



Weekly Report

Year 9, Number 15
Week IV, April 2013

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Democracy: quantity vs quality

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"Democracy needs strong systems and institutions, not strong men"
-Susilo Bambang Yudhoyono

In the history of democracy in Venezuela, from 1958 to 2013, we can study how public institutions and the process of formulating policy have evolved. What seemed to be a stable model for democracy in a Latin American continent with many problems, during the last decade, has turned into one of the most unstable and polarized countries in the region.

The latest round of elections, the presidential election to replace Chávez held on April 14th, has left the country questioning just how stable its institution and democratic principles are. This Report will focus on shedding some light on this predicament and describe the role that institutions play in this type of government.

In the fifth edition of the democracy index published by The Economist Intelligence Unit, one observes how global democracy is at a standstill, in



as much as there was no significant shift forwards or backwards in terms of democracy in 2012. The study reports how last year was characterized by a debt crisis and weak political leadership in developed countries.

Furthermore, in most European countries, the confidence in public institutions continues to diminish, while the United States has been affected by increasing political polarization and the United Kingdom is going through a significant crisis with its institutions. Also, there is evidence that crime, especially violence and drug trafficking continue to have a negative impact on democracy in Latin America.

What does the democracy index show?

The democracy index presents a portrait of the state of democracy in the 167 countries included in the study. Democracy is measured on a scale of 0-10, calculated based on 60 indicators grouped into five categories: electoral process and pluralism, civil liberties, how well the government operates, political participation, and political culture. Four types of regimes have been defined: full democracies, flawed democracies, hybrid regimes, and authoritarian regimes.

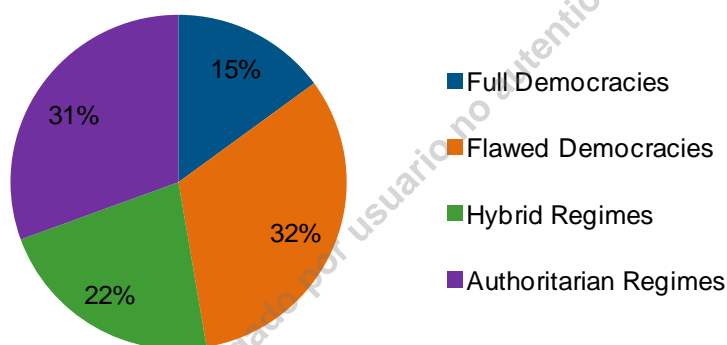
Democracy Index description and score of the categories		
Regimes	Score	Description
Full Democracies	8 to 10	Countries in which not only basic political freedoms and civil liberties are respected, but these will also tend to be underpinned by a political culture conducive to the flourishing of democracy. The functioning of government is satisfactory. Media are independent and diverse. There is an effective system of checks and balances. The judiciary is independent and judicial decisions are enforced. There are only limited problems in the functioning of democracies.
Flawed Democracies	6 to 7.9	These countries also have free and fair elections and even if there are problems (such as infringements on media freedom), basic civil liberties will be respected. However, there are significant weaknesses in other aspects of democracy, including problems in governance, an underdeveloped political culture and low levels of political participation.
Hybrid Regimes	4 to 5.9	Elections have substantial irregularities that often prevent them from being both free and fair. Government pressure on opposition parties and candidates may be common. Serious weaknesses are more prevalent than in flawed democracies--in political culture, functioning of government and political participation. Corruption tends to be widespread and the rule of law is weak. Civil society is weak. Typically there is harassment of and pressure on journalists, and the judiciary is not independent.
Authoritarian Regimes	lower than 4	In these states state political pluralism is absent or heavily circumscribed. Many countries in this category are outright dictatorships. Some formal institutions of democracy may exist, but these have little substance. Elections, if they do occur, are not free and fair. There is disregard for abuses and infringements of civil liberties. Media are typically state-owned or controlled by groups connected to the ruling regime. There is repression of criticism of the government and pervasive censorship. There is no independent judiciary.

Sources: Economist Intelligence Unit and Ecoanalítica



Keeping in mind the parameters of this report, half of the world's population lives in democratic regimes. However, in 2008, a structural crisis began that has magnified negative structural tendencies, and which in recent years, has left evidence that some countries that were on the path to "fuller" democracies have slid backwards.

