



Weekly Report

Year 7, Number 19
Week IV, May 2011

By:
Jose Luis Saboin
Asdrubal Oliveros
Estefania Peña
Ecoanalítica's Team

The economy grew by 4.5% in the first quarter: Will we return to the path of expansion?

Reproduction or distribution prohibited

Last week, the Central Bank of Venezuela published the growth and balance of payments figures for the first quarter of 2011. In this report, we will explain the figures for economic growth, which came as a surprise to the majority of analysts because they showed a significant expansion of GDP (4.5%) compared to the same period in 2010.

Better than expected

The GDP performance figures came as a surprise to almost everyone. At **Ecoanalítica**, we had forecast growth, year-on-year, of 1.7%, whereas the latest Consensus poll put it at 2.6%. The results published by the Central Bank clearly show a better recovery than expected by the market.

According to the Central Bank, these results reflect *“the start of a new phase marked by: sustain expansion of economic activity, a slowing down of inflationary pressures, and a reduction in unemployment.”* In our view, these results show a recovery that does not make up the ground lost during the recession and one that, moreover, is buoyed up by the increase



in oil prices and set within the prevailing ideology on the policies of the new economic model.

As for the results by sector, the most remarkable were a recovery in added value in non-oil activity, which increased by 5.2% compared to the same period last year, and a poor performance by the construction and oil sectors, which continued their downward trend.

**Oil sector
performance
disappointing**

The results published by the Central Bank show that the country's oil sector has been 30 months without growth and that it has posted a drop of 3.9% on average for 10 quarters running (4Q2008 to 1Q2011). In other words, it is not the price of crude that has affected the results of oil GDP but mainly the number of barrels produced and refining activity. This leads us to conclude that the oil sector's poor performance could be associated with three fundamental factors:

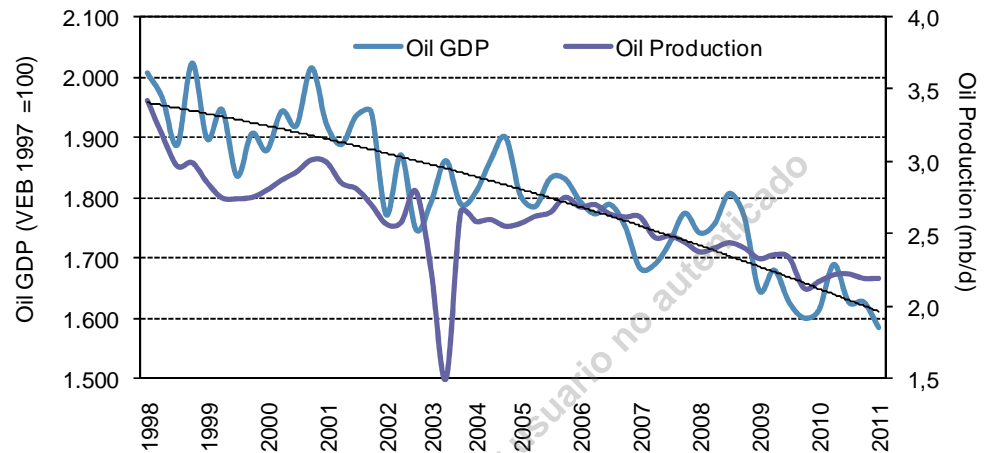
- Natural decline of wells located in the western region of the country and problems associated with payments to contractors
- Lack of investment in key areas for the industry and giving priority to investment in social development
- Problems in the refining circuit caused, mainly, by the electricity problem the country is suffering from, which has resulted in the shutting down of operations at different oil plants.

However, given the upturn in crude prices, at **Ecoanalítica**, we estimate that oil activity this year will recover by 1% or 2%, more thanks to the developments of the mixed enterprises in the Orinoco Oil Belt and outside it than to PDVSA.





Oil GDP & PDVSA'S Production



Sources: BCV, Bloomberg and Ecoanalítica

The recovery is general

The results by economic sector show that the growth has not favored all sectors equally. Some, such as the construction sector, were particularly affected by the nationalization policy, regulations, and shortages of basic inputs, since the measures implemented by the government discourage private sector investment. This resulted in a negative performance by the construction sector of 10.1% in 1Q2010 and of 7.7% for the same quarter in 2011.

