



Weekly Report

Year 8, Number 17
Week II, May 2012

**2011 Fiscal Figures:
Opening Pandora's Box**

By:
Asdrúbal Oliveros
José Luis Saboin
Ecoanalítica's Team*

*Adriana Morillo, Pilar Navarro
and Eliso Silva

Reproduction or distribution prohibited

A few days ago, and after to most significant delay¹, the Ministry of Planning and Finance very quietly released the Restricted Public Sector (SPR) fiscal figures for the Central Government. It's important to keep in mind that the Central Government is only to part of the Restricted Public Sector. It allows us to get to better look at how finances have been managed in the different public sector non-finance entities for the past few years².

As we mentioned to few weeks ago when we were analyzing the Central Government, that the figures show more than just to simple SPR deficit, but rather to tendency for chronic deficit, which needs to addressed in the short term if the we don't want to continue to exacerbate the already

¹We must remember that the figures for the Restricted Public Sector are not published by the Ministry of Planning and Finance since the third quarter of 2010.

² The SPR includes the Central Government and also PDVSA and non-finance public companies, the Social Security, and Fogade.



critical fiscal situation that is facing the country in the coming years. Here are our views concerning this matter.

Poor management of the economy...

At *Ecoanalítica*, we believe that it is important to point out that the latest SPR figures released have not been complete. When we began to analyze the figures for 2010 and 2011, we noticed that figures were limited to the Central Government and PDVSA, and did not include the non-finance sector public companies as has been the norm since 1998-2009. So the figures reflecting the nationalization process have not been included, to process that has accelerated during the last two years. This suggests that there are no clear figures reflecting public sector company management. This supports the studies of several analysts that points to many of these public companies operating at to loss. It looks like the Ministry of Planning and Finance didn't know how to consolidate these figures from to bloated public sector.

Restricted Public Sector Annual Financial Results (% GDP)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Revenues	27.3%	29.5%	32.3%	34.4%	37.6%	37.4%	33.0%	31.4%	24.8%	21.2%	27.9%
Current Revenues	27.3%	29.5%	32.3%	34.4%	37.6%	37.4%	33.0%	31.4%	24.8%	21.2%	26.9%
Tax	9.6%	10.0%	10.3%	11.4%	12.1%	12.2%	12.8%	11.4%	12.4%	10.2%	11.3%
Non-Tax	17.7%	19.5%	22.0%	23.0%	25.5%	25.2%	20.3%	19.9%	12.4%	11.0%	15.7%
Pdvsa Operative Surplus	12.5%	14.3%	17.6%	16.7%	17.5%	16.3%	15.3%	13.8%	4.4%	8.3%	8.3%
NFPC Operative Surplus	0.5%	1.1%	0.8%	1.0%	0.7%	0.5%	0.0%	0.2%	0.2%	-	-
Capital Revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%
Total Expenditure and Net Lending	31.9%	31.0%	32.2%	31.9%	33.5%	38.9%	35.9%	34.0%	33.6%	31.6%	39.5%
Total Expenditure	31.5%	30.7%	32.0%	31.9%	33.3%	38.6%	35.6%	33.2%	33.0%	-	-
Current Expenditure	20.9%	20.7%	22.1%	21.9%	21.3%	24.0%	22.4%	22.7%	21.9%	23.9%	29.6%
Operative Expenditure	6.7%	6.5%	6.8%	6.0%	5.5%	7.0%	6.3%	6.5%	7.4%	6.6%	7.0%
Wages	4.9%	4.6%	4.7%	4.2%	3.8%	4.1%	4.3%	4.5%	5.4%	5.0%	5.2%
Interests and Comissions	3.4%	5.2%	5.2%	3.8%	3.0%	2.1%	1.6%	1.5%	1.5%	1.7%	2.2%
Transfers	10.7%	8.6%	9.9%	11.7%	12.6%	14.5%	14.3%	14.4%	13.0%	15.5%	20.4%
Transfers to Public Sector	8.6%	7.0%	8.1%	8.8%	9.8%	12.0%	10.9%	10.7%	8.7%	-	-
Transfers to Private Sector	2.1%	1.5%	1.8%	2.8%	2.8%	2.5%	3.3%	3.7%	4.3%	-	-
Other	0.1%	0.3%	0.3%	0.4%	0.2%	0.4%	0.2%	0.4%	0.1%	0.0%	-
Capital Expenditure	9.6%	9.0%	8.8%	9.4%	11.5%	14.1%	13.1%	10.4%	11.0%	6.6%	8.3%
Acquisition of Fixed Capital Assets	5.9%	5.6%	5.2%	3.8%	3.9%	4.4%	5.2%	2.5%	5.6%	3.8%	5.3%
Extra-budgetary expenditure	1.0%	1.1%	1.0%	0.6%	0.5%	0.5%	0.1%	0.0%	0.1%	0.2%	0.0%
Net Lending	0.4%	0.3%	0.2%	0.1%	0.3%	0.3%	0.3%	0.8%	0.6%	0.9%	1.6%
Primary Surplus or Deficit	-1.2%	3.7%	5.4%	6.2%	7.1%	0.5%	-1.2%	-1.2%	-7.3%	-8.6%	-9.4%
Current Surplus or Deficit	6.4%	8.8%	10.2%	12.5%	16.3%	13.3%	10.6%	8.6%	2.9%	-2.6%	-2.7%
Financial Surplus or Deficit	-4.6%	-1.5%	0.2%	2.5%	4.1%	-1.6%	-2.8%	-2.6%	-8.8%	-10.4%	-11.6%
Financing	4.6%	1.5%	-0.2%	-2.5%	-4.1%	1.6%	2.8%	2.6%	8.8%	10.4%	11.6%
Internal	5.4%	-0.1%	-1.8%	-2.3%	-4.7%	0.5%	-1.3%	1.9%	6.2%	8.7%	9.2%
External	-0.8%	1.6%	1.6%	-0.2%	0.6%	1.1%	4.1%	0.7%	2.5%	1.6%	2.4%

Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

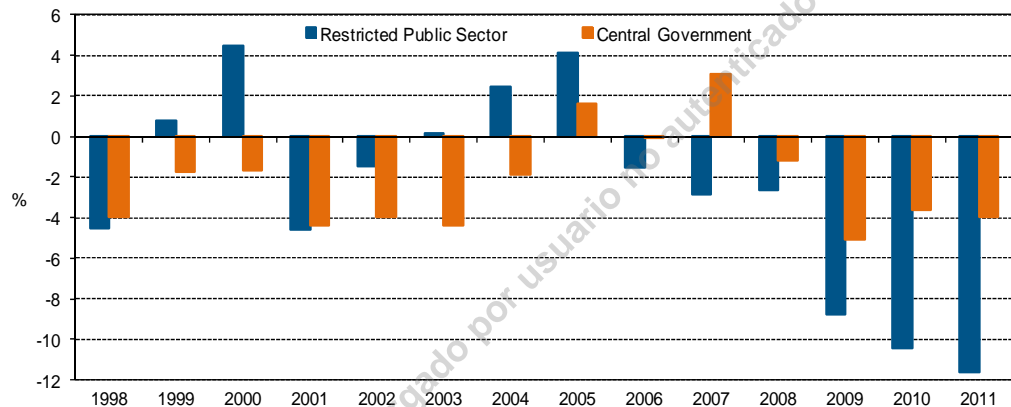
Inefficiency of the public sector

At first glance you see that the Central Government registered to deficit of 4.0% of GDP (to surplus of 3.0% in 2007), while the SPR registered to deficit of 11.6 points of GDP (10.4% the previous year). This means that the management of PDVSA's operations and other non-finance sector public companies is having to negative effect on the sustainability of the State as to whole. But this number is more dramatic if we look at it



proportionally, the Central Government represents around 80% of the SPR; which means that the other 20% was quite inefficient. And with these figures in the background, the Administration continues with its policies to nationalize private companies.

