



Weekly Report

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Outlook 2013 Venezuela amidst political uncertainty

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I am interested in anything about revolt, disorder, chaos-especially activity that seems to have no meaning.
Jim Morrison

2012 is about to end, with an estimated growth around 5.5% and an inflation rate around 18%; not bad, but not everything is rose colored: this year ends with a large fiscal deficit due to an electoral year where the goal was to win the elections at all costs, and an exchange policy in intensive care, with clear signs of stagnation in Cadivi, and depletion in Sitme.

With this 2012 scenario we will receive 2013, mired with uncertainties. In the economy, three elements will play a crucial role next year: 1) oil price stability, 2) exchange rate adjustments, 3) the illness of President Chávez and the power play of the economic team, where the key factor will be to decide whether the radical or the pragmatic wing will take control of economic matters.

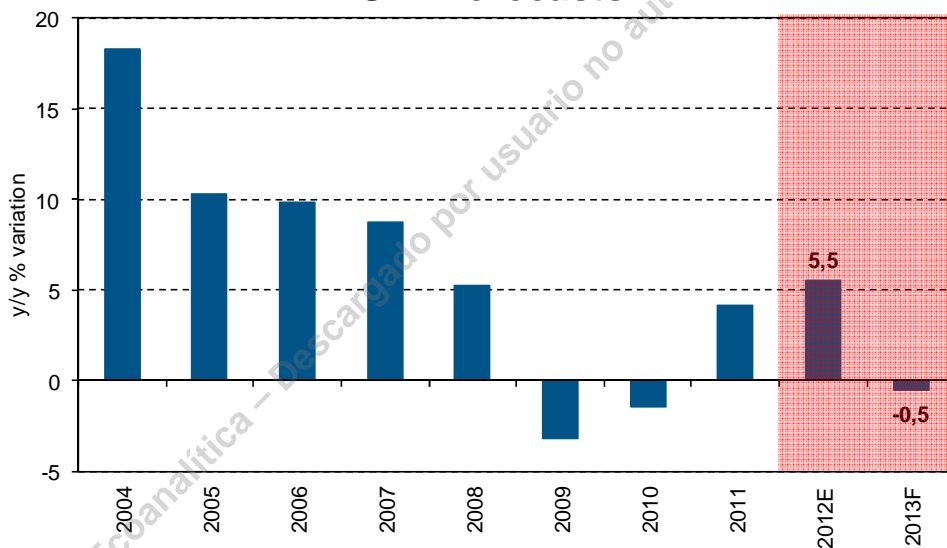


In this report we will go over the different nuances of our economy for the end of this year, and what to expect for next.

GDP: things will get tough

It is almost the end of the year, and our growth expectations for 2012 are still around 5.5%, induced by the expansion of public spending, due to the electoral campaign combined with fiscal and exchange rate adjustments that will have an effect in the economy next year. With this perspective, we adjusted our growth estimates for 2013 from 2.0% to -0.5%.

GDP forecasts

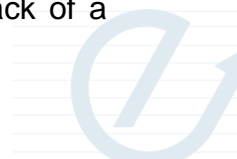


Sources: BCV and Ecoanalítica

For 2013, we also estimate a drop of 8.0% in aggregate domestic demand, making the sectors more closely linked to it suffer the effects of fiscal spending, and the expected exchange rate adjustment, so activities such as trade and transportations are expected to contract 2.3% and 3.6%, respectively.

2013 is a year of adjustments, in which Venezuelans will have to pay the bill of the fiscal party of 2012; however, not everything is bleak, because our base devaluation scenario, will allow an increase in the foreign competitiveness of tradable goods producers, which were lagging in 2012.

Ecoanalítica expects that in 2013, with stable oil prices, fiscal stimulus will decrease significantly, although it won't disappear, causing the lack of a stellar GDP growth.



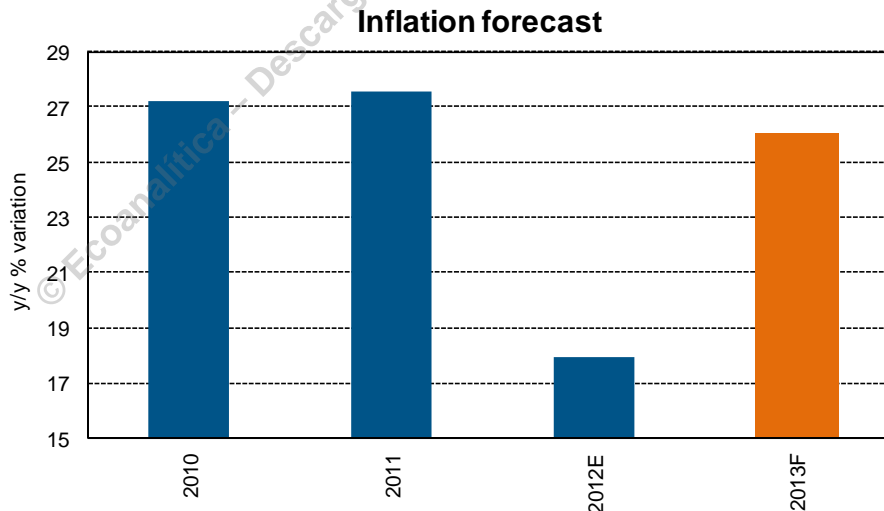


Inflation: pockets full of nothing

Despite the increase of inflation in October and November, the nationwide inflation indicator exhibits a clear path towards fulfilling the government's inflation target, between 20% and 22% for the end of 2012.

