



Weekly Report

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Liquidity: a double-edged sword

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In the last ten years, the Government used liquidity increases (the economy's monetary mass), as an instrument to increase the supply of loanable funds in the economy (savings), and lower financing and indebtedness costs (interest rates), to boost economic growth.

In the first semester of the year (1S2013) liquidity behaved with a declining trend, with a 4.6% drop (a/a) by June in real terms, making us expect a lower growth in credit activities, and lower inflationary pressures of monetary origin. However, several factors have made us change our liquidity growth projections, and its resulting effect on prices, so we have had to review our inflation forecasts upwards.

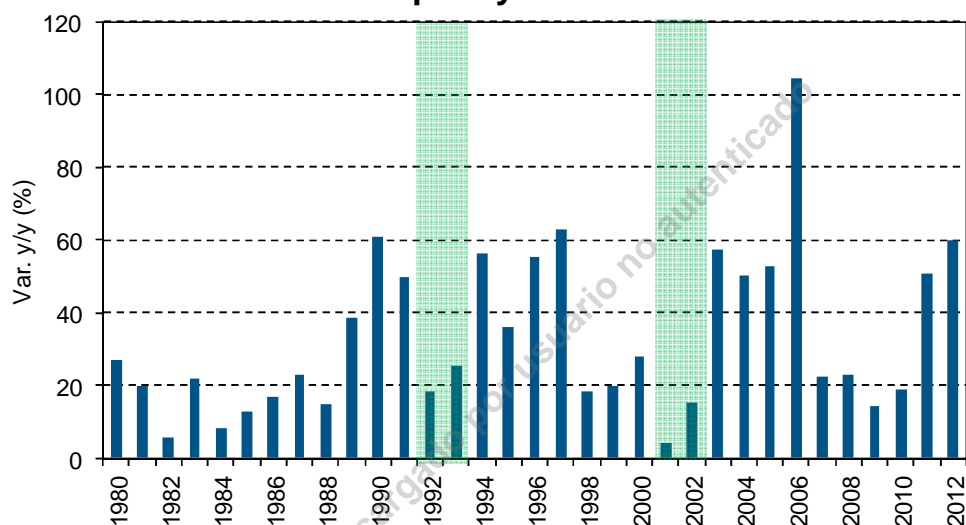
Why is liquidity so important?

A proper liquidity level is essential to guarantee the correct functioning of the financial system. Financial intermediaries have non-liquid assets, and its liabilities are liquid, thereby sensitive to significant liquidity variations, mainly its contraction, which could lead to banking crises. An example was the financial crisis of the nineties, caused by the lack of liquidity that banks



required to fulfill its commitments with savers, putting several entities into bankruptcy.

Liquidity Growth



Sources: BCV and Ecoanalítica

Liquidity excesses don't benefit banks either, since they tend to translate into higher financial costs that cannot be compensated with a higher volume of loans. In the case of the Venezuelan financial system, the high liquidity of the last years has not been a serious problem for banks, given: i) their capacity to reduce the proportion of high cost assets (term deposits) with respect to the totals, ii) negative passive interest rates in real terms, and iii) a government policy of domestic indebtedness that has absorbed most of the excess.

A double edged sword

In contemporary financial systems, the Central Bank must maintain liquidity levels through monetary policies. These are formed by the set of decisions that affect the supply of money in the economy, and thus the supply of loanable funds, with their resulting impact on interest rates and investment levels, with the final goal of stabilizing prices or boosting growth.

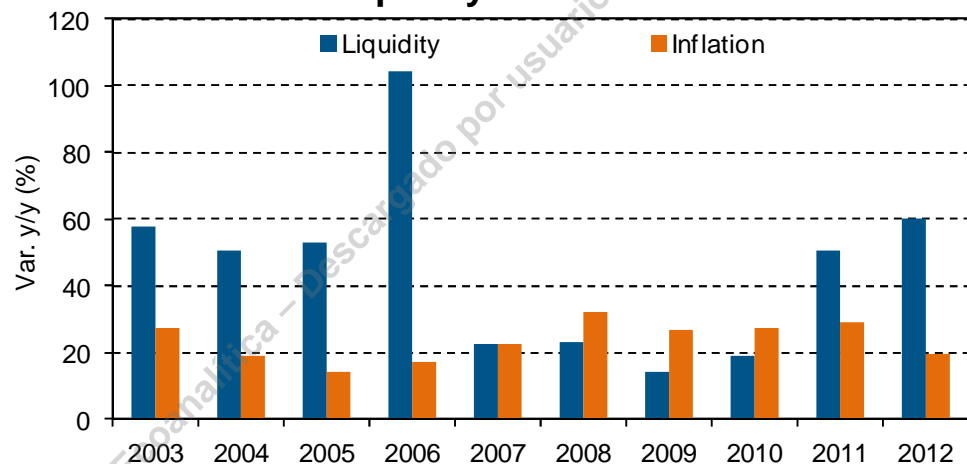
The two possible goals of any monetary policy, greater growth or lower inflation, cannot be achieved simultaneously, and usually one is obtained at the expense of the other. In the case of monetary policies for a lower inflation, these try to reduce liquidity excesses and reduce the demand of



goods and services by slowing down credit, negatively impacting growth, but eliminating higher price trends in the product market.

