



Weekly Report

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Reserves on the edge

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For the year, international reserves have dropped US\$3.73 billion (13.8%) compared to their value a year ago, and although during the same period oil prices have fallen 3.0% on average, the trend has been due to their composition, and not their sensitivity to a lower oil income.

Beyond the controversies raised by the establishment of an "optimum" level of reserves by the Central Bank of Venezuela (BCV), presently the attention is focused on their composition, biased towards coverage in gold, whose price *boom* allowed resource transfers from BCV to Fonden, and nourished a set of funds managed in a discretionary manner by the State. Now that the metal is losing its shine, there is a need to change the composition of international reserves, and the way the different funds in dollars are being fed, which could be a hard blow against the "new financial institution" and the discretionary management of funds in dollars in the short term.



Why gold?

The purpose of international reserves is to guarantee continuity of the Republic's international payments, mitigate external shocks, derived in the case of Venezuela from oil price fluctuations, contribute to a favorable non-payment risk perception -thus lowering the cost of the foreign debt, and dissuade speculative attacks against the currency.

The BCV has instruments such as gold in currency or ingots, deposited in its vaults or institutions abroad; securities deposits in foreign currency, issued by foreign financial institutions, public entities, and international financial institutions (as long as they are qualified as first class); Special Drawing Rights (SDR) or any other international fiat money; or maintaining a net positive credit position in the International Monetary Fund (IMF).

The optimum composition of international reserves, according to BCV policies, must guarantee the proper control of credit, market, and operational risks, that is, enough funds to meet the reserve maintenance target, which depends on obtaining proper profits from these funds in the mid-term –at that risk level-. Thus, the criteria to choose a reserve asset are: security, liquidity and profitability.

In the last years, the international financial crisis and the debt crisis in Europe have led not only to a drop in the value of the currency of the largest economies (like the Dollar, the Yen, and the Euro) compared to the currency of emerging countries, but to a generalized lack of trust to invest in debt securities of countries with AAA classification. Thus, *commodities*, among them gold, have become a haven for investors.

Throughout history, gold has not only been a safe asset to maintain the value of deposits, with a positive price evolution, but has also preserved the liquidity that other *commodities* have not. The best protection has been to have more gold, given the negative international situation of the Dollar.

Driven by the crisis

In response to the 2008 crisis, which significantly affected capital markets and restricted liquidity worldwide, the U.S. Federal Reserve (FED) implemented a series of expansive monetary policies to boost growth and employment in the country, affected by what became a recession.

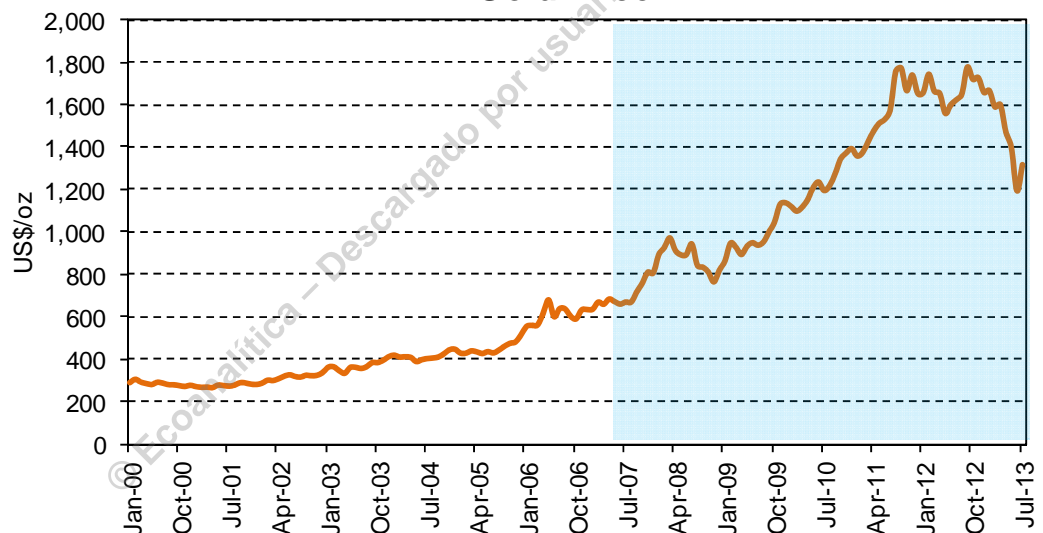
First, the FED adopted measures such as cuts in reference interest rates (to almost zero), and then the direct provision of liquidity to investment banks (the first quantitative easing, or Q1). More recently, in September, 2012, said Central Bank decided to purchase instruments derived from mortgage debts for US\$40.0 billion per month (Q2) and, starting in



January of this year, it has been purchasing US\$45,000 per month in US Treasury bonds. The purpose of these measures is to increase liquidity in the market, increase the offer of loanable funds, driving down interest rates and encouraging investment, for a more dynamic economic growth and a higher level of employment.

The collateral effect of this aggressive expansive monetary policy of FED, is that the Dollar flooded the international markets and started losing value before its peers (Euro, Pound, Yen, among others) so investors abandoned their long positions in dollars, and moved towards purchasing *commodities*, among them gold, driving their price.

Gold Price



Sources: TWGC and Ecoanalítica

In the last months, the main economic indicators on growth and employment have shown better results for the U.S. than expected by policy makers, leading to the possibility of removing monetary stimulus, and its effect on the price of gold. The drop in securities purchases by the FED, which had been proposed by some of its Committee members at the end of the year, would imply a lower expansion of liquidity in dollars worldwide, and increase in the value of that currency, and a lower demand of gold as coverage.

