



Weekly Report

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*First quarter economic figures:
Expenditure falls short*

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The Central Bank of Venezuela (BCV) recently released its preliminary Gross Domestic Product (GDP) figures, at constant prices, corresponding to the first quarter 2012. These figures should represent, according to the BCV's own expectations, the highest increase in economic growth for the fifteen quarters, at least. This report will briefly analyze the GDP figures released by the BCV in its latest quarterly report which clearly depicts the typical economic recipe that's being applied in our country that is so well known: an increase in the dynamics of the country's production apparatus fueled by increased public spending, which is more than usual, being that it's an election year and that international oil prices, though a bit volatile, have been quite favorable.

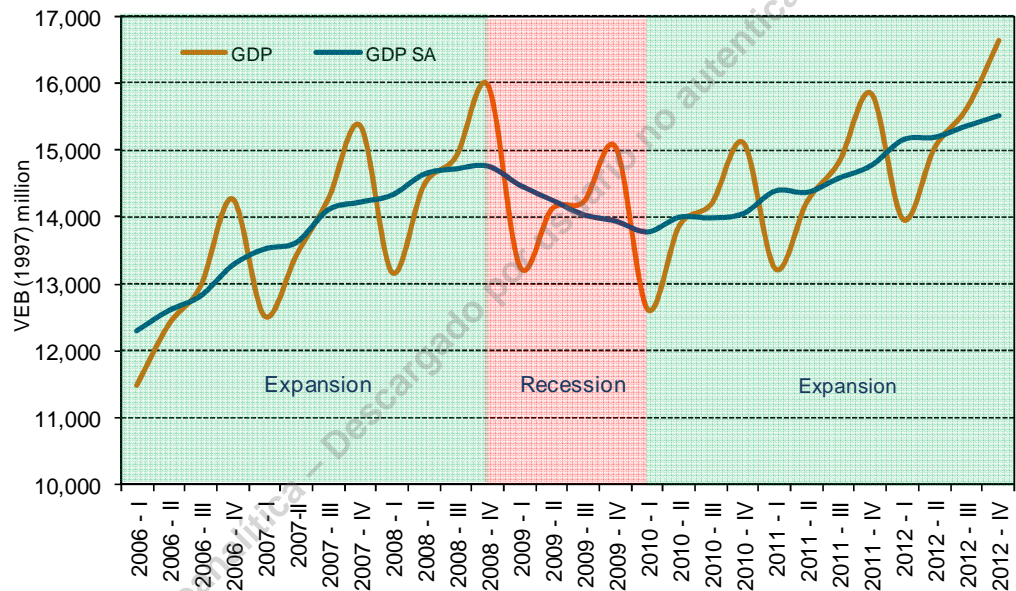
What a surprise! But the results were as expected...

According to BCV figures, the Venezuelan economy posted a 5.6% increase in economic growth during the first quarter of 2012, up just 1 percentage point from what was registered during the first quarter 2011 (4.8%), which translates to an increase in the seasonally adjusted GDP



indicator (SAR) of 2.6% compared to the fourth quarter 2011. This GDP performance, at constant prices, during the first quarter of the year was determined by the growth reflected in the oil sector as well as the non-oil sector, both posting positive growth figures during the first quarter of 2.2% and 5.6% respectively.

GDP Vs. Seasonally Adjusted GDP



Sources: BCV and Ecoanalítica
Seasonal adjustment made by X12 method

Economic growth during the period in question was fueled by, among other things, increased activity in the construction sector, which in turn was responding to the Administration's drive to build houses via the Great Venezuelan Housing Mission, as well as construction related to the oil area, the subway and railway construction project, electric power works projects, and the building of bridges, all which fueled the construction sector. Another factor was the availability of imported goods earmarked for production, consumption, and investment, as well as an increased flow of loans being approved by the financial system.

But a closer look at the figures reveals...

Now, for comparisons sake, if we take first quarter 2012 figures, showing a 5.6% growth in GDP, and compare it to the same period in 2006, the year that led up to the last presidential election, we can safely say that this 5.6% increase in GDP leaves a lot to be desired. First quarter 2006 figures

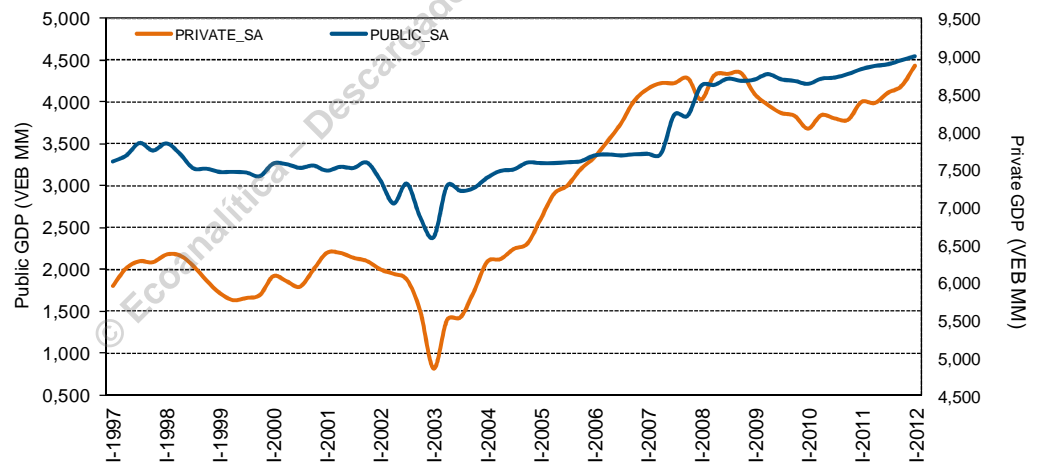


posted a 9.1% increase in GDP, significantly higher, and with the price of the Venezuelan oil basket only at US\$53.4/bl, compared to the significantly higher average price of the Venezuelan oil basket during the first quarter 2012 of US\$112.0/bl.

The private sector begins to move forward, while the public sector seems to be lagging behind...

Analyzing the GDP from the point of view of institutions shows an increase in the private sector of aggregate value of 6%, up from the 4.7% registered during the same period in 2011, fueled by the collective performance of most of the industries that represent it. Meanwhile, the public sector posted an increase of 3.4% in aggregate value during the first quarter 2012, fueled mainly by the General Government's increase in Services and the favorable evolution of activities and financial services. Nonetheless, this is still 0.6 percentage points less than the increase in aggregate value posted during the same period in 2011.