In contrast, for 2013, a year of fiscal and exchange rate adjustments, and with lower liquidity than 2012, it is unlikely that inflation will continue falling and reach the 14% - 16% target for 2013. This target is compatible with the fiscal adjustment and public spending cuts, which would help consumption fall; however, although demand pressures could be lower, the exchange rate adjustment expected for early next year will be a determining factor for inflation to increase in 2013.

This exchange rate adjustment will be combined with a high consumption of imported goods, and the fact that many domestic products use imported raw materials, so we estimate an adjustment of 46.5% for the official exchange rate, and an inflation of 26% for the end of 2013, an increase of 8.2% compared to 2012, and a drop in purchasing power.



Sources: BCV and Ecoanalítica

All this, together with continuing price controls, means that the structure of inflation will continue to be present, making it difficult to see the expected single digit inflation.

Monetary and financial: closing the liquidity spout

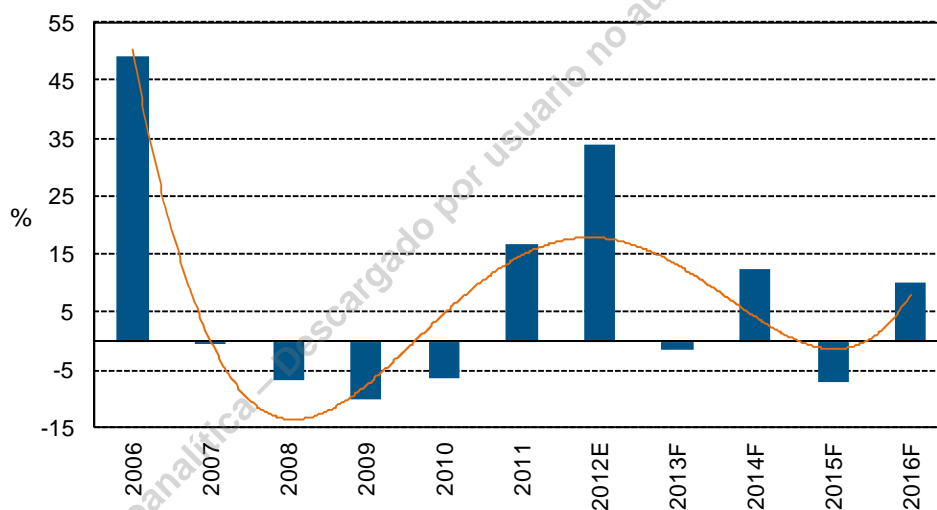
With a 2012 where public spending was the key for liquidity growth, we have to prepare for the adjustments to come in 2013: the very likely fiscal and exchange rate adjustments, and their consequences on macroeconomic aggregates, as well as the "State policy" that promotes a



re-composition of the debt towards domestic sources, are factors that will affect the monetary market.

It is also important to mention the increase in the amount of bolivars required for imports, which will be an escape valve for liquidity, expected to fall 1.4% in 2013 due to the 1.2% drop in public spending, and the placement of public domestic debt, expected to be around 7% of GDP, which will restrict liquidity even more.

Real liquidity growth (base 1997)



Sources: BCV and Ecoanalítica

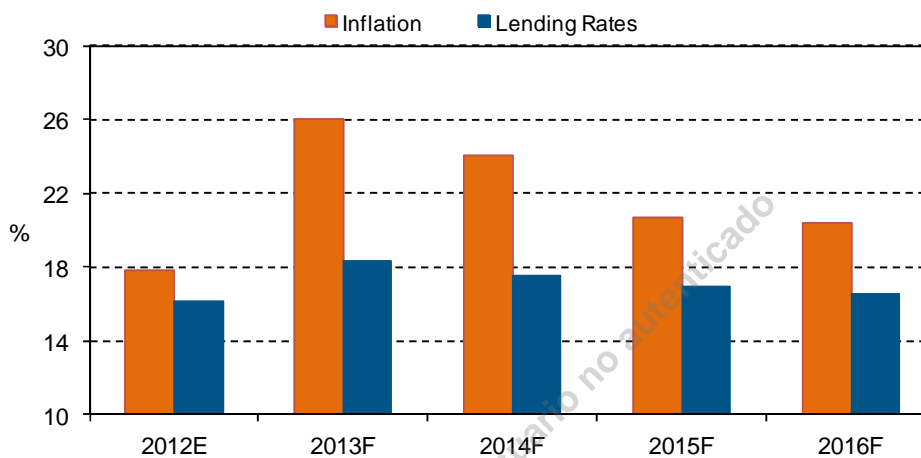
On the other hand, the exchange rate adjustment will mean a drop in the profitability of national businesses in dollars, so banks will look for higher yields in bolivars, pushing active rates to close to 18.5%, around 2.3 percent points over the average for 2012.

Nevertheless, for 2013, it will still be a good deal to become indebted, because nominal interest rates will remain below the expected inflation. As we have said at **Ecoanalítica**, real interest rates will continue negative while exchange rate controls persists and inflation escalates.





Lending Rates (Annual Average)



Sources: BCV and Ecoanalítica

However, an environment of less liquidity, with more expensive funds, the weight of mandatory portfolios, the theoretical 20.4% limit for the maximum rate banks can charge, and greater arrears in credit portfolios, will lead to a fall of 0.5% for 2013 in a sector that had been growing 18.5% in the last 8 quarters.