Democracy index 2012, by Regime Type



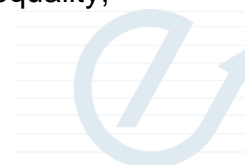
Sources: Economist Intelligence Unit and Ecoanalítica

In this latest update of the democracy index, one can see that most countries can be considered democratic, and that the number of countries classified as full democracies does not reach 25, with another 54 countries classified as flawed democracies. As one would expect, most of the countries categorized as full democracies are OECD countries, with two Latin American countries making the list: Uruguay and Costa Rica; one Eastern European country; and one African country. This would suggest that the level of a country's development doesn't necessarily define or limit a country's ability to be classified as a full democracy.

In 2012, eight countries had a change in the type of regime they represented; six moved up, and two slid backwards. Hong Kong, Malawi and Senegal were classified as hybrid regimes with the partial democracy group.

The situation continues to be the same....

In Latin America, between 2010 and 2012, there were no significant changes. However, a 2011 United Nations Development Programme (UNDP) report did find that the sustainability of democracy in the region could be in peril due to the concentration of power, economic inequality, and the increase in violence and insecurity.





Despite the fact that most of the countries in Latin America (14 out of 24) are in one or another category of democracy (full or partial), there is a lot of diversity in the region. For example, as we mentioned before, Uruguay is classified as a full democracy, with an index rating of 8.17/10 and ranked globally at number 18, while Venezuela is ranked at number 94 and is classified as a hybrid regime.

Electoral democracy in Latin America is fairly strong in most cases, but there are serious problems with the freedom of the press, with Cuba and Venezuela being the two countries with most claims filed against them regarding this issue. The region is also characterized for having regimes with strong presidents, relatively weak legislative powers, and politically influenced judicial powers. In *Ecoanalítica*, we consider that cases such as RCTV and the multiple fines to Globovisión, as the lack of transparency of our public institutions as well had a great impact on the democracy index, positioning us below our "friends" Bolivia and Ecuador.

Democracy Index 2012 in Latam							
	Rank	Overall score	Electoral process and pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Uruguay	18	8.17	10	8.93	4.44	7.5	10
Flawed democracies							
Chile	36	7.54	9.58	8.57	3.89	6.25	9.41
Brasil	44	7.12	9.58	7.50	5.00	4.38	9.12
Argentina	52	6.84	8.75	5.71	5.56	6.25	7.94
Colombia	57	6.63	9.17	7.50	3.89	3.75	8.82
Perú	61	6.47	9.17	5.00	5.56	4.38	8.24
Paraguay	70	6.26	8.33	5.36	5.00	4.38	8.24
Hybrid regimes							
Bolivia	85	5.84	7.00	5.00	6.11	3.75	7.35
Ecuador	87	5.78	7.83	4.64	5.00	4.38	7.06
Venezuela	95	5.15	5.67	4.29	5.56	4.38	5.88
Authoritarian regimes							
Cuba	127	3.52	1.75	4.64	3.89	4.38	2.94

Sources: Economist Intelligence Unit y Ecoanalítica

What is democracy?

The definition of democracy is a much debated point among experts in the field. In many cases, the terms liberty and democracy are used interchangeably, but contrary to what many may believe, these two words are not synonyms. Democracy can be defined as a set of practices and institutionalized principles that in the end protect liberty.





Despite the fact that there is no consensus on the definition of democracy, most experts agree that at least a democracy must have a government that has been elected by the majority of the people, that there be free and fair elections, and that the rights of minorities be protected as well as respecting human rights. The questions arise when one asks if it is enough to have just some of these elements present in order to satisfy the concept and definition of democracy.

Free elections and civil rights are necessary conditions for a democracy, but it's probably not enough to consolidate a full democracy if it doesn't also include a transparent government, political participation, and strong credible institutions.

Many also argue that in reality, a democratic government can't exist or be guaranteed without strong and transparent institutions. This is where the problem with Venezuela lies. Ever since Chávez came to power, 18 elections have been held. And despite the fact that so many elections have been held it doesn't make the country any more democratic. Quite the contrary, with ever election one can see how the institutions become more and more polarized, and how over the years, institutions have lost their transparency and credibility. One can also see how our neighboring countries steadily improve the quality of their democracy as Venezuela slides backwards, ranking lower and lower on the list.

Democracy Index in Latam

	2010	2008	2006
Argentina	6.84	6.84	6.63
Bolivia	5.92	6.15	5.98
Brasil	7.67	7.89	7.89
Chile	7.67	7.89	7.89
Colombia	6.55	6.54	6.40
Cuba	3.52	3.52	3.52
Ecuador	5.77	5.64	5.64
Paraguay	6.40	6.40	6.40
Perú	6.40	6.31	6.11
Uruguay	8.10	8.08	7.96
Venezuela	5.18	5.34	5.42
Average	6.37	6.42	6.35

Sources: Economist Intelligence Unit y Ecoanalítica





Quite often, the standard measure for a democracy is the one given by the index published by the Freedom house (US). Said report evaluates the degree of democracy based on two indicators: political rights and civil liberties; on a scale of 1 to 7 with 1 being more freedom and 7 the absence of freedom. Venezuela is considered as a country that is partially free with a non-existent separation of powers with a score of 5.0.

