



Weekly Report

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What happens if President Chávez is reelected?

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This Report will take a look at what the Venezuelan economy will be like beyond 2012 and to do so we have created two scenarios: 1. What will happen if President Chávez is reelected; and 2. What will happen if an Opposition candidate wins the upcoming presidential election to be held in December 2012. This Report will look at the first scenario.

6 more years of the 21st Century Socialist model

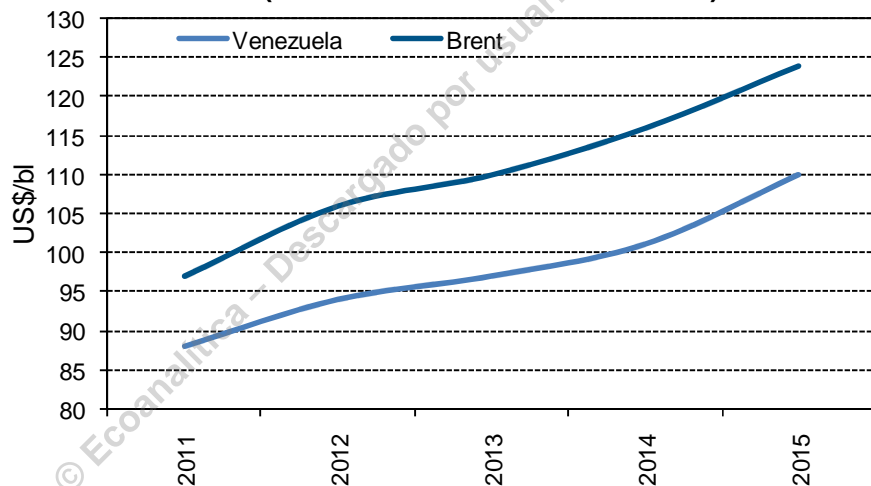
So, it's December 2012, and we are all waiting for the news bulletin to announce the final tally of votes and who has won the presidential election, and consequently, how this will affect the lives of Venezuelans for the years to come. The announcement finally comes; Chávez has managed to get an insurmountable amount of votes and will continue to be the President of Venezuela for another term.

What path will the country follow during the coming 6 years? What will the future of Venezuela hold? What are our projections for the country?



This scenario is relatively easy to predict since the Administration will continue along the same path it has been following for the last few years. There won't be any significant structural changes in the economy; all the main elements will continue to operate as they have been: the public sector will continue to expand at the expense of the private sector; and much like what happened during the 2011-2012 period, the economy will grow well below its full potential. This will occur in a context where international oil prices remain relatively high; between 2012 and 2015, we expect the Venezuelan oil basket will average US\$100/barrel a year.

**Oil Price Forecast
(Brent and Venezuela 2011-2015)**



Sources: Menpet , Bloomberg and Ecoanalítica

Oil doesn't have ideology

Ever since the oil boom, the Venezuelan economy has been increasingly dependent on oil and international oil price fluctuations, which would result in the economy shrinking or expanding in according to what level oil prices spiked or fell to.

The economic policies implemented by the Chávez Administration have increased this dependency on oil. On the one hand, the exchange controls have made us more dependent on the deteriorating private sector exports, while pro-cycle fiscal policies magnify the positive and/or negative effects of international oil price fluctuations on the local economy. This has led to the Venezuelan economy reflecting significantly volatile growth rates. During the oil bonanza period, the average growth rate of the Venezuelan economy was at 10.3%, while during periods of crisis the economic growth rate is at -4.4%.



The current international oil scene and its outlook for the coming years looks very promising for the Venezuelan economy given that world geopolitical events and international levels of supply and demand all point to the average price of oil on the international market will remain above US\$100/bl.

During the last decade, Venezuelan oil production has dropped by more than 13.1%, this being the reason that high international oil prices in 2010 haven't generated the same kind of economic growth and social wellbeing among the people as did the oil boom years 2004-2008. In fact, in 2011, with new record levels in oil prices being posted on the market, Venezuelan economic growth, according to the most optimist analyst, will only reach around 3.0%, while in 2006, with international oil prices at US\$56/barrel, the Venezuelan economy grew by 10%.

For the coming five years we project that the Venezuelan economy (GDP) will grow at an average rate of just 0.6%, well below the potential growth rate of the economy and below the population growth rate (1.6%). At **Ecoanalítica**, we believe that the current economic model will not allow the economy to grow at a greater rate, even if Chávez doesn't get reelected and there is an Opposition Administration in power, the economy will continue with this deficient growth rate, due to the significant economic distortions accumulated by the current Administration, and this despite the fact that we project that the Venezuelan oil basket will average at around US\$100/bl.

