



Weekly Report

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***Pdvsa Figures 2012: concerning
and disheartening***

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Two weeks ago, Rafael Ramírez President of Pdvsa and Minister of Energy and Oil, presented the annual performance report for 2012 of the Venezuelan State Oil Company. In previous reports, we have mentioned how Venezuelan oil production is dropping, and how the country committed over 290 thousand barrels per day (kb/d) in energy agreements, where it sells subsidized oil besides sending China an average of 260 kb/d to pay for loans

Venezuela in the world

According to comparative study published in early 2013 by *Petroleum Intelligence Weekly*, Pdvsa is fifth among the largest oil companies. This study is based only on operational criteria, which includes reserves, production, refining, and sales. Regarding liquid production, it is seventh, sixth in proven gas reserves and refining capacity; however, the state oil company is 11th in sales.





Pdvsa's position respect other companies								
Position	Company	Country	Liquid Production	Liquid Reserves	Gas Production	Gas Reserves	Refinement Capacity	Sales
1	Saudi Aramco	Saudi Arabia	1	2	4	5	9	5
2	NIOC	Iran	2	3	2	1	14	13
3	ExxonMobil	U.S.A	9	12	3	12	1	1
4	CNPC	China	3	8	7	10	3	12
5	Pdvsa	Venezuela	7	1	22	6	6	11
6	BP	U.K	11	16	8	18	8	3
7	Royal Dutch Shell	Holland	15	23	6	16	4	2
8	Chevron	U.S.A	13	20	12	23	12	8
9	Total	France	18	25	10	21	10	4
10	Gazprom	Rusia	22	18	1	3	21	24

Sources: Pdvsa and Ecoanalítica

Production dropping and reserves increasing..

In previous reports, Pdvsa declared its production leaving out Liquefied Natural Gas Liquids (LNG); in this last report, the figure is the sum of both liquids, and the total production published in the media was 3.034 kb/d. However, Venezuela's production in 2012 without LGN was 2.910 kb/d, to drop of 2.7%, since in 2011 it was 2.991 kb/d. For the third consecutive year, the 3.000 kb/d barrier isn't surpassed, and the targets of the Oil sowing plan were not met.

In more detail, we see that production in the west has been falling since 2008, greatly impacted by the expropriation of service companies in Lake Maracaibo in 2009. Much more concerning is the production drop in the east, because to export the extra heavy crude oil from the Faja, the light crudes extracted from north Monagas are required.

National Oil Production (kb/d)					
	2008	2009	2010	2011	2012
Direction East	1,276	1,151	1,101	1,106	1,061
Direction West	1,089	950	843	810	799
Direction Faja	1,057	1,069	1,178	1,213	1,174
Total Production	3,422	3,170	3,122	3,129	3,034

Sources: Pdvsa and Ecoanalítica

The target for last year of the "Plan Siembra Petrolera" (oil sowing plan) 2005-2012 was to production of 5,837 kb/d, an increase production by 76% compared to 2005. Evidently, the target hasn't been achieved, and our present production level is lower than that of 2005. In the table below we can see how by 2011 the production accumulated drop a 8.5% compared to 2005 and in 2012 the real fall of total output was -11%.



"Siembra petroleo" Plan vs. Production

	2005	2012 (goal)	Expected variation (%)	2011	Real Variation (%)
Own Effort	2,185	4,019	84	2,080	-5.0
EM light-heavy	522	581	11	405	-22.0
Current MC FPO	614	622	1	506	-18.0
New MC in FPO	0	615	0	0	0.0
Total Capacity	3,269	5,837	76	2,991	-8.5
Refining (mb/d)	3,142	4,050	29	2,822	-10.0
Exports (mb/d)	2,993	4,700	80	2,469	-17.5
Natural Gas (MMCFD)	6,885	9,780	42	7,125	3.0

Sources: Pdvsa and Ecoanalítica

*Mixed Companies (MC)

On average, in 2012 natural gas production was 7327 million cubic feet per day (MMPCD), of which 2.871 MMPCD were injected to maintain reservoir pressure. Net natural gas production was 4.456 MMPCD.

Proven crude oil reserves at the end of the year were 297.73 billion barrels (mb). In 2012 thirteen new reservoirs were discovered (123 mb) and 1.105 mb were added through reviews.

Reserves and production of hydrocarbons

Basin	Proved	Proved and developed	2012 Production (kb/d)	Ratio Proven Reserves/Production (years)
Maracaibo-Falcón	19,986	4,714	797	69
Barinas- Apure	1,191	240	46	71
Oriental	276,156	8,021	2,062	366
Carupano	402	-	-	-
Total	297,735	12,975	2,905	

Sources: Pdvsa and Ecoanalítica

At present, there is to new oil sowing plan with targets up to 2019, for to production of 6.25 mb/d, to domestic refining capacity of 1.81 mb/d, to foreign refining capacity of 2.35 mb/d; and exports for 4.18 mb/d. The total investment between 2013 and 2019 will be US\$ 256.9 billion mostly in exploration and production.