According to the Central Bank of Venezuela (BCV), the purpose of its monetary policy is to “*preserve the purchasing power of the currency by creating monetary and financial conditions that lead to price stability*”. However, figures reveal otherwise: despite the fact that inflation has been 30.1% on average in the last ten years, the average increase of liquidity has been 45.4% in the same period, showing that the monetary policy has pursued other goals.

Liquidity vs. Inflation



Sources: BCV and Ecoanalítica

BCV has maintained a monetary policy that accommodates to public spending, to guarantee the effectiveness of the latter, expanding or contracting liquidity according to the growth or reduction of public spending programmed by the Administration; this explains the high correlation that exists between public spending and liquidity. As if this weren't enough the expansion of liquidity has occurred while BCV finances most of the parafiscal spending, which has been the responsibility of Pdvsa in the last three years.

The first semester revealed a contraction

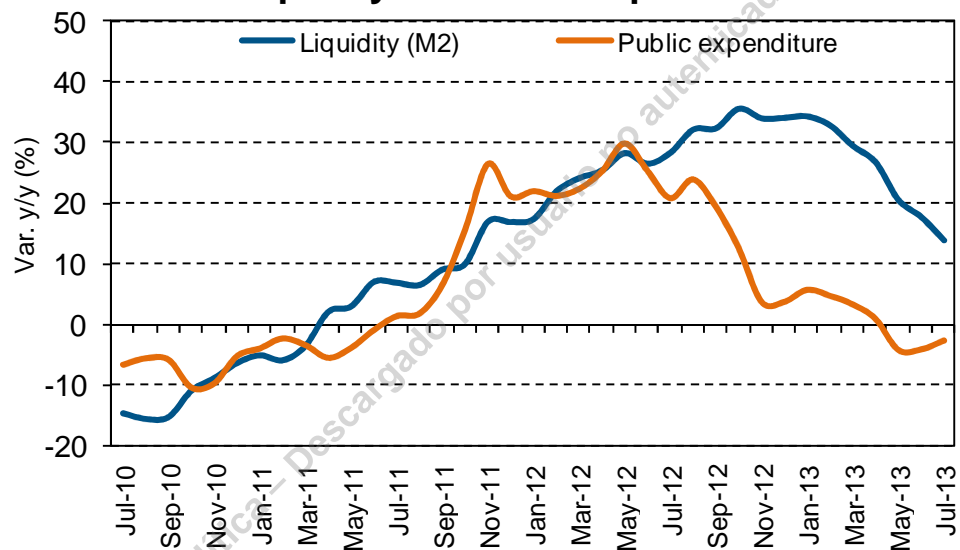
In the first six months of the year several factors, among them the expected fiscal and exchange rate adjustments, led to forecasting a significant reduction of monetary liquidity by the end of the year.





First, the public spending adjustment made in mid-March, right after the presidential elections, implied a significant slowdown in liquidity growth. While during the 1S2012, spending and liquidity increased 19.8% (a/a) and 8.5% (a/a) in real terms, during the first half of 2013 they accumulated a drop of 1.6% (a/a) and 4.6% (a/a), respectively.

Liquidity vs. Public Expenditure



Sources: BCV, ONT and Ecoanalítica

Second, during 1S2013 there was a 4.3% drops in the monetary base due to the slower rise in BCV financial aid to public entities, particularly Pdvs, which increased 10.4%, in the first six months of the year. This result is explained by the increase of 89.5% on deposits of National Treasury Office (ONT) held at the BCV, which represents a liability to the issuer.

Also, the BCV and the Treasury were more active regarding placements. Only in the first half of the year, the treasury placed 100.0% of the debt planned for all of 2013, while BCV increased the placement of certificate of deposits, which kept liquidity at bay. The costs assumed by BCV from those monetary policy operations were VEB 1.01 billion in 1S2013, an increase of 114.3% compared to the VEB 0.5 billion recorded in the first semester of last year

Finally, the adjustment of the official exchange rate from VEB 4.3/US\$ to VEB 6.3/US\$, translated into a 46.5% increase in the liquidity



requirements of all companies accessing Cadivi, which we thought would help reduce liquidity by VEB 35.56 billion this year.

