



Weekly Report

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*What would happen if the
opposition won?*

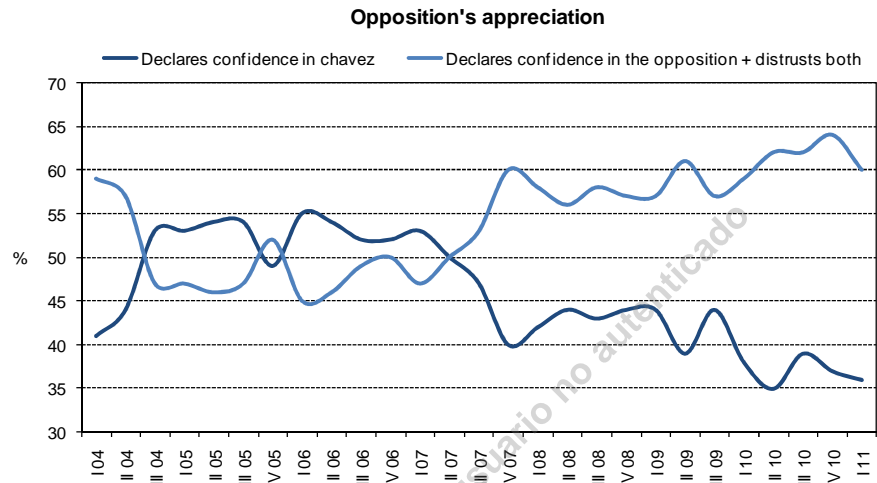
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Last week our Report look at the economic implications if Hugo Chávez were to be reelected as President of Venezuela and his Administration were to continue in power. This week we will look at what would happen if an Opposition candidate were to win the upcoming presidential election to be held in December 2012.

**Can the
Opposition win?**

When you compared the possibilities that the Opposition has to win the upcoming presidential election next year compared to the chances it had in the 2006 presidential election you will find that significant advances have been made. There is no doubt that this time around the Opposition has a real chance to get voted into power. It has gained popularity among the people, it has improved the coordination between the different Opposition parties, and overall, it has gain a lot of experience regarding elections, having won a few tangible victories and some symbolic.





Sources: Consultores21 and Ecoanalítica.

It's a fact that the Opposition has a very real chance to win the presidential election that will be held next year, and it is also a fact that if the Opposition is to be a serious contender it must rally behind a single unified opposition candidate. Most of the opposition parties agree on this fact. And if the Opposition candidate were to win the presidency, it would most likely be by a very slim margin, which means that an Opposition Administration would have to govern with a very strong chavista presence that would still have institutional control of a number of public powers.

So, in this context, what changes to economic policies would be introduced?

Zero adjustment policies

There is no doubt that the Venezuelan economy has accumulated a series of distortions that over time have become more and more exacerbated. We have addressed this issue in a number of Reports over the years. Some economists and analysts have stated that a change in Administration will bring significant economic adjustments, in other words, correcting the bad economic policies that have been in place for so long will necessarily imply costly adjustments, especially costly politically speaking. At **Ecoanalítica**, we believe this to be half true.

Correcting these economic distortions can be done gradually, of course this means that positive results will take longer to manifest themselves and the cost in terms of economic resources will be greater. So, a new Administration must be clear that any changes that will be made must be done gradually. "*Gradual*" will be this Administration key buzzword.



Fortunately, during this very difficult period there will be one ally: oil prices. As we have mentioned in recent Reports, projections for international oil prices for the coming years looks very positive and will most like push Venezuelan oil basket prices around its historic high levels. This will generate precious extra fiscal revenue that will help the Administration implement gradual economic correction measures.

For a new Administration coming into the presidency, with all the institutional problems that may arise, implementing policies “*gradually*”, implementing change “*gradually*,” will allow it to increase its support base, especially during the first few years, dispelling the fears the population has that a new Administration will bring changes that will lead to hard sacrifices for the people and especially for the poor.

What’s the country going to look like for a new Administration taking power?

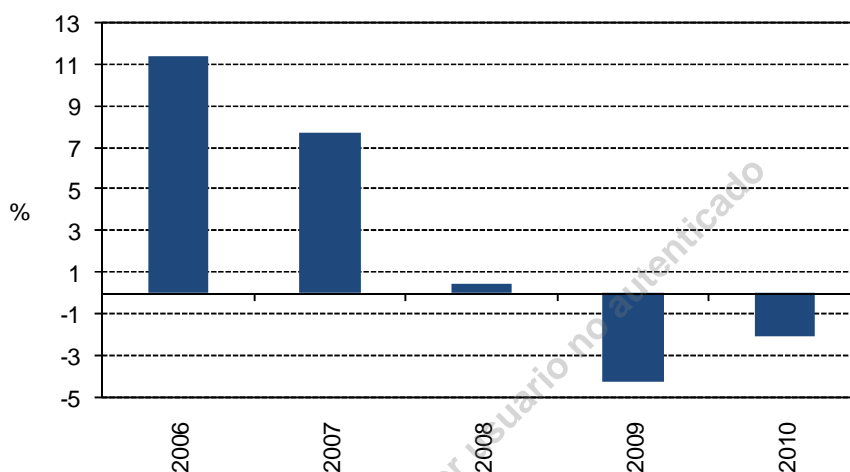
The opinion of a number of respected economists is that Venezuela’s economic problems by 2012 will be of such magnitude that “*gradual*” change and corrections will not be an option. On the other hand, Miguel Ángel Santos, in a recent presentation, highlighted that Venezuela is not on the edge of an economic collapse, not in terms of production (GDP growth and/or consumption), not in terms of inflation, and not in terms of defaulting on its debt payments. Santos points out that this significantly different from other countries that have gone through similar processes.