Long-term trends - 5-year averages			Consensus	Ecoanalítica
	2000-2004	2005-2009	2010-2014	
Population (million)	25.2	27.5	29.7	29.5
GDP (US\$ billion)	106	238	309	216
GDP per capita (US\$)	4,207	8,606	10,386	11,375
GDP (%)	1.8	6.0	1.2	0.6
Fiscal Balance (% of GDP)	-3.1	-0.3	-3.4	-4.9
Inflation (%)	20.8	21.7	28.3	29.5
Current Account (% of GDP)	9.3	10.9	7.2	11.1
External Debt (% of GDP)	37.0	23.1	30.0	34.0

Sources: BCV, INE, FocusEconomics and Ecoanalítica

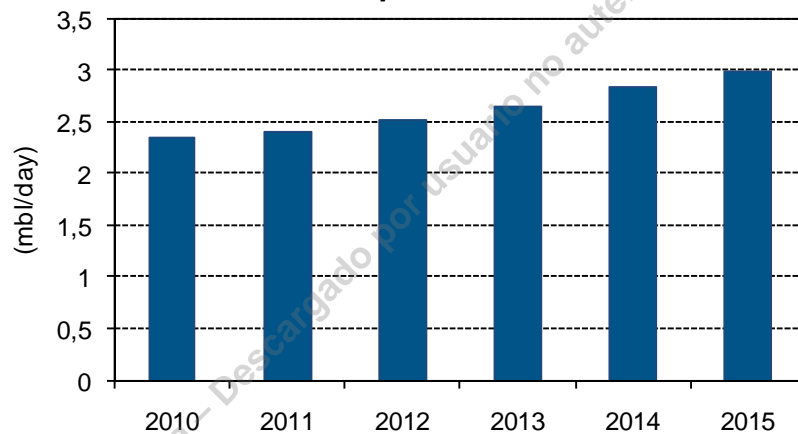
It's not out of the question that policies may become more flexible

With respect to the oil industry, there is no doubt that during the months leading up to the presidential election in December 2012, the Administration's strategy will be to increase fiscal pressures on PDVSA and any investments it will make in the oil industry will be the minimum it can in order to avoid oil production continuing to drop which is at levels that one may call "critical". After the presidential election, in 2013 and onward, the situation will change. In order for the chavista model to be sustainable, it has to spread the wealth as much as possible and this is



It's tied to how well PDVSA performs. It's not out of the question that the Administration make the current legal framework a bit more flexible in order to receive resources from private companies as it tries to improve domestic oil production. The other possibility, which is a bit riskier, is to look to the Chinese for more financing to invest in the domestic oil industry, mainly oil production, and to pay for this financing with crude oil, much like a number of current agreements are being managed.

Oil Exports Forecast



Sources: Pdvsa and Ecoanalítica.

Not too many surprises expected

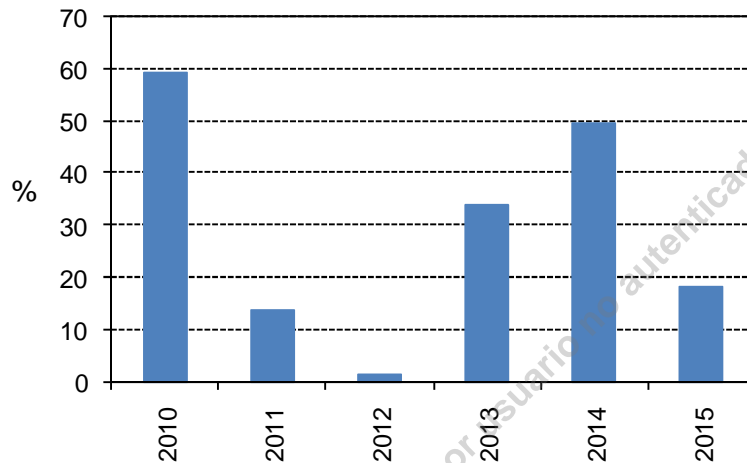
Of course, in this scenario, exchange controls remain in place since it is still one of the Administration's best tools that allow it to impose its 21st Century Socialism economic model, in which the State is the main player. This is not to say that exchange controls will remain exactly the same or that they may not be modified, but for the moment, the current scheme will remain as is. The pressure valve continues to be the devaluation of the official exchange rate, and after 2012, devaluations may become more frequent and severe, given that the Administration will not be able to continue borrowing at the rate it has been.

At **Ecoanalítica**, we don't rule out that the Administration may allow a foreign currency parallel market to emerge again as a means of taking some of the pressure off the official market, but this will only happen if the Administration feels it has no other way out, and will be done in order not to have to dismantle the exchange control mechanism.





Weighted devaluation

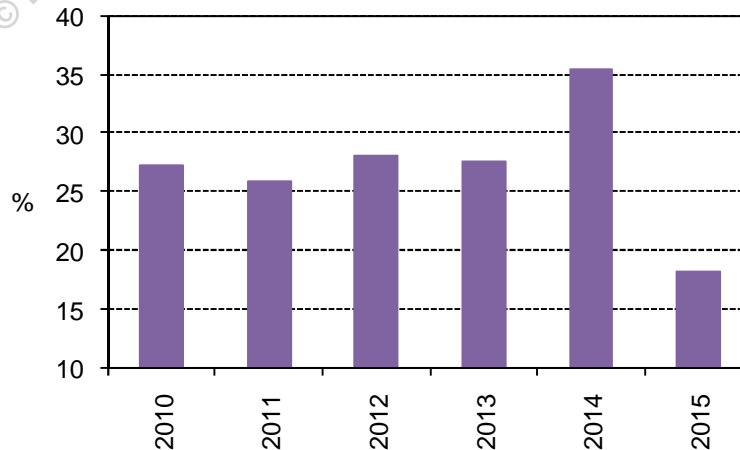


Sources: BCV and Ecoanalítica.

