



Weekly Report

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Has 21st Century Socialism moved forward?

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With the Administration dedicated to further implementing 21st Century Socialism, continuing with expropriations and nationalizations, and now with the presidential announcement introducing the 2013-2019 Socialist Plan; the role of the State within the economy has become more and more important. However, based on what people say on the street, one can't make out if all this is really true or just an urban legend. This Report will focus on analyzing exactly what in fact is the role of the State within the economy, and the political decisions it has made, as well as how the Gross Domestic Product (GDP) is performing and how it has evolved. It will also take a look at how the State and private business are coexisting.

The Administration has been clear from the beginning

The Administration has always been focused on implementing its 21st Century Socialism, with a State that has a major holding over the GDP, leaving the private sector with 30% participation, but with its efforts aimed at generating greater value for the community, without earning profits, and in some cases, put them in the hands of the people.

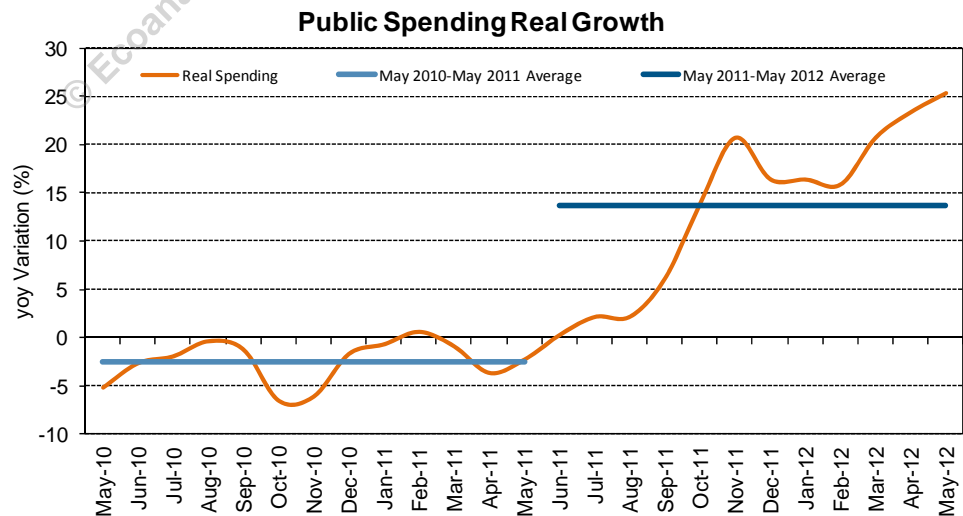


As we have mentioned in previous reports, the inner circle of the Administration is not in complete agreement when it comes to all the issues involved in this matter. Nonetheless, laws such as the Fair Price and Costs Law, the New Labor Law, and the upcoming new Anti-Trust Law and the reform of the Code of Commerce, continue to be passed and drafted, all aimed at consolidating the aforementioned socialist revolution in progress.

**In Venezuela,
the State has
always been
powerful**

It's important to point out that the Venezuelan State has always been characterized for being rentist and paternalist, which has led society to have a very structural dependence on the aims of the Administration in power. This in turn has led many Administrations to simply focus on their selective platforms which only benefited a select few, and not really get behind developing and increasing over production in non-oil sector goods and services, which would have benefited a wider range of the population.

Currently, this tendency has become more pronounced, and the economy is dependent, more than ever, on public spending, which in turn is dependent on the international price of crude oil. The economy's dependence on public spending is quite clear, during the last 12 months the Administration has increased 59.3% average monthly and public spending by 13.7% in real terms. The upshot, the economy has grown.



Sources: Oficina Nacional del Tesoro (MF), BCV and Ecoanalítica





2012: Key year

The economic policies that the Administration is implementing so far this year are atypical. It's been focusing more on using spending on investments (mainly building houses) rather than on current spending (via transfers with direct impact on consumption). The reason for this is that the housing issue has become the central theme for the President's reelection campaign, and up until now, this strategy seems to be paying off. Plus, this type of public spending does not lead to overt increases in liquidity which in turn helps keep a leash on inflation, plus other factors that come into play.

It's clear that in order to continue to implement the 21st Century Socialist political and economic model, the government needs to continue to be the engine propelling the economy through spending. And in order to maintain this level of spending, the Administration needs to increase its revenues, even if it means devaluing the currency, which even though the exchange control is still maintained, allows the government to generate more fiscal revenues in local currency..

Oil revenues are key

The Administration desperately needs to increase oil production. Despite the fact that oil prices have been reflecting an increasing trend during the last few months, revenues generated are not enough to guarantee the viability of the socialist revolutionary processes in the medium term (currently oil exports are at 2.2 million barrels daily), even including the sums that the Administration has squirreled away in its out-of-budget discretionary accounts. This is why it has look to sign strategic alliances with China and other countries to develop the Orinoco Oil Belt, given that PDVSA on its own would not have been able to do so in the time frame required.

The State as a corporation?

The Venezuelan State has been an important part of the economy for a number of years now, playing the role of corporation, since PDVSA was nationalized in the 70s. However, since 2006, the current Administration has increased the State's participation in the overall economy of the country. Implementing a series of nationalizations, which have been increasing over the years; said nationalizations and expropriations have reached a cost of US\$33.6 billion. According to the Administration, these actions were necessary, the State needing to increase its control over "strategic sector" of the economy. This concept, "strategic sector," has evolved significantly over the years. It the beginning it represented the oil, electric power, and telecommunications sector. Now, it also includes the steel, cement, tourism, and banking sectors, as well as the production, distribution, and commercialization of food items. This evolution in concept



has allowed the government to begin to participate in what one might call the business of commodities, such as the sale and assembly of automobiles and cell phones. It also seems the government might be moving into the pharmaceutical sector and the distribution of medicines.

