



Weekly Report

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*Tax reform: The last ace
under the sleeve*

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In Venezuela, the expansive tax policy has become the engine driving domestic added demand; therefore, looking for funds by the government, which refuses to make economically proper adjustments and assume the subsequent political costs, has become the administration's *raison d'être*. From monetary spending financing, through currency devaluations, supplementary appropriations, use of funds accrued abroad to even credit facilities with friendly countries, the current government has run out of cards, to such an extent that it could be predicted, perhaps, by default, that apart from further foreign currency-denominated issues, there is only one way out if they want to continue on the same route: tax reform.

The idea that a tax reform in times when high oil prices don't appear to be enough has been considered before by the chairman of the Committee on Finance and Economic Development of the National Assembly (AN), Ricardo Sanguino, who has said that the reform would be aimed at developing a more efficient "*tax attainment policy*," i.e. an increase in tax



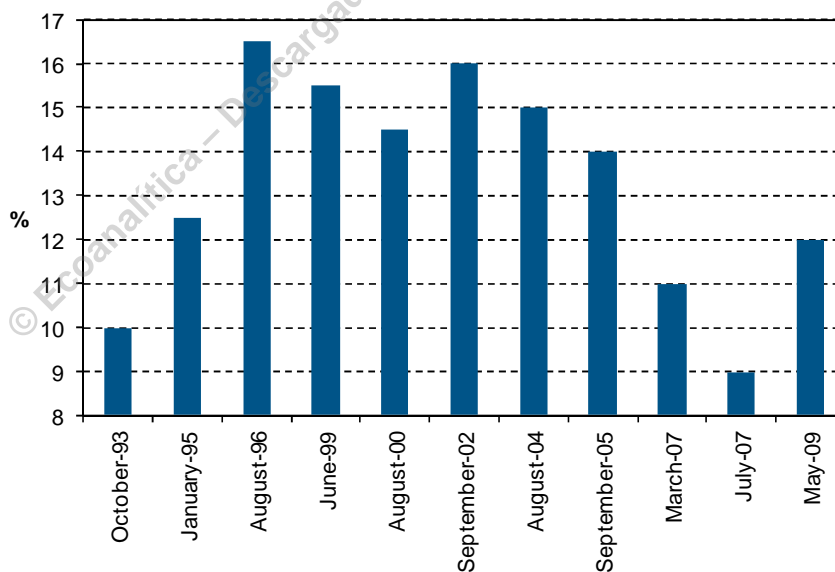
collection, as well as “raising taxes in economic sectors that have shown high levels of economic surpluses.”

A brief look at last recent

Over recent years, after the government took total control over oil activity, taxes have been seen as a significant source of revenues to guarantee the expansion of the State’s role within the framework of the 21st Century Socialism; an example of this have been the implementation and awareness plans intended to decrease tax evasion and increase collection.

The last tax reform in Venezuela was in 2009, through a reform of the Value Added Tax (VAT) Law, which raised the tax aliquot from 9.0% to 12.0%. This action was billed by President Chávez’ administration as a measure to counteract the crisis, since VAT increase would offset the drop in revenues resulting from lower oil prices (34.8% that year).

VAT rate evolution



Sources: Seniat and Ecoanalítica

In 2009, while Central Government income slowed down, falling from 24.7% of the Gross Domestic Product (GDP) in 2008 to 21.3% of GDP in 2009, the increase in VAT collection allowed tax revenues to remain stable, thus compensating for a drop of almost 3.0 pp in non-tax revenues (mainly from oil).

Even though tax increase allowed the State’s tax collection to be higher and to continue to finance current spending, the action resulted in a pro-

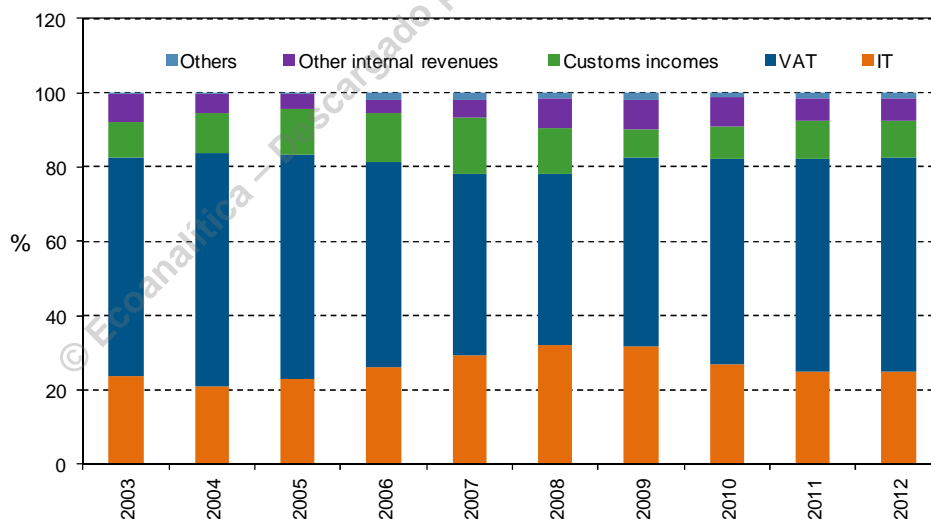


cyclic tax policy and, as such, in a measure to “counteract the crisis,” because it meant a decline in families’ purchase power and contributed to the 2.9% and 3.2% drops in private consumption and GDP recorded that year.

