



Weekly Report

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2013 Budget Law Proposal: A simple formality

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Last week, the Minister of Finance, Jorge Giordani, presented before the National Assembly the 2013 Budget Law Proposal. As we have always done at **Ecoanalítica**, despite the fact that the Venezuelan Budget proposal is just a formality and never adhered to, in this report, we will analyze the factors that stand out the most.

A conservative budget, or just wishful thinking?

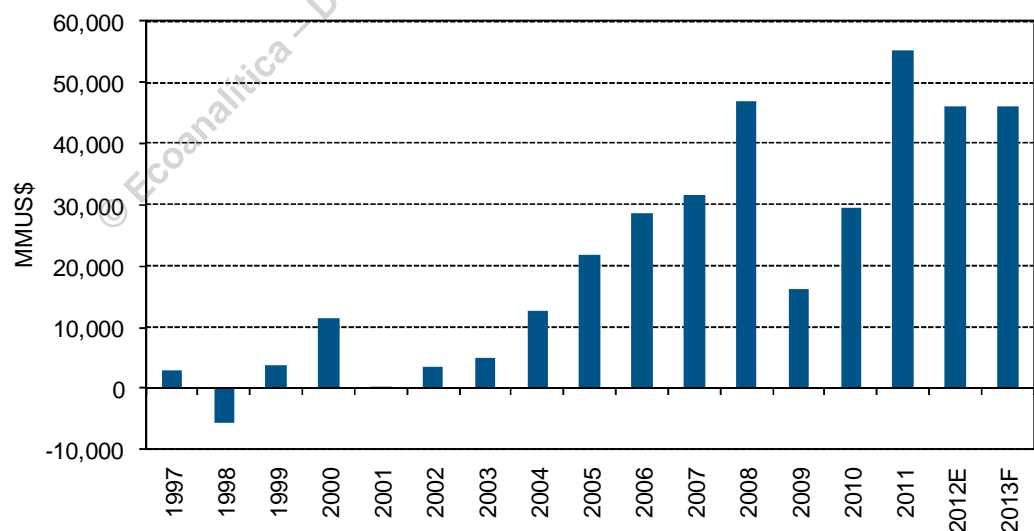
The 2013 Budget Law is no different from other National Budgets and has adopted a “conservative tone”. This posture has become even more extreme during the last few years, since the drop in oil prices in 2009. The conservative scenario reflected in the National Budget gives the Administration much more leeway when it comes time to actually implement the Budget. So, true to form, the 2013 National Budget has set the average price of a barrel of crude oil that it will base the amount of resources it expects to take in during the year, which in turn defines the limits of public spending for the year, at US\$55/bl.; when in fact, the current “real” estimate of what the average price of a barrel of Venezuelan crude oil will be for 2013 is at US\$104.7/bl.; with the main international



energy agencies estimating that the average price of crude oil on the international market during 2013 will be at around US\$100/bl (at **Ecoanalítica**, we estimate that the Venezuelan oil basket will average US\$104.1/bl during 2013).

The habit of underestimating the price of the Venezuelan oil basket is just a mechanism used to underestimate the total amount of resources that will come into government coffers during the year, which in turn, underestimates the amount of public spending that will be allowed, which all in the end ensures that the Administration will a significant amount of extraordinary revenue coming in, which it can use at its discretion with much less oversight. During the last two years, the Administration has taken in US\$84.89 billion in extraordinary (out-of-budget) resources. At **Ecoanalítica**, we estimate that for the close of 2012 and 2013, the difference between the “budgeted” amount of oil resources taken in and the “real” amount of oil resources taken in will be at US\$46.02 billion and US\$45.99 billion, respectively.

Difference between budget-estimated and effective oil income



Sources: National Budgets and Ecoanalítica

The VEB 4.30/US\$ exchange rate will continue... for now

The macroeconomic premises established in the 2013 National Budget are not very different from those presented in previous national budgets, with Gross Domestic Product (GDP) growth estimated at 6%. Maybe the most interesting detail that stands out is that the exchange rate is slated to remain at VEB 4.3/US\$. This is not in line with our estimates, and puts into doubt whether said growth rate can be achieved and at the same time



maintain inflation at 15% +/-1%. This scenario begs the question, how, if the Administration plans to keep the exchange rate where it is now, and it is also estimating that the Venezuelan oil basket average will drop by 47.5% (going from US\$104.7/bl in 2012 to US\$55.0/bl in 2013), can it project a greater increase in economic growth in 2013. At **Ecoanalítica**, we believe that this points to how little credibility the National Budget reflects and the lack of congruency that exist in the Venezuelan budget.

So, after looking at the state of affairs regarding government fiscal accounts¹, at **Ecoanalítica**, we stand by our initial estimates that point to a 46.5% devaluation of the official exchange rate in 2013. Consequently, we expect the economic growth rate to be at 2.0% and inflation at around 25%.

Stagnant oil production

Once again, this year's National Budget did not include an estimate of oil production for the year, but taking into account official figures, and our calculations, we can assume that Venezuelan average oil production for the year will be at 3.50 million barrels a day (mb/d), which is higher than what was estimated in the 2012 National Budget (3.15 mb/d) but which is significantly less than what secondary OPEC sources are reporting (2.45 mb/d) and even less than what Pdvsa is reporting to the OPEC (2.81 mb/d).

