



Weekly Report

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*2012 budget:
What's interesting is what
it hides*

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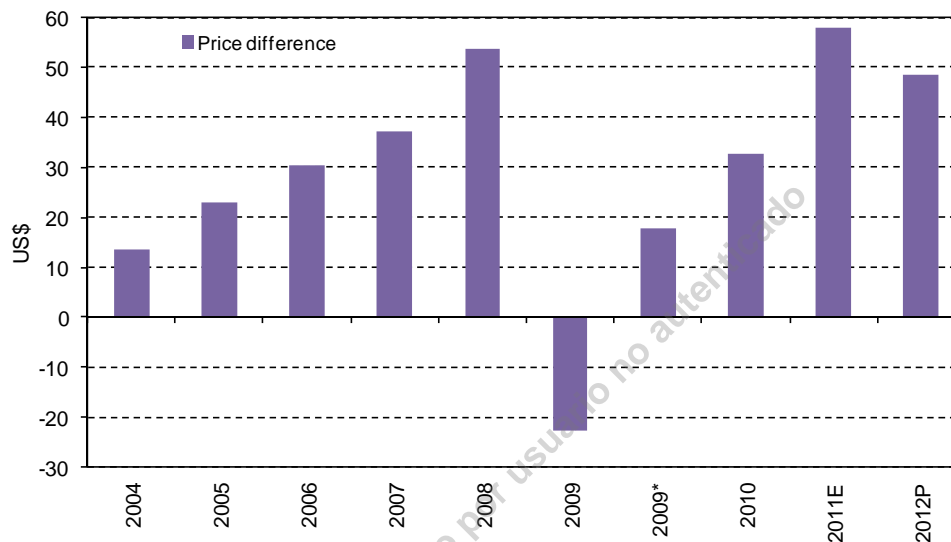
In Venezuela, when it comes to public finances there is a ritual: the Minister of Finances presents the national budget to the legislative power. Days before expectations start to emerge about what the minister, in this case Jorge Giordani will say and about the contents of the document. These expectations have to do with how different market expectations will be from the budget. The draft budget for 2012 (Proyecto de Ley de Presupuesto 2012 - PLP12) was no exception.

Where is the surprise?

The budget that Jorge Giordani, Minister of Planning and Finances, presented didn't really generate any interest in the market; it is just a formality. It was created under what they call a "conservative" scenario, which provides coverage to give the Administration more discretionary power in the use of resources, considering that 2012 is the year of the presidential elections. In this way, for analysts the surprise was to find out what was the "conservative" oil price established for the Venezuelan basket, to be able to measure the surplus that the Administration will have next year.



Venezuelan oil basket price Vs. budgeted oil price



Sources: National Budget Laws, Menpet and Ecoanalítica

* In 2009, due to the fall of oil prices, the government reduced the price estimated in the budget.

In the PLP12, the price of the barrel of oil used to calculate income and expenses is US\$50 per barrel, when the annual average price of the barrel is close to US\$ 100/bl. This underestimate is just a device to underestimate incomes and expenditures, and give the Administration more leeway, since it will quite likely receive a high amount of extraordinary resources, given the level of the prices, which it will use under the scheme that has become a classic in Venezuela: additional credits and other parallel structures like Fonden and Pdvsa expenses.

Nothing new under the sun

It is always good to step back and remember that this practice was not invented by the government of President Chávez; rather, it was inherited from previous governments, maintained and improved by the “chavismo”, which hides behind the thesis of price “conservatism”, a way to have parallel spending structures with strong political impact, as we have commented in prior reports.

As in previous years, the macroeconomic premises established for PLP12 don't take into account the reality of the Venezuelan economy. The government expects the economy to grow 5.0%, an optimistic projection considering that the market consensus is 3,3% and **Ecoanalítica's** 3,4%. What surprises is how can a greater growth be projected for 2012, if the



government estimates a drop of 48.7% in the Venezuelan oil basket (from US\$97.4/bl in 2011 to US\$50.0/bl in 2012).

With respect to inflation, the administration has established a band between 20.0% and 22.0%, while **Ecoanalítica** forecasts 26.0%, which is quite serious, considering that most of the region's countries already overcame the issue of price increases, with inflation at single digits for several consecutive periods. Also, in our opinion a drop in inflation rates is incompatible with a scenario of considerable increase in public spending, like the one expected for 2012.

Nothing changes

This new budget doesn't show signs that the government is making significant changes in economic policy, rather, what it is striving for is to deepen the present model, since it doesn't make much sense to make profound changes in the middle of an electoral campaign. What PLP12 reveals is a government that postpones the problems, and looks to win the presidential elections of 2012 at all costs.

Oil sector

The PLP12 doesn't mention the estimated oil production, relevant information that used to be published in the macroeconomic premises used by the Administration. Considering official figures and our estimates, an oil production of 3.4 million barrels per day (mb/d) is to be expected, significantly different from the data of OPEC secondary sources (2.4 mb/d). This long standing discrepancy known by all is one more reason to underestimate oil prices, since a price that is better adjusted to market expectations would reveal PDVSA's production problems, although in the last few months efforts have been made to increase production. However, the price difference is such that even with all these production problems, there will be a significant surplus for the Administration.

Hiding the dough...

The national 2012 Budget mentions a current income of VEB 233.065 billion, 42.4% more in nominal terms of what was budgeted for 2011. However, although it doesn't seem a negligible amount, this increase may translate into an adjustment due to inflation, so in real terms, this growth would only be 5.5%. In GDP terms, this income is equivalent to 15.0%.

At **Ecoanalítica** we expect fiscal income to be around 12.2% of Gross Domestic Product (GDP) for 2012; the difference is mainly due to the use of an underestimated oil price for the official estimates. According to the government, the oil income will be 4.4% of GDP, while according to **Ecoanalítica** it will be 12.2% GDP points. With respect to non-oil, the



difference is lower: we estimate 12.2% of GDP while PLP12 has it at 10.6% of GDP.