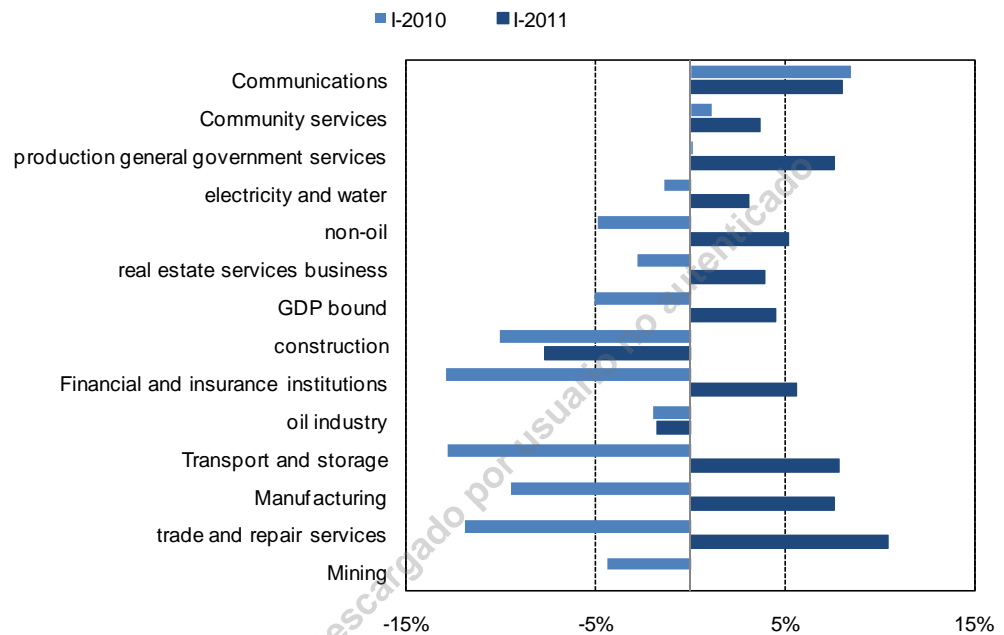
On the other hand, the two sectors that most benefited from the recovery in domestic demand were commerce and repair services and manufacturing. These sectors were hard hit during the recession but posted a significant recovery in 1Q2011 with growth of 10.4% and 7.6%, respectively.

As for communications, the star sector in our economy, it maintained the expansive trend observed 29 quarters running, posting growth of 8%. However, this was not due to the government's policies but to the constant updating of technology with a view to better catering to the demand for communications services both at home and abroad.





Growth by economic activity



Sources: BCV and Ecoanalítica

Food industry drives manufacturing sector

After two years of continuous decline, the manufacturing sector –a key sector for diversifying exports and promoting employment- posted a sizeable recovery and grew by 7.6% in the first quarter compared to the same quarter last year (-9.5%). This result was driven, mainly, by the food and beverages industry, which grew by 5.6% as a result in the sustained increase in demand for these products, but was also due to the allocation of foreign currency for the acquisition of raw materials and inputs and to the direct importing of these same items by the Venezuelan Government to stimulate production in this sector.

No headway made in endogenous development

However, if we compare the first quarter of 2011 with periods prior to 2010, it is clear that no headway has been made in the manufacturing sector. A comparison of these figures with those for the first quarter of 2009 reveals that industrial production is down 2.5% and that the drop from the same quarter in 2008 is 3.1%. The production of textiles, footwear, common metals, metal products, machinery and equipment, electrical appliances, and vehicles is less than 14 years ago. One point that needs to be highlighted is that production of machinery and equipment, the sector that requires most development, is 31% less today than in 1997, whereas the production of food and beverages, wood, paper



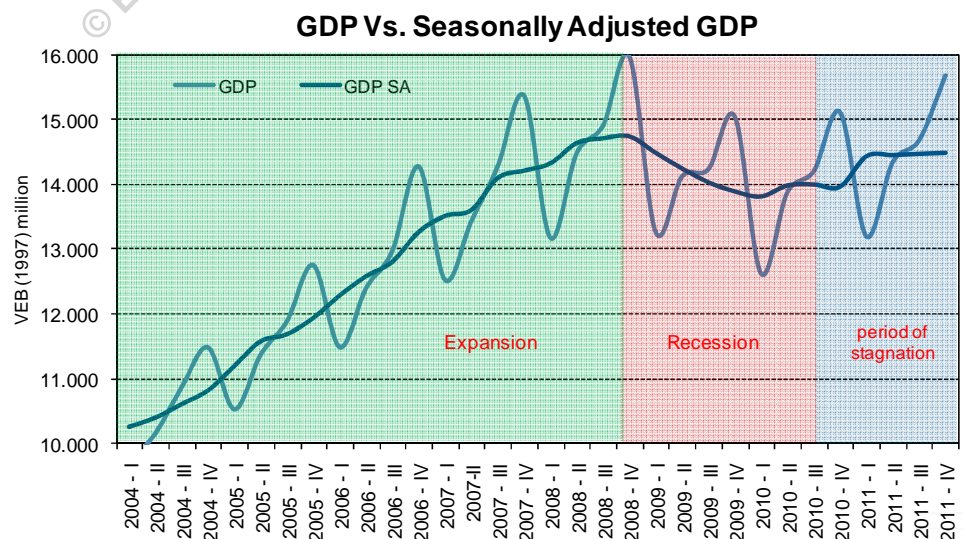
products, furniture, chemical products, rubber and plastic at the close of the first quarter was up 32% from 1997.

Paradoxical growth of the electricity sector

The Venezuelan Government has admitted that the electricity park has a high level of obsolescence and that, for a long time, electricity transmission, distribution, and sales have been suffering from technical losses owing to the state of the facilities resulting from the lack of investment and maintenance and also from non-technical losses as a result of people tapping into the electricity grid illegally. Despite this, the Central Bank's figures reflect an increase in the electricity sector of 3.1%, which stems from the acquisition of generation and transmission equipment for the system. However, at **Ecoanalítica**, we believe that this growth is insufficient, particularly when the country has a deficit that is in the order of 10,000 MW, which is equivalent to 40% of installed capacity.

Growth that implies a rebound effect

In order to evaluate the results of the first quarter, isolated from the basis effect of the same quarter last year when we were in recession, we will use the seasonally adjusted GDP series. This series shows us that, during the first quarter of this year, GDP grew at 3.4% quarter-on-quarter, whereas annualized GDP grew at a rate of 14.1% (SAAR). In other words, the increase in production in the first quarter of this year compared to the previous quarter implies that, if this rate of growth continues for four quarters running, growth for the year would be 14.1%, a far cry from any realistic outlook.



