



# Weekly Report

Year 9, Number 21  
Week I, Jun 2013

***GDP figures for 1Q2013: the economy slows down***

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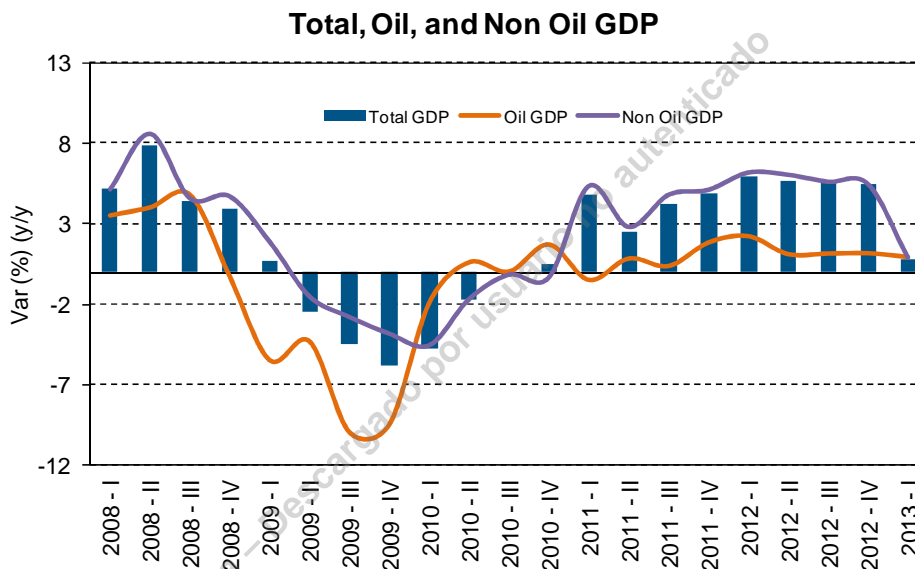
The Central Bank of Venezuela (BCV) informed that Gross Domestic Product (GDP) grew 0.7% in 1Q2013, compared to the same period last year. According to these preliminary estimates, the Venezuelan economy has grown for the tenth consecutive quarter. However, it was less than the growth in 1Q2102, and in each quarter of last year when it grew more than 5.0%, and the lowest growth in more than two years.

This slight increase of economic activities in the first three months of the year was due to the 0.9% growth of the oil and non - oil sectors, compared to the same period last year.

The slowdown in domestic aggregate demand, and the reduction of imports affected the behavior of key sectors. The growth in the first quarter was driven by trade, communications, services, and banks, while sectors with a history of growth in the last quarter fell back, like construction.



In the middle of last year, Minister of Planning Jorge Giordani said that the country would grow between 5.0% and 6.0% for the next six years, indicating that the only industry that needed reactivating was manufacturing. Nine months later, BCV statistics show that the economy is moving in the opposite direction.

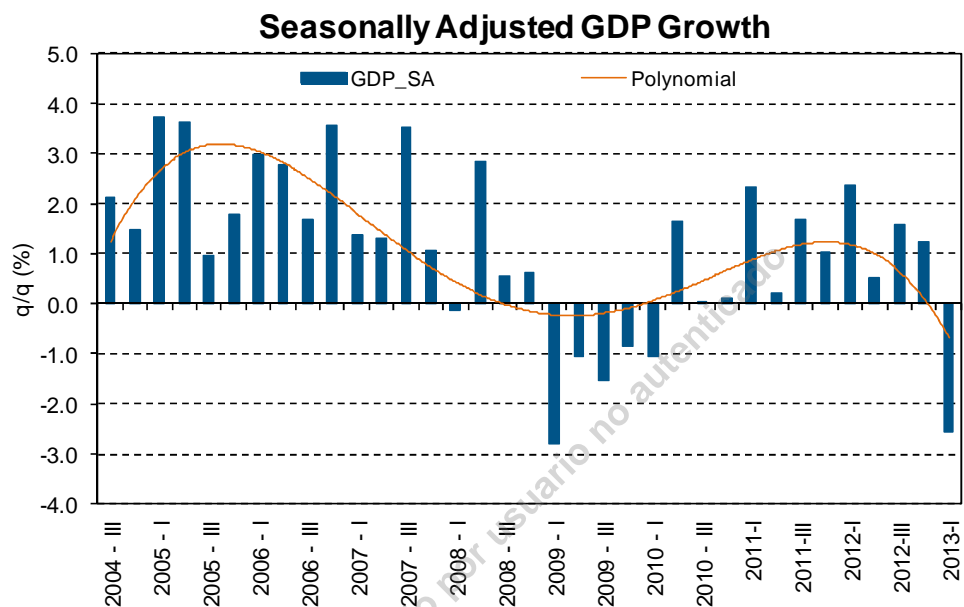


Sources: BCV and Ecoanalítica

**It is all an illusion**

However, analyzing seasonally adjusted GDP (SAR), that is, eliminating the effects of the normal variation in the economic cycle (short term) there is a negative variation in real GDP of 1Q2103 of 2.6% compared with 4Q2012. This has led to a loss of purchasing power due to devaluation, high inflation and the slowdown in public spending.





Sources: BCV and Ecoanalítica  
SA: Seasonal adjustment made by X12 method

Analyzing seasonally adjusted GDP by sector, in the 1Q2013 there is a variation (q/q) of 0.1% in the oil sector, and -2.4% for the non-oil sector. In **Ecoanalítica** we estimates that with the significant slowdown in GDP in such a short time, we are likely to find in a stage of stagnation and even contraction in coming quarters.

