



# Weekly Report

Year 7, Number 20  
Week I, June 2011

*Balance of Payments 1st  
Quarter: a repeat story*

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Together with the economic growth figures of the first quarter of the year, the BCV published the figures for the foreign sector. The balance of payments of the first quarter repeats the same scheme of the preceding quarters, with almost no variation: a significant current account surplus exceeded by a giant deficit in capital accounts. Why?

**Nothing new  
under the sun**

According to the Central Bank of Venezuela (BCV), in the first quarter of 2011 (1Q11), the current account of the balance of payments (BP) had a surplus of US\$7.51 billion, an increase of 21.2% with respect to the surplus obtained in the first quarter of the previous year (1Q10). This better performance in current accounts is due to an expansion of 25.1% in exports, both oil (25.7%) and non oil (14.6%). In the latter case, this is an extremely positive point, given the very poor performance of the non-oil exports sector in the last few years.





BALANCE OF PAYMENTS (US\$ billion)	I - 2010	I-2011	Var (%)
<b>Current Account</b>	6.201	7.518	21%
<b>Goods</b>	9.038	11.140	23%
<b>Oil Exports</b>	15.654	19.679	26%
<b>Non-Oil Exports</b>	857	982	15%
<b>Import of goods f.o.b.</b>	-7.473	-9.521	27%
<b>Services</b>	-1.973	-2.426	23%
<b>Others</b>	-864	-1.196	38%
<b>Capital Account</b>	-13.466	-10.504	-22%
<b>Public Sector</b>	-5.678	-7.401	30%
<b>Private Sector</b>	-7.788	-1.794	-77%
<b>Reserves Variation</b>	-7.265	-2.986	-59%

Sources: BCV and Ecoanalitica

### The private sector sets the pace

Regarding the import of goods and services, during 1Q11 the BP grew 25.1% compared to the same quarter last year. If we classify them, we see that public imports of goods and services grew 21.3% while those in the private sector increased 27.3% during the same period.

On the other hand, reviewing the payment of foreign currency from the BCV to the private sector (exchange operators and Aladi) there is a drop of 8.3%. The differences in growth rates between payments and imports is related to several factors, particularly delays (Cadivi's debts are on average more than 90 days), the incorporation of Sitme, and the use of other alternative (non-official) import mechanisms.

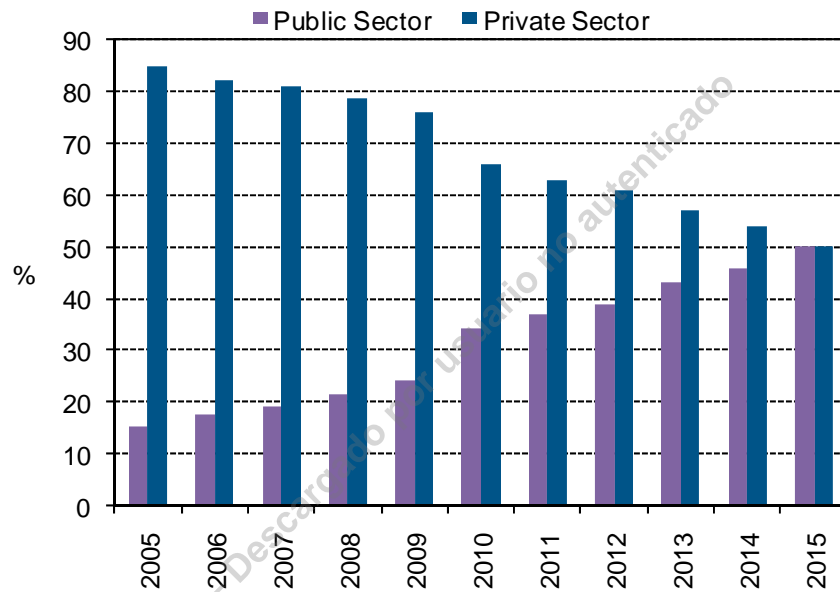
In the case of the private sector, there is a difference between the import of goods and services and the payment of foreign currency, of around US\$255 million. This figure cannot be attributed to a proxy for the financing of imports through other mechanism (Sitme, for example), given the delay that exists in the payment of foreign currency to the private sector. In order to estimate the weight of the different mechanisms to finance the import of goods and services, we must have annual and not quarterly data, which is affected by seasonality, and the effects of delay.

At **Ecoanalítica**, we maintain the thesis that the State is moving towards a greater participation in imports. In the first quarter, the public sector imported 36.0% of the total goods and services. For all of 2011, we expect public imports to represent 37.0% of the total, since in 2010 they already



represented 34.2% of the global amount. If this trend continues, our forecast for 2015 is that public imports will represent 50.0% of total imports in Venezuela.

### Imports trend



Sources: BCV and Ecoanalítica

#### A structural problem

Although the BCV does not provide all the information necessary to separate the BP by sector (public and private), at **Ecoanalítica** we performed an approximation that could be representative. When we analyze the BP of the public sector, there is a strong surplus of US\$15.68 billion, with a deficit in public capital account of US\$8.79 billion. That is, the public sector could accumulate foreign currency, which could translate into an increase in international reserves, if this were the case.