Sources: BCV and Ecoanalítica
Seasonal adjustment made by X12 method



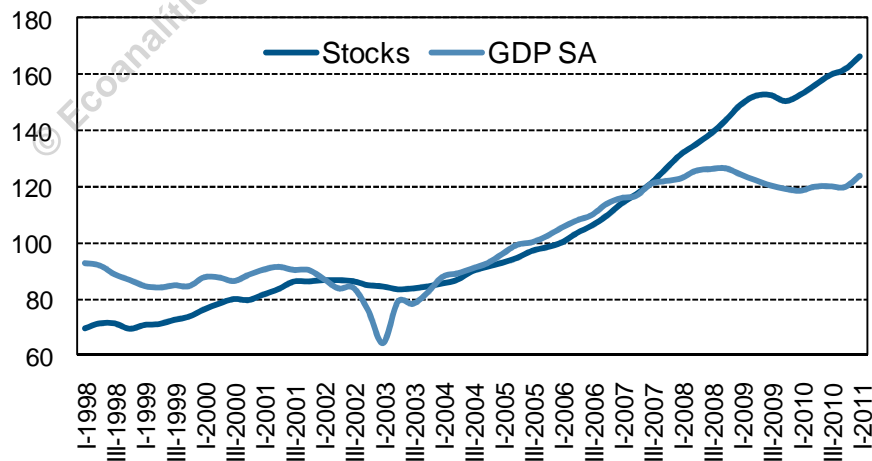
An increase in foreign currency allocations?

More foreign currency was allocated by CADIVI and by the Central Bank via SITME in the first quarter of 2011. In the case of CADIVI, the allocation of foreign currency was increased by 11.8%, from VEB 6.31 billion approved in 2010 to VEB 7.03 billion granted in 2011, in order to meet the demand for foreign currency to cover imports needed for production and consumption. Releases of foreign currency by the Central Bank, on the other hand, fell by 3.3%, from US\$6.57 billion in 1Q2010 to US\$6.35 billion in 2011. This means that the increase in the flow of foreign currency reported by the Central Bank was due more to the increase in public sector imports (57.4%) than to the growth in private sector imports (28.8%).

What is happening with inventories?

Since BCV doesn't publish the total stock volume but only their variation, that is, stock flow, we at *Ecoanalítica* developed a stock index that was shown on a graph along with a GDP index (seasonally adjusted to eliminate cyclic distortion), so as to have a better idea about the variation of stocks over the upcoming quarters.

Stocks Vs. GDP
Index (1998-2010 = 100)



Sources: BCV and Ecoanalítica

According to the chart, over the last decade, economy stocks grew more or less parallel to their production, although following a more stable pattern that exhibits drops only during the Oil Strike and in last recession. It is worth highlighting that with the recovery stocks recorded in the first quarter of the year, they reached a record high, and since our prospects as to

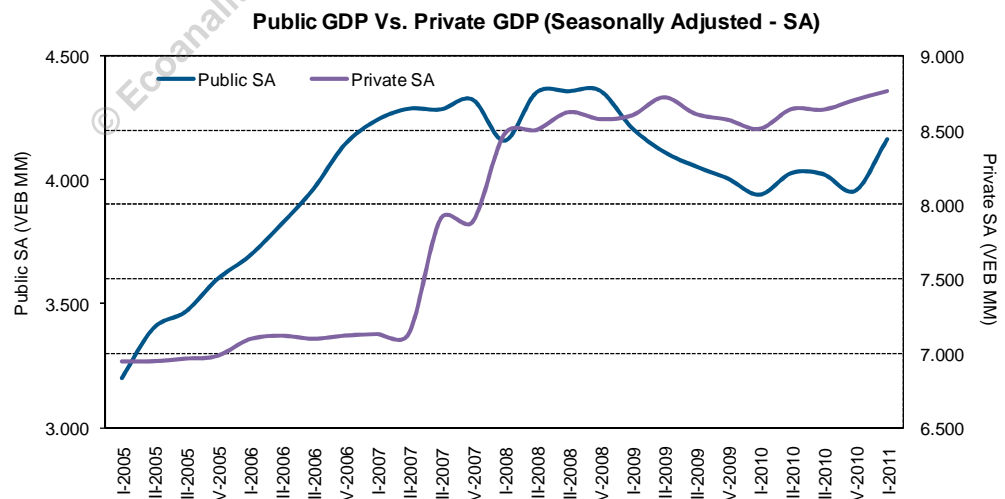


medium-term growth are not very optimistic, it is likely that stock levels will remain constant, meaning that stocks won't be pushing growth at all.

For us in **Ecoanalítica**, this drastic change in stock levels in the last decade is associated with the exchange control. That is, in a context where currencies are not enough to supply the economy, companies tend to overestimate their foreign exchange requirements in each period in order to meet demand. Additionally, for the consolidation of the new economic model, based on certain subsidies to the population, massive imports by the public sector also influence the accumulation of inventories.

