



## Weekly Report

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*The Sitme and the  
“Politically correct” devaluation*

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During the second quarter of the year 2010, the buying and selling market of bonds denominated in foreign currency was suspended, and this was replaced by the Bonds Denominated in Foreign Currency Trading System (Sitme) as the complementary mechanism by which “necessary” foreign currency for the economy would be supplied. It’s also important to point out that the Central Bank of Venezuela assumed the responsibility for designing and operating the Sitme, focusing on avoiding price gouging of the foreign exchange rate and controlling its effect on inflation.

Now, almost three years later, the foreign exchange rate is becoming volatile and latent inflationary pressures are coming into play. With an exchange scheme that is based on trial and error, the exchange system has suffered 18 modifications in 9 years. Now, the question that everyone is asking in Venezuela is, what’s the next modification going to be?

**It’s always good  
to compare**

The old market, before the Sitme, had a daily trade volume of US\$123.9 millions back in 2009, now; the Sitme is only trading US\$42.6 million a



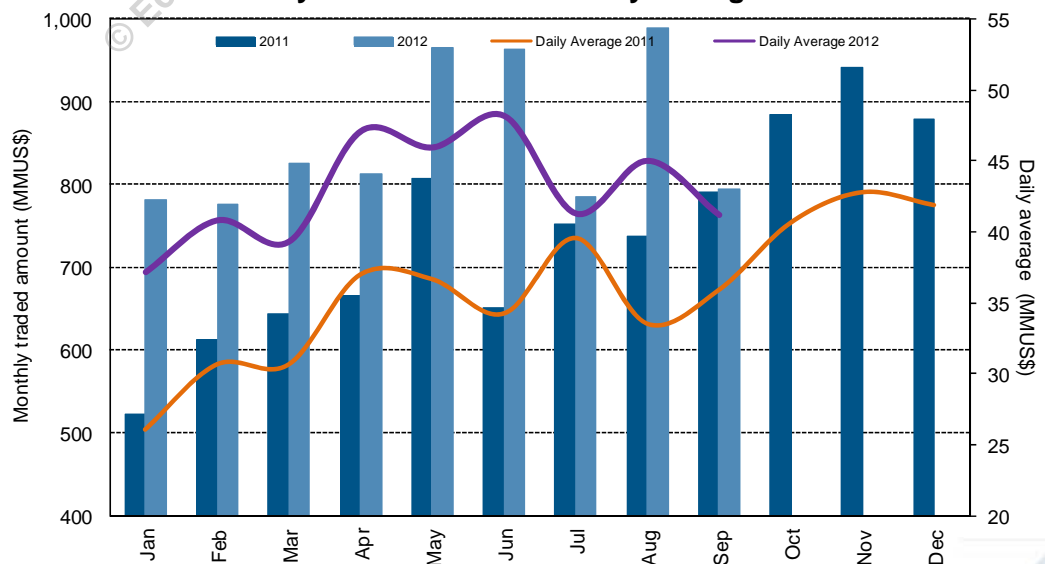
day. The old market gathered all the sectors of the economy together, they could all participate and buy and sell foreign currency, which helped control the volatility of said market. Today, the Sitme only supplies priority requests and the black market is very volatile and not very transparent, supplying those that can't find it anywhere else, even capital account and financial transactions. Such is the case that in a port economy as Venezuela is at the moment, the black market is giving oxygen to the private sector as well as the public sector, when it needs to balance its foreign transactions. It seems that the public sector is the only one benefitting from this new wrinkle in the system.

**What the numbers say**

Since it began operating on June 9, 2010, up until this very moment, the nominal amount traded by the Sitme has been US\$38.1 million at an implicit average weighed exchange rate of VEB 5.3/US\$. So far in 2012, US\$8,449 million has been traded, which is up by 25.7% compared to the amount trades during the same period last year.

It's important to point out that the daily average traded since it began operation has reflected a tendency to increase, reaching US\$42.6 million during the third quarter 2012. And monthly amounts traded have reflected significant increases compared to the previous year. At first glance, this would suggest that the mechanisms performance was improving, getting better with time.

**Monthly traded amount and daily average of Sitme**

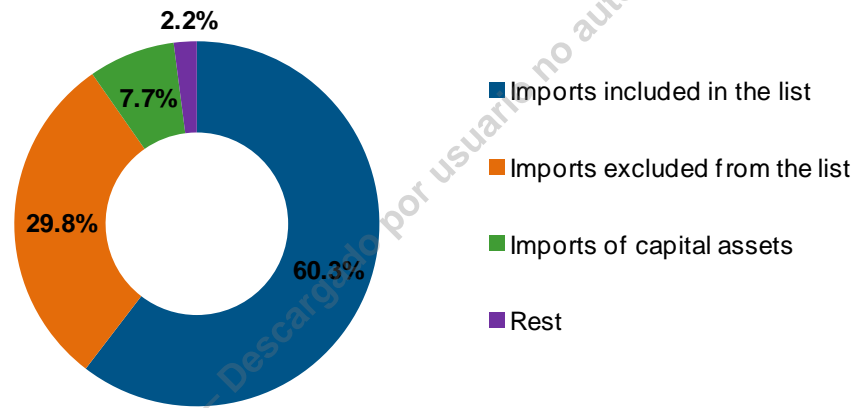


Sources: BCV and Ecoanalítica



**Sitme's demand** According to the information gathered by **Ecoanalítica**, 60.3% of the amount traded was headed to imports that were not covered by Cadivi during the last 90 days; followed by imports not on the list covered by Cadivi, 29.8%; then capital goods imports, 7.7% of the total; and the rest was for traveling, remittances, students, professional services, and special cases.

