



# Weekly Report

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Week V, May 2012

*Q1 2012 Balance of Payments figures:  
Wearing thin*

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Along with the economic activity figures, the Central Bank of Venezuela (BCV) also released the Balance of Payments figures for the first quarter 2012. Looking at these figures, and contrary to what we have said in previous Reports, Venezuela's foreign sector is not as solid as we previously reported, rather it is also beginning to show the wear and tear created by the imbalances produced by this Administration's current economic model and policies; and this despite the fact that international oil prices have remained above US\$100/bl price, which still continue to cover said imbalances.

But, one can't help but notice that despite the fact that the economy has been growing for 6 consecutive quarters, the Balance of Payments has been reflecting a negative balance for 8 quarters. What's happening?

**Everything  
seems fine**

According to the figures released by the BCV, the Balance of Payments registered a deficit in the first quarter 2012 of US\$2.54 billion, down by



32.2% compared to the deficit posted during the first quarter 2011 (US\$3.74 billion). This drop in deficit is due to the favorable performance of the Current Account which posted a surplus of US\$7.14 billion, and smaller deficits posted by the Capital and Financial Account (US\$8.61 billion) and the Errors and Omissions Account (US\$1.07 billion).

The surplus posted by the Current Account was due to the 25.4% increase posted by oil exports compared to the same period in 2011. Oil exports were at US\$24.68 billion thanks to a 19.6% increase in the average price of the Venezuelan oil basket and a 3.7% increase in the volume exported, according to BCV figures.

The Capital and Finance Account posted a smaller deficit during the first quarter 2012, down by 15.3%, mainly due to a drop in private sector account deposits due to an increased demand for foreign currency in order to finance foreign transactions. This demand for foreign currency was partially covered by the official supply. So, thanks to this smaller deficit and the significant surplus of the Current Account, the global balance of the Balance of Payments reflected a deficit of only US\$2.54 billion, determined a level of net international reserves of US\$27.08 billion.

<b>BALANCE OF PAYMENTS</b>			
<b>General Summary</b>	<b>1T2012</b>	<b>1T2011</b>	<b>Var.</b>
<b>MMUS\$</b>			
<b>Current Account</b>	7,143	7,684	-7.0%
<b>Goods</b>	12,533	11,932	5.0%
<b>Oil Exports</b>	24,675	19,676	25.4%
<b>Non-Oil Exports</b>	1,048	1,139	-8.0%
<b>Import of goods f.o.b.</b>	-13,190	-8,883	48.5%
<b>Services</b>	-3,455	-2,394	44.3%
<b>Others</b>	-1,935	-1,854	4.4%
<b>Capital Account</b>	-9,682	-11,427	-15.3%
<b>Public Sector</b>	-8,086	-6,150	31.5%
<b>Private Sector</b>	-1,596	-5,277	-69.8%
<b>Reserves Variation</b>	-2,539	-3,743	-32.2%

Sources: BCV and Ecoanalitica

### Only oil is generating revenue

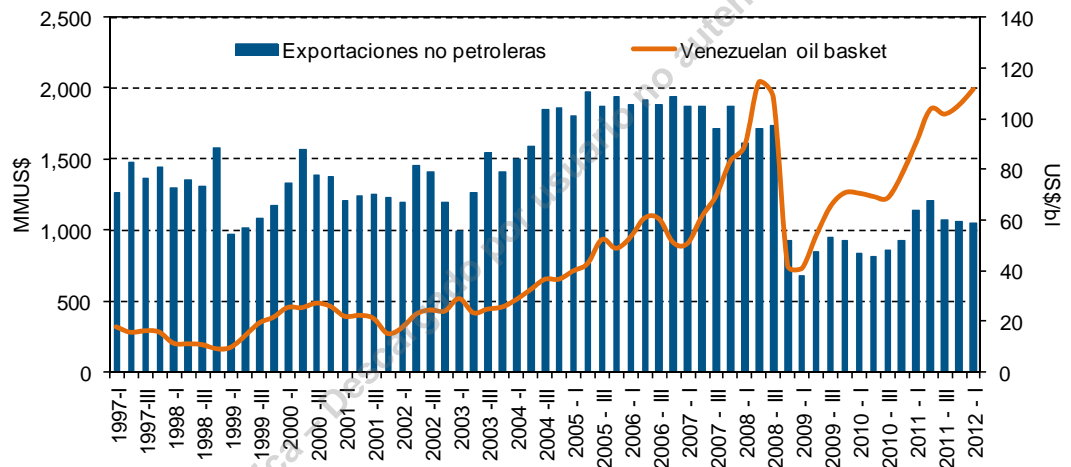
But, not everything is positive, as we said at the beginning of this Report. We can already begin to see negative signs within the Current Account, such as the 8% drop in non-oil exports compared to the same period last year and which settled at US\$1.05 billion. According to the BCV, and as we explained in our previous Weekly Report, the critical situation that basic industry is currently experiencing led to a 12.8% drop in public sector



foreign sales, especially in sales of steel and aluminum by-products. The private sector didn't fare much better, down 3.6% in its exports.

As can be seen, Venezuela is far from being diversified when it comes to the composition of its exports, remaining ever overly dependent of its oil revenues and always at the mercy of the volatile international price of crude oil.

