



Weekly Report

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*Chávez vs Capriles:
The Past vs. the Future?*

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Given that the candidate representing the PSUV party, Hugo Chávez, has released his new Plan for the Nation and that the candidate for the *Mesa de la Unidad*, Henrique Capriles Radonski, has also released his "Progress for Everyone" plan for the nation, at **Ecoanalítica**, we have decided to analyze both plans and compare and contrast them in order to see how these plans will affect the economic development of the nation.

II Socialist Plan for the Nation Simón Bolívar

This new document is an updated version of the First Socialist Plan for Economic and Social Development 2007-2013. Though this new plan does not present any ideological deviation from the first plan, its main point is to consolidate its "unique" 21st Century socialist economic model.

The document establishes 5 historic objectives:

- The first objective deals with "National Independence." This objective includes a number of unrelated factors, such as: how to achieve victory for the presidential election held on October the



7th; how to achieve autonomy with respect to food production; and how to maintain sovereignty over natural resources.

- The second objective deals with continuing to build 21st Century Bolivarian Socialism and through it ensure *“the highest level of social security, political stability, and happiness.”* This objective establishes the elimination of the rentist capitalist oil dependency model and a transition to the socialist economic production model.
- The third objective deals with converting Venezuela into a social, economic, and political power within Latin America and the Caribbean, promoting new regional cooperation mechanisms. This objective also includes further developing the new Bolivarian military doctrine and national geopolitical development.
- The fourth objective is related to the third and deals with *“the search for a multi-centric and multi-polar world, without imperial domination.”*
- The last of the main objectives deals with the need to build *“an eco-socialist economic production model based on a harmonious relationship between man and nature.”*

Beyond the political discourse that is woven into all the objectives, and the amount of success or lack of success that the First Socialist Plan for the Nation¹ may or may not have had, we are mainly interested in the economic range of this new plan. Many of the objectives and goals of the second plan have been recycled from the first plan due to the fact that they were not achieved during the previous 6 years.

What does the II Socialist Plan have in store for the oil

Between 1998 and 2010, Venezuelan national oil production steadily dropped. This drop is mainly associated with the natural decline in production that a well reflects over time, a lack of new oil fields being discovered, and the fact that significant amounts of oil revenues have been transferred to the Executive Office to be used for political purposes rather than to be reinvested in the oil industry. The Venezuelan oil industry's main hope for the future is to exploit the extra-heavy crude oil found in the Orinoco Oil Belt and to pray that international oil prices remain high.

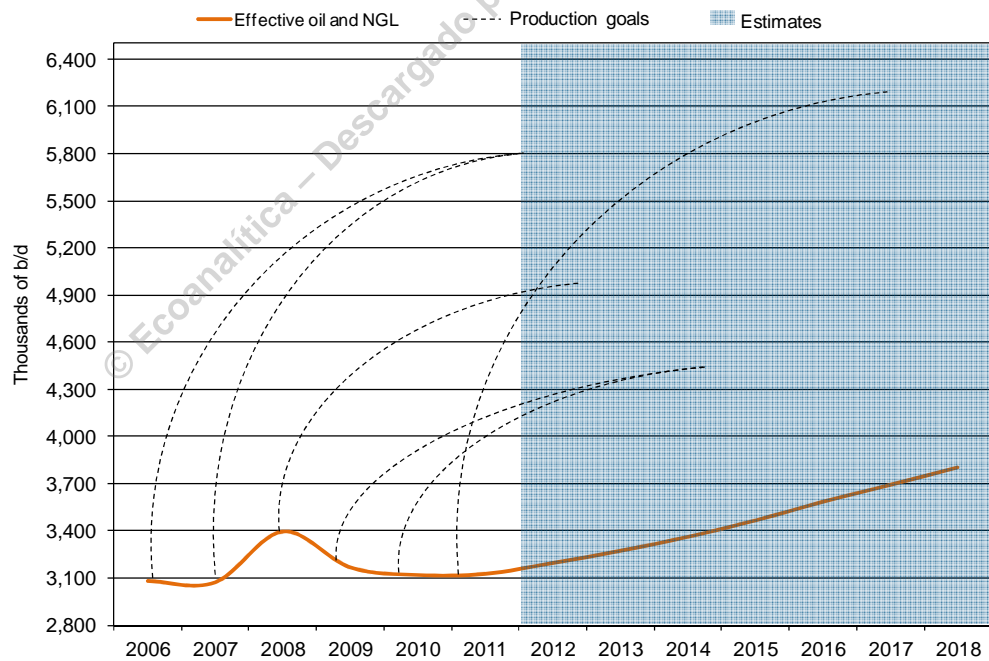
¹ We can't ignore the consistency and success that President Chávez has had in creating an international political axis of aligned countries, some more than others, with the political ideology of President Chávez.



The third main objective includes a part that deals with how to make Venezuela into an oil power. The plan includes an oil production goal of four (4) million barrels a day (mb/d) by 2014 and 6 mb/d by 2019.

In our opinion, it is unlikely that this objective materializes, especially since the document envisages to deepen the current fiscal oil regime by rising the so called *“surplus rent caused by extraordinary and exorbitant increases in international fossil fuel prices”*, because the transfer of resources to the Fonden restricts the cash flow to the investment activities to increase production. In our last *Weekly Report*, we studied the efficiency of the current PDVSA administration regarding the compliance of the investment plans in order to increase production, as you can see in the graphic below.

