



Weekly Report

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*The Venezuela's Great
Housing Mission: Just another
promise?*

By:
Asdrúbal Oliveros
José Luis Saboin
Adriana Morillo

Ecoanalítica's Team*

* Estefanía Peña and María Gabriela Benítez

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Over the years, we have seen Venezuela's housing policies fail. Nowadays, the dynamics of the Venezuelan economy remains the same; a State that is set out to control and undertake activities which are alien to it, and that is determined to play the role of benefactor State by providing decent homes to all Venezuelans, but, at the same time, politicizing the housing issue in Venezuela with a populist nuance.

Promises and facts go opposite directions

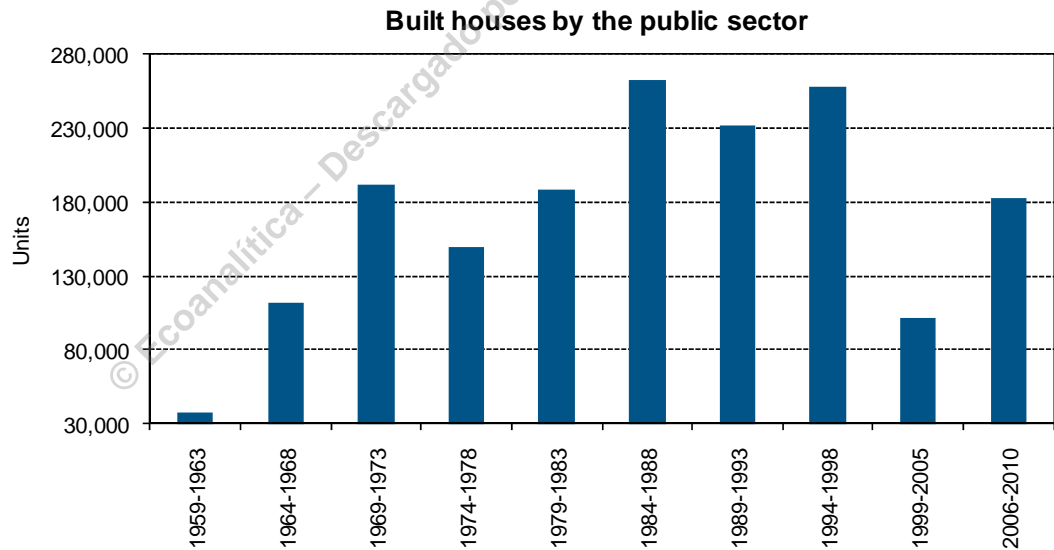
Looking back over the last few years, according to statistical data of the Cámara Inmobiliaria de Venezuela (Real Estate Firms' Chamber), the housing deficit when Hugo Chávez came to office was 1,500,000 homes; whereas it's now estimated at 2,000,000 homes.

According to data related to the construction sector, published in the report released by the Government and prepared by the Center for Economic Research (CIECA) in December 2010, over the past 12 years (1999-2010), in an attempt to meet the demand for housing in Venezuela, the Administration has only built 296,047 housing units.



Furthermore, analyzing the statistics from the Venezuelan Construction Chamber, the Venezuelan Real Estate Chamber, reports from the Ministry of Housing and Presidential addresses, one can calculate that the number of housing units built by the Government is lower (less than 50%) than those built by Luis Herrera Campins' and Jaime Lusinchi's Administrations. Both terms were taken as a reference by CIECA, since these Administrations are considered the most productive ones in terms of home construction. In the 10 years corresponding to these governments (1979 and 1988), 759,632 homes were built.

Between 1969 and 1978, i.e., Rafael Caldera's and Carlos Andrés Pérez' (CAP) first terms, 655,699 homes were built. In the period between 1989 and 1998, i.e. second terms of Rafael Caldera and CAP, the number of homes built was 618,150.



Sources: Venezuelan Chamber of Construction, Memory and account of the Ministry of Housing and Habitat and Ecoanalítica.

The Administration's housing deficit will exceed 2,000,000 homes

The current situation is that several generations of a family live under the same roof or in improvised homes built in vulnerable lands. As expected, Chávez' Administration blames former governments for this deficit, but facts show that the current Government has done little to solve this problem.

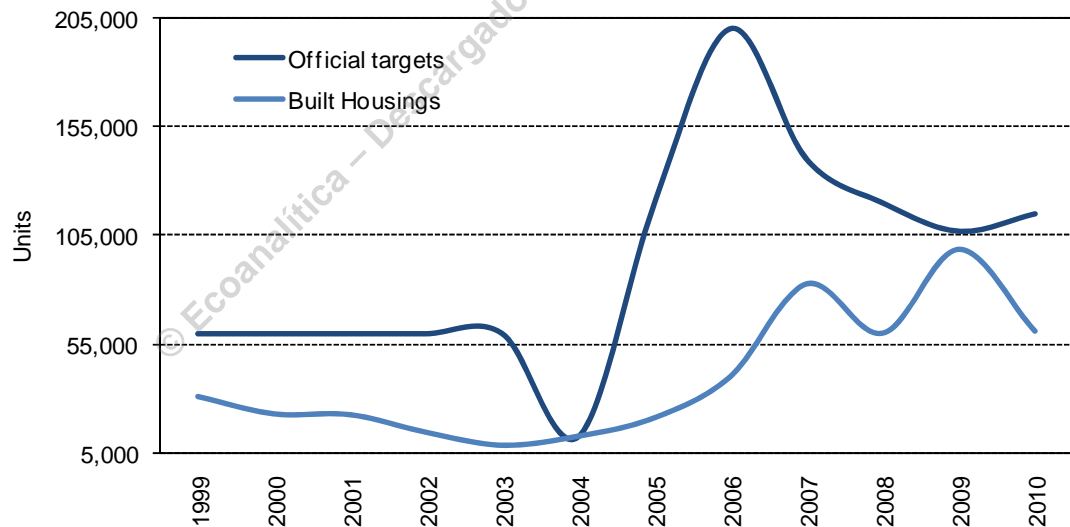
Perhaps, one of the most representative failures of the current Administration can be found in this area that is of utmost interest for the