**Non-oil exports Vs. Venezuelan oil basket**



Sources: BCV, Menpet and Ecoanalítica

**With respect to imports, the government rules ...**

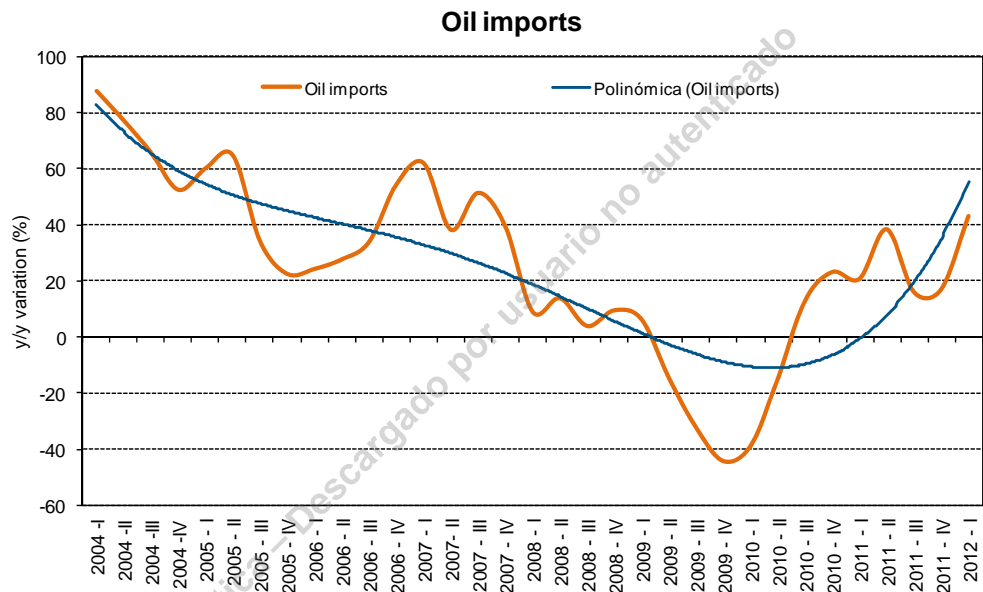
With respect to imports, the Balance of Payments figures reflected a 48.5% increase during the first quarter 2012 compared to the same period last year. Itemizing total imports by sectors we see that public sector imports increased by 64.1% and private sector imports up by 41%, settling at US\$4.71 billion and US\$8.48 billion respectively.

According to the BCV, public sector imports concentrated on food and products for agro-industry activity, namely: powdered milk, sugar, poultry and beef, rice, corn, coffee bean (not roasted); also chemical substances and products, especially fertilizers and nitrogen compounds. As you can see, the government has not only become a very active importer of priority items, such as foods and medicines, but it has also directed private sector imports to these very same areas via the discretionary authorization of foreign currency for imports for these sectors.

Furthermore, if you look at public sector foreign purchases, at *Ecoanalítica*, we have been pointing out that its' quite significant how oil imports have been increasing, characterized by increases in the



purchasing of oil by-products, such as nafta and additives used in gasoline. This is due to the deterioration suffered by the Venezuelan refining system, which during the first quarter of 2012, has had to endure a series of operation's shutdowns. These shutdowns have led to an 86.8% increase in oil imports.



Sources: BCV and Ecoanalítica

**Something's not right**

With respect to private sector imports, though they posted an increase which is more or less equal to the increase in foreign currency liquidated by CADIVI and SITME, the total amounts liquidated by these two entities does not match (very much below) the total amounts liquidated reflected in the balance reported in the Balance of Payments for the first quarter 2012. This is without taking into consideration the foreign currency requests which have been authorized but delayed in being liquidated.

At **Ecoanalítica**, we believe that this discrepancy is due to two factors. First, taking into account the cutbacks and delays in allocations foreign currency (especially CADIVI), the private sector had to assume the payments of its foreign sector purchases through its foreign deposits (consequently, the drop in assets held in currency and private sector deposits reflected in the Other Investments Account), and secondly, the over-invoicing of imports that we believe could be at around 20%.





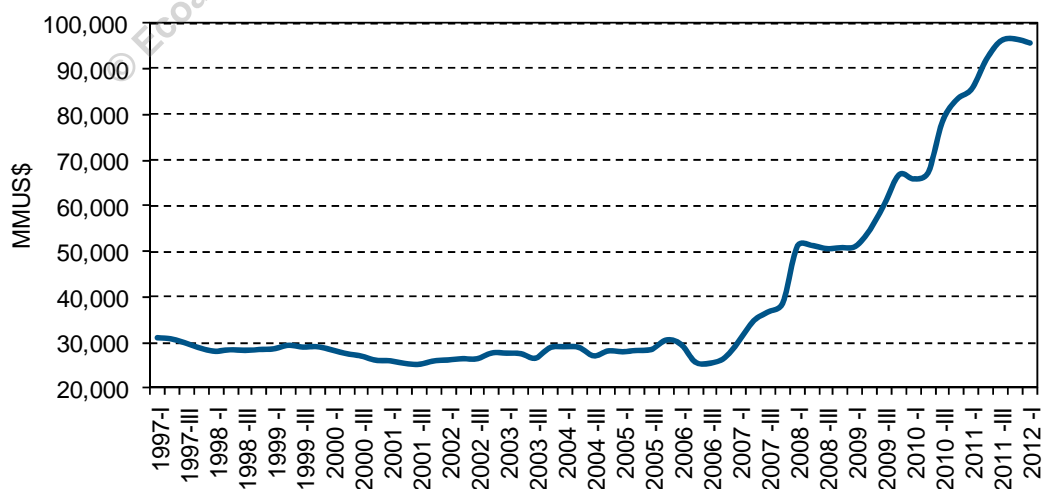
Object	Q1-2012 (MMUS\$)	Share (%)
<b>Private sector imports (1)</b>	<b>9,490</b>	<b>100.0</b>
<b>Foreign exchange allocations (2)</b>	<b>6,535</b>	<b>68.9</b>
Cadivi + Aladi agreement + Sucre	4,927	51.9
Sitme	1,608	16.9
<b>Remaining (1-2)</b>	<b>2,955</b>	<b>45.2</b>