Fiscal policy: red numbers

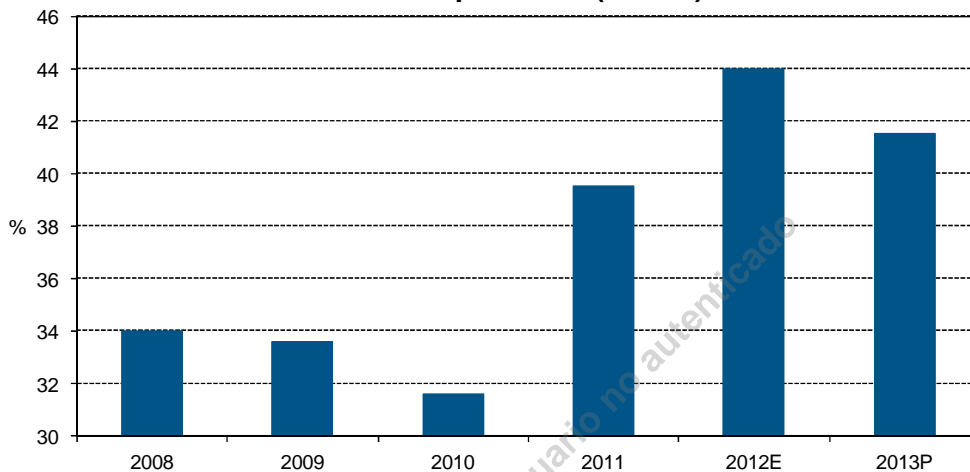
Regarding fiscal policy, for six years, the fiscal performance of the present government has been marked by a deficit in public accounts, which not only is permanent, but is constantly increasing.

Next year, it is important to take into account the following points: indebtedness, debt service, and public spending. For 2013, we expect the domestic debt to go from US\$56,487 million to US\$47,996 million, a y/y drop of 15.6%, affected mainly by the devaluation. Next year, the main weight of the public debt service for the Central Government will be for the domestic debt. Regarding public spending, **Ecoanalítica** expects a drop in global spending for 2013, going from 42.5 GDP points in 2012, to 40.0 GDP points in 2013, typical after an electoral year.





Total Expenditure (%GDP)



Sources: LPP2013 and Ecoanalítica

The situation of 2012 was only possible thanks to the exchange rate control, which repressed bolivars, providing the Administration with almost infinite funds to finance itself. However, the situation is more complex for 2013, since oil prices will probably remain stable, and the indebtedness capacity of the public sector seems insufficient for the size of the fiscal gap.

The cherry on top of the pie: Chavez' disease worsens

We couldn't finish without mentioning the heated issue of the day: the illness of President Chávez. Last Saturday, December 8, President Chávez surprised the country announcing that he would undergo another surgery, and for the first time mentioned the possibility of having to abandon the presidency, appointing his successor: Nicolás Maduro. The future isn't clear. There are several scenarios: Chávez returns, new elections, referendum. This variable introduces significant changes in the economic policy in the short and mid-term.

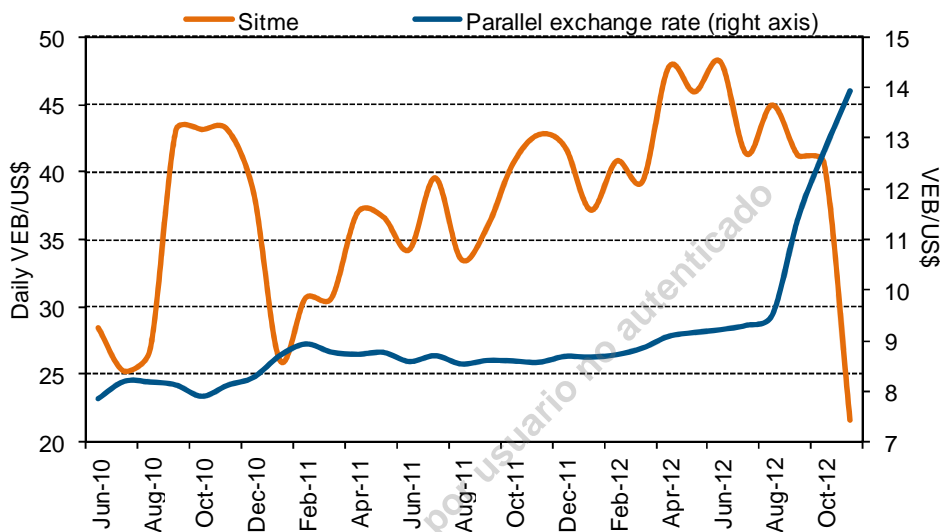
Exchange rates: everything is postponed

Given Regarding exchange rate policies, we are considering Cadivi, Sitme and the unofficial or parallel exchange rate. In 2012, the access to currency by the private sector faced more barriers. Up to September, Cadivi had only increased foreign currency liquidations by 1.0% a/a, and Sitme started the year with an average liquidation of US\$41.9 million per day, and dropped to US\$21.6 million in November. On top of this, the unofficial exchange rate has depreciated 83.9% so far.





Daily Sitme average vs. parallel exchange rate



Sources: Cadivi, BCV and Ecoanalítica

The announcement of President Chávez last December 8 significantly changes the exchange rate outlook: we are convinced that the Administration will postpone the decision to adjust the official exchange rate. We believe that Cadivi will stay at VEB/US\$ 4.30, and the same for Sitme. In this new situation, we don't rule out a new private issue between Pdvsa and the BCV to support Sitme.

An unknown element is what will happen to the unofficial foreign currency market. We don't rule out that by postponing the announcement of a devaluation of the official exchange rate, the supplies from the Administration will be restored, particularly to the Treasury, Pdvsa, public banks, and government contractors and/or related to it. Also, with Maduro as successor of President Chávez, there could be a readjustment among the key actors of the economic policy.