How is our tax structure?

Venezuela has a tax structure dominated by two taxes: VAT, which accounts for 57.9% of total collection, and Income Tax, with a share of 24.9%, whereas the other taxes (customs revenue, other internal revenue and other taxes) have represented just 18.3 % of the total over the last 10 years. Even though Latin America has a similar structure, which levies consumption more than profit accumulation and, therefore, underscores economic inequality, in the Venezuelan case, VAT share is very higher with regard to Income Tax, as compared to the rest of the region, even with the lowest aliquot in the Continent, with the exception of Paraguay.

Taxes Composition



Sources: Seniat and Ecoanalítica

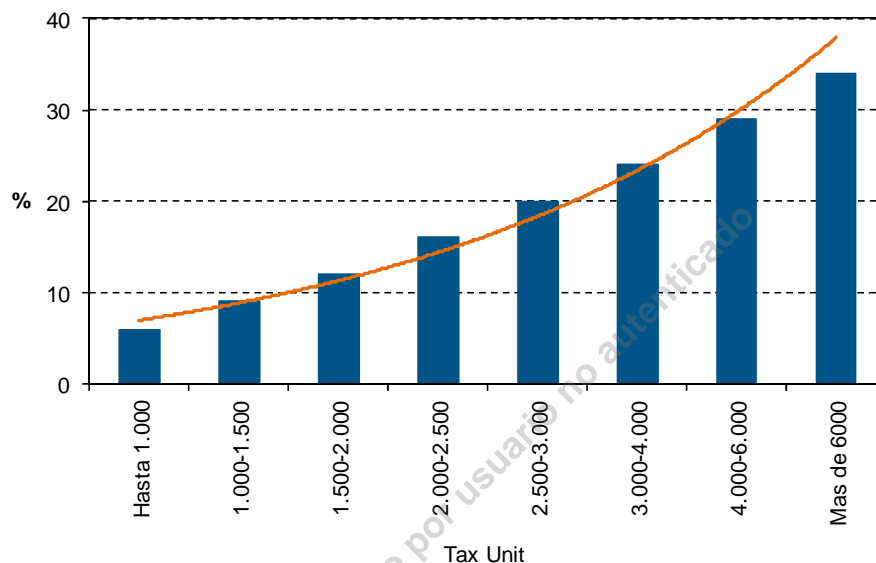
Income Tax collection, on its part, has a regressive¹ structure, with eight different rates being applied for individuals and three for legal persons (both depending on the income level), which prevents collection from being more effective and organized.

¹ Progressive taxation is those in which the tax rate increases to the extent that income increases.





Tax Collection Curve



Sources: Seniat and Ecoanalítica

According to data gathered by the Inter American Center for Tax Administration (CIAT), Venezuela is the country which charges the highest percentage of Income Tax in Latin America, both for individuals and legal persons, with a rate of 34.0% for taxpayers that earn more than 6,000 Tax Units (UT) (VEB 642,000), except for Argentina which charges taxes of 35.0%.

Tax Rates Fiscal Year 2013

| | Income Tax* | | VAT** |
|-----------|----------------|--------------|-------|
| | Natural Person | Legal Person | |
| Argentina | 35,0 | 35,0 | 21,0 |
| Bolivia | 13,0 | 25,0 | 14,9 |
| Brazil | 27,5 | 15,0 | 20,5 |
| Chile | 40,0 | 20,0 | 19,0 |
| Colombia | 33,0 | 25,0 | 16,0 |
| Ecuador | 35,0 | 22,0 | 12,0 |
| Paraguay | 10,0 | 10,0 | 10,0 |
| Peru | 30,0 | 30,0 | 18,0 |
| Uruguay | 30,0 | 25,0 | 22,0 |
| Venezuela | 34,0 | 34,0 | 12,0 |

Sources: CIAT and Ecoanalítica

*Maximum income tax

**General VAT



**As valuable as
the black one**

Even though the State is believed to be primarily sustained by oil revenues, due to high oil prices over the last 8 years, the truth is that, historically, and up until now, the largest part of revenues obtained by the Central Government comes from non-oil taxes. In 1998-2012, current income of the Central Government averaged 22.9 points of GDP, underpinned by an average collection of non-oil taxes (VAT, Income Tax and customs, mainly) of 10.7 points of GDP and by tax and non-tax revenues (royalties and oil dividends close to 9.9 points of GDP).

Tax collection has been and is the main source of income for the State; therefore, a reform that implies higher rates or the implementation of new taxes will certainly have a positive impact on government accounts.

