



Weekly Report

Year 7, Number 48
Week II, December 2011

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*What awaits us in 2012?
Venezuela submerged in the
political cycle*

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2011 ends with a mixed balance for the Venezuelan economy: on the one hand, we are growing at around 4%, with a strong expansion in public spending, and oil activities with a slight recovery. On the other, inflation does not give way, investments are not accompanying growth, the restriction of foreign currency is still present, and 2011 ends with the implementation of the Law of Fair Costs and Prices.

It is clear that for 2012, the main energizing element in the economy will be the October presidential elections. President Chávez, sick and all, is fighting for reelection, and his formula is well known: increase spending to support the economy and generate a feeling of wellbeing and bonanza to allow him to increase his advantage with respect to the opposition candidate.

This report will focus on what awaits us in 2012 based on the information we released in our last Outlook Report.



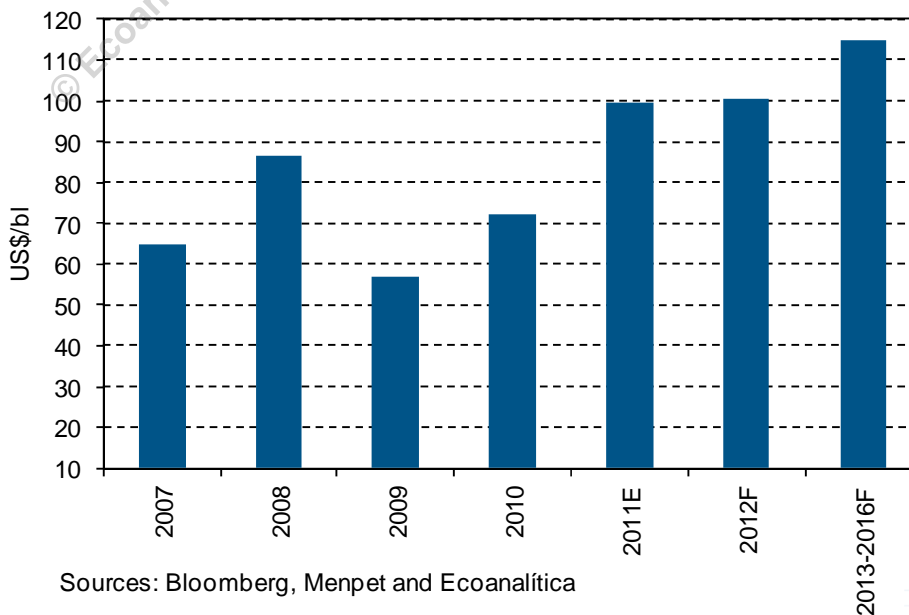
A benevolent Oil market

The behavior of the oil market during 2011 was marked by two main elements: geopolitical problems in the Middle East and North Africa and the uncertainty of financial markets fearing a new global recession. These factors, with opposing forces in the market dynamic, didn't prevent oil from going again beyond the barrier of US\$100 per barrel.

At **Ecoanalítica**, we believe that China and emerging markets in general, are very relevant when defining the path of oil demand; therefore, if conditions in these countries begin to drop, it may increase the risk of a drop in demand, and thus, in prices. So far, this hasn't been the case, and emergent markets continue to spearhead the increase in demand for crude.

With this in mind, we have modified our price estimates for the end of the year. For the Venezuelan oil basket we have adjusted our price estimates slightly for the end of this year and for 2012, and expect it to close the year at US\$99.6/bl (before it was estimated at US\$98.0/bl). For Brent, we've stayed with our original estimate of US\$112.4/bl. for the close of the year. Regarding the perspectives for 2012, we expect the Brent to be around US\$121.4/bl, and this would put the Venezuelan basket at around US\$100.6/bl.

Venezuelan oil basket prices



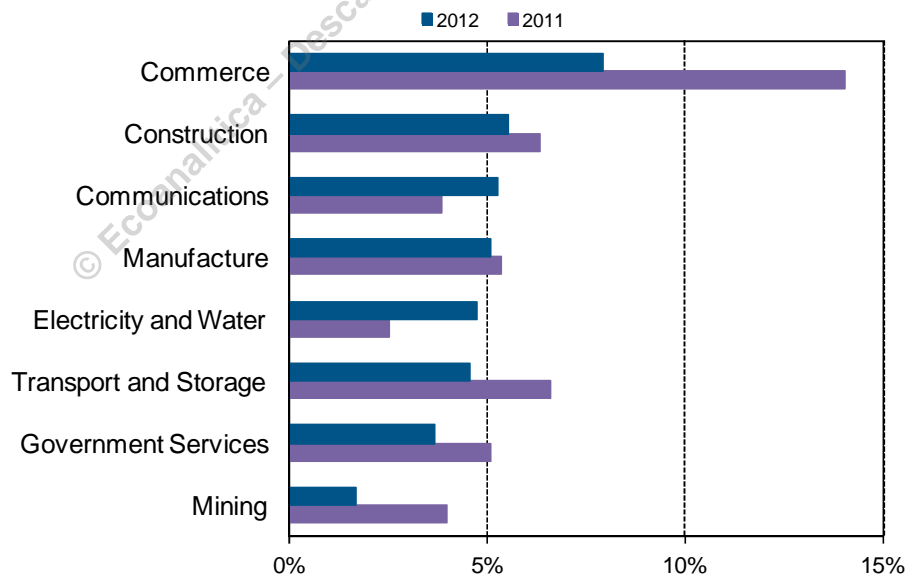


5% economic growth seems reachable... but it will still not be enough

Economic growth activity estimated for 2012 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: investment. In that sense, at **Ecoanalítica**, and 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.