Nationalization Costs (Bn US\$)	
Canceled	
Electricidad de Caracas	1.10
CANTV	2.00
Oil companies(Statoil, Total, Chevron)	3.45
Sidor (Payed)	1.97
Holcim (cement companies)	0.65
Cemex	0.75
Lafarge (cement companies)	0.27
Cerámicas Carabobo	0.01
Eléctricidad Seneca**	0.11
Lácteos Los Andes	0.16
Rualca Aluminum Wheels	0.05
Banco de Venezuela	1.05
Sub-Total	11.57
Future Expenditure	
Éxito Retail Stores and Hilton Hotel	0.72
Cement companies	0.74
Oil Companies (Exxon, Conoco, ENI)	12.62
Oil contractor	1.95
Petrochemical	0.62
CVG contractor	1.30
Gold Reserve	1.93
Agroisleña, Venoco, Fertinitro and Owens Illinois	1.43
Margarita Hilton Hotel & Suites and the Marina, property of Inversiones Pueblamar, Desarrollos M.B.K., C.A.	0.72
Cargill	0.01
Distribuidora Polar Centro Occidental S.A, ground plot located at the Industrial Zone 1 in the city of Barquisimeto ***	0.02
Sub-Total	22.05
TOTAL	33.62

Source: Ecoanalítica

*Venezuela agreed with Verizon the purchase of its 28,5% of the company for US\$ 572 millions.

** Venezuela agreed with CMS Energy the purchase of 88% of its local branch Seneca for US\$ 106 millions.

***Occupies an area of 76.314 m2 and its value rises to VEB 95 millions. The demolitions of the instalations would cost VEB 49 millions.

The model goes further than this

Along with the nationalization strategy, the Administration has also increased the expropriation of farms and has also occupied businesses, as is the case with a number of sugar mills and companies producing coffee, just to mention a few. The excuses given for these actions range between claims that the companies were hoarding their product to that they were not being productive or willingly producing below capacity; when the real problems were the anti-market policies implemented by the Administration, price controls, foreign currency restrictions, and an overall hostile environment for private property. The government has also begun to form



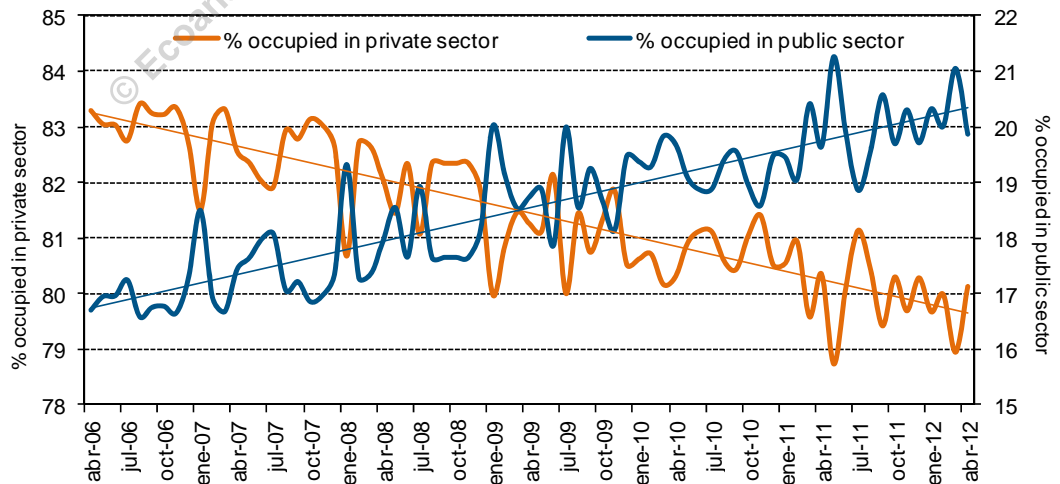
more joint ventures, besides those in the oil sector, such as joint ventures to assemble automobiles and tractors, and joint ventures in the agro-industry sector, among others.

These ventures have not turned out as hoped and it is one of the reasons that explain the inefficiency of public spending as well as contributing to the deficit in public finances. The Administration insists that these ventures are in a transition period, that positive results can't be obtained in such a short period of time, and therefore, the model must continue to be implemented with more determination. We believe that the new Socialist Plan that the President plans to announce in the coming days, will be focused around public companies and the new model for a social economy.

The government's role as employer

With all these measures, the government has increased its share of the total active population that it employs, though the private sector is still responsible for 80.1% of all jobs in the economy. However, the government has increased its payroll by 33.8% between 2006 and 2011. This helps us bring into perspective just how big and important the role of the State is within the economy, despite all that has been described before.

Occupation in Public and Private Sectors



Sources: INE and Ecoanalítica

13 years, not so long?

If you look at the GDP figures released by the Central Bank of Venezuela (BCV) itemized by institutional sectors, you might draw the conclusion that nothing has really changed since 1999, that the share representing the



public sector is practically the same now as it was then. But, the problem with reaching any kind of conclusion based solely on this information is that this data does not show the fundamental factors that propel the economy of the country.

The truth is that the government has in fact moved forward with its initiative to control more of the economy, not only because it has nationalized and expropriated a number of sectors that it considers strategic and of national importance, but it has also increased its regulation over the private sector and implements punitive policies over the managing of private sector merchandise, which makes it a lot easier for the State to take action, whenever it decides that a sector needs to be intervened; given that these measures are not guarantees for investment and the growth of the country.

At **Econalítica**, we believe that the private sector's participation in the economy continues to be fundamental for the viability of any economic growth. Private companies are more efficient than public companies, and the evidence to back this statement up is easy to see all around the country. Some of the more high profile examples which illustrate this fact are the before and after shots of these companies that were nationalized: Sidor (steel and iron), Agrolsleña (now Agropatria – agro-industrial materials); and the cement sector, just to name a few.