Reviewing the budgeted public expenditure, the figures established has been VEB 286.967 billion, which is above the original amount budgeted for 2011 of VEB 201.02 million, but below the amount estimated by the Administration, as stated by Minister Giordani for the effective end of this year, of VEB 332.81 million. It is in the area of expenses where it is more evident that PLP12 isn't credible, and reinforces our thesis of adjustments through additional credits.

Ecoanalítica's estimates for 2012 point to a spending of 24.3% of GDP, a difference of almost 6 percent points with respect to official budget estimates. In Bolívares, we see that while the government is estimating expenditures for VEB 286.967 billion, our estimates point to a spending of around VEB 474.150 billion in 2012, that is, 65.2% more than the spending established in PLP12. In this case, the underestimation is due to the Administration's need to have more discretionary power to use funds in projects that have greater political impact.

These budgeted figures of income and expenditures for 2012 result in a deficit of 3.5%, in GDP terms, a proportion that is slightly lower than what was estimated in the last budget (3.7%). However, our estimates point to a fiscal deficit for the Central Government of 6.1% of GDP.





Comparison of the 2012 budget assumptions Vs. Ecoanalítica

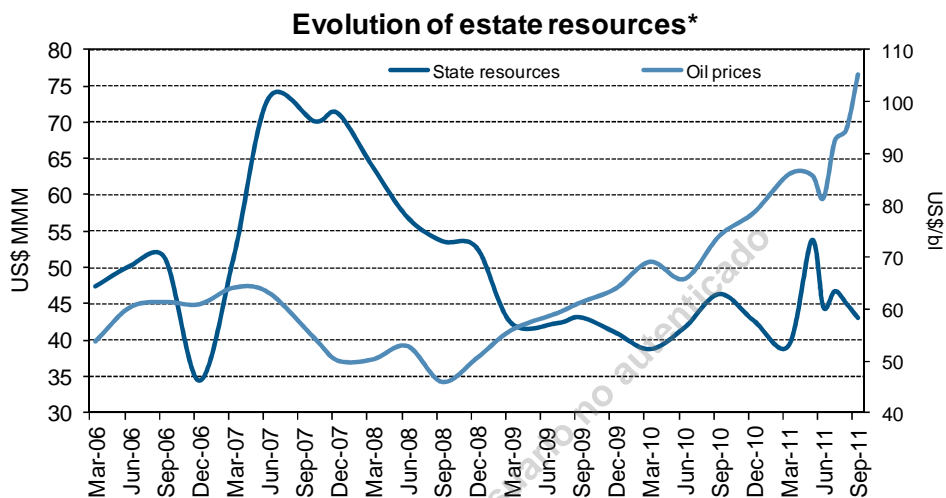
	MPF		Ecoanalítica	
GDP Current Prices (VEB Million)	1,557,179.9		1,740,456.8	
Oil price Venezuelan Basket (US\$/bl)	50.0		98.4	
GDP Growth(%)	5.0		3.4	
Inflation (%)	20-22		24.8	
Official Exchange Rate - end of the year (VEB/US\$)	4.3		4.3	
Official Exchange Rate - average (VEB/US\$)	4.3		2.8	
Concept	MPF VEB (Million)	%GDP	Ecoanalítica VEB (Million)	%GDP
Total Income	233,065	15.0%	369,727	21.2%
Non Oil Income	165,252	10.6%	212,619	12.2%
Income tax	42,923	2.8%	50,694	2.9%
Duty	12,140	0.8%	18,592	1.1%
VAT	87,160	5.6%	102,578	5.9%
Others	23,029	1.5%	40,756	2.3%
Oil Income	67,813	4.4%	157,108	9.0%
Income tax	8,500	0.5%	55,773	3.2%
Duty	53,313	3.4%	95,015	5.5%
VAT	6,000	0.4%	6,000	0.3%
Central Bank profits	-	0.0%	-	0.0%
Total expenses	286,967		474,150	
Current expenses	232,694	14.9%	350,125	20.1%
Capital expenses and others	54,273	3.5%	124,025	7.1%
Debt Amortization	10,352	0.7%	27,544	1.6%
Internal Debt	7,305	0.5%	19,339	1.1%
External Debt	3,047	0.2%	8,205	0.5%
Interests	44,362	2.8%	44,362	2.5%
Internal Debt	24,732	1.6%	24,732	1.4%
External Debt	19,630	1.3%	19,630	1.1%
			-	
Fiscal Balance	-53,902	-3.5%	-104,423	-6.0%
Primary Balance	-9,540	-0.6%	-60,060	-3.5%
Fiscal Balance excluding oil income	-121,715	-7.8%	-231,441	-13.3%
			-	
Financial Needs	53,902	3.5%	104,423	6.0%
Total Debt	64,527	4.1%	109,000	6.3%
External Debt	19,358	1.2%	37,605	2.2%
Internal Debt	45,169	2.9%	71,395	4.1%

Sources: MPF and Ecoanalítica

With no control... It's much better!

It is important to underscore an element we have been emphasizing systematically. Public expenditures financed through extraordinary resources have been increasing, a trend that won't change next year. These resources are not in the budget, but are used at the discretion of the Administration, and in our last calculation, the available amount is US\$43.1 million (One part in US\$ and another in VEB).





Source: Ecoanalítica
 (*) This estimate includes the defendants funds in foreign currency and bolivars using the official exchange rate

Where is the largest expenditure?

Using our analysis for the items with the greatest weight in the PLP12 spending, Education is at the top, with 12.5% of the total; then we have spending in security and defense, of 9.4% of the total spending budget. In the case of health, we see that spending is around 8.7%. There is an item in spending for productive sectors, of around 7.7% of the total, specifically in energy, mines and oil with 1.8%.