**Beyond the
quest for funds**

Latin American experience in terms of tax reforms shows that they have been introduced not only to guarantee higher tax revenues and a better distribution of the national rent, but also to contribute to decentralization, increase formal employment and even improve collection by rendering it more comfortable for taxpayers and reducing evasion. As an example, we can refer to three cases: Brazil, Colombia and Peru:

- In 1989, a tax reform process was launched in Brazil, in which collection was decentralized and states and cities were given more independence. Since then, Brazil's tax policy has been focused on an efficient and transparent tax collection, even promoting citizen participation by allowing taxpayers to express their opinion about the use of funds from tax collection and educating people about the significance of an efficient tax policy.
- In 2012, the National Customs and Tax Administration Superintendent's Office (SUNAT) from Peru introduced a tax reform which was intended to levy activities with a higher growth potential and those that have grown the most over recent years (mainly the mining sector), on the one hand, and to improve collection and supervision methods to reduce evasion, on the other.
- In 2012, Colombian government promoted a tax reform intended to improve distribution of tax burden in order to favor lower-income workers, on the one hand, and become a relevant element in the fight against informal jobs by reducing para-fiscal burdens and particularly benefiting labor-intensive industries. The reform not only benefited the Colombian State, but also all economic actors gained in monetary or wellbeing terms.

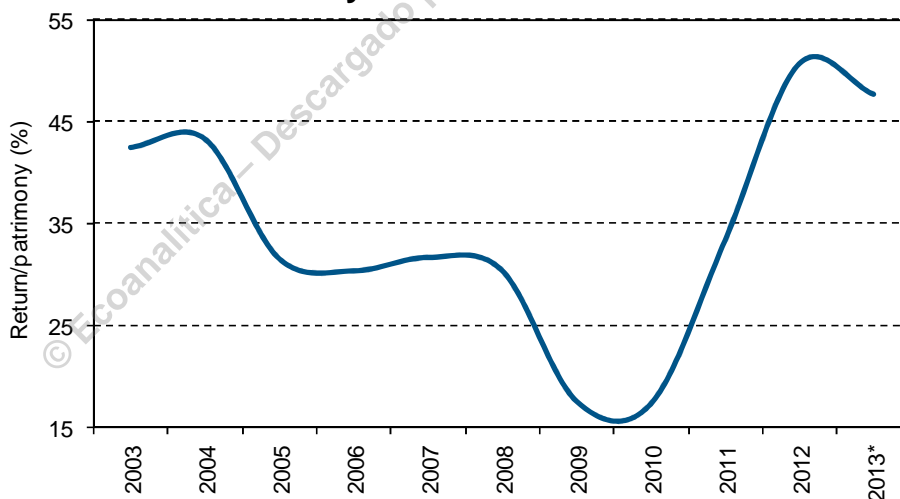


Back in Venezuela...

We at **Ecoanalítica** believe that the tax reform that was announced in early-year and that now has been forgotten, would take place in early-2014. This reform might include an increase of VAT from 12.0% to 15.0%. This increase will imply higher revenues for the government up to 2.0 points of GDP (US\$5.5 billion) by 2014. However, its side effects will include a decrease in the Venezuelans' consumption capacity and, therefore, will impact the dynamic of trade activity.

Furthermore, since the reform is expected to *"increase taxes in economic sectors that have shown high levels of economic surpluses,"* it is reasonable to consider the implementation of taxes intended to levy intermediation, which has boomed over the last decade (with an average return of 34.2%) and could continue growing due to the uncontrolled increase of liquidity.

Profitability of the bank in Venezuela



Sources: Sudeban and Ecoanalítica
*Results at 2T2013

Finally, we at **Ecoanalítica** don't expect changes in the Income Tax aliquot, because collection of this tax could be easily controlled by determining the tax unit value.

Even though a tax reform like the one described above could have a positive impact on treasury income in the short term and, along with an envisaged devaluation, would guarantee the continuity of spending expansion, we at **Ecoanalítica** believe that said reform won't guarantee long-term fiscal sustainability of the State, whereas a legal reform instead would provide for a progressive reduction of fiscal deficit.



If an economic model persists in which current spending prevails over investment, imports are promoted and exports are hindered, and resources are wasted in times of economic bonanza, adjustments will have to be made just when they are going to be more painful.

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Economic Tips

Tax collection for August. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 24.436 billion were collected in taxes for the month of August. Of this amount, VEB 5.416 billion (22.1%) came from Income Tax, and VEB 12,489 billion (51.1%) from the VAT. The agency raised VEB 167.348 billion during the first eight months of 2013, of which VEB 45.554 billion came from Income Tax (27.2%), and VEB 78.913 billion from Value Added Tax (VAT) (47.1% of the total).