At **Ecoanalítica**, we’d like to add one more point to these observation that in economy is very vital and this: expectation. Since 2006, Venezuela’s private sector has been the hardest hit by current public policies as well as being attacked by the Administration. Most of the private sector has resisted, but it has cut back on investments to the bare minimum. A change in Administration, one that treats the private sector fairly, valuing what it can offer the economy, will vitalize the private sector allowing it to become a dynamic factor within the domestic economy. At the close of 2010, the private sector represented 60% of total GDP and 7 of every 10 formal jobs were generated by it.





Private Sector GDP's Evolution



Sources: BCV and Ecoanalítica.

What are the priorities?

With respect to economic matters, the key question is: ¿what agreements do we need to make to implement an economic policy that promotes confidence and reduces volatility?

In our opinion, one of the main objectives for policies being implemented by whichever of the Administrations that comes to power in 2013 will be to generate the conditions for the massive creation and sustaining of productive jobs.

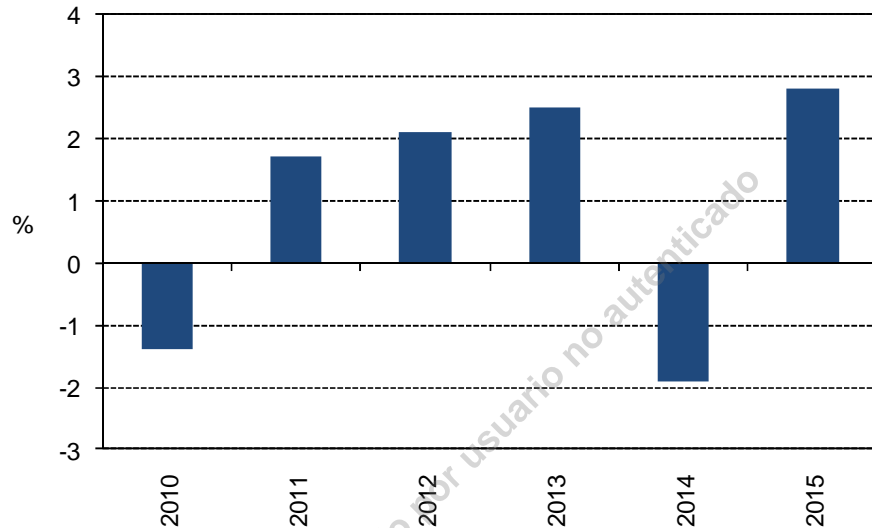
In regards to economic growth, this should cover:

1. Stimulate key sectors, such as services and consider fiscal and financial incentives.
2. Industrialization (stimulate the sector). Recover industrial enclave.
3. Support construction industry: Materials, changes to the legal framework, incentives for the sector.
4. Incentives for Small and Medium sized companies via the securities market guaranteed by the State.

These policies will be the base for the creation of up to around 300,000 jobs a year.



GDP growth projection



Sources: BCV and Ecoanalítica.

The role of “Social”

It is important that social policies and economic policies are combined in order to address, as a priority, the problems of the poor and the very poor. Unemployment and underemployment rates are significantly higher among the poor, most which will continue to align themselves with chavismo.

A new Administration must reformulate the current social policies (Missions) making it more effective and focused, which will imply reviewing subsidies. In our opinion, these two elements, jobs and social policies should spearhead the new Administration's agenda during the first months in office.

Restructure the public sector

Another important point which must be addressed is fiscal reform which is tied to the issue of oil. A number of institutional changes have to be made here in order to be consistent with fiscal responsibility, which is a must if either one is to be successful. However, policies must be aimed at focusing on fiscal responsibility.

A number of points that everyone agrees upon:

- Transparent management of surplus resources (reduce to one, at the most two, existing out-of-budget funds such as FONDEN) which should be used to provide



public goods, and in the short term, productive investments.

- Redesign Budget policies to fulfill clear goals to reduce fiscal deficit and a change in public spending to increase its efficiency (more investment spending and less Current Account spending).
- Nationalized companies: Democratizing property (stock market).
- Sustainable borrowing policy: Establishing a public debt restructuring plan. Favor borrowing in local currency.
- Social spending: establish complementary programs to education such as school food programs and transportation; subsidies for buying school materials, and progressively eliminate generalized and regressive subsidies such as the gasoline subsidy, and money saved from these subsidies can be saved in earmarked funds to invest in social projects in high impact social areas.

Could Venezuela lower its inflation rate?

The inflation issue is very complex and includes a number of elements. We would like to highlight the following important issues:

- Review price control policies: Here the key word is “gradually,” as we’ve already mentioned; focusing on increasing supply and the variety of products (re-launching Mercal / Pdval). Public imports play a key role here.
- Institutional changes to the Central Bank of Venezuela: Rescue its role in monetary policies. Eliminate indirect mechanisms for fiscal financing and the concept of surplus reserves.
- Exchange control: Gradual dismantling of exchange control. Establish control measure on Capital Account (investment registry). Exchange policies must be aligned with inflationary goals. Must establish incentives for incoming foreign investment but with limits on speculative capital.

How will it all sit?

In summary, if an Opposition candidate wins the presidential election in 2012, in 2013, the economy will be propelled by a private sector filled with more confidence in the new Administration, which without a doubt will



insure legal protection and respect for private property, and therefore we predict that the economic growth rate for 2013 will be at 3.5%. However, we do not believe that the new Administration will be able to make drastic changes to correct the multiple economic distortions accumulated during the chavista era, since this would imply receiving a very hard political blow to its popularity among the people.

We expect the more important economic policy changes to occur in 2014, the year we expect the exchange control will be dismantled, which will be the measure with the greatest economic and political cost that the Administration will have to implement.