Public GDP Vs. Private GDP (Seasonally Adjusted - SA)



Sources: BCV and Ecoanalítica

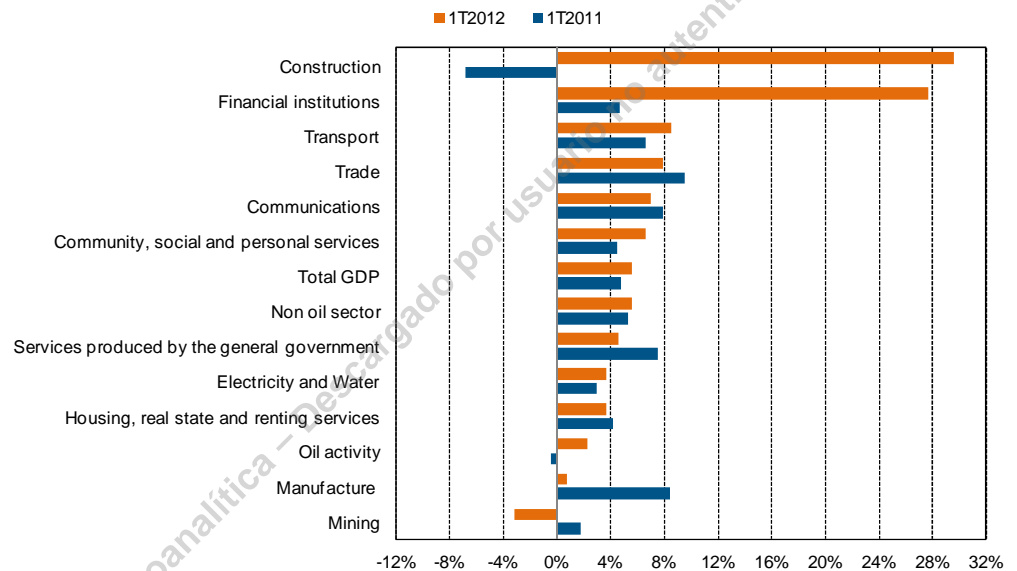
This graph of the GDP by institutional sector, adjusted for seasons, shows that despite all the obstacles and limitations facing the private sectors, it continues to implement its strategies and efforts to continue to increase performance, so much so that it has almost reached levels posted during the first quarter 2008, and better than its performance during the first quarter 2006. The public sector, on the other hand, has shown significant increases in production as of the first quarter 2008, but despite the fact that its growth rate has been positive, it hasn't reflected a consistent growth rate that with enough substance to keep pace with the overall economic growth of the economy.



The non-oil sector doesn't know whether to smile or to frown

The figures released by the BCV reflect general growth during the first quarter 2012 for almost all non-oil sector industries: Construction up 29.6%; Financial institutions and insurance up 27.7%; Transportation and storage up 8.5%; Commerce up 7.9%; Communications up 7%; Community services up 6.6%; General Government Services up 4.6%; Electricity and water up 3.7%; and Real estate services up 3.7%.

Growth by economic activity



Sources: BCV and Ecoanalítica

There is no doubt that the economy has grown during the first quarter of 2012 fueled by the increase in consumption which in turn has fueled commerce activities that has led to domestic production apparatus to begin to come alive again. But it is also true that the imbalances that are still present in a number of the economy's sector may have a negative effect on the growth rate.

Manufacturing breathes with difficulty and the food sector is drowning

Manufacturing, one of the key sectors of the economy, representing close to 14.4% of the total GDP and almost 19% of non-oil activity, grew by only 0.7% during this first quarter of 2012. Private sector manufacturing grew by close to 2%, food production which represents around 32.6% of the non-oil sector, dropped 6.9% during the first quarter 2012. This sector continues to disappoint, and even the tons of food sold, representing the main items in the basic food basket continue to drop. Up to the month of April, it had dropped by 1% compared to the same period last year,



according to the latest figures released by the Venezuelan Chamber of Foods (Cavidea). Food items from the basic food basket have dropped for the last fourteen consecutive months. And it's not only food items which have dropped, agriculture production is also down, making the country more and more dependent on imports.

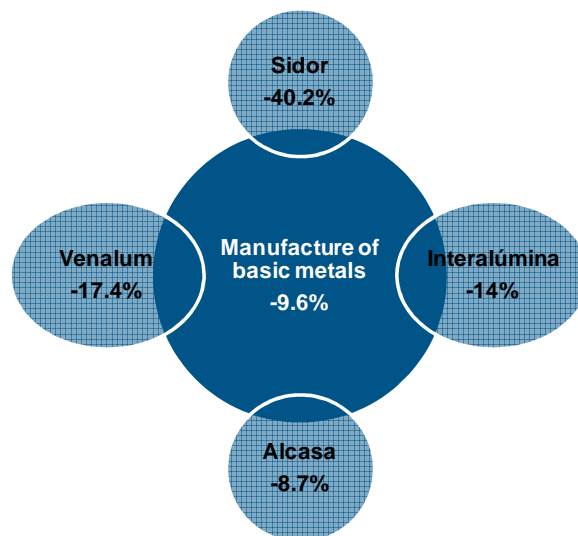
As it is, the Agriculture sector is reeling from a series of different problems, and it's clear that the situation needs to be handled integrally. Production needs to be turned around and begin to generate growth and this means that the National Agro-Food System must be taken into account, as well as all its components, such as the Agro-Food chains, and include the participation of all the key players within the system.

The government admits its mistakes...

A report presented to the President highlights that public manufacturing dropped by 9.6% during the first quarter 2012, that production in Guayana also dropped by 25% during the same period. Sidor, the country's leading steel mill's production dropped by 40.2% due to its hot laminator being out of operation, a shortage of raw material, and a lack of spare parts to repair equipment.

The Minister of Planning and Finance, Jorge Giordani, has recognized that the production of iron, steel, and aluminum, all in hands of the State, is down; a fact that has also affected mining, which is down by 3.2% during the first quarter 2012.

**Manufacture of basic metals
Gross Value Added Q1-2012**



Sources: BCV and Ecoanalítica



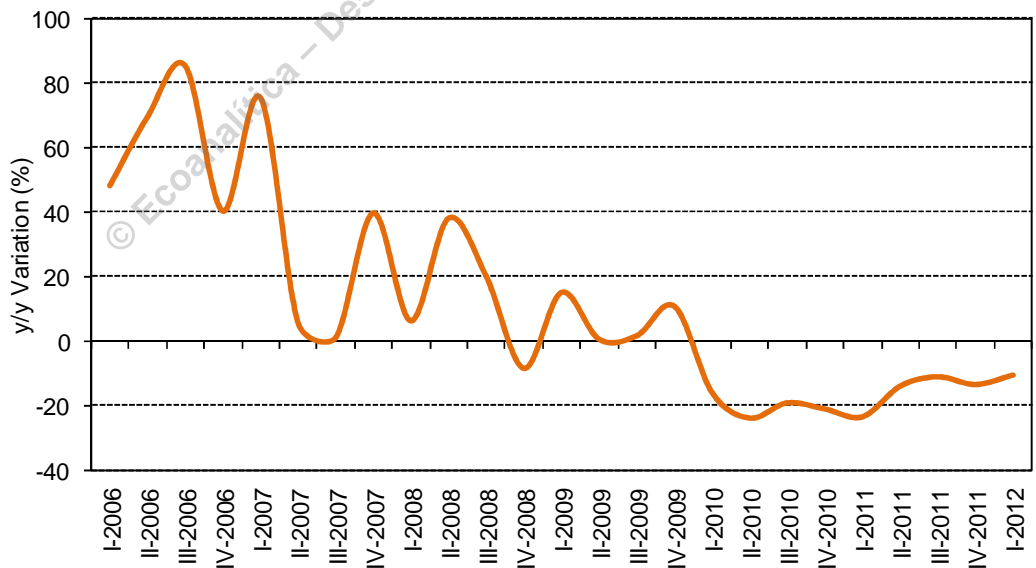


Not everything that glitters is gold; the construction sector also has its problems

Looking at construction, it is very important to notice that the performance of private sector construction was down by 10.6% at the close of the first quarter 2012 and according to BCV figures this marks 9 consecutive quarters that construction has been going down. This is due to shortages and the progressive increase of basic items (such as: cement, rebar and aggregate items, among other things), and the delays in processing permits by the Mayor's Office.