On the other hand, another very important item that is the spearhead of electoral promises for 2012 is housing, which for next year uses only 1.1% of the spending budget, a negligible amount considering what is spent in security and defense, for example. It is clear that this sector will receive funds from other sources, trying to get from it the greatest political benefit.

Although it will be the topic of our next weekly report, the sector with the greatest amount of resources in PLP12 is the public debt service, with 18.4%. It can already be felt in the aggressive fiscal administration of the last few years.

The electoral party of 2012

It is clear that at present, the growth of the Venezuelan economy depends increasingly on public spending, instead of being fueled by incentives and positive actions of another variable, like investment, for example, which would guarantee a sustained growth. After twelve years of administration, we are seeing an economic model that is facing difficulties, in which oil prices are the conditioning and triggering factor of whatever path the



present government takes with respect to fiscal matters, and the next to be elected in 2012. Nothing new under the sun.

In our country, fiscal policy has played a determining role in transmitting oil shocks to the rest of the economy; it acts as a means to propagate shocks, instead of being an instrument to contain or limit the distorting effects derived from the external vulnerability of the Venezuelan economy. While oil prices remain above US\$85/bl, the government won't stop implementing policies to increase public spending, much less in the next twelve months of campaigning for the presidential elections of next October.

Being popular isn't cheap...

Since the mid 2003 the government has proven that it depends on high oil prices, since this higher income has allowed it to implement an expansive public spending policy that has affected the popularity of president Chávez. It is a reality that there is a high correlation between government outlays and its popularity; thus, we see that in times of high income and higher spending, the head of state has higher scores of acceptance. This dependence of the President's popularity and fiscal expenditures is what leads the government to keep a great amount of resources in different funds.

From this we can see that this greater spending during 2012 is determined by the electoral strategy. The present government not only aspires to drive the economy through greater spending, but also aspires to improve its performance to gain popularity.

However, in the last few months we have seen that the President's popularity does not respond to the boost that public spending provides as before. In other words, for several reasons, public spending has become more inefficient. It is clear that the government is working against the clock and will need to increase spending even more to improve its performance levels.

History repeats itself...

This higher execution of public spending in 2012 makes us think in a real expansion of this component of around 15.1%. In the previous presidential campaign (2006), public spending increased in real terms around 16.8%. The strong increase of this year compared to the previous ones will have positive impacts on economic performance, particularly consumption, which is a very important element that our clients must use to their advantage. The other side of the coin is that this greater spending will affect inflation.



A year ago, when talking about the 2011 budget, we said: *“We cannot forget how important it is for President Chávez’s political project to win the presidential elections in 2012, so he must be careful next year. Therefore, we don’t expect its behavior to be any different from what it has been every year, always remembering that spending doesn’t have the same capacity to generate sustained growth”*. We still believe this.

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Economic Tips

Central Government's spending up 7.3%. The BCV published the figures of the Central Government fiscal management for July 2011. According to this data, in the first seven months of the year, total spending grew 6.3% in real terms, on a year-to-year basis, down from June's cumulative 9.6%. Furthermore, this percentage is substantially higher than that of the same period last year, when total spending dropped 6.7% in real terms.

Income, in turn, grew 6.3% in real terms on a year-to-year basis, including oil revenues with a gain of 13.3% and non-oil revenues which were 3.6% up, both in real terms with respect to the same period last year.

FISCAL BALANCE CENTRAL GOVERNMENT (VEB Million)	January-Jul 2010	January-Jul 2011	Nominal Variation	Real Variation
Total Revenue	89.415	119.891	43,9%	6,3%
Non-Oil Revenue	64.362	84.083	34,5%	3,6%
Oil Revenue	25.052	35.808	68,4%	13,3%
Central Bank Earnings	0	0		
Total Expenditure	113.130	153.067	35,3%	7,3%
Fiscal Balance	(23.715)	-33.175	39,9%	10,9%
Non Oil Balance	(48.768)	(68.984)	41,5%	12,1%
Debt Amortization	1.050	260	-75,3%	-80,4%
Financing Requirements	24.765	33.435	35,0%	7,0%
Foreing Debt	83	992	1090,3%	843,7%
Domestic Debt	25.440	34.877	37,1%	8,7%
Tresury Bonds	20.686	31.510	52,3%	20,8%
Tresury Debt	4.754	3.367	-29,2%	-43,9%
Others	(759)	(2.433)	220,8%	154,3%

Sources: BCV and Ecoanalítica

Consumers are paying surcharges. According to Datanálisis, consumers are paying excessive prices for most of the price-controlled products included in the reference food basket. These products are being sold 40%-50% over their regulated prices.



...but according to the National Statistics Institute (INE), the difference might be higher. In September, Venezuelans paid VEB 5.3 for one kilo of pasta, 94.8% higher than the regulated price, considering that the price of half a kilo of pasta is fixed at VEB 2.7 as per a resolution dated March 21st. The INE states that an average family only buys half a kilo of pasta. However, when two packages of pasta are bought, the surcharge being paid per month would be 143.0% as compared to the regulated price of VEB 4.3.

More money to the funds. On October 5th, President Hugo Chávez authorized a new transfer for the Fun for Socialist Efficiency. The instruction signed by the President authorized the transfer of those funds to the National Treasury Office *“so as to order their execution and take these funds in line with the priority order of public policies led by the Head of State.”*

...The Fund for Socialist Efficiency was created on April 21, 2010, with the aim of recognizing the performance of the autonomous institutes and the new social production companies, as well as financing State's projects.