country. Many times, the Administration has promised to build a determined number of homes, only to complete but a fraction of the houses it has promised to build. Despite the changes of names of ministries and related entities, and after the appointment of several ministers, the results have not improved.

As mentioned above, over its 12 years in power, Chávez' Administration has only built 296,047 homes. The deficit is estimated at 2,000,000, and according to the registry of the Great Housing Mission, the figure could in fact reach 3,000,000 homes. To cover this deficit in the scheduled time (7 years), 300,000 homes per year have to be built and commissioned. Some believe that his figure is nothing but a terrible symptom of the housing reality in Venezuela; however, for others it would be a sample of the President's credibility vis-à-vis the upcoming 2012 presidential election.

Built Housings Vs. Official Government targets



Sources : Memory and account of the Ministry of Housing and Habitat and Ecoanalítica.

Only in the Greater Caracas Metropolitan Area...

Currently, the Administration has promised to build about 75,000 homes over the past five years in the Greater Caracas Metropolitan Area. Of this number, the Government has barely managed to build 2,550 homes, which is just 3.4% of the goal set. This shows that in most cases, housing construction projects go from one plan to another, but very few homes are completed.





The Administration tackles the home deficit looking at reelection

Vis-à-vis the upcoming electoral campaign and the precarious results of home production over the past 12 years, the Administration has plans to implement the strategy of launching the “*Venezuela’s Great Housing Mission*,” among others, which is intended to somehow mitigate the high political cost of the Government’s ineffectiveness in this sector, thus generating great expectations by taking a short cut that is currently doomed to failure.

And here comes Venezuela’s Great Housing Mission

“*Homes, homes and more homes to live life living*” is the motto the Administration constantly and firmly repeats. This motto has become not only a recurring obsession but also a challenge, even a personal challenge, as shown by the launching of Venezuela’s Great Housing Mission by the Administration. This mission is intended to meet the home deficit over the next seven years by boosting the construction of homes, starting with 150,000 housing units this year, 200,000 the next one, and planning to increase at a pace of about 300,000 homes per year.

The five steps of Venezuela’s Great Housing Mission

According to Governmental entities, the five steps of the mission are as follows:

- 1) The national registry to accurately identify families in Venezuela that don’t have their own home or live under risk conditions.
- 2) Purchase of lands.
- 3) Inclusion of local and international construction firms along with workers and communal companies.
- 4) Financing.
- 5) Construction materials and services.

The guidelines of this new mission include earmarking all resources for the production of those housing units that are associated to productive areas, as well as to the generation of basic inputs, but in areas where socialist cities are located.

New names for old plans

Even though the Great Housing Mission was officially launched in 2011, the plan isn’t really a new one. These housing plans, as mentioned before, are always relaunched when an electoral event is close; promises reappear but they are commonly not delivered.

This case is not the exception to the rule; not even its name – Venezuela’s Great Housing Mission – is new because seven years ago, on July 22, 2004, to be accurate, the Housing Mission, which name was later changed for “*Habitat Mission*”, had already been announced. Among the different



plans presented by the Administration, the so-called “Petrocasas” (homes built by PDVSA) and the Villanueva Mission (2007) stand out.

Not even the housing national registry is original

According to the information presented by the Metropolitan councilman Alejandro Vivas, who has presided over the Urban Development Follow-up Unit since past November, 11 national housing registries have already been developed. However, today the focal point has shifted and the new Housing Mission refers neither to the *barríos* nor to the necessity of improving them and doesn't take into account the Gran Caracas population who lives in risk areas.

Even though the end may justify the means, facts are contradictory

Although this year has been described as the construction boosting year, above all because of its being an electoral year, this has also been the year when more restrictions have been imposed. Over these first six months, the Government has launched the Housing Mission to speed up projects, and even though the plan presents incentives, the laws enacted to move it forward impose restrictions. The Emergency Law for Lands and Housing was enacted in January. This law revises and extends the contents of the Lands Law of 2009. This legal instrument calls for the urgent occupation of lands, which, in the opinion of some legal experts, is nothing but a new expropriation system.

The Family Property Law, under which homes will be delivered, was also passed. According to some analysts, this type of property allows families to use and enjoy homes but they cannot dispose of them. Chávez has already claimed that “*homes are for families; homes are not merchandise.*” Furthermore, the Law against Eviction, which limits this kind of actions, was enacted in May.

According to the chapter referred to the Socialist Productive Model published in the 2007-2013 Plan for Economic and Social Development, the State will retain total control of those activities that are strategic for the country's development and the social individual needs. This entails identifying which property modality is put to the service of citizens.