Benefitted by the boom

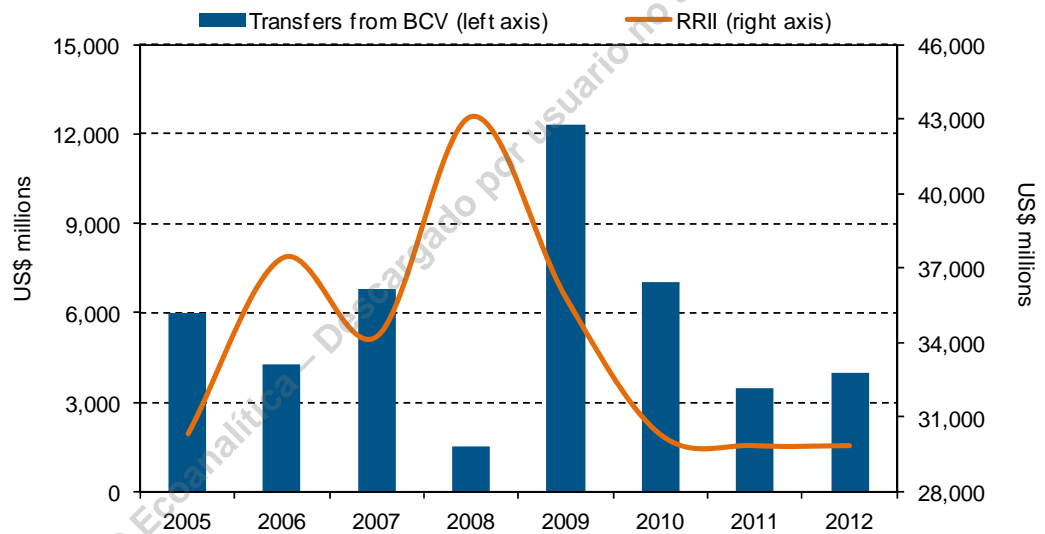
Since 2004, the revalorization of gold allowed BCV, the single administrator of the international reserves, to transfer a considerable amount of resources to funds in charge of executing several Government



programs (mainly Fonden), without affecting the value of its *stock* of assets, despite the fact that it receives less dollars from a Pdvsa that has increasing responsibilities.

In the last eight years, BCV transfers to Fonden have been US\$5.67 billion per year on average, however, reserves have fallen only US\$710 million per year on average, mostly because of the average increase of US\$1.90 billion in the value of monetary gold, mainly due to the 291.2% increase in its price between early 2004, and the end of 2012.

Transfers from BCV to Fonden vs. International Reserves



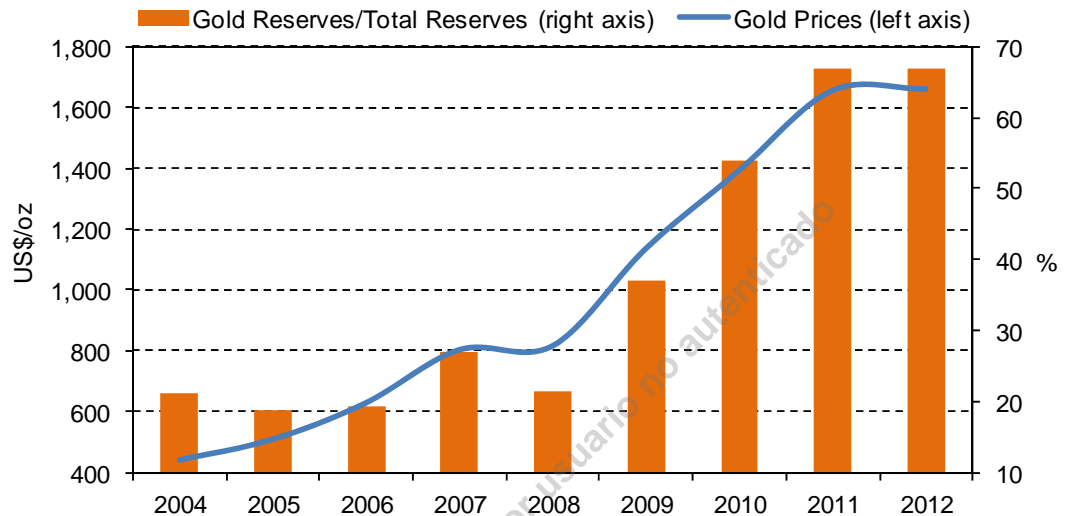
Sources: BCV y Ecoanalítica

This policy also led to a significant restructuring of the international reserves composition, from being mostly made up by liquid assets in 2004 (78.8% in foreign currency) to be mostly in gold by mid-year (74.7% at the end of June), positive from the point of view of treasury management, given the devaluation of the dollar, compared to other assets in the past years.





Gold prices vs. Gold Reserves/Total Reserves



Sources: World Gold Council, BCV and Ecoanalítica

The revalorization of gold has produced US\$15.26 billion since 2004 for the international reserves. If we subtract the effect of the price increase of gold in the last nine years from the amount of our reserves at the end of 2012, they would only reach US\$14.62 billion. This gives us an idea of the importance of having high gold prices.