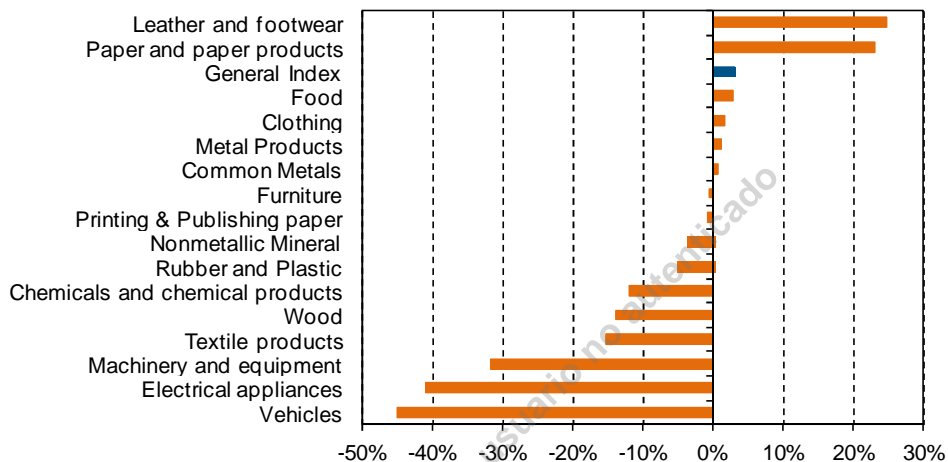
**The sector with the greatest participation contracts.**

After eight months of growth in manufacturing, it fell 3.6%; this sector represents the largest share of GDP, 13.9%. Public sector manufacturing fell 12.1%, and BCV explains that it is due to labor, operational, and financial issues, that led to drops in its several areas, mainly the manufacturing of other metal minerals (-2.5), chemical substances and products (-3.4%) and common metals (-32.4%).

Among the favorable results are leather and shoes (24.7%), paper (23.1%), the food industry (2.7%), metal products (1.1) and common metals (0.6%). Worth noting is the positive result of the food industry (2.7%) for the second consecutive quarter, driven by a higher availability of imported raw materials. However, production dropped in the following areas in the private sector: furniture (-0.5%); editing and printing (-0.9%), clothing (-1.5%), non-metallic minerals (-3.7%) rubber and plastic (-5.2%), machinery and equipment (-31.7%), vehicles (-44.9%), among others.



### Manufacturing Subsectors 1T2013 (Variation y/y)

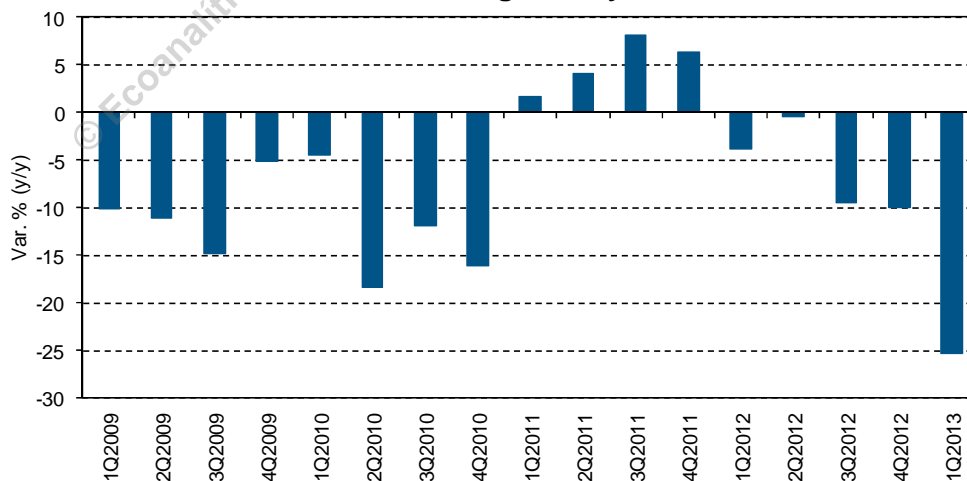


Sources: BCV and Ecoanalítica

### Mining: the black sheep

After a brief recovery in 2011, mining fell 6.8% in 2012. It appears that this year the downward trend of sector won't change, since in 1Q2013 it fell 25.3%, the sharpest drop since 1Q2003 when it fell 31.5%.

### GDP of Mining Activity 2009-2013



Sources: BCV and Ecoanalítica

This is no surprise, given the crisis of the basic industries of Guayana with high levels of debt, lack of investment, poor use of the installed capacity, and a national power system with insufficient generation capacity.

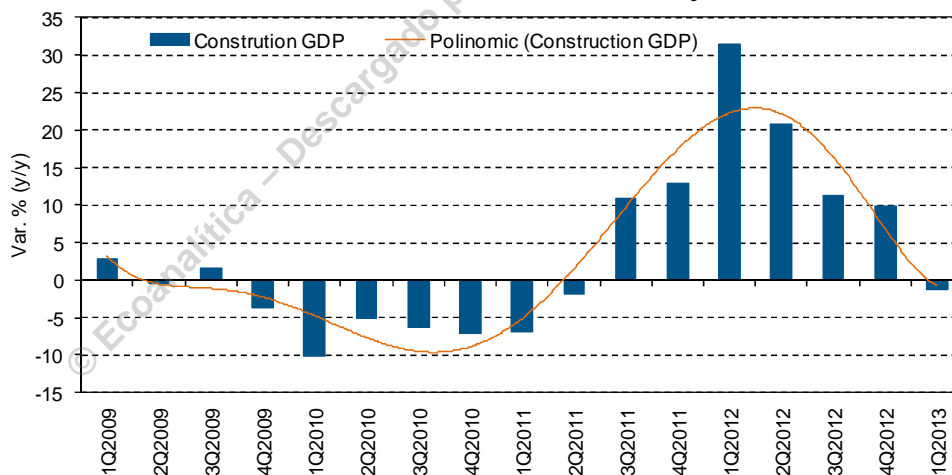


Also, this result reflects the impact of the latest law in which the Venezuelan State assumed total control of the sector, calling upon the private sector to create mixed companies where the State is the majority shareholder, as is the case in the Orinoco Oil Belt (FPO), action which resulted in the exit of Canadian mining company Rusoro, and makes clear the little impact that the creation of the Corporación Venezolana Minera (CVM) had.

