



Weekly Report

Year 8, Number 22
Week II, June 2012

*Is there life
in the Venezuelan economy
after the LOTT?*

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In a context like the one the Venezuelan economy has gone through since 2007 (when it started to veer drastically towards the "21st century socialism") where, given a series of State disincentives, the private sector (58,27% % of GDP) is falling for the benefit of public enterprises, the Administration reformed the Organic Labor Law (LOT), in force since 1997, to create the Organic Law of Labor and Workers (Ley Orgánica del Trabajo, los Trabajadores and las Trabajadoras - LOTT).

It is important to note that this reform of the labor regulation is happening in an atypical electoral context, where uncertainties regarding the President's health, and the increasing political capital being amassed by the opposition, lead to assume that this could be the best legislative move of the electoral campaign of the Government party. We believe that this reform was made by President Chávez as a way to ratify the ideological commitment with the socialist economic model, and an ambitious attempt to garner the allegiance of the country's labor sectors, particularly those from the public sector.

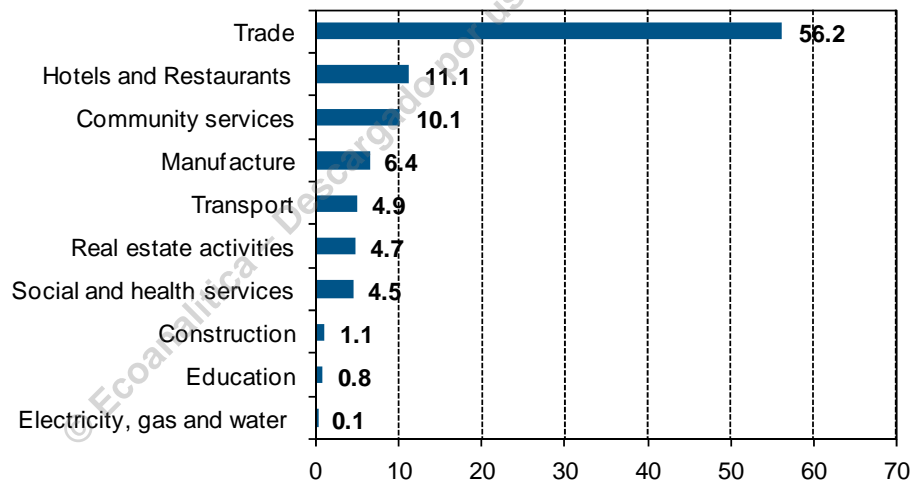


In this report we will try to grossly analyze the Venezuelan labor market, to then tackle the impact of the amendment both for the private and the public sector, as well as from the macroeconomic perspective in the short and mid-term.

Who gives jobs in Venezuela?

According to information from INE and the BCV in the 4th Economic Census (2007-2008), and to **Ecoanalítica's** estimates, close to 90% of the economic units¹ in Venezuela are private. Also, of the all the companies in the country, approximately 60% are devoted to trade related activities, 26% are in the service sector, and manufacturing and construction together, only represent 7.5% of the total.

Economic units by activity



Sources: INE, BCV and Ecoanalítica

How is the payroll distributed?

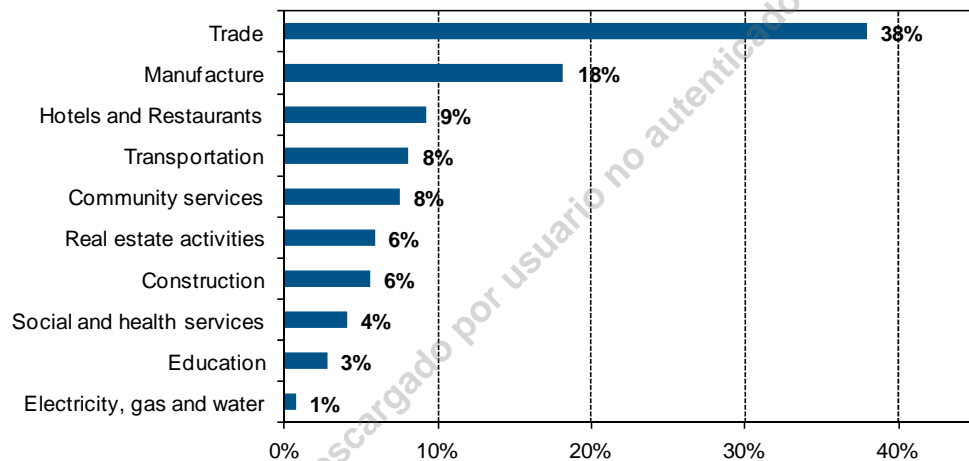
This composition Venezuelan employers confirms the thesis of an exacerbation of the Dutch disease in our economy, with the implementation of a new economic model where, due to high oil prices and rigid exchange controls, imports are encouraged, and non-tradable activities with little added value, like trade and services, predominate given their high profitability compared to other activities.

¹ According to the Clasificador de Actividades Económicas Venezolano of the INE (Economic activities Classifier), an "economic unit" is any economic agent with the autonomy to make financial and investment decisions, which has the authority and responsibility to assign resources for the production of goods and services and may carry out one of many production-related activities in one or several locations".



Likewise, most of the working people² are in trade activities, hiring 38% of the payroll, followed by manufacturing (a labor intensive sector) with 18%, and finally the service sector with 17% of the total employed. The rest has to do with construction and real estate related activities.

Occupation by economic activity



Sources: INE, BCV and Ecoanalítica

What is the Venezuelan business fabric made of?