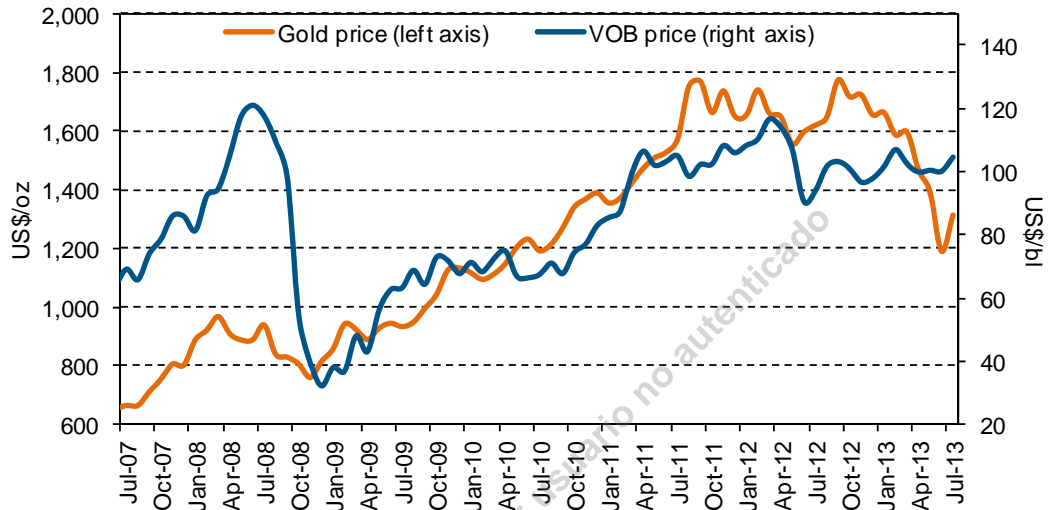
Assuming a higher risk

Maintaining a large proportion of the international reserves in a single asset always implies a high risk, because large price variations always imply large variations in the value of the reserves. Being gold the asset, the risk is higher given the significant positive correlation between the price of gold and the price of the Venezuelan oil basket (in 90.7% de los cases, in the last 40 years, the price of gold and of oil se have moved in the same direction). In sum, under the present scheme, the value of our foreign currency and the flow of our income in dollars depend on the price of two *commodities* which evolve together, so a fall in them would restrict our income and reduce our reserves.





Gold Price Vs. Venezuelan Oil Basket Price



Sources: TWGC, Menpet and Ecoanalítica

The policy to increase the relative position in gold, or rather the reduction of the stock of liquid assets in the hands of the BCV, has increased uncertainties regarding the availability of foreign currency to be assigned through official mechanisms to the private sector, and has been one of the causes of delays in their liquidation.

And now that the reserves are no longer shining?

Undoubtedly, high gold prices have been a key element in maintaining the level of the international reserves. Now that the golden metal appears to be losing its shine (the price of gold has dropped 28.1% in the last 12 months), **Ecoanalítica** sees with concern the lack of reaction of the BCV, which instead of having an aggressive re-composition policy of its foreign assets, has decided to change the way to evaluate them¹, breaking the thermometer instead of treating the fever.

In this situation, a setback in gold prices could put at risk not only the total value of reserve assets (which in this week reached its lowest level in six years) and thus putting the Republic's payment compliance at risk, but would also limit the transfers to Fonden, to be able to maintain a reserve level close to the "optimum".

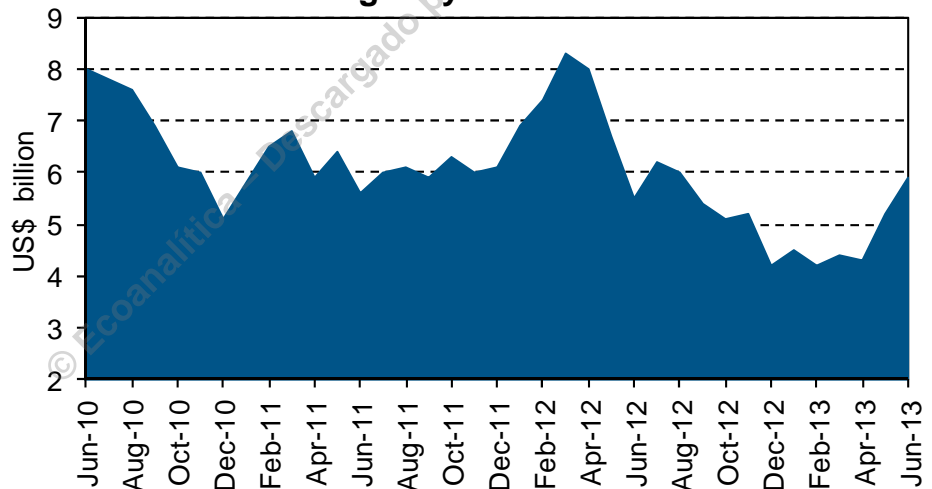
¹ Since May of this year, the price in dollars of gold ingots in the hands of the BCV is calculated at the six month average value recorded in the London market, and not based on the average of the last two months, as was done before.



We could even think about a reversal of funds (transfers from Fonden to BCV). This affirmation appears to be reinforced by the reform of the resolution that allows public entities holding funds in foreign currency, by which they must be authorized for BCV to maintain those funds, which could lead to a potential increase in international reserves. Another option is a new change to the Law of Special Contributions due to Extraordinary Oil Prices, allowing Pdvsa to transfer more of its income to BCV to the detriment of Fonden.

The fact is that when gold loses its shine, the authorities will have to decide between strengthening the reserves and maintain the country risk at bay, which has increased 180 basis points in the last seven months, or feed a Fonden whose cash balance dropped 73.0% in the last twelve months.

