



# Weekly Report

Year 7, Number 47  
Week I, December 2011

By:  
Asdrúbal Oliveros  
José Luis Saboin  
Pilar Navarro

*2011 Balance of Payments  
figures: Capital outflows in  
21<sup>st</sup> Century Socialism*

## Reproduction or distribution prohibited

On November 18, along with the economic activity figures, the Central Bank of Venezuela (BCV) released the third quarter 2011 Balance of Payments figures. This Report will focus on analyzing these figures and explain why the significant Current Account surplus was overshadowed by a gigantic Capital Account deficit.

### **Oil saving the day**

The favorable performance of international oil prices during 2011 has given our foreign accounts favorable figures. From January to September, the current account surplus increased 154.2% with respect to the same period the year before, at US\$23.01 billion. This current account balance is explained by the 45.5% increase in oil exports, and 35.4% in non-oil exports, for a total growth of 76.5% in exports. Regarding oil exports, their expansion is explained by the rise in oil prices; however, together with this there has also been a slight increase in exported volumes (around 5%).





BALANCE OF PAYMENTS (General Summary)	Jan-Sep 2010	Jan-Sep 2011	Var (%)
<b>Current Account</b>	9,052	23,007	154.2%
<b>Goods</b>	20,661	36,457	76.5%
<b>Oil Exports</b>	45,572	66,326	45.5%
<b>Non-Oil Exports</b>	2,506	3,392	35.4%
<b>Import of goods f.o.b.</b>	-27,417	-33,261	21.3%
<b>Services</b>	-7,182	-7,863	9.5%
<b>Others</b>	-4,427	-5,587	26.2%
<b>Capital Account</b>	-16,400	-26,068	59.0%
<b>Public Sector</b>	-1,818	-18,959	942.8%
<b>Private Sector</b>	-15,402	-6,075	-60.6%
<b>Reserves Variation</b>	-7,348	-3,061	-58.3%

Sources: BCV and Ecoanalítica

### A good sign

For *Ecoanalítica*, this increase in exported oil volumes is very positive, because despite the deterioration of the national oil industry, and the increasing financial burden it carries, which compromises the necessary future investments of an industry characterized for being capital intensive, any increase in produced volumes suggests the willingness of Pdvsa to increase its production and thus comply with the highly deteriorated investment plan, making the nation less vulnerable before any drop in oil prices.

### The public sector expands

Regarding imports, after two consecutive years of reductions, during the January-September 2011 period they increased 21.3%, with respect to the same period in 2010, at US\$33.26 billion. This was based on the 17.1% increase in private imports, and 30.3% in public imports.

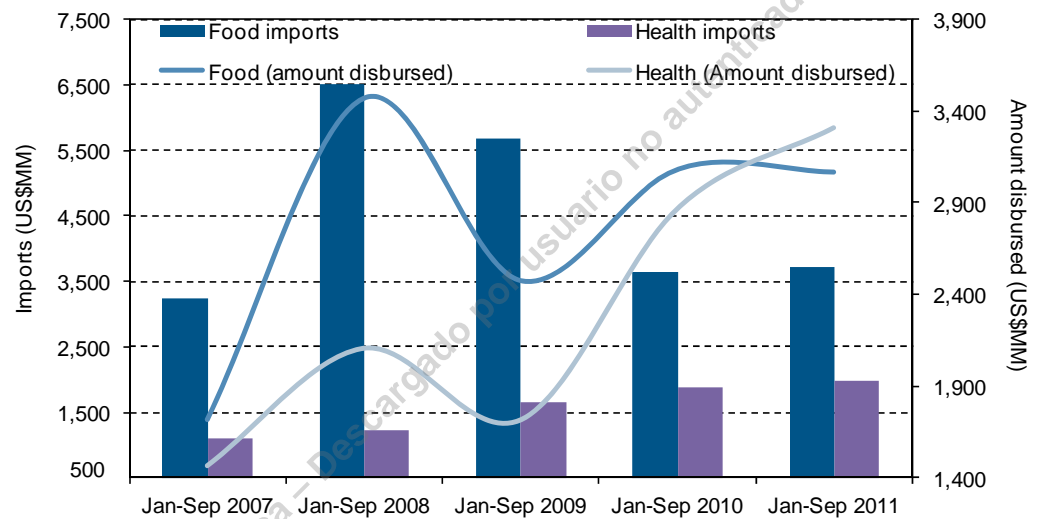
The share of public imports in the total continued increasing to reach 36.5% during the January-September period; as we have said repeatedly at Ecoanalítica as the State exerts greater control on the economy, the participation of public imports in the total will be proportionally greater, as a result of the policy implemented by the Government, which, in an attempt to contain scarcity and inflation, is importing basic products that are commercialized in State stores at subsidized prices.

For example, as indicated by the BCV, in the third quarter of 2011 the public component of imports prioritized food and agro industrial products, mainly powdered milk, poultry and beef, cooking oils, raw and refined sugar, rice, among others. Meanwhile, private sector purchases mainly increased in chemical products and substances, specifically for the pharmaceutical industry. This goes right along the lines of the government's import policies which prioritizes certain sectors classified as



being of first necessity, lead by the health and food sector. Consequently, these two sectors received 46% of the total amount of foreign currency liquidated by CADIVI for private sector imports between January and September 2011.