PDVSA's effective production VS production goal



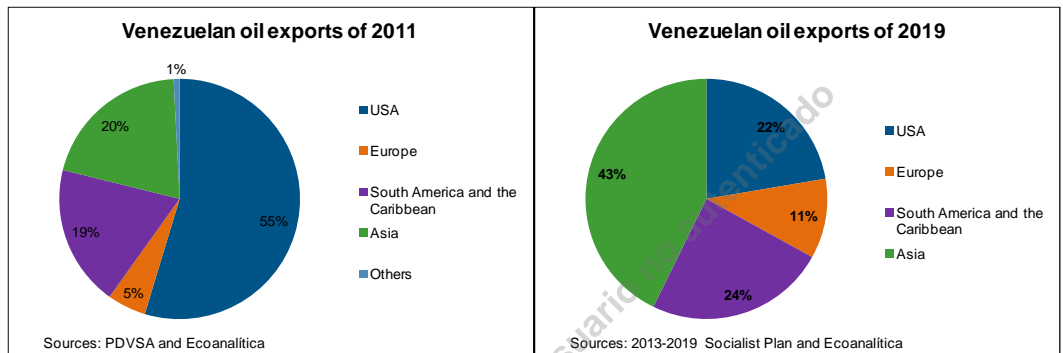
Sources: Pdvsa and Ecoanalítica

Chinese-Venezuelan Fund and the diversification will go on

The government foresees the expansion of the Chinese-Venezuelan Fund (which until December 2011 had signed agreements by an amount of US\$32.000 million). This fund has allowed the government to achieve its goal of diversification of Venezuela's oil export markets. Thus, the government is planning to export 2.2 mb/d to the Asian countries, 1.25

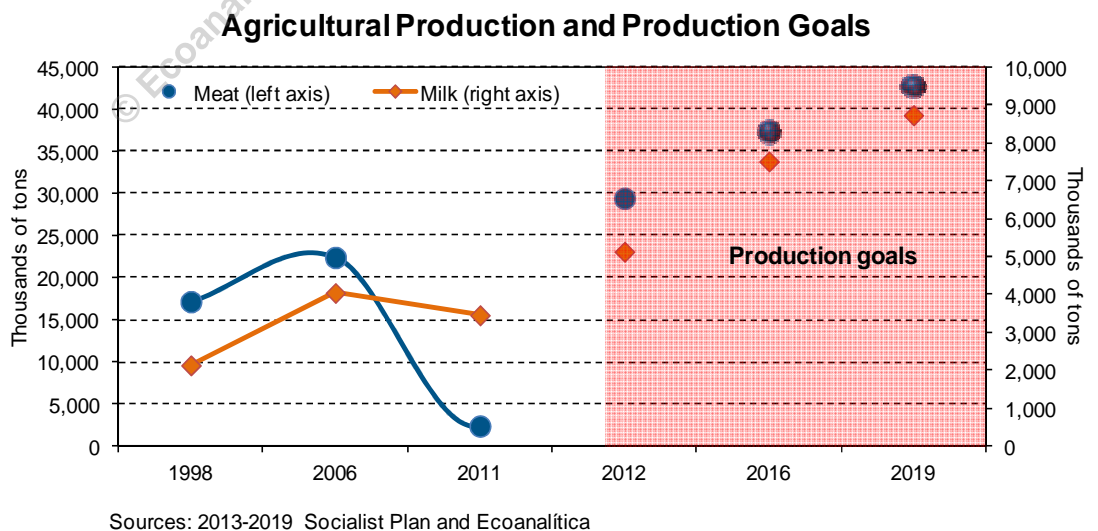


mb/d to Latin America and the Caribbean, 1.15 mb/d to North America and 550.000 b/d to Europe by 2019.



Agriculture, the big defeat

One of the sectors that the II National Plans focuses on the most is the development of the national agriculture/livestock sector in accordance with the objective to achieve food sovereignty and also because this is the sector that has advanced the least during the 14 years of President Chávez' Administration. The plan outlines how to "unleash our agro-productive potential," setting goals to practically double domestic meat and milk production and increasing the total amount of land being farmed.



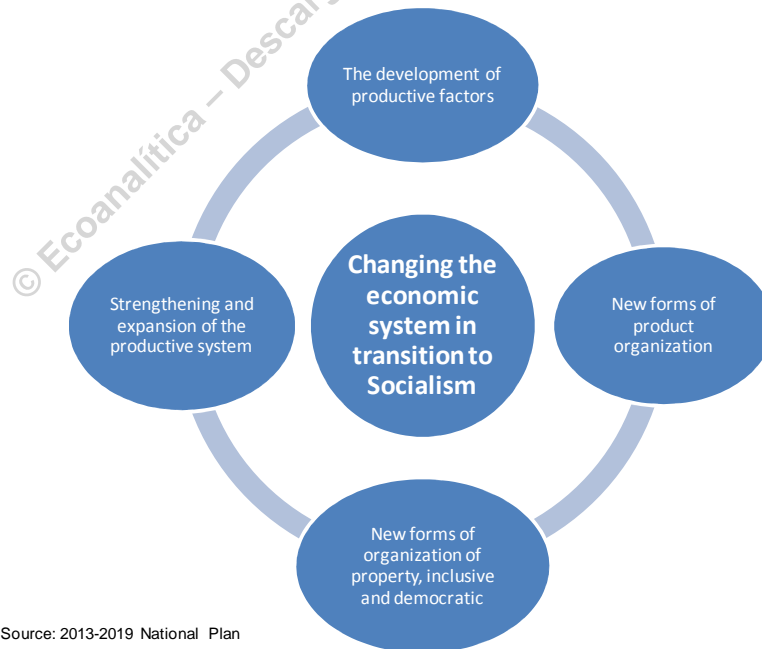


Among the goals established for this objective are:

- ✓ The expansion of state food commercialization and distribution networks (Mercal, Pdval, Bicentenario).
- ✓ That 60% of the storage and processing capacity of basic items (cereals, sugar, meat, milk, etc) be under the control of socialist companies.
- ✓ That at least 50% of production volume comes from diversified production models: family, rural, urban, semi-urban, and indigenous farming.

