



Weekly Report

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*Education and health in Latin America:
a long way to go*

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The provision of public services with social impact, such as education and health indirectly improve equity by generating opportunities and raising the income of the poorest homes. Better education and health generate positive external situations, thereby the importance of implementing public policies geared towards those sectors. We will devote this report to analyze spending in these sectors in the region, and whether they have had the desired impact.

The State is an important factor for economic development. The resources obtained from taxes provide several public goods such as health, education and infrastructure, which promote economic growth. In the theory proposed by Musgrave (1959) the State has three functions: assigning specific products and services through budget policies, stabilizing, and redistributing them.

To redistribute funds, the State collects them from citizens to then spend them. In both collecting and spending, public intervention can modify the



primary distribution of income (resulting from the market). For an effective and sustainable distribution, the amount collected and spent is important, but so is its composition and the quality of public services provided. This report will analyze spending specifically in education and health in Latin America, and in Venezuela.

How is spending in Latin America?

A report of the *Corporación Andina de Fomento (CAF) Public finances for development*, mentions among other things how spending has been executed in health and education in Latin America. According to the report, ensuring basic health services for everybody doesn't mean that all of it has to be public, but that the population that cannot go to the private market can access those services. However, in the region, many times the poorest sectors are not covered by public health insurance, given their higher incidence in the informal sector.

According to the publication, Latin America spends 7.0% of Gross Domestic Product (GDP) in health (private and public sectors), three percent points below what the developed economies spend in health.

Health expenditure		
	Latin America	Rich Countries
Health expenditure (% of GDP)	7	10
Private health expenditure (% of health expenditure)	44	26
Public health expenditure (% of public expenditure)	13	15

Sources: WHO, CAF and Ecoanalítica

On the other hand there is great heterogeneity in the region, the countries with the most important health expenditure are Cuba, Nicaragua, Costa Rica, Brazil and Argentina, on the other hand Peru and Bolivia are among the countries with lower spending in this sector. The private spending is considerably high in Brazil, and less important in Colombia.

Likewise the report shows that efficiency ratings (input oriented) in the region suggest that medical supplies are not used in accordance with best practices. The dispersion in the region is important, to countries like Chile that have a high level of efficiency, and countries like Bolivia that have significant deviations from the border. Countries like Argentina are in the average of the countries in the region, with an efficiency of about 80.0%.

On the other hand there is education, the core of human capital formation. In Latin America the increase in pre-school and high school education coverage (in pp) has been higher than in developed countries, however,



there is still a gap with higher per capita income countries regarding basic education coverage. We must stress that this coverage increase hides failures in the distribution and quality of that coverage, since the increase in coverage was not enough to eliminate deficiencies in lower income groups.

The effectiveness of education as a tool to generate equality of opportunities and reduce poverty depends on its quality. According to the latest results of the PISA international test (2009), Latin American countries were not only in the last places regarding average performance, but also among the countries with the most uneven results regarding social-economic level and type of school (public and private). Thus, in the region we have educational systems with good performance in terms of quality, but with poor performance in terms of access, or vice versa.

Education's quality efficiency index

	PISA's results (Relative to the maximum)	Efficiency index (Inputs only)	Efficiency index (inputs and environment)
North America	98.30	93.60	93.81
Latin America and Caribbean	76.02	87.24	87.63
East of Asia and Pacific	94.20	96.49	96.87
Europe and Central Asia	89.94	91.53	92.38
Middle east and north of Africa	74.99	74.62	77.62
Argentina	70.34	81.01	81.22
Brazil	71.02	83.53	86.29
Chile	78.67	91.72	90.05
Colombia	70.52	85.71	87.77
Mexico	74.93	83.36	85.44
Uruguay	76.79	95.47	93.35

Sources: Álvarez Parra and St. Aubyn, CAF and Ecoanalítica

First, we see that the results of the test are low, and second, regarding inputs (spending per capita) and social economic factors, the region is borderline, indicating that Latin America has a lack of inputs and relatively adverse social-economic conditions. Among the region's countries, Uruguay has the highest index in terms of efficiency, but not in terms of access. Guatemala, Venezuela, Mexico and Panama have relatively low efficiency indices.

Thus, it is important to consider both access and quality when evaluating the public administration: high spending as a percentage of GDP doesn't necessarily indicate high quality education or great coverage. Between 2005-2009, public spending for education in the region was around 4.0% of GDP, slightly lower than Europe and Central Asia.