Financial Deficit of the Central Government and the Restricted Public Sector (% GDP)



Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

The hazy world of public finances

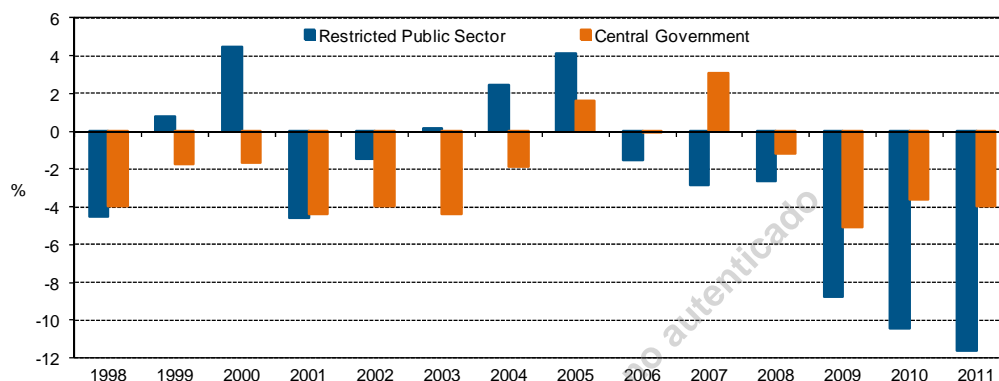
In general, analyzing Venezuela's fiscal performance figures for the last few years, we see that it is characterized by a lack of transparency, a lack of organization, the inclusion of extraordinary financing sources like the transfer of international reserves, and the increase in quasi-fiscal spending.

A series of funds have been created that don't help in terms of transparency, and several institutions spend in the same area. For example, instead of centralizing spending in social areas (like education) in their respective ministries, we know that spending in education or health is spread between the CG, Pdvsa, EPNF, and Fonden. Obviously, when public finances are managed this way, it is much more difficult to have control and present figures, which in turn leads to corruption.





**Financial Deficit of the Central Government and the Restricted Public Sector
(% GDP)**



Sources: Ministerio de Finanzas y Ecoanalítica

With oil prices at US\$100/bl, oil income is dropping?

According to figures from the MPF, during 2010 and 2011, SPR had to total income of 21.2 and 27.9 GDP points. The figure for the end of 2011 reverts the trend of the last four years, after closing in 2006 at 37.4%, and in 2007 at 33% of GDP. In fact, the proportion of income for 2011 is similar to that of 2001-2002. The reason for this drop and recovery is mainly the way oil income is being managed.

After the drop in oil prices at the beginning of last decade, Pdvsa's operational surplus reached 1.5 GDP points in 2005, to then fall to 4.4 GDP points at the end of 2009, a year when oil prices fell 34.8% interannually.

**Pdvsa's Contributions to Social Development
Millions of US\$**

	2006	2007	2008	2009	2010	2011
Missions	3,515	5,322	1,113	1,516	5,766	8,909
Contributions to Communities	879	680	726	751	542	1,208
Agricultural Projects	423	919	848	54	14	362
Infrastructure Projects	218	750	1,113	1,319	4,232	4,362
Nucleus of Endogenous Development	47	130	46	5	-	-
Contributions to Funds	7,124	6,833	13,248	2,715	6,170	24,237
Emergency Support	-	-	-	-	37	219
Other Contributions	152	175	280	246	3,984	307
Total Contributions	12,358	14,809	17,374	6,606	20,745	39,604

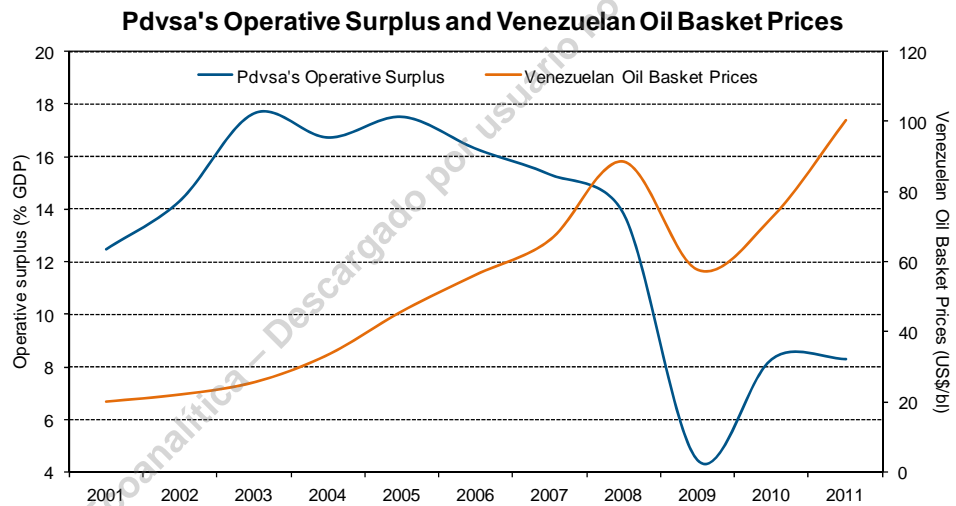
Sources: Pdvsa's 2011 Annual Report and Ecoanalítica

By 2010 and 2011, the recovery of the world economy (as well as geopolitical) had a positive impact on the oil market, and the Venezuelan oil basket (CVP) had interannual increases of 25.9% and 38.2%



respectively, thus increasing Pdvsa's income in each of those years, to reach the record figure of US\$124.754 billion in 2011. However, Pdvsa's operational surplus closed at 8.3% of GDP last year, almost the same as in 1998 (8.4%).

Despite the fact that the real appreciation of the bolivar during 2003-2009 played an important role on the behavior of oil income, **Ecoanalítica** believes this is mainly due to the stagnation of oil production, as well as to pressures to execute the para-fiscal spending that the Administration has imposed on the industry, particularly in the last few years.