This increase in public spending will mostly be current account spending, to the detriment of investment spending. The aim is that it affect the most people possible, consequently, it will have a positive effect on consumption. So, the sectors that will spearhead this growth will once again be the areas of the economy associated with non-tradable goods, such as: commercial activity, finance system and insurance, telecommunications, and of course, construction.

Sectors that will grow in 2012



Sources: BCV and Ecoanalítica

The Administration expects the economy to continue to grow, estimating next year's economic growth level to be at around 5%, as stated in the 2012 National Budget approved by the National Assembly. According to Nelson Merentes, president of the Central Bank of Venezuela (BCV), "this goal is perfectly attainable," emphasizing that "we are in a cycle of general



growth; all the sectors are growing significantly.” The president of the BCV seemed to be very clear and confident with respect to maintaining the “*growth dynamics.*” At **Ecoanalítica**, we estimate next year’s economic growth to be at around 4.8%.

With so much public spending it will be difficult to lower inflation

In an electoral context like 2012, measures like price freezing and the fencing in of the private sector by implementing this legal instrument such as the Fair Costs and Price Law, among other punitive measures, will continue being the measures spearheading the Administration’s efforts to control inflation, even though we already know that these measures are not the most effective or even the most appropriate, since they cause an environment marked by a rise in scarcity indicators and lack of supplies, a situation that wouldn’t be desirable at all, and also risky, for a government whose main objective is re-election.

Consequently, we believe that inflation in 2012 will be around 26% and 27%. There is no way this can be seen as a positive achievement of any kind, being that it is based on a series of restrictive price freezing measure put in place due to it being an election year, and all the pressures pushing prices to increase will remain latent.

Liquidity will spike...

We expect a higher nominal growth in spending for the next few months (thanks to the increase in oil prices, and a fiscal deficit monetization policy) which will cause greater monetary injections of fiscal origin, so we estimate that monetary liquidity in the hands of the public (M2) will increase 60.4% for the end of 2011, and 56.4% in 2012, which would result in the greatest increase since 2006.

However, as we have said repeatedly, foreign debt issues, the acquisition of foreign currency through Cadivi at a higher exchange rate, the stimulus to save in foreign currency (because of negative real interest rates) and a Sitme that will negotiate twice what was granted the year before, are factors that combine to prevent monetary liquidity from growing this year to the levels recorded in the last electoral year (2006) when it reached 74.7%.

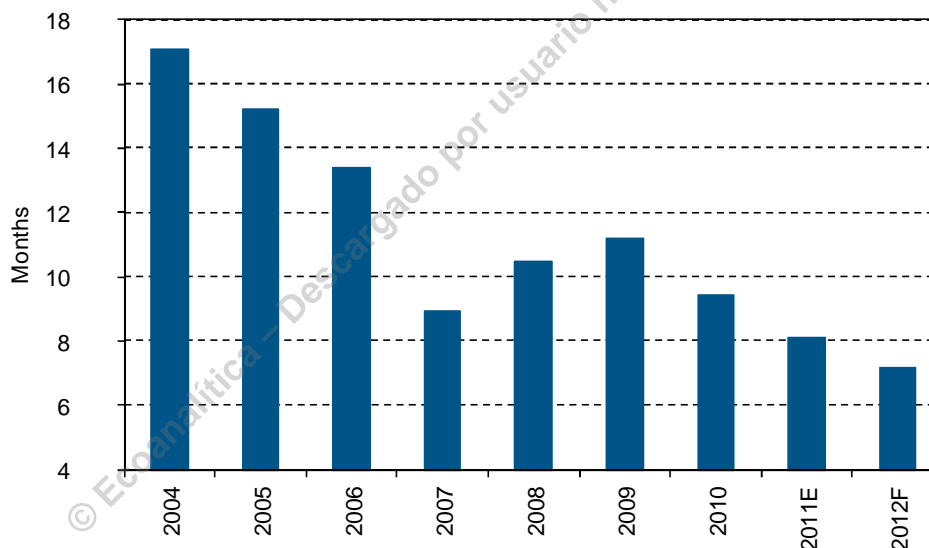
More foreign currency comes in, but we have fewer reserves

Regarding international reserves, we can say that for the year, the BCV has transferred to Fonden around US\$ 3.50 billion. Thus, by the end of November, international reserves reached US\$27.63 billion, which is equal to a drop of 2.5% with respect to the same period in 2010, when they were US\$28.33 billion.



However, after two consecutive years of capital account deficits, where the accumulated drop in international reserves was over US\$12 billion, and 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\$29.86 billion in 2011 which is equal to imports being covered for around 8 months (similar to 2010) and at US\$ 28.75 billion for 2012. This taking into account that the Administration will try to transfer as much foreign currency as it can to Fonden in order to be able to using for public spending without oversight.

Coverage Indicator



Sources: BCV and Ecoanalítica

The supremacy of the State

The public sector has become quite dynamic with respect to imports. For the year, the public sector has imported 37% of all goods and services. For all of 2011, we expect public imports to remain at these levels, while in 2010 they already represented 34.2% of the global amount. This is why the allotment of foreign currency for the private sector will not increase, even though the price of oil reached historical high levels, but they won't decrease either for the year, and in fact, for 2012, we expect the payment of foreign currency (through Cadivi and Sitme) to improve around 10%. But it will be the public sector the one that channels the most foreign currency next year.