The following sequence of events is what we expect will lead up to the dismantling of the exchange control by the new Administration:

- Moderate devaluation of the CADIVI exchange rate at the beginning of 2013.
- Freeing the exchange rate of the SITME system at the beginning of 2013; access restrictions to this market will be lifted and the exchange rate will be determined by the rules of supply and demand.
- Total dismantling of the exchange control in 2014 or 2015; only one exchange will be left most likely a dirty float system.

Of course, this will affect inflation and it will soar during this period, but by 2015, inflation will drop significantly through the implementation of less heterodox fiscal and monetary policies than currently being employed. The macroeconomic adjustment that will have to be implemented in 2014 will also have a negative effect on GDP that year, but it will more than be compensated for by growth levels in 2015.

Change of government projection	optimistic	pessimistic
	2011 - 2015	
Population (million)	29.8	29.7
GDP (US\$ billion)	353	384
GDP per capita (US\$)	11,846	12,929
GDP (%)	1.9	2.2
Fiscal Balance (% of GDP)	-4.6	-5.7
Inflation (%)	25.0	28.6
Current Account (% of GDP)	8.8	7.0
External Debt (% of GDP)	18.0	34.0

Sources: BCV, INE and Ecoanalítica

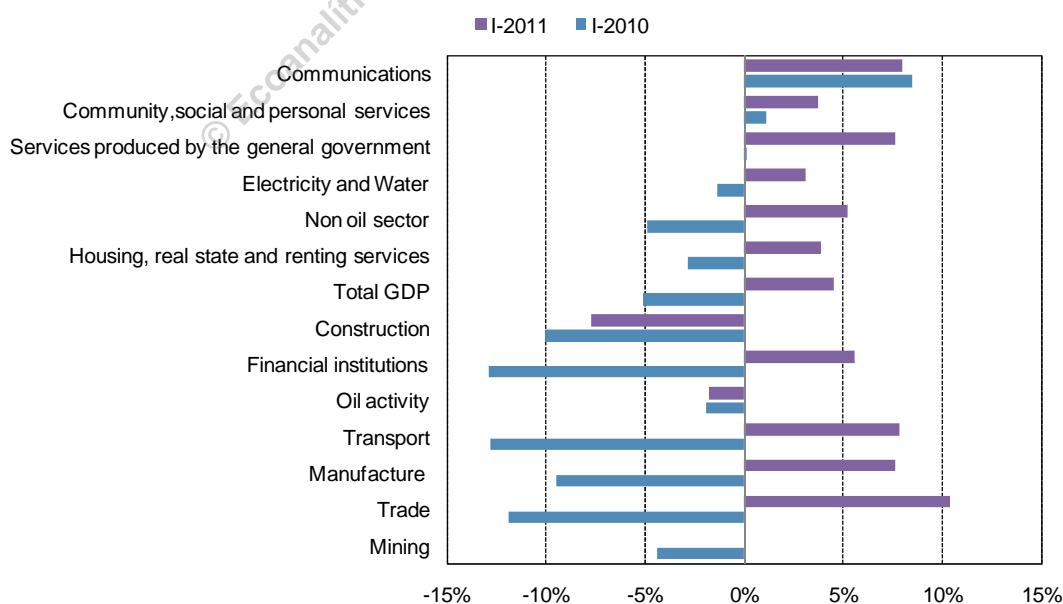


Economic Tips

Venezuela “bounces back”. According to a bulletin released by the Central Bank of Venezuela (BCV), preliminary figures for the first quarter 2011 show the GDP at constant prices up by 4.5% compared to the same quarter last year. Private sector aggregate value was also up by 4.6% and the public sector was up by 3.3%, led by general government services up along with communication and finance services.

Non-oil economic activity ... BCV figures show non-oil activity for the first quarter 2011 up by 5.2% compared to the same quarter last year, with the following sectors posting positive results: commerce, up by 10.4%; transportation and storage services, up by 7.8%; communication, up by 8.0%, manufacturing, up by 7.6%; government services, up by 7.6%; finance institutions, up by 5.9%; and electricity and water, up by 3.1%. Meanwhile, construction dropped by 7.7%; and oil activity dropped by 1.8%.

Growth by economic activity



Sources: BCV and Ecoanalítica





Global supply and demand... First quarter 2011 BCV figures show global supply up by 9.1% due to the combined effect of the increase in imports by 22.6% and GDP growth. Global demand increased due to the 9.6% increase in domestic aggregate demand and the 5.1% increase in foreign demand.

Balance of Payments first quarter 2011. BCV preliminary figures for the first quarter 2011 show the Balance of Payments with a deficit of US\$3.74 billion due to the favorable figures posted by the Current Account, US\$7.52 billion, and the negative balance posted by the Capital and Financial Account of US\$10.50 billion.

BALANCE OF PAYMENTS (General Summary)	I - 2010	I-2011	Var (%)
Current Account	2.538	7.518	196%
Goods	6.069	11.140	84%
Oil Exports	15.257	19.679	29%
Non-Oil Exports	817	982	20%
Import of goods f.o.b.	-7.473	-9.521	27%
Services	-2.394	-2.426	1%
Others	-1.137	-1.196	5%
Capital Account	-2.777	-10.504	278%
Public Sector	2.140	-7.401	-446%
Private Sector	-4.917	-3.103	-37%
Reserves Variation	-239	-2.986	1149%

Sources: BCV and Ecoanalítica

Unemployment down. April unemployment figures were at 8.1%, down by 0.5% compared to the 8.6% registered in March. The president of the National Statistics Institute (INE), Elías Eljuri, explained that April unemployment figures are in step with the country's economic recovery which during the first quarter 2011 grew by 4.5%, which will "allow employment to continue to recover and increase significantly."

