



Weekly Report

Year 7, Number 42
Week I, November 2011

*2012 Borrowing Law:
"Everything ends...
nothing lasts forever"*

By:
Asdrúbal Oliveros
José Luis Saboin

and Ecoanalítica's Team*

*Adriana Morillo, María Gabriela Benítez
and Pilar Navarro

Reproduction or distribution prohibited

Last week we analyzed some aspects of the draft 2012 budget law. This time we will make some comments regarding the draft indebtedness law for next year, highlighting that although for next year we expect higher oil prices, the Administration hopes to continue its aggressive policy to increase debt. This is nothing new in Venezuela, even less in an electoral year.

**Neither 65
or 87; it is
VEB 111
billion**

According to articles 1 and 2 of the Special Yearly Indebtedness Law for fiscal year 2012 (LEE2012), gross indebtedness will be VEB 110.979 billion (US\$2,850 billion), quite different from what Minister Giordani said at the National Assembly. This is mainly due to the difference between contracts and disbursements to carry out projects during fiscal year 2012, as well as the inclusion of VEB 17.192 billion for debt refinancing and restructuring, and VEB 6,890 as a balance in Treasury Bonds for the end of 2012.





An important point is that LEE2012 states that “Public credit operations authorized by this law will reach a total of VEB 129.686 billion”, while considering the five components of the law, this amount is really VEB 110.979 billion, a difference of VEB 18.707 billion; this amount is equivalent to disbursements for projects. At **Ecoanalítica** we consider it is important for the Ministry of Planning and Finances (MPF) to clarify whether this discrepancy is due to a calculation error, or if it expects to use complementary indebtedness, as in 2011.

Table 1	
Gross Indebtedness 2012 (VEB Million)	
Projects	41,077
Fiscal Management	20,000
Debt service	25,820
Refinance	17,192
Treasury bond	6,890
Total	110,979

Sources: LEE2012 and Ecoanalítica

Thus, if we consider that debt payment by the Central Government will reach VEB 10.35 billion (US\$2.41 billion), the proposed net indebtedness would be VEB 100.63 billion (US\$23.40 billion). For this year, the gross indebtedness is around VEB 97.20 billion (US\$22.61 billion). Thus, the Central Government alone aspires to increase gross indebtedness by more than 3.5%.

Why acquire debt?

The LEE2012 classifies the resources to be obtained through indebtedness as follows:

- **Projects – public sector: VEB 41.1 billion (US\$9.55 billion).** Most are projects related to transportation (23.5%), electric power (22.8%), defense (20.9%), water (7.9%), iron and steel (9.1%) among others. It is important to remember that although the total cost of projects included in LEE2012 reach VEB 41.077 billion, the maximum amount allowed for indebtedness next year is VEB 18.707 billion (US\$41.08 billion), that is 45.5% of the total.
- **Fiscal planning: VEB 20.0 billion (US\$4.65 billion):** This corresponds to the insufficiencies of the present fiscal planning.



However, with the expectation of higher oil prices, the Administration should not increase the debt through this item.

- **Public debt service (domestic and foreign): VEB 25.82 billion (US\$6.0 billion):** This amount refers to the debt repayment by the Central Government for 2010 which as we will mention later on, is estimated at more than US\$16.81 billion.
- **Public debt refinancing and restructuring: VEB 17.19 billion (US\$4.0 billion):** Here, article 8 of LEE2012 is quite ambiguous. However, what the MPF could be planning for next year is to issue debt at a lower cost to replace a costly debt, particularly in the internal market. Thus, the financial market should prepare to negotiate the refinancing (swap, conversion, repurchase or rescue) of the domestic debt for next year, a process that already occurred during the first year of this administration. We don't rule out that it also contemplates the repurchase of foreign debt. Also, it mentions that the resources obtained will be administered by the National Treasury.
- **Treasury bills: VEF 6.89 billion (US\$2.40 billion):** This amount represents the maximum amount of circulating treasury bills by the end of 2012. Treasury bills are short term financing instruments (usually less than one year that allow the Administration to solve specific cash flow problems.

Debt servicing: a matter of concern

According to LP2012 public debt servicing for fiscal year 2012 will reach VEB 54.71 billion. Of this, VEB 22.78 billion correspond to public foreign debt servicing and VEB 32.04 billion will cover the domestic public debt servicing. This amount reflects an increase of 118.8% with respect to what is expected for this year, and 328.4% with respect to 2004.

Tabla 2 :Debt Service (VEB million)

2012	Repayment MPF	Repayment Ecoanalítica	Interest	Total MPF	Total Ecoanalítica
Foreign Debt	3,047	8,205	19,630	22,677	27,835
Domestic Debt	7,305	19,339	24,732	32,037	44,071
Total	10,352	27,544	44,362	54,714	71,906

Sources: PLP2012, LEE2012 and Ecoanalítica

52.8% of the total public debt service projected for fiscal year 2012 of VEB 54.714 billion will be financed with ordinary income (VEB 28.894 billion).



The remaining 47.2%, or VEB 25.820 billion, will be financed by the indebtedness contemplated in LEE2012.

It is important to note that the Administration will be able to perform public credit operations to refinance or restructure the domestic public debt, considering the request to authorize VEB 17.192 billion for such purposes. With these operations, the expectation is to: (1) extend the average maturity date of the National Public Debt, and (2) flatten the maturity profile of the Debt of the Republic, thus significantly improving the refinancing risk, country risk indicators and Venezuela's credit in international financial market, without having to increase the balance of the public debt. The problem is that this makes the debt service increase from 18.4% to 25.1% of the expenditures planned for next year.

**Sitting on
top of a time
bomb**

At *Ecoanalítica* we believe that the issue of debt servicing in Venezuela, and the indebtedness policy as such, has to be reconsidered by the National Government. Considering the VEB 17.19 billion for refinancing and restructuring, resources that are generally used for repayment, we estimate debt servicing for 2012 to reach VEB 71.91 billion (US\$16.72 billion).