In real terms. Total revenue in August of this year compared with the same period last year grew by 4.4%. The VAT increased 12.8% in real terms, while customs revenues decreased 7.6% in real terms. Meanwhile, income tax revenues declined 0.7% in real terms over the same period of 2012. Total revenues in the first eight months of this year grew by 5.1%. VAT increased in real terms over the same period of 2012, at 10.2% and customs revenues declined 5.0%. Meanwhile, income tax revenues rose 6.2% in real terms over the same period of 2012.

| Concepts (VEB Million) | Aug-12 | Aug-13 | Var. (%) | Real Var. | Jan-Ago 2012 | Jan-Ago 2013 | Nominal Var. | Real Var. |
|-------------------------------|--------|--------|----------|-----------|--------------|--------------|--------------|-----------|
| Total Income | 16,108 | 24,436 | 51.7% | 4.4% | 119,733 | 167,348 | 39.8% | 5.1% |
| Income Tax | 3,754 | 5,416 | 44.3% | -0.7% | 32,241 | 45,554 | 41.3% | 6.2% |
| VAT (Internal) | 7,618 | 12,489 | 63.9% | 12.8% | 53,833 | 78,913 | 46.6% | 10.2% |
| Customs revenue* | 3,740 | 5,026 | 34.4% | -7.6% | 25,817 | 32,623 | 26.4% | -5.0% |
| Other Internal Revenue | 871 | 1,352 | 55.1% | 6.7% | 6,512 | 8,570 | 31.6% | -1.1% |
| Spirits | 312 | 484 | 55.3% | 6.8% | 1,440 | 2,032 | 41.1% | 6.1% |
| Cigarettes | 516 | 1,352 | 162.2% | 80.4% | 4,796 | 8,395 | 75.0% | 31.6% |
| Inheritance | 35 | 39 | 10.5% | -24.0% | 209 | 284 | 36.1% | 2.3% |
| Random games or bets | 9 | 10 | 14.9% | -20.9% | 67 | 85 | 27.8% | -3.9% |
| Others | 124 | 153 | 23.0% | -15.4% | 1,329 | 1,687 | 27.0% | -4.5% |

Sources: Seniat and Ecoanalítica

* Includes VAT on imports

Inter-Ministerial Commission is established. The Inter-Ministerial Commission for the Acquisition of Foreign Currency has been already established at the headquarters of the Central Bank of Venezuela (BCV) and the head of the Higher Entity for the People's Defense of the Economy, Hebert García Plaza, took the opportunity to explain that "*the commission is going to do a much better work to help us gather new data and support Cadivi, based on that data, in the identification of businesses that truly participate in the productive process and thus definitely eliminate ghost companies.*"

Pros and cons. The setting-up of the Inter-Ministerial Commission for the Acquisition of Foreign Currency for businesses has been a relief for businessmen due to the role



it might play; however, it has also raised concerns because it could be a further hindrance to the access to foreign currency. The Commission's functions are very similar to those of the Higher Entity for the Optimization of the Exchange Rate System, such as classifying imports based on the productive chain and safeguarding the effectiveness of the Foreign Currency Administration System.

Less for Fonden and more for imports. Reportedly, the economic cabinet would be considering using foreign exchange transfers by Pdvsa and BCV to the National Development Fund (Fonden) to buy imports. The proposal has been made due to the severe shortage of dollars that is currently affecting the country. The inconvenience of the project is that Fonden has to receive in bolivars an amount equivalent to the dollars it would be transferring; therefore the BCV would have to pay again for the dollars that it already transferred.

Finger print scanners for Cadivi. Cadivi's José Khan, pressed by the increase in the number of frauds, has been forced to use finger print scanners to intensify the control mechanisms for travelers. This new mechanism will be used to prevent people from "*scratching their credit cards.*" This is a scam in which people apply for their foreign currency quota for travels, but don't travel and give their plastics to other individuals for them to get the foreign currency. Therefore, from now on, people will have to put their finger and the boarding pass on the scanner for their credit cards to be activated.

The public sector grows and grows. Over the last 14 years, the public sector has grown remarkably in terms of employment, leaving far behind the private sector growth figures, which, notwithstanding, historically continue to register the higher number of workers. Numbers of the National Statistics Institute (INE) reveal that the public payroll has gained 72.6%, comparing August 1999 to August 2013. Meanwhile, the private sector only grew 42.1% in the same period.

Accounts in dollars take a giant leap. Accounts in dollars opened in local banks were at the end of August at U\$28.49 million, according to the Bank Superintendent's Office (Sudeban). This amount accounts for the highest level since the opening of these accounts was authorized through Exchange Agreement No. 20, in September 2012. These deposits were at U\$1.3 million in past July.

Plan for economic and social development to the AN. The Nation's Plan for Economic and Social Development has been submitted to the AN for its approval as provided for in article 187 of the Constitution. The plan is based on the "*five historic goals,*" which were structured by the late President Chávez, who included the public proposals made by the President after his victory in October 7 presidential election last year.



Bonds in the absence of foreign currency. President Nicolás Maduro's administration, forced by the unstoppable drop in liquid reserves, has had to pay Colombian businessmen with Pdvsa bonds the US\$600 million in purchases of food. Colombia's Minister of Finance, Mauricio Cárdenas, explained that *"at this time, Colombian businessmen and producers are talking with the Ministry of Nutrition of Venezuela. They have already listed their needs; Colombian exporters have made their offers and there is still a discussion pending on the payment mechanism."*

A special foreign currency allocation isn't ruled out. Cadivi's president José Khan said that a special allocation of dollars could be made over the coming months to streamline imports. *"We have been given special allocations sometimes; we have had that. We could have it this time again; that depends on the proposal we present President (Nicolás Maduro) and on the real needs,"* Khan added.