Sources: Cadivi, BCV and Ecoanalítica

### And the foreign debt?

As we all know by now, in an attempt to alleviate the pressures on the exchange market and eliminate excess liquidity in the economy, the current Administration in Venezuela has chosen to implement a system of bond issuances by PDVSA and the Ministry of Finance. These bonds, which can be purchased by companies or natural individuals in local currency (bolivars) and then sold on the foreign market to obtain US-dollars, have generated a foreign public debt that during the last 10 years has increased by 265.2%, and during the last year, increased by 11.7%, and at the close of the first quarter 2012 is at US\$95.55 billion. The increase in public foreign debt during the last 12 months is due to a series on new loans signed by the government with China, and as we have already mentioned, the bond issuances.

### Public external debt



Sources: BCV and Ecoanalítica





**Does the Public Sector really have that much money?**

Within what Venezuela has in international investment holdings, the BCV registers that the public sector's position in foreign assets in its Currency and Deposits Account reflects a balance of US\$40.79 billion at the close of the first quarter 2012. However, at **Ecoanalítica**, we believe that though it's true that government funds in its foreign holdings have increased, this figure reflected here is too high. We believe that this figure is probably also including funds that are already tied up in projects with foreign entities and the discrepancy in PDVSA's oil invoicing. So, adjusting for these factors, leaving only the amount which is not tied up, foreign assets available to the government are more likely to be at around US\$16.7billion.

Government Resources	Q1-2011 (US\$ bn)	Q1-2012 (US\$ bn)	Variation (%)
FONDEN and National Treasure(*)	6.8	8.3	22.1%
Other Funds(*)	7.0	7.3	4.3%
PDVSA(*)	0.4	1.1	175%
<b>Total</b>	<b>14.2</b>	<b>16.7</b>	<b>17.6%</b>

Source: Ecoanalítica

\*All the figures are expressed in US dollars at the official exchange rate

**It's not you, it's me**

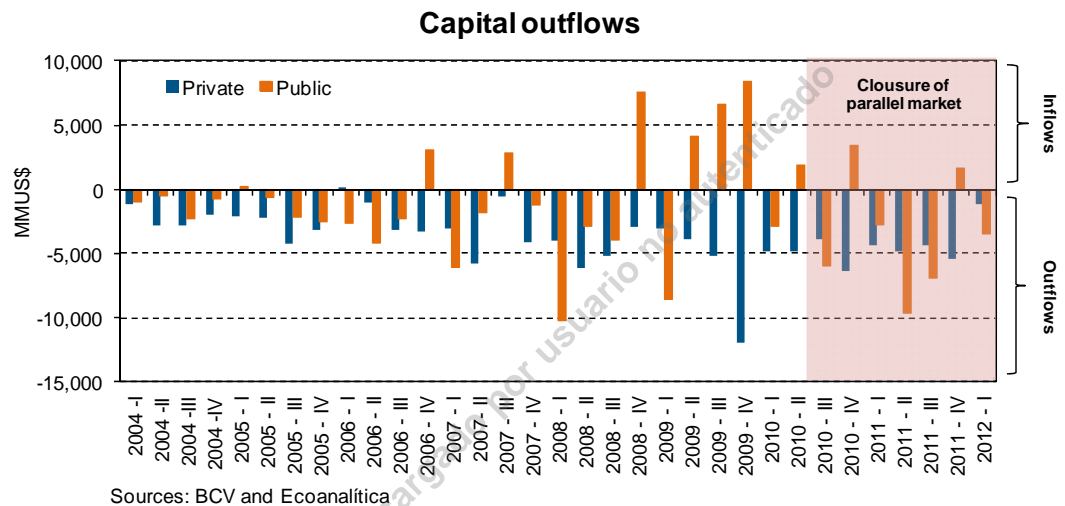
One thing that the current Administration has been successful in doing since the close of the swap-market is in ebbing the flow of private sector out-going capital. Now, one could think that the flow of out-going capital has been contained, but in reality what has happened is that roles have been reversed. Now, it's the public sector that is responsible for most of the out-going capital.

It's important to point out here that in order to be able to calculate out-going capital in Venezuela, you need to be able to count on yearly economic data, since there are serious seasonal issues which must be taken into account and which could alter calculations at from quarter to quarter; and also there are certain discrepancies that appear on occasion when analyzing the Errors and Omissions Account by institutional sector, since previous yearly balances, for the public sector, reflect extremely high deficits, the contrary being the case for the private sector. This is why a certain amount of clarification by the BCV is required. This is something that we have been mentioning and pointing out since 2009, but unfortunately, the issue has yet to be addressed by the BCV. In any case, quarterly figures do allow one to see differences that occur compared to previous years.

