



## Weekly Report

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### *Banks and the 21st century socialism*

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After fourteen years of the 21st Century Socialism, and of a model that through increased spending supported by the oil boom, has tried to fight poverty, inequality and other social evils, but that has imposed significant sacrifices and hurdles – unnecessary in our opinion – for the private sector, a new “exceptional” sector has emerged, taking advantage of opportunities that others, the oil sector for example, haven't seen.

The banking sector has been able to survive not only a hostile environment for the remainder of the enterprises, but has carried the specific weight that the State has imposed on it, growing well over the other sectors of the economy.

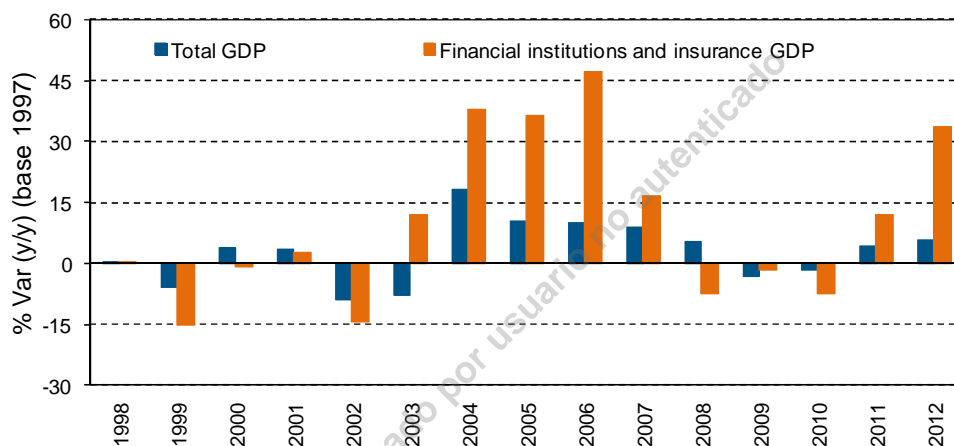
#### **An exceptional sector**

The increase in intermediation, more than surprising has been enviable: an average 10.9% growth per year in the last 14 years, well over the 3.0% GDP growth, and the 1.5% in manufacturing (oil activities dropped 1.0% per year in the same period). This has helped it participate in the generation of added value, lost by traditional sectors: while manufacturing



went from representing 16.6% of GDP in 1999 to 13.9% in 2012 (around 2.7 percentage point less), intermediation activities went from representing 2.2% to 5.5% (2.3 percentage point more) in the same period of time.

### The Growth of Intermediation Business



Sources: BCV and Ecoanalítica

The favorable behavior of the sector is not surprising, since beside the impulse in aggregate demand (through spending) the increase in credit has been seen by policy makers as one of the drivers of economic growth. **Ecoanalítica** estimates that the direct contribution of the financial sector to economic growth was 0.4% per year, on average in the last 14 years, not considering the effects that the assignment of resources through financial intermediation had over investment and consumption.

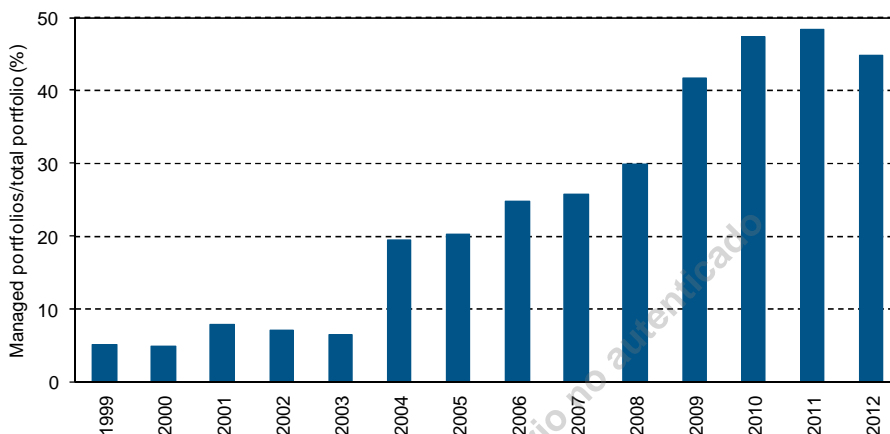
**A great power,  
a great  
responsibility**

Given its importance, banks have not escaped from a regulatory framework that has tried to use its resources – or that of its savers – to benefit sector plans, and has even had the direct intervention of the Venezuelan State (through nationalizations).

In order to “*make the financial system support and drive production sectors*”, among them agriculture, tourism, micro-credits, and manufacturing, the Government has established a group of managed portfolios, that went from representing 6.7% of the total banking portfolio in 1999, to 43.7% at the end of 2012. The establishment of mandatory portfolios has limited the number of funds that banks can allot to the investment options it considers more profitable and less risky, thus significantly affecting its profitability.



