



Weekly Report

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*Has the campaign
begun yet?*

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People doing business in Venezuela these days spend their days worrying on two different fronts: on the one hand there is all the uncertainty surrounding the political-institutional realm, with the President's sickness, and all that it implies, as well as how the presidential campaign will develop; and then there is the economy, and all the economic indicators, that despite almost being at the close of the first semester, with only 5 months left before the presidential election, are not showing any promising signs. What's happening in Venezuela? In this Report we will offer a few approaches taking into account the point of view of the economic cabinet.

**Politics: the
effect of
imponderables**

Up until a few months ago, no one would have imagined that we would be in the midst of an atypical presidential campaign, with the main candidate absent. During Carnival, President Chávez announced that he had had a relapse in his fight against Cancer and since then he has practically been out of the game. What could have been a devastating blow, seriously



affecting his bid for reelection, has turned into a source of positive political dividends. All the recent polls confirm this. The question is, for how long? As long as the people are convinced, as they are, that the President will recover from his illness and return to compete, the President's illness will continue to work in his favor.

Everything with Chávez...and without Chávez, what?

Rather than go into the political ramifications and issues that have been generated by President Chávez' absence at the helm of the Republic, we'd like to focus on the consequences this absence has had on the economy. In an Administration so centered around the Office and the figure of the President, as this one is, where even the slightest detail was subject the President's scrutiny and command, it's clear that his absence has generated a lot of negative consequences with how the economy has been managed.

Within the Economic Cabinet there are a number of opinions and tendencies that can be grouped into two camps. On the one side there is the radical element, with vice-president Jaua and Minister Giordani at the head. On the other side are the more pragmatic members, lead by the president of PDVSA, Rafael Ramírez and the president of the Central Bank of Venezuela (BCV), Nelson Merentes. Another member of the latter group is Jesse Chácon, president of the survey company GIS XXI.

Radical vs. pragmatics ... "Divide and rule" Machiavelli

These two groups have a different vision as to how the economy should be managed. The radicals want to continue to more firmly establish the 21st Century Socialist model, specifically following to the letter, the mandates of the First Socialist Plan of the Nation; a vision where the private sector is almost all controlled by the State.

The pragmatics, on the other hand, are willing to be a bit more flexible about certain issues, such as: the role of the private sector, especially the multinational segment, modifying the current exchange system, where restrictions with respect to foreign currency would ease up.

The voice of Chávez... The voice of God

President Chávez has always been in the middle of these two groups, like a referee. Part of the reason that he has been able to stay in power for 12 years is that he knows how to deal with both groups. At different times during his presidency, Chávez has been the radical and pragmatic with respect to the economy, depending on the situation and the political advantage that he could gain. Now that he has been out of the picture for so long, it is difficult to imagine the tensions that must exist between these two groups.



Getting off course... 3 cases that speak for themselves

The information that **Ecoanalítica** has been able to gather during the last few weeks reflects an economic cabinet that is divided, and can't agree on fundamental issues. And what's worse, a cabinet that is contradicting itself in key areas that are vital to the President's success in the upcoming presidential election in October. At **Ecoanalítica**, we have detected some critical elements that are affecting the performance of the economy.

First case: the way public spending is being used

Public spending has been increasing since September 2011, but how it is being used leaves a lot to be desired. Current spending continues to remain the same, not getting out, repressed by the financial system. The difference of opinion between vice-president Jaua and Minister Giordani on this issue have created an obstacle and affected the efficient execution of this public spending. J. Chacón complains that the transfers through Missions need to be more dynamic in order to ensure a solid victory on October 7.

Up until now, a registry of beneficiaries of the new social Missions has been collected: *Amor Mayor, Madres del Barrio and Saber y Trabajo*. But the transfer of resources to these and other Missions has been slow. The same thing is happening with the communal councils. The pragmatics point out that this is vital if chavismo is going to win in October. The radicals are betting on increased supervision in the use of these resources, which has made the execution of these resources very slow.

Second case: how public debt is being managed

With respect to debt placement, the radicals continue to believe that borrowing heavily in local currency (bolivars) is the way to go, while the pragmatics realize that the private sector needs the foreign currency to fuel the electoral boom. On this point, Minister Giordani has not been willing to move an inch; consequently, the upcoming debt place will be almost exclusively reserved to feed the SITME.

August and September will be key months

Consequently, we expect that during the second semester, specifically, in August or September, a second bond issuance by the Executive Office will take place, also to feed the SITME. Contrary to what the pragmatic members believe, Minister Giordani is convinced that the bond issuance should be exclusively used to feed the SITME, and that the private sector should look to the SITME to satisfy its foreign currency needs.