When the private sector grows, everyone's doing fine

An analysis of how the economy behaved in the first quarter from the institutional viewpoint reveals growth in the public sector of 3.6% versus the drop of 1.4% posted in 1Q2010, sustained by an increase in the provision of government services and an upturn in communications and financial services. The private sector posted growth of 4.6%, a significant improvement from the drop posted in 1Q2010 (-5.6%), revealing an even better performance than the public sector. In **Ecoanalítica's** view, it is clear that, when the private sector grows, the economy as a whole grows more vigorously. It is worth recalling that the private sector accounts for 60% of total GDP.



Sources: BCV and Ecoanalítica

The political cycle again

In our Weekly Report No. 8 this year, we mentioned that the Venezuelan economy would enter a phase of stagnation that would affect the poorer segments of the population, as the new economic model was limiting



growth. We also pointed out, however, that “*the election period could generate growth,*” and that is what we will be seeing in 2012. To take this into account, at **Ecoanalítica** we have adjusted our forecasts for economic growth this year from 1.7% to 2.4% and to around 3% for 2012. These forecasts, along with all the macroeconomic variables in our economy, will be analyzed in depth in our next *Outlook Report*.

© Ecoanalítica – Descargado por usuario no autenticado





Economic Tips

Improvements in the quality of employment: according to the president of the National Statistics Institute (INE), Elías Eljuri, in April 1999, formal employment accounted for 49% of total employment, whereas in April 2011 it came to 57.7%, for an increase of 8.7 percentage points. As for informal employment, in April 1999, it accounted for 51% of the total, whereas in April 2011 it was 42.3%.

Venezuela has left the recession behind: according to Planning and Finance Minister Jorge Giordani, Venezuela has left the recession behind after posting an increase of 4.5% in GDP in the first quarter of 2011. Not only has the economy recovered from the contraction of 1.4% in 2010, but it has been possible to control inflation and reduce unemployment to 8.1% in April, a reduction of 0.5% compared to March.

Confidence in Venezuela declines. According to the Getulio Vargas Foundation (Brazil) and Germany's Ifo Institute for Economic Research, the level of confidence in the Venezuelan economy posted a drop of 2.4 points in April, which means that Venezuela continues to rank last in the region as regards economic confidence. These agencies forecast that Venezuela will grow by 1.7% in 2011, which puts it in last place in Latin America once again.

Social investment is what's generating growth. Jorge Giordani emphasized that the economic growth that occurred in the first quarter of 2011 (4.5%) was due to the constant social investment the Venezuelan Government has been making over the past 12 years. Giordani ratified that, in the next 10 years, US\$300 billion will be needed to maintain present levels of social investment, which will come from oil revenues and from different sources of financing such as the Mixed Investment Fund with China and FONDEN, through which more than US\$70 billion have been invested in different projects.

Government controls 32% of imports. The injection of public spending has succeeded in jumpstarting consumption, achieving an increase of 3.7% in the first quarter of 2011, which is being met to a large extent by government imports. As imports grow, the State is increasing its control over purchases abroad. In 1Q2007, government imports accounted for 19% of the total and in 1Q2011, they came to US\$3.05 billion or 32% of the total.



Inflation of less than 20% in 2012: the president of the Central Bank, Nelson Merentes, stated that, this year, prices will increase as established in the budget, i.e. between 23% and 25%, and that inflation in 2012 will be less than 20% as a consequence of the plans for producing basic items.

Transfer for regional governments: President Hugo Chávez announced the transfer of a budget surplus to the states amounting to VEB 3.04 billion, to be distributed proportionally. The states that will receive most resources are the Government of the Capital District (VEB 189 million), Zulia (VEB 319 million), Miranda (VEB 258 million), and Lara (VEB 167.5 million).

Most attractive states for investment in Venezuela: according to the Venezuelan Council for Investment Promotion (CONAPRI), the Capital District/Vargas offers the best conditions in terms of availability of human resources, public services coverage, and infrastructure, accompanied by a good economic performance. Next are Carabobo, Miranda, Nueva Esparta, Bolívar, and Zulia.

Per habitant GDP has grown by 4.9% in 12 years. According to the economist Miguel Ángel Santos, between 1998 and 2010, production per inhabitant in Venezuela grew by only 4.9%. Oil revenue, which no one produces but which has been flowing into the country in huge amounts owing to the huge jump in oil prices, has permitted per capita consumption to increase by 42%. Venezuela is the country in Latin America that has been able to take least advantage of the boom in raw materials prices and been the least able to create wealth and increase its production capacity.

Venezuela's country risk rating will remain stable. The international markets have already adopted a position by reducing Venezuela's risk rating, which improves the perception of the sovereign bonds of the Republic and PDVSA's bonds. Some local analysts calculate that the outlook for Venezuela's country risk (EMBI+) will remain stable and that Venezuela will maintain its payment capacity.

Tax collections up in first four months of the year: according to the Central Bank, Seniat collected VEB 44.97 billion in the first four months of 2011, a gross increase of 38.6% compared to the period January-April 2010. In real terms, even after adjusting for accumulated inflation over the past twelve months of 22.9%, there is still an increase of 8.5%.

Interest rates. The lending rate for the second week in May was at 18.53%, increased by 0.66 perceptual points compared to the previous week. Time deposits also were created by 0.86 perceptual points to reach 15.66%, while the passive has not submitted any variation since January 2010, placing well at 12.60%.



International reserves. International reserves increased 0.7% going from US\$26.73 billion during the second week in May to US\$26.93 billion during the third week. Compared to the same period last year, international reserves have dropped by 1.3%.