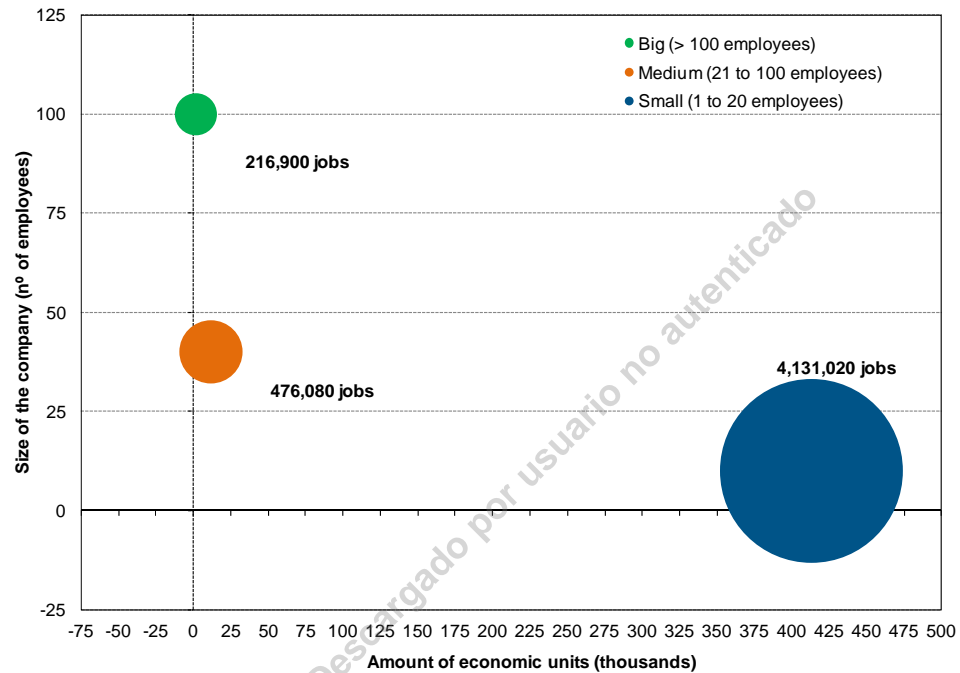
According to occupation level (small, medium or large) we see that small enterprises (1 to 20 workers) concentrate most of the labor force in Venezuela, generating approximately 4,130,000 jobs. Medium sized companies (21 to 100 workers) generate approximately 476,000 jobs, while large companies (more than 100 workers) generate around 216,000 job posts. Thus, we can say that most of Venezuelan companies are in trade or services, and employ between 1 and 20 workers, that is, Venezuela is an economy of SME's.

² Working people refers to all those persons that for the moment of the study were working in or for the investigated economic unit.





Labor force according to size and number of companies



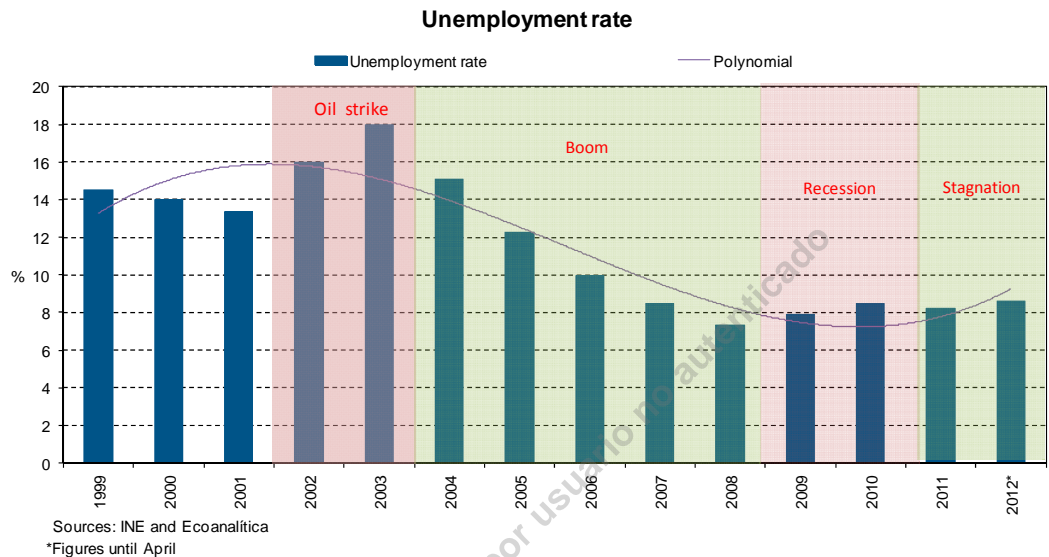
Sources: INE, BCV and Ecoanalítica

Is unemployment really under control?

From the point of view of demand, unemployment in Venezuela fluctuates according to the economic cycle. The unemployment rate went from 15.2% in February 1999 to 8,6% in april of 2012. In this sense, anyone could think that government policies have been effective to reduce this indicator, but things are much more complicated than this perception.

Thus, at **Ecoanalítica** we consider it important to analyze the behavior throughout these years. In the period between 1999 and 2002 the average unemployment rate was 14.5%. After the strike and the conflicts of 2002 and 2003, the economy entered a period of accelerated growth, due to the oil boom and a good environment for private initiatives, so the economy could generate new job posts. This boom went from 2004 (when unemployment was 15.1%) to 2008 (when unemployment was 7.4%). Now, with the financial crisis at the end of 2008, which translated into the world economic crisis of 2009 and its impact on the domestic economy (which lasted twice as long compared to the rest of LA) unemployment has not improved in three years.





We must look under the rocks

Although many officials and government allies say that the latter has reduced unemployment and improved labor conditions, the drop of almost 8.0 percent points in unemployment in 10 years has to do with the economic cycle, as in the other economies of the world. The unemployment problem in Venezuela is structural, which we will analyze next.

Informality stagnant since 2007

The structure of the working population in Venezuela isn't much different from the rest of Latin America and the emerging markets in general, where a significant section of the population plays a role in the informal sector³ of the economy. In this sense, although since 1999 informality has dropped, going from 56.5% of the working population, to 41.7% for 2012, these rates are still high compared to the levels in developed countries, that is, in Venezuela 4 out of 10 workers has a precarious job, and 6 of 10 job posts in the private sector are executed in the informal sector.

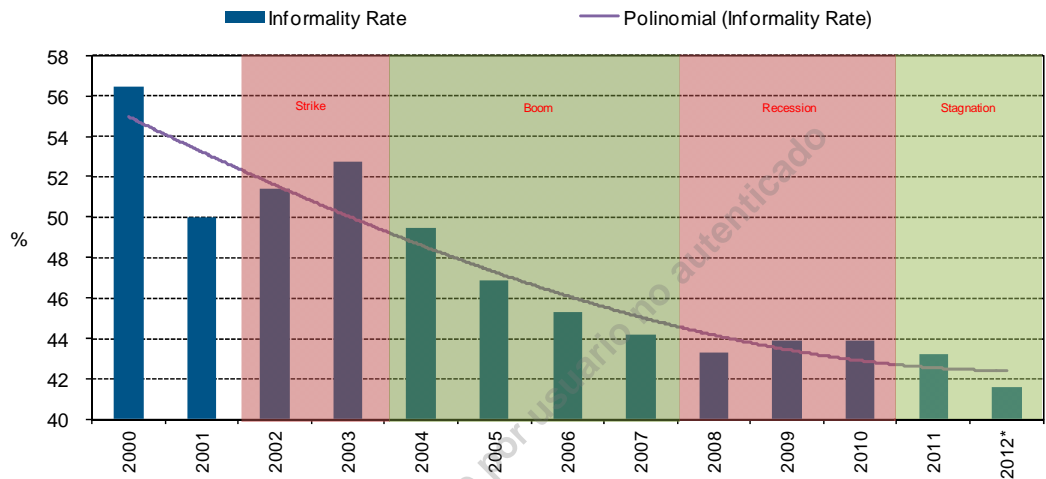
However, as with unemployment, we see that the behavior of informality in our country is linked to the economic cycles. The next graph shows how informality drops when there is a boom, and increases in recessions. It also shows that since 2007, these indicators are not slowing down, which may indicate the difficulties that the new economic model has to generate

³ According to INE, workers in the informal sector are those that work in companies with less than five employees (including the employer), domestic service, non-professional self-employed people (sales persons, artisans, drivers, painters, carpenters, street sellers, etc.) and aides or assistants that are not paid and work 15 or more hours per week.



more wellbeing to the population through the creation of quality jobs; later we will see why.