What we didn't expect

Given the contraction of liquidity during 1S2013, in our last outlook report "2013: the time for adjustments arrived" we expected liquidity to increase 38.6% (a/a) and only 0.3% (a/a) in real terms by the end of this year. Although we took into consideration the fact that BCV would have fewer instruments to collect liquidity, and given the upcoming elections of December, that there will be a significant spending increase, and we expected the Special Complementary Indebtedness Law (Ley Especial de Endeudamiento Complementario - LEEC 2013) and the opening of alternative mechanisms to Cadivi to become significant escape valves for liquidity, nevertheless several things escaped our analysis, among them:

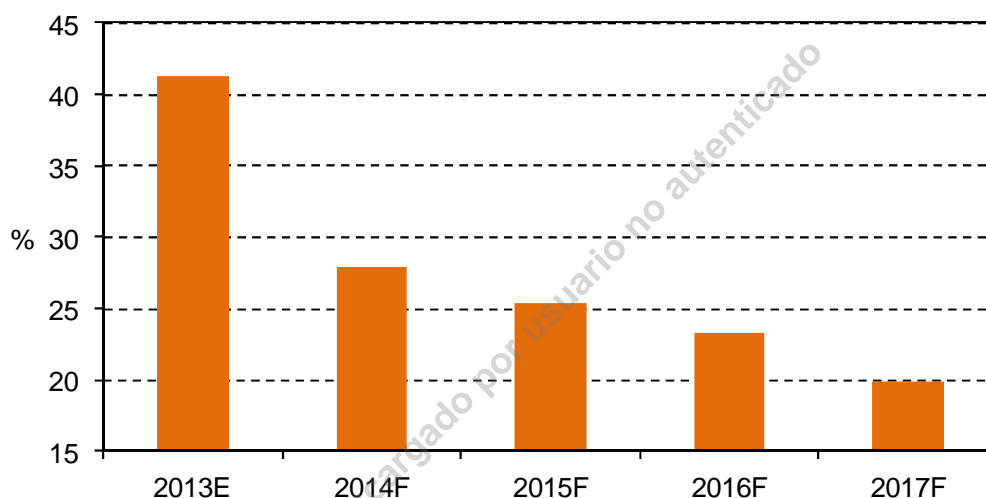
- Although the LEEC 2013 will collect VEB 76.0 billion in liquidity, 71% of this amount will return to the market through current expenditures.
- By June, 2012, US\$5.15 billion had been assigned through mechanisms other than Cadivi, and collected around VEB 27.33 billion; for the year, assignments other than Cadivi accumulate only US\$ 1.06 billion, a contraction of only VEB 9.7 billion in liquidity.
- **Ecoanalítica** thought that Sicad, through the assignment of US\$3.80 billion, would help reduce liquidity by VEB 29.26 billion, but given the regulations that establish that the difference between the price of the auctions and the official exchange rate will go to a fund to be managed by the Administration, the mechanism lost its function as an escape valve for liquidity.
- In the last two years, the second semesters have had a significant increase in the monetary base and in liquidity, given the increase in BCV's direct financing to Pdvsa. In 2012, the monetary base increased 76.0% only in the second semester, as Pdvsa's debt with BCV increased 66.3%. **Ecoanalítica** considers that the second semester of 2013 won't be any different, given the expansion in fiscal and parafiscal spending, in view of the upcoming elections.





Thus, **Ecoanalítica** corrected its monetary liquidity expansion estimates from 38.6% to 61.2% in nominal terms at the end of the year, and from 0.3% to 14.1% in real terms.

Forecasted Inflation



Source: Ecoanalítica

More liquidity, more inflation

A higher liquidity will mean a greater growth of the credit portfolio during the second half of the year –although not as much as in 2012- and a 10.8% increase in the added value of financial institutions, 2.0 percentage points (pp) over our initial estimates. Given the low weight of the financial system on the total Gross Domestic Product GDP (5.5%) a correction of its growth estimates won't affect our projections about the growth of the economy, which remain at 0.4% for this year.

The most important correction, derived from the greater increase in liquidity, has to do with the upward pressure on the price of goods and services, caused by those situations in which there is more money in the streets, pursuing the same amount of products and services, so **Ecoanalítica** corrected its inflation estimates from 39.4% to 42.5% by the end of this year.

Finally, a greater growth of liquidity, together with the drop in international reserves, will take the implicit M2/RRII exchange rate to VEB 40/US\$ by the end of the year, a depreciation of 61.0% compared to its closing value in 2012.



As we have said in previous reports, eliminating excess liquidity through a responsible monetary policy is important, not only to reduce high inflation rates, but to eliminate exchange rate controls, the two main issues that the Venezuelan economic agents use to make decisions. Now the BCV has a new director, and it must devote itself to have a greater control of economic aggregates, even if that implies limiting the financing options for the Administration.

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Economic Tips

More power to Merentes. On Tuesday August 13th the National Assembly (AN) approved the request of President Nicolas Maduro to replace from its functions in the BCV Edmeé Betancourt with Eudomar Tovar, former president of Cadivi, a fact that *Ecoanalítica* see as positive given that Tovar belongs to the pragmatic wing rule by Merentes therefore gaining more power over the economic cabinet.