**Investment: part
of the problem**

In the last years, investment has focused on exploration and extraction, and refining activities have had severe issues, particularly in 2012. Distillation plant N^o.5 was reactivated only last week, damaged and



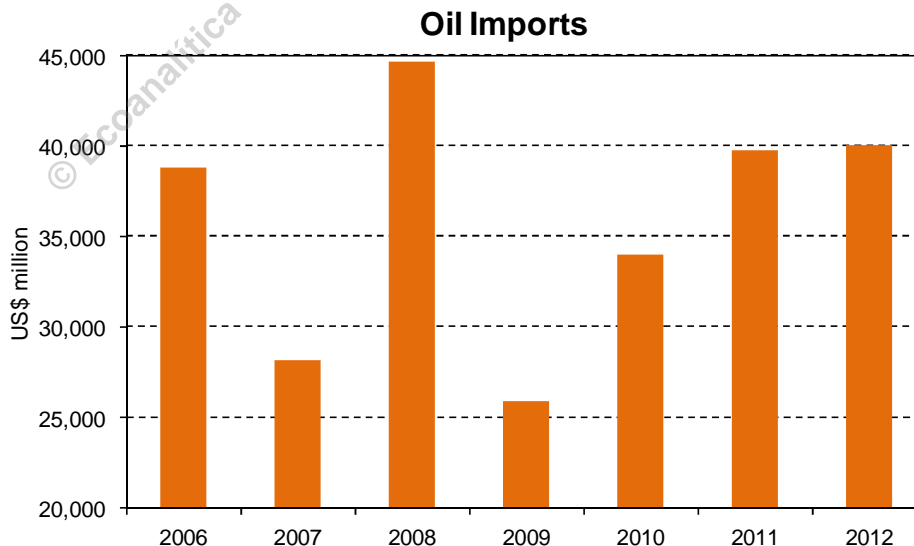
stopped since the explosion in the Amuay refinery (Falcón) on August 25, 2012.

The investment plan for 2013-2019 is US\$256.98 billion. Analyzing the disbursements by investment, we see that in refining it will increase 27.6% in 2013, while disbursements in production and exploration increased 35.8% and represents 66.9% of the total investment.

Disbursements by Investment 2013-2019 (US\$ million)								
	2013	2014	2015	2016	2017	2018	2019	Total 2013-2019
Exploration and production	16,940	20,294	22,998	28,500	32,941	34,095	33,439	189,207
PDVSA Gas	1,305	3,466	4,438	4,559	3,040	2,730	2,510	22,048
Refinement	2,671	6,344	5,761	4,393	2,942	1,441	2,168	25,720
Trade and Supply	868	900	900	900	900	900	900	6,268
Other Organizations	3,537	1,701	1,701	1,701	1,701	1,701	1,701	13,743
Total	25,321	32,705	35,798	40,053	41,524	40,867	40,718	256,986

Sources: Pdvsa and Ecoanalítica

According to the report by Pdvsa, there is an increase in disbursements for refining for 2013 evidencing its critical condition. However, due to the lack of investment in refining, Venezuela has had to increase its oil imports, mainly by products and added value products. Last year, oil imports increased 1.1% for a total of US\$ 40.01 billion.



Sources: Pdvsa and Ecoanalítica

Refining in crisis

Pdvsa's domestic refining business has six refineries: Amuay, Cardón, Bajo Grande, El Palito, Puerto La Cruz and San Roque. The volume processed in the national refining system was 932 kb/d, 5.9% less than in 2011 (991 kb/d).



The amount of refined products dropped 2.7%, going from 1.12 mb/d to 1.09 mb/d, with a significant drop in gasoline production, 3.5%, from 342 kb/d in 2011 to 330 kb/d last year.

Analyzing the figures, the Paraguaná Refining Center (CRP) one of the largest in the world, fell significantly. Crude oil processing dropped 4.6%, from 669 kb/d in 2011 to 638 kb/d in 2012. Products obtained dropped from 777 kb/d to 741 kb/d in 2012. This reflects the multiple shutdowns of the processing units, including the explosion in Amuay.

Domestic consumption increases

Consumption reached a record: 592 kb/d in refined products, to a total of 681 kb/d adding liquefied natural gas. Of this volume, last year the industrial demanded 262 kb/d on average, 12% more than in 2011.

The reason for this is that the operation of the new thermal plants is only possible with products like diesel or fuel oil, given the delays in gas projects.

Hydrocarbons sales to the domestic market (kb/d)					
	2008	2009	2010	2011	2012
Liquids	574	599	674	646	681
Liquefied Natural Gas	81	81	82	77	89
Refined Products	493	518	592	569	592
Motor spirit	287	290	315	293	301
Gas oils and distillates	148	152	183	182	216
Residual	34	54	57	52	46
Asphalt	11	8	7	8	10
Kerosene	5	6	6	6	6
Oils	5	3	4	5	5
Naphtha	2	1	8	17	4
Sulfurs	1	1	1	1	1
Others	6	3	11	5	3
Natural gas	307	313	304	253	265

Sources: Pdvsa and Ecoanalítica

Crude exports were 2.57 mb/d in 2012, an increase compared to the 2.47 mb/d in 2011. However, income dropped 0.2% last year due to the higher supplies of fuel to payment agreements such as Petrocaribe.