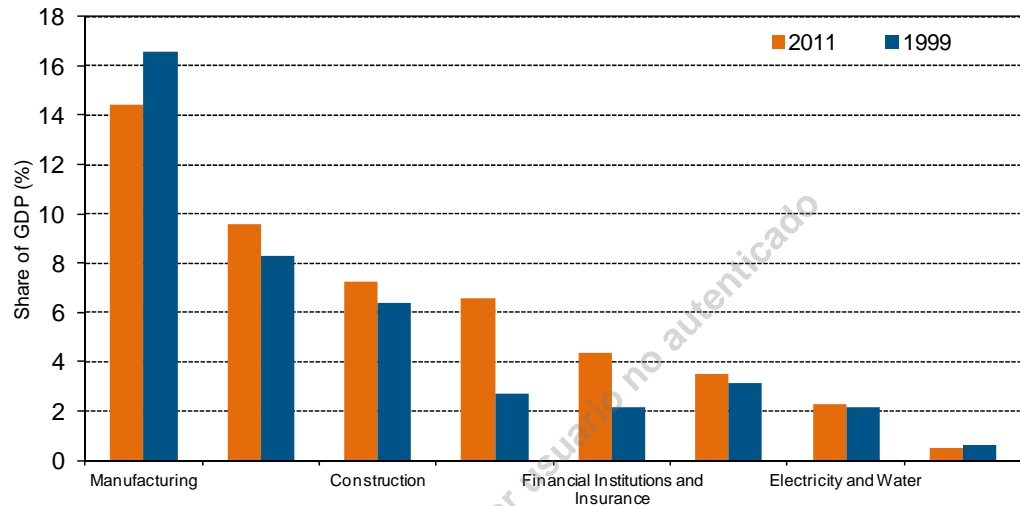
Has anything changed?

If we look at the GDP figures itemized per economic sectors, which the BCV has released, and compare the share of each sector in GDP in 2011 with that of 1999, we can see substantial changes in some and others that have remained unchanged.





GDP Distribution by Sector



Sources: BCV and Ecoanalítica

For instance, one of the sectors the administration has controlled the most is the electric power and water sector; but its share in GDP has remained equal (2.3% of the total) between 1999 and 2011.

At the same time, the communication and financial sectors, in which the government has played a more relevant role (but not the most important), have gained weight in the economy, maintaining a more or less significant presence in the GDP. These sectors combined account for 10.5% of total GDP.

The mining sector (0.5%) and the manufacture sector (14.5%), in which the Administration has also intervened, have changed since 1999. The former has lost even more relevance since 1999, representing only 0,5% of total GDP; whereas the latter, mostly responsibility of the private sector, has also lost share in GDP but still accounts for almost 15% of the economic activity.

For example, while the non-oil economy grew 3.4% between 1999 and 2011, on average, the manufacture sector expanded 1.5%; however, over recent years its growth has left a lot to be desired.

In keeping with the above, the economy sectors that have experienced significant growth with this administration are only those linked to the production of non-tradable goods and services (construction, transportation and storage, communications, financial services and



insurance), at the expense of those sectors related to the production of tradable goods and services (agriculture, mining, manufacturing industry), which makes it impossible for Venezuela to increase and diversify its exports.

Growth in tradable and non-tradable Sectors

(Average 1999-2010)

Tradable	1.07%	Non-tradable	4.15%
Manufacture	1.49%	Communications	10.85%
Mining	0.58%	Financial inst. and insurance	9.08%
Oil activity	-1.18%	Construction	4.37%

Sources: BCV and Ecoanalítica

It is worrying that the tradable sector has been virtually stagnated for more than a decade. Even worse, Venezuela's tradable sector per excellence (oil sector) presented an average annual contraction of 1.2% in 1999-2011. Venezuela's dependence on the oil sector is significant, and it has even growing. For the first quarter 2012, oil exports accounted for 95.9% of total exports. In the first quarter 1999, this ratio was only 72.9%, down 23 percentage points from the current level.

Who won?

The trade, construction and real estate service sectors – which are mostly in private hands – account for 26.4% of GDP. This distribution looks like this (recently the Administration has started to have a greater presence in these sectors), not because the government believes that these sectors will not be a part of the strategic sector notion of the 21st Century Socialism, but because up until now, it has been convenient for the government to keep them as they are, and simply regulating them or making them dependent on the State, either directly or indirectly, through price controls and exchange controls, project financing or harassment and threats, but letting them continue to be managed by firms that have specialized knowledge to guarantee that these industries remain operative. This will continue until the Administration decides that the time has come to have a greater presence in these sectors and attains this through expropriations and nationalizations.

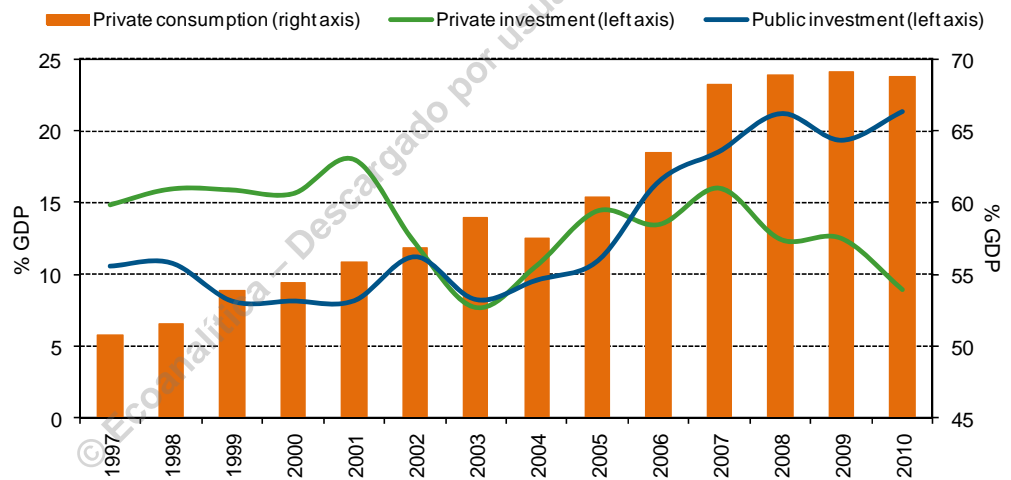
The role of investment

It's worth mentioning that given its significant involvement in the economic activity, the private sector should have greater responsibility in terms of investment in the country. However, although it is necessary to guarantee the country's economic growth, private sector investment has dropped over recent years.



