



# Weekly Report

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*2011 Fiscal Management:  
The alarm is on*

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Last week, the Central Bank of Venezuela (BCV) released its fiscal management figures for the Central Government for the month of December 2011. This closes out the year's fiscal management figures and allows us to calculate a yearly estimate. Analyzing all the figures released throughout the year, we can conclude that Central Government fiscal management in 2011 was characterized by increased fiscal spending which was backed by three main elements: (1) the recovery of international oil prices; (2) the devaluation at the beginning of the year which unified the official exchange rate thereby generating increased fiscal contributions from the oil sector into fiscal coffers; and (3) increased tax collection by the SENIAT from the non-oil sector.

**The complete picture**

As always, there are nuances that need to be explained so one can get a better handle on the "real" picture when it comes to economic figures in Venezuela. It's important to remember that Central Government fiscal figures only allows us to complete a partial analysis of Public Sector fiscal



spending, since Central Government fiscal figures only represent between 70% and 75% of total fiscal spending, and do not include spending by non-financial sector public companies such as PDVSA or spending by entities such as FONDEN. Despite the delays by the Ministry of Planning and Finance in releasing these figures<sup>1</sup>, with what the BCV has released one can get a general idea of where total public sector financial management figures would be at.

### **Changes in revenue**

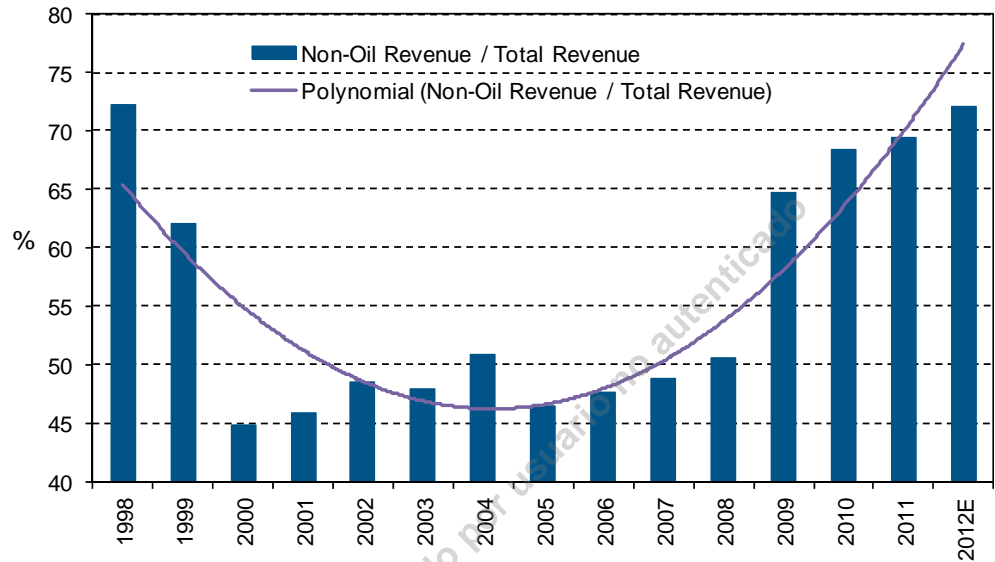
Central Government revenues had a y/y increase in nominal terms of 42.7%, which in real terms (subtracting inflation) translates into an increase of 10.3%. Here, it's important to point out that incoming oil revenues were up by 7.7% in real terms compared to the same period in 2010, reaching VEB 85.3 billion (US\$19.8 billion), while revenue coming for the SENIAT (tax collection) were at VEB 147.4 billion (US\$34.3 billion), up by 12.7% in real terms.

If we look at non-oil sector fiscal revenue figures (mainly taxes) from last year and projected tax collection figures for 2012, we can see that these will be able to cover 72% of non-foreign currency spending. So, with oil prices on the rise as they have been lately, the Administration can continue to spend at its own discretion through parallel funds, meet its debt obligations, increase imports, and keep the private sector suffocating, but still hanging on, due to the significance that non-oil revenue has begun to represent within the total.

<sup>1</sup> Restricted Public Sector (Central Government + Non-Finance Sector Companies) figures have not been released by the Ministry of Planning and Finance since the third quarter 2010.



### Non-Oil Revenue Vs. Total Revenue

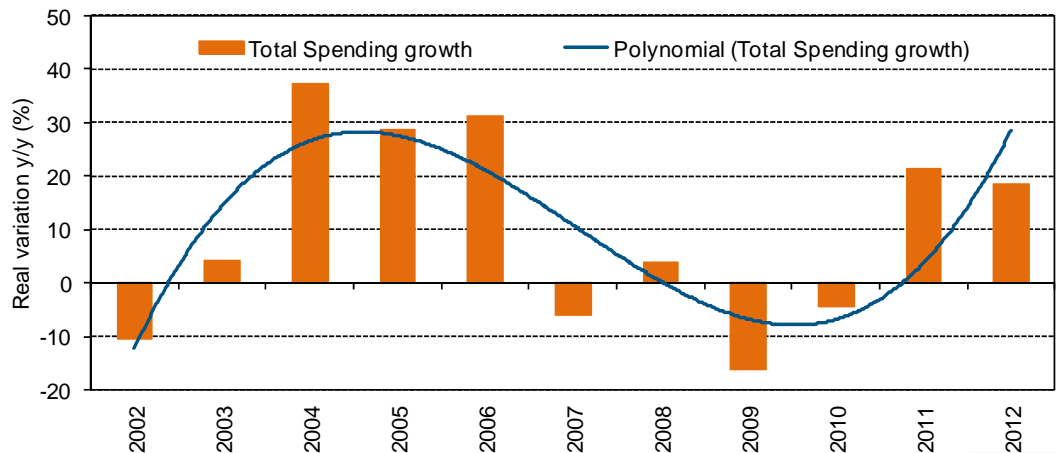


Sources: BCV and Ecoanalítica

### How much has the Administration spent?

The figures show that spending has increased by 22.3% in real terms compared to last year. This figure, though significantly less than what was registered in 2006 (when real spending increased by 27.4% on a y/y basis), reflects a performance totally different from the same period for the two previous years, when it dropped by 4% and 15.1% in 2010 and 2009, respectively.