...This Fund has VEB 210 million, which have been contributed by different state-owned companies as follows: VEB 116 million contributed by the Fund for Socialist Agrarian Development (Fondas), VEB 31.4 million by Empresa Nacional Lácteos Los Andes (Enlandes); VEB 20 million by Corporación de Desarrollo de la Región Zuliana (Corpozulia); VEB15 million by Corporación Venezolana Agraria (CVA); and VEB 5 million by Empresa Comercializadora de Insumos y Servicios Agrícolas (Ecisa).

Food is more expensive in Caracas. According to figures presented by the National Statistics Institute (INE), the Food Basket has increased 37.6% for the year-to-date and 3.3% in one single month in Caracas. In September, families in Caracas had to earmark VEB 1,809.1 to cover the costs of basic food products. This implies that families in Caracas had to spend VEB 173.7 in addition to the VEB 1,635.4 which is the average cost of the Reference Food Basket.

Maracay followed Caracas. In the September list of the cities where food products are more expensive, Maracay was on the second place with the Reference Food Basket costing VEB 1,673.9 in this city. The monthly variation was 2.6% and the annual variation was 22.5%. Barcelona and Puerto La Cruz (Anzoátegui State) were third, with VEB 1,560.2, up 1.9% from August 2011 and 18.2% from September last year.

62% of the population has been counted. The 14th National Population and Housing Census, being conducted by INE since September 1st, reached a total of 17,842,108 people counted last Wednesday, which *“accounts for 62% of coverage*



over the projection of 29.3 million inhabitants estimated for this census, according to data gathered in 2001,” explained the national coordinator of the 2011 Census, Luis Gerónimo Reyes, who added that in states like Delta Amacuro, data gathering is about to be completed, whereas in Falcón, Barinas and Apure the work is considerably advanced. In Bolívar, the census reached 50% coverage this Wednesday.

The public sector received 66.6% of the issue. According to Nelson Merentes, BCV President, US\$2.0 billion, or 66.6%, of the past US\$3.0 billion bond issue went to the public sector, *“Public banks received almost US\$2.0 billion of this issue, one billion of which is going to the portfolio of the Central Bank of Venezuela to be placed on the market, as usual,”* Nelson Merentes pointed out. The other half of the US\$2.0 billion *“remains in the public banks that purchased the bonds and may trade them when they consider it convenient.”*

“Sitme’s supply is guaranteed.” Thanks to the bonds that the BCV will receive soon, Sitme’s supply is guaranteed *“almost until June next year,”* Merentes pointed out, adding that the daily amount to be sold through Sitme is of about US\$30 million. *“We are selling about US\$30 million, give or take; but it can increase a little.”*

Will the inflation target be attained? Last October 20th, Nelson Merentes (BCV President) stated that the last measurements on inflation reveal that targets set for this year (23-25% according to 2011 Budget) will probably be met. *“This year, the prices of many products, goods and services have been inflated and the bolivar-dollar exchange rate was changed. However, inflation this year will not exceed that of last year,”* when it registered 27.2%.

Interest rates. The lending rate for the first week in October was at 17.8%, decreasing by 1.1 percentage points compared to the previous week. The time deposit rate remained reach 14.5%, while the passive rate has not experienced any significant variation since January 2010, placing well at 12.6%.

International reserves. International reserves decreased 1.1% going from US\$30,077 million during the second week of October to US\$29,741 million during the third week of October. Compared to the same period last year, international reserves have decreased by 0.5%.

Monetary liquidity. Monetary liquidity in the second week of October decreased 1.3% compared to the previous week settling at VEB 367,513 million. The M2 has increased 37.3% year-on-year.





Sitme figures. So far this year, US\$6,829 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.7 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the third week of October the amount traded reached US\$173.6 million, US\$37.1 million more than last week when US\$136.7 million were traded.

Oil Tips

Venezuelan crude oil production unchanged in August. Venezuela's oil production in August remained almost unchanged with regard to the last four months, as per monthly data released by the Joint Organizations Data Initiative (JODI). According to JODI, Venezuela's production was 2.76 million barrels per day (mb/d) in August, down about 20,000 barrels/day (kb/d) from July's average (2.78 mb/d). In comparison to August 2010, production fell 3.5%, or 50 kb/d, from 2.81 mb/d.

Meanwhile, Saudi Arabia... the world's largest oil exporter produced 9.75 mb/d in August, up 150 kb/d from July. In the summer, that country raised its production unilaterally as a mechanism to cool down oil prices and alleviate pressure on industrialized economies.

Moves to overcome supply problems... Due to distortions in gasoline margins, the Ministry of Energy and PDVSA have decided to dispatch fuels to service stations without charging them their respective value. The ratio between the value of the fuel sold and the margin would be calculated at the end of the month. If the difference is in favor of the service stations, it would be credited to future dispatches; if it's in favor of PDVSA, service stations would pay the owed amount. However, even though this agreement was reached two months and a half ago, it isn't being fully complied with, thus implying that the proceeds of sales remain in the hands of the service stations.

China is more dependent on foreign oil, whereas the opposite happens in the US. Despite the discouraging forecasts for global economy, China's energy needs are still expected to grow. According to a recent report by the U.S. Energy Information Administration (EIA), the U.S. dependence on domestic demand has declined to 49% in 2010, whereas China's domestic demand for oil purchased abroad represented 55.2% in the same year and it will continue to increase according to figures released by the Chinese Ministry of Industry and Information Technology, which expects it to increase up to 60% by 2020 and to 65% by 2030.



Banco del Tesoro assisted PDVSA. Even though the oil barrel average price has been over US\$95 for the year-to-date, revenues haven't been enough for PDVSA, because it has had to look for assistance from official entities, as well as increasing its indebtedness levels. The oil industry has received VEB 4.1 billion from Banco del Tesoro in 2011, in addition to assistance provided by the BCV.