It's worth noting that consumption permanently grew since 2003 through 2008, also accompanied with investment. After 2008, investment shows a poor performance. This was not only due to the crisis of that time, but it coincides with the time when the Administration began to become more radical in political terms. Furthermore, there are other factors, such as price controls, the lack of competitiveness resulting from the exchange control, expropriations, attacks against private businesses and the lack of legal security to defend private property, which results in a little favorable environment to encourage capital formation. As we can see in the chart below, even though public investment has been gaining ground, it is not enough to guarantee GDP level.

Private and Public Investment and Private Consumption



Sources: BCV and Ecoanalítica

There still a lot to do... but we are moving forward

We can see that, in spite of expropriations and regulations, the Administration hasn't still taken control on several relevant components of GDP. However, it is a fact that they have some *Commanding Heights*¹ in their hands and that the 21st century socialism has plans to take control of the remaining components, and this has been reiterated by President Chávez and it may probably be included in the new Socialist Plan.

¹ Lenin coined the term "Commanding Heights" in 1922, when he temporarily made government control on the Soviet agriculture more flexible, even though he maintained a strict control over the large industry. The term symbolized the principle that postulates that for the sake of the economic development and homeland security, it was essential for the government to control strategic economic sectors like steel and iron industry and transportation, to reach the "commanding heights".



If the checks and balances in the political and legal system do not change, the Administration's controls will intensify until ending up in an economy based on central planning, which is the emblem of the entire socialist system. In this context, we could say that the so-called Resource Course² can become deeper and more evident, thus increasing more and more oil dependence as a guarantee of the wellbeing of the economy.

Will we cease to be a precarious economy?

Thus, we wonder if the political and economic system being imposed on the country since 1999 has translated into a more solid, stable and prosperous Venezuela. The so-called "21st Century Socialism" that the Administration has tried to establish in Venezuela, at the expense of volatile and little stable growth, high inflation levels, little investment and an overvalued bolivar, has left an economy that is ill and more dependent on oil prices, in a world that, on its part, is increasingly concerned about finding an alternative for fossil energy, due to the high environmental cost that it represents for the planet and the volatility of its markets.

In this regard, a very important decade for Latin America was wasted. In these 10 years, our neighbors, without oil revenues as important as Venezuela's, recorded much higher growth and investment levels. Now we see how our Latin American peers are better shaping up toward the future in many senses.

To counteract the effects of the current administration's policies, it is necessary to suspend the transition to socialism and reorient the Venezuelan economy. Venezuela should focus on the production of tradable goods and services, on decentralized decision making, tax transparency, diversification of investment opportunities and on decreasing dependence on oil. In the end, the country should be able to attain high levels of organizational modernization and innovation in an environment where prudently regulated property rights are respected.

² The way a dependence on natural resources always skews a country's politics and investment and educational priorities, so that everything revolves around whomever controls said resources. (Thomas Friedman).

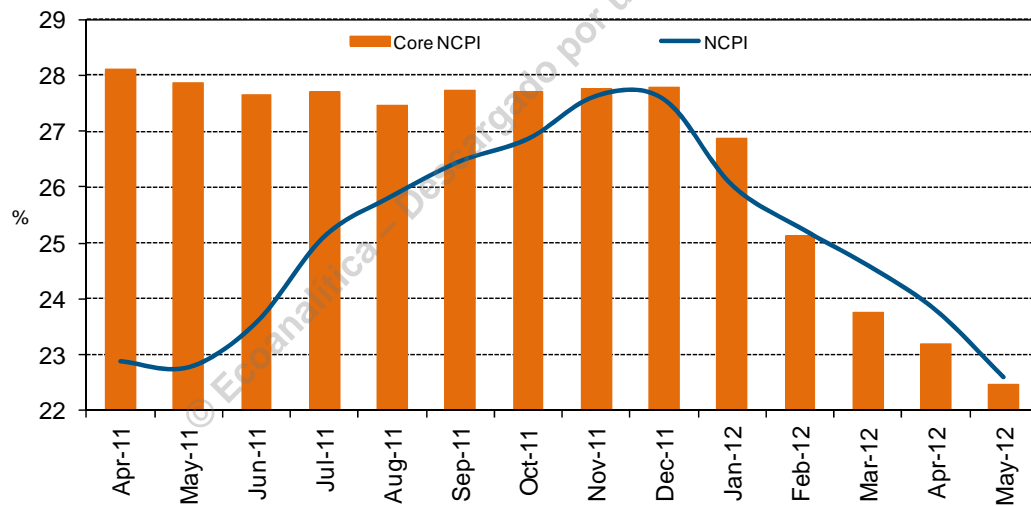


Economic Tips

Inflation in May was 1.6%. According to figures published by the Central Bank of Venezuela (BCV), variation of the National Consumer Price Index (INPC) slowed down in May to 1.6%, lower than the 2.5% recorded in the same period in 2011. Core inflation, in turn, expanded 1.7% in May with respect to April 2012.

Annual inflation recorded 22.6%, falling for its fifth month in a row from 27.6% of December 2011.

NCPI Vs. Core NCPI (y/y)



Sources: BCV and Ecoanalítica

Cumulative inflation at 6.0% so far in 2012, which is also substantially lower than the 10.3% posted in the same period in 2011.

Home rent increased the most. Of the 13 activities analyzed by the BCV, those which the highest price increases were: home rent (1.1%), health (2.2%), clothing and footwear (0.7%), nonalcoholic food and beverages (1.7%); whereas prices of alcoholic beverages and tobacco (1.0%), recreation and culture (0.7%), educational services (0.5%) and communications (0.3%) slowed down in May.





Supply improves. Scarcity index was at 14.8% in May, down from April's 14.8%. Diversity indicator of products on markets significantly improved, going from 169.1 up to 180.6.

Drop in gold price impacts reserves. 73% of international reserves, which are held in gold assets, have been negatively impacted by the 9% drop in the troy ounce from February, when it was US\$1,743. In May, the troy ounce average price was US\$1,585, its lowest level since July 2011.