Inflation: Venezuela's eternal problem

With respect to our projections regarding inflation, we are absolutely convinced that if the current Administration continues in power with its usual set of public policies, Venezuela will continue to have “*high and persistent*” inflation, with yearly prices fluctuation levels at between 25.0% and 30.0%.

Inflation Forecast



Sources: BCV and Ecoanalítica.





There is no way one can help but recognize that the chavismo economic model of the last not so few years has always had a problem with inflation that has progressively gotten worse. The fact that domestic production has dropped significantly, and that this is one of the main reasons that prices have risen so significantly, there are other factors that one also has to acknowledge that have also contributed to inflation being out of control such as: control policies, fiscal mismanagement, and the almost complete lack of incentives for private sector investment, if control policies aren't modified and the Administration doesn't begin to create incentives for the private sector investment then there is no way inflation can drop structurally. In the past, all you had to do was to freeze the exchange rate in order to achieve a significant drop in inflation, as was the case during the period 1996-2001; but nowadays, announcing and/or implementing such a measure is not enough.

What will the private sector's role be?

Within the framework of 21st Century Socialism, after being reelected as President in 2006, Hugo Chávez made it very clear when he announced his *Proyecto Nacional Simón Bolívar, 2007-2013 First Socialist Plan Primer Plan*, that he intended to change the country's production model, where *"the State will have total control of production activities of strategic value for the development of the country..."* He consequently established a Socialist Production Model made up basically of Social Production Companies (EPS), State-run Companies, and Private sector capitalist companies.

Using this as a base, the Administration has tried to generate a model that has in its core a *"new social economy"* with interconnecting ties between Social Production Companies and State-run Companies and private sector companies, but with the first two examples being the dominant ones, and not discarding the possibility of creating mixed companies.

The coming years will see this model expand and be developed more thoroughly, as long as high oil prices and the profits they bring in to Venezuela continue. Maintaining these social policies is very difficult and costly for the Administration. It is trying to design a model where the State is the supreme entity, not only as a regulator but as an economic player as well. You can see this in the way the State is making its way into the following sectors: agro-industry, banking, and commerce, among others.

In this model, private property exists but in a secondary role and only if it allows the State to hold the reins. So one can expect that in the future the



private sector will still exist but extremely regulated and not very likely to grow or expand. As things stand today, the private sector is not very clear on what role it is supposed to play in this new model, and some even think that the new model does not include the private sector. So as this situation continues and the uncertainty lingers the private sector merely exists without any real desire or will to inject any kind of dynamics into the economy.

Everything changes... So that everything may stay the same

We have always maintained that in this stage, economic policies comes second to the viability of the political model. If Chávez is reelected he is going to be facing the same dilemma he has always faced: to continue to develop and implement his new socialist economic model, which in turn slowly strangles and paralyzes the private sector, which still represents the largest portion of the economy. By deteriorating the private sector, Chávez is indirectly deteriorating society, and the population's, and the country's general wellbeing, which in turn will lead to his losing popularity and support.

Paradoxically, this does not constitute an incentive for the Administration to try to reactivate the economy. It doesn't necessarily mean that they will succeed, but the Administration's Achilles Heel is that the more it advances with its socialist model the greater the degree of vulnerability of the chavista political project will be in the long run. Now all that's left to be seen is what will chavismo be willing to sacrifice, and what changes will be introduced in order to avoid the collapse of the country. We'll soon see.





Economic Tips

Consensus increases economic growth rate for this year. FocusEconomics, a survey company, in its edition on Latin America, states that a consensus of experts who follow economic performance of Latin American countries puts the economic growth rate (GDP) of Venezuela at the close of 2011 at 1.7%, up from the 1.5% published in March. This update is the same as **Ecoanalítica's** projected economic growth rate which was also set at 1.7% for the year. With respect to inflation, the company raised its projections by 0.3 percentage points, posting that the Venezuelan inflation rate by the close of the year will be at 29.3% and for 2012 it will be at 27.5%, while at **Ecoanalítica**, we believe inflation will close the year out at 25.9% in 2011 and 28.1% in 2012.

Central bank of Venezuela (BCV) optimistic. The vice-president of the BCV, José Felix Rivas, stated that there is a perspective that the Venezuelan economy is improving, "*it's reactivating*", he insisted.

Finance Ministry focuses on advancing socialism. Despite oil revenue coming in at increasing levels, the Ministry of Planning and Finance plan to continue to advancing on tax reform aimed at adapting the system to the socialist production model: "*tax reform aimed at molding the tax structure to the required needs of the production model being implemented in the country*".

Food basket at VEB 2,694. According to the Documentation and Analysis center for Workers (Cenda), the food basket for workers was up by 2.3% compared to the month of March 2011 settling at a cost of VEB 2,693.50. This means that a minimum wage salary (VEB 1,469.63) is just able to purchase a little over half the basket (54.6%). Nine of the eleven items making up the basket increased in price: lard and oil, sugar, cereals, milk, cheese, eggs, fish, meat, non-alcoholic beverages, fruits, and herbs and spices; while vegetables dropped slightly due to a drop in the price of celery root, yucca, and mixed vegetables.

