



# Weekly Report

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*The curtain opens up:  
What's the name of the  
play? Electoral Year*

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As usual, the Central Bank of Venezuela (BCV) published the Gross Domestic Product (GDP) figures for 3Q2011, (from January to September), which as was to be expected, according to the Administration confirm the growth trend of economic activities in Venezuela. However, they still show that the economic model of the present administration won't be sustainable in time, so it is important to adjust some approaches to place the facts in the correct perspective.

### **How did the economy behave in the 3Q2011?**

According to preliminary estimates of the BCV, el GDP at constant prices increased 4.2% in 3Q2011, significantly higher than the drop in 3Q2010, when the economy fell by 0.2%, which occurred during four consecutive quarters of this "new streak" in economic performance. This result for 3Q2011 was due to the growth of oil and non-oil activities, of 0.3% and 4.4% respectively.



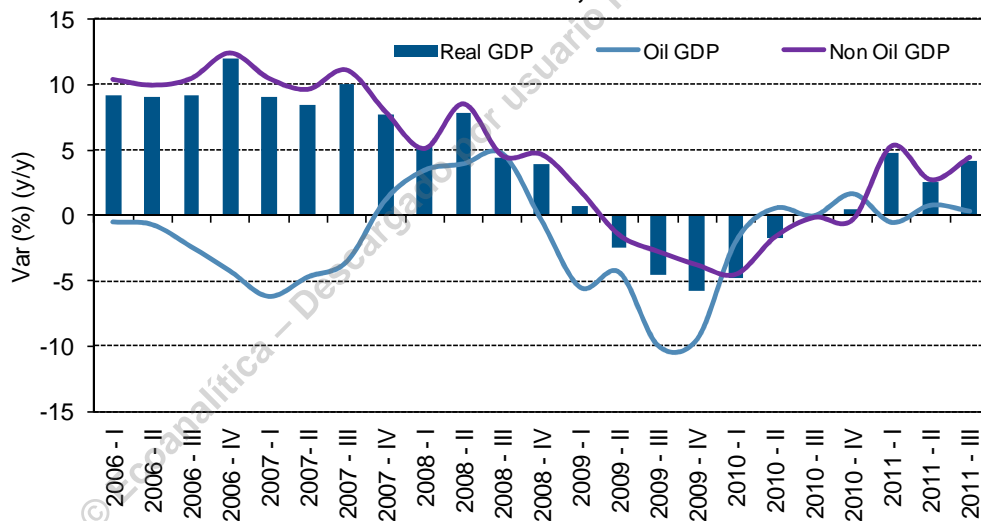


**And so far...**

Thus, GDP has had an accumulated growth of 3.8% between January and September 2011, as a result of a growth of only 0.2% in oil activities, and 4.1% in non oil activities.

According to the BCV report, this year's economic performance is due to a greater availability of imported goods for production and consumption, as well as more credits from the financial system, and the energizing effect of the higher public expenditures to execute the "Gran Misión Vivienda Venezuela", which positively affected the performance of construction activities and related production chains.

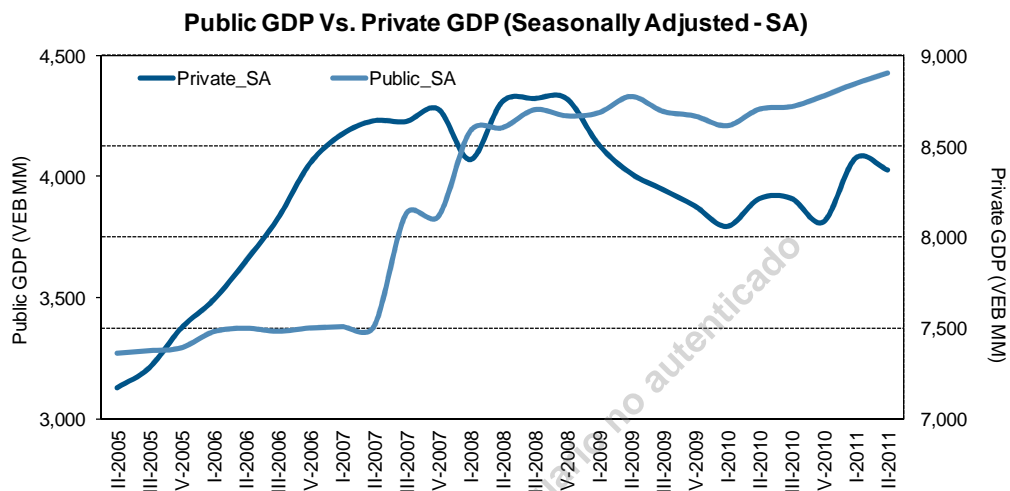
**Evolution of GDP: Total, Oil and Non Oil**



**From the institutional point of view...**

Analyzing GDP results from the institutional point of view, we see that the public sector had a positive variation of 3.6% during the 3Q2011, higher than the 2.3% growth of this sector during the same period in 2006, a result associated to the services provided by the government, and by communications and financial companies. In comparison, the private sector grew 4%, much lower than the 10.9% in 3Q2006, due to the growth of all the activities that are part of it.





Sources: BCV and Ecoanalítica

**Oil activity: is it still afloat?**

The minimal growth of only 0.3% of the oil sector, which although higher than the -0.02% during the same period in 2010, it is still lower than the 0.8% registered in 2Q2011, and still far from the significant growth that this activity had during the same period in 2008 (4.7%), presupposes that the increase in oil prices and the higher income is not reflected at all in oil production. However this performance in the oil activity has a logical explanation for Planning Minister Jorge Giordani, that this activity: *"is just starting"*.