Informality Rate



Sources: INE and Ecoanalítica
(* April figures)

And the conditions are being created for it to increase again...

Also, the figures of employers reported by INE reveal a drop of 6,3% in the last few years, showing how difficult it is for a company to survive in Venezuela. We also realized that 70% of the private payroll is in the formal sector of the economy, and 40% are self-employed, an amount that has increased in time in absolute terms (600,000 self-employed people in 5 years). This means (i) that the Venezuelan economy discourages business growth and the creation of companies, and (ii) that the private formal sector gathers the majority of employees, which is noteworthy because most are SMEs.

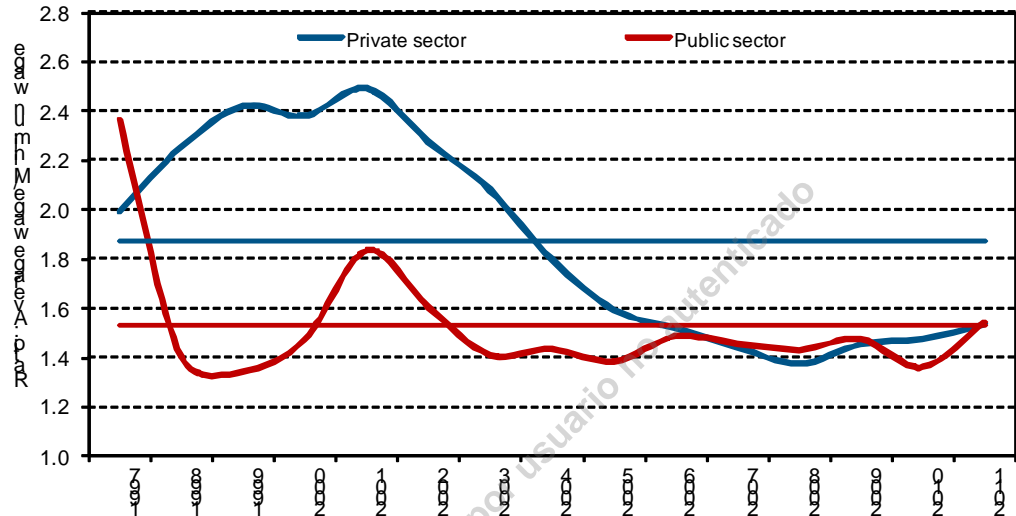
There are no quality jobs in Venezuela

To have a sort of job quality proxy (not considering benefits outside the salary), *Ecoanalítica* carried out an exercise to establish how the average salary has evolved compared to the minimum wage by institutional sector. The next graph shows that between 1997 and 2001, the average salary of the private sector was 2.3 times the minimum wage, while the average salary in the public sector was 1.7 times the minimum wage.





Quality of payroll



Sources: BCV and Ecoanalítica

Then, between 2002 and 2007, the quality of private and public employment dropped significantly, so the average salary was 1.4 and 1.5 times the minimum wage for the private and public sectors, respectively. The drop is significant in the private sector, falling to levels even lower than the historical average of the public sector.

Since 2007, these indicators have not improved, and by the end of 2011 they were 1.53 and 1.54 times the minimum wage for the private and public sectors, respectively, without going beyond the historical average. In a highly inflationary environment like the Venezuelan, this has two important implications. First, the quality of private employment has dropped in Venezuela, which may be due to all the blocks that this activity faces in our country. Second, in Venezuela it is difficult to find a quality job, even less so in the public sector.

So, what do we have?

Based on this, **Ecoanalítica** found the following key elements to describe the Venezuelan labor market:





Public Sector

- No quality
- Payroll has increased (from 13% to 20% total employment)
- Stronger worker unions
- More and more individuals rely on this sector (outsourcing elimination)
- 500.000 15-24-year old youngsters are not studying not working

Private Sector

- Diminished quality
- The largest employer (80% total employment)
- High informality (47% of private employment is informal)
- Mostly composed bt SMEs
- Trade and service sectors prevail
- Heterogeneity (large, medium and small companies, freelance workers, etc.)

What is the impact of the LOTT?

Considering the above, and based on the content of the new LOTT, **Ecoanalítica** found three important elements because of their impact, both at the micro as well as at the macroeconomic level. These have to do with: (i) payment of benefits, (ii) a reduction of the work day, and (iii) extra-salary compensations.

Retroactivity of benefits... unsustainable

In our opinion, the return of retroactivity of social benefits has consequences both for the private and the public sectors. In general, these would be the implications:

Public Sector

- **Labor costs would rise.** This implies:
 - Decreased resources for other areas, infrastructure, for instance
- **Public debt would rise.** This implies:
 - Unsustainable growth of debt
 - Devaluation → more inflation
 - Default

Private Sector

- **Affects financial viability of the SMEs.** This implies:
 - Permanence under 5 years → Affects growth of the sector (thus, of the whole economy) y reduces both the quality and supply of labor.
 - + informality
 - + unemployment
 - + heterogeneity





Reduction of the work day...good-bye productivity

With the reduction of the work day to 40 hours per week, we foresee difficulties at two levels. First, companies that are not able to adjust their production to avoid the costs associated to overtime will have significant productivity losses, since the increase in labor costs could even double the payroll costs of the companies.

Second, considering that most are SMEs, doubling the payroll cost could trigger a second level of difficulties: those companies that cannot adjust their production will be affected by issues of continuity, and may even have to leave the market for good

Compensations outside the salary, the political element

Extra-salary compensations, like: labor stability, vacations, elimination of outsourcing, worker's organizations, the issues of maternity and paternity, the elimination of the tripartite, the establishment of terms for collective bargaining, claims, among others; may significantly deteriorate the operations of the labor market in the future, because (i) they would worsen the problem: the employer loses negotiation capacity; (ii) there is an increase in labor costs, and thus productivity drops, and (iii) last but not least, the employer-employee relation will become politicized, which in our opinion could be detrimental for the growth and development of our economy and our society.