It's clear that construction is a strategic area for the Administration; therefore the legal fence is an intrinsic part of the Socialist plan. Actions undertaken to take control started in 2009, when the Government prohibited charging the Consumer Price Index in the pre-sale contracts, which resulted in a deceleration of housing projects. The same year, the Urban Lands Law was enacted. According to this law, lands play a social



role. In 2010, measures focused on expropriation and occupation of housing projects.

The problem has to be solved urgently

With the overwhelming response to the registry's first stage, and the forthcoming election, the national Government has pulled out all the stops to prioritize the delivery of homes, to such an extent that it has renewed alliances with companies from China, Iran, and Belarus to the detriment of the local private construction sector, taking into account the high demand of houses, which is estimated at about 3,000,000.

The economic measures

Similarly and more recently, the Administration has decided to reduce by 3.0% the legal bank reserve, to 14% (vs. 17% before). The banks' mandatory mortgage portfolio was increased from 10% to 12% and it was restructured as follows: 50% (32% before) will be earmarked for construction; 35% (58% before) for the purchase of homes, 7.5% (vs. 6%) for remodeling and 7.5% (vs. 4%) for self-construction.

Furthermore, the Supplementary Borrowing Special Law for 2011 was presented. As expected, the National Assembly rushed to discuss the law, even though it has not been passed yet. With this law, the President purports to obtain about VEB 45.0 billion to pay for new missions, of which VEB 20.0 billion will be earmarked for the Great Housing Mission, whereas the rest will be applied to the new labor mission, public debt service and rain-related emergencies.

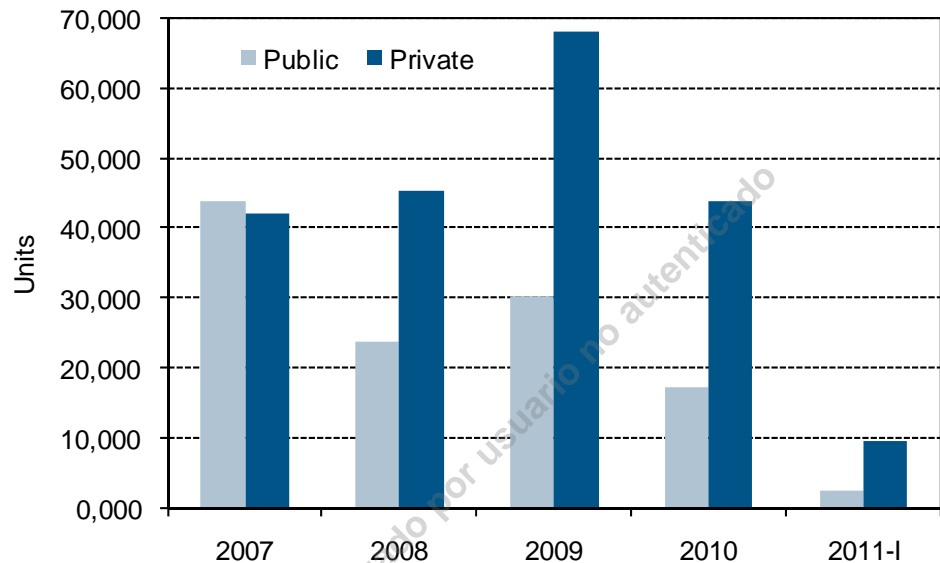
The private sector must join the cause

The significance of the private sector in the different activities of the economy has been reiterated many times and the housing sector is not any exception. It is almost impossible to replace the private sector, since the same has the infrastructure, experience and knowledge required to supplement the public sector in order to attain its multiple goals, especially those related to housing, especially considering that this activity is led by the private sector.





Built Houses by sector



Sources: Venezuelan Chamber of Construction and Ecoanalítica

Input shortages and the electric power crisis tarnish the mission

Home construction is a controversial matter, because even though in its construction report corresponding to the first quarter of the year, the Central Bank of Venezuela reported an increase in the sale of cement (4.3%) and iron bars (1.7%), two important items for the construction sector, this sector is still facing serious difficulties to buy inputs, which results in bottlenecks in relation to the speeding-up of projects.

Furthermore, in terms of electrical power, a 70-90 square meter five-people home demands about 500 kw/hour by month, on average. If 2,000,000 homes are built according to these parameters, an additional 5,000 MW will be required and this implies expanding the installed capacity by 20,000 MW over seven years. At present, the installed capacity is close to 24,000 MW and the deficit is close to 10,000 MW.

There is still much to be done

Based on the information we have just presented in this Report, at **Ecoanalítica** we believe that even though home deficit is an issue that is repeatedly discussed, its true solution is far from being attained, especially in the context of the 21st century socialism.

This can be shown by the following simple calculation: taking into account that so far this year the public sector has built near 2,400 houses and based on the average homes built in 2008-2010 (38,045) and assuming



that at least 50% of the homes estimated for the 2011 period are built (75,000), there would be still a 75% deficit of the scheduled target.

All of this means that despite all efforts deployed to overcome the situation, there is still a lot of work to do concerning home construction to effectively solve this problem. So the Executive's electoral bet can become a double-edged sword.