The BCV has contributed the most to PDVSA this year. In addition to the certificates granted to the institution, the BCV has been the entity that has injected the largest amount of funds to PDVSA this year. The figures of the monetary base published by the Central Bank show that as of September 22, 2011, the BCV provided PDVSA with VEB 53.0 billion.

PDVSA and YPFB find oil and gas in a Bolivian deposit. Petroandina, a joint venture created by the Bolivian state-owned YPFB and PDVSA announced on October 24th the finding of "significant signs of crude oil and gas" near La Paz, where the company has plans to start drilling in the first half of 2012. The potential deposit would have reserves of 50 million barrels of crude oil and one trillion cubic feet of natural gas, YPFB Petroandina reported, according to Reuters. Bolivia's gas reserves amount to 9.9 quintillion cubic feet and the country wants to increase them to recover its strategic weight.

Plant at Cardón refinery is still out of service. Workers of the Paraguaná Refining Complex (CRP) at the Cardón plant, Falcón State, report that after 24 hours of work, it hasn't been possible to restart the catalytic unit which produced 8,300 tons/day of fuel. The electric cash drawer of the high-voltage engine failed on October 19th and it hasn't been repaired yet and since then the unit has been shut down.

Agreement will be reviewed at Petrocaribe summit. Petrocaribe held a Ministerial Meeting in Nicaragua on October 24th to analyze the achievements of the oil supply program and establish new commitments. Rosario Murillo, Nicaragua's First Lady/Coordinator of the government's Communication and Citizenry Council, confirmed the attendance of the Ministry of Energy and Petroleum/PDVSA president, Rafael Ramírez. Forecasts will be developed at the ministerial meeting. Murrillo said that "this model and this project have allowed many countries to implement a number of social programs," EFE reported.

International oil baskets. At closing time on October 21th in the New York Stock Exchange, the price of the WTI was US\$86.6/bl, a 2.1% increase compared to the US\$84.8 reported the previous week. The Brent increased by 0.9% to reach US\$110.3/bl, compared to the previous week's US\$109.6/bl.





Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$104.8/bl on Friday October 21th, a 2.7% increase compared to the US\$102.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.6/bl.

Business Sector Tips

Venirauto has assembled 3,200 vehicles so far in 2011. The mixed-capital socialist company Venirauto Industrias, located in the industrial zone of San Vicente in Maracay, Aragua State, *“has assembled 3,200 high-quality vehicles at accessible prices for the people of Venezuela so far in 2011.”* The information was made public by the company’s president, Rafael Bolivar, who added they were expecting to reach production of 5,000 units by the end of this year.

Tax preference agreement extended. Though it’s yet to be published in *Official Gazette*, it was known that the tax benefits between Colombia and Venezuela, originally due to expire Saturday, October 22, were extended for 90 days. The information was provided by the executive president of the Colombian-Venezuelan Economic integration Chamber (Cavecol), Luis Russian. The new extension will be in effect in bi-national trade until January 22, 2012.

700,000 VEB allocated for socialist commerce development. According to the budget to be assigned to the ministry run by Edmee Betancourt, one of the main programs to be developed is the *“alternate and complementary distribution system for mass consumption products.”* Nearly VEB 700,000 will be invested in this project, of which strategic objective is to *“progressively implement the predominance of direct and indirect social property over means of distribution in strategic areas of national interest.”*

2,000,000 people registered in the Great Housing Mission Venezuela. Venezuelan minister of Science and Intermediate Industries, Ricardo Menendez, informed that 2,222,964 people had enrolled in the Great Housing Mission Venezuela. So far, 748,407 families have participated in the third round of enrollment, taking place in the states of Apure, Anzoátegui, Amazonas, Barinas, Bolivar, Cojedes, Delta Amacuro, Guarico, Monagas, Nueva Esparta, Portuguesa and Sucre.



GMVV to remain a priority, but in 2012. In the 2012 budget Law, the National Government sets out the guidelines of its housing plan: building 200,000 housing units, controlling the distribution and production of basic construction supplies and importing essential products for the area. In the upcoming fiscal year, the Great Housing Mission Venezuela will remain a priority, so, the Administration said they *“already have strategic materials, such as cement and steel bars, under control.”*

New state-owned iron and steel processing company for 2012. In the 2012 budget, the National Government projects the construction and startup of the National Iron/Steel Social Production Company, with an investment of VEB 2.7 billion. According to the Ministry of Basic Industries and Mining, *“an iron-steel processing plant will be consolidated to produce the necessary primary and intermediate goods to satisfy the demand generated by the national development plans in the oil, nautical, construction and automotive industries.”*

Sudeban ordered banks to grant loans to senior citizens. The Venezuelan Superintendence of Banking Institutions (Sudeban) ordered both public and private banks not to *“limit, condition, restrict, discriminate, dissuade or prohibit the granting of credits, financing or loans”* to senior citizens.

Venezuelan Banks’ Association suggests a review of Sitme. Juan Carlos Escotet, President of Banesco and the Venezuelan Banks’ Association suggested a thorough review of the currency approval system. In statements issued during the event *“From Entrepreneur to Entrepreneur,”* Juan Carlos Escotet said the operations carried out through Sitme were not *“getting authorized for the whole productive sector, making room for speculation.”*

Venezuela is the third least visited country in America. The numbers published by the World Tourism Organization indicate the National Government’s efforts to promote tourism, including Fitven, of which 2011 edition has already started in Margarita, have been unsuccessful. Venezuela received 615,000 foreign visitors in 2009, 17% less than in 2008. The organization does not have numbers for 2010, but the National Institute of Statistics reported a 5.7% fall in the number of foreign tourists.

One of the least attractive countries for business. Venezuela is the most complicated country for doing business in the Latin American region and great part of the world, according to the report Doing Business 2012 prepared by the World Bank and the International Financial Corporation. As a matter of fact, in the latest report, Venezuela moved back 2 spots in the ranking to reach 177 among 183 countries analyzed based on their environment to invest and create companies.