Monetary liquidity. Monetary liquidity in the second week in May decreased 0.04% compared to the previous week settling at VEB 309.1 billion. The M2 has creased 30.8% year-on-year.

Sitme figures. To date, US\$8.21 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\$168.3 million, US\$34.5 million less than last week when braided US\$202.7 million. So far this year the SITME has negotiated US\$ 3.12 billion.

Oil Tips

US sanctions Pdvsa. The US announced last Tuesday they would apply new sanctions against “seven foreign entities,” including the Venezuelan oil company, Pdvsa, in response to the controversial nuclear program of Iran. The sanction will keep the company from celebrating contracts with the US government and from obtaining financing to import and export. However, the measure against Pdvsa will not affect the company’s oil sales to the US or the activities of its subsidiaries.

Crude oil is not enough. The president of Colombia, Juan Manuel Santos, announced during his intervention in the VII Mining, Oil and Energy Congress, inaugurated last Wednesday May 18 in Cartagena de Indias (North), that he would authorize the release of natural gas imports as long as the domestic supply was guaranteed. He stated this measure would be applied because “we want to export more natural gas (just like we’re doing with Venezuela), and in order to do that, we need to release the exports.”

Oil projects full steam ahead. The president of Colombia restated that the Government’s objective was to sign between now and 2014 approximately 205 new contracts and to achieve the drilling of nearly 570 exploratory wells. Santos assures: “We’re going well, we’re on the right track: only so far this year we have drilled 49 of these wells.” The modernization process will also continue in the nation’s refineries to



increase their refining capacity by 85,000bl/d, with an investment of nearly US\$8 billion.

Solidarity from the Venezuelan Government in oil donations. Petrocaribe supplies 200,000 bl/d, of which half are paid within 90 days, and the rest in 15 years, a time in which the real value is lost, as the interest rate is 1.0%. There are other clients, such as Ecuador and Nicaragua, who use many credit mechanisms when they can't pay a given bill. Cuba receives 93,000 bl/d. All of the above causes the nation a loss for US\$300 million, accounted for only last week.

Oil prices trending down. The thesis that says oil prices have entered a downhill trend is becoming increasingly strong in the foreign markets. Local oil analysts, such as Rafael Quiroz Serrano, estimate the prices will suffer a setback in the second semester of 2011, considering crude oil prices have decreased by US\$10 in average between April and May.

Geopolitical factors are key. The conflicts in the north of Africa are having an impact on nations that produce between 9 and 12 million bl/d for the market, thus generating a fear for a shortage and affecting the sensitive oil market. Analyst, Rafael Quiroz says: *"The geopolitical factor makes the oil market tremble, and the first to react is the exchange component, which feeds on fears and operates freely with paper oil barrels."*

Modest victory for BP. Mitsui, a Japanese brokerage firm, will pay nearly US\$1.1 billion to British Petroleum (BP) in cleaning costs linked to the spillage in the Gulf of Mexico. The payment represents a modest victory for the British oil company, which is trying to get its partners to share the cost of the disaster, as Mitsui owned 10% of shares in the project.

Less oil extraction. The Venezuelan oil production reached over 2.9 million bl/d in 2010, according to Pdvsa's annual report. The government has recognized that the industry has been extracting fewer hydrocarbons. Ramon Espinasa, energy analyst and professor at Georgetown University, analyzed the Venezuelan oil sector and stated that it would have to double its competitive efforts in order to prepare for when the oil barrel price reaches US\$100.

Agreements between oil and construction sectors. Petrocasa and Pdvsa Industrial signed an agreement to supply PVC materials for the construction of housing units, just like the vice president of the productive economic area, Rafael Ramirez, and the president of Pequiven, Saul Ameliach, had announced during a tour of the new Petrocasa plant located in Biruaca, Apure state.



First Venezuelan-made oil platform to operate in September. With a direct investment of US\$800 million, Venezuela built its first oil and gas production platform, to start operations in September. The Minister of the People's Power for Energy and Oil and president of Petroleos de Venezuela, Rafael Ramirez, informed that this structure would allow the nation to increase production in the Gulf of Paria to 120,000 bl/d. He stated: *"this is the first platform built completely in Venezuela, and it is part of the 'Oil Seeding Plan' projects."*

Explosion in Paraguana. A furnace exploded last Monday at the Venezuelan refinery of Cardon, with a capacity of 310,000 bl/d, while they were trying to reactivate the facilities, which had been inoperative for more than one week due to electric failures. Plant workers said there had been no injuries. *"They were trying to start (the catalytic cracking unit), when the furnace exploded, it split in two pieces and the explosion was so strong they haven't found the furnace's lid,"* said a worker of Paraguana Refining Center (CRP) to Reuters.

Electric failures keep causing damages. The CRP is the largest oil refining center in Venezuela and one of the largest in the world, with a capacity of 955,000 bl/d. Halfway into this month there was a malfunction in the electric transmission line Lagoven I, the one that connects the refineries of Amuay and Cardon, in Falcon. This event caused the partial shutdown of the Amuay refinery, and the total shutdown of the Cardon refinery.

Oil exports plummeting down. The volume delivered abroad last month reached an average of 2.22 million bl/d. Venezuela's oil exports decreased by 7.0% in april, according to the Ministry of Energy. In March, Venezuela exported oil products for 2.39 million bl/d, reported Reuters.