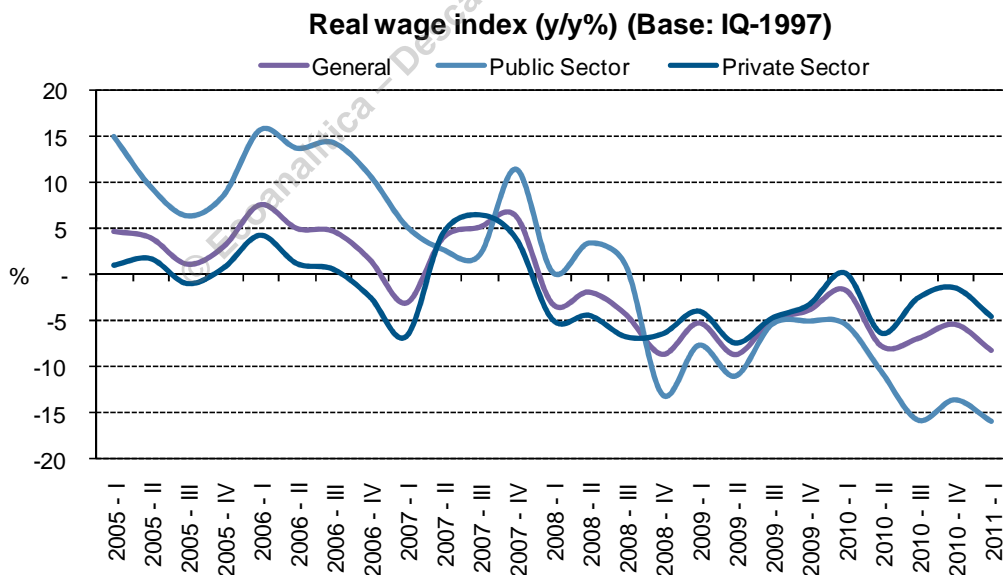
According to Cendas... According to the Social Documentation and Analysis center for Venezuelan Federation of teachers (Cendas-FVM), the family food basket was up by 1.0% (VEB 29.97) compared to the month of March 2011 settling at a cost of VEB 2,892,20. Seven items in the basket increased in price: dressing and mayonnaise, up by 7.5%; lard and oils, up by 7.2%; fish, 6.5%, milk, cheese and eggs, 2.3%; meats, 1.3%; cereals, 1.0%; and black beans, kidney beans and lentils, 0.9%. Three items



dropped in price: sugar and salt, down by 2.7%; fruits and spices, down by, 1.2%; and celery root, yucca and similar vegetables down by 1.1%. This means that a minimum wage salary (VEB 1,469.63) is just able to purchase a little less than half the basket (45.4%).

Real minimum wage salary has dropped by 37.1% since 1980. According to the statistics released by the BCV and the National Institute for Statistics (INE), the purchasing power of the minimum wage has dropped by 37,1% since 1980, this despite the fact that the nominal minimum wage has been increased by an average of over 20% yearly since then. However, by the close of 2011, it's estimated that the minimum wage will increase by 2.8% in real terms if inflation doesn't close the year out over 23.0%.

Purchasing power index in a freefall. The Salary Purchasing Power index registered for the first quarter 2011 a drop of 7.4% compared to the same quarter in 2010. By sectors in real terms it shows that the private sector dropped by 3.7% and the public sector dropped by 15.3%.



Sources: BCV and Ecoanalítica

Urban transportation ticket price hike higher than inflation. According to the Ministries of Transportation and Commerce the adjustment to urban transportation ticket prices will be for 50% and will be implemented in two stages, the first, going into effect immediately, raises ticket prices by VEB 0.5, setting minimum ticket prices at VEB 2.5; and the second going into effect in August raising ticket prices another 25% leaving minimum ticket prices at VEB 3.0. The price adjustment for suburban,



inter-urban, and inter-municipalities was for 25%. In the last five years, urban transportation ticket prices in the Greater Caracas area have increased by 400%, while the cumulative rate of inflation for the same period equals 173% according to BCV data.

No use approving more foreign currency request application. During a quarter which saw international reserves drop by 9.0% compared to the same period in 2010, it's clear that the BCV is not doing a very good job in keeping up with liquidating CADIVI approved foreign currency request applications. During this first quarter 2011, the BCV liquidated foreign currency for imports, remittances, and credit cards for 3.3% less than what it liquidated during the same period in 2010. Meanwhile, CADIVI has increased the number of foreign currency request application it has approved by 11.0% compared to last year during this same period.

The INE expects extreme poverty to level off at 5.0%. According to the president of the INE, Elías Eljuri, the entity expects that by the close of this year extreme poverty will have leveled off at 5.0%, in other words, down by 1.9% compared to 2010, and that base poverty drop from 20.0% and 21.0%, thanks to the new salary policies introduced by the Administration and the economic growth projected for this year.