As we have mentioned before, underestimating oil prices in the National Budget is also part of covering Pdvsa's oil production problems. And even though during the last few months the oil company has been making efforts to increase oil production, significant debts to its suppliers, and problems with the infrastructure, have made it impossible for it to go ahead with new Orinoco Oil Belt projects, and consequently it is far from meeting its oil production goals.

At **Ecoanalítica**, we estimate that Venezuelan oil production in 2013 will be at around 2.60 mb/d. But the difference in the price of a barrel of crude oil fixed for the National Budget and what the real price is on the market, if our crude oil price estimates for 2013 hold, will still generate a significant amount of extraordinary resources for the Administration, even with our lower estimated oil production figure for the year.

¹ For 2012 we estimate a fiscal deficit of 15.1% of the GDP.





Revenue and spending: just about the same structures

The revenue/spending structure compared to GDP of the 2013 National Budget is very much like the previous year. The 2013 Budget estimates current revenue to be at VEB 300.92 billion, up by 29.1% in nominal terms compared to the 2012 Budget. And, though this increase in current account revenue is significant, it can be seen as an increase to cover inflation, and therefore, in real terms, the increase in the 2013 Budget is only of 4.3%. In terms of GDP, these resources equal 16.3%.

At *Ecoanalítica*, we estimate fiscal revenues to be at around 23.0% of GDP in 2013. The difference between our estimate and the government estimate is mainly due to the government's use of its underestimated oil prices. Non- Oil revenue according to the government's calculations will equal 11.8% of GDP while our calculations at *Ecoanalítica* put this figure at 15.8 percentage points of the GDP. With respect to oil revenues, the difference between our figures and the National Budget figures is less: we estimate oil revenues to be at 7.2% of the GDP, while the 2013 National Budget puts this figure at 4.5% of the GDP.

With respect to the National Budget's public spending figures, it has set spending at VEB 387.04 billion. This is VEB 297.84 billion more than was set in the original 2012 National Budget, but less than what is projected by the Administration to be the total amount of spending at the close of 2012, according to statements made by Minister Giordani, with spending at the close of this year estimated at VEB447.21 billion. This section that deals with spending, and the corresponding figures, is where it is clear that the National Budget is not credible.





Comparison of the 2013 budget assumptions Vs. Ecoanalítica				
	MPF		Ecoanalítica	
GDP Current Prices (VEB Million)	1,848,147.9		2,147,318.2	
Oil price Venezuelan Basket (US\$/bl)	55.0		104.1	
GDP Growth(%)	6.0		2.0	
Inflation (%)	14-16		23.8	
Official Exchange Rate - end of the year (VEB/US\$)	4.3		6.3	
Official Exchange Rate - average (VEB/US\$)	4.3		6.3	
Concept	MPF VEB (Million)	%GDP	Ecoanalítica VEB (Million)	%GDP
Total Income	300,920	16.3%	492,864	23.0%
Non Oil Income	217,740	11.8%	339,107	15.8%
Income tax	54,001	2.9%	51,059	2.4%
Duty	15,956	0.9%	24,999	1.2%
VAT	121,154	6.6%	135,626	6.3%
Others	26,630	1.4%	127,422	5.9%
Oil Income	83,180	4.5%	153,757	7.2%
Income tax	20,719	1.1%	38,462	1.8%
Duty	56,460	3.1%	109,652	5.1%
VAT	6,000	0.3%	5,643	0.3%
Total expenses	387,044	20.9%	626,621	29.2%
Current expenses	299,639	16.2%	531,835	24.8%
Capital expenses and others	87,405	4.7%	94,786	4.4%
Debt Amortization	8,697	0.5%	30,025	1.4%
Internal Debt	8,697	0.5%	23,627	1.1%
External Debt	-	0.0%	6,398	0.3%
Interests	69,553	3.8%	69,553	3.2%
Internal Debt	42,131	2.3%	42,131	2.0%
External Debt	27,422	1.5%	27,422	1.3%
Fiscal Balance	-86,124	-4.7%	-133,757	-6.2%
Primary Balance	-16,572	-0.9%	-64,204	-3.0%
Fiscal Balance excluding oil income	-169,304	-9.2%	-231,441	-10.8%
Financial Needs	86,124	4.7%	133,757	6.2%
Total Debt	95,487	5.2%	145,794	6.8%
External Debt	22,160	1.2%	95,746	4.5%
Internal Debt	73,327	4.0%	50,048	2.3%

Sources: MPF and Ecoanalítica

Spending estimates for 2013 that we have been able to calculate at **Ecoanalítica** lead us to a figure that may reach 39.0% of GDP, which compared to government figures set in the National Budget is a difference of almost 14.1 percentage points.

These revenue and spending figures budgeted for 2013 lead us to a 4.7% deficit in terms of GDP, this is higher than the one projected in the last National Budget (3.5%), due to the devaluation that we are expecting that will expand fiscal revenue by VEF 84.57 billion.

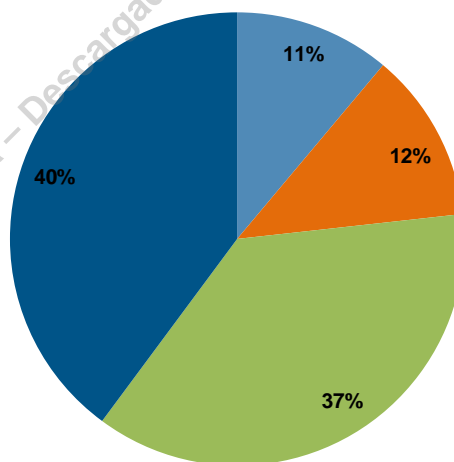


Supplemental appropriations: meeny, meeny, miny...