The Weight of Directed Credit

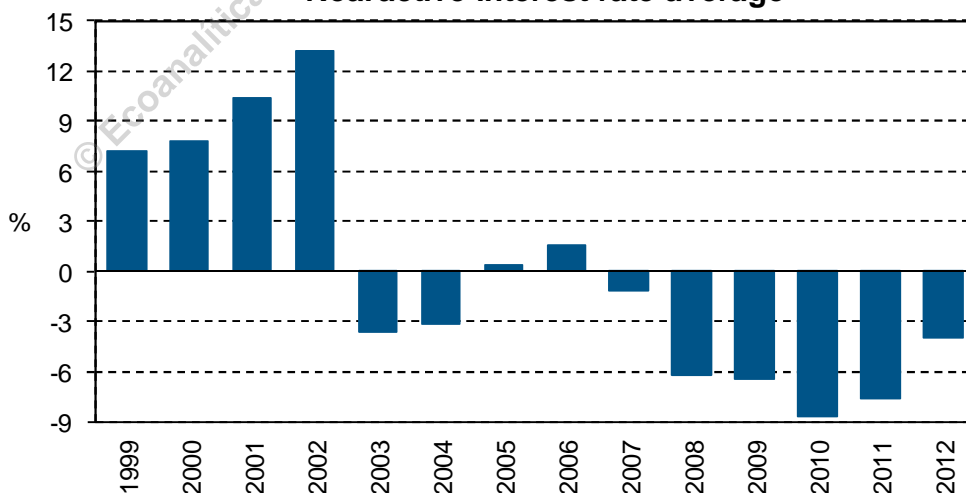


Sources: Sudeban and Ecoanalítica

**And has not escaped from the Venezuelan situation**

Together with managed credits, those in charge of the nation's economic management decided to set nominal active interest rates below inflation, that is, negative in real terms. This means that the return on loans granted by banks have been mostly below the loss in the purchasing power of the bolivar, for the period under study.

Real active interest rate average



Sources: BCV and Ecoanalítica

Also, limitations in accessing foreign currency have hindered intermediation activities, and the limits in foreign currency assets that national banks can have, have prevented the Venezuelan banking system from covering itself against inflation through strengthening its position in foreign currency.



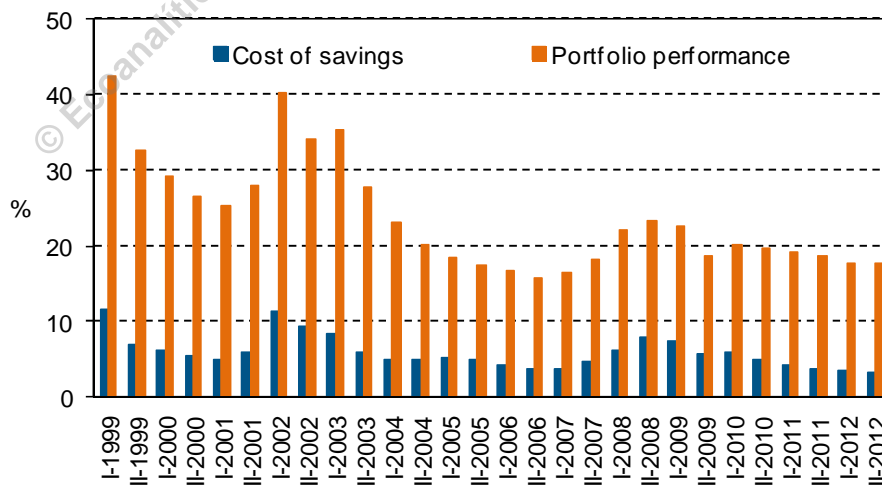
Finally, devaluations that took place in recent years have brought significant foreign exchange losses for banks. In *Ecoanalítica* we estimate that the exchange loss amounted to US\$602 million between 2003 and 2012, this without taking into account the depreciation of the assets of the banking system, calculated at the official exchange rate that has remained overvalued in most cases.

**The secret of success**

The sector has not only confronted issues derived from the macroeconomic environment, but also the restrictions to its activities; nevertheless, its performance appears not to be affected, so it is pertinent to ask, how have banks done so well?

Like everything that is exceptional, besides having a human capital with years of experience in the field, and taking advantage of the economies of scale<sup>1</sup>, Venezuelan banks have been in the right place at the right time. The Banking boom has coincided with what has so far been an almost uninterrupted spending feast, pouring loads of money on the street, which added to negligible passive interest rates, and high levels of savings in current accounts, has created an environment that greatly benefitted the sector, which have reduced its financial costs.

**The Secret of Success**



Sources: Sudeban and Ecoanalítica

This expansionist monetary policy, even though it has benefitted banks, it has had some side effects. The large amount of money circulating,

<sup>1</sup> Economy of scale means the ability of a production unit (company) by reducing their average costs as production or the number of customers increases (this last in the case of service providers).