Unstable job situation. Unemployment, which in the month of March affected 1 million Venezuelans according to INE figures, is not the only indicator that reflects the labor market. A study by the Institute for Economic and Social Research of the *Universidad Católica Andrés Bello* points to unstable job situations being a very serious problem. The study found that 82.6% of the working population (9.5 million people) is in an unstable job situation.

Increasing job instability. Study results are based on 2008 figures since this is the last year available for INE home surveys and it shows that job instability has increased during the presidency of Hugo Chávez. In 1997, the year used by the study to begin recording data, 69.8% of the working population (5.6 million) had an unstable job and 30.2% had quality stable jobs. This last group has dropped in numbers in nominal terms during the last 11 years from 2.44 million workers with stable good jobs to 2 million. Researcher, Genny Zúñiga, responsible for the study says that it is not out of the question to suppose that the unstable job situation has continued to increase since 2008.

Interest rates. The lending rate for the fifth week in April was at 17.13%, decreased by 2.38 perceptual points compared to the previous week. Time deposits also were decreased by 1.12 perceptual points to reach 14.63%, while the passive has not submitted any variation since January 2010, placing well at 12.6%.



International reserves. International reserves creased 1.0% going from US\$26 billion during the fifth week in April to US\$27 billion during the first week in May. Compared to the same period last year, international reserves have dropped by 4.0%.

Monetary liquidity. Monetary liquidity in the fifth week in April creased 2.0% compared to the previous week settling at VEB 314.03 billion. The M2 has creased 32.0% year-on-year.

Sitme figures. To date, US\$7.85 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.0 million a day, with an implicit exchange rate of 5,3VEB/US\$. Last week the traded amount reached US\$196,5 million, US\$10,5 million less than last week when braided US\$206,9 million. So far this year the SITME has negotiated US\$ 2.77 billion.

Oil Tips

Miraculous oil. Over the last few years, the Venezuelan oil income has allowed for Hugo Chavez's price controls established 8 years ago to remain in effect, despite an accumulated inflation of 431%, more than 4 times the inflations of the Caldera and Lusinchi administrations, which had similar price controls and were forced to dismount them for not receiving enough oil revenues .

Supply Vs. Oil prices. The fall of oil prices ratifies the policy of maintaining OPEC's production quotas, assuring that the high prices were not associated to a shortage of supply from oil producing companies. Statistics of the International Energy Agency indicate that in January of 2010, the daily crude oil demand reached a record 88.02 million barrels per day, with a growth prediction of approximately 2% for 2012. That's why large consumers bet on the production quota increase measure to reduce the high prices.

The dark side of oil. Former Colombian President Alvaro Uribe urged multilateral banks to finance social compensation programs in non-oil-producing countries suffering from the negative impacts of the high oil prices, during a conference held in the forum "*Honduras open for business*," which ended May 9, in San Pedro Sula. He



suggested gasoline should not be subsidized, but they should find a way to compensate the loss of citizens' purchasing power.

Big fall for the WTI. The West Texas Intermediate (WTI) index reported an 8.6% price decrease last Sunday, May 8, making it close at less than US\$100/bl, from which it hadn't decreased for over two months. The foregoing led to a US\$9.4 decrease in WTI futures at Nymex, compared to their last price of May 04. The Brent also reported a fall in London's futures market, closing at US\$110.8/bl, for an 8.6% decrease.

A giant at sea. The installation of the Platform *Facilidades Centrales de Producción* (Central Production Facilities, FCP (acronym in Spanish)) at the Gulf of Paria will allow the Venezuelan oil industry to boost its crude oil production areas, especially its offshore developments, such as the cases of Petrolera Paria, Petrolera Güiria and Petro Guarao. This structure has set new standards in terms of technological development for the oil industry, as it will be able to strengthen the production in oil deposits committed with semipublic companies. The FCP will be installed near the operation site of Petrosucre, which produces approximately 41,600 barrels per day. This platform will allow Petrosucre to increase its production by 50,000 to 70,000 barrels.

Drill by drill. As of April, 2011, Venezuela had 93 private active drills, certified by Baker Hughes, out of which 81 are used for crude oil drilling and 12 for natural gas extraction. The number increased thanks to the incorporation of 25 drills for crude oil extraction and 5 for natural gas extraction, compared to the same month of 2010, when there were only 63 active units.

Hard to predict... So? Oil price fluctuations are typical in an unstable market, and the recent fall ratifies Venezuela's position to maintain its production quotas in the next OPEC meeting, said the minister of Energy, Rafael Ramirez. He also said we should continue to work to maintain suitable prices, and added: *"Prices have gone up, down, up, down. That's a typical sign of market instability, and the situation in Libya is having a great impact on that (...) No one can estimate. There are no experts to estimate how that behavior will continue."*

International oil baskets. At closing time on May 06, 2011 in the New York exchange market, the Brent reported a price of US\$121.1/bl, proving a decrease compared to the US\$124.5 reported the previous week. The WTI closed at US\$109.5/bl, reporting a 3.0% increase compared to last week's US\$112.5/bl.