### Construction sector dwindling

After two years of steady growth, the construction, a so-called "engines of growth" has suffered a fall of 1.2% (y/y) in the first quarter. The BCV explains in his report on the evolution of the product. BCV explains in its report that issues with basic products (cement and steel) "negatively affected" the sector, as well as specific labor issues, mainly in the works executed through the *Gran Misión Vivienda Venezuela* (GMVV).

**GDP of Construction Industry**



Sources: BCV and Ecoanalítica

In more detail, the pace of construction of housing units in the GMVV has dropped, and the initial impulse of the plan has been lost. Statements by the Housing Higher Entity revealed that in the first quarter of 2012, 50,870 units were finished, but during the same period in 2013, 28,294 housing units were built, which represents a fall of 44.4%. For this year, 380,000 units are expected to be built through the GMVV, but up to April, only 7.0% of the goal was met.

Since 2010, private construction has slowed down due to a lower availability of products like iron rods and cement. The Venezuelan Construction Chamber (CVC) has said repeatedly this year that the



greatest problems are in cement, where in the first quarter, two or three State owned cement companies have had operational problems. Likewise, there are difficulties with imported products, due to the reduction in foreign currency liquidations and a non existence alternative official mechanism.

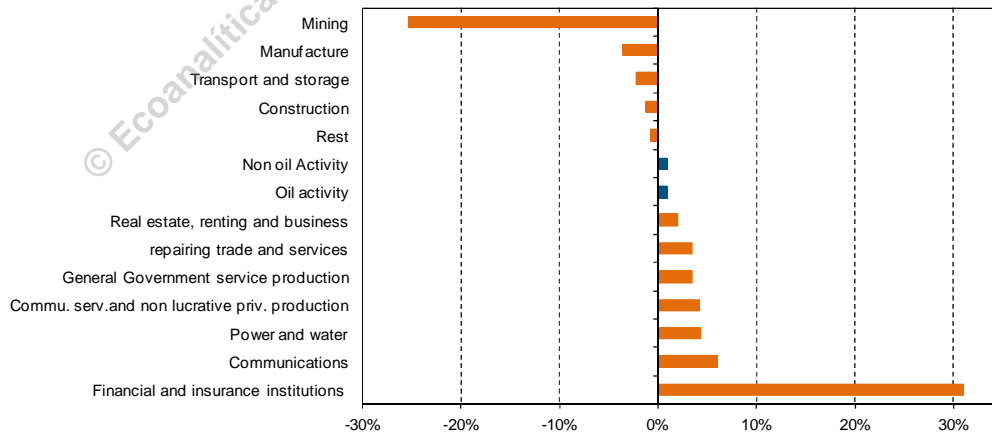
Also, the lower supply of products has affected the price of materials, and according to BCV, in 12 months constructions raw materials prices has increased 38.8%

On the other hand, oil construction grew 15.5% for the sixteenth quarter, mostly because of the major maintenance work of oil wells and refining stations.

**Those that grew...**

Among the sectors that grew are communications (6.0%) for the 37<sup>th</sup> consecutive quarter; this is in agreement with the increase in the demand for products and services, the investments made in developing and maintaining infrastructure, and technological and operational support. Institutionally, the public component grew 5.9%, while the private grew 6.2%.

**Growth by Economical Activity in 1Q2013**



Source: BCV and Ecoanalítica

There was also an increase in general government services (3.4%), attributable to more public administration and defense services provided (5.3%), health (5.4%) and teaching (0.9%). This sector has grown uninterruptedly for more than 10 years.

In previous consolidated figures the greatest growth was in financial institutions, 31.0%, with a tenth consecutive quarter of growth. Likewise,

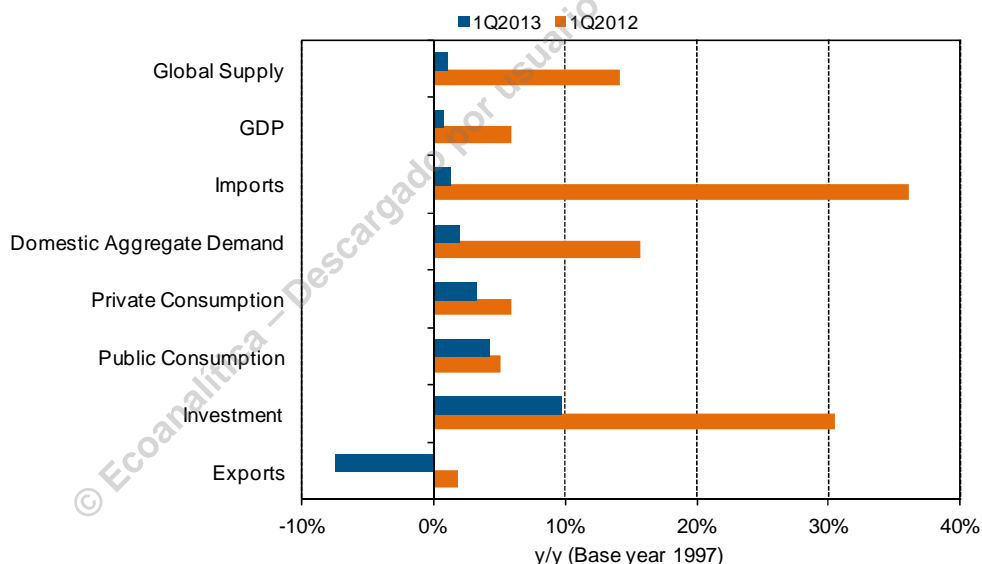


sectors like electricity and water (4.3%), and trade and repair services (3.4%) had positive variations, however, they are slowing down.