However, according to Nelson Merentes, President of the BCV, the behavior of the oil sector is because *"we must think about the future, and thus not produce much. Also, there are limitations due to global policies"* and insisted that these results are affected by OPEC's quotas.

We must also highlight that Pdvsa has had difficulties in reaching the objective of increasing production, at least by itself, so the responsibility of improving the present production levels for 2012, will probably be on the shoulders of the mixed companies.

**While the non-oil sector grows**

The behavior of non-oil activities during this quarter is explained by the growth of several activities during the period, among them: financial intermediation (15.1%), construction (10%), communications (7.9%), mining (7.6%), transportation (6.6%), trade (5.8%), water and electricity (5.6%), services by the general government (4.9%) and manufacturing (2.1%).

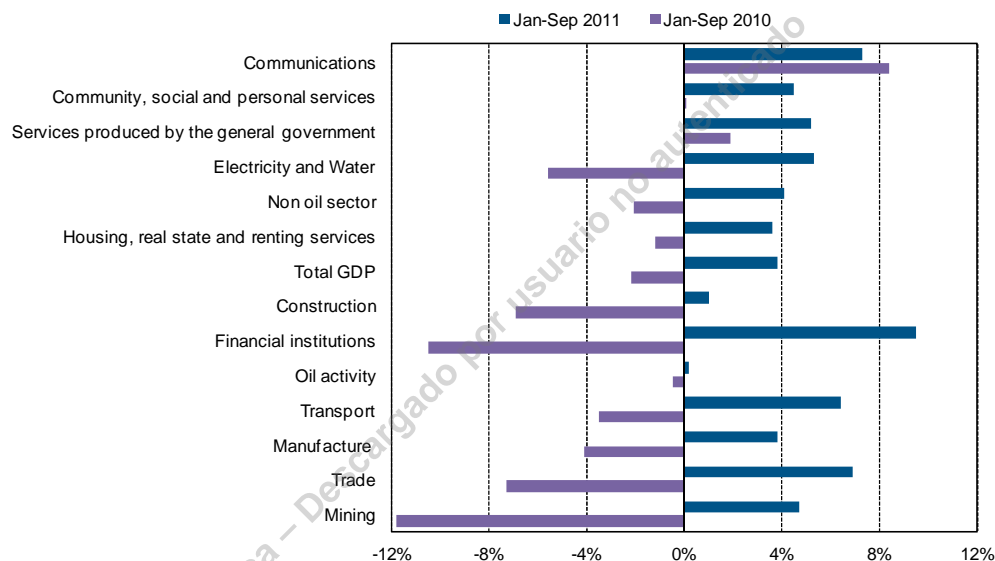




**Accumulated non-oil economic activity is positive**

Considering the performance of non-oil activities for the year, it has been favorable for most: Mining (4.7%); Manufacture (3.8%); Water and electricity (5.3%); Construction (1.0%); Trade (6.9%); Transportation (6.4%); Communications (7.3%) and financial and insurance institutions (9.5%).

**Growth by economic activity**



Sources: BCV and Ecoanalítica

**The financial sector saves the day**

The financial system moves forward steadily. Both public and private banks in Venezuela have had a good performance for the year, which means that bank users are under no risk. Although the banking crisis of 2010 was complicated for national entities, at present we can guarantee that the behavior of the financial system is in a phase of tranquility and guarantee in all the banks of the country.

This behavior of the financial system is closely related to the increase in government expenditures, as can be seen in the behavior of liquidity, which increased around 1.9% in 10 months in real terms, something that had not been seen in this variable since 2006.

**While some go up, others go down**

Although some figures are positive, they show that the Government, rather than energizing strategic areas in the so-called key sectors, seems to have kept them stagnant during the period; although manufacturing activities increased due to the behavior of most of the areas like: furniture, rubber, plastic, paper metals and minerals, it is also true that the area with the greatest weight in the sector, food, fell 9.1%, when during the same period



in 2010 it increased 15.6%. Together with this, BCV's figures for GDP which include the "other" category (several economic activities), where the greatest participation is from agriculture, we see that this item fell 2.7% in 3Q2011. This is evidence of what agricultural producers have said repeatedly, that the price control policy keeps them in a financial situation where it is impossible to invest to increase the crops cycle after cycle.

According to the BCV, this drop in the food sector is due to: *"rain, problems in material availability, the sales price difference, and the volatility of the price of raw materials, which impacted the production of dairy, meats and its byproducts"*. This despite the fact that during the quarter, imports for the food sector by official entities increased, but everything indicates that they have not been enough to generate the necessary energy in this sector.

At **Ecoanalítica** we consider that these results in what the Government calls strategic sectors are due to a drop in investments, which is supported by the figures we will present later on.