In order to put things into a better perspective, it's important to look back to 2008. That year, Venezuela had a boom in imports, reaching US\$ 50.97



billion, of which the private sector capitalized US\$ 38.86 million, in other words, 76.2% of the total. In 2012, we expect total imports to be similar to 2008, but the proportion will be different: the private sector will be importing around US\$ 27.57 billion while the public sector US\$ 17.63 billion. The change could be attributed to the so-called 21st Century Socialism.

Imports (US\$ million)	2008	Δ	Share	2012P	Δ	Share
Public	12,116	42.1%	34.2%	18,779	16.6%	38.9%
Private	38,855	-12.8%	65.8%	29,493	5.8%	61.1%
Cadivi	38,402	2.5%	59.3%	24,046	5.5%	49.8%
Sitme	-	-	-	4,539	6.9%	9.4%
Non-Official	454	-92.7%	1.0%	908	6.9%	1.9%
Total	50,971	9.2%	100.0%	48,272	9.7%	100.0%

Sources: BCV and Ecoanalítica

Coverage strategies are a must

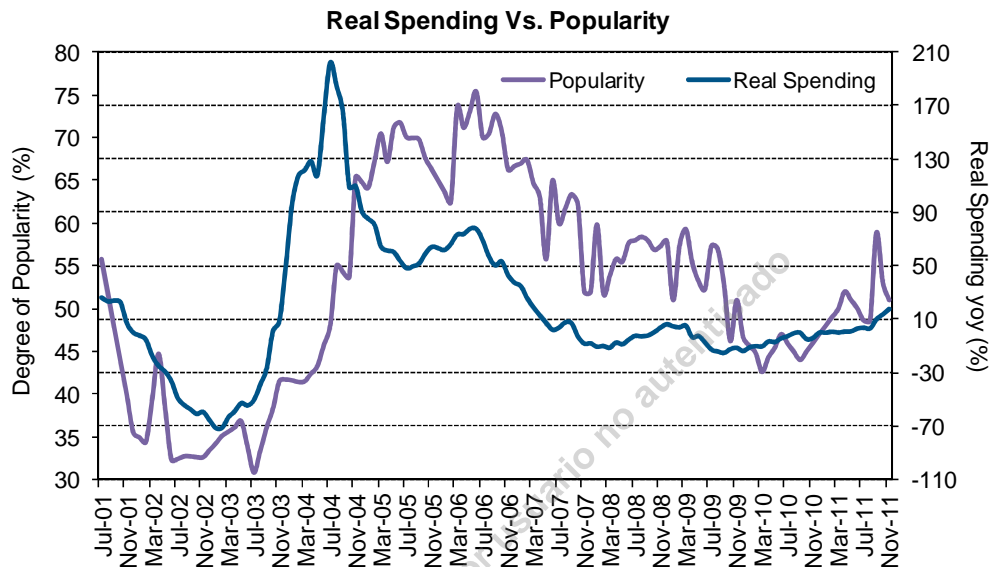
In this context of limited currency assignments to the private sector by Cadivi and Sitme, and a greater participation of the State in this assignment, that is, the public sector is a strong competitor in the distribution of currency, economic agents are increasingly interested in finding alternative mechanisms to obtain currency, like the so-called unofficial market and debt issues.

But, as we have said in the past, debt issues won't be enough to cover foreign exchange needs, for two reasons: first, their main purpose is to supply Sitme, and second, 40% will go to priority sectors (food, medicines, capital goods, and in the case of Pdvsa, oil contractors).

Public spending 2012 isn't 2006

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





Sources: Oficina Nacional del Tesoro (MF), BCV, Datanálisis and Ecoanalítica

In the previous presidential campaign (2006), public spending increased around 16.8% in real terms, the economy grew 9.9% and popularity was around 70%. In comparison, at the end of November of the current year the increase of public spending, according to the ONT, was 26.3%, the economy will grow 4.1% and popularity is around 50%.

The problem is that beyond erasing the divisions that separate the different government powers, the way the Administration persists in maintaining other fiscal structures so that it may spend without oversight is just costing too much at this stage in the game; and more so now when the resources being spent are generating less and less wellbeing among the people. This is because the resources are being used to oxygenate a State apparatus that is becoming more and more bloated.

Even so, the increase in public spending this year and what's expected for next year will have a positive impact on the country's economic performance, particularly consumption, which is a very important element that our clients must use to their advantage.

In the land of the blind the one eyed man is king

At **Ecoanalítica** we want our clients to be clear that the issue of uncertainty will be paramount when economic agents try to set their expectations after the presidential elections. For us, President Chávez' Administration has made it clear that it is the State that is the one that must have the greatest participation in the economy, and this is something



that can't be brushed aside; even if the opposition is the enjoying its best perception since Chávez has been in power, Chávez can in fact be reelected. Today's picture shows that both political forces have a chance to win the elections.

In this sense, it is important for our clients to take into account 5 "key" elements when carrying out the strategic plans for next year and for 2013, because as the saying goes: in the land of the blind, the one-eyed man is king:

- The price of oil will be around US\$100/bl in the short term. The economy will grow 4.1% this year, and for the next, we expect it to grow around 4.3%. It's important to take advantage of the boom.
- During the next three quarters, the Venezuelan economic scene will be supported by the political context, so we expect a better performance in the exchange market, something that didn't happen since 2008.
- Thus, the exchange strategy must be structured as a function of your foreign currency supplier. Those who are with Cadivi, must do everything possible to remain within that market and evaluate extensions like Aladi and Sucre, keeping Sitme as a second alternative, always trying to use the emissions, and evaluate other available options, considering that the unofficial market will be pressured to move upwards.
- This is why, no matter which party wins the upcoming presidential election, a coverage strategy is still necessary and it's time to begin evaluating options.
- With the injection of money of fiscal origin we are seeing, and its impact in consumption, we must not rule out the different financing options in local currency to maintain inventories, particularly with the recovery of the credit market and an environment of negative real interest rates.





