



Weekly Report

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*Political-economic cycles in
Venezuela = Postponing the
solution*

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In previous weeks we talked about the direction that Venezuela would take if Chavez won again, or if the opposition won the elections. We could do the same analysis for any country in the world on the eve of any electoral process, that is, we could weigh the different government proposals a priori and evaluate, in economic terms, which would be more efficient regarding state policies and government plans.

The big problem comes when we realize that the average voter doesn't decide according to the "*perfect government plan*" or selects "*the least of all evils*" but rather decides based on the benefits received in the present. And this "*present*" is a very short period of time, called pre-election year and the year of the election.

The issue that we consider to analyze this matter is how do candidates achieve the power they are vying for?





The electoral battle

Considering what was said before, we analyze the economic behavior of governments that are about to compete in an election, whether parliamentary or any other type, which causes a phenomenon we call political-economic cycle. The government, using State institutions and economic policy instruments, particularly public spending, tries to “mask” the problems people are facing, to obtain their vote. The implementation of these short-term measures translates into an inefficient allocation of resources (or public goods).

Two evils?

Several authors in the economic literature agree that there are two types of political-economic cycles:

1. The partisan cycle, due to political and ideological fragmentation, a problem that affects mainly democratic societies, caused by the alternation of presidential periods¹.
2. The second type of political-economic cycle is the opportunistic cycle, which we will analyze in depth in this article. This phenomenon emerges from the desire of governments to be reelected.

Behavior of the variables

During pre-electoral and electoral periods, we can clearly see (in a reasonable manner worldwide and intensified in developing countries) that economic policies are implemented both at the macroeconomic level (growth, employment, and inflation) and at the level of the variables used to regulate the economy (exchange rate, public expenditures, tax rates, public debt, and interest rates). We now mention several of the actions caused by these variables:

1. Regarding Fiscal Policies, they focus on:

- Delays in the adjustment of utility rates.
- Wage increases for employees, particularly those in the public sector.
- Increase in public investment for social welfare projects.

¹ A clear case is Venezuela during the 1958-1994 period, when there were six presidencies, four from the political party Acción Democrática (AD) and two from COPEI, which originated, in the study of Venezuelan politics, a monopartidism, due to consecutive government periods, and a bi-partidism, because of the alternation of governments.



2. Regarding Monetary Policies, there is:

- A reduction in liquidity, to try and reduce high inflation.
- An increase in interest rates, to raise the income that the population perceives from their savings.

3. Regarding exchange rates:

- They are stabilized, to control inflation.

The socialism of the 21st century aggravates the theory

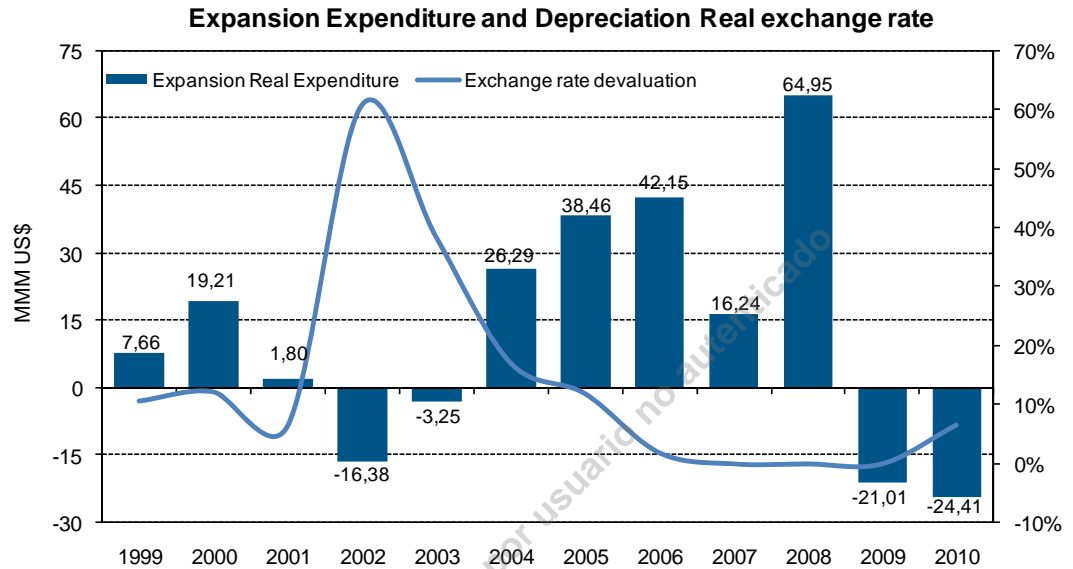
In the Venezuelan case, any similarity with these political strategies is no coincidence, since they can be clearly seen in the imposition of these measures, given the situation that the Socialism of the 21st century is going through.

The main symptom of the present political-economic cycle is an increase in public spending in real terms, and postponing a possible adjustment of the exchange rate until 2013.