The future

At *Ecoanalítica* we are convinced that the way in which the LOTTT will be implemented has generated significant uncertainties for the most important sector of the national economy in the future, and imply a priori, that the economic activities will be conditioned to the political pace of our country, subject to the postures and ideological impositions of the government. However, we believe that it will have to be revised in the future, regardless of who wins the elections, because:

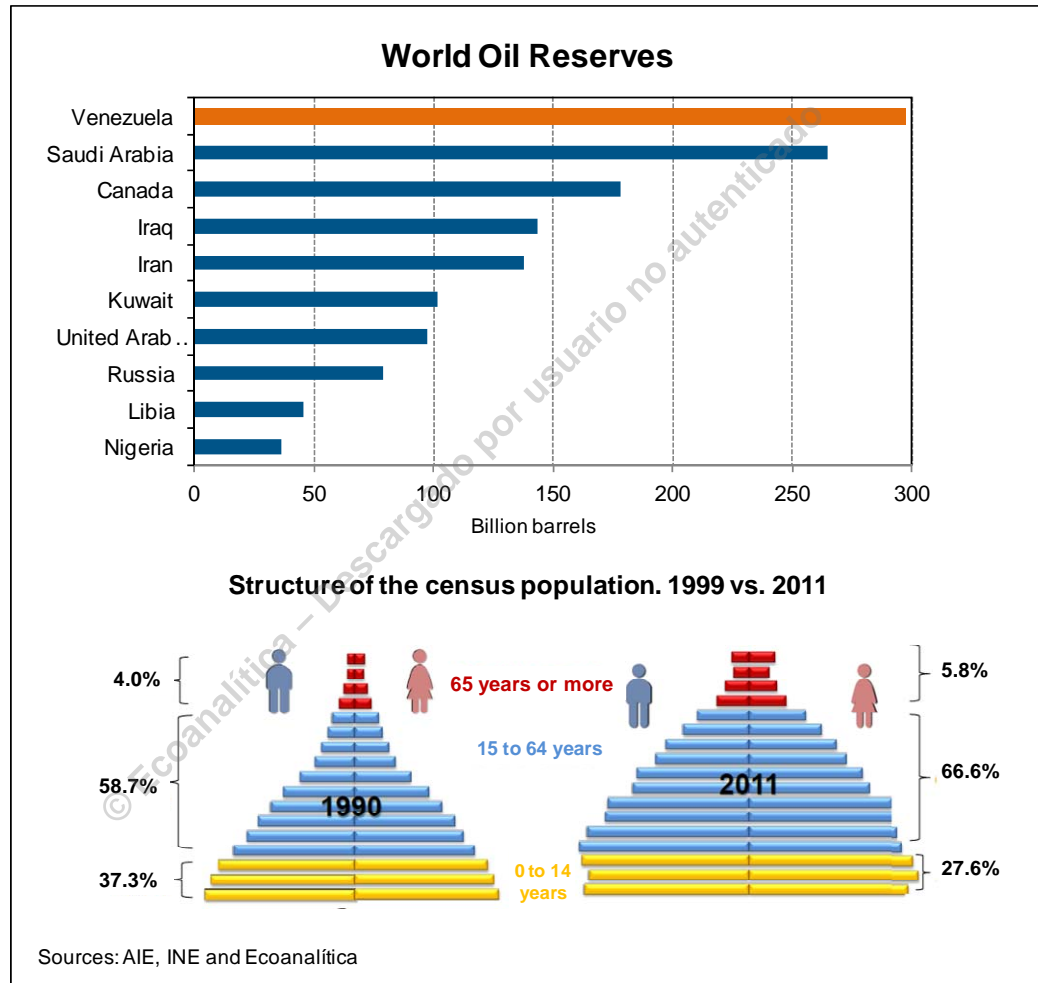
- It will continue to scare-off investments in the country.
- It will discourage the creation of new jobs.
- The key segments of the economy, like SMEs and entrepreneurs will be the most affected.
- It would significantly increase informality and unemployment.
- It will represent more fiscal responsibilities for the State, making spending increasingly inefficient.





Epilog: the famous “historical opportunity”

According to **Ecoanalítica**, Venezuela has a historical opportunity, since it has the largest oil reserves of the world (and the lowest extraction rate) as well as a demographic bonus⁴.



Under these conditions, in the opinion of **Ecoanalítica**, Venezuela must take advantage of two things. First: the potential increase in labor force, educating the young to insert them in the labor market. Second: accelerate investment and production, but not only in oil.

⁴ Demographic bonus refers to the possible benefit that a society can obtain because of a change in the age composition of its population. Advantages of this event could be the increase of the potential labor supply and the reduction of the education spending as a consequence of a reduced young population.



This can be achieved by reducing over-regulation (exchange and price controls, etc.) and reaching macroeconomic stability (low inflation, growth, fiscal health, etc.). It becomes clear, then, that the application of the LOTT is not pointing in that direction.

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Economic Tips

Central government spending increased 22.8%. BCV published the fiscal performance figures of the Central government for February 2012; it shows that total spending increased 22,8% in the first two months of the year, in real terms and interannually, very similar to the figures of the same period last year, when government spending increased 22.9% in real terms, interannually.

Income, on the other hand fell 11.7% in the first two months of the year in real terms compared to the same period in 2011, significantly lower than the figure for the year before, when it increased by 8.5%; in the same terms, oil income dropped 58.5% and non-oil income increased 13.8%.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	Jan-Feb 2012	Jan-Feb 2011	Nominal Variation	Real Variation
Total Revenue	31.810	28.678	42,2%	-11,7%
Non-Oil Revenue	26.543	18.567	44,4%	13,8%
Oil Revenue	5.267	10.112	37,2%	-58,5%
Central Bank Earnings	-	-		
Total Expenditure	59.838	38.773	54,3%	22,8%
Fiscal Balance	(28.028)	-10.094	177,7%	121,0%
Non Oil Balance	(33.295)	(20.206)	64,8%	31,1%
Debt Amortization	829	260	219,3%	154,1%
Financing Requirements	28.858	10.354	178,7%	121,8%
Foreign Debt	5	990	-99,5%	-99,6%
Domestic Debt	14.467	7.563	91,3%	52,2%
Tresury Bonds	13.976	6.530	114,0%	70,3%
Tresury Debt	491	1.033	-52,4%	-62,1%
Other	14.386	1.801	698,7%	535,6%

Sources: Ministerio de Planificación y Finanzas, BCV and Ecoanalítica

The government opens the spending tap. According to figures of the ONT, the public finances entity, from January to May, current weekly disbursements by the treasury increased 31.0% in real terms compared to the first five months of 2011. This is in contrast with the figures during the same period last year, when it dropped 1.9%, thus reflecting the classical impact of an electoral campaign.