### What the government doesn't say

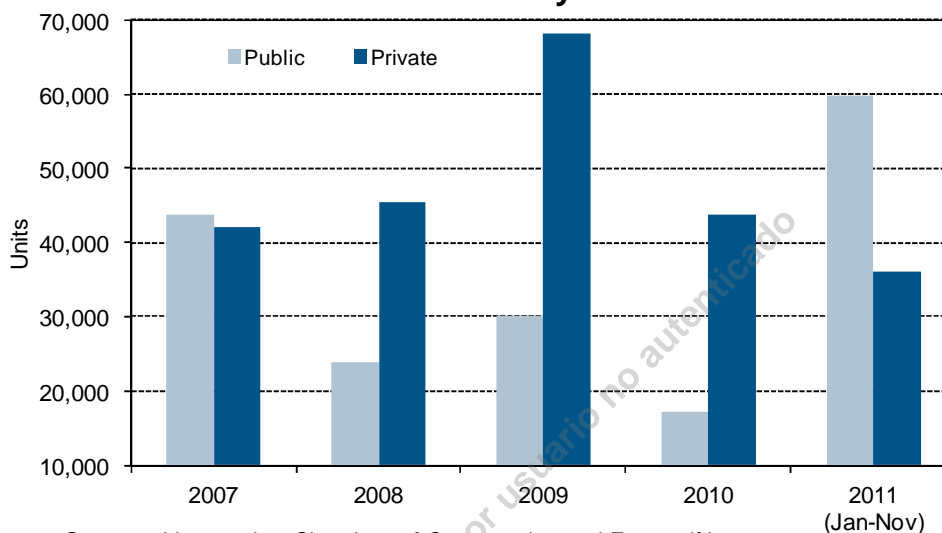
Regarding the construction sector, we must mention that it had an astounding 10% increase during 3Q2011, less than the 12.4% registered in 3Q2008, so the accumulated growth between January and September in the construction sector is just a 1% growth, as a result of the 17.6% increase in the construction that the Public Sector demanded due to a greater execution of the works for the general government (18.2%) and for oil and non oil companies (17.2%).

In the case of the so called construction *"permitted for the private sector"*, it fell 122%, as a result of a lower availability of basic products.





### Built Houses by sector



Sources: Venezuelan Chamber of Construction and Ecoanalítica

#### Without investment it is more difficult

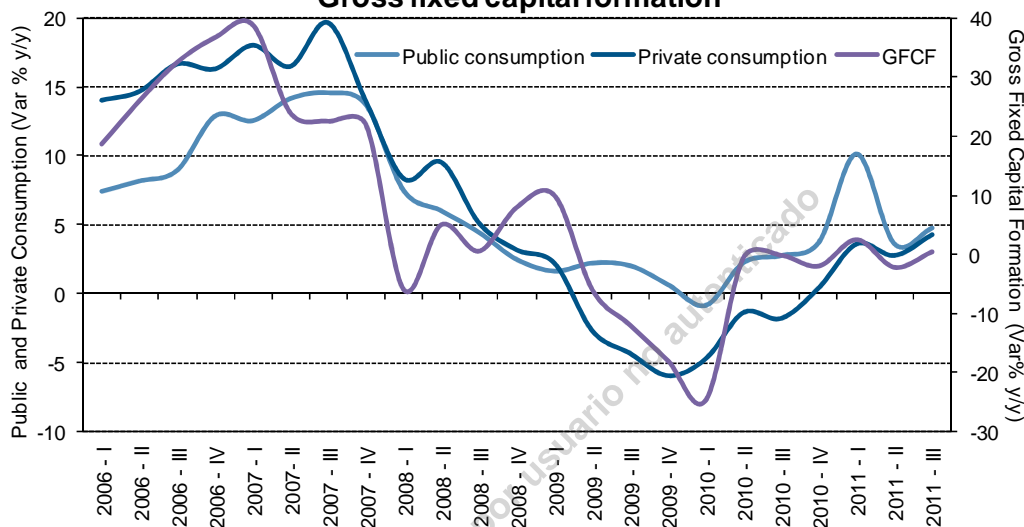
Aggregate supply increased 8.7% during 3Q2011, due to the combined effect of the significant increase in imports, 19.7%, and the above mentioned GDP growth, a variable that between January and September increased 6.9%.

Likewise, BCV figures show that for 3Q2011 there was a real growth in global demand of 8.7% as a result of the growth in internal aggregate demand of 8.9%, which is related to the 4.7% increase in final consumption expenditures by the government, less than the 6% for 3Q2006 which was also an electoral year; and the 4.2% reported during this 3Q2011 in private consumption, a minimal growth compared to the 18.8% increase recorded in 3Q2006, since specifically in investment (Gross Fixed Capital Formation) the increase was just 0.4% for the same period, and compared to 2006 (electoral year) it is 33.4% lower; this reflect the little investment that there is in the country: if investment increased at high rates, it would indicate the production potential, however, the behavior shows that despite the fact that government spending increased in general 16.3% in real terms, not enough was spent to expand capacities, rather, spending only affected consumption behavior.

The accumulated results for the first nine months of the year, compared to the same period in 2011, reveal the following scenario: a 6.9% growth in domestic aggregate demand, 3.5% growth in private consumption and 5.9% in public consumption, and no increase in investments. Thus, consumption represents 87.5% of GDP and investment (gross fixed capital formation and variation in stock levels) 28.4%.



### Evolution of Public Consumption, Private Consumption and Gross fixed capital formation



Sources: BCV and Ecoanalítica

The acquisition of goods increased 20.1% reaching US\$ 11.934 million; public imports increased by 22.2%, mainly in food products, and products for agro industry (milk, meat, coffee, rice, corn, and chemicals), while private imports increased by 19.2%, mainly machinery, tires, among others.

The import of goods and services for the first nine months of the year increased 15% representing 42.1% of GDP, and exports had a real growth of 6.7% representing 14.7% of GDP.

#### The ghost of the rebound effect is still present

We must remember that the “rebound” effect, which refers to the high economic growth we see when comparing the “normal” product level of one quarter, with the product of another quarter that for some external factor was artificially low, would be a godsend, since we still have the effects of the six consecutive quarters in which the Venezuelan economy suffered a severe contraction in its indicators, so the present figures appear quite positive.