So, along these lines, we can say that during the first quarter 2012, private sector out-going capital reached US\$1.19 billion, in other words, 72.6% less than during the same period in 2011. Public sector out-going capital



reached US\$3.49 billion during the first quarter 2012, up by 26.0% compared to the same period last year. The BCV stated that the increase in public sector foreign assets is mainly due to increased holdings in FONDEN.



**The material is wearing thin**

Seen globally, Foreign Account figures for the first quarter 2012 reflect two of important things:

- First, high oil prices continue, allowing a wide positive balance in the current account, based on oil exports (thanks to the price, because volume has only increased 3.7% in 1Q2012).
- Second, the constant increase of foreign positions deposited in the national treasury and in public financial institutions that manage State investment funds (Fonden, Joint Chinese-Venezuelan Fund, and “Gran Volumen”) has led to the an increase in capital and financial accounts deficit, despite the large inflow of foreign currency from oil exports.

In conclusion, foreign accounts reveal the same as real sector figures, that is, the deepening of the model: an increase in imports, particularly public imports, a drop in non-oil exports, and an increase in public deposits abroad, compared to a drop in private deposits. In summary, we’re more rentist than ever.

So, as we have been saying for quite some time now, at **Ecoanalítica**, we believe that this is a very risky path the Administration is following, being responsible for most of the out-going capital at the same time that it is



financing its public spending with the international reserves and at the same time significantly increasing public foreign debt in order to feed the exchange market (without even mentioning the domestic debt being issued to finance the fiscal deficit).

And, the risks incurred by continuing down this path and continuing with these economic policies, increase significantly if you take into account that the only thing that is keeping this Administration's political and economic project afloat is something so volatile as the international price of crude oil.

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## Economic Tips

**Unemployment at 8.6%.** According to data released by the National Statistics Institute (INE), unemployment posted 8.6%, in April, up 0.5 from March. This means that 84,201 people lost their jobs in April for 1,152,522 unemployed Venezuelans at the end of the month.

**Informality drops.** The informal sector, which in April last year accounted for 42.3 of every 100 workers, reached in April 2010 41.3% of workers. This means that 79,252 people are no longer considered informal workers.

**More jobless young people.** The percentage of jobless people between 15 and 24 years of age, which in past March was 16.8%, increased by 1.6 points, to 18.4%, in late April. That is, more than 400,000 young people within that age range cannot find a job.

**Backlog in the allocation of foreign exchange is admitted.** Nelso Merentes, BCV President, and Manuel Barroso, Cadivi president, will discuss the situation of the allocation of foreign exchange by both entities in a series of meetings that will be held in response to the current situation in which businesses have suffered the backlog in the delivery of dollars at the official exchange rate.

**BCV is considering streamlining Sitme.** Nelson Merentes stated last Wednesday that the BCV is considering an increase in monthly foreign exchange acquisitions by businesses, from US\$ 350,000 to US\$500,000 or US\$550,000, allocating US\$50 million in average, taking advantage of the availability of titles "until January 2013."

**Dollars flee, despite Cadivi.** Since the implementation of the rigid exchange control in 1Q2003, private deposits abroad increased 248%, from US\$41.0 billion to over US\$143.0 billion. This shows that capitals always find their way to arrive in a safe port, in spite of the obstacles. However, the public sector has been the most dynamic in terms of taking capitals abroad in recent years.

**Bond issues, the favorite mechanism.** Debt issue by PDVSA and the Planning and Finance Ministry (MPF) is the preferred way that individual and businesses to use protect their savings in foreign currency. It is so that this mechanism used by PDVSA and the government to finance their operations in bolivars and temporary reduce the excess of liquidity has made the country's foreign debt to get up to US\$94.55 billion, 245% more than 10 years ago.



**Why dollars go out?** Two are the main reason for converting savings into foreign currency, namely: protecting against high inflation indices and covering potential losses resulting from the bolivar devaluation, which is more likely as the government's foreign debt levels increase and it does not have bolivars enough to honor it.

**Interest rates.** The lending rate for the third week of May was at 17.6%, increasing by 1.2 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 1.1% going from US\$25,529 million during the third week of May to US\$25,816 million during the fourth week of May. Compared to the same period last year, international reserves have decreased by 9.9%.

**Monetary liquidity.** Monetary liquidity in the third week of May increased 0.3% compared to the previous week settling at VEB 477,760 million. The M2 has increased 52.8% in relation with the same period last year.

**Sitme figures.** So far this year, US\$4,153.7 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$41.9 million a day, with an implicit exchange rate of 5.3 VEB/US\$. This represents an increase of US\$936.6 million (29.1%) over the same period of 2011, when US\$3,217.1 million were negotiated. During the fourth week of May the amount traded reached US\$179.6,9 million, US\$68.3 million less than the previous week when US\$247.9 million were traded, with an average of US\$44.9 million a day.

## Oil Tips

**New leak.** José Bodas, executive secretary of FUTPV oil union, pointed out that a slight oil leak occurred in an oil transportation line in the productive district of San Tomé of Petróleos de Venezuela. The union leader explained that corrosion damaged the pipeline, causing the leak that in his opinion was not as severe as other accidents. Bodas regretted that the lack of maintenance in oil facilities are translating into reiterated security and environmental events such as spills or leaks.



