



Weekly Report

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By:
Asdrúbal Oliveros
José Luis Saboin
Ecoanalítica's Team*

***Feb2012 Primary elections:
it's all set now... Capriles Vs.
Chávez***

*Adriana Morillo, María Gabriela Benítez, Pilar Navarro,
Anabella Ron, Pedro Ocaríz and Julian Castillo

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Last Sunday, on February 12, the Venezuelan Opposition, represented by its Coalition for Democratic Unity (MUD), held what is being heralded as an enormous triumph, its primary elections to select among other things, its unified presidential candidate to run against Hugo Chávez. The fact that the opposition was able to unify and organize itself and be able to hold said primary, for many of the most optimists, this is a victory beyond their wildest dreams. That more than 3 million voters, inside and outside the country, demonstrating enthusiasm and exemplary civic attitude, supported this national electoral process and were able to come together to elect a single candidate that will be capable, according to the figures, of leading a concentrated effort that will lead to the pacific democratic transition of the current Administration and its policies led by President Chávez. This Report will present our take on the outcome of the primaries.





Better than expected

According to the latest released by the Electoral Commission of the Coalition for Democratic Unity (MUD) corresponding to 99% of the ballots counted shows that the total number of people who voted in the primaries held last Sunday, February 12, was 3,040,449. Of that total, 2,959,413 were valid ballots. This figure equals around 16.5% of the voters registered in the National Electoral Registry (RE). Voters chose the candidate who will represent the Opposition in the upcoming presidential election to be held on October 7. Voters also cast ballots to choose the 17 candidates that will represent the Opposition in the race for Governor's Office, and the 249 candidates running for Mayor's office.

The states which registered the highest number of voter participation were: Miranda with 462,905 people casting votes, Zulia with 459,187, the Capital District with 274,590, Carabobo with 267,571, and Lara with 204,374. The states of Aragua, Táchira, and Anzoátegui, all had more than 160,000 voters casting ballots.

If we consider other primaries held around the world, in Latin America, Europe, or the United States for example, you will see that the number of voters that participated in these primaries vastly surpasses the average primary voter turnout in these other regions. This says a lot about the motivation and mobilization of the primaries held last Sunday.

Would come up short

Some analysts had pointed out that given the nature of the primaries, organizational problems, fewer voter centers (many of the normal voter centers didn't open) which would make longer commutes for some people, the Opposition had expected voter turnout to be around 8% of the National Voter Registry, which would be equal to 1,429,841. Government authorities, and many of their spokespersons, had assured that the voter turnout wouldn't be over a million voters.

The ideal scenario had over 2 million voters coming out to vote, an objective which was clearly surpassed, having registered more than 3 million votes in the primaries. This confirms how motivated opposition voters were and a good job done by political organizers in terms of mobilization and organization.

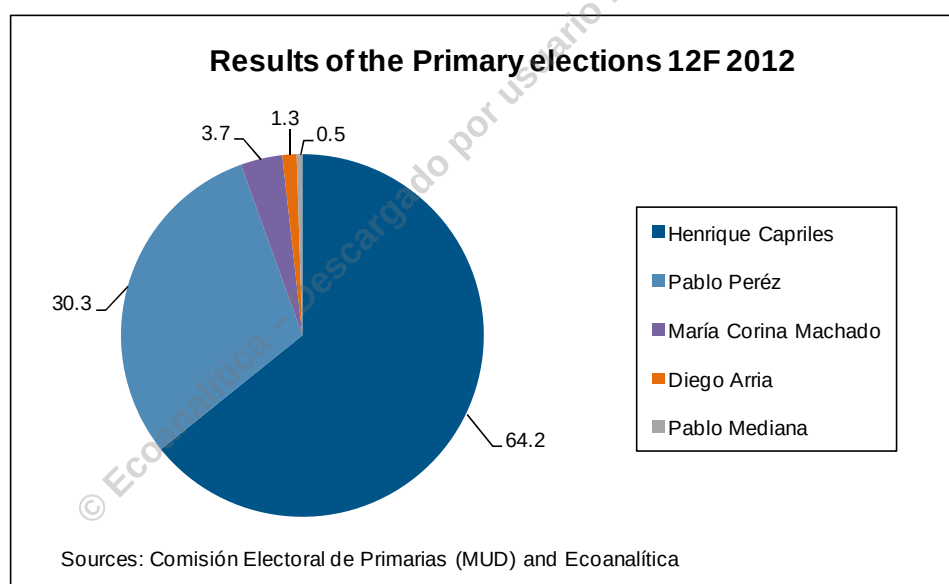
Capriles Radonski is the man

Just as all the pollsters had predicted months ago, Henrique Capriles Radonski (HCR) easily won the primary election to choose the Opposition presidential candidate last Sunday. HCR, the current Governor of the state of Miranda and now presidential candidate for the Coalition for Democratic Unity for the upcoming presidential election to be held on October 7, won



the primary with a resounding 64.2% of the vote (a total of 1,900,528 votes), followed by Governor Pablo Pérez who received 896,070 of the votes (30.3%).

Besides Capriles Radonski and Pablo Pérez, there was National Assembly representative, María Corina Machado, who received 3.7% of the vote (110,420 votes); former ambassador Diego Arria, who received 1.3% of the vote (37,834 votes); and the labor union leader, Pablo Medina, who received 0.5% of the vote (14,561 votes). It's worth pointing out that Capriles was the winner in 21 states and the Capital District, while Pablo Pérez was the winner in Zulia and Delta Amacuro.