Extrabudgetary resources in Fonden



Source: Ecoanalítica





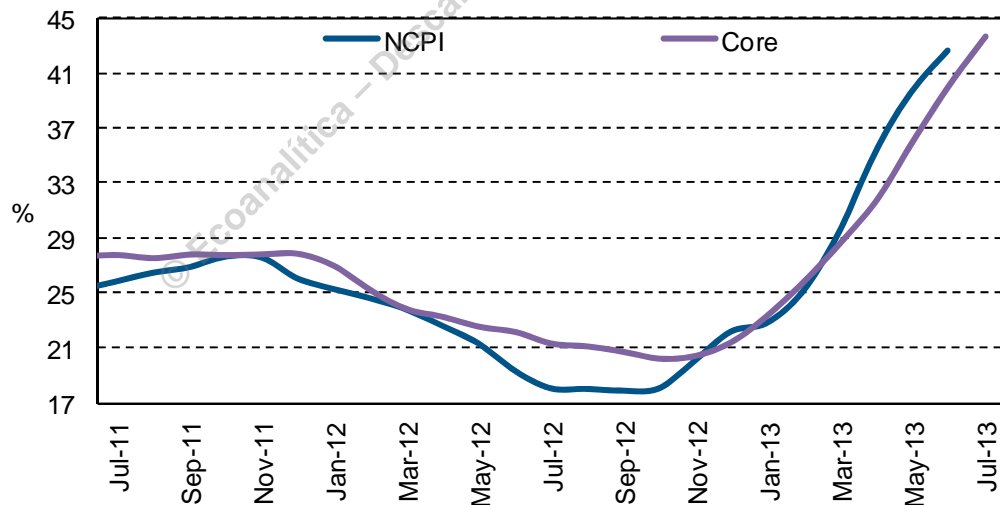
Economic Tips

Inflation reached 3.2% in July. According to figures published by the BCV, the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for July was 3.2%, or year on year inflation of 42.6%.

Meanwhile, core inflation registered a decrease of 3.8% in July. The year on year inflation registered 43.6%

Transport had the highest inflation in July. Among the 13 categories studied by the BCV, in July Transport showed a higher inflation than the national average, with a variation of 6.4%, followed by the categories of clothing and footwear 4.9%, leisure and culture with 4.6% and alcohol and tobacco with 4.3%.

NCPI Vs. NCPI Core (y/y)



Sources: BCV and Ecoanalítica

CPI reached 3.4% in July. According to figures published by the BCV, consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for July was 3.4%, or a year on year inflation of 40.7%.

Higher inflation for the poor. Although the year on year inflation in July of the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 40.7%, inflation for class I of the population, which includes the poorest



families, increased 47.3%. Classes II, III and IV registered a variation of 45.2%, 41.3% and 37.2% respectively.

Inflation in controlled products increased 33.4%. In July the inflation of controlled and non-controlled products was 2.8% and 3.4% respectively. But at the same time, non-regulated goods had an inflation of 49.0% and controlled goods of 33.4% since July 2011.

Geographical results. Of the 11 cities surveyed, San Cristobal in July recorded the highest inflation at 3.6%, followed by Caracas, Ciudad Guayana and Valencia with 3.4%. Domains that recorded minor variations in July were Barcelona-Puerto La Cruz (2.5%) and Maracaibo (2.8%).

Scarcity remains unchanged. In July, the scarcity index increased from 19.3% to 19.4%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 19 were not available.

IRE drops 7.6% in the 2Q2013 . According to figures published by the BCV, the wage-earning workers Remuneration Index (IRE) in the second quarter of 2013 registered a diminishment in real terms of 7.6% over the same period last year. This fall was driven by a considerable drop in the public sector, which experienced a decrease of 8.6% in real terms, while the private sector decreased 7.2% in real terms, both over the same period of 2012.

Barclays warns that Sicad will become unsustainable. In its last report on Venezuela, Alejandro Grisanti, Barclays Capital analyst, warns that the Government is making the same mistakes with Sicad that made Sitme unsustainable. According to Barclays the decision to sell dollars in Sicad at VEB10/US\$ shows that the Government doesn't want to acknowledge the devaluation, dismissing the fact that the balance exchange rate will be VEB12.6/US\$ at the end of July. Thus, a high demand of dollars, driven by an artificially low exchange rate in Sicad, increases the country's vulnerability at a time when foreign currency reserves are also falling.

The BCV policy drives the dollar in the parallel market. The rise of the non-official dollar is the result of an imbalance where the amount of bolivars increases rapidly, while the foreign currency is increasingly scarce, and BCV is helping create this imbalance. BCV manufactures Bolivars to buy bonds from PdvsA; when it has the money, it spends it in projects like Misión Vivienda and once the bills enter the economy, they become part of the flow that goes to purchase dollars in the black market or that drives inflation.



Fedecámaras doesn't believe that the Sicad auctions will fulfill its goal. Jorge Roig, president of Fedecámaras, gave his opinion regarding the Sicad auction. He believes that the fact that *"US\$200 billion are being auctioned per week of every 15 days, and that that is big news, shows that the economic model isn't working"*. He reminded that Sicad is a complementary system, and won't cover *"the enormous appetite for dollars of entrepreneurs, resulting from a model where everything has to be imported"*.

Foreign currency assignment for travel dropped 33.3%. BCV assigned US\$210 million during the third Sicad auction, where 868 companies in the computers, toys, books and school supplies, stores in the Free Zone of Margarita, and appliance stores in the Free Zone of Paraguaná, received US\$178 million. BCV assigned US\$27 million to 28,029 individuals for travel purposes, who received US\$1,000 each, a reduction of US\$1,000 of the maximum amount per traveler.

International reserves dropped. Authorities recently said that more than 50.0% of the oil foreign currency has been sold to BCV, but the international reserves still don't reflect this. BCV figures indicate that by August 1, reserves closed at US\$23.30 billion and according to BCV data, for 2013 assets have dropped by US\$6.50 billion, due to the liquidation of imports and public debt payments.

Foreign currency sales from Pdvsa to BCV were below 2012 levels. Rafael Ramírez, Minister of Oil and Mines and president of Pdvsa, said that more than 50.0% of the foreign currency coming from oil exports went to BCV, and that the latter received US\$21.80 billion in the first semester of 2013 (1S2013); this flow of income is a reduction compared to the same period in 2012, when the industry gave BCV US\$22.30 billion; also, in 1S2013 contributions to Fonden dropped 32.0%.