Year after year, the Venezuelan National Budget presented to the National Assembly for approval is a mere formality and has very little to do with the actual Budget required to run the government and cover its obligations. So much so that at times, the resources allocated to Ministries is not enough to cover its payroll, or insufficient resources are allocated to cover basic spending such as infrastructure maintenance. Everyone knows that via supplemental appropriations is how these cases are covered. And, as we have seen in the past few years, preference is given when it comes to assigning supplemental appropriations to those sectors that generate the most political benefits. For example, in 2012, most supplemental appropriation was earmarked for the Missions and projects such as the Great Housing Mission.

Public expenditure through additional credits

■ Administrative expenses ■ Missions ■ Staff costs ■ Projects



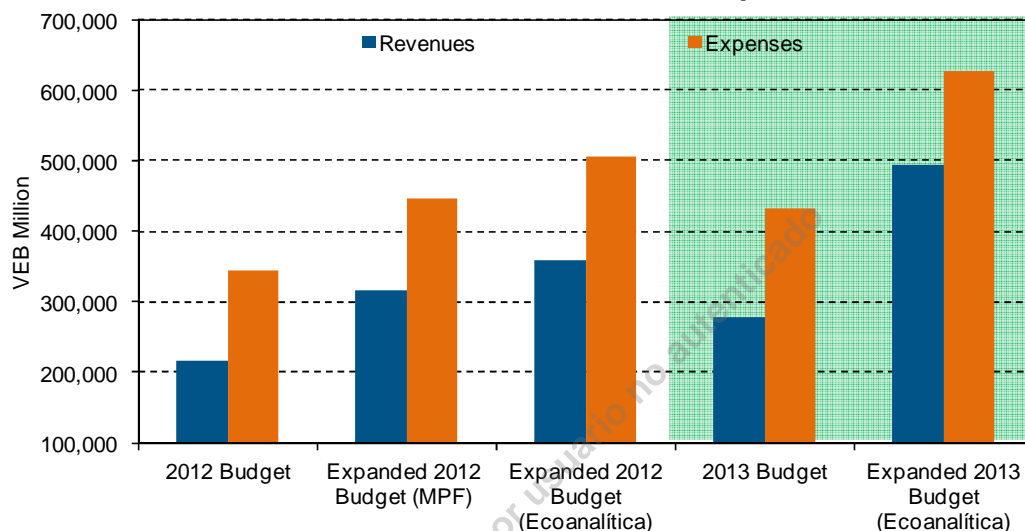
Sources: ONT and Ecoanalítica

So, the 2012 National Budget up until September, has expanded by 39.6% settling at VEB 415,83 billion, and at **Ecoanalítica**, we estimate that by the close of the year it will be at around VEB 504.7 billion, a real expansion of 19.9%, and a lot higher than the 2013 National Budget estimate of VEB 447.21 billion.





Estimated revenues and expenses



Note: the expanded Revenues/Expenses includes the approved amount plus modifications
Sources: Budget law projects and Ecoanalítica

Social spending and debt

Looking at the line items that weigh the most with respect to spending in the 2013 National Budget, education is first with 11.6% of the total (2.5% of GDP); followed by spending for security and defense at 10.1% of the total spending budget (2.2% of GDP); then social security (pensions, retirement, and social assistance) at 9.9% (2.1% of GDP). Health care dropped from fourth to third place, with spending allocated to it now at 8.0% (1.7% of GDP). All in all, social spending in the Budget equals VEB 147.81 billion, taking up 37.3% of the total budget and representing 8.0% of GDP.

Meanwhile, spending for production sectors consumes 8.9% of spending and only represents 1.9% of GDP. This includes transportation and communications, with VEB 13.38 billion (3.4% of spending) of which VEB 11.46 billion will come from the Borrowing Law; followed by energy, mining, and oil, with 2.4%; and industry and commerce, with 1.8%.





Sector	VEB Million	% of total Expenditure	% of the GDP
Debt service	99,578	25.1%	5.4%
Constitutional allocations	60,184	15.2%	3.3%
Education	46,157	11.6%	2.5%
Security and Defense	40,169	10.1%	2.2%
Social security	39,308	9.9%	2.1%
Health	31,645	8.0%	1.7%
Social development	19,506	4.9%	1.1%
Culture and Communications	3,260	0.8%	0.2%
Housing, Urban Development and Services	5,921	1.5%	0.3%
Science and Technology	2,012	0.5%	0.1%
Transport and Communications	13,383	3.4%	0.7%
Agriculture	4,996	1.3%	0.3%
Industry and Commerce	7,178	1.8%	0.4%
Energy, Mining and Petroleum	9,596	2.4%	0.5%
Tourism and Recreation	314	0.1%	0.0%