Educative inputs

	Public education expenditure (% of GDP)	Expenditure per high school student (Per capita GDP)	Ratio Teacher-student (High school)
Sub-Saharan Africa	4.68	29.03	0.04
North America	4.23	18.67	0.10
East of Asia and Pacific	4.01	17.40	0.06
Europe and Central Asia	4.94	24.78	0.10
Middle east and north of Africa	4.68	18.68	0.07
South of Asia	4.30	18.85	0.04
Argentina	4.72	20.62	0.08
Bolivia	6.30	14.49	0.06
Brazil	4.90	15.80	0.06
Chile	3.33	13.02	0.04
Colombia	3.98	12.55	0.04
Guatemala	3.08	5.33	0.06
Mexico	4.89	14.03	0.06
Panama	3.82	12.63	0.06
Peru	2.62	9.77	0.06
Uruguay	2.77	10.13	0.07
Venezuela	3.66	8.18	0.10

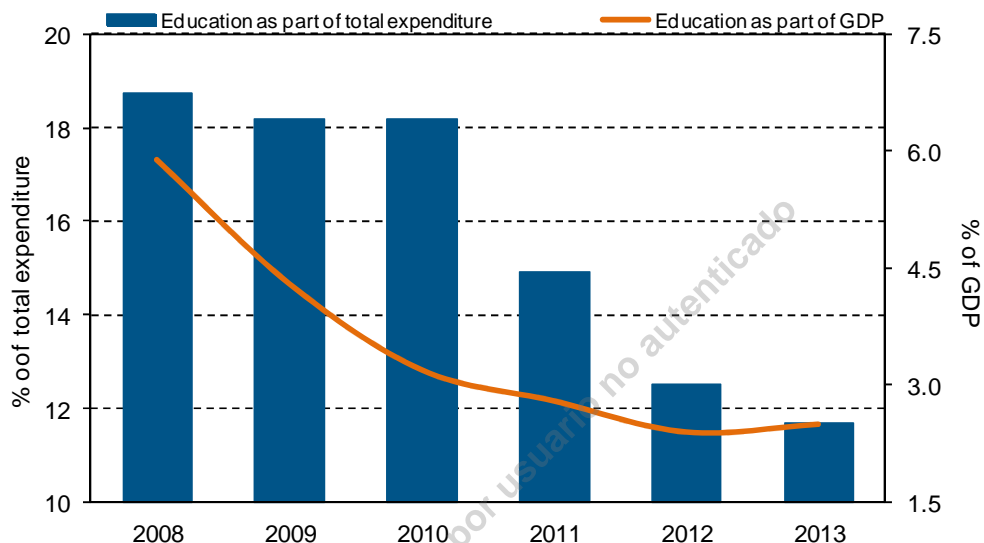
Sources: World Bank, CAF and Ecoanalítica

National budget and spending in Venezuela

In our case, the official figures published in the National Budget Law present the budget for education and health. Spending for education in the budget has been falling as a percentage of GDP. In 2008, spending was 5.9%, and for 2013 VEB 46.157 million were budgeted or just 2.5% of GDP.



Education budget expenses



Sources: National Assembly and Ecoanalítica

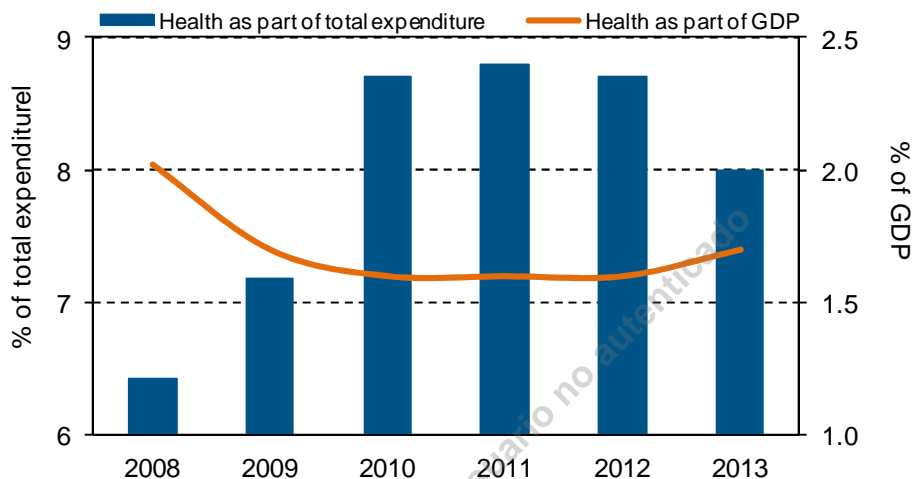
Likewise, funds as a percentage of budgeted spending have dropped: in 2008 18.8% was budgeted, and this year only 11.7% was budgeted for education, so in six years, budgeted spending fell 7.1 percentage points (pp).