**Petrocaribe finances mission in Haiti.** With the name of “Mamita querida” (“*Ti manman cherie*”), this mission expects to help 100 thousand Haitian mothers that will receive from US\$9.2 and US\$19 per month to cover their basic needs, just for taking their children regularly to school. This program will be financed with US\$13 million contributed by Petrocaribe, sponsored by the Venezuelan government. According to the Haitian government, this is the first time that a social assistance program of this kind is implemented. According to the Prime Minister Laurent Lamothe, the program is “*a revolution in the country.*”

**Disinformation in collective contract.** As reported by Gregorio Rodríguez, leader of the Classist Socialist Movement La Jornada, the negotiating commission that represents workers through FUTPV has not informed oil workers on the progress and discussions on the 2011-2013 collective bargaining contract that expired last year. Rodríguez pointed out that union leaders had promised workers to discuss the contract before its expiry; a promised that was not delivered with the subsequent unease inside the oil sector.

**Venezuelan tanker in ICU.** The *Yare*, a new Japanese-built tanker operated by PDVSA and recently delivered by Japan, is undergoing emergency repairs at a Bahamas shipyard after its hull was breached in an incident. The *Yare*'s repairs won't be completed for at least 40 days. Although no oil spills occurred, PDVSA will have to freight other vessels to replace the *Yare*. Currently, PDV Marina, PDVSA affiliate, has signed several contracts for the construction of vessels with countries like Spain, Argentina and Japan, in an attempt to increase and modernize its own fleet, which currently is managing about one third of Venezuela's oil exports.

**Less barrels, less money.** At the 21<sup>st</sup> Conference in La Jolla, David Voight, director of IPD Latin America, presented the volumes that PDVSA should export but that won't represent any revenues for the company thanks to the different cash-for-oil commitments the Venezuelan administration has signed with other countries. In 2012-2013, exports will average 772,000 barrels/day (kb/d), generating no cash for the state-owned oil company. In 2014-2019, this indicator drops to 411 kb/d, but could increase if commitments with China or Petrocaribe increase.

**Venezuela and Syria maintain relations.** Despite international pressures to isolate Bashar al Assad's administration given the armed conflict Syria is going through, the Venezuelan government maintains the cooperation links with that country. Damascus recognized that it received 35,000 tons of diesel and that the tanker returned to Venezuela from Syria with a shipment of naphtha, a component used to prepared gasoline. This purchase not only helps the damaged Syrian exports, but it helps



supply the Venezuelan refining circuit at a time when purchases of U.S. by-products have surged.

**New petrochemical projects in the country.** President Chávez announced that his administration will relaunch petrochemical projects in the country with the opening of different plants throughout the Venezuelan territory, including the commissioning of the Butane Plant One at the Pequiven's Ana María Campo Petrochemical Complex and the polypropylene expansion project, both in Zulia state. President Chávez also informed that a joint venture between Venezuela and Vietnam to manufacture energy-saving bulbs will be opened in Paraguaná, Falcón State.

**Inclusion of outsourced workers in PDVSA payroll.** Within the framework of the negotiations of the draft collective bargaining contract for 2011-2013, FUTPV oil union included among its demands the immediate inclusion of the 7,000 outsourced workers that work for PDVSA. Eudis Girot, FUTPV secretary, explained that even though the new Labor Law provides for a term of up to three years to absorb those workers, they consider that in this case they should have been absorbed by the state-owned oil company when the industry was nationalized.

**International baskets.** At the time of foreclosure in New York, WTI was traded on May 25 at US\$ 91.3/bl, which shows a decrease of 2.9% compared to US\$ 94.1/bl recorded the previous week. Meanwhile, Brent fell by 3.0% to reach US\$ 107.3/bl when compared to the previous week, when it reached US\$ 110.7/bl.

**Local basket price.** The Venezuelan oil basket price fell last week to close at US\$101.6/bl on Friday 25 May, resulting in a decrease of 2.9% compared to US\$104.7/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 111.4/bl.

## Business Sector Tips

**Political uncertainty is the main problem.** According to a survey conducted by the Venezuelan Association of Industries (Conindustria) in 1Q2012, 80% of the companies indicated political uncertainty as one of their main problems, followed by the lack of raw materials and foreign currency, with 70%, and demand declaim with 60%. Carlos Larrazábal, Conindustria's president, said that growth reported by the



BCV is not sustainable, because the administration is not promoting mechanisms to increase investment and production.

**Investment: the minimum required.** According to data reported by Conindustria's survey in 1Q2012, only 22% of Venezuelan industries made investments to expand production. *"If the private sector doesn't have any assurances of legal security that may guarantee that their investment will be profitable enough based on the risk being assumed, investment won't come,"* Carlos Larrazábal, Conindustria's president, stated. It is also observed that 59% of the 300 industries interviewed indicate that they executed "operative" or maintenance investments and that 25% didn't invest.

**Scarcity indices are down.** According to the last measurement by Datanálisis, overall scarcity index was at 14.8% in late April, whereas food scarcity index closed at 22%. This implies a decrease of two percentage points from the previous measurement, and an improvement in the supply of 11 items, especially those sold in Bicentenario and Mercal outlets.

**Sugar continues to lead.** With 31% of absence from shelves, sugar is the scarcest product, followed by powdered milk (25.4%), hard white cheese (22%) and beef (20.3%). The products that are found most easily are corn and vegetal oil (scarcity: 8.5%), followed by pasta (8.5%), rice (7%), black beans (7%) and ketchup (7%).