<b>BALANCE OF PAYMENTS PUBLIC</b>			
<b>SECTOR</b>	<b>2010-IS</b>	<b>2011-IS</b>	<b>Var (%)</b>
<b>(US\$ billion)</b>			
<b>Current Account</b>	12.479	15.678	26%
<b>Goods</b>	13.674	17.082	25%
<b>Oil Exports</b>	15.654	19.679	26%
<b>Import of goods f.o.b.</b>	(2.398)	(3.045)	27%
<b>Services</b>	(1.062)	(1.257)	18%
<b>Others</b>	(119)	(147)	24%
<b>Capital Account</b>	(7.999)	(7.401)	-7%
<b>Public Sector</b>	(7.999)	(7.401)	-7%
<b>Reserves Variation</b>	4.494	8.277	84%

Sources: BCV and Ecoanalítica

On the contrary, when we analyze the balance of payments of the private sector, in the current account there is a deficit of US\$7.95 billion, and another deficit of US\$1.72 billion in capital accounts. We must note that compared to the first quarter of 2010, private capital accounts show a reduction of 67.0% in its deficit, which in our opinion is associated to the collateral effects of the elimination of the parallel market.

On average, between 2003 and 2010, this sector had a current account deficit of US\$29.75 million, equivalent to 14.8 GDP points, with an additional deficit in capital accounts of US\$14.53 million.





<b>BALANCE OF PAYMENTS</b>			
<b>PRIVATE SECTOR</b>	<b>2010-IS</b>	<b>2011-IS</b>	<b>Var (%)</b>
<b>(US\$ billion)</b>			
<b>Current Account</b>	(6.094)	(7.948)	30%
<b>Goods</b>	(4.578)	(5.942)	30%
<b>Non-Oil Exports</b>	439	534	22%
<b>Import of goods f.o.b.</b>	(5.017)	(6.476)	29%
<b>Services</b>	(911)	(1.169)	28%
<b>Others</b>	(605)	(837)	38%
<b>Capital Account</b>	(5.177)	(1.719)	-67%
<b>Private Sector</b>	(5.177)	(1.719)	-67%
<b>Investment of Portfolio</b>	160	30	-81%
<b>Direct Investment</b>	(101)	75	-
<b>Private Capital Flows</b>	(6.115)	(3.426)	-44%
<b>Reserves Variation</b>	(11.271)	(9.667)	-14%

Sources: BCV and Ecoanalitica

Is this new? Given the oil factor, the public sector is highly competitive abroad, and the private sector is poorly or non-competitive with its trade peers. Also, for different political and economic reasons, the national private sector tends to save abroad, for reasons of safety, and take out around 7.3 GDP points per year on average.

### Can capital flight be estimated?

Another relevant data from the foreign sector provided by the BCV has to do with the flight of private capitals. Using the most common approach (merging the private sector's *other investment account* and *errors and omissions*) we see that for the first quarter, private capital flight was US\$3.43 billion. Using the same methodology, we could say that in the first quarter of 2010, the Venezuelan private sector took out around US\$6.12 billion in capital. Compared to last year, this is a reduction of 44.0%.

This methodology, however, has a significant problem, associated to the great distortion in the *errors and omissions* account of the balance of payments. It could be thought that this account is generated almost totally by the private sector, but in the Venezuelan case, this is not so. Thus, in order to have the proper magnitude of this indicator, the BCV would have to inform about this account separately by sectors.



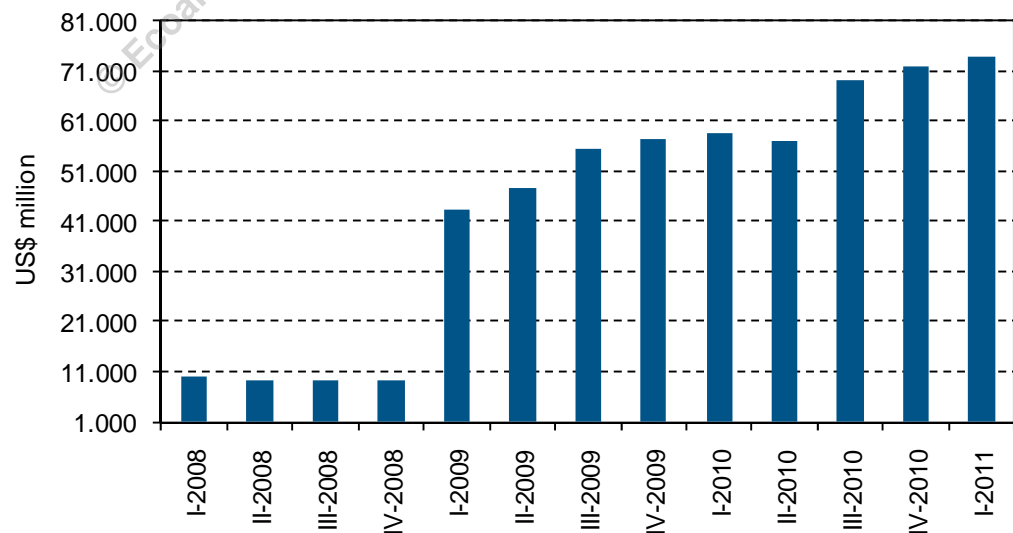
So far, the BCV has published the public and private BP only annually. The last data available is for 2009. Let us estimate the capital flight (private and public) for that year. When we do the calculation for the private sector, it has a positive value of US\$7.42 billion. That is, we could talk about an entry of capitals. It is even more surprising when, according to data from BCV, the *errors and omissions* of the private sector are around US\$27.05 billion, almost equivalent to our total international reserves. In the past, **Ecoanalítica** has asked the BCV to clarify this, but we have not obtained an answer.