### Imports of food and health sectors Vs. foreign currency disbursed for imports

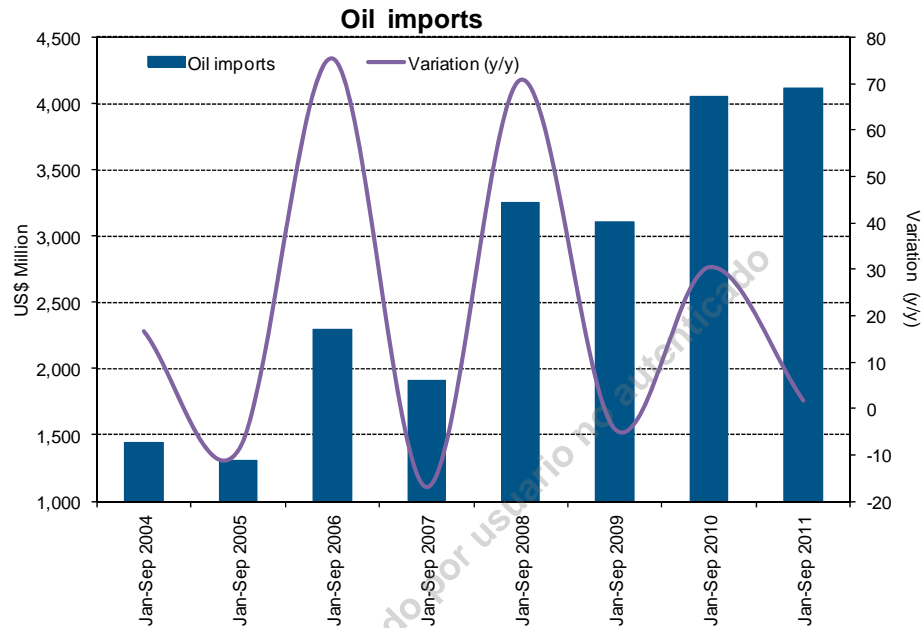


Sources: BCV, INE and Ecoanalítica

### **Ironically, oil imports increase**

Another important factor is related to oil imports, which for the year have increased 1.6% with respect to the same period the year before, as a result of the greater requirement of refined products in the internal markets, and of capital goods required to develop the new projects of the Orinoco Oil Belt.





Sources: BCV and Ecoanalítica

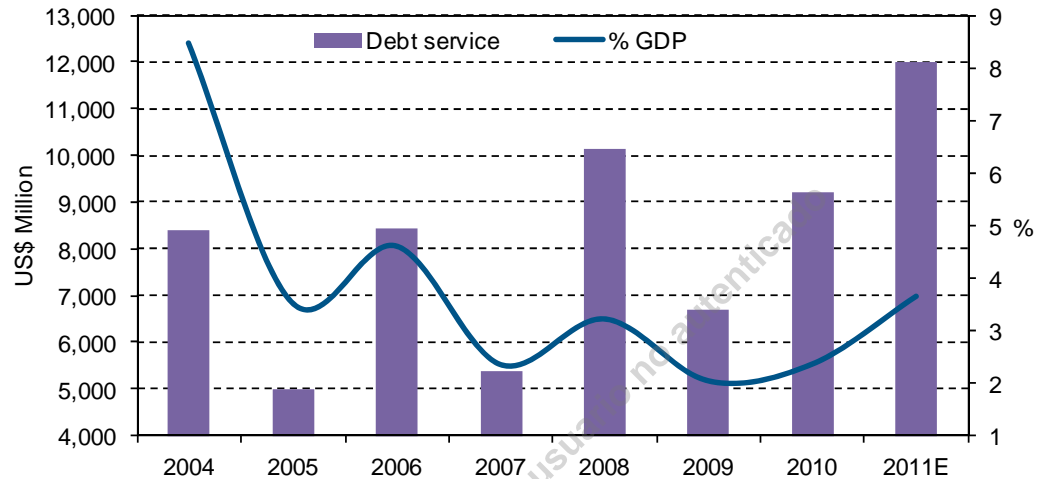
**Debt interest payments weigh more and more**

On the other hand, the service balance deficit increased 9.5% between January and September 2011, with respect to the same period the year before, at US\$7.86 billion, mainly due to the cost of transporting imported goods. The rent category had a deficit of US\$5.18 billion, as a result of interest payments to non-residents for public debt bonds, and reinvested gains, particularly those of the mixed oil companies. At **Ecoanalítica**, we estimate that both balances will behave similarly in the coming years, particularly the rent balance deficit, associated to the payment of foreign public debt interests, which compromises over US\$ 12,000 million per year.





### Foreign public debt service



Sources: BCV and Ecoanalítica

#### Black gold, we trust you!

Despite the negative results of the services and rent balances, the goods balance will more than compensate these deficits by the end of the year, so a surplus current account is to be expected, at US\$35,937 billion for the end of 2011, and US\$34,572 billion for 2012; however, these levels are significantly lower than those recorded in 2008.

#### How's the foreign debt balance doing?

For the third quarter 2011, State liabilities increased, with public sector liabilities up by US\$94.67 billion, an increase of 20.5% compared to the same period last year. This increase is due to, on the one hand, payment schedules related to long term China financing agreements, and the issuance of petro-bonds and sovereign bonds negotiated abroad. The increase in liabilities for PDVSA, in comparison to the earnings accumulated from minority foreign investors from the mixed companies, was significant with respect to the increase in public sector liabilities.

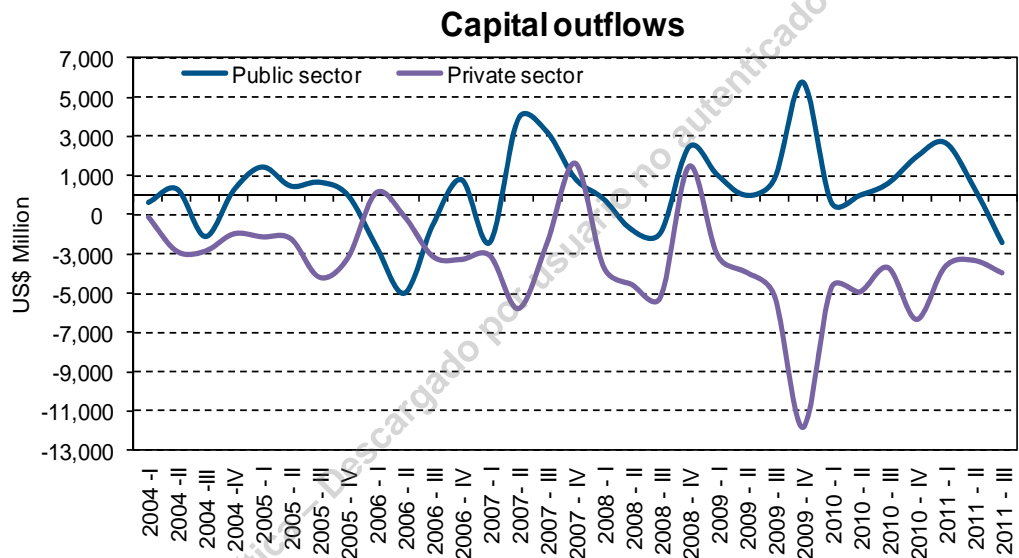
#### Public Sector: first when it comes to capital outflows

Regarding capital accounts for the year, there was a 59.0% increase in deficit with respect to the same period in 2010, fostered mainly by capital transactions in the public sector, which showed an impressive deficit increase of 942.8% going from US\$1.818 billion in the January-September 2010 period, to US\$18,959 million in 2011. On the contrary, capital accounts in the private sector show a reduction of 60.6%, in its deficit, which can be explained as a collateral effect of the elimination of the parallel market in July 2010.