**Automotive sector: From euphoria to depression.** Statistical data on the automotive sector reveal that at the end of 2008, when the current automotive policy was implemented, there were 547 car dealers in the country. As of April 2012, the number is at 445, or 101 (22.6%) dealers less. In 2007, when the automotive sector hit record highs in Venezuela, 273 models from about 45 makes were marketed. In 2012, only 22 makes that offer 75 models (-72.5%) have survived.

**4,000 informal workers join social security.** Carlos Rotondaro, president of the Venezuelan Social Security Institute (IVSS), pointed out at a meeting of informal workers, taxi drivers and motorbike drivers, that 4,000 informal workers have joined social security throughout the country. Rotondaro explained that April's reform of the Social Security Law lifted prior barriers, therefore any independent worker can join the IVSS upon payment of 13% of the minimum wage.

**91.5% of companies are family businesses.** According to a study prepared by the private organization Exaudi and several local universities, which was based on a sample of 106 businesses of a total universe of 600, 91.5% of private companies in Venezuela are defined as family businesses. Of the total of family businesses, small companies, the ones that generate from 11 to 50 new jobs, account for 39.6% of the sample studied.



**Data from the agricultural sector.** Determined to increase agricultural production, the administration has mandated financial entities to earmark 25% of their loan portfolio to the agricultural sector; however, the outcome hasn't been as expected. Statistics from the Bank Superintendent's Office show that from March 2011 and March 2012, agricultural loan portfolio records an increase of 62.5% to VEB55.3 billion (US\$12.86 billion), but production dropped 1.2% in the first quarter of 2012.

**Public entities should save more energy.** The heat wave has made electric power demand surge in specific areas of the country, with the subsequent pressures on the national power system to meet these demand levels. Although authorities have assured that the electric system doesn't have enough generation power to cover demand, but just a reserve of up to 2,000 megawatts (Mw), rationing are being implemented since March, when the indicator began to increase. Energy savings are estimated at up to 1,200 Mw/year.

**Milk production grows.** Balsamino Blandria, president of the Venezuelan Cattle Farmer Association (Fegaven), announced that milk production in Venezuela has grown about 1 million liters/day to almost 8 million liters/day, which has made it possible to produce a part of powdered milk in Machiques. Due to this increase in local production, Venezuela reduced milk imports from 60% to 50%. Consumption grew at the same time from 65 liters to almost 100 liters per capita per year. Blandria pointed out that milk prices will be revised by the national government.

**Gran Misión Vivienda Venezuela moves forward.** At the ceremony to hand over 1,067 housing units in Aragua State, Ricardo Molina, People's Minister for Housing and Habitat, informed that currently 415,685 housing units are being built throughout the country and that for the year-to-date, 594,434 homes have been built .

**Controls on pharmaceutical products sales.** According to a joint resolution by ministries of Health, Commerce, Science and Technology and Food, contained in the Official Gazette No. 39,928, from now on pharmaceutical firms will have to accompany their shipments of pharmaceutical products by a government permit (*Guía Única de Movilización, Seguimiento y Control*) authorizing them to distribute and market pharmaceutical products in the country. This permit is part of the Integral Pharmaceutical Product Control System (SICM), in which laboratories, representation firms, drugstores, commercial and hospital pharmacies should register. Businesses that don't have the permit will be fined.

**Sales grew 31%.** According to the Chamber of Venezuelan Insurance Firms, insurance sector sales in 1Q2012 amounted to VEB 12.5 billion and posted an increase of 31T with respect to the same period in 2012. Alesia Rodríguez Pardo,



executive president of the Chamber, pointed out that *“that behavior shows that insurance firms, in the first three months of the year, met the commitments derived from the current legal framework governing insurance activity as well as from the expansion in product delivery and insurance services.”*

## World Economy Tips

**U.S. presidential campaign is almost certain to be the most expensive in history.** The reasons are two: this is the first time that neither party's nominee will accept public funds for their campaigns after Watergate campaign finance reforms intended to limit expenses. The other is that the proliferation of the so-called Super PACs (Political Action Super-committees) delivers millions and millions of dollars to both parties' coffers, mostly for advertising, AP pointed out.

How much have they raised? Up until April, Obama and democrat groups supporting him had raised almost US\$450 million and have more than US\$150 million in the bank.. Romney and the republicans have raised more than US\$400 million in the same period of time and have about US\$80 million available.

**Chinese industrial profits are nose diving.** Combined industrial profits in China dropped 1.6% on a year-to-year basis in the first four months of 2012, to US\$228.6 billion, the National Bureau of Statistics reported past Sunday. The decline resulted from a 1.3% drop in the first three months of the year in line with a slowed down economic growth. China's growth is facing downward pressures whereas exports slow down and local demand struggles to recover, in part due to Beijing's campaign to contain the real estate market.

**Profits in some sectors in China increased.** Power and heating providers reported an increase of 20.1% in their profits, whereas gains in oil and natural gas industries grew 8.2%. Car assemblers reported an increase of 8.7% in their profits.

**China's economy under downward pressures.** A study conducted on China's industrial production suggests that the Asian giant growth is slowing down, thus adding concerns on the health of global economy. The work was performed by HSBC and shows that the manufacture sector reduced its pace for the seventh month in a row. The results reflect the same behavior reported in other areas of the economy, such as trade and investment.



**EU files WTO suit over Argentina's import restrictions.** The European Union filed a suit against Argentina's import restrictions with the World Trade Organization (WTO) on Friday, intensifying the disputes between the South American nation and its trading partners. The EU said the case followed measures by Argentina that include an import licensing regime and an obligation on companies to balance imports with exports. The suit was not a response to a decision by to seize control of Argentina's biggest oil firm, YPF, a subsidiary of Spain's Repsol.