In the public sector, the surprise doesn't disappear. The *errors and omissions* indicator for 2009 is around US\$31.83 billion, with a negative sign (exit). Thus, the public sector had an exit of capital equivalent to US\$30.23 billion in 2009. We maintain the hypothesis that this distortion is associated to debt operations with public bonds and transfers to Fonden, but insist that the BCV should publish a note on their methodology.

### How is our foreign debt doing?

According to the BCV, at the end of the first quarter, the public sector's liabilities in foreign currency were around US\$73.60 billion, an increase of US\$15.2 billion with respect to the same period the year before. In the first quarter, the net increase in public sector debt in foreign currency was US\$1.75 billion.

**Public Sector Liabilities**



Fuentes: BCV and Ecoanalítica

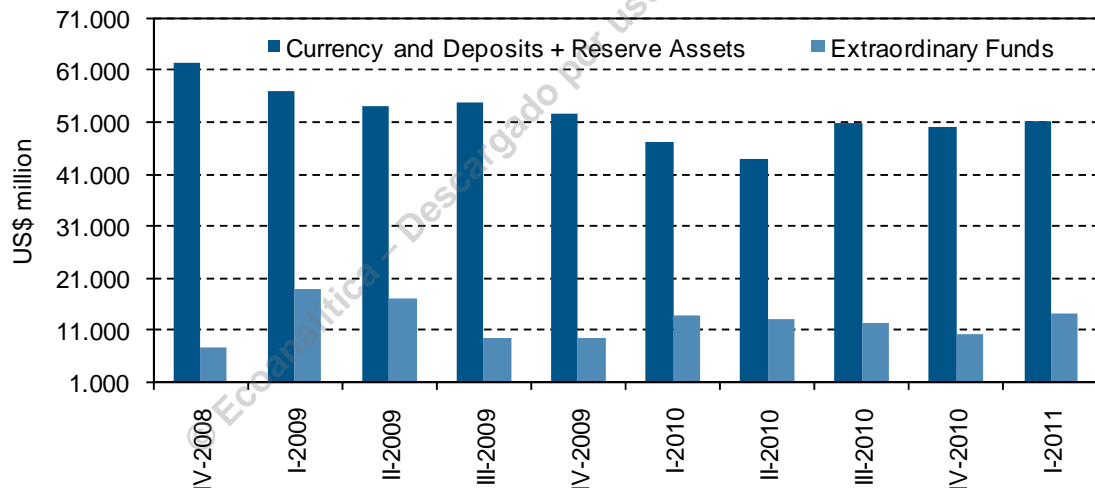




## A Government with funds

The BCV reports at the end of the 1Q11 that the net position of the public sector (assets – liabilities) is US\$120.2 billion. Among the assets, they highlight commercial credits with US\$20.68 billion, and the liquid equivalent (currency and deposits) is US\$24.10 billion, which are not included in the international reserves. It is important to note that according to our monthly estimates of extraordinary funds of the public sector, at the end of 1Q11 the amount in currency was the equivalent of US\$14.20 billion, with a difference of US\$9.96 billion. An important part of this difference may be explained by the funds assigned to different projects (particularly those associated to Fonden and the Chinese Fund) which have not been paid yet.

### Evolution of Foreign Currency Vs. Extraordinary Funds



Fuentes: BCV and Ecoanalítica

## A change is needed in the exchange policy

Economic agents know that the only way for the present foreign exchange regime to be sustainable, is for oil prices to keeps an upward trend in the long term, which means that it is not enough for the present levels to remain, but that they must increase every year.

In Venezuela, taking out capital is only a mechanism of financial survival before economic policies that sooner rather than later end up being unsustainable. Thus, a challenge ahead is to design economic policies that on the one hand generate trust in Venezuelans, so they keep their savings in the country, and on the other, attracts considerable amounts of foreign capitals. This would put an end to more than 60 years of mistrust and self-fulfilling prophecies.



## Economic Tips

**Chavez requests AN to approve the new law of additional debt.** The last Tuesday the first national mandatory, Hugo Chavez request to the national assembly with urgent character the approval of the law of additional debt for VEB 45.000 millions to attend the expenses of the new missions (the great housing mission, work mission and others) with that, the total debt. Authorized for this 2011 amounts a VEB 97.202 millions, which shows an increase of 112.8% respect with the approval in the law of debt in the 2010 for VEB 45.678 millions

**CPI in May.** According to the latest report published jointly by the BCV and the National Institute of Statistics, the monthly variation of the CPI for the month of May was 2.5% higher than in the April (1.4%), but slightly lower than that recorded in May 2010 (2.6%). Thus, the cumulative change in the first five months of the year this indicator reached 10.3% while its year-on-year rate in May reached 22.8%.