This amount represents 25.1% and 4.6% of the spending and GDP estimated by the MPF for next year respectively; and 15.2% and 4.1% of the same variables estimated by *Ecoanalítica*. We have been insisting in this, since it is not only that the amount of resources destined for the debt is more than the amount destined for social and productive areas (see table 3) but also that their growth has increased in the last few years (see graph 1) and thus, the financing required to pay them is greater (see graph 2). This has been so, because the oil market has been benevolent, but if this trend changes, we will face serious problems in public finances, as is happening now in Europe. In our case, this wouldn't be anything new, but it would be pathetic that as a society we don't learn from our past mistakes.



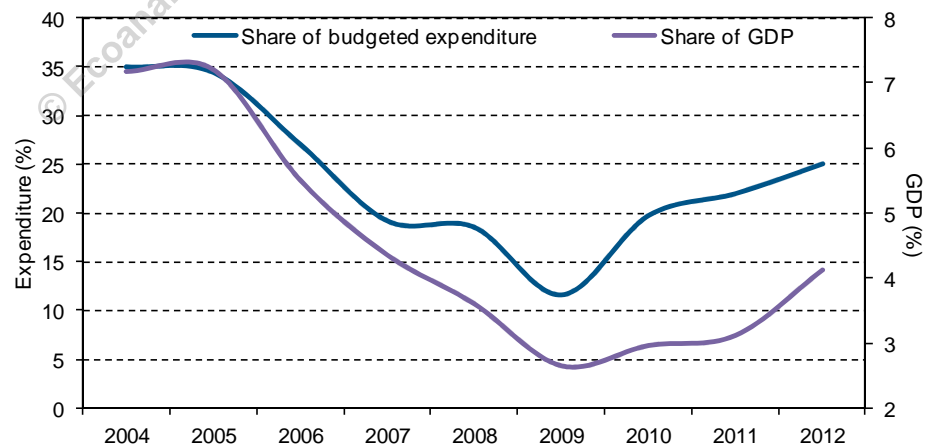


Table 3
BUDGET EXPENDITURE COMPOSITION 2012

	Percentage	
	Spending	GDP
Debt service	25.1	4.1
Regions	21.0	4.0
Education	12.5	2.4
Social security	10.9	2.1
Security and defense	9.4	1.8
Health	8.7	1.6
Social development and participation	4.5	0.9
Energy, mines and oil	2.5	0.5
Industry and commerce	1.8	0.4
Agricultural	1.7	0.3
Transport and communications	1.6	0.3
Housing, urban development and related services	1.1	0.2
Culture and Communication	0.7	0.1
Science and technology	0.5	0.1
Tourism and recreation	0.1	0.0

Sources: PLP2 and Ecoanalítica

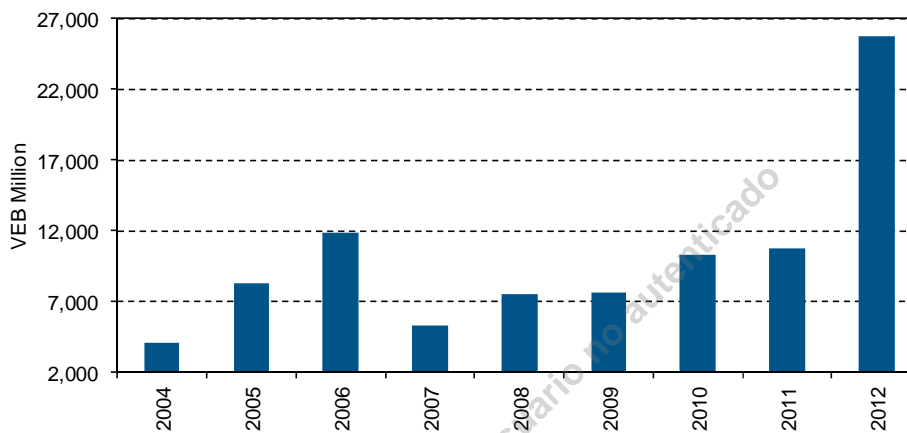
Graphic 1: Public debt service



Sources: Budget Laws, Indebtedness Laws and Ecoanalítica



Graphic 2: Financial requirements to pay debt



Sources: Indebtedness Laws and Ecoanalítica

The Government is the one that benefits

As can be seen, LEE2012 has three broad items: fiscal planning (US\$4.65 billion), debt servicing and restructuring (US\$10.0 billion) and project financing (US\$9.55 billion). In our opinion, with extraordinary resources that could be over US\$25.0 billion, the LEE2012 should focus in the last two items, and reduce indebtedness from US\$25.81 billion to US\$21.16 billion. This doesn't happen mainly because of two factors:

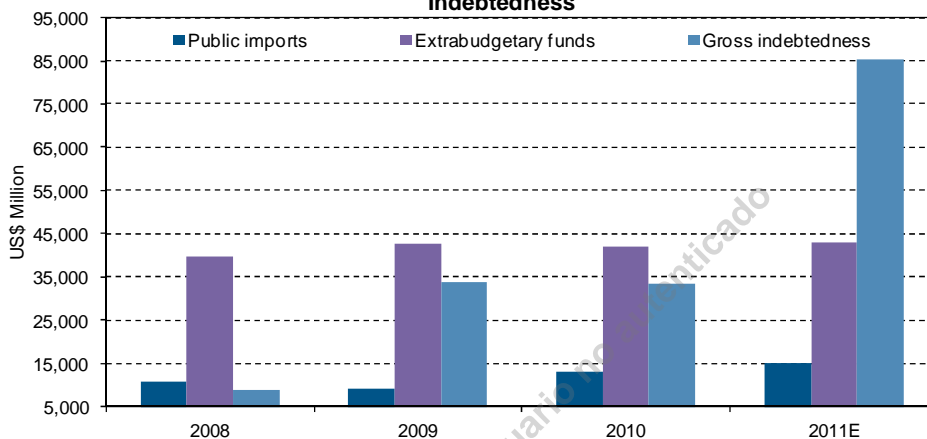
First, as we have mentioned *ad nauseam*, due to the Administration's need to have discretionary power to use funds in projects with greater political impact, even more so in an electoral cycle, thereby the figure of spending via additional credits that we mentioned in the last weekly report.