The fight against corruption does not seem to be a priority for the government of Venezuela, according to Freedom House's latest report, and the lack of transparency in the State makes it difficult for citizens to investigate and expose corruption. Venezuela is ranked 165th out of the 176 countries surveyed in the 2012 Corruption Perception Index of International Transparency.

Elections are a fundamental component of democracy, but without democratic institutions operating between election periods, they consolidate just the shell of democracy without the benefits of a truly responsible government.

What is the role of institutions?

According to North¹, institutions are *"the rules of the game of a society, or in a more formal way of looking at it, they are the restrictions or limitations created by man that shape human interaction."* Institutions don't only include the constitutional framework, but also the organizations that result and are created by it.

The Venezuelan Constitution describes the country as a participatory democracy, and establishes the rights of citizens, the relationship between public institution-citizen, and the role of the government as a supplier of public goods. But, in order for these rights to survive and be implemented, it's necessary for institutions to be strong.

Therefore, if institutions are strong, an important element exists, a system of checks and balances, whereby institutions can make sure public management stays on track. In politics, as well as in democracy, having a system of checks and balances insures the legitimacy of the public powers.

In Venezuela's case, the norm now is to create more and more institutions, with virtually no system of checks and balances to keep them on task or monitor them. In recent years have created new institutions, currently the

¹ Douglass North (1990) Institutions, Institutional Change and Economic Performance.



country have 33 ministries and two government headquarters, but paradoxically corruption is also increasing. In the 2011 World Bank (WB) Governability Index, Venezuela is ranked in the last percentiles with respect to systems of checks and balances, corruption control, and quality of regulations.

Democracies with weak institutions are more vulnerable to corruption and more likely to be aligned with the political party in power. Fragile institutions put democracy in peril and are more likely to slide backwards and become authoritarian regimes.

When the National Electoral Council (CNE), in response to the Opposition's request for the votes to be audited, due to the slim margin of the final results, and the numerous reports of voting irregularities, said that voting results announced by the entity were final and could not be changed; and furthermore, that there was no clear process by which an audit would take place; it's clear to see that institutions lack autonomy.

Weak institutions where corruption rules make it difficult for Venezuela to improve the quality of its democracy, and virtually impossible for it to ever become a full democracy. Creating strong institutions is just one step on the path to ensure that democracies offer real results. It's a step that takes time and a lot of work and effort, a step that Venezuela has yet to achieve. In Ecoanalítica, we consider that strengthening our institutions is of a paramount importance, not only for its impact on democracy, but also affected our economic development.





Economic Tips

Tax collection for March. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 27.68 billion were collected in taxes for the month of March. Of this amount, VEB 15.15 billion (73.3%) came from Income Tax, and VEB 8.14 billion (27.6%) from the VAT. The agency raised VEB 58.28 billion during the first three months of 2013, of which VEB 21.00 billion came from Income Tax (36.0%), and VEB 24.25 billion from Value Added Tax (VAT) (41.6% of the total).

In real terms, March tax collection was up by 17.7% compared to the same period last year. The VAT increased in real terms compared to the same period last year by 3.9% and revenue coming in due to Income Tax went up by 41.1% in real terms, meanwhile customs revenue decreased 20.2% in real terms compared to the same period last year. Total revenue in the first three months of this year grew by 12.1%. In turn, VAT increased 8.7% income tax revenues increased 34.3% and other income from customs and decreased 7.1%/y, all in real terms over the same period of 2012.

Sicad will address between 5 and 7% of imports. President Nicolás Maduro stated that Cadivi and Sicad allocations will contribute to relieve pressures on the parallel market. *“Cadivi is the main provider, contributing 95% of dollars required for the economy to move forward and the exchange market to operate. Sicad will contribute 5%, 7%,”* which accounts for almost the half of what was allocated through Sitme. This will put pressures on Cadivi, now that dollar availability continues to be insufficient, and will shoot up scarcity indices.

Venezuela won't grow in 2013. According to the last report by the WB, titled *“Latin America and the Caribbean as Tailwinds recede: In Search of higher Growth,”* the Venezuelan economy would grow just 0.1% in 2013, far below the 1.8% projected in January. The WB growth forecast puts Venezuela at the last position in Latin America, a region that is expected to grow 3.5% this year.