Two clear ways to achieve this are, in the first place, the adjustment of the Law of Special Contribution on Extraordinary Prices in the international oil market, which is now for extraordinary and exorbitant prices. This will allow the Administration to perceive (if the present oil price remains) around US\$22 billion from the oil industry, which were originally destined to governors and mayors offices and to other budget projects, but will now go to Fonden, a fund that is outside the budget, and as we all know, is used arbitrarily by the Administration.

Second, there is the recently approved Law on Complementary Indebtedness, approved by the National Assembly (NA) on Thursday, June 9th. This controversial law, approved by the Assembly by request of President Hugo Chávez, gives the Administration the possibility to be in debt for VEB 45 billion more, added to the VEB 52 billion that were budgeted for 2011, representing a debt increase that is twice what was originally planned. In this way, the Administration is trying to postpone the adjustments for after the presidential elections of 2012, as has happened in different electoral periods.





Sources: BCV, Ministry of Finance and Ecoanalítica

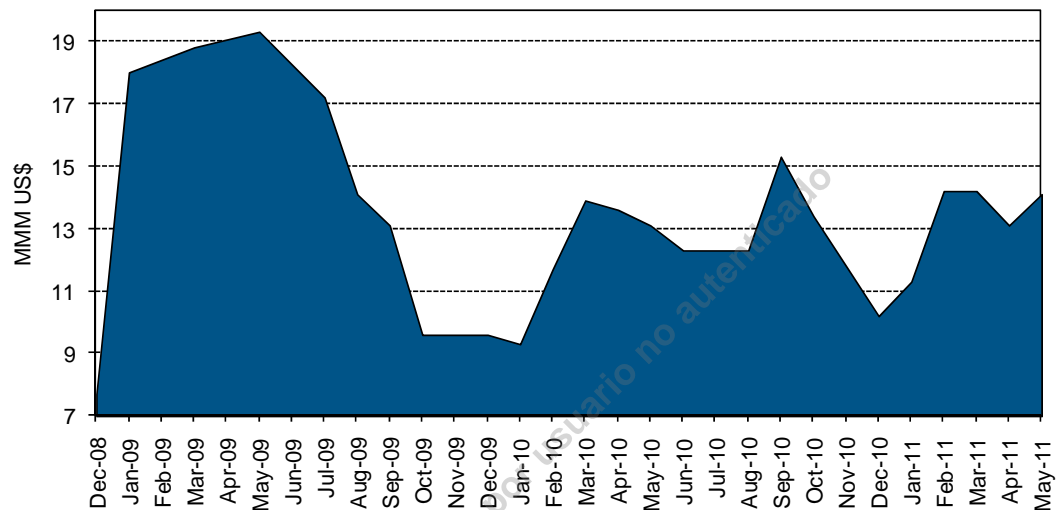
Popularity At the expense of a country

To finance this type of socially convenient but economically inefficient policies, governments try to acquire debts abroad, in order to have greater reserves that allow them to adjust the exchange rate at a slower pace, so the level of domestic prices is not affected. Such is the case of the accumulation of currency in extra-budgetary funds during this year, which together with the international reserves in the BCV amounts to a US\$42.754 million.





Extrabudgetary funds



Source: Ecoanalítica.

With these measures, the expectation is that public expenditures will increase approximately 10.0% with respect to the previous year, and 30% with respect to 2006, year in which President Chávez was re elected for the second time. This money will be injected in 18 months, and will exert pressure on liquidity and prices.

This will have two consequences: first, part of the indebtedness for this year will be via bonds issued in Bolívar/Dollars, not only to nourish the economy with currency, but also to control liquidity through a sterilization operation; the second is related to policies on salaries, to mitigate the effect of the price increases caused by the devaluation of the exchange rate, and taking into account the weakened purchasing power of Venezuelans during the recession (2009 and 2010).

Here we can mention the last increase in minimum wages, of 25% in two stages: 15% in May, and 10% in September 2011. This wage increase occurs in a context where in the last year prices have increased 27.4% and where up to the first quarter, payments to workers fell almost 8.2% in real terms (even worse for public employees). Thus, even though salaries increased, the purchasing power of the population will have a negative variation of 6.4% in real terms by the end of the year.





A comment on devaluation is pertinent

Also, the unavoidable pressure on the exchange market will generate distortions that will reduce the purchasing power of citizens, as the Bolívar devaluates. This measure causes a drop in consumption, and translates into a reduction in wellbeing, and since these types of adjustments are very unpopular, even more so in a pre-electoral period, this is why the measure is postponed until after the next presidential elections.

A tree that grows crooked...

The populist, short-term, and inefficient character of public policies that are implemented when an electoral process approaches, jeopardize fiscal policies and our future position in international markets.

The increase in public expenditures, at a time when oil prices have increased, and when there has been a significant increase in tax collections (in real terms) is taking us to a critical state that will have long term consequences, even though the current debt levels are manageable.