**More and more money approved.** The Finance Commission of the National Assembly (AN) authorized additional credits for VEB 3.1 billion for the different regions and for the Ministry of Defense. The governor's and major's offices were authorized VEB 3.03 billion, to pay for minimum wages and for the emergency situation due to the rains. Also, congressmen approved VEB 98.6 million for the Ministry of Defense, for programs that the Navy will implement in the framework of the bicentennial.

**At full speed.** In five months of 2011, the National Assembly approved VEB 14 billion in additional credits, taking the national budget to VEB 218.4 billion, when what was originally approved was VEB 204.2 billion. The additional credits approved by the AN, exceed those approved during the same period in 2010 by VEB 1 billion.

**Investment is still below the levels of 2009.** After two years of recession, the economy is starting to grow. However, issues like the weakness of investments, limit the possibility of a sustained recovery. The investment in equipment and machinery fell for seven consecutive quarters, touched bottom, and increased 4.9% in the first quarter of 2011. In contrast with previous years, we can see that investments remain 31% below the level reached in 1Q2009 and 13% less than in 1Q2008 when it was also insufficient.





**BCV as financial agent of the National Government.** During the week of May 20th, the BCV placed VEB 557 million in Treasury Bills, a reduction of VEB 31.4 million with respect to what was placed previously. It also placed National Public Debt Bonds (DPN) for VEB 1.20 billion, VEB 400.2 million less than the placement made last week.

**Surplus bank reserves...** According to figures from the BCV, on the week of May 20, surplus bank reserves remained on average at VEB 28.04 billion, an increase of VEB 1.69 billion with respect to the average previously recorded.

**More issues expected.** According to JP Morgan, for the remainder of the year, Pdvsa and the Republic will issue bonds for US\$5 billion, to cover financing needs, even with the increase in oil prices. On average, the bonds of the Republic and of Pdvsa dropped 1.5%, but in the case of Pdvsa's bonds, which mature in 2022 the decline was more marked, and there was a reduction of three percent points, so the bond ended at 76.7% of its value.

**Fonden assigned US\$14 billion to Pdvsa in five years.** According to the report of the Ministry of Planning and Finance to the Comptrollership Commission of the National Assembly, regarding the administration of Fonden, the assignments made between 2005 and 2010 to the oil industry and to the Ministry of Energy and Oil were US\$14 billion. Between 2005 and 2011, the contributions of the industry to Fonden amounted to US\$29.7 billion, including weekly deposits and the resources from sudden earnings taxes.

**Less scarcity everywhere but in Pdval.** According to a report by Datanálisis, the general food scarcity index was 17.9%, for the week of May 27th, 3.4 percent points less than the week before, when it was 21.3%. The products with the highest scarcity index are oil and powdered milk, with 47.9% and 42.3% respectively. Six of the seven channels analyzed reduced their scarcity levels. The government distribution network Pdval is the only one that increased its scarcity levels, going from 42.5% to 55.7%.

**Job creation...** According to Elías Eljuri, President of INE, unemployment dropped by 6.5 percent points with the Bolivarian Government, due to the creation of around 3,250,000 jobs. According to Eljuri, the efficient performance of the labor market during the first quarter of 2011 is linked to the favorable behavior of the domestic aggregate demand.

**Inflation will decrease in the middle of the year.** According to Nelson Merentes, president of the BCV, inflation will drop in the middle of the year. Merentes based his estimates on the inflation results of the first quarter of this year (22.9%).



**Interest rates.** The lending rate for the fourth week in May was at 18.03%, decreased by 0.5 perceptual points compared to the previous week. Time deposits also were created by 0.2 perceptual points to reach 14.76%, while the passive has not submitted any variation since January 2010, placing well at 12.61%.

**International reserves.** International reserves increased 6.4% going from US\$26.93 billion during the third week in May to US\$28.65 billion during the fourth week. Compared to the same period last year, international reserves have dropped by 4.3%.

**Monetary liquidity.** Monetary liquidity in the third week in May created 1.10% compared to the previous week settling at VEB 312.5 billion. The M2 has created 32.0% year-on-year.

**Sitme figures.** So far this year, US\$3.33 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\$211.2 million, US\$32.8 million more than last week when braided US\$178.4 million. In May, US\$37.9 million were negotiated daily, which represents an increase of 8.2% respect to April.

## Oil Tips

**Cuban support.** Cuba branded US's sanction to Pdvsa for making business with Iran as "*oppression to the Venezuelan people*" outside international law. "*The Cuban Government and all of our people sympathize with President Hugo Chavez and the Venezuelan people,*" said the Cuban Minister of Foreign Relations, Bruno Rodriguez, in a statement published in the official newspaper Juventud Rebelde.

**Venezuela's #1 client.** The US is still the first client for Venezuelan oil. 60% of the total hydrocarbon exports of 2009 went to the US, 1.2 million barrels per day, similarly to 2010. It was different in 2008, when exports to US reached 1.3 million barrels per day, according to Pdvsa's latest operational report.