**The same formula but with different results**

BCV statistics for this quarter show that final consumption by the Government increased 4.1% (y/y); public spending has not been able to motorize consumption as in other occasions. Domestic Aggregate Demand (DAD) increased 1.8% (y/y) in 1Q2013, associated to a 9.6% growth in fixed investment, a 4.1% (y/y) increase in final consumption spending by the Government, and private consumption spending (3.2%). The latter, is almost half the increase registered a year ago, of 5.9%.

**Global Supply and Demand 1Q2013 vs. 1Q2012**



Sources: BCV and Ecoanalítica

Let us remember that this first quarter came with devaluation, and sharp price increases have affected the increase in consumption of homes, that is, there has been a drop in the capacity of families to meet their expenses. **Ecoanalítica** estimates a 5.2% salary reduction in real terms by the end of this year. Given a salary that buys increasingly less, it is difficult that consumption will recover to the levels of last year, when final private consumption increased 7.0%.

These demand components have increased more than aggregate supplies (0.9%). Usually the significant growth in demand had been covered with increases in imports. However, in the first three months of foreign purchases rose just by 1.5%.



This low increase of imports is not surprising, because this year the Government restricted the authorization of foreign currency, and the purchase of goods abroad by private entities dropped 10.6%, while the purchase of products by the public sector increased 20.8%.

Unable to import gap between supply and demand has been covered with a reduction in inventories, which is reflected in the decrease of 23.0% (y/y) in the change in inventories, revealing the current severe shortage problem in the country.

In previous reports we mentioned how the higher oil rent of the last years has been used by the Government to position itself as an importer of intermediate and consumption products. **Ecoanalítica** considers a 6.0% growth difficult for 2013, and estimate growth between -2.0% and 1.0% for this year. High oil prices and high public spending associated and are not enough to revive the economy, sooner or later the government has to realize the imminence of changing the economic model.

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## Economic Tips

**Inflation reached 6.1% in April.** According to figures published by the BCV, the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for April was 6.1%, or year on year inflation of 35.3% and accumulate variation is 19,4%.

**CPI reached 6.2% in March.** According to figures published by the BCV, consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for May was 6.2%, or a year on year inflation of 33.7% since May 2012.

**Meanwhile, core inflation registered an increase of 5.0% in May.** The year on year inflation registered 36.01%

**Food and non alcoholic beverages had the highest inflation.** Among the 13 categories studied by the BCV, in May food and non alcoholic beverages showed a higher inflation than the national average, with a variation of 10.0%, followed by restaurants and hotels with 6.0%, alcoholic beverages and tobacco with 5.1%, and houses equipments with 5.0%.

**Geographical results.** Of the 11 cities surveyed in May, the greatest variations were observed in Maracaibo with an inflation of 6.6%, followed by Caracas with 6.2%. The areas with the least variation in May were Barquisimeto and Maturin with 4.6% and 5.0%.

**Inflation in non controlled products increased 7.3%.** In April the inflation of controlled and non-controlled products was 7.3%. But at the same time, regulated goods had an inflation in the fifth month of 2013 of 4.2%.

**Inflation affects us all.** Inflation for class I of the population, which includes the poorest families, increased 7.8% being the higher among all 4 population classes. Inflation for class II of the population reached 6.7% year on year variation. Classes III and IV registered a variation of 6.1% and 5.6% respectively.

**Scarcity index increases.** In May, the scarcity index decreased from 21.3% to 20,5%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 20 were not available.



**Foreign currency assignment increases 7.0%.** Eudomar Tovar, President of Cadivi, said that the assignment of currency increased 7.0% in the first quarter of 2013 (1Q2013), compared to the same period in 2012. Regarding delays in the liquidation of currency, Tovar said that *“entrepreneurs will be paid US\$1.5 billion, and the target has been met”*. Finally, Tovar added that soon an office will be opened to service individuals and companies in the procedure to acquire foreign currency.

**Regulation is not the cause of shortages.** Karlín Granadillo, national superintendent of costs and prices (Sundecop), said that *“it isn’t true that regulations (implemented by the Government) are causing shortages”* and that *“the Government is presently responding to some issues in the supply of products (...) analyzing the causes and implementing solutions”*. Granadillo added that Sundecop is still working in the analysis of costs and prices to regulate more goods and services, and that the price regulations established by the Government will continue.

**Venezuelans eat well.** According to the results of the National Food Consumption Survey by the National Institute of Statistics (INE), 94.0% of Venezuelans of all social levels eat three or more times a day. *“This information confirms the results of the national family budget survey carried out by BCV, INE, CVG and ULA, which had similar results (95.0%) in 2009”*, said Elías Eljuri, President of INE.