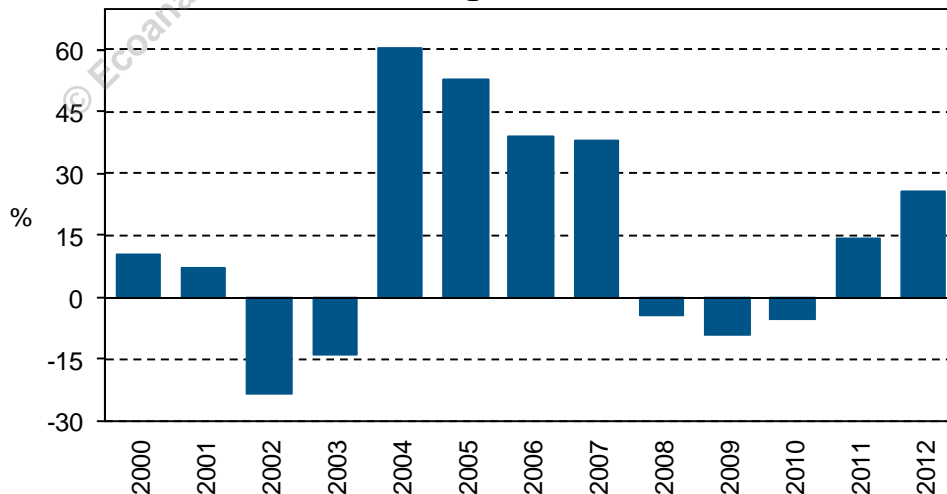
together with the poor growth of domestic supplies have led to a significant inflation, which has mainly affected the purchasing power and the savings capacity of the poorest Venezuelans. We can then say that the spending feast and liquidity have increased the inequalities, because while very few are enjoying, many are suffering the hangover, but of course, the banks are not to be blamed, because they have only taken advantage of a golden opportunity.

### Is the feast over?

In the first six months of the year it is obvious that the feast is over, a lower oil boom, with prices 5.3% below 2012, a reduction in public spending and liquidity of 5.2% (a/a) and 4.8% (a/a) respectively (both in real terms), and a contraction in GDP; all factors that threaten to ruin the honeymoon that the banking system has enjoyed.

The first effect of the contraction of liquidity, the lower dynamism of GDP (specifically in sectors like trade and transportation), and of domestic demand, (which translated into a lower availability of resources for loans, and a lower demand for lending funds) has been a credit crunch. The credit portfolio of the financial system had been growing at around 26.4% (a/a) last year, and it has had an average variation of 16.6% (a/a) for the year, and in May it grew 8.7% (a/a) the lowest rate since June, 2011.

**Credit Portfolio growth rate in real terms**



Sources: Sudeban and Ecoanalítica

The worsening of the macroeconomic situation has also been felt on the earnings of banks. Accumulated earnings for May, 2013 increased 16.4% in real terms, around 93.8% below the growth of the same period in 2012.



For the remainder of the year, the credit crunch, the economic contraction, and the resulting increase in defaults, together with the restrictions on the credit portfolio, will continue affecting significantly the banks' capacity to generate profits.

### Facing adversity with strength

Although the situation appears less favorable for the business, banks are in good shape to face this negative situation. According to the Banking Superintendence (Superintendencia de las Instituciones del Sector Bancario - Sudeban), the Camel evaluation<sup>2</sup> gives the Venezuelan banking system a score of 73.3/100, at the end of 1Q2013, a result that is considered "optimal" and is the best score obtained since 2000.

The "optimum" condition of banks results from less defaults (0.98% in May 2013 compared to 5.2% in January, 1999), and a higher profitability over the capital (29.2% in May, 2013, compared to 22.1% in January, 1999), as well as less transformation expenses (29.2% of the assets in May of this year, compared to 22.1% in January 1999).

<b>Banking at It's "Best"</b>		
	<b>January-1999</b>	<b>May-2013</b>
Liquidity	32.5%	290.0%
Capitalization	13.3%	10.4%
ROE	22.1%	29.2%
Delay	5.2%	0.98%

Sources: BCV, Sudeban and Ecoanalítica

### The role of banks in the future

The implementation of exchange rate controls has been one of the main blockages for the national production apparatus, and its elimination, although desired by many, must be gradual and accompanied by conditions that help prevent a possible crisis in the balance of payments (given the multiple existing macroeconomic imbalances).

One of the conditions that would prevent a strong flight of capitals, if exchange controls are eliminated, would be having positive real interest rates, higher than the international rates, to make savings in the domestic currency attractive. For this, a joint effort between the Government, the Central Bank, and the financial system is required to: i) reduce the amount

<sup>2</sup> The Camel method considers aspects like: Sufficient Capital, Quality of Assets, Administration performance, Liquidity and Profitability. Each of these aspects has a set of indicators, which lead to a global score between 0 and 100; the higher the score, the better the performance.



of money circulating, and the inflationary pressures of monetary origin, ii) foster and increase supervision on managed credits for production sector, stimulating domestic supplies, and reducing inflationary pressures of real origin (caused by the shortage of products), and last but not least iii) offer attractive savings options to national and foreign agents.