BCV ratifies that the opening of accounts in dollars cannot be restricted. BCV reiterates to universal banks authorized to receive deposits in foreign currency, according to the provisions of Exchange Rate Agreement N°20 of June 14 2012, that they cannot request additional items to open accounts in foreign currency, and cannot establish a minimum amount to open them.

Government contemplates increasing tax collection. The government is looking for ways to increase ordinary income, and one of the options is a tax reform. At the National Assembly (NA), representatives have said that they are working on modifying tax laws. Nelson Merentes, Minister of Finance, said that *"representatives have the power to legislate, and we have to join efforts so that these initiatives become a reality"*. The minister didn't mention the adjustments that could be made, but said that it is necessary to increase the income obtained from taxes.



Bonds could save the day. The need to provide dollars could force the government to issue bonds in foreign currency to supply Sicad auctions, so that companies could purchase them in Bolivars to then sell them in dollars abroad. The provision of foreign currency by Sicad and the drop in the price of gold, which represent close to 75.0% of the international reserves, have lowered their value to levels that had not been seen since 2004.

Interest rates. The lending rate for the fourth week of July was at 16.8%, up by 0.3 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 4.5%, going from US\$24.219 billion during the fourth week of July to US\$23.121 billion during the first week of August. Compared to the same period last year, international reserves have decreased by 13.0%.

Central government expenditure. On Friday August 2nd according to figures from the ONT primary spending was VEB 10.04 billion, which means a decrease of 23.7% when compared to the previous week when it was VEB 13.15 billion; when compared to the same period last year we observe an increase of 5.3%. Until July the cumulative primary expenditure in real terms (measured in 2007 prices) is VEB 66.88 billion, with a variation (y/y) of -4.5%.

Monetary liquidity. Monetary liquidity (M2) increased 1.8% in the fourth week of July compared to the previous week, settling at VEB 870.56 billion. The M2 has increased 63.7% in relation with the same period last year.

Oil Tips

Supplies to Colombia resume. After a meeting with representatives of the Government of Colombia, Rafael Ramírez, Minister of Energy and Oil, informed that fuel supplies to Colombia will resume on August 15, which at present is 27 million of liters of fuel per month. Ramírez also said that both countries will reinforce the fight against smuggling.





No changes. Ramírez was also consulted about the possibility of changing the price of Venezuelan fuel, to curb smuggling between both nations, and although the losses due to this issue are close to US\$1.40 billion, he said: *"A change in fuel prices in Venezuela isn't contemplated (...) we are not going to change our price policy"*.

The direction will change. Ramírez also said that the direction of exports will change, because Venezuela, with the gas coming from the East, can now export to Colombia. The Minister mentioned the construction of a gas pipeline to export gas, which will start operating in 2014 and said that the interconnection of gas pipelines between both countries has been agreed. He also said that *"(...) it is an investment of at least US\$8 billion"*.

PDV Marina scandal uncovered. The dismissal applied by the authorities of PDV Marina in Puerto La Cruz, Anzoátegui, to several workers led to a public claim of alleged corruption at that Pdvsa branch. A trade unionist said that the management of PDV Marina in Guaraguao *"has created a cemetery of steering and tow boats, while on the other hand, they go to private companies and rent the same equipment because they keep a percentage"*.

Oil goes down. The barrel of Venezuelan oil dropped last week, putting an end to four consecutive weeks of rises, said the Ministry of Oil. In a communique, the Ministry attributed the drop to *"the publication of disheartening data at the beginning of the week, about the economy in China and the United States"* and to the strengthening of the Dollar before the Euro. The drop in the weekly price of Venezuelan oil was also reflected in the reference barrel of OPEC, of which Venezuela is a founding member, going from US\$105.8/bl to US\$105.3/bl.

New conglomerate for FPO. Pdvsa has registered 851 public and private companies to create the National Industrial and Oil Conglomerate (Conglomerado Nacional Industrial Petrolero) to meet the demands of the production units of the Orinoco Oil Belt (Faja Petrolífera del Orinoco - FPO) to reach a production of 4 million barrels per day (mb/d) in 2019. Minister Rafael Ramírez said that so far 53 working meetings have been held with the Oil Chamber, Fedeindustria and other associations, who *"responded positively to the request for goods and services to move forward in the development of the oil belt and other non-oil projects"*

Possible new alliance. Pdvsa Maracaibo met with the private sector to present the Service Company Well Connection Project, to reactivate more than 1,000 wells in Lake Maracaibo. The first round of the project includes three types of work: laying of lines, pump changes, and platform repairs; the companies that want to bid will have historical production information, as well as the technical detail of each well. Pdvsa



will also design the trust fund conditions, as well as the content of the contract to convene companies to present their offer.

Crude oil demand falls. According to Saudi Prince Al Walid Ben Talal, global oil demand is “continuously falling”, which could have a negative impact on the economy of the kingdom. He also said that Saudi Arabia is producing below its capacity, and the project to increase this capacity to 15mb/d will not happen. He also warns about the risk of depending almost exclusively on oil, whose income is 92.0% of the State’s budget.

Exports of Petro Ecuador increase. In the first half of the year, exports reached 58.7 million barrels (mb), less than the amount recorded during the same period in 2012 (58.4 mb). In the first six months, sales amounted to US\$5.74 billion for the State. The company quoted its crude “*Oriente*” at US\$99.1 per barrel and “*Napo*” at US\$ 94.61 during that period.