72.8% of the budgeted public debt has already been placed. For 2012, the government has placed VEB 54.50 billion in different debt instruments, representing 72.8% of the total amount budgeted for this year. Most of the placements respond to financing needs of the agricultural and housing sectors. Estimates by Bancaribe indicate that by the end of the year, the Administration could collect VEB 99.20 billion through these instruments.

Locti filling up the government's pockets. The National Fund for Science, Technology and Innovation (Fondo Nacional de Ciencia, Tecnología e Innovación - Fonacit) has collected VEB 1.40 billion for the year, for the Organic Law of Science, Technology and Innovation (Locti), 88% of the total collected in 2011 and 70% of the collection target for 2012. This law, reformed in 2010, establishes a contribution between 0.5% and 2% of the gross income of public or private companies that earn more than one hundred thousand tax units per year.

For each dollar that the price of oil falls, the government loses US\$700 million, as estimated by *Ecoanalítica* using the average price and the annual income. The 17.5% loss in the value of oil since the first week in May should alarm a government that in order to maintain its fiscal appetite, requires not only high oil prices, but also an increase in them.

Even if the oil price drops, the government can take it, at least until the end of 2012 or the beginning of 2013, date until which any drastic economic adjustment would be postponed, because the Administration still has considerable extra-budgetary resources that allow it to maintain its fiscal voracity in a tough electoral campaign.

Among the possible adjustments for the end of the year or the beginning of 2013 is a devaluation, to cover the fiscal deficit with additional bolivars from oil exports; as well as reduction of public spending, which would negatively affect the economic growth that has fed mainly from it. *Ecoanalítica* estimates that the main casualty will be the private sector, because its weak point is the assignment of official foreign currency.

Sitme's second birthday. On June 9th, the mechanism to obtain foreign currency controlled by the BCV celebrated two years of existence. Since its creation, it has negotiated US\$18.22 billion, with a historic average of US\$29.9 million in 2010, US\$34.6 million in 2011, and US\$36.3 for 2012.

Leonardo Vera: "Chávez's government has increased de-industrialization". According to the economist, the reverse direction of industries which began in the 80's has worsened during the "21st century socialism", thanks to the policy of



controls, expropriations, and nationalizations of the present Administration; this is reflected in the modest growth of 0.7% in the manufacturing GDP during 1Q2012.

High mortality rates have taken away 25% of the industrial establishments between 1989 and 2007, according to Vera, causing the greatest losses of the “large industries” which represent only 8% of the establishments, but generates more than 50% of employment in the sector.

Venezuelan purchases from Nicaragua increased 12.6%. After the United States, Venezuela is the main buyer of exports from the Central American country, with US\$149.4 million from January to May 2012. Among the items traded with the Central American country are: textiles, dairy products, and meats.

Interest rates. The lending rate for the second fourth of June was at 15.9%, decreasing by 1.0 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 first week of June increased 2.6% compared to the previous week settling at VEB 498.781 million. The M2 has increased 57.3% in relation with the same period last year.

Sitme figures. So far this year, US\$4,552 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$37.2 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1,028 million (29.2%) over the same period of 2011, when were negotiated US\$3,525 million. Lastly, during the second week of June the amount traded reached US\$216 million, traded US\$11.2 million less than last week when US\$228 million were traded, with a daily average of US\$43.3 million.





Oil Tips

Excessive OPEC supply. Even though OPEC member countries decided in December to keep production quota at 30 million b/d (mb/d), today, OPEC production is at 31.6 mb/d, mainly due to the higher production levels in Saudi Arabia, Iraq and Kuwait, in addition to the almost total recovery of Libya's production. This excess in supply has impacted crude oil prices, which have changed their decreasing trend.

The quota stays the same. Despite the drop in crude oil prices, OPEC decided to maintain the production quota of 30 mb/d and simply eliminate the excess supply. At its meeting of June 14 the Organization was divided into two groups: countries with tax discipline that believe that the global situation requires a relief in prices so that demand is reactivated (Saudi Arabia and Iraq) and those with deficit tax management that want to cut back quotas (Iran, Ecuador and Venezuela). Due to the relevance of Saudi Arabia within the Organization, the countries remained the quota and pledged to eliminate excess supply.

Nobody believes in OPEC. Mazhar Al-Shereidah, professor at the Universidad Central de Venezuela and oil analyst, believes that OPEC lacks credibility. "*The OPEC is already producing almost 32 mb/d, despite its having set its production quota in December.*" Pumping cutbacks established by the Organization haven't been respected, which is counterproductive because markets do not trust the OPEC, Professor Al Shereidah pointed out.

Venezuela and Iran decline. According to OPEC's reports, Venezuela and Iran are the countries with the largest drop in production. The Organization insists that Venezuela's production is stagnated at 2.3 mb/d and Iran has registered a drop of 600,000 b/d over a year, with a production of 3.4 mb/d. Both countries report figures higher than those of the Organization (2.8 mb/d and 3.7 mb/d, respectively), but the OPEC states that even assuming those levels are right, their production doesn't show signs of an increasing trend.

Coming soon... agriculture bonds. Within the framework of the borrowing plan through bonds classified as "special" (because they are used to promote plans in the construction and agricultural sectors), the government has issued VEB 17.0 billion over the past 5 weeks; now, it's PDVSA's turn, which will issue bonds worth VEB 3.0 billion, earmarked for banks, which will serve to obtain funds that will be then transferred to Zamora Fund, which, in turn, will use them to grant credits for farmers.



PDVSA will assume Repsol's exploration activities in Cuba. Cuba's state-owned oil firm Cupet informed that the failed exploration activities in the Gulf of Mexico on the *Scarabeo 9* platform, operated by Spain's Repsol, which abandoned the search, "doesn't have any impact on the prospects" of finding hydrocarbons in Cuban waters, adding that the platform will continue to be operated by Petronas (Malaysia) and PDVSA. Cuba obtains oil from land wells and shallow waters, which are reaching their production limits; additionally, the country imports 100,000 b/d (kb/d) from Venezuela.

"Exxon has come to Guyana in order to come back to the Orinoco Oil Belt". At a forum on Venezuela's oil policy, the coordinator of the Socialist Oil Observatory, Fernando Travieso, stated that the concession granted by Guyana to ExxonMobil and Shell is a strategy by the US, and the U.K. to create a conflict between Guyana and Venezuela. Travieso added that "at present, no company wants to be left out of the (Orinoco) Belt..." because the world's largest oil reserves are found in that region.