Fostering domestic savings, given the present situation, will imply a great sacrifice from the banks, which will have to offer higher passive interest rates to savers, something that could be compensated by a loosening of restrictions imposed by the Government (regarding active rates and managed portfolios).

By managing the available funds to invest, and being basically the only option of “savings” for most Venezuelans, banks will continue being a key element for the country’s growth and economic development.

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## Economic Tips

**Unemployment rate at 7.8%.** According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 0.1 percentage points (pp) in May, compared to the same period in 2012, when unemployment rate closed at 7.9%. This means that in the fifth month of the year, 1,053,764 people didn't have a job.

**Inactivity rate increases.** According to inactivity rate figures published by INE, shows that increased 0.3 pp compared to May 2012, to settle at 36.6%. Within this, men inactivity increased 0.5 pp, and stood at 22.7%. By the other hand, women inactivity, kept stable compared to the same period en 2012, and stood at 50.2%.

**Informality rate at 39.7%.** According to INE's figures, at end-May, 4,979,592 people were employed at the informal sector (39.7% of working population), decreasing 1.2 pp compared to the same period in 2012. For its part, formal sector employed 60.3% of working population, increasing 1.2 pp compared to same period last year, but fell 0.1 pp from the previous month.

**Given the lack of public offers, there are private offers.** The Finance Minister, Nelson Merentes said that Sicad will be reactivated in July and that it will allow private companies to offer cash currency or dollar-denominated debt. Merentes added that for now Pdvsa is not expected to participate in the Sicad as a bidder.

**New issues.** According to the latest report of Barclays Capital, the Government is studying mechanisms to streamline and provide foreign currency to the country, among them, the issue of foreign public debt bonds, considering the tight cash flow of the Republic. Barclays Capital estimates that by September, financial authorities will place debt papers for US\$6.00 billion.

**Bad sign.** According to the latest report of Bank of America, the Government's public spending, main driver of consumption, fell 16.9% (a/a) in real terms during 2Q2013, a forward sign of the economic contraction in the second third of the year. Among the adjustments in spending, and the exchange rate devaluation, Bank of America forecasts a 3.6% (a/a) drop in GDP for the year.

**And reserves in a downward spiral.** According to BCV figures, international reserves at the end of 1S2013 were US\$25,249, a 15.5% drop compared to the end



of December, 2012, and of 11.2% compared to the same month last year. This behavior of reserves is due to the foreign currency liquidations for imports, because the Central Bank hasn't informed that it made transfers to the National Development Fund (Fondo de Desarrollo Nacional - Fonden).

**Prices must be adjusted.** Although several Government spokespersons say that inflation will be solved with more domestic production, Armando León Director of BCV, said that there are issues like the lag in controlled prices, which must be reviewed. *"The lag in prices isn't working and has to be adjusted. Prices must be revised periodically. They must be reviewed every so often to see if they adapt to cost structures. The administration of prices has to be dynamic"*, said León.

**Incentives to increase production.** The Ministry of Trade is studying to implement stimulus measures for companies that increase production in the country. Although he didn't give any details, Alejandro Fleming, Minister of Trade, said that they are evaluating an increase in production and this *"undoubtedly requires a set of incentives"*, which will be presented to the consideration of the President of the Republic.

**Scarcity to be solved in two months.** Elías Eljuri, President of the National Institute of Statistics (Instituto Nacional de Estadísticas - INE), said in an interview for TV channel Globovisión that *"Scarcity in April was 21.5% but in May it dropped to 20.0%".* Hoarding affects these percentages considerably, so do nervous purchases, but in the next two months the issue will be solved".

**Only through internet.** José David Cabello Rondón, National Customs and Tax Superintendent, said that the regulation offering the possibility of declaring income tax (ISLR) manually for individuals was eliminated, and now *"all contributors whose declaration leads to payment or not, must do it electronically"*. Cabello said that if the declaration indicates that taxes have to be paid, the contributor may choose to do it electronically or print the form that the system generates and pay in collection offices or in authorized banks.

**Interest rates.** The lending rate for the third week of June was at 15.3%, down by 4.8% 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 decreased by 3.6%, going from US\$26.194 billion during the second week of June to US\$25.249 billion during the third week of June. Compared to the same period last year, international reserves have decreased by 0.6%.



**Central government expenditure.** On Friday June 21<sup>st</sup> according to figures from the National Treasury Office (ONT) primary spending was VEB 12.89 billion, which means an increase of 41.7 % when compared to the previous week when it was VEB 9.10 billion; when compared to the same period last year we observe an increase of 60.9%. So far this year the cumulative expenditure in real terms (measured in 2007 prices) IS VEB 62.76 billion, with a variation (y/y) of -5.2%.