In four months, the Administration has used 37% allocated for spending. According to public finance figures, between January and April 2011, VEB 80.0 billion of resources were used in spending by the Administration, up by 33% in nominal terms compared to the same period in 2010 (VEB 60.0 billion), while in real terms government spending increased by 5.0% compared to last year. VEB 20.0 billion were used to pay labor obligations.





Supplemental appropriations... During the first four months of 2011, the National Assembly authorized VEB 10.03 billion in supplemental appropriations. Most of these resources (VEB 3.03 billion) were requested by the Ministry of Planning and Finance, Jorge Giordani, followed by VEB 2.51 billion being requested by the Ministry of Health, and VEB 2.11 billion going to the Ministry of Interior and Justice.

2011 Budget inflating. The 2011 national Budget was initially set at VEB204.20 billion, at the close of April 2011; it has reached VEB 215.0 billion. At *Ecoanalítica*, we believe this amount will continue to increase throughout the year given the political cycle the country in. The Administration faces more spending in the construction and electric power sector, plus deal with increasing the minimum wage and pensions.

Basic Food Basket at VEB 5,295. According to the Center for Documentation and Analysis for Workers (Cenda), the Workers Food Basket (CAT) for the month of April cost VEB 5,295.00, up by 1.7% compared to the month of March 2011 when it was at VEB 5,206. Two minimum wage salaries (VEB 2,448) are only able to cover 46.2% of the cost of the basket (CAT), that leaves a deficit of 53.8%.

Basic basket price increases. According to Cenda, nine out of the eleven items in the food basket increased in price: food products, up by 15.6%; lard and oils, up by 13.9%; sugar and related items, up by 11.9%; cereals and cereal by-products, up by 6.0%; milk, cheese, and eggs, up by 5.0%; fish, up by 2.5%; meat, up 2.3%; non-alcoholic beverages, up 1.2%; and fruits and vegetables, up 0.7%. The items that dropped in price were: tubers (potatoes, yams, etc.), down 4.2%; seeds and legumes, down 0.7%.

Parallel funds propelling socialist companies. Since 2007, the Administration has been financially backing the socialist production model through parallel funds coming from a parallel budget, especially FONDEN and the China Fund. From these two mechanisms, FONDEN directed US\$1.40 billion of its resources and the China Fund, US\$1.50 billion of its resources to socialist companies during 2010.

Rentism strengthened? Venezuela, in its redistribution of its wealth, has allowed the Administration, during its ten years in power, to invest more than US\$ 330.00 billion in social matters. According the figures from the National Statistics Institute (INE), the accumulated investment in social matters in Venezuela reached US\$ 330.58 billion in 2009, while ten years earlier, in 1999; it was at US\$ 12.47 billion. Minister Giordani stated that areas such as health, education, and social security have been the areas which have received most of the investment during the years of the revolution, and this has improved the quality of life of Venezuelans.



BCV as a financial agent... Last week, the BCV made an issuance of VEB 491.0 million in Treasury Bills, much the same as it did the previous week. It also made an issuance of National Public Debt Bonds for VEB 1.09 billion, down by VEB 68.7 million from it issued the previous week. To date, the BCV has issued VEB 5.79 billion in Treasury Bills and VEB 12.56 billion in National Public Debt Bonds, amounts which are down by 5.0% and up by 8.0%, respectively compared to last year.

Projected economic growth level increase for 2011 adjusted. The pollster FocusEconomics, in its May edition for Latin America, stated that a consensus of analysts that follow the economic performance of Venezuela have increased their economic growth rate estimates for Venezuela for 2011 by 0.1 percentage points, putting it at 1.8%, and for 2012 they expect the growth rate to be at 2.5%. At Ecoanalítica, we expect the economic growth rate at the close of 2011 to be at 1.7%. With respect to 2011 inflation, the pollster dropped its initial estimate by 0.5 percentage points and set it at 28.8% and for 2012 it was set at 27.0%. At **Ecoanalítica**, we expect inflation to close out 2011 at 25.9% and close 2012 out at 28.2%.

Interest rates. The lending rate for the first week in May was at 17.87%, increased by 0.74 perceptual points compared to the previous week. Time deposits also were creased by 0.17 perceptual points to reach 14.80%, while the passive has not submitted any variation since January 2010, placing well at 12.60%.

International reserves. International reserves decreased 0.8% going from US\$26.93 billion during the first week in May to US\$26.73 billion during the second week. Compared to the same period last year, international reserves have dropped by 3.8%.

Monetary liquidity. Monetary liquidity in the first week in May increased 1.2% compared to the previous week settling at VEB 309.4 billion. The M2 has creased 31.3% year-on-year.

Sitme figures. To date, US\$8.02 billion have been negotiated through the Integrated System for Foreign Currency Transactions (Sitme), averaging US\$34.3 million a day, with an implicit exchange rate of 5,3VEB/US\$. Last week the traded amount reached US\$202.7 million, US\$6.3 million more than last week when braided US\$196,5 million. So far this year the SITME has negotiated US\$ 2.94 billion.





Oil Tips

China reimburses. Minister Ramirez mentioned “a US\$7 billion reimbursement for Caracas,” under the Venezuela-China agreement, due to a difference in the payment of oil barrels sent by Pdvsa traded “at market value.” This payment is thanks to the increase in oil prices that generate reimbursements from China over a barrel price preset as payment.

Electric crisis affects even refineries. 2 electric malfunctions were reported in Genevapca, a supplier for Pdvsa’s facilities in Punto Fijo, affecting the operation in the Paraguana Refining Complex (CRP) in Falcon. Minister of Energy and Oil and president of Pdvsa, Rafael Ramirez, said the malfunction took place in the transmission line Lagoven I. What happened did not cause major problems because the facility had stock for 15 days.