As soon as the results were known, all of the losing candidates pledged their support for HCR as their presidential candidate in the eight months of campaigning that are left before the election in October. A lot of work left to do to gain on the strong lead Chávez has.

Governor's and Mayor's race?

The president of the Electoral Commission for the Primaries, Teresa Albanes, announced on Monday afternoon, in the third electoral bulletin, the names of the Governor candidates elected by the MUD. This election will be held on December 16, and the candidates are the following:





Governor's primary elections results 12F 2012			
State	Candidates	Votes	% candidate
Anzoátegui	Antonio Barreto Siria	97,815	61.6
Apure	Luis Lippa	12,897	57.4
Aragua	Richard Mardo	163,959	88.0
Barinas	Julio César Reyes	25,348	48.9
Bolívar	Andrés Velásquez	88,073	67.0
Cojedes	Alberto Galíndez	17,250	77.9
Delta Amacuro	Arévalo Salazar	2,733	50.8
Falcón	Gregorio Graterol	46,889	60.0
Guárico	José Manuel González	26,459	55.4
Mérida	Lester Rodríguez	47,509	51.9
Miranda	Carlos Ocariz	312,673	68.3
Monagas	Soraya Hernández	32,792	54.8
Portuguesa	Iván Colmenares	29,530	68.7
Sucre	Hernán Nuñez	46,536	54.5
Trujillo	José Hernández	19,118	45.4
Vargas	José Manuel Olivares	17,547	61.1
Yaracuy	Biagio Pilieri	35,339	76.1

Sources: Comisión Electoral de Primarias (MUD) and Ecoanalítica

Also mentioned were the names of some of the Mayor's candidates elected, with states and municipalities:



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Mayor's primary elections results 12F 2012				
State	Municipalities	Candidates	Votes	% Candidate
Anzoátegui	Simón Rodríguez	José Brito	18,238	81.3
	Libertad	Juan Carlos Gillent	1,116	80.4
	Aragua	Diógenes Cupare	1,449	74.6
Aragua	San Sebastián	Carlos Miranda	2,034	85.1
	Urdaneta	Sotero González	1,268	73.4
	San Casimiro	Luis Rodríguez	1,716	71.9
Apure	Pedro Camejo	José Gregorio Blanco	1,116	69.2
	Muñoz	Oscar Salazar	606	65.7
	Achaguas	Cornelio V. Dias L.	1,054	42.9
Barinas	Pedraza	Frenchy Díaz	3,738	75.8
	Arisemendi	José Barrios	740	66.0
	Bolívar	Adolfo Superplano	2,419	61.9
Bolívar	Roscio	Manuel González	2,563	86.7
	Bolivariano	Gilberto Villarroel	1,223	55.8
	Cedeño	Jorge Prieto	798	32.6
Carabobo	Los Guayos	Darwyn Rosales	7,562	62.7
	Bejuma	Rodríguez Nuñez	2,902	39.7
	Libertador	Tito Freitas	4,405	34.8
Cojedes	Anzoátegui	Luis Linares	668	58.2
	Rómulo Gallegos	Abrahan Martín	653	56.1
	Ricaurte	Violeta Montoya	380	55.7
Delta Amacuro	Casacoima	Abelardo Gil	323	29.7
Distrito del Alto Apure	Distrito del Alto Apure	Milvier Gutiérrez	1,897	39.0
Distrito Capital	Libertador	Ismael García	81,635	30.2
Falcón	Buchivacoa	José Esteban Díaz	1,393	72.2
	Carirubana	Gustavo Rivero	13,793	71.9
	Bolívar	Francisco Bello	359	65.3
Guárico	Chaguaramas	Yovanny Salazar	11,740	86.2
	El Socorro	José Luis Palacios	861	72.2
	Guaribe	Yván Hurtado	430	55.6
Lara	Iribarren	Alfredo Ramos	111,740	86.2
	Palavecino	José Barreras	20,713	75.1
	Torres	Jesús Guillermo	9,721	56.4
Mérida	Pueblo Llano	Fredis Rondón	713	80.6
	Cardenal Quintero	Iris Rivas	437	80.0
	Rangel	Alvaro Sánchez	1,198	76.7
Miranda	Brion	Teran Raimundo	4,074	72.6
	Cristóbal Rojas	Pedro Vegas	5,633	59.5
	Paz Castillo	Rafaél Galluzo	3,070	55.8
Monagas	Caripe	Wulfrido García	2,266	87.1
	Santa Barbara	Hildemaro Muñoz	320	69.0
	Piar	Jesús Cabello	1,171	41.3
Nueva Esparta	Macanao	Marco Marcano	1,072	37.6
	Gómez	Angel Camino	1,382	34.9
Portuguesa	Turen	Cristina Pensa	2,071	78.1
	Papelón	Félix Ferrer	370	68.8
	Santa Rosalía	Marcos Barrientos	262	68.4
Sucre	Libertador	Alfredo Caraballo	692	58.5
	Andrés Blanco	Javier Bellorin	1,747	55.9
	Santiago Mariño	Rafaél Santamaría	1,024	51.0
Táchira	María Vargas	Juan Carlos Duque	592	73.5
	Antonio Rómulo	Laura Escalante	435	59.5
	Seberuco	Nero Marquez	1,101	65.8
Trujillo	Candelaria	José Ochoa	865	86.8
	Carache	Ana Socorro Delgado	892	83.7
	Torbes	Alberto Maldonado	3,297	76.0
Yaracuy	Aristides Bastidas	Miguel Kalife	861	78.0
	Sucre	Leonardo Hernández	1,268	76.9
	La Trinidad	César Pérez Martínez	1,193	74.6
Zulia	Francisco J. Pulg	Freddy Gómez	3,170	96.4
	Mara	Salvador Spinello	3,354	85.6
	Baralt	Ángel Caridad	6,297	79.3
Vargas	Vargas	Fabiola Colmenarez	16,360	57.2