### Spending growth (y/y)



Sources: BCV and Ecoanalítica



In an economy such as the Venezuelan economy, public spending is one of the main engines propelling the economy. With international oil prices increasing steadily and a presidential election on the horizon, there is no doubt that the Administration is using public spending as a tool to fuel economic activity and thereby enhance President Chávez' popularity figures in the polls. In 2011, and now in 2012, how public spending evolves is the main key to evaluating these two factors (economic growth and the President's popularity).

**The deficit is increasing...**

In 2011, the Central Government fiscal deficit was at VEB 73.5 billion, which equals 5.4 percentage points of GDP and is higher than what was posted in 2010 when the deficit reached VEB 32.5 billion (3.2% of GDP). The figure required to cover financing, or what is the same as the resources obtained by the Central Government to cover the deficit and debt service payments, is at VEB 75.9 billion, up in real terms by 61.3% compared to the previous period.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)		2010	2011	Nominal Variation	Real Variation
<b>Total Revenue</b>		196,460	279,496	42.3%	12.8%
<b>Non-Oil Revenue</b>		134,357	194,078	44.4%	14.6%
<b>Oil Revenue</b>		62,103	85,309	37.4%	8.9%
<b>Central Bank Earnings</b>		-	110		
<b>Total Expenditure</b>		228,984	353,008	54.2%	22.3%
<b>Fiscal Balance</b>		-32,524	-73,512	126.0%	79.3%
<b>Non-Oil Balance</b>		-94,627	-158,930	68.0%	33.2%
<b>Debt Amortization</b>		4,820	2,452	-49.1%	-59.7%
<b>Financing Requirements</b>		37,344	75,964	103.4%	61.3%
<b>Foreign Debt</b>		6,526	31,328	380.1%	280.7%
<b>Domestic Debt</b>		29,255	45,327	54.9%	22.9%
Tresury Bonds		24,501	41,588	69.7%	34.6%
Tresury Debt		4,754	3,739	-21.3%	-37.6%
<b>Others</b>		1,564	-692		

Sources: Ministerio de Planificación y Finanzas, BCV and Ecoanalítica

**What has happened in 2012?**

If we look at the National Treasury Office's payment schedule, an entity which does release and update its figures, one can see that primary spending (which doesn't include spending to cover public debt) has increased by a different proportion. At the close of March 2012, accumulated spending during the period increased by 31.3% in real terms compared to the same period in 2011. This shows that real spending has increased during the first quarter 2012.



Taking into account the performance of these two public spending indicators, (BCV and the National Treasury Office), at **Ecoanalítica** we expect that public spending will continue to increase until October 2012 and continue until December, thereby increasing the amount of fiscal revenue injected into the economy and at the same time significantly influencing monetary aggregates during the period.

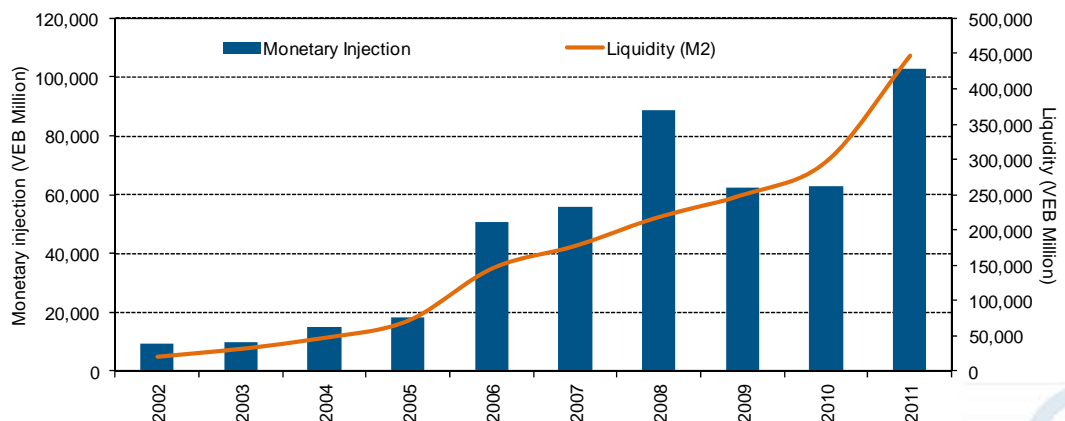
**How much fiscal revenue has been injected into the economy?**

This increase in fiscal spending has led to increased levels of fiscal revenue being injected into the economy compared to what was posted in 2010.

In order to determine whether fiscal monetary injection is positive one has to take into account the Central Government total spending balance, which includes net loan concessions and domestic public debt service, but doesn't include foreign debt service, minus domestic tax collection and domestic debt (public debt and Treasury Bills).

So, the increase in fiscal revenue being injected into the economy is mainly coming from VEB 102.6 billion, which equals a nominal increase of 63% compared to 2010 and a real increase of 26.4% (compared to a real drop of 20.6% in 2010 compared to 2009); this is the most increase in public spending since 2008 (year of the constitutional referendum). Now, if we take into account that the amount of private sector out-going capital has dropped during the period (US\$19.9 billion in 2010 vs. US\$19.9 billion in 2011) we will understand what exactly it is that has generated a greater increase in monetary liquidity (M2).

**Fiscal Monetary Injection Vs. Liquidity**



Sources: BCV and Ecoanalítica



**What do we expect will happen in 2012?**

At *Ecoanalítica*, we are convinced that public spending will continue throughout 2012, coming from all its sources: ordinary sending coming from the National Budget and supplemental appropriations, social contributions from PDVSA, resources coming from parallel funds, and the Administration continuing with its aggressive borrowing strategy.

At the close of 2012, we estimate that Central Government spending was at VEB 528.8 billion (US\$122.9 billion), which would result in a deficit of VEB 122.1 billion (US\$28.4 billion) equal to 6.8 percentage points of GDP. This deficit will be mostly financed by domestic borrowing, however, if you evaluate the public sector's whole structure, this deficit would increase substantially.