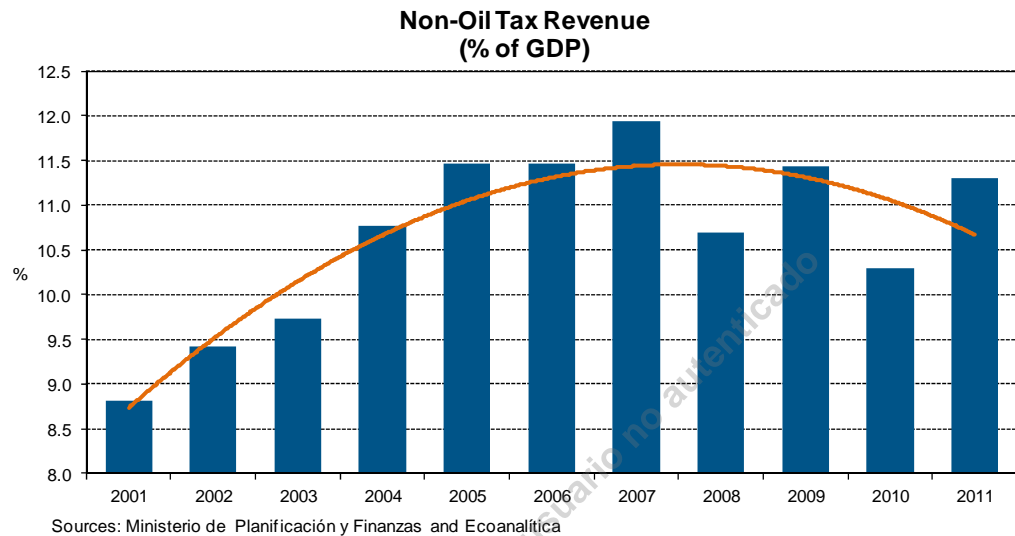


The new model is choking non-oil collections

Although non-oil tax income is increasingly becoming the largest portion of the CG's collection³, it has lost its upward trend in GDP terms. This behavior of the last years is mainly due to the significant slowdown of the Venezuelan economy. This is noteworthy, because since 2008 it has not increased. Between 2000 and 2007, non-oil tax collection went from 8.6% to 11.9% of GDP and to significant production problems as a result of the growing distortions to which the domestic economy has been subject since the second socialist plan of the nation has been executed (2007).

³ In 2006 Non-oil tax income reached 30.6% of the total collected. For 2011, it increased to 40.3% of total spending.





Storekeeper²

Unfortunately, in Venezuela we seem to be doomed to a lack of fiscal discipline. During all positive oil-price shocks, we spend most of the extraordinary income and even become indebted. However, since 2006, the period that includes the highest oil prices in our history, spending has multiplied by 3 and debt by 2. In this context, we can say that in this Administration, the so called storekeeper policy has squared.

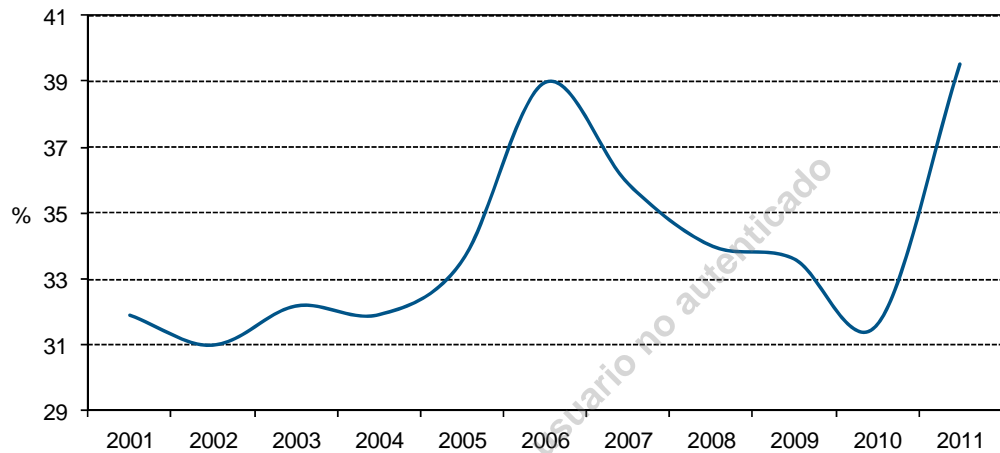
Public spending: Chávez's nuclear weapon

Reviewing spending on the side of SPR, it decreased with respect to the size of the economy, falling 7.3 percent points of GDP between 2007 and 2010 and reaching 31.6% of GDP, to then increase to 39.5% at the end of last year, specifically since July, a period we have called as the beginning of the presidential pre-campaign, spending started to increase reaching levels similar to those in 2008.





Restricted Public Sector Total Expenditure (% of GDP)

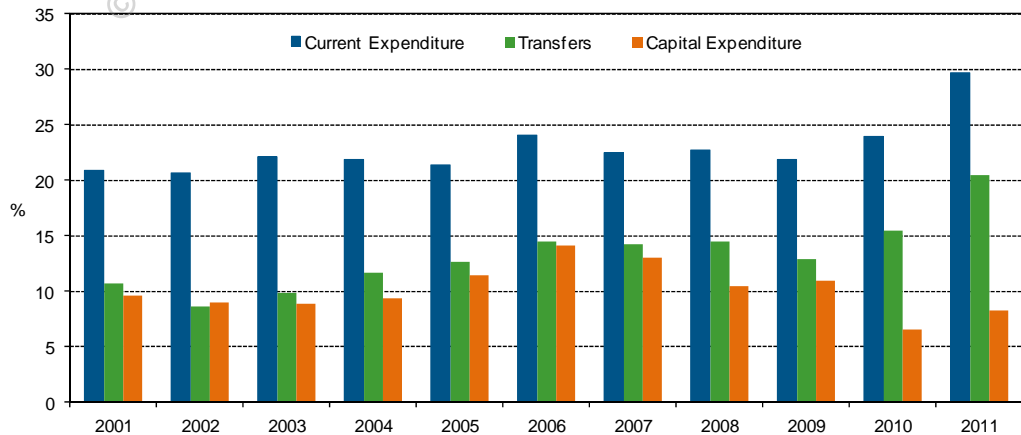


Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

Spending for what?

The other issue that concerns **Ecoanalítica** is the composition of this spending. While capital spending went from 14.1% to 8.3% of GDP during 2007-2011, current spending increased 7 GDP points to reach 29,6% (US\$93.41 billion) mostly through an increase of transfers⁴, which went from 14.5 GDP points in 2006, to 20.4% of GDP in 2011.