Iran will not assist to the next OPEC meeting. The President of Iran, Mahmud Ahmadinejad, stated he would not assist to Vienna in June despite the fact he is currently in charge of his nation's ministry of oil, so was announced by a high executive of the Iranian Oil Ministry. One of his ministers will possibly assist instead, as Iran is this year the first chair of the oil cartel for the first time since the Islamic revolution of 1979.

International oil baskets. At closing time on last Friday on May 20, 2011 in the New York exchange market, the Brent reported a price of US\$111.6/bl, proving a decrease compared to the US\$113.6 reported the previous week. The WTI closed at US\$98.8/bl, reporting a 1.7% decrease compared to last week's US\$100.2/bl.





Local oil basket. The price of the Venezuelan oil basket closing last week at US\$99.2/bl on May 20 a 0.9% decreased compared to the 100.0/bl reported last week. Meanwhile, the average annual Venezuelan oil basket price is US\$96.0/bl.

Business Sector Tips

Electric sector statistics have not been released. On November 17 of 2010, the then Interconnected Systems' Operation Office (Opsis) stopped publishing its website, in which they compiled information about the national electric system. It's been six months since then and the now called National Center for Charge Dispatch has not released any more statistics for the electric industry.

Efforts seem not to be enough. The minister of Electric Energy, Ali Rodriguez Araque, stated that, despite the efforts being made in the sector, the number of megawatts currently generated is not enough for the excessive electric consumption.

New Electric Generation Commissioner to be appointed. Argenis Chave, one of President Hugo Chavez's brothers, will be appointed as National Generation Commissioner for the National Electric Corporation (Corpoelec), according to unofficial sources related to this sector.

Wasn't it a priority for the Government? Despite the reiterated announcements of President Hugo Chavez stating that the construction of housing solutions was a priority, the completion of units in the first quarter of 2011 decelerated, according to numbers handled by official entities attached to the Minister of Housing, indicating that only 13,000 housing units were finished between January and March of 2011, for a 21.0% fall compared to the same period of 2010.

...and private construction is also down. In the private sector, the production of housing units reported a 16% fall, registering 10,000 units during the first quarter of 2011, due to the persisting shortage of basic construction supplies.

...Government and private investors have 72,000 homes on hold. According to the information provided by executing entities of the ministry of Housing and private construction companies, for the period between January and March of 2011, between the Government and private construction companies, 72,000 homes in



construction were on hold, reflecting a 28% growth compared to the same period of 2010, when 56,000 homes were on hold.

Cement and rebar sales report slight improvement. The numbers provided by state companies reveal that in three months, the sales of rebars and cement went up by 4.3% and 1.7%, respectively, but there were priorities in their distribution. But despite this recovery, the supply is still insufficient.

Agricultural industry working in the reds. The president of the Association of Corn Four Industrials (Venmaiz), Nicolas Constantino, assured that the sale price of corn was straggled for over eight years, but it had recently gotten worse due to the increase in producers' cost structures, which they can not compensate with the current sale price of the end product.

Hazardous cocktail. The National Government has tried to use price control as a weapon to control inflation, however, food prices keep increasing and the supply of basic products is in jeopardy. The late review and inefficient adjustment of controlled prices have negatively affected the production, distribution and supply of high-turnaround products, and along with the international price increase of raw materials, have been detrimental for the supply.

Fogade speeds up the liquidation closed banks. The Deposit Warranty Fund (Fogade) has established a schedule to pay the clients of banks closed by the Government (Canarias, Federal and Helm bank) who had deposits for amounts over the insured VEB 30,000. People between the ages of 18 and 55 and companies will receive 50% of their funds, and the number could increase as the liquidation process moves forward.

Changes and new appointments. New clerks, such as the military and former president of Banco del Tesoro and Deputy National Treasurer, Rodolfo Clemente Torres, who will substitute Humberto Ortega Diaz as president of Banco de Venezuela and Minister of the Public Banking System, and will in turn be substituted by Claudia Patricia Diaz Guillen as the New National Treasurer and Executive Secretary of Fonden. Arelis Antonia Castillo will be the new Executive Vice president of Banco de Comercio Exterior (Bancoex).

Indepabis inspected Cargill's operation. The Institute for the Defense of People in the Access to Goods and Services (Indepabis), along with officials of the Ministry of Nutrition, recently carried out an inspection in the food-producing company Cargill, in order to verify whether there was some kind of hoarding in the distribution of basic products, especially oil.



Ministry of Finance workers claim their rights. Employees of the Ministry of Planning and Finance sent a letter to President Hugo Chavez indicating the ministry was not complying with the collective labor agreement as they had not acknowledging the payment of bonuses.

Minerven needs more money to obtain more gold. The Venezuelan General Mining Company (Minerven) asked the Government for US\$300 million *“to reinforce their operations in plants and mines in order to increase production to eight tons per year.”* So was confirmed by the president of Minerven, Luis Herrera. The loan was requested to the Central Bank of Venezuela.

Landline and mobile telephone penetration keeps increasing. The minister of Science, Technology and Intermediate Industries, Ricardo Menendez, offered his balance of the last four years and, according to his analysis, landline telephone service has grown by 74.0% over the said period, while the mobile phone service has grown by 72.0%. Internet use is now at 33%.

Small and mid-sized enterprises in Mercosur. One of Venezuela’s objectives is to develop a new economic integration model between Mercosur member countries, having complementariness as a priority over competitiveness through small and mid-sized enterprises (Pymes) in order to achieve a real productive integration with technological transference among these enterprises.