**Oil barrels travel to Asia.** Since 2005, Pdvsa established the diversification to the Asian market as commercial strategy. Asia received 217,000 barrels of crude oil and oil byproducts per day from Venezuela in 2009. In 2010 Venezuela sold 130,000



barrels per day only to China, and the intention is for that number to reach 800,000 barrels per day over the next few years.

**Oil symbiosis.** The increasing imports of US oil byproducts seem to rule out any possibilities of a rupture in Venezuela's oil businesses with that nation. American experts believe the conflict is not convenient for neither of the two parties. They mention, among other reasons to avoid confrontation, the fact that 60% of the oil shipped by Pdvsa to the US is bought by private companies who have adapted their refining facilities to Venezuelan crude oil. Moreover, Pdvsa needs not only technological, industrial safety supplies and oil byproducts, but also needs the significant revenues coming from the US market.

**National Government does not give in.** The National Government's main spokespersons insist in defending Venezuela's economic relations with Iran, even after the sanctions applied to Pdvsa. For now, both countries are expectant and President Hugo Chavez's final decisions on how to face this situation are yet to be announced. According to the Minister of Energy and oil, Rafael Ramirez, Pdvsa cannot be sanctioned by a foreign country because it is a State company.

**Oil strategists.** The Chavez Administration wants to reduce its presence in the US market as it foresees conflicts in the future. Likewise, Washington wishes to depend less on Venezuelan oil, which currently represents 10% of their imports.

**20,000 barrels of gasoline wasted on heavy traffic every day.** Venezuela is suffering the consequences of having the world's cheapest fuel. A bottle of water is more expensive than filling a car's tank, with fuel that then gets wasted on traffic in Caracas or any other large city. According to Nelson Hernandez, fuel and energy expert, 20,000 barrels of gasoline are consumed everyday in Venezuela only in traffic jams, *"which also form because in the 12 years of the current Administration, they have not built any new avenues."*

**Fuel prices.** The current price of gasoline is close to 0.10 VEB per liter. Only for Pdvsa to recover the cost without revenues, the price should be 0.4 VEB per liter. The Government's delay in adjusting fuel and energy prices in Venezuela generates a great loss of revenues for Pdvsa and, therefore, the State.

**New markets.** The Venezuelan strategy of catering to less traditional markets is becoming increasingly strong year after year with the sale of crude oil to countries such as China, India, Malaysia, Belarus and Ivory Coast, besides the Petrocaribe countries which also receive lubricants and fuel.





**Pdvsa is the only Venezuelan multinational company.** The magazine America Economía recently prepared an inventory of the world's main multinational companies and organized it according to a globalization index. Out of 66 companies analyzed, 27 are Brazilian, 15 are Mexican, 11 are Chilean, 4 Argentinean and only one is Venezuelan: Pdvsa. It is not strange for nations such as Brazil, Mexico and Chile, with increasing degrees of international opening, to house a large number of multinational companies. It is also not strange for Venezuela, moving towards provincialism, to appear in the inventory with only one company.

**Cuban Oil Company to operate in the Gulf of Mexico.** Cuba expects to produce four million tons of oil plus oil gas this year, and hopes to start drilling exploratory wells in the Gulf of Mexico "soon," according to spokespersons for the Cuban oil company.

**International oil baskets.** At closing time on May 27 in the New York Stock Exchange, the price of the WTI was US\$99.8/bl, which represents an increase of 1.3% compared to the US\$98.5 reported the previous week. The Brent increased by 1.2% to reach US\$113.0/bl, compared to the previous week's US\$111.7/bl.

**Local oil basket price.** The Venezuelan oil basket price increased last week, closing at US\$100.7/bl on Friday May 27, a 1.6% increase compared to the US\$99.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$96.4/bl.

## *Business Sector Tips*

**Trade with Iran grew by 131%.** The commercial exchange between Venezuela and the Persian nation reached US\$4.13 million between January and March of 2011, a 131% increase compared to the US\$1.79 million reported in the same period of 2010, according to the National Institute of Statistics.

**Coffee, oil and rice imports through the roof.** The food sovereignty preached by the Chavez Administration is still dependent on imports. The purchase of basic products such as coffee, oil, rice and chicken to other countries increased exponentially during the first quarter of 2011.





**Venezuela paid US\$22.2 million to Nicaragua for Coffee.** Nicaragua's coffee exports increased by 59.0% during the first seven months of the 2010-2011 harvest, compared to the same period of the previous season.

**Food industry affected by blackouts.** The current situation of the food industry is unfavorable. Processing plants need to cope with high international prices, domestic controls and low productivity. The random power blackouts have also affected the food industry productivity, negatively impacting production with an 8.0% loss.

**BOD in line with the Administration's policies.** As of the end of March, Banco Occidental de Descuento reported a y/y growth by 46% in mortgage loans, and a 64% increase in agricultural loans. The biggest growth was reported in microloans with 192.7%.

**Insurance sector with problems to obtain foreign currency.** The insurance sector still faces difficulties to obtain access to official foreign currency. Authorizations take too long, thus affecting companies' payments to reinsurers. These delays also affect the attention to claims such as those of people affected by the rains.