Oil workers at El Palito refinery are demanding contract. Given the delays in the discussion of the oil collective contract which expired 8 years ago, workers at El Palito refinery will submit to the National Assembly a list of complaints and a manifesto to demand the signing of a new contract. The union leader, Luis Villarroel, said that workers don't know the content of 63% of the clauses that have been approved; therefore they want to see the minutes of the meetings where these clauses were approved.

Higher inventories stabilize prices. According to the president of *Cambridge Energy Research Associates*, the increase in global crude oil supplies places the market in a better negotiating position. The U.S., the world's largest hydrocarbon buyer raised inventories from 12.8 mb to 22.3 mb, this has had an impact on prices, which, given the alleviation of geopolitical pressures (closure threats of Ormuz strait have vanished), has made oil prices lose US\$22 in less than 2 months.

International baskets. At the time of foreclosure in New York, WTI was traded on June 8 at US\$84.3/bl, which shows a decrease of 5.2% compared to US\$88.9/bl recorded the previous week. Meanwhile, Brent fell by 5.1% to reach US\$ 99.3/bl compared to the previous week, when it reached US\$104.6/bl.

Local basket price. The Venezuelan oil basket price fell last week to close at US\$94.1/bl on Friday 08 June, resulting in a decrease of 5.6% compared to US\$99.6/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 110.2/bl.





Business Sector Tips

Venezuela buys 12.6% of Nicaragua's foreign sales. According to figures of the state-owned Centro de Trámites de las Exportaciones (Cetrex), Nicaragua exported products for a total of US\$1.2 billion over the first five months of 2012, up 11.0% from the US\$1.1 billion recorded in the same period in 2011. Venezuela is at the second place as the main destination of Nicaragua's exports, after the U.S.

Don't count your chickens before they hatch. Ismael Pérez Vigil, Executive President of Conindustria, assures that although inflation has fallen since last year, one cannot be "*happy*" for these figures, because we don't know the impact of October presidential election and the enforcement of the Labor Organic Law. Pérez estimates that inflation "*can easily amount to 36-27%*."

"Less controls and supply stimulus". Upon release of inflation figures for May, Carlos Fernández, president of Consecomercio, stated that although inflation has grown less than expected, it is important to continue to try to take inflation to one-digit levels, "*and this will be achieved not with controls, but, on the contrary, by stimulating supply and private investment, so that we can generate enough competition for products to be abundant and prices tend to stabilize.*"

New car sales increase 20.8%. Data released by the Venezuelan Automotive Chamber (Cavenez), sales of new cars grew 20.8% in May with respect to the same period in 2011. From January through May, 54,885 units were sold, up 9,436 cars from the same period in 2011; of these, 45,895 correspond to local manufacture and 8,990 were imported, up 16.9% and 45.4%, respectively.

Production of new cars gained 12.2%. According to data released by Cavenez, the production of new cars increased 12.2% with regard to the same period in 2011, to 10,633 units. Therefore, cumulative production from January through May 2012 was 47,471 units, a gain of 14.2% with respect to the 41,555 assembled in the same period in 2011

Banks are increasingly flooded with papers. The administration borrowing polity through the issue of bonds has made a larger portion of banks' asset portfolio to be placed in bonds. At the end of April, money placed in bonds accounted for 26.7% of banks' assets, the highest share since April 2007. This implies a higher risk, because



if the administration is not efficient in the granting of credits and doesn't collect the moneys lent, the country will have to assume losses.

Milk production grew 63% from 2001 through 2010. According to a report published by Federación Panamericana de Lechería (Fepale), Venezuela's milk production has grown 63% over the past years. However, production has virtually stagnated in the last two years: 2.3 million tons were produced in 2010, only 3% more than the 2.2 million tons of 2008, according to FAO figures. The report presents Venezuela with the highest consumption of milk per inhabitant in the continent, with 91 liters/year.

Venezuelan banking system at its peak. In the opinion of Edgar Hernández Behrens, Superintendent of Banks, the local banking system is going through its best time in its history, as shown by the evaluation performed under the Camel method (which evaluates 5 essential parameters: capital, assets, corporate management, revenues and liquidity). The evaluation granted 70 points, when the historical average ranges between 40 and 50 points. Hernández also highlighted the decrease in delinquency rate, which is currently 1.5%, vs. last year's 3%.

Health's foreign dependence. According to foreign trade figures released by the INE, US\$548 million in medical drugs were imported in 1Q2012, up 25% from 1Q2011; however, in terms of volume, imports dropped 4.0% from 8.6 million net kilos in 1Q2011 to 8.2 million kilos in 1Q2012. Most pharmaceutical products imported from January through March came from Cuba, Mexico, France, Brazil and the U.S.

Doubts about power projects. According to Fitch ratings, Corporación Eléctrica Nacional (Corpoelec) needs roughly US\$23.0 billion over the next 6 years to incorporate new hydrothermal power plants and add 11,212 megawatts to the national power generation grid. Most of these resources (about 17%) will be applied to the Tocoma Complex. Although in Fitch's opinion, the expansion of the power grid is necessary given the growth projection for the upcoming years, the firm doubts that the funds can be obtained and that the generation capacity offered can be added, considering the ambitious investment program required.

The plant doesn't give fruits. Argenis Chávez, Corpoelec's president, informed that further US\$3.3 billion will be required to complete Tocoma (Manuel Piar) hydroelectric power plant. During an inspection visit to the work in Bolívar State, Chávez said that up until now US\$4.17 billion have been disbursed to construct the dam, which implies that the cost of the work will exceed US\$7.5 billion. The plant, which will add 2,300 MW to the power grid, is expected to be completed by 2014.



Antitrust Law: more expropriations? In a press note, Conindustria warned that if the text of the Antitrust Law is passed as it was approved by the subcommittee of Industry and Commerce of the National Assembly, the gate for more expropriations will be open. Conindustria also questions that the spirit of the draft law is to punish businesses rather than *“their abusive behavior”* on the markets. *“Worldwide, what is punished is the abusive behavior of those that take advantage of their dominant position on the market.”*

The State...as monopolist as it wants. Conindustria also criticized that state-run companies aren't regulated: *“it's worth stressing that the draft law that is being discussed expressly excludes state-run companies, when precisely the state is the one that has taken advantage of its dominant position in different areas of the economy, such as the production of iron bars and steel, cement, electric power and a large part of the production or supply of foodstuffs, among others.”*

Francisco Sesto: more than 200,000 homes have been built. The State's Minister for the Revolutionary Transformation of Caracas stated that, since its inception on April 30, 2011, the Gran Misión Vivienda Venezuela has built 231,609 homes, of which 66,891 have been built in 2012. Sesto assured that these figures are “immense and auditable,” in response to questionings by some opposition leaders and NGOs with regard to the true number of homes delivered.