#### Can spending take on everything?

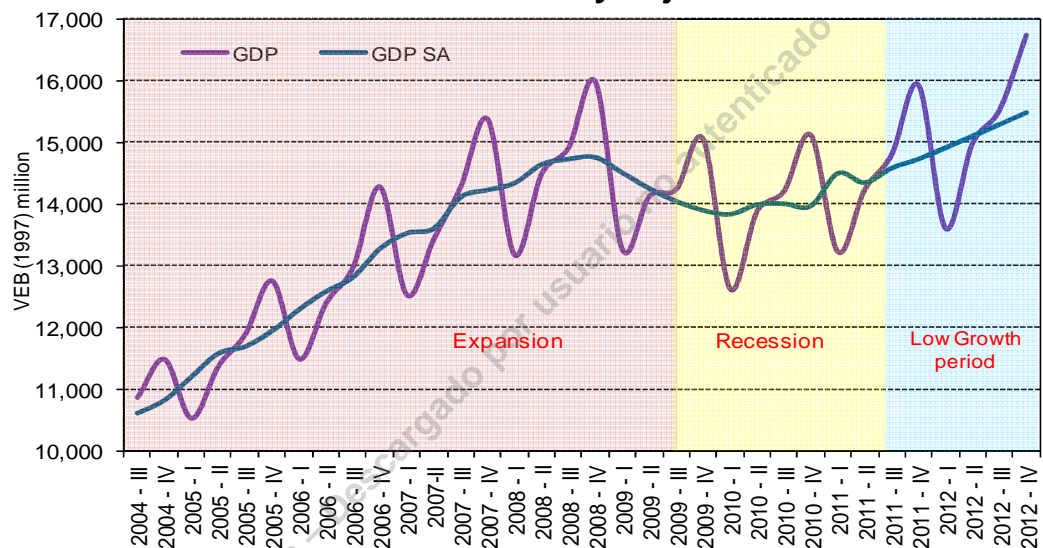
The government expects to continue in this positive trend, and estimated a target growth of 5% in the 2012 budget approved by the National Assembly. In the opinion of Nelson Merentes, this target could be “perfectly reachable”, and he was clear and confident that the “growth dynamic” will continue. However, at **Ecoanalítica** we believe that economic growth could be around 4.5%.



**And to close  
the curtain...**

We must not forget that the outlook, which so far reveals a drop in the production of certain basic sectors, will continue to be determined by the fundamental role that imports have played, particularly the public ones, over the private.

**GDP Vs. Seasonally Adjusted GDP**



Sources: BCV and Ecoanalítica  
Seasonal adjustment made by X12 method

At **Ecoanalítica**, given the high oil prices, and despite the volatility of the international market, it is possible to predict that next year will be positive, since it is an electoral year, and there will be an increase in the drive of the economic sectors for 2012, among them: communications, construction, transportation, financial institutions, and insurance. Thus, the growth of the economic activity as a whole could be 4.1%, due to an increase of 1.0% in oil activities, and 4.3% in non-oil activities, a growth that in our opinion will continue to be modest, since its performance is based on the implementation of a weak economic strategy that so far seems to lack one of the most important ingredients to reach the desired sustained economic growth: capital formation and investment.

Together with all this, we must say that political uncertainty, power blackouts, labor conflicts and the lack of raw materials, together to socially convenient policies (but inefficient in practice) will continue to prove to be economically inefficient, since they limit the growth of economic activity. In that sense, at **Ecoanalítica** contrary to what the economic cabinet has said, we believe that GDP growth for the year, and up to 2012 will be



based on the impulse generated with the growth of public expenditures, which evidently won't even be the preamble of a sustainable expansion period.

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## Economic Tips

**Merentes:** *“The trend is a decreasing unemployment rate”*. Nelson Merentes, BCV president, said on November 17<sup>th</sup> that thanks to the 4.2% growth registered in 3Q2011, unemployment rate will follow a decreasing trend. Merentes explained that current employment rate is 8%-8.3% and that it will tend to fall in December due to seasonal reasons. However, “with the economic and social development planned in our 2012 budget, unemployment rate will follow a downward trend”, he stressed.

**Reserves continue to drop.** According to BCV’s figures, international reserves have registered a drop of US\$3.98 billion in two months. Reserves were at US\$31.6 billion on September 9<sup>th</sup>, whereas they were at US\$27.6 billion in November 18<sup>th</sup>, down 14.4%. This happens despite of the fact that oil prices have been increasing and they are currently averaging US\$102.5/bbl. However, the BCV has had to face greater commitments this year as a result of the demands by the Central government and the oil industry.

**National Statistics Institute (INE): 24,586,305 people have been counted.** According to reports on the INE web portal, a total of 6,251,581 homes and 6,251,581 people had been counted as of November 16<sup>th</sup>. The 2011 Census began on September 1<sup>st</sup> and it’s expected to end on November 30<sup>th</sup>.

**New SITME as from January 1, 2012.** Starting from January 1, 2012, applications to purchase and sell securities on the System for Transactions with Securities denominated in Foreign Currency (SITME) through authorized institutions will be governed by the new provisions issued by the BCV on November 11<sup>th</sup>.

**The requirements set forth** by the new provisions include that individuals and firms must register with the newly created RUSITME (Register of Users of the System for Transactions with Securities denominated in Foreign Currency) administered by the BCV. According to a press statement released by the Bank, those interested may register in RUSITME since November 21<sup>st</sup> on the BCV web site.