Although the political-economic cycles are doomed due to have negative effects on public policies, and on the wellbeing of the population in the future, they are the only way for candidates (whether valuable or not) to ensure that they will reach power, since a good political platform backed by knowledge and a solid academic formation will not help any personality to obtain a government position if they don't have the charisma and the indulgent and charitable policies with populist connotations that don't deal with the issues in the long term, but rather strives to achieve "*improvements*" that are felt instantaneously. Are we doomed?





Economic Tips

Green light for the Indebtedness Law. After almost six months of activities, the National Assembly passed its first law, the Supplementary Indebtedness Law, which allows the Administration to raise its debt levels by VEB 45.0 billion this year, even though oil prices are over US\$90 per barrel. Furthermore, the representatives authorized four supplementary appropriations for VEB 1.1 billion. With these operations, off-budget spending exceeds VEB 15.4 billion.

More resources in foreign currency... According to the balance of payment figures published by the Central Bank of Venezuela (BCV) at the end of the first quarter of this year, the Administration has resources for US\$24.16 billion abroad. We at **Ecoanalítica** believe that these resources actually amount to VEB 14.2 billion. The difference with respect to the BCV figures is fundamentally due to the fact that funds that are already committed in different projects but that have not been disbursed are discounted from the amount reflected in the balance of payments.

The workers' food basket (CAT) costs VEB 2,832.7. According to the Centro de Documentación y Análisis para los Trabajadores (Cenda), CAT recorded an increase of 5.2% since April, to VEB 2,832.7. Deficit in the minimum wage purchasing power is 50.3% (VEB 1,425.5). Ten items of the eleven that make up the food basket recorded increases: sugar and similar products (12.2%); cereals and derivatives (11%); meat and derivatives (9.6%); fish (6.7%); fruits and vegetables (5.8%); as well as fat and oil, oleaginous seeds and leguminous plants, non-alimentary products and nonalcoholic beverages.

Cendas-FVM basic basket is up 3.4% in May 2011. According to the monthly report of Cendas-FVM, the Basic Family Basket (CBF) reached VEB 6,865.27, for an increase of VEB 228.77 and a variation of 3.4%. Monthly variation of the Basic Family Basket was determined by the higher prices of the following items: basic public services went from VEB 616.48 up to VEB 726.48, due to the 25% increase in urban and inter-urban transportation rates. Personal care and household cleaning products increased from VEB 636.17 up to VEB 684.79. Food increased by VEB 41.78, from VEB 2,892 up to VEB 2,934.

INE: Food basket grew 19% in one year. According to calculations of the National Statistics Institute (INE), food basket should close September 2011 at VEB 1,589. The minimum wage of VEB 1,548.7 may buy 97.4% of basic foods included in the Venezuelan diet, vs. 91.7% which were covered in the same period in 2010.



Growing GDP... According to Armando León, director of the Central Bank of Venezuela, the main indicators of the performance of the national economy are taking a positive course that makes it possible to envisage a GDP growth over 4.0%, which is the figure initially estimated by the Administration for 2011.

Consensus increases growth prospects for this year. FocusEconomics polling firm, in its edition for Latin America, reveals that consensus among analysts following the country's economic performance foresees a 2.2% growth in GDP at the end of this year, up from the 1.8% expected in May. This result is adjusted to **Ecoanalítica's** estimate, which also expects a 2.4% growth. Concerning inflation, the survey revised its year-end forecast by 0.6 percentage points up to 28.2% and 26.9% for 2012. However, we estimate that this indicator will reach 25.9% in 2011 and 28.1% in 2012.

The economy will grow 5.0% in 2011. INE president, Elías Eljuri, estimated 2011 economy growth at 5.0%. Eljuri's expectations are based on the economic rally experienced by the country during the first quarter of 2011 and the investment of additional resources by the Administration in housing, infrastructure and agriculture.

Issued bonds for VEB 10.0 billion. The People's Ministry for Planning and Finance announced the launching of a special National Public Debt bonds for VEB 10.0 billion, which will be earmarked for the main entities of the public financial system. This bond placement corresponds to the allocations established in the Budget and Special Indebtedness Laws for 2011, passed in December 2010 by the National Assembly.

Venezuela's higher gold reserve. According to data published by the World Gold Council, Venezuela is at the 13th place among countries with the largest amount in gold reserves, with 365.8 tons accumulated up until June of this year. Gold is very important since it represents 62.1% of international reserves.

Interest rates. The lending rate for the first week in June was at 18.07%, increased by 0.04 perceptual points compared to the previous week. Time deposits also were created by 0.06 perceptual points to reach 14.82%, while the passive has not submitted any variation significant since January 2010, placing well at 12.61%.

International reserves. International reserves increased 0.8% going from US\$30.44 billion during the first week in June to US\$30.67 billion during the second week in June. Compared to the same period last year, international reserves have created by 4.5%.

Monetary liquidity. Monetary liquidity in the first week in June decreased 0.18% compared to the previous week settling at VEB 317.1 billion. The M2 has created 28.1% year-on-year.