And less for Giordani. With the appointment of Eudomar Tovar as the new President of BCV, Jorge Giordani, current planning minister loses a key figure in the radical wing (Edmeé Betancourt), leaving only a token of the radical wing and close to Giordani in the cabinet: the Minister of Industries Ricardo Menendez, with control over those non-production certificates (CNP).

Another pragmatic in Cadivi. With the appointment of Tovar, José Khan was promoted by President Maduro as Presidente of Cadivi. Maduro said that he made the decision to "*continue to transform the Venezuelan currency system*". Khan was a board member of the Central Bank, and is a key figure close to minister Merentes and President Maduro by their past association.

Not a chance. According to the August survey of Latin Focus Consensus, this year the decrease will be 0.4%, 5.9% below the target proposed earlier this year by the BCV. For the 2014 Latin Focus Consensus panelists forecast a GDP of 1.9%.

It will continue to rise. The average estimates of Latin Focus Consensus panelists in its latest survey, inflation at the end of this year was 39.9%, while the minimum wage increase this year will not surpass 45.0%. Meanwhile, by 2014 Latinfocus panelists expect inflation to descend and close at 30.0%.

Venezuela and Panamá will negotiate the debt. Representatives of Venezuela and Panamá met to solve the debt issue that Venezuelan importers have with the Free Trade Zone of Colón, which according to Panamanian officials is around US\$1.20 billion. The meeting took place in the facilities of the Free Zone of Colón, located in the Caribbean coast, 80 kilometers (km) away from the Panamanian capital.

16.0% looks far away. According to BCV, the inflation of July was 3.2%, and the accumulated inflation during the first seven months of the year reached 29.0%. This left the government's target of an accumulated inflation of 16.0% by the end of year



well behind. Food prices, one of the most affected, increased 60.8% from July 2012 to July 2013, and a 39.5% increase during December 2012 and July of this year.

The “Somos” card is coming. As part of the “Misión Jóvenes de la Patria” the Somos card was launched, a financial instrument that will allow the youth to access banks, said Héctor Rodríguez, Minister for the Youth. *“It is the turn of the youth, a financial instrument so they can access different services and economic, productive, and financial activities,* said President Nicolás Maduro.

Liquid reserves are a shame. US\$3.12 billion is the amount of Venezuelan liquid international reserves for July, according to BCV figures, a 30.0% drop compared to the US\$4.51 billion available last December. Total international reserves also fell, to US\$22.90 billion. Another figure that is falling is BCV earnings, at VEB 7.85 billion for 1S2013, a 50.0% drop compared to the same period last year.

Importers will also suffer with Cadivi through internet. Importers may request the solvencies that Cadivi requires to grant currency through the web starting in September. Eudomar Tovar, former President of the entity, informed that he already met with technicians from the ministries of Labor, Science and Technology, representatives of the Venezuelan Social Security Institute, Banavih and BCV to finalize the progress made in the automated system.

Venezuelan bonds rise. Sovereign bonds increased 0.35 points on average, while Pdvsa securities had an average increase of 0.10 points. Regarding Pdvsa bonds, long term titles increased 0.15 points on average. The Pdvsa 2016 bond increased 0.25 points, and had a yield of 82.51. Likewise, the Pdvsa 2022 bond increased 0.15%. On the other hand, in the sovereign securities curve, the 2018 Sovereign security had a yield of 110.0%.

Consumption of basic products falls. According to the Consumer Insight study by the Kantar World Panel, the consumption of basic products fell around 5.0%, due to the irregular supplies of mass consumption products, the loss of purchasing power, the rise of non-regulated prices, and the effects of devaluation in the cost of goods. The study, carried out in 2,300 homes in Caracas, Maracaibo, Valencia, and Puerto la Cruz, clearly show that the decision of consumers is due to the high cost of products.

Manufactured items will be privileged. In the fourth Sicad auction, manufacturing will be privileged. According to unofficial information from sources close to the Ministry of Finance, the six new sectors that may participate in the auction will be graphic arts, paper, plastic, rubber, bicycles and textiles. After the last calls for auction, several associations criticized the fact that the import of finished products



was being given priority. Among them was the bicycle industry, which after the last auctions made public their difficult situation.

Warning to false travelers. The Government is making applications through Sicad more strict, given the irregularities that occurred in the last two auctions. The first decision of the Ministry of Finance and BCV is to fine and remove from the Sicad Users Registry (Registro de Usuarios del Sicad - Rusicad) those individuals that requested foreign currency through the system for travel purposes, and didn't leave the country.

Interest rates. The lending rate for the first week of August was at 15.2%, down by 1.7 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 0.2%, going from US\$23.121 billion during the first week of August to US\$23.069 billion during the second week of August. Compared to the same period last year, international reserves have decreased by 11.2%.