Cadivi has authorized US\$ 12.060 for the year-to-date. According to Manuel Barroso, of this amount US\$9.4 billion have been authorized to meet import commitments by the private sector. In May, US\$ 1.9 billion were earmarked to cover regular imports and US\$ 415 million for imports under Aladi agreement.

Priority for homes and missions. The Annual Operational Plan for 2012, published by the Ministry of Finance, provides for those investment priorities for next year will be housing, social missions, large infrastructure projects that require capital and the agricultural sector.

More families to extreme poverty. Neither the Administration's social policies nor economic growth have prevented 14,919 homes from falling into extreme poverty, according to official figures released by the National Statistics Institute (INE). The number of families below the poverty line (based on monthly income received by family members) increased by 8,198: from 1,828,029 to 1,836,227.

Markets are optimistic again. Expectations for a government change in October, which might lead to market-oriented policies, have encouraged investors, thus making Venezuelan sovereign debt surge and sinking its yields. The Caracas Stock Exchange "has doubled its value so far in the year" and "is the Exchange with the best performance in the world," according to New York's Auerbach Grayson.

Interest rates. The lending rate for the third fourth of May was at 16.9%, increasing by 0.8 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 increased 0.3% going from US\$25,816 million during the fourth week of May to US\$25,886 million during the first week of June. Compared to the same period last year, international reserves have decreased by 14.8%.





Monetary liquidity. Monetary liquidity in the fourth week of May increased 1.8% compared to the previous week settling at VEB 486,143 million. The M2 has increased 53.5% in relation with the same period last year.

Sitme figures. So far this year, US\$4,373 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$37.1 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$698 million (28.4%) over the same period of 2011, when were negotiated US\$3,405 million. Meanwhile, in May were negotiated US\$964.7 million, representing an increase of 117.2 million (13.8%) compared to May 2011. Lastly, during the last week of May the amount traded reached US\$228 million, traded US\$48.4 million more than last week when US\$179.6 million were traded.

Oil Tips

PDVSA's productivity falls. At the end of 2011, PDVSA own labor force reached a total of 104,187 workers with an average production of 2.99 million b/d (mb/d), or 28.7 b/d produced per worker. In late-2006, before Oil Opening was reversed, PDVSA had a total of 52,816 workers and produced 3.25 mb/d, for a ratio of 61.5 b/d per each worker, more than twice the figures reported in 2011, which shows a drop in the Venezuelan state-owned oil company.

PDVSA will absorb 30 thousand workers. The new Labor Law (LOTTT) could imply a substantial impact for PDVSA's finance, because the company should have to adjust its payroll to the limits set by the LOTTT, i.e. a 29% jump. Some oil unions put the number at 30 thousand people that should be included in PDVSA's payroll within 3 years. Over the past 4 years, with the firm's expansion and the expropriations and nationalizations of service joint ventures, PDVSA's payroll jumped 96%, because at the end of 2007, the company reported a labor force of 61,909 people.

Venezuela's oil basket under US\$100. Prices of the Venezuelan oil basket dropped in May, in a market that increasingly fears a possible debacle in the euro zone and worries about the unfavorable data of the U.S. economy. In the last week of May, the Venezuelan crude oil was sold at an average price of US\$99.2/bl., falling under the US\$100 ceiling for the first time since the last week of September 2011, when it had reached US\$98.79/bl.



Less and less oil for the U.S. A marked drop in oil exports from Venezuela to the U.S. has been reported in 2012. According to data released by the U.S.: Department of Energy, from January-March 2012, Venezuelan crude oil and product shipments to the U.S. averaged 888 thousand b/d (kb/d), down 13.6% from 1Q2011, when 1.02 mb/d were shipped. The quarterly result is due to the sudden drop in sales in January and February 2012.

OPEC to meet this month. OPEC members are ready to hold their regular meeting on next June 14 in Vienna, Austria. The theme of the 5th seminar of the organization will be Petroleum: Fuelling Prosperity, Supporting Sustainability. The OPEC International Seminar which takes place every two years is now recognized as a major event on the energy calendar. Topics to be dealt with at the Seminar include the effects of the long financial crisis in the euro zone and the U.S. recovery expectations.

OPEC adjusts downward its estimate of non-OPEC supply. OPEC has said in its last reports that crude oil supply from non-OPEC countries will be lower than expected in 2012, although the decrease in demand is translated into higher pressures on the Organization to compensate for the supply loss. In this regard, the OPEC revised downward its forecast for oil supply in non-OPEC countries, from 360 kb/d to 140 kb/d, due to the drop in production mainly in Canada, the UK, Brazil and Azerbaijan.

Another spill. A group of fishermen in Zulia State are protesting because they claim that *"an oil spill is affecting our activities in the Lake Maracaibo"* and demand the government to investigate the situation, since it represents severe damage for the ecosystem and the economy. Víctor Velazco, president of the Regional Environmental Autonomous Institute, stated that according to a study conducted by the Governor's Office of Zulia State, more than 500 oil spills and 1500 gas leaks have occurred in the lake.

International baskets. At the time of foreclosure in New York, WTI was traded on June 1 at US\$88.9/bl, which shows a decrease of 2.6% compared to US\$91.3/bl recorded the previous week. Meanwhile, Brent fell by 2.5% to reach US\$ 104.6/bl compared to the previous week, when it reached US\$107.3/bl.

Local basket price. The Venezuelan oil basket price fell last week to close at US\$99.2/bl on Friday 01 June, resulting in a decrease of 2.4% compared to US\$101.6/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 110.9/bl.





Business Sector Tips

Government adjusted parking rates. Through Official Gazette nº39.936 of June 05, a resolution of the Ministry of Trade was published approving the increase in the maximum rate to be charged in parking lots. The increase will be done in two parts. The first increases the price to VEB 2.1 per hour for light vehicles, and VEB 0.8 the fraction, representing an average increase of 200%. STARTING FROM October 30 it will increase to VEB 4.