Sitme figures. So far this year, US\$3.59 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\$138.7 million, US\$32.3 million less than last week when braided US\$170.9 million.

Oil Tips

OPEC members didn't reach an agreement. The twelve members of the Organization of Petroleum Exporting Countries (OPEC) didn't reach any agreement to increase oil production quota at their ministerial meeting held on June 8th in Vienna, announced the Secretary General of the Organization Abdalá El Badri. *"Unfortunately, we didn't reach any consensus on this occasion to rise our production,"* admitted El Badri at the end of the meeting.

OPEC doesn't give up concerning production quotas. The OPEC production quota has been 24.84 billion b/d since January 2009, although real production was raised up to 26.15 million b/d in April this year, according to the International Energy Agency (IEA). This production levels are not enough to compensate for Libya's production decline since mid-February.

Resistance against production quota increase persists. Six countries, including Iran and Venezuela, are against the production increase, because they believe that the Brent and West Texas Intermediate (WTI) price levels are due to speculators and the situation in Libya. Venezuela's Oil Minister, Rafael Ramírez, pointed out that *"it isn't a catastrophe"* that OPEC has closed its meeting in Vienna without any agreement and that members are given more time to evaluate the market situation.

The International Energy Agency is disappointed. This organization that represents the interests of industrialized countries announced past June 9th that it is disappointed at OPEC's decision not to increase oil production quotas and warned about a possible price increase.

Prices grow after OPEC meeting. Oil prices increased on June 9th for the second time in a row in a market that is still evaluating the consequences of OPEC's decision to maintain its production quotas. *"Support on markets continues due to uncertainty resulting from OPEC's failure to reach consensus on the production quota increase,"* Matt Smith from Summit Energy pointed out.



Venezuela's plans backfired. OPEC's 159th meeting ended without consensus on Venezuela's request to condemn the US Administration for having imposed sanctions against PDVSA, due to gasoline sales to Iran.

Venezuela is no longer perceived as an impartial member. Elie Habalian, Venezuela's former representative to the OPEC, pointed out that division into two blocs was evident at the Organization's past meeting and referred to Hugo Chávez' mistake of identifying Venezuela with Iran. Habalian said that *"the Gulf countries, Saudi Arabia, the United Arab Emirates, Kuwait and Qatar, are in line with the US strategy and were not willing to accept a measure against their main ally in the Western Hemisphere."*

Further cooperation with Havana. Cuba has plans to increase the capacity of its oil refineries and a liquefied gas plant with the support of Venezuela, according to talks held between both governments during the visit of President Hugo Chávez in Havana. A 320-kilometer long gas pipeline will also be built in this complex by Petrocaribe. Let's remember that Venezuela supplies Cuba with 100,000 b/d, which Havana pays in part with health, educational and sport services.

Major European firms are more profitable than their US rivals. The 500 largest European listed firms are more profitable than their US rivals, according to a study published by the economy German newspaper Handelsblatt on June 10th. This is the second time ever that this happens. The list is headed by Royal Dutch Shell, BP and Total.

Refinery construction in cooperation with Petrobras. PDVSA and Brazil's Petrobras representatives ratified their intention to make the incorporation of the Venezuelan State-owned oil company into the construction of the Abreu de Lima refinery in Brazilian territory. Both companies have to work to apply the new business approach resulting from the US\$5.2 billion financing granted by Brazil's National Development Bank (BNDES).

Financing thanks to partnership with Brazil. PDVSA will have access to 40% of total financing, or US\$2.09 billion, which together the initial payment estimated at US\$650 million will constitute the two payments which will allow PDVSA to enter a partnership with Brazil.

New appointment at PDVSA. Engineer Jesús Luongo, General Manager of the Paraguana Refining Complex, was appointed PDVSA's National Director for Refining Operations, a decision that was welcomed by the industry's workers.

The market will need more oil starting from July. OPEC Secretary General, Abdalá El-Badri, admitted at the end of the past week in Vienna that the market will need another 1.5 million b/d starting from July. El-Badri estimates that the market will



be short 2 million b/d in the third quarter and 1.5 million b/d in the fourth quarter of this year. *“An increase must take place from July 1st; however, shortages are not expected up until June 30th. Starting from July, we have to be very careful,”* El-Badri pointed out.

Fuel prices increased. OPEC Secretary General blamed the growing financial speculation for price increases. *“I urge the US and European governments to agree upon a regulation to stop speculation,”* he said after presenting OPEC’s calculations according to which about 3.0 billion b/d will be traded on future markets, i.e. 35 times more than the real daily oil consumption, which is estimated at about 86 million b/d.

International baskets. WTI closed at US\$100.2/bbl. on the New York market on June 10th, down from the US\$100.9/bbl. recorded a week ago. For its part, Brent gained 1.5% to US\$117.0/bbl. as compared to the previous week, when it was selling at US\$116.3/bbl.