**65.0% of delays in Cadivi’s assignment.** According to Nelson Merentes, Minister of Finance, the delays in foreign currency deliveries by Cadivi dropped 65.0% in the last weeks. Merentes explained that currency requests of production chains are being paid, giving priority to those that are older, and said that the flow of currency towards food production chains will be streamlined.

**Global competitiveness index places Venezuela last.** According to the competitiveness index of the Swiss Business School IMD, Venezuela is in last place of the 60 countries evaluated, followed by Argentina in place 59. According to the measurement, the United States (US), Switzerland, and Hong Kong were the most competitive in 2012. This index measures the economic performance of each country, its government policies, the innovation of private companies, and the infrastructure of every nation.

**Exports take a nosedive.** According to BCV figures, the country’s total exports during 1Q2013 amounted to US\$22.2 billion, a 13.8% drop compared to the same period in 2012. Of these, oil exports amounted to US\$21.36 billion, and non-oil exports a total of US\$832 million, a 13.4% and 21.4% drop respectively.

**Non-oil foreign sales fall.** The nation’s non-oil exports fell 21.4% in one year, and were for US\$832 million, according to the balance of payments of the BCV. The drop



was due to the 36.1% contraction in public non-oil sales, which represented only 3.7% of exports during 1Q2013. BCV says that this drop is due mainly to the fall in the sale value of iron products, coal, aluminum and steel.

**Far from 6.0%.** According to our senior economist, José Luis Saboín, the economic growth target set by the Government of 6.0% is far off. Saboín said that *“indicators say that the second quarter will be worse than the first, and may even be negative”* and that restrictions to access currency have made many companies work at half their capacity.

**Capital outflows.** According to BCV figures, the total outflow of capitals during 1Q2013 was US\$3.41 billion, a drop of 4.97% compared to the same period in 2012. US\$1.82 billion of these outflows were public, and US\$1.58 billion private, falling 47.82% and increasing 1719.54% respectively.

**Foreign oil sales drop.** Venezuelan oil exports dropped 13.5% in one year and were for US\$ 21.36 billion, according to the balance of payments of the BCV. The drop was caused mainly by the contraction in sales, and the price of the barrel, which fell 5.6% and 7.2% respectively.

**Results of the BP for the 2Q2012.** According to figures released by the Central Bank of Venezuela, the balance of payments recorded a deficit of US\$ 2,642 million on the 1Q2013. For this same period, the balance of payments shows a surplus of US\$1.68 billion in the current account, a deficit of US\$3.4 billion in the capital and financial account and a negative balance of US\$ 934 million in the errors and omissions account. These figures resulted in the country's net international reserves standing at US\$26.6 billion.

**Interest rates.** The lending rate for the fourth week of May was at 14.4%, down by 1.9 percentage points (pp) 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 went down by 3.04%, going from US\$25.695 billion during the fourth week of May to US\$25.07 billion during the fifth week of May. Compared to the same period last year, international reserves have decreased by 2.2%.

**Central government expenditure.** On Friday May 31<sup>st</sup> according to figures from the National Treasury Office (ONT) primary spending was VEB 7.79 billion, which means a decreased of 21.5% when compared to the previous week when it was VEB 7.37



billion; when compared to the same period last year we observe a decrease of 23.1%. So far this year the cumulative expenditure in real terms (measured in 2007 prices) IS VEB 45.844 million, with a variation (y/y) of 3.7%.

**Monetary liquidity.** Monetary liquidity (M2) decreased 0.4% in the fourth week of May compared to the previous week, settling at VEB 790.84 billion. The M2 has increased 63.3% in relation with the same period last year.

## Oil Tips

**Refinery shut down.** Members of the workers union of Pdvsa announced that the naphtha reformer of the Puerto la Cruz refinery is shut down, due to failures in the gas compressor. This hinders the production of diesel for export, and the company has not informed if there is enough inventory for export. Also, there is no specific date for the resumption of operations in the refinery.

**Oil exports fall.** Crude and product volumes fell 21.0% and 57.0% compared to March 2012. This shows how the United States has lost weight as an oil client, and China, on the other hand is moving ahead with more than 620,000 barrels of oil (kb/d). Venezuelan oil exports to the United States have been falling gradually, and by the end of March 2013, 22.0% less has been exported compared to March 2012. Likewise, Venezuela's purchases from the United States of oil products have also dropped 41.0% compared to February of this year.

**Last meeting of OPEC.** Rafael Ramírez, Minister of Oil and Mines, said that an agreement was reached at the Organization of Petroleum Exporting Countries (OPEC) to maintain production levels, with a view towards the meeting of the cartel, to establish a minimum price of 100US\$/b. He also informed about global oil demand perspectives, saying that there are *"many doubts about whether that demand will be maintained, with the huge economic crisis in Europe; that is the issue to monitor"*. He also underestimated the impact of oil production in North America, and said that it didn't have a greater impact thanks to the relations with China, and sales agreements with India.

**Bolivia may develop an oil project.** YPFB, Bolivia's state oil company, announced that it will analyze the proposals to develop its first hydrocarbon exploration and production projects, made by Argentina and Venezuela. With this proposal,



Argentinean and Venezuelan oil companies would have the opportunity to pay back the access that YPFB provided to the Bolivian market. Also, although there is no specific information, it said that the project would be developed in the Orinoco Oil Belt.

**Fuel supplies for thermoelectric plant increase.** Given the electric power generation needs of the country, there has been a high demand of liquid fuels derived from oil, which must be burnt in thermoelectric plants. Rafael Ramírez, Minister of Oil and Mines, said that the present use of 250 kb/d is temporal, because the demand will be met by natural gas going through gas pipelines. In 2010, the electric power sector was the first to receive natural gas, to be able to distribute in the domestic market. This year, the production of the Mariscal Sucre project will begin.