Current and Capital Expenditures and Transfers of the Restricted Public Sector (% of GDP)



Sources: Ministerio de Planificación y Finanzas and Ecoanalítica

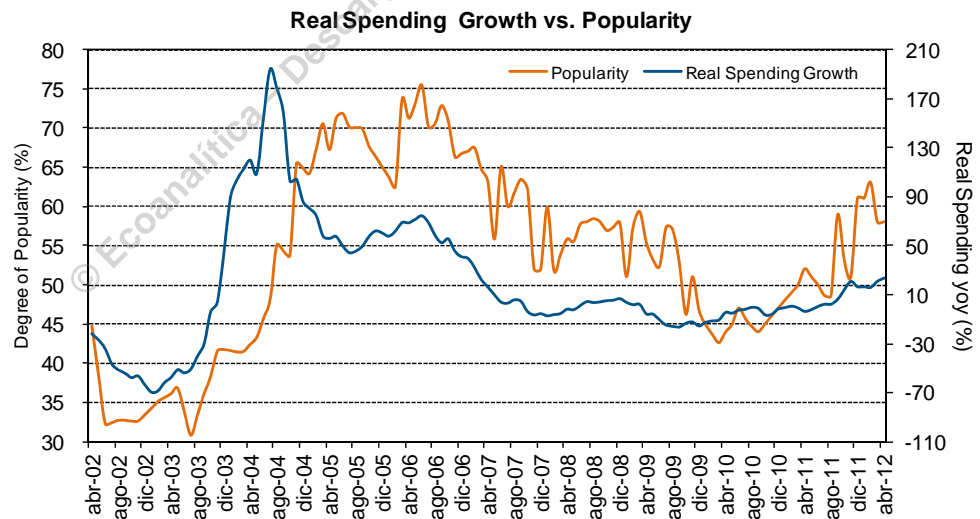
⁴ According to the Ministry of Planning and Finance, transfers include all unrequited payments and irrecoverable flows for current purposes for different beneficiaries.



Will spending continue to be Chávez's nuclear weapon?

Ecoanalítica has carefully studied this issue of public spending in Venezuela during the last few years. Different studies show that, without underestimating Hugo Rafael's quality as a social communicator and as a candidate, the main variable that explains his high, though falling popularity is fiscal spending. The next graph shows the growth of spending in real terms for the last years, and the President's level of popularity⁵. The most outstanding element is the high correlation that exists between both variables (78%). That is, 8 out of 10 times that public spending goes up (or down) in real terms, the popularity of the President also increases (or falls).

The result on the government's popularity is not the same if spending increases by VEB 20.0 billion, when the initial spending is VEB 80.0 billion or when it is VEB 180.0 billion. It is to be expected that the greater the percent increase of spending, the greater the increase in popularity, and vice-versa.



Sources: Oficina Nacional del Tesoro (MPF), BCV, Datanálisis and Ecoanalítica

Thus, it is obvious that it isn't enough to maintain a high level of public spending, it is also necessary to increase it. In this sense, most oil analysts agree that oil prices should remain at current levels (US\$112.6/bl), maybe slightly higher. However, none of them expects a

⁵ We thank Datanálisis for providing a historical series of the President's level of popularity.





high price increase in the next years, that is, the increase of public spending in the mid-term is not sustainable.

Also, a government that, for different reasons (nationalizations, exchange controls, etc.), is less efficient in taking spending to the neediest sectors, is a government that will face severe drops in popularity. Thus, for **Ecoanalítica** maintaining fiscal spending at the present levels will not be enough to preserve the President's popularity.

2012: The apocalypse

Looking forward, and considering the results of the first quarter of 2012⁶ and that these levels seem insufficient, we expect public spending to be higher than in 2011, compared to a slight increase in income (oil and non-oil), leaving a deficit that is once again high, mainly supported by the doubling of domestic debt. In this scenario, fiscal accounts will continue to deteriorate, reinforcing the possibility of exchange rate devaluation for the beginning of 2013 or even after the presidential elections.

Consolidated Public Sector (% GDP)	2009	2010	2011E(*)	2012F (**)
Revenues	24.8%	21.2%	27.9%	30.0%
<i>Pdvsa's Operational Surplus</i>	4.4%	8.3%	8.3%	8.9%
<i>Non-Oil Revenues</i>	20.4%	12.9%	19.6%	21.1%
Expenditure	33.0%	23.9%	29.6%	33.5%
Balance (Surplus+, Deficit -)	-8.8%	-8.6%	-5.9%	-6.7%
Fonden, Chinese Fund	-5.9%	-2.3%	-5.7%	-6.0%
General Balance	-14.7%	-10.9%	-11.6%	-12.7%
Amortizations	-1.6%	-2.8%	-2.5%	-3.0%
Financing Needs	-16.3%	-13.7%	-14.1%	-15.7%

Sources: BCV and Ecoanalítica

(*) Estimated (**) Forecasted

Chavismo is starting to call in the favor...

Almost three years ago we were saying: "...the latest actions of the Government, with announcements of nationalization, make us believe that the SPR will be higher in the future. However, this will be reflected mainly in the area of spending and not in income. One of the basic reasons for this statement is that State companies are exposed to excessive political interference, which eventually set standards and objectives that are removed from economic efficiency." Today, we are sorry to see that this is what is happening.

⁶ According to the ONT, the only government entity that presents up to date information on public spending, we see that spending doesn't contemplate that interest payments for the public debt has increased 30.1% in real terms.



We have fallen into dangerous grounds

As we said a few weeks ago when the fiscal outlook was being outlined by the BCV in its figures on the CG's fiscal performance:

*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.*

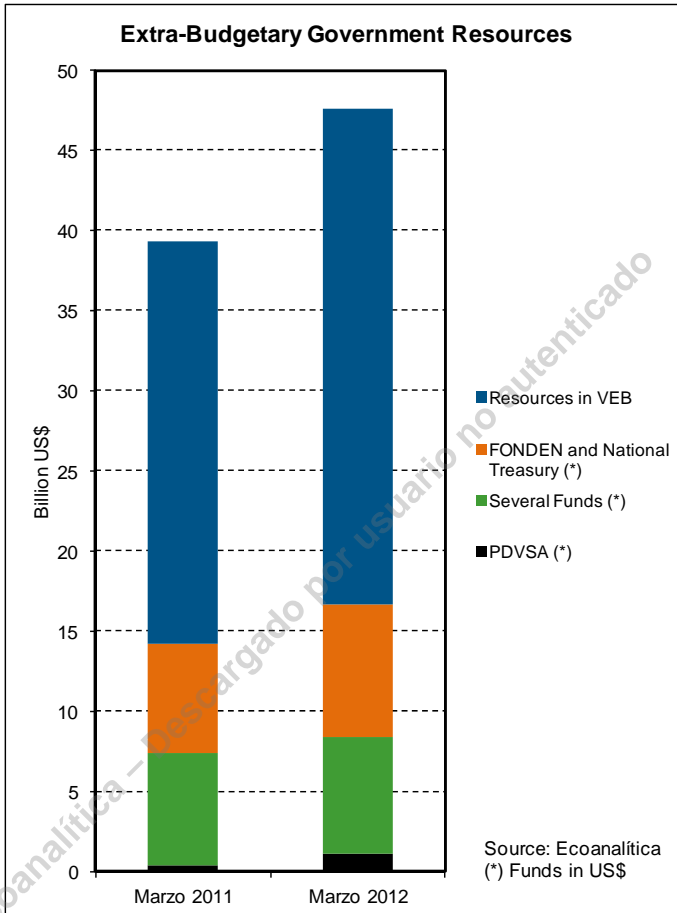
If these distortions are not solved immediately, due to the magnitude they have reached during the last few years, it will be very difficult to manage public finances if international oil prices were to drop (and the drop doesn't have to be by much). Even with oil prices increasing as they have been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

In the end, this is not sustainable, neither with funds nor with debt

The dependence of the President's popularity on fiscal spending is leading the government to maintain a large amount of resources in different funds, managed with little transparency and absolute discretion by the President.