For **Ecoanalítica**, it is clear that while the political outlook remains unclear, the Administration will postpone economic decisions that may be interpreted as an "adjustment" or a "package". So the first quarter of 2013 could remain the "status quo".

**The ride is over,
now prepare
for 2013**

Having reviewed the most important aspects that will affect the economy next year, we conclude that with the present and expected oil prices, the fiscal stimulus won't be the same next year. The consolidated public sector will end the year with a deficit of around 16 GDP points, and the



consolidated public debt stock of the Republic, which has skyrocketed, will close the year over US\$150.0 billion, around 50% of GDP. Considering this political, oil, fiscal, and exchange rate perspective, it is clear that adjustments are necessary to continue supporting the socialist model of the 21st century: the end of the cycle has arrived.

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Economic Tips

Venezuela will grow 2% in 2013. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the growth of the Venezuelan economy will be 5.3% for the end of the year, boosted by construction and services, while in 2013 the economy will only grow 2%. ECLAC stated that the advances of the Venezuelan economy are due to the growth in public investment, particularly infrastructure and housing, and private consumption, leading to an increase of the Gross Domestic Product (GDP) per inhabitant of 3.7% and of the real mean salary of 5.4%.

Not everybody is optimistic. According to the latest *Consensus Forecast* prepared by FocusEconomics, analysts expect the economy to grow 5.1% in 2012 (0.1% more than expected a month before) and only 1.3% in 2013. Regarding inflation, analysts surveyed expect the inflation rate for 2012 to close at around 18.8% (1.7% less than expected a month ago); while an inflation of 28.7% is expected by the end of 2013 (1% less than expected in October).

Parallel spending reached US\$228,000. According to figures of the Ministry of Finance, the government has discretionally managed around US\$228.0 billion between 2004 and 2012 through the 17 different mechanisms that are part of the “new financial institutionalism”. *Ecoanalítica* considers that the new “institutionalism” grants the Administration a greater maneuvering margin, since it can manage resources with minimum controls for political purposes, and has allowed it to create the so-called social “misiones”.

Venezuela? Where is that? According to data of the Multilateral Investment Guarantee Agency (MIGA) Venezuela is not among the developing countries where large multinationals are investing, a list that includes Latin American countries like Mexico, Colombia, Peru, and even Argentina. *Ecoanalítica* considers that expropriations, price and earning control policies, as well as the unstable macroeconomic environment are some of the factors that keep investors away.

Inflation in agricultural products is 21.8%. Scarcity and the higher cost of agricultural products has limited an increase in supplies in that activity, so given the significant increase in demand, the prices of agricultural products have accumulated a variation of 21.8% up to November, 6.8 percent points over what was registered during the same period in 2011. This situation is in contrast with FAO estimates, which stated that the price of agricultural items slowed down since June.



On stand-by. Given President Chávez's announcement about his new surgery, and the possibilities that he won't be able to continue in his post, the adjustments that seemed imminent, given the significant over-valuation of the currency and a fiscal deficit close to 15% of GDP, are on standby.

Over-valuation stimulates imports. With an exchange rate that has been fixed at VEB 4.3/US\$, for 22 months, in which domestic inflation has surpassed that of commercial partners, imported products have become cheaper than those produced in the country, a factor that made imports increase 21.6% during the first nine months of the year.

Infrastructure credits for the State. The Finance and Economic Development Commission of the National Assembly approved two credits that the State will assume with the BBVA Group, and the International Cooperation Bank of Japan, for US\$1.87 billion. The funds from the BBVA credit will be destined to the construction and operation of a steel complex in Bolívar, while the second will be used to purchase material to finish 108 km of railways of the La Encrucijada – Valles del Tuy section.

The basic basket reaches VEB 8,940. According to the report of the Social Analysis and Documentation Center of the Venezuelan Federation of Teachers (Centro de Documentación y Análisis Social de la Federación Venezolana de Maestros - Cendas), the cost of the Basic Family Basket (Canasta Básica Familiar - CBF) in November was VEB 8,940, an increase of 2% with respect to the prior month, and 14.8% with respect to November, 2011.

The behavior of the CBF in November was marked by an increase in five of its seven items, among them: food (3.1%), rental housing (0.7%), and healthcare services (0.3%).

Cendas: Food basket at VEB 4,181. The increase in food's prices increased the food basket costs, which was VEB 4,181 in November, an increase of 1.6% with respect to October, and of 19.4% with respect to November 2011, when it was VEB 3,501.8; according to this entity, 2 minimum wages are required to be able to buy food.

Interest rates. The lending rate for the fourth week of November was at 15.7%, down by 0.9 percentage points compared to the previous week. The time deposit rate remained unchanged since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.



International reserves. International reserves decreased 2.8%, going from US\$26.49 billion during the fifth week of November to US\$25.75 billion during the first week of December. Compared to the same period last year, international reserves have decreased by 6.8%.

Monetary liquidity. Monetary liquidity (M2) went up by 3.4% in the fifth week of November compared to the previous week, settling at VEB 676.92 billion. The M2 has increased 63.1% in relation with the same period last year.

Sitme figures. So far this year, US\$9.23 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$40.0 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.02 billion (11.9%) over the same period of 2011, when US\$8.21 billion were negotiated. Lastly, during the first week of December the amount traded reached US\$85.3 million, US\$0.6 million more than the previous week when US\$84.7 million were traded, with a daily average of US\$16.9 million.