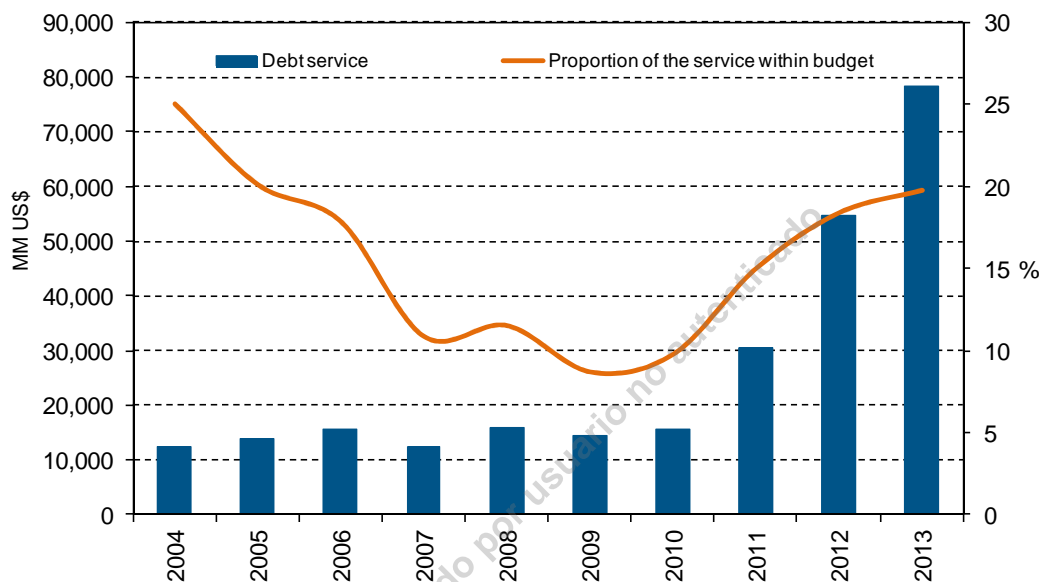
Sources: MPF and Ecoanalítica

Put together, they consume more budget resources than the debt service by itself, which uses 25.1% of spending and represents 5.4% of GDP (we will get focus on this more in our next Report). Spending earmarked for debt service is estimated at VEB 78.25 billion, up by 15.5% in real terms compared to the 2012 National Budget, with a 26.6% real expansion in interest payments (37.6% real increase in domestic debt interest payments and 12.8% real increase in foreign debt interest payments). With respect to fiscal management, the last few years aggressive borrowing policies is being felt more and more and in 2013, the portion allocated to servicing the debt reached the highest its ever been for the past 7 years.





Debt service



Sources: Budget Laws and Ecoanalítica

Nothing changes

The 2013 National Budget is pretty much a clone of the National Budgets presented these last few years: a formality that has to be carried out. But, it's still important to point out and highlight a few factors, such as the ever increasing weight the service to the debt has on total spending, which takes away from social spending, not to mention the pittance that production sectors are left with; the ever increasing dependency on oil revenues and the very slight increases in oil production which increases the country's vulnerability; and the discretionary way in which extraordinary resources, generated by the differential in oil prices between the one set in the National Budget and the true market price, are used and in the end serve to make the National Budget, as a whole, a futile act, devoid of any credibility, and spending figures in the Budget, become a variable as unpredictable as President Chávez' mood swings.

In conclusion, as we have said before at **Ecoanalítica**, and as this new National Budget confirms, 2013 doesn't show any signs that the Administration is about to make any significant changes in its economic policies, rather, it's going to be a year of few adjustments and continuing to implement the socialist model.





Economic Tips

Increase food production. Jorge Giordani, Minister of Finance, announced that to fight inflation, the administration will bet for an increase in food production, especially tomato, potato, onion, pepperoni and similar food products, Credits and technology counseling will be the measures intended to reach the increase; Giordani added that imports of product that cannot be fully covered with local production will continue.

Dollars are flowing. According to Minister Giordani, foreign exchange requirements of “priority” sectors are being fully covered with dollars allocated through Cadivi and Sitme. According to Giordani, *“the private sector is exporting US\$3.0 billion and claims to require between US\$15.0 and US\$18.0 billion,”* and, at least for this sector, *“requirements are infinite and resources are scarce.”*

Is it better to “invest” reserves? Minister Giordani stated that international reserves would produce minimum gains abroad, given the low international interest rates; therefore a better strategy is “investing part of those revenues in dollars in public works and projects within the country, instead of maintaining them as a monetary back-up.”

Controls will prevail. Keeping exchange controls is something *“absolutely necessary,”* because the economy *“continues to be rentier,”* Minister Jorge Giordani assured. The head of the Ministry of Finance said that exchange rate will remain at VEB 4.3/US\$ for the rest of 2013 and that *“things will have to be made more flexible”* to adjust exchange control to the demands of the current economic situation.

“The private sector has its own space”. According to the administration, “social policies have to be expanded” at a higher pace; however, that doesn’t mean that the private sector has to disappear. The administration expects that private investment in 2013 will reach US\$ 33.0 billion, and the Minister of Finance anticipates that the private investment/GDP ratio will remain over 10%. Demand is growing and businesses are “flourishing,” Giordani pointed out, adding that the private sector *“has enough space; the thing is that those who spoke for the sector aren’t producers, but dealers.”*

Which sectors will grow? Minister Giordani believes that 6% of the GDP growth estimated in the 2013 Budget is a *“moderate, feasible rate.”* The Minister pointed out that growth will be supported on three pillars: hydrocarbons, construction and



industry, which hasn't kicked off, despite the policies intended to stimulate private and public sectors.