<b>FISCAL BALANCE</b>			
<b>CENTRAL GOVERNMENT</b>	<b>2011</b>	<b>2012</b>	<b>Variation</b>
<b>(% GDP)</b>			
<b>Total Revenue</b>	20.6	21.2	0.6
<b>Non-Oil Revenue</b>	14.3	18.5	4.3
<b>Oil Revenue</b>	6.3	10.2	3.9
<b>Total Expenditure</b>	26.0	29.3	3.3
<b>Fiscal Balance</b>	(5.4)	(6.8)	-1.3
<b>Primary Balance</b>	(3.3)	(4.1)	-0.9
<b>Non Oil Balance</b>	(11.7)	(15.3)	-3.6

Sources: BCV and Ecoanalítica

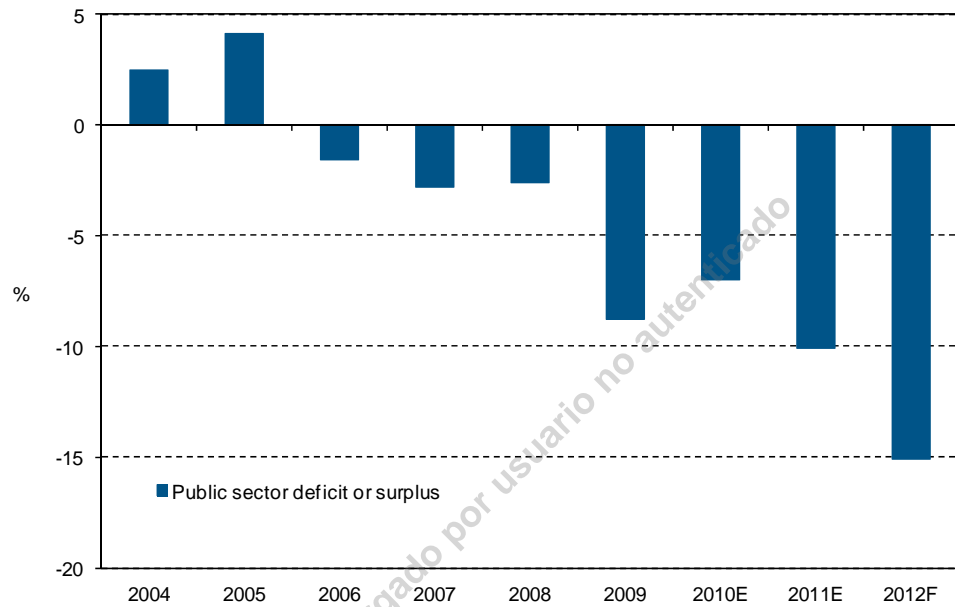
**High and chronic deficit**

Of the 13 years President Chávez' Administration has been in power, only three times has his Administration posted a Central Government surplus. During the last 5 years, Central Government fiscal management has posted a deficit that on average represents 3.7% of GDP, and they have reflected an increasing tendency during the last three years, reaching 6.8% of GDP by the close of this year. This situation is even worse if we take into account this year's Restricted Public Sector' deficit which is projected to reach 15.1% of GDP.





### Fiscal Result of Public Sector (%GDP)



Sources: MPF and Ecoanalítica

At **Ecoanalítica**, we are convinced that this structure of chronic deficits created by this Administration is not sustainable over time and despite the fact that it may be corrected by a number of ways (for example: significant devaluation of the local exchange rate), those solution will only exacerbate the distortions created by this economic model, such as: imports, inflation, deficit fiscal management, dependency on non-finance public companies, and the dependency of a significant part of society on subsidies and Executive Office transfers.

If these distortions are not solved immediately, due to the magnitude they have reached during the last few years, it will be very difficult to manage public finances if international oil prices were to drop (and the drop doesn't have to be by much). Even with oil prices increasing as they have been doing, it will be difficult to manage public finances considering the arguments and figures we have estimated here in this report.

At **Ecoanalítica**, we have been pointing this out for the last few years, that it's only because oil prices have been high and steadily increasing that our economy has been able to stay afloat. There is no doubt that the Administration has put political concerns before economic ones, now they are beginning to have to pay the price for this.



**The future?  
Have to pay  
the price for  
bad  
management**

This Administration is caught in a spiral where it wants the best of two worlds: on the one hand, it wants to increase spending; on the other, it wants to continue to accumulate resources. This is why the Administration has never relaxed its grip on the yoke, continuing to aggressively collect taxes and implement strict tax regulations, and at the same time continue to aggressively borrow. In other words, the Administration knows, even though it doesn't want to admit it, that things could become difficult for it in the future, and it seems that it is preparing for it.

Now, if on October 7, things change, don't expect that the new Administration will be able to use or have access to the parallel resources accumulated by the chavista Administration. This will make the task of ending this chronic deficit much more difficult than one would imagine. And this is going to be the case no matter who wins the election in October.

The advantage that Venezuela has, as always, is that the short and midterm projections for international oil prices point to a steady continued increase of the same. This could be the saving factor, if managed with better efficiency, when it comes time to make the necessary adjustments. Of course, if the chavista model is still in place after October, and distortions continuing to increase, this will make things much more difficult. And if oil prices drop, God help us all. Things will get unimaginably difficult if this happens.

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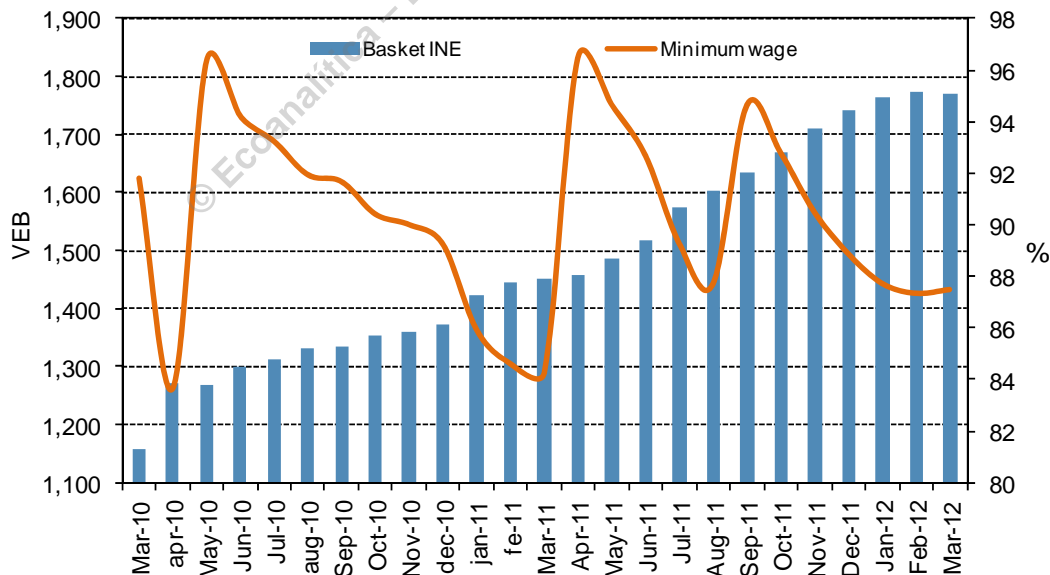
## Economic Tips

**Food basket decreased by 0.2% in March.** According to figures released by the National Statistics Institute (INE), the food basket value was VEB 1,769.1 in March, down 0.2% from February and up 21.8% from March 2011, thus meaning that the reference food basket increased VEB 316.9 in one year.