Local oil basket. The price of the Venezuelan oil basket closing last week at US\$108.0/bl on May 06 a 2.0% decreased compared to the 110.4/bl reported last week. Meanwhile, the average annual Venezuelan oil basket price is US\$95.3/bl.

Business Sector Tips

The long-awaited registry finally arrived! Yesterday, during the first general registration day for the Great Housing Mission Venezuela, President Hugo Chavez announced that 72,454 families had enrolled, exceeding the government's expectations of 48,000 families.

Great Housing Mission will have the necessary supplies. Siderurgica del Orinoco Alfredo Maneiro (Sidor) will guarantee full supply of steel bars for the Great Housing Mission Venezuela.

Law against eviction in effect. In less than five months and through the Law of Special Powers, the Venezuelan Government has approved four legal instruments for the housing sector. One of them is the recently published Law against Arbitrary Eviction from Homes, which regulates tenancy evictions. The Law became effective on May 6, as it was published in *Official Gazette N° 39,668*.

More money for housing. President Hugo Chavez authorized VEB 277 million necessary to build 1,210 housing units in different areas of the nation. The National Administration has a total of VEB 60 billion to invest in the Great Housing Mission Venezuela between 2011 and 2012, in order to build 350,000 homes.

Absolute authority. The Law of Emergency for Lands and Housing defined the *higher Housing System Entity* as the regulating instance, in charge of defining the projects private and public banks will finance as well as the families that will be benefitted with the housing units. According to its provisions, *"the entity will have organizative authority to execute administrative, economic and financial programs."*

More conditions and reviews. The National Administration is currently making adjustments to the loans granted to acquire first homes and, as part of that process, has already authorized a modification to the conditions of the banking system's mandatory mortgage loans portfolio, indicating the top income, a review of the



conditions of loans granted through the Mandatory Savings Fund and direct subsidies, used to contemplate the purchase of homes.

First homes will not only be acquired but also equipped. The private banking system signed an agreement with the Government with will result in long term loans at low interest rates to purchase Chinese home appliances. The Plan “*My well-equipped house*” will allow those with a payroll account to acquire stoves, refrigerators and washing machines with loans at an interest rate of 18% and terms of 24 and 36 months, depending on the financial institution.

Electric system can't take it anymore. According to the former director of the National Office of Interconnected Systems (Opsi), Miguel Lara, the national electric system is too vulnerable to any malfunction since it is overloaded, new facilities have not been incorporated yet and the existing ones are deteriorated because maintenance is also deficient. Three new events were reported early this week, affecting Táchira, Mérida, Trujillo, Barinas and Apure, and partially affecting Zulia, Yaracuy, Portuguesa, Cojedes, Lara, Falcón, Nueva Esparta, Monagas, Anzoátegui and Carabobo.

Conatel to assign frequencies. With the participation of representatives of the main telecommunications operators and members of the sector, May 5, 2011, the National Telecommunications Commission (Conatel) carried out the public hearing corresponding to the Administrative Providence Project by which the available portions of the radio-electric spectrum to be put out for Public Tender will be determined.

Roasters unable to fit raw materials. The socialist coffee plants were unable to operate with national raw materials in 2010, as the lack of resources, among other obstacles, kept them from meeting provision and production goals.

Defaults in agricultural loans increase. Statistics from the Superintendence of Banks indicate that between December and March of 2011, despite having a preferential interest rate of 12%, due and disputed agricultural loans increased by 35.6% from VEB 1.53 billion to VEB 2.07 billion, all due to the impact of the rains and government expropriations.

Price adjustments were too small. The recent 30% price adjustments granted to rice and corn were below the national agricultural sector's expectations, as they did not help cover the cost of the activity.

Cavecol asked to be included in negotiations. As she assumed the first chair in the board of directors of the Venezuelan-Colombian Economic Integration Chamber



(Cavecol) for the 2011-2013 period, Emilia Peraza bet on the promotion and solidity of the integration between the two nations. She urged the authorities to include her voice in the negotiation process taking place with Colombia to sign the Complementarity Agreement.

Foreign market food prices are high but stable. The United Nations Food and Agriculture Organization (FAO) announced the food price index averaged 232 points in April, 2011, a 36% increase compared to April, 2010, and a 2,0% decrease compared to its highest level. The study revealed that the fall of sugar and rice prices, as well as the increase in cereal prices helped stabilize the index.

Labor benefits were nothing but promises. Workers of the nationalized food distributing company Friosa gathered last Monday in front of the company's administrative building to state their dissatisfaction with the current management. The fact is that eight months after the complex was expropriated, the labor benefits promised by the National Administration are still not a reality.

Oil demand up but the supply does not compensate. The deficiencies in fat-derived products such as oils and margarines are due to an increase in the demand for these products. Sources from the oleaginous sector blame the deficiency on *"excessive purchases by consumers, as they assure there are no problems with the production and distribution."*

Mercal balance. The Food Market Network (Mercal) evidenced a recovery in operations in 2010, compared to 2009 when it reported a 10.78% sales reduction. Mercal's sales in 2010 recovered by 8.5% compared to 2009, going from 1,331,354 tons of food to 1,445,145 tons, according to official numbers. The average daily sales reached 4,899 tons, 11.13% more than in 2009, and the number of people benefitting from the network increased by 11.12%, with 11.2 million consumers.