Definitely, Chávez cannot afford a drop in oil prices during election times, and the last election for the constitutional amend is a good example. With a drop in oil prices of almost 70% in 2009, the government could maintain a high level of fiscal spending, which allowed it to win the constitutional amendment referendum for the indefinite reelection.

However, this government wants the best of both worlds: on the one hand, increase spending, and on the other, accumulate significant resources. That is why it doesn't loosen up with respect to taxes or indebtedness. In other words, the government knows, even if it doesn't acknowledge it, that the situation is difficult... it is unfortunate that for this economic model, US\$100/bl is not enough, and the adjustment is imminent and necessary.





Economic Tips

Giordani takes over. The increase in the amounts traded daily in the Sitme has pressed future shortages of bonuses in order to keep operating this foreign exchange mechanism. This situation has forced PDVSA to consider its second financing operation of the year (PDVSA signed a loan from Japan for US \$1,000 million) through a bond issue of US \$3,000 million. After two weeks full of rumors about whether the issuance of the state company would be open to the public or private for the BCV, the latest information obtained by **Ecoanalítica** reveals that the issue will be private and wholly acquired by the Central Bank and public banks for the sole purpose of supplying the Sitme. It is expected to be announced in the coming days. Apparently, Minister Giordani's judgement took over.

BCV states that Sitme provides enough dollars. Armando León, director of the BCV, stated that Sitme is already providing enough dollars to feed the exchange market, so a new issue isn't necessary.

The party continues. According to figures of the Ministry of Finance, and to information from *El Universal*, between January and April of this year the National Treasury disbursed 112.6 billion bolivars, compared to 71 billion during the same period the year before. Ruling out the effect of inflation, this indicates an increase in spending of 28%. This trend, together with a greater social spending by Pdvsa and the new debt issues, forecasts a 2012 with a lot of money on the streets.

IRE for 1Q2012 reaches 11.2%. According to figures of the BCV, the Salary Earners Remuneration Index (Índice de Remuneraciones de los Asalariados - IRE) had a recovery of 11.2% in real terms during the first quarter of 2012, compared to the same period the year before. This increase was driven by the significant recovery of the public sector, which had an increase of 31.2% in real terms; the private sector only increased 3.1% in real terms, both compared to the same period in 2011.

Delays in the works of the Chinese fund. The projects that received financing from the agreement between China and Venezuela are not making progress. Despite the fact that all budgeted resources have already been spent, the US\$2.0 billion destined to railway projects have not translated into works. The same is true for the US\$1.2 billion for the electric sector, and the US\$722 million for the petrochemical sector. The Asian nation's Development Bank acknowledged this fact in a report that mentions the need to speed up the works.



Addicted to debt. Economist Alejandro Grisanti mentions that despite the Administration's high income in the last three years, its accumulated financial deficit is 30% of GDP. He said that the government "*spends more than it can, and is addicted to indebtedness*". He expects spending to increase even more during this year, but with little effect on consumption, since the income of Venezuelans won't increase in real terms.

Reserves fall. Although the price of the Venezuelan basket is US\$112 per barrel, international reserves have dropped US\$3.96 billion, and are at US\$25.92 billion, the lowest amount since April 2011. Also, less than US\$3.0 billion of the total reserves are liquid, which may be used to cover imports. Thus, during 1Q2012 Cadivi reduced by 9% its currency authorizations, compared to 1Q2011. The reason for this drop is the BCV's reduced access to currency from oil, thanks to the mechanisms that deliver resources to Fonden.

Salt and water. The government's labor liability with workers is more than US\$ 5.5 billion at the official exchange rate. The interest paid by the government on arrears, calculated by the BCV, is not protection enough from an inflation that last year closed at 29%. This means a loss in purchasing power for the workers and a benefit for the government, which despite interests on arrears, is paying with bolivars that are increasingly worth less and less.

Postponing the problem. To honor the debt with the workers, the government created the National Fund for the Working Class, a State company that will issue the Petrorinocos and real estate titles. Fund resources will come from a new subsidiary of Pdvsa called Pdvsa Social, S.A., and from a percentage of the royalties paid by hydrocarbon mixed companies. The bonds will have a return below inflation, and also run the risk of drastically losing their value after one year of massive negotiations, which once again translates into losses for the workers.

Another fund. Besides this, the government created a new Popular Savings Fund that will serve as a savings and investment mechanism, with the participation of savings funds and banks, workers, companies, and the public in general. These resources are expected to finance development projects in hydrocarbons, petrochemistry, mining, and construction. Fund securities will be in bolivars or in foreign currency, with a variable yield, and may be negotiated after two years to protect investors. They will also have the support of the banks, which will destine a mandatory credit portfolio for their acquisition.

Regulated products lag behind. The entry into force of the Law of Fair Costs and Prices six months ago has made products covered by this law lag behind, because merchants, expecting possible losses, are increasingly careful with their orders.



Thus, items like shampoo, detergents, and liquid dish-wash have lost space in sales points.

Mercal is the worst of the class. The supply report published by Datanálisis indicates that in the beginning of May, Mercal was the one with the least supplies (54 out of 100 products were missing), followed by grocers and small stores (34.9%), and chain supermarkets with the best supply levels, with only 5.6% scarcity. Sugar is still the most coveted item, with a 40% scarcity.

The work day is shorter. The new LOT reduces the daytime work period to a maximum of 40 hours per week, and the nighttime work period to 35. For companies operating 24/7 there is an exception, allowing up to 42 hours per week. The highest price will be paid by companies that operate during the weekends, like stores or restaurants, which will have to pay for Sundays like a holiday, and provide an additional resting day, to replace for Saturday.

Dual calculation of benefits. The LOT establishes two modalities to calculate benefits. The first is based on the quarterly deposit of 5 days of salary, adding, two days per every year worked, after the first year (up to 15 years). The second is a retroactive calculation, or 30 days of the last salary earned per each year of service. The company must adopt the modality that is more beneficial for the worker.

More leave for mothers. Prenatal leave remained at 6 weeks, and postnatal leave increased to 26. Mothers who are presently on leave must go to their company to make the respective adjustment. Job security for fathers and mothers after delivery increased from one to two years.

More costs without outsourced workers. The banning of outsourcing is expected to increase costs for companies using this modality, which will be transferred to their final costs. Also not having this modality will prevent 300,000 new employees per year from accessing a job, since it was a significant source of employment.

Interest rates. The lending rate for the fourth week of April was at 16.7%, increasing by 1.9 percentage points compared to the previous week. The time deposit rate remained since July 2011 in 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 0.8% going from US\$26,656 million during the fourth week of April to US\$26,873 million during the first week of May. Compared to the same period last year, international reserves have decreased by 1.0%.



Monetary liquidity. Monetary liquidity in the fourth week of April increased 0.4% compared to the previous week settling at VEB 470,700 million. The M2 has increased 51.9% year-on-year.

Sitme figures. So far this year, US\$3,501.7 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$41.2 million a day, with an implicit exchange rate of 5.3 VEB/US\$. This represents an increase of US\$808.4 million (30%) over the same period of 2011, when were negotiated US\$2.693.2 million. During the first week of May the amount traded reached US\$172.2 million, US\$30.2 million less than the previous week when US\$202.4 million were traded, with an average of US\$43.1million a day.