BCV lowers the mandatory legal deposit for the Misión Vivienda. The Central Bank of Venezuela (BCV) reduced 1.5 points from the average legal deposit that Banks maintain at the entity, so that they acquire new securities issued by the Simón Bolívar Fund for Reconstruction. Last Friday June 1st, the Fund issued VEB 9.87 billion in bonds, with maturity in 2015 and an interest rate of 3.75%. A new issue of "Bolivarian Securities for Housing" will occur between June and November for VEB 14.60 billion, with maturity in 2010.

What is good for someone may not necessarily be good for another. The draft Antimonopoly Law proposes the elimination of all types of monopolies, oligopolies and operations that lead to economic concentration, only for *private* companies. However, it doesn't propose the same for the public sector, which has an increasing participation in the economy.

Another stumbling block on the road to Mercosur. This law could block Venezuela's intentions to enter Mercosur, since the organization requires the promotion of free competition policies that don't exist in the country, even less so when state monopolies have an increasingly influential role in economic activities.

Venezuela among those that respect property the least. The 2012 report of the Property Rights Index revealed that Venezuela is the Latin American country (excluding Cuba) that respects private property the least. Worldwide, we are only above Libya and Yemen, thanks to the low score in the evaluation of Rule of Law and corruption control.

Families in Caracas have the hardest time. A report of the Interamerican Development Bank (IDB) placed Caracas as the Latin American city where it is more difficult to acquire housing, and only 20% of the families have enough resources to do so.



Crisis in the dairy sector. Although the Government and producers close to the government are making efforts to ensure that national milking activities reached a historic high level in 2011, Rodrigo Agudo, consultant for milk processing industries said that 2011 was the year in which more imported powdered milk and cheese entered the country, 160 thousand and 30 thousand tons, respectively. This is reflected in the scarcity of dairy products in supermarkets.

“How can those figures be true?” According to figures presented by the Bolivarian Federation of Livestock and Agricultural Producers of Venezuela (Federación Bolivariana de Ganaderos and Agricultores de Venezuela - Fegaven), milk production is 8 million liters per day, however, for Manuel Heredia, President of the National Livestock Federation of Venezuela (Federación Nacional de Ganaderos de Venezuela - Fedenaga), these numbers are false, and states that production barely reaches 4 million liters per day. He also said that if there has been an increase in milk production, it isn't due to the right policies, but rather because of the rainy season, which helps the grass grow, and thus the cattle produces more milk.

Energy consumption in Venezuela reaches 3,000 kilowatts. According to a report of the risk evaluator Fitch, energy consumption in Venezuela is 3,000 kilowatts/hour per capita, like Argentina, over Brazil and Mexico, and below Chile. The firm warns about the risks facing the electric sector developments, due to the financial dependence of the National Electric Corporation, since it doesn't generate its own resources, and the legal framework approved in 2007 that gives control to the State, eliminated the possibility for private local and foreign companies to participate in the activity.

Electric power service losses reach 37.3%. In its report, Ficht says that the level of technical and non-technical losses or the power service is 37.3%, and Corpoelec's plans to minimize this situation and increase electric power generation are not clear, to prevent the demand peak to equal supply, as happened in 2011 when it was 17.157 megawatts. At present, electric power reaches 25 million people around the country, close to 94% of the population, and during 2011 the number of formal subscribers increased 0.9% compared to 2010.

Foreign currency delays cause concern in Colombia. Luis Alberto Russián, Executive President of the Venezuelan – Colombian Economic Integration Chamber (Cámara de Integración Económica Venezolano-Colombiana - Cavecol), said today that there are sectors that are starting to be concerned because the payments made through Cadivi to suppliers in Colombia *“are starting to be delayed”*. Russián said that this is affecting the dispatch of products by some Colombian companies to Venezuela. He ratified that this is one of the issues that must be tackled so that trade exchanges between Colombia and Venezuela continue expanding.



Blackouts affect production. The rise in electric power failures in the country is once again affecting the industrial sector. Gonzalo Penagos, President of the Chamber of Industrialists of Aragua (Cámara de Industriales del estado Aragua - CIEA), informed that for three weeks now there is at least one blackout a week, which has affected the industries of Aragua and Carabobo. Penagos estimated that at present, the manufacturing sector is losing around 5% of the effective production time, due to electric power failures. Between 2009 and 2010, when the power crisis was more acute, this indicator reached 14%.

Uncertainties continue. After a meeting between automotive associations and Cadivi authorities, the entrepreneurs left without knowing the amount of foreign currency available for this year. Although officials acknowledged that there are delays in the liquidation of dollars, they didn't inform when the delivery will be normalized. Representatives of the association warned that if the currency assignment doesn't return to normal for assembly lines and auto-part manufacturers, most of the companies will have to reduce their production avoid consuming their raw material inventories.

Iron rod production fell 8%. BCV information about the production index reveals that during the January-March period of 2012 there was a drop in the manufacturing of iron rods, steel, and aluminum. Figures from the Bank indicate that in 1Q2012 iron rod production fell 8%, and primary steel fell 22%, compared to 1Q2011. These results confirm what steel industry workers have said, who throughout the year indicated that companies were not operating at full capacity, due to deficits of materials and investment.

Uruguay sells 93% more to Venezuela. According to data from the "Instituto Uruguay XXI", the southern country exported a total of US\$ 176 million to Venezuela from January to May of this year, 93.4% more than during the same period the year before, when exports were for US\$ 91 million. The main item traded is beef.

Banks forced to give client details. The provisions of the new Integral Financial Information System (Sistema de Información Integral Financiero - SIF) created by the Bank Superintendence (Sudeban) forces financial entities to send client data, including, besides names and ID numbers, account codes and their location, date the account was opened, profession or trade, among others. The use that such sensitive information may be given is the main concern of the banks with this new system.





World Economy Tips

Storm winds. The global economy is slowing down. The main actors are moving forward with some difficulties, or are contracting. The manufacturing production index of the United Kingdom reached its minimum level in three years, production in China and the United States grows with difficulties, and the large manufacturing countries of Europe are sinking more and more on the mud. Are these the signs of a new crisis?