Oil Tips

Towing Pdvsa. The BCV has been resolving Pdvsa's cash flow problems in bolivars since 2010, for example, the VEB 20.0 billion of a promissory note it issued to pay the Christmas benefits of its payroll. In 3 years, the disbursements of the BCV to Pdvsa amount to VEB 151.0 billion and the balance of the liabilities is weighing in the national currency account. Thus, the finance team of the corporation considers convenient to devaluate to solve that liability.

Threats loom over oil. The shale oil boom has generated great enthusiasm among oil consumer countries, in fact the US Energy Department (EIA) mentions in a report that countries like Great Britain, France, Spain, Portugal, Germany, Austria, Ireland, Hungary, and Rumania could supply themselves of oil in the near future, so much so that a large consumer like China has hired Royal Dutch Shell to develop shale oil in Chinese territory.

Change in strategy. If these estimates become a reality, it would mean that in the mid and long term the extraction and processing of non-conventional shale oil would put an end to the dependence of western countries on Middle Eastern oil, and to a lesser on Venezuelan and Canadian oil, the next hydrocarbon reservoirs in



importance, which means that Pdvsa will have to review its strategy. And we must consider also that the United States and China are the two countries with the largest reserves of shale oil.

Bye, Bye WTI. The EIA announced this week in its annual report on energy outlook that it would abandon the WTI as a reference for its oil projections, since it *"no longer reflects rigorously the future trend of oil derivatives, because there are logistic restraints in crude oil transportation infrastructures in North America"*. The fact is that large investors and many US companies have started using the Brent as a global reference, and the preferred marker when making decisions in the stock market, putting aside the WTI.

Domestic market without gas. The domestic supply of gas, which already has a chronic deficit given due to insufficient production, has recently suffered from several operational episodes. Oil sector sources report that in the eastern part of the country, which supplies the central area and the basic industries in Guayana, there has been a drop in non-associated gas production, meaning that reinjection has dropped in the oil fields in Anzoátegui, lowering the production of those wells.

Secretary and 2013 production established by OPEC. On Wednesday, December 12, the Ministers of the 162nd Ministerial Conference of the Organization of Petroleum Exporting Countries met in Vienna, and established the official production top at 30 million barrels per day (mb/d) and elected Abdallah el-Badri as new Secretary General, a decision that was not easy. Oil analyst Harry Tchilinguirian says that *"what is most important is real production"*, stating that *"this collective top doesn't mean much when one of its members (Iran) is subject to international sanctions"* because of its nuclear program.

Missing. Rafael Ramírez, Venezuelan Minister of Oil and Mines, didn't attend OPEC's meeting. Sources didn't specify the reason for Ramírez's absence, and didn't speculate about whether it was related to the surgery of President Chávez. Venezuela was represented by a delegation headed by the governor to OPEC, Bernard Mommer.

Weak demand for 2013. In its monthly report, OPEC said that its oil production dropped in November 210,000 barrels per day (kb/d) and was 30.78 mb/d, much closer to its target, thanks to the production drop in Saudi Arabia (its production dropped by 230 kb/d, and was 9.49 mb/d). For 2013, although it didn't modify its demand provisions, it said that it expects low consumption levels for the first half of the year.





6 out of 360. The lack of investment in the hydrocarbon sector can be seen in the fact that Pdvsa will end 2012 with an increase in production below its projections. *"It seems that there will be an increase of only 15 kb/d"*, said Gustavo Baquero, oil consultant, adding that *"of 360 new projects that are being done in the world, only 6 are in Venezuela, and in South America, most are being done by Brazil"*, despite the fact that Venezuela has the largest extra-heavy crude oil reserves of the world.

Barely... Rafael Ramírez, Minister of Oil and Mining and President of Pdvsa, informed that the early production of the new projects in the Faja *"will be around 20 kb/d"* as the extraction volume for the end of 2012. This figure is significantly different from the first production target expected in the beginning of 2012 -between 160 kb/d and 180 kb/d- suggesting that only around 12% of the expected crude oil volume will be extracted.

Crossing our fingers for 2013. Despite a lower extraction than expected, Rafael Ramírez highlighted *"the development of drilling clusters, and the 220 rigs operating, an extraordinary number which guarantees that we will have that early production next year"*. On the other hand, Ramírez expressed *"the definitive political support"* of Pdvsa for Vice-president Maduro.

International baskets. Last Friday, December 7th in New York, WTI closed at US\$88.1/bl, which shows an increase of 0.7% compared to US\$87.6/bl recorded the previous week. Meanwhile, Brent decreased by 0.8% to reach US\$ 109.6/bl compared to the previous week when it reached US\$110.5/bl.

Local basket price. On Friday, December 7th the Venezuelan oil basket price closed at US\$97.7/bl resulting in an increase of 0.6% compared to the US\$97.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 103.7/bl.

Business Sector Tips

The industry's straight jacket. Compared to other areas, the manufacturing sector has not recovered what it lost during the recession, and according to spokespersons of the group, government controls on the activity have been the main stumbling block. The effects of these controls have been worse on small and medium industries, according to Carlos Larrazábal, President of Conindustria.



Used capacity is only 47.5%. According Conindustria's survey for 3Q2012, 56% of small industries won't invest in 2012, and in this subsector, the utilized capacity barely reaches 47.5%. Precisely to promote the development of small and medium industries, Ricardo Menéndez, Minister of Industries, announced two weeks ago that this sector must receive at least 40% of the total portfolio destined to manufacturing. This measure also included a 4% reduction in interest rates for small and medium industries.