Change of officials. Several officials of the Ministry of Finance who had been changed, notably including Temir Porrás, who was removed as president of Banesca and from Fonden and will be replaced by Gustavo José Hernández Jiménez, former head of Onapre. This post will be occupied by María Elisa Domínguez Velasco.

Interest rates. The lending rate for the third week of September was at 16.4%, down by 0.4 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 increased by 1.8%, going from US\$23.33 billion during the third week of September to US\$22.74 billion during the fourth week of September. Compared to the same period last year, international reserves have decreased by 12.1%.

Central government expenditure. On Friday August 16th according to figures from the ONT primary spending was VEB 18.59 billion, which means an increase of 253.1% when compared to the previous week when it was VEB 5.27 billion; when compared to the same period last year we observe an increase of 251.8%. So far this year the cumulative primary expenditure in real terms (measured in 2007 prices) is VEB 71.17 billion, with a variation (y/y) of -14.1%.

Monetary liquidity. Monetary liquidity (M2) increased 1.2% in the second week of September compared to the previous week, settling at VEB 930.58 billion. The M2 has increased 64.2% in relation with the same period last year.





Oil Tips

Oil exports to the U.S. drop 10.6%. According to the U.S. Department of Energy (DoE), in July, Venezuela shipped 87,000 b/d of crude oil, down 15.6% from the 1.03 million of barrels/day (mb/d) of July 2012. Between January and July 2012, exports to the U.S. have averaged 865 kb/d, down 10.6% from the same period in 2012.

Purchases of by-products surge. According to figures released by DoE, Venezuelan purchases of oil by-products from the U.S. were up 78.0% in July with regard to the same month last year, averaging 89 kb/d in January-July, with respect to the 50 kb/d average in the same period in 2012.

OPEC at a minimum. According to a survey by Reuters, OPEC's oil production would have fallen to its lowest level in almost two years in September due to the lower supply from Iraq, although the record production of Saudi Arabia helped to stop the fall. OPEC supply would have averaged 30.07 mb/d, down from the 30.32 mb/d in August.

Pequiven projects. At the first round of meetings between Pequiven and the related national productive sector, Betulio Hernández, vice-president of Petroquímica de Venezuela (Pequiven), stated that Pequiven will launch a series of projects in the center, west and east of the country, within the framework of the 2nd Socialist Plan 2013-2019. Hernández added that the production of raw material is expected to be increased to meet the requirements of the domestic market.

Now it's India's turn. The Minister of Petroleum Rafael Ramírez announced that a round of meetings with India's oil firms will be held on October 7 and 9 in Caracas. Ramírez said that in previous meetings with his Indian counterpart, they agreed to "*expand the footprint of oil and gas firms from India in the Orinoco Oil Belt.*" At present, Venezuela sends 400 kb/ to India, which accounts for a third part of India's consumption.

And Maduro may also go. Past Tuesday, September 23, India's government officially invited President Nicolás Maduro to visit the country to deepen bilateral relations, as announced by India's Minister of Petroleum and Natural Gas, Shri Veerapa Moily, after meeting with Minister Ramírez.



Figuring out how to recover. Orlando Chacín, Pdvsa executive director for Exploration and Deposits, explained that the oil firm is pondering the possibility of applying new recovery technologies in Petrocededño, Petropiar and Petroboscán fields. *"The recovery factor in the Orinoco is still low; we have huge reserves underground that have to be lifted,"* Chacín stated and added that in Petroboscán, where the recovery factor is between 12% and 15%, a thermal pilot plan is to be launched to increase the factor.

Anchored oil tankers. With great fanfare, Pdvsa has launched three new oil tankers over the last 14 months, which were intended to diversify exports to Asian markets. However, the ships built in Iran, Argentina and China never sailed due to a series of setbacks ranging from lack of payment to assembly troubles.

Iran changes representative. Iran appointed Husein Kazempur Ardebili as its new representative to the OPEC. Before the end of 2013, the OPEC member countries will have to choose the new Secretary General who will replace Abdalá El Badri from Libya. Iran, Saudi Arabia and Iraq are running for the post, but the Organization hasn't reached any agreement so far.

International oil baskets. At closing time on September 27th in the New York Stock Exchange, the price of the WTI was US\$103.4/bl, down by 3.2% when compared to the reported the previous week. The Brent decreased by 1.0% to reach US\$108.7/bl, compared to the previous week's US\$109.9/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$99.4/bl on Friday September 27th, a 3.6% decrease compared to the US\$103.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.9/bl.

Business Sector Tips

Goal attained. After 11 days of general strike and 20 days of conflict, CVG president, Carlos Osorio, recognized that there are labor liabilities resulting from mistakes in the calculation of yearend bonuses over the last five years in Sidor. The Minister agreed to pay VEB 200,000 and VEB 150,000 divided into 5 parts to workers of the rotating and daily shifts, respectively.