Public banking system receives more revenues from bonds than it does from loans. Most revenues received by Banco del Tesoro and Banco Industrial de Venezuela come from the bonds deposited in their portfolios and purchased to the State and not from loans granted. As of the end of April, Banco del Tesoro reported revenues for investments in public securities for VEB 215 million, and only VEB 182 million for its loans portfolio. The rate of default in these institutions is currently 8.6%, the average in the whole banking sector is 3.8%.

World Economy Tips

Chicago FED. A US national economic activity indicator reported contraction in April, said last Monday the Chicago Federal Reserve Bank, after reviewing March up. The Chicago Fed monthly index fell to 0.5 percentage points last month, after having reached 0.3% in March.



US unemployment. The current US unemployment rate of 9.0% is below the one reported in October of 2009, when it peaked at 10.1%. However, employment has had a very modest 0.9% growth during this period, showing the recovery has been slow not only for the economy but also in terms of labor.

US home sales down. The National Association of Realtors reported that the sales of existing homes reported US\$5.05 billion in April, down from the US\$5.09 billion reported in March.

Japan GDP falls hard in the first quarter. Just as expected, the economic indicators of Japan during the first quarter of 2011 clearly show the effects of the disaster suffered by that nation. Japan's GDP closed Q1 with a -3.7% fall.

Honduras a step away from OAS. Honduras might be reincorporated to the Organization of American States (OAS) this week, after the signing of the Cartagena Agreement between President Porfirio Lobo and former president Manuel Zelaya. Said insertion to the organization would occur within the framework of an extraordinary assembly.

Stock exchange markets to come together. The integration of the Colombian, Chilean and Peruvian Exchanges will begin next May 30, after completing all tests and fulfilling all the technological and operative requirements demanded by the market. This integration will create the largest stock exchange market in Latin America by its number of issuers with 560 firms, and the second one in stock capitalization with US\$614 billion.

Argentina's trade surplus. Argentina's trade surplus contracted by 38.2% y/y in April to reach US\$1.3 billion, reported the Government last Monday, for a reading that was much below market expectations. The trade balance of the fourth month of the year was affected by exports reporting US\$6.95 billion and imports reporting US\$5.65 billion.

Positive rating for Brazil. Standard & Poor's recently assured they had reviewed Brazil's credit outlook to "positive," from "stable," thus increasing the perspective that the nation's foreign debt costs could decrease.

They'll have to merge. Small and mid-sized Brazilian banks will have to merge with rivals to strengthen their capital bases and reform their fundraising structures, said the director of Banco Central Anthero Meirelles in an interview published recently.



Chilean exports on the rise. According to “Chile’s Foreign Trade Report as of Q1 2011,” prepared by the studies’ department of the General Directorate of Foreign Economic Affairs (Direcon) , Chile’s exports to the world reached US\$20.02 billion in the first quarter of 2011, with an annual rate of expansion of 22%, exceeding the levels reached in 2008, before the international economic crisis.

Keiko Fujimori leads in surveys. Conservative Keiko Fujimori extended her lead against nationalist Ollanta Humala only two weeks before the second round of the Presidential election in Peru.

APEC members celebrate meeting. The trade ministers of 21 APEC economies celebrated a meeting in Big Sky, Montana, United States, to work on achieving advances in the priorities of integration, growth and cooperation for 2011.

Political Tips

New Ambassador of Colombia in Venezuela. The Colombian Government has temporarily appointed journalist Ricardo Montenegro as Ambassador in Venezuela. Montenegro had been in charge of the embassy’s businesses before his appointment.

New minister of Culture. Francisco Sesto left the Ministry of Culture to focus only on the Housing Mission Venezuela, and was substituted by Pedro Calzadilla, who was president of the National Center of History in 2010 and was also vice minister of Cultural Economy Encouragement in the ministry he now runs.

...More appointments. President Chavez announced via Twitter he had appointed Psuv Representative Erika Farias as his new Minister for the President’s Office, substituting Francisco Ameliach.

Militants contribute with their salaries. The United Socialist Party of Venezuela (Psuv) started its self-financing plan by urging militants to contribute with the organization by donating one day of their salaries.

New Chinese loan to be used for health sector. President Chavez authorized last Sunday a loan for US\$863.9 million from the People’s Republic of China for the



Ministry of Health for medical equipment and surgical supplies, including plants to manufacture medical supplies in Venezuela and to update the public health system.

TSJ admits nullity lawsuit but does not support it. The Supreme Court of Justice's Constitutional Courtroom admitted the nullity lawsuit against the President's Law of Special Powers for being "*unconstitutional*" submitted by Representative (for Aragua) Richard Mardo. However, the Constitutional Courtroom considered there weren't enough arguments to issue a precautionary measure of suspension of the Law until a final judgment has been issued.

Humala does not support Chavez. The Peruvian left-wing presidential candidate, former military Ollanta Humala, has insisted he has nothing to do with President Chavez and his revolutionary process.

CNE improves voting cards. The major modification to the voting system authorized by the rectors of the National Electoral Council (CNE) includes significant changes to the electronic voting cards in use since 2004.