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Economic Tips

Lowest y/y variation in the last 29 months. The National Consumer Price Index (NCPI), prepared by the BCV and the INE, reported a 2.5% m/m variation in May of 2011, lower than the variation obtained in the same month in 2010 (2.6%) and higher than the one observed the previous month (1.4%). The NCPI cumulative variation of the first five months of 2011 is 10.3%, much less than in the same period of 2010 (14.2%).

Caracas has the highest inflation in the country. According to the Central Bank of Venezuela (BCV), Caracas has an accumulated inflation of 12.1% in the first five months of 2011. During May, prices increased by 1.3% to 2.9% in the Capital Region, 1.4% to 3.2% in Maracay; 1.7% to 2.9% in Ciudad Guayana; 1.9% to 2.7% in Barcelona-Puerto la Cruz; 1.7% to 2.6% in Valencia; 1.7% to 2.1% in Barquisimeto; 1.2% to 2.9% in Maracaibo; 1.7% to 2.8% in Merida; 1.2% to 2.4% in Maturin; 1.8% to 2.4% in San Cristobal and by 1.4% to 2.4% in the rest of the nation.

Shortage Index improving... The shortage index showed signs of improvement going from 11.7% to 11.6% between April and May, representing the most favorable value for this indicator so far this year. The market product diversity index showed significant improvement, going from 131.9 to 167.9.

Normative food basket cost increased. According to the National Institute of Statistics (INE), the cost of the food basket reached VEB 1,458 in April, for a 0.4% (VEB 5.8) increase compared to the VEB 1,452.2 reported the previous month.

New minimum wage does not cover the food basket. Since May 1, the minimum wage was raised to VEB 1,407.4, but this increase is not enough to compensate increased prices. INE indicates that the food basket reached a cost of VEB 1,458 in April, exceeding the current minimum wage.

Arepa with cheese and coffee are the most expensive. According to the latest report on the cost of the food basket issued in April by INE, a family of five people spends VEB 244.68 per month to have breakfast with arepa with butter and cheese and a coffee. Meanwhile, the most popular lunch dish is rice-and-chicken with fried plantain and salad, costing VEB 94.48 per month for a family of five.

Transportation rates increased and will affect inflation. According to the National Consumer Price Index (NCPI), prepared by the BCV and the INE, the increase of



transportation rates authorized nationwide was one of the factors that boosted May's inflation rate. The transportation component index went from 1.5% in April to 4.8% in May, the highest of the 13 components of the NCPI. Within that component, the index of the sub-component "Transportation service" went from 1.2% to 8.0%.

Devaluation raises food prices by 30%. The official exchange rate was unified in December of 2010, and that had a direct impact on the importation costs of basic food and medicinal products. Ever since, the Government has authorized an adjustment of more than 30% in five basic products, such as bread, oil, powdered milk and sugar. This added to the increase in the cost of transportation. By August of 2011, the Government is expected to raise the producer-level prices of rice, corn and sorghum by more than 30%.

Public sector debt through the roof. This year, the Government had programmed bond issuances for VEB 52 billion, however, President Chavez asked the National Assembly to authorize a Complementary Indebtedness Law for another VEB 45 billion, which would imply issuing bonds for more than VEB 97 billion. Such operations increase the balance of the public sector debt to US\$112.6 billion, and up to US\$134 billion if we include Government expropriation commitments.

Parallel funds disbursed US\$106 billion. The National Government has a parallel budget structured through nine funds that disbursed resources for a value of US\$106 billion between 2005 and 2010. That money, distributed through Fonden, Fondo pesado chino, Fondo Miranda, Fondo Alan, Fondo Independencia, Fondo Siembra, Fondo Simón Bolívar, Fondo Mao and Fondo Renot, went to projects, covering insufficiencies in public entities and labor payments, among other commitments.

Seniat's tax collection in five months... The Tax Administration Integrated Service reported it had collected over VEB 10 billion in May of 2011. In five months, the entity already submitted VEB 55 billion to the national treasury, 50% of the goal of 2011 set at VEB 110 billion. This contribution made between January and May reports a 40% nominal growth compared to the same period of 2010 when VEB 30 billion were transferred to the national treasury. In real terms, the contribution of the first five months of the year increased by 11%, going from VEB 216 billion in 2010 to VEB 240 billion in 2011.

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 creased by 0.2 perceptual points to reach 14.76%, while the passive has not submitted any variation significant since January 2010, placing well at 12.61%.



International reserves. International reserves increased 6.2% going from US\$28.65 billion during the fourth week in May to US\$30.44 billion during the first week in June. Compared to the same period last year, international reserves have creased by 11.1%.

Monetary liquidity. Monetary liquidity in the fourth week in May creased 1.29% compared to the previous week settling at VEB 316.6 billion. The M2 has creased 32.0% year-on-year.

Sitme figures. So far this year, US\$3.44 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\$170.9 million, US\$40.2 million less than last week when braided US\$211.2 million.

Oil Tips

Pdvsa will have to pay debt. Apparently, Exxon Mobil has a chance of winning the arbitration process against Pdvsa. In that case, the State Company would have to pay between US\$4 and 5 billion it doesn't have right now. A solution, according to Credit Suisse, would be for Pdvsa to give out participation in US refineries instead of money, or to give out the whole industrial complex of Chalmette in Luisiana. Another option is to reach an agreement based on oil futures, similar to the agreement with China in exchange for their loans for over US\$20 billion.