Bad luck. Standard & Poor's revised downward the outlook for Venezuela's sovereign debt (currently at B+), from “stable” to “negative,” as a result of intensified political uncertainties after the narrow outcome of April 14 presidential election. The rating agency added that the negative outlook hints to the possibility that a “politically weakened government” would resort to less pragmatic policies that may further destabilize the economy and result in increased instability.



The government's hands are tied. According to a report by Morgan Stanley, Nicolás Maduro's close victory compromises his ability to govern in an efficient manner, since it would be limited by "intestine power struggles" inside his party, between a radical faction that will advocate for "higher controls by the State, import rationing and no foreign debt issuing" and a "pragmatic faction" that would bet for a "hybrid" system, which would combine public and private economy notions "and resort to higher foreign financing."

And the economy needs help. Morgan Stanley also doubts that growth and inflation projections developed by the BCV and the economic Cabinet can be fulfilled, and puts 2013 growth at a rate of 1.9%, below its estimate for Latin America, and price variation at 26.2%, far above the 15% target set by the administration.

What do analysts say? According to the last LatinFocus Consensus Forecast, published by Focus Economics, analysts expect the Venezuelan economy to expand 0.8% in 2013, down 0.3% from the level expected one month ago. They also forecast that inflation will close 2013 at 30%, up 0.3% from March's estimates. We at **Ecoanalítica** maintain our growth estimate for this year at 0.9% and inflation around 32%.

Let's invest in socialism. President Nicolás Maduro called businessmen to work for the development of the country, provided they are clearly aware of the "rules of the game" and that the country moves toward "socialism." Maduro also pointed out that his administration has a plan to "*release the homeland's productive forces to increase investment in local and convertible currency*," Maduro assured that the Venezuelan administration is already establishing relations and associations to create new joint ventures.

Budget isn't enough to pay wages. Although 2013 budget law provides for VEB 85.0 billion to pay wages and pensions, the National Assembly (AN) has authorized supplementary appropriations worth VEB 9.8 billion earmarked to cover budgetary gaps in terms of labor and pension obligations. This amount is 69.6% higher than the sum approved in the same period last year (about VEB 5.8 billion).

The largest part is for pensions. This year, the AN has approved supplementary appropriations worth VEB 5.3 billion to pay pensions, VEB 1.8 billion for mission "*Hijos de Venezuela*", VEB 512 million to meet labor commitments of state-owned companies, VEB 1.04 billion to incorporate subcontracted workers, and VEB 1.1 billion to pay labor obligations.

...and more. The Venezuelan Institute for Social Security (IVSS) informed that through regular qualifications and mission "*Amor Mayor*," the number of pensioned



workers has grown up to 2.77 million people, according to which, monthly spending in pensions would reach VEB 5.67 billion. Adding the minimum wage increase proposed a few weeks ago, this amount would close 2013 at least at VEB 7.65 billion monthly.

Interest rates. The lending rate for the third week of April was at 16.7%, down by 0.2 percentage points compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves go down by 3.1%, going from US\$26.77 billion during the first week of April to US\$25.96 billion during the second week of April. Compared to the same period last year, international reserves have decreased by 4.9%.

Central government expenditure. On Friday March 19th according to figures from the National Treasury Office (ONT) primary spending was VEB 9.39 billion, which means an increase of 37.5% when compared to the previous week when it was VEB 6.83 billion; when compared to the same period last year we observe a decrease of 38.3%.

Monetary liquidity. Monetary liquidity (M2) was increased 0.7% in the second week of April compared to the previous week, settling at VEB 760.79 billion. The M2 has increased 64.8% in relation with the same period last year.

Oil Tips

Last-minute meeting. Minister of Petroleum and Mining, Rafael Ramírez, informed that, given the drop in world oil prices, consultations are being conducted to convene an extraordinary OPEC meeting intended to “protect” oil prices. Minister Ramírez stated that the “poor” performance of global economy contributes to create a situation in which oil prices fall and that OPEC member countries have said that the US\$100/bl. floor should be maintained.

Shale oil is growing... The last report by the International Energy Agency (IEA) pointed out that “*tar sands and shale oil in North America continue to bolster an*



unprecedented production growth in non-OPEC countries.” This allowed the US to reach a production of 7 million barrels daily (mb/d) in late 2012, up 25% from its level two years ago.

...and Venezuela diversifies. Since the US is the main destination for Venezuelan exports and has been cutting back its imports for the fourth year in a row, Venezuela is entering a new era on the international hydrocarbon market. However, shipments from Venezuela and Saudi Arabia hasn't been impacted by the US import drop, although they remain stagnated following a downward trend, with Nigeria, Angola, Algeria and even Iraq being the countries registering the deepest declines.