Third case: CADIVI performance and its priorities

CADIVI's performance of late has left much to be desired. The question is, how can the Administration allow this to be happening with the presidential elections just around the corner? Since the end of last year, both Jesse Chacón and Nelson Merentes, have been pushing for the private sector to



be allowed to receive more foreign currency, and even suggesting that the public sector import less. Even though a few legal changes were made so that this could take place, nothing has really happened regarding the matter. And what's worse is that other Ministers, having to do with the economy, have been creating obstacles for the priority sectors, making it more difficult for them to import their products, for example the pharmaceutical sector. These obstacles are a serious problem for the priority sectors and have been created in order to favor public sector imports. This has led to CADIVI having a very mediocre performance.

We ask ourselves, why implement all these changes now? Why not wait until after the election? It doesn't make sense, and with Chávez absent, no one is willing to reestablish priorities with respect to exchange matters. Jesse Chacón has the right idea: eliminate shortages and have lots of products to purchase.

“After me, the flood...” Luis XV (1710-1774), King of France

These three cases show just how complicated managing the economy has become without Chávez at the helm. And this also explains why with such an aggressive fiscal policy, and the price of oil over US\$ 100 per barrel, that there is no sensation of bonanza in Venezuela, nor is there an indication of a surge in the economy leading up to the presidential election in October. The pragmatic members of the cabinet are worried. They believe that creating the sensation of an economic bonanza leading up to the election is essential to ensure a victory in October. The radicals are pinning their hopes on the Great Venezuela Housing Mission... all that's left is for Chávez to define what are the priorities.

An atypical semester... Take precautions

After the election on October 7, the situation will become very complex. The political scenarios are varied, but what is clear is that the six months following the presidential election, from October 2012 to March 2013, will be full of uncertainties. It is important that our clients take the appropriate measures to protect their interests. In our opinion, the critical areas during this period will have to do with exchange issues: how much foreign currency will CADIVI/SITME be liquidating, the very likely chance that there will be a devaluation of the official exchange rate, shortages of items and intermediate goods, managing inventories, and accounts receivable.

After October, for Venezuela, nothing is settled

Beyond 2012, Venezuela continues with its day to day business. It continues to be at a crossroads. It's important to point out that no matter who wins the presidential election, no matter which scenario is implemented, the future is full of hardships and very complex, but Venezuela continues to have a number of positive opportunities within its



grasp. And, even if the current Administration were to win and remain in power, no matter how reorganized and what posture it chooses to present, at **Ecoanalítica**, we are convinced that serious changes will have to be made with respect to economic policies and how the economy is run; because the way the economy is currently performing, the current economic model is unsustainable. The most visible change that will need to be made are in matters regarding the oil industry and exchange issues.

With respect to the oil industry, the challenge facing the industry is to increase production capacity. With respect to exchange issue, the challenge is to create an “escape mechanism” that will help alleviate the pressure on the official exchange market. This final point is one being pushed forward by the pragmatic members of the economic cabinet.

A number of points make us be optimistic with respect to the future. First, Venezuela has enormous potential for growth, with a private sector that is performing way below its maximum capacity, product of the economic policies that have been implemented these past few years which has failed to create incentives for investments to increase as required. A change in the rules of the game would see an immediate positive surge in investments.

Second, the potential and the capacity the oil industry has to increase oil production in the short term. Once again, here the key point is the legal and institutional framework use to stimulate and call for new investments, which can still be made to work with the current Hydrocarbons Law.

And lastly, but not least important, the future outlook for international oil prices and the demographic bonus that Venezuela lives in. Two key elements, so that in the midst of all these problems, Venezuela will be able to make all the necessary changes in order to get back on the path to economic growth.





Economic Tips

Q1 2012 GDP grew 5.6%. The Central Bank of Venezuela (BCV) reported that during the first quarter 2012 the economy grew by 5.6% over the same period of 2011. This represents an improvement over growth observed during 1T2011, which stood at 4.8%. When evaluating the performance by sectors during Q1 we obtain that during Q1 2012 the oil sector grew 2.2% and the non-oil sector 5.6%.

Non-oil GDP by sector. Within the non-oil GDP, the sectors with the best performance in Q1 2012 were: construction (29.6%) financial institutions and insurance (27.7%), transport (8.5%), commerce (7.9%), communications (7%), community and social services (6.6%) and services produced by the government (4.6%). During this period the overall economic performance was driven by growth in construction, activity that generates significant leverage since it is closely related to other sectors of the economy. Another factor is the increased availability of goods imported for production, consumption and investment as well as the greater flow of credit by the financial system.