In the case of health, its budgeted spending was VEB 31.6 billion, with a positive variation of 23.2%. In 2008, VEB 8.8 billion were budgeted which was 8.7% of the total budget, for 2013 is was 8.0%.





Health budget expenditures



Sources: National Assembly and Ecoanalítica

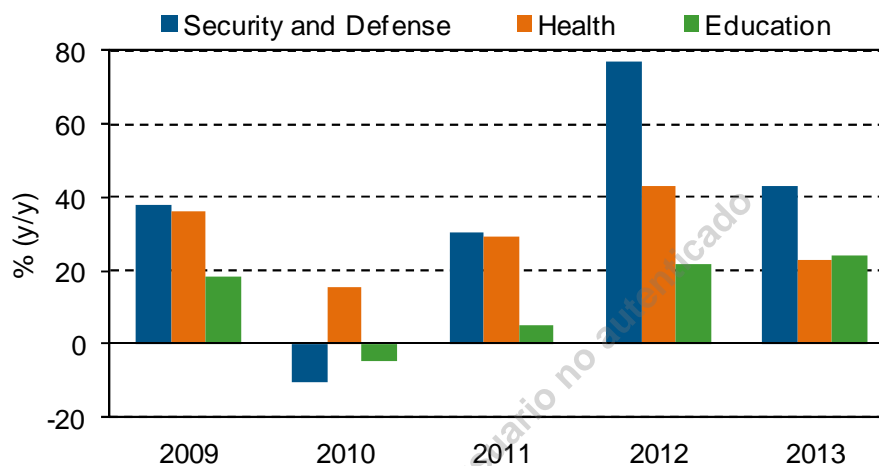
In this sector, it isn't only a matter of the amount spent, but that the distribution has been ineffective: the amount allotted for immunizations this year was VEB 110 million, a drop of 1.8%. This leaves us in a more vulnerable situation, and it isn't surprising that we have outbreaks like the AH1N1 epidemic.

On the other hand, in sectors like defense the budgeted spending represented 7.3% of the total budget, increasing 31.3% in 2012-2013, and in the last six months, it has increased 147.1%.





Budget by sector



Sources: National Assembly and Ecoanalítica

To counteract its inefficiencies in spending, the government imposed a law to regulate services provided by private health centers, where the National Superintendence of Costs and Prices (Superintendencia Nacional de Costos y Precios - Sundecop) set the maximum amount that they can receive as payment for services. According to the Venezuelan Association of Clinics and Hospitals (Asociación Venezolana de Clínicas and Hospitales - AVCH) on average the price for services dropped 68.0% and in some cases 80.0% or more.

The AVCH also informed that only part of the sector is being regulated, forgetting the fact that certain input are not being controlled, and for example laboratory reagents have increased 93.0%. **Ecoanalítica** considers that the price control policy is inefficient, since it doesn't go to the root of the problem, and could affect the quality of services provided by this sector.

For the year, additional credits have been authorized for VEB 1,821 million towards education, and only VEB 778 million towards health, while VEB 10.021 million have been approved for other sectors like social security, representing 30.5% of the total amount approved to date.

Granting a higher budget to a sector implies fewer resources for others, and the Administration's decision in many cases depends on the political support for the program, and its beneficiaries. Thus, we stress that it isn't a matter of "spending for the sake of spending" but the quality of that



spending. There must be investment in those sectors that positively impact the rest of society, like education and health, so **Ecoanalítica** considers that spending must be rationalized in favor of the poor, keeping in mind the future generations.

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Economic Tips

Sucre for the special economic zone. President Nicolás Maduro informed that he expects to close his tour through the eastern part of the country signing a decree so that Sucre becomes a special economic development zone. Maduro also used the occasion to inform that the most powerful defense system in the world will be deployed in the region, and ensured that the country will arm its mountain ranges so no one can touch even a centimeter of the homeland.

More agreements with China. Jorge Arreaza, Vice-President of the Republic, travelled to China to meet with his counterpart, Li Yuan Chao. Arreaza informed that the purpose of the meeting is to review dozens of ongoing projects to deepen the strategic alliance with the Chinese people and its Government, to achieve development in Venezuela. The Venezuelan Vice-President will also meet with the President of China, Xi Jinping.

Merentes is optimistic. Nelson Merentes, Minister of Finance, said that the Venezuelan economy will grow in the second semester of 2013 (2S2013) and inflation will slow down, rejecting the forecasts that Venezuela will fall into a stagnation-inflation. *“So far, this (stagnation-inflation) is not happening. We are not in that situation because we will grow more in the second semester, and although the global amount for inflation will not drop, it will slow down compared to the first semester. So it seems that we are not following the path outlined by some analysts”*, said the Minister.