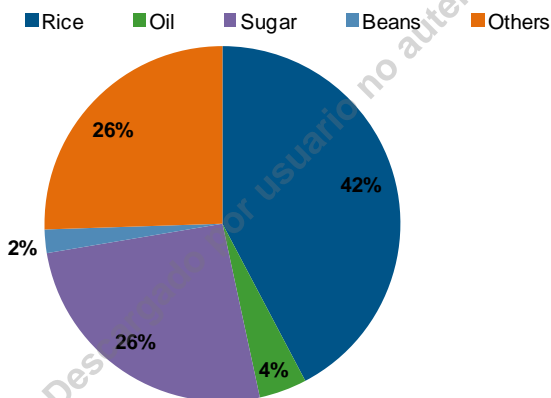
And more oil for Petrocaribe

The cooperation offered by Venezuela within Petrocaribe in 2012 implied an increase in the volume of fuel shipped by Pdvsa. The report of the state oil company indicates that last year Pdvsa exports volume increased 28% within Petrocaribe.



Cases like Nicaragua, with a 65% increase, going from 16.6 mb/d in 2011 to 27.5 mb/d in 2012; the Dominican Republic received 26.9 mb/d of crude oil and products. According to Pdvsa, there was a 76% increase in the value of the products received in exchange for oil dispatches, going from US\$493 million in 2011 to US\$868 million in 2012. Most of this amount came from countries like Guyana, Nicaragua and the Dominican Republic, with special emphasis in the increase of exchanges with Nicaragua (92%)

Products received as compensation



Sources: Pdvsa y Ecoanalítica

As we have already said, **Ecoanalítica** considers that these agreements must be reviewed, and the problem is that a large part of the production doesn't generate cash flow for Pdvsa, harming our oil industry even further.

New businesses in the Faja

In 2012, three mixed companies were created the first, Petrozamora with GPB Neftegas services B.V, a branch of Gazprombank Latin America Ventures B.V. Then, Petroundaneta with Odebrecht E&P Spain, to operate in the fields Mara Este, Mara Oeste, and la Paz, in Zulia.

Finally, the mixed company Venangocupet S.A was created together with Comercial Cupet (Cuba) and Sonangol Perquisa & Producao (Angola), which will develop fields in Anzoátegui.

Total production in the Orinoco Oil Belt (FPO) is 1.7 mb/d in 2012, and should increase to 4.01 mb/d by 2019, with an investment of US\$ 25.0 million annually from the state oil company, for several projects in the FPO. Among the projects is the construction of five upgraders, two refineries, three terminals, and more than 1,400 kilometers of pipeline.

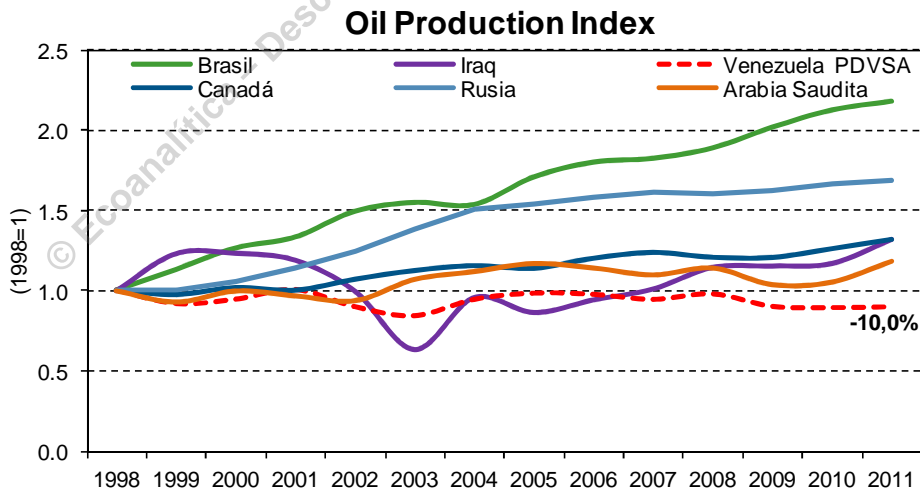


The production of new developments (six projects signed with international companies) at the end of 2012 produced 2 kb/d and according to Pdvsa's investment plan, it should reach 85 kb/d in 2013. The production target for 2019 is 1.78 mb/d.

We must mention that the target for last year was a production of 50 kb/d in total from those six projects, from 300 kb/d, which as we already said, wasn't met. **Ecoanalítica** considers that since the production targets for the faja and in total have not been met; with this trend it will be difficult to achieve the ambitious expectations for the next years.