**Meat and meat products registered the highest cost.** VEB 266.4 was used to buy these products, up 40.4% points from March 2011. The second most expensive group was milk, cheese and eggs, for which VEB 254.3 was used and registered a variation of 32%.

**Minimum wage only covers 87.5%.** The above signifies that minimum wage isn't enough to buy basic foodstuffs, because a worker earning the minimum wage (VEB 1.548.2) could only buy 87.5% of the basket estimated by INE.

INE's food basket Vs. Minimum wage's purchasing power



Sources: INE and Ecoanalítica

**Unemployment rate at 7.9%.** According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 0.6 percentage points in March, compared to the same period in 2011, when unemployment rate closed at 8.6%; this means that in the third month of the year, 1,068,321 people didn't have a



job. Men unemployment, in turn, was 7.1%, meaning a 1,1 percentage points increase throughout the year.

**Unemployment among women stood at 9.2%.** Labor Unemployment was higher among women. In March, the unemployment rate for women remained unchanged from March 2011, standing at 9.2%. Meanwhile, unemployment for men stood at 7.1%, 1.1 percentage points lower than in March 2011.

**Inactivity rate decreases.** According to inactivity rate figures published by INE, shows that decreased 0.2 percentage points compared to March 2011, to settle at 35.8%. Within this, men inactivity experience a decrease 0.3 percentage points, from 2,301,344 of inactive men in March 2011 to 2,301,344 in the same month in 2012, settle at 22.2%. Women inactivity, in turn, decreased 0.2 percentage points, and stood at 49.1%.

**Informality rate increases.** According to INE's figures, at end-March, 5,118,611 people were employed at the informal sector (41.3% of workin population), which results in an decrease of 1.3 percentage points compared to March 2011, when the sector employed to 5,118,536 people. Formal sector, which employs 58.7% of working population, increased 5.3% with respect to the same period in 2011.

**Controlled, they go up; uncontrolled, they go down.** Data released by the National Statistics Institute (INE) reveals that in March, prices of price-controlled products increased, whereas prices of non-controlled product decreased. Figures concerning the reference food basket show that last month, price-controlled product recorded an increase of 0.10% since February, whereas non-controlled products dropped 0.43%.

**Fruits and vegetable account for 28% of family spending.** INE's data also show that in March, 28% of the money a family spends to buy the food basket corresponded to fruits and vegetables. To cover this food group, a family had to spend VEB 495.49. Cereals and derivative products were the second group in which more money was spent, about VEB 266.35, 15.1% of the total.

**Minimum income per family will exceed VEB 5,000.** According to the Household Sampling Survey applied by the National Statistics Institute (INE), at least two people work in Venezuelan households, on average, meaning that the Average Legal Minimum Income (resulting from adding the minimum wage and food bonus) will range between VEB 5,000 and VEB 5,800, once the 32.25% increase in the minimum wage, which was recently announced by President Chávez, enters into force.



**The administration increases spending.** Figures released by Finance Ministry, outlays made by the administration shoot up and recorded a month-to-month increase of 68.1% in real terms and 40.5% on a year-to-year basis. This behavior is atypical, because spending uses to be restricted during the first months of the year and the administration generally postpones its outlays until the second quarter; however, this trend appears to have changed in 2012.

**Supplementary appropriations are unstoppable.** The administration's off-budget spending in the first quarter of 2012 continued increasing and as of March, supplementary appropriations authorized by the National Assembly already amount to VEB 14.29 billion. That volume of extraordinary operations exceeds by 132.3% the volume approved in the same period in 2011 (VEB 6.15 billion). Considering these supplementary appropriations, this year's budget, which was initially estimated at VEB 297.83 billion, is currently at VEB 312.12 billion.

**Reserves drop 8.6%.** International reserves have fallen from US\$29.86 billion to US\$27.28 billion from January 2 to April 13, that is, down US\$2.57 billion (8.6%). This behavior is due to transfer by the Central Bank of Venezuela (BCV) to the National Development Fund (Fonden), which, according to BCV figures, amount to US\$2.50 billion for the year-to-date.

**Interest rates.** The lending rate for the first week in April was at 17.6%, increasing by 3.6 percentage points compared to the previous week. The time deposit rate remained since July 2011 reach 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves increased 0.6% going from US\$27,125 million during the first week of April to US\$27,289 million during the second week. Compared to the same period last year, international reserves have increased by 5.7%.

**Monetary liquidity.** Monetary liquidity in the first week in April decreased 1.6% compared to the previous week settling at VEB 463,371 million. The M2 has increased 53.6% year-on-year.

**Sitme figures.** So far this year, US\$2,771 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$39.6 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$601.3 million (27.7%) over the same period of 2011, when were negotiated US\$2,169 million. During the second week of April the amount traded reached US\$202.9 million, traded US\$65.5 million more than last week when US\$137.5 million were traded, with an average of US\$40.6 million a day.



## Oil Tips

**PDVSA's Annual Report for 2011 was published.** Concerning the industry's own performance, the 31.4% increase in PDVSA's total income, from US\$94.92 billion in 2010 up to US\$124.75 billion in 2011 stands out, whereas expenses grew 11.4% from US\$80.34 billion to US\$89.52 billion. When contributions to the Gran Misión Vivienda Venezuela (GMVV), contributions for social development, and to the National Development Fund (Fonden) and income tax are subtracted from this difference, an increase of 42.1% is recorded in PDVSA's net profits, from US\$3.16 billion in 2010 to US\$4.5 billion in 2011.

**PDVSA's contribution to Fonden grew more than 750%.** The official information on PDVSA's performance for 2011 reveals a 755.5% jump in PDVSA's contributions to Fonden. These contributions went from US\$1.7 billion in 2010 up to US\$14.47 billion in 2011. The increase of 117.7% in contributions by PDVSA to social development plans, from US\$5.32 billion in 2010 to US\$11.6 billion in 2011 are also worth mentioning. Allocation for GMVV alone amounted to US\$4.0 billion in 2011.