Expropriations affect oil extraction. Members of the Venezuelan Oil Contractors' Association report obstacles in the maintenance of Zulia State fields, where the Government of Hugo Chavez expropriated over 70 contractors in 2009 so far without paying any compensation for their assets. This adds up to the frequent electric malfunctions and the theft of pieces and materials.

Maracaibo working at less than medium rate. The Association calculates that, out of an extraction capacity of 1.2 million bl/d, the Maracaibo Lake and adjacent areas are barely contributing with 500,000 bl/d, a cumulative and increasing reality.

Venezuela producing below capacity. The Venezuelan Government has declared the nation's production remains close to the 3 million bl/d, but it fell to 2.7 million in



April, according to exports numbers released by the Ministry of Energy in May. The president of the Venezuelan Association of Oil Contractors, Reinero Contreras, said this week *“over 50 percent of the current production is focused in new fields. In traditional zones, the very little we are able to increase in production gets quickly reverted,”* including north of Monagas, the Orinoco Oil Belt and off shore areas.

Asking for increased supply to reduce prices. The signs that high prices are negatively affecting the demand in the west have generated concerns among a group of OPEC members led by Saudi Arabia. These producers will make pressure to increase production with the ultimate purpose of reducing prices and backing the economic growth. Iran and Venezuela represent the opposition to the measure. *“OPEC doesn’t need to increase production,”* said the Governor of Iran, Mohammad Ali Khatibi.

OPEC to increase production if necessary. The Organization of Petroleum Exporting Countries (OPEC) assured it was *“ready to increase production in order to respond to any peak in the demand,”* said in Poland the Minister of Oil of Saudi Arabia, Ali al-Naimi. *“We always maintain an additional capacity, right now it’s approximately 3 to 3.5 million barrels per day, so we can satisfy any market shortage,”* he added.

Venezuela against increasing the OPEC production quota. Ramirez assured in Vienna it was not necessary for the OPEC to increase its joint supply of crude oil. *“We see the market in balance. Let’s wait for the monitoring committee’s report (OPEC internal committee), but we are not concerned about the supply.”* The president of Pdvsa assures the oil market is in balance.

Middle East conflicts affect oil production. The violence reported last weekend in the Middle East might offer a floor for prices, as concerns about the possibility of confrontations spreading towards the main crude oil producers and altering the global supply reappear. Libya is pumping only 200,000 barrels per day out of the 1.6 million it used to produce before the conflict.

Ramirez to denounce US sanctions before OPEC. The Venezuelan minister of Energy and Oil, Rafael Ramirez, stated he would denounce to its OPEC partners the situation created by the recent sanctions imposed by the United States against Pdvsa. *“We will report it and explain it. We think it’s unacceptable for the United States to impose sanctions on us for having relations with another OPEC country.”* The sanctions were imposed due to Venezuela’s relations with Iran.

Fire in Amuay refinery under investigation. The General Management of the Paraguana Refining Center (CRP) in the Falcon State, activated an investigation



committee to determine the causes of the fire that took place last Sunday in the Refinery, after an electric storm battered down in the Paraguaná peninsula. Firemen were able to put out the fire after midnight. No injuries were reported, and the refinery's operation was not affected. Pdvsa ratifies fuel supply is guaranteed for both domestic and international markets.

Sustainable oil development. The oil activity should not only be about oil barrels and drills. Private hydrocarbon companies are undertaking several sustainable development programs. Several areas of the nation have been benefitted with over 960 contribution and sustainable development projects over the last 20 years, in areas such as health, basic and college education, microeconomics and personal finance, environmental protection, scientific research, cultural promotion and even Human Rights formation.

International oil baskets. At closing time on last June 3 in the New York Exchange, the price of the WTI was US\$100.9/bl, which represents an increase of 1.1% compared to the US\$99.8 reported the previous week. The Brent increased by 2.0% to reach US\$115.3/bl, compared to the previous week's US\$113.0/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$103.0/bl on Friday June 3, a 2.3% increase compared to the US\$100.7/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$96.7/bl.

Business Sector Tips

Prices to be established for rental properties. Within the framework of the Great Housing Mission Venezuela, the Government is not only contemplating the production of housing units, but also the acquisition of rental properties. The Administration will estimate the prices of properties based on their age and conditions, in order to avoid speculation.

Construction materials remain in shortage. During the first quarter of 2011, the sales of construction materials grew, but a great part of the materials were oriented more toward public sector projects rather than to private sector projects.



Government orders urgent culmination of housing complexes. *Official Gazette N° 39,685* included a Resolution of the Ministry of Housing and Habitat branding as urgent the culmination of 170 real estate developments in 23 states, simplifying the required paperwork.

Venezuela obtained credit from Oderbrecht. President Hugo Chavez stated he obtained financing for US\$3 to US\$4 billion from the construction company Oderbrecht, with the recent visit of Lula to Caracas, in order to expedite housing projects.

Some basic products might experience production declines. The Venezuelan Food Chamber (Cavidea) reported that affiliated companies were not projecting growth for the next six months and, on the contrary, they expected production declines in 10 out of the 19 basic products monitored by the sector's survey, mainly pasteurized milk with a 12.5% drop, margarine with a 10.9% fall, oils, 10.5% and sardines with a 9.6% decline.