**Monetary liquidity.** Monetary liquidity (M2) increased 0.7% in the second week of June compared to the previous week, settling at VEB 816.76 billion. The M2 has increased 64.0% in relation with the same period last year.

## Oil Tips

**Less for Fonden.** The lower flow of income from crude oil exports and products affected Pdvsa's transfers to Fonden. The state owned company allots resources to that mechanism, coming from the implementation of the taxes for extraordinary crude oil prices, or sudden earnings taxes, and according to BCV figures, in 1Q2013 Fonden was assigned US\$ 2.08 billion, 32.9% less than in the same period last year when they were assigned US\$3.10 billion.

**Change in priorities?** In January, authorities adjusted the contributions to the Development Fund, to channel more foreign currency to BCV and this speed up the liquidation of dollars for imports. However, from the resources obtained from crude oil exports, only 46% were sold to BCV. This behavior of foreign currency from oil reveal that the state owned company, beyond giving resources to parallel funds, has had to destine greater amounts to pay for its obligations (suppliers, agreements, among others).

**Better perspectives.** According to Credit Suisse, Pdvsa decided to relinquish control of the operation of mixed companies, to obtain financing and thus speed up the production increase plan. *"The perspectives for the mid-term in oil production have improved slightly"*, said Credit Suisse referring to the recent loans contracted by Pdvsa, like the US\$4.0 billion for Petrosinovensa with CNPC, which will be exclusively for the investment plan, and not to transfer it to the Government, as happened in the past.





**Venezuela displaced Iran in India.** Reports coming from India state that crude oil dispatches from Venezuela displaced Iran. This situation is occurring mainly this year when the agreement to supply up to 400 thousand barrels per day (kb/d) signed between Pdvsa and Reliance from India entered into force. These dispatches are being used to meet the requirements of the largest refinery in the world, Jamnagar, with a processing capacity of 668,000 barrels per day.

**The 7 plagues of Amuay.** Workers of the Amuay refinery in the Paraguaná Refining complex, informed that on June 14 there shear pump of the Delayed Coker unit failed, which made the unit stop. The plant affected, known as CRAY, produces around 40 kb/d butane, propane, coke, heavy oils and naphtha. Workers informed that the shear pump had an obstruction, and daily losses due to the shutdown reach US\$1.2 million.

**Differences at OPEC.** The drop in oil prices to less than US\$100/bl reveals the growing differences among OPEC members that are better equipped to sustain a low price, and those that are being affected by it, making a collective action to stop the fall of prices more difficult. Iran, Venezuela and Algeria need much higher prices to meet their budget targets, and are the least capable of offering production cuts. *"It will be difficult to achieve discipline in OPEC because they all want Saudi Arabia to do the job (of cutting production) on its own"*, said Olivier Jakob from Petromatrix

**International oil baskets.** At closing time on June 21<sup>st</sup> in the New York Stock Exchange, the price of the WTI was US\$97.5/bl, a 1.7% increase compared to the US\$95.9/bl reported the previous week. The Brent increased by 1.3% to reach US\$105.1/bl, compared to the previous week's US\$103.8/bl.

**Local oil basket price.** The Venezuelan oil basket price closed last week at US\$101.8/bl on Friday June 21<sup>st</sup>, a 1.1% increase compared to the US\$100.7/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$101.9/bl.

## Business Sector Tips

**4 billion.** Jorge Roig, Vice-president of Fedecámaras, informed in an interview that according to estimates of the group, the economy needs US\$4.0 billion per month to function, but BCV figures indicate that in 1Q2013, US\$2.70 million per month were



liquidated. He also said that after the work groups between the Government and the production sector held in May, an improvement in the access to foreign currency was expected, but the delivery is “very slow” and said that so far there are US\$7.0 billion held back.

**Zero medicines due to a lack of dollars.** Ángel Márquez, vice-president of Cifar, said that the economic stagnation of the first semester threatens the continuity of the companies in the sector. Of the 30 Cifar affiliates, between 18 and 20 are small and medium, and their main problem is a “sharp drop” in the assignment of official dollars. He said that in the last weeks Cadivi paid 20% of its US\$350 million debt, which has somewhat relieved the pressure, but it is essential that the flow continues, because US\$262.5 million are still owed.

**Impossible requirements.** According to the guidelines of the automotive policy in force, for this year, 50% of the parts of all cars manufactured in the country must be domestic. Omar Bautista, Executive President the Chamber of Venezuelan Manufacturers of Automotive Products (Cámara de Fabricantes Venezolanos de Productos Automotores - Favenpa) said: “we understand that the official sector and assemblers have worked in this direction, but we, the producers of auto parts, have not been added to that work” adding that it is not easy to double the number of domestic parts that are presently included in locally assembled cars.