Petrocaribe summit. The Sixth Ministerial Congress of Petrocaribe started last May 12 in Caracas. Minister of the People’s Power for Energy and Oil and Pdvsa president, Rafael Ramirez, said that within the framework of this energy agreement, 200,000 barrels of crude oil per day (kb/d) were being supplied, eleven semi-public companies had been created and the affiliate company PDV Caribe has advanced in infrastructure development. Also, a fleet of 10 vessels is available to guarantee a safe and reliable oil supply to member countries.

Petrocaribe agreements are still standing. The National Government will maintain the terms of the Petrocaribe agreement despite the high prices of crude oil, said the Minister of the People’s Power for Energy and Oil, Rafael Ramirez, after a meeting with high energy officials from Latin America and the Caribbean.

Caribbean and South America on the same page. Minister of Energy and Oil, Rafael Ramirez, talked about safety and energy cooperation in the Latin America and Caribbean Summit on Integration and Development, highlighting his wish to build an energetic institutionalization in the region, where many projects and semi-public ventures are already in progress.



Emerging economies expand oil market. According to OPEC'S report issued in April, the global demand for crude oil was 88.1 mb/d, compared to the 86.7 mb/d reported in 2010 and the 84.6 mb/d reported in 2009. The report indicates that while the demands of the US, Europe and Japan would grow by 2.6%, 1.7% and 0.1%, respectively in 2011, the BRIC demand (Brazil, Russia, India and China) would grow by 4.1%, 9.0%, 8.1% and 4.1%, respectively.

Five oil giants accused. The US Senate Committee on Finance charged five executives of the largest oil companies last Thursday, May 12. The representatives of Chevron, Shell US, BP America, ConocoPhillips and ExxonMobil faced accusations for increasing their revenues at the expense of taxpayers.

Tax privileges on standby. Both democrats and republicans are analyzing the tax credit cut for oil companies making as much as US\$4 billion per year in revenues in an industry reporting record earnings.

Almost a fact. US President, Barack Obama and his democrat allies are supporting a reduction of the tax privileges given to large oil companies equivalent to US\$4 billion per year in exemptions for the oil industry, which, in case of being approved, would be included in the nation's budget for the year 2012.

The other chick. Last Wednesday, May 11, the leader of the republican majority in the House of Representatives, John Boehner, established that the proposal of the president of the Senate Committee on Finance was equivalent to "*tax increments that will ultimately increase gasoline prices, cut jobs and increase our dependence on foreign oil.*" The oil industry seems to enjoy a solid support by republicans and democrats in oil states, thus far reducing the possibilities of approval for the measure.

One wants to negotiate. Only one industry leader is open to reach an agreement regarding taxes. In an interview published last week in the National Journal, Marvin Odum, president of the US division of Royal Dutch Shell, showed he was open to the possibility to link some exemptions to the evolution of oil and natural gas prices.

Gasoline cheaper than water. Venezuela maintains gasoline prices much below the values in other countries, even oil producing countries, in a situation that increasingly worries the Government for the infeasibility to indefinitely maintain the subsidy. One liter of 95-octane gasoline costs 0.097 bolivars, while one liter of water can be bought for 3 bolivars, 35 times more than the fuel. According to Jorge Giordani, we need to "*undertake a progressive process to help covering these costs.*"

Geopolitical effects continued to make impact. The riots in the Middle East and north of Africa have had more impact on oil prices than they have on oil demand, the



key factor moving the market before the conflicts, as the average price of an oil barrel in april reached US\$118.1/bl, US\$8.3 more than in the previous month, said OPEC. In OPEC countries, production should remain stable, as the fall of production in Libya and Angola is being compensated by an increased production in other countries, especially Saudi Arabia and Nigeria.

BP conquering Brazil. British Petroleum (BP) announced last Wednesday, May 11, they had finally received the final permit from Brazilian authorities to acquire, from the American group Devon Energy, 10 exploration blocks, 8 of which are located in the basins of Campos and Camail-Almada, at depths between 100 and 2,780 meters, within the framework of a US\$7-billion transaction.

International oil baskets. At closing time on last Friday, 2011 in the New York exchange market, the Brent reported a price of US\$113.6/bl, proving a decrease compared to the US\$121.1 reported the previous week. The WTI closed at US\$100.2/bl, reporting a 8.5% increase compared to last week's US\$109.5/bl.

Local oil basket. The price of the Venezuelan oil basket closing last week at US\$100.0/bl on May 13 a 8.0% decreased compared to the 108.0/bl reported last week. Meanwhile, the average annual Venezuelan oil basket price is US\$96.0/bl.

Business Sector Tips

Peru and Venezuela to negotiate a commercial agreement. According to the recent statements issued by the Peruvian Minister of Foreign Trade and Tourism (Mincetur), next May 18 will give way to the first round of conversations to sign a Productive and Commercial Complementation Agreement between these two nations. The objective of this agreement is to implement six months of negotiation on general coordination, preferential tax treatment, health measures, animal health measures and plant health measures, technical normative, among others.

Private manufacturing industry back in the fight. According to the numbers published by the Central Bank of Venezuela, the private manufacturing industry has left the tunnel and in the first two months of 2011 has increased production by 8.4% compared to the same period of 2010. Out of the 16 activities measured by this indicator, only the manufacture of wood articles, metal products and machinery and equipment remain in negative numbers, reporting 7.6%, 6.5% and 2.7%, respectively.



Sales increase. The statistics provided by the Central Bank of Venezuela indicate that the commercial activity grew by 15.7% during the first two months of 2011, compared to the first two of 2010. Evaluating the behavior of wholesales, a stellar jump by 25.1% can be observed, while retail sales increased by 12.4%.