... **According to Cavidea**, only four products have grown in production over the last six months: rice (0.1%), corn flour (8.8%), cold meats (4.8%) and tomato sauce (3.9%). The balance prepared out by Cavidea indicates there hasn't been sustained growth in food production thanks to the investment uncertainty created by price controls.

Chicken, coffee, oil and rice imports increase. The food sovereignty preached by the Chavez Administration is still dependent on imports. The purchase of basic products such as oil, chicken, rice and coffee from other countries increased exponentially during the first quarter of 2011, while national production keeps declining thanks to the lack of incentives and the existence of regulated prices that don't even match the inflation.

Sugar price adjusted. An Executive Resolution published in *Official Gazette N° 39,687* of June 2, 2011 announced a price increase for one kilogram of refined, integral, honey-refined and aspartame sugar from VEB 3.7 to VEB 4.9, while the two kilogram presentation went from VEB 7.5 to VEB 9.8. The 900 gram version of refined, integral, honey-refined aspartame sugar went from VEB 3.4 to VEB 4.4.

Government keeps revising food prices. The work tables between the government and food producers are still being developed to evaluate whether it is necessary to increase some prices, according to Juan Carlos Jimenez, president of the Venezuelan Agricultural Foods Corporation (Cval).





Generalized increase in the cost of imports expected. The recent modification of port fees announced by the National Administration will generate a “*generalized increase*” in the cost of imports, as the cost structure is affected by the values of sea freights and customs service operators.

Price backwardness affects pharmaceutical sector. The pharmaceutical sector is still waiting for the National Administration to adjust prices so they can continue to import and manufacture products, so, in the opinion of sources linked to this sector, the price freezing announced by the National Government last January puts companies in a difficult position.

Other regions sacrificed in benefit of Caracas. The application of rationing blocks maintains the capital city safe and sacrifices most provinces that are temporarily and partially restrained from receiving electric supply. Planta Centro is also working at full capacity. Experts indicate the thermoelectric plant is being overcharged, thus generating risks.

Toyota Venezuela limited manufacturing due to crisis in Japan. According to statements issued by Ignacio Mayz, marketing and sales manager for Toyota Venezuela, due to the crisis suffered in Japan, they were close to two months without receiving raw materials for manufacturing, thus generating a gap in their productive process so they reduced their daily production, also partially due to labor conflicts.

Chinese company linked to Econoinvest lawsuit. The Attorney General's Office accused four directors of Econoinvest for the crime of “*illicit commercialization of foreign currency,*” and one of the operations for which it is accused was carried out with the company Citic International, a Chinese company with which the Government has signed agreements for the construction of housing units.

US\$1 billion required by basic industries to operate. Venezuela's mining industry requires nearly US\$1 billion to be able to supply materials for President Chavez's Housing Plan. The number arises from a series of requests made by the government to companies such as Minerven, Alcasa, Venalum and Bauxilum to cover from salaries to raw materials.

Labor protests increase. After a slight decline in April, the number of protests increased again in May. So was reported by the Observatory of Social Conflicts of the Latin American Council of Social Sciences in its latest monthly report. Over the last 31 days there were 408 street protests, 5.0% more than in April.

Purchases to Brazil have increased by 445% in 12 years. In 1998, Venezuelan purchases to Brazil reached US\$706 million, as of 2010 they had grown by 445%,



reaching US\$3.8 billion. Venezuela's sales to Brazil increased by only 10%, from US\$775 million in 1998 to US\$832 million in 2010. Only China has been able to bring Brazil down from Venezuela's second largest commercial partner to the third place (United States is still first).

Funds authorized for works with Brazil. The National Administration authorized two accounts, one for VEB 1,400 million and another one for US\$302.9 million, to execute different infrastructure labors developed along with the Brazilian National Development Bank (BNDS), including the third bridge over the Orinoco river.

New board of directors for the Public Securities Exchange. The Minister of Planning and Finance, Jorge Giordani, appointed Felix Franco as president of the Bicentennial Public Securities Exchange in substitution of Alessandra Navarro; Julio Cesar Suarez and Edgar Martinez were also appointed as new main directors.

World Economy Tips

Peru has a new president. The results of the records processed by the National Office of Electoral Processes (ONPE) after reviewing 94.334% of the votes, indicated last Monday morning that the presidential candidate for Gana Peru, Ollanta Humala, obtained 51.367% of the votes and his adversary of Fuerza 2011, Keiko Fujimori, obtained 48.633%. In number of votes, Humala obtained 7,267,123 and Fujimori received 6,888,963. The numbers revealed a reduced distance compared to all in-voting-site surveys and quick counts, which had granted a larger advantage to Humala. However, rural votes were still uncounted, and Humala was quite popular in rural areas.

Humala wins and markets get nervous. The Peru Exchange stopped transactions for one hour, after it went down by nearly 9.0% in the first few operations. Before the temporary suspension, the general index was sinking by 8.71% at 19,378.78 points. The index that encompasses leading securities plummeted down by 9.6% at 26,526.20 points. Mining shares, the heaviest in the local exchange market, went down by 9.0% and 15%. The same happened with Peruvian shares in the US, and Chilean firms with operations in Peru in the Santiago Exchange.