Construction sector, ¿rebound effect? The protagonist in the performance of the economy during the 1T2012 was certainly the construction sector, after growing 29.6% over the same period of 2011. The positive performance of this sector is due to the activities of the Misión Vivienda and a "rebound effect", taking into account that during the first quarter last year it decreased by 6.8%.

Hell to do business in. According to the report, Doing Business 2012, published by the World Bank, Venezuela is ranked 177 out of the 183 countries included in the report that measure positive business environment. According to the INE, in March 2002, there were 617,486 active employers, compared to only 447,055 active employers in March 2012, a drop of 27.6%. This is a consequence of current economic policies that do little to stimulate investments, as well as the problems created by the exchange controls, price controls, threats to and expropriations of private property, and now the new Labor Law that has been approved, especially its Articles having to do with retroactive payments of labor benefits and shortening the work day.

Naïve markets. According to a report released by the Bank of America on May 14, markets could be overestimating the possibility of a change in the Venezuelan political environment in 2012, which generates the high yield of national bonds. It



considers that the advantage President Chávez has in the polls “*makes it difficult to carry out changes and implement policies more friendly to the market in the near future.*”

Liquid reserves at the lowest level since 1997. According to the BCV's international reserves were placed at the closing of the second week of May at US\$26.219 million. Of this amount, only US\$2,700 million is composed by liquid reserves, the lowest level they have had since 1997. This has hampered the allocation of foreign currency for ordinary imports by Cadivi, which recorded a fall of 19% over the same period in 2011.

More supplemental appropriations approved. The National Assembly Finance Commission approved additional supplemental appropriations for VEB 2.60 billion this past Monday. Of this amount, VEB 1.10 billion are earmarked to finance projects of the Ministry of Science and Technology; VEB 706 million for the Ministry of Electric Power to cover the costs of hiring all outsourcing personnel; and VEB 121 million for a mixed company backed by the Venezuelan government and Belarus.

At the rhythm of the BCV. According to information published by the newspaper El Mundo, the private nature of the first bond issuance of the year allows the Central Bank to complete control the inventory of the bonds. This will enable it to ensure that the Venezuelan paper market is not saturated, which is what would happen if the private investors would immediately dump the paper in the market in order to immediately receive foreign currency.

Shortage indicator dropped 0.6%. The shortages indicator published by Datanálisis showed an improvement of 0.6% at the close of the first week in May compared to the last week in April. Mercal continues to be the supermarket chain that reflects the highest index of shortages, reporting an increase of products missing from their shelves of 54 to 59.5% out of every 100; followed by small neighborhood shops and grocery stores, up from 34.9 to 40.7%. The other supermarket chains report a slight drop in the level of shortages, 3.6%.

Spoiled public workers. When comparing the salary index released by the BCV for the first quarter of the year compared to the same period in 2011, there is a real increase of 31.2% for public sector workers compared to only a 3.1% increase for private sector workers. This behavior is tied to the increase in public spending during the election cycle and the adverse climate for investments that affects private sector operations structures.

The new LOT and labor costs. The effect of the new reforms to the Organic Labor Law on a company's labor costs depends on the size and the composition of the



workforce, states Carlos Enrique Tejera, president of Venamcham. According to Tejera, the increase in costs to companies *“can be divided into three types: increase in benefits to workers; having to adapt to new human resource administration policies, and to cover contingencies.”* The Administration assures that the increase in labor costs is only 13% of a company’s operation costs. In some cases these costs can reach up to 50%. What will the effect be? It will depend on each company.

The black box of the Missions. The 2011 yearend balance report for the Comptroller’s Office reflects weaknesses in the management of some of these state-run institutions and social programs. The NGO, Transparencia Venezuela, pointed out from the report the acknowledgement of a lack of payment receipts, little or almost no follow-up and control of funds transferred to communal banks and a lack of centralized mechanisms that can vouch for the correct use of these resources.

And who is monitoring the resources? The organism in charge of ensuring the efficient use of state resources has limited capacity for action. Half of the workforce at its disposal in 2000 is gone and it has only received 42% of the resources needed to maintain its operations in 2012. Under these conditions it is very improbable that it will be able to fulfill its main responsibility.

Interest rates. The lending rate for the fourth week of April was at 16.2%, increasing by 0.5 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 decreased 2.4% going from US\$26,873 million during the first week of May to US\$26,219 million during the second week of May. Compared to the same period last year, international reserves have decreased by 3.0%.

Monetary liquidity. Monetary liquidity in the first week of May decreased 0.1% compared to the previous week settling at VEB 472,187 million. The M2 has increased 52.7% in relation with the same period last year.