Oil Tips

It is estimated that Pdvsa received US\$16.0 billion in three months. According to data from the US Department of Energy (EIA) and based on estimates of OPEC, thanks to the fact that oil prices have remained at an annual average of over US\$100/bl, Venezuela may have had an income of US\$16.0 billion between January and March 2012 from oil exports. This income corresponds to sales abroad, at an average of approximately 1.6 million barrels per day of crude oil.

Meager increase in sale of oil to the US. According to data from the US Department of Energy, in February Venezuela sent around 890 thousand barrels per day (kb/d) to the US, an increase of 1.3% with respect to February of 2011, when the average was 878 kb/d.

While the export of by-products dropped. The export of by-products to the US dropped 173% going from 112 kb/d in February 2011 to 41 kb/d in February 2012. This drop could be associated to a series of failures and shutdowns in the different units and processes of the Amuay, Cardón, and El Palito refineries during the first two months of the year.

In sum: The export of oil and its by-products to the US dropped 5.8%. Considering the total exports of 931 kb/d of oil and by-products in February 2012 there is a drop of 5.8% interannually. The gradual reduction of Venezuelan oil exports to the US reflects the energy and commercial policy of Venezuela and Pdvsa, geared to diversify markets and reduce sales to the United States, to benefit Asia



(China) and the Caribbean. Exports to the US went from being 52% of oil exports in 2010, to 47% in 2011.

Searching for Asian financing. Rafael Ramírez, Minister of Oil and Mining, ended a tour to Japan, Korea and China in the end of April, to negotiate new loans to finance projects Pdvsa requires for its exploration, production, and refining plans. So far, only 2 credits were obtained from the Bank of Japan, for US\$1.0 billion. Ramírez said that he wants Venezuela to become a reliable supplier for Japan, and that it could immediately have 100 kb/d of fuel oil and oil. The amounts and modalities for disbursement and payment are still being negotiated with Chinese and Korean companies.

New Chinese rigs. During the first days of May, drilling started with a new modular rig acquired in China, which according to Minister Rafael Ramírez, was added to the 38 rigs purchased from China, totaling 50 modular rigs using spearhead technology, which will drill 17 wells at the “1º de mayo” cluster (Macolla)⁷ of the Orinoco Oil Belt. Ramírez said that the cluster will produce close to 15 kb/d of oil and that there “are 147 active rigs in the Oil Belt, and 251 in the country, a historical figure because we have never had so many rigs”.

Pdvsa has enough inventories to meet domestic demand. Given the fuel supply issues of prior weeks, Mauricio Herrera, Executive Director of Trade and Supply of Pdvsa, said that “nationwide, the inventory is completely normal, because it is over 52%”. The supply problem was due to the increase in diesel requirements of thermoelectric plants, so it was necessary to use some of the units of the National Transportation Company (Empresa de Transporte Nacional - ETN) to supply them, causing a momentary delay in the supply of some gas stations in Caracas.

No fuel scarcity. According to Pdvsa, at present the reserve of 91 octane gasoline is 75%, enough to meet demand for 17 days, and for 95 octane gasoline, it is 77% enough to cover 14 days, and diesel 60% to cover for 12 days.

Shale gas has its first setback. According to a report from the Center for Global Energy Studies (Cges), the increase in supply and the falling price of shale gas⁸ has led to a drop in drilling activities for this resource. Some Latin American countries (Argentina, Mexico and Brazil) have significant shale gas reservoirs, and their development would make the region a gas power; however, the success of the US

⁷ The term “macolla” is used by Venezuelan oil professionals and means cluster in English. A cluster has around 24 wells, and allows an average extraction of 23 thousand new barrels in less time.

⁸ Shale gas is a form of natural gas extracted from areas with an abundance of shales. Recently, shale gas has had a significant commercial boom, making the price of gas consumed in the US to drop one third.



development plan has made gas prices fall, weakening the market for the rest of the hemisphere.

International oil baskets. At closing time on May 04th in the New York Stock Exchange, the price of the WTI was at US\$104.7/bl, representing a 0.9% increase compared to the US\$103.8/bl reported the previous week. The Brent decreased by 0.2% to reach US\$118.7/bl, compared to the previous week's US\$118.9/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$114.0/bl on Friday May 04th, increasing 0.5% compared to the US\$113.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$112.6/bl.

Business Sector Tips

Now it's the pharmaceutical sector's turn. Given the serious supply problems miring the sector, Carlos Osorio, Minister of Food, and Eugenia Sader, Minister of Health, explained that they will impose on the pharmaceutical sector the same control applied on the food industry, since it will now be ruled by an "Integral System of Medication Control" to be implemented by the government, to control and monitor the production, import, distribution, and supply of medications in the country.

The government will enter the area of pharmaceutical marketing. The minister of health also informed that in the next few days, the pharmacy chain "Farmapatria" will be created, which will sell medications at a discount of 24% to 45%. Sader stated that the purpose is not to eliminate wholesale pharmacies, but in the case of the socialist network, laboratories will distribute directly to the pharmacies, which will eliminate distribution costs and reduce the profit margin, thus allowing for greater discounts.

Currency restrictions are felt in the automotive sector. According to the latest report of the Venezuelan Automotive Chamber (Cámara Automotriz de Venezuela - Cavenez) although in the first four months of the year production increased 15% interannually, restrictions in the assignment of foreign currency are starting to be felt, since in April production fell 39.7% compared to March, and only 7,577 units were assembled, compared to 12,567 the previous month. Spokespersons of the sector



have said that the 54% drop in currency assignments during 1Q2012 implies that assembly lines may shut down in a few months, if the situation doesn't improve.

Installed capacity of the electric power system increased 4%. During 1Q2012 the National Electric System (Sistema Eléctrico Nacional - SEN) increased its installed capacity by 360 megawatts (MW). By March, this indicator was 26,044 MW, 4% more than in March 2011. This was due to the synchronization of Units 4 and 3 of the Guarenas Plant, and Unit 7 in Termozulia with a capacity of 180 MW. However, this supply dropped a few days ago, when several high power units came out of the system, like those of Planta Centro, Tocoa and Termozulia, and the electric power rationing plan was once again implemented. The goal of the government for 2012 is to increase generation by 4,000 MW.

Installed capacity will reach 30,000 MW in 2015. According to Balmiro Villasmil, Generation Commissioner of the National Electric Corporation (Corporación Eléctrica Nacional - Corpoelec), the SEN will have an installed capacity of 30,000 MW by 2015. At present the installed generation capacity is around 25,000 MW, of which 18,000 MW are available to cover a peak demand of 17,000 MW. He also said that public investment in thermoelectric energy *"is over US\$15.0 billion"*.

Botti: "Sundecop will have to acknowledge the new cost structures". Given the entry into force of the LOTTT, Jorge Botti, President of Fedecámaras, said that it will "have an impact" on the dynamics of the private sector. Botti said that the retroactivity of benefits, and the reduction of the work day, will cause an increase in labor costs, which together with price controls (which some companies have had for 8 years) and now the Law of Fair Costs and Prices, means that even though there is a grace period of one year for the rule to enter into force, Sundecop will have to review the new cost structures.