Based on this, we could expect that given the extraordinary income and the additional credits, it wouldn't be logical to expect an indebtedness item corresponding to fiscal planning; but the need to have resources available in parafiscal funds to help this discretionary spending, and the State's need of foreign currency for imports and to increase its presence in the economy, to the detriment of the productive private sector that doesn't receive this foreign currency, makes indebtedness laws reach alarming levels, in order to include these two premises.





Graphic 3: Extrabudgetary funds Vs. Public imports Vs. Gross Indebtedness

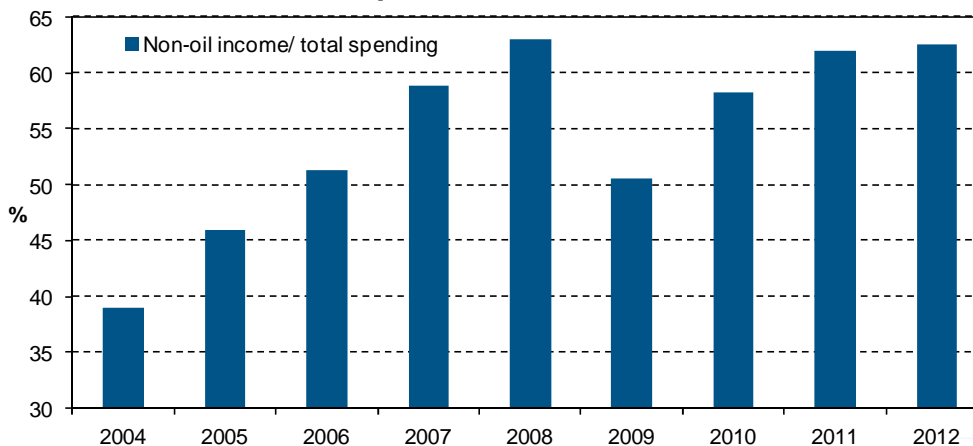


Sources: BCV, Indebtedness Laws and Ecoanalítica

If you want foreign currency, pay your taxes

In this sense, at **Ecoanalítica** we have realized that the strategy of indebtedness to maintain a stable parallel resource structure for discretionary spending, and the granting of currency for the private sector does not depend only on the price of oil. If we analyze the non oil fiscal income figures (mainly taxes) estimated for this year, and those projected for next year, we see that it can cover 62.5% of the spending that is not in foreign currency. So with increasing oil prices, the Administration can meet its debt commitments, make imports, spend at its discretion, and maintain a strangled private sector that is still latent.

Graphic 4: Non-oil income



Sources: Budget Laws and Ecoanalítica



At **Ecoanalítica** we want to strongly stress that to depend on a volatile oil price is a risky bet by the Government. Nevertheless, an increase in non-oil collections is fundamental for this government's fiscal planning. Let us remember that VAT (a 56.2% of non-oil fiscal collection) was imposed during the second government of CAP and was one of the main criticisms of the military uprising of February '92... life is full of ironies.

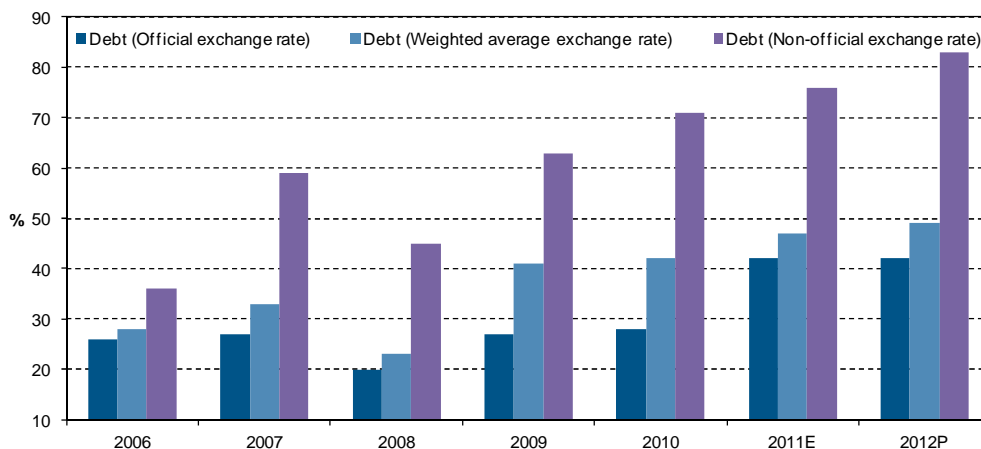
Who else is going to make issues?

Besides the Central Government, which is the scope of the LEE2012, at **Ecoanalítica** we estimate that PDVSA will be very active next year in terms of indebtedness. This year, PDVSA has made issues for US\$7.93 billion, and it is expected that next year, it will make issues for around US\$6.0 billion. Thus, PDVSA's long term debt by the end of 2012 will be US\$36.68 billion, an increase of 19.2% with respect to 2011.

Also, the Republic will issue a similar amount (US\$6.0 billion) in sovereign bonds or similar issues. We still believe that the Administration has ruled out the possibility for entities like Cantv, CVG and CORPOELEC to issue debt indexed in dollars.

At the end of 2011, the restricted public sector debt was US\$108.63 billion, or 33% of GDP. This represents an increase of 37.6% with respect to the end of 2010. Next year, the debt stock will reach 34% of GDP. These data differ from official data of the MPF, since as we have said in several occasions, GDP at the official exchange rate generates a significant distortion in the indicators.