Sitme figures. So far this year, US\$3,737.4 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$41.53 million a day, with an implicit exchange rate of 5.3 VEB/US\$. This represents an increase of US\$861.8 million (30%) over the same period of 2011, when US\$2,875.6 million were negotiated. During the second week of May the amount traded reached US\$222.3 million, US\$50.5 million more than the previous week when US\$172.2 million were traded, with an average of US\$44.5 million a day.



Oil Tips

Bond issuance. Last week PDVSA officially announced its new bond issuance for US\$3.0 billion, maturing in 2033, 2034 and 2035, with an interest rate of 9.75%, making it the second most costly issuance the oil company has carried out (in 2011, it carried out a bond issuance for US\$3.0 billion with the coupon at 12.75%). At Ecoanalítica, we have estimated that thanks to this upcoming issuance, PDVSA will have to make yearly payments of US\$292 million.

PDVSA debt at US\$43.30 billion. The debt balance at the close of 2011 reached historic levels at US\$34.80 billion, an amount that will clearly be surpassed thanks to the upcoming bond issuance (US\$3.0 billion) as well as the loans announced by the Minister of Petroleum and Energy, Rafael Ramírez, with financial entities in Japan and China (US\$ 5.50 billion). These amounts added on to the closing balance of 2011 total US\$43.30 billion, increasing PDVSA's debt by 24% so far this year.

Energy subsidies represent 9.7% of GDP. The professor of energy at the Metropolitan University, Nelson Hernández, pointed out that the estimated amount for energy subsidies in 2011 totaled US\$29.02 billion, representing 9.7 % of GDP, which includes the gasoline subsidy (\$13.17 billion), diesel subsidy (\$8.54 billion), liquid natural gas subsidy (\$545 million), natural gas subsidy (\$2.06 billion) and electric power subsidy (\$4.70 billion). Venezuela is one of the few countries in the world that continues to offer high energy subsidies given that it has its own natural reserves that allows it to produce these resources well below international export prices. However, current production problems facing the industry demand that these domestic subsidies be reviewed and prices be increased.

Venezuelan production increased by 2.8%. According to the monthly OPEC report corresponding to the month of April, during the first four months of the year, Venezuela produced 2.37 million barrels of crude oil a day (mb/d), up by 2.8% compared to April 2011 when production was at 2.31 mb/d. The month to month comparison reflects that in April 2012, 5 thousand more barrels were produced than in March. These latest production figures puts Venezuela in 6th place in terms of the world's leading oil producers: Saudi Arabia (9.89 mb/d), Iran (3.10 mb/d), Iraq (3.02 mb/d), Kuwait (2.75 mb/d), and the United Arab Emirates (2.59 mb/d).

A minimum of 230,000 barrels a day to China. In February 2012, the Administration increased the loans it has with China and in that context, and in order



to pay the loans within three years, an amendment was made to the current payment schedule stating that crude oil deliveries may not fall below 230 thousand barrels a day (kb/d). In the first agreement signed in 2008 between PDVSA and China, shipments were supposed to be for no less than 100 kb/d, but a report from PDVSA indicates that between 2008 and 2010, deliveries were for between 82 and 91 kb/d. Renewal of the loan with China of US\$4.0 billion in June 2011, lead to this new shipment agreement and the new amounts which is up for review before the National Assembly.

25% of exports to China. During a recent trip through Asia made by president of PDVSA, Rafael Ramírez, he confirmed that Venezuelan deliveries of crude oil to China would surpass 600 kb/d, which is equal to almost 25% of Venezuelan oil exports at the close of 2011 (2.46 mb/d). This figure regarding the deliveries to China do not fit with the figures reported in PDVSA's yearend balance report which states that exports to China at the close of 2011 were at 319 kb/d, almost half of of the amount the Minister stated. Nonetheless, what is true is that sales to China increased by 79% last year.

Amuay refinery almost ready to sell ecological gasoline. PDVSA's refining director, Jesús Luongo, announced that after this last stop in operations which lasted three months to carry out maintenance, the Amuay Refinery is almost ready to get back on schedule with its exports of Reformulated Blend-stock for Oxygenate Blending (RBOB), a type of gasoline that has ethanol and produces ecological gasoline, sold in the U.S. market. This will take the average export level of RBOB to almost 60 kb/d.