Including Snacks. Carlos Osorio, Minister of Food, said that *"10 years ago, more than 80% of the population had difficulties accessing food, and ten years later 98% of the population has three or four meals per day; of these, 1.6% has access to two meals per day, and for the remaining 0.4%, we must improve and strengthen our work"*, and reminded that the Food and Agriculture Organization (FAO) sent the Venezuelan government an acknowledgement for the achievements made in eradicating hunger and poverty.

Carboeléctrica in Zulia. Argenis Chávez, President of Corpoelec, said that studies are already underway to build a coal based power generating plant in Zulia. Chávez said that Zulia, in the western part of the country, has 99% of Venezuela's coal reserves, to be used to supply the thermoelectric plant that will generate between 500 and 1,000 watts. This work will be added to the Eolic park in La Guajira, which has a progress of 80%, said the president of Corpoelec.

No minimum. In a communiqué issued on February 24, 2012 and ratified on December 3, Sudeban informed that the establishment of minimum balances to open savings account in the country's financial entities is forbidden. The document issued by Sudeban specifies that there should be no limitations or restrictions whatsoever to open and maintain savings accounts, thus complying with the goal of expanding banking services for the poorer classes.

Price of steel products increase. The production drop in State owned steel mills is causing problems to find iron rods and other steel products, which in turn has affected costs. According to BCV figures, in November the price index for construction products varied between 2.2% and 17.3% a/a. This was affected by the increase in steel material prices (rods, meshes, rolled products among others) which increased 2.5% in only one month, and 20.2% in one year; although these products have been controlled for nine years, constructors are paying more for them.

And the same goes for agricultural products. José Agustín Campos, President of Confagan, informed that the cost of agriculture and livestock products increased 64.3% this year. Campos said, among other things, that the cost of Balanced Food for Animals increased 119% in 2012 while the price of certified seeds increased



56.3%. Campos urged the Administration to take measures to control *"rampant speculation"* in agro-trade, since the situation is *"bleeding"* producers, and this affects the price of meat for consumers.

Mad cows return? Manuel Cipriano Heredia President of the National Federation of Animal Producers (Federación Nacional de Ganaderos -Fedenaga), asked the national government to stop cattle imports from Brazil and start checking the beef imported in the last two years, after the Ministry of Agriculture of that country confirmed that in December 2012, there was a case of mad cow disease in that country. The representative of Fedenaga recalled that in that period, tests were not performed to rule out the presence of the disease, and estimates that around 600,000 cows entered the country.

US\$1.36 billion for the aeronautic sector. Within the framework of the permanent meetings Cadivi holds with the various production sectors of the country, it informed that this year it authorized US\$1.36 billion for the aeronautic sector. The entity met with industry representatives, and clarified doubts regarding the applications. Among the participants at this meeting were the Civil Aviation Institute, the ministries of Trade and Tourism, and Indepabis.

"The government must make adjustments immediately". Jorge Botti President of Fedecámaras, said that the government must make fiscal and exchange adjustments immediately because the country's production sector has no alternatives before the scarcity of foreign currency which worsened the last two weeks. He proposes that the exchange rate should be between VEB 7/US\$ and VEB 9/US\$. Given the absence of the president, he urged vice-president Maduro to make the necessary proposals and agree on an alliance between the private sector and the government.

Special dollar for exports. Bejamín Tripiér President of the Consultation Council of the Venezuelan-Argentinian Chamber of Commerce (Cavenarg) is proposing a preferential exchange rate for exports of more than VEB 4.3/US\$ *"between VEB 7/US\$ or VEB 7/US\$ according to what we have analyzed"*. Tripiér indicated that this had to be analyzed with strategic segments: food and health, because there is *"where the focus has been, and where one expects it to remain at VEB 4.3/US\$"*.

Path to Mercosur accelerated. During the Mercosur Summit, Venezuela announced that next April 5 it will adopt the Common Foreign Tariff (Arancel Externo Común - AEC) of the block for 28% of its tariff universe, which will gradually increase until total convergence is achieved in 2016. At the meeting, devoted to accelerate the incorporation of the new partner, Venezuela also made the commitment to adopt the nomenclature of Mercosur and 30% of the block's standards, as well as offer a



“*significant*” financial contribution for the Structural Convergence Fund of Mercosur (Fondo de Convergencia Estructural del Mercosur - Focem).

Rice production with deficits. Fuaz Kassen, President of the Venezuelan Federation of Rice Producers (Federación Venezolana de Productores de Arroz - Fevearroz), said that rice production is still falling short in the country. Kassen added that this year, the planted surface area increased 2%, going from 160,000 to 163,400 hectares. However, the crop wasn't enough to cover the industry's consumption and meet supply requirements. Production reached 784,320 tons of moist paddy rice, but the industry requires more than 1.4 million tons, he said.

Venezuela and Samsung together. Ricardo Menéndez, vice-president for the economic-productive area, announced that the Venezuelan government and the South Korean Samsung, will create a company to produce telecommunications components, with a share of 51% and 49%, respectively. Menéndez explained that the factory is a strategic alliance that will allow Venezuela to boost the export of electric parts to Mercosur.

World Economy Tips

Cheaper food. According to Abdolreza Abbassian, economist at the Food and Agriculture Organization of the United Nations (FAO), global food prices could continue falling in the next months. According to the FAO's price index, which measures monthly changes in the price of a basket that includes cereals, oilseeds, dairy products, meats, and sugar, the monthly average for November was 211 points, 3 points less than in October, and the lowest level since June.

The Cliff is felt even in the far east. According to data published by the customs department of the Asian nation, exports increased 2.9% (a/a) November, much lower than the 9% expected by the market, and the growth of 11.6% (a/a) of October. The slowdown in exports was the result of a lower foreign demand, affected by the uncertainties caused by the fiscal cliff in the US.