But they strike again. In the small hours of Tuesday, October 10, workers paralyzed operations at Sidor again, after they learnt that CVG had disregarded the agreements reached past Saturday. CVG vice-president, Heber Aguilar, denied that an agreement had been reached on compensatory payment. Aguilar assured that there only a single proposal that should be adopted by President Nicolás Maduro.

Millions lost. About US\$21 million/day has lost Sidor since the plant was completely shut down on September 19. Therefore, almost US\$231 million in sales didn't enter the company throughout eleven days of strike, according to a report on cost estimates prepared by production-related managements at Sidor.

"No food shortages in Venezuela". Representative to the National Assembly (AN), José Ureña, informed that the Higher Entity of the Economy is working to inspect warehouses where food is hoarded, to fight shortages of basic products. *"In Venezuela there are not food shortages but hoarding by the opposition,"* Ureña said and added that businesses should work to bolster national production.

Food nationalization streamlined. The Minister of Water and Air Transportation, Hebert García Plaza, informed that the national Executive opened the "Single Inspection Office" for imports so as to prevent last year's port collapse from repeating this year. García remembered that one of the measures taken by the President last Wednesday was streamlining unloading of merchandise at ports, especially form ships transporting food.

The same old story. The government is trying to avoid a new collapse in national ports, as happened last year. However, the increase in food imports along with operational limitations is suggesting that there might be difficulties. Last week, 21 ships with 434,871 tons of food such as sugar, rice, were anchored at Puerto Cabello, according to the magazine *Informes de la Cámara de Comercio de Puerto Cabello* (CCPC).

Paveca to increase production. With the putting into operation of a new production line and an investment of US\$500,000, Papeles Venezolanos C.A. (Paveca) will increase toilet paper production by 10 million of rolls per month. Winston Duque, vice-president of External, Internal and Legal Affairs of Paveca, informed that the company will put a total of 62 million rolls of toilet paper on the market every month. Presently, production is at 52 million of rolls per month.

Import frenzy. Pressed by the increase in basic product shortages, the government continues to resort to imports as a lifeline. According to IESA professor Carlos Machado Allison, shortages resulting from the lack of production could be covered with foreign purchases for US\$3.0 billion. However, based on the INE's figures,



Machado remembers that, in 2012, Venezuela imported food for about US\$8.12 billion and this year's figure is estimated to be close to US\$8.2 billion.

Scarcity hits sales. According to Cavidea's study *Tendencias*, in July-August this year, food commercialization index improved, going from 1.7% in July to 1.8% in August. However, some items registered substantial drops in August, particularly sugar, due to the difficult access to raw materials and other inputs. In August 2012, drops were registered in the sales of sugar (25.0%), cooking oil (12.2%), and oat (10.1%), among others.

Lack of inputs is due to the increase in construction. According to the Housing Minister, Ricardo Molina, the apparent shortages of some construction materials are due to the housing mission and to the overall development of infrastructure in the country. "*It's not that we're building more homes, but more ports, roads, airports. Not only public, but private,*" Molina stated and added that all measures required for the iron and steel industry to supply local construction industry are being taken.

10.0% profits for everybody. Profits margin from the sale of cars, parts and spare parts of state-owned companies is just 10% and allows the population to save, the Minister of Industries, Ricardo Menéndez, claimed at the opening of an outlet of auto parts and spare parts for Chery and Venirauto cars at the Bicentenario shopping mall in the Plaza Venezuela sector of Caracas. "*We invite private companies to emulate this behavior; we set a 10.0% profit margin from the moment when the car leaves the plant to its sale,*" Menéndez pointed out.

Promises for auto parts. The National Executive promised to streamline the allocation and settlement of foreign currency for the auto part sector. The decision will allow authorities to guarantee the supply of auto parts, especially for load transportation, now that the delivery of merchandise from ports has to be speeded up.

Endangered species. The long-lasting lack of foreign currency threatens to wipe out import businesses. "*At present, the sector is going through an unprecedented crisis,*" Carlos Masía, president of the National Association of Manufacturers and Distributors of Appliances (Anafade) explained. The alarms have triggered, because none of the 24 companies in Anafade has imported new products so far in the year, because they have been denied the Non-Production Certificate, which is an essential requirement to apply for foreign currency with Cadivi. They haven't been included in Sicad either.

Making things a little easier. The government simplified the requirements to apply for foreign currency for imports, through a new resolution published in the Official



Gazette of September 26. The partial reform reduces from 20 to 10 working days the term to claim the merchandise statement and verification document, which speeds up the nationalization of goods. Furthermore, the resolution establishes that certificates are required to begin the authorization process of but not for the settlement foreign currency.

Chinese flood the labor market. The construction workers' union in the Capital District and Miranda and Vargas states urged President Maduro to stop hiring Chinese workers, because this jeopardizes national sovereignty. *"13,700 Chinese citizens are hired in the Gran Misión Vivienda,"* Octavio Campos informed. The union leader warned that, according to government representatives from Venezuela for the agreement with China's government, another 30,000 Chinese workers are expected to be added, thus implying displacing an equal number of Venezuelan workers.