**And they get penalized...** Indepabis penalized ten insurance companies for multiple irregularities. Among the companies are: Mercantil, Seguros Ávila, Sanitas, Transeguros, Seguros Caracas, Seguros Banvalor, Mapfre, Suma, Multinacional de Seguros and Seguros Constitución.

**Government exonerates Housing Mission from VAT.** The reason for the exoneration for the Great Housing Mission is to support the construction of thousands of housing units throughout the nation, after the emergency caused by the rains, according to the National Superintendent of Domestic Taxes, Fanny Marquez.

**Great Housing Mission units to include landline telephone service.** The national telephone company (Cantv) will offer landline telephone service and internet connection to all housing complexes to be developed under the Great Housing Mission Venezuela.

**Assets held by Fogade already transferred.** President Hugo Chavez authorized the transfer of the ownership of seven buildings in the Capital District, Carabobo, Aragua and Monagas, a total of 758 apartments, to regularize the ownership of the families that inhabit said properties. These buildings were held by the Social Bank Deposits Protection Fund (Fogade) and will now be part of the Housing Mission. 106 hectares of land were also transferred to the Great Housing Mission.





**Cement companies in trouble.** Although in the first quarter of 2011 cement companies increased their sales by 1.7%, production keeps presenting obstacles. The companies that were nationalized in 2008 are having cash flow problems due to price regulations, machinery problems and shortage of raw materials (limestone).

**Briquette plants producing below capacity.** Some of these plants are starting to wake up from the contraction reported in 2010, while others remain waiting for resources, supplies and parts get back on track at the same rate as previous years, in a moment when the international price becomes attractive for exporting.

**A significant deficit.** The headquarters of Corporación Venezolana de Guayana (CVG) is going through *“one of the most critical moments in its history,”* said Cecilio Pineda, main labor director of the holding. Since the electric crisis of 2009-2010, when a severe rationing program affected the production of the basic industries, *“the Corporation’s internal finances have been contracting so much that over one hundred projects are in jeopardy, including projects in the states Bolívar, Delta Amacuro, Amazonas y parte de Monagas, Guárico and Apure,”* said Pineda.

**Petrochemical sector in trouble.** Although the petrochemical sector reported sales growth in 2010, the numbers indicate the chemical and petrochemical industry is going through rough times and has an uncertain future. So was stated by the president of the Venezuelan Association of the Chemical and Petrochemical Industries (Asquim), Juan Pablo Olalquiaga, who assures *“domestic market production has weakened and exports have decreased.”*

**Milk production decrease is tangible.** The disparity between the regulated price of pasteurized milk and the cost of raw materials has forced the processing industry to lower the product’s reception by 15% to 20% in 2011.

... **Other factors that influenced the decrease were:** the impact of the devaluation in the cost of packages and other supplies for the production and import of UHT milk (long-lasting), reducing the market for national production.

**Fondo Bicentenario granted 81 loans for social projects.** As part of the celebration of the first year of Fondo Bicentenario, the National Government granted 81 loans to finance social projects. On that note, the Vice president of productive economy, Ricardo Menendez, mentioned that 27 of the projects were related to the food sector.

**Banking system to issue bonds to exchange operators.** By resolution published in *Official Gazette No. 39,683* of May 27, the Superintendence of Banking Institutions



modified the bonding regime for border exchange operators and, according to the new provision, banks and insurance companies will now bond said entities.

**TSJ rules out the release of bankers.** The Supreme Court of Justice (TSJ) buried the hopes for freedom of Ricardo Fernandez Barrueco, Mario Dickson Gutierrez and all other former executives of the banks shutdown by the Government between 2009 and 2010, after the National Assembly withdrew the crime unlawful appropriation of funds for which they were being processed.

**New registry for bank auditors to be created.** The Superintendence of Banking Institutions (Sudeban) is working on the normative to regulate the audits of financial institutions, in which the creation of a registry of auditing firms will be contemplated.

**Econoinvest executives demand justice.** The executives of Econoinvest, in prison for the last year, wrote a document demanding justice. Summarizing the reasons why they are still in prison, they explain that, after they proved all the operations of the brokerage house were supported, the judge decided to declare the transactions with TICC were illegal.

**Two brokerage houses revoked as operators.** The National Superintendence of Securities, by Official Gazette N° 39,679 of May 24, cancelled the authorization previously granted to the firm RBS Securities Venezuela Casa de Bolsa to act as authorized securities exchange operator. AVC Valores Sociedad de Corretajes de Títulos Valores' permit was also revoked.

**Popular securities.** Covered Interest and Capital Securities (TICC) were the most popular in the alternative foreign exchange market, as they were issued in USD and could be paid in Bolívars, thus facilitating swap operations. According to the Ministry of Planning and Finance, there are US\$4.7 million in these papers, and they represent 11.4% of the public debt in foreign currency.

**Plummeting down.** Programmed sales have been plummeting down since September of 2010, partially due to some frauds –produced only in a very small part of the sector- and especially due to the lack of a law regulating good practices. Indepabis is being asked to work to correct this lack, and to understand that it is one thing to work against fraud, which happens everywhere, and another one is to negatively affect the whole sector for the actions of a small group.