Economic Tips

Investment goes down, According to BCV's figures, in 2007 and 2010 private sector's investment in machinery, equipment and facilities earmarked for expanding production plummeted 50.7% to its record low over the last six years, from VEB 16.95 billion in 2007 to VEB 8.36 billion in 2010, in spite of the fact that, after two years of recession, higher oil prices have prompted economic growth. However, core imbalances like the collapse of private investment represent an insurmountable obstacle for growth.

In 2011. Although the BCV hasn't still published specific private investment data and it has only released global investment statistics (public sector plus private sector), everything seems to indicate that nothing has changed in business climate. An analysis of total investment figures for the first nine month of 2011 shows that it is virtually equal to that recorded in the same period in 2010 (up 0.4% only), from VEB 4.57 billion in 3Q2010 to VEB 4.6 billion in the same period in 2011, at constant prices.

The funny thing is that... even though the Administration maintains control over basic food prices in order to curb inflation, due to shortages the government has implemented significant adjustments in prices of some food products, including bread, pasta, poultry, milk, sugar, and beef, with the result being that while inflation in non-controlled price products has reached 23.6% for the year-to-date, in the case of price-controlled products, cumulative inflation is 28.0% for the first eleven months of the year.

Foodstuffs are the most expensive. Over the first eleven months of 2011, food and nonalcoholic beverages have seen their prices increase by 31.3%. Good and services with the highest cumulative inflation this year include health services (25.1%), transportation (26.5%), education (24.8%), household appliances (23.6%), restaurants and hotels (27.3%).

Poor people are hit the hardest. Poorest families get the worst of inflation, because they use the largest part of their income to buy food, where inflation has reached its highest levels. The BCV reports that inflation for poorest families has averaged 31.9% over the last twelve months, whereas in the case of the highest income families, inflation is 28.2%.



Second gold shipment arrived in Venezuela. President Chávez announced on December 6th that the second gold shipment had arrived from Europe. The gold bars, which are already deposited in the vaults of the Central Bank of Venezuela, are in addition to the gold that came in Venezuela in November 25th. Venezuela's monetary gold reserves amount to 372.5 tons. Of this total, 218.06 (59%) were sent abroad in 1986-1992 as the Venezuelan government's collateral to obtain financing from international entities. As a result of the repatriation process, that amount will come back to Venezuela in a gradual fashion.

64% of working people has a precarious job. According to Genny Zúñiga from the Institute for Economic and Social Research of the Universidad Católica Andrés Bello, 55.9% of employed people had precarious jobs in 1997 accounting for around 4.5 million people. This number went up to 7 million workers in 2008. Zúñiga adds that the Venezuelan labor market is characterized for the prevalence of precarious jobs, a feature that is reflected in the excess working hours, few social benefits and insufficient wages. Moreover, *"there are signs that the situation got worse over the three past years as a result of inflation and lack of legal security."*

Zúñiga stated that 51.9% of wage-earning people (=7.9million) working for the State have a precarious job. In the case of private sector jobs, the percentage is 62.3 (2.6 million people).

Public Stock Exchange estimates Petrobonos at VEB 40.0 billion. According to preliminary estimates of the Bicentennial Public Stock Exchange, Petrobonos to be issued to pay social benefits owed to public administration workers could amount to VEB 40.0 billion, Félix Franco, president of the Exchange, informed. Franco added that the issue won't be possible until the Labor Law is reformed and the accurate amount is determined.

Oil is enough to pay everything! A new fund will be established with 3% of oil royalties and a new subsidiary. PDVSA Social, will be created. This new subsidiary will hold assets, goods and an oilfield that could be located in the Orinoco Oil Belt. Félix Franco explained that *"retired workers, after investing in the subsidiary, may have title to a percentage of dividends, which will be proportional to the investment made"*.

Savings Funds are invited to invest in Public Stock Exchange. The president of the Bicentennial Public Stock Exchange, Félix Franco, invited public and private savings funds to invest in the public debt papers traded through this institution, which will serve to protect workers' resources. *"These papers meet the requirements of the Law on Savings Funds, namely: availability (because they're easily retradable), low*



risk (because they're backed by the Republic) and help diversify investment", Franco explained.

€1.60 billion loan for infrastructure projects. Spain's BBVA, France's BNP Paribas and Germany's Deutsche Bank will lend €1.60 billion to the Venezuelan government to finance infrastructure projects. The Commission on Finance and Economic Development of the National Assembly (AN) approved the terms and conditions of the public credit operations, the first to be made by the Republic with foreign commercial banks since 2005.

BBVA will lend €283.7 million for the construction of the National Iron and Steel Industry. The financing will be repaid over 12 years, including 3 years of grace, during which disbursements will be made. BNP Paribas will lend €667 million to complete line 2 of the Los Teques Metro. In this case, the loan will be repaid over 11 years and with 4 years of grace instead. Deutsche Bank will lend €641 million for the rehabilitation of line 1 of Caracas Metro, under the same terms and conditions as BBVA's loan.