Boost for 3G networks. At Casetel annual forum (the association of telecommunication service operators), projects to develop as much as possible the 3G network were presented. José María De Viana, Casetel president, pointed out that the industry will invest between US\$1.0 billion and US\$1.5 billion over the next 5 years, because the exponential growth of the use of smart phones in Venezuela has resulted in an unexpected network overload. At present, the use of data networks has increased 80%-90% on a year-to-year basis and this trend is expected to continue over the next 5 years.

World Economy Tips

China moves to boost growth. China's central bank cut benchmark interest rates by 25 basis points in a surprise move on Thursday to shore up slackening economic growth. The new rate of 6.31 percent is effective from June 8, for the first cutback in interest rates since 2008-2009 financial crisis.



Europe comes to rescue of Spain's Banks. Last weekend, ministers from the 17 countries of the euro zone agreed to lend Madrid €100.0 billion, more than originally expected, to recapitalize Spanish banks, in an attempt to heal a portfolio flooded in a sea of toxic assets and unpaid credits due to the collapse of Spain's real estate sector.

Spain about to break the ceiling; or the bottom? The calm felt in the wake of Spanish banks bailout announced last Saturday didn't last much. Unease as to its capability to access to long-term debt markets made Spain to offer 6.75% yield on its 10-year bonds, the highest level since November 2011 and five basis points below the record high throughout 13 years of Spain in the euro zone.

Joseph Stiglitz believes that the euro zone rescue plan will not work. Prize Nobel laureate isn't optimistic about the announcement of the euro zone rescue of Spanish banks. Stiglitz warns that the fact that banks are the largest buyers of sovereign debt, thus allowing that "*the Spanish government bails out Spanish banks, and Spanish banks bail out the Spanish government,*" will turn the system into "*voodoo economics. It is not going to work, and it's not working.*"

Growth has to be promoted. Stiglitz said to Reuters that Europe should speed up discussion of a common banking system, so that policies favoring economic growth are developed. "*You have to actually face the underlying problem, and that is, you're going to have to promote growth,*" Stiglitz said.

Rajoy: "reforms made full rescue unnecessary". Spain's Head of Government assured that economic measures taken by his government have avoided full rescue of the country's public debt. However, analysts agreed that banks rescue could be a prelude for a State's rescue, which would mean using up rescue fund of the euro zone.

Greece's future to be decided in a few days. Greece presidential elections, which could decide its permanence in the euro zone, are scheduled for next June 17. An eventual victory of the left could put paid to the strict financial bailout plan of the EU and result in a default that would make the country exit the monetary bloc.

Standard and Poor's: 33% chance Greece exits euro zone. Rejection by Greece of the reforms demanded by the troika; the European Commission, International Monetary Fund, and European Central Bank with the subsequent suspension of external financial support would prompt a Greek exit from the euro zone, a possibility that the risk rating firm puts at 33%.



Putin put to the test. This Tuesday, dozens of thousand people opposing Vladimir Putin's regime protested against the Kremlin's policies and the wave of intimidating raids against opposition leaders. Putin has enacted a number of laws that impose severe fines against those who call and participate in street protests, if they block streets or exceed the maximum number of people allowed to attend a protest.

Latin American currencies exhibit a volatile behavior vis-à-vis the suspicion by investors concerning the effectiveness of the rescue plan of Spanish banks and Greece's presidential election, main focus of the euro zone crisis. Therefore, the Chilean peso, the Colombian peso and the Peruvian sol opened the week rising before the U.S. dollar as part of a temporary relief.

Created the "Pacific Alliance". 215 million inhabitants and 35% of Latin America's GDP are the assets that Mexico, Colombia, Peru and Chile count on to create a free circulation block of goods, services, capitals and people in an attempt to develop an integration mechanism that is "*deeper, broader and faster*" than other Latin American initiatives. In the first meeting in the Chilean Andes, they say that their first objective will be agreements with the Asian continents.

Five different exchange rates coexist in Argentina. Exchange control measures recently imposed in Argentina have resulted in a variety of exchange rates: \$2.90 pesos/US\$ for soybean exporters; \$4.50 for importers and tourists; \$5.50 for private investors looking for the "blue" as a saving mechanism; another "sky blue" between the "white" and the "blue", for car agencies, real estate operations, among others, and \$6 for capital outflow through the purchase and sale of bonds.

Cristina Fernández declares war against dollar, not only by imposing an exchange control system similar to Venezuela's, but also by promoting a supposed legal reform that allows pay dollar-denominated debts with local currency at the official exchange rate. This proposal would be intended to "dedollarize" the economy to stop capital outflow that cost the Central Bank a large proportion of its international reserves.

Political Tips

Two visions, two countries, two plazas. The Centro Simón Bolívar towers witnessed mass events: the registration of the presidential candidates in the CNE for October presidential elections. Capriles spoke to his followers on Sunday in Caracas



Plaza, whereas Chávez did the same on Monday, but in the opposite direction, in Diego Ibarra Plaza.

The opposition turns on its engines. A mass of people accompanied Henrique Capriles in his official registration for October 7 presidential elections. From eight different places in Caracas, hundreds of thousands left to the National Electoral Council (CNE) in Caracas downtown, where the formal event and the candidate's speech took place.

33 political organizations supported Henrique Capriles' postulation. Capriles arrived in the CNE after jogging more than 10 kilometers, surrounded by the enthusiasm of a multitude estimated at hundreds of thousand people. Of those 33 organizations, 21 will participate with their own ballot cards and 12 will do it through the unity ballot card.

20 years? In a crowded Diego Ibarra plaza, Chávez spoke past Monday to the impressive multitude that accompanied him in the formal registration of his candidacy. This event makes his intention to remain 20 years in power official, amid rumors about his physical condition.

Is old Chávez back? Aggressive, talkative, histrionic; these are some of the words that mass media used to describe the Chávez that talked on Monday under the alert look of a stone Simón Bolívar. More than one people looked skeptically how a cancer-stricken man dances, sings, laughs and even insults, dismisses and attacks the "*majunche*", as he has baptized his rival.

"OK". That was the diagnosis that president Chávez pronounced when journalists asked him last Saturday about his health condition, after a meeting with the Russian minister of industries at Miraflores. He assured that a few days ago he acquitted himself well in different tests and examinations, which included CT scans and MRs.