**Rafael Ramírez reiterates support for decision about YPF.** Minister of Petroleum and Mining, Rafael Ramírez, vis-à-vis the expropriation of 51% of YPF oil company, announced that Venezuela and PDVSA *“fully support sovereign decisions made by Argentinean President, Cristina Kirchner, because all governments are able to make sovereign use of their natural resources.”* Ramírez added that *“we spoke with the Argentinean Planning Minister, Julio de Vido, and reiterated him our willingness to help.”*

**Change in business scheme allowed PDVSA to save a few millions.** Venezuela's average oil production was 2.99 million b/d, thus complying with the price defense policy through production adjustments agreed upon by the Organization of Petroleum Exporting Countries (OPEC), as highlighted by PDVSA Annual Report for 2011. The report also states that due to the change in business scheme, from Operating Agreements to Joint Ventures over the past six years, PDVSA has been able to save expenses for US\$8.68 billion.

**Petrorinocos will increase public debt service.** The amount of the bond issue hasn't been announced, but projections have been developed that make it possible to envisage a significant increase in interest payment. If the issue is estimated at



VEB 66.00 billion at an interest rate of 18.2%, which is the average cost of titles placed by the Venezuelan State in the first quarter, Venezuela would pay interests for VEB 12.00 billion/year. Considering that the debt currently demands a payment of interest for VEB 24.00 billion per year, this would represent a jump of 50%.

**Why oil prices went back?** The Minister for Petroleum and Mining stated that prices of the Venezuelan oil basket closed with a downward trend due to a *“renewed concern about the behavior of oil global demand and the uncertainty concerning the debt crisis in the euro zone, which gave rise to a high volume of crude contract sale in London and New York markets.”* Let’s remember that the average value of the Venezuelan oil basket for the year-to-date, a surplus of US\$62/bl. was already generated, because income in 2012 budget is estimated at a price of US\$50/bl.

**Oil spill in San Tomé station is confirmed.** The Venezuelan oil state-owned company, through its subsidiary PDVSA Gas, confirmed on Saturday, April 14th, that a spill in a processing water pond in the Unloading station Nipa-9 occurred as a consequence of heavy rains which lasted more than six hours in the Nipa-Nardo San Tomé area, in Anzoátegui State. *“The fluid, containing 98% water and 2% oil, intermittently run through Mapiricurito ravine, with the fluid being retained in its route,”* PDVSA stated in a press note. Petróleos de Venezuela assured that the Contingency Plan was activated in a record time and that cleaning works are being carried out with the help of the community.

**Three pipelines are added to the Jusepín Complex.** PDVSA ratified that three pipelines were added to the production oil pipeline of the Jusepín Operating Complex in Monagas State, where an oil spill took place on February 4th. PDVSA informed that the laying of the pipelines has been completed ahead of schedule. In the press note, PDVSA’s Vice-President for Exploration and Production, Eulogio Del Pino, pointed out that *“three brand new lines, which will allow us to restore production at the Furrrial Division, were built.”*

**Pequiven claims that agrochemicals well delivered as scheduled.** Corporación Petroquímica de Venezuela (Pequiven) states in its 2011 Report that it complied with the production and delivery of the different compounds used as fertilizers in the national agricultural activity. Pequiven’s performance report states that *“it is worth highlighting that more than 100% of the production of sulphuric acid and NPK granulates (nitrogen, phosphor and potassium) were attained at the Socialist Production Unit in Morón, Carabobo State.”*

**Faults lowered liquefied gas production in 2011.** Last year, oil production registered a minimum increase of 0.77%, contrary to natural gas which dropped 1% with respect to 2010, whereas concerning liquefied gas, both natural or petroleum,



recorded a much higher loss with respect to 2010. Average production of Natural Liquefied Gas (NLG) in 2010 was 148.5 kb/d. Of this amount, 67.9 kb/d corresponded to Petroleum Liquefied Gas (PLG). According to PDVSA Report for last year, NLG dropped 10.8%, registering an average of 132.5 kb/d, whereas PLG lost 12%, at 59.7 kb/d.

**Methane sales are down.** Like in 2010, targets of methane gas sales set by PDVSA were not attained. Even though an improvement was registered (from 75.8% in 2010 to 87% in 2011), *“the start of new plants in the electric, petrochemical, oil and iron and steel sectors is still out of phase,”* as stated in PDVSA report for 2011.

**Petropar fine tunes debt payment scheme.** Sergio Escobar, president of the Paraguayan state-owned oil company, pointed out that he will travel this week to Venezuela to fine tune the payment scheme of Petropar debt to PDVSA, which exceeds US\$264 million. Escobar added that there is an agreement in place on the form of payment of these obligations and explained that PDVSA is expected to authorize the purchase of bonds that Petropar has placed on the international markets, which have later maturity dates.

**55 clauses of the oil contract have been approved.** Representatives of FUTPV and PDVSA continue to discuss the oil collective bargaining contract which expired in past October. Wills Rangel, president of FUTPV, informed that the discussion of the collective contract has advanced 75%. Discussions are expected to end in late-April. Rangel explained that 55 of the 76 clauses of the 2011-2013 contract have been approved so far.

**Workers are also negotiating an economic package.** The proposal is centered on an 82% wage increase and the additional payment of 250 for 70% of workers who don't work on a shift scheme. They are also demanding an increase in food allowance.

**International oil baskets.** At closing time on April 13<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$102.6/bl, a 0.9% decrease compared to the US\$103.5/bl reported the previous week. The Brent decreased by 1.9% to reach US\$121.6/bl, compared to the previous week's US\$123.9/bl.

**Local oil basket price.** The Venezuelan oil basket price decreased last week, closing at US\$113.9/bl on Friday April 13<sup>th</sup>, a 1% decrease compared to the US\$115/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$112.4/bl





## Business Sector Tips

**Retroactivity in severance payments is expected to affect small and medium-sized firms.** *“Returning to the 1997’s scheme of retroactivity in severance payments can have adverse consequences, because it will bring about difficulties to anticipate labor costs and will negatively affect small and medium-sized companies, even contributing to their closure,”* professor Richard Obuchi, expert in economy, explained at the workshop on the reform of the Labor Organic Law (LOT), which took place in the headquarters of the Instituto de Estudios Superiores de Administración (IESA).