**The new provisions establish** that individuals may purchase securities through this mechanism without having to use the entire foreign currency quota allotted by Cadivi (US\$3,000).





**If foreign currency is to be used to pay studies or travel abroad**, or for the purchase of equipment or materials required for the exercise of a profession, individuals are allocated up to US\$5,000 in each case.

**Individuals will have available up to US\$6,000/year** for family remittances (Venezuelans living abroad) and up to US\$10,000 per year for expenses related to the recovery of health, scientific research, sports, culture, education and other special contingencies.

**Interest rates.** The lending rate for the second week in November was at 16.5%, decreasing by 1.8 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 2.1% going from US\$28,209 million during the second week of November to US\$27,629 million during the third week of November. Compared to the same period last year, international reserves have decreased by 5.3%.

**Monetary liquidity.** Monetary liquidity in first week in November increased 0.2 % compared to the previous week settling at VEB 375,390 million. The M2 has increased 31.8% year-on-year.

**Sitme figures.** So far this year, US\$7,714 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$35.2 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the third week of November the amount traded reached US\$213.3 million, US\$14.7 million more than last week when US\$198.6 million were traded.

## *Oil Tips*

**PDVSA is facing troubles to rise production**, in addition to the huge investments the oil company has to make to develop the Orinoco Oil Belt and to meet the 4 mb/d production target for 2013. The financial situation has already impacted the company's medullar activities, when cutbacks in several budget items and expropriations of oil service companies in 2009 impacted investment and maintenance activities of the state-owned oil company.



**Meanwhile, production has become stagnant...** revenues have surged since oil price has averaged over US\$100 per barrel this year. Balance-of-payments figures show that oil revenues amounted to US\$22.7 billion in 3Q2011, up 55% from the same period in 2010. In the quarter, the oil barrel went up 47.8%, because exported volumes only increased 5%. Over nine months, oil export revenues reached US\$66.0 billion, up 46% from 2010's US\$45.4 billion.

**And cash flow is committed...** The state-owned oil company is not reflecting in its accounts oil sales corresponding to the Chinese Fund and Petrocaribe. PDVSA, which is engaged in a number of oil and non-oil activities, must face the demands for funds from the Administration, while it has committed about 40% of its crude oil production. All this has severely beaten PDVSA's cash flow and accounts.

**Oil by-product exports to the US recovered.** Even though productive activities in the oil sector became virtually stagnant in 3Q2011 in comparison to the same period in 2010, the BCV reported a better behavior in terms of exports, which grew 5% in July-September, compared to the same period in 2010. In terms of volume, oil exports were roughly 2.39 mb/d in the third quarter of 2010, in comparison to 2.27 mb/d in 2010 third quarter. Year-to-year growth was 120 thousand barrel/day (kb/d), a volume calculated from figures provided by PDVSA and the BCV.

**Looking at the US preliminary data...** concerning hydrocarbon shipments (the US imports more than 40% of Venezuela's oil and by-products), released by US Energy Department, it can be observed that PDVSA's exports to the US gained 45% in terms of the volume of products received, in July and August 2011, in comparison to last year. The average volume of oil products shipped to the US was 83 kb/d with regard to 57 kb/d in 2010.

**Project jeopardizes Venezuela's oil exports.** TransCanada will modify the polemic route of Keystone XL oil pipeline, as a result of the decision made by US authorities to delay the beginning of the construction due to environmental concerns, sources from the company informed. The project, which jeopardizes oil exports from countries like Venezuela and Mexico toward US refineries, has been rejected by environmental organizations due to the negative effects it may have on US protected areas. Last week, the US State Department announced that the project has been delayed at least until 2013 in order to study its impact.

**International oil baskets.** At closing time on November 18<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$99.8/bl, a 3.9% increase compared to the US\$96 reported the previous week. The Brent decreased by 0.9% to reach US\$112.5 /bl, compared to the previous week's US\$113.5/bl.



**Local oil basket price.** The Venezuelan oil basket price increased last week, closing at US\$111.2/bl on Friday November 18<sup>th</sup>, a 1.7% increase compared to the US\$109.4/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$100.4/bl.

## Business Sector Tips

**Chávez orders a number of firms to be checked.** The mechanism to oversee a number of firms was approved last Tuesday. These firms include Colgate Palmolive (tooth paste, bath soap, deodorant), Pepsi Cola, Alimentos Heinz, Nestle, Manpa, Alimentos Polar, Coca Cola, Biopapel, Agrofruit, Unilever Andina, Jonhson & Jonhson, Knorr, Glaxo SmithKline, among others. "Take a good look at these companies and don't let them pull the wool over your eyes and don't anyone sell out, watch out for corruption," said the President on a call to a TV program broadcast of the state-run channel.

**No time to lose; the product list was announced.** Vice President Elías Jaua announced the list of 18 products that will have their prices frozen until the maximum sale price is defined after the entering into force of the Law of Fair Costs and Prices last Tuesday.

**In this regard,** Jaua explained that products that will have their prices frozen include "mineral water, because what they sell is the container; not the water; concentrated and pasteurized fruit juice; floor wax; bleach, detergents, household soap, liquid or cream dish soap, disinfectants, detergents, fabric softeners, mouth wash, shampoo, deodorants, hair conditioner, bath soap, shavers, toilette paper, diapers, and tooth paste," among others.