**Pdvsa won.** Pdvsa announced that Venezuela won the ICSID arbitration of the World Bank, presented by Opic Karimun Corporation (subsidiary of CPC Corp, for crude oil projects in the Gulf of Paria). Thus, Opic lost its shares in the Gulf of Paria East, due to the law mandating the migration of risky associations into mixed companies in 2007.

**Protests in Pdvsa.** Retired people and pensioners from Pdvsa and other oil subsidiaries protested to demand attention to their claims and requests. They also demand that the board of directors of the Pension Fund responds to the eight letters sent by the Association of Retired and Pensioned Individuals (Asociación de Jubilados and Pensionados - AJIP) which mention financial and accounting irregularities in the administration of the fund.

**Venezuela and Lebanon resume negotiations.** During a meeting in Beirut, Venezuela and Lebanon signed a cooperation agreement through which the country will export oil at a lower price to the Arab State, in exchange for products such as wine, olive oil and apples. This agreement should have been signed before, but was postponed due to the death of President Hugo Chávez.

**Border gas stations closed.** Three gas stations of the Ecopetrol-Pdvsa agreement were closed at the border between Táchira and Colombia, after the words of President Nicolás Maduro against the Government of Juan Manuel Santos, due to the meeting with former candidate Henrique Capriles in Colombia. This agreement between both countries has several scopes, one of them being the joint development at the Orinoco Oil Belt, and the other the supply of gasoline at preferential prices and at international prices for the border zone.

**International oil baskets.** At closing time on May 31<sup>st</sup> in the New York Stock Exchange, the price of the WTI was US\$94.0/bl, a 1.5% decrease compared to the



US\$95.5/bl reported the previous week. The Brent decreased by 0.8% to reach US\$102.8/bl, compared to the previous week's US\$103.7/bl.

**Local oil basket price.** The Venezuelan oil basket price closed last week at US\$99.5/bl on Friday May 31<sup>st</sup>, a 1.1% decrease compared to the US\$100.6/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.1/bl.

## Business Sector Tips

**Sales in alcoholic beverages drop.** Carlos Salazar, president of the association of outlets that sale alcoholic beverages in Caracas, has informed that sales dropped between 30.0% and 35.0%, thanks to the elimination of Sitme and decrees prohibiting the sale of alcoholic beverages due to national mourning. As a result of high taxes and the decrease in sales, Salazar has assured that losses are "incalculable" and 85,000 alcoholic beverage outlets have been hit. The problem related to the lack of stocks hasn't been solved and imported alcoholic beverages will continue to be scarce until yearend.

**Price adjustment is admitted.** Karlin Granadillo, National Superintendent for Costs and Prices (Sundecop), said that price adjustments are required for some categories, considering that Venezuela's is a changing market, there are new distribution dynamics and new presentations are launched by producers. Furthermore, Granadillo denied that price controls are the cause of shortages and that authorities won't lift price controls to benefit specific sectors. Granadillo explains that shortages of toilet paper and toothpaste are due to labor conflicts.

**Increasing production.** P&G will expand its plant in Guatire, by trebling the current surface area and investing VEB 300 million. Mauricio Andreazzi, president of P&G de Venezuela, explains that this investment is proof of their confidence in Venezuela and that it will create 45 new direct and 300 indirect jobs. Likewise, Andreazzi reiterated that costs have significantly increased, but that prices haven't been adjusted, because the government hasn't implemented price revisions that had been promised.

**A whole morning without electric power.** A failure in the power generation plant Josefa Camejo provoked a power outage in some areas of Falcón State in the



morning of Thursday, May 29. In the afternoon, Corpoelec informed that the power supply had been restored in all areas that had been affected. It's worth noting that Rubén Mendieta, member of the higher authority in the area in Falcón State, announced that the proposal made by the Minister of Energy and Petroleum that they would assume responsibility for the plant operation was still a request.

**Backlogs at Cadivi impact food production.** Finished food production and supply on the domestic market have been impacted by the decrease in the stocks of raw materials derived from backlogs of foreign currency allocations by Cadivi. Cavidea warns that inventories were guaranteed until May and replenishment depended on both an increase in the rate of foreign currency allocation and the adjustment of controlled prices. Political uncertainty is one of the main factors because of which 60% of investments in 2013 will be used to maintain industries operating.

**Colombia is willing to help.** Mauricio Cardenas, Colombia's Minister of Finance and Public Credit, said that Colombia is willing to supply Venezuela with essential and basic products. Cárdenas pointed out that the payment mechanism will be determined with the Venezuelan government, but suggested that it could be related to oil. Minister Cárdenas added that another mechanism could be a "system with an exchange rate in the middle between the official exchange rate of VEB 6.30 per US\$ and that of the parallel market."

**Controls continue.** The government has said that prices of food and basic products will continue to be controlled. While a 20% adjustment in the prices of beef and chicken was authorized, due to shortages, actual retail prices are estimated to be 88.6% over the controlled price in the case of chicken and 185.6% for beef. Furthermore, supply has improved this week and products imported from Argentina and Brazil can be found in the government's outlets.

**Private construction drops.** Thanks to the little availability of construction materials and the cutback in the working week, private construction sector has dropped since 2010. This is why constructors that need to complete construction projects have borrowed cement from companies that have the material available at this time. Difficulties have also been verified with imported product due to backlogs in foreign currency allocation. The Central Bank has reported that prices of imported construction inputs have increased 38.8%. We at **Ecoanalítica** believe that the lack of basic inputs like cement was a determining factor for the contraction (-1.2%) in the construction sector.