**Companies are flooded with applications for severance payments.** Workers at different companies have been applying to retire their cumulative severance payments, after the announcement by President Hugo Chávez that a fund administered by the government will centralize the moneys corresponding to this labor benefit and will invest them in project such as home construction. *“Many workers are making lines to draw out the moneys corresponding to their severance payments. What happened past Monday and Tuesday is that workers don’t trust the authorities to administer their funds,”* sources from the entrepreneurial sector claimed.

**87% of trust funds were already drawn out.** Orlando Chirino, representative of the Frente Autónomo en Defensa del Empleo, Salario y Sindicato (Fadess), informed that 87% of workers have taken out their money this week in response to President Chávez’ announcing the creation of a fund to manage these resources.

**Wage increase will not affect prices of price-controlled goods.** The Superintendent of fair Costs and Prices, William Contreras, denied that the increase in minimum wage will have any impact on companies that are related to the 19 products regulated by Sundecop. Contreras explained that these industries have collective bargaining contracts in place and their workers earn wages over the minimum wage announced by President Hugo Chávez.

**Asovema urged the administration to adjust the price of rice.** Asovema (the association that gathers rice producers) assured that rice processing plants are going through a *“critical reality”* due to price backlog. In a press note, Asovema pointed out that delay between production costs and selling price allowed by the government jeopardizes product supply.



**Foreign exchange allocation procedure is to be simplified.** As a result of price controls applied by the administration to 19 products, firms related to the manufacture and import of these products demands foreign exchange allocation not to be affected. To this end, a meeting was held last week at Cadivi's headquarters to evaluate applications by each company with regard to foreign exchange acquisition.

**Cadivi cutbacks curb product supply.** According to data published by Cadivi, foreign exchange allocation dropped 9.3% in the first quarter of the year. The drop is being felt on the markets and several sectors report difficulties to replace inventories timely.

**16.6% more dollars for food imports in 1Q2012.** Cadivi has authorized US\$1.2 billion for food imports during the first three months of the year, up 16.6% from US\$1.03 billion approved during the same period in 2011.

**The administration will prioritize foreign exchange allocation for "critical" medicines.** The pharmaceutical sector is concerned. Contrary to what happened last year, foreign exchange allocation has become an obstacle and the administration is devising a measure that could hit this activity stronger. Two weeks ago, the Ministry of Commerce informed a number of pharmaceutical firms and laboratories that a list of "critical" medicines will be prepared.

**Cadivi cut by 42% allocation of dollars for the health sector.** During the first three months of the year, Cadivi, the entity responsible for allocating foreign exchange at the official exchange rate, has distributed US\$5.2 billion for imports through regular channels, Aladi agreement and the Sucre payment clearing system. Cuts have been implemented in essential items. Cadivi informs through a press note that during the first quarter it approved US\$658 million for the health sector, down 42% from US\$1.14 billion authorized in the same period in 2011. Likewise, a 54% drop is recorded in the allocation of foreign exchange for the automotive industry.

**Pharmaceutical companies feel that the maneuver margin is getting closer.** Both price controls and cuts in foreign exchange allocation in the first quarter of this year have turned alarms on. Both factors have become an obstacle for the normal medicine supply, as representatives of the pharmaceutical sector have warned the authorities. No solution is envisaged so far.

**Banking Association committed to restructure credits to producers.** Pedro Rivas, president of Fedeaagro (the Venezuelan association of agricultural and livestock producers), informed that Vice-President/Minister of Agriculture and Lands, Elías Jaua, informed that the Banking Association of Venezuela committed to



restructure credits to all agricultural producers that have had problems to comply with their obligations, so that they can get ready for the new sowing period.

**Lawsuit against Banco Venezolano de Crédito for failure to comply with mortgage quota has been admitted.** The Constitutional Chamber of the Supreme Court (TS), through writ by Judge Arcadio Delgado Rosales, admitted the lawsuit for protection of collective rights introduced against Banco Venezolano de Crédito, S.A. Banco Universal, by the late Carlos Escarrá Malave in 2011, who was then Solicitor of the Republic, along with other officials of the Solicitor's Office. The lawsuit was presented due to the alleged failure to comply with the mortgage quota as established in the last paragraph of article 2, Resolution No. 104 dated July 19, 2011, issued by the People's Ministry for Housing and Habitat and published in the Official Gazette No. 39716 with the same date.

**Debt issuance fills banks with papers.** The price of the Venezuelan basket recorded a high average of US\$112/bl. for the year-to-date, but spending expansion is such that Hugo Chávez' administration is rapidly getting indebted to local banks. Every week, the Ministry of Finance sells bonds and official statistics show that the State-issued papers portfolio with banks has grown 20% over the two first months of the year, accounting for VEB 100.1 billion. In the upcoming weeks, the process will be speeded up, because to obtain funds to finance the agricultural sector, the administration will sell more bonds to banks.

**US\$1 million earmarked for Colombian-Venezuelan Bridge.** The Latin American Development Bank (CAF) will earmark around non-reimbursable US\$1 million for the design of the international Tienditas Bridge on the Colombian-Venezuelan border. The announcement was made by Enrique García, CAF's president, last Thursday in the city of Cartagena de Indias, in the framework of the preparations for the 6th Summit of the Americas, to which 33 Latin American presidents and heads of government, except Cuba and Ecuador, have confirmed their attendance.

**Venezuela and Colombia signed trade agreement in Cartagena.** Venezuela's Foreign Minister, Nicolás Maduro, and his Colombian counterpart, María Ángela Holguín, signed last Sunday a partial scope trade agreement between Caracas and Bogota within the framework of the 6th Summit of the Americas held in Colombian's Cartagena de Indias.

**Venezuela and Gambia signed aeronautic agreement.** The governments of Venezuela and Gambia signed a memorandum of understanding on aeronautics last Wednesday, which will contribute to the strengthening of economies and bilateral bonds. According to a press note released by the Venezuelan Foreign Ministry, the president of the National Institute of Civil Aeronautics (Inac), Francisco José Paz



Fleitas, signed the memorandum on behalf of Venezuela, and the Vice-Minister of Labor, Construction and Infrastructure, Jerreh Sanjang, on behalf of Banjul.