And what about the private sector?

In accordance with the guidelines of the objective *“continuing to build 21st Century Bolivarian Socialism,”* new forms of organizing production along socialist lines will be promoted, and here there will be space for the private sector, as the plan calls for *“promoting and stimulating small and medium sized private enterprises.”* However, the plan is also very clear on *“dismantling existing oligarchic and monopolistic structures.”*



Source: 2013-2019 National Plan

No matter how high handed this sounds, the fact is that in Venezuela, the economy is mainly made up of small and medium sized companies, with medium sized companies creating around 4,600,000 jobs (40% of the working population), so the impact of this policy isn't as big as it seems.



**Peoples Power
vs. State
Capitalism**

Within the political organization of the communities, the commune has become the main instrument for the Peoples Power. The plan states that at least 3,000 socialist communes will be established by 2019, “where 4,680,000 families will earn their living, which represents 21,060,000 citizens. This is to say that 68% of Venezuelans in year 2019 will live in some type of subsystem attached to a commune.”

However, we believe that this discourse is in direct contradiction with the objectives established dealing with “strengthening centralized planning and the budgetary system for the development and orientation of the nation’s strategic chains.” On the one hand the plan talks about creating a supreme State that oversees and runs the economy, a centralized entity in command, taking away any power from any other mechanism by which citizens may organize themselves; then on the other hand, it goes on to lay out the guidelines and elaborate on how the Peoples Power will be at the center of the national political power.

**An inefficient
model**

As you can see, and one would expect from this Executive Office, the plan describes the State as the only relevant player, the main player, where economic policies take a back seat to a program’s political viability, more important than the development of the country. In our opinion, we are only exacerbating out vulnerabilities by continuing with this economic model. If the central idea is to have the State be the main player, the star of the show, our economy isn’t going to do any better than it has been doing these past 6 years.

At *Ecoanalítica*, we have no doubt that the path of 21st Century Socialism is more than inefficient when put into practice. Here is a very basic example, the following table compares President Chávez’ first term in office compared to when the I Socialist Plan was implemented. As the saying goes, the numbers speak for themselves.





	1999-2006	2007-2012
Venezuelan Oil Price (US\$/bl)	30.8	81.4
Oil Exports (MB/D)	2.8	2.5
Oil Exports (MMUS\$, Average)	31.1	75.5
Average Growth (%)	2.9	2.9
Average Inflation Rate (%)	19.3	26.7
Poverty (% variation)	-13.3	-3.9
Extreme Poverty (% variation)	-8.0	-2.1
Unemployment (% variation)	-1.4	-1.6
Fiscal Deficit (% GDP)	-2.0	-8.5
Primary Deficit (% GDP)	1.3	-6.6
Debt (MMMUS\$, variation)	13.5	104.2

Sources: Barclays and Ecoanalítica

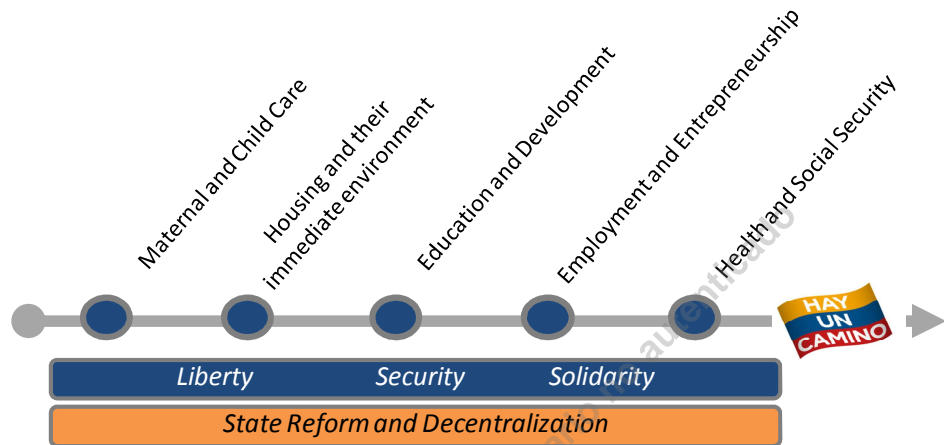
“That we all progress and no that one is left behind; the conditions we were born into do not determine anyone’s destiny”

Henrique Capriles plan for governing, coordinated by Professor Ricardo Villasmil, is based on an individual’s life cycle as a vehicle for society to be able to progress in accordance to whatever stage you may find yourself in. Along these lines, the Government Plan for Progress has five main objectives that are part of a family’s life and each one of its members, and specially the path that those with the most obstacles have to follow in order to progress:

- Education
- Health
- Security
- Housing
- Job

The life cycle is divided into five Progress Stages: Maternal child care; Housing and its surroundings; Education and Development; Job and venture; and Health and Social Security. Said cycle requires four conditions: Democratic coexistence; Security; Social Protection for the Family; State Reform and Decentralization. Just as it appears on the following schema, each one of these stages encompasses specialized areas subordinate to the main objective: make every step of the cycle another step of Progress for everyone.