**Cadivi brand.** The Minister of Commerce, Alejandro Fleming, informed that with a view to strengthening trade relations and protects people against hoarding and corruption; all goods put up for sale must have their price marked; “if the price is under control, the manufacturer will print it; otherwise, the seller will mark it.” Fleming added that Indepabis will also put emphasis on those products that have been bought with dollars allocated by Cadivi: “Businesses must indicate if they have bought their products with foreign currency authorized by Cadivi,” the Minister said.

**It’ll still take time.** Miguel Pérez Abad, president of Fedeindustria, believes that shortage problems may be overcome between 90 to 180 days from now. “Production has to be increased; inputs have to arrive; and products have to be sold; that would take about 6 months,” Pérez Abad said and assured that after the technical meetings held between businessmen and the government, foreign currency allocation pace has improved and about 30%-60% of debt to foreign suppliers have been paid.

**Expanding the network.** The Ministry of Commerce is seeking to include small and medium-sized companies and Production Conglomerates producing clothing, footwear, personal care and cleaning products in the government network supply. Alba and Comerssito outlets will also be opened throughout the country, as officially



announced Minister Alejandro Fleming, in a meeting with representatives of small and medium-sized companies held at Bancoex headquarters in Caracas.

In addition to promoting domestically manufactured products, the administration expects to prevent future shortages of personal care and household cleaning products.

**Non-oil exports plummet.** Venezuela's non-oil exports dropped in March to their second lowest level in a month since 1997, according to figures released by INE. Venezuelan Balance of Payments has usually registered surpluses thanks to multimillionaire crude oil and by-product exports. However, foreign sales of non-oil products have permanently dropped since 2005. In March, Venezuela exported US\$145 million in non-oil products, down 37% on a year-to-year basis, for the lowest level since February 2009.

**18,000 homes must be sold to the administration.** The most recent resolution of the Ministry of Housing and Habitat, which provides for that housing projects seized by the government must be sold to the state-owned real estate entity within the coming 5 years, affects 18,000 homes throughout the country, Aquiles Martini Pietri, president of the Real Estate Chamber of Venezuela said. Martini added that this decision is a further attack against private property and that over recent years, these rules have done nothing but worsening the housing problem in Venezuela.

**Banks will finance the electric sector.** Jesse Chacón, Minister of Electric Energy, announced that they will collaborate with the Banks' Association of Venezuela to promote financing mechanisms that allow methods alternative to the present power generation park to be developed. Chacón said that they'll "*work with them on some financing mechanisms (...) which allow us to incorporate alternative power generation methods like wind energy and photovoltaic power generation,*" and detailed that both public and private sector will participate in these projects.

**Malls to save energy.** Jesse Chacón, Minister of Electric Energy, meet with representatives of the Venezuelan Mall Association to evaluate the adoption of actions aimed to promote energy efficiency, and talk about opportunities to implement renewable energy systems in malls, criteria for the design of energetically efficient buildings and the promotion of communicational campaigns.

**Bolivian sugar...**While the local productive sector is facing a critical situation, Bolivian producers are placing their surplus production on the Venezuelan market, because Bolivia will exports 60,000 tons sugar to Venezuela over the coming days. The product will be exported by private producer thanks to negotiations developed by the Bolivian Ministry for Productive Development. "*The State has been able to export*



*surplus sugar in Bolivia before the harvest,”* the Bolivian Minister of Commerce, Teresa Morales, said.

**...and Brazilian beef.** While the local association of meat producers says that beef imports dropped 30%, Brazil reports that their beef exports have increased. According to the last report by the Brazilian Foreign Trade Department, in January-May 2013, more than 52,558 tons of frozen beef was exported, up 48% from the 35,214 tons exported in the same period in 2012. For this amount, Venezuela paid more than US\$280 million, up 59% from the US\$173 million paid in 2012.

**Beef production is down 50%.** Manuel Cipriano Heredia, president of the National Federation of Cattle Raisers of Venezuela, assured that local beef production fell 50% over the first five months of the year, related to the winter season, *“...but the third week of June, the harvest peak begins and a large number of animals will be taken to the slaughter houses,”* Heredia assured. However, Heredia added that in 1998, 407,601 tons of beef were produced in Venezuela, whereas in 2012, 360,000 ton was produced, down 11.7%.

**Beef “under the gun”.** Félix Osorio, Minister for Nutrition, guaranteed production, distribution and sale of beef throughout the country. *“We are taking actions to address the subject; this item is under the gun.”* Osorio added that through an agreement with Asofrigo, 1,600 cattle heads will be distributed every week in municipal markets in Caracas, Bolívar, Mérida and Aragua, highlighting that 1,100 will be distributed in Caracas alone.

**Eternal metro.** Residents in dormitory towns in Miranda state (Los Salias and Carrizal), Guarenas and Guatire will have to continue to get up early in the morning so that they are able to arrive early in Caracas, because the commissioning of the Metro systems planned for these areas have been postponed for the third time over the last six years. In 2007, when works were started, they are scheduled to be completed in September 2012, then by 2015 and not by 2018. According to the technical data sheet at the Metro de Caracas website, works of the Guarenas-Guatire metro have advanced 12.35% only.