Harsh negotiations. Discussions of the collective contract for the chemical-pharmaceutical sector continue aiming at materializing the socioeconomic agreements that will close the contract *"as soon as possible"*. José Guillén, spokesman of one of the unions stated that 41 of 85 clauses have been approved and pointed out that *"some sectors don't want to talk about wages and salaries (...)* They refer to difficulties to obtain foreign currency and raw materials and want to leave the current collective contract just as it's now."

Electronic fraud diminishes. The Bank Superintendent's Office (Sudeban) informed that electronic frauds based on cloning of the information in the magnetic band have dropped 98%. This increase in security measures in bank operations was successfully reached after the implementation of the credit and debit cards with electronic chip.

World Economy Tips

Government shutdown. Partial closing of the U.S. government for the first time in 17 years has already begun, forcing about one million of workers to unpaid furloughs. Federal agencies were ordered to decrease their services after the Congress reached no agreement. Republicans with a majority in the House of Representatives presented a last-minute offer to come out from the stalemate, but it was rejected by the leader of the democratic majority in the Senate, Harry Reid.



With the same strategy. The Central Bank of China informed that they will keep their policy unchanged, adding slight preventative and punctual adjustments to favor the stabilization of economic growth, while the bank continues to move forward with the reforms of interest rates and Yuan. The Central Bank explained in a press release that the economic situation and inflation in China remained unchanged, but assured that difficulties and challenges are ahead.

First free trade zone. China has officially opened in Shanghai a free trade zone, which was described by the Chinese government as a big step toward the implementation of economic and financial reforms. The free trade zone consisting of 29 km² and service industries, which was previously strongly protected, will be opened to foreign competition. The Minister of Commerce, Gao Hucheng, Stated that this reflects a more active opening up strategy in China.

The euro zone reduces inflation. Inflation in the euro zone fell at a higher pace than expected in September, to 1.1%, down from the 1.3% in August and the 1.2% forecast for September. *"We see no financial risks. There isn't any reason for the European Central Bank (ECBI to act on inflation. The bank may move forward with its expansion policy,"* the European economist of the Commerzbank, Christoph Weil, assured.

Unseasonal unemployment grows. Figures that aren't seasonally adjusted, released by the Federal Employment Office, revealed that unemployment in Germany went up by 25,000 people in September. The total number of jobless people grew to 2,975 million, which represents a rate of 6.9%. According to seasonal figures, unemployment declined by 96,670 people, to 2.85 million, which accounts for a rate of 6.6%

Welfare state collapses. The new King of Holland, William Alexander, explained in his first address to the Parliament that the classic welfare State of the second half of the 20th century is coming to an end and has to be replaced with a participative society. King Alexander wasn't expressing his personal opinion but in representation of the coalition government between the liberal and labor parties, which won the election held in late 2012, with an austerity message.

The IMF bets against Italy. Italy's budget deficit was at 3.2% of GDP this year, thus exceeding the 2.9% rate set by the government and the 3.0% limit set by the European Union, the International Monetary Fund (IMF) informed. Therefore, Italy will have to adjust its policies before the end of the year so as to avoid coming back to the black list of the European Union of countries with an excessive fiscal deficit. Furthermore, the IMF assured that Italian economy will shrink 1.8% in 2013 and expand 0.7% in 2014.



Keeping alert. The IMF, the European Commission (EC) and the European Central Bank (ECB) were pleased with the development of bank restructuring in Spain, but recommended not to abandon the active vigilance policy to early detect eventual risks. *“It’s essential to proactively monitor the soundness of the financial sector, with the aim of identifying risks at an early stage and face them with a swift supervisory action, when necessary,”* the IMF explained.

Wages of public servants to be frozen in 2014. Spain’s Ministry of Finance announced that salaries of public servants will be frozen in 2014 and reiterated that vacant posts left by retired public servants won’t be filled in most of the public administration. The Ministry of Finance has already met with the main unions and assured that they will keep the two extra pays, after eliminating Christmas bonus last year. The Executive’s fiscal consolidation efforts include freezing of public servants since 2011.

Argentinean Treasury admits failure. The head of Argentina’s tax authority, Ricardo Echegaray, admitted that the government has collected an amount far below the estimates through the plan to legalize unstated savings in foreign currency, which expired recently. The last time when people were urged to declare unstated savings was in 2009, when about US\$4.0 million were allowed to be legalized, whereas in July-September 2013, US\$260 million were declared.

Political Tips

Maduro has no problem to request the Enabling Law. The acting Comptroller General, Adelina González, endorsed the request by President Nicolás Maduro to get special power to fight corruption. *“If somebody is legitimized to request an enabling law to fight against corruption is President Maduro, because he is the first comptroller (...) as administrator of the national treasury, he is fully legitimate and has to be supported,”* González said.

With 60.0% of votes, there will be a way out. Miranda Governor, Henrique Capriles Radonski, doesn’t believe that next December 8 elections is like any mayoral election, because in his opinion, this is a resistance scenario, a unique opportunity to determine what option provided for in the Constitution can be applied to find a



solution for the national crisis. Therefore, he called the people to support the candidates of the Democratic Unity Panel (MUD) with more than 60.0% of votes.