This follows what we have been writing in our Reports that the national production sector, especially the private sector, continues to be hampered by the direction of the government's economic policies that have been implemented. These have failed to create incentives for the private construction sector during the last nine quarters, and based on this fact, it's not likely that the situation will improve or that the volume of construction projects will increase for the private sector, at least, not in the short term.

Private Construction Volume Index



Sources: BCV and Ecoanalítica

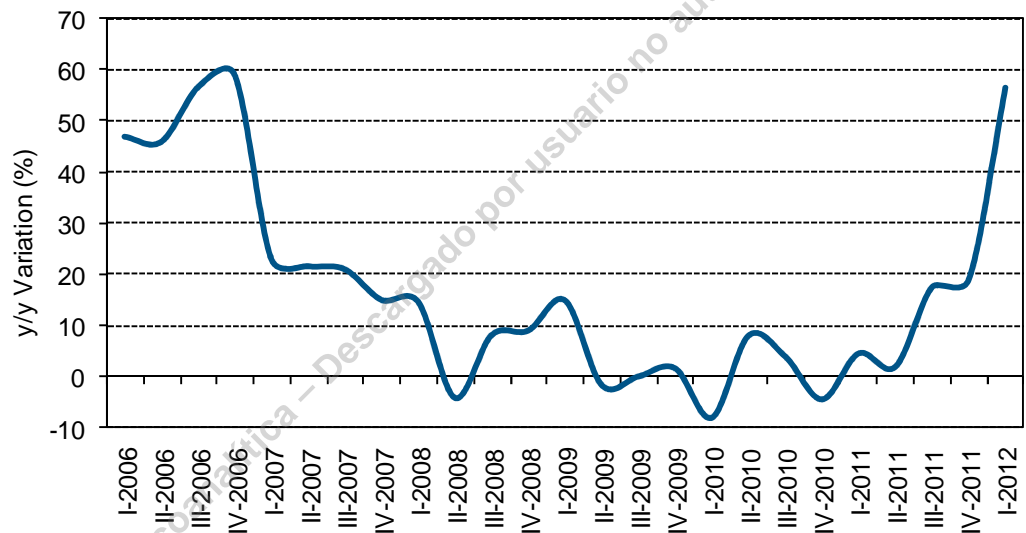




But public sector construction is another story

Public sector construction posted a significant increase at the close of the first quarter 2012, up by 56.6%. The Administration, through its Great Venezuela Housing Mission has a goal of building 226,259 housing units in 2012, with 185,373 being built by public sector construction companies (including houses built by the People's Power Ministry) and around 40,886 houses will be built by private sector with 15,886 by private sector companies intervened by the State.

Public Construction Volume Index



Sources: BCV and Ecoanalítica

Aggregate demand and supply continue to increase

Aggregate supply increased by 14.5% due to the combined effect of the GDP increase (5.6%) and the increase in the import of goods and services (38.6%). Global demand, on the other hand, increased due to a significant increase in the domestic aggregate demand (16.3%). These figures are associated to the increases in gross investment (27.3%), up significantly compared to first quarter 2011 when it only increased by (2.8%); but compared to 2006, gross investment is still down 11 percentage points; government final consumption spending was up 5.0% and private final consumption spending up 5.7%.

Imports running wild...

It's important to point out two things here, the significant increase in imports during the first quarter 2012, up by 29 percentage points compared to the period in 2011, fueled by economic activity being more dynamic, and mostly due to public sector imports which were up by more

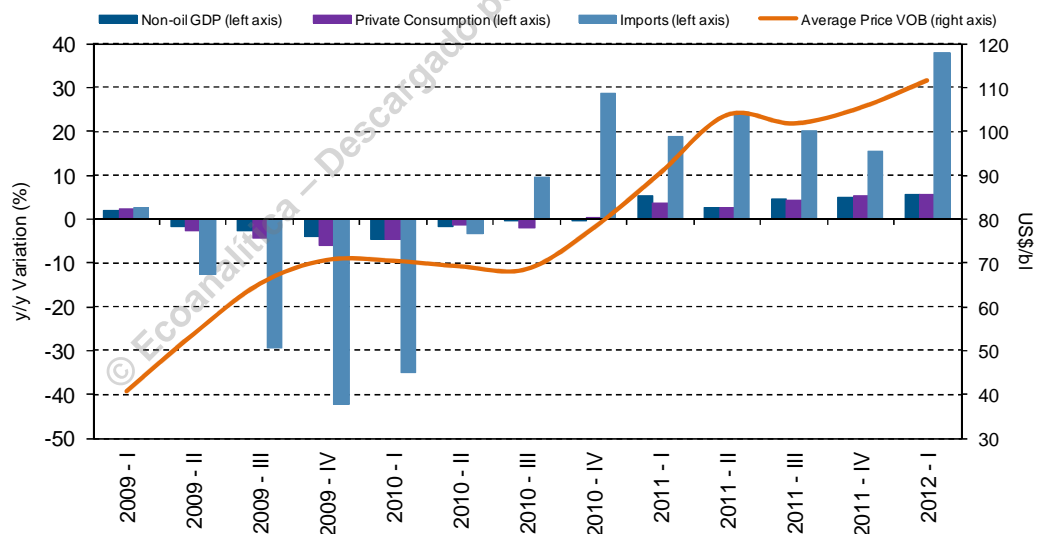


than 60%, significantly higher than private sector imports which were up by 41%.

Non-transferable sector benefited by increase in imports...

It's worth noting that the increase in imports, which in turn have increased supply have had an effect on the non-transferable sector, as can be observed by what we stated before regarding the manufacturing sector, which posted such a significant drop due to the low level of competitiveness that domestically manufactured products have. However, some non-transferable sectors such as services, transportation, and construction, which don't compete against imports, have benefitted by the increase in imports, which in this case is another way of saying that they have benefitted by the increase in public spending, which has increased its participation in the GDP from 73% in 1997 to almost 77% during the first quarter 2012.

After the "boom"



Sources: BCV and Ecoanalítica

What with investment?

Investments in machines, equipment, and building that will allow us to increase production in the future are up by 27.6% during the first quarter 2012, but still down by 1.4% compared to the level reached during the same period in 2009. In reference to this, Minister Giordani, assured that the next National Plan will focus more on infrastructure, since during the last 13 years the focus has been more on social areas.

Consumption boom, running out of fuel

Total consumption (private consumption + public consumption) is one of the most important variables when it comes to making the productive apparatus more dynamic. According to the last figures released by the



BCV, consumption increased during the first quarter 2012, up by 5.6%. This is 7.1 percentage points less than what was posted during the same period in 2006, when consumption was at 12.7%.

Comparing private and public consumption during the same period one can see the pattern repeat itself. Private consumption for the first quarter 2006 was at 14%, while during the same period in 2012 it was only at 5.7%; and public sector consumption went from 7.4% to only 5% during the first quarter of this year.