**Sitme's demand by concept**



Sources: BCV and Ecoanalítica

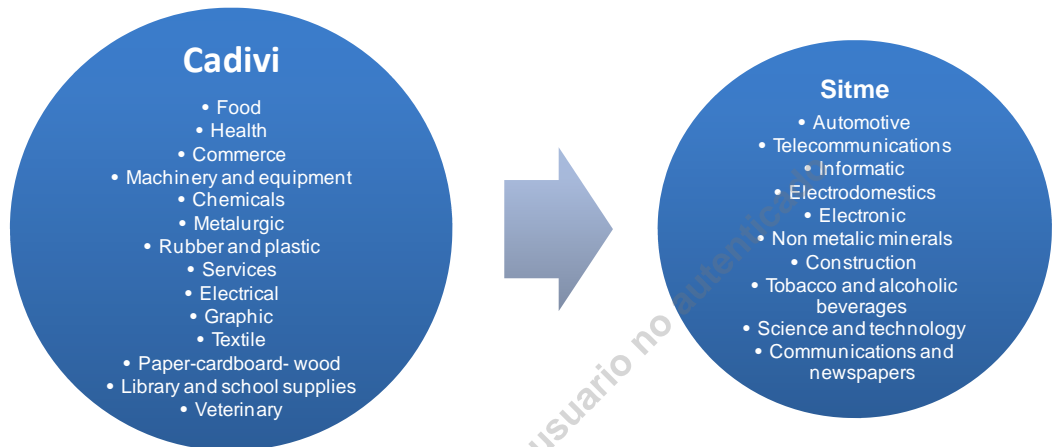
**The adjustments are clear**

As you can see, more than 90% of the demand for foreign currency via Sitme is aimed at importing some good or service, and even more important is that 60% of the foreign currency demanded has something to do with goods tied to Cadivi. This confirms two points of the thesis we have about the Sitme: First, that the Sitme is an escape valve for companies that are suffering delays in liquidation of foreign currency as well as fewer foreign currency requests being approved via Cadivi. In other words, sectors that usually were being covered by Cadivi, and now are not, have migrated to the Sitme; and the fact that almost 2/3 of the foreign currency traded through the Sitme have to do with these sectors proves what for some time now has been in the exchange market: a readjustment of imports.





### How does the current exchange rate regime works?



Sources: Cadivi and Ecoanalítica

**If you're not on the list, there's no foreign currency for you.**

And second, that taking into account that only 30% (around US\$2,534 million this year) of Sitme transactions are for covering non-priority imports (not included on lists 1 and 2), it's clear that these imports have dropped down to a second class priority when it comes time to liquidating and authorizing foreign currency, making this supply very restricted. At *Ecoanalítica*, this doesn't surprise us very much, being as the 21<sup>st</sup> Century Socialist model has always prioritized goods and services that are considered a priority and strategic to the nation with respect to the Administration's development plan for the nation. Companies that do not fit these criteria will continue to find foreign currency extremely restricted, via Sitme and Cadivi.

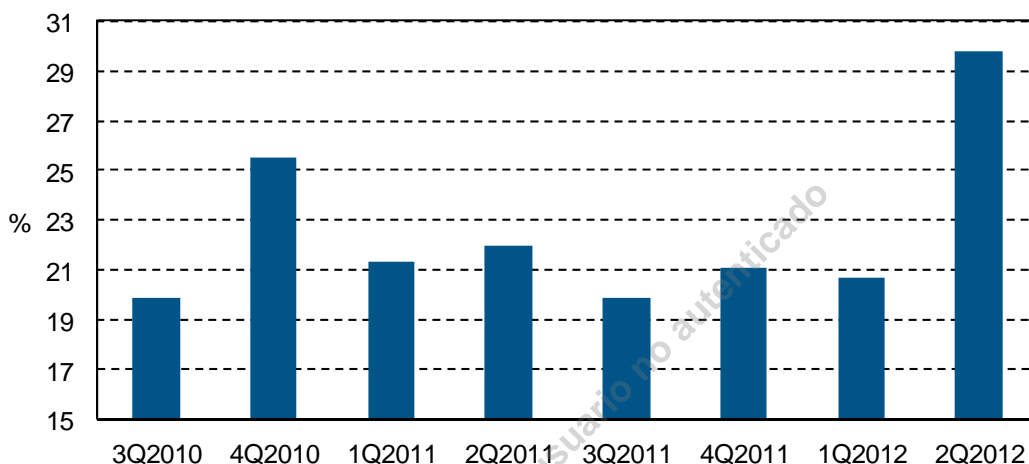
**The Sitme is a complementary mechanism**

Despite the fact that the liquidation of bonds through the Sitme this year is up by 25.5% compared to last year, the increase has not been enough to cover demand. In 2012, the Sitme is expected to cover around 21% of private sector imports, or 12.6% of the total amount of imports. The Sitme's rhythm of daily liquidations of foreign currency has come to a full stop, reflecting the Administration's decision to stop issuing debt in foreign currency in order to feed the system.