Auto-parts decreasing. National auto-part production and exports keep plummeting down. The numbers of the first few months of 2011 are not encouraging at all, and seem to follow the same paths of previous years, with no perspectives for growth.

Programmed sales under regulation. The National Alliance of Consumers and Users (Anauco) submitted a Draft for the Law of Programmed Purchases before the National Administration Commission of AN, the law looks to regulate the system by which vehicles and housing units are acquired.

Imports reduce the competition. According to the organization of producers (Fedeagro), the increase in food imports, including: cereals (corn, rice and sorghum), sugar cane, coffee, plantain, potatoes, vegetables, livestock and fish, has reached amazing levels, an average of US\$6.8 billion over the last three years. This number exceeds the average of the late 90s 4.5 times, and represents 16% of the total imports.

Great Housing Mission registry grows and grows. Nearly 1,449,311 people have enlisted in the National Housing Registry that started last May 7, said the minister of Science and Intermediate Industries, Ricardo Menendez. He also indicated that the census would continue until June 7 in the states of Miranda, Vargas, Falcon, Zulia and the Capital District.

Number of internet subscribers increased. According to the statistics generated by the National Telecommunications Commission (Conatel), as of the end of the first quarter of 2011, the number of internet service subscribers increased by 25.3% compared to the first quarter of 2010, reaching a total of 2,741,223 clients.

Landline telephone service keeps growing. According to the information provided by Conatel, as of the end of the first quarter of 2011, there were 7,176,786 landline telephone service subscribers, 3.9% more than in the same period of 2010.

Fogade for the Housing Mission. The national administration, in its efforts to keep its promises regarding the Housing Mission Venezuela, will order the Social Bank Deposit Protection Fund (Fogade) to transfer to the Republic the lands, apartments and other properties of housing interest confiscated during the banking crisis, stating they were in never ending liquidation processes.



...Fogade supports asset transfer. The president of the Social Bank Deposit Protection Fund (Fogade), David Alastre, ratified the legality of the transfer of lands and other real estate assets for the development of urban complexes in order to cater to the needs of the Venezuelan people. In the official's opinion, such action is based in Article 133 of the Law of banking Institutions.

Proposals to increase Mandatory Housing Savings Fund. The president of the National Bank of Housing and Habitat (BNVH), Mario Isea, announced that the regulation of the Mandatory Housing Savings Fund (FAOV), also known as "*housing savings*" would be modified. The reform looks to increase the contributions of VEB 4.5 billion to over VEB 6 billion, and the funds are expected to be focused on the construction of housing units.

"My Well Equipped Home" Communal Plan. This plan will offer periods of 48 months to pay, depending on the household income, with preferential interest rates in communal banks. A total of 16 "*communal banks*" have been established in 16 communal groups in construction, granting loans to acquire the appliances included in the government program "*My well equipped home*," at interest rates of 2.0% for pension holders and 6.0% for families.

Left out. The modification of the banking system's mortgage loan portfolio, to be destined only to those making up to 5 minimum wages, equivalent to VEB 7,037, leaves out at least 382,000 mid-class families with housing problems but receiving more than the said amount, according to statistics handled by construction executives.

There are enough raw materials for food. The minister of Nutrition, Carlos Osorio, said that both the authorities in his office and the National Superintendence of Silos were registering a control of raw material inventories to prepare foods, and assured there are enough raw materials in stock for oil, flour, milk and others.

Oil to reappear in two weeks. Cargill de Venezuela's director of corporate affairs, Ramon Sosa, explained they had stock, production and distribution to grocery stores, but it wasn't enough to cater to the demand, as not all suppliers were producing the same amount, thus generating gaps.

Loan intermediation still on the rise. According to the information provided by the Superintendence of Banking Institutions (Sudeban), the loans portfolio reached VEB 189.55 billion, increasing by 2.2% compared to the previous month. There was also a 0.6 percentage-point increase in loan intermediation compared to the reference period, reaching 55.1%.



Central Madeirenses workers' strike is over. All 48 branches of Central Madeirenses are back to normal, after the strike of a group of workers in several supermarkets located in the states of Lara, Aragua, Carabobo, Miranda and the Capital District, in protest for the layoff of four coworkers in Barquisimeto and demanding labor benefit improvements.

Bilateral commerce with Colombia keeps decreasing. According to the National Administrative Department of Statistics of Colombia (Dane), Colombian exports to Venezuela decreased by 8.6% during March, despite the agreements recently reached by both presidents.

Solidarity insurance companies. Insurance companies expect to receive in June approval from the authorities on the adaptation plans for the Law of the Insurance Activity, with which by half the current year, insurance companies will need to start offering new products, including the new solidarity insurance policies for health, personal accidents and funeral services.

Chavez puts an eye on hoarders. President Hugo Chavez ratified that any large private food distribution chains that contributed with speculation and hoarding would be audited with the participation of their workers and communal councils. So he stated: *"And possibly expropriated, that way we would increase the socialist distribution networks that guarantee quality food at fair prices."*

Venezuela always a step behind. A report issued by CEPAL indicates that, among the largest Latin American economies, Venezuela has grown the least in electric generation between 1999 and 2009. In that period, Venezuela increased its electric generation by 3,660.19 megawatts, while Chile increased it by 6,750.2 MW, Argentina by 7,245.44 MW, Mexico by 10,141.98 MW and Brazil by 38,392 MW.

Hotels in crisis. Nearly 185 lodging establishments all over Venezuela are still occupied by refugees, a problem that doesn't seem to have an end, as the conversations between the Venezuelan National Federation of Hotels (Fenahoven) – integrated by 23 establishments- and the Government are paralyzed. Only in the hotels that integrate the Federation, the losses add reach Bs. 145,000 per day. It's been six months since the Government said the occupation would be for one.