Lower profits. Chevron reported a higher than expected drop in quarterly income due to the drop in the price of oil, which undermined its profits from oil and gas production, at a time in which its refining unit in the United States is slowly recovering from last year’s fire. Net earnings for the second 1uarter dropped 26.0% to US\$5.37 billion, from US\$7.210 billion in the same period last year.

International oil baskets. At closing time on August 2nd in the New York Stock Exchange, the price of the WTI was US\$105.3/bl, decreasing 1.2% compared to the reported the previous week. The Brent remained stable at US\$107.9/bl, comparing it to the previous week.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$104.9/bl on Friday August 2nd, a 1.0% decrease compared to the US\$106.0 /bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.3/bl.

Business Sector Tips

Rental market contracts. According to sources linked to the sector, the legal provision approved in 2011 has led to a 90% reduction in the housing rental market during the 1S2013, 20 points more than in 2012. The Anti-Eviction Law, the Arbitrary



Vacating of Housing, and the Law Regulating and Controlling the Rental of housing, passed in May and November of 2011, respectively, have rendered this market almost inexistent.

Paying accounts. The National Electric Power Corporation started a plan to charge for energy services to public sector institutions, which implies following up the arrears of users, and the payment of debts by mayoralties in the country, while deploying a campaign to install and replace incandescent bulbs for public lighting.

Fedecámaras is speechless. Jorge Roig, President of Fedecámaras, gave his opinion about the recent Sicad auction and said that the fact that *“the great news of the day is that US\$200 billion are being auctioned in the country every week or 15 days, shows that the economic model isn’t going in the right direction”*. He reminded that Sicad is a complementary system and in this sense, won’t appease *“the enormous appetite for dollars of entrepreneurs, resulting from a model that requires almost everything to be imported”*.

Consecomercio insatiable. Mauricio Tancredi, president of Consecomercio, said that the sector he represents has many Bolívares, but can’t find a way to convert them into dollars to buy products. He said that this could affect the quality of supplies for consumers. Tancredi said that merchants need US\$400 million per week, and the auctions won’t solve the problem. He also warned that stores are in the middle of their purchasing moment, and many have withheld purchase orders because they don’t know where to get dollars.

Clinics already in Sundecop. Up to July 26, the more than 1,000 private clinics of the country registered in the web site of the National Superintendence of Costs and Prices (Superintendencia Nacional de Costos and Precios - Sundecop), allowing the administrative providence to regulate the price and costs of medical services in those establishments, said Isabel Iturria, Minister of Health. Iturria explained that the information will be reviewed and analyzed by Sundecop with the Ministry of Health.

No discounts. Ricardo Menéndez, Minister of Industries, started the centralized marketing system of the basic industries of Guayana, to try to streamline the marketing of products of the industries and minimize corruption. He also said that the State will set the price of products and there won’t be any discretionary systems to make discounts on the sales.

Surveillance! The special regulation of the Security Zones of the National Electric Power System and Service, published in Official Gazette N°40.220, individuals or companies in the security zones of the electric power system and service under special administration regime, adjacent areas, and associated goods “will be co-



responsible with the State, to guarantee the protection of these areas from internal or external threats, thus their must safeguard said areas.

It is not like that. Electric power sector workers said that the statements of Jesse Chacón, Minister of Electric Power, about the 47.0% reduction in power outages, are false. Fernando de Sousa, electric power sector representative of Anzoátegui, said that distribution and transmission persist today, and *"when the Minister says that everything is ok, and the power outages have decreased by 47.0% he is lying"*.

Less paperwork for companies. Alberto Cudemus, President of the Venezuelan Pork Federation (Federación Venezolana de Porcicultura - Feporcina), said that the entrepreneurial commission that met last Friday with Venezuelan and Colombian authorities, proposed several alternatives to strengthen the trade and exchange of services. Among the alternatives is the creation of new mechanisms so that entrepreneurs can develop and generate their own foreign currency, and insisted on reducing the administrative paperwork and the delays to approve them.

Great Wall didn't escape. Despite the poor results of the government in vehicle assembly, Great Wall de Venezuela was expropriated of its *"furniture, property, and material goods"*. This measure appears in presidential decree 269, contained in Extraordinary Official Gazette N° 6.108. Among the property of the company is a vehicle assembly plant, located in Guacara, Carabobo.

Farmers protest. Antonio Pestana, president of the National Confederation of Agricultural Producer Associations (confederación Nacional de Asociaciones de Productores Agropecuarios -Fedeagro), said that insecurity, the requirements and the fines imposed by Inpsasel have affected the production of cereals in this winter cycle. He also said that in Portuguesa, Guarico, and other parts of the country, robberies to farms and the murder of farmers have increased significantly; also in Guarico there is a campaign of inspections requiring farmers to have ambulances in their farms, among other requirements.

We want an adjustment! The price of a liter of milk at the farm should be VEB 10; however, the regulation forces them to sell it at VEB 4.5 the liter. The President of the National Livestock Federation (Federación Nacional de Ganaderos - Fedenaga) asked the national Government to create work groups to evaluate and adjust the price of milk.

Surplus falls. Venezuela as weakened its surplus position regarding trade with the US, falling from US\$1.51 billion to US\$1.24 billion from May to June, according to a US Trade Department report. In that report, there is also a surplus reduction of



around 24.0% during 1S2013 compared to 1S2012, from US\$11.38 billion to US\$8.66 billion.

World Economy Tips

Tertiary sector grows. According to the Institute of Supply Management (ISM), the US service sector index increased 3.8 percent points (pp), from 52.2 in June to 56.0 in July. The same institute showed an increase in manufacturing in July to a level that had not been seen for two years, indicating that during 2S2013 economic growth will accelerate.