Duration of import permits will be reduced. Carlos Osorio, Minister of Food, announced that the maximum duration of permits to import food products and agricultural items will be reduced to 6 months. Osorio informed that licenses used to last up to one year, but many companies waited for the last moment to import, as was the case of potatoes, when companies had had the permits since July 2011, and *"potatoes are imported now when there is full production. We will not allow this"*.

Cocoa sector in crisis. Cocoa producers said that the sector is undergoing a crisis, and despite having the best cocoa pod in the world, the producing area is mired in poverty. Hermenegildo Sojo, President of the Venezuelan Association of Cocoa Producers (Asociación de Productores de Cacao de Venezuela) rejected the intention of the government to nationalize the sector, and said that *"We don't know what happened to the money that was approved for the sector. There should be 18*



million cocoa plants in the nursery". The National Institute for Agricultural Research has studies to increase productivity by 2,000 kilos per hectare (at present barely 300 kilos are produced).

Venalum: with a new president and with problems. After workers denounced the drop in production, the lack of maintenance in active cells, and the diversion of resources of the Chinese Fund before the Ministry of Industry, an Administrative intervention commission has led Venalum's operations since last month, and last May 6th Franco Díaz (member of the intervention commission) was appointed as new president of the primary aluminum reducing company. During the electric power crisis of 2010, Venalum was ordered to shut down 400 of the active cells, and today, only 228 cells are operational, going from generating 400,000 tons of primary aluminum in 2009 to 250,000 tons in 2011.

While Bauxilum is in critical condition. The operational and financial situation of the bauxite extracting and aluminum producing company is critical. The company is operating at less than 50% of its installed capacity, and in April it produced only 65,000 tons of alumina, not enough to meet the demand of Alcasa and Venalum. Antonio Rivas, trade union secretary general, said that *"instead of producing 4,000 tons per day, we are producing 800 tons, and we have warned about this"*. The main problem of the state-owned company is the financial deficit due to non-payment by clients; in April *"Venalum paid only 30% of the 80% they were paying"*, said Rivas.

World Economy Tips

Sarkozy defeated in the elections. The socialist François Hollande was elected President of France, with almost 52% of the votes, against conservative leader Nicolás Sarkozy, who acknowledged defeat. This is the first turn towards the left in a country that plays a fundamental role in the European continent, after the debt crisis that is shaking the Old Continent. With 99% of the votes counted, Hollande totaled 51.67% of the votes, while Sarkozy obtained 48.33%, with a participation of 81.5%, as revealed by the European media in the early hours of Monday.

The challenges of Hollande's victory for the Euro crisis. The election of socialist François Hollande not only marks a new path for France: it is also a new challenge for the Euro Zone, which up until Sunday was led by Angela Merkel and Nicolas Sarkozy. Despite some initial differences, the German Chancellor and the French



leader guided the attempts to solve the Euro Zone crisis, and were the champions of the fiscal pact agreed in December, striving to impose discipline in member state budgets.

Francois Hollande could soften his promises of spending in France. France's elected president, the socialist Francois Hollande, could use the upcoming state finances audit to soften his popular campaign promises, so as to avoid unrest in the markets with increasing public deficits. His advisers state that he could even freeze some of the spending, if the audit produces unpleasant surprises. A measure of this type would soothe investors, who fear that Hollande will become the offensive leader against austerity in the Euro Zone.

Electoral setback for Merkel. On Sunday, the center-right German government suffered an electoral setback, losing control of Schleswig-Holstein. The defeat is the latest of a series of bad electoral news for Chancellor Angela Merkel, who according to analysts, has little chance of renewing her mandate next year.

The fiscal pact will not be renegotiated. German Chancellor Angela Merkel, said on Monday that the European Union (EU)'s fiscal plan is not open for renegotiation, the day after socialist François Hollande won the French presidential elections. Hollande has criticized Germany's constant emphasis on austerity to fight against the sovereign debt crisis in Europe, and has called for policies that foster economic growth.

EU must balance growth and fiscal management. EU countries must strike a balance between efforts to strengthen growth, and to consolidate public finances, said last Tuesday Olli Rehn, commissioner for Economic and Monetary Affairs, who also urged Spain to tackle its fiscal consolidation and structural reforms.

IMF requests a gradual implementation of austerity measures. Christine Lagarde, Director of the International Monetary Fund, said that austerity measures to improve public finances in rich countries are essential, but must be implemented gradually and constantly. In a speech given in Zurich, Lagarde acknowledged that these cuts slow down economic growth. However, she accepted that some countries which are subject to strong restrictions in financial markets have no other way than to move ahead faster.

Latin American and Caribbean ceased its exports to U.S. declined due to the crisis. According to the document *"Economic Relations of the United States with the countries of Latin America and the Caribbean in times of transition"* prepared by the Permanent Secretariat of Latin American Economic System (SELA). It is estimated that the level of U.S. imports from the region during 2009-2011 was around US\$250



billion below what would have occurred in the absence of the crisis and if they had sustained growth rates of previous years.

Latin America and U.S.: present positive uncertain future. Economic statistics produced by the U.S. point to a sustained and perhaps accelerated growth, but concerns remain large exogenous shocks. More than any policy decision to take, the actual state of the U.S. economy should be the determinant of future flows of goods, services and capital between the U.S. and the region.

Daily steel production of China increases. The daily steel production of China increased in April to a historical high level of 2.02 billion tons, according to industry data revealed last Tuesday, due to an intense activity in steel plants, despite the slow recovery in demand. The last estimate was over the prior forecast of 1.96 million tons in March, according to data from the National Statistics Office. The increase in steel prices has stimulated steel plants to unleash their capacity, and there are no immediate signs of a production cut, at least in the short term.

YPF, professional or political? President Cristina Fernández de Kirchner signed the law to recover YPF. The President stated that by issuing the law to nationalize 51% of YPF shares, the oil company will be *“professional, but this doesn’t mean that it doesn’t have a political direction”*, while announcing the appointment of Miguel Gallucio as general manager. *“The idea is to have an absolutely modern and competitive YPF, with professional individuals and with a political direction, so as to be self-sufficient, and so that the hydrocarbon surplus supports the growth of the activity and employment”*, said the President.

Inflation in Brazil rose in April. The benchmark index of consumer prices in Brazil, IPCA rose 0.64% in April from the previous month, more than most analysts expected, said recently the official statistics agency IBGE. It was expected that the index will rise by 0.59% according to the median estimate of 21 economists in a Reuters poll, whose forecasts ranged between 0.55% and 0.65%. With that, the inflation is at 5.1%.

Petrobras production drops in March due to repairs and shutdowns. The Brazilian state-owned Oil Company Petrobras said last Friday that its production fell in March due to the maintenance of key off-shore platforms, and that pumping was stopped in a field it operates together with Chevron. In March, Petrobras produced on average 2.60 million equivalent barrels of oil and gas per day in its fields in Brazil and abroad. The result is a drop of 0.7% since March 2011, and of 3.7% compared to February.