Price of the local basket. The Venezuelan oil basket price increased last week, closing at US\$105.0/bbl. on June 10th, which translates into a 1.0% increase with respect to US\$103.0/bbl. of the previous week. Meanwhile, the yearly average of the Venezuelan oil basket was at US\$97.24/bl.

International oil baskets. At closing time on last June 10 in the New York Exchange, the price of the WTI was US\$100.2/bl, which represents an decrease of 0.3% compared to the US\$100.6 reported the previous week. The Brent creased by 0.4% to reach US\$116.4/bl, compared to the previous week’s US\$116.9bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$103.9/bl on Friday June 10, a 0.2% increase compared to the US\$103.7/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$97.0/bl.

Business Sector Tips

Energy demand will be controlled. Measures to be taken by the Administration include rewarding consumers who reduce their consumption by 20% with a 50% discount in their electricity bill and punishing consumers that increase their consumption with a 20% penalty. Surcharges or discounts will also be applied to



industries and companies with high consumption levels, which are urged to cut consumption by 10%.

The Administration's importing spree doesn't stop. According to a report by the Alimentation Ministry, approved by the President, the State will import through Corporación CASA food worth almost US\$4.0 billion, which would represent a 58.3% increase from the amount spent in 2010.

...These imports will impact local production. According to statements to the press by the president of the National Confederation of Agricultural and Livestock Producer Associations (Fedeagro), Pedro Rivas, imports authorized by President Chávez will adversely impact local crops of some products, including corn, sugar, black beans, coffee and tuna, among others.

Cost of price-controlled food increased by 8.9% over fourth months. According to the most recent data managed by the National Statistics Institute (INE), adjustments of price-controlled food products have resulted in an increase of 8.9% in their cost at the consumer level between January and April of this year, i.e. almost twice the increase posted by non-controlled products.

Labor conflict at Polar. Operations were paralyzed by the labor conflict that started on May 3rd by the plant's union due to differences with the company in the negotiations of the collective bargaining contract for 2011-2013. The company has insisted that the strike is illegal, but the union claims that it is completely legal.

...This conflict threatens cereal production, because shutting down Empresas Polar's cereal plant in Carabobo means that production of about 2.5 tons of oat will not be completed. Rice cream Primor, Toddy (chocolate beverage), Frescavena (oatmeal beverage) and Fresca Chicha (rice-based beverage) are also produce at that plant.

Labor conflicts worsen. Between January and May of this year a total of 883 labor protests have been staged, according to data released by the Clacso-Provea alliance, which accounts for over 40% of conflicts happening throughout the country. According to this report, the most complicated situation took place in March, when workers staged 207 protests.

Norms on capital legitimization were established. The National Securities Superintendent's Office published the norms against capital legitimization and terrorism financing, which are applicable to securities issuing firms, financial entities "directly or indirectly" involved in the offer of papers and the Stock Exchange, among others.





Financial papers' future is still uncertain. On December 17, 2010, the National Assembly passed a reform of the Banking Sector Law which provides for dismantling financial groups, that is, the structures that currently group under the same umbrella a bank, an insurance firm and a brokerage house. This decision will be in the hands of the Minister of Finance, Jorge Giordani, who hasn't still said anything about this issue.

Public banks increased Government financing by 32%. At the end of April, Government's debt to public banks for bonds and Treasury bills amounted to VEB32.5 billion, which accounts for a 32% jump over the first fourth months of the year. This is aimed at contributing with spending expansion, so as to boost economic growth.

Banks limit mortgages. The Housing Ministry changed in May the decree of the mandatory mortgage portfolio and set as a financing access ceiling, those people earning VEB 7,037. The decision doesn't go into more detail and, considering the lack of clarity, banks have requested clarifications from the authorities. However, no responses have been received so far; therefore, banks have decided not to grant credits to those citizens earning higher salaries.

Venezuela covers power subsidy in Nicaragua. Nicaragua's President, Daniel Ortega, authorized a million-worth subsidy to the energy sector with funds coming from the Venezuelan cooperation to guarantee stability of power service rates.

Car assembly grows 11.4% in one year. According to the most recent monthly report issued by the Automotive Chamber of Venezuela (Cavenez), car assembly in May amounted to 9,475 units, up 11.4% from the figure reported in May 2010. This figure, which takes the cumulative figure between January and May up to 41,555 units, represents a 3.5% decrease for the year-to-date.

.... **However, sales continue to fall.** The monthly sales bulletin released by Cavenez reports that 10,228 units were sold in May, up about 797 from the previous month., but down 1.6% with respect to May 2010.

This result accounts for total sales of 45,449 cars up until May, for a drop of 7.0% with respect to sales in the same period in 2010.

Agriculture mission has delivered VEB 2.7 billion. The Minister of Agriculture and Lands, Juan Carlos Loyo, informed that about 75,000 farm producers have been benefited with the injection of VEB 2.7 billion. This makes it possible to promote the development of the country's corn sector.