**Divergences and weakness still present.** The OECD underscored that divergences among its member countries persist and said that the economic activity remained "weak" both in the euro zone and in the European Union as a whole, where year-to-year GDP gained 0.1%. Among G7 countries, U.S. GDP grew 2.1% and Germany's 1.2%, far above France's year-to-year increase of 0.3% or England's 0.1% drop.

**LA growth will be close to 4%, but could be more vulnerable in tax terms.** Latin America would grow at least 3.7% this year, driven by the largest economies in the region; however, concerning tax issues, the region is less prepared than in the previous global crisis to face a more adverse external scenario, the head of the Economic Commission for Latin America and the Caribbean (ECLAC), Alicia Bárcena, said on Monday. Brazil, Mexico, Colombia, Argentina and Peru will push economic growth this year in the region, which gained about 4.3% in 2011.

**Argentina's economy gained about 5% in 1Q2012.** Argentina's economic growth in 1Q2012 posted 4.8% on a year-to-year basis, far above that of developed countries, according to figures of the Organization for Economic Co-operation and Development (OECD). According to the report issued by OECD, Gross Domestic Product of its member countries increased 1.6% in 1Q2012, on average, in comparison with the same period in 2011, whereas GDP in the euro zone stagnated, after growing 0.7% in the three prior months.

**Argentina's Cadivi has been officially launched.** Argentina's Federal Administration for Public Revenues (AFIP) launched the Consultation Program for Exchange Operations, an information regime for Argentinean residents that want to acquire foreign currency. The program will cover requirements for travels abroad for medical reasons, education, congresses, conference, trade operations, sports, cultural and scientific activities and tourism. The new system is implemented amidst the intensification of obstacles for the purchase of dollars on the exchange market, which made quotation of the parallel exchange rate up to 30% over the official exchange rate.





**Analysts revise downward Brazil's growth and inflation forecast.** Economists revised downward their forecast for Brazil's economic growth in 2012 to 2.9% from 3.09% one week ago, according to the weekly survey of the Central Bank released past Monday. They also reduced their inflation forecast for 2012, from 5.21% to 5.17%, whereas it remained unchanged at 5.6% for 2012.

## Political Tips

**Varianzas pollster puts Chávez 4.8 ahead.** According to the last survey conducted by Varianzas at national level, vote intention in favor of Chávez is 50.5% vs. 45.7% for Capriles. The pollster assured that they would monitor the electoral scenario every month, because *"this is a complex campaign; it is not a rigid or hardened scenario."*

**Capriles presented its Security Plan.** In an attempt to reduce the alarming violence indices, Henrique Capriles presented his flag project to fight crime, on Wednesday. The plan comprises four areas: prevention, police, justice and prisons. Capriles assured that the country needs *"police officers and judges committed to citizens' security, not to the revolution."*

**"We will not negotiate with 'pranes'"**. In his speech this Wednesday, the presidential candidate criticized the "nerve" of the administration in admitting that it negotiated with prisoners during their transfer from La Planta prison. *"What did they negotiate? The transfer of weapon?"* Capriles said that in his administration they won't negotiate with *"pranes, because there won't be any."*

**Capriles also presented his proposals for the labor sector.** The opposition candidate presented on Sunday his First Job Plan, in response to the high unemployment rate among young people, which according to INE was at 18.4% in April. Promising to create one million new jobs for young people, Capriles based his proposal on three fundamental pillars: capacity building through public institutes, tax incentives for businesses and promotion of entrepreneurial spirit.

**More about Capriles' proposals.** In addition to the First Job Plan, Capriles presented his plan "Your second chance," which will be a mechanism for elderly to access the labor market. His administration would focus on the educational area, creating a thousand high schools in his first year of government and strengthening universities, including the Universidad Bolivariana and UNEFA.



**Chávez wants to take the lead.** Thousands people accompanied Capriles to present the draft Law on Missions, with the aim of providing the social programs with a legal framework and character and quenching the rumors that say that his administration would eliminate these social programs. Chávez' administration responded with an offer to grant constitutional character to the missions through a Constitutional amendment. Now the fight is for who is making more promises.

**Another week of uncertainty.** The date when President Chávez will open his presidential campaign continues to be a mystery. Diosdado Cabello proposed that Chávez could register "on the Internet", while attacked Capriles' candidacy, foretelling a fate similar to that of Irene Sáez, who, after being the favorite for 1999's presidential election "deflated" given the incumbent's campaign.

**Who launched Diosdado?** Last Friday, posters promoting Diosdado Cabello for president were posted at different spots of Avenida Libertador in Caracas. Cabello says that this was part of the "dirty war" of the opposition and their attempt to divide *Chavismo*, assuring his loyalty to President Chávez and his candidacy.

**You strip Venezuela of the Essequibo and I finance you.** Even though almost 160,000 square kilometers of huge mineral and energy reserves are being disputed, financial cooperation between Venezuela and Guyana have flourished over the past three years. After the Inter American Development Bank, Caracas is the main creditor of Georgetown, that owes more than US\$ 286 million (less US\$ 12.5 million pardoned in 2007 by President Chávez), due to energy agreements with Petrocaribe that supply about 50% of Guyana's energy needs.