## Private Imports financed through Sitme



Sources: BCV and Ecoanalítica

### What's coming?

As we have been stating in previous Reports, the current fiscal situation and the significant margin of overvaluation will force the Administration to implement modification with respect to exchange issues, or in other words, make an adjustment to the official exchange rate.

Since in Venezuela there are multiple exchange rates (Cadivi, Sitme, and black market), there are a number of ways one can go about implementing a devaluation. Our base scenario points to the Cadivi exchange rate going from VEB 4.3/US\$ to VEB 6.3/US\$ and the Sitme exchange rate going from VEB 5.3/US\$ to VEB 7.5/US\$. With these figures, the weighed exchange rate will be at around VEB 6.74/US\$, which reflects a 46.2% increase compared to 2012.

Weighted exchange rate (X+M)	2008		2009		2010		2011		2012E		2013F	
Public	2.15	21%	2.15	24%	2.60	34%	4.30	37%	4.30	39%	6.30	43%
Sitme	-	-	-	-	5.30	6%	5.30	11%	5.30	20%	7.50	25%
Preferential Cadivi	-	-	-	-	2.60	25%	-	-	-	-	-	-
Cadivi	2.15	78%	2.15	58%	4.30	35%	4.30	51%	4.30	39%	6.30	30%
Not official	4.27	1%	6.03	18%	7.58	0%	8.66	0.9%	10.00	2%	13.50	2%
Exchange rate exports	2.15		2.15		4.14		4.30		4.30		6.30	
Weighted exchange rate (X+M)	2.16		2.42		3.85		4.35		4.41		6.44	
Weighted exchange rate (M)	2.17		2.84		3.36		4.45		4.61		6.74	
Devaluation	-13.4%		30.8%		18.4%		32.6%		3.6%		46.2%	

Sources BCV, Cadivi and Ecoanalítica

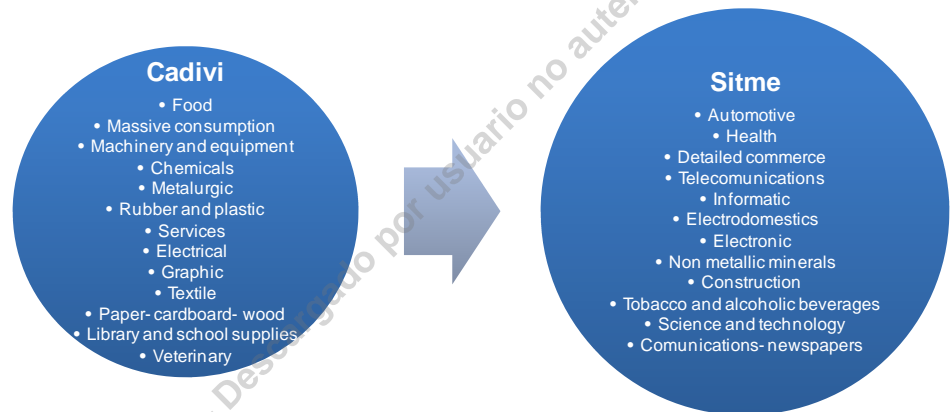
### The politically correct devaluation

The fact of the matter is that since there are three different types of exchange rate, the Administration has a number of options in order to minimize the negative impact of a devaluation (what we at **Ecoanalítica** have chosen to call the "politically correct devaluation"), for example:



- It could leave the Cadivi exchange rate the same as it is now and significantly adjust the exchange rate of the Sitme, migrating goods and services from the first to the second. In this scenario, the sale of foreign currency must once again be activated via Pdvsa in order to feed the Sitme due to the increase in demand that will be placed on the system. In this scenario there is also more pressure to issue foreign debt following the private modality.

### The currency realignment in 2013



Sources: Cadivi and Ecoanalitica

- It could leave the Cadivi exchange rate the same as it is now and slightly adjust the exchange rate of the Sitme and then allow a legal parallel market to operate. The possibility of this scenario being implemented seems a bit more remote seeing as how the radical wing of chavismo is in control of the Administration and it has always rejected this idea. Just like the first option, in this scenario the import of goods and services must migrate away from Cadivi, to the Sitme or to the parallel market. The Achilles' Heel of this scenario is in two areas: the impact it will have on inflation and the supply that will feed this market (given that up until now there is no formal mechanism to feed foreign currency to a parallel market).

### Devalue before cutting spending

An adjustment to the exchange rate will take pressure off the (illegal) parallel market, and more importantly, partially solve current fiscal problems. Adjusting the official exchange rate is the answer to containing the increase in imports and postpones a Balance of Payments crisis, for the moment. In other words, the coming year's adjustment of the exchange rate will be motivated by fiscal demands and well as rationing



the use of foreign currency. At **Ecoanalítica**, we believe the Administration will choose to implement the devaluation (one way or another) before it will implement significant public spending cuts.