Sources: Comisión Electoral de Primarias (MUD) and Ecoanalítica



It's important to point out that Capriles won by more than double the votes that Pablo Pérez received, legitimizing his being chosen as the coalition candidate, as being the strongest candidate. This should solidify the Opposition behind him and carry him to the presidential election, mobilizing the party followers and their enthusiasm, and giving a boost to his image in independent sectors and sectors still loyal to the government.

Will the fourth time be the charm?

These primary elections have revealed a much more mature Opposition, clearly defined and organized, as well as having a much more attractive strategy leading into the presidential election. The new generation of leaders that joined Capriles up on the stage to celebrate his victory last Sunday showed a break from the past, or as Capriles pointed out: *"with the old way of doing politics in Venezuela,"* something that opposition voters seemed to be interested in now. And, contrary to what was suggested by the traditional parties when organizing the primary elections at the regional level, vote results at the state and municipal level confirm that voters are backing new leaders rather than traditional party representatives, a shift which began back in 2008.

The strength is in unity

What was left very clear last Sunday night, after the results had confirmed that Capriles would be the Opposition's candidate in the upcoming presidential election, was that unity was the key. The first thing HCR did while celebrating his victory, was to call out to all his rivals in the primaries, and the candidates for governors and mayors, as well as Parliament representatives, that they should all remain united, *"work united"* towards the election in October. The call was immediately answered, without hesitation, by all the other candidates who as soon as the results were known, recognized and accepted Capriles' victory, standing beside him on the stage and celebrating with him.

In his acceptance speech, Capriles expressed his wish to be the President of all Venezuelans, no matter what your beliefs or ideals are. He stated that he wanted to promote policies that *"include"* the people and *"exclude"* no one. It's important to highlight that he recognized and thanked the National Armed Forces and the National Electoral Council for their support carrying out the primaries.

What does Capriles propose?

Capriles has backed the platform proposed by the Opposition that proposes to straighten out the country's constitutional framework and gradually adjust the economy while creating jobs and improving the quality of life by improving on social programs and the supply of quality public goods (health, education, and efficient public services).



So Capriles' proposal focuses on eliminating most of the distortions that are currently in the economy, including: the exchange control, price controls, regressive subsidies, the disorder and lack of transparency with regard to fiscal management, among other things. However, his message also makes it clear that this has to be done gradually in order to minimize social costs and thereby guarantee being able to govern the country.

**The Future?
A difficult
task**

At **Ecoanalítica**, we agree with the words of analyst Thaelman Urgelles when stating that there is no doubt that after February 12 *"Venezuela will irreparably be another, that the alliance of all the factors called by the MUD, if afterwards, they remain equally committed and have faith in the elected candidate, it is perfectly capable of defeating in an election this sly and powerful Administration."*

But it won't be easy. Capriles must be able to organically, and not just in words, integrate the other candidates that ran against him and the parties that supported them. And above all, he must open the door to the independent civil society. He must also establish a level of cooperation with the traditional opposition parties, even though he is trying to steer away from the old ways of doing politics. These parties have something to give with respect to organization and experience, and their support will be helpful when trying to make his Administration governable. He must also show his resolve and honesty and be firm while facing up to the Administration in power, facing it head on and engaged in direct dialogue, and making people believe that this chavista government can be removed via the vote.

And lastly, but not least important, and maybe the hardest task ahead, but also the most worthwhile will be to convince those that are currently part of the government ranks, on the fringe, and the independents, and convince them that there is in fact a better path to follow to improve our country and the quality of life. If you can do this you can win the battle.

**And beyond
politics...
3 key
elements**

Now, with Capriles having been elected, the presidential campaign will begin. And, as we have been saying in our reports, the Administration is going to spend like it has never spent before, having a positive impact on consumption and economic growth. This is a something that must be taken advantage of, because no matter what the outcome in October, the years ahead are going to be very difficult.

With respect to inventories, it's important to keep an eye on this issue and make provisions for the future, keeping in mind the devaluation that is for



sure coming; it's just a matter of time. Other than those sectors such as food, medicines, and personal hygiene, which have a hard time stockpiling on inventory, all other sectors must deal with this issue this year.

And lastly, the devaluation, which will be in a much more organized manner if the opposition wins, and with more restrictions in obtaining foreign currency if chavismo continues in power. Companies must have a coverage strategy in place. We will address this issue more in depth in our next report.