BCV punishes the highest bidder. BCV called for an auction where the companies and individuals that offered more bolivars for each dollar were the losers, and couldn't purchase the currency. According to financial sources, on average the individuals that participated in the auction were willing to purchase currency at an exchange rate of VEB 16/US\$, and a maximum rate of VEB 26/US\$. In the distribution of currency, BCV decided that the companies that offered more than VEB 15/US\$ wouldn't receive anything. In *Ecoanalítica* considerer that the next auction will take place early next week.

If you already had dessert, you can't have seconds. Nelson Merentes, Minister of Finance, considers Sicad an effective alternative to Cadivi. It is expected that in the remaining days of July, Sicad will call for a new auction where individuals that need dollars for travel, health reasons, studies abroad, and emergencies may participate,



as long as they didn't receive currency in the first auction. *"Those that already received currency cannot participate in the auction, but there were some that didn't receive any; these can participate again, and that is interesting"*, said Merentes.

No dollars left for the private sector. In the minutes of the decisions made by the BCV Board of Directors, the balance of payments and the performance of Sitme and Sicad reveal a jigsaw puzzle where the currency available for the private sector fall drastically, while the absorption of dollars by the Government increases, due to its importing role and because it is paying more foreign debt. Imports by the private sector dropped 10.6% in 1Q2013, and BCV admitted that this was affected by the lower assignment of currency by Cadivi.

July could have a perfect ending. The authorities may be working on the details for a second Sicad auction on July 29. By the end of the week, the sectors that will participate in the auction will be defined, as well as the total amount of currency offered. Companies in the automotive and health sectors would be left out, as well as those in the free trade zone of Margarita and Paraguaná.

A third financing is close. Temir Porras, President of the Economic and Social Development Bank (Banco de Desarrollo Económico y Social de Venezuela - Bandes) explained that progress is being made for a third credit line through the Chinese-Venezuelan fund. He also announced that in two weeks there will be negotiations in Caracas to fine tune the details of the financing lines.

Things are not well. 58.0% of Venezuelans feel that the economic situation of the country is negative, according to the National Omnibus Survey carried out by Datanálisis. According to that same survey, 53.6% of all Venezuelans, and 52.2% of ruling party supporters think that the government must work with the private sector, while only 12.6% considers that expropriations will help the nation's economic performance.

Fonden is ready. Temir Porras, President of Bandes, said that Fonden is just waiting for President Nicolás Maduro and Minister of Finances Nelson Merentes to decide to make it a supplier of foreign currency in Sicad to support the production sectors that need to import materials.

Bandes doesn't skimp. Bandes has invested more than US\$40.0 billion in different projects, among them the bridge over the Orinoco River, the electric power generation dams, and the railway system, according to its President, Temir Porras. He also said that the entity expects to expand its credit policy, so in the next week he will meet with some sectors to define the projects it will finance.



Indebted. According to estimates of Barclays Capital the public debt could go from US\$109.0 billion in 2010 to US\$178.0 billion in 2013, meaning that in three years, the public debt would increase 63.0%. 2013 would be the third consecutive year in which the government has had to resort to complementary indebtedness to cover State commitments. With these results, the debt of the government and of Pdvsa would represent 60.0% of GDP in 2013.

The public sector carries employment on its shoulders. 68.0% of the jobs created in 2013 come from the public sector, according to the latest report of INE. The balance for the year is 228,203 new jobs in the public sector, and 107,582 in the private sector. The main causes for these results are a lack of legal security, lack of incentives for investment, and little stimulus for production.

Interest rates. The lending rate for the second week of July was at 16.4%, down by 2.5 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 decreased by 0.8%, going from US\$24.284 billion during the second week of July to US\$24.084 billion during the third week of July. Compared to the same period last year, international reserves have decreased by 10.5%.

Central government expenditure. On Friday July 19th according to figures from the ONT primary spending was VEB 1.28 billion, which means a decrease of 19.1% when compared to the previous week when it was VEB 9.55 billion; when compared to the same period last year we observe an decrease of 31.2%. Until July the cumulative primary expenditure in real terms (measured in 2007 prices) IS VEB 58.57 billion, with a variation (y/y) of -16.3%.

Monetary liquidity. Monetary liquidity (M2) increased 0.5% in the second week of July compared to the previous week, settling at VEB 858.12 billion. The M2 has increased 66.2% in relation with the same period last year.





Oil Tips

Production in Mariscal Sucre begins. Production of the Mariscal Sucre project, in the eastern part of the country will start these days, said Rafael Ramírez, Minister of Oil and Mining, and President of Pdvsa. The first production of the Mariscal Sucre project will be 70 million cubic feet per day, said Ramírez, in line with the expected early production volumes, although with some delays regarding the initial extraction date that was in 2012. The goal is that by the end of the year 300 million cubic feet per day of gas will be produced.