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## Economic Tips

**Cadivi's authorized amount up by 5.3%.** The Foreign Currency Administration Commission (Cadivi for its Spanish acronym) disbursed US\$22,848 million during January and September of 2012. This represents an increase of 5.3% compared to the same period of 2011, when US\$ 21,701 million were authorized.

**Foreign currency disbursement for imports up by 1.0%.** The BCV disbursed US\$17,451 million for imports in the same period. This represents an increase of only 1.0% compared to the same period of 2011. This amount also includes the disbursements for imports through the ALADI Convention and the Sucre.

### BCV's disbursed amount (US\$ Million)

Item	Jan - Sep 2012	Jan-Sep 2011	Var(%)	2012 Market Share
Imports*	17,451	17,286	1.0%	76.4%
Students	346	369	-6.0%	1.5%
Special Cases	424	176	141.4%	1.9%
Airlines	948	918	3.2%	4.1%
Ext .Private Debt	3	18	-84.9%	0.0%
Consulates and Embassies	66	49	34.5%	0.3%
Insurance and Reinsurance	80	47	69.7%	0.4%
Foreign Investment	18	92	-80.9%	0.1%
ALADI Convention**	299	319	-6.3%	1.3%
Retirees and Pensioners	71	48	47.9%	0.3%
Remittances	619	544	13.8%	2.7%
Credit Cards	1,953	1,395	39.9%	8.5%
Cash for travel	368	294	25.1%	1.6%
Services	4	5	-13.2%	0.0%
Sucre**	40	10	293.1%	0.2%
Telecommunications	159	131	21.4%	0.7%
<b>Total</b>	<b>22,848</b>	<b>21,701</b>	<b>5.3%</b>	<b>100%</b>

Sources: CADIVI and Ecoanalítica

\*Includes regular imports and imports through ALADI and Sucre

\*\*Excludes imports



**This may be the budget for 2013.** Jorge Giordani, Minister of Planning and Finances, presented before National Assembly the draft Budget Law for fiscal year 2013, for VEB 396.40 billion, 33.1% over the amount approved for 2012. Of the total income for 2012, around VEB 83.17 billion (21.0%) will come from the oil rent, VEB 217.74 billion (54.9%) will come through non-oil income, and finally VEB 95.40 billion (24.1%) will come through indebtedness.

**Expenses for 2013.** Of the VEB 396.40 billion that the government expects to spend next year, not counting what was executed through additional credits, it is expected that VEB 187.75 billion (47.4%) will be for personnel and administrative expenses of the different entities of the public administration, while VEB 78.25 billion (19.7%) shall be destined to public debt service.

**A prudent budget.** Giordani said before the National Assembly, that the budget proposal for 2013 was based on "*prudent premises*", with an average expected oil price of US\$55/bl, and economic growth of 6%, an inflation rate between 14 and 16%, and a fixed exchange rate VEB 4.30/US\$ for next year.

**And with a social character.** Together with equal "*effectiveness in the management of the budget*" the head of the Finance department underscored the importance of strengthening the social productive model, reiterated the need to continue strengthening social aspects, as well as a better economic and financial performance during the next six years. Giordani said that "*the draft budget law for fiscal year 2013, and the other components of the system, will reinforce the positive trend of the economic activity, and a reduction in inflationary pressures*".

**Unemployment rate at 7.3%.** According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 0.9 percentage points in September, as compared to the same period in 2011, when unemployment rate closed at 8.3%; this means that in the ninth month of the year, 1.010.510 people didn't have a job. Men unemployment, in turn, was 6.8%, meaning a 1,7 percentage points increase throughout the year.

**Inactivity rate increases.** According to inactivity rate figures published by INE, shows that increased 0.7 percentage points compared to September 2011, to settle at 34.7%. Within this, men inactivity stayed the same at a rate of 8,1%. Women inactivity, in turn, increased 0.2 percentage points, and stood at 47.7%.

**Informality rate at 41.0%.** According to INE's figures, at end-September, 5,247,416 people were employed at the informal sector (41.0% of working population), which means that it stayed the same compared to September 2011. Formal sector, which



employs 58.9% of working population, increased 2.8% with respect to the same period in 2011.

**Worker's Food Basket reaches VEB 3,803.9.** According to the last report by the Cena, the Worker's Food Basket (CAT for its Spanish acronym) reached VEB 3,803.9 on September 2012. This represents an increase of 2.1% compared to the previous month and of 22.0% compared to September 2011. The accumulated variation of the CAT is 12.6% (VEB 424.6).

**The behavior of the CAT** was determined by the increase in five of the eleven products that conform it: fruits and vegetables 5.5%, tubercles 2.9%, milk, cheese and eggs 1.3%, beef and derivatives 0.8%, grains 0.6%.

**Family income only covers 53.8% of the basket.** According to the report by Cenda, the new minimum wage of VEB 2,047.5, effective since September 1, 2012 has a hypothetical purchasing power of 53.8% and a deficit only to food acquisition of 46.2% (VEB 1,756). That means that, despite the recent 15% increase in the minimum wage it is still insufficient, as a family today requires almost twice the minimum wage just to cover their basic expenses on food.