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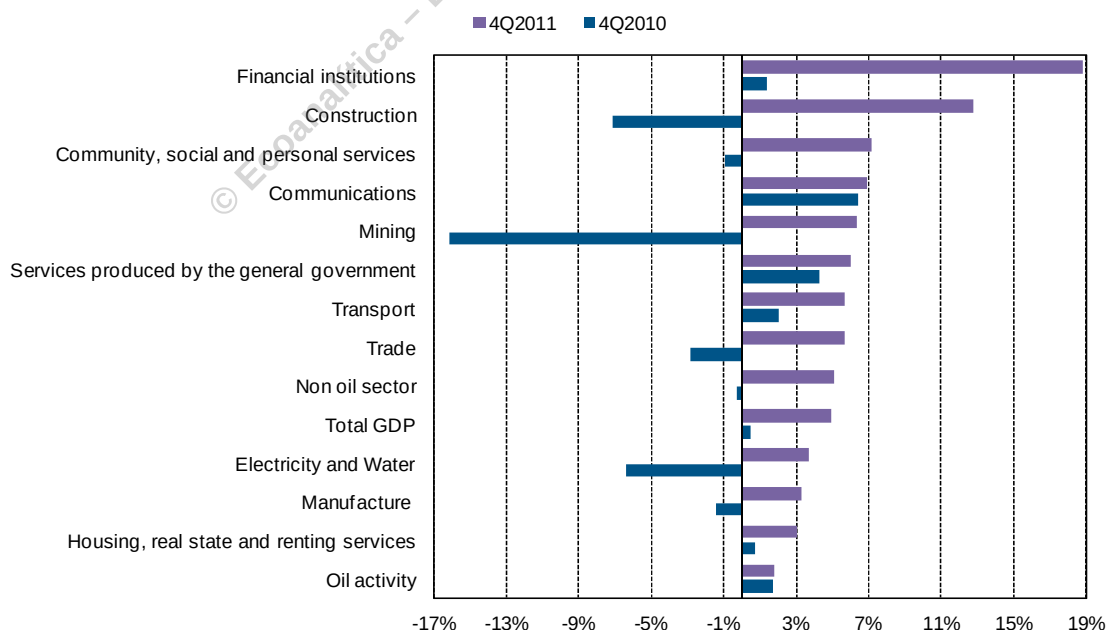


Economic Tips

GDP grew 4.9% 4Q2011. The Central Bank of Venezuela reported that the economy registered growth of 4.9% in 4Q2011, respect the same period 2010, which together with the increase of 3.9% observed during the first nine months of last year, resulted in an annual growth of 4.2% in 2011. When evaluating the performance by sector shows that the the oil sector grew 1.8% and non-oil 5.1% in 4Q2011.

GDP for non-oil sectors. The sectors that grew the most were: financial and insurance institutions, up 18.8%, construction, up 12.8%; communication, up 6.9%; public sector services, up 6.0%, commerce, up 5.7%, electric power and water, up 3.7% and manufacturing up 3.3%. During this period the performance of these sectors was driven by the increase in aggregate domestic demand, greater availability of imported inputs, the increase in availability of electricity and the increase of public spending.

Growth by economic activity



Sources: BCV and Ecoanalítica

Tax collection for the month of January. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 11.76 billion in taxes



were collected for the month of January. Of this amount, VEB 2.23 billion (19%) came from Income Tax, and VEB 5.89 billion (50.1%) from the VAT.

In real terms, January tax collection was up by 1.8% compared to the same period last year. Both the Income Tax and the VAT increased in real terms compared to the same period last year, by 8.2% and 2.2%, respectively. Revenue coming in due to Customs Tax went down by 10.8% in real terms compared to the same period last year.

Concepts (VEB Million)	Jan-11	Jan-12	Var (%)	Real Var
Total Income	9,161	11,758	28.4%	1.8%
Income Tax	1,636	2,232	36.4%	8.2%
VAT (Internal)	4,576	5,895	28.8%	2.2%
Customs revenue*	2,273	2,556	12.4%	-10.8%
Other Internal Revenue	609	797	30.9%	3.9%
Spirits	39	51	31.1%	4.0%
Cigarettes	533	717	34.5%	6.7%
Inheritance	15	21	37.5%	9.1%
Random games or bets	21	7	-64.3%	-71.7%
Others	67	278	317.8%	231.4%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports

Cadivi approved US\$2.24 billion in January. According to figures released by CADIVI, US\$2.24 billion in foreign currency was approved in the month of January for imports, travelling abroad and remittances. Of this amount, 73%, around US\$1.63 billion were assigned to imports, ordinary imports as well as ALADI agreement imports. The sectors which were most favored with respect to foreign currency assignment were: food (US\$600 million), health (US\$235.7 million), and automobile industry (US\$117.6 million).

The Basic Basket for Food, Goods and Services at VEB 6,390. The latest information released by the Center for Documentation and Analysis for Workers (Cenda) puts the Basic Basket for Food, Goods and Services for the month of December 2011 at VEB 6,390.30. This is up by 2.1% (VEB 133.2) compared to what was posted in November 2011. The y/y variation for this basket was at 28.4% (VEB 1,411.90).





Clothing and footwear was what increased the most. Five of the seven items included in the basket increased in price: clothing and footwear (3.4%), food (2.8%), health (2.6%), personal hygiene and household articles (2.2%), and housing (1.4%). Education and public services did not register any variations.

2011: Higher prices in public services. According to the Center for Documentation and Analysis for Workers (Cenda), of the seven items studied, basic public services registered the highest inflation during 2011, up by 39.2%, followed by food at 35.6%, and personal hygiene and household articles at 30.0%.

Family income only covers 48.5% of the basket. An average family income set at 2 minimum wage salaries (VEB 3,096.4) by Cenda is only able to cover 48.5% of the value of the basket which leaves a deficit of VEB 3,294.0 (51.5%). A family needs four minimum wage salaries in order to cover its basic needs.