How are the others doing?

Venezuela is one of the few countries that haven't been able to increase production. The other countries have been able to take advantage of the favorable price situation. Brazil increased its production 118.6%, as did the production of countries like Iraq, Russia and Canada. Considering OPEC production without Venezuela, we see that it has also increased its production (21.4). Venezuela's production dropped 10.0%.



Sources: BP statistical review and Ecoanalítica

Ecoanalítica considers that the government has not taken advantage of the longest oil boom in history, and we have become a net importer of products. This new government needs to increase its cash flow, review the existing energy agreements that include the sale of subsidized oil, and face the reality that the oil rent is no longer sufficient to support the present economic model.





Economic Tips

Finally the long awaited adjustments. Jorge Arreaza, vice-president of the Republic, announced the 20% increase in the regulated prices of milk (including the whole dairy product chain), beef and chicken. Arreaza also announced that the Administration took a series of economic measures to increase the production of food and basic products in the country, mainly those that affect inflation.

Strong contraction in 2013. In its last report on Latin America, Bank of America forecasts that in 1Q2013 the Venezuelan economy will contract 0.6% compared to the same period in 2012. If this projection is fulfilled, the country would enter an economic downturn, accompanied by high inflation. According to BCV sources, the economy will slow down significantly in the first quarter, but won't contract mainly because the Government has kept on increasing public spending and encouraging consumption.

And inflation skyrockets. Luis Vicente León, director of Datanálisis, said that inflation will be way above 30% at the end of this year and that only if the price of controlled products remains unchanged, it will be possible to have a lower inflation. León said that the Government's hostility towards entrepreneurs is not the best way to solve shortage and scarcity problems.

Mortal law. Given that smaller companies employ the largest amount of workers in the country, the entry into force of the new work day established in the new Labor Law will imply "mortal" additional costs for small enterprises, said our Director, Asdrúbal Oliveros. *Ecoanalítica* considers that the higher labor costs associated to the reduction of the work day, will further reduce the capacity of the private sector to generate jobs, affecting mostly the commercial and service sectors.

Being a mother is a full time job. According to the latest demographic bulletin of the National Institute of Statistics (INE) entitled "*Motherhood in the 21st century*" 62.4% of Venezuelan mothers are part of the inactive population, compared to 37.6% mothers that are part of the labor force. The entity also said that 80.9% of the total mothers that are not part of the labor force say they do house work.

A strong salary. According to Nicolás Maduro, President of the Republic, the minimum wage in Venezuela (one of the highest in Latin America), the food stamps, and the strengthening of health and education programs are a sort of "social wage" that allows the population to save. Maduro said that these Government policies also



gave the people tools to respond to “*the attacks of the right against the Venezuelan economy*”.

Purchasing power dropping. The remuneration index prepared by the Central Bank of Venezuela and the price increases indicate that at the end of 1Q2013 a worker's salary purchased 9% less than in the beginning of 4Q2012. Evaluating the impact by sectors, the purchasing power of workers in the private sector dropped 8.2%, while in the public administration the drop is 11.8%.

Mercosur the panacea. After a four day tour through Mercosur countries and the signing of 51 new agreements with member states, Nicolás Maduro, President of the Republic, said that economic complementarity with the block will triple the production capacity of the country. Maduro also said that they are presently creating an economic government, to consolidate the new economic structure of the country, which will go from relying on rents to producing, with the support of Mercosur countries.

Less bets on Venezuela. Direct Foreign Investment (DFI) in Venezuela dropped 14.9% in 2012, according to a report of the Economic Commission for Latin America and the Caribbean (Eclac) of the United Nations. The entity said that in 2012 the country received US\$3.21 billion from DFI, while in 2011 the investment flow reached US\$3.77 billion; most of the funds were from non-distributed earnings of companies that had problems repatriating their capital, due to the exchange controls in force since 2003.

Interest rates. The lending rate for the first week of May was at 14.4%, down by 2.4 percentage points compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves go down by 3.2%, going from US\$26.44 billion during the first week of May to US\$25.59 billion during the second week of May. Compared to the same period last year, international reserves have decreased by 2.4%.

Central government expenditure. On Friday May 16th according to figures from the National Treasury Office (ONT) primary spending was VEB 6.16 billion, which means an increase of 10.8% when compared to the previous week when it was VEB 6.91 billion; when compared to the same period last year we observe a decrease of 9.9%.



Monetary liquidity. Monetary liquidity (M2) was increased 0.7% in the first week of May compared to the previous week, settling at VEB 773.68 billion. The M2 has increased 63.7% in relation with the same period last year.

Oil Tips

New production kings. According to the Medium-Term Oil Market Report released by the International Energy Agency, the U.S. and Canada will lead growth of global oil production over the next five years. The Agency said that technological advances in North America will allow some resources that up until now were inaccessible to be lifted. This will drastically reduce imports from that region, will change reserves and influence prices.