Risk raters maintain their posture on Peru. The risk rating agency Fitch Rating maintained there were no reasons to change the Peruvian economy's outlook, as it



maintained its main strengths. *“We see Peru as a solid economy and that’s because it has a prudent fiscal administration and stable accounts,”* said Fitch Ratings’ main director of Sovereign Rating for Latin America, Erich Arispe.

Likewise, the risk rating agency Standard & Poor’s assured today they were not planning on revising the ratings of Peruvian companies after Ollanta Humala’s election as new president of the Republic. *“We acknowledge that the campaign’s political rhetoric included elements that could be perceived as negative for credit quality (...) However, there was also a message of support for the current macroeconomic policies,”* said the agency in a press release.

US Consumer confidence down to 6-month low. Future business conditions were the main concern for consumers in May. The Conference Board informed its consumer confidence index declined by 7.9% in May, compared to April, reaching 60.8 points, the lowest level since November. The latest decrease followed a revised reading of 3.4% in April contrasting with consensus expectations for a 66.5 reading. Over the last ten years there’s been a 48% correlation between the consumer confidence level and personal spending for the following three months in real terms.

How is construction in the US? Construction spending went up by 0.4% in April, after a 0.1% increase in March, revised low from a 1.4% increase last month. Consensus expectations indicated a 0.3% monthly increase. Said increase was led by a 1.7% gain in private sector construction, reflected in a 3.1% jump in residential construction. Non.-residential construction grew by 0.5% in April. Commercial construction fell by 1.3% (-9.2% y/y). The public sector decreased by 1.9% (-7.5% y/y) for the seventh consecutive month down. Street and road construction fell by 1.6% (-5.6% y/y).

European services sector down. The Services of the largest economies of the European Union (EU), Germany, France and Italy, reported declines in May, while Spain and Ireland showed certain improvement. The manufacturing sector has been declining for several months, but so far the impact in services has been silenced. However, despite the contraction in services, Germany, France and Italy reported improvements in consumer confidence in May. Such disconnection may be considered good news.

IMF celebrates advances in Greece. Greece has made some progress in controlling its debt crisis, but it can not allow a relaxation in the rhythm of reforms, said last Tuesday a representative of the International Monetary Fund in a banking conference held in Greece. On that note, the representative stated the IMF and the European Union would continue to support Greece if it completely implemented the austerity program it has planned in exchange for international financing.



New Zealand: business optimism. New Zealand's businessmen have recovered most of the confidence they lost early in the year. According to a business confidence survey prepared by the National Bank of New Zealand, over the next year, the net balance between the two outlooks increased 22.9 points in April and 24.1 points in May, from a net balance of -8.7% in March, being now 38.3% in favor of optimism, much better than the long-term average of 4.6%. This means companies see their performance improving for next year, despite the earthquake suffered in February. Likewise, the activity outlook has remained positive since March and, since then, has increased to pre-earthquake levels, and is now above its long-term average of 20.7%.

Political Tips

Chavez makes it to Brasilia. The Presidents of Brazil, Dilma Rousseff, and Venezuela, Hugo Chavez, agreed last Monday a financing for US\$637 million to build a shipyard for ALBA nations in the Venezuelan State of Sucre.

... **they also agreed** for Venezuela to purchase up to 30 commercial planes to the Brazilian manufacturer, Embraer, as per statements provided by Brazil's foreign policy advisor, Marco Aurelio Garcia. The official also stated that the Venezuelan oil company, Pdvsa, and Brazil's Petrobras, had reached an agreement on the Abreu e Lima refinery.

According to Peruvian press, Chavez financed Humala's campaign. After the surprising accusation of former secretary of State for Latin America, Roger Noriega, indicating the Venezuelan Government of Hugo Chavez had sent US\$12 million to Peru to finance the campaign of Ollanta Humala, Peru.²¹ found suspicious coincidences that would corroborate the version of the former North American official.

Housing surveys differ. Datanalisis assured that 50% of Venezuelans did not believe in the Government's goal of building 2,000,000 housing units, while the information provided by Hinterlaces indicated 53% of the people *did* believe Chavez would partially or totally meet his goal.

According to surveys, Chavez is mostly accepted among young people. In the study carried out in May by Grupo de Investigacion Social (GIS XXI), 53.3% of respondents think President Chavez's Administration has been positive, reaching the



highest approval in popular/rural sectors (Classes D and E) where 55.3% and 58.8% of the people are happy with his administration, respectively. According to the same survey, 55.7% of young people approve Chavez's policies.

Honduras reenters the OAS. With 32 votes in favor and one against, the Organization of American States (OAS) approved the readmission of Honduras to the Organization. The only vote against was Ecuador's, who claimed the country's conditions are still not appropriate.

Banks to be supervised through the President's Law of Special Powers. Loopholes in the Law of Banking Sector Institutions will be covered with reforms to be made using the President's Law of Special Powers, especially in issues such as financial crimes and "banking fraud." Provisions will also be made in articles differentiating the activities of the public and private banking sectors.

Ecuador and Venezuela met also. Presidents Correa and Chavez held a meeting in Salinas and achieved modest results in oil and trade matters. Exports have grown by 40% in foreign currency and 140% in volume, but more than 60% of Ecuadorian sales correspond to oil. All other problems are facing problems due to the excessive paperwork required Venezuela's Currency Administration Commission (Cadivi).