Plastic industry assures having overcome the crisis. The plastic sector will close this year with an 8% growth, according to Hugo Dell'Oglio, president of the Venezuelan Association of Plastic Industrials (Avipla). Dell'Oglio also said next year's production could be better than 2011's, as the resin imports from Brazil are already "negotiated." "We are getting the resins at the right moment."

Auditing boards of four brokerage houses dismissed. The national superintendent of Securities, Tomas Sanchez, ordered the dismissal of the auditing boards of four stock brokerage houses: U21, BBO, Econoinvest and Humboldt. The same measure was taken in the case of the auditors of Corporacion Secono and Fondo Mutual de Venezuela. In the cases of U21, Humboldt and Fondo Mutual de Venezuela, Tomas Sanchez will act as liquidator, while Victor Moreira will do the same for Econoinvest and Julio Suarez for BBO.

Entrepreneurs question currency allocation. The National Administration needs to correct the currency allocation criteria through public bonds, said Carlos Fernandez, president of the National Council of Commerce and Services (Consecomercio). "It can't all be for the priority sector," he said about the latest issuing of the International Sovereign Bond 2026.

Public Securities Exchange preparing to trade in USD. National Public Securities exchange is growing, as it prepares to trade debt documents in USD and, as pre-stage, develops the capacity to trade debt documents in bolivars. The information was offered by the National Superintendent of Securities, Tomas Sanchez.

"They think importing is just buying and shipping in." The State's growth as merchandize importer has altered port dynamics. A document prepared by the Special Commission of Review and Registry of the debt originated by Pdval confirms that the state company owes nearly US\$121 million to ten sea freight companies. The commitment originated with Pdvsa's delay to return the containers to the sea lines. According to the regulation of the Organic Law of Customs, an importer has 90 days to return containers. Failure to comply with such period will result in the sea line charging between US\$100 and US\$200 per day in fines per container.

And the consequences start to appear... One of the first reactions sea freight companies could take would be to increase the costs of freights to Venezuela, already high due to the "many risks" sea lines see in the local ports system. Other possible measures are more extreme, from locking Venezuela out to taking the claims to international courts.

Food and health take 56% of family budget. According to the study "Pulso al Consumidor" by Datos pollster, the Venezuelans are spending an increasingly higher



portion of their salary to cover their basic needs. The study says that 30% of family budget is used to buy food and 26% to pay for personal care and household products. Together, 56% of family income is used to cover basic needs. Another 40% is used in services like transportation and communications.

The study also reports deterioration of the purchasing power. Last year, in an average family, where 2.3 of its members have a job, each one of those individuals contributed 65% of their salary, but now they have to use 75% to cover the same needs. According to Alie Char, vice president of Datos, *“The Venezuelans are perceiving that their purchasing power is tightening (...) They have to use more money to buy the household products they need.”*

World Economy Tips

US consumer confidence down in October. US consumer confidence fell to a 30-month low in October, affected by the decreasing expectations and the assessing of the current situation, according to a report published by The Conference Board on Tuesday, October 25. The Conference Board's confidence index fell to 39.8 points, the lowest level since March of 2009, against a revised 46.4 reported in September. *“Consumer expectations, which had improved in September, gave back all of the gain and then some, as concerns about business conditions, the labor market and income prospects increased.”*

China: Inflation down 5% in November and December. This data increases the hopes of China being able to contain consumer prices, which have stayed close to three-year highs. Peng Sen, vice president of the National Commission of Development and Reform was quoted by the Security Times on Monday, October 24, saying *“We have seen this year's turning point in inflation and the CPI is expected to stay in control under 5 percent in last two months of the year.”*

China requests effective measures by EU against the crisis. On October 24, the Chinese minister of foreign affairs, Yang Jiechi, said his country was expecting the European Union (EU) to take *“effective”* measures against the crisis, after meeting with the community's Foreign Policy representative, Catherine Ashton. *“We hope the EU will adopt practical and effective action to protect the stability of the euro and the European financial situation, and lift market confidence,”* said Yang after the meeting.



Holy See requests creation of a World Central Bank. The Vatican criticized the capacity of the International Monetary Fund (IMF) to guarantee global stability and expressed its support for the creation of a World Central Bank with a global horizon to allow the creation of efficient markets without the need of protection from “paternalist” policies. The Vatican’s Pontifical Council for Justice and Peace, presided by Cardinal Peter Turkson, thinks it is “surreal and anachronistic” to maintain international order with the globalization, so he pleads for States’ gradual yielding of their sovereignties to a global political and economic authority.

“Robin Hood” tax to be discussed at the G-20. An anti-capitalist group that started an anti-Wall-Street popular movement called for protests throughout the world to ask G-20 leaders to impose a “Robin Hood” tax to financial transactions and monetary operations. Adbusters, headquartered in Canada, wants the movement that protests against economic disparity to take the streets to request a 1% tax on such operations, days before the G-20 summit to take place in France on November 3 and 4.

Latin American exchange markets start the week with the right foot. The main exchange markets of Latin America started the week with the right foot, closing up on Monday, October 24, aligned with Wall Street and its main indicators, Dow Jones (0.89%), S&P 500 (1.29%) and Nasdaq (2.35%). Brazil’s Bovespa closed with a positive 2.96% to reach 56,891 points, a trend that repeated in Chile, where the IPSA climbed 1.70% to reach 4,197 units, and Argentina, where the Merval went up 2.29% to reach 2,861 points.