This increase in the public sector Capital Account deficit is directly related to the increase in public sector foreign asset positions due to transfers to the parallel fund mechanisms. The BCV reports that public sector foreign asset increases is mainly due to the effect of deposits to the financial investment fund by China, PDVSA transfers, and transfers coming from energy agreements signed.



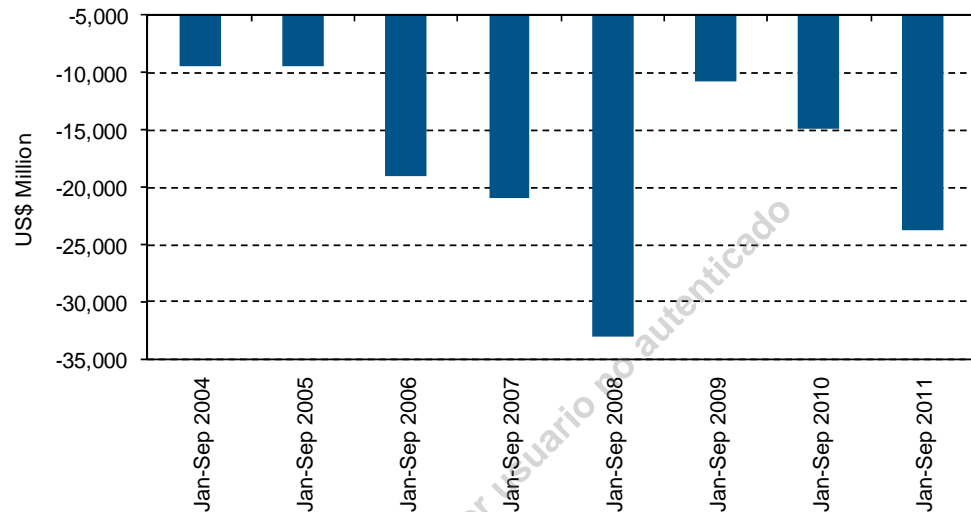
Sources: BCV and Ecoanalítica

For the end of 2011, **Ecoanalítica** estimates that the capital and financial accounts deficit will be around US\$25,000, paradoxically higher than the historical high level recorded in 2008, when it was US\$24.908 billion, only that the capital outflow in 2011 and 2012 comes from the public sector. However, we must pay close attention, since in 2012 in the “other investments” account, the withdrawal of public funds required to cover a greater portion of quasifiscal expenditures and finance part of the treasury’s needs, may be greater than the expected inflow.





### Balance of capital and financial account



Sources: BCV and Ecoanalítica

In conclusion, the increase in the Current Account balance surplus stopped for the deficit posted by the Capital Account and allowed for the global Balance of Payments figures to only reflect a slight deficit of US\$658 million.

#### More foreign currency comes in but there are less reserves

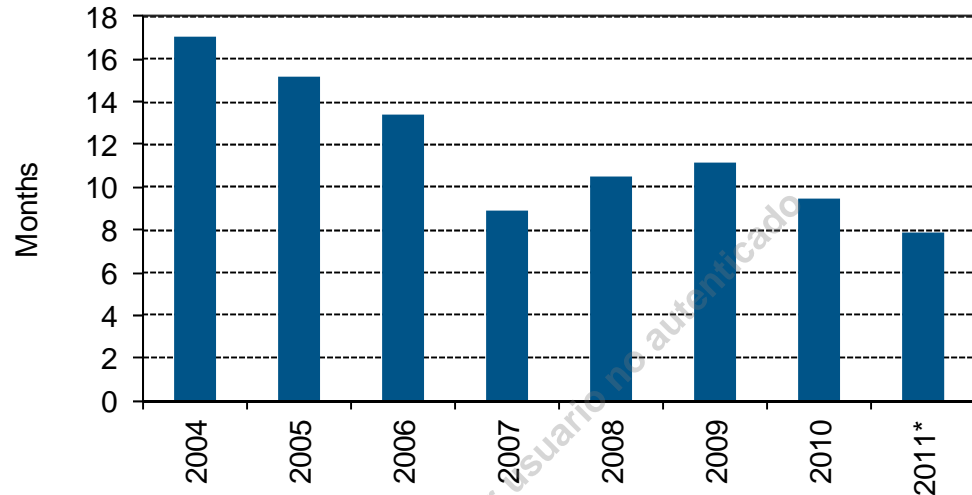
Since the Fondo de Desarrollo Nacional (Fonden) was created in 2005, as a fund for social investment projects earmarked by the Administration, 56% of the resources that feed the fund come from foreign currency contributions from international reserve "surplus." Consequently, despite the fact that Venezuelan oil basket prices have increased by 24%, international reserves continue to drop.

Regarding international reserves, we can say that for the year, the BCV has transferred to Fonden around US\$3,500 million. Thus, by the end of 3Q2011 international reserves reached US\$29,219 million, that is, a reduction of 1.0% with respect to 3Q2010, when they were US\$29,500 million. Given the movement of reserves throughout 2011, at **Ecoanalítica** we don't believe they will fall significantly in the short term; we expect them to be around US\$30,332 million in 2011 for a coverage of imports of around 9 months.





### Coverage indicator



Sources: BCV and Ecoanalítica.

\*Data until October.

### Capital outflows in 21<sup>st</sup> Century Socialism

In Venezuela, private sector capital outflows became a mechanism for financial survival due to an economic policy that, sooner rather than later, would end up becoming unsustainable. But when the Administration made the swap-market illegal, out-going capital flipped, and now it's the public sector that is the main source of out-going capital, financing spending via international reserves, and being very stingy as to the amount of foreign currency liquidated to the private sector to import. This has the exchange rate overvalued, with the Administration preferring to acquire foreign debt in order to feed the SITME.

This vicious circle creates a very fragile foreign sector that can only be maintained as long as oil prices continue to increase. It's not enough that oil prices level off and remain high, they must continue to increase. At **Ecoanalítica**, we believe that current economic policies must be completely overhauled before the bubble bursts, as it must, on the path we are on now.





## Economic Tips

**Inflation moves....** according to figures published by the Central Bank of Venezuela and the National Statistics Institute. The National Consumer Price Index (NCPI), recorded in November 2011 a variation of 2.2%, and over the previous month a variation of 1.8% as in the same period in 2010 (1.5%). With this result the accumulated variation of the NCPI in the first eleven months of the year was 25.4%, which represents an increase of 0.4 percentage points with respect to the same period in 2010 (18%). While the y/y variation reached 27.6%, which is equivalent to 0.6 percentage points higher than the one recorded in the same period of 2010.