**A difficult country for business.** According to a report prepared by the World Bank (WB) Venezuela is in place 180 of a total of 185 nations, regarding the ideal places to do business in the world. The country is also in the last places regarding the variables that the WB considered for the study: Opening a company, managing construction permits, getting electric power, registering property, obtaining credit, protection of investors, payment of taxes, and trans-border trade.

**The most wanted.** A report of the Central Bank of Venezuela (BCV) indicates that several food items that have delays in their price adjustments (since their regulation) were very scarce in September. Among the products with a scarcity of over 50%, the study mentions corn oil, sunflower oil, vegetable oil, liquid milk and powdered milk; while those with a scarcity between 20% and 40% were pasteurized white cheese, sugar, yellow cheese, and corn meal.

**Strengthening links with Colombia.** The Partial Reach Agreement (Acuerdo de Alcance Parcial - AAP), regulating trade between Colombia and Venezuela, entered into force this week, after being signed last November 28, 2011. The purpose of the agreement is to consolidate preferential treatment in bilateral trade exchanges, and expects that 91% of the traded merchandise will remain in a zero tax preferential condition, while the remaining 90% will pay preferential taxes between 14% and 80% of what it's charged to third parties.



**Greater growth, but what about inflation?** Economists Rodrigo Cabezas (former Minister of Finance) and Efraín Velázquez (President of the National Council for the Economy) forecast an economic growth between 3.5% and 5.5%, in line with the expectations of several international organizations. Regarding inflation forecasts, Cabezas considers that it will be around 18% while Velázquez says it will be 20%.

**“Misión Hallaca”.** Carlos Osorio, Minister of Food, informed that the government is prepared to offer several Christmas articles and products at low prices during the last two months of the year. Osorio said that to this end, they have activated the import, storage, and distribution of products like olives, capers, and raisins, used to prepare Venezuelan Christmas dishes like the *hallaca*.

**“A trabajar”.** That is the name of the new program through which unemployed people registered in the Misión Saber y Trabajo, will be able to start a productive project, financed by the Administration. Ricardo Menéndez, VP for the productive economic area, said that the program “A trabajar” will help recover abandoned productive spaces, generate new ones, and new factories. The initiative already has VEB 1.05 billion which were given by the Presidency of the Republic.

**Interest rates.** The lending rate for the second week of October was at 17.7%, down by 2.0 percentage points compared to the previous week. The time deposit rate remained unchanged since July 2011 in 14.5%, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves decreased 4.3%, going from US\$24.8 billion during the first week of October to US\$25.9 billion during the second week of October. Compared to the same period last year, international reserves have decreased by 13.0%.

**Monetary liquidity.** Monetary liquidity (M2) was down by 2.5% in the second week of October compared to the previous week, settling at VEB 581.1 billion. The M2 has increased 55.8% in relation with the same period last year.

**Sitme figures.** So far this year, US\$8.4 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.7 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.7 billion (25.7%) over the same period of 2011, when US\$6.7 billion were negotiated. Lastly, during the third week of October the amount traded reached US\$223 million, US\$83.0 million more than the previous week when US\$140 million were traded, with a daily average of US\$35.2 million.





## Oil Tips

**Goldman Sachs reduces forecasts for 2013.** The US investment bank, one of the most influential in the *commodities* market, in its updated forecast of the evolution of oil prices in the midterm, reduced their expectations for 2013 from US\$130/bl to 110 US\$/bl. Before, reductions were based on a lower demand, but this time, they are due to an expected greater supply from non-OPEC countries.

**But in the short term...** Goldman Sachs said that *"the dispute between Iran and the West due to the nuclear program is still a great source of risk in these projections"*. Thus, in the short-term the trend is higher, with an estimated US\$120/bl, compared to the present price of US\$113/bl. On the other hand, analysts at Goldman Sachs expect that the price difference between the WTI and the Brent will remain volatile in 2012, close to US\$4/bl in the beginning of 2013 as the Seaway pipeline reaches full capacity.

**16 former workers of Pdvsa fined for damages during the strike.** On Monday, October 22, the third hearing to establish the fines for 17 former workers of Pdvsa started, who according to the Audit and Control Department of the state owned company are considered responsible for damages to the industry during the strike of 2002 and 2003. The fines go from VEB 91 million, to VEB 116 million. With these 16 people, the total number of persons that must pay the nation for damages is 27.

**"We have a plan B"**. Iranian Oil Minister Rostam Qasemi said that Iran could stop its oil exports if the sanctions of Western nations against their nuclear program become stiffer, and said that they had a "Plan B" to survive without that income. This statement of Qasemi is the last in a series of threats by Teheran in response to the sanctions. *"We have prepared a plan to manage the country without any oil income"*, he said.

**Pdvsa pays interests to holders of agricultural bonds.** In a communiqué to holders of Pdvsa Agrícola bonds for 2015, 2016 and 2017, Pdvsa informed that according to the conditions established in the papers issued in July of this year, the interests corresponding to the semester were paid last Friday, October 19. The industry issued VEB 3.0 billion in agricultural bonds, to feed the Fondo Zamora, in charge of financing producers.