In case of emergency, break the glass and... devalue. According to Barclays Capital, devaluation close to 50% in 2013, increasing Cadivi's exchange rate from VEB 4.3/US\$ to VEB 6.5/US\$ and adjusting Sitme from VEB 5.3/US\$ to VEB 7.8/US\$, would help the public sector to receive up to 6% of GDP in additional income. At *Ecoanalítica* we estimate that 50% devaluation would mean a fiscal injection of VEB 15.95 billion, close to 4% of GDP estimated for 2012.

Devaluation is necessary. According to a survey released by the Venezuelan-American Chamber of Commerce and Industry (Venamcham), about 80% businesses believes that adjusting exchange rate is necessary, whereas 56.7% believes that the measure should enter in force in the first quarter of 2013. 62% of the businesses interviewed claimed they were registered with Cadivi.

Let's make the most of oil byproducts. Oil rent doesn't appear to be enough; 2013 budget calls for increasing collection from tax on the consumption of gasoline and other oil byproducts, up to US\$5.98 billion (41.5% more than expected for 2012). The largest part of these moneys would come from tax on general consumption of other oil byproducts, with an amount of US\$ 4.00 billion (39.5% more than the estimate for 2012).

Socialist contributions. President Hugo Chávez informed that ministries and state-owned companies have paid a total of VEB 1.37 billion to the National Treasury for dividends. Of this total, the Ministry for Commerce transferred VEB 700 million, the Ministry of Water and Air Transportation paid about VEB 300 million, Banesca, VEB 300 million, the Ministry of Defense paid about VEB 61 million, and the Ministry of Food contributed about VEB 10 million.

Interest rates. The lending rate for the second week of October was at 16.1%, down by 1.5 percentage points compared to the previous week. The time deposit rate remained unchanged since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 1.4%, going from US\$25.9 billion during the third week of October to US\$25.5 billion during the fourth week of October. Compared to the same period last year, international reserves have decreased by 12.7%.





Monetary liquidity. Monetary liquidity (M2) up by 0.2% in the third week of October compared to the previous week, settling at VEB 584.6 billion. The M2 has increased 59.4% in relation with the same period last year.

Sitme figures. So far this year, US\$8.6 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.7 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.7 billion (23.9%) over the same period of 2011, when US\$6.9 billion were negotiated. Lastly, during the fourth week of October the amount traded reached US\$246 million, US\$23.0 million more than the previous week when US\$223 million were traded, with a daily average of US\$49.2 million.

Oil Tips

Out of the podium. Fortune Magazine ranks PDVSA 36th in its annual listing of the 500 most productive companies worldwide, based on 2011 results. This place is far from the 3rd place PDVSA occupied in 2002, one year before the administration assumed absolute control of the estate-owned oil company. The ranking took into account costs regarding discovery, development, lifting and production of oil and gas.

Crude prices lose ground. Average prices of the Venezuelan oil basket registered a steep decline last week, *“pushed by discouraging expectations concerning the performance of the global economy and the perception of a broad availability of supply in the major consumption centers,”* the Minister of Petroleum and Mining explained in his weekly report. After the downward trend of prices in May and June 2012, the price of the Venezuelan crude had overcome the US\$100/bl. barrier in early-August.

US\$1.5 billion or vacate. Curacao has asked PDVSA to invest US\$1.5 billion in the Isla refinery to extend the leasing agreement of the plant, which will expire in 2019. Helmin Wiels, member of the “Pueblo Soberano” party (the majority party in Curacao Parliament), pointed out that *“it’s important to extend the agreement with PDVSA, but under certain terms and conditions.”* Wiels added that an investment of that magnitude could extend for another 25 years the leasing agreement of the plant for which PDVSA pays about US\$150 million a year.





U.S. refineries weren't harmed by Sandy. According to a preliminary evaluation, the owners of the largest refineries of the U.S. east coast assured that said facilities weren't harmed by hurricane Sandy. Energy companies, in turn, began to evaluate the effects of the hurricane. Initial reports suggested that fuel supply in the region could be quickly recovered after having been completely shut down before the passage of Sandy.

New accident at Cardón. Two month after Amuay's accident, PDVSA has suffered its fifth accident in a refinery and the third in the Paraguaná Refining Complex (CRP) this year. Due to the accident, which consisted of a leak of hydrofluoric gas at the alkylation plant in Cardón refinery, several workers at the plant fainted and two workers were completely out of consciousness and were transferred to PDVSA's Cardón Hospital.

Honoring commitments. In a press note, PDVSA informed that interests on papers issued in 2009-2010 will be paid next week. In October 2009, PDVSA issues international dollar-denominated bonds worth US\$3.0 billion, which were jointly offered, mature at 10, 20 and 30 years and have coupons (interests) of 4.9% (2014), 5% (2015) and 5.125% (2016). Bonds maturing in 2017 with 8.5% coupon were issued in October 2010.

Turkish are looking for oil. Turkey's Ambassador to Caracas, Muhsin Tugrul Kiliçaslan, stated that given the significant growth of Turkish energy demand, that country would be interested in strengthening bilateral energy agreements signed with Venezuela. *"Our cooperation bonds started in the construction sector, and this allows us to have a win-win situation for both parties (...) you need cooperation in the construction sector –and we are very good at that- and we require oil,"* Kiliçaslan pointed out.