**NCPI by groups.** When we separate the results of November, they show that the largest relative increase in prices occurred in eight of the thirteen categories that make up this indicator: Leisure and culture with 1.3%, Clothing and footwear 1.4%, Health with 1.6%, Transportation with 1.8%, Restaurants and hotels with 2.4%, Food and nonalcoholic beverages, 2.8%, Alcoholic beverages and tobacco with 4.1% and Housing services 5.0%. The five remaining categories showed a variation at most equal to the previous month: Communications with 0,1%, Rental housing with 0.7%, Education services with 1.0%, Household equipment with 1.2% and, Miscellaneous goods and services with 1.9% in both months.

**Inflation in controlled products keeps taking the lead.** During November controlled items showed a monthly variation of 2.2%, bringing its cumulative rate of change between January and November this year to 28%, a result that far exceeds the one recorded in the same period in 2010 (20.1%), while its rate of change (Nov2011/Nov2010) shows an increase of 30%, about 8 percentage points above the result recorded in November 2010 (22.1%).

**In contrast,** the results of the uncontrolled products, presented monthly, show in November a variation of 2.1%, at which the cumulative change so far this year reached 23.6%, showing a decrease of 4.8 percentage points over that recorded in the same period in 2010, while the y/y variation is at 26.1%, decreasing by 4.4 percentage points with respect to the rate recorded in November 2010

**The results regarding geographic domains show a marked uniformity.** Thus, the geographical area shows that, during November, seven of the eleven domains of study showed a higher rate than the one recorded in October: Barquisimeto, 2.3%, Valencia, with 2.6%; Maracay 2.5% Maracaibo 2.3%, Ciudad Guayana with 2.1%, San Cristobal with 2.1%, and the rest with 2.1%. In contrast, three of the four



remaining domains behaved slowed with respect to the previous month: Barcelona-Puerto La Cruz with 2.1%, Mérida with 1.5% and Maturin with 1.5%. In Caracas in November was observed the same rate of 2.2% with respect to the previews month.

**Public foreign debt amounts to US\$94.66 billion.** According to figures published by the Central Bank of Venezuela for the 3Q2011, foreign public debt (Central Government and state-owned firms) was US\$94.6 billion, for an increase of 20.5% compared with the same period in 2010 when debt was US\$78.54 billion. The BCV's figures on public debt at the end of 3Q2011 reflect that the highest weight was in the balance of bonds and promissory notes (US\$42.55 billion) and loans (US\$32.8 billion).

**BCV's financial assistance for PDVSA gained 75% in a month.** Even though oil price averaged more than US\$100/bbl, revenues aren't enough for PDVSA, which, govern the commitments it has assumed, has to turn to different financing sources, including the BCV. The information released by the BCV on monetary base reveals that the Bank had financed the state-owned oil company with VEB 101.6 billion as of November 25th, for a 75% increase in a single month, because assistance was at VEB 58.4 billion as of October 21st.

**PDVSA's decision to resort to BCV has its dark side...** and negative implications, especially inflation that is still out of control. Given the assistance provided by the BCV, the Bank has to print more bolivars; therefore the amount of circulating money has surged at a time when production is limited. The Administration's inflation target for this year ranges between 23% and 25%; however, cumulative inflation over 11 months is 27.6%. Consequently, authorities had recently to recognize that inflation will close the year above the target.

**Public foreign debt increased by 87.3%,** even though oil barrel price is over US\$100 and has increased 24.4% throughout 2011. Comparing these figures with those of the same period in 2008, when oil prices have reached record levels, debt recorded an 87.3% jump, because obligations in that period were only US\$50.53 billion.

**How many people won't be counted in the Census?** Even though the Census 2011 deadline expired on November 30th, the general manager of the National Statistics Institute (INE), Luis Jerónimo Reyes, stated that the deadline will be extended in the case of hardly accessible areas, because *"like in any census, we are looking forward having a 100% coverage, but that's not possible; in 2001 census, about 6.7% of the population was not counted and we're certain that this percentage will be lower in this census; may be around 5-4%."* Reyes added that the rejection level has been below 0.5% of the total of homes counted.



**Some results of the Census.** Reyes also stated that 26,400,000 have been counted; however, even though some people have not been counted (homeless, prisoners, some military barracks and some forest and rural areas), it can be said that 66% of the Venezuelan population is in working age; that the average number of people per home is 3.91; and that female population is 50.4%, whereas male population is 49.6%. INE's president pointed out that in previous censuses, the analysis could be carried out only six months after having ended the process; but now the analysis can be performed on line and the information can be checked permanently.

**Venezuela is the third country with less poverty in Latin America.** According to the report *"Panorama Social de América Latina 2011"* prepared by the Economic Commission for Latin America and the Caribbean (ECLAC), the percentage of population living in poverty in Venezuela was 27.8% in 2010. Consequently, Venezuela is in the third place on the list of countries with less poor people in the region.

**The countries with the least poverty percentage in 2010 are:** Argentina and Uruguay (8.6%), followed by Panama (25.8%), Venezuela (27.8%) and Peru (31.3%). On the contrary, those countries with the highest number of poor people include: Honduras (67.4%), Paraguay (54.8%), El Salvador (46.6%) and Colombia (44.3%).

**Poverty increases in Venezuela.** In 2002-2010, poverty dropped by 20.8%, from 48.6% to 27.8%, whereas extreme poverty went from 22.2% to 10.7%, or an 11.5% drop. However, comparing yearly figures, poverty increased in 2009 and 2010, from 27.1% to 27.8%, respectively. The share of the homeless population went from 9.8% up to 10.7% in 2009 and 2010, respectively.

**Barclays: Venezuela's inflation will reach 36.5% in 2012.** According to Barclays' report, *"monetization of the electoral campaign"* led to adjustments to their estimates as to Venezuelan macroeconomic variables due to the expansion of fiscal spending expected for 2012 that will result in "acceleration in the liquidity growth rate." The report states that over the past 12 months, liquidity has increased 15.6% in real terms, but incentives provided by the Administration next year are worrying and therefore, the firm had to adjust upward their inflation estimate, from 26.2% to 36.5%.

**Citibank: Venezuela is one of the most vulnerable countries.** According to Citibank's report on emerging market outlook, Venezuela is the most vulnerable country in the region, because more than a half of government's revenues depend on oil exports and expectations that oil price in 2012 could register a significant decline.