Graphic 5: Debt as a percentage of GDP



Sources: MPF, Barclays capital and Ecoanalitica



Although it is still manageable, the Administration must reduce spending and the use of extraordinary funds when designing a more responsible fiscal planning, and have an exchange rate scheme where the stability of the parallel market doesn't depend exclusively on the placement of debt in dollars in the primary market.

It is already too much, isn't it?

At *Ecoanalítica* we believe that this debt increase is too high, even more considering that it doesn't include the indebtedness of PDVSA and other non-financial public companies (like CANTV or CVG); also, the debt with China must be recorded, which feeds the Binational Chinese-Venezuelan Fund, and the Chinese heavy Fund, as well as the amount owed from expropriation and labor liabilities. The other point is that this aggressive indebtedness will occur in a context of oil prices that are slightly higher than in 2011, so a moderation in the pace of indebtedness is to be expected.

Table 4: Public Debt (MMUS\$)

	2011 E	2012 P
Central Government:	77.852	82.516
Domestic	34.215	35.925
External	43.637	46.590
Pdvsa	30.779	36.681
Chinese fund	15.700	14.250
Expropriations	22.952	23.641
Total	147.283	157.087
Public Debt (% GDP)		
	2011 E	2012 P
Central Government:	23,7	23,4
Domestic	10,4	10,2
External	13,3	13,2
Pdvsa	9,4	10,4
Chinese fund	4,8	4,0
Expropriations	7,0	6,7
Total	44,8	47,7

Sources: BCV, MF, PDVSA and Ecoanalítica

There is still much to be done in Venezuela

After 200 years of history as a State free from foreign domination, and 180 years as a Republic, almost 80 years as a country rich in natural resources, and almost 65 years as a "modern" State, Venezuela is far



from being a developed country. More than 20 years of study in economic development theory have proven that those economies that strive towards diversification and internal competitiveness, single digit inflation, fiscal discipline, strong democratic institutions, developed financial markets, and access to quality public services, are those that have reached the “*Supreme Social Happiness*” that the citizen’s yearn for. The analysis of the LEE2012 confirms that there is much to be done here.

As Emperor Marcus Tullius Cicero said, 55 years before Christ:

“The budget must be balanced, the Treasury must be re-stocked, the public debt must be reduced, the arrogance of public officials must be moderated and controlled, and the aid to other countries must be eliminated to avoid the bankruptcy of Rome. People must learn to work again, rather than live at the expense of the State.”

© Ecoanalítica – Descargado por [illegible] Autenticado





Economic Tips

Amount of dollars for imports increase by 4.4%. In the third quarter of this year, Cadivi distributed for imports around US\$ 13.99 billion, including purchases under the Aladi agreement. This represents an increase of 5.5% with respect to the same period in 2010. On the other hand, BCV statistics reveal that at the end of September 30, international reserves were US\$31.395 billion, an increase of 7.5% in the third quarter of this year compared to the previous quarter.

Amount disbursed (US\$MM)			
	Jan-Sep 2010	Jan-Sep 2011	Var(%)
Imports	14,792	13,985	-5.5%
Students	269	369	37.0%
Special cases	105	176	67.4%
Airlines	950	918	-3.3%
Ext Private Debt	11	18	73.4%
Consulates and Embassies	46	49	7.5%
Insurance and Reinsurance	64	47	-26.5%
Foreign Investment	31	92	193.0%
ALADI Convention	3,069	3,715	21.1%
Retirees and Pensioners	48	48	0.8%
Remittances to family	528	544	3.0%
Credit Cards	861	1,395	62.0%
Cash for travel	182	294	61.6%
Services	1	5	806.0%
Sucre	-	120	-
Telecommunications	35	131	272.2%
Total	20,990	21,906	4.4%

Sources: CADIVI and Ecoanalítica

Operations with Sucre increase. As informed by the first Vice president of the Central Bank of Venezuela (BCV), Eudomar Tovar, during his intervention at the Conference on Economic Complementarity of the Alba Bank, from January to October 2011 434 trade operations have been carried out through the Unitary System of Regional Payments (Sucre). Tovar said that these transactions were for 146 million Sucres, which together with the 115 million that are in transit, will go beyond the goal established at the beginning of the year, of 160 million sucres.

...Among the main items that have been traded through this mechanism are: granulated urea, raw palm oil, paddy rice, citric acid, sodium sulfate, and milk, as indicated by Tovar. He also said that this mechanism has gradually been positioning



itself for the trade between Venezuela, Bolivia, Ecuador and Cuba, since it reduces the costs of transactions, shortens payment times, stimulates a greater offer for exports, and saves foreign currency.

Individuals will pay more Income tax than Pdvsa in 2012. For next year, the Administration contemplates that 55% of the VEB 297.800 billion in spending will be financed through tax income, expected to reach VEB 164.500 billion, This income composition, included in the 2010 budget, also reveals that individuals will spend more in income taxes than Petróleos de Venezuela (PDVSA) in the new fiscal year.

How much will be the oil income tax be in 2012? The estimated figures for 2012 show that the state oil company will pay around VEB 8.500 billion, and although this implies an increase of 26% with respect to what is programmed for 2011 (VEB 6.700 billion), the treasury will obtain more money from other concepts, one of them taxpayers contributions (VEB 9.5 billion according to estimates of the Ministry of Planning and Finances).

Inflation of 2011 will go beyond the goal of 25%. Nelson Merentes, President of the BCV, admitted that despite the fact that the Government is making efforts to control prices, inflation by the end of the year will be over the 25% target. *"Inflation will be close to the established target of 25%, it may be a little higher, but not higher than that of 2010 (27.2%)".*

...Merentes also said that to regulate inflation *"we must produce, produce a lot, and attack areas where there is speculation"*. Merentes reiterated that in three years inflation will be in the single digit level, and that in 2012 and 2013 they will work towards that goal. However, the 2012 budget law expects an inflation of 22%. He said that in the third quarter of this year, all sectors in the economy grew and insisted that at the end of 2011 GDP will increase more than 2%.