Keep your eye on gasoline in August. PDVSA's refining director, Jesús Luongo, also announced that in August 2012, the Cardón Complex will be shut down for three months in order to increase its production capacity by 40 thousand metric tons a year. Luongo stated that since this is one of the main gasoline producing units in the country, exports should be cutback in order to accumulate inventory to be able to cover the programmed shut down of the complex, *"since our main objective is to guarantee the domestic hydrocarbon supply."*

At least 9 spills so far this year. Counting all the spills that have been reported by PDVSA and workers this year, with the rupture of a diesel pipeline and a crude oil spill which occurred last week, this makes 9 significant spills of crude oil or chemical products so far this year. The most traumatic event occurred on February 4, when a crude oil pipeline moving oil from the Jusepín Industrial Complex in Monagas state ruptured and polluted the Guarapiche river and caused the drinking water service to the city of Maturín (state capital) to be suspended for a month and a half. Spills have



also occurred in Anzoátegui state (Tascabaña river) and in Zulia state (Catatumbo river), among others.

The accounts don't add up. The final balance figures for the accounts of the Fund for Retired and Pensioned Workers of PDVSA is not at all clear to the former workers. After an independent auditing carried out by the Association of Retired Workers of the Oil Industry (AJIP), the financial statements for 2009 and 2010 have a series of inconsistencies in them, among them: the exchange of the 2011 PDVSA bond for 2013 PDVSA bonds, there is a difference of US\$155.8 million missing in the pension fund. The AJIP sent a letter to the Fund's Administrative Board (headed by Víctor Aular, director of PDVSA Finances) demanding an explanation for the difference in amounts.

International oil baskets. At closing time on May 11th in the New York Stock Exchange, the price of the WTI was at US\$97.5/bl, representing a 6.9% decrease compared to the US\$104.7/bl reported the previous week. The Brent decreased by 4.8% to reach US\$113/bl, compared to the previous week's US\$118/bl.

Local oil basket price. The Venezuelan oil basket price decreased last week, closing at US\$107.4/bl on Friday May 11th, decreasing 5.8% compared to the US\$114/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$112.3/bl.

Business Sector Tips

Sidor production is not increasing. The high steel production goal of the Siderúrgica del Orinoco "Alfredo Maneiro" (Sidor) for this year (3.7 million tons), has not meant an increase in the pace of production of the steel mill, because according to official figures of the state-owned company, the production of liquid steel was 133 thousand tons in April, a drop of 43.8% with respect to the same month in 2011, when 237 thousand tons were produced. For the year, Sidor has produced 587 thousand tons of liquid steel, which amid a deficit of raw materials and investment, and internal strife, pushes the goal further and further.

Sidor's dispatches below 2010 levels. Between January and April, total dispatches of Sidor amounted to 510 thousand tons, 43.7% less than in April 2011, representing the lowest level of the last six years. Even in 2010, with a strong electric power



restriction, the steel plant dispatched 511 thousand tons of steel. The present situation of the industry has led to the fact that the steel needs of the national market are unmet, which had been forewarned by the industry.

Automotive sector in the tight rope due to lack of foreign currency. According to the president of the board of directors of the Venezuelan Chamber of Automotive Product Manufacturers (Cámara de Fabricantes Venezolanos de Productos Automotores - Favenpa), José Luis Hernández, auto-part dealers and assemblers have almost not received approvals to acquire dollars from Cadivi. This cut in currency assignments is saturating the companies' credit lines with their head offices (the debt with suppliers is US\$120 million) and some are refusing to dispatch new merchandise. The risk that companies in the automotive industry stop working due to lack of currency is high and in fact, Chrysler de Venezuela is semi-paralyzed since May 7th.

"We were too many already, and grandma gave birth". Together with the issue of foreign currency assignment miring the Venezuelan automotive sector, now we have the concerns caused by the lack of guarantees industries have to receive steel from Sidor. Car part manufacturers require 30 thousand tons of steel per semester, but the state owned company only delivered 30% of this requirement in the first four months of the year. *"Obviously, inventories are basically at zero"*, said José Luis Hernández, president of Favenpa.

Weekly auction of agricultural bonds started. The BCV started to auction last Thursday, May 10, the bonds that financial entities may acquire to meet part of the mandatory agricultural portfolio of this year. Each week, Banks will purchase the bonds, which are backed by Fonden, and will give the money to the Administration, which will grant financing to farmers through the Ezequiel Zamora Fund. Through these titles, banks may fulfill up to 15% of the agricultural portfolio expected for this year (representing 25% of the total credit portfolio).

Telecommunications income increases 22.5%. According to the National Telecommunications Commission (Comisión Nacional de Telecomunicaciones - Conatel) the operational income of the main telecommunication operators during the first quarter of the year was VEB 10.83 billion, an increase of 22.5% with respect to the same period the year before. Total lines in use in mobile telephony increased 7.0% with 29 million subscribers. This implies that for the first quarter of the year there were 99 active mobile lines per 100 inhabitants.