Abort the mission. Richard Fisher, president of the US Federal Reserve said in Dallas that after a drop in unemployment rates to 7.4%, starting in September the Federal Reserve will probably stop its bond purchase program. In June, Ben Bernanke, president of the FED, also informed about cuts in this program, when unemployment reaches around 7.0%.

Entrepreneurs of the world unite! According to JPMorgan and its Global Production Index, global entrepreneurial activities increased, reaching its highest levels of the last 16 months in July. This was mainly due to the strengthening of that activity in the US and the United Kingdom. However, the employment index fell 0.6pp in July, to 51.0.

Service sector at the vanguard. Despite the “poor” Chinese economic performance, the service sector of the Asian giant grew in July according to the Purchase Managers Index (PMI) of HSBC. However, a drop in prices maintains business expectations at very low levels, close to the minimum levels reached eight years ago.

No changes. The Monetary Policy Committee of the United Kingdom Central Bank announced that the reference interest rate will remain at 0.5%. It also announced that it will keep its program of “quantitative flexibilization” intended to inject US\$571.0 billion into the economy.

Austerity is not the answer. Yannis Stournaras, the Greek Minister of Finance, explained that the goal in the country is to reach a primary surplus this year, and start the next with economic growth. If this is achieved, *“the rest of the problems will be*



solved". He also said that more austerity won't solve the problem, and they must focus on economic growth and improving tax collection mechanisms.

Spain in favor. Alberto Ruiz-Gallardón, Minister of Justice of Spain, sent the European Commission and the Justice Commissioner, a letter in favor of the proposal of having a European Prosecutor, since it is a clear sign of the fight "against the serious trans-border crime within the European"

Free trade. Starting on August 1, the free trade agreements (FTA) that the European Union (UE) signed with Colombia, Honduras, Nicaragua and Panama entered into force. The European Commission estimated that with the treaty with Colombia, exporters will save EUR 500 million per year in taxes. Negotiations with Guatemala, El Salvador and Costa Rica have to be finalized, so the TLC between these countries and the UE enters into force.

Faith, trust... According to the Sentix investigation group, the investment trust index of the Euro Zone increased in August. According to this communiqué, consumer trust in France increased, as well as the expectations of the manufacturing sector. On the other hand, the sub-index of expectations of the Euro zone increased to 14.3 in August, after the 7.3 of the previous month.

Tariffs drop. The "Partial Reach Agreement for Trade Matters" which grants tariff preferences to Venezuela y Perú for the trade of their own products, entered into force on August 1, after being signed in January 7 of 2012. This is expected to help significantly the small and medium enterprises of Peru.

Political Tips

TSJ will not contest the elections of 14-A. The judge, Gladys Gutierrez accompanied by the other six members of the Constitutional Court rejected not studying the ten challenges that were filed against the elections of April 14 (14-A). Gutierrez stated that *"the plaintiffs did not describe specific behaviors through appropriate causal links had cheated another in order to achieve a certain result capable of modifying electoral choice in a different direction to that desired by the majority of the population"*. The judge reported that on the issue of violence *"did not accurately recounted the time, where, and who were affected to determine how affected the final result therefore this complaint is not admissible"*.



Relations with Colombia come back strong. Elías Jaua and Ángela Holguín, Foreign Affairs Ministers of Venezuela and Colombia, agreed on a work agenda to pay the debt with Colombian exporters. Likewise, by the end of this month there should be a meeting between the Ministers of Trade of both countries to reactivate trade between them.

The fight begins! The process to postulate candidates for council members, majors, metropolitan majors, and district council members started. This week the documents required from the candidates presented by regional and national political parties, as well as independents will be received, for the 2,792 positions that will be elected on December 8. Any candidate that decides to withdraw his/her candidacy after August 28 will continue to appear in the elections.

PSUV already has its candidates. President Nicolás Maduro announced some of the PSUV candidates for the upcoming elections of December 8. Among those announced by Maduro are: Jorge Rodríguez, repeating in Libertador, Dante Rivas for the Mariño municipality in Nueva Esparta, Ernesto Villegas for the Alcaldía Mayor, Miguel Pérez Pirela for Maracaibo, Antonio "Petro" Álvarez for the Sucre Municipality in Miranda, and Winston Vallenilla for Baruta.

Pure scam! Henrique Capriles Radonski, governor of Miranda, criticized the candidacies imposed by President Nicolás Maduro for the upcoming municipal elections of December 8 and declared that they are *"just manipulations... a scam"*. *"The elections of December 8 are fundamental; they are a matter of life or death for the future. We must show that our project is much better, and now more than ever, the people won't have to fear being blackmailed"*, said Capriles.

Constituent Assembly proposed. María Corina Machado, independent representative for Miranda, believes that *"the country needs a change in regime immediately"* and that the way to reach that target more quickly is through a Constituent National Assembly. *"It is the moment to strongly and confront the facts, and assume that the country is crying for, and needs a change of regime, and the way to do it is the constituent assembly"*.

8D is the priority. Henrique Capriles Radonski, governor of Miranda, during his speech at the concentration last week in the Francisco de Miranda Avenue in Caracas, mentioned the steps that the opposition must follow and said that *"some are talking about a constituent assembly. Let us discuss it, but before that, on December 8 we must go out and win. The force must be larger; on April 14 it was a very close election, on December 8 it won't be a closed election"*.





Eliminate the constitution? President Nicolás Maduro said that the proposal of a Constituent Assembly made by some opposition leaders is an attempt to “*eliminate the constitution*”. *“They intend to wipe out this Constitution again. On April 11, 2002 they eliminated with a single stroke, and now they are proposing a Constituent Assembly. They play with the Constituent Assembly. If any sector uses the democratic mechanisms created by Chávez to call for a Constituent Assembly, it will find the people defending the Constitution”*, said Maduro.