But small Mercal grocery stores disappear. The number of Mercal establishments grew in 2010, going from 16,606 to 16,992 all over the country, but during the first quarter of 2011, 652 small Mercal grocery stores closed their doors. According to Mercal numbers, as of April 18 of 2011 there were 16,340 points of sale. The president of Mercal, Felix Osorio, explained to El Universal that it was not that small Mercal stores were disappearing, but that those who did not comply with the organization's norms were being eliminated.





World Economy Tips

US employment up. The US Monster¹ employment index rose 6.6% m/m during April, after similar strong gains during the prior two months. Compared to the same period of 2010, the index has increased by 9.0%. The improvement has been generalized, but has been more notorious in the commercial, professional and scientific sectors, as well as in the health industry. The real estate, construction, finance and insurance sectors need to report significant improvements in order to help boost this indicator. Note that the sectors requiring improvement were the precursors of the financial crisis of 2008.

US Consumer Credit strengthens. The recent recovery in consumer spending has been accompanied by a combination of strengthened use of non-revolving credit (student and car loans, mainly) and less use of revolving usage (credit lines). Consumer credit increased by US\$6 billion during March after a revised gain of US\$7.6 billion in February. US credit has reported strong growth for the last six months, after the falls registered from 2008 to 2010.

British pessimism. The UK manufacturing production index fell unexpectedly in April, reaching a seven-month low. Said index had become a star reference for the recovery of the British economy, but the star didn't shine too brightly in April, so now there is pessimism as to the economic growth. The UK is struggling thanks to an increase in inflation and an austerity plan that includes an increase to the VAT. In response to this performance of manufacture, the Pound Sterling has been falling in international markets for the last few days.

German trade in goods improved in March. Despite the growth of the Euro and considering that 60% of Germany's foreign sales are outside of the Euro Zone, German good exports grew by 7.3%, going from € 84.7 billion in February to € 90.9 billion in March. Imports reported a more subtle increase, 3.0%, going from € 73.46 billion to € 75.7 billion in March, for a € 3.96 billion increase in the trade balance, going from € 11.3 billion in February to € 15.2 billion in March.

¹ Based on a real-time review of millions of job opportunities selected from over 1,500 websites, including a variety of company career sites and labor boards. The employment index shows a photograph of the hiring activity by on-line domestic employers.



Inflation expectations in Asia: mixed signals. In South Korea, the expected inflation rates are closely related to the current inflation rate. In April, the expected inflation rate for next year was 4.0%, compared to the current 4.2%. 76.6% of South Koreans expect the inflation rate to reach between 3.0% and 5.5% next year, compared to the current 2.7%.

In India... the inflation expectations for next year have been higher than those for the next three months, and these have in turn been higher than the current inflation expectations. In 4Q2010, 77.4% of Indians expected prices to grow over the current rate, 17.9% expected the increase to equal the current rate, 3.6% expected the increase to be smaller than the current rate, 0.9% didn't expect any changes and only 0.3% expected a decrease.

Back to the markets? Chile is “*seriously*” evaluating the possibility to go back to the sovereign debt markets, with an issuance for US\$1.5 billion, but still hasn't decided whether to make the placement in local currency or in US dollars, said the minister of Finance last Thursday. During a seminar, Minister Felipe Larrain said that Chile's Country-risk had decreased, making this an opportunity to issue debt bonds at rates that are convenient for the nation.

Ecuador: imports reached record in March. In March, Ecuador's imports hit a new record. The number reached US\$1.88 billion, a 43-month high. In February, foreign purchases reached US\$1.51 billion. Exports also grew by 19.7% (US\$1.94 billion) compared to February. This was a 34-month high, beat only by the sales reported in May of 2008.

Political Tips

Makled case. The Vice minister of Citizen Safety, Nestor Luis Reverol, announced that the active extradition process of the alleged drug dealer Walid Makled has been completed and that the prisoner is already held in his confinement center at the headquarters of the National Bolivarian Intelligence Service in Plaza Venezuela. Makled is expected to be moved to the Palace of Justice where he will appear before the First Court of Control.

Venezuelan opposition reacts to Makled case. The Venezuelan opposition urged the judicial power to investigate the “*gian?*” political implications involved in the case



of the alleged drug dealer Walid Makled, extradited from Colombia to Venezuela last Monday, after his statements of alleged payments to high-rank Government officers.

Chavez suspended his first visit to Brazil. On May 9, President Hugo Chavez announced the suspension of his first official visit to Brazil, due to a knee injury. The visit will be rescheduled opportunely, as well as the meetings in Ecuador and Cuba.

Nationalization of private companies is not socialism. The Governor of the Zulia State, Pablo Perez, stated his disagreement with the continuous disrespect to private property exercised by the central Government following an alleged socialist line of thought.

RCTV and the Government to meet at the TSJ. Next May 12 is the date in which representatives of Radio Caracas Televisión Internacional (RCTV Internacional) and the National Government will appear before the Supreme Court of Justice (TSJ) to state their cases against and in favor of one of the many decisions that have prevented the TV station from broadcasting again through cable systems in Venezuela.