A prosperous 2014. According to Vitor Constancio, vice-president of the European Central Bank (ECB), all the economies in Europe will grow in 2014, thanks to the measures taken to counteract the crisis that is hitting the region. Constancio added that since starting in 2013 the European economy will start recovering, particularly in



the larger countries, due to measures that in his opinion will gradually restore the trust of investors and consumers.

Time is up. A few days before the year ends, the finance ministers of the European Union still don't agree on the key elements that will allow the establishment of a common bank regulator, to oversee the 6,000 banks of the region. The proposal of the single banking regulator, and the idea that the ECB purchases bonds, have been perceived as bold measures to put an end to the crisis in the region.

Investment as a way out of the crisis. According to the McKinsey Global Institute (MGI), between 2007 and 2011 private investment in the Euro zone has dropped around EUR 354.0 billion, and has been one of the main reasons for the meager growth. The MGI points towards private investment as a way out of the crisis, given the weak demands, and the lack of fiscal stimulus, and removing regulatory barriers could channel the investment of surplus cash in the hands of European companies (around EUR 750.0 billion in 2011), which would significantly boost demand and economic growth.

Germany affected by the crisis. The Central Bank of Germany (Bundesbank) reduced its growth forecasts for next year, given the effects of the debt crisis in the Euro zone. The bank now expects the German economy to grow around 0.7% for this year, and 0.4% for 2013, compared to the initial forecast of 1.0% and 0.4%, made in June; as well as a healthy 1.9% growth for 2014.

The United Kingdom with a better face for 2013. The Office for Budget Responsibility-OBR of The United Kingdom announced that the economy of that country will fall 0.1% this year, in contrast with the 0.8% growth forecast some months ago. OBR also forecasted a 1.3% growth for 2013, which although is lower than the previous estimate of 2%, is more robust than the one expected by the large countries in Europe, Germany, and France.

Successful repurchase. Spokespersons of the Greek government announced that the debt repurchasing program, expected to restructure Greece's liabilities for EUR 30.0 billion, reach its goal. In total, offers for EUR 31.9 billion were received at a price of 33.8%, which for some may have been low, but others would have preferred it rather than the risk of having nothing left if Greece defaults.

Lower unemployment, or greater resignation? According to figures published by the US Labor Department, unemployment may have reached its lowest point in four years in that country. Despite the expected contractions, after hurricane "Sandy", the 146,000 jobs created in November placed the unemployment index at 7.7%, around 0.2pp below the level registered in October. Some analysts criticize that the index



doesn't take into account that many people were not included in the unemployment figures because they stopped looking for work.

Salaries don't increase. According to provisions of the International Labor Organization (ILO) the average salary of developed countries won't be over inflation this year. The entity said that governments, particularly those in the Euro zone, and in those nations with large deficits, should avoid competition to low salaries to a minimum level, and instead adopt policies that encourage companies to invest, and banks to finance small enterprises.

Mercosur expands its borders. Bolivia gave the first step to become the sixth full member of Mercosur by signing the protocol of adhesion to the integration block. In the final declaration of the Summit, held in Brasilia, the block expressed "*great satisfaction with the signing by the Plurinational State of the adhesion protocol to Mercosur, which contributes to the integration of South America*". Bolivia now becomes a member with voice in Mercosur's Summits, but without vote, which will have once it completes the adhesion process.

Latin America will grow 3.8% in 2013. According to a report of the Economic Commission for Latin America and the Caribbean (ECLAC), the region's economies will grow 3.1% in 2012, while for 2013 they will grow 3.8%, thanks to the recovery of Argentina and Brazil. The growth in 2012 will be slightly less than the 3.2% estimated in October, while the growth for 2013, will be less than the 4% estimated two months ago; it will depend on the evolution of the global economy, mainly due to the economic difficulties in Europe, the United States, and China.

Political Tips

"Daddy's sick, children". Minister for Communications and Information Ernesto Villegas informed that "*President Chávez operation was hard, complex and delicate, and his post-operatives shall be like this as well*". Villegas asked to the Venezuelan people (we assume, it was in name of the Government) to see this as when "*you have a sick father*". He also affirmed that if the President does not recover for the Presidential Inaugural Ceremony by January 10th, Vice-president Nicolás Maduro will have to cede his post to President of the National Assembly Diosdado Cabello, who will have to call for presidential elections in a 30-day period.



A new “battle”. Two days after his return, Hugo Chávez, President of the Republic, announced that he would have to return to Havana, because after new tests, “*some malignant cells*” were found, so physicians have said that it is “*absolutely necessary*” to undergo another surgery, the fourth since he announced he had cancer in June 2011.

Maduro the apprentice. Almost two months after the Brazilian President, Luiz Inácio Lula da Silva, suggested president Chávez to prepare his succession, the unexpected relapse and the risky intervention to which the latter will have to undergo forced him to do so. Chávez requested, if something happened to him, to support Nicolás Maduro, who in his opinion “*must conclude his period as established in the constitution*” and if another presidential election is called for, Chávez urged to vote for “*Nicolás Maduro as president*”.

Chavismo without Chávez. The President of the Republic also called on his followers to close ranks around the “*revolution*”. Chávez said that “*the progress of the Bolivarian revolution must be guaranteed in all circumstances*” and continue “*building the Venezuelan path towards socialism*”. He insisted on “*strengthening the national unity of all popular forces, revolutionary forces, and armed forces*” because there “*will be some who will try to take advantage of difficult situations*”.