**Interest rates.** The lending rate for the fourth week in November was at 16.8%, decreasing by 0.3 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 12.5%.

**International reserves.** International reserves increased 0.7% going from US\$27,632 million during the third week of November to US\$27,812 million during the fourth week of November. Compared to the same period last year, international reserves have decreased by 1.7%.

**Monetary liquidity.** Monetary liquidity in fourth week in November increased 2.4% compared to the previous week settling at VEB 415,214 million. The M2 has increased 49.2% year-on-year.

**Sitme figures.** So far this year, US\$8,130.8 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$35.5 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the first week of December the amount traded reached US\$215.4 million, averaging US\$43.1 million a day, traded US8.3 million more than last week when US\$207.1 million were traded.

## Oil Tips

**Crude oil exports to the US drop to 1992's levels.** According to the US Energy department, shipments of Venezuelan crude oil to the US averaged about 814,000 barrels daily (kb/d) in 3Q2011, down 16.3% from 3Q2010 (969 kb/d). In January-September (cumulative data) 2011, Venezuelan crude sales to the US averaged 890 kb7d, 3.6% under the 926 kb/d averaged in the same period last year. Sales volume to the US this year is the lowest since the low recorded in the first three quarters of 1992.

**Good relations help revive old agreements.** Last week, presidents of Colombia and Venezuela, Juan Manuel Santos and Hugo Chávez, signed several bilateral energy agreements. One of them retakes the idea of laying an oil pipeline running from Venezuela across Colombia through the Pacific. Talks about this project date back to 2006, but the project hasn't been started mainly due to the freeze of bilateral relations resulting from the verbal clashes between Álvaro Uribe Vélez's and Hugo Chávez's Administrations.



**And the bi-national project is born.** Now, the recently signed agreement comprises a Letter of Commitment for the development of the “*Venezuela-Colombia Oil Pipeline Bi-national Project*” that would include a 1,864-mile long pipeline from the Orinoco Oil Belt through the Port of Tumaco, in the Colombian Pacific coast.

**Plans with Colombia reveal gas sector stagnation.** The revival of the energy plans with Colombia revealed Venezuela’s backlog in terms of gas. Venezuela hasn’t started its gas development plans despite of the fact that the country has gas reserves exceeding 190,000 trillion cf of natural gas.

**According to the original agreement...** When the transoceanic gas pipeline first started to operate four years ago, Colombia would send gas to Venezuela and the expectation was that in less than four year within the agreement, the direction of the gas flow would be reversed, because Venezuela was expected to have developed its gas production capacity to such an extent that the country would be able to export gas to Colombia, even to Central America.

**However...** the renewal of the Colombian gas supply agreement for another three years is announced, reiterating the goal that by that time Venezuela will produce gas enough to supply its domestic market and Colombia.

**More energy agreements.** On the other hand, Venezuela signed with Colombia an agreement to expand the Antonio Ricaurte Transoceanic Gas Pipeline to Panama and Ecuador. Colombia’s Foreign Ministry stated that “*the aim is jointly developing a work schedule with Ecuador and Panama to expand Colombia’s and Venezuela’s gas pipeline network toward those two countries.*”

**PDVSA to disburse more funds for refineries within the framework of Petrocaribe.** At the 7th Ministerial Meeting of Petrocaribe, the expansion of the hydrocarbon storage capacity was announced. This, along with the creation of refining joint ventures with PDVSA, should improve energy supply for the countries in the region. Depending on their share interest, PDVSA should contribute around US\$9.5 billion throughout the next eight years to expand refining capacity in Cuba and Nicaragua.

**Ramírez: “disputes with foreign oil companies will be settled this year.”** Venezuela expects that arbitration procedures that the country is facing at international courts with US oil giants ExxonMobil and ConocoPhillips are settled this year, Rafael Ramírez, Minister of Energy and Petroleum, stated. Venezuela is facing several international arbitration procedures, resulting from the nationalizations ordered by President Hugo Chávez since 2003, Reuters reported. “*That’s what we*



have been told, that the decision will be issued this year,” Ramírez said without explaining which oil firm he was talking about.

**Penalties against Iran are expected to increase oil prices.** If new international penalties are imposed against Iran, oil prices could rocket up to US\$250, Arsalan Fathipur, head of Iranian Parliament’s Energy Commission, stated to the local news agency Fars; Fathipur said “if the US and some European countries insist in imposing penalties on Iran’s oil and gas sectors, world oil prices would reach up to US\$250/bl.”, Efe reported.

**International oil baskets.** At closing time on December 2<sup>nd</sup> in the New York Stock Exchange, the price of the WTI was US\$99.1/bl, a 2.1% increase compared to the US\$97 reported the previous week. The Brent increased by 1.4% to reach US\$109.2/bl, compared to the previous week’s US\$107.7/bl.

**Local oil basket price.** The Venezuelan oil basket price increased last week, closing at US\$107.1/bl on Friday December 2<sup>nd</sup>, a 1.4% increase compared to the US\$105.6/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$100.66/bl.

## Business Sector Tips

**Chávez confirmed the purchase of 20 Embraer aircraft from Brazil.** Venezuela will buy 20 commercial aircraft from Embraer, the third largest aircraft builder in the world. The purchase operation will be financed by Brazil’s development bank BNDES, President Chávez announced last Saturday.

**Bi-national agreements marked parallel agenda to CLACS.** During the summit of the Community of Latin American and Caribbean States (CLACS), Venezuela signed multiple bi-national agreements. Parallel to the summit, the Venezuelan government held a number of meetings with foreign Presidents and signed agreements with Argentina, Brazil and Uruguay, mainly in the food and energy areas.

**Chávez met with his counterparts from Bolivia and Nicaragua.** Venezuelan President, Hugo Chávez, received the Presidents Evo Morales from Bolivia and Daniel Ortega from Nicaragua at the Miraflores Palace on December 3rd, to hold a working meeting. Once the second plenary session of the Summit of the Community



of Latin American and Caribbean States (CLACS) concluded, foreign the Presidents entered into different bilateral cooperation agreements with the government of Venezuela.