Retired individuals cannot enter! Pdvsa issued a communiqué restricting the access of retirees and pensioners to the facilities of the state owned company in Caracas. This is apparently due to an *"incident with a retired person"*, where the President of Pdvsa, Rafael Ramírez, was involved. The Association of Retirees and Pensioners of the Oil Industry, Capital Chapter, sent a communiqué to the directors of Pdvsa, expressing their surprise for these measures.

Vehicle gas plan focuses on public transportation. Rafael Ramírez, Minister of Oil and Mining, indicated a change in the policy whereby buses and transport units can use only natural gas. *"The gas powered public transportation vehicles circulating in Caracas have given good results, that is why we are bringing Chinese buses. We are going to have more gas powered buses, so that they don't have the option to use gasoline. I believe that this is convenient for public transportation, and we will offer them the units"*, said Ramírez.

Electric power plant in Monagas will generate 200 MW. Rafael Ramírez, Minister of Oil and Mining, visited this Saturday the Electric Power Generation Plant of the El Furrial district in Monagas, and announced that this week the first turbine of the electric generation plant will start up; these are *"Rolls Royce turbines, the most efficient ones and the first in Latin America; they are very efficient machines which will use around 45 million cubic feet per day of gas, and transform them into 200 megawatts of electricity"*.

Ramírez considers that gas production is efficient. The José Francisco Bermúdez gas pipeline in Sucre was inspected by Minister Rafael Ramírez, indicating that Venezuela is producing 7.0 billion cubic feet of gas. Ramírez also praised the effectiveness of the gas pipeline system of the country, adding that *"we*



presently have a country that is interconnected with gas pipelines, from the east to the west, and we are capable of exporting”.

Santa Claus will bring us gas this year. Pdvsa’s development project, which implies taking gas directly to the homes of the country, plans to reach 160,000 homes this year, said Rafael Ramírez, President of the national oil company. The goal of having direct gas in houses is to improve the quality of life of Venezuelans, and replace the liquefied gas that is presently used in homes.

Another promise. In 2014, Venezuela will be able to export gas to some countries in the region like Argentina and Brazil, with whom there are already bilateral agreements in the area, said Minister Ramírez. *“Presently, we are not exporting gas, but we will through the gas pipeline that we have with Colombia”,* he said. He also reminded that by the end of the year, the proven natural gas reserves of Venezuela were 196 trillion cubic feet.

Sanctions against Alba Petr6leos. The Competence Superintendence (SC) of El Salvador announced that it opened a procedure to sanction the Venezuelan-Salvadoran company Alba Petr6leos for not asking authorization to execute five mergers with other businesses. Apparently, the purpose of the procedure against Alba Petr6leos is to *“establish if it violated the Law of Competition by not requesting authorization for the alleged mergers with other companies”,* said the SC in a communiqué.

6th meeting with the production sector. A few days ago, Pdvsa installed in Puerto Ordaz the 6th meeting with the National Production Sector, joining more than 320 companies of Bolívar, in order to create the National Industrial Oil Conglomerate (Conglomerado Nacional Industrial Petrolero - CNIP). During the meeting, the state oil company met with members of the Venezuelan Oil Chamber and the Federation of Chambers and Associations of Craftsmen, Micro, Small and Medium Industries (Fedeindustria) of Bolívar, as well as a group of companies interested in participating in the development of the Oil Belt.

International oil baskets. At closing time on July 19th in the New York Stock Exchange, the price of the WTI was US\$106.6/bl, a 2.2% increase compared to the US\$104.3/bl reported the previous week. The Brent increased by 0.8% to reach US\$108.7/bl, compared to the previous week’s US\$107.8/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$105.7/bl on Friday July 19th, a 1.2% increase compared to the US\$104.6 /bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.0/bl.



Business Sector Tips

Tensions with Colombia affect trade. The executive president of the Venezuelan-Colombian Economic Integration Chamber (Cavecol), Luis Alberto Russian, pointed out that although diplomatic relations between Venezuela and Colombia didn't break, tensions impacted trade exchange, which dropped 36% in 1S2013 in absolute terms, for a relative variation of 3%. Among other things, times for the allocation of foreign currency and issuance of certificates became longer.

New president of Sidor. President Nicolás Maduro appointed General Javier Sarmiento Márquez as new president of Sidor iron and steel company and asked for the support of all workers and unions to continue strengthening Sidor. Vice-President Jorge Arreaza also informed about the launching of the first social "micro-missions" proposed by the late Commander Hugo Chávez Frías for the country's basic industries.