Employment figures of the United States disappointing. The net increase of 69,000 jobs in May has been the lowest of the last eleven months, and much lower than estimated by analysts, who expected 150.000 jobs. The unemployment index increased one tenth, and is at 8.2%, or 12.7 million people.

Manufacturing also a disappointment. US manufacturing activities grew less than the two prior months. In May, the sector's purchase director's index was 53.5%, 1.3 percent points less than in April, when it was 54.8%. The meaning of this index indicates that any level above 50 points reflects an increase in manufacturing activity.

China is reason for concern. Analysts expect a slow-down in the growth of the Asian giant to 7.9% for 2Q2012, the first figure below 8 percent since 2009. Specialists warn that new orders have started to drop, and inventories are accumulating, which may lead to new stimulus measures by the government.

Spain, the new Greece? The Bankruptcy of Bankia, the third bank in Spain, rises the temperature of a country with public debt is 68,5% of GDP, public deficit is 8.5%, the main stock exchange index fell 41% in one year, sovereign risk is at its historic high levels, and 24% of the population is unemployed.

The injection that the institution requires is the outrageous figure of €23.50 billion, which creates more doubts about the stability of the financial system, and causes panic in the markets, that punished the country with a record risk Premium of over 540 points.

Capitals flee Spain. Looking for safer harbors, investors and individuals have withdrawn €97.0 billion from Spanish banks, only in the first quarter of the year, a record amount according to the historical data of the Bank of Spain.





Some see the glass half full. According to Emilio Botín, head of Banco Santander, the “only” thing Spain needs is the rescue of its main banks, including Bankia, for US\$ 50.0 billion. The banker praised the formula that the Spanish government selected to tackle the situation of Bankia, and stated that the measures taken will generate significant earnings to the Spanish government.

Spain hasn't gone to the IMF. In response to rumors about a possible intervention in Spain, Christine Lagarde, director of the International Monetary Fund (IMF) stated that the Latin country has not asked for help from the organization, and the organization is not working on a plan in this respect.

Some oxygen for Europe. The capitalization of banking sectors, like that of Spain, is being “seriously” considered by the European Commission (EC), said on Monday Olli Rehn, Monetary Affairs Commissioner. The information is provided in a context of increasing fears that Spain may have to resort to an international rescue.

Portugal defends the banking system. The government of Portugal announced on Monday that it will make disbursements from public funds for €6.65 billion, to help three of the main banks of the country. He said that he is willing to “support other entities in need, as long as they fulfill with the established requirements”. Thus, a fourth bank is studying the possibility of requesting a rescue for €500 million.

Italian biomedical industry the hardest hit by the earthquake. The earthquake in the Italian peninsula hit very hard the health product production industry, targeted for the European market. The chain of tremors has left 17 dead and millions in losses, although they have not been yet established.

Warning about risks to Latin American exports. The Euro Zone financial crisis, and a slowdown in the Chinese economy “may impact global demand of raw materials from Latin America”, said yesterday the President of the Latin American Committee of Foreign Trade, Rubén García.

50% of Latin Americans are not covered by social security. Increase social protection for the Latin American population is what Joaquín Nieto, Director of the International Labor Organization (ILO) for Spain proposes, stating that in the region, 50% of homes are not protected by any social security system.

Argentina following the steps of Venezuela. Starting this week, Argentineans will have to account for the travels they make abroad before the government, a measure that Cristina Fernández defends to prevent fiscal evasion and money laundering. The true reason is that the Argentinean government is running out of dollars,, and in a



context of 25% inflation, they decided to control the flow of foreign currency before devaluating the peso.

Pot banging in Buenos Aires. The announcement of restrictive exchange policies has led to a wave of protests in Buenos Aires, which last Thursday met its dawn amid a harsh noise. This cause was joined by the protest against corruption, lack of safety, and the corruption and inefficiency of the judicial system.

Political Tips

Pressure did it. The date of the official candidate's register as a candidate is out of the nebula: it will be on Monday, June 11, a day after the registration of Henrique Capriles. On this day, the government is planning a demonstration near the CNE to accompany the president.

The CNE is making it easy. Aware of the delicate state of health of the president and his difficulty to move around, the electoral body will provide tents outside its headquarters in which the candidates will formalize their candidacies. Many are questioning how this "informal recognition" of the poor physical condition of the President does not cast doubt within the CNE about his ability to conduct an election campaign, or worse, to be six additional years at the head of government.

Istúriz: "7-O is the last chance to win against Chávez". The PSUV leader said that on October 8, the day after the elections, the New Socialist Plan for the Nation will be unveiled to make sure that the "they won't come back" is no longer a motto but a reality. He said that these elections are the last chance of the opposition to regain power, before "the revolution is irreversible". Could it be that he knows something that we don't?

Violence has claimed 155,789 lives since 1999. More than 20 security plans, police reforms and militarization of the streets has led to murders being 223% more frequent than in 1999, according to figures of the Venezuelan Violence Observatory (Observatorio Venezolano de Violencia). The same source states that plans designed so far look for immediate political effects, and are "partial" programs, with "short-term" responses.





Venezuela, champion of impunity. Carmen Alguíndigue, expert in criminal matters, states that since 1999, Venezuela is dragging more than one million cases unsolved by the Attorney General's office. 60% of the crimes are not denounced, and 79% of those that are, end up in nothing. In 2010, of 734,000 cases entered, only 64,000 led to accusations, that is, less than 9%.

A look into the mirror. Elías Jaua, Vice President of the Republic, said that the Safety Plan of Henrique Capriles *"is populist and filled with demagoguery"*, stating that he proposes to implement in the country what he couldn't implement in three years in the State of Miranda. He said that with *"few resources and officials, the National Guard is the only guarantor of safety in Miranda"*.

Everybody knows more than us. Stardom is now on the side of the newspaper ABC of Spain, according to which, thanks to a drug the President is taking, called *phentanyl*, a hundred times more powerful than morphine, he can withstand the intense pain caused by the advance of his bone cancer. The same source confirms the diagnosis of *rabdomiosarcoma* informed by journalist Dan Rather, adding that if there is no relapse, President Chávez could be able to participate in the October elections.