PDVSA swapping debt is seen as a positive sign. In opinion of Barclays, PDVSA's swapping of short-term bonds for papers with longer maturity, preferably issued at a low coupon may be a potentially successful operation. Barclays believes that this operation could prove to be more effective in comparison to a simple bond issue, which would likely further disrupt the bond yield curve.

PDVSA's financial deterioration won't be a surprise. According to different investment banks, PDVSA's accounts are in a difficult situation, since the Venezuelan oil basket averaged US\$102/bl in 2012. This appears to be illogical, considering that the average is higher than 2011 and results were relatively worse. Reportedly, PDVSA showed signs of deterioration in its operational margin in 2012, and, along with the high fiscal pressure and other commitments to the administration, the company's liabilities will increase.

PDVSA doesn't look well. Barclays Capital report showed that PDVSA registered a slight drop in revenues and profits in 2012, even though oil prices were higher than in 2011. According to the report, the state-owned oil firm increased its debt to suppliers, but, above all, it has obtained financing from other public entities like the BCV, the National Treasury Office and state-owned financial institutions.

World's fifth. PDVSA was fifth on the 2012's list of the world's major oil firms published every year by Petroleum Intelligence Weekly (PIW). The ranking evaluates aspects such as reserves, production, refining and sales. Aramco (Saudi Arabia) was first, followed by Nioc (Iran), Exxon Mobil (USA) and Cnpc (China).



IOC will include PDVSA. Indian Oil Corp (IOP) will add three Latin American firms and two from the Middle East to its annual crude oil purchase agreements during this fiscal year, including PDVSA. The information was released in a parliamentary committee. The Indian oil company has been closing new contracts with different oil firms, reason for which its announcement wasn't a surprise. IOP is the largest refinery in India with 30% of the country's capacity.

Higher demand. The Organization of Petroleum Exporting Countries (OPEC) will have to deliver higher volumes of oil than those already planned to balance the market in 2013 and it forecasts that global consumption will be much higher for the rest of the year. The OPEC estimated in its monthly report that crude oil demand would reach 29.84mb/d (up 90kb/d from the previous estimate) in 2013.

More boats operating. After nationalization of oil docks in Zulia state, more than 8,200 workers, who are already enjoying the benefits provided for in the oil collective contract, were absorbed. Furthermore, control of more than 1,080 boats, of which 300 were discarded due to safety reasons, was taken. More than 50 new tugboats have been added to the fleet.

Residents in areas neighboring Amuay Refinery demand to be relocated. Alí Primera community residents (close to Amuay Refinery) blocked the streets of the area in a protest demanding that the 365 families affected by last August explosion are definitely relocated.

PDVSA social spending plummets. According to PDVSA management report for 2012, contributions for social plans and missions by the oil company have clearly dropped. In 2012, PDVSA contributed US\$9.02 billion for different social project, down 42% from the amount disbursed in 2011. In spite of the overall drop, some programs like the *Barrio Adentro* Mission received more funds.

Petrobras announces new bond issue. Brazil's Petrobras will issue bonds, maturing in three, five, ten and thirty years. The issue will be made in six tranches worth US\$500 million (as a minimum). According to the report made by IFR, which is an information service of Thomson Reuters, the placement is expected soon and will be administered by the Bank of America, Merrill Lynch, BB Securities, Citigroup, HSBC, Itau BBA, JPM and Morgan Stanley.

International oil baskets. At closing time on May 10th in the New York Stock Exchange, the price of the WTI was US\$96.1/bl, a 3.1% increase compared to the US\$93.2/bl reported the previous week. The Brent increased by 1.0% to reach US\$103.5/bl, compared to the previous week's US\$102.5/bl.



Local oil basket price. The Venezuelan oil basket price closed last week at US\$101.8/bl on Friday May 10th, a 2.5% increase compared to the US\$99.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.5/bl.

Business Sector Tips

The culprit is the producer. President Nicolás Maduro charged Empresas Polar for having cut production of food products and provoking shortages of some basic items, notably pre-cooked corn flour. President Maduro stated that he has indications that the company has decreased its production for the domestic market and that it has hoarded products with the intention to create shortages.

Empresas Polar will meet Maduro. Empresas Polar announced that they will attend the meeting convened by President Nicolás Maduro in a nationwide TV and radio broadcast, in order to find solutions that help guarantee Venezuela's food security. In a press note released by Empresas Polar, the company assured that they have always responded to invitations made by the government and stated that they have already met with several government officials in previous weeks.

Harina Pan cannot do it alone. Lorenzo Mendoza, Empresas Polar CEO, stated that their brand of pre-cooked corn flour cannot cover the entire country's demand, because it only accounts for 48% of the market and the company is presently producing at 100%. Mendoza assured that shortages cannot be attributed to companies that are producing, but to those that have stopped producing, including other brands that disappeared from the market.