Caracas is the most attractive. According to the study by the National Council for the Promotion of Investments (Consejo Nacional de Promoción de Inversiones - Conapri), Caracas is still the most attractive city to invest. According to Conapri's ranking, since 2005 Caracas has had a higher Investment Attraction Index (Índice de Atracción de Inversiones - IAI) which according to Eduardo Porcarelli, executive director of Conapri, *"offers a panoramic or global perspective of all the factors that affect the attracting investments"*. For the third time, Caracas is in first place in this study (2005, 2007 and 2009), *"although with a lower score"* compared to the previous research.

...A guide to invest in Venezuela. According to Porcarelli and Litsay Guerrero, Economic and Investor Services Manager at this institution, this report *"provides*



support" to potential investors and to public policy makers and executors of local and central governments. In this seventh edition, Conapri technicians continued using the methodology of prior presentations.

Interest rates. The lending rate for the third week in October was at 18.2%, increasing by 0.4 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 1.5% going from US\$29,741 million during the third week of October to US\$29,302 million during the fourth week of October. Compared to the same period last year, international reserves have decreased by 2.0%.

Monetary liquidity. Monetary liquidity in the third week of October decreased 0.2% compared to the previous week settling at VEB 366,695 million. The M2 has increased 37.5% year-on-year.

Sitme figures. So far this year, US\$6,916 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$34.4 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the fourth week of October the amount traded reached US\$261.2 million, US\$87.4 million more than last week when US\$173.8 million were traded.

Oil Tips

US out to take over the global natural gas market. The spectacular development of shale gas puts the US on the road to a revolution to become a natural gas exporter and attempt to take over the European and Asian markets with a fair-priced product. The energy broker, Cheniere Partneres, announced last Wednesday, October 26, they had reached an agreement with the British producer BG Group to sell 3.5 million tons of liquefied natural gas per year over the next 20 years for a total of US\$8 billion.

Iran rules out OPEC emergency meeting. The current president of the Organization of Petroleum Exporting Countries (Opec), Iran, does not expect the celebration of an emergency organization meeting before the scheduled date in December, said the Governor of Iran, Mohammad Ali Khatibi before the group. "I find



it improbable to have an emergency Opec meeting because there is no emergency matter and the market is balanced,” he said, according to the Iranian news agency ISNA.

Back to normal? Iran, along with African nations and Venezuela, blocked a Saudi proposal to increase Opec’s crude oil production goals during the latest meeting celebrated on June 8, but Saudi Arabia, Kuwait and the United Arab Emirates later unilaterally increased their pumping, a measure criticized by Teheran. *“Libya is returning to the oil market and production is expected to get back to normal by next year,”* said Khabiti, according to Reuters.

Libyan crude oil production up thanks to Repsol’s pumping. Libya’s oil production increased to 500,000 barrels per day (kb/d), boosted by the resuming of pumping operations at the deposit of El Sharara, operated by the Spanish company Repsol-YPF.

Natural decline of western Venezuela wells accentuates... specifically in the area comprising the states of Zulia and Falcon. Between the years 2008 and 2010, the extraction of oil in that region has decreased by 23%, according to numbers published in Pdvsa’s 2010 operational report.

Numbers of interest... 146 kb/d are expected to be added to the national production by 2011, with the production at the Orinoco Oil Belt. The government expects to increase crude oil extraction by 6 million barrels per day (mb/d) by 2015. Brazilian construction company Odebrecht to pay US\$50 million to exploit crude oil in Zulia.

Colombia and Venezuela re-include the pipeline in the agenda. The Chancellors of Colombia, Maria Angela Holguin, and Venezuela, Nicolas Maduro, agreed to create a mixed-capital company to build a pipeline from the Orinoco river to the Colombian port of Tumaco.

Petropiar workers warn about safety faults. The mixed-capital company Petropiar, operated by Pdvsa and the American Chevron, being the latter a minor partner, presents several industrial safety faults which have been reported by workers before the committees of labor safety and operative management. Raul Parica, member of the executive committee of the Federation of Oil Workers (Futpv), assured they had submitted a report including at least 10 items requiring immediate attention to guarantee Petropiar’s crude oil upgrading operations, which processes nearly 180 kb/d.

International oil baskets. At closing time on October 28th in the New York Stock Exchange, the price of the WTI was US\$91.2/bl, a 5.3% increase compared to the



US\$86.6 reported the previous week. The Brent increased by 0.2% to reach US\$110.6/bl, compared to the previous week's US\$110.3/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$106.1/bl on Friday October 28th, a 1.3% increase compared to the US\$104.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.85/bl.

Business Sector Tips

Consumer perception improves. The director of Datanalisis, Carlos Jimenez said consumers' optimism has improved 12% compared to early this year, reaching 47%. He said this was encouraged by an increasing liquidity.

According to these results, consumers are again tending to acquire products they had stopped buying from the basic basket. Actually, users have stopped going to Mercal, because they prefer large supermarket chains. The director of Datanalisis also said the shortage index had reached 20%. Powdered milk in sachet is the least seen product, reporting 40% shortage.

C stratus purchasing power down by 19% in real terms. The study "*Situation of the Venezuelan consumer and effects on consumption*," prepared by the firms Nielsen de Venezuela and Datos, revealed that in the third quarter of 2011, compared to the third quarter of 2010, the purchasing power of the economic class "C-," which includes 13% of the population, decreased by 19% in real terms, and reached an average of VEB 4,946 per household.

...Although the average income of Class "D" Venezuelans increased by 12% in nominal terms, during the period evaluated, it actually decreased by 8% in real terms, reaching VEB 3,477 in average.