**Scarcity index doesn't want to go down.** Supply problems are one of the Administrations' major concerns and are a topic rejected by the population. According to Datanálisis' estimates, in the week ending November 18<sup>th</sup>, shortages of price-controlled products in Caracas reached its peak since March 2008, to 22%.

**Luis Vicente León,** director of Datanálisis, posted on his Twitter account that the highest shortages are registered in Mercal and Pdval outlets, whereas the lowest level is found in private supermarket chains.



**Consumers are authorized to ask for price review.** The Administration, through the National Superintendent of Fair Costs and Prices, broadens its powers to oversee both cost structures and price formation of those items it may consider relevant. However, the Superintendent's Office won't be the only entity authorized to take part in price changes, because third parties may request the Superintendent's Office to review said prices.

**Minister of Food,** Carlos Osorio, informed that 362 stands to distribute Christmas season products, out of the more than 2,000 that will be established until December 30<sup>th</sup>, are already open.

**Indepabis has new president.** One day before the entering into force of the Lay of Fair Costs and Prices, the Administration appointed Consuelo Cerrada Méndez as the new president of the Institute for the Defense of People in their Access to Goods and Services (Indepabis). Cerada replaces Augusto Montiel, who presided over Indepabis since February 2011. The goal of fighting price gouging set by Montiel at the beginning of his term wasn't attained.

**Web site of the Superintendent of Costs was activated.** The Law of Fair Costs and Prices entered into force on November 22<sup>nd</sup> and on Wednesday 23<sup>rd</sup>, officials of the newly created National Superintendent's Office began to supervise five strategic areas: price-controlled food, personal care products, auto parts, medicines and health services. Karlin Granadillo, Superintendent of Costs and Prices, pointed out that the law shouldn't be seen as an obstacle, that "*shortages have a political intention*" and she assured that "prices will never be below costs."

**Superintendent will fix prices.** The Superintendent of Costs and Prices will fix product prices. This entity will have no more than 90 days to assume its responsibilities, as established in the Partial Regulations of the National Superintendent's Office for Costs and Prices published in the Official Gazette No. 39,802.

**Quota for rented home loans has been fixed for public banks.** The government fixed a loan quota for public banks, which is oriented to purchase rented apartments located in buildings that are older than 20 years. The Decree authorizing the creation of funds with public banks to finance the purchase and repair of rented homes was published in the Official Gazette No. 39799.

**State-owned real estate firm will control national real estate sector.** After approval of the reform of the Rent Law, the Administration decided to create a state-owned real estate firm that will abide by guidelines issued by the Higher Entity of the



National Housing System and will report directly to the President. The creation of that firm (share capital VEB.1,000) was published in the Official Gazette No. 39799.

**Fogade in favor of savers.** “Last Monday, President Chávez authorized us to purchase a number of assets of Banco Federal and Bancoro to pay savers,” David Alastre, president of Fogade, informed to Noticias 24 Radio.

**Public deposits continue to grow.** Public deposits on commercial and universal banks reached VEB 422.2 billion at the end of October, up 2.8% from September 2011. In relation to October 2010, public deposits grew 44.8%.

**B.O.D. and Corp Banca are financing 22,535 homes.** Banco Occidental de Descuento (B.O.D.) and Corp Banca are financing VEB 3.98 billion in mortgage loans corresponding to 242 projects that are being executed or registered. This translates into 22,535 housing units added to the country’s economic development in the short term.

**Fogade will pay savers of Banco Federal and Bancoro before 2012.** In an interview in *Toda Venezuela* program broadcast by Venezolana de Televisión (VTV) channel, Fogade president, David Alastre, informed that savers of Banco Federal and Bancoro will be paid before December 31, 2011, after assets of both banks are purchased.

**The Administration will create a network of car dealers.** The Administration will create a network of dealers that will sell vehicles produced by state-owned plants and those directly imported by the Administration. “We continue selling and soon will open our car dealers,” Edmée Betancourt, Minister of Commerce, informed.

**Workers should play a leading role.** Orlando Castillo, representative of the council constituting the socialist workers’ union said that the new Labor Organic Law will try workers to play a leading role in institutions and firms.

**One year without data on the electric power system.** One year ago, the Administration decided to eliminate information on the National Electric Power System (SEN) that was provided by the Operation Office of Interconnected Systems (OPSIS) through its web site.

**Official representatives pointed out that time that the web page** would be upgraded to adjust it to changes taking place in the electric power sector, including the creation of the National Dispatch Center that replaced OPSIS. However, the Administration hasn’t restarted the information flow on the behavior of the system.



**Power rationing might be reduced due to low demand.** The national electric power demand curve starts to decline due to seasonal factors and lower temperatures. According to the historical trend, this behavior will remain until March 2012. Reportedly, 2011's demand peak was registered on September 28<sup>th</sup>, when it reached 17,157 MW at night peak hour. However, authorities continue to check any increase in that indicator, at least, during the first ten days of December.

**Canindra states that problems in the auto parts sector persist.** Frisned Piñate, president of Canindra (National Auto Part Trade Chamber), said last Monday that auto parts are difficult to find due to the lack of foreign currency. *“Everybody is aware of the problems with foreign currency and the national production certificate issued by the Ministry. We don't know how the percentage of foreign currency required by the automotive sector is dealt with.”*

**New rules will be implemented concerning the issuance of invoices and other documents.** The Administrative Resolution No. 071 dated November 8<sup>th</sup> that established the General Provisions for the Issuance of Invoices and other Documents was published in the Official Gazette No. 39795. This measure is aimed at establishing the rules for the issuance of invoices, delivery orders or shipment documents, and credit and debit notes in accordance with provisions regulating local tax payment of the tax authority (Seniat).