**Uruguay and Venezuela signed cooperation agreements.** The governments of Uruguay and Venezuela signed two energy and food cooperation agreements last Saturday, once the Summit of the Community of Latin American and Caribbean States (CLACS) ended. The signing of these agreements, which took place at the Military Academy in Caracas, was led by the Venezuelan President, Hugo Chávez Frías, and his Uruguayan counterpart, José Mujica. Venezuelan ministers of Food (Carlos Osorio, Intermediate Industries (Ricardo Menéndez) and Science and Technology (Jorge Arreaza) were also present at the signing.

**More than 800 firms have registered at the Sundecop.** According to a press statement, more than 300 firms, including those related to the 18 products which prices have been fixed while costs of the production chain are determined, have been registered at the webpage of the Superintendent's Office for Costs and Prices (Sundecop) [www.sundecop.gob.ve](http://www.sundecop.gob.ve). Karlin Granadillo, the Superintendent, has reiterated that once the true value is determined for these products, the maximum retail price will be set starting December 15th.

**Venezuela and Colombia can reach agreements provided they have the political will.** Luis Alberto Rusián, Executive President of the Venezuelan-Colombian Economic Integration Chamber, stated last Tuesday that the 3,5000 products that are presently covered by tariff preferences by virtue of the agreement signed by Chávez and Santos account for about 50% of the universe of products that were part of the trade exchange.

**Hearing will be requested from Colombia in relation to trade agreements with Venezuela.** Jorge Botti, Fedecámaras' (Venezuelan entrepreneur association) President, talked about the trade exchange between Colombia and Venezuela, which was agreed upon last Monday. In Botti's opinion, the Colombian President should understand that "*Venezuela's single large client*" is the National Government. Botti added that "*in the end, interests prevail over principles.*"

**Partial scope agreement with Colombia limits trade.** Eduardo Porcarelli, executive director of the National Council for Investment Promotion (Conapri), referred to the trade agreement with Colombia and said that "*there is an important interdependence level between Colombia and Venezuela in terms of imports of some sensitive products such as food, cosmetics, and industrial inputs. Having a low tariff preference and Colombia as our neighbor makes it easier to obtain products that lack in our market, at a relatively low cost.*" However, Porcarelli believes that this is truly



limiting, because conditions that prevailed within the framework of the Andean Community (CAN) won't come back."

**Cervecería Polar reported illegal shutdown of its operations in Caracas.** Last Friday, December 2nd, Cervecería Polar's workers paralyzed the plant to hold a general assembly within the framework of the collective bargaining contract discussions, as reported Frank Quijada, president of the union that gathers workers of the beer and soft drink sectors. Quijada pointed out that the firm's board decided to move trucks out of the plant to prevent activities from being restarted.

**Polar reiterates its offer to increase wages 52% in the collective contract.** After clashing with a number of workers about the collective bargaining contract that will cover workers of Polar plant in Los Cortijos neighborhood in Caracas and the Metropolitan Commercial Area, Cervecería Polar reiterated that wage would be increased 52% this year if the new contract is approved.

**Informal merchants will also be governed by the Law of Costs.** The head of cost and price division, William Contreras, explained through a press statement that informal merchants and street vendors that are selling price-controlled products will have to abide by the Law on Fair Costs and Prices, as well as by other rules that punish hoarding, boycott and gorging.

**The Administration strengthens its presence in the food sector.** The Venezuelan government agreed to partner with Mexico's Gruma, the world's largest precooked corn flour manufacturer, to create two companies. This would put paid to the Venezuelan administration's intentions to nationalize an affiliate of the Mexican company, inform Mexico's Presidential office. The announcement was made within the framework of the meeting held by Mexico's and Venezuela's Presidents, Felipe Calderón and Hugo Chávez, last Friday.

**Farmatodo, Pacific and Locatel lead Venezuelan expansion.** While Colombian entrepreneurs have given up making investment in and bringing their capitals into Venezuela, Venezuelan investors are looking a great trade opportunity in Colombia. Amidst the Venezuelan expansion taking place over the last two years in Colombia, companies like Farmatodo, Alimentos Polar, Locatel, Valmy or Pacific Rubiales (a firm of Canadian origin, but owned by Venezuelan partners) have found a number of favorable conditions in Colombia to expand their investments and operations.

**The Venezuelan banking system got its best rating of the past 11 months.** Sudeban (bank operation regulating entity) reported that the Venezuelan banking system got 63.3 points in past October in its bank performance rating, the best over the past 11 years. According to a press statement, this rating is the result of an



assessment performed through international methodological systems, which take into account five critical aspects that characterize banks, including equity, assets quality, administrative management, liquidity and profitability.

**Private construction firms have 43,000 homes paralyzed due to scarce inputs.** Home building has increased for the year-to-date and the greatest progress has been made by public works, because the lack of inputs has limited the execution of private housing projects.

**The public sector is also affected by the lack of inputs, albeit a little less.** The information provided by construction firms and official entities in the area of home construction reveals that the construction of 51,000 housing units are paralyzed, 43,000 of which are private and 8,000 public. Units paralyzed are those that were granted permits in previous years and had already started their land movement, but haven't move forward due to diverse factors.

**The Administration will regulate the price of homes under construction.** The value of land, costs of works and financing rate will be the only factors to be taken into account to calculate the prices of homes for sale that are under construction or at model stage, as per the report for the second discussion of the draft law against real estate fraud, approved by the Commission of Administration and Services of the National Assembly. The cost of the work will include ancillary areas, urban equipping and public services, provided they are duly specified and detailed in the pre-sale contract.

**Car assembly is still stagnated.** Local auto production went back 2.0% with respect to past year, as reported by the Venezuelan chamber of auto assembly firms (Cavenez). According to data from local assembly plants, in January-November 2011, 96,039 autos were assembled, that is 1,981 units less than in the same period in 2010. Delays in authorizations to import assembly material for vehicles and labor conflicts have been two major obstacles faced by car manufacturers this year in Venezuela.

**Auto assemblers may import cylinders for vehicle natural gas.** According to the standard, published in the Official Gazette No. 39812, dated December 1st, the Ministry of Petroleum and Mining will authorize firms supplying equipment, components, accessories and storage cylinders for vehicle natural gas to import cylinders. Up until now, Petróleos de Venezuela was the only entity authorized to import the devices required by assembly plants. Technical specifications of the vehicle natural gas equipment will be checked by Sencamer, which reports to the Ministry of Commerce.



**Caracas, one of the cities with the lowest standard of living in the region.**

According to the World Study on Living Standards for 2011, prepared by mercer consultancy firm, Caracas is ranked in the 164th place out of 211 cities analyzed. The list is led by Vienna, Zurich and Auckland. In Central and South America, the best positioned cities are Pointe a Pitre (63), San Juan de Puerto Rico (72), Montevideo (77), Buenos Aires (81), Santiago de Chile (90) and Panama City (93).