The Scarcity index at 18% in Caracas. According to Datanálisis, at the close of January 2012, in Caracas, the scarcity index registered 18% which is an improvement compared to the 24% it registered in December 2011. Luis Vicente León explains that *"the shortage of products has improved in Caracas this last month because the government has ordered companies to increase their deliveries to Caracas, but in other cities around the country, shortages have not improved."* Leon also explains that even though the scarcity index has improved some in the Caracas area, there are still significant shortages of some basic products that just can't be found in stores.

Inflation in Venezuela triples that of Alba countries. Despite the fact that the Central Bank of Venezuela celebrates the fact that inflation only registered 1.5% for the month of January, this is a lot higher than the countries members of the Bolivarian Alliance of the People of our America (ALBA). Inflation for the month of January in Nicaragua was at 0.13%, in Bolivia at 0.30%, and in Ecuador at 0.57%. With a fixed foreign exchange rate and an inflation rate that is much higher than the ALBA member countries (and the rest of Latin America), this means that the Venezuelan currency is overvalued, and imbalance that stimulates imports and hurts domestic companies' efforts to export.

Venezuelan country risk drops. On February 13, the Venezuelan country risk level dropped to its lowest level since August 2010. This is explained by political factors and that Venezuelan bonds in US-dollars, backed by PDVSA and the Republic have been gaining steadily since the end of September 2011; this week they're up between 1.5 and 2.0 percentage points. According to Alejandro Grisanti, an analyst for Barclays Capital, at the moment, thanks to a more positive global outlook, *"investors are more willing to run risks and Venezuelan bonds are quite cheap."*



Interest rates. The lending rate for the first week in February was at 16.7%, decreasing by 0.8 percentage points compared to the previous week. The time deposit rate remained since July 2011 reach 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 2.2% going from US\$27,542 million during the first week of February to US\$26,931 million during the previews week. Compared to the same period last year, international reserves have decreased by 8.2%.

Monetary liquidity. Monetary liquidity in the first week in February increased 0.6% compared to the previous week settling at VEB 441,725 million. The M2 has increased 49.4% year-on-year.

Sitme figures. So far this year, US\$1,234 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$38.6 million a day, with an implicit exchange rate of 5.3 VEB/US\$. During the second week of February the amount traded reached US\$201.9 million, traded US1.2 million more than last week when US\$200.8 million were traded.

Oil Tips

In 2015 crude oil shipments to China and the US will be equal. Rafael Ramírez Minister of oil and President of Pdvsa, says that Venezuela has a clear strategy to develop its oil industry: by 2015 crude oil sales to China will be equal to those to the United States. The Minister said that at present, 460,000 barrels per day (kb/d) of oil are dispatched to China and these shipments are expected to increase to one million barrels per day (mb/d) by 2015.

Ramírez: “We are diversifying our markets”. He reminded that Pdvsa is already working on one of the three refineries that will be built in Chinese territory. He said: *“The Chinese market is one of the fastest growing markets. All companies are behind the Chinese Government to have refineries there, and we are one of the few companies building not one but three refineries in China”.*





And that refinery in China is going well... Ramírez said that the company's income increased 35% in 2011, given the record average yearly price of the local barrel of oil and its products.

Ramírez also said that... *"Our investment plan between 2013 and 2018 is for US\$236.0 billion. No one takes on this investment with the cash flow (...) Loans are required, and this is what we are doing",* he said.

Pdvsa's fiscal contribution falls compared to 2008. Last year, the behavior of oil prices allowed Pdvsa's regular contribution to the national treasury to increase compared to 2010, however, it was lower than that of other high oil price periods. Rafael Ramírez informed last week that the funds given to the Central Government through income tax, royalties and dividends reached VEB 81.0 billion.

Comparing this with 2008 (when there was an oil price boom), there was a drop of 2.9% in real terms. In 2008, the amount paid to the treasury was VEB 82.4 billion, when the average price of the Venezuelan crude oil was US\$86.

Agreement between Pdvsa and Gazprom approved. The National Assembly (AN) approved the agreement between the Venezuelan Oil Corporation (Corporación Venezolana de Petróleo) to create a mixed company in the Faja. The agreement expects Pdvsa to have a 60% share in the company, while the Russian company will have a 40% share. The operations will be carried out in a 55 thousand square kilometer area, covering the states of Anzoátegui, Monagas and Guárico.

BCV's help to Pdvsa reaches VEB 95.80 billion. The Central Bank of Venezuela (BCV) has become one of the main entities to help Pdvsa financially, and although the state owned company has looked for ways to pay its commitments, its debt is still high. The monetary base figures show that by the January 27 of this year, the assistance of the BCV to the industry was VEB 95.8 billion (US\$22.20 billion). In November 2011 the financial assistance of the entity to the oil company reached VEB 101.0 billion, and given this debt, Pdvsa carried out several operations to pay it off, but so far, the debt has reduced only 6%.

They say that 90% of the oil spill in Jusepín has been collected. Alejandro Hitcher, Minister of the Environment, said that *"the oil spill is almost fully controlled; 90% of the oil is already within the barriers and is being extracted with the different systems that the oil industry has to solve these types of accidents"*. The official said that the oil spill on the waters of the Guarapiche river, Maturín, Monagas state, which occurred last Saturday, February 4th, has already been controlled.



Iran's oil reserves have increased. This country has now 154.58 bb/d of oil, and 33.70 billion cubic feet of recoverable natural gas, after finding significant amounts of both resources in 2011, according to a statement given by an official news service on Monday, February 13th. Reuters reports that according to the last world statistical review in the sector, Iran's proven oil reserves were 137.0 Bb/d of crude oil and gas condensate, and 29.6 billion cubic feet of natural gas, by the end of 2010. This indicates that oil and natural gas reserves increased 12.8% and 13.9% respectively in 2011, with respect to the year before.