**IEA: Reserves shall not be released.** María van der Hoeven, Head of the International Energy Agency, said during the International Energy Week in Singapore that the global oil market is well supplied, and only a severe interruption would warrant the release of strategic reserves, this in view of the drastic fall of Iranian exports due to sanctions by the West. *"We are still following up the situation, and we know that around 1 million barrels of Iranian oil per day, maybe a little more, are no longer in the market"* said Van der Hoeven.

**Debate in OPEC because of a new Secretary.** The mandate of Abdullah al-Badri ends in December, and the election of a new OPEC Secretary apparently won't be easy, amid Western sanctions against Iran, and the growing rivalry between Saudi Arabia and Iran for the highest post of the Oil Cartel. A group of officials met this week at the central headquarters and said that *"it won't be easy, because to appoint a Secretary General, all 12 members have to agree"*. Saudi Arabia, Iran, Iraq and Ecuador have nominated candidates, and any decision about the successor will be made by Oil Ministers during their December 12<sup>th</sup> meeting.

**International baskets.** Last Friday, October 19<sup>th</sup> in New York, WTI closed at US\$92.0/bl, which shows a increase of 1.1% compared to US\$91.0/bl recorded the previous week. Meanwhile, Brent grew by 0.3% to reach US\$ 114.0/bl compared to the previous week when it reached US\$113.7/bl.

**Local basket price.** On Friday, October 19<sup>th</sup> the Venezuelan oil basket price closed at US\$102.5/bl resulting in an increase of 0.3% compared to US\$102.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 104.8/bl.

## Business Sector Tips

**Food could rot in the ports.** Puerto Cabello, the country's main port, collapsed several months ago, and the main problem is that there is no agricultural production in the country, and the government supplements it by massively importing the necessary items. Neidy Rosal, representative and member of the Comptrollership Commission of the Legislative Council of Carabobo (Comisión Contralora del Consejo Legislativo del estado Carabobo - CLEC), warned that *"the import harvest already started, since the merchandise for December starts arriving in October, but*



*with the congestion in the ports, products may not arrive to consumers for Christmas, but in January".*

**13 ships with food have not been able to dock.** There are 13 grain carrying ships at the bay of Puerto Cabello waiting for quays to dock. Customs specialists explained that the delays are due to congestion in the maritime terminal, because of ships bringing products like white and yellow corn, sugar, paddy rice, soy flour, barley, wheat and malt, all of which used to be produced in the country.

**Food consumption increased 60% in 10 years.** Venezuelans consume around 25.7 million tons of food, a 60% increase in the last 10 years, said Ricardo Menéndez, Vice President for the Economic Production Area. Menendez explained that this increase positively affects the mean life expectancy of Venezuelans, which has increased more than two years.

**Private clinics demand a dialog.** The Venezuelan Association of Clinics and Hospitals (Asociación Venezolana de Clínicas and Hospitales - AVCH) hopes that the Inter-Institutional Alliance (which groups state institutions) will do away with "impositions" and sit down to dialog with private centers. The meetings were suspended three months ago, because representatives of Cantv and Pdvsa wanted to impose a rate for medical fees. Doctor Amadeo Leyba, director of Hospital de Clínicas Caracas, explained that the Alliance must understand that prices in private health care centers must not be below their expenses, and that "inflation in health is higher than the global inflation" said Leyba.

**Government reinforces energy savings.** The Ministry of Electric Power is studying the implementation of new measures to further reduce electric power consumption. This entity together with the Ministry of Trade, expect to issue a resolution, still in its approval phase, establishing the conditions to market high electric power consumption equipment. Héctor Constant, vice minister for New Electric Power Sources, explained that these devices must bear labels indicating "its parameters and efficiency characteristics".

**Bauxilum stops for the first time.** A polymer scarcity, used to refine alumina, forced the shutdown of the last stage that remained operational at CVG Bauxilum, the first link of the production chain in the aluminum industry. Alumina is the main raw material to manufacture primary aluminum at CVG Alcasa and CVG Venalum, the two aluminum reducers of the country. Workers said that this is the first time that the plant stops due to a lack of any product, and stated that they don't know when the polymer shipment will arrive.





**What is not produced is imported.** Jorge Roig, president of the Association of Steel and Mining Industrials of Venezuela, said that they are negotiating the import of 60,000 tons of rolled products, to be added to the 90,000 tons acquired in 1S2012, since Sidor's dispatches are irregular; thus, this sector has also resorted to international suppliers. Regarding the production of steel rods, which had some deficiencies, Roig explained that it has normalized due to the slowdown in the private construction sector.

**Fedenaga warns about the delimitation of indigenous lands.** Manuel Cipriano Heredia, president of Fedenaga, warned that lands like those in Sierra de Perijá have a special type of cattle, and delimiting them as indigenous lands will affect the already beaten domestic production of milk and beef. This area *"produces more than 500 liters of milk per day, as well as many bulls destined for the meat market"*, he said regarding the productivity of Sierra de Perijá. Heredia also said that production has been affected by the invasions of indigenous people, who *"have taken cattle, and appliances"* from the area.