Central government expenditure. On Friday August 9th according to figures from the ONT primary spending was VEB 5.26 billion, which means a decrease of 47.5% when compared to the previous week when it was VEB 10.38 billion; when compared to the same period last year we observe an increase of 36.4%. 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 0.8% in the fourth week of July compared to the previous week, settling at VEB 877.47 billion. The M2 has increased 64.2% in relation with the same period last year.

Oil Tips

Another fire in Pdvsa. Last Sunday, August 11 a fire was reported in Pdvsa's refinery in Puerto La Cruz, Anzoátegui. The incident occurred when lightning fell on the waste lagoon (which contains water with hydrocarbons) next to the fuel dispatch filling area, inside the refinery itself, as informed by Pdvsa. Asdrubal Chávez, Pdvsa's



refining vice-president, said that there were no injuries and that “damage to the facilities (in the refinery) was minimal; he didn’t mention which areas had been affected by the fire.

Investigation demanded. José Bodas, Secretary General of the Unitary Federation of Oil Workers, said that prevention and alarm systems at the Puerto La Cruz refinery didn’t work during the fire. *“An investigation must be made. There should be a hydrant system around the lagoon, and the one in Puerto La Cruz is damaged...”* said Bodas, adding that the alarm that activates in case of fires didn’t work.

Everything is normal. Pdvsa informed through a press note, that after the event of last Sunday, which caused a fire in the effluent treatment lagoon, the Puerto La Cruz refinery is operating normally. The note says that *“none of the plants in the refining complex was altered by the lightning, so Pdvsa Refinación Oriente is processing 180 thousand barrels per day (kb/d) of oil, to supply its clients as usual.*

Who insures Pdvsa? The repeated accidents in Pdvsa facilities in the last years has increased by 50.0% what the company must pay for insurance; thus, there is a rumor in the market that Cooper Gay, the company’s insurance broker for thirteen years, has not been capable of signing the contracts necessary to properly insure Pdvsa; however, an official spokesperson confirmed that Cooper Gay still works for the company, but not exclusively.

OPEC increases demand. In its August report, the Organization of Petroleum Exporting Countries (OPEC) reviewed its oil demand estimates for 2013 lightly higher, by 0.8 million barrels per day (mb/d), placing total demand at 89.7 mb/d. The organization claimed that it is because of the preliminary positive figures for the first semester of the year, mainly from OCDE countries, Latin America, and Asia.

Also supplies. Regarding non-OPEC supplies, the cartel expects it to increase 1.0 mb/d in 2013, an upward review, mainly due to revisions of the preliminary figures for the year, as well as to production in the United States, which was higher than expected. For 2014, the organization expects oil supplies outside OPEC to increase by 1.1 mb/d, due to the projected production increases in the United States (US), Canada, Brazil, Sudan and Kazakhstan.

An increasingly heavy load. Fuel sale in the country is a business that is a financial loss for Pdvsa. After almost 15 years in which oil prices have been frozen, oil refining costs keep increasing and the domestic market demands more fuel (affected by the electric power crisis and smuggling). Besides this, Pdvsa must meet the supplies, even if it has to make costly imports of finished fuels from the US.



Band-Aid solution. The five gas stations comprising the Special Border Fuel Supply System (Safec) in Táchira state that were closed in May were reopened now that gasoline price was increased from VEB 6 to VEB 12 per liter. Representative Nellyver Lugo said that in spite of the increase, the fuel is still cheaper at Safec gas stations than at informal sellers.

Pdvsa starts construction of Dragon-Cigma gas pipeline. The pipeline will carry 600 million of ft³/d of natural gas from Dragon and Patao offshore gas fields to the gas processing plant for the domestic market, located in the Gran Mariscal de Ayacucho Industrial Complex (Cigma) in Güiria, Sucre state. In total, the gas pipeline will extend over 103 km and it will be laid in four trenches, using two vessels of Italy's EniSaipem.

Higher production at all costs. The urgent need to increase Pdvsa's production led the state-owned oil company to design a project known as "Wells' connection by service companies," to reactivate more than one thousand wells at Lake Maracaibo, where production has fallen. Private companies' tasks will include laying lines, changing pumps and repairing platforms, and they will be provided with technical information on wells. Pdvsa has even considered that this can be a pilot model which would be later replicated in other operational areas.

Orinoco Oil Belt stagnated. While attempts are being made to improve production in conventional areas, joint ventures continue failing to meet early production start deadlines. A report on production at the Orinoco Oil Belt states that the six new projects: Petromacareo, Petrojunín, Petromiranda, Petrourica, Petrocarabobo, and Petroindependencia, located in Junín and Carabobo blocks, only lifted 5.9 kb/d in July. Adding Junín Sur (operated only by Pdvsa), production from all seven projects reaches 19.7 kb/d.