7% drop in sales of basic foodstuff. Sales of basic food products recorded a drop of 7% in March, according to the index compiled by the Venezuelan Chamber of Food Industry (Cavidea). A comparison of sales in March 2013 to the same month in 2012 showed that the most impacted products were margarine, pasteurized milk, cooking oil, wheat flour, powdered milk, pre-cooked corn flour, pasta, sardines, rice and mayonnaise, which posted a negative variation ranging between 0.2% and 25.3%.

Controlled prices. Cavidea has repeatedly said that one of the main reasons that have caused the negative trend in the sale of basic food product is that even though



food industries are working at peak capacity, prices of some food items have been controlled for 25 months now without them being adjusted, which is a remarkable distortion considering the increase in production costs due to inflation and the effect of recent devaluation.

More imports of powdered milk. The government centralized 90% of powdered milk imports through Casa Corp. for a year and a half and it expected to control 100%; however, things have changed, because, according to a decision of the Ministry of Education, from now on, private companies will import powdered milk, for which purpose, licenses and purchase permits will be granted.

Increase in steel products. Construction materials have been particularly hit by problems with production and foreign currency allocation. As a consequence, inflation in this sector (according to BCV official data) was 4.9%, for a cumulative inflation of 20.6% during the first four months of the year. Another factor contributing to this price increase has been high cost of steel, concrete and clay, tubing, etc.

The right wing is responsible. According to Tlhisay León, president of Corporación Venezolana del Café, the administration guarantees full supply of raw material for coffee production, because it controls 80% of coffee roasting process and its production for this crop has been higher than previously estimated. *“The Corporation exceeded the target of 1,200,000 quintals and is aiming at 1,296,000 quintals of green coffee.”* León reported that right-wing opposition has launched a media campaign trying to create false shortages of coffee thus leading citizens to buy more coffee than what they really need.

Dirty envy? Corpoelec’s former president Argenis Chávez Frías expressed his support for Nicolás Maduro even though he no longer belongs to the administration and stated that while he led the electric power company *“we set the bases for the solution of the sector structural problems.”* Chávez wished the new Minister of Electric Power, Jesse Chacón success in his new post, although he suggested that maybe the Minister rushed to say that problems in the entire electric power grid would be overcome within 100 days.

Unions aren’t convinced either. According to Alí Briceño, Fetraelec (power sector workers union) executive secretary, Juan García, union president in Anzoátegui state, and Francisco Malavé, general secretary of the union in Sucre state, the recovery of the national power grid would take between 3 and 5 years, if investment is sustained. They also warned that the plan announced by Minister Jesse Chacón isn’t viable.





It's not that easy. Union leaders of the electric power sector explained that changing power transformers alone required at least one year, because they aren't produced locally. Concerning cutting and pruning plans, they said that this maintenance work has to be done at least every 6 months and using a technique that militia members don't know. They also explained that overhead lines aren't being cleared because workers don't have the required implements to perform their work.

New rates. The Minister of Electric Power, Jesse Chacón, explained that a new staggered rate scheme for electric power consumption will be applied. The scheme will be based on the type of consumer and is aimed at rationalizing consumption once the 100-day plan has been completed. Chacón pointed out that the scheme will rationalize consumption, which is different, depending on whether it is a house, an industry or a mall. Minister Chacón explained that they won't prohibit users to consume more, but they will have to pay for the excess. *"The State is not willing to subsidize consumption levels over those established,"* Chacón warned.

New plant by July. Minister Chacón inspected Don Luis Zambrano thermal generation plant located close to the city of El Vigía, Mérida state, and informed that the first unit of 170 MW will be operating starting from July 19. The project that is to be developed by China's CAMC, within the framework of the China-Venezuela Fund agreement, will include three units: two of 150 MW and one of 170 MW, for a total generation capacity of 470 MW, which will cover electric power demand in that area and in some parts of Táchira and Trujillo states.

Good results in spite of adversity. Sudeban head, Edgar Hernández Behrens, underscored the soundness of the Venezuelan banking system, which registers the lowest delinquency index in Latin America. Hernández also highlighted that profitability of the banking system is at 50%, that is, above inflation, which allow it to be considered real and positive. Hernández remembered that two years ago, banks' profitability was about 20%, whereas inflation was around 27%.

Steel is also being imported. The increasing import level of steel from China by Latin American countries isn't sending positive signs for the steel and iron sector in the region, according to experts gathered at the 14th Brazilian Congress on Steel. These experts state that imports by Venezuela of steel and iron product from China have reached 80% of their domestic demand. The increase in imports of Chinese steel, which in many cases is subsidized, leads to deindustrialization and unemployment in the sector in Latin America.





World Economy Tips

A good month. According to the US Treasury Department, the Federal Government posted in April its highest monthly fiscal surplus of the past five years. The government surplus amounted to US\$112.89 billion in the fourth month of the year, almost twice the amount registered in the same month in 2012, due to an increase of 28% in revenues of US\$ 406.70 billion, whereas spending grew 13% with US\$293.8 billion.