International oil baskets. At closing time on February 10th in the New York Stock Exchange, the price of the WTI was US\$98.3/bl, a 0.3% increase compared to the US\$98.1/bl reported the previous week. The Brent increased by 4.6% to reach US\$116.5/bl, compared to the previous week's US\$111.4bl.

Local oil basket price. The Venezuelan oil basket price increased last week, closing at US\$108.4/bl on Friday February 10th, a 1.2% increase compared to the US\$107.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$108.1/bl.

Business Sector Tips

"Profits must be 30% at most", warns the Trade vice minister. Yajaira Briceño, Vice minister for Domestic Trade, said that *"profits must be 30% at most"*. She reiterated that *"what is most important is to have a fair price; of course the marketing chain must have earnings, but in a rational manner, a profit of 10%, 20% to 30% tops; there are countries in which profits are regulated"*. The vice minister also informed that the government will review the Trade Code, *"to adapt it to the socialist model"*, and that they are *"working to keep supporting the national economy"*.

The Administration will reduce those items with frozen prices up to 61%. Bit by bit. Thus are the announcements made by the President of the Republic regarding the future of the 19 items that had their price frozen in November. *"I get pleasure... it is pleasurable to make justice"*, said Hugo Chávez. Last week, the Head of State said that all the products under study will have lower prices, and only mentioned the new sales price of the five liter presentation of "Minalba" mineral water, and the roll-on deodorant "Mum" in the 90 gram presentation.



...According to the information by the Head of State, the water that is marketed by Pepsi-Cola Venezuela, will go from VEB 23 to VEB 12.5, a reduction of 45.9%. "I'm going to give it a price of VEB12.5", said Chávez. *"How can they say that they won't make a profit if it is just water? The only thing they do is take the water. Who produces the water? God, and then they come, take the water, bottle it, and sell it at very high prices, and thus become richer every day".*

...No time was wasted after the announcement, and Pepsico was audited. The Superintendence of Costs and Prices (Superintendencia de Costos and Precios - Sundecop) audited Pepsi Cola for the adjustments made to mineral water prices. In a communiqué, the entity said that the measure was due to claims made by store owners. The communique of the Superintendence says that Diana Sardi, legal assistant of Empresas Polar and Pepsi-Cola de Venezuela, commented that the auditors acted according to the law, and *"clearly explained the purpose of their visit."*

Venezuela and China could be more united than ever. The President of the Republic threatened Venezuelan businessmen with bringing companies from other countries to prevent the scarcity of basic products. *"This message goes to China and other countries (...) Some have threatened us: if the President lowers the price of "Mum Bolita" the factory will leave; well then, we will bring another one; we will bring it from China, Ambassador (of China). What's the name of the deodorant there? Not "Mum", what's it called? There are many brands",* said Hugo Chávez.

Trade agreement terms with Colombia are ready. The governments of Venezuela and Colombia finalized the technical negotiations that define the terms and conditions for bi-national trade, within the framework of the Partial Scope Agreement signed last November by Presidents Hugo Chávez and Juan Manuel Santos.

...The conclusion of the negotiations between Colombia and Venezuela, within the framework of the Partial Scope Agreement, will allow 91% of the tariff items and sub-items traded between 2006 and 2010 to have zero tax, once the bi-national agreement enters into force. After the discussions, Colombian authorities said that the remaining 9% of the historic trade estate corresponds to 90 items and sub-items, which will be given "a level that is above Venezuela's third country taxes".

In January, the price of cement increased 13.4%. In January, the price of construction items increased 2.5%, mostly affected by the greater increases in steel products and cement. The information from the Central Bank of Venezuela (BCV), regarding the wholesale construction price index shows that in one month, the price of cement increased 13.4%, and the cost of steel products (iron rods, meshes, wire) increased 5%.



Public spending increases the excess of bolivars in the banking system.

Supported by high oil prices, the Government opened the gates of public spending and caused a rise in the amount of idle money in the banking system, creating an imbalance that affects bank users. During 2011, banks maintained on average VEB 29.81 billion per month, over the amount that they must have as reserve in the Central Bank, and in January of this year, the surplus increased 68.5% up to VEB 50.26 billion.

Chavez orders a new land rescue. The recently appointed President of the National Land Institute, Luis Motta Domínguez, already received the task of rescuing 3,811 hectares in the Quíbor valley (Lara) for the execution of the Valle de Quíbor Socialist Agricultural Project. *"Idle lands must be rescued. We must put an end to large estates"*, said President Hugo Chávez.

Currency allotted for insurance dropped 20%. In 2011 the Foreign Currency Administration Commission (Comisión de Administración de Divisas (Cadivi) assigned insurance companies US\$69.7 million, and that was 20% less than the amount authorized in 2010, of US\$88.3 million. Sources linked to the sector say that Cadivi has approved the currency as the applications come in, but these requests require the authorization of the Insurance Superintendence, and the organization has had delays in approving the reports of the companies, so the amount authorized has been low.

Cadivi approved US\$4.24 billion (sic) in January. The Foreign Currency Administration Commission (Comisión de Administración de Divisas (Cadivi) said, through a press note, that in January it approved US\$2.24 billion for a series of requirements like imports, remittances, and travel abroad. Of this, 73.0% or US\$1.64 billion, correspond to imports, both regular and those in the Aladi agreement.