**Coverage needed.** Almost 60% of the Venezuelan people do not have access to health. Out of the 28 million Venezuelans, 12 million are protected by a health insurance policy: 8 million (including public employees and their relatives) are backed



by some public insurance coverage, while 4 million are covered by private insurance companies either at work or individually.

## World Economy Tips

**Germany: consumption decelerates.** The main engine of the euro zone economy has shown weakness in consumption. Germany's GfK consumption climate index peaked in March at 6.0 and has decreased to 5.5. The economic data have been strong but there is political turmoil about the extent in which Germany is stimulating the whole euro zone. This situation is mixed with concerns about the viability of other euro zone countries and has helped undercut sentiment on the German economy itself. Consumption measures in the rest of the euro zone are holding Germany back and, while Italy shows some progress, France doesn't, and the UK is still under weak readings and a still-deteriorating trend.

**France: Households' confidence still down.** The INSEE survey shows that French households are not feeling very good about the economy. Over the past 12 months, living standards were assessed so poorly (-67) that they were in the bottom side (13 percentile) of their range. The reading for the next 12 months (April) shows an even worse perception: with living standards in the bottom 7.9% of its range.

**Europe is difficult.** This behavior in the first two euro zone economies suggests that consumers do not think the economic expansion was not vigorous enough only because of the high energy prices and the indebtedness problems. Additionally, there are other political issues of different dimensions in the euro zone, in many cases, linked to the debt problems. It seems that, in the euro zone, consumers are just not the spine of economic expansion.

**It's not just consumption.** Industrial confidence in the European Union went from -5 in April to -4 in May. Consumer confidence reduced its weakness going from -14 in April to -11. Retail sales improved to -3, up from April's -4. Construction remained stable in May. Services improved to +8 from the +7 reported in April.

**US too.** In the second look at the economy during the first quarter, the US Department of Commerce did not find a great difference with the previous month's results. The real GDP grew 1.8% (SAAR), the lowest growth since Q22010. Q12011's reading did not meet consensus expectations of 2.2% growth.



**The deterioration was general.** The weakened growth in personal consumption of 2.2% versus Q42010 was a downward revision. Compensating this was an improved, though modest, gain in business fixed investment of 3.4%. The decline in residential investment was reduced, now at -3.3%. Finally, the decline in government spending was 5.1%, the highest for any quarter since 1983. Lower defense purchases caused federal spending to fall 11.7% while budget deficits pulled state and local spending down at a 3.2% rate, the most in a year.

**And inflation doubled.** The price inflation as measured by the chained GDP price index quickened to an unrevised 1.9%, almost twice as much as last year's gain. The price index for domestic final demand increased by 3.7% (1.6% y/y) and the final sales price index jumped 1.9% (1.5% y/y).

**But the G8 gets together for other things.** The leaders of the G8 celebrated a meeting last weekend but the situation of their economies was not the main topic of discussion. G8 presidents were relatively more concerned with getting some help for the NADS (New Arab Democracies) and the treatment of the "war effort" in Libya. The difficulties in Europe were also mentioned in the leaders' statement. However, Europe, as opposed to the US, has its own mechanisms to cope with its problems. These are permanently being tested and the European reform projects are still a *work in progress*.

## Political Tips

**New appointments.** The following official appointments were published in *Official Gazette N° 39,683* of May 27: Robert Rafael Grant Castillo, Secretary General of the Nation's Defense Council for the President's Office and Heidi Acuña Rivero is the new Director of Administrative Investigations, attached to the General Directorate of Inspection and Penalization of the Vice ministry of Finance. Denisse Estrada La Riva was appointed as internal auditor for INTI.

**Primary election already has an electoral commission.** The Democratic Unity Table announced the names of the people who will integrate the electoral commission in charge of organizing and directing the primary election to be celebrated on February 12 of 2012.





**Rousseff-Chavez rescheduled.** A source from the office of the Brazilian President announced that presidents Rousseff and Chavez had agreed over the phone to meet in the Brazilian capital on June 6. This is the first bilateral presidential meeting since Dilma Rousseff took office in Brazil, and has been postponed a number of times.

**Chavez confirms flights to Brazil Ecuador and Cuba.** The president of the republic Hugo Chavez, reappeared after being during weeks left out of the political activity by a knee injury, in which he confirmed he will travel the June 6<sup>th</sup> to meet up with his homology of Brazil Dilma Rousseff and the 7<sup>th</sup> with the president of Ecuador, Rafael Correa, after this he will travel to la Habana as it was planned originally.

**Social missions come “to the rescue.”** The electoral lifeguard of President Chavez just started to work, just as it occurred in 2003. According to the latest tracking of Hinterlaces, the Housing Mission has generated positive expectations in 53% of the people (43% believe he will meet his deadline and 10% believe he will partially execute it).

**Chavez Administration owes 90% of the budget allocation to regions.** The president of Copei, Roberto Enriquez, urged the Head of State to submit the nearly VEB 30 billion held by the central power that lawfully correspond to the regions. According to Enriquez's statements: *“Chavez only announced 10% of the huge debt he has with the regions. What happens is, the Government that's farthest from the people, the one in Miraflores, prefers to hold the resources and deny the money to the governments that are closer to the people.”*

**Chavez urged to call the Federal Government Council.** Angel Rangel Sanchez, former national director of Civilian Defense and president of Foundation Red de Solidaridad Ciudadana, proposed President Chavez to undertake a national contingency plan and to strengthen the Fund for Disaster Prevention and Administration.