World Economy Tips

US inflation at its highest level. During April, US consumer prices kept increasing, reporting a 0.4% variation, for a y/y rate of 3.2%, thus suggesting that the increase in energy and food costs have seriously affected the general annual indicator, to the extent that it's showing the highest reading in 30 months.

US affected by high prices of commodities. The latest survey of the National Association of Business Economy (NABE) showed that the US economic growth could experience certain deceleration this year, as a result of the high prices of commodities, a situation that will also increase this year's inflation. However, the Federal Reserve is not expected to start increasing interest rates before the first quarter of 2012.

US trade deficit increases. The US trade deficit reached US\$48.2 million in March, more than the US\$45.4 million reported in February. In consequence, a 4.9% increase in imports was reported, while exports increased by 4.6%.

The US FTAs stuck in Congress. There's a new political battle between republicans and democrats for the renewal of the Trade Adjustment Assistance for Workers, Employment and Training (TAA). The FTA between Colombia and the United States, already formally submitted before the Congress in Washington, was going well, but now democrats want, along with the Free Trade Agreements with South Korea, Colombia and Panama, for the TAA to be expanded, as it currently only protects workers from the manufacturing sector.

Japan visibly affected. Statistics show Japan has been seriously affected by the earthquake, tsunami and nuclear crisis of March. The industrial index reported a fall by 15.3% in March, while manufacture has fallen by 14.3%. Retail sales reported a 7.6% fall in the same period.

EU authorized rescue package. The ministers of Finance of the Euro Zone authorized the rescue package to avoid the sinking of the Portuguese economy, for €78 billion over three years, but conditioned a new financial injection to Greece of between €30 billion and €60 billion, so that Athens would make more austerity efforts.

Surveys guarantee a collapse of Spanish official party. The campaign for Spain's municipal and autonomic election of next Sunday has entered the final stage, with



surveys predicting a clear victory for the opposing party People's Party (PP) and a strong decrease for the currently ruling Spanish Socialist Workers' Party (PSOE).

Ollanta Humala seems to lose ground. Keiko Fujimori increased her advantage by nearly six percentage points over the left-wing former military Ollanta Humala, three weeks before the second presidential round, according to two voting simulations.

Peru grew by 8.8% in the first quarter of 2011. The National Institute of Statistics and Information (INEI) reported that the Peruvian productive activity had grown by 7.9% in March, accumulating 19 consecutive months of economic growth.

Correa wins in constitutional referendum. The official results on the popular consultation of last May 14 in Ecuador with 75% of the votes counted, consolidated the victory of "Yes" in all 10 questions asked with margins of 2 to 10 points of advantage, according to the National Electoral Council of Ecuador.

Correa's political agenda compromises his reelection. The President of Ecuador, Rafael Correa, revalidated his popularity and political power as president by receiving the approval of the consultative referendum on a series of legal reforms, but has now created a more compromising agenda that could risk his reelection in 2013, academics warned.

Political Tips

Colombian Ambassador in Venezuela resigned. The Colombian Ministry of Foreign Affairs made the official announcement that Ambassador Jose Fernando Bautista had filed his resignation after having been linked to a big and long-standing, scandal of corruption in Colombia, the Nule case. The ambassador has denied all accusations but decided to resign to his diplomatic office to "*avoid affecting the many things so far achieved in terms of the relationship between Venezuela and Colombia.*"

A provisional ambassador has already been appointed. Colombia appointed Ricardo Montenegro as provisional ambassador in Venezuela after the resignation of Jose Fernando Bautista. Montenegro, a journalist, had been in charge of businesses for the Colombian Embassy in Caracas, and had previously occupied the same position in the diplomatic mission of Ecuador, sources indicated.



Changes in the public sector. President Hugo Chavez appointed Rodolfo Clemente Marcos Torres as the new president of Banco de Venezuela and minister for the Public Banking System in *Official Gazette N° 39,674*. Torres, who substitutes Humberto Ortega Diaz in both positions, used to work as the executive secretary of the National Development Fund (FONDEN) and national treasurer. These roles will now be performed by Claudia Patricia Diaz Guillen, as per the same Official Gazette. In an interview for the newspaper, El Universal, Ortega Diaz stated he was leaving his duties due to “*health reasons*.” Rodolfo Clemente graduated from the Military Academy in 1988 and has occupied the chairs of President of Banco del Tesoro, General Administrative Director of the Ministry of the President Secretary Office, among others.

CNE urged to put a stop on the presidential campaign. The secretary general of copei, Jesus Alberto Barrios, and its national vice president Enrique Naime visited the CNE to denounce and request an administrative investigation to avoid and forbid conducts affecting the transparency, impartiality and fairness of the electoral process.

Reactivation of the bi-national parliamentary group announced. The Ambassador of Colombia, Jose Fernando Bautista, will soon meet with pro-government and opposing legislators to exchange points of view.

TSJ urged to untangle Makled’s crimes. Carlos Tablante, former minister and former president of the National Commission against the illegal use of drugs (Conacuid), talked about the case of the alleged drug dealer Walid Makled and urged the justice instances to clarify with absolute transparency the serious crimes committed.

Proposal to create savings fund. During the second day of the forum “Oil, Defense and Foreign Policy,” the coordinator of Primero Justicia, Julio Borges, proposed the creation of a fund using Venezuelan oil revenue so that the people can be the owners of this valuable resource.

According to official numbers, preference for Chavez keeps increasing. The latest study carried out by the survey firm GIS XX corresponding to May 4 indicates that between 42% and 46% of the people would vote for President Chavez in the upcoming election, while only 21% would vote for the opposition candidate and 12% would vote for the opposition depending on the candidate.