Telefónica will invest VEB 2.16 billion in 2012. Michael Duncan, president of Telefónica Venezuela, said that the company will invest VEB 2.16 billion in the country during 2012, an increase of 20% compared to 2011. The investment is



mainly to expand the third generation network to improve the quality of service, and includes participation in the call made by Conatel to widen the spectrum. Duncan also said that failures suffered by clients in the last few months are due to the fast increase of data consumption in Venezuela, which has congested the all operator's networks.

Use of wage tabulator in the private sector is studied. Within the framework of the new Lott, which in article 100 establishes that to set the salary, *the "principle of equal salary for equal work"* should be taken into consideration, Franklin Rondón, member of the Bolivarian Central of Workers, informed that the organization is studying the implementation of a salary scale and a wage tabulator for private sector workers, to then present it to the Government for its consideration. According to Rondón, the salary scale in the private sector will take into account an average of the best salaries.

Government built 50,780 houses this year. As explained by Rafael Ramírez, member of the Higher Housing Entity, for 2012, the Gran Misión Vivienda Venezuela has built in the national territory 50,780 housing units. Last Thursday, May 10, 2,003 units were given in four States: 1,023 in Apure, 192 in Bolívar, 78 in the Capital District, and 800 in Zulia, and 2,037 property titles for multi-family and single-family units in Miranda and the Capital.

"The private sector is constructing less and less". This is according to the President of the Venezuelan Chamber of Construction, Gilbert Dao. He also said that between 2010 and 2011 private construction had negative results due to less availability of materials, and the regulations that impacted work execution, so presently, the activity of construction companies are focusing on ending the work that began years before. Dao informed that in 4Q2011 the number of housing constructions stopped and that didn't start increased 30% and is expected that for 1Q2012 this figure will be higher.

Fefarven: "...don't destroy the country's pharmaceutical network". Freddy Ceballos, president of the Venezuelan Pharmaceutical Federation (Federación Farmacéutica Venezolana - Fefarven), given the new controls imposed on the sector and the creation of the government pharmacy network, Farmapatria, said that they reject the creation of this network, because it will put an end to pharmaceutical companies. *"We agree that there must be pharmacies selling at good prices for all citizens but not ruining the whole pharmaceutical network that takes medications to all corners of the country"*. Ceballos stated that if Farmapatria starts selling medications at such low prices, Fefarven will only have 300 pharmacies operating *"because no chain will be able to compete with Farmapatria"*.



The new bet: Urban agriculture? During a tour of the Urban Agriculture Socialist Agro-productive Base, Elias Jaua, Executive Vice President announced that the Administration approved VEB 97 million to develop Venezuelan agriculture. Jaua said that the goal of this urban agriculture plan for this year is to build 21,000 productive units. The government is vying for these projects, because national agricultural production has declined in the last three years, causing agro-alimentary vulnerability, a reduction in rural employment, and an increase of poverty.

World Economy Tips

US consumer prices remain stable. The US Consumer Price Index (CPI) didn't change during April, 0.3% less than that reported in March. This result is in line with market expectations, since families paid less for gasoline and natural gas, a situation that could give the Federal Reserve a greater maneuvering margin to leverage economic growth. The underlying CPI, on the other hand, was at 0.2% at the end of April.

White House requests reforms after JP Morgan losses. The White House says that commercial losses of JP Morgan, the largest US investment bank, reinforces the need for greater supervision of Wall Street activities. The bank admitted a loss of US\$2.0 billion last week in complex investment operations. White House spokesman said that president Obama had struggled to increase supervision, and events at JP Morgan proved the importance of fully implementing a reform in Wall Street.

Direct foreign investment falls in China in April. The ministry of trade said last Tuesday that the country attracted US\$37.9 billion in direct foreign investment (DFI) between January and April, a drop of 2.4% compared to the US\$38.8 billion attracted during the same period in 2011. This has been the longest period with a drop of inflows since the global financial crisis, and a sign of foreign economic turbulence.

China, Japan and South Korea are looking for their own FTA. China, Japan and South Korea announced that they will soon start discussions to have a free trade agreement (FTA). The leaders of the three Asian giants signed an investment agreement in Beijing, to pave the way for the negotiations. North East Asia is the most economically dynamic region of the world, and a free trade agreement would give it a new boost. China is already the largest trade partner of Japan and South



Korea, but political and economic tensions are still the stumbling block for trade relations between these countries.

UN requests the implementation of financial transaction taxes. The UN Human Rights Commission urged European Union ministers to demand the introduction of a tax on global financial transactions, describing it as an imperative human right. Experts working for the UN said that the economic crisis led to the loss of millions of jobs and to global economic problems. They argue that the proposed tax could help fight against poverty and inequality.