And the blocks to import car parts seem endless. The process to obtain the *"Certificate of Non-Production (Certificado de No Producción" - CNP)* and the meager supply of currency through Sitme are limiting the supply of spare parts in the local market, according to the auto-part sector. A businessman who preferred to remain anonymous said that *"there are too many blocks to bring the products that are not available in the market"*.

Insurance companies with public policies have 28% of the total premiums. In 2011 the number of insurance company premiums increased 31%, and one of the most important elements for this behavior was the greater number of collective health policies, specifically in the Public Administration. Figures from the Insurance Superintendence show that last year, sales reached VEB 46.10 billion, while in 2010 they were VEB 34.80 billion. The information given by the entity reveals that



companies handling public sector insurance issued premiums for VEB 13.0 billion, or 28% of their sales.

Unavoidable meeting. The manufacturers, importers, and traders of personal hygiene and cleaning products met last Tuesday with the government to analyze the supply and provision of dollars for raw material or finished product importers, and to analyze the production or inventories of items like toilet paper, sanitary towels, detergent, shampoo, toothpaste, and others that are subject to the new regulation within the framework of the Law of Fair Costs and Prices.

World Economy Tips

Obama presented the Draft Federal Budget for 2013, which in an election year is considered his economic platform in preparation for the November elections. The plan involves a tax increase for those with higher earnings, and greater controls to avoid tax evasion by corporations. The Republican opposition criticized the project, among other things because they consider that it doesn't reduce public spending, specifically the costly health program. Analysts consider that the budget debate will be one of the main points of the electoral campaign.

Measures requested to restore the US real estate market. On February 10, Ben Bernanke, president of the Federal Reserve, made a call to restore the health of the US real estate market, saying that low prices and meager sales are a serious burden for economic recovery. *"The condition of the real estate sector has hindered a faster recovery"*, he said, at a constructor conference in Orlando.

US banks pay the victims of the real estate collapse. Some of the largest US banks seem to have reached an agreement with the federal government to compensate the victims of the real estate market collapse of 2008. The compensation could reach US\$25.0 billion.

By reaching an agreement they avoid a suit. Most of the US\$25.0 billion will go to a plan to reduce the mortgage payments of home owners who fell victim of these practices. Around 750,000 people who lost their homes will receive US\$2,000 each.

ECB maintains the interest rate at 1%... while it takes some time to evaluate the impact of prior measures to stimulate the economy of the Euro Zone. The European



Central Bank (ECB) also maintained the interest rates on its deposits at 0.25%, and for loans at 1.75%.

The Greek government couldn't reach an agreement. Last week, Athens didn't reach an agreement to continue receiving international financing as required by the European Commission (EC), the ECB, and the International Monetary Fund (IMF).

Meanwhile, the Greeks approve a new austerity law. Last Monday, February 13th, the Parliament approved a very unpopular austerity law to guarantee a second financial rescue from the European Union (EU) and the IMF to prevent non-payment. Before the vote in Parliament, there were serious violent acts in the streets of Athens, which spread to other towns and cities. The law establishes cuts for €3.3 billion (US\$4.35 billion) in salaries, pensions and employments, for this year only.

Euro rises after the approval of measures in Greece. Last Monday February 13th, the Euro rose after the Greek Parliament approved an austerity measure that took the country closer to an approval of the needed rescue funds, although market participants are concerned by the lingering obstacles before the funds are made effective. The initiative, approved amidst violent demonstrations, should allow the EU to release the €130.0 billion rescue plan and help Greece avoid a moratorium.

Japan's current account surplus dropped in 2011. The Japanese current account had a balance of US\$125.0 billion in 2011, a drop of 44% with respect to the previous year, and its largest drop in more than 15 years. The income from large foreign investments in Japan are not yet perceived as an immediate risk for the current account deficit, but the variation in exchange terms raises questions about what may happen in the next years.

The decline had been anticipated by the January data, which showed that Japan reported last year its first trade deficit since 1980, after the devastating earthquake in March, which hindered exports and increased its dependence on fuel imports, given the closing of nuclear plants.

Food prices increase for the first time in six months. Global food prices increased almost 2% in January compared to the previous month, fueled by the rise in vegetable oils and cereals, and the poor climate conditions. However, according to Abdolreza Abbassian, senior economist at the Food and Agriculture Organization (FAO), the price increase isn't a great threat for inflation, as it was in 2010.

Mexico's industrial activity increased in December. In the last month of 2011, the Mexican industrial activity increased to its highest level in three months, seasonally adjusted, and beyond analyst expectations, fostered mainly by the manufactures sent



to the United States. Industrial production, which depends largely on the US economic cycles, grew 0.9% that month, according to figures of the National Institute of Statistics and Geography (Instituto Nacional de Estadística and Geografía - INEGI) published this week. This more than doubled the 0.4% increase analysts expected in a survey done by Reuters.

Colombia's GDP increases above its potential. According to José Darío Uribe, director of the Central Bank, the Colombian economy is growing above its potential GDP, which could mean a higher pressure over an inflation that is within the established targets. The country's GDP had grown between 5.6% and 6% in 2011, compared to 4.3% in 2010, said the director in a presentation on monetary policies. For this year, the highest monetary authority maintained its economic growth estimates at a range between 4% and 6%.

Political Tips

The primaries were a strong process. Luis Vicente León, director of Datanálisis, said that the opposition structures must be reunited, because it is necessary to use all the networks available to confront Chávez, who has all the resources to mobilize people and build a campaign. He said that the primaries were a strong point, with a really good participation for a primary election process. He said: *"It became a great electoral party, where the myth of the political machineries was dismantled"*.