Though it's true that consumption has increased during the first quarter 2012, there are factors working in the economy that hold it back, such as: the restrictions imposed on requesting foreign currency, price controls, restrictive legislative framework, no legal security, all of which have limited the supply of products and new competitors entering the market. On the other hand, the drop in purchasing power which has been eating away at salaries improves slightly during the first quarter 2012, as reflected by the Salary Index, up by 11.2% during this period, mainly due to the increase in public sector worker salaries, up by 31.2% for the quarter.

The figures reflect what we already know, especially during an election year

Public spending is up, backed by increasing oil prices, up by 10.1% during the first quarter 2012; public sector salaries have increased significantly, and resources are flowing to the Missions, investments are up, and all of this has led to consumption (public and private) to increase 5.6% during the first quarter 2012. But comparing these figures to past years one sees that the stimulus produced by increasing public spending is not what it used to be nor is it having the desired effect.

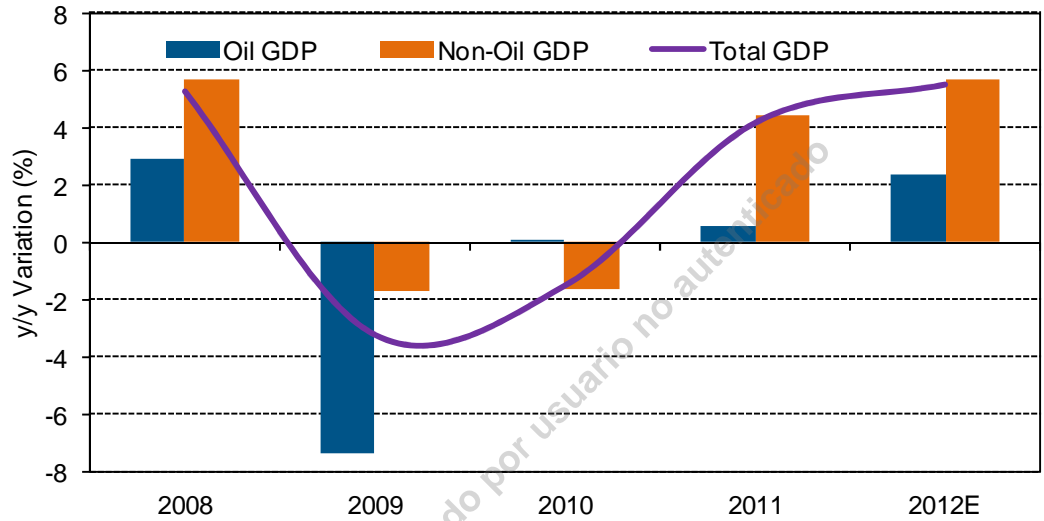
The model continues to be inefficient...

At *Ecoanalítica*, we believe that though the GDP growth posted during the first quarter 2012 is positive, it's not anything to be celebrating because it is still a product of mismanaged and misguided strategies that have been implemented during the last 6 years that rely solely on public spending to fuel the economy. This strategy has proven to be inefficient, costly and simply not enough to generate the wellbeing the people require. Only by the public and private sectors working hand in hand, effectively, can the economy reach its full potential.

Considering the previous results, at *Ecoanalítica* we expect, in accordance with our estimates, that the GDP could grow by 5.5% by the close of 2012. And for growth to improve and be sustainable, as the Administration is so fond of preaching that it is working towards, better economic policies will have to be implemented.



Evolution of GDP, Oil and Non-Oil



Sources: BCV and Ecoanalítica

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Economic Tips

Merentes, discovering warm water? After the publication of the quarterly GDP figures, the director of the BCV states that at 5.6%, Venezuela is growing more than the region, which is expected to grow at around 3%. He said that a change in the economy in a rentist country like Venezuela is difficult in a short period of time, while emphasizing the need to invest in food production and new technologies to go over consumption and thus reduce inflation to single digits.

Deposits abroad increase. Balance of payment figures published by the BCV reveal an increase of US\$ 4.13 billion in government deposits abroad, at US\$ 40.97 billion. According to the BCV, this increase is due to *“higher deposits from Fonden, to investment funds backed by the Chinese financing, to the monetary authority, and to public companies”*.

Non-oil exports dropped 8% in 1Q2012. During the first quarter of the year, non-oil exports reached the modest amount of US\$ 1.03 billion, 8% less than during the same period in 2011. This amount would cover only 7.3% of the imports made during the same period. The drop is partially due to the poor performance of the basic industries in Guayana, whose exports of steel, iron, and aluminum represent a significant portion of non-oil exports.

Imports higher in 16 years. The poor capacity of the manufacturing sector to cover the increase in demand, due to public spending, forces to supply the market with foreign products. Thus, for each point of growth of GDP, imports increased 8.6 points, covering more than 32% of the global supply of the economy, compared to 18% in 1997.

Public imports increase 64%. Public imports represented an average 16.3% with respect to total imports between 1997 and 2009; this figure doubled during 1Q2012, reaching 35%. This increase is due to the State's response to the increase in demand due to greater public spending, which cannot be met by a higher production of the domestic private sector. Among the items imported by the State are food and products for agro-industrial activity.

Central government spending rose 35.4%. The Central Bank released the figures for fiscal management of the Central Government for January 2012, where shows that total expenditure in real terms during the first month of the year was 35.4% higher than reported in the same period last year. Moreover, this percentage is higher



than the figure for the same period last year, when total government spending increased 27.6% in real terms on a yearly basis.

Revenues, meanwhile, declined 26.5% in real terms on a yearly basis, well below than recorded in the previous period when it increased by 2.5%; within these, oil revenues fell 84.3% and non-oil 2.0%, both in real terms over the same period last year.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	January 2012	January 2011	Nominal Variation	Real Variation
Total Revenue	12,623	13,360	42.3%	-25.0%
Non-Oil Revenue	11,843	9,408	44.4%	-0.1%
Oil Revenue	780	3,952	37.4%	-84.3%
Central Bank Earnings	-	-		
Total Expenditure	29,798	17,133	73.9%	38.0%
Fiscal Balance	(17,176)	-3,773	355.2%	261.2%
Non-Oil Balance	(17,956)	(7,726)	132.4%	84.4%
Debt Amortization	829	260	219.3%	153.3%
Financing Requirements	18,005	4,033	346.4%	254.2%
Foreign Debt	4	963	-99.6%	-99.7%
Domestic Debt	5,856	-	-	-
Tresury Bonds	5,856	-	-	-
Tresury Debt	-	-	-	-
Others	12,145	3,070	295.6%	213.9%

Sources: Ministerio de Planificación y Finanzas, BCV and Ecoanalítica

Sitme does what it can. According to data from BCV and Cadivi, during 1Q 2012 private imports were US\$ 9.49 billion, 39% more than in 1Q2011. Despite the boom in imports, foreign currency liquidations for imports by Cadivi, the Aladi agreement, and Sucre fell to US\$ 4.80 billion; while Sitme, trying to fill the gap left by Cadivi, increased the foreign currency flow for imports to around US\$ 1.92 billion, 33.8% more than in 1Q2011.