Businessmen involved in Mercosur. Venezuelan businessmen participated in 60 business rounds at the recent presidential summit of Mercosur. Deulin Faneite, president of the Venezuelan Chamber of Mercosur, stated that the outcome of the meetings was "very satisfactory" and invited local businessmen to join this movement through public and private alliances. Faneite also noted that the Chamber already has 224 firms affiliated, which can count on legal, technical and fiscal counseling on exports of different products.

Substantial hotel occupancy during this season. Leudo González, president of the National Hotel Federation, estimates that hotel occupancy during the summer holiday season will reach 65-70%. González said that hotels now can provide all services, because access to toilet paper and detergents is already normal. González also informed that the sector is waiting for the mechanisms to authorize exchange of foreign currency at hotels, and spoke about incentives, such as VAT removal or cut of interest rates, which are being considered to bolster tourism sector in Venezuela.

VEB 1.1 billion for Guayana. Nicolás Maduro authorized the payment of VEB1.1 billion to Guayana basic industries to honor part of the government's debt to those industries. At the same time, President Maduro urged workers of Sidor, Venalum and Alcasa (aluminum processing industries), and other state-owned companies in Guayana to make their best effort to help strengthen production.



Insufficient foreign currency. Considering the US\$ 400 million that the trade sector requires every week, Mauricio Tancredi, president of Consecomericio, assured that auctioning just US\$200 million every two weeks is not enough. Tancredi believes that there should be another exchange market where companies could have smooth access to foreign currency on a daily basis. Consecomericio also reported that the organization hadn't been invited to any meeting with the Central Bank of Venezuela or the Ministry of Finance.

The food sector becomes stronger. The Venezuelan Chamber of Food Processing Industries (Cavidea) reported that in June 2013, sales of basic foodstuffs grew by 2.5%, thanks to the effort by companies to render production normal and talks between the private sector and the administration, which allow firms to have better access to raw materials and foreign currency.

Sicad provokes overflow of sales of air tickets. The recent auction held by the Complementary Foreign Currency Administration System (Sicad) made air ticket sales to travel abroad overflow. Ricardo Cusanno, president of the Higher Tourism Council (Conseturismo), assured that even though this is positive for the tourism sector, it is not the best outcome for the country. Cusanno is worried about the effect that this could have on the banking system, which at this time are facing administrative bottlenecks.

The auto part sector needs foreign currency. José Cinnirella, vice-president of the National Chamber of Auto Part Trade, is complaining because foreign currency allocated to the sector by Sicad won't be enough, since they only amount to US\$ 361 million per month, i.e. less than 50.0% of what Sitme provided: 800 million. Fifty percent of businesses resorted to Sitme last year to have access to foreign currency, because the government didn't give them the non-production certificate on many products, which is required by Cadivi.

Martínez criticizes Sicad. Francisco Martínez, vice-president of Fedecámaras, warned that it will take long for Sicad to truly help to fight shortages. According to Martínez, confidence has to be created by keeping citizens informed on Sicad auctions, thus avoiding them to become "an opaque procedure in which just a small informed group has advantages." Martínez also criticized the fact that just 40% of businesses from only two economic sectors could participate in the last auction. Too many companies are still waiting.

Beef sector's expectations. José Agustín Campos, president of the Federation of Farmers and Cattle-Breeders (Confagan), confirms that the announcement of new methods for beef commercialization are being expected and said that new ceilings will be set based on the type of cut, so that butcher's shops are able to operate



smoothly. However, at the meeting with the Vice-Minister for Nutrition, Rafael Coronado Patiño, and the Minister of Finance, Nelson Merentes, both officials had reservations due to the potential impact of these measures on inflation and expenses they would imply for the administration.

Auto part exports drop. The Chamber of Venezuelan Manufacturers of Products for Motor Vehicles (Favenpa) assures that over the last 8 years, auto part exports have dropped 96.75%, due to exchange rigidity provoked by an overvalued official exchange rate that stimulates imports and, at the same time, limits exports by local firms.

Coffee production's plight. Nelson Moreno, president of the Association of Coffee Industries (Asicaf), informs that raw material supply by the Venezuelan Coffee Corporation (CVA Café) for the production of ground coffee is running deficit of 70,000 quintals, due to CVA's ineffective distribution systems. Moreno called for a review of coffee prices, because controls don't allow industries to meet production costs.

Iron production plummets. Iron production at *Ferrominera del Orinoco* dropped from 22 million to 13 million of tons (41.0%) in 2006-2012, after the arrival of the new board of directors in 2006. The administration has opened an investigation to see what happened to the US\$2.2 billion that the company has received to renovate the plant and pay labor debts.