We guarantee transparency in each of the actions of the CNE. Tibusay Lucena, president of the National Electoral Council, said last Monday that transparency is guaranteed in each stage of the electoral processes in which the entity participates, in response to comments made by ruling party spokespersons who suggest that there was a manipulation of the number of participants in last Sunday's primary elections.

The defeat of the present government could be anticipated. Alfredo Keller, president of Keller & Asociados, said that government strategies are not working any more. He said, *"We are witnessing the beginning of a tsunami that will capitalize 60% of the opposition that will decide on October the 7th"*. He said that the defeat of the government is something that could be anticipated, given the scenario of a united opposition. He says that today the opposition has seven million votes, and this number can increase before October 7th, evidencing that the opposition is the



majority. He stressed that worldwide, primary elections have a low participation, and considers a participation of 16% an *"advance of the landslide of votes during the elections of October 7"*.

...Keller said that only 19% evaluates positively the results of the Chávez Administration, and states that the Head of State has won the elections due to the number of voters that don't participate, who are mostly from the opposition. He said that participation was above the estimates, but the result was as expected. The president of the survey company said that the popularity of Capriles and Leopoldo is higher than that of the President and 54% of the population considers that Chávez should not be reelected.

Capriles's speech was inclusive and called for unity. Saúl Cabrera, vice president of Consultores 21, said that *"polarization and political tension"* defined the high level of participation in the primary elections. Cabrera said that 50% of the electorally active population is in sync with what the opposition says. He said that the speech of Capriles was inclusive and called for unity because it represents *"the illusion for the future, a vote in favor of a project, and not only against the President of the Republic"*. He added that *"If today were October the 7th, there would be a chance for Capriles to become President"*, but said that *"there are many months ahead, and Chávez is an excellent candidate"*.

Some candidates don't agree with the results. After the announcement made in the early hours of this Monday by the Electoral Commission of the Democratic Unity Group (Comisión Electoral de la Mesa de la Unidad Democrática), saying that the candidate for the mayoralty of the Libertador municipality is Ismael García, Antonio Ecarri, confirmed that he will request a recount of the votes. He will request the Regional Primary Board to review the result of the primary elections in Caracas.

Chávez denigrates his opponents for the elections. Denigrating his opponents has been part of the political strategy of President Hugo Chávez during his thirteen years in power. Thus, the term he uses for them is *"escuálidos"*. He said it recently, when María Corina Machado challenged him to a debate. *"An Eagle doesn't hunt flies"*, said the President.

...Jaua invites the country to read the government program of the MUD. Elías Jaua, Executive Vice President of the Republic, called upon all Venezuelans to read the opposition's government program, to *"identify the right wing perspective regarding vital issues like State control over oil income, and the investment of those resources in health, education, food, housing and other areas with social impact"*.



Legislative Tips

AN will investigate the death of babies. The sub-commission on Health and Social Security of the National Assembly (AN) decided last Tuesday, February 7 to investigate the death of newborns in different public health institutions of the country, including the recent case of 11 babies that died at the Central Hospital of Maracay. According to Congressman Henry Ventura *"at the Health and Social Security sub-commission, we will review the whole issue of neonatal mortality, which before President Hugo Chávez was 46% and thanks to his policies, it has dropped"*.

Antimonopoly law is in the making. For this first quarter, the Finance Commission of the AN expects to have the report of the Antimonopoly law. Ricardo Sanguino, President of the Finance Commission, said that work is being done to elaborate the draft, which will be in line with the *"Law of Fair Costs and Prices"*.

Won't happen. The proposal of feminist trade unionists of the government party to extend both the prenatal and the postnatal leaves to 5 months, was not received positively by the presidential commission working on the new Organic Labor Law, and the trend is to maintain the same maternal leave period. However, the President of the Republic has the last word.

False accusations of corruption will be punished. During the opening session of the Comptrollership Commission, held on January 18, its President, Pedro Carreño, said that there were no mechanisms to compensate for *"the ethical and moral damage"* of the victims of *"biased"* claims. Carreño proposed the creation of a *"verification unit"* to corroborate the truth of the accusations, and stressed the need to safeguard the identity of the accusers. Jesús Montilla, vice president of the entity, explained that there is a technical department to evaluate the evidences.

Additional credit for arms control approved. President Chávez approved in early February, VEB 39.9 million for the Presidential Commission on Arms and Ammunition Control and Disarmament. This Commission was created in May 2011 and, after a national consultation process and the work of specialists, elaborated measures last December that contemplate among other things, the prohibition to carry firearms and ammunition in closed environments destined to sports, arts, and cultural events, and the implementation of a system to mark ammunition and weapons.



Campaign to sensitize the people about the use of weapons started. Last Monday, February 6, a campaign to sensitize and create awareness on the use and possession of fire weapons started, which will be broadcast through the media, to gradually achieve a life without violence and without weapons. The Presidential Commission for Arms and Ammunition Control and Disarmament, in charge of the campaign, said that the media plays an important role to stimulate disarmament, and dismount the myths about the use of firearms.

AN investigates oil spill. Congressmen members of the Mixed Commission on Energy and the Environment of the AN went last Monday, February 13 to Monagas, to start the investigations of the industrial incident at the Jusepín complex that occurred on February 4. They will also check the progress made in collecting the crude oil, and cleaning the areas affected by the oil spill.

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ECONOMIC OVERVIEW