The return of “You-Know-Who”? Adding the liquidation of official foreign exchange for private imports by these two mechanisms, there is an uncovered amount of imports of US\$ 2.75 billion, which among other things, like delays by Cadivi and Sitme in prior quarters, could have also been supplied by extra-official mechanisms.



Liquid reserves at their lowest in 16 years. During 1Q2012, Pdvsa received US\$ 24.67 billion from exports, of which only US\$ 10.19 entered the BCV, that is, 41%. This, together with BCV's transfers to Fonden to finance public spending and foreign debt payments, has made the Nation's cash reserves in dollars fall to US\$3.10 billion, the lowest amount in 16 years. This lower availability of funds in foreign currency has in turn delayed the assignment of dollars by Cadivi.

Bringing the gold cost us. The Administration's decision to "repatriate" the Nation's gold reserves is having its consequences: now it is taking the BCV more time and money to sell them, to increase liquid reserves, because now they are stored far from the markets and institutions where they are usually negotiated.

Tax income increased 30.5% in four months. According to data published by Seniat, from January to April, the treasury received VEB 58.60 billion, representing 39% of the goal for 2012, and 30.5% more than what was collected during the same period in 2011.

GDP increase favors collection. The 5.6% increase in economic activity during 1Q 2012 made income tax contributions (ISLR) increase VEB 18.400 from January to April, representing 29.5% more than the VEB 18.40 billion collected during the same period in 2011. VAT increased from VEB 23.60 billion to VEB 31.20 billion (32% more) and Customs income, due to the increase in imports, reached VEB 5.40 billion, 34% more with respect to the same period in 2011.

Concepts (VEB Million)	Apr-11	Apr-12	Var (%)	Real Var	Jan-Apr 2011	Jan-Apr 2012	Nominal Var	Real Var
Total Income	12,534	15,842	26.4%	2.1%	44,971	58,685	30.5%	4.5%
Income Tax	4,647	5,507	18.5%	-4.3%	44,971	18,404	-59.1%	-67.2%
VAT (Internal)	5,002	6,318	26.3%	2.0%	18,589	24,719	33.0%	6.5%
Customs revenue*	885	1,321	49.2%	20.5%	4,077	5,415	32.8%	6.3%
Other Internal Revenue	733	979	33.5%	7.9%	2,340	4,114	75.8%	40.8%
Spirits	190	231	21.5%	-1.9%	298	311	4.6%	-16.3%
Cigarettes	515	721	40.1%	13.2%	1,904	2,959	55.4%	24.4%
Inheritance	14	19	33.1%	7.5%	65	100	52.6%	22.1%
Random games or bets	13	7	-48.0%	-58.0%	68	27	-60.6%	-68.4%
Others	75	124	65.5%	33.6%	281	449	59.9%	28.0%

Sources: Seniat and Ecoanalítica.

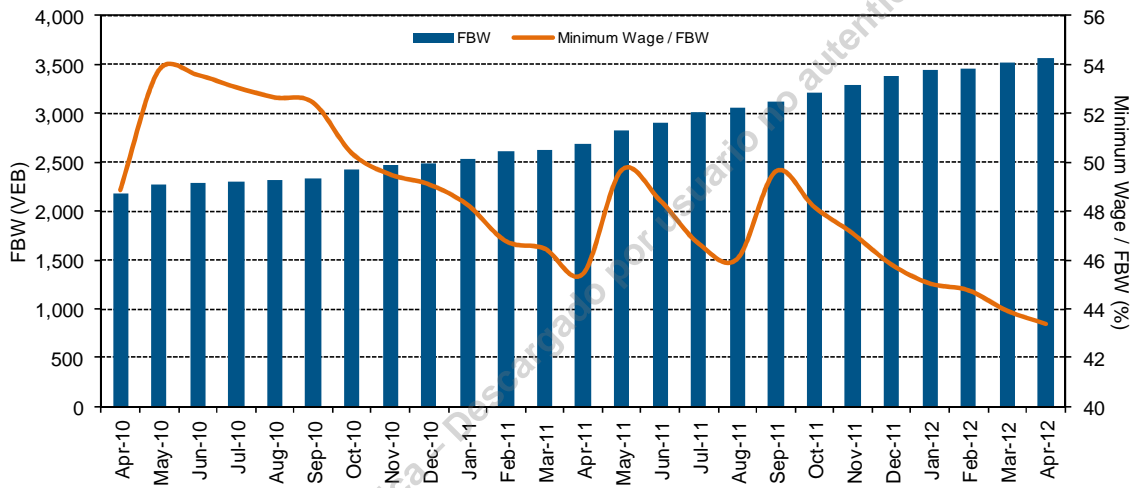
* Includes VAT on imports.

Worker's food basket reaches VEB 3,568.8. According to the report from the Worker's Center of Documentation and Analysis (Centro de Documentación y Análisis para los Trabajadores - Cenda), the food basket for April 2012 was VEB 3,568.79, an increase of 1.2% with respect to the previous month, and of 32.5% with respect to April 2011. For the year, the basket has had an accumulated variation of 5.6% (VEB 189.4).



Family income covers only 43.4% of the basket. According to the report of Cenda, the hypothetical income of a 5 member family, where two receive minimum wages (VEB 3,096.4) has a purchasing power of 43.4%, that is, a deficit of 15.25% (VEB 472.4) to purchase basic foods. Therefore, a family that requires more than two minimum wages just to cover basic food needs.

Food Basket of Workers (FBW) vs. Minimum Wage



Sources: Cenda and Ecoanalítica.

What are 500,000 young people doing? Analyzing population figures from INE, of 5.3 million young people between 15 and 24 years, 3.2 are idle. However, INE also reports that there are 2.6 million students¹. So, what are 500,000 young people doing, who are unemployed and not studying?

Interest rates. The lending rate for the second week of May was at 16.42%, increasing by 1.23 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%.

¹ Of these 2.6 million students, part is outside the 15 and 24 year old range. Therefore, this figure of 500,000 inactive young people who are not studying is underestimated.



Monetary liquidity. Monetary liquidity in the second week of May increased 0.9% compared to the previous week settling at VEB 476,746 million. The M2 has increased 54.2% in relation with the same period last year.

Sitme figures. So far this year, US\$3,873.3 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$41.65 million a day, with an implicit exchange rate of 5.3 VEB/US\$. This represents an increase of US\$855.5 million (28%) over the same period of 2011, when US\$3,017.87 million were negotiated. During the third week of May the amount traded reached US\$247,9 million, US\$25.7 million more than the previous week when US\$222.3 million were traded, with an average of US\$49.6 million a day.

Oil Tips

Already at US\$21.0 billion. According to data collected from the US department of Energy (EIA) and based on estimates from the Organization of Petroleum Exporting Countries (OPEC), the Republic's oil income amounted to US\$21.0 billion during the first 4 months of 2012. The EIA estimates that the per capita oil income of the country for the year is around US\$764 and if this trend continues, it would close 2012 with an oil income of US\$63.0 billion.