**Reports on the presence of guerrillas.** The presence of irregular armed groups in the bordering municipalities in Zulia State that extort money ("*vacunas*") from producers and distribute pamphlets with doctrinarian slogans has turned on the alarms of everybody, except the authorities. Deputies of Zulia State are demanding the administration to send military contingents to face irregular groups.

**Dark but profitable businesses.** FARC, ELN "Urabeños" and "Rastrojos" are some of the paramilitary groups, either veterans or rookies, that are operating the businesses of drug trafficking, extortions, kidnapping and gasoline smuggling on the border, from Apure to Zulia states, according to reports by the Colombian NGO "Nuevo Arco Iris". The NGO reports that Venezuelan mayors, both supporters of the government or from the opposition, are accomplices in dealing with paramilitary groups and guerrillas, while they assure that "*ideological differences are a joke when you see operative capability of these groups.*"



**“El Gato” under fierce attacks.** The state machinery has a new target: Monagas State Governor, José Gregorio Briceño, a.k.a. “El Gato”, who after being expelled from PSUV government party, has had to endure a disobedient and militarized (with the approval of Minister El Aissami) regional police force, a raid in the Governor’s office, the closing of 11 radio stations that support Briceño’s administration, a fine by the tax authority for Bs.9.6 million, charges to the Attorney General’s office, harassment by DIM and Sebin and “*more than 200 Cuban spies*” and the reopening of investigations against him by the same National Assembly that had put them on ice before.

**Are you running on your own? We too.** The decision to implement the formula of an unitary ballot card (the adherence to which is voluntary), instead of the single card, has made several parties in the Democratic Unity Panel (MUD) to change their minds with regard to following this option, and they have decided to register Capriles’ candidacy under their own parties, so that they can measure their quotas of power after October elections.

## Legislative Tips

**Teaching with the example.** Deputy Alfredo Ramos is demanding full compliance with the new Labor Law (LOTTT), due to the growing government’s labor debt, which he estimated at US\$20.0 billion. He claimed that the Commission on Social Development of the AN has received numerous reports of abuses against workers by state-owned companies, including unjustified firing and retirement.

**Proposal to include missions in the Constitution.** President Hugo Chávez proposed the National Assembly (AN) to study the possibility of a Constitutional amendment or reform to include missions and great missions in the Constitution of the Bolivarian Republic of Venezuela.

**This is my response.** Chávez argued that this is the kind of political response to the bourgeoisie’s draft law on missions: “*not falling in their (opposition) little trap,*” which has fought from the beginning the different social programs his administration has implemented. This will show the true response of the bourgeoisie, President Chávez challenged.





**New Antitrust Law is being prepared.** The first work paper of the new law that is being discussed by the AN proposes banning and fining “monopoly and oligopoly” and prohibits associations among agents from the different production branches “so as to control the production process and prices for their benefit.” All hints that the AN is developing a new “champion” of the transition to the socialist model.

**Antitrust Law will provide for the use of public force.** The first work paper of the Antitrust Law points out that inspections to businesses to determine if they are applying monopoly practices could be supported by law enforcement agents, if necessary. The proposal, which is currently being discussed by the AN, provides for the creation of the National Antitrust Superintendent’s Office, which will make sure that no monopolies or oligopolies exist, among other powers.

**The Antitrust Law also sets forth expropriation ways.** The AN is speeding up the preparation of the Antitrust Law. The first work paper calls for declaring a public the goods used for the production of staples and also proposes more expropriation ways. The Subcommittee on Economic Development of the AN, which reports to the Finance Committee, began to review the draft law and has declared emergency work sessions.

**The Law on Renting of Business Premises will be discussed in plenary session in June.** The Law for the Control of Renting of Business Premises will be discussed at the Permanent Committee on Administration and Services of the National Assembly next week, when it will be ready to be submitted to the plenary of the AN, as estimated by Deputy Tito Oviedo (PSUV-Bolivar), member of the Committee.

**Additional laws with their respective regulations are required to set up a platform for Labor Law.** About 17 new special laws with their respective regulations are required to set up the labor and institutional framework provided for by the Organic Labor Law 8LOTTT). The proposal was made in the forum recently held by the Board of the National Union of Employees of the AN, with a panel composed of by experts in labor law, Isaac Nieves and Guillermo Alcalá.

**Best score for PDVSA!** The Committee on Energy and Oil of the AN approved the review and analysis of the Petróleos de Venezuela’s Report for 2011, the AN informed through a press note. The chairman of the Committee, Deputy Fernando Soto Rojas, said that “*the physical progress in the execution of the 12 nationwide projects described in the management report, centralized actions, strategic lines and plans of action for the next fiscal year were evaluated.*”

**The AN discussed cooperation agreements.** According to the proposed agenda, the AN held past Tuesday the first discussion of the draft Law approving the Partial



Trade Agreement between the Governments of Venezuela and Colombia. Likewise, the first discussion of the draft Law approving the Agreement between the Governments of Venezuela and the Russian Federation on the creation and operative terms and conditions of the science and culture centers was held.

**AN started the first discussion of the Law against Torture.** Past Wednesday, the Permanent Committee of the Interior of the AN started a special session to present the draft Special Law for the Prevention and Sanctioning of Torture and other Cruel, Inhuman and Degrading Treatment for its first discussion, Elvis Amoroso, chairman of the Committee, informed. This new law is intended to prevent any abuse by law enforcement authorities or anyone that can hold any power.

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## ECONOMIC OVERVIEW