New stage of the Revolution. President Nicolás Maduro warned that If the electric and economic war continues, the Revolution will launch a new phase in October. *“If pernicious, unconstitutional and illegal elements of psychological terrorism, electric and economic war against democracy continue to exist, I have set a date and will take special measures to assume anew stage of the Bolivarian Revolution. Therefore, I ask for the support of the Socialist Party,”* Maduro explained.

150 days overdue. Three of the five directors of the National Election Council (CNE) have been in their posts for an additional 150 days in spite of having their terms expired. They are Tibusay Lucena, Sandra Oblitas and Vicente Díaz, who already reached the end of their seven-year terms and should have left their posts in April this year. Along with these directors, the terms of their substitutes have also ended.

IACHR could dismiss action about April 14. The Secretary General of the Organization of American States (OAS), José Miguel Insulza, believes that the claim brought into by the MUD with the Inter American Commission on Human Rights (IACHR) against presidential election of April 14 should be dismissed. *“I don’t know whether the IACHR is going to hear this issue, but it doesn’t happen frequently,”* Insulza added.

The Homeland Plan was already presented. The Executive Vice-President, Jorge Arreaza, presented the AN with the draft government program for 2013-2019 of President Nicolás Maduro. The draft program was prepared by the late President Chávez and was submitted to the CNE in October last year, under the name of Homeland Plan. The draft government plan was submitted within the corresponding deadline, as provided for by article 187 of the Constitution, which states that the period to submit the program is during the third quarter of the first period of each constitutional period.

Maduro is confident that he will have the 99th deputy. President Nicolás Maduro explained that now that Vice-President Jorge Arreaza formally submitted his Government plan for 2013-2019 to the AN, the AN president (Diosdado Cabello) *“will set the date on which I will have to appear to explain and provide arguments to uphold the Homeland Plan before the National Assembly, which will discuss and approve it (...) We’re certain that it’s going to be passed, above all now that we have the 99th deputy, you know for what.”*

Public sector eroded by corruption. 87.0% of Venezuelans believes that there is corruption inside the public administration, as explained by the Survey on Organized



Crime in Venezuela, carried out by the Civil Association *Paz Activa* with the support of the European Union. “*The survey tells us that 64.0% of Venezuelans believe that there is a lot of corruption among public servants and 23.0% believes that there is plenty corruption,*” Roberto Briceño, president of the Venezuelan Violence Observatory, explained

There cannot be cordiality without respect. President Nicolás Maduro criticized the attempt by the U.S. government to interfere with Venezuelan internal affairs, which led him to expel three officials of the U.S. embassy in Venezuela. “*As head of the State, I cannot allow any government, in this case the U.S. government, to interfere with our internal affairs; more than interfering, devising a plan to destabilize Venezuela and sabotage Venezuelan companies,*” Maduro added. ,

Six-month tracking. President Nicolás Maduro explained that the expelled U.S. officials had been tracked for more than six months now. Maduro assured that these diplomats are related to sabotage and destabilization plans and that a proof of that is that they met with Súmate at its headquarters in Bolívar state. The other proofs of his accusations were presented by President Maduro through a video and he certified that this only the first of many others.

Legislatives Tips

And now, self-intervention. Past Monday, September 30, the Official Gazette No. 40,260 published the decree to intervene and restructure four state-owned companies: Industrias Diana, Palmera Diana del Lago, Indugram and Productos La Fina. At the same time, the Corporación Venezolana de Aceites y Grasas was created. This firm will be the parent house of the intervened companies. The text states that the “*Micro-mission process for intervention*” will be carried out over a period of six months after the publication of the decree in the Official Gazette.

Cabello will travel to Moscow. President of the AN, Diosdado Cabello, will travel next Monday, September 30 to pay an official visit to Moscow, Russia, to promote the alliance between Venezuela and the European nation. President Nicolás Maduro explained that during the visit, other key issues like military and intelligence cooperation, as well as economy, politics and social development will be dealt with.



AN refuses to discuss agreements signed with China. At the AN session, deputy José González asked for the scope and contents of the agreements signed by President Maduro in China to be submitted for discussion, in relation to the country's economic situation. *"US\$5.0 billion enter the country and we don't know in exchange of what. We don't know if the government is pledging Venezuela's future, just to remain in power,"* González said. On his part, PSUV deputy Ramón Lobo explained that the *"US\$5.0 billion will allow us to continue producing works and projects in an economy that keeps on growing."*

Regulations for motorcyclists stopped due to 5 articles. The first week of August, the government set up five negotiation meetings with motorcyclists' representatives to discuss issues related to the partial regulations of the Surface Transportation Law on the use and circulation of motorbikes on national roads and highways. These regulations have been approved by late President Chávez two years ago and are still in force, as per sources of the Surface Transportation national Institute (INTT). Notwithstanding, their implementation on October 4, 2011, according to the Official Gazette No. 388,513, was stopped precisely because motorcyclists challenged five articles of a total of 59 included in the law.

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ECONOMIC OVERVIEW