PSUV announces the perfect union. Jorge Rodríguez, major of Caracas and Head of the Hugo Chávez Campaign Command, said that an agreement was reached with all the parties of the Polo Patriótico to go to the December 8 elections with “*a perfect union*”. *“We are following the unitary method proposed by president Nicolás Maduro. We are going to the 8-D elections in perfect union. The unitary platform was discussed with the grassroots of PSUV and other parties. We will go united to the electoral event of 2013”*, said Rodríguez.

Little trust. According to data obtained in the last survey of the Venezuelan Institute of Data Analysis (Instituto Venezolano de Análisis de Datos -IVAD) more than half the population evaluates the CNE negatively. 20.3% of electors have little trust in the electoral entity, while 30.9% says they don't trust it at all, and only 19.7% says they trust it. Nevertheless, the population is not restraining from participating in the December 8 elections, because according to the survey, 70.0% of the electors plan to vote in those elections.

The lesser of both evils. The IVAD survey showed that of all the institutions evaluated (CNE, National Bolivarian Police, National Guard, TSJ and the National Government) TSJ obtained the best evaluation, but despite this, 47.0% of the electors doesn't trust in the institution, and only 10.5% says they trust it somewhat.

The opposition isn't tied to a single party. According to IVAD, PSUV remains as the party with the largest number of followers in the country, or 30.8% of the population, while other chavista parties, like PPT and the Communist party, have only 1.2% and 2.5% respectively. Regarding the opposition, UNT has 4.8%, AD 4.9%, VP 3.1%, Copei 1.3%, Proyecto Venezuela 0.3% and PJ 7.3%. 41.2% of Venezuelans said that they don't belong to any political organization.

52.0% still missing. Since the payment of social benefits started in August, 2012, 18,261 university workers have been called by the Ministry of Higher Education to receive payment of accumulated benefits and interests. 52.6% of all the employees are still waiting to receive payment. Tibisay Hung deputy director of the Planning Office for the University Sector (Oficina de Planificación del Sector Universitario -



OPSU), informed that this year the plan is to the labor liabilities of 27,279 workers, for a total disbursement of VEB 16.20 billion.

New Minister of Communications. President Nicolás Maduro announced that Delcy Rodríguez Gómez is the new Minister of Communication and Information. *"I want to announce that a woman will enter the cabinet as a new minister. The new minister of Communication and Information is Delcy Rodríguez Gómez, daughter of the martyr of the Revolution Jorge Rodríguez, the father"*. Maduro said that Rodríguez *"enters the battle"* replacing Ernesto Villegas, who will be the ruling party candidate for the Mayoralty of Caracas in the December 8 elections.

Legislative Tips

New postage rates. The Postal and Telegraph Institute (Ipostel) set new postage rates for international air mail. The new rates vary according to destination and weight. They are all in *Official Gazette* N° 40.215. The rate increase also applies to *express services*. If a package –up to 500 grams- is destined to any country in America, the postage is VEB 74. If it is *express*, that same package would cost VEB 87. A 1 Kg package to American countries will cost VEB 100. The postage cost for *express* delivery of the same package will be VEB 110.

Going round and round. Legislative activities in Venezuela have decreased compared to previous years. This means that most of the legal information published in *Official Gazette*, refers to the appointment of public officials and/or mercantile or credit transactions. An exception was published in *Official Gazette* N° 40.190 of June 18, 2013, the Law for Disarmament and Weapons and Munitions Control, whose purpose is to regulate and oversee the ownership, carrying, marketing, import and transport of all types of weapons, munitions and accessories.

What are they doing now at the NA? At the NA, they are discussing the following bills: The Forestry and Environmental Management Law, the Foreign Service Law, the Law on the Purchase and Sale of Vehicles, the Foreign Exchange Crime Law. The Law to de-criminalize invasions, the law regulating rentals for offices and commerce, the Horizontal Property Law, and the Workers Council Law.

Watchmen claim for their rights. Workers of the surveillance sector hope that their labor conditions will improve, particularly to have their work day reduced to 8 hours.



Last Tuesday they went to the NA to present a bill with 40 articles, to update the norms regulating the sector since 1975.

The Lottt wasn't necessary. The Labor Law of 2011 rekindled the hope of watchmen that their work day would be adapted, because in some cases, it is more than the 12 hour limit established by the law. Despite conversations with members of the commission that wrote the regulation, they said that their claims were not taken into consideration. They insisted on the regulations of the Labor Law, and the demands of the sector were not considered.

NA approved the partial reform of the Public Planning Councils Law. The NA approved during an ordinary session the partial reform of the Public Planning Local Councils Law, in its second discussion. The plenary approved the modification of articles 6, 7, 8, 29 and 30 of the law. Julio Chávez, Psuv representative, said that the norm is an important planning instrument *"whose intention is to give the people's power a greater participation"*.

Meanwhile... Elio Serrano, president of the Services and Administration Commission, said that the Trade Ministry must implement a web page to consult the maximum sales price of a used vehicle, and issue a certificate to be able to sell it, which will last 30 days. While the mechanism is implemented, the maximum sales price of a used vehicle may not exceed 90% of the price of a new vehicle for February 28, 2013 of the same brand or with similar characteristics, structure, or design.

Info government Law moves forward. The NA approved in an ordinary session the first 30 articles of the Info government bill. This legal instrument will foster the definite migration of State institutions to Free Software. Among the articles approved, is article 20 forcing the Public Power and the People's Power to guarantee, in their internet portals, the right of individuals to participate, cooperate, and promote the use of free information technologies, the creation of new electronic services, or the improvement of existing ones.





ECONOMIC OVERVIEW