No freedom, no trial, and no lawyer. Judge Maria Lourdes Afiuni, considered a "political prisoner" of the government, had another setback on Monday, when her lawyer, José Amalio Graterol, was detained by National Guard officials in Vargas for "obstructing the trial", when he rejected to participate in a process without the presence of the accused, which is prohibited by the Constitution.

Political retaliation denounced. Thelma Fernández, lawyer that witnessed the event, qualified it as *"political retaliation"* by the President of the Judicial Circuit of Vargas, Norma Sandoval. On Sunday, the detained lawyer had participated in the TV program "Yo Prometo" on Globovisión, where he made serious denunciations against the judicial system. The lawyer stated that *"opinions should never be considered a crime, but apparently, here they are"*.

Pablo Pérez: "11% of the PSUV is voting for Capriles". Doubting the results of the GIS XXI survey, which give President Chávez a wide electoral advantage, the governor of Zulia stated that the Comando Venezuela has "serious" results that indicate the intention of 11% of those registered in the PSUV to vote for Capriles in the October elections. According to the governor, the message that the opposition candidate will not eliminate the Misiones if he wins the elections *"is coming through"*.

Capriles registers on Sunday. The MUD candidate ratified the invitation to participate in the rally of Sunday June 10, to register his candidacy for the October



presidential elections. The rally will start on different areas of Caracas and the meeting point will be the Plaza Caracas, near the National Electoral Council.

Guyana takes advantage of Venezuela's indifference. The reactivation of hydrocarbon exploration and drilling in the Stabroek block opens up a new chapter in the territorial dispute between both countries. The block is located not only in the maritime projection of the Claim Zone, but also of the Delta Amacuro State, which would imply one of the most hostile actions of Guyana in the last few years against Venezuelan interests.

One of the "Rastrojos" fell in Barinas. The authorities captured Diego Pérez Henao, aka "Diego Rastrojo", in Barinas, number three of the narco-paramilitary band "Los Rastrojos", which operates in the border with Colombia. He is implicated in drug trafficking, murders, kidnappings, and the displacement of Colombian peasant and indigenous communities.

Legislative Tips

Draft Disarmament Law approved. Congressman Freddy Bernal informed that after 10 months, and after many discussions throughout the country, the Technical Commission of the Law for Disarmament, Weapons and Munitions Control, approved the legal instrument by consensus, during the plenary meeting of May 29. Bernal said that the law as such is not intended to solve the issue of crime and violence, but will be a fundamental tool to control said problems, since it regulates the trade and ownership of weapons.

Only 50 munitions per person per year. Congressman Freddy Bernal, President of the Interior Policy Commission of the National Assembly (NA), said in a TV program last June 4th that the Disarmament Law will establish the minimum age to carry weapons at 25 years old, and limits the purchase to fifty bullet cartridges per person per year. He also said that the munitions will be "almost personalized" for officials, and will be marked with a serial number. *"When a bullet or cartridge remains in a crime scene, the Cicpc will be able to investigate more quickly, and this will reduce by 20% the crime problem".*

In August we will have the Funeral Services Law. Congressman Claudio Farías, member of the permanent commission for Administration and Services, informed that



the commission already approved the basis of the Rationale for the Bill on the Law to Regulate and Control Funeral Services, Burials and Cremation, and expect it to be ready before the legislative break of the NA, on August 15.

Sundecop will define the price for funeral services. The National Superintendence of Costs and Prices, created last year, will be in charge of establishing what funeral homes and cemeteries may charge for their services, according to the bill to regulate and control funerary and cemetery services. The working paper being discussed at the Administration and Services Commission of the NA includes the creation of the national integral council of funeral services and cemeteries, which will advise Sundecop about prices in the sector.

Menéndez's performance was "negligent". The technicians that analyzed the performance report and presented their evaluation to the Comptrollership Commission of the NA, rated Ricardo Menéndez's performance as head of the Ministry of Science, Technology and Intermediate Industries for 2011 as "negligent". Neither the monthly nor the quarterly statements presented in the accounts for December 31, 2011, show that the amount of VEB, 3,017,817.9, had been used, so the Comptrollership requested to verify whether this amount was returned to the National Treasury. It is important to note that this portfolio only executed 72.8% of the budget assigned, of VEB 21,736,530.

Antimonopoly law at full speed. The sub-commission for Industry and Trade approved last Tuesday, May 29 the draft law against monopolies, and this week will give it the final reading to then present the text to the Finance Commission of the NA. This instrument forbids monopolistic and oligopolistic practices, but won't be applied to state companies. Congressman Rafael Guzmán said that the text contemplates sanctions and fines, which include expropriation.

The law of Business Premises Rentals is on the stove. Within the Services and Administration Commission of the NA, the Law to Regulate and Control Real Estate Rentals for Commercial Use is being discussed. Its purpose is to control the rental of business premises, and envisages the creation of the National Directory of Real Estate Rentals for Commercial Use. The decree to create this entity states that in this way *"steps towards the transition to a centralized planning model are being taken..."*

The Commerce Code reform is coming. Luisa Estela Morales, President of the Supreme Tribunal of Justice, announced the drafting of a new Commerce Code, because, she said, *"the present one is giving its back to the Constitution"*. The judge explained that *"the Constitution is novel regarding the concepts of profit and property, and the (present) Commerce Code is not in line with the Constitution"*.



The same mistakes. Regarding the approval of the Law of Business Premises Rental, Roberto Orta, President of the Association of Urban Real Estate Owners, said that *"the same mistake as in the Law of Housing Rentals is being made. They want to centralize everything, which has led to chaos that has not benefitted either the owners or the renters"*. He mentioned that six months after the approval of the law, the replacement value has not been set, and there are no decentralized entities to carry out the procedures, and the single central entity is collapsed, because everything goes through it.

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ECONOMIC OVERVIEW