G-7 will introduce bank reforms. Ministers of Finance of G-7 agreed to design a bank reform that according to Britain's Minister of Finance, George Osborne, would help them to make sure that banks aren't "*too big to grow.*" Reforms are intended not only to cope with collapsed banks, but "*to protect tax payers in a coherent manner throughout the world,*" Osborne pointed out.

Europe is no longer in the eye of the hurricane. After a meeting of the group of the seven largest economies (G7), Germany's Minister of Finance, Wolfgang Schäuble, stated that the euro zone crisis is no longer the major risk for global economy and pointed out that "*a relatively high level of liquidity*" resulting from Japan's expansive monetary policy could bring about problems in the future. Schäuble assured that the monetary policy cannot solve structural problems and that keeping low interest rates for a long time increases instability risks.

EU approved EUR 7.3 billion to pay debts. Ministers of Finance of the European Union (EU) reached a political agreement to add EUR 7.3 billion to the EU budget for 2013 to meet financial obligations of the Union for this year. The minimum amount required to comply with the obligations was estimated at EUR 11.2 billion; therefore, a new agreement will have to be closed in early autumn on a second budget trench that provides for how the remaining financial obligations will be met.

Greece will meet its targets, at least this year. According to a report by the European Commission (EC), Greece will meet its fiscal targets for 2013 (balanced budget) and 2014 (surplus: 1.5% of GDP). However, Greece will need additional savings worth about EUR 8.0 billion to meet the bailout requirements, including surpluses of 1.8 and 2.2% of GDP by year 2015 and 2016, which would mean new cuts and austerity measures in the medium term.





An Germany doesn't say a word. Germany's industrial production grew 1.2% (m/m) in March, for the second month in a row (0.6% in February), which made manufacturing industry grow 0.8% (y/y) in 1Q2013. Industrial activity was bolstered mainly by the capital good manufacturing sector, which grew 6.6% (y/y) in the same quarter, whereas consumption good production shrunk by 2.9% and that of intermediate goods by 0.1%, both on a year-to-year basis.

Inflation reaches 2.4% in China. According to China's National Statistics Office, inflation registered a month-to-month variation of 0.2% in April, 2.4% on a year-to-year basis, due to the higher costs of food; whereas producer prices continued with their downward trend as a result of the excess installed capacity and low demand. Even though higher inflation pressures appear, the Central Bank of China is expected to maintain its neutral monetary policy to keep the economic impulse given global uncertainties.

China lifts obstacles for foreign investment. China's exchange regulating authority will simplify rules governing direct foreign investment in that country and annulled 24 provisions concerning registration, account opening, remittances and exchange rate conversions. The Chinese government also urged all its agencies to reduce bureaucracy and unnecessary administrative steps in order to facilitate yuan convertibility.

Light at the end of the tunnel? The index of observers of Japanese economy, published by Japan's Office of the Government Cabinet, grew from 53.2 to 53.7, for its highest value since early 2000, which is a good sign for an economy that has been hit by the crisis, overvaluation and natural disasters. The Japanese economy has shown a better performance since Prime Minister Shinzo Abe came to power, along with an expansive monetary policy that has weakened Yen and stimulated exports.

International food prices increase. FAO price index, which measures monthly changes in a basket of cereals, oily seeds, dairy products, beef and sugar, averaged 215.5 point in April, up 1.1% from 213.2 in March. A sharp rise in prices of dairy product was the main reason for the index increase, whereas beef prices grew marginally and those of the other commodities declined, FAO stated.





Political Tips

Opposition asks OAS to apply the Democratic Charter. The Organization of American States (OAS) has received a petition submitted by Venezuelan opposition to activate mechanism provided for in the Inter American Democratic Charter, on the grounds that articles 3, 4 and 6 of the Charter are being violated in Venezuela. These articles refer to the effective exercise and defense of democracy. A few days ago, the OAS Secretary General, José Miguel Insulza, expressed his concern about violent events in the National Assembly, which he described as a reflection of “*the absence of a political dialogue*” in Venezuela.

No reelection for Morales. Against all odds, justice Luisa Estella Morales' colleagues didn't support her in her attempt to remain for another two years at the head of the Supreme Tribunal of Justice (TSJ) and the judicial branch of power. Morales will be replaced by Gladys Gutiérrez, who belonged to the Constitutional Chamber, whereas justices Deyanira Nieves and Fernando Vegas Torrealba, from the Criminal and Electoral Chambers, respectively, were appointed vice-presidents of the TSJ.

“I believe they are the same”. Miranda governor, Henrique Capriles Radonski, downplayed the appointment of the new members of the TSJ board, because, in his opinion, these changes don't make any difference. “*For me, justices at the TSJ are the same; changes in the TSJ board don't make any difference.*” Capriles said that “*impartial judges who could administer justice should be appointed to the TSJ.*”

Capriles believes that the opposition will “sweep” in municipal elections. Miranda governor Henrique Capriles assured that the opposition will “sweep” government candidates in the upcoming municipal election and said that millions of Venezuelans that voted for him on April 14 won't give up the election fight. Capriles also wondered how is it possible that members of the PSUV party already know the date of the municipal election if the CNE hasn't published the election schedule yet.