I want my money. Mayor's Office of Freites Municipality (Anzoátegui State) reported PDVSA Gas Anaco with the Fifth District Attorney's Office for misappropriation of VEB 93 million that would belong to the Municipality. Mayor Evelyn Urdaneta sued the oil company on the grounds that PDVSA Gas Anaco is reluctant to giving back to the municipality the money this entity has collected for municipal taxes from contractor companies.

International baskets. Last Friday, October 26th in New York, WTI closed at US\$87.4/bl, which shows a decrease of 5.0% compared to US\$92.0/bl recorded the previous week. Meanwhile, Brent fell by 4.5% to reach US\$ 108.8/bl compared to the previous week when it reached US\$104.8/bl.





Local basket price. On Friday, October 26th the Venezuelan oil basket price closed at US\$98.1/bl resulting in a decrease of 4.3% compared to US\$102.5/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 104.7/bl.

Business Sector Tips

Food is not free. President Hugo Chávez approved funds worth VEB 2.8 billion that will be applied for the subsidy of food products to be distributed through the Mercal outlet network in the second half of 2012. The funds approved come from dividends paid by state-owned companies to the Socialist Efficiency Fund. Carlos Osorio, Minister of Food, said that without that subsidy, Mercal couldn't sell food products at current prices and that more than 15 million tons of food products have been sold this year.

The private sector gets energetic. According to some sources, the contribution of the private sector (businesses and industries) "has reached 300 MW nationwide in day of high temperature and, therefore, high demand." Since June 2011, when the resolution issued by the Ministry of Electric Power to reduce power consumption in the private sector entered into force, the private sector has been increasingly contributing power to the National Interconnected System through its own power generation plants.

The full force of the law. According to a survey conducted by Venamcham, which involved 203 businesses members of the Chamber, the Labor Organic Law increased personnel expenses between 11% and 30%. The adjustment related to severance payment was the main factor in the increase of costs and the adjustment in labor hours, to be implemented before May 7, 2013, will be a further element negatively affecting businesses costs.

Integration will strengthen the economy. Alejandro Uzcátegui, president of the business association Empreven, integration between Venezuela and other countries represents a benefit for private enterprise and would help to strengthen Venezuelan economy. Uzcátegui expressed his support for Venezuela's accession to Mercosur, as well as for the agreements closed with other Latin American countries. "We firmly believed in integration as the solution to attain economic independence," Uzcátegui stressed.



Boost to iron and steel industry. 75% of the VEB 4.8 billion allocated by 2013 Budget to the Ministry of Industries (=VEB 3.6 billion) will be earmarked for the design, construction and operation of a new iron and steel complex. The new complex would have an installed capacity of 1,500 mt/year of liquid steel, which would allow it to produce in the country the primary and intermediate goods required to meet the demand resulting from the national development plans in the different industries.

Low crop production. Corn production during the 2012 winter season could be the lowest of the past 14 years. In Portuguesa state, the first corn producing region in Venezuela, crops yielded 2.7 ton/ha, far below the expected yield of 3.5 ton/ha. In Guárico, crops are still developing, but prognoses are discouraging. The scarce input supply plus an irregular summer season and constant rains have render farm works more complicated.

Arepas at risk. Scarcity of white corn maintains corn processing industries in suspense. As if the perspective of lower harvesting levels were not enough, failures in the unloading logistics at ports have affected the delivery of imported raw material for the agricultural industry and availability of products at silos is beginning to lower. A further problem is the price of pre-cooked corn flour, which hasn't been adjusted and doesn't allow industries to face the new corn price of VEB 1,500/ton.

Watching the flock. Pedro Moreno, head of the National Institute for Agricultural Security, announced that a nationwide program for the control and eradication of foot-and-mouth disease will be implemented together with state-owned Agropatria. Moreno pointed out that the free assistance plan will benefit about 58,000 producers with 25% of local cattle (about 3.5 million of heads) being expected to be vaccinated.

Rents without control? The administration kept frozen home rents between 2003 and April 2012. And although since May 2012 home rents were "unfrozen," they aren't still free, Sunavi (the national entity overseeing home rents), which has the responsibility for authorizing the amount of rents to be collected, informed.

A long, long-term plan. The 2013 Budget points out that the Development Plan for the National Electric Power System (SEN) will cover the period from 2013 to 2032, during which the Ministry of Electric Power will have to prepare a regulatory framework to promote technical and economic efficiency. 10,000 MW are expected to be added to SEN and investment in transmission networks is expected to increase in 2013-2019.





World Economy Tips

USA: sustained recovery. US GDP recorded a 2.0% growth (y/y) in 3Q2012, according to data published by the US Department of Commerce. The growth of real GDP in 3Q2012 is attributable to positive contributions of personal consumption spending (2.0%), Federal Government spending (9.6%), and fixed investment (1.5%), which are compensated for by the negative contribution of exports (-1.6%).

Tough 2013 for the euro zone. According to a survey released by Reuters, the most vulnerable economies in the euro zone will face a 2013 that will be more difficult than the expected three months ago, due to prolonged recession and increased austerity. The 49 economists interviewed lowered their outlook for 2013 for Greece, Portugal and Spain and forecast that those countries will undergo a crisis that will be three times worse than that forecast by their administrations.