OPEC isn't lagging behind. Estimates from the US Department of Energy (EIA) establishes that the income from the exports from all OPEC member states has been US\$1.15 billion during 2012, while for 2013 the income will be US\$1.11 billion. During 2011, the income of OPEC member states was US\$1.02 billion, an increase of 33% with respect to 2010. 30% of this corresponded to Saudi Arabia, with US\$311 million.

Colombia leaves Venezuela behind. During the introductory talks of the 21st Annual Energy Conference, organized by the Institute of the Americas, economist Roger Tissot said that although Venezuela is the most attractive oil producing country due to its production potential, and one of the largest heavy crude oil reserves in the world, it has had the worst economic results of the region, and lack of investment has led to a drop in production, while in Colombia the opposite is the case: its economic growth has been the highest in Latin America, its production doubled, and is almost 1,000,000 barrels per day, and its policies attract investment.

Gasoline for the border. Juan Manuel Santos, President of Colombia, informed that Venezuela will supply, starting in June, 1.2 million barrels of gasoline per month to



the Colombian department Arauca in the border. This new agreement occurred within the framework of the South American Energy Council of the “Unión de Naciones Suramericanas (Unasur) held in the Venezuelan capital, to discuss energy matters of common interest. Arauca will be the third Colombian border department to receive gasoline from Venezuela, which for some years has been supplying fuel to the Guajira and Norte de Santander regions.

Pdvsa paid the interest of the 2021 and 2013 bonds. Pdvsa informed through a communiqué the payment of interest to holders of Pdvsa bonds with maturity in 2021 and 2013, according to the conditions established in the securities issued in November, 2011. This interest corresponds to the semester that ended in May 2012. Payment was done last Thursday, May 17.

Oil imports increased 172%. According to data from the US Department of Energy, during January-February 2012, crude oil and oil product purchases amounted to a monthly average of 1.1 million barrels per day, 172% more than the average of 400 thousand barrels per day imported between January and February, 2011. These import volumes are close to those recorded after the oil strike, and may be associated to a chain of incidents in the Paraguaná Refining Complex, and the shutdown of the Amuay Refinery.

Pdvsa and Iran: Just “gibberish”. Starting in 2005, the Venezuelan government started its oil relations with Iran, through the Iranian State-owned company PetroPars, and between that year and 2009, 5 projects were signed. Presently, only one of these is producing any barrels of oil. According to professor Thomas W. O’Donnell of the Iranian oil company, there was a large investment in offices and the transfer and installation of qualified personnel, but Petróleos de Venezuela (Pdvsa) never provided the information necessary to implement the projects, so the relation has become “frustrating” and caused the main high officials of the Iranian Oil Company to return to Teheran.

International baskets. At the time of foreclosure in New York, WTI was traded on May 11 at US\$ 97.5/bl, which shows a decrease of 6.9% compared to US\$ 104.7/bl recorded the previous week. Meanwhile, Brent fell by 4.8% to reach US\$ 113.0/bl when compared to the previous week, when it reached US\$ 118.7/bl.

Local basket price. The Venezuelan oil basket price fell last week to close at US\$ 107.4/bl on Friday 11 May, resulting in a decrease of 5.8% compared to US\$ 114.0/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 112.3/bl.





Business Sector Tips

Left behind. The Economic Climate Index (Índice de Clima Económico - ICE) for Latin America, published by the Getulio Vargas Foundation, revealed a general increase of 5.2 points, its best level since the 5.8 points of July 2011. Venezuela, on the contrary, dropped from 4.5 to 3.4 points, due to high inflation, lack of trust in public policies, lack of competitiveness and qualified labor, as well as barriers to exports and public deficit.

Starting a venture is an uphill struggle. The NGO Venezuela Competitiva considers that, although the “Monitor Global de Emprendimiento” states that our country is one of entrepreneurs, very few really achieve success. It states that in our country we have “*an immense cemetery of entrepreneurship*” due to legal, juridical, and fiscal limitations, as well as to public policies that not only discourage entrepreneurship, but are hostile towards it.

Production in the food sector dropped 6.9%. According to figures presented last Thursday, May 17th by Jorge Giordani, Minister of Planning and Finances, and Nelson Merentes, President of the BCV corresponding to 1Q2011, food production fell 6.9% compared to the same period in 2010. They mention several causes in agro-industry to explain the situation, among them, price regulations, problems to obtain raw materials and packages, and the negative effect of blackouts. With this figure, the segment that corresponds to the manufacture of food, beverages and tobacco accumulates 6 consecutive quarters with drops.

Sale of basic items fell in April. According to the report “Tendencias” prepared by the Venezuelan Chamber of the Food Industry (Cámara Venezolana de la Industria de Alimentos - Cavidea), in April, the negative trend of the first month continued in the sale of basic items, as can be observed in the 1.0% interannual drop in the tons commercialized. Thus, the negative trend that started in March 2011 continues, amounting to 14 consecutive months of drops. The items with the highest falls were: Oatmeal (-13.2%), rice (12.8%), margarine (11.4%) and precooked corn meal (10.2%).

Agricultural and livestock imports increased 375% in one year. According to data published by the National Statistics Institute (Instituto Nacional de Estadísticas - INE), imports for the agricultural and livestock sector were for more than US\$10.0 billion during the first quarter of 2012. This is an increase of 375% with respect to the



same period the year before. Analyzing imports in detail, one of the items with the most significant increase was meat and other animal products, which went from US\$768.32 in 1Q2011 to US\$3,686,507 during the same period in 2012, an increase of 379%.

Manufacturing sector produces less than 15 years ago. According to BCV figures, during 1Q2012 the production of the private manufacturing sector increased 2% with respect to 1Q2011; this increase is greater than the manufacturing GDP (0.7%). However, 9 of the 16 manufacturing items (56.3% of the total) produce less than 15 years ago. Only printing and publication, paper products, rubber and plastic, food, chemicals, Wood products and furniture increased their production compared to 1997. This is reflected in the drop of manufacturing in GDP which went from representing 18% of the economy, to only 14.4%.

Industry in Guayana continues at its worst. According to a report by Damián Pratt from Ciudad Guayana, lack of productivity, and the increase in non-compliance with workers continue in the basic industries. At present, most companies are operating at less than 40-45% of their installed capacity, and the global production of iron beams for the year was 51,000 tons below normal, and for wire rods it was 68,000 tons less.

Relating to the mining contraction. The performance of the mining sector is going against the current, in an expansive and growing economic environment: the country's mining activity fell -3.2% in 1Q2012, compared to the same period in 2011. Since the power crisis of 2010, which forced the heavy industry to shut down most of the furnaces in the steel mills, and stop operations of primary aluminum cells for almost 6 months, the industry has apparently not recovered. Cecilio Pineda, labor director of the Corporación Venezolana de Guayana (CVG), attributes the present performance to an accumulated lack of investment, and said that maybe in 5 years these companies could reach their balance point.

Toyota estimates to assemble 19,600 vehicles in 2012. Toyota de Venezuela's goal is to assemble 19,600 units during 2012, 8,506 more vehicles than what was produced in 2011. Toyota estimates that the car market will close this year with 139,000 units, which would represent a 15% increase compared to last year, and they expect to maintain a participation of 14.1%. Despite their optimism and intention to maintain production capacity at 100%, Toyota acknowledged that the alarms have gone off, due to delays by Cadivi in the approval of foreign currency liquidations.