The chemicals industry needs foreign currency. Chemicals industry's debt to providers amounts to US\$600 million, up 20.0% from the previous month. Juan Pablo Olalquiaga, president of the Venezuelan Association of the Chemical and Petrochemical Industry, states that this is due to the delay in the allocation of foreign currency by Cadivi, and asked for the sector to be authorized to participate in the coming SICAD auctions.

Limited technology in private clinics and hospitals. Amadeo Leyba, president of Hospital de Clínicas Caracas, stated that the procurement of four medical pieces of equipment for the hospital has been stopped, because they are still waiting for Sundecop to decide with regard to the complaint against Resolution 294 of Sundecop. Leyba assures that if rates of services at private clinics and hospital are not increased, the service quality will have to be limited.





World Economy Tips

Growth before austerity. The Group of the world's 20 richest nations put growth ahead of austerity as it seeks to rebalance a multi-speed global economy, pledging to shift policy carefully so that recovery is not derailed by volatile financial markets. Russia said that G-20's politicians had softened their goals to reduce public debt in favor of a growth approach and the abandonment of the Central Bank stimulus with the minimum stress possible.

Record municipal bankruptcy. Detroit became the largest city in U.S. history to file for bankruptcy, deepening the financial crisis in a city that was the cradle of the country's auto industry. Michigan governor, Rick Snyder, approved a request by the emergency manager Kavyn Orr to file for Chapter 9 on protection against bankruptcy. *"It is clear that the financial emergency in Detroit cannot be successfully addressed outside of such a filing, and it is the only reasonable alternative that is available."*

Unemployment benefit applications drop in the US. The number of Americans applying for unemployment benefits dropped more than expected last week, reaching its lowest level in four months. Applications fell by 24,000 last week to 334,000, the Labor Department said

Thousands of public sector workers to be fired. Greece's government passed a bill to sack public sector workers. A few days ago, 153 lawmakers out of the 293 present voted in favor of the bill, whose passage was required to unlock nearly \$9.2 billion in aid from European Union and the International Monetary Fund. The bill includes plans for a transfer and layoff scheme for 25,000 public workers - mainly teachers and municipal police.

Light at the end of the tunnel. Greece's Prime Minister Antonis Samaras announced Greece's first major tax cut since its crisis began nearly four years ago, in an effort to placate protests and an increasingly restive mood. Samaras in a surprise television address announced that value-added tax (VAT) in restaurants, which was raised to 23 percent in 2011, would be cut to 13 percent from August 1. *"We will not relax. We will continue climbing up the hill, we will reach the top, which is not far, and better days will come for our people,"* he said.

From modest to moderate. The U.S. economy continued to grow at a modest to moderate pace in June and early July, with manufacturing expanding in most areas



of the country, the Federal Reserve said. The Fed also struck an upbeat note on the housing market, noting that residential real estate and construction increased at a moderate to strong pace in all districts.

Cyprus' bailout reviewed. Cyprus' international lenders began reviewing how the island is meeting the conditions of its EUR 10 billion bailout, looking to see whether it should get the next tranche of aid. The appraisal is the first since Cyprus secured a deal with the International Monetary Fund, the European Commission and the European Central Bank, pulling the country away from the crisis.

Cutting the cost of paying by card. The European Commission proposed to cap the fees that banks charge when processing credit and debit card payments, as per the draft law seen by Reuters. The draft that will be officially submitted next week envisages limiting the fee charged by banks to 0.2% on the value of a debit card transaction and 0.3% on credit cards. The draft legislation doesn't categorically prohibit fees charged by banks for their transactions, but assure that this cost will be permanently reduced.

Brazil moves in advance. The Central Bank of Brazil said that an increase in reference interest rate will help limit the impact of a quick depreciation of real on inflation rate, and pointed out that they will probably maintain the monetary adjustment pace to stop price increases. The Commission on Monetary Policy of the Central Bank unanimously voted last week to raise referential interest rate, Selic, by 50 base points, up to 8.5%, in what is considered one of the most aggressive monetary hardening cycles worldwide.

Germany grows strongly. The German economy showed robust growth in the second quarter of this year, boosted by industrial production and construction, the Bundesbank said. *"The assessment that, after the weather-related weak start to 2013, the German economy expanded strongly in the second quarter, has been confirmed by the current indicators,"* the Bundesbank said, adding that *"looking into the summer quarter, signs of a slowing down of economic growth are stronger."*

Political Tips

Maduro demands the US to rectify. President Nicolás Maduro condemned the recent statements of the US ambassador to the United Nations, Samantha Power. In



this regard, Maduro sustained that Power's statements reveal "*who is the mastermind behind the plan to destroy our relations with countries in Latin America (...) they surely want to have good relations!*" he said talking about diplomatic rapprochement between the US and Venezuela before Edward Snowden's case.