**Sowing inputs are also scarce.** Sowing projections for this winter season have been influenced by the little availability of seeds. Antonio Pestaña, president of Fedegro, pointed out that inputs are being received and quickly distributed



throughout the country. However, Pestaña recognizes that inventories continue to be tight and that re-sowing won't be possible if the surface is affected. Furthermore, Pestaña said that Agropatria is prioritizing areas that are temporarily in the sowing season.

**Car sales on the Internet.** Ricardo Menéndez, Minister of Industry, informed that past Monday the implementation of an electronic system that will allow citizens to purchase online government-produced vehicles. Applicants have to enter their personal data on the web portal; a public bank checks if conditions are met and a response on the credit application is sent. If the credit is approved, the citizen is informed about the date and place where he can pick up the car.

**Looking for a solution for the electric crisis.** Jesse Chacón, Minister of Electric Energy, said that measurement of power consumption will be increased from 40% to 90%, in an attempt to improve invoicing by Corpoelec and decrease power theft. Chacón added that actions have to be taken with regard to demand and that Venezuela is the country with the cheapest power service rates. The market will not be balanced if consumption is not restricted.

**Problems in the electric sector continue.** Putting into service the Tocoma hydroelectric power plant has raised concerns among analysts because of new generation capacity hasn't been added to the system and due to the high costs required to develop the work. The first turbine was scheduled to be operating by 2012, but now it has been rescheduled for 2014. Analyst José Aguilar explains that if the project would have been built as scheduled, the 2010 electric crisis would have been avoided.

**No foreign currency for Bolivians.** The lack of foreign currency has affected not only Venezuela, but also exporters from allied countries like Bolivia. Teresa Morales, Bolivia's Minister of Production, explains that both countries are collaborating to solve the problem related to the lack of payment to Bolivian exporters. Likewise, Morales said that reviews of Cadivi authorizations looking for fraudulent import operations have contributed to the payment delays.

**Car production plummets.** According to figures released by the BCV in 1Q2013, car production fell 44.9% in that period, for the worst contraction over recent years. Official data by Cavenez related to the seven private assembly plants operating in Venezuela show that in January-April 2013, car production contracted 35.6%





## World Economy Tips

**Unemployment increase in the US surprises.** The number of US citizens that introduces new application for unemployment subsidies unexpectedly increased recently, reaching 6,750 in May to 347,250 new applications. Notwithstanding, this increase wasn't enough as to provoke changes in the current pattern of modest increases in the number of jobs. In spite of this increase, unemployment benefit applications remained in the middle of their range for this year and below those levels that economists would associate with a modes employment increase.

**China's industry shrinks.** After seven consecutive months of growth, Chinese industrial activity contracted as it happened in May 2012. The contraction is a sign that the world's second largest economy could be slowing down in the second half of the year. China's economic growth surprised financial markets because it weakened in the first half of the year, a trend that could persist over the coming months. PMI of the industrial sector as estimated by HSBC dropped to 51.1 in April from 54.3 in March.

**Japan pledges to assist Africa.** Japan has promised to invest US\$32.0 billion in Africa in an attempt to catch up with China, which maintains strong economic ties with Africa. Japanese firms are trying to improve their access to African markets in order to be benefited from Africa's huge and rich natural resources. The largest part of the assistance will address infrastructure projects and support for intercity transportation.

**Germany will lend a hand to Spain.** Small and medium-sized companies in Spain will receive assistance from Germany with a contribution of EUR 1.0 billion, in an attempt by the largest European economy to put an end to growing unemployment in the South of Europe. Furthermore, the KFW Bank will provide additional funds that will be earmarked to bolster the capital structure of Spanish small and medium-sized companies that have been beaten by problems to obtain loans from weakened banks as a result of the current crisis.

**The EU will extend the deadline.** The European Union extended for six of its member countries the deadline set to reduce their budget deficits. These countries include France, the Netherlands, Poland, Portugal, Slovenia and Spain. This action is intended to provoke a change in the austerity approach so as to promote growth. The



high unemployment levels and the lower public income have made it difficult to meet deficit targets in these countries.

**Another record.** According to Eurostat, European Commission's statistics office, unemployment in the euro zone reached a new record high of 12.2% in April, exceeding the 12.2% of March. The total number of jobless people in the euro zone is 19,380,000 in the fourth month of the year. The countries registering the highest unemployment numbers are still Greece and Spain, where one of every four people is unemployed, whereas Austria continues to exhibit the lowest unemployment rate in the region.

**Cut in tax on financial operations.** European countries that have plans to set a tax on financial operations are ready to substantially decrease the tax, thus reducing tax burden to 90.0% and postponing the full entering into force of the tax, which will be translated into a great victory for banks.

**India registers its lowest growth rate in ten years.** India's economy grew 5.0% (y/y) in 2012-13 fiscal years, for the lowest growth rate of the last decade, according to a report released by the Indian government. Data published show a decreasing trend during the current fiscal year, with a slight change in the trend during the last quarter.

**Unstoppable depreciation.** Brazil's currency, real, lost 1.4% of its value last week, to BRL 2.14/US\$, the lowest quotation since 2009. This has happened in spite of the intervention of the Central Bank of Brazil, which has carried out future sales of dollars in an attempt to contain their currency depreciation. Real closed with a contraction of 8.55% last year and of 11.18% in 2011.