**Fedecámaras calls for a dialog.** Jorge Botti, president of Fedecámaras, considers that after the reelection Hugo Chávez, there must be a dialog between the offers of the State and the present Venezuelan society. Botti accepted that the business sector is suffering from a generalized fear, but said that the President is also showing fear when he says he is willing to talk, but without the imposition of bourgeois views. Likewise, Botti stressed that the sector is vying for the creation of dialog and agreement between the different sectors of the national economy.

**Waiting time increases.** Delays in foreign currency payments are affecting companies that produce items whose prices are controlled by Sundecop. Sources consulted said that Cadivi's delays to authorize the liquidation of foreign currency are over 200 days. *"There are delays of up to 250 days"* said the director of a company regulated by Sundecop. He said that this is becoming a block to continue producing some items. *"This is what is causing the scarcity or fewer presentations of some products"*, said the consulted source.

**If you can't cope with the enemy...** The US company Procter & Gamble, trying to increase sales in developed markets, signed an agreement with Pdval to supply personal care, cleaning, and hygiene products. The shelves of socialist stores now have articles of the brands Ariel, Ace, Pantene, Always sanitary pads, and other Procter & Gamble products. Last January this company said that it would abide by the price regulation policy of the Venezuelan government and even lowered prices before other companies in March.





**The rains have not affected crops.** The Minister of Agriculture and Land, Juan Carlos Loyo, informed that so far the crops in the country have not been affected by the strong rains of the last two weeks. Loyo said that he would have a meeting with representatives of the Ministry of Agriculture and Land in each state, to have a true balance about the crop conditions.

**60,000 or 100,000 hectares?** Meanwhile, Ricardo Molina, Minister of Housing, said that the government is looking for 60,000 hectares of land to reach the target of the Misión Vivienda. Aquiles Martini, president of the Real Estate Chamber of Venezuela (CIV), said that to guarantee the construction of 2 million housing solutions, 100,000 hectares of urban land are required, so that the units may have all the necessary utilities. The president of CIV also asked "where will the raw materials come from to meet the demand?" stating that the industries are facing problems.

## World Economy Tips

**China at a slower pace.** According to the National Office of Statistics of China, the Gross Domestic Product (GDP) of that country increased 7.4% (a/a) in the third quarter, less than in the second quarter (7.6%). This is the seventh consecutive quarter of slowdown in the growth of China, and the government of the country has tried to foster domestic demand given the weak worldwide demand for Chinese products.

**Investment falls, given this dark outlook.** Another indicator of the "bad moment" that the Chinese economy is going through, is the 3.8% drop (a/a) in Direct Foreign Investment (DFI), which at the end of the third quarter of the year was US\$83.400, as informed by the Ministry of trade of the Asian nation. Only in September, the drop was 6.8%, compared to the year before. The drop in DFI is a sign of greater precaution by investors given the slowness of the Chinese economy.

**And the government fills its pockets.** Lo Kegiang, vice Prime Minister of China said that the government of this country will try to widen the base to implement Value Added Tax (VAT) as part of the revamping of the tax system. The tax reform pilot was implemented last year in Shanghai, where the business tax was replaced by the new value added tax for transportation and services.

**Superbank in 2013.** After a meeting in Brussels, European Union Ministers vied to fulfill the legal framework that will allow the European Central Bank (ECB) to become



the single banking supervisor of the euro zone starting in 2014. The entry into force of the new attributions of the BCE would allow the rescue fund of the euro zone to directly recapitalize banks with problems without increasing the debt of the governments.

**Next door.** Mario Monti, Italian Prime Minister, said *"in only a few months we will start seeing clear signs of recovery"* of the Italian economy. This statement was a clear response to those criticizing the strong government austerity measures to reduce the country's massive debt, including tax increases, spending cuts, and pension reforms.

**The Spaniards go through a rough patch.** According to the living conditions survey of the National Institute of Statistics of Spain (INE), 21.1% of the population of that country is below the poverty line. The report also says that 40% of homes don't have the capacity to face unexpected expenditures, while 7.4% of the homes have difficulties paying for utilities.

**USA: Inflation is eating up salaries.** According to the US Labor Statistics Office the average weekly income of workers in that country was US\$758 in 3Q2012, an increase of 0.7% compared to the same period in 2011. Although income has increased in nominal terms, in real terms they had an annual drop of 1% at the end of 3Q2012, given the 1.7% (a/a) inflation of September.

**Will the wall fall down?** The last report of the Central Bank of Germany (Bundesbank) warns that the German economy could slow down in the last quarter of the year, affected by the economic weakness of most countries in the Euro Zone. The document states that although the industrial activity of the first economy in Europe was solid in September, *"there could be stagnation or even a slight reduction of the gross domestic product (GDP) in the last quarter"*.