Targets haven't been met. In September 2012, Pdvsa announced that the early production target initially set for the Orinoco Oil Belt of about 160 kb/d-180 kb/d had been cut to 100 kb/d and that by 2013, the new businesses would be pumping together 400 kb/d. However, the reality is far from those targets.

International oil baskets. At closing time on August 9th in the New York Stock Exchange, the price of the WTI was US\$105.3/bl, remaining stable 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\$104.8/bl on Friday August 9th, a 0.1% decrease compared to the US\$104.9/bl of



the previous week. The annual average price of the Venezuelan oil basket is US\$102.3/bl.

Business Sector Tips

Looking for dollars. According to Official Gazette No. 40,226 of August 13, a Committee for Marketing of Products from Basic Industries was set up. The committee will be authorized to set reference prices of products in the iron-steel and aluminum sectors and will coordinate with the Central Bank of Venezuela for foreign currency obtained from product sales to be auctioned through Sicad, upon approval by President Maduro. The committee will include Carmelo Paiva, José Silva Araque, Iván Hernández and Ángel Marcano.

Emergency extended for another 90 days. The minister of Communication and Information, Delcy Rodríguez, informed that a decree was approved authorizing the extension of the emergency of the national power system for another 90 days. The new term started on the date when the previous presidential decree expired, that is, July 23. Furthermore, President Nicolás Maduro authorized the creation of a Ministerial committee for the Study and Improvement of the National Power Sector, which will focus on the development, research, and quality of the service.

Sugar price increase is being demanded. The President of the National Federation of Sugar Cane Producer Associations (Fesoca), José Ricardo Álvarez, explained that farmers receive 60% of the final price of sugar and that, in turn, they need to obtain at least VEB 9 per each kg of sugar for the next harvest for the business to remain profitable. Therefore, the sale price should be at VEB 15. However, today, the price of a kilo of refined sugar is controlled at VEB 6.1.

Fedeindustria promotes productive involvement. The Federation of Artisans, Micro, small and medium-sized industries and firms of Venezuela (Fedeindustria) and other national and international organizations encourage the involvement of the Venezuelan production sector in Mercosur, during the Seminar *Venezuela Productiva y Exportadora*. Active producers from Sucre, Monagas, Nueva Esparta, Anzoátegui and Bolívar, which talked with representatives from Banco de Comercio, Banco Exterior, CVG International and Mercosur presidency.



Puerto Cabello Port is ready for Christmas. The general manager of the state-owned Bolivariana de Puertos (Bolipuertos), José Gregorio Rojas, assured that Puerto Cabello Port, the most important port of the country, is ready to handle the increase in the arrival of vessels with goods for Christmas season, as happens every year. *“Bolipuertos has operational, technical and human capacity to address the activities that carried out the 365 days of the year, 24 hours a day,”* Rojas assured.

Fedecámaras is skeptical. Fedecámaras' president, Jorge Roig, explained that inflation decrease is due to the economy deceleration and assured that *“while inflation has gone back, decrease is not promising.”* Roig also referred to the meetings organized by the government to dialogue with the private sector and assure that these meetings haven't had the expected results, and added that Fedecámaras is concerned about the economic model being applied in Venezuela and the problems it entails.

Fedenaga asks for increase in milk prices. Fedenaga's president, Manuel Cipriano Heredia, asked the government to organize meetings to assess and adjust milk prices. Heredia talked about the adjustment authorized in May and assured that it hasn't been enough in the light of the increase in costs for producers. According to Fedenaga's estimates, the price of the liter of milk at corral gate should be at VEB 10, but it is controlled at VEB 4.5.

Expropriate to increase production? The Minister of Agriculture, Yván Gil, admitted that the country is importing 50% of its food consumption; therefore, the administration will continue expropriating farms to increase production. *“We're obliged to be sovereign (...) 50.0% of the food we eat is produced locally,”* the Minister pointed out and explained that the main problem is that *“production has expanded at the same pace as consumption,”* which has been doubled or tripled in relation to basic products like milk, beef and rice, since 1998.

“Some delays.” Minister Gil also informed that the Ministry of Agriculture and Lands will launch a campaign to deliver certificates to farms that are currently producing in Venezuela, since the implementation of this policy has registered “some delays.” Gil stated that this policy will be speeded up as reports on idle rural properties are processed and pointed out that farmers that are producing will be protected by the State.

Private imports fell 70.0%. According to figures released by Fedecámaras, imports in January-June 2013 have fallen 70.0% in comparison to the same period in 2012. With three months and a half remaining until December, importers haven't been able to order goods for Christmas from international suppliers. The reason is that first they



have to pay the US\$8.0 billion debt that has been accumulated since a year and a half ago, as per Eduardo Quintana, vice-president of Fedecámaras-Vargas.