Olympic boost. According to Britain's National Statistics Office, the UK GDP 1% growth (y/y) in 3Q2012 has allowed that country to come out of recession. British GDP was boosted by the Olympic Games, after economic activity for the previous quarter was impacted by the large number of holidays. The economy had contracted over the past three quarters, dragging the UK to its first recession since 1950.

Record unemployment figures. Unemployment in Spain reached a new historical height, reaching 25% of the active population, up 0.4% from the same period in 2011. In end-September, there was a total of 5,778,100 people in Spain, a figure that increased by 85,000 with respect to past year, according to data from Spain's National Statistics Institute (INE).

Japan: no money for stimulus. Japanese administration approved an economic stimulus plan worth YEN 422.6 billion (EUR 4.07 billion) comprising subsidies and tax exemptions, which will be financed with budget reserves so as not to have to sell new debt. The package, which only accounts for 0.5% of the national budget (YEN 90.3 trillion), is a sign that the administration doesn't have enough funds to increase spending to give a boost to the economy.

To top it all off, political clashes. A political blockade by opposition members, which demand moving ahead parliamentary election, has prevented the Japanese Senate from approving a bond issue to finance the operation of the State's central services in that country. Japanese Prime Minister Yoshihiko Noda warned today of



the danger of the State being fully paralyzed, which could mean the State running out of money in December.

The European Central Bank (ECB) cannot do it all. Peter Praet, chief economist of the European Central Bank (ECB), has pointed out that monetary policy implemented by the Bank “*can relieve pressures provoked by deleverage in times of crisis,*” but cannot correct the causes of the debt crisis. Praet believes that to face underlying problems “*a broad political response in relation to public finance, economic competitiveness and the financial sector is required.*”

European Union’s debt grows. Data released by the European Union Statistics Office (Eurostat) reveal that as of 2Q2012, government’s debt of EU countries accounted for 84.9% of GDP, up about 3.5 pp from 2Q2011. 80.1% of the euro zone debt consists of public securities (bonds), 16.1% of loans, and 3.7% of currencies and deposits.

Full balance for 2013. Wolfgang Schäuble, Germany’s Minister of Finance, expects German budget for 2013 to be balance, a goal that the Federal Government had expected to reach in by 2016. Schäuble said to a German newspaper that spending is growing at a better pace than the economy; therefore budget deficit will fall below 0.5% of GDP at the end of 2012.

One year of exchange restrictions. It’s been a year (since October 28th) since the so-called “exchange clamp” (exchange control) was implemented in Argentina to curb the growing foreign currency flight in that country. Although the capital outflow, which in the first half of 2012 amounted to US\$3.5 billion (down 67.9% from the first half of 2011) has been slowed down, exchange control, along with other factors of local politics and global crisis, have impacted some key variables of the economic activity, such as investment.

Political Tips

The first hitch? Hugo Cabezas, the incumbent who until yesterday was candidate for reelection as governor of Trujillo state upon decision by President Hugo Chávez, resigned to his candidacy. The former candidate made his decision because he wasn’t able to gather widespread support. “We don’t have the same leadership as Hugo Chávez,” Cabezas pointed out. The governor’s resignation could be interpreted



as an achievement for Chávez followers; his nomination was one of the most criticized by several parties belonging to the alliance known as Polo Patriótico.

The King is dead, long live the King. (Express Candidate) One single day was enough for the PSUV government party to find a replacement for Hugo Cabezas as candidate for Trujillo governor's Office. The new revolution anointed candidate, as announced by President Hugo Chávez, will be Henry Rangel Silva, former Minister of Defense who will be ordered into retirement starting this week. The new Minister of Defense will be Admiral Diego Molero Bellavia, who was the Commander of the Bolivarian Navy.

For a better standard of living. Henrique Capriles, gubernatorial candidate for the State of Miranda, assured that he won't fight against the government's candidate of party, who are trying to take him out of his office, but that his aim is improving the standard of living of people in Miranda. Capriles asked those who are discouraged by the result of the presidential election to stand up. "Nobody can abstain; nobody can renounce to voice their opinion," Capriles pointed out.

Let's reach an agreement. Representative Miguel Ángel Rodríguez, head of campaign of Governor César Pérez Vivas for the Democratic Unity in Táchira state, announced the creation of a commission that will talk with William Méndez, former Mayor of San Cristóbal, who is also a candidate for governor of the same state. Rodríguez stated that this commission will be entrusted with reaching an agreement *"with a view to gathering all political forces to defeat the Government's candidate once again."*

Unity is what counts. Ismael García, representative to the National Assembly and candidate for Mayor's Office of Libertador Municipality (Caracas), urged opposition followers to maintain unity, which, in García's opinion, is the most important achievement the democratic opposition has made in a long time. García pointed out that *"it's not time for lonely heroes or those who believe to be indispensable,"* but that it's necessary to count on the support of everybody. *"Here, we all are essential and important,"* he added.

Revolutionary candidacy challenged. Víctor Martínez, social leader, challenged the candidacy of Luis Reyes Reyes, who is running for Lara Governor's Office supported by the PSUV government party, on the grounds of Reyes being the mastermind of the assassination of Martínez' son, Mijail Martínez, who was killed in 2009. Reyes Reyes has also been denounced with the Commission of Interior Politics and Human Rights of the National Assembly since December 13, 2009.