Interest rates. The lending rate for the last week in November was at 14.9%, decreasing by 1.9 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 1.4% going from US\$27,526 million during the last week of November to US\$27,906 million during the previews week. Compared to the same period last year, international reserves have decreased by 3.0%.

Monetary liquidity. Monetary liquidity in the last week in December increased 4.3% compared to the previous week settling at VEB 433,020 million. The M2 has increased 55.1% year-on-year.

Sitme figures. So far this year, US\$8,325.5 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$35.6 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

Markets are waiting for an agreement at OPEC's meeting. The oil market expects the Organization of Petroleum Exporting Countries (OPEC) to overcome its internal divisions and reach an agreement on the oil supply levels this week in Vienna, because its credibility has been questioned after its last conference, according to analysts interviewed by Efe. *"They all agree that it's necessary that an agreement is reached at this meeting,"* Petroleum Policy Intelligence's Bill Farren-Price stated. The oil expert talked about the result of the OPEC's meeting held on June 8th in Vienna, the first in more than 16 years that ended without reaching an agreement and releasing a joint statement.

Closing the year with many payment promises. Japan's JBIC, along with another eight entities, lent US\$1.5 billion to expand and modernize Puerto Cabello and Puerto La Cruz refineries. Italy's ENI agreed earlier this year to finance with US\$2.0 billion the development of Orinoco's Junín 5 block and the development of a thermal power plan. Loan agreements worth US\$4.0 billion for Sinovensa's operation in the Orinoco Oil Belt and another loan of US\$2.0 billion for the refining plants and to purchase Chinese-made equipment were signed with China National Petroleum Corporation and the Bank of Development of China.

Meanwhile, future promises pile up... PDVSA's financial debt closed at US\$31.2 billion in past June; its oil production grew just 2% compared with June 2010; and at the same pace, export volume only gained 3% at a time when the 37% increase in revenues, up to US\$64.13 billion, was supported by an increase of 35% in the oil export value.

PDVSA received US\$2.6 billion from the National Treasury and public banks. This year, PDVSA has assumed new commitments that aren't related to its medullar activity. This has led the company to look for new income sources, because cash flow derived from oil sales isn't enough, in spite of the fact that oil barrel price is over US\$100. In addition to the VEB 101.0 billion (US\$23.0 billion) assistance provided by the BCV, PDVSA received US\$2.6 billion from Banco del Tesoro and the National Treasury in the first half of the year.

PDVSA received millions in credits in 2011. On December 8th, Russian oil state-owned company, Rosneft, announced the closing of an agreement for the development of Carabobo 2 block in the Orinoco Oil Belt. The agreement calls for



partnering with PDVSA to create a joint venture. This takes to US\$11.0 billion loans and bilateral credits signed by PDVSA this year with companies and banks from China, Japan, Italy and Russia.

The partnership agreement with Russia calls for that... Russia will pay a US\$1.10 billion bond for its interest in the joint venture and the development of Carabobo 2 block that has reserves of 40,000 billion oil barrels and is expected to produce up to 400,000 b/d (kb/d). In addition to this bond, the Russian oil company will grant PDVSA a credit facility for US\$1.5 billion, at least for the next five years, with maximum disbursements of US\$300 million/year paid to the Venezuelan state-owned company.

What is produced in Cuba, stays in Cuba. The restart of Cienfuegos Refinery in Cuba, which since 2007 started to process Venezuelan crude oil, has meant a significant relief for Cuba, because the island can buy oil by-products at a very low cost. According to the information provided by Humberto Padrón García, director of Cienfuegos Refinery, about 90% of its production is earmarked for the local market.

Padrón also informed that Cienfuegos Refinery completed its plans to produce 20.2 million barrels per year, equivalent to almost 62 kb/d. Since its commissioning, the refinery has received 81.2 million barrels, thanks to the freight of more than 780 vessels carrying oil from Venezuela

Cienfuego's capacity to be expanded. Cuba's state-owned oil company, Cupet, and PDVSA will make a joint investment of US\$5.4 billion to expand the refinery's capacity up to 150 kb/d.

Failure at Cardón Refinery disrupts CRP production. Iván Freites, General Secretary of the oil, gas and petrochemicals union, informed last week that Cardón's delayed coking plant was shut down last week. Freites assured that the shutdown of both plants jeopardizes gasoline, gas oil and lube oil production at both refineries (Cardón and Amuay) of the Paraguaná Refining Complex (945 kb/d).

Chávez says that he is willing to reach an amicable agreement with Exxon. Expropriation and nationalizations have brought about a number of arbitration claims against Venezuela, which could imply payments of several millions. President Hugo Chávez announced on December 6th that he is willing to negotiate an amicable settlement with Exxon with regard to the arbitration trial at the ICSID, in which Exxon is asking for a compensation of US\$6.0 billion for its oil assets in the Orinoco Oil Belt.

According to Chávez... in 2012, oil production will reach 3.5 mb/d. This would imply an increase of almost 25% over current volumes, which range between 2.7 and 2.9



mb/d. With regard to oil price, Chávez said that an oil price between US\$100 and US\$120 would be ideal.

International oil baskets. At closing time on December 9th in the New York Stock Exchange, the price of the WTI was US\$107.5/bl, a 0.4% increase compared to the US\$107.1/bl reported the previous week. The Brent increased by 0.5% to reach US\$109.7/bl, compared to the previous week's US\$109.2/bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$107.5/bl on Friday December 9th, a 0.4% increase compared to the US\$107.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$100.8/bl.