Conindustria proposes a price review every three months. Within the framework of the 4th forum on labor relations, organized by the Venezuelan Confederation of Industrials (Confederación Venezolana de Industriales - Conindustria), Ismael Pérez Vigil, Executive President, indicated that the price review and adjustment of



controlled products should be done quarterly, because in an environment of inflation like in Venezuela every three months the costs of the industries increase 6% or 7%. The Official celebrated that the National Superintendence of Costs and Prices (Superintendencia Nacional de Costos and Precios -Sundecop) opened up to a possible review of the companies' cost structure, after the Organic Law of Labor, and Workers (LOTT) entered into force.

Controls for the pharmaceutical sector are fine tuned. As informed by the Minister of Food, Carlos Osorio, to drop the price of medications between 34% and 40% in Farmapatria, the government will eliminate the parallel system (distributors and wholesalers) which increases the cost of medications. Osorio clarified that in cases where it cannot be eliminated *"a fair and balanced percentage of earning will be imposed"*.

Cantv expects to increase fixed telephone lines to 6.8 million in the country. As informed by Jorge Arreaza, minister of Science, Technology, and Innovation, the goal of the Compañía Anónima Nacional Teléfonos de Venezuela - Cantv) is to increase the number of fixed telephone lines to more than 6.8 million in the country this year. Arreaza said that 86.4% of the fixed lines in the market correspond to the State-owned telephone company. Meanwhile, private operators reduced their share, going from 988 thousand to 614 thousand lines. Presently, Cantv has 6.4 million lines in the country. Cantv also expects to increase internet speed from an average of 0.71 megabytes (MB) to more than 1 MB.

Stability of the electric power system is the goal. Through a press note, Héctor Navarro, minister of Electric Power, informed that the ministry expects to expand the electric power transmission network in the country, to cover the maximum estimated demand for this year (18,603 MW); to this end, four power substations will be built in the central part of the country (Yaracuy, Carabobo, Cojedes and Portuguesa) to incorporate 4,133 megawatts (MW) to the National Electric System (Sistema Eléctrico Nacional - SEN) in 2012 and give the system more stability, as well as release the pressure exerted on the hydraulic generation of the Caroní river (Bolívar). According to Navarro, the contracts have already been made.

"They didn't even ask for the cost". Regarding the implementation of the Law of Fair Costs and Prices, Lorenzo Mendoza, during a forum at IESA, said that the government *"didn't even ask us for the cost structure"* of some of their product lines, to calculate the "fair" sales price, which *"would have been favorable, only if to make believe"*.





World Economy Tips

US: Leading indicator stagnates. The index of leading economic indicators of the Conference Board fell 0.1% last month, after an un-reviewed increase of 0.3% in March. An increase of 0.1% was expected. Only 50% of the components increased in the last two months, compared to 80% in February. However, an improvement has been evident since September of last year, when only 25% was increasing.

Mixed signals. A more pronounced interest performance curve and a longer work week, led to the more significant positive effects on the leading general index last week. An increase in the initial unemployment insurance applications, a reduction in construction permits, and a lower expectation by consumers, had significant negative effects. The separate Leader Credit index fell for the fourth consecutive month, showing stricter conditions compared to last summer and fall.

US: industrial production increases. Industrial production increased 1.0% last month, after a 0.5% fall in March, which initially was reported with no variation. The increase doubled the expectations for a 0.5% increase. A 4.6% -1.2% interannual increase (y/y) - in the production of public services, due to the warm spring, led to last month's improvement. Manufacturing increased 0.5% (5.7% y/y) after a drop of 0.4% in March, reviewed from -0.2%.

Which sectors grew? The production of business groups continued strong compared to other sectors, with an increase of 1.5% (12.0% y/y). Consumption products increased .9% (.1% y/y), due to a 2.4% increase (21.9% y/y) in car production. The production of computers, video and audio continues, with a growth of 1.3% (5.3% y/y); appliances, furniture, and carpets 1.3% (3.7% y/y). In the area of non-durable goods, the production of clothing remained unchanged (-2.1% y/y) and the production of chemicals fell 0.1% (-1.9% y/y).

Europe: trade flow falls, and surplus increases. Trade flows in the European Union (EU) fell throughout almost all categories during March, when exports fell 0.9% and imports 1.1%. However, the trade balance had a surplus for the fifth consecutive month, and for the sixth time in the last seven months, reaching €4.27 billion.

What are the trends by country? Germany has the highest import and export figures for the last three months. France shows a weakness or reduction in exports vs. strong imports in the last three months. The United Kingdom, EU member with an



independent currency, has negative growth rates for exports and imports for more than three months, with imports slightly weaker.

The outlook is still confusing. In sum, the trade perspectives of the EU lead to large surpluses, while flows are reducing interannually. Short term trends are livelier, but this isn't reflected in the trends of manufacturing imports and exports, because the former are slowing down and/or falling, while the latter are only slowing down. For *Ecoanalítica*, trade in Europe is still giving mixed signals regarding a better future economic performance.

Are the Eurobonds coming? The joint issue of bonds guaranteed by the Euro Zone, rather than individually by the governments, has been repeatedly discussed in the last two years, but has met the opposition of Germany, because as the largest economy of the zone, it would end up financing most of the debt. The debate has rekindled at a moment when the sovereign debt crisis has worsened this month, due to concerns about Greece leaving the Euro Zone.

Eurobonds and fiscal union, the way out for Europe? Given the controversy, Amadeu Altafaj, spokesman for the commission, said: *"Any form of common debt issue requires a closer coordination of fiscal policies, and moving towards a fiscal union is a prerequisite"*.

Argentina: Inflation 10% or 30%? The inflation expectations of Argentines for the next 12 months fell in May to 33.9% on average, from 37.1% last month. The median of inflation expectations remained at 30% for the third consecutive month, as indicated by the report of the Finance Research Center (Centro de Investigación in Finanzas - CIF) of the Torcuato Di Tella University. However, according to the National Institute of Statistics and Census (Instituto Nacional de Estadística and Censos -Indec), the official inflation rate for the last twelve months up to December was 9.5%.

Political Tips

Election time, time for new missions. During the Council of Ministers, President Chavez established last May 22 the "Gran Misión a Toda Vida", which aims to solve the problem of insecurity through various "axes" or "vertices" based on *"coordination between prevention measures (anticipation) and crime control measures (intervention)"*. The new mission would be in addition to 18 security plans presented



by the government in 13 years, whose failure has resulted in hundreds of thousands of murders and 90% of unpunished crimes.

The great absentee. For 2012, the President has made 5 trips to Cuba to receive treatment amounting to 50 days; this represents 36% of the year. Also, despite several appearances in television and public media, due to his sick leave, he has avoided his presence on the streets.

The dates are already known. During a press conference, President Chávez announced the date he would register to participate in the elections is sometime between June 1st and 11th. Meanwhile, Henrique Capriles said he would do the same on June 10th.

Government actions delayed due to Chávez's absence. Chavez's medical leave started affecting the government's performance: it was known that nine ambassadors had been waiting for months to deliver their credentials. Likewise, decisions regarding prices for Agropatria and the signing of telecommunications concessions have been postponed.