40.0% in distribution failures. Freddy Ceballos, president of the Pharmaceutical Federation of Venezuela, stated that the pharmaceutical sector is registering 40.0% of distribution failures and insufficient inventories due to the scarce flow of foreign currency. Ceballos referred to problems with some medications and with the low number of approvals of non-production certificates, which are required to import. Ceballos added that the sector cannot participate in Sicad auctions because their prices are controlled.

“New” nationalizations. Ricardo Menéndez, Minister of Industries, informed that President Nicolás Maduro approved the nationalization of iron processing firms Venezolana de Prerreducidos Caroní (Venprecar) and Orinoco Iron, a process that has been ongoing for three years now. Venprecar and Orinoco Iron belonged to International Briquettes Holding (IBH), a subsidiary of the Venezuelan firm Sivensa. The same will be known now as *Briquetera del Caroní* and *Briquetera del Orinoco*, respectively, and will be part of a state-owned briquette consortium.

World Economy Tips

Deficit drops. The US fiscal deficit in June reached US\$98.0 billion. The US has been recording deficits since 2001, but debt has increased since 2009 more rapidly. However, policies implemented to increase fiscal revenues have helped to reduce deficit this year.

Once again. Richard Fisher, Fed president in Dallas, reiterated that mass bond purchases would end next month, provided figures would continue to show improvements for the US.

Inventories are down. US wholesale inventories dropped in June, for the second month in a row, thus forcing downward adjustments in growth estimates. Barclays would revise downward its growth estimates for 2Q2013 from 2.5% to 2.4%. This drop in inventories could be attributed to the decline in shares of auto, electric good, hardware, paper, metal, and clothing industries.



Don't be pessimistic. China's National Statistics Office announced that industrial production grew 9.7% in July with respect to the same month last year, for the highest growth over the past five months. These figures are posted in a scenario in which inflation rate remained stable with respect to the last month at 2.7%, but foreign trade grew 7.8%, which would improve the country's prospects.

Less is more. According to Portuguese statistics agencies, unemployment rate in Portugal decreased in 2Q2013, from 17.7% to 16.4%, its lowest level since 3Q2012. However, this figure represents a year-to-year increase in unemployment of 1.4 pp. Meanwhile, juvenile unemployment (youngsters between 15 and 24 years) dropped from 42.1% in 1Q2013 to 37.1% in 2Q2013.

Is this the beginning of the end? According to a survey by Bloomberg News, GDP in the European Union grew 0.2% in 2Q2013, for its first increase since 2011. The expansion in US demand would be one of the main reasons for this growth in the euro zone in the last quarter. However, juvenile unemployment figures are still alarming (24.0% in the EU; 56.0% in Spain).

Another bailout. Germany Central Bank explained in an internal document that the Bank believes it is essential to grant another bailout to Greece at the latest in early 2014. According to German newspaper *Der Spiegel*, a new bailout program would have a very high risk because the Greek government would not be in conditions to implement the reforms required.

Let's save in medicines. According to the head of the regional integration office of Ecuador's Foreign Affairs Ministry, Francisco Ravines, the Bolivarian Alliance for the Peoples of Our America (ALBA) is assessing a plan to guarantee supply of medicines through the Medical Drug Regulatory Center of ALBA, and to promote the sensible use of medicines. This plan could save ALBA member countries between 20.0% and 50.0% of public spending in medicinal drugs.

Europe becomes an ally. Brazil and Uruguay would be considering entering into a trade agreement with the EU. The necessity to close an economic alliance with the EU emerges from the fact that the US is focusing their market on Asian countries. The offer to be presented to the EU would be ready in the case of Uruguay, whereas for Brazil it would be almost ready.

The party is over for Pemex. Mexican President Enrique Peña Nieto presented to the National Congress a draft law that would put an end to energy monopoly of Petróleos Mexicanos (Pemex), paving the way for private companies like Exxon Mobil or Chevron to develop crude oil reserves. According to the Minister of Energy,



this reform could increase up to 2.0% annual growth and would reverse a drop in production of 235 mb/d over the past eight years.

Political Tips

“We’re no longer waiting for you.” Miranda Governor, Henrique Capriles Radonski, announced that this month he will report to international entities the election fraud committed by the National Election Council (CNE) and the government on April 14 this year. Capriles told justices of the TSJ that *“you have left defenseless more than the half of the Venezuelan population. You didn’t meet the deadlines, didn’t allow access to files. We are no longer waiting for you,”* Capriles said referring to the challenges filed with the Supreme Tribunal of Justice (TSJ).

Mardo: *“We’ll take all steps available.”* Richard Mardo, secretary general of Primero Justicia Party (PJ) and representative to the National Assembly (AN), went with his defense lawyers to the TSJ to request the Constitutional Chamber to review the ruling handed down by the Full Court accepting the request presented by the Attorney General to remove Mardo’s parliamentary immunity. José Vicente Haro explained that this review request was presented because seven of the judges that voted in favor of the Attorney General’s request against Mardo had already express their opinion regarding a request of constitutional protection.