The technological change needs to be clarified. The Secretary of the Democratic Unity Table, Ramon Guillermo Avelado, emphasized that the Electoral Power was obligated to inform the nation of the implications of the technological changes authorized by the board of directors of the National Electoral Council on the voting process. However, he confirmed that the opposition would formally request a meeting with the entity to get familiarized with the modifications, and stated the information should be public.

IAPA condemns occupation of the newspaper "El Nuevo país." The Inter American Press Association (IAPA) "*strongly rejected*" the "*serious*" attempt against freedom of press that was the "*occupation and block*" of a printing workshop and newsprint warehouse of the newspaper "*El Nuevo País*."

What do surveys say about GIS XIX? According to the political situation barometer of April 2011, 52% of Venezuelans think positively of Chavez's administration, with the highest level reached among young people (52.3%) and social sectors D and E (53.8% and 58.2%), respectively. According to the same survey, the Opposition is viewed as negative by more than one third of the people (41.0%), with the worst rejection seen in lower classes.

President Chavez rejects critiques to Housing Mission. According to President Hugo Chavez's statements, "*the Great Housing Mission is driving capitalist and bourgeois opposition analyst crazy*." So, he dismissed the critiques and different groundless opinions issued by some opposition spokespersons about the mission



that has a goal of building 150,000 housing units this year, 200,000 in 2012 and 300,000 from 2013 ahead.

Alleged bribery. Paraguayan Senator Juan Carlos Galaverna, of the Colorado Party, first of the opposition, reiterated that President Hugo Chavez had offered US\$6 billion to get the Paraguayan Senate to authorize Venezuela's inclusion in the Common Market of the South (Mercosur).

Legislative Tips

Discussions over Transplant Law. The president of the National Assembly's Integral Social Development Permanent Commission, Congressman Oswaldo Vera, said in an interview with the Union Radio show Actualidad that the proposition is for everyone to be a donor or "volunteer," "except for those who expressly indicate in writing they are not willing to donate their organs." This type of legislation is applied in other countries, such as Colombia.

More organs for patients. The president of the Venezuelan Institute of Social Security (IVSS), Carlos Rotondaro, reported last Tuesday that more than 1,500 patients were currently awaiting organs for transplants in Venezuela. So he indicated during the public discussion that took place at the National Assembly regarding the reform of the Law of Organ Transplants and Anatomic Materials to Human Beings. He said the National Assembly was working on "an organ delivery and reception policy, with the authorization or manifestation of people willing to donate."

Partial reform to the Law of Corruption authorized in first discussion. With this reform, the application scope of this law is extended, as it adds responsibilities not only to official clerks and legal entities, but also to non-governmental organizations based in the community and other forms of social organization receiving funds from the State.

Law of Corruption of questionable application. The National Assembly Representative for the United Socialist Party of Venezuela (Psv), Hector Navarro, submitted the draft before the parliament for first discussion. Copei Representative, Abelardo Diaz, indicated they celebrate the project, but "unfortunately it will be of no use as long as there are 'untouchables' and no autonomous public institutions in Venezuela."

Corruption cases of then and now. Copei representative, Abelardo Diaz, mentioned a few cases such as Antonini Wilson's briefcase, Walid Makled and



Pdval's damaged food to set an example of events in which there have been no investigations. Psuv representative, Jesus Montilla, said there were significant corruption cases in the IV republic, such as the case of the Sierra Nevada, the slush fund of former president Jaime Lusinchi and the Recadi case. *"They talk about corruption as if it were a problem of the Revolution. A simplistic analysis,"* he claimed.

Corruption is corruption. Democratic Unity Table (MUD) representative, Andres Velasquez warned *"you can't justify corruption by saying it existed in the past. Corruption is corruption."* He said that according to some studies, it is not by sheer chance that Venezuela is among the first countries with perception of corruption. That is why they are discussing this new instrument.

Confidential information. In the draft of the bylaws of the National Assembly's Comptrollership Commission, regarding the duties of congressmen who integrate the same legislative instance, it is established as policy *"not disclosing information classified as secret or confidential."* The draft also stipulates that meetings can be *"public, private or secret."* It specifies *"in the case of secret meetings, they will be kept in absolute reserve until the plenary of the Commission decides otherwise."* Ever since the late Luis Tascon accused brothers Diosdado and Jose David Cabello of corruption, the Comptrollership Commission closed its doors to the media.

More money for the INE. On May 17, the Parliament authorized an additional appropriation for VEB 80 million for the payment of wages and salaries of active and passive workers of the National Institute of Statistics (INE). The sum will also be used to acquire provisions, pay utilities and condominium expenses.

Current Law used to solve past problems. The approval of the draft of the Law to Sanction Crimes, Tortures, Disappearances, and Other Human Rights Violations for Political Reasons in the Period 1958-1998, will allow the creation of a Truth and Justice Commission, in charge of offering response to events of this nature occurred during the contemporary history of Venezuela. So was stated last Saturday by Congressman Earle Herrera, after his participation in a forum on the legislative proposal that took place in the Gallery of the Legislative Palace of Anzoátegui in Barcelona.

Putting an end to resource centralization. The National Assembly is 10 years late with the constitution on the authorization of a state public finance law that can allow regions to generate their own tax revenues. Henri Falcon, Governor of Lara, has been celebrating meetings with authorities, regional legislators and congressmen to prepare and submit a draft that *"has not been of the Government's interest because its main interest is to generate dominance when it comes to administering the nation's resources and putting an end to decentralization."*



ECONOMIC OVERVIEW