Less than three weeks to decide. Carlos Vecchio's Reading of Article 229 of the Constitution reminds us that the candidates that may replace Chávez as presidential candidate may do so as long as they resign from their posts in Ministries or the Vice-presidency before the date for the postulations, June 11. This would give the PSUV little space for maneuvering to appoint Nicolás Maduro, Elías Jaua or Adán Chávez.

Poll wars. From 1 to 30 points, is the advantage multiple polls give to the president for the October presidential elections. Members of the volunteer organization "Tuy2más" promoting Henrique Capriles's candidacy urged those responsible for national poll companies to "be consistent" and put an end to the "poll wars" that confuse electors. They criticized methodological mistakes in many of the polls and the political tone used by those publishing them.

With the hands in the poll? Leaders of Primero Justicia presented documents that reveal the contractual relation between State entities and those responsible for some pollsters, which apparently negotiated with the government to go abroad and reveal the results of their polls, where Chávez is clearly ahead of Capriles. In exchange, those implicated would have public resources to pay for airplane tickets, living arrangements, and *perdiems*, among others.

Semtei: serious polls reflect a technical tie. According to Eduardo Semtei, political advisor of Comando Venezuela, polls published by Datanálisis, Consultores 21, Varianza, and Predigmática, reveal a technical tie between Chávez and Capriles. He



trusts that the opposition candidate will soon be ahead of the ruling party candidate, counting with, among other elements, the additional points added by the new support provided by the governor of Monagas, “el Gato” Briceño.

International Criminal Court (ICC) targets Aponte. Attorneys of the Venezuelan Criminal Forum received a communiqué from the ICC announcing it would consider the statements of former judge Eladio Aponte, which would add to the file on High Officials of the Venezuelan State, on alleged links with the judicial persecution of dissidents, which according to article 7 of the Statute of Roma of said court, is defined as a crime against humanity.

Social conflicts increase. According to the report of the Venezuelan Observatory of Social Conflicts, in April there were “at least 399 protests, 8% less than in March, when there were 436”. However, the fourth week of April was marked by the jail problems, which increased conflict indices.

First job plan to be launched this week. Comando Venezuela will launch this week the “First Job Plan”, to establish elements for the formation, training, and fiscal incentives that will favor hiring young people. According to figures from the National Institute of Statistics (Instituto Nacional de Estadísticas - INE), the unemployment rate of the active population between 15 and 24 years was 17.4% in March, more than twice the general average, which was 7.9%.

Foreign affairs ministry increased the number of vice ministries from 4 to 6. The Presidency of the Bolivarian Republic of Venezuela approved the appointment of five vice ministers of foreign affairs. According to the regulations, the Vice Ministry for America gave way to one for Latin America and the Caribbean, and another one for North America. Also, one for the Economy and for International Cooperation was created.

Who will be in charge of international relations? The appointments approved were for sociologist Verónica Guerrero, who will be in charge of the vice ministry for Latin America and the Caribbean, as director of the Committee to Evaluate the Inter-territorial Compensation Fund. Claudia Salerno, PhD in international environmental law, is the new vice minister for North America. She was director of International and Multilateral Organizations, and presidential envoy for environmental issues.

From one jail to another. The transfer of the 1,700 inmates of La Planta will be a relief for those living in El Paraíso, but not for the present occupants of the jails to which they were transferred. The level of overcrowding in the Yare I and El Rodeo I jails, which will take the inmates from La Planta, was already 300%, so the fear is that the problem was transferred from one jail to the other two.



Now yes, I swear! President Chávez authorized almost VEB 1.5 billion for the construction of eight new jails, to put an end to overcrowding; this was one of his electoral campaign promises 14 years ago, to take it as “a personal issue”. Thus, new jails would be added to the 23 they promised to build in 2006, of which only two were inaugurated under the mandate of minister El Aissami.

Valera inefficient? The actions of minister Valera in the conflict of La Planta had to be complemented by the president of the Assembly, Diosdado Cabello, and by president Chávez himself through telephone. The “satisfactory” resolution of the conflict was negotiated under shady terms, that no one knows and everybody questions.

With the “pranes” I do negotiate. The highest State figures acted to solve the conflict with the inmates of La Planta; however, we must wonder why the State is not so conciliatory when dialoguing with the universities, the church, or productive sectors.

Legislatives Tips

Walking backwards. Last week the reform to the Regulations of the Federal Government Council was approved, establishing the creation of “Single District Authorities”, entities that would be directly appointed by the Administration, and would displace the competencies of mayors and governors. MUD leaders accuse said Council of acting as “*one more Central Power entity*”, instead of striving for decentralization, the reason for which it was created.

The enabling law comes to an end. A month before the Head of State loses the special powers granted by the instrument authorizing him to make decrees with Rank, value and force of law, criticisms still resound, not only because of the long period of time the president was enabled, but also because of the wide spectrum of matters delegated to the National Assembly (NA).

He forgot about the rains. Although Chávez repeatedly insisted that the Enabling Law was to care for the emergency caused by the rains, when applying for it before Parliament, the text included nine areas: from caring for calamities, disasters, or natural catastrophes, to infrastructure, transportation, public services, housing and habitat, the financial and tax system, citizen safety, defense of the nation, and



international cooperation. Seventeen months later, after 33 laws approved, only six have to do with the issue for which it was requested.

On the other hand, Temir Porras, an important official for decision making at the Foreign Affairs Ministry, is now head of the Vice Ministry for Europe, of which he used to be “in charge of” and in parallel, with the appointment of the Vice Ministry for Asia, the Middle East, and Oceania, headed by David Nieves Velásquez, who comes from the PCV, was ambassador in Iran, and Minister of Social Development.

“Transparencia Venezuela” and “Monitoreo Legislativo” will be investigated.

Pedro Carreño, President of the permanent commission for comptrollership of the NA, announced that it will propose the investigation of the origin of resources of the Venezuelan Non-Governmental Organizations (NGOs) “Transparencia Venezuela” and “Monitor Legislativo”. Carreño informed that the NGOs receive close to US\$4 million worldwide, and collect large amounts of money, between US\$2 and US\$50 million per year, depending on their size and prestige.

Morel Rodriguez investigated. Congressman Erick Mago, president of the Comptrollership Commission of the NA, explained that there is a claim before this entity about irregularities in acquiring public interest land by the governor’s office of Nueva Esparta. *“Allegedly, there is an overpricing in these purchases, and the square meters mentioned in the contracts don’t correspond to the reality. Therefore, the purpose of our visit is to request the legal documents from the governor’s office, to verify the administrative procedures used in acquiring the land”*, said Mago.

A lot of money and few works. The technical team of the Comptrollership Commission of the NA detected a series of “omissions and inconsistencies” in the Rendering of Accounts of 2011 of the Vice Presidency. In their evaluation, experts found errors: *“they don’t specify the total amount assigned or the total amount executed, the execution percentage of the physical and financial goals don’t agree with the figures presented, and the progress made in the financial execution is greater than the progress made in the physical execution of the goals”*.

Socialist inefficiency? Jaua used up 7.5% of the amount assigned to *“establish interrelations between organizations and entities to build a new national productive map to unleash socialism”*, but only achieved 16% of the goal established.





ECONOMIC OVERVIEW