Business Sector Tips

Next year's projections of the industrial sector aren't encouraging. According to Conindustria's projections for next year, manufacture growth will be under 1% and inflation over 25%. Carlos Larrazábal, president of Conindustria, claimed that next year will be *"too complicated"* with public spending being the main driver of the economy.

Chávez is willing to reach and amicable agreement. Expropriations and nationalizations in Venezuela have brought about arbitration claims against Venezuela, which could imply paying millions of dollars in compensation to ExxonMobil and ConocoPhillips. However, President Hugo Chávez recently said that he is willing to negotiate an amicable agreement with Exxon with regard to the arbitration trial at the World Bank's ICSID. The US oil giant is demanding US\$7.0 billion as compensation for its assets expropriated in the Orinoco Oil Belt.

New auto sales are stagnated. In January-November this year, 108,779 cars were sold, down 5.4% from the same period in 2010 (115.047). Figures released by the Venezuelan Auto Assembler Chamber (Cavenez) show that sales of both imported and locally assembled vehicles have dropped. According to the auto assemblers' monthly bulletin, the segment corresponding to local autos declined 5.8% in comparison to last year; drop in imported cars was 3.1%.





50% users lowered their electric power consumption by more than 10%. Half residential users lowered their power consumption by more than 10%, as reported the national director of Alternative Energy Sources of the Electric Energy Ministry. The Ministry's official explained that users with a moderate power consumption account for 85% of the total users of the national electric power system.

Corpoelec owes US\$2.2 billion to PDVSA. Petróleos de Venezuela's financial statements at the end of the first half of the year showed that Corpoelec's debt to PDVSA amount to US\$2.2 billion; however this debt is being compensated for with power supply. According to the financial information, the debt is derived from the purchase of diesel and the financial support granted for the acquisition of equipment for the electric power system.

Sidor's iron bar production was reactivated. After the meeting held on December 6th between outsourced workers of the bar and wire train of Sidor, where iron bars and other long products are produced, and the board of the state-owned company, the strike that stopped the manufacture of iron bars for 12 consecutive days and worried representatives of the construction sector at the regional and national level, was lifted. Representatives of the socialist cooperative Solemec and firms Osmar, PBT and Marinicol accepted to resume operations and travel to Caracas to meet with the minister of industry, Ricardo Menéndez.

Sidor announced increases of up to 30% in its products. A few days before the date when private firms begin to register at the National Superintendent's Office for Costs and Prices (Sundecop), Sidor announced increases of up to 30% in some of its products. Friday night, Conindustria posted on its twitter account that "*Sidor is verbally notifying its customers that prices will be increased by 30% as from next Monday 12th.*"

The State is imposing further control son private construction firms. Given the increased controls, private sector firms have been faced with less availability of raw materials, thereby limiting their activities. This year, the State (that controls 90% of the production of cement and iron bars) set priorities in the distribution and most materials have been reserved for public sector projects, so that private construction is receiving fewer products. As a result of new rules and less availability of raw materials, private construction firms have paralyzed 43,000 homes at the end of 3Q2011, vs. 25,000 one year ago.

An estimate of 40,000 would be fined for not having registered at Sundecop. President of Fedecámaras, Jorge Botti, pointed out that from 30,000 to 40,000 that couldn't register at Sundecop would possibly be fined.



Companies complain that Sundecop didn't validate all their costs. Sundecop didn't recognize the so-called "indirect costs" in the first round of registrations, business owners denounced. Carlos Larrazábal, president of Conindustria, stated that the electronic format for data downloading didn't allow including "*parafiscal contributions*," such as charges provided for in the Organic Law on Science and Technology (Locti).

More than 1,000 firms have been intervened over seven years. The administration has intervened 1,087 private firms since 2004, according to Conindustria's estimates. Carlos Larrazábal release the figure at a press conference and said that this year alone, the State has intervened 497 companies; a record high in a single year.

Excess funds in the financial system have trebled. In an environment where the government, thanks to high oil prices, is injecting bolivars to the economy, banks have excess of money in their vaults, which brings about an imbalance that impacts depositors. In 2010, banks maintained a monthly average of VEB 16.0 billion over the reserve amount the legally gave to deposit with the Central Bank; last Wednesday this amount grew up to 20%, to VEB 51.11 billion.

Compensations for delays in home delivery are fixed. The National Assembly passed the Law against Real Estate Fraud and now pre-sale contracts will be checked by a state entity and construction firms will have to compensate buyers for delays in the completion of housing projects.

World Economy Tips

OECD's economic activity indicator reaches its lowest level. Economic activity in countries member of the Organisation for Economic Co-operation and Development (OECD) reached its lowest level over two years in October, the organization stated on December 12th. The main composite index of OECD dropped in October to its lowest level since November 2009, dropping to 100.1 points from 100.4 recorded in September. The index hardly managed to stay over its long-term average of 100 points.

Individual readings of this indicator showed that industrialized countries that belong to the OECD further decelerated, whereas emerging economies lost



momentum. *“Composite leading indicators (CLIs) point to a slowdown in economic activity in all major economies, but with some variation in the strength of the slowdown across countries,”* the OECD stated in a press release.

OECD warns of economic uphill struggle next year. An OECD report due for release this month will say markets and governments face an uphill struggle to fund themselves next year amid extreme uncertainty over the euro zone and the global economy, the Financial Times said on Monday.