Source: HCR Government Program

What to expect regarding the oil industry from the Progress program?

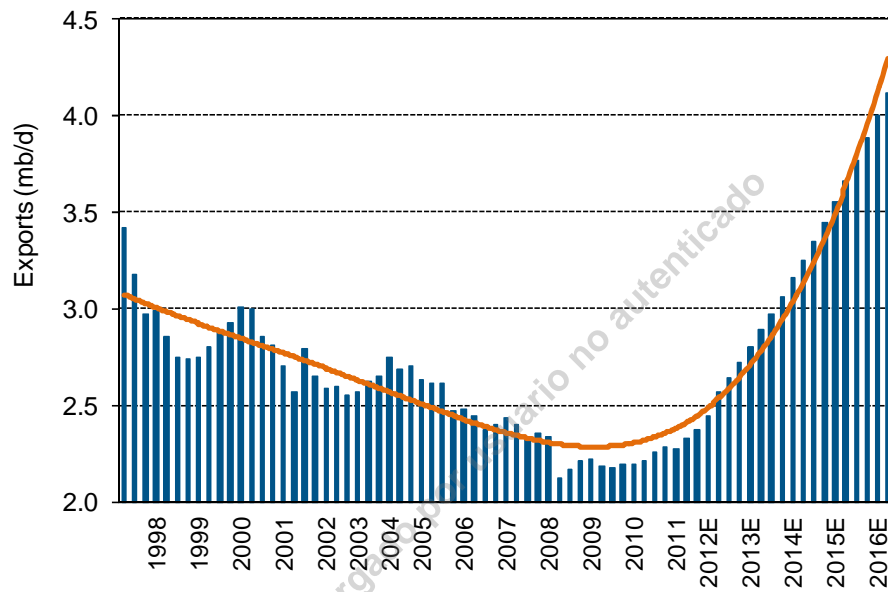
The strategic guidelines with respect to the oil industry are centered around two fundamental proposals: promote policies that will optimize exploitation of the oil fields, increasing production capacity as well as increasing public and private, foreign and domestic investment, opening up opportunities for Venezuelans and their savings to participate in the national oil industry; and promote the implementation and development of new technology, a sustained increase in the national aggregate value, and the diversification toward related areas (refining, petro-chemistry, etc.).

With respect to the issue of the distribution of oil revenues and the fiscal contribution from oil the oil industry, Capriles' team have pointed out that they will work towards designing an institutional and fiscal framework that will promote macroeconomic stability, optimum use of the resources, and establish the base for long term oil industry policies. Taking this into consideration, the team has announced that oil production can be increased by 300 kb/d without affecting social programs and the gasoline subsidy.





PDVSA's production to export



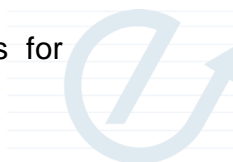
Sources: OPEC and Capriles' team

**What is the proposal for the food industry?
Let people do**

With respect to the agriculture sector, Capriles' looks to rescue the agro-food sector and make it one of the main engines of economic activity, that it will be competitive and generate revenue for the country, building an efficient food commercialization and distribution system, guaranteeing the access and quality to basic food items to the low income sectors of the population.

Some of the goals established are:

- ✓ Guarantee Personal and Judicial Security in the rural areas.
- ✓ Support the development of agro-food chains with export and/or self-sufficiency capabilities in order to be able to supply an important percentage of the domestic demand for basic food items for the Venezuelan people.
- ✓ Reduce the size of the level of participation by the State in the production, industry, and commercialization of goods and services tied to the agro-food industry thereby eliminating unfair practices and advantages for the public sector over the private sector when doing business in this area.
- ✓ Rescue the areas of agro-food health code supervision.
- ✓ Promote the creation and consolidation of Regional Funds for Agriculture Financing.





- ✓ Promote and support the development of efficient food commercialization schema for the general population.

What is the focus of economic policies and the role of the private sector?

The Progress team proposes a program of gradual adjustments, especially in two areas: exchange matters and fiscal matters. With respect to exchange matters, a gradual dismantling of the exchange control is being planned. This will strengthen the foreign sector through an increase in non-oil exports and diversifying the economy.

Within the process of cleaning up fiscal accounts, the elimination of public spending finance mechanisms through out-of-budget is on the agenda, as is a thorough review of PDVSA accounts and increased investments for industry.

The main objective for Henrique Capriles' team is to gradually eliminate the imbalances and eliminate the Venezuelan economy's foreign vulnerabilities. But, in order to do so, one has to face the problems that the economy has been carrying for some time now, such as: high inflation and a lack of private investment, just to name a few. In order to accomplish this, Capriles' program requires the private sector, domestic as well as foreign, to help with the task, in order to lessen the impact that these adjustments will bring with them, impacts that will affect the poorer sectors the most.

Though the future looks brighter in the long term, the challenge for this government will be to implement these economic changes in a context of falling oil prices.

Past vs. Future

Having looked at the outline of both plans, on the one hand we have an Administration that is bent on implementing a Plan that is dedicated to continuing with an economic model that exacerbates our economies vulnerabilities instead of healing them. On the other hand, a plan full of change that looks to develop Venezuela's economic potential, but recognizing that it is in the middle of a very turbulent political scenario. Both plans depend enormously on the international price of oil in order for their projects to be viable, with a slight advantage to the Progress Plan which allows for the private sector to help it along the way, making its economic policies more applicable. So now, let the campaigning begin...