**Companies expect to implement salary increase in two stages in 2012** with respect to the average increase they expect to give employees. The organizations place more weight on work conditions than work responsibility assumed by the worker.

**Ministry of Agriculture and Lands says that 2012 Budget increase will consolidate the country's food sovereignty.** Budget for 2011 fiscal year was presented to the Commission on Finance and Economic Development of the National Assembly (AN) last Monday by representatives of the ministries of the economic and social productive areas. Álvaro Carrasquero, Director General of the Planning Office of the Ministry of Agriculture and Lands, pointed out that the ministry is presenting a budget of VEB 290 to execute 60 projects intended to consolidate food sovereignty, with special loans granted to small and medium-sized producers.

**Cadivi: good news for travelers in December.** In previous years, many people have had difficulties using their credit cards abroad after December 31<sup>st</sup>. However, Cadivi informed that for travelers that apply for authorizations to use credit cards abroad between December 2011 and January 2012, a new application will be generated with the amount available as from January 2012 until the return date indicated in the application.



## World Economy Tips

**US legislators fail to cut deficit.** US legislators decided on November 21<sup>st</sup> to desist from their efforts to control the country's growing debt. This would signal that Washington might not be able to solve a dispute on taxes and expenses until 2013. Republicans and Democrats composing the Congressional 12-member "*super committee*" have admitted their failure to reach an agreement and this will possibly consolidate the perception among voters and investors that politicians are too divided to deal with the budget deficit.

**US economy grows at 2 percent rate in 3Q2011.** The US economy grew more slowly in the third quarter of 2011 than the government had earlier estimated; but weak data on inventory building could strengthen the perception of an improvement in the fourth quarter. The government said on November 22<sup>nd</sup> that GDP expanded at an annual rate of 2%, lower than an initial 2.5% estimate. While the revision surprised the markets that didn't expect changes with respect to the first measurement, the report details, above all on consumer spending and the first drop in inventories from the fourth quarter of 2009, set the scene for a stronger growth in the fourth quarter.

**Asian markets drop on lack of agreement in the US.** Asian stock markets lost ground on November 22<sup>nd</sup> after fears that politicians on both sides of the Atlantic may be able to face heavy debt burdens reduced investors' confidence. Japan's Nikkei opened dropping 1%, its lowest level over eight months, and then recovered to close with a 0.4% drop. The reference MSCI of non-Japanese Asian stock lost 0.3%.

**The European Commission to ask for intrusive budget control.** The European Commission will ask on Wednesday for intrusive powers to make sure national euro zone budgets do not break commonly agreed EU budget rules, Economic and Monetary Affairs Commissioner Olli Rehn said. "The Commission will present two proposals that bring further stability to fiscal policy of the euro area, *Rehn said in a prepared speech. The medium term objective is a budget close to balance, or in surplus in structural terms.*"

**Spain's new government will need to devise additional measures.** Spain's new government, led by Mariano Rajoy, will need to legislate for additional measures to meet the deficit targets laid out in the existing Stability Program, Fitch Ratings said in a press note. According to the ratings agency, the victory, with an outright majority, of the Popular Party provides a window of opportunity. "*If it is to improve market*



*expectations of its capacity to grow and reduce debt within the confines of the eurozone, it must positively surprise investors with an ambitious and radical fiscal and structural reform program,” the note said.*

**Spain places six-month bonds.** Spain placed €3.0 billion in short-term bond son November 22<sup>nd</sup>, but it had to pay its highest yields over 14 years in a sign that victory of the right-wing Popular Party on last Sunday’s election didn’t put an end to market uncertainties. Spain’s Treasury sold 99.2% of its highest placement targets of three and six-month bonds.

**Latin America needs to change economic matrix.** Latin America needs to start change in its economic matrix of raw material producing region toward an industrialization process, Ollanta Humala, Peruvian president, stated on Monday, November 21<sup>st</sup>. In this regard, Humala said that they will have they will have the support of the State, because it’s time to build a region that is no longer called a “developing” region. At the opening session of the 5<sup>th</sup> China-Latin America Entrepreneurial Summit held in Lima, Ollanta Humala stressed that Latin America should no longer export mineral concentrates only and start to sell software and value-added products on world markets.

**Colombia’s imports grew in September.** In September 2011, imports grew 28.9% with respect to the same month in 2010. Colombian import growth in September 2011 is partially attributed to the increase in foreign purchases of cars and auto parts, which posted an increase of 62.9%, from US\$388.6 million to US\$633.2 million, followed by purchases of fuels, mineral oils and by-products thereof, with an increase of 134.1%.The highest increases were reported in imports from the US, China and Mexico.

**Mexico’s economy grows in 3Q2011.** Mexico’s economy expanded 1.34% in the third quarter at a seasonally adjusted rate, Mexican Statistics Institute reported on Tuesday, November 22<sup>nd</sup>. This growth was higher than expected by analysts. Experts in a survey conducted by Reuters had forecast a 0.8% GDP increase for July-September, given the 1.1% expansion in the previous quarter. Mexican GDP gained 4.5% on a year-to-year basis in the third quarter, as compared to the same period in 2010, up from 3.3% estimated by analysts.





## Political Tips

**Chávez reiterated that 3% of oil royalties will be used to pay debts to workers.** President Hugo Chávez reiterated that, within the framework of the new Labor Organic Law, 3% of revenues from oil royalties will be used to pay past due debts to workers. *“This is a debt that has been accumulated; a huge debt; but we’re going to pay it with the oil bonus from the Belt and I’m going to use 3% of oil royalties to pay pension and severance debts to Venezuelan workers,”* the President said.