The report will say that financial stresses are likely to continue with the unpredictability of markets threatening the stability of many governments that need to refinance debt. *“On occasion, market events seem to reflect situations whereby animal spirits dominate market dynamics, thereby pushing up sovereign borrowing rates with serious consequences for the sustainability of sovereign debt”*, Hans Blommestein, head of public debt management at the Organisation for Economic Co-operation and Development, is quoted as saying.

Fed holds its last meeting in 2011: No changes. The Federal Reserve (Fed) said, on Tuesday December 13th, that the economy has improved slightly so it refrained from announcing new measures to promote it. Its officials, however, warned in a statement that unemployment remains high and stressed that global economic growth has slowed, so it left open the possibility for further action next year if the economy worsens.

It also reiterated... it plans to keep its interest rate at a record low (between zero and 0.25%), at least until mid-2013. Note that the Fed has left rates at levels close to zero in the last three years.

Euro zone fiscal pact fails to restore confidence. A European summit deal to strengthen budget discipline in the euro zone failed to restore financial market confidence on Monday, forcing the European Central Bank to step in again gingerly. The euro fell, stocks slid and borrowing costs for Italy and Spain rose as investors weighed the outcome of last week's summit that split the European Union, with Britain blocking treaty change and forcing euro zone countries to negotiate a fiscal accord outside the Union.

The Troika starts working to control Greece. The international Troika made up of the ECB, EU and the International Monetary Fund (IMF) started this work its control works on Greece. Dozens of experts from the three international entities started on December 12th the development of the bail-out program for Greece, proposing new measures together with Greek Finance Minister, Evangelos Venizelos, according to a DPA report.



Peru: International reserves shield Peruvian economy. Peru's Net International Reserves (RIN) were at US\$49.33 billion as of December 7, 2011, up US\$280 million from end-November's levels, thus favoring an adequate protection of the Peruvian economy, the Central Bank of Reserve (BCR) informed. International reserves have increased by US\$225 million so far this year, for an 11.8% increase.

The Inter-American Development Bank (IDB) highlights Colombia's strength to face the crisis. Diversification of financing sources, a sensible fiscal management and an aggressive tax collection system are some of the aspects highlighted by the Inter-American Development Bank (IDB), which are being implemented in Colombia to mitigate the possible effects of the international financial crisis. The manager of the Department of Countries of the IDB's Andean Group, Verónica Zavala, said that even though the potential effects of an international financial crisis cannot be predicted, I *"can tell you that the IDB has verified that Colombia is one of the countries that, in our opinion, have taken the measures that were required to be prepared for the crisis."*

Political Tips

The administration creates 112 new "Vital Areas for Homes and Residences" in six states. President Chávez designated 112 lots (1,647.93 hectares) in six states as Vital Areas for Homes and Residences (AVIVIR). The decision is contained in the Presidential Decree No. 8,627 published in the Official Gazette Extra No. 6,061, dated December 9, 2011. The largest area is located in the states of Zulia (38), Falcón (18), Sucre (16) and Táchira (14). Five were designated in the Capital District and two in Vargas state.

Registration in the Hijos de Venezuela Mission started. President Hugo Chávez led last December 12th the start of the registration in the Hijos de Venezuela Mission at the building annex to the Concepción Palacios Maternal Hospital in San Juan sector of Caracas.

Chávez reappears, denies rumors and promises to live. Last Saturday, December 10th, at 2:30 in the afternoon, President Hugo Chávez appeared on TV and said that *"the opposition is crazy; they say that I was dead, that I had a stroke..."* at the Teatro Municipal in Caracas, the President appeared in a public act to commemorate the 10th anniversary of the lockout defeat and the enactment of the



Lands Law. *"The bourgeoisie represents barbarism (..) they are the same that start rumors; they say that Chávez is hospitalized; they want me to die; but my answer is that I'm going to live a long time,"* Chávez said.

The administration authorizes funds for governor's offices. President Chávez informed last Sunday, December 11th, that he signed the authorization of funds for governor's offices, provided for in the constitutional revenue sharing. President Chávez explained that the resources correspond to November's surpluses and December's projection in 2011, AVN news agency reported.

The birth of the Community of Latin American and Caribbean States (CLACS) was a success. President Hugo Chávez said on December 6th that the creation of the Community of Latin American and Caribbean States (CLACS) had been a "big success". The summit to create CLACS took place in Caracas on December 2-3, 2011. President Chávez said that *"a significant political event of this kind has hardly happen over 200 years."*

"Any Spain's intervention would be a disaster". President Hugo Chávez warned that he won't accept any interference of Spain's incoming government in Venezuela's internal affairs and urged Madrid to privilege economic interests in bilateral relations.

The target is ten million votes. *"We are approaching to the ten million votes; that is the top target,"* President Chávez said last Tuesday in a press conference with international media at the Miraflores Palace in Caracas. After talking about his 13 years in office, after his December 6, 1998's victory, President Chávez said that in October 2012 *"we're going to win the (presidential) election; a revolution will happen in October and the projected difference (of votes) shouldn't be less than 4 million votes."*

Chávez says that he would recognize an eventual opposition victory in October 7th. President Hugo Chávez said last Tuesday that he would recognize an eventual opposition victory in next October 7's presidential election. He made a call to respect electoral rules and arbiters. At a press conference with international media at Miraflores Palace, Chávez talked about those sectors that oppose his government and said that they haven't clearly stated that they will respect the rules and arbiter and that will accept a new victory of the government's party in 2012's presidential election.