**Second satellite to be put in orbit.** President Hugo Chavez will sign an agreement this week with representatives of the Chinese company Cgwic to put a second satellite in orbit, so was reported by the minister of Science and Technology, Ricardo Menendez.

**Executive Law order for port taxes.** President Chavez promulgated in *extraordinary Official Gazette N° 6,025* an executive order law of Port Taxes which restructures the collection of services and fees considering ports are being handled by the central power again. While ports were in the hands of regional governments, the fees weren't centralized.



**Venezuela fifth in Twitter.** Early this week, the President of the Bolivarian Republic of Venezuela, Hugo Chavez, mentioned the use Venezuelans have given to Twitter as a communication tool, to the extent of placing the nation as fifth worldwide, with 21% of presence in this social network.

**Expropriating is not the solution.** The Governor of Miranda, Henrique Capriles Radonski, said that 1,500 companies have been expropriated in Venezuela, *“but that does not solve the problem.”* So he stated while handing out the certificates to the people who participated in Plan Crecer Barlovento. He insisted that the measures were affecting the production of practically everything. *“They dry up whatever they touch.”*

**Secret vote back in the political arena.** After five years, when everybody thought it was water under the bridge, the issue of the secret vote is back in the political arena. Political parties and media representatives attended to a detailed explanation by the Electoral Power's IT director, Carlos Quintero, who guaranteed the changes to the voting system, including the acquisition of new fingerprint scanners, would not affect the secret in citizens votes.

**A particular rule.** The Special Law of Revenue Stamps for the Capital District, in effect since February, orders companies, including banks, with headquarters in the metropolitan area of Caracas, to pay the authorities 10% of the total capital provided for capital increases. The problem is more delicate for commercial banks, obligated by law to become universal banks by December 28 of 2011, but in order to do so they need to make a significant capital increase. Some companies are opting for changing their domiciles to Los Teques, for example.

## Legislative Tips

**Law of disarmament to promote destruction of weapons.** The draft will have preventive and punitive nature, according to the paperwork unanimously approved by the mixed commission preparing the text. One of the premises is the need to eliminate weapons linked to crimes, for which the law would order an inventory of evidence rooms in the nation's police departments.





**Some urge to regulate ammunition instead of weapons.** The president of the mixed commission for disarmament, weapon and ammunition control, Congressman Freddy Bernal, informed that the PNB commission urged to, instead of regulating weapons, regulating ammunition. *“There is a technical possibility to mark with colors the rounds going to the Armed Force, police officers and civilians.”* This would allow the authorities to immediately recognize whether a crime was allegedly committed by a civilian, a military or a cop.

**Destroying weapons as solution.** The paper to be addressed in the debate of the Law of Disarmament establishes that *“the new legal instrument should order the competent authorities and entities to destroy the weapons recovered, especially those deposited in the evidence rooms of police departments, implementing the use of anticipated evidence (evidence registry), in order to be able to proceed in the short term to destroy the weapon confiscated or related to a punitive act.”*

**Tenancy Law under discussion.** The National Assembly’s Administration and Services Commission will begin the public consultation of the reform to the Property Tenancy Law next June 2, in order to prepare the report for the second discussion scheduled for July. The Vice president of the parliamentary instance, Cesar Rincones, indicated the consultation would take place nationwide and that once they received the observations, they would proceed to prepare the final document.

**Rental rates.** The Commission will work with the draft authorized in first discussion in 2007 and the proposal submitted in March by the organizations grouping tenants. The text submitted by the tenant networks proposes the Ministry of Housing to be responsible for estimating rental rates and sets a time period for the owners of rental properties to sell them.

**Appeal submitted against the National Assembly.** The Supreme Court of Justice (TSJ) admitted the appeal introduced against the National Assembly for the 10-year delay in promulgating the Law of State Public Finances, a normative that should have been approved by the Parliament a year after the effective date of the current Constitution.

**Importance of the Law of Public Finances.** Veronica Barboza, representative for the Legislative Council of Miranda, stated: *“We urge the TSJ to enforce the Constitution and to stop the National Assembly from keeping doing whatever the President says, we will keep fighting for our people’s wellbeing,”* indicating *“this law is of great importance, as it’s not only a matter of resources, it’s also a matter of competence, action and giving answers to the people.”*





**Financial autonomy for states.** The normative of the Law of State Public Finances will grant financial autonomy to states so they can be efficient administrators for the people. This is a base draft that could regulate the existing normative void, allowing states to dictate development laws with a suitable definition and treatment in the Venezuelan legal system.

**National Assembly Commission for the Metro proposed.** The topic was brought up by Unity representatives in a new session of Parliamentary Reports. Stalin Gonzalez, congressman for Un Nuevo Tiempo (UNT), commented that the opposition had proposed the creation of a mixed commission integrated by congressmen of the Finance and Administration & Services commissions as well as members of the Compañía Anónima Metro de Caracas, to study the number of problems the underground transportation system has been presenting.

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## ECONOMIC OVERVIEW