Just like a grocery store. Congressman Carlos Berrizbeitia (Proyecto Venezuela) assured in recent statements that “*in no serious democracy*” did the Executive Power discretionally handle the nation’s resources as in Venezuela, making reference to the Decree on extraordinary oil revenues that, he reiterated, takes VEB 20 billion away



from Governor and Mayor Offices for “*unhealthy*” purposes. “The failure of Chavez’s government in terms of the economy is mainly due to that: he has managed the people’s finance as if it was his own grocery store,” he said.

Housing Mission is an old story. Zulia Representative, Tomas Guanipa, denounced the National Government’s shams about the unfinished housing labors and the reissue of the housing census carried out in previous years.

CNE modifies internal structure. CNE rectors authorized a modification to the internal structure and operation of two of the three subordinate instances that integrate the Electoral Power. Rector Tania D’Amelio, who used to be part of the National Electoral Board (JNE) will now be part of the Commission for Political Participation and Financing (Copafi), while Socorro Hernandez, former president of Cantv, will now be part of the JNE.

...With this internal modification, all technical decisions made by the electoral instance will initially fall on Tibisay Lucena (president of CNE and JNE), on Socorro Hernandez and on the incorporated substitute rector, Humberto Castillo.

For everyone... Up until the parliamentary election of 2010, only the registered voters of the States Anzoátegui, Apure, Carabobo, Miranda, Lara, Táchira, Zulia and the Capital District (49% of the electoral registry) were biometrically identified before voting. With the modification approved by CNE rectors –with one vote against by Vicente Diaz- all citizens who vote in the 2012 election will be required to use the fingerprint scanners. The implementation of the Integral Authentication System (SAI) will modify the dynamics of the voting process used by Venezuelans since the year 2005.

Law of Lands is an instrument of social revenge. The situation lived by producers is in increasing deterioration, so was affirmed by Jesus Alberto Barrios, national secretary general of the political party Copei, as a result of an instrument that does not only protect invasions and expropriations but also promotes them.

Discrimination. The Government only authorizes strikes in the private sector. The country’s labor inspectorates only authorized 5 strikes last year, and all 5 were in private companies, so was confessed in the 2010 Report and Accounts of the Labor Ministry. On the other hand, in the public sector “*it is impossible to obtain authorization,*” warned the union leader of Sidor, even preparing all the legal paperwork. All requests for strikes in State organizations and companies are always denied.





Legislative Tips

Afro-descendants. The Law against Racial Discrimination looks to sanction any person, group of people, public or private authority, public or private national institution, civilian, economic, political, cultural, social organizations who invalidate or act in detriment of the acknowledgment of equity. During the first discussion, the vice president of the National Assembly (AN), Aristobulo Isturiz, asked to sanction those calling people “*monkey*” on TV channels and other media.

Petition to create a new ministry. Maria Leon, congresswoman for the United Socialist Party of Venezuela (Psuv), proposed to the Administration the creation of a ministry for afro-descendants. The proposal was presented during the ordinary session of May 10, in which an agreement in commemoration of the 216 anniversary of the Liberty Deed of Jose Leonardo Chirino and the day of Afro-Venezuelans were approved.

Workers’ rights and duties. The president of the National Assembly, Fernando Soto Rojas, announced that this year’s legislative schedule contemplated the creation of an Organic Labor Code to group all labor-related laws existing in Venezuela. He added that the code would allow workers to have a single text enunciating their rights and duties.

A worrying reform. A punctual reform at a high cost is being planned by the National Assembly for the incorporation of informal vendors, professionals, home-based micro-entrepreneurs and others in the category of informal income generators to the Social Security System so that they can contribute to the mandatory social security fund and be eligible for retirement pensions.

Zulia workers dissatisfied. The National Assembly’s Integral Social Development Commission appointed a subcommittee that will travel to the Zulia state to investigate the reports presented by over 160 workers of the Governor’s office that were abruptly sent to retirement. Congressman Alfredo Ramos stated “*There has been a deterioration of these workers’ labor conditions, especially with their salaries, as they are practically getting paid 50% of the salaries they made when they worked for the Zulia Governor’s Office.*” Congressman Ramos warned that, if they didn’t reach an agreement with the Governor, they would request his appearance before the NA.



Makled case. The representative for the Táchira State, Miguel Angel Rodriguez, said *“the people deserves, it’s their right, to know the truth.”* The legislator also assured *“this is a case of great judicial and political significance and the National Assembly can not simply turn its back to it.”*

New Ambassador in Cuba. On Tuesday, May 10, The National Assembly authorized the appointment of Edgardo Ramirez, one of the promoters of the Law of College Education who then received a presidential veto, as new Ambassador of Venezuela in Cuba,

Justifying the slow pace. Fernando Soto Rojas, president of the National Assembly, assured that their slow pace to authorize new legislations was due to the thorough labor the different commissions had to put into it. The legislator stated that *“there are two levels to establish drafts in Venezuela, one is through the President’s law of special powers, and the other one is through the National Assembly, but the NA is much slower due to the organic character given to bills.”* The next draft to be discussed in the parliament will be the Law against Corruption, deferred last Tuesday May 10.

Reform to the Law of Transplants. The president of the National Assembly’s Permanent Commission on Integral Social Development, Oswaldo Vera, said that the parliament, along with a group of kidney failure patients and the Venezuelan Transplant Association, have proposed a partial reform to the Law of transplant of organs and anatomic materials for humans. Vera indicated that the current legislation states that people must have left a living will indicating the possibility of donating their organs, *“but in case the person didn’t, donation could be possible with the authorization of their immediate relatives.”*

Araque’s questioning. The minister of Electric Energy, Ali Rodriguez Araque, stated his willingness to appear before the National Assembly to be questioned about the electric malfunctions that have been taking place in the nation, causing power shutdowns in different states.





ECONOMIC OVERVIEW