**Law to attract unstated capital is passed.** The Argentinean Congress passed a law to attract thousands of millions of unstated dollars held by investors and savers, by means of the subscription of bonds to be used to finance project in the energy sector and the real estate market. This law will allow the government to forgive tax evaders in exchange for the acquisition of public papers, in times where foreign currency is scarce. The opposition, in turn, sustains that this new law will enable the inflow of illegal money into the country. "*Evaders are being given a custom-made suit (...) because the law is only for those who have dollars and we aren't asking anything in exchange,*" Alfonso Prat Gay, opposition member, said.





## Political Tips

**Capriles brought to Bogotá the “voice of millions of Venezuelans.”** Colombia’s President Juan Manuel Santos received Miranda’s Governor Henrique Capriles at the Casa de Nariño (presidential palace), in a private meeting at which different topics like Colombia’s current situation and the peace process were discussed. During the encounter, which lasted around one hour, Santos and Capriles also talked about Santos’s proposal to Unasur concerning the recount of votes in past 04/14 elections, in which Nicolás Maduro won by a close margin.

**Cabello: Santos put “a bomb.”** Diosdado Cabello, president of the National Assembly (AN), said that at the time when President Santos received Henrique Capriles, he put “a bomb” to the good relations between both countries. According to Cabello, from the diplomatic point of view, the meeting between Santos and Capriles is “denaturalizing” because international relations are managed by foreign ministries.

**Review of peace talks.** Venezuelan will review its participation in peace talks between FARC and Colombia, after dismissing the meeting at Bogota between President Santos and Capriles, Elías Jaua stated. “*Undoubtedly, this situation forces us to review Venezuela’s role as facilitator in these peace talks,*” Jaua added.

**Maduro instructs Jaua.** President Nicolás Maduro said that the national government is considering reassessing relations with Colombia. In a reaction that Juan Manuel Santos described as exaggerated, Maduro assured that “*there has to be reciprocity and communication*” between both governments. President Maduro informed that he “instructed” Foreign Minister Jaua to take the required steps to “*reconstruct relations*” with Colombia.

**Mayoral elections to be held on December 8.** Tibisay Lucena, head of the electoral authority (CNE), informed that the next mayoral elections will be held on December 8. This election process had to be suspended due to President Chávez’ passing and the subsequent presidential election. Lucena explained that the voter roll to be used in these elections will include voters registered up until June 21, whereas candidates will be registered between August 5 and 9.

**Capriles calls his followers to increase turnout in mayoral elections.** Opposition leader and Governor of Miranda, Henrique Capriles, underscored the importance of the coming mayoral elections for the so-called “*democratic alternative.*” “*Many people*



*employed at mayor's offices are responsible for poor government performance and with disastrous results in the municipalities. We have to understand that the fight is based on participation,"* Capriles pointed out.

**The same polling table members.** CNE's Socorro Hernández informed that the members of the polling tables for the next mayoral elections of December 8 will be the same that worked in October 7 and April 14 presidential elections. Hernández explained that the agenda for these elections is very tight and due to this it's impossible to select new polling table members.

**CNE rejected request to verify death voters in the lists.** CNE board members rejected the request to investigate and check if the signatures of citizens reported as death, who are still registered as active voters in the Election Roll, appear in the polling lists of the past presidential election. CNE's Vicente Díaz informed through his Twitter account that the CNE board discussed his proposals to check *"if death citizens that are still included in the Voters' Roll appeared voting and to reject Maduro's illegal statement that he "knew" who hadn't voted for him,"* and rejected both proposals.

**Vicente Díaz asks the CNE to rectify.** Vicente Díaz, member of the CNE board, urged his peers to present the report on irregular events with the Comprehensive Authentication System (SAI) used in past April 14 election and to rectify their refusal to check if death voters that still appear registered in the Voters' Roll voted in the election. Díaz sustains that the audit will allow them to check that nobody voted twice or more, usurping the identity of death citizens or people that didn't go to vote.

**Global demonstration in support for Capriles.** Venezuelans living abroad gathered in more than 62 cities all over the world past Sunday, June 2 to protest against what they consider an *"election fraud."* People were invited through social networks to participate in the demonstrations. For the opposition, which has repeatedly reported irregularities in the polling process and vote tally, Nicolás Maduro was illegally declared as President by the CNE.





## Legislatives Tips

**From Aragua to the Bank of Alba.** Former Governor of Aragua State, Rafael Isea, was appointed Venezuela's representative to the board of the Bank of Alba. According to a Presidential Decree published in the Official Gazette No. 40,177, the criticized performance of the former governor has been recognized with a post in the board of the aforementioned bank.

**Disarmament Law to be passed.** The Disarmament Law will be passed by the National Assembly (AN) in order to reduce crime levels in the country. The law has 126 articles, notably including the control on the sale of weapons and ammunitions and prison sentences between 7 and 20 years for illegally carrying a weapon, an requirements to authorize people in risk situations and legal persons to carry a weapon.

**Public sector wages published in the Official Gazette.** New wages for public employees were published in the Official Gazette No. 40,178. Current minimum wage for highs schools graduates of rank I is VEB 2.457,02 and VEB 6.046.37 for university professionals. However, after the second raise in September, the minimum wage will be VEB 2,702.73 and the highest, VEB 6,651.00.

**Investigation against Pablo Pérez.** The AN permanent commission started an investigation against Pablo Pérez for charges presented on May 15 for alleged irregularities during Pérez' tenure. Chargers were presented to the commission by the president of the Legislative Council of Zulia State and include irregularities in the scholarship program Jesus Enrique Lossada, the nutrition program for school children, the payroll of the Governor's office and the construction of La Marina Park and the Circunvalación 3 highway in Maracaibo.





## INDICADORES ECONÓMICOS