It won't start. In Cardón refinery, *“a fire took the lubricant complex out of service”* while the unit was being restarted after having been one year shut down, PDVSA and workers informed. In a press note, PDVSA said that it was a *“minor fire”* that *“was controlled and quenched immediately,”* therefore, the refinery *“is operating normally.”* However, an oil union leader pointed out that *“if production of basic oils has been paralyzed for more than year, it will remain so for another one.”*

Another claim against PDVSA. Nigeria's Shanga Energy & Marine sued PDVSA in 2008 after paying \$11.2 million for two shipments of products that never arrived to their destination, and last week the Second District Appeal Court in New York ruled that PDVSA will have to face the sue for US\$100 million brought into by the Nigerian firm.

Where's the trick? The Nigerian firm reported that it tried to purchase gas oil and gasoline from PDVSA, but the then Venezuelan Consul for commercial affairs in Nigeria suggested it to contact a broker identified as Arevenca; the Venezuelan embassy in Nigeria supposedly confirmed that Areventa's trade documents were legitimate. PDVSA, in its defense, has denied having *“any relation to the situation.”*

Venezuela can do it alone. PDVSA president Rafael Ramírez stated that the country will develop its hydrocarbon lifting infrastructure in the Orinoco without the help of any transnational company with the assistance of the local private sector. Alfredo Hernández, president of the Venezuelan Petroleum Chamber, in turn, said that private businessmen in the hydrocarbon sectors are *“ratifying their commitment to maintain current capacities”* and identify industrial development opportunities.

Everything is all right. Ramírez also stated that protests that took place after the presidential election didn't paralyze or impact the Venezuelan oil industry. *“Everything here is operating, working,”* Ramírez assured and ratified that fuel supply was normal. The Minister also stressed that oil facilities are operating normally and workers are at their workplaces.



Libya wants more. Minister of Petroleum Abdelbari al-Arusi said that Libya will try to increase its OPEC production quota, which was cut by the Organization when the production target of 30 mb/d was adopted. Libya's last production quota (1.47 mb/d) dates back to an agreement closed in 2008, when quotas weren't publicly allocated. However, average production has already reached 1.5 mb/d and is expected to get up to 1.7 mb/d in 4Q2013. With the production increase in Libya and Iraq, the quota issue could be dealt with in the next OPEC meeting.

Collection hasn't been possible. President of Iran's NIOC, Ahmad Ghalebani, said that foreign oil firms owe Iran US\$4.0 billion, an amount that the country cannot collect due to bank sanctions. Iran is submitted by Western countries to an oil embargo and bank sanctions because of its controversial nuclear program. *"It's possible that this amount is paid back with medicinal products, food or raw materials,"* NIOC president stated.

The EU rethinks its stances. The European Union (EU) modified its oil embargo against Syria to allow opposition forces to buy oil, although it won't lift the oil embargo established to punish Bashar al Assad's regime. The opposition controls several oil deposits; therefore, the measure might entail a substantial economic injection. However, it's still difficult to know the volume of oil that could be exported and under what terms.

International oil baskets. At closing time on April 19th in the New York Stock Exchange, the price of the WTI was US\$88,6/bl, a 5.4% decrease compared to the US\$93,7/bl reported the previous week. The Brent decreased by 4.7% to reach US\$100.1/bl, compared to the previous week's US\$105.0/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$96.5/bl on Friday April 19th, a 4.9% decrease compared to the US\$101.5/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$113.1/bl.

Business Sector Tips

Intermittent shortages. Reportedly, according to the BCV, scarcity index was at 20% in March. The supply of products of the basic food basket has become unstable. Irregular supply of staple products is worse in the more distant states. In Táchira,



Bolívar, Delta Amacuro, Apure, Zulia and Nueva Esparta, street vendors and markets are selling at prices three times higher.

Giving back what's not yours. Bolivariana de Puertos (Bolipuertos) informed that it is giving back the machinery belonging to private companies that the state-run entity has been using since ports were nationalized in 2009. Bolipuertos also explained that "*this time*" they returned assets of Royal Estibadores Agenciamiento y Servicios Portuarios C.A.

New joint assembly plant. Minister of Industries, Ricardo Menéndez, met with representatives from Renault and Nissan to discuss the incorporation of a joint assembly plant. Menéndez said that the firm will be incorporated under the Homeland Plan and that the new plant will have an assembly kit (CDK) to produce 25,000 units per year. Of these, 5,000 will be earmarked for export and 10,000 units per year to the kit of assembled auto parts.