**Hugo Chávez announces that the “single tax” will be applied.** In 2001, Chávez’ government proposed the creation of the so-called “single tax”, a proposal that never became a reality. However, the Head of State retook that tax proposal past Monday and Tuesday. *“We are analyzing this,”* he pointed out last week without giving more details. This mechanism would be aimed at complying with formal duties inherent with the Value Added Tax (VAT) and Income Tax.

**Rumors on Chávez’ health complications revive.** The Wall Street Journal reported that documents from intelligence services of two countries suggest Venezuelan President Hugo Chavez’s cancer has spread to his bones and is more aggressive than his government has reported.

**The reports,** based on interviews with people who have had access to Mr. Chávez’ medical team, are likely to feed recent rumors that the man who has led Venezuela since 1999 won’t be healthy enough to stand for re-election in October, potentially throwing the country’s political future in doubt.

**The fine “fell short”.** President Hugo Chávez emphasized that fine imposed to Globivisión TV channel “fell short”. *“None can be allowed to use a TV channel to spread panic among the people. That cannot be permitted; that violates the Constitution and laws; that TV channel is regularly doing the same.”*

**Chávez highlights the State’s regulating role in fair distribution of resources.** President Hugo Chávez highlighted on Monday that in the transition from capitalism to socialism, the State should assume a regulating role and be intervene in the economy so that resources are distributed in a fair manner to the most vulnerable sectors.





**Súmate identifies problems in 36 registration centers.** Citizen control activities developed by Súmate identified 36 centers for registration and updating of electoral data that operate irregularly or don't operate at all.

**Concerns about CNE's delay in primary election observation.** The Democratic Unity Panel (MUD) is worried because only three months before the primary election, the National Electoral Council (CNE) hasn't informed if it has taken the steps required to guarantee that observers from international organizations attend the election process.

**Chávez is denounced in The Hague.** Diego Arria, candidate to the primary election, accused Hugo Chávez before the International Criminal Court at The Hague for crimes against humanity. The accusation isn't against the State or the presidency, but against Hugo Chávez and some of his closest collaborators, Diego Arria explained.

**Official silence with regard to kidnapping of the Chilean consul is criticized.** With regard to the kidnapping of Chile's Consul to Venezuela, Juan Carlos Fernández, Milos Alcalay pointed out that "*these uncontrolled situations occur, but the fact that the Foreign Ministry, which should be the first to speak about this event, hasn't said a word is surprising.*"

**Short-term improvement is not envisaged.** Normalization in diplomatic relations between Venezuela and the United States is not envisaged in the short term, due to the "*imposition by the reactionary right*" in Washington, Nicolás Maduro, Foreign Minister, said. According to Maduro, Venezuela asks for "*absolute respect*" and "*demands no interference in Venezuela's internal affairs,*" adding that "*it would seem impossible*" that the US Administration may have the same opinion in this regard.

**María Corina Machado fabricated "attack" in 23 de Enero.** According to a phone talk presented in *La Hojilla* TV program, María Corina Machado, pre-candidate of the MUD, would have told her mother, Corina de Machado, not to worry about false reports of an alleged attack against her in the 23 de Enero neighborhood in Caracas.





## Legislatives Tips

**Law of Fair Costs and Prices enters in force.** The Law of Fair Costs and Prices entered into force on Tuesday, November 22<sup>nd</sup>, with the start of the first phase of the oversight schedule of internal cost structures of companies producing personal care, household and food products. The legal purpose of the law, which was published in the Official Gazette No. 39715, dated July 18, 2011, is to *“establish controls as well as the administration and control mechanisms required to maintain the stability of prices and facilitate access to goods and services by the entire population under equal conditions.”*

**Reform of the Labor Organic Law will be supported by the Socialist Workers' Union.** The Union will collect signatures throughout the country to support the planned reform of the Labor Organic Law that will be enacted through the Enabling Law. Marco Tulio Díaz, vice president of the union, informed that they aspire to collect 6 million signatures *“to endorse the Labor Law within the framework of the Enabling Law.”*

**AN to be restructured.** President of the National Assembly (AN), Fernando Soto Rojas, proposed the second week of November that the AN should be restructured. Upon complaints by opposition representatives, Soto Rojas denied that the plan includes changing the AN internal regulations. The representative didn't reveal details of his project or whether the proposed changes will entail personnel firing; but he said that he will make concrete announcements next week, after a meeting with the AN board.

**Labor firing prohibition will become law.** The banning to fire workers, which has been recognized through presidential decrees, could become law as from next year if consensus to include it in the new Labor Organic Law is reached, the chairman of the AN Social Development Commission, rep. Oswaldo Vera, informed. Two week before the revised Labor Organic Law is put on the agenda, Vera states that workers have expressed several concerns and that, although President Chávez has seen to it that the workers' stability is preserved, *“firing banning should be a law.”*

**AN discussed La won the Rational and Efficient Use of Energy.** In its regular session on Tuesday, November 22<sup>nd</sup>, the AN discussed for the second time the draft Law on the Rational and Efficient Use of Energy that declares the *“rational and efficient use of energy a national priority of public and social interest.”* So far, the



proposal doesn't include fines and stresses the population education. Furthermore, it devotes an entire chapter to incentives to be offered to user for them to save energy.

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**ECONOMIC OVERVIEW**