Odebrecht works have a two-year backlog. Three out of five Metro projects are paralyzed. In the first quarter of the year, road infrastructure construction dropped 16.5%, affecting the main projects of the Ministry of Transportation, including Metro, due to the limitation of resources.

CANTV will offer cable TV services. Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) will enter the cable TV market in the last quarter of this year. After two years of work and tests on the Home Direct TV Platform, the State-owned company is ready to add this service to its product offer.

World Economy Tips

Germany and the *E.coli* outbreak. Despite the good news about the economic situation known about one or two months ago, the *E. coli* outbreak in Germany is drawing all attention. Although it's too soon to try to estimate the economic impact of this situation, it may be useful to remember 2003's SARS (Severe Acute Respiratory Syndrome) outbreak. Pandemics affected about 8,500 people, mainly in China, Hong Kong, Taiwan and Singapore, where 433, 291, 81 and 31 were reported. The epidemics severely impacted tourism and travel and had a remarkable effect on GDP in 2Q2003. Up until now, the outbreak has affected about 2,000 people, including 23 deaths, and its economic impact has been largely felt in the agricultural sector.

Lower inflation in Europe. The rising inflation trend is abating across all Europe's PIGS (Portugal, Ireland, Greece and Spain), except for Spain's whose May data isn't still available. However, for Spain through April, the inflation picture was getting worse because of inflation spike in March, even though April itself brought a decline in the HICP. According to different analysts, what we see is a picture of inflation breaking lower. Of eight reporting nations in May, five show monthly inflation drops. Only Italy, the Netherlands and Spain show steadily rising inflation profiles.

US: Reducing unemployment is a difficult task. Overall unemployment May rate is down one full percentage point (9.1%) from its high in October, 2009 (10.1%). However, several factors clearly suggest that the decline has been remarkably slow. To start, the drop compares to declines of 3-to-5 percentage points after the severe recessions of 1973-75 and 1981-82. During the comparatively slow recovery following the moderate 2001 recession, the rate still fell by roughly two percentage points in the two years after its peak.



No change. The Labor Department's figures painted a picture not only of higher unemployment but of great variation in conditions by gender, age, ethnicity, and education. As the table below indicates, nearly two years into the current economic recovery, unemployment remains stubbornly high across categories. Currently, the slow fall in overall unemployment reflects little-or-no decline in the rate amongst blacks, women, and those with advanced education degrees. Even for white males, the decline in unemployment has been modest.

US: Consumption credit increases.

The improved job market has encouraged more credit usage by consumers. Reported this week, overall consumer credit rose \$6.3 billion during April following a downwardly-revised March gain of \$4.8 billion. A \$5.0 billion increase has been expected by analysts. Credit has risen strongly during the last seven months. During the last ten years, there has been a 53% correlation between the y/y change in credit outstanding and the change in personal consumption expenditures, although the correlation recently has weakened considerably.

US foreign trade deficit declines. The US foreign trade deficit narrowed in April to \$43.7 billion from \$46.8 billion in March. Expectations had been for \$48.8 billion. The latest figure was the least since December as exports rose 1.3% m/m but imports slipped 0.4%. This increase is underpinned, among other things, on the increase of 3.1% on an m/m basis of industrial supplies imports.

US improves fiscal deficit. The U.S. Government's budget deficit so far this fiscal year totaled \$927.4 billion, according to figures released by the U.S. Treasury and the Office of Management and Budget. The monthly deficit in May deepened slightly with respect to April, but that was more than one-half shallower than last May. As a percent of GDP the deficit fell to 6.2%.

Japan: capital goods suffer. The Economic and Social Research Institute of Japan released data on machinery orders for April. Although total orders were up 3.1% from March, the private sector orders excluding volatile orders (ships and electric power) were down 3.3% from March. Apparently the volatile orders were strong enough to overcome the decline in the traditional machinery orders in April. Since private sector orders tend to presage the course of capital spending four to six months ahead, the decline in private sector orders suggests that the decline in investment in the first quarter will continue into the second quarter.





Political Tips

MUD against the Indebtedness Law. In a press statement, the Democratic Unity Table (MUD) said that this new indebtedness, in addition to being illegal and unconstitutional, it doubles debt of all Venezuelans and doesn't guarantee that problems are solved.

Indebtedness Law compromises the country's future. Primero Justicia Representative, Juan Carlos Caldera, stated his rejection to the recently passed Special Indebtedness Law, with which the Administration is claiming that it will face Venezuela's housing crisis and advance several government projects. According to the Representative, *"after six months in the Assembly, the first law that is passed compromises the future of the country."*

State Governors present plans to raise funds. Governors of Zulia, Miranda and Lara, Pablo Pérez (UNT), Henrique Capriles (PJ) and Henri Falcón (PPT), respectively, gathered last week in Zulia State to reach agreements and develop strategies *"for the defense of the regions and their constitutional rights to fair income."* However, they haven't stated what action they're going to take in this regard.