Economic Tips

New structure: now the funds issue debt. In order to finance the Great Housing Mission Venezuela (GMVV) the government has placed bonds on the market named *Valores Bolivarianos para la Vivienda* (Bolivarian Securities for Housing), its first issuance being for VEB 5.80 billion, with a yearly interest rate of 4.66%, maturing in eight years. The private banking sector acquired VEB 4.57 billion with the public banking sector acquiring VEB 1.29 billion. The bonds are guaranteed by the Simón Bolívar Fund.

This is just the beginning. This is just the first issuance. This year, the Administration is planning to issue bonds of this type for around VEB 14.60 billion in order to finance the GMVV.

Unemployment rate at 7.9%. According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 0.6 percentage points in May, as compared to the same period in 2011, when unemployment rate closed at 8.4%; this means that in the fifth month of the year, 1,052,236 people didn't have a job.

Informality rate decreases. According to INE's figures, at end-May, 5,044,312 people were employed at the informal sector (40.9% of working population), which results in an decrease of 3 percentage points compared to May 2011, when the sector employed to 5,281,386 people. Formal sector, which employs 59.1% of working population, increased 2.9% with respect to the same period in 2011.

30,805 employers less than a year ago. The number of employers in the private sector has continued to drop during the last few years, despite the economic recovery. According to the National Statistics Institute (INE) figures for the month of May, the number of employers dropped by 7.2% during the last year, which is equal to around 30,805 fewer employers. During the last 10 years, the number of employers has dropped by 35.5%. In May 2002, there were 611,803 employers, or 217,204 more employers than there are today.

The alimentary basket reaches VEB 3,598.9. According to the report of Worker's Documentation and Analysis Center (Centro de Documentación y Análisis para los Trabajadores - Cenda), the cost of *Workers Food Basket* (Canasta de Alimentaria de los Trabajadores - CAT) in May 2012 was VEB 3,598.9, an increase of 0.8% with



respect to the prior month, and 27.1% with respect to May 2011. So far this year the basket has a cumulative change of 6.5% (VEB 219.6).

The behavior of the CAT in May was marked by an increase in meat and meat preparations 2.3%, seeds, oil seeds and legumes (beans) 1.7%, 1.6% non-alcoholic beverages, 1.2% fats and oils, cereals and cereal products 1.0%, milk, cheese 0.8% and eggs, roots, tubers and other (vegetable) 0.6% and 0.2% fruits and vegetables.

Family income only covers 47.3% of the basket. The new minimum wage VEB 1,780.5, effective from May 1, 2012 has a hypothetical purchasing power of 49.5% and a deficit only for food purchases of 50.5% (VEB 1,818.5) this means that despite the recent 15% increase in the minimum wage this remains insufficient, as a family today requires twice the minimum wage just to cover basic expenses for food.

Social strata E families have just barely enough to eat...just barely. Around 43% of Venezuelan households that make up social strata E, the sector of the population with the least amount of income, averaging VEB 3,700, just enough to pay for the basic food basket, leaving out other household expenses such as education, transportation, or recreation.

Social strata D households are a little better off. The second largest social strata group of households in Venezuela is social strata D; they make-up 36% of the total population, and average around VEB 5,500 in income. Though this is enough to cover the basic food basket, it is not enough to cover the complete basic basket that includes transportation, services, education, and recreation, and closed the month of May at VEB 8,217.

Only 20% of the population can afford to live well. Social strata C households, which make-up 18% of all households in Venezuela, average around VEB 10,100 in income. And social strata A-B households make-up 2.6% of all households and have an average income of over VEB 21,000, said Luis Vicente León, from Datanálisis, during a forum for Consumer Tendencies, organized by Venamcham.

Interest rates. The lending rate for the third week of June was at 16.6%, decreasing by 1.5 percentage points compared to the previous week. The time deposit rate remained since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 0.9% going from US\$25,746 million during the third week of June to US\$25,509 million during the fourth week of June. Compared to the same period last year, international reserves have decreased by 5.1%.



Monetary liquidity. Monetary liquidity in the third week of June increased 0.6% compared to the previous week settling at VEB 498.089 million. The M2 has increased 53.3% in relation with the same period last year.

Sitme figures. So far this year, US\$5,117 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$43.0 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1,285 million (33.5%) over the same period of 2011, when were negotiated US\$3,747 million. Lastly, during the third week of June the amount traded reached US\$301.1 million, traded US\$127.1 million more than last week when US\$174.1 million were traded, with a daily average of US\$60.1 million.

Oil Tips

No more shipments sent, but ... and the debt that's owed? With the impeachment of President Lugo of Paraguay, Chávez announced that Pdvsa would no longer send more fuel to that country that since 2004 has been benefiting from oil purchases from Venezuela with very beneficial payment conditions. The Government of Paraguay and Petropar have fallen way behind of their payments to Pdvsa, accumulating a debt of more than US\$260 million, which for more than a year now, Paraguayan officials have been trying to refinance with Pdvsa.

"1st in the production of extra-heavy crude oil." This was the statement issued last Wednesday, June 20 by the Minister of Petroleum and Energy and president of Pdvsa, Rafael Ramírez, during the 2012 Venezuelan Forum on Extra-heavy Crude Oil, with 455 researchers and experts from Pdvsa and its affiliates in attendance. The focus was to promote technologies to increase production of heavy and extra-heavy crude oil in the Orinoco Oil Belt.