US-Venezuela relations remain "frozen." Communication with Washington "has been impossible," so was recently stated by the Chancellor of Venezuela, Nicolas Maduro. According to Maduro, the Obama Administration is full of incoherence, weaknesses subjected to ultra right sectors, so there are no hints of improvement, although, in his opinion, the Government of President Chavez has tried to establish dialogue at the highest level with the United States.

Sumate urges people to supervise the correct use of fingerprint scanners. In light of the possible incorporation of new fingerprint scanners and their connection – as peripherals- to the voting machines, Sumate representatives consider it is "necessary to be fully aware in order to fight the unlawful use of this equipment by some pro-government sectors against public employees, contractors, and mission beneficiaries under threats to reveal their secret votes."

Disqualified politicians will not be admitted. According to statements issued by Ramon Guillermo Aveledo, Executive Secretary of the Unity Table, the primary election will constitute a complex process in which the enrollment of disqualified politicians will not be allowed, such as the case of Leopoldo Lopez.





Appointments. The following appointments were published in *Official Gazette N° 39,689*: Carlos Alberto Osorio Zambrano as Acting President for Corporación de Abastecimiento y Servicios Agrícolas, S.A. (LA Casa, S.A.), citizen Isis Ochoa Cañizales as new President of Fundación Centro de Estudios Biológicos sobre Crecimiento y Desarrollo de la Población Venezolana (FUNDACREDESA).

Legislative Tips

Investigation continues. The National Assembly (AN) in plenary session authorized continuing with the investigation of the death of three prisoners in a Cicpc dependency after a petition submitted by the chief of the red party, Cilia Flores.

Congressmen to request witness protection measures for Cicpc case. This initiative to protect the main witnesses is one of the first to be taken by the legislative commission as to this case, so was agreed by the representatives of the parliamentary instance in an ordinary meeting celebrated last Wednesday. The commission is expected to define how many and which congressmen will integrate the special group that will investigate the case in their next meeting.

Requests to penalize Cicpc Deputy Director. During the weekly Parliamentary Report session, opposition congressmen reported yesterday of the decisions taken in the Penitentiary Regime and Internal Policy commissions as to the investigation for the death of three young prisoners in the Cicpc office in El Rosal. Juan Carlos Caldera, member of the Internal Policy Commission, regretted the rejection of their request to create a mixed commission to be part of the investigations.

Commission to investigate sale of steel bars. The National Assembly will constitute a commission to investigate the reports of deviations in the sale process of steel bars from Siderurgica del Orinoco "*Alfredo Maneiro*" (Sidor). The information was provided by the vice president of the National Assembly's Finance Commission, Jesus Faria, during a visit to the steel-processing plant, where he stated "*the sale process of steel bars within Sidor was not offering results and we are aware that it needs to be thoroughly investigated in order for us to eliminate the corruption that has generated with the sale of this material.*" Faria indicated that, in order to guarantee the construction of the 153,000 homes expected this year, the National



Administration appointed Carlos D'Oliveira as president of Sidor, so that he could manage the nationwide distribution of steel bars.

Money approved for students. The National Assembly's Finance and Economic Development Commission approved last Tuesday May 31 a supplementary appropriation for VEB 310 million to pay for the Preferential Student Transportation Ticket of January and February 2011. The president of the referred parliamentary instance, Ricardo Sanguino, indicated that preferential student tickets benefitted over 3 million people throughout the nation. *"If we make a comparison, in 1998 only 694,000 students were benefitting from this program,"* he said.

Venezuelan people debates Tenancy Law. June 2 marked the beginning of the public consultation of the Real Estate Tenancy Law, approved in first discussion by the National Assembly in March. The objective of this draft is to benefit citizens who live in rental homes and, in many cases, have been victims of arbitrary evictions by courts and judges against the interests of society.

National Assembly to debate the Law of Community Media in July. The Draft of the Law of Community, Alternative and Popular Communication Media will be submitted at the National Assembly for first discussion in July, so was informed by the president of the Parliament's Permanent Commission of the People's Power and Communication Media, Dario Vivas, who stated *"it's a liberating law that will strengthen the formation and construction of the new Venezuela."*

Second discussion of the Organic Penitentiary Code draft. The second discussion of the Organic Penitentiary Code's draft, approved unanimously in first discussion by the National Assembly, will take place late in June, said last Wednesday the president of the Cults and Penitentiary Regime Commission, Representative Yelitze Santaella.

Indepabis and the National Assembly working together. The president of the Institute for the Defense of People in the Access to Goods and Services (Indepabis), Augusto Montiel, held a meeting with the chairman of the National Assembly, Congressman Fernando Soto Rojas, to coordinate joint efforts. Montiel said he had informed of Indepabis' strategic lines *"to make sure the rights, freedom and economic inclusion of all Venezuelans become stronger each day."*

Regulations for car sales companies. The National Assembly's Administration and Services Commission is working on a draft to regulate companies offering vehicle programmed purchase systems, in order to repair the damages caused to over 5,000 fraud victims.



Accusations for VEB 180 million embezzlement in Health. Congressman Miguel Pizarro asked the parliament's commissions of Comptrollership, Finance and Integral Social Development to demand an explanation from the minister of Health, Eugenia Sader, for an alleged embezzlement for over VEB 180 million. The alleged irregularity is related to the payment to 450 companies dedicated to provide medical supplies and general services.

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ECONOMIC OVERVIEW