...The slightest decrease was reported in the socio-economic class E, which includes 53% of the population. The study revealed that, while their purchasing power increased by 14% in nominal terms, it fell by 6% in real terms.

...Alie Charr, vice president of Datos, explained during her presentation at the forum "*Growing is possible*" organized by the National Association of Supermarkets



and Self-service Chains (ANSA), that this behavior responded to the fact that *“the income received by Venezuelan households versus the nation’s inflation makes it impossible for them to purchase the most basic products.”*

Indepabis applied operative closure. The Institute for the Defense of People in the Access to Goods and Services (Indepabis) penalized the chain of drugstores Farmatodo with *“operative closure”* for 72 hours. Augusto Montiel, president of Indepabis, said that during the audit process, they found *“re-pricing,”* misleading advertising and incongruence between the prices displayed and those in the system, among other irregularities.

Supermarkets ready to discuss costs and prices. The members of the National Association of Supermarket and Self-Service Chains (ANSA) are getting ready to analyze their operative costs within the framework of the application of the Law of Costs and Fair Prices. So was informed by the executive president of the gremial organization, Luis Rodriquez.

Electric issue to be considered secondary. Although the electric crisis remains, with a tendency to get worse, according to workers and engineers, this doesn't seem to be a priority for the government. In the 2012 budget draft, the allocations for the Ministry of Electric Energy remain practically unchanged, increasing by a marginal 1.8%. VEB 7.07 billion were stipulated for 2011, and the 2012 budget stipulates only VEB 7.2 billion.

Private clinics to negotiate price scale with government alliance. Representatives of private clinics and the Institutional Alliance for Health, integrated by 10 entities of the public administration, will install a negotiation table on November 2 to discuss private hospital rates. Elias Jaua, vice president of the Republic, vowed for a negotiation that could not only allow savings in hospitalization costs to state institutions, but also guarantee the economic viability of private health centers.

Government increases cement price by 68%. The price of type-1 gray cement will have a price band between VEB 15 and VEB 20, and with that review, the material cost increased by 68.5%, as the regulated price of the last eight years was VEB 8.9. The price of type-2 cement was also increased, with a price band between VEB 18 and VEB 22.

Real Estate Chamber reiterates rental properties will disappear. The president of the Venezuelan Real Estate Chamber, Aquiles Martini Pietri, insists that the Tenancy Law, recently approved by the Parliament, will affect all citizens and looks to only benefit tenants.



Private sector collaborating. The president of the Higher Housing Bureau, Rafael Ramirez, said on October 26 that private construction companies had incorporated to the labors of the Great Housing Mission Venezuela throughout the nation and had so far contributed with 29% of the goals achieved. *“Early in the year we invited the private sector to participate and we’ve had a series of important meetings with them. They are participating with us. The fact here is the State dictates the guidelines and has precisely established the objective of the mission: housing units for our people,”* said Ramirez.

Progress of the Great Housing Mission. The Great Housing Mission Venezuela has built 80,138 units, that is 92% of the goal set for October, which should close at 87,338 units. So was informed by the ministry of Energy and Oil, and coordinator of the Higher Housing Bureau, Rafael Ramirez, during a meeting celebrated last Thursday in Maracay, Aragua State, with the participation of the states of Carabobo and Guarico.

...“Of these 80,138 housing units, the Venezuelan State has built 50,891, or 64% of the goal, and the private sector has contributed with 29,247 housing units, or 36% of the participation,” he said. He said it was a significant challenge the fact that out of the 50,891 units executed by the State, the People’s Power had finished 22,686 units, through the programs Integral Habitat Transformation (TIH) and Substitution of Rural Houses for Urban Houses (Suvi), representing 45% of the units built.

Venamcham makes list of the nation’s most successful companies. Carlos Enrique Blohm, president of the Venezuelan-American Chamber of Commerce and Industry (Venamcham) presented last October 26 the organization’s *“Top 100 Companies.”* The list includes the most successful companies in Venezuela, regardless of whether they are of domestic or foreign capital. Cantv is number one, followed by Movistar, Mercantil and Banesco. He said that a total of 296 companies were evaluated to come up with the list.

...Blohm explained that the entrepreneurs interviewed talked about their difficulties with the Venezuelan exchange system, price controls and excessive regulations, but they see the possibilities of improving in 2012, as there will be a higher government spending due to the election. He said the companies members of Venamcham had a total of US\$7 billion in accumulated revenues that had not been authorized by the National Administration to be repatriated.

Law of costs and fair prices is contrary to the National Constitution. The president of Empresas Polar, Lorenzo Mendoza, said that despite the many laws existing in Venezuela, the nation still has the highest inflation of the continent. Mendoza thinks the law of costs and fair prices is contrary to the National



Constitution. *"We still have an economy that somehow depends on oil production, we have not diversified our sources of income, we have an increasing informal economy, unfortunately companies are being closed, there is no confidence,"* he said.

Movistar to invest VEB 1.7 billion this year. Movistar's investment in 2011 reaches VEB 1.7 billion, according to Michael Duncan, president of the telephone operator in Venezuela. In a breakfast with the media, Duncan explained that a great part of this investment was focused on the development of infrastructure, especially the networks 2G and 3G. *"We keep growing with the technologies that help us be more and better connected,"* said Duncan.

National Government to determine residential rent payments. The rent to be charged by rental home properties will be determined by the National Superintendence of Tenancy, once the reform to the Tenancy Law authorized by the Parliament comes into effect.

Work mission to begin late November. One of the strategies of the National Government is to expand infrastructure labors, thus generating two million jobs, according to vice president Elias Jaua. Within the framework of this plan, the government will kick-off the Great Mission Knowledge and Work, announced months ago by the Administration.

World Economy Tips

USD gains ground after Japanese intervention and setback of Asian markets. Asian exchange markets and commodities lost ground on Monday, October 31, and the USD jumped to a three-month high against the yen, after Japan intervened in the forex market leading investors to pick up some profit after the exchange market improvement reported last week. Japanese Minister of Finance, Jun Azumi, said Japan intervened unilaterally in the foreign exchange market on October 31 to counteract any transactions that did not reflect the health of the Japanese economy.