Everything is ready for Mercosur. Cadivi informed that "*all our systems are adapted to the new Mercosur tariff nomenclature, which is in force since April 5, 2013,*" and assured that importers with an effective Non-Production Certificate with tariff codes previous to Mercosur tariffs will be able to use them to apply for foreign currency. The Commission highlighted that "*the adoption of new tariff codes is a step that provides us with the opportunity of deepening national development.*"

Turning a deaf ear. Companies that sell household cleaning products have sent several communications to the Vice-President's Office and Sundecop in 2013 requesting that meetings with the sector are restarted and the price of disinfectants and detergents, which have been frozen since November 2011, are adjusted. Their last letter was sent to Sundecop in early April, but they haven't got any answer yet.

Prices and foreign currency. One year and five months have elapsed since detergent prices were regulated and issues that are affecting producers the most include price revision and streamlining of foreign currency allocation process. Representatives from the sector state that backlogs at Cadivi have affected international credits and production, because most companies manufacture in the country and formulation processes require foreign inputs.

Multinational corporations are feeling the burden of devaluation. PepsiCo Inc. reported a decline in its quarterly profits partly due to the impact of devaluation. The company that produces Pepsi, Tropicana fruit juices, Frito-Lay snacks and Quaker Oats said that their net profits amounted to US\$1.08 billion in 1Q2013, down from the US\$1.13 billion in 1Q2012. Colgate-Palmolive admitted in February that it would



register extraordinary losses for US\$120 million in 2013. Telefónica and BBVA also felt the effect of devaluation.

Agricultural subsidies are almost ready. The administration has almost completed the agricultural subsidy schedule to offset backlogs in controlled prices. This measure would be applied to paddy rice and sugarcane, the prices of which remain below production costs. The Ministry of Agriculture and Land said rice producers that a compensation of VEB 1.30 would be introduced, which will make producers to earn VEB 3.80 per kilo. Producers have pointed out that they need a minimum price of VEB 4.06/Kg to recover the investment in sowing and have a capital to invest during the next winter cycle.

Banesco has been fined. Banco Nacional de Vivienda y Hábitat (Banavih) penalized Banesco with 10,200 tax units (VEB 1.1 million), for having provided false information to grant a direct home subsidy with moneys from the Contribution Fund of the Public Sector. Banesco granted the subsidy to a worker at a transnational firm, taking into account the basic salary instead of the integral one (which amounts to VEB 18,000 and exceeds four minimum salaries) and granted the benefit for VEB 179,000.

“Almost paralyzed.” Jorge Botti, Fedecámaras president, said that in view of the “*lack of inventories and inputs,*” the Venezuelan economy is almost paralyzed, although he insisted that you cannot talk about a “*bankrupted*” economy. Botti believes that the creation of the post of Vice-President for Economic Affairs and the appointment of Nelson Merentes for this post are positive signs, and reported that they will meet Merentes soon to present him with proposals and discuss issues like the draft antimonopoly law that is being discussed at the NA, as well as the Labor Organic Law.

Perfect timing. Bolivia’s state-run Insumos Bolivia, responsible for food shipments, informed that Bolivia will export its surplus food to Venezuela and that global volume will be 25,000 tons of rice, 60,000 tons of sugar, 90,000 tons of yellow corn, 912 tons of heart of palm and 12,000 tons of powdered milk. “*Venezuela needs to import food and we need to export our surplus food; therefore Venezuela’s demand came at the right time,*” Teresa Morales, Minister for Productive Development, said. State-owned companies of both countries have still to set the date for the first shipment.





World Economy Tips

USA: Worrying signs. The preliminary Purchase Manager (PM) Index of the US manufacturing industry, prepared by Markit, registered 52.0 in April, the lowest since March 2012. This number would be a sign that manufacturing industry expansion is losing momentum as consumption shrinks, due to concerns about the impact of tax increases along with scheduled cuts in government spending.

G-20 without clear goals. Ministers of Finance of G-20 economies agreed not to set strict goals to reduce public debt levels of the group member countries and stated that they will closely monitor the negative effects of huge monetary stimulus plans applied by some countries like the US and Japan. Central banks have flooded their economies with cheap funds in an attempt to increase debt and spending, and this has weakened their currencies and has led to increased capital flows toward emerging countries.

More concerns than results. IMF's Christine Lagarde expressed her concerns about the effects that the strong monetary stimulus provided by central banks in the US, UK, euro zone and Japan may have on volatility of investment flows and world trade. Concerns that those countries may get trade advantages by devaluing their local currencies have multiplied in view of the recent efforts by Japan to overcome years of deflation.