No more invasions. Miguel Rodríguez Torres, People's Minister for the Interior, Justice and Peace, announced that the administration won't allow more invasions (of properties or plots of lands). Rodríguez Torres stated at a meeting with the community in Guarenas that invasions bring about anarchy and disorder. “*That's not a proper manner of doing a revolution,*” Torres pointed out and added that invaders



should be evacuated and moved to a decent place while they are waiting for a new home.

US Vice-President urges Maduro to dialogue. US Vice-President Joseph Biden urged Venezuelan President Nicolás Maduro to promote a dialogue with the opposition, because the country is deeply divided after April's election. *"Any Venezuelan government has a basic responsibility, no matter who won, to allow freedoms of expression and assembly, to promote and protect people from violence, to engage in genuine dialogue in a deeply divided country,"* Biden said.

"A very serious mistake". Nicolás Maduro stated that both the Venezuelan opposition and US government spokespersons make a mistake by not recognizing him as President of Venezuela, adding that President Barack Obama was deceived by sectors that oppose the government, to ignore the results of April 14 presidential election. *"I believe that they are making a serious mistake, another one in their foreign policy toward Latin America; I believe they convinced Obama to engage in the adventure of ignoring election in Venezuela,"* Maduro explained.

The Army against crime. President Nicolás Maduro launched the *Patria Segura* special plan in the Greater Caracas area. IN its first phase, the plan calls for deploying 3,000 troops of the National Bolivarian Armed Forces (FABN) to perform surveillance duties. Maduro admitted that the most important problem of the Venezuelan society is crime and stated that this situation is also plaguing other countries in Latin America and the Caribbean.

The issue of the lack of personal security has to be taken seriously. Miranda Governor and opposition leader Henrique Capriles, talked about actions taken by the government to fight crime and demanded the government *"to take the issue seriously."* *"I'm going to welcome any action intended to guarantee personal security for our people and if the results are positive, I'll recognize it; but these people are off to a bad start, because their actions are political,"* Capriles assured and added that Miranda accounts for just 10% of crime in the country, in response to accusations concerning high crime rates in his state.





Legislative Tips

Rangel Jr. appointed minister. José Vicente Rangel Ávalos, former Major of Sucre Municipality and son of journalist José Vicente Rangel, was appointed Vice-Minister for Domestic Policy. The appointment was included in a decree published in the Official Gazette No. 40,165 dated May 14th. Rangel Ávalos replaces Leoncio Guerra.

The AN doesn't legislate. The National Assembly (AN) hasn't met since Tuesday, April 30, when violent events among representatives took place. Meanwhile, several priority draft laws are waiting on the legislative agenda, including the Disarmament Law, the Law on purchase and sales of Motor Vehicles, the Antimonopoly Law, and the Reform of the Law on Local Councils for planning of public policies and the law on costs of funerary services.

Functions are ready. One year after the appointment of the authorities of the Superintendent's Office of Social Security, a provision published in the Official Gazette No. 40,163 established that the Superintendent will control financial resources of labor benefit regimes included in the social security system. The Superintendent will have an Inspection and Surveillance Office that will evaluate the fund collection process.

Everything remains the same. The Ministry of Health annulled the two lists with 326 active ingredients that are to be sold without prescription, which were published in the Official Gazettes Nos. 40,136 and 40,143. Freddy Ceballos, president of the Pharmaceutical Federation of Venezuela, said that with this resolution, everything returns to the original situation. Patients may buy medicines without prescription, except antibiotics, psychotropic drugs and anesthetics.

Report on A/15 violent events. The special commission of the National Assembly that is investigating the violent events occurred in Venezuela on April 15, 2013, allegedly by anti-government sectors, will complete its report the next week, representative Julio Chávez announced. These events took place in the wake of the refusal by former presidential candidate Henrique Capriles to recognize the results of the presidential election. The representative said that the commission will present its report on May 15th.

"There is evidence against Mardo". The AN Control Commission AN agreed to support and build the cases against representatives who oppose the government. The first. The first case is against Representative Richard Mardo, and the



Commission has evidence that Mardo received “*suspicious donations*,” which were certified by the Ministry of the Interior, Justice and Peace, the National Antidrug Office and the Bank Superintendent’s Office but weren’t allegedly declared to the tax authority. This could justify a trial against the Representative of Primero Justicia party.

One-month extension for the deadline to submit working hour schedules. Private and public entities were granted another month to submit the new working hour schedules, adapted to provisions in the Labor Organic Law and its partial regulations. The law establishes that employers should adapt their working hours to the new workweek that was cut from 44 to 40 hours, 8 hours/day over 5 days and 2 consecutive free days.

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ECONOMIC OVERVIEW