500,000 barrels more in 2012. Ramírez added that the goal has been set for Venezuelan oil production to be at 3.5 million barrels a day (mb/d) by the close of 2012, this is 500,000 barrels more than what is currently being produced. Of current production, 1.5 mb/d is extra-heavy crude oil, in other words, half of all domestic production. Construction of 70 cluster wells in the Orinoco Oil Belt is being considered, as is the laying of more oil pipelines and build more storage facilities, thereby expanding the development of the Orinoco Oil Belt in all its aspects.



Pdvsa losing US\$10 million a day due to natural gas deficit. According to the former president of the Autonomous Company for the Administration and Promotion of Electricity (Cadafe), César Quintini, since 2010, the big thermoelectric plants have been requiring 44 kb/d of fuel oil and 60 kb/d of diesel due to a lack of natural gas. International prices of fuel oil and diesel are between US\$80 and US\$100 per barrel, respectively; while domestic market rates are below the cost of production and refining. This generates losses for Pdvsa to the tune of US\$10 million per day.

Natural gas isn't being taken advantage of. According to statements made by the former president of Cadafe, César Quintini, "they say that natural gas production is increasing, but what is happening is that they are burning it, it's not being used for electricity. Currently, the big thermoelectric plants have been requiring 44 kb/d of fuel oil and 60 kb/d of diesel due to a lack of natural gas. International prices of fuel oil and diesel are between US\$80 and US\$100 per barrel, respectively; while domestic market rates are below the cost of production and refining. This generates losses for Pdvsa to the tune of US\$10 million per day.

The Palito plant has begun its pre-startup process. According to information from workers, the FCC unit of the El Palito refinery in Carabobo state began its pre-startup process last Tuesday, after having been out of operation due to a scheduled shutdown that has lasted 20 days. Pdvsa announced on June 4 that the shutdown was due to preventive maintenance which should allow the FCC unit to operate at its optimum level until its main maintenance shutdown is scheduled during the first quarter 2014.

Half measures. In January, the refinery reported a failure in the Valve System required for the circulation of catalysts in the reaction area. Workers have also voiced their concern regarding expansion and maintenance work being carried out these past few months, such as those carried out on the FCC unit at the El Palito refinery, that the spare parts used are "rebuilt" and have tripled the costs of the shutdown due to delays in the works.

International baskets. At the time of foreclosure in New York, WTI was traded on June 22 at US\$82.2/bl, which shows a decrease of 1.4% compared to US\$83.3/bl recorded the previous week. Meanwhile, Brent fell by 3.6% to reach US\$ 94.3/bl compared to the previous week, when it reached US\$97.8/bl.

Local basket price. The Venezuelan oil basket price fell last week to close at US\$90.1/bl on Friday 22 June, resulting in a decrease of 2.1% compared to US\$92.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 108.6/bl.



Business Sector Tips

Roberto Orta: "...the government is still not paying." The president of the Owners Association for Urban Real Estate, Roberto Orta, pointed out that with the new Law establishing the fair price to pay for expropriations, the parameters used to calculate the value of the property are not realistic nor does it correspond to the value of the investment property owners have made on the property. So far, the Administration has ordered the expropriation of 1,200 properties to be used to build houses, without respecting the Constitution.

Why is it so difficult to buy a car in Venezuela? Between 2007 and 2011, the Venezuelan automobile industry shrank by 75.5%. In 2007, a record year for business, 491,899 units were sold during the year; just four years later, only 120,691 units were sold. 2012 projected sales points to 140,000 units being sold, nowhere near the natural market average for car sales in Venezuela which is calculated at being between 250,000 and 300,000 units a year. The gap between supply and demand translates into serious headaches for automobile buyers, with long waiting lists and ever increasing prices.

Less foreign currency for the industry. According to the flash survey carried out during the 2012 Conindustria Yearly Congress, 55% of those surveyed assured that there was increased participation in the market of imported goods; 35% said the market had remained the same; and only 10% said that the presence of imported goods in the market had dropped. But, when they were asked if their foreign currency requirements had been met during the past year, only 12% said that their needs had been totally covered; 38% said that they only had received 56% of what they had requested; and 50% said that they had only received 33% of what they needed.

Don't hold your breath waiting. Also part of the Conindustria survey, 43% of those asked stated that they had to wait between 121 and 180 days to liquidate the foreign currency authorized by Cadivi; 17% stated that sometimes they waited more than 180 days. When asked regarding economic activity during the first semester 2012, 28% said that it had increased; 32% stated that it had remained the same; and 40% said that it had dropped.

Less risk for the banking system? Through the purchase of new real estate securities for housing, the banking system is complying with the loans that it is required to grant to the mortgage sector. This schema leads to financial entities being



less involved in the administration of the loan, leaving the managing of the risk of mortgage loans to the government. Let's hope no one defaults on their loans.

The new LPH puts the banking system under the magnifying glass. With the reform of the Law for Housing and Habitat Policies (LPH), the government is rationalizing the sanctions and lowering the time period for inspections. The president of the National Bank for Housing and Habitat (Banavih), Mario Isea, explains that with these types of measures being implemented, inspections and evaluations will be almost continuous to see if the banks are complying with the objectives of the Great Housing Mission Venezuela.

Medicine sector continues to be reviewed. The Executive Office is reviewing the production cycle and commercialization for medicines in order to better analyze costs and the sale prices of these products in order to create a schema that protects the country. The Minister of Food, Carlos Osorio, stated that this is not another price regulation but insisted on the need to guarantee fair prices for the people through a permanent review mechanism on the production, distribution, and commercialization chain for medicines.