GDP of the Euro Zone still fighting. The Gross Domestic Product (GDP) of the Euro Zone had a 0 % growth in 1Q2012, after reporting a fall of 0.3% the previous quarter, according to recent information by the European statistics office, Eurostat. These results were better than expected by analysts (-0.2%).

And once again asymmetries are evident. In the last three months, some economies of the Euro Zone have had serious problems regarding debt, growth and inflation. Thus is revealed by the results issued by Eurostat which show that on the one hand there is a positive front formed, among others by Germany (0.5%), Austria (0.2%) and Belgium (0.3%), while on the other, we have Italy (-0.8%); Portugal (-0.1%); Holland (-0.2%) and Spain (-0.3%).

Economy of the Eurozone will continue contracting in 2012. According to forecasts of the European Commission, the economy of the Euro Zone will fall 0.3% due to persistent problems related to the debt crisis. The Commission expects a gradual recovery, to reach a growth of 1% in 2013.

An orderly withdrawal is proposed for Greece. Christine Lagarde, Director of the International Monetary Fund, mentioned on Tuesday in Paris the possibility of an "orderly withdrawal" of Greece from the Euro Zone, in an interview granted to the TV network France 24. *"If a country doesn't comply with its Budget commitments, it is necessary to make the appropriate review, which implies additional financing or withdrawal mechanisms"*, she said. This situation would be extremely costly, and could imply greater risks.

Repsol launches its attack against Argentina. The Spanish oil company Repsol formally launched last Tuesday the legal battle in an international court because of the expropriation of almost all its shares in the Argentinean company YPF, a process that could claim for around US\$10.0 billion. The company notified ICSID (International Center for the Solution of Investment related Disputes) an arbitration court of the World Bank, that it sent the Argentinean government the declaration of controversy, a necessary step to open the process at the court. Now, a period of six



months starts for Repsol and the Argentinean government to negotiate a possible agreement before ICSID takes charge of the case.

Brazil's economy could not fulfill its growth target for 2012. High authorities of the Brazilian government now believe that the economy will grow less than the official target of 4.5% this year, and are taking their internal projections more in line with those of the private sector, at around 3%, said several analysts to Reuters.

Slowly but surely. Brazil's economy will grow slightly above the rate of 2011 of 2.7%, despite a series of government measures to reactivate consumption and industry, and an aggressive cycle of interest rate reductions that have taken them to a historical low level. This lower growth could lead president Dilma Rousseff to implement more measures even at time in which the economy of the country is growing at the slowest pace in Latin America.

Colombia celebrates its entry to the exclusive "Club" of countries with a FTA with the US. Colombia and the US started last Tuesday a new trade relation, with the entry into force of the Free Trade Agreement (FTA) between both countries. According to official estimates, Colombian exports will increase 6%, because from now on, around 6,000 product items may enter without paying taxes. On the other hand, approximately 80% of US sales to Colombia will be free of tax, and that will benefit specific sectors like timber, construction, car parts, fertilizers or agrochemicals, and technology.

Political Tips

Not against Chavez, but not against another one either? The Bank of America report of May 14 states that according to different national surveys, the opposition's chances to win the election have dropped significantly, even if the ruling party candidate is not Chávez. It states that the resistance of voters to accept an election without Chávez implies that the results of the polls could be underestimating the support of pro-government candidates.

The bet is for Jaua. The above mentioned report also says that if Chavez withdraws from the campaign, the opposition would be waging a close battle with Elías Jaua as the most probable replacement candidate. It adds that a well-orchestrated transfer of the candidacy could ensure the support of Chávez's supporters.



That is not all. Besides betting for another victory of president Chávez, said report states that if Capriles wins the elections, the new government will have a lot of trouble to implement the necessary reforms. The control that chavistas have of the Assembly and the Judicial power could lead to a political paralysis that would prevent the implementation public policies for progress.

Not even they know. PSUV leaders don't know when the head of state will join the electoral campaign. Party spokesperson say that Chávez is "*the only voice for his messages*" and trust that the president will be active during the campaign.

Scope goats back to the corral. After a short tour through the courts, two of the three accused for the scandal of the decay of thousands of tons of food in charge of Pdval in 2010 returned to their jobs in Pdvsa. Since the District Attorney's Office opened the investigation in 2011, after being on parole, the hearing has been postponed five times, and the case has moved from one judge to another. At this pace, it seems that the truth is far from being known.

They decide for the unified card, and turn the page. The parties that make up the MUD decided on Wednesday to ratify the implementation of a unified card for the October elections, a decision that was taken last year. With this method the parties can decide whether or not to join the alliance emblem on the ballot card, while the other proposal implied the mandatory incorporation. Thus they put an end to an issue that generated friction between the organizations members of the coalition.