Reports of electoral advantage. The political organization Sumate urged the rectors of the National Electoral Council (CNE) to abide to the Venezuelan electoral law and apply administrative and penal sanctions to those who do not meet the normative as to the anticipation of electoral campaigns and those using State goods and resources to benefit a specific party in detriment of other political options.

Not even 150,000 homes will be built this year. According to statements issued by the national coordinator of Primero Justicia (PJ), Julio Borges, the Administration's housing promise seems impossible to live up to. In his opinion, the Government cannot give out millions of homes when it only builds nearly 25,000 per year. In order to keep its promise, the Government would need to build 441 homes per day.

Chavez's reelection seems to lose some ground. According to the survey prepared by Keller y Asociados, only 35% of the citizens are willing to vote for Chavez's reelection, while 43% would vote for any other candidate.

Majority does not believe in promises. According to Consultores 21, the Housing Mission started with a negative vision by most citizens about the futures of those who lost their homes due to the emergency caused by the rains of December 2010 and January 2011. According to this survey, 52% of the people do not think Chavez will be able to build the promised housing units.





Chavez's administration deteriorating, according to the polls, President Hugo Chavez's administration has been deteriorating due to bad policies for 12 years, and so is reflected by the polls. The latest survey, published by Consultores 21, proves that there has been a sustained fall since 2007. In a sample of 2,000 people, 53% think Chavez's administration has been negative for the nation.

... **And Governors.** The study also indicated that between September of 2010 and March of 2011, people's dissatisfaction with pro-Chavez governors grew by 3 percentage points, while opposition governors have maintained a sustained index over the last 6 months with 62% support.

PPT isolates. Patria Para Todos has no rush in defining its participation in the election of 2012, at least when it comes to supporting a specific candidate, said Jose Hernandez, member of this political party. What the PPT is clear about is that they will not be part of the Patriotic Pole and they will not support a specific opposition candidate, such as Capriles Radonski.

Now everyone will want to be a janitor. The recently discussed Special Law to Dignify Residential Workers specifies that janitors will not earn less than one minimum wage, will enjoy vacations, will have a right to obtain medical leaves and will have at least 3 months to vacate the residence in case of being fired. They will also have benefits such as social security and others.

Opposition requests that the oil surplus law be annulled. Opposition Governors and Mayors recently held a meeting to discuss the Law of special contribution to the extraordinary and exorbitant oil prices, approved by President Hugo Chavez making use of his law of special powers. In the meeting, they assured that the Law was fraudulent and unconstitutional, so they were obligated to follow the required channels: legal, requesting its nullity before the Supreme Court of Justice, and legislative, by having the National Assembly proclaim a law that derogates this one and guarantees decentralization.

New socialist workers union to be created. A new socialist workers union will be created in August of 2011, with a unitary vision in which workers will be protagonists "*to achieve a different form of production*" in companies.

Zulia is not that sovereign anymore. The Constitutional Courtroom of the Supreme Court of Justice (TSJ) voided articles 5, 15, 24 and 52 of the Constitution of the Zulia State, after a nullity appeal was submitted in 2003 alleging that said articles violated the Venezuelan Constitution by trying to, for instance, "*establish the Zulian state as a sovereign state,*" when the spirit of the Constitution of the Republic was oriented toward the integrity of the territory.



High-rank officials angry. The Constitutional Courtroom is currently processing three lawsuits submitted over the last few months against the polemic Organic Law of Salaries, Pensions and Retirement Funds for High-Rank Public Employees, which came into effect last January restraining public employees from receiving monthly salaries of more than 12 minimum wages.

Legislative Tips

Democratizing the radio-electric space. A draft for the Law of Alternative Media was presented before the National Assembly's Media Commission on May 4 with the objective of regulating the activity of community media. It has 27 articles, including the creation of an institutional fund attached to the Vice-president's Office with an autonomous budget to sustain printed, radio and television media. This law looks to "*democratize the national radio-electric space,*" as it is stated in the text.

Alternative solutions to the electricity problem. In its latest ordinary meeting, the National Assembly's Energy and Oil Commission reached consensus to accelerate the drafting of the Electric Saving Law. According to a statement released by its Vice president, Antonio Barreto Sira, they are looking to strengthen the legal framework to, along with the Organic Law of the Electric System and Service, put an end to illegal connections, for instance.

Psuv congressmen looking for a focus. The president of the National Assembly (AN), Fernando Soto Rojas, announced that the representatives of the United Socialist Party of Venezuela (Psuv) were proposing a legislative agenda in which they planned to put up 28 laws for discussion, including those regarding labor, environment, education and health. The establishment of a new labor code offering more protection to workers is considered a priority, as well as a review to the law of education and a normative on health.

Special commission for Makled case. National Assembly Representative, Miguel Angel Rodriguez, proposed the establishment of an observers' commission for the Makled case, which would be in charge of controlling all the aspects related to the processing of the alleged drug dealer. Rodriguez emphasized that such commission should be a priority for the National Assembly, thus to ensure the nation's satisfaction with the results.



ECONOMIC OVERVIEW