Political Tips

The song of the Big Fish. Following in the footsteps of Aponte Aponte, another important figure of the Venezuelan judicial system, the exjudge Luis Velasquez Alvaray, pointed out from his exile in Miami several key civilian and military characters involved in murders and drug trafficking. Among those listed is José Vicente Rangel, who had allegedly been the mastermind behind the death of Danilo Anderson in 2004, along with Isaías Rodríguez. Clíver Alcalá would have fulfilled the same role in the assassination of former head of the DIM Wilmer Moreno on April 19th. In addition, Alvaray reported the diversion of resources of the Chinese Fund to supply weapons to the FARC, with the permission of Alí Rodríguez Araque, and claimed to have evidence of a direct order from President Chávez to sentence Manuel Rosales, former governor of Zulia state.

Reality strikes. For the first time in 13 years, the PSUV is considering the possibility of not having the leadership of President Chávez. The governor of Portuguesa said it clearly: there are three scenarios in the party: continue with a weakened Chávez, continue without Chávez, or suspend the elections. The urgent reality appears to be stronger than solidarity with the leader.

From the TSJ to the heavenly tribunal? On May 1st, Chávez ordered the creation of a State Council to analyze leaving the “*infamous Inter American Commission on Human Rights*”. If the decision becomes effective, Venezuelans would lack a higher entity to appeal for justice, and would be defenseless before a legal system that has been severely criticized for subjecting itself to government interests.

State Council or a Transition Council? The creation of the State Council, a consultation entity proposed by the Constitution with the excuse to analyze Venezuela’s exit from the IACHR, is causing suspicion. The base reason for its creation is believed to be to organize an orderly transition within the government, by mediating between the multiple forces that are vying to be appointed as successors of President Chávez.

Leaving the IACHR will hinder entrance to Mercosur. According to the NGO Provea, leaving the IACHR would give more reasons to the Paraguayan parliament to block the entry of our country into the block. Paraguay states that the democratic principles that rule political life are not respected in Venezuela, and that the government acts against human rights policies.



He promised the return to the Andean Community. Henrique Capriles, during his visit to Colombia, promised Venezuela would return to the Andean Community, a body of which our country retired in 2011. According to Capriles, the organization is *"the obvious instance of integration where you can establish the negotiations with Mercosur."* He took the opportunity to invite back all Venezuelans living in the neighboring country.

MUD points towards 8 million. Adding the expectations of regional commands, the Comando Venezuela estimates that it will win over the official candidate with 7,881,792 votes, 3,589,326 more votes than what Manuel Rosales got in 2006. In percentages, this would be approximately 55.73% of voters, with an expected participation of 13 to 14 million voters.

"La Planta" transplanted. Ten very tense days were experienced in the neighborhoods of the jail located in El Paraíso, where amidst a lack of official information, there is a rumor that hundreds of inmates escaped and there were some injuries. Relatives of the more than 2,000 inmates wait for the response of the authorities given the imminent evacuation of the prison, despite the resistance of the leaders, or "pranes".

Venezuela, the giver. Additional resources that come from the preferential oil agreement between Nicaragua and Venezuela allow the government of Daniel Ortega to grant public employees 30 dollars per month. This bond amounted to 60 million dollars last year, of a total of 178 million granted during 2011.

Legislatives Tips

Were appointed the new parliamentary representatives to serve on the State Council. The Board of the National Assembly (NA) convened regular session on Tuesday, acting in accordance with the provisions of Article 57 of the Internal Regulation and Debates of Parliament, designated as representatives of the NA to Earle and Tania Diaz Herrera (as alternate) to the State Council. These representatives henceforth integrate the State Council, the highest consultative body will recommend to the President of the Bolivarian Republic of Venezuela, Hugo Chavez on matters pertaining to the policies of national interest. Parliament also discussed additional 13 credits for various ministries and the second discussion of



the Control Law for the Defense Integrated Airspace, which is expected to pass next Tuesday.

Judiciary also appointed his representatives to the SC. The president of the Supreme Court of Justice (SCJ), Luisa Estela Morales and President of the Social Chamber, Omar Mora are the representatives of the Judiciary in the State Council. With the appointment of representatives of the State Council Judiciary is formed that will analyze the possible departure of Venezuela from the Inter-American Commission on Human Rights (IACHR). While at the meeting of governors was assigned Jorge Luis Garcia Carneiro (Vargas) and his deputy Hugo Cabezas (Trujillo).

NA supports the decisión of removing the country from the IACHR. As president of the Domestic Policy Commission of the NA, Elvis Amoroso (PSUV-Aragua), backed the decision of removing Venezuela from the Inter American Commission of Human Rights (IACHR), since he considers it a way to trample upon Venezuelan sovereignty. However, according to several analysts, this measure would leave Venezuelans without international protection, leaving aside the possibility to have justice for the victims, to recognize the actions of those responsible, to have reparation for the violations perpetrated, and to prevent future violations.

Henri Falcon investigates NA for alleged administrative irregularities. The standing committee of the Comptroller of the National Assembly (AN) decided to investigate the governor of Lara, Henri Falcon, on allegations of administrative irregularities in the management of resources (estimated at 3 million of VEB), which would be used several infrastructure improvement projects. Pedro Carreño, president of the Committee, said that *"establishes the premise of embezzlement, because these funds were disbursed by the National Executive to be used in that redevelopment."*

TSJ declares that the organic character of the new LOTTT is constitutional. The Constitutional Hall of the Supreme Court of Justice (Tribunal Supremo de Justicia - TSJ), through a presentation by its President, Judge Luisa Estella Morales Lamuño, declared that the organic character of the Decree with Rank, Value and Force of Organic Law for Work and Workers (Decreto con Rango, Valor y Fuerza de Ley Orgánica del Trabajo, los Trabajadores y las Trabajadoras -LOTTT) is constitutional, as established in article 203 of the Constitution. Thus, the Hall of the Highest Court of the country ratified that the structure and content of the LOTTT, refers to a set of rules whose goal is to establish the development of constitutional rights, so based on article 203 of the Constitution of the Bolivarian Republic of Venezuelan and the laws regulating the matter, it was declared organic.



MUD proposes a law of sustainable mobility. The commission for Mobility and Infrastructure of the “Mesa de la Unidad” (MUD) proposes to create a law of sustainable mobility that guarantees the renewal of the car fleet and strengthens the road infrastructure, if there is a presidential change. The commission proposes to create a local metropolitan or national fund that will be created by implementing a tax on gasoline. This fund will be managed by a superintendence that will allot the money to renew the fleet and invest on improving the road infrastructure, for example by building roads.

A law for the “Misiones” is proposed. Ángel Oropeza member of the “Comando Venezuela” said that the purpose of proposing a Law for the “Misiones” is to break the government’s strategy of division and put an end to political blackmail. Oropeza said that the idea is to prevent blackmail, for the Misiones to have financing, and be managed by the municipalities and governors offices. He said that the misiones are criticized because of their inefficiency, and that social benefits are intended to become privileges.

© Ecoanalítica – Descargado por [illegible] - Autenticado





ECONOMIC OVERVIEW