Rejected. Opposition governors met on Wednesday to present a document that reveals the discrimination to which opposition rulers are subjected compared to ruling party rulers, with respect to the assignment of resources. Morel Rodríguez, governor of Nueva Esparta, said that the government is violating article 20 of the Constitution, which establishes the equality of conditions in the delivery of resources and the calculation of the mandatory government assignment of resources according to the population density of each federal entity.

The fight for Aponte Aponte. Nicolás Maduro, foreign affairs minister, asked the US to deliver former judge Aponte Aponte, who apparently has had talks with the DEA and the Department of Justice of that country, while preparing his debut as key witness of the links of Venezuelan government members with drug trafficking and corruption. According to Maduro, the US government must immediately hand over Aponte, otherwise they would be "*the direct accomplices of these drug trafficking mafias*". What is clear is that a witness of such magnitude won't be released until all the information is extracted from him.





Stop meddling! Henrique Capriles demanded the former president of Colombia, Álvaro Uribe, to stop meddling in the Venezuelan electoral process. The former president talked harshly about Chávez's presidency, and accused him of being an "assassin", while supporting Capriles' candidacy. In response, the latter said that Venezuelans "*don't need the advice of either Colombia or Cuba*". *Ruling party representatives used the opportunity to accuse the opposition leader of looking for "spokespersons" in the neighboring country, given the failure of his candidacy.*

Only one in four women has formal employment. This was said by Julio Borges, leader of Primero Justicia, who said that out of 10.5 million women in working age, only 2.7 are employed in the formal sector, while 500,000 are unemployed, and 2.1 million work in the informal sector.

Rejection of polarization. The latest Ómnibus study published by Datanálisis, indicates that most of the population (82.6%) rejects polarization. Almost half of those surveyed (47.4%) said that the division is between chavistas and non-chavistas, and not between rich and poor (12.4%) or between PSUV supporters and non-supporters (15.8%); this reflects that the government lies on the figure of the president, not of his party.

Venezuelan aid to Caribbean countries falls on an empty sack. Venezuela's cooperation to CARICOM member states, through alliances like ALBA and Petrocaribe, haven't stopped the intentions of Guyana to extend the continental platform, or the support of its neighbors on that endeavor. If implemented, the exit of our country to the Atlantic would be hindered. The neighboring country would allege that the silence and omissions of the Venezuelan Ministry of Foreign Affairs regarding the historic territorial dispute for the control of the Esequibo imply a tacit waiver of its rights on the territory.

Legislatives Tips

Draft Law on the Defense of the Air Space is Discussed. Néstor León Heredia, vice president of the defense commission of the National Assembly (NA), informed that the parliament held a second discussion and approved the law to confront drug trafficking and the violation of the Venezuelan air space. The parliamentary said that Venezuela, within international treaties regarding the defense of Human Rights, will



implement measures to immobilize airplanes, to assist all those persons involved in possible plane accidents within the territory.

NA members will also have a periodic evaluation. “Monitor Legislativo” presented its Parliamentary Performance Ranking, a new tool that from now on will allow electors to monthly evaluate the performance of parliament members in five fundamental such as: plenaries, parliamentary commissions, accountability, public consultations, and electronic media. This is because of the parliamentary laws, practices and customs of the Venezuelan NA.

Only 13% of parliament members passed the performance evaluation. Most NA members failed the February test, the last report that is available. “Monitor Legislativo”, a group formed by civil society organizations, academicians, and journalists, evaluated the work of representatives during the second month of the year, and concluded that out of the 165 principal members of the NA, 144 didn't even fulfill half of the tasks evaluated. Of this failure rate, 92 are from the ruling party, and 52 from the opposition.

On October 7th, two models will be confronted, not the election of a president. Aristóbulo Istúriz, first vice president of the NA, and member of parliament said recently that the upcoming elections of October 7, are not just to change President, or leave the one that is in office; that day, two models will be confronted, a capitalist one, and another he considers a socialist one, which will be a determining factor for the future of the country in the next years. Regarding the World Peace Council, he is satisfied that events like this take place in Venezuela, because it is an organization formed by more than 100 countries that has fought for peace in the world, and against the imperialist aggressions against the people.

Creation of a social security council is proposed. In the draft law of Social Security for the National Armed Forces, discussed in the Ministry of Defense, the creation of a social security council for the FAN is being proposed. Military sources informed that it would be a consulting entity for the entity, directed by the Services Vice Minister. Let us remember that last April 19, Henry Rangel Silva, Minister of Defense and General in Chief (Army), announced that the new Social Security Law for the FAN is ready. The present law is from 1995.





ECONOMIC OVERVIEW