Private sector at a disadvantage. Moisés Bittán, member of the commission for economy and finance for Fedecámaras, warns that with the approval of the Law for Public Goods via the Special Powers Law, will accelerate the nationalization of the economy. It is obvious that the Administration is focused on implementing a hegemonic economic system, where the main activity is under total State control.

Conindustria: plan to create more than 7 thousand companies in the country. The Venezuelan Confederation of Industries (Conindustria) presented in its 2012 Congress its Proposal of Industrial Vision Venezuela 2025, with which it is aspiring to promote the creation of new companies, and thereby, more jobs. "We've lost over 34% of companies during the last 13 years, more than 5,000 companies, 300 thousand jobs. We present this vision of the future. To create 7 thousand new companies by 2025, doubling what we now have," stated its president Carlos Larrazábal.

Bolipuertos acquired machinery to help streamline port operations. According to a press release, the state-run company *Bolivariana de Puertos* (Bolipuertos) acquired machinery to help streamline loading and unloading operations for the ports around the country. 46 machines were purchased via the agreement signed between the governments of Venezuela and China. 32 of them are earmarked for the port of La Guaira, the second most important in the country, and the rest will be divided among the ports of El Guamache and Guanta. So far this year there have been numerous complaints regarding delays in port operations, unloading and loading



merchandise, and even the nationalization of products coming in due to delays, especially in the port of Puerto Cabello.

Uncertainty about the presidential election affects investments in franchise sector. According to Alfonso Riera, director and former president of the Venezuelan Chamber for Franchises (Profranquicias), though there is a lot of interest in Venezuela for franchises, the uncertainty about the outcome of the upcoming presidential election makes many hesitate to invest. Riera explained that this year the market is behaving differently than last year, sales are up in the stores, but there is less investment in new shops. According to Profranquicias' figures, the sector will grow by between 5.5% and 6.5% this year, down from last year.

World Economy Tips

FED: Nothing changes. As was expected, the Federal Committee for Open Markets left the rate of federal funds at a range of 0 to 0.25%. The reference rate has remained without change, at its lowest level, since the end of 2008. The discount rate also remained the same at 0.75%. The Fed stated that the economy can guarantee an exceptionally low rate for Fed funds, at least until 2014.

Bernanke hints at conditions worsening. The Fed statement was a bit pessimistic compared to previous announcements. "...new jobs have slowed in recent months and the unemployment rate is still high." Furthermore, "private consumption seems to be increasing at a slower rate than during the beginning of the year."

Projections remain the same. U.S. Federal Reserve economic projections point to the GDP growing by 2.5% in 2012 and 3.25% in 2013 and 2014. Inflation and subjoined inflation outlook were lowered to 1.75% and 1.80% respectively. Unemployment is expected to drop to 7.35% in 2014.

But advances indicators improve. The index of advanced indicators of the Conference Board was up 0.3% for the month of May, after having dropped by 0.1% during the month of April. An increase in construction permits and a more pronounced interest yield curve have led to more positive results in the general index. These were followed up by increased orders in manufacturing and in capital goods, and a drop in filing for unemployment.



The real estate market is recovering. Continuing with the positive news about the U.S. economy, the Case-Shiller house price index was up again for the month of April by 0.7% (1.9% y/y). Most market prices have improved with respect to March prices, especially in Phoenix, San Francisco, Tampa, Washington DC, Minneapolis, Miami, and Los Angeles. Prices dropped in Detroit, Nueva York, and Boston.

German pessimism. According to 274 analysts and investors that participated in a ZEW survey carried out between May 29 and June 18, positive expectations regarding the macroeconomic environment for the coming months was down significantly. Before the survey, there was a surplus of 10.8% of those who expected better conditions in the coming six months, after the survey, there was a surplus of 16.9% who thought that macroeconomic conditions would get worse.

Worse for Europe. The ZEW survey also measures what German experts think about current conditions and expectations in the Euro-Zone. With respect to expectations for the Euro-Zone, the pessimist surpassed the optimists by 73.2%. Without including Germany in the survey, the results would have even been more pessimistic. This reaction is mainly due to the worsening economic conditions in Portugal, Spain, Ireland, and Greece. This could also be signaling experts finally accepting that Germany is becoming more vulnerable due to the Euro-Zone crisis.

France on one side and Italy on the other. While manufacturing orders are dropping in Italy for the second quarter in a row, the opposite is occurring in France with respect to orders for manufacturing. Metric orders for both these countries have been almost identical in the past, but suddenly now, quite different. It's obvious that Italy is being affected by its debt situation and the situation of its neighboring countries, which is affecting growth. SEW survey results show the fear the central European countries have to being infected with the problems of the south Euro-zone countries.

Despite the economy, Brazilians are optimistic. Despite signs that show the Brazilian economy weakening during the past two years, consumer confidence for the month of June continued to increase. The main indicator for consumer confidence, the *Fundación Getulio Vargas* (FVG) reached its highest point ever, 139.1² points, while expectations dropped to 114.9.

But not businessmen. Overall, Brazilian businessmen have been less optimistic than consumers, especially regarding their view of current conditions. Business

² The index has a range of 1 to 200 points, 100 points is considered a neutral indicator.





sector confidence is measured differently than consumer confidence³. With respect to current conditions, the index reflects 46.9, and regarding expectations, up to 60.6.

This means that while consumers see the current situation with optimism, the business sector sees a state which is sliding backwards. But as long as consumer expectations tend to be lower than the levels reached before the financial crisis in 2008, the business expectations reflect a more optimistic view.