## World Economy Tips

**Until unemployment improved.** The US Federal Reserve (FED) announced that they'll continue with their monthly purchases of bonds worth US\$ 85.0 billion and didn't give any hint that they have intentions to cut back the program any soon. The Fed board took into consideration that unemployment is still very high and, although they highlighted their desire to continue buying assets until the labor panorama improves, their evaluation of the risk balance for the country's growth was a little more optimistic.

**No credit crunch.** A short-term drop in interest rate mitigated fears for a credit contraction in the Chinese banking system. Interbank interest rates that are normally 2%-3%, reached 30% intraday over recent days. The People's Bank of China announced that they would regulate interest rates to keep them at reasonable levels and that global liquidity levels weren't worrying. Furthermore, the bank instructed banks to control credit expansion.

**Negotiations go on.** The European Union (EU) and Japan will meet for the second time to continue with the negotiations to sign a Free trade Treaty between both economies. This meeting will discuss subjects regarding trade exchange of good and services, investment and intellectual property. This treaty would increase Japanese exports, which at present account for 40% of its GDP, and would allow the EU to increase their exports to Japan by close to 30%.

**EUR 960.0 billion in 7 years.** Representatives of the European Union closed a deal worth EUR 960.0 billion concerning spending for the next seven years. The agreement would facilitate the transfer of unused budget funds from one year to the following. However, this agreement would not be supported by the socialist group, the second largest group of the bloc. EU officials state that this change could entail a spending increase for the next budget as compared to the current one, contrary to the agreement reached in February.

**ESM, euro banks' salvation.** The European Stability Mechanism (ESM) will have EUR 60.0 billion to invest in the bailout of large banks in the euro zone. Of the total that would be injected in banks requiring it, 20% would be contributed by government. This percentage would be 10% two years after the provisions are implemented.



**Europe is tired of fiscal evasion.** The European Commission told Italy, Poland, Belgium, Greece and Finland's Aland Islands that they will have to apply new community laws intended to fight fiscal evasion in a period not longer than two months. These laws oblige states to share information on possible fiscal evaders among them, in spite of banking secret.

**Who will pay?** Discussions on how bank liquidations will be carried out in Europe haven't finished yet. The main obstacle is the lack of agreement between France and Germany, because France, along with the UK, believes that each country should be free to choose how to liquidate their banks, whereas Germany argues that investors should have clear the rules of the game, so there wouldn't be much excessive flexibility.

**Protests are bearing fruits.** Brazil's President Dilma Rousseff proposed a plebiscite to implement apolitical reform as a response to protests in staged lately in Brazil. This reform would prioritize fiscal accountability, inflation control, political reform, health care, public transportation and education.

**Reform in motion.** The political reform proposed by President Dilma Rousseff includes: severely punishing corruption crimes; concerning transportation, the sector that triggered the riots, taxes on diesel and electricity used by metros and trains would be eliminated, transportation taxes would be cut back and 25.0 billion would be invested in the sector; oil royalties would be invested in education and foreign doctors would be hired for those areas of the country where doctors are scarce.

**Further cuts.** The International Monetary Fund (IMF) welcomed the measures and results of the labor reform that Spain implemented last year, but said that it's not enough to reduce the "unacceptably high" unemployment rate. Therefore, the IMF requested a new labor reform that would include cut backs in welfare contributions and a significant cutback of wages and salaries.

**Merkel also congratulated Spain.** The IMF wasn't the only that welcomed Spain's reforms to overcome the crisis. Germany's Chancellor Angela Merkel highlighted the importance of decreasing unemployment rates and expressed her satisfaction because the European Union "understood the necessity of implementing structural reforms."





## Political Tips

**The TSJ Constitutional Chamber will decide on challenges.** The TSJ Constitutional Chamber asked the Election Chamber to forward the seven challenges against April 14 election, brought into by former presidential candidate Henrique Capriles, because they will now study these cases. The TSJ explained in a ruling that, even though the challenges were brought into the Election Chamber, the Constitutional Chamber will know about the seven cases, as well as any other that may be introduced to the TSJ to challenge CNE's decisions.

**A new constituent assembly is not rule out.** Miranda Governor Henrique Capriles Radonski doesn't rule out the possibility of a future constituent assembly, because he believes that for the nation to be able to function, changing the President isn't enough. *"We have to change the Judicial Branch of Power, so that judges aren't in favor of a political party but in favor of the country. The functioning of the Attorney General's Office, the General Comptroller's Office, the National Assembly, municipalities and city councils should be changed,"* Capriles stated.

**Socialism achieves what capitalism cannot do.** President Nicolás Maduro assured that goals attained in Venezuela concerning nutrition are the result of the socialist formula led by the late Hugo Chávez. *"Commander Chávez built a socialist formula (...) the road to socialism has solved problems that capitalism will never solve,"* Maduro said, adding that this formula has consisted of creating nutritional programs (mission).