There is no succession in the constitution. Henrique Capriles governor of Miranda and candidate for reelection, clarified that the figure of a succession, in the event of a permanent absence of the President “*is not established in the Constitution*”, regarding the announcement of President Chávez appointing Nicolás Maduro as his possible successor. Capriles also sent a message of solidarity to the Head of State, “*we hope that God blesses and protects him, because those who believe in God will always have the best wishes for our brethren*” he said.

“Make no mistakes”. During an interview with Ernesto Villegas, Minister of Communication and Information, broadcast on the State Channel, the President of the National Assembly (NA), Diosdado Cabello, warned the opposition to “*make no mistakes*” or “*play with the people*” after the announcement of a new operation for President Chávez. Cabello added that “*even the opposition should pray for Chávez’s health*”, because according to him “*that is the guarantee of stability for this country*”.

“I’m not giving away the political high command, I’m delegating it”. Before leaving for Cuba, and after holding a meeting with members of the military high command, in which he swore in the Minister of Defense, Hugo Chávez, President of the Republic said that he didn’t give away the political high command, but delegated it, and that it is “*in good hands, in the hands of Nicolás Maduro*”, “*the Republic, the revolution is in good hands*”, he added.



Chávez yes, Maduro no. Different ruling party factions have supported the eventual appointment of Nicolás Maduro as presidential candidate if Hugo Chávez is unable to fulfill his post, but the Communist Party of Venezuela (PCV) seems to be the exception. Oscar Figuera, Secretary General of the PCV, explained that the organization supports and accompanies him in his role as vice-president, but for the elections, an extraordinary congress should have to be called upon, as established in the bylaws. *"We don't want anyone other than Chávez. He will emerge victorious, we should never give up"*, said Figuera.

And the elections? Tibisay Lucena, President of the National Electoral Council (CNE), informed that the schedule goes on as expected, after distributing 100% of the voting machines among the different electoral centers of the country. Lucena called upon the political forces that support the candidacies for these elections to streamline the accreditation of witnesses, the only item where there are some delays.

Venezuela among the most corrupt. According to a report published by the German NGO International Transparency (IT), Venezuela is perceived, together with Paraguay, as one of the most corrupt in Latin America. The NGO stated that in 2012 only four of the twenty Latin American countries obtained a score over 50 points (minimal corruption), and in the extreme end of the classification, perceived as the most corrupt countries of the region, are Venezuela (19), Paraguay (25), Honduras (28), Nicaragua (29) and Ecuador (35).

Legislative Tips

New Minister of Defense. Before leaving to Cuba for his surgery, President Hugo Chávez swore Admiral in Chief, Diego Molero Bellavia, as new Minister of the People's Power for Defense. *"Since Juan Vicente Gómez appointed López Contreras as General in Chief in this same office, no one had been ascended; this hadn't occurred for one century"*, said president Chávez comparing himself with the dictator of the beginning of last century.

Yes but no? Regarding the permission to leave the country for President Chávez to undergo surgery in Cuba, the National Assembly (NA) unanimously approved the absence of the President for periods longer than five days. However, the ruling party majority rejected the approval of Art. 234 proposed by the opposition, appointing the vice-president of the Republic as President in charge.



Reprogramming of the Presidential swearing in ceremony. Andrés Eloy Méndez, ruling party representative before the NA, quoted article 231 of the Venezuelan constitution, which establishes that given situations qualified as “*recently happened*” the swearing in of the President of the Republic before Parliament could be reprogrammed for later than January 10. Méndez underscored the need to call for elections in President Chávez can’t assume power, in a period of 30 days.

New ambassadors appointed. Before leaving for Cuba, President Chávez appointed new ambassadors before Angola, South Africa, Romania, St. Kitts and Nevis, St. Lucia, Surinam, UNESCO, and the regional Caribbean entities, ACS and OECS. He also assigned new Venezuelan representatives for the Secretariats of Mercosur and Aladi.

Maduro, savior of political prisoners. Vice-president Nicolás Maduro, agreed to meet with the representative Edgar Zambrano, responsible for the Commission to Dialog with the Government in favor of political prisoners and exiles. Zambrano informed that he will present Maduro a list of 80 to 100 people considered “exiles” and another with around 40 people that have been “*sentenced, processed, and detained preventively*”. Zambrano said that the Presidency has the chance to solve the situation of individual son Christmas and New Year’s Eve, or at the swearing in of January 10, 2013.

Law for Disabled People will be reformed. A special commission of the NA will review the content of the Law for Disabled People, to evaluate which aspects need to be reformed, and to evaluate compliance with this law, which entered into fore five years ago. This commission will include proposals delivered by a group of disabled citizens, including that 5% of public employees must have some disability.

Communal monitors for the electric power sector. *Official Gazette* N°40.065 includes the creation of the Communal Monitoring System of the Quality of Electric Power Service, to monitor the quality of the national power service, with the participation of the communities, and to “*foster the sensitization, awareness and formation in energy matters*”. This system will be formed by Communal Monitoring Councils and Regional Councils with the same functions, including a representative of the Ministry of the People’s Power for Electric Power.

Socialist judges for municipalities. Luisa Estella Morales, president of the Supreme Tribunal of Justice, declared that those officials that graduated from the Universidad Bolivariana de Venezuela and the Ezequiel Zamora Universidad Experimental de los Llanos will be taken into consideration for the posts of municipal judges, to be appointed next January thanks to the reform of the Organic Criminal



Processing Code. According to Morales, judges will be trained in workshops to be held on “a socialist, humanist, and revolutionary concept”.

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ECONOMIC OVERVIEW