Political Tips

Tie. Henrique Capriles and Chavez come to the campaign exactly the same spot, said the president of the Consultores 21 polling Luis Christiansen. The representative of Consultores 21 reported that in terms of voting intention for the start of the campaign to be held next July first, Capriles and Chavez are equal to 46%.

Turnouts trump surveys. It's the opinion of pollster Alfredo Keller, who states that the survey wars is a very common occurrence during a campaign, even used on occasion, as a political weapon. But in the end, it is not very effective because it is very difficult to fool the people who see how many people turnout for the opposition marches. They will question the veracity of certain surveys.

What survey war? Nine million votes, and a four million difference in votes is what Francisco Ameliach, National Assembly representative, member of the chavista movement predicts. There is no survey war, all the surveys no matter what their plus/minus range show President Chávez winning.

Equal conditions. Three more times around the country promised Henrique Capriles during a press release last Tuesday, as he was also calling for a campaign with respect and no insults and that everyone respect the rule on only 3 minutes for television and radio campaign adds, as mandated by the National Electoral Council (CNE). This is quite different from the 13 hours that President Chávez has been on the air since officially entering the presidential race.

“You’re not going to beat me with doctored numbers.” Those were the words of Capriles, who invited all those who want to make a quick buck and register a survey

³ Values higher than 50 translate to growth, while less than 50 points to shrinking.



company and go work for the government. According to the candidate, the survey carried out by *Comando Venezuela* is going house by house, that's how you know if the country is behind your project or not.

“If you are not a chavista, you are not a Venezuelan.” Just another polarizing phrase, one of many, launched by President Chávez last Sunday in an attempt to tear down all those who do not believe in him or his ideology. Teodoro Petkoff, defined the phrase as brutal, vulgar, and miserably false, adding that it represents an attempt to give the Armed Forces a clear military objective. The majority of the people who do not agree with him.

“Don't stoop to a hate campaign” was the recommendation that came from members of the *Fuerza Joven* movement to the neighbors of the *23 de Enero* with respect to President Chávez' forceful discourse that criticized the turnaround that according to them the Missions from the government has had, which have gone from instruments for liberation to being synonymous for blackmail.

21st Century Minestrone. Luis Miquilena, president of the former Constituent National Assembly assures that Chávez *“went the history's trash dump and picked up that obsolete junk”* that like a minestrone, has places it before us and called it 21st Century Socialism. He states that Chávez' bid for reelection is illegal since it was rejected in the 2007 Constitutional Reform vote, a fact that both the TSJ and the CNE should have step in and prevented if they had any sense of shame.

Lukashenko came to collect his share. The President of Belarus, considered the *“last dictator of Europe,”* came to Venezuela to sign his arms deal agreement with the government, what leaders from the opposition party MUD are classifying as *“the President's allies coming to collect their shares, masked by hollow agreements.”*

Blockade this but not that. President Chávez, faithful detractor of the blockade that the U.S. imposed on Cuba, now has announced that Venezuela is to call back its ambassador to Paraguay and to cease all fuel shipments to said country in response for the Paraguayan congress having impeached President Fernando Lugo. This constitutes a clear case of economic discrimination.

People of Mérida still waiting. The payment delay of more than VEB 115 million to the Austrian company Doppelmayr due to the critical financial situation that the Mérida Cable Car project is going through. The project is supposed to be inaugurated in November this year, despite only being 30% complete.

300 cooperation agreements was the final tally of the meetings held last Friday between President Chávez and the President of Iran, Mahmoud Ahmadinejad. This



was his second visit to Caracas so far this year. The agreements signed dealt with technology, food, industry, infrastructure, and housing. The visit did not go unnoticed by Barack Obama and other allies in Latin America.

Legislative Tips

MUD party to demand COPP be annulled. Representatives of the National Assembly members of the Unified Democratic panel will demand before the Supreme Tribunal of Justice the annulment of the reform of the Organic Penal Process Code, given that the head of State is not authorized to legislate such a Law, only the Parliament is able to do so according to the Constitution, Article 187.

Public Finance bill to be proposed. Liborio Guarulla, governor of Amazonas State, proposed a bill allowing states to collect their own resources. Guarulla recalled that this mechanism was provided for in 1999 Constitution. *"We have insisted in the creation of states' public finances because the Constitutions called for that the law should be approved within two years and 12 years have elapsed and nothing has been approved."* In a visit to our editorial offices, the Governor stated that even though Amazonas is one of the largest states in the country, it's the state receiving the least amount of resources.

Conindustria demanded before the TSJ Sports law to be repealed. Conindustria demanded before the Supreme Tribunal of Justice (TSJ) the annulment of the Sports Law, on the grounds that this legal instrument has become a heavy burden since it provides for a mandatory payment of 1% of annual gross income to create a national fund for the development of sports activity." According to Conindustria, the law "would violate the principle of payment capacity (article 317 of the Constitution), because it's forbidden to deduct the payment from Income Tax.

Artists to protest to the AN. About 3,000 signatures support the Manifesto for Life that the country's musical and artistic community wrote more than one month ago to demand the State to undertake measures against widespread and uncontrolled violence and lack of personal security. In an administrative procedure, the main representatives of the organization, which has been called "Daleunparao" (No more!), will submit the document to the Committee on Interior Politics of the AN. Félix Allueva, founder and director of the Foundation Festival Nuevas Bandas, pointed out



that after fulfilling this formality, they will start street protests and organize mass concerts.

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ECONOMIC OVERVIEW