**Difficulties still prevail in the construction sector.** Luis Vicente León, president of Datanálisis, pointed out at the forum “*Construction Indicators in Venezuela 2012*,” organized by the Venezuelan Chamber of the Construction Industry, that the true reaction capacity of the construction industry in Venezuela is adversely impacted. According to León, one of the main reasons “*are shortages of inputs, which are controlled by the public sector and that control has led to corruption, black market, difficulties to obtain complex negotiations, which render planning in the construction process in Venezuela difficult.*”

**Problems persist and intensify, according to the Venezuelan Construction Chamber (CVC).** This opinion is also shared by the chairman of the Venezuelan Construction Chamber (CVC), Gilbert Dao, who stated that construction input shortages persist and the worst problems are related to cement supply. Difficulties have intensified over recent days due to the shutting down of FNC furnaces.

**Performance of the construction sector is leveraged by public activity.** Datanálisis’ Luis Vicente León pointed out that 72% of the population believes that management of the housing sector is negative; however, 34% registered with the Housing Mission. Of this group, 12% expect to be allocated a home this year. Likewise León highlighted that penetration of the Housing Mission is 12% for the time being.

**Lack of investment also obeys to other factors.** According to León, concerns within some sectors regarding labor matters and fears for expropriations “*are elements that have generated disinvestment in the construction sector.*”

**The administration launched lender and tenant census.** With a new technological platform, the National Superintendent’s Office for Home Rent (Sunavi) launched a registration process intended to gather information concerning lenders’ and tenants’ personal data, Superintendent Carmen Morante de Ciavaldini informed to the Venezuelan news agency (AVN).





## World Economy Tips

**U.S. says China making progress on currency, urges more.** Ben Rhode, a senior White House advisor, said on Saturday that China had made some progress toward easing restrictions on its currency but stressed the United States wanted to see more actions taken. At a briefing with reporters in Colombia, where President Barack Obama is attending a summit with Latin American leaders, Rhodes said the Obama administration was closely reviewing Beijing's announcement that it was doubling the size of its yuan's trading band against the dollar. *"It comes in the continuum of us wanting to see the Chinese take more of these steps to see their currency appreciate to come in line with market value,"* Rhodes said. *"They've made some progress. We'd like to see more movement."*

**Chinese measure.** The Central Bank of China decided that yuan now may go up or down 1% daily from a middle point and that the measurement will come into effect on Monday, April 16. Up until now, the Chinese currency could move only 0.5% each day. The announcement stressed Beijing's perception that yuan is close to its equilibrium point and that Chinese economy, although it's getting colder, is still robust enough so as to be subjected to profound and vital structural reforms, analysts said. Let's remember that the Chinese currency is a sensitive subject in the U.S., where entrepreneurial leaders believe that an overvalued yuan provides Chinese exports with an unfair price advantage on global markets.

**Chinese exchange rate could contribute to global balance.** The U.S. Treasury Department said on Sunday that a wider yuan trading band could help reduce global trade imbalances if it allows more play for market forces. *"China's decision to widen the daily trading band for its exchange rate, if implemented in a way that allows the value of the exchange rate to reflect market forces, could contribute rebalancing, which would be positive for China, the United States, and the global economy,"* a Treasury Department official told Reuters.

**Spain on the verge of financial bailout due to investors' pressures.** Investors pressing on Spain's debt are taking the European country on the verge of the financial bailout for the second week in a row, despite the new adjustments and reforms approved by Mariano Rajoy's administration, based on the IMF and the EU neoliberal recipes. In this scenario, Spain's Minister of Economy and Competitiveness, Luis de Guindos, started this week an European tour to explain to the investors the reforms approved by the administration.



**Jim Yong Kim is elected World Bank President.** Dr. Jim Yong Kim, the U.S. candidate, was chosen on Monday, April 16th as new president of the World Bank (WB). The Executive Directors of the Bank explained that Kim will replace Robert Zoellick as of July 1st, for a five-year term.

**The 6th Summit of the Americas comes to an end.** The Summit held in Cartagena de Indias, Colombia, ended last week. Even though the final statement was not signed due to the differences in thorny topics such as the inclusion of Cuba in the upcoming summits and the support for Argentina's sovereignty on the Falkland Islands, consensus was reached on the official subject areas, such as fight against poverty, organized crime and lack of personal security, physical interconnection, prevention of natural disasters and the extension of new technologies.

**Brazil's economy shrunk.** Brazil's economy shrunk in February for the second month in a row, according to data released by the Brazilian Central Bank, which shows that the South American giant is in trouble to recover momentum, even though it has cut interest rates five times since past August. The economic activity index IBC-Br of Brazil Central Bank dropped 0.23% in February with respect to January.

**Foreign direct investment shoots up.** Foreign direct investment in Colombia jumped 30.2% on a year-to-year basis in the first quarter of the year, to US\$4.20 billion, boosted by funds earmarked for the oil and mining sector, according to figures of the Colombian Central Bank. Foreign investment inflows have been the main cause for the Colombian peso appreciation, which has accrued 8.5% in 2012.

**Peruvian GDP prospects for 2012 are increased.** All economic agents (banks, analysts and companies) raised their GDP growth prospects for 2012, Peru's Reserve Central Bank (BCR) reported past weekend. According to the BCR's Survey on Macroeconomic Expectations for March, economic analysts and financial entities raised their growth prospects from 5 and 5.3%, respectively, to 5.5% in both cases. Non-financial firms reviewed upward their economy growth estimates for this year, from 5.5 to 5.8%. For 2013 and 2014, economic growth estimates have been set at between 5.7 and 6%.





## Political Tips

**One million people are left outside.** One of every ten Venezuelan adults is not registered to vote in the presidential election scheduled for October 7th. Upon completion of the extraordinary process to update data in the Electoral Roll, which lasted nine months, the number of citizens that aren't registered in the Roll is, reportedly, 4%. From the perspective of the CNE technicians, the reduction of the gap between potential and registered voters is a success; however, for the opposition election technicians, the goals set weren't attained.

**17% of potential voters living abroad are registered.** The process to update data in the Electoral Roll abroad didn't go very well. Reportedly, in the 87 countries where Venezuela maintains diplomatic missions, only 28,000 new voters registered, for a total of 85,000 voters registered to vote on October 7's election. This figure accounts for 17% of the total of potential voters (482,922 people) target set by organizations that gather Venezuelans living abroad in 2011.