OECD reduced Europe growth forecast for 2012. The euro zone moves towards a sudden economic deceleration in 2012, with some countries facing negative growth and not being able to regain confidence, as the beaten state finance might lead to an even worse contraction of developed countries, according to statements issued on Monday, October 31 by the Organization for Economic Cooperation and



Development (OECD). In a report published by the OECD, the organization reduced its 2012 euro zone expansion predictions to 0.3% from 2% predicted in May.

G20 summit just around the corner! The presidents of G-20 nations, a forum that includes rich and emerging countries, will gather November 3 and 4 in Cannes (France) in a meeting expected to be focused on the debt crisis of European countries.

President of the European rescue fund tries to offer China some warranties. The president of the European rescue fund, the German Klaus Regling, reiterated last Monday, October 31 in China that his bonds were guaranteed and they could be issued in any foreign currency. The European Financial Stability Facility (EFSF) will assume a loss *“that could be around 20% if something goes wrong,”* said Regling. The German national explained in his conference the creation of a new tool, the Special-Purpose Investment Vehicle (SPIV), which might reinforce the EFSF, becoming a new warrant for investors.

The head of the European fund didn't rule out the possibility for the EFSF to be issued in any currency, as a clear sign for China to finance part of the expansion the fund reported on Wednesday, October 26, from €400 billion (US\$566 billion) to one trillion euro (US\$1.4 trillion), in order to face the European deficit crisis.

Events at the Iberia-American summit... On Saturday, October 29, Spain and Portugal said the Euro zone problems were a global issue, calling the United States and other G-20 members to cooperate to contain the crisis. The Spanish head of state, Jose Luis Rodriguez Zapatero, urged the least affected G-20 countries to *“adopt urgent stimulus plans to prevent the economy from being globally affected.”*

Brazil with primary budget surplus. Brazil's consolidated public sector reported a primary budget surplus of 8.1 billion real in September of 2011 (US\$4.8 billion), according to statements issued by the Central Bank of Brazil on October 31.

Brazil to invest some money in the bio-oceanic railroad. The government of Brazil plans to invest US\$700 million in the labors for the completion of the bio-oceanic railroad system to go from Brazil's Atlantic Ocean coast to Chile in the port of Antofagasta.

Argentina launches new controls. The Argentine government launched new measures to further control the foreign exchange market within a monetary policy aimed at curbing upward pressure on the dollar, and refuted the criticism from the opposition. Banks and exchange bureaus are obliged, from Monday October 31st, to consult and receive approval from the Treasury to any sale of dollars, a move that



halted much of the retail operations, according to statements by Efe and market sources of capital. *“Nothing has changed anything regarding the possibility of buying dollars: Anyone who can prove their income can buy”* said the Economy Minister, Amado Boudou, to the social network Twitter in response to the *“undue alarm”* that has unleashed.

Argentina: loans program will generate jobs. The Bicentennial loans program, by which Argentina finances productive investments at a fixed rate of 9.9% per year in pesos, has authorized 269 projects for a total amount of 5.46 billion pesos (US\$1.29 billion) which will generate 18,140 genuine jobs. The benefitted companies belong to all productive sectors and all regions of the country, and more than 60% are SMEs..

As a result...once consolidates, these investments will increase exports by 11.88 billion pesos (US\$2.80 billion) and will substitute imports by 3.05 billion pesos per year (US\$720 million), according to the industries.

Shipments from US to Honduras up 400%. US shipments to Honduras grew slightly over 400% in average over the last decade. The report *“State of the Region”* in the economic section reveals that Honduras received nearly US\$440.6 million in the year 2000 in shipments. As of 2009, the amount exceeded US\$2.48 billion.

Political Tips

Expropriation orders are back! President Hugo Chavez ordered Juan Carlos Loyo, Minister of Agriculture, to “take” 14,000 farming hectares in the Aragua-Carabobo axle to create the Social Property Company (EPS) Valle de Los Tacariguas.

Chavez believes no candidate is in his “ranking”. After assuring he would win the election of October 7, 2012, President Hugo Chavez disqualified opposition pre-candidates aspiring to run against him in the upcoming presidential election. According to Chavez, no contender can match him.

Chavez increases military salaries by 50%. Last night, President Hugo Chavez authorized a 50% raise to the salaries of National Armed Force (FANB) members, with retroactive since September 1 of 2011.



Chavez applauds approval of tenancy law. President Hugo Chavez branded as positive the approval of the Tenancy Law and reminded that this legislation would favor both tenants and landlords. *"I see it was approved, thanks to revolutionary congressmen. This is important (...) the whole nation should appreciate this and we must be capable of defending this progress, as this benefits the majority of Venezuelans,"* he said.

Neither cancer nor Nato can stop the revolutionary democratic process. After highlighting the importance of the South American Nations Union's (Unasur) Defense Council, president Hugo Chavez Frias said that neither cancer nor the North Atlantic Treaty Organization (Nato) would succeed in stopping the revolutionary democratic process the nation lives. *"Keep waiting for cancer. If it's not cancer, they dream about Nato. Neither cancer nor Nato, saboteurs or anybody can stop this revolutionary democratic process."*

We are growing oil! President Hugo Chavez Frias said his Administration was working in the transformation of the national oil rent model to create a diversified economy. In a telephone contact in commemoration of the first anniversary of the Venezuelan Glass Company (Venvidrio), in Valera, Trujillo State, born after the nationalization of Owens Illinois, the Head of State said this company was an example of that strategy.

