. To this end, it has passed six rules, and has at least three pending. Darío Vivas President of the Commission of the People's Power for Communication Media, said: *"We are moving towards that stage, a communal State that will emerge from the entities that are being created by the decision of the people"*. He said that today, the country is in a transition, where communal councils and communes are *"organizational entities with direct participation, with direct democracy"*.

Of 606 investigations, only 5 cases of corruption. According to its annual report to Parliament, the General Comptrollership of the Republic (the first since Clodosbaldo Russián was replaced after his death) informed that last year, this office carried out 606 actions in different public administration entities, a reduction of 22% compared to the 745 actions implemented in 2010. Likewise, the number of cases of illegal enrichment of officials taken to the Ministry of Public Affairs to be investigated dropped 54%, because in 2011 it only sent 5 files, while in the previous period, it sent 11.

Journalists will be consulted by the Commission on Disarmament. The Presidential Commission for the Control of Weapons, Munitions, and Disarmament, will carry out a consultation among journalists, who will contribute with ideas, opinions and analysis of policies regarding the disarmament of the population, to make improvements and generate new measures to attack violence in an integral manner, and Foster a culture of peace through prevention. The technical secretary of the Presidential Commission on Disarmament, Pablo Fernández, informed that the purpose of this initiative is for them to participate *"as Venezuelan citizens, not as representatives of their media, but as journalism professionals, so we can hear their proposals and analyze the situation"*.

Five ministerial resolutions to be issued, to restrict the use of weapons. The Presidential Commission for the Control of Weapons, Munitions, and Disarmament already has ready five resolutions that will restrict and control the use and control of fire weapons, which will be approved in the next few days by the Minister of Defense, Henry Rangel Silva, and of Internal Affairs and Justice, Tareck El Aissami. The technical secretary of the Presidential Commission on Disarmament, Pablo Fernández, explained that of the five resolutions that are ready, three will restrict the



use of firearms in places like construction sites, liquor stores, events, or public shows.

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ECONOMIC OVERVIEW