**Eurozone: lower trade deficit.** The current account of the 27 countries of the Euro Zone had a deficit of EUR6.80 billion in 2Q2012, 76% less than in 2Q2011 when it was EUR28.30 billion, according to estimates of the European Statistics Office (Eurostat). This lower deficit was due to a 69% drop in the trade balance deficit which was EUR12.10 billion, and 23.1% in the service balance surplus which was el EUR37.80 billion.

**Foreign capitals look for safe haven in Latin America.** According to the latest report by the Economic Commission of the United Nations for Latin America and the Caribbean (ECLAC), foreign direct investment to the region reached US\$ 94,331 million during the first semester of 2012, growing by 8% compared to the same period of 2011. The commission assured that this increase of the FDI is currently



happening thanks to the stability and economic performance of the countries in the region and the high prices of raw materials, which continue to incentivate mining and oil investment in South America.

## Political Tips

**Looking for an apprentice.** When consulted about the results of the presidential elections of October, Brazilian former President, Luiz Inacio Lula Da Silva said that although he considers Chavez the best option for the country, he believes that *"brother Chavez must begin to prepare his successor"* because although the Constitution allows him to be a candidate indefinitely, his adversaries don't believe this is good for the Venezuelan democracy.

**Those not going a good job must not return.** The political organization Unidad del Poder Popular (UPP), which groups more than 50 organizations of chavismo, supported the decision of President Chavez and the PSUV to stop supporting six governors that were hoping to be reelected, after *"defrauding the revolution and the people"*. Rafael Núñez, member of UPP said that they will continue to be *"critical and demanding of the revolution candidates that are elected in December"*.

**"A wall" against centralism.** Tomás Guanipa, Secretary General of Primero Justicia, asked Venezuelans to remain active for the regional elections of next December. Guanipa said that popular participation is necessary for December 16, to create *"a democratic wall of contention"* and fight the advantages that the ruling party has.

**Candidates abound.** The CNE announced that a total of 135 candidates were accepted for the 23 governor's posts to be elected next December 16. The electoral entity also informed that for the 233 legislative council members who will also be elected that day, it received around 8,171 applications (nominal candidates, list candidates, and indigenous), but the number of candidacies that will be accepted has not been established.

**Repeat the strategy.** The strategies of the PSUV and its allies, to guarantee the victory of the revolution in the regional elections will be the 1x10 mobilization, house to house visits, and consolidation of the people's power, said Diosdado Cabello vice-president of that organization. The also President of Parliament said that union and structural organization are necessary to guarantee another victory in the upcoming elections.



**Each on their own.** Representatives of the Mesa de la Unidad Democrática (MUD) announced that for the regional elections of December, the work will be done State by State, and each aspirant will become a defender of decentralization and of the work of the governor's office. Ramón Guillermo Aveledo, Secretary General of MUD said that in the regional elections there will not be a unitary card, because *"each party will go with its own signs and colors, to prevent the CNE from alleging that if a party decides not to participate, they must be re-legitimized and recollect the number of signatures established in the law"*.

**No False Modesty.** During the first ministerial council after the presidential elections, Hugo Chavez, re-elected president, underscored his effort during the electoral campaign, after undergoing several radiotherapy treatments. Chávez said that it was because of his physical condition that he only obtained 12 points over his contender Henrique Capriles, and that if he would have been in full health he would have obtained *"no less than 20 points of difference"*.

**And where are the communes?** Evidently upset, President Hugo Chavez scolded the whole ministerial cabinet for not adopting the figure of "socialist communes", entities through which the communities are expected to manage their own resources, and take control of the zones where they live. *"I don't see communes anywhere, or the spirit of the communes, which is much more important at this time than the communes themselves, the communal culture"*, said the head of state.

**Divorce.** This week the Venezuelan Foreign Affairs Ministry revoked the visas of the Paraguayan diplomatic core in Caracas, a *"de facto"* break of diplomatic relations between Venezuela and Paraguay. The decision was made after the new Paraguayan government removed its ambassador in Caracas, and declared the Venezuelan Foreign Affairs Minister as *persona non grata*. It is expected that the *"rupture"* won't affect trade exchanges or finance operations between both countries.

## Legislatives Tips

**Two moves away from the Enabling Law.** Despite having a clear majority, the ruling party doesn't have enough votes to approve an Enabling Law (99 positive votes are required). The present parliament was installed on January 5, 2011 with the following composition: 98 chavistas, and 65 representatives of the Mesa de la



Unidad, but with the different changes of position in the bands, the map of the NA looks like this today: 97 ruling party members, and 68 opposition members. We will see what happens in the upcoming months.

**Permit to distribute medications without a guide extended.** *Official Gazette* N° 40.031, which circulated on October 19, published a resolution of the Ministry for Food allowing companies that distribute or market medications to transport them through the national territory without the respective mobilization guide, during 30 business days.

**Parliament to sanction governors of Lara and Monagas.** In 45 days the Comptrollership Commission of the NA will send reports to the plenary requesting a pre-trial against the governors of Lara and Monagas, Henri Falcón and José Gregorio Briceño, dissidents of chavismo, and now in the opposition. Pedro Carreño, president of the Comptroller's Office, informed that Falcón other officials of the Administration of Lara were summoned to present their defense, but they have not appeared yet.

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**ECONOMIC OVERVIEW**