**"Don't make the same mistake again."** In the events to commemorate April 11th, President Chávez warned the *"bourgeoisie"*, those who are trying to destabilize the country, which declare *"technical tie"* and cry *"fraud"*: *"Just in case they make a mistake, we aren't going to make any."*

**Chávez will order the Armed Forces to take the streets if the opposition cries fraud on 7/10.** President Hugo Chávez claimed that they will win with 70% of votes and paraphrasing Jesus Christ, Chávez insisted that it is easier for a camel to go through the eye of a needle than *"the opposition to win the election."* Chávez reiterated that if he loses the election, he will recognize the outcome, but repeated that he would like to hear the same from his adversaries. *"If the opposition dares ignoring the election outcome and the people's victory, everybody will take the streets, the whole people will go to the street, but not only the people; people and soldiers,"* he claimed.

**We're going step by step in our battle.** At his arrival in Caracas from Cuba, where he received the third round of radiotherapy after being subjected to surgery for a new cancer tumor on February 26th, President Hugo Chávez assured that he is *"moving forward"* in his battle against cancer. *"We are moving forward in our battle, forward, forward, with faith, recovering,"* the Venezuelan president assured in a speech broadcast on national TV from Miraflores Presidential Palace.



**Almost 50% of Venezuelans identifies Capriles as a capitalist, according to ICS pollster.** The most recent survey of International Consulting Services (ICS) pollster revealed that 49% of Venezuelans fully identifies the right-wing candidate, Henrique Capriles Radonski, with capitalism. Juan Scorza, director of the pollster, highlighted that the countrywide survey, carried out on a sample of 2,200 people, reveals that almost half Venezuelans perceives Capriles as a capitalist; 29.5% believes he is a *“progressive thinker”*, 2.3% as a *“socialist”*, 8% as a *“combination of the above”*, 2.1% say he belongs to *“another”* political current and 5.3% didn't answer.

**Capriles accepts diversity of thought and demands respect.** The unity candidate, Henrique Capriles Radonski, called upon his followers and the Venezuelan people *“not to hear insults and disqualifications”* that president Hugo Chávez addressed against him at the ceremony to commemorate April 11, 2002's events. *“President Chávez' irresponsible statement was intended to wreak havoc and anxiety among the people (...) Mi message is for all Venezuelans to live a good life. We make mistakes, but it's necessary to correct them with respect.”*

***“There will be a different country when teachers are the most important people in the society”.*** The opposition candidate, Henrique Capriles Radonski, criticized the Minister of Education because she didn't attend the inauguration of a school *“that is for all children in Venezuela,”* by Miranda State's Governor. *“They are upset because I led the construction of the work and I say: God, forgive them for they do not know what they are doing.”* Capriles said that that is his commitment and that there will be *“a different country when teachers are the most important people in the society.”* He rejected that public servants are obliged to attend the inauguration of works or otherwise they can be fired.

**There is still hope.** Carmona Estanga states that he is sad because Venezuela has gone backwards over the past ten years. The entrepreneur, who ruled Venezuela for a little more than 24 hours after the failed coup attempt against Hugo Chávez in April 2002, is *“very sad”* because of the *“backward direction”* that according to him his country has been going in during the last ten years, but he is hopeful regarding the upcoming presidential election.





## Legislatives Tips

**Last minute.** The AN board convened a Special Session on April 14th to grant authorization (for the required time) to President Hugo Chávez to travel to Havana Cuba to receive the four round of radiotherapy. The authorization was granted unanimously.

**Chávez was authorized again to travel to Cuba.** The National Assembly unanimously authorized president Chávez on April 14th to travel to Havana, Cuba. Representative Carlos Berrizbeitia (Prove-Carabobo) said that Chávez is the “Venezuelan with the most expensive disease in the democratic history of the country.” Before granting the authorization, Berrizbeitia highlighted: “of the last 340 days, since May 11, 2011 until April 8th, President Chávez has spent 200 days resting or at the hospital and 80 days in Cuba.”

**Forum on weapon control.** In the framework of the social mobilization activities carried out by the Presidential Commission for Weapon and Ammunition Control and Disarmament, a forum titled “Violence and Weapon Control Policies in Venezuela” was held on April 17th. The event was intended to discuss with the university community the issue of violence related to firearms and public policies being developed in the country in this area.

**Finance Control Commission suspends activities due to April 11, 2002 commemoration.** The AN Finance Control Commission decided to suspend three trips intended to develop a series of investigations, due to the commemoration of the events of April 2002. The trips scheduled by the commission included a visit to Monagas state to investigate alleged irregularities in bidding process by Monagas Governor’s office.

**New Labor Organic Law (LOT) has been discussed with all sectors.** Antonio Espinoza, member of the Presidential Commission for the Reform of the Labor Law, informed that they have met with different workers’ associations to gather opinions and recommendations on the transformation of the new legal instrument. “I have met with Fedecámaras, the Banking Association, and with the most relevant economic groups.” He also said that the commission will provide advice “on aspects that the President has asked us to express our opinions (...); the final decision will be made by President Chávez.”



***“Nobody will scrap them from their labor benefits.”*** Francisco Torrealba, representative member of the presidential commission for the reform of the Labor Law, assured that the commission is considering several scenarios with respect to where the moneys for severance payments will be deposited, including a public fund. *“All workers, independently of they are working in the private or public sector, may choose if their money will be deposited in a bank trust fund, in the company’s accounts or in the fund to be created. Nobody is going to scrap them from their Money which is their and their family’s patrimony,”* Torrealba said.

**The National Assembly will start a round of hearings concerning the case of San Francisco Ateneo.** Since a number of councilmen from San Francisco Municipality, Zulia State, presented a report with the Finance Control Commission against Isis Perozo and Julio Montoya, on the grounds that the funds granted by Zulia Governor (Manuel Rosales at that time), which ranged between VEB 3.0 billion and VEB 4.0 billion, were spent without completing the works in the Ateneo. Representative Jhony Bracho, member of the Special Commission investigating the alleged irregularities announced that the round of hearings of the Zulia State’s government official will start soon in order to clarify the situation.

**Public consultation on the Law for Disabled People starts.** Public consultations via web on the draft regulations of the Law for Disabled People were started at the headquarters of the National Council for Disabled People (Conapdis). The Council president, Edgar Araujo, invited all disabled people in the country and their families to participate, as well as people that aren’t disabled but are sensitive and desire to join this task. Furthermore, last week spots were activated in Bolivar squares throughout the country where videos were played explaining how to present proposals, prevent accidents and providing testimonies.





## ECONOMIC OVERVIEW