What is needed is credibility, not easy money. The IMF board urged central banks of the largest world economies to continue with their expansive monetary policies amidst the weak economic recovery, and pointed out that people cannot depend only on "easy money initiatives" to provide enough stimulus, but that those initiatives should be accompanied by "credible" plans to strengthen government budgets and structural reforms so as to render economies more productive.

The EU decreased its deficit. According to data published by Eurostat, public deficit of the 27 countries of the European Union (EU) dropped to 4.0% of GDP in 2012, down about 0.4 pp from 2011. Notwithstanding this decrease, deceleration in the region has led to an increase in debt levels (as a GDP share) from 82.5% in 2011 to 85.3% in 2012; therefore, finances in the euro zone are still worrying.

The EU posts current account surplus for EUR 31.4 billion. The EU foreign current account posted a surplus of EUR 31.4 billion (0.9% of GDP) in 4Q2012, up



44.0% from 4Q2011, according to data released by Eurostat. This increase reflected a positive trade balance (EUR 3.4 billion), and a decrease in transfer deficit (EUR 19.9 billion), whereas service balance remained stable (EUR 36.2 billion).

God save Britain's labor market. According to the UK National Statistics Office, unemployment rate in the UK was 7.9%, up 0.2% from November 2012. At the same time, opinions at the Bank of England's April meeting were divided as to whether the purchase of assets should be reactivated to encourage economic growth; this is a sign that far from improving, the labor market will continue to deliver negative signs for the coming months.

Careless talk costs business. Fitch Ratings decided to revise downward its rating for the UK, from "AAA" to "AA+", in view of the weak economic and fiscal perspectives. The decision has ashamed the current British administration, which in 2010 (when it assumed power) pledged to cut deficit and protect the country's rating. In spite of the loss of its "AAA" rating, Fitch stressed that the UK credit profiles continue to be "*extremely sound*."

Quid pro quo. Portugal government approved new spending cuts worth EUR 800 million, after a court annulled several of the austerity measures included in this year budget, thus leaving a gap of about EUR 1.3 billion. The decision will allow Portugal to meet its deficit target of 5.5% of GDP for this year and assure the next trench of assistance from the EU for EUR 2.0 billion.

There are less poor people in the world. According to data released by the WB, the number of people in developing countries living on less than US\$1.25 per day has dropped from 50% in 1981 to 21% in the early years of present decade. In spite of the significant progress, the WB points out that there are still 1.2 billion people living in the so-called extreme poverty, a figure that is expected to drop to zero by 2030.

Political Tips

Changes inside the Revolution. Less than one week after his swearing-in, President Nicolás Maduro announced the names of his new ministers. Seventeen of the 35 cabinet members of President Chávez' administration will stay. Furthermore, Maduro highlighted the creation of a new post, Vice-President for Economic Affairs,



to be occupied by the new Minister of Finance, Nelson Merentes. Maduro assured that with the new government team, a *“new phase is opening up in the future of the Revolution,”* in which the government will reach out and listen to people in the streets.

A new territorial division. A new entity to promote the central government performance will be created: the Integral Development Region (Redi), which will operate in the six large regions into which the country has been divided and which will be coordinated by: Juan Carlos Loyo (Central Region), Isis Ochoa (Western Region), Nancy Pérez (Llanos), Maripili Hernández (Eastern region), Carlos Osorio (Guayana) and Cristóbal Francisco (maritime-insular).

Who remains? Ministers ratified by President Nicolás Maduro include: Petroleum (Rafael Ramírez), Foreign Affairs (Elías Jaua), Industry (Ricardo Menendez), Defense (Diego Molero), Communication (Ernesto Villegas), Public Banks (Rodolfo Marco Torres), Monitoring of Government Performance (Carmen Meléndez), Education (Maryan Hansson), Labor (María Cristina Iglesias), Transportation (García Toussaint), Housing (Ricardo Molina), Penitentiary Services (Iris Varela), Native People (Aloha Núñez) and Transformation of the Great Caracas (Farruco Sesto).

New faces. The new faces in the government team (10) include: Interiors, Justice and Peace: Miguel Rodríguez Torres (former head of SEBIN); Health: Isabel Iturria (director of the Children Cardiological Hospital); Water and Air Transportation: Major General García Plaza (former vice-minister of Defense); Environment: Dante Rivas (former head of INTTT); Science and Technology: Manuel Fernández (former president of Cantv); Communes: Reinaldo Iturriza (sociologist); Culture: Fidel Barbarito (musician); Sports: Alejandra Benítez (Olympic athlete and assistant representative for Caracas); Women Affairs: Andreina Tarazón (student leader); Agriculture and Lands: Iván Gil (president of Agropatria).