Argentinean entrepreneurs congratulate Cristina Fernandez on her victory. The Argentinean Industrial Union (UIA), the Argentinean Confederation of Mid-Sized Enterprises, the General Confederation of Entrepreneurs and Small and Mid-sized companies offered congratulations to president Cristina Fernandez de Kirchner on her victory in the election celebrated last Sunday, October 23 of 2011. *“The concretion of what the primary election anticipated and its emphatic forcefulness sends the business sector an outlook of prevision that offers tranquility and invites them to invest and continue generating jobs,”* said Fernandez.

Unemployment in Chile down between July and September. Unemployment in Chile went down by 7.3% between July and September, slightly below the previous quarterly average (June-August 7.4%), mainly due to the domestic demand and the improvement of the agricultural sector, despite the gradual deceleration of the local economy. In the same quarter of 2010, the unemployment rate reached only 8%. *“The creation of jobs remained quite dynamic, with growth close to 4.4% in 12 months, equivalent to nearly 315,000 new jobs in the last year,”* said Banco Security in a report.



APEC assesses promotion of ICTs among SMEs in Lima. On Tuesday, October 25, the economies of the Asian-Pacific Economic Cooperation Forum (APEC) made public their experiences with the promotion of the use of Information and Communication Technologies (ICTs) among small and medium enterprises (SMEs). The Peruvian Ministry of Production said that such assessment had taken place within the framework of a seminar with the participation of 250 representatives of the public, private, and academic sectors as well as APEC's Business Consultancy Council.

Political Tips

Election budget is insufficient. CNE rector, Vicente Diaz, talked about the budget assigned to the 2012 election, stating it is *"insufficient, so we will need to resort to supplementary appropriations."* In the upcoming presidential and governor election, CNE will invest VEB 100 million, US\$23.3 million at the official exchange rate. However, this number looks quite smaller than the sum registered in the 2006 budget, for the last presidential election, when CNE invested VEB 115 million.

Each candidate will have to contribute to pay for the primary election. If the costs announced by the Democratic Unity Table's (MUD) Primary Electoral Commission (CEP) remain, presidential pre-candidates will need to pay around VEB 500,000 to be able to participate in the base election scheduled for February 12, 2012.

Results of Datanalisis' September-end 2011 survey. According to the latest survey carried out by Datanalisis, Chavez's popularity has been volatile around his health condition. So was revealed by the results of the September survey, which despite indicating an initial 10-point increase early in the month, ended up reporting a 5-percent decrease. Thus, Chavez received 53.0%, returning to his typical average of the last eighteen months.

Regarding the president's health. The latest Datanalisis survey reports that nearly 62.1% of Venezuelans think the information about Chavez's health has been handled properly.

As to Chavez Government's positive administration, Datanalisis' survey shows, in the first place, that nearly 62.7% of respondents think the president defends the



interests of the people, while on the negative evaluation of his administration, the most common opinion is: He doesn't keep his promises, with 41.9%.

In politics, the top 3 most recognizable pro-government leaders according to Datanalisis are: Elias Jaua, 22.6%; Adan Chavez, 12.9% and Nicolas Maduro, 7.3%.

...While the top 3 opposition primary election candidates are: Capriles Radonski, 39.8%; Leopoldo Lopez, 20.4% and Pablo Perez, 16.8%.

...In economics, Datanalisis' survey shows that 53.0% of the population thinks the nation is still in a negative situation.

Cristina Kirchner victorious once again. Late last Sunday, everything indicated that Cristina Fernandez, widow of Nestor Kirchner, was sweeping Argentina's presidential election with approximately 55.0% of the votes, resulting in her reelection without the need for a second round.

Cristina Kirchner's victory reinforces populist left wing in South America. The undisputable reelection of Cristina Kirchner as president of Argentina strengthens populist and pro-welfare left wing in South America, which shall find the way to update itself to guarantee its own survival, said AFP analysts.

Regions' budget to increase by 7.3% in 2012. State and municipal governments and communal councils will have an initial allocation of VEB 62.5 billion next year, according to the 2012 Budget draft submitted last Thursday to the National Assembly. These resources are only 7.3% more than this year's VEB 58.2 billion allocation.

Zulia Government funds seizing rejected. On the third summit of Governors of the Venezuelan democratic alternative, celebrated last Tuesday in Valencia, capital of the Carabobo State, regional leaders and the block of mayors present "*categorically*" rejected the seizing of Zulia Government funds for considering it to be "*an attack against the government of Pablo Perez looking to create labor chaos in the entity.*"

President Chavez is back... renewed? President Chavez returned from his last period of medical exams in Havana, and landed in the Airport of La Fria, where he received the usual military honors and addressed the nation in a national broadcast. Chavez talked about his disease and the positive results of his treatment, and said "*today, October 20, is the beginning of a new stage in my life, a new Chavez.*"

Chavez sorry for Gaddafi's death. Venezuelan president, Hugo Chavez, expressed his sorrow over the death of former Libyan leader, Muammar al-Gaddafi, who he



branded as a fighter and now a “martyr” who was “murdered” in yet another “outrage against life. What else can I say?” said Chavez to journalists.

The priority is to improve. “A new Chavez has arrived,” said Venezuelan President last Thursday as he assured he was determined to radically change several aspects of his life and give priority to improving the National Government’s efficiency and efficacy, referring to the social missions: “the Great Housing Mission Venezuela, Mission Knowledge and Work, continuing with Barrio Adentro I, II, III and IV, the educative missions, that’s the priority, social development, satisfying the needs of the people.”

Fine imposed to Globovision is payable. The director of the National Commission of Telecommunications (Conatel), Pedro Maldonado, explained last Wednesday that the fine imposed to the private TV channel Globovision for generating anguish in the population during the broadcasts of June 16 to 19 during the crisis lived at the two penitentiary centers of El Rodeo was “absolutely payable.”