Communes against crime. Aristóbulo Istúriz, PSUV candidate for Anzoátegui Governor's Office, pledged to increase the number of police officers in the state, although he pointed out that the lack of personal security is not solved with more police officers only. Istúriz assured that *"the lack of personal security may be solved by a system of communes. Each commune has to be capable of guaranteeing security of its area of influence."*

Illegal change of voting centers. The representative of the Democratic Unity Panel, Vicente Bello, requested the electoral authority (CNE) to review the change of voting centers of 108 citizens, mostly gubernatorial candidates for the PSUV, who will be authorized to vote in next December gubernatorial election in centers other than those where they voted in October. Bello explained that the Electoral Roll has been closed since April 15th and, therefore, those changes *"are illegal."*

Chavismo is looking for the perfect Alliance. The PSUV started this week a series of meetings in several states of the country with parties and organizations supporting President Hugo Chávez, with the purpose of ironing out their differences and attain a perfect alliance for gubernatorial election to be held in December. Up until now, *Chavistas* have reached consensus in 15 states, but continue to be divided in relation to 7 candidates.

The undesirables. Candidates nominated to run as governors by the PSUV, who are not approved of by at least one ally of *Chavismo* are: Aristóbulo Istúriz in Anzoátegui, Ramón Carrizales, Apure, Rangel Gómez, Bolívar, Nicia Maldonado, Amazonas, Alexis Ramírez, Mérida, Elías Jaua, Miranda, and Wilmar Castro in Portuguesa.

Through my fault, through my fault, through my most grievous fault. The third self-criticism process that has taken place among the revolutionary cadres "commanded" by President Chávez in less than 5 years started this year. Review, rectification and re-launching, R³ or whatever the name might be, those submitted to self-criticism have given the green light for *Chavismo* to start questioning decisions and policies from different fronts, which is frowned upon considering that there are less than 2 months left for gubernatorial election.

Legislative Tips

Cable TV will not be controlled. Blanca Eekhout, second vice-president of the AN and member of the Committee on People's Power and Communication Media, stated



that plans to pass a new law regulating cable TV aren't being considered, but "a proposal presented given the requests to develop a draft law." With this statement, Eekhout tried to dismiss what she described as a "false opinion trend" intended to "frighten people by telling them that they were going to be deprived from the cable TV service."

Investigation against Julio Chávez was dismissed. Representative Guillermo Palacios condemned the decision of the AN Committee of Control, which dismissed the investigation against representative Julio Chávez (PSUV), charged with "irregular actions in the exercise of his powers," when he was mayor of Torres Municipality. The delegate committee of the AN stated that the report "is not a matter that can be investigated by the Committee, given the Representative's investiture."

Sports yes; contributions don't. The Constitutional Chamber of the Supreme Tribunal of Justice admitted the request for annulment presented by Conindustria against the Organic Sports Law, which calls for a mandatory contribution of 1% of the gross yearly income of businesses for a fund for the development of sports activity. Conindustria claims that the Law violates the principle of non-retroactive nature of the law by virtue of the demand for a "prorated contribution," which leads to the rendering of said law null and void.

Laws for communes. After President Hugo Chávez asked to speed up the creation of communes, the vice-president of the People's Power Committee of the National Assembly, Julio Chávez, assured that in two weeks the reform of the Law on Local Public Planning Councils could be discussed at the full session. The reform would represent a "defense of local and state councils as formidable entities to plan investment of resources," Chávez explained.

Disarmament Committee will present its report. The presidential Commission for the Control of Weapons, Ammunitions and Disarmament will present its final report in early-December, Pablo Fernández, Secretary of the aforementioned committee, announced. "Since we have started the process, we want to complete it by presenting this report, to tell what has been done and what is still to be done," Fernández said, who also urged the AN "to try to discuss the draft law as soon as possible (...) so as to be able to consolidated a weapon control policy."

Areas affected by Valencia Lake are being inspected. A Special Committee of the National Assembly inspected the communities affected by the flooding of Valencia Lake, due to the heavy rains registered over recent years. The Committee visited Paraparal, Mata Redonda and La Punta (Aragua) communities, where they evaluated the damage caused by the basin and the actions taken by the government to assist families that lost their homes due to the lake flooding.



VEB 150 million to face the contingency. The Finance Committee of the AN approved VEB 150 million to address the emergency situation provoked by the flooding of Valencia Lake. The monies will be transferred to the Governor's Office of Aragua. Furthermore, VEB 57 million will be transferred to the same Office for the operation (personnel, supplies, materials and services) of Corposalud assistance network. The funds come from unspecified extraordinary revenues.

Public servant payroll will be reviewed. Opposition and government Representatives to the AN have agreed upon, albeit for different reasons, to conduct a thorough review of public servant payroll. Opposition Representatives believe that the exponential growth has been more intense in the Central Administration than in the states and that it should be analyzed if wage increases, firing freeze and the creation of new ministries have influenced the budget. Government Representatives, in turn, claim that it is necessary to check of the payroll is true or fictitious and assure that nobody will be fired.

Law to stop "gouging" by funerary parlors. The AN has plans to submit for the first discussion a draft law for the control and regulation of funerary and cemetery-related services. The proposal calls for the creation of a nationwide council for the control of the aforementioned services, which will be headed by an individual appointed by President Chávez and be responsible for avoiding gouging, abuses, usury and disproportionate charges for services rendered.

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ECONOMIC OVERVIEW