Fair election conditions. Twelve representatives of the Unity Democratic Panel (MUD) went to the CNE headquarters last Tuesday to present a document demanding, for the third time this year, fair election conditions. Representative (Bolívar state) Américo De Grazia sustained that the CNE has to answer promptly to these demands so that next December 8 elections are truly reliable. The MUD representatives explained that they will join civil protests and citizens’ pressures for public institutions to react and work in favor of all Venezuelans alike.

Richard Mardo vs. Pablo Escobar. The Minister of Prisons, Iris Varela, asked *“Why an individual like (Richard) Mardo receives huge sums of money for him to do a supposed political work without him being submitted to due controls?”* She also asked if this case was that of *“Pablo Escobar Gaviria? The drug chieftain of Medellín drug cartels, who later said to the people that he was a benefactor because he was using those illegal moneys to contribute with the community...”*



New candidates. President Nicolás Maduro announced more candidates for mayor for next December 8 mayoral election: Luis Giogiotte, mayor of Tinaquillo, and Pablo Rodríguez mayor of San Carlos, both in Cojedes state; in the case of a mayor's office in Vargas state, Maduro explained: "*Comrade Alexis Toledo has done an outstanding work in his post and has proposed, since a number of weeks ago, that he now wants to work from another front (...); that's why we have decided to present Mayor General Carlos Alcalá Cordones as candidate for mayor of Vargas Municipality*".

PSUV left out more than a half of his incumbent mayors. The high political command of PSUV decided to renew its local leadership and presented a new offer for the upcoming mayoral election. Upon expiration of the time limit for the registration of candidates, the list of candidates of the government party shows that 47.0% of incumbent mayors that are members of the PSUV will not run for reelection on December 8. Of the 275 mayor's offices controlled by chavismo throughout the country, 129 will have new candidates.

One thousand member of PSUV in Barlovento resigned. One thousand militants of PSUV in Buroz municipality in Barlovento resigned to the party to protest against the decision made by the party leaders to impose the incumbent Deivis Cáceres as candidate for reelection. They announced that this is the first of a number of actions that will be taken by about 420 battle units of the location. According to their estimates, these actions could cost the PSUV about 4,200 votes on average.

Commune or nothing. President Nicolás Maduro, talking on TV with Vice-President Jorge Arreaza, re-launched the plan "*Comuna o nada*" (Commune or nothing) that the late President Hugo Chávez had already implemented. "*We're re-launching this outstanding socialist project,*" President Maduro said. The program was broadcast from the Commune Ataroa in Barquisimeto. Likewise, Vice-President Arreaza remembered that communes are one of the 12 strategic lines of Nicolás Maduro's administration and that they will intensify the project in August and September.

Maduro creates 350,000 new jobs only for *chavista* people. Concerned about an evident drop in his acceptance rates, Nicolás Maduro has launched an aggressive hiring campaign to increase his popularity among the Venezuelan population. However, to be able to access jobs, applicants have to prove that they are followers of the government. This job creation strategy, which some private firms put at more than 350,000 so far in the year, is intended to improve the regime's position in the light of the upcoming mayoral election, which both *chavismo* and opposition have turned into the biggest test that will show to the world with whom the true majority of the people is in Venezuela.





Legislative Tips

Let's do the math. The draft bill regulating the purchase and sale of motor vehicles was passed by the AN on Tuesday, August 13. This law that sets sale prices of used vehicles of up to ten years old establishes a formula that includes replacement value and depreciation, among other factors. Furthermore, depreciation will be based on age, mileage and condition of the vehicle.

Car purchase on the Internet. AN representative Richard Blanco stated that the motor vehicle law has some positive aspects. *“One of the positive elements of the bill is that people that want to buy a car, can process the purchase on a web page, stating what is the car they prefer, and they will be immediately assigned a number in the waiting list,”* Blanco said.

Parlatino closes with 14 sessions. At the closing session of the first legislative term for 2013 of the Latin American Parliament (Parlatino), the chairman of the Venezuelan Group, Rodrigo Cabezas, assured that 14 full sessions were successfully held. *“We have held 14 plenary sessions, 11 of which were regular sessions, two were special and one extraordinary session”,* Cabezas said.

Culture Law: a heavy burden. Fedecámaras will ask the AN to modify the draft Culture Organic Law that forces firms with annual profits equal to or higher than 20,000 tax units to pay 1.0% to the State for cultural projects. Fedecámaras vice-president, Carlos Larrazábal, said that this measure will hit harder competitiveness of local firms, which are already paying the State and different public entities 22 commitments, including regular taxes and para-fiscal funds.





ECONOMIC OVERVIEW