**The administration destroyed local production.** Governor Henrique Capriles pointed out during a visit to Nueva Esparta State that current shortages are the consequence of the administration's having destroyed local production. *"Almost everything we consume, except plantains, comes from abroad. Everything is imported and if everything is imported, there isn't foreign currency and this translates into shortages."* Capriles also underscored the multiple offers made by government's representatives, but said that they are nothing but promises.

**Maduro is the leader with the lowest approval rates in Spain.** President Nicolás Maduro has been the leader with the worst approval rates in Spain, as the study Barometer of the Real Instituto Elcano has revealed. This study measured approval rates of 13 country leaders worldwide, and Maduro got 2.5 over 10, below Argentina's President Cristina Fernández de Kirchner, who received 2.7. Meanwhile,



the highest score was obtained by US Barack Obama, (6.5), followed by France's President François Hollande, with 5.3.

**We have a homeland?** *"Having a homeland means you feeling well; no one living in shacks; having enough money to buy food (...) Let's reflect; we have to open our eye wide and those who haven't done that, have to receive a little help,"* Governor Henrique Capriles said, explaining that today there are two models of homeland: *"one that believes in domestic production and another that believes in importing everything, even human resources."* Capriles also took the opportunity to say that his performance at the governor's office will be oriented toward local and national development.

**Homeland or toilet paper?** The Minister of Foreign Affairs/president of the Corporation for the Development of Miranda State, Elías Jaua assured that *"values like homeland"* don't prevail over specific shortages of some products like toilet paper. He also criticized Henrique Capriles remembering that *"the homeland cannot be measured according to the supermarket's shelves."* Jaua asked *"Do you want homeland or toilet paper?"* and then explained that it was a rhetorical question.

**Seniat official detained in La Guaria.** President Nicolás Maduro informed that the head of Seniat in La Guaria was detained along with all his gang. *"He was caught in the act,"* after a search was conducted in a luxurious apartment located in eastern Caracas, where VEB 4 million in cash were seized. The official was captured by several members of Sebin thanks to intelligence work, Maduro said and congratulated José David Cabello, Seniat's Superintendent on his relevant participation in the case along with Sebin's head and Minister Rodríguez Torres.

**Indepabis re-launching.** Indepabis's re-launching plans will revive some unsuccessful measures that have been already applied to try to curb gorging. To implement these changes, seven measures on which Indepabis' actions will be based, were announced by the Minister of Commerce, Alejandro Fleming, and Indepabis' president, Eduardo Samán.

**Indepabis' fine system will be reviewed.** Indepabis' president, Eduardo Samán, pointed out that procedures used by Indepabis to impose fines over the past year and a half will be reviewed and that those in which irregularities are detected will be revoked. *"We have detected that many of the procedures opened have vices. Some documents don't explain why fines were imposed or why unauthorized inspections were made. Many procedures were followed without any basis. That's wrong and procedures and fines that are found irregular will be revoked,"* Samán said.





## Legislatives Tips

**Inspections begin.** The Labor Ministry will begin to inspect firms as of June 30<sup>th</sup> to see if they have complied with the provisions of the Labor Organic Law and its partial regulations, concerning working hours. This time, visits will imply penalties, Ministry's sources informed. Likewise, they said that there won't be further extensions for employers to comply with the law, because labor authorities believe that extensions already granted are enough.

**Everything returned to "normal".** This week it's been a month since the National Assembly (AN) returned to its "normal" activities, after 35 days of institutional crisis during which the opposition representatives didn't have a right to speak as decided by the AN president, Diosdado Cabello. Notwithstanding, even though the 67 representatives of the opposition group were elected in 2010 by 52% of the voters, no one of the 17 proposals of discussion, agreement or investigation presented to the plenary sessions this year has been approved.

**Attention!** The reform of the Military Conscription and Enlistment bill approved in its first discussion by the AN will limit legal persons to obtain solvency certificates, and individuals to find a job, open bank accounts and obtain passports. Therefore, legal persons and individuals will have to register in the Military Registry; otherwise they will be liable to penalties, including prohibition to hire workers and obtain labor solvency certificates.

**Law that protects artists was passed.** AN representatives approved in its first discussion a bill protecting artists, which has been presented by musicians, actors, entertainers and singers, in accordance with article 100 of the Constitution, which provides for as follows: "*The State guarantees cultural workers inclusion in the Social security system to provide them with a dignified life, recognizing the idiosyncrasies of cultural work, in accordance with law.*"

**The people will be asked.** The public consultation process of the law protecting artists will take place throughout the country. The process will be coordinated by a mixed team comprised of the Committee on Culture and Recreation and the Committee on Comprehensive Social Development of the AN. This new bill deals with topics like social security, labor relations of artists and responsibility shared by the State and artists.



## ECONOMIC OVERVIEW