GISXXI points out that Chávez' popularity is growing. President Chávez' popularity has gained 15 points from February through May, to 53.3%, ratified Jesse Chacón, director of the Grupo de Investigación Social Siglo XXI (GISXXI) this Thursday.

CNE will request a supplementary appropriation. Improvements to the technological electoral platform for the three electoral process scheduled for 2012 will cost VEB 499.5 billion (US\$116.16 billion at the official exchange rate). Due to the 45% cut of the initial allocation of VEB 659.9 billion, CNE directors agreed to request extraordinary resources.

First job proposal is disguised. The Representative to the National Assembly, Francisco Soteldo (PJ-Carabobo), charged the Government with trying to *"disguise"* the PSUV proposals to guarantee young people their first stable job in the text of the Law on Job Provision Regime.



The Communist party is not afraid from President Chávez. The Communist Party of Venezuela reported yesterday that the intelligence agreement signed by President Hugo Chávez with Colombia is in violation of national sovereignty. *“The PCV demands the Government to suspend and declare null and void intelligence cooperation agreements that Venezuela has signed with Colombia.”*

PSUV claims that Humala’s victory is an achievement. The Partido Socialista Unido de Venezuela (PSUV) welcomed this Monday Ollanta Humala’s victory in Peru and described it as an achievement of the progressive forces of the Peruvian people that are demanding more inclusion, equity and social justice.

MUD trusts Humala’s commitment to democracy. Political forces in the MUD, in a press statement published recently, congratulated the Peruvian president elect Ollanta Humala who with his victory ratified that power alternation is the essence of the democratic play. *“We trust his commitment to the strengthening of democracy.”*

Vice President invests VEB 1.24 billion in Miranda. According to Vice President Elías Jaua, the National Executive invested VEB 1.24 billion for the development of works for the health sector that will benefit communities throughout Miranda State.

Cuba-Venezuela commission moves forward in integration projects. According to Venezuela’s Minister for Foreign Affairs, Nicolás Maduro, the integration projects in agriculture, trade, food and telecommunications, among others, have been analyzed by the ministers of Venezuela and Cuba as part of the high-level meeting initiated on May 8th during the visit of the Head of the Venezuelan State to that country.

Survey shows workers’ discontent. A survey conducted by Consultores 21 among workers at companies that have been expropriated by the Government, 44% of workers report that they earn less now than before, whereas 55% say that benefits were eliminated. 56% believes that those who don’t support the Government are punished and 61% states that strikes aren’t permitted.

Ecuador will join Venezuela Great Housing Mission. Through an agreement closed by President Chávez with Ecuador’s Rafael Correa, a joint venture with Ecuadorian technology will be incorporated *“to streamline the creation of housing solutions through the Venezuela Great Housing Mission,”* the Ministry of Science, Technology and Intermediate Industries, Ricardo Menéndez, pointed out.

The Government of Zulia is willing to cooperate with the National Executive. Zulia’s Governor, Pablo Pérez, demanded the Ministry of Electric Energy, Alí Rodríguez Araque, to explain the 20-hour plus power outage that occurred in that State. Pérez assured that the regional Government is willing to cooperate with national authorities. Likewise, Zulia’s Governor stated that while they are working



with electric power plants, the same don't have enough capacity to face great magnitude problems.

Legislatives Tips

Another Indebtedness Law. President Hugo Chávez requested the National Assembly (AN) last week to urgently pass the Supplementary Indebtedness Law for VEB 45.0 billion to address new missions spending. The original indebtedness foreseen for this year amounts to VEB 40.0 billion and now it has been more than doubled, to VEB 85.0 billion.

Discussion of the Indebtedness Law. The AN Secretariat informed that the Draft Special Supplementary Indebtedness Law for 2011, forwarded by the President, was received. The Assembly posted at its Twitter account that the text would be discussed at the plenary session of the National Assembly as the first item on the agenda on June 7th.

AN passed the Supplementary Indebtedness Law. A new indebtedness law, for VEB 45.0 billion, was passed on June 9th. As a consequence, the Government will end up placing VEB 97.0 billion, since it was already authorized to issue VEB 52.0 billion in papers.

The opposition expresses its opinion... During the tense debate on the Supplementary Indebtedness Law, opposition representatives demanded the presence of the ministers for them to explain the reason for the indebtedness and pointed out that considering the high income levels, it wasn't necessary to approve further debt.

The Government representatives support... Government representatives endorsed the Supplementary Indebtedness Law because, in their opinion, funds are required to solve the country's problems. They pointed out that indebtedness if aimed at investing funds in the Housing, Job, and AgroVenezuela missions, rain-related contingencies and public debt payment.

Bond placement conditions for the second quarter. The financing conditions to place public debt bonds for VEB 45.0 billion that are contemplated in the Supplementary Indebtedness Law must be defined when the operation is to be



carried out. The explanation was given on June 9th by Representative Andrés Eloy Méndez during the AN session where the law was discussed article by article.