Vital for socialism. President Hugo Chavez branded the Law of Costs and Fair Prices as *"vital"* for the socialism promoted by his Government. The Law will come into effect next month and has been criticized by entrepreneurs. The norm is *"vital"* in the transition to a socialist economic productive model, said Chavez in a phone call to the minister of Science, Technology and Intermediate Industries, Ricardo Menendez, to whom he announced that, under said law, he was authorized to set new top sale prices for cement.

From 2021 to 2031 is the decade of consolidation of socialism. In a telephonic contact, President Hugo Chavez communicated with the third expanded meeting of the Great Patriotic Pole. During his intervention, Chavez cheered the people present at the Teresa Carreño Theater.

Pablo Perez appreciates AD support. Pablo Perez, governor of Zulia, handed college scholarships to young citizens of said state within the framework of the Scholarships Program Jesus Enrique Lozada. During the event, he thanked Accion Democratica for the *"support and trust"* deposited in him for his pre-candidacy to the primary election of the opposition. He said 16,244 groups had already registered in the organization.



Eduardo Fernandez declines candidacy to promote dialogue. Minutes ago, primary election pre-candidate for Copei, Eduardo Fernandez, announced his decision not to participate in the election called by the Democratic Unity Table for February 12, 2012. Through a statement, Fernandez called on all Venezuelans to dialogue *“to come out of the difficult situation the nation is immersed in, which will only be successful is we create a real climate of understanding and national unity.”*

Datanalisis calls tie between Velasquez and Yusef in Bolivar. According to a study carried out by Datanalisis regarding political situation issues in the Bolivar State, 61.8% of residents have a negative opinion of the region's situation. The crime rate is their biggest concern, mentioned by eight out of every ten respondents. Then they mention unemployment, quoted by 42.2% of respondents, electricity problems (42.5%) and potable water (25.2%).

Datanalisis and the road to the primary election, but in Bolivar. As of September of 2010, the population of the mining state was 1,600,000 people, out of which little over 850,000 were enrolled in the electoral registry. In Datanalisis' study, 47% of respondents assured they would participate in the opposition's primary election to choose the candidate that would run for governor against Francisco Rangel Gomez in 2012.

...When asked: *“Would you vote in the primary election to choose the Democratic Unity Candidate for the Bolivar State?”* 47% said yes while 40.7% said no and 12% didn't know or didn't answer.

Legislatives Tips

Rent determination article approved. In the plenary session o Tuesday, October 25, despite the attempts of opposition congressmen to defer the decision, article 61 of the Tenancy Law draft, regarding the establishment and determination of rent payments, the pro-government house authorized the provision.

The State will be the one to set rent payments. The aforementioned article leaves the National Superintendence of Tenancy in charge of appraising properties for rent, despite the rejection of opposition representatives who demanded the mathematical formula to calculate rent were specified in the article. However, the first vice president of the National Assembly, Aristobulo Isturiz, thought the formula could not be



included in the law but instead it should be included in its regulation, to be approved by the Administration later.

And the Tenancy Law was finally approved. In the plenary session of Thursday, October 27, the National Assembly authorized in second discussion the Tenancy Law. Congressman Diosdado Cabello said the law would now be submitted to the Administration for its official promulgation.

Terrorism to be penalized with 20 to 25 years of jail time. In the plenary session of Thursday, October 27, the National Assembly carried out the first discussion of the reform draft to the Organic Law against Organized Crime, which included an article to punish terrorists with 20 to 25 years of prison. The proposal, reviewed by the National Assembly's Domestic Policy Commission, establishes jail time of 15 to 25 years to sponsors of terrorism.

It also includes a provision that grants power to the *“competent authorities,”* after having obtained a court order, to execute *“especial measures to intercept communications and correspondence, including internet, inspection and indefinite freezing of bank accounts or other financial instruments (...) and other similar measures to favor the prevention, persecution and sanction of the crimes included in this law.”*

The process started. After listening to the claims of two Psuv militants, the National Assembly Comptrollership Commission ordered its technical administrative unit to review the accusation of corruption against the governor of Apure, Ramon Carrizalez. Wilmer Fernandez and Francisco Ridriguez Castro, members of Psuv and the people's commission against corruption of Apure presented Carrizalez's case before the National Assembly.

According to the accusers, the governor of Apure requested and obtained from the Legislative Council a supplementary appropriation for VEB 21,955,547 to acquire 30 30-yard garbage compactors built on International chassis with 6-pound winches. However, just like Carrizalez later admitted, the Government of Apure acquired Ford Trucks with 20-yard Farid garbage compactors.

Law against Corruption still in discussion. According to congressman and member of the National Assembly's Comptrollership Commission, Alfredo Rojas, the Law against Corruption, currently in discussion, has been *“well”* consulted. In the instrument, *“both judges and prosecutors attorneys will be sanctioned for omission.”* He also said Communal Councils would be ruled by this law, as would any private or public organization for which more than 50% of donations come from the State,



“these institutions will be subject to full investigations.” Rojas said the normative looked to create new ethics and promote the improvement of the State.

2012 budget approved by majority. Thanks to the majority of Psuv congressmen, the Government received approval of the Budget 2012 draft in first discussion. The Parliament’s opposition expressed its disapproval for considering the monetary calculation for next year to be *“neoliberal.”* Congressman for Un Nuevo Tiempo (UNT), Alfonso Marquina, said the budget was neoliberal, *“looking to satisfy the voracity of the government spending, disregarding the fact that devaluations and inflationary pressures actually reach into citizens’ pockets.”*

Reform to the Law against Crime approved unanimously. The general aspects of the reform to the Organic Law against Organized Crime were authorized on Thursday, October 27 by unanimity in the Venezuelan Parliament. This reform proposes an expansion of the crime classification and sanctions to drug, terrorism, people traffic, money laundering, organ trafficking and gun smuggling related crimes, among others. It includes 27 new articles and 41 modified articles, and ratifies the organic character of the law, initially sanctioned in 2005.

© Ecoanalítica – Descarga de PDFs auténticos





ECONOMIC OVERVIEW