Globovision to take case to international instances. Globovision isn’t planning to just pay the VEB 9 million fine imposed by the National Commission of Telecommunications (Conatel) for the news coverage of the riots occurred in the penitentiary of El Rodeo in June of 2011. The station’s attorneys are preparing a series of legal actions to be presented before national and international courts within a few days.

“Only the people and its will can bar, or give or take.” Leopoldo Lopez’s reaction towards his political disqualification was “I didn’t go to the Inter-American Court of Human Rights to ask to be named President of Venezuela. That’s not a decision that corresponds to the Court or the Supreme Court of Justice, only the people and its will can bar, or give or take.”

“The leader in me will not back away against this kind of outrage,” said Leopoldo Lopez Mendoza, as he guaranteed he wasn’t afraid of facing the pretention that, in his opinion, Venezuelans need to stay on track to start building a new majority with the unitary spirit necessary to give hope back to the Venezuelan people.

However, misfortune never comes alone. The former mayor of Chacao, Leopoldo Lopez, is proving this old saying right, as only 24 hours after the Supreme Court of Justice declared the sentence of the Inter-American Court of Human Rights ordering the State to allow Lopez to run for president as “unenforceable,” the Public Ministry announced they would continue with the investigation about the alleged irregularities incurred by Lopez during his service in office that generated the sanctions originally



imposed by the General Comptrollership of the Republic, totaling two accusations of alleged corruption.

Healthy and running for reelection for the 2013-2019 period, so think most Venezuelans about President Hugo Chavez. According to the Venezuelan Institute of Data Analysis (Ivad), six out of every ten citizens think the health situation of President Chavez will evolve satisfactorily, to such extent they are convinced he will be able to present his candidacy for reelection.

According to Ivad's survey, when asked: Do you think the President's health situation is severe? Two fifths of the people answered "*not to severe or not severe at all,*" while little over a third thought it was a severe condition.

Survey shows Chavez's seems to be doing a good job. According to Ivad, President Chavez's performance is valued by 15.5% of the people as excellent, 32.0% think he's done a good job for the nation and 23.8% assure he's done a so-so to good job. However, the fact that seven out of every ten citizens have a positive perception of Chavez's performance (excellent + good + so-so to good) doesn't literally translate into vote intention.

Colombia and Venezuela shape up agreements. With the purpose of articulating and promoting the bilateral agenda, Nicolas Maduro, Chancellor of the Bolivarian Republic of Venezuela, arrived Bogota last Monday, October 24, to hold a meeting with his Colombian homologue, Maria Angela Holguin. Among the topics treated in the meeting we find: commercial cooperation, infrastructure, the project to build the Tienditas bridge, the progress of the pipeline going from south Colombia to the Pacific, the fight against drug trafficking and safety.

Legislative Tips

Method to set rents still to be defined. The draft law for regularization and control of home rents will have to wait at least for another session to be passed by the National Assembly (AN), because the method to set rents hasn't been defined yet. The second discussion of the draft law took place at the plenary session held on October 25th, but only articles on renters' public defense, which had been deferred, were approved, as well as final provisions and items related to judicial receivers and student residences.



AN endorses Conatel's decision. The Commission on People's Power and Media of the National Assembly endorses the decision made by the National Telecommunication Commission (Conatel) to fine the privately-owned TV channel, Globovisión, on alleged infractions committed during the coverage of the events occurred in El Rodeo prison in June. Representative Julio Chávez, vice chairman of the AN's Commission, pointed out that *"Conatel's decision responds to the need to set a precedent, so that laws on this area to be respected"*

Passed Law against Oblivion. At the plenary session held on October 18th, the pro-government faction passed the law against oblivion and impunity for crimes committed by the State in 1958-1998. The Law provides for the creation of the Commission for Justice and Truth, which would be entrusted with investigating violations of human rights and crimes against humanity committed throughout the 40 years of democracy previous to the current Administration.

The mining law in the Capital District continues to move forward. The draft Law on the Regime, Administration and Utilization of non-metallic Minerals in the Capital District was approved at the first discussion on October 20th. According to the draft law, mines and deposits of non-metallic minerals, which aren't reserved for the national power and are located in the Capital District, will be declared as properties of public interest.

...According to this law, the Capital District will assume responsibility for construction and ornament stones or other non-precious species located in its jurisdiction, in addition to all matters related to exploration and mining of non-metallic minerals and related activities, storage, transportation and local or external commercialization, among others.

Law on Disarmament will be ready by 2012. Although it's included in this year's parliamentary agenda, the second discussion of the draft Law on Disarmament might take place in 2012. The mixed commission, composed of members of the Defense and Interior Policy commissions of the AN held a *"technical meeting"* on October 20th to analyze the remarks and proposals presented during the public consultation process.

The revised Law on Medical Practice was passed. The partial reform of the Law on Medical Practice was passed on October 20th and finally enacted on October 25th. The chairman of the Permanent Commission on Health and Comprehensive Development, Representative Oswaldo Vera, stated that this reform was requested by 8,200 new Doctors in Comprehensive Medicine who will visit the different communities to provide free medical care for the citizens. Their main goal is to assure the Venezuelans' health policy, the Representative added.



...According to the new Law, Doctors in Community Comprehensive Medicine will be empowered to practice as medical doctors at the same level as traditional university professionals that have obtained a degree as general surgeons. According to a statement issued by the National Academy of Medicine, the reform poses some risks for the country. *“We believe that a parallel teaching system in the area of medicine, which is based on ideological principles, has been implemented and this is contrary to the profession we practice.”*

Homage to Leonardo Ruiz Pineda. The AN unanimously approved a Draft Agreement to pay Homage to Leonardo Ruiz Pineda who died on October 21, 59 years ago. The Agreement recognizes Ruiz Pineda as an intellectual, poet, politician and journalist, and praises his fight for democracy, liberty, equality, development and the rights of the Venezuelan people.

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ECONOMIC OVERVIEW