**The same study also measures the personal security levels in the cities,** taking into account crime index, local stability, law enforcement effectiveness and international relations of the corresponding country. In this regard, Guatemala ranked 179th, Tegucigalpa, 180th, and Caracas 205th, with the lowest personal security indices among the cities in the region.

## World Economy Tips

**Master Plan would entail a reform of the EU.** The leaders of Germany and France agreed a master plan on Monday, December 5th, for imposing budget discipline across the euro zone. Both leaders have called for changes to the European Union treaty in the search for a sweeping solution to the current debt crisis. President Nicolas Sarkozy and Chancellor Angela Merkel said their proposal included automatic penalties for governments which fail to keep their deficits under control, and an early launch of a permanent bailout fund for euro states in distress.

**Italy offered a glimmer of hope.** The leaders of these both countries highlighted that Italy, the biggest euro zone nation in trouble, offered a glimmer of hope that it could improve its public finances under a strict austerity program, which markets received optimistically. *"What we want with the chancellor is to tell the world that in Europe the rule is that we pay back our debts, reduce our deficits, restore growth,"* Sarkozy told a joint news conference after about two hours of talks in Paris.

**Europe's rich move assets out from Europe.** Europe's richest investors are moving money out of Euros amid fears the single currency may not survive a sovereign debt crisis, with U.S. dollars and yen among the favored destinations, bankers say. Richard Cookson, chief investment officer at Citi's private banking arm which caters to clients worth more than \$25 million, also said he had seen clients *"shifting out of Euros"*.



**Ireland to increase VAT to tackle debt.** Ireland will increase Value Added Tax (VAT) by two percentage points up to 23% next year, to fight public debt. The Irish Minister for Finance, Michael Noonan, will announce a tax package this week, which will include increased in motor and fuel taxes. Measures will impact 2012 general budgets.

**Remember that this country...** was on the brink of bankruptcy due to the precarious condition of its banking system and was subject to a bailout plan by the EU and the IMF. In exchange, Ireland has to comply with a strict savings policy; therefore, strong spending cuts in areas such as social services, education and health were announced on December 5th.

**The IMF approves loan for Greece.** The International Monetary Fund (IMF) gave the green light for the €8.0 billion financial injection for Greece. Before releasing the loan trench, the IMF assessed Greek economy, a DPA cable details. IMF chief Christine Lagarde said that Greece has made some achievement, including reducing its budget deficit. *"However, the program is in a difficult phase, with structural reforms proceeding slowly, the economy weak, and the external environment deteriorating,"* Lagarde said.

**Brazil's analysts adjust inflation upward and cut growth.** Growth expectations for Brazil's economy in 2011 were adjusted downward to 3.09%, compared with 3.10% before, according to a weekly survey by the Central Bank released this week. Economists also slightly increased their outlook for the reference consumer inflation index in 2011 to 6.5% from 6.4%. Inflation projection for 2012 was lowered to 5.49% from last week's 5.56%.

**Colombia: November's inflation gets to 0.14%.** The average price variations for goods and services composing the family basket that is purchased by Colombian households posted a 0.14% rise in November 2011, down 0.05 percentage points from November 2010 (0.19%). In January-November 2011, a 3.29% variation was recorded. This rate is higher by 0.78 percentage points than the one recorded in the same period in 2010 (2.51%).

**Peru's public sector budget will increase in 2012.** The Peruvian Minister for Economy and Finance, Luis Miguel Castilla, estimated last Monday that the public sector budget could increase by 8.0 billion of new soles (US\$2.8billion) next year. However, Castilla considered it necessary to guarantee that new funds allocated in the public budget at the three government levels will have a positive impact on the population, *"otherwise, it will be difficult to attain the goal of improving population's wellbeing."*



## Political Tips

**Chávez proposes to create Bank of Petrocaribe.** At the III Summit of Latin America and the Caribbean (CALC), held in Caracas last Saturday, the Venezuelan president, Hugo Chávez, proposed the creation of an *“economic area; and area of economic complementarity; a fund, a Bank of Petrocaribe.”* The initiative was presented to Presidents and representatives from the 33 nations that visited the Venezuelan capital city to create the Community of Latin American and Caribbean States (CLACS).

**More than 40% supports the ideals of the Revolution.** Oscar Schemel, president of Hinterlaces, talked about the most recent survey conducted by his pollster, according to which *“45% of Venezuelans supports President Chávez’s ideals.”* Schemel pointed out that when they started to ask about President Chávez, perceptions changed.

**Chávez describes meetings with Fernández and Rousseff as successful.** President Hugo Chávez said that the meetings he held with Argentina’s Cristina Fernández and Brazil’s Dilma Rousseff on November 30th were successful. Chávez explained that these meetings were just to *“whet his appetite”* for the creation, in Caracas, of the Community of Latin American and Caribbean States (CLACS).

**CLACS will progressively leave the old and worn-out OAS behind.** President Hugo Chávez said on December 1st that the Community of Latin American and Caribbean States (CLACS) will progressively leave behind the old and worn-out Organization of American States (OAS).

**Chávez calls to enhance integration to consolidate South America’s future.** The Venezuelan President Hugo Chávez, who signed with Brazil’s Dilma Rousseff different bilateral agreements last Thursday, made a call to increase integration with a multipolar vision to consolidate South America’s future.

**CLACS summit was closed.** Ideological differences among nations member of the Community of Latin American and Caribbean States (CLACS) were evidenced at the Summit held on December 2-3 in Caracas; however both the right and the left sides urged the participants not to let divergences to impede the region’s unity. *“These dichotomies between left and right belong to the past. There is an excess of lefts and rights and what we need is to go deeper to face the issues afflicting our continent”*,



Sebastián Piñera, President of Chile and incoming Pro Tempore president of CLACS, said.

**Numerous agreements were closed...** Presidents attending the CLACS summit approved special declarations on defense, democracy and constitutional order; a special agreement on the Falkland Islands; and another one on US embargo against Cuba. They also approved a special communiqué on commitments to social inclusion, food security, and a special declaration against financial speculation.

**On the road to the primary election: second debate.** Last Sunday night, presidential pre-candidates Diego Arria, Henrique Capriles Radonski, María Corina Machado, Pablo Medina, Leopoldo López and Pablo Pérez took part in the second debate for the primary election organized by the Democratic Unity Panel.