Come-backs of the year. The not so new faces in the Cabinet include: Minister of Tourism: Andrés Izarra (former Communication Minister) in replacement of Alejandro Flemming; Nutrition: Félix Osorio (former Nutrition Minister, comes back since July 2010) replaces Carlos Osorio; Electric Energy: Jesse Chacón (has occupied several post in the Cabinet; the last was Interior and Justice, to which he resigned in 2009) in replacement of Héctor Navarro.

Vote by vote. In response to the demand made by representatives of the Simón Bolívar campaign command and opposition presidential candidate Henrique Capriles that the entire polling process be checked, the CNE made the decision to *“expand the citizen checking audit in its second phase to 46% of the ballot boxes that were not audited”* on April 14.



It is a recount. According to the election rules, opposition experts will be able to check if the number of people that signed the polling lists in past April election corresponds to data in printed tally sheets and the total of ballots that were deposited in the boxes. Although the CNE has insisted that they won't accept this, the audit will involve a manual recount of ballots.

Only 12,000 polling stations. Auditing 46% of voting machines including 17,949 polling stations in which tally sheets, polling lists and ballots should be checked. However, the CNE announced that they will take random daily samples of at least 400 stations per day throughout a month, which would mean checking at least 12,000 polling stations, or 30.7% of machines.

Fingerprints are relevant. In addition to the audit of 100% of ballot boxes, the Simón Bolívar campaign command has demanded being able to access the status registry, station by station, which corresponds to biometric verification of voters (fingerprint scanners). Reports of irregularities in this regard would allow the command's experts to know how many voters without a registered fingerprint could have voted, and how many voters did effectively vote or tried to do it more than once. The command also wants to prove cases of double polling, usurpation of identity and death people votes.

Everything has to match. No error margin can be accepted in the citizen checking process; all data should match. In case of number discrepancies in terms of valid voters, number of votes or votes for each candidate, the station will be susceptible of being impeached. If the number of voters in impeached stations could modify the final tally, election should be repeated in those stations questioned.

Legislatives Tips

Legislative power under *manu militari*. The way how Diosdado Cabello, president of the AN, has been performing his functions has become evident for the general public. Cabello has arrogated the power to decide who will speak at the AN, and who won't. He isn't behaving as a coordinator and much less like a moderator, but as a sergeant. Cabello has denied the floor to all those representatives who don't recognize Nicolás Maduro as President before they start to speak; and that's it; period.



Regulations could be ready. Partial regulations of the Labor Organic Law could be ready for next May 1st, members of the Labor Higher Council informed. Carlos López, member of this group, said that a few details are still to be defined, so that the document could be presented on the next Labor Day.

What does the regulations say? They will provide for the special regime to apply the reduction of work hours (44 hours/week today) per sector. *“For instance, some businesses are open weekends, such as malls, movies, hotels, restaurants, media. They can work on Saturdays and Sundays, but they have to respect the two consecutive free days,”* López pointed out.

Separation of Finance and Planning already appeared in the Official Gazette. Suppression of the Ministry of Planning and Finance was published in the Official Gazette No. 40,151 dated April 23. Two separate Ministries were created: Planning and Finance. According to the presidential decree *“separating competences into planning and public finance will contribute to a better control of public policies in those areas.”*

Division of tasks. The Ministry of Finance will now control institutions like the National Securities Commission, Sudeban, Fogade, Fonpyme, Fonden, Bandes, Banco del Tesoro and public Banks, among others. Meanwhile, the Ministry of Planning will be entrusted with the development of policies, rules and strategies and will be responsible for the Foundation Venezuelan School of Planning and the Foundation School of Social Management.

Public consultations on Culture Organic Law (LOC) deferred. The president of the Permanent Commission on Culture and Recreation, Gladis Requena, announced that public consultations on the Culture Organic Law (LOC), which were scheduled to start on April 23, have been suspended. The decision was made because the recently appointed People’s Power Minister for Culture, Fidel Barbarito, has been sworn in just one day ago, and, according to Representative Requena, this suffices to know that the Minister is not ready to be involved in a series of public consultations on a law as important as LOC.

Electric emergency. Last Tuesday, April 23, the Official Gazette No. 40,151 published the decree declaring *“the emergency of the national electric power system and service for 90 days.”* According to the Gazette, those areas of the national territory that, due to their strategic significant, are classified as essential services, are declared “Security areas”. Entities dealing with citizens’ security and FANB are instructed to immediately safeguard the electric power grid.





ECONOMIC OVERVIEW