Chávez announces the creation of a new mission: Venezuela en Amor Mayor. President Hugo Chávez announced that another great mission, called Venezuela en Amor Mayor, will be launched soon. This mission is aimed at benefiting the elderly with a pension granted by the State. The social program will be earmarked both for



those who haven't contributed and for those who have made the 750 payments required to get a pension. *"It's not fair that these people who have worked all their life, who contributed a little but it wasn't enough, don't have their pension,"* Chávez stressed.

President Chávez suspended his trips to Argentina and Brazil. President Hugo Chávez confirmed last Friday, December 9th that he suspended his trips to Argentina and Brazil scheduled for December 10th and 11th, respectively, because he has to take care of the emergencies due to the rains that have battered a large part of the Venezuelan territory over recent days.

Workers' outsourcing has to end. President Hugo Chávez announced that workers' outsourcing has to end; for this reason he stated that he will prepare and pass the new Labor Organic Law. *"Outsourcing has to end in Venezuela and we're going to do it, but not violently."* He said that he will appoint a presidential commission entrusted with gathering ideas and views in order to organize work and prepare the new law.

Poverty should be zero. President Chávez again blamed capitalism for generating poverty in Venezuela and the world. *"The time of the Bolivarian Revolution has come in Venezuela; it's time to stop misery,"* he stated. Chávez also promised to *"put an end to misery in the country."* *"In a few years there won't be a woman, a child, a man or a family living in misery. I swear on my life; I promise,"* Chávez assured.

Capriles and Pérez polarize preferences. According to IVAD's poll for June-November, electoral preference of citizens aspiring to participate in the MUD's primaries describes a polarization trend between Zulia's governor, Pablo Pérez, and Miranda's governor, Henrique Capriles Radonski, while Chacao's former mayor, Leopoldo López, appears as the third option.

According to IVAD, 32% of the population doesn't like any political party. 37% likes PSUV; 8%, AD; 6.5%, Primero Justicia; 5.5%, Un Nuevo Tiempo; and 2.8%, COPEI. Proyecto Venezuela is supported by 2.4%; PP%, 2.2%, and Voluntad Popular, 1.3%.

Polls maintain Chávez as the favorite candidate for presidential election. IVAD and Hinterlaces pollsters maintain President Chávez as the favorite candidate to win next year's presidential election. According to their last measurements, posted by the Minister of Communications, Andrés Izarra on his Twitter account, last Monday, if election are held today, Chávez would get 55.5% support (IVAD) and 40% (Hinterlaces).





Venezuela is a rogue state in terms of Human Rights. Delsa Solórzano, MUD's coordinator of Human Rights, demanded the release of 18 political prisoners, the end of political persecution and the return of exiles to the country. At the commemoration of the 63rd anniversary of the Universal Declaration of Human Rights, Solórzano stated that *"this is a transcendental date and it is commemorated in all democratic countries."*

Legislative Tips

Commission on disarmament started oversight rounds. The Presidential Commission for the Control of Arms, Ammunitions and Disarmament started an inspection and oversight round concerning the implementation of the security measures required to comply with the resolution that bans carrying fire arms and ammunitions in terminal stations and public transportation units. The resolution entered into force in August and started to be enforced on November 25th.

PSUV doesn't know who will head the AN. Aristóbulo Istúriz, first vice-president of the National Assembly, informed that whether the current board goes or stays next year has not been defined inside the PSUV (Socialist Party). Fernando Soto Rojas, current president of the NA, has said in several occasions that his work will end on January 5, 2012: however, the decision on the new board would be made by the party's president, Hugo Chávez; the debate hasn't started yet.

New presidential commission will write the new Labor Organic Law (LOT). President Hugo Chávez announced the appointment of a presidential commission that will hold public consultations intended to contribute with the writing of the new Labor Organic Law (LOT). This commission will be made up of Nicolás Maduro, Foreign Minister, María Cristina Iglesias, Minister of Labor, Jorge Giordani, Planning Minister, and the General Solicitor, Carlos Escarrá, among others.

Funeral services are targeted for 2012. Rep. Claudio Farías, member of the Permanent Commission of Administration and Services of the AN, pointed out that the National Assembly will deal with matters related to home property and funeral services in 2012. Farías stated that the draft law regulating the funeral services is an initiative of the Commission and that at the public consultation process, owners of funeral parlors will be heard in order to reach an agreement and, if possible, lower costs of funeral services with the support of the National Government.



The draft Organic Law on Special Jurisdiction of Communal Justice is presented. At its December 9th' plenary session, the draft law, which provides for that communal judges may marry, divorce and settle issues related to minors, was presented. The draft law has 46 articles and provides for that the special communal jurisdiction *"has the power to hear and decide on all matters related to acts, abstentions, or rejections by communal councils, communes and People's Power organizations."*

With regard to its financing, article 13 stipulates that *"the National Executive will include in the year budget laws, upon request by the Supreme Tribunal of Justice, the necessary resources to guarantee the functioning of the special communal jurisdiction."* Originally it was proposed that the organized people would bear these costs.

AN is charged with creating a parallel justice system. The draft law on communal justice was rejected by the opposition group at the AN, claiming that it violates the Constitution and discriminates those who disagree with Hugo Chávez' administration.

Law on programmed sales passed. The AN passed the Law on Regulation and Control of the Programmed Sales System in its plenary session held on December 8th. The law has 45 articles and two interim provisions and states that programmed sales contracts of any product should specify the sale price of the product, which *"shall not be modified."* Sums paid by the clients *"shall not accrue interests."* The AN will send the law to the President for its enactment.

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ECONOMIC OVERVIEW