**The format:** Topics discussed in the debate were more varied, but with less contrast among pre-candidates. Sometimes, it looked like a joint press conference, timed and elegant; a sort of exam before an indulgent jury that made not so uncomfortable questions. This format is favorable for those good students that memorize presentations with many figures and prefabricated phrases.

**Competition is among radical, moderate and centrist.** Some are explosive, others are measured and in the middle, between both ends, a third group. The clearest options that will compete for the vote on February 12th are slowly emerging. The second debate broadcasted by Venevisión served to ratify that the runners-up according to polls, Pablo Pérez and Henrique Capriles, remain unharmed in their strategy based on inclusion and a positive message, while those on the other end, Pablo Medina and Diego Arria, are more aggressive and have a similar format and the same proposals. Just in the middle, critical stances on determined issues, without touching the ends, emerge, María Corina Machado and Leopoldo López.

**Why do you want to become President?** The answers to this question were the following: the first to answer was Leopoldo López who assured: *“The decision is yours, because I’m willing to go take the offensive to guarantee personal security for all Venezuelans.”*

**The second to answer was Pablo Medina.** *“We are faced to Shakespeare’s dilemma: To be or not to be? The Chavista candidate or democratic Venezuela. Yes, we have a problem; we have a National Electoral Council that has committed fraud; but for love for Venezuela, we’re going to be able to overcome all obstacles.”*

**The third to express his reasons was Henrique Capriles.** *“I have been mayor for everyone; I’m everyone’s governor, and I want to become President for everybody.”*



*Yes, we can have a government of opportunities for everyone. Don't let the place where you are born determine the future of all of us. We are certain that for a light to shine we don't have to put out the light of the other."*

**Diego Arria and María Corina Machado were the last to answer.** Diego Arria presents himself as a strong contender: *"I'm a man of honor. I'll eradicate fear from Venezuelan streets. This grey hair isn't accidental; I have experience. I propose a three-year transition period to re-found Venezuela for everybody."* María Corina Machado, in turn, talked as follows: *"What would happen in Venezuela if this Government lasts a few years more? I defeat Hugo Chávez because instead of a communist, we rather want a democrat; instead of a lout, we rather prefer a Venezuelan woman."*

**We're doing OK, but we're bad.** According to the most recent survey conducted by Varianzas (pollster), 49% of the populations believe that the current economic situation "negative" or "terrible", whereas 31% believes that it's good and even excellent.

**According to this survey,** 32% believes that the situation of the country will get worse over next years; 24% answers that it will remain the same, and 32% hopes that it might improve. However, 12% didn't know or didn't answer.

**The same study** reports that almost 45% believes that the country's major problem is the lack of personal security; 10% says it is unemployment; and another 10%, the cost of living. The rest is distributed among other issues, including roads and highways, food shortages, water, etc.

**As to Venezuela's fate, the study says** that 38% believes the country is on the edge of the abyss; 31% says that Venezuela is doing well; and 29% believes that the situation is regular.

**As to President Chávez's performance,** the survey says that 45% believes that it has been terrible, whereas 44% says that it's positive.





## Legislative Tips

**Anticorruption Law to second discussion.** The National Assembly (AN) started last November 29th the second discussion of the draft reform of the Anticorruption Law, which comprises 125 articles and provides for that crimes against public patrimony don't prescribe. The draft law, which was approved at its first discussion on May 10th, is aimed at establishing the rules that will regulate the actions of those responsible for managing and administering the nation's resources and goods, as well as penalties.

**PSUV majority rejected proposal for AN to investigate Apure's case.** The pro-government majority of the AN rejected the proposal presented by the opposition representatives to investigate the clash that occurred in Apure State between Venezuelan military and alleged irregulars, where three civilians were killed and four were injured. According to the official version by the Ministry of Defense, members of the National Armed Forces fought a group of criminals; however, Chavista collective groups and Human Right defenders said it was a massacre.

**Plans to cut working day.** The National Workers' Union, within the framework of the discussion on the Labor Organic Law, which is to be enacted on May 1, 2012, has proposed recognizing severance payment retroactivity and progressively cutting back working day hours to foster employment.

**More benefits for AN workers.** Within the framework of the plan to restructure the Legislative Branch of Power, AN president, Fernando Soto Rojas, authorized a 30% increase for representatives who now are earning VEB 5,800. Furthermore, Soto Rojas ordered that the 3,500 workers in the AN's payroll are to be paid productivity bonuses corresponding to 2009, 2010 and 2011, with the latter (VEB 2,000) being paid on December 15th. In addition, extra Christmas food tickets for VEB 1,200 will be distributed.

**Commission on Disarmament ends its activities in Brazil.** Representatives of the Presidential Commission for the Ammunition Control and Disarmament, who were in Brazil since November 27th meet in Brasilia with representatives of the Subcommittee on Disarmament of the House of Representatives, to discuss issues related to the legislative framework presented by Brazil as to ammunition and weapon control. In this regard, representative William Fariñas (PSUV) highlighted



that one of the most relevant characteristics *“of the Brazilian disarmament statute is its severe penalties.”*

**AN will prepare a documental film on Juan Germán Roscio.** The AN Special Commission entrusted with moving the remains of Juan Germán Roscio to the National Pantheon developed a work schedule to disseminate facts about the life of this independence hero. Therefore, a series of forums and conferences will be held throughout the country, rep. Pedro Carreño, chairman of the commission, informed and added that a documental film, which was already presented to Conatel (telecommunications regulating entity) and approved at the AN regular session of November 22nd, is being prepared.

**AN discussed Draft Law for Programmed Purchases.** At the plenary session held on December 6th, the second discussion of the Draft Law regulating the Programmed Purchase System took place. The initial proposal, presented by rep. Diosdado Cabello and approved in its first discussion in October, exclusively dealt with car sales. However, the Commission on Administration and Services of the National Assembly extended the coverage to all goods and immovable assets using programmed sales.

**The law provides for that programmed sale contracts** of any product should specify the sale price, which *“shall not be modified.”* Customers’ payments *“shall not accrue interests.”*

**Approved Draft Law on Civil Cases.** Representatives of the Permanent Commission on Interior Politics of the AN approved the final report on the Draft Organic Law on Civil Cases. *“This law is another tool that will help us recover coexistence in the communities. It’s an opportunity for dialogue, harmonization and development of justice in our country,”* rep. José Javier Morales explained. The Law’s second discussion took place on November 6th.





**ECONOMIC OVERVIEW**