Discussion on financing conditions. The Representative Alfonso Marquina questioned the fact that the Supplementary Indebtedness Law *“doesn’t explain what will be placed in dollars, bolivars, how much on the domestic market and how much on the international markets.”* Méndez answered that *“I request those details to be included in the law because the operation of the public debt system is unknown. It’s necessary to wait to the right moment to determine the bond placement schedule, because these operations are carried out based on certain indicators of the international financial market.”*

CICPC is still investigating. The Commission on Interior Affairs of the AN decided to consider the possibility of interviewing the Director General of the CICPC, Wilmer Flores Trosel, to investigate and obtain information concerning the case of the three young men who died in the cells of the Capture Division of that entity.

PSUV and opposition with opposite stances. PSUV representatives are not willing to interview Flores Trosel. The opposition representatives, in turn, requested to summon attorneys working on the case and the victims’ relatives. However, the proposal was dismissed by the Chair of the commission and head of the PSUV fraction, Cilia Flores, who stated that *“We cannot disturb the criminal investigation. We are closely following the case and it will be timely determined whether somebody has to be interrogated.”*

End of the commission established by the National Constituent Assembly. Appointments by the AN on June 9th designating Hernán Pacheco, Yakelin Sosa, Carlos Medina, Tulio Jiménez, Ana Cecilia Zulueta and Adecio Guerrero as members of the Judicial Disciplinary Tribunal and Court, put an end to the temporary status that began with the 1999’s constituent process, by dissolving the Commission on the Operation and Restructuring of the Judicial System created to temporarily process judges that take irregular actions.

Will penitentiary reality come out from its stand-by state? The head of Acción Democrática (AD) parliamentary fraction to the AN, Representative Edgar Zambrano, criticized the way how the PSUV majority hasn’t put up for public consultation the draft Organic Penitentiary Code. *“The consultation concerning such an important matter must be broad. We must listen to the most critical stances vis-à-vis the penitentiary reality in Venezuela, for this legal instrument to be the first link in the process of transformation and reform of Venezuelan prisons.”*

Promises have to be delivered. Representative Edgar Zambrano remembered that one of the electoral promises made by President Hugo Chávez in 1998 was the transformation of the Venezuelan prisons. Twelve years later, the topic is finally



presented for discussion. Zambrano believes that it's time to put "revolutionary rhetoric, which for 12 years hasn't given any answer in this area, aside."

Lack of personal security undermines State's credibility. With this statement, Daniel Luz, regional advisor for Citizen Security of the UN Development Program (UNDP), began his speech at the third consultation meeting for the preparation of the disarmament law, convened by the AN Mixed Commission, in which representatives from the Presidential Commission for Disarmament also took part.

Lack of personal security attempts against democracy. UNDP statements point out that States that evolve in the middle of lack of personal security face huge obstacles for democratic governance, ranging from the most elemental citizen coexistence to economic indicators. "Armed violence, on the one hand, may inhibit the economic activity and compromise means of support, and give rise to the acceptance of measures that are reactive, antidemocratic and do not respect the rule of the law, on the other."

Extending Chávez' trip is not discarded. PSUV representatives to the AN don't rule out the idea of authorizing President Chávez to stay in Cuba for a longer time until his full recovery. MUD Representatives prefer to be cautious and present the matter for discussion.

The Government wants more control over community media. The draft Law on Alternative and Community Media, submitted for public consultation in end-May by the AN, provides for that the Government will retain two thirds of the broadcasting spectrum before 2012 presidential election. The legal instrument provides for redistributing the spectrum into three equal parts among community, State-owned and private media; however, at the same time, it submits community media to the control of the Executive through two ways: license and resource allocation.

Adán Chávez' performance is being questioned. After one week without water and power outages during the night in most sectors, Representative Julio Montoya (MUD) said at a press conference that "Governor Adán Chávez has lied again to the people of Barinas, because he assured that the water problem would be solved last Saturday." Montoya claimed that Barinas is a forgotten land and is condemned to misery under the Chávez family's rule.

LOCTI reform will be proposed. Enrique Catalán, AN Representative and member of the Commission on Science and Technology, stated that they will request the reform of the Organic Law on Science, Technology and Innovation (LOCTI) because they believe it's unconstitutional. Catalán explained that the law, enacted as part of the Enabling Law in December 2010, doesn't have regulations and presents inconsistencies in its wording that represent a danger for citizens.



Severance payment retroactivity: an old and persistent problem. After eleven years of legislative backlog, the issue of severance payment retroactivity continues to be a problem for the Government. “*An electoral promise that they cannot deliver now,*” points out the MUD Representative, Alfredo Ramos. According to Ramos, the amount of the Government’s debt to workers amounts to about US\$15.0 billion, which would double if the retroactive effect is applied.

Law on transplants to be discussed. The AN Representatives will begin discussion on the draft reform of the Law on Organ and Anatomic Material Transplants in Human Beings, on June 15th.

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ECONOMIC OVERVIEW