Relations are based on no interference. Venezuela's Minister of Foreign Affairs, Elías Jaua, said that for relations to the US to be restarted at the highest level, interference by the US in Venezuela's internal affairs have to stop and decisions made by Venezuela have to be respected. Jaua referred to events that happened after his meeting in Guatemala with current United States Secretary of State John Kerry, the meeting of Roberta Jacobson with representatives of the Venezuelan opposition, and statements by the candidate to US ambassador to the UN, Samantha Power.

Good relations. Presidents of Colombia and Venezuela spoke with the press after their meeting in Puerto Ayacucho. Venezuela's Nicolás Maduro said that "*political relations have to be strengthened based on respect, for them to develop at all levels.*" Likewise, Maduro informed that high-level working commissions will be reactivated next August 2. Meanwhile, Colombian President Juan Manuel Santos said that their intention to collaborate for the benefit of the peoples of Venezuela and Colombia was stated very clearly.

What really matters is the talk, not the picture. In his trip to Chile, Governor of Miranda Henrique Capriles said "*we came to talk to the representatives of Chilean institutions and we deeply thank President Piñera for sitting with us. What really matters is the talk, not the picture,*" adding that "*I didn't come to interfere in Chile's internal politics, but if UNASUR made a decision, it has to be complied with; commitments have to be respected. Unfortunately, in Latin America, economic interests are more important than democracy and that cannot happen.*"

There is merit to try Mardo. The Full Chamber of the Supreme Tribunal of Justice (TSJ) decided that there was merit against Representative Richard Mardo, who has been charged by the Attorney General Luisa Ortega Díaz for the alleged crimes of tax fraud and money laundry, which are penalized according to article 116 of the Organic Tax Code and article 4 of the Organic Law against Organized Crime, respectively.

Primero Justicia will charge the Attorney General for using forged evidence. Representative Dinorah Figuera, head of Primero Justicia's faction to the National Assembly, informed that they will go tomorrow to the Republican Moral Council to report Attorney General Luisa Ortega Díaz, whom she accused of "*using forged evidence*" to try Representative Richard Mardo. Figuera remembered that "in



reiterated occasions, Mardo said that checks from his account had been forged. This action should be questioned by the entire country. Therefore, we demand the Republican Moral Council to start an investigation.

“The administration doesn’t respect the right to free education.” Former Dean of the School of Economic and Social Sciences of the University of Andes, Laura Luciani, reported that the administration *“doesn’t respect the Constitutional right to free education, because transportation, nutrition, scholarships and further student benefits aren’t worth what they used to decades ago.”* Luciani, the second professor to join the hunger strike, said that today’s budget granted by the State to universities *“is a joke,”* because it has been the same since 2007.

The AN investigates Salas Feo’s management. The Control Committee of the AN started an investigation against former Governor of Carabobo, Henrique Salas Feo, for alleged embezzlement of funds in a series of infrastructure works that weren’t completed during his tenure. The investigation was started in response to reports made by current Governor Francisco Ameliach, based on a study according to which more than VEB2.0 billion would have been embezzled during Salas Feo’s management.

Legislatives Tips

Special Supplementary Borrowing Law for 2013 passed. The Law on Special Supplementary Borrowing for 2013 has been passed by the pro-government majority of the AN. The law grants the Executive an additional VEB76.0 billion for the second half of the year. The Special Annual Borrowing Law for 2013 provided for borrowing for more than VEB 41.69 billion for this year.

Law on car theft to be passed. A few days ago, the National Assembly passed in its first discussion the draft reform of the special law on car theft. Now, the second step for the passage of the law is public consultation, which has been already started, for the law to be discussed a second time in full session of the AN. According to statements by Representative José Javier Morales, chair of the committee drafting the reform of the law, the corresponding consultations will take place throughout the country over the two next weeks.



The Esequibo again. The Permanent Committee on Foreign Policy of the National Assembly will invite actors related to Venezuela's claim over the Esequibo territory, including the Venezuelan Ministry of Foreign Affairs, in order to assess the topic, as informed by Representative Leomagno Flores, member of the permanent committee. *"At the next meeting of the Committee, we will draft a working plan for discussion meetings on the claim, to which we will invite fundamental actors and the Foreign Ministry to listen to their recommendations,"* the Representative said.

Samán with less power. According to the Official Gazette No. 40,211, which repeals resolution No. 059/2013, the power of Indepabis president, Eduardo Samán, to remove or hire directors for Indepabis was revoked. The measure is signed by the Minister of Commerce Alejandro Flemming. The text reads that *"Resolution No. 059/2013 dated June 13, 2013 is hereby repealed."*

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ECONOMIC OVERVIEW