Capriles: "The CNE showed signs of opportunism" in favor of Chávez' candidacy, by having allowed him to use one of the balconies of the CNE building, hang a national flag on one of the Centro Simón Bolívar towers and occupy two plazas instead of one. However, the CNE is not responsible for safeguarding the votes, but the people, "*whose will he will always respect.*," Capriles said in response to pressures for him to state that he will accept the results of October 7 elections.

Vicente Díaz admits CNE's bias in favor of Chávez, thus endorsing Capriles' complaint for past Monday's events. Díaz claimed that he had waned president Chávez about the illegality of proselytizing events on national TV and radio. However, he stated that despite the risk, the "*CNE has been meticulous,*" as to the operative



and technological platform through a “series of elements that guarantee that the will of voters’ will be respected;” therefore, bias in favor of President Chávez “has nothing to do with the electoral system.”

“Chávez’ days are numbered” and “with his exit, the days of Nicaragua’s and Cuba’s economies are numbered” are some of the predictions made by Robert Zoellick, outgoing president of the World Bank. In response, the government said that the WB is the one with its days numbered, “because the institution is responsible to a large extent of the global financial disaster.”

Released on bail. José Amalio Graterol, defense attorney of former judge María Afiuni, who had been jailed on alleged charges of obstruction of justice, in a case that is not related to that of the judge, was released on bail thanks to his defense attorneys, after one week jailed.

Venezuelans in Miami to travel 1,387 km (866 miles) in order to vote. The CNE made this decision after the closing of the Venezuelan Consulate to Miami, a situation that has provoked rejection by opposition sectors for considering it a violation of the Constitution, electoral laws and international treaties signed by Venezuela. Let’s remember that in 2006, 97% of votes in the consulate were in favor of the opposition candidate Manuel Rosales.

The CNE argues that it’s forbidden to vote outside the Venezuelan territory, therefore, the closing of the consulate would prevent elections from taking place in Miami. Representatives of the unified democratic opposition (MUD) in Miami claim that in 2006, the CNE set up several polling centers in Cuba, out of the premises of the Venezuelan Embassy in Havana.

Podemos; a prize for Didalco? Using an appeal lodged by Aragua’s former governor against the postponement of Podemos party elections, the TSJ handed over Didalco Bolívar the leadership of the party “until the question of law is resolved.” Therefore, the party registered Hugo Chávez’ candidacy for October presidential elections, against the will of a board that hasn’t supported President Chávez’ government since 2007.

PPT party was also punished by the TSJ, by declaring void the precautionary measures accorded in a previous ruling handed down on November 24, 2011, which declared void and without legal effect the previous meetings of the party, including the one that resulted in the election of new authorities on October 15, 2011. The TSJ ordered that new elections should be organized within 90 days.





More than 14% protests in May. The Venezuelan Observatory of Social Conflicts reported that in May 454 protests took place throughout the country, up 14% from April. According to the Observatory, 41% of these protests were for labor-related complaints and most of them occurred in Caracas and Bolívar State

Legislatives Tips

Fast track for Antitrust Law. The vice-chairman of the Committee on Finance and Economic Development of the National Assembly (AN), Jesús Faría, informed that the Antitrust Law was discussed this week. Faría underscored that the legal instrument will help fight against inflation to be more effective in the entire country, because monopolistic practices include profiteering, hoarding and price marking. The AN discussed the first draft Antitrust Law in 2006, but the draft bill that is being discussed now is completely new.

Now it's the turn of the automotive industry. Elvis Amoroso, chairman of the Committee of Interior Politics of the AN, the Assembly will resume discussions of the draft bill regulating car sales. Amoroso explained that from that moment, price distortions "*could be controlled somehow,*" but that since last year, "*the situation has been horrendous.*" The deputy assured that some car dealers are selling cars at 300% surcharge and that a list with suggested prices for cars will be published.

Directors of assembly plants and car dealers to the AN. Elvis Amoroso informed that the Committee on Interior Politics of the AN will question directors of car assembly plants and dealers. "*We are investigating and in about 15 days from now we are going to start questionings.*" Although Amoroso admitted that in some occasions, foreign currency has been allocated with certain "*delays*" to assemblers, he denied that this could be the cause for the production drop of the past 4 years. Amoroso stated that there is consensus in the AN to pass a law regulating this sector.

International cooperation agreements approved. At the plenary session of Tuesday, June 5, the draft law approving the framework cooperation agreement between Venezuela and Haiti was approved in first discussion, as well as the law approving the agreement between Venezuela and Turkey. The energy agreement between Venezuela and Turkey provides for, among other things, the sale of coke,



an oil by-product, in exchange for the construction of homes; whereas through the agreement with Haiti, Petrocaribe will finance a social assistance program.

Bill on funeral services will regulate the sector. Ricardo Guédez, president of the National Chamber of Funeral Services, informed that the new funeral service bill will provide a legal framework for diverse practices within the sector. Coverage to low-income people *“will be mandatory in the new law, and we agree with that, because an old practice in the sector would thus be ruled.”*

It’s crazy. One of the aspects included in the draft Law to control business primes rents is the creation of a national tenant direction. This idea is rejected even by those who are presenting the draft law, such as the National Front of Tenants of Business, Educational and Service Premises. Carlos Barreto Caballero, president of the Front said that they don’t want the mistakes made with the law on home rent, to repeat. According to this law, decentralized entities to study the different cases had to be created, but six months after its enactment, these entities haven’t been created.

This topic is forbidden. María Corina Machado asked the board of the AN to include in Tuesday, June 5 agenda the alleged violation of the Venezuelan sovereignty by Guyana (which has plans to grant concessions to foreign oil companies in the claimed territory). The Venezuelan government has remained silent and has avoided confrontations concerning this issue, abiding by the Geneva Agreement of 1966. Government deputies rejected Machado’s proposal.

AN is revising Penitentiary Code. The Permanent Committee on Cult and Penitentiary Regime of the AN, along with the technical team, continued revising the 36 articles of the draft Organic Penitentiary Code (COP) in order to prepare a final report that could be completed in 2-3 weeks and would be presented to the AN board to begin its discussions. Articles concerning drinkable water services, a balanced diet and a decent place to sleep in prisons were approved at the regular meeting with the technical team.

Control and Audit Committee will question Henri Falcón. Pedro Carreño, president of the Control and Audit Committee of the AN, said that the committee will summon Lara’s governor Henri Falcón to appear before the commission which is investigating five corruption charges against Falcón. The Governor had already sent a letter asking for a right to speak before the Committee, before Carreño’s statements.





ECONOMIC OVERVIEW

