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Exchange controls and over-invoicing: The problem gets worse

In the scenario of international economics it is no secret that, in economies where there are controls on the foreign exchange and capital markets, black markets usually emerge. These black markets, where the exchange rate is nearly always higher than the official rate, give rise to a premium on the buying and selling of foreign currency. This premium, which is normally positive, is a major inducement to manipulating billing in international trade.

So, in environments with exchange controls, exporters may underestimate exports with a view to then selling the foreign currency on the parallel markets. However, the case of Venezuela, where 89.9% of exports are oil exports and, moreover, are controlled by the State, it tend to overestimate the imports. In this week's report, we are going to take a look at the over-invoicing of exports as the main mechanism for getting capital out of our country.

How does the flight of money occur?

It is recognized in economic literature that exchange controls speed up capital flight, which weakens the balance of payments' capital account and a country's net external asset position. However, there is an alternative mediation mechanism for the outflow of capital.

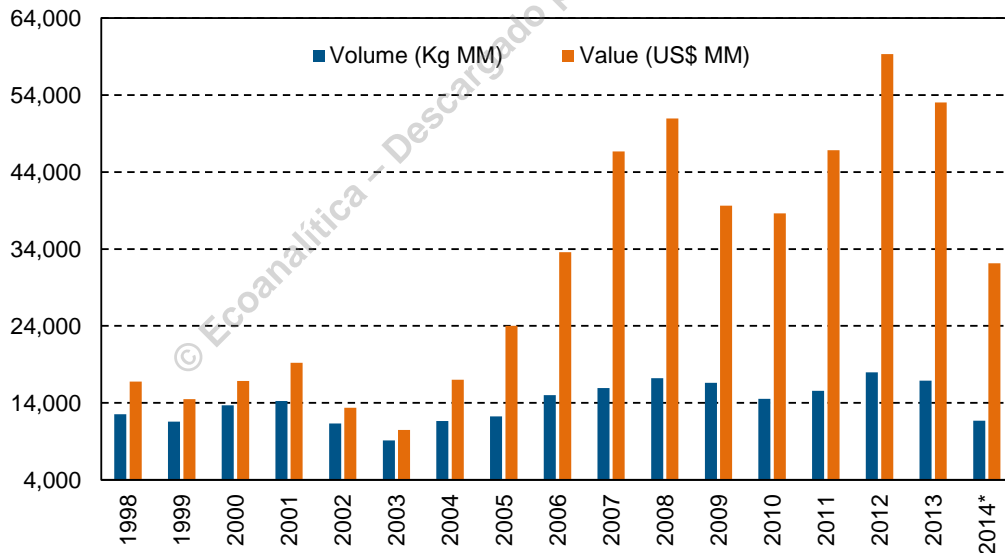
The second mechanism is the over-invoicing of imports. This is a practice that consists of declaring an amount for external purchases that is higher than the amount actually paid, which results in a larger amount of foreign currency than is needed for the acquisition of foreign inputs and final goods being allocated. Over-estimation of invoices by importers can also be viewed as a kind of smuggling, the difference being that, instead of involving a flow of goods that avoids customs controls, it involves a flow of capital that avoids exchange controls and other regulations.

As in the previous case, this is a mechanism that makes sense when there is a system of exchange controls with an official price for the dollar that is much lower than the price at which the dollar is traded on the parallel market. The point here is to obtain dollars cheap and sell them dear.

Less is imported but at a higher cost

An indicator that shows the growth of fictitious imports in Venezuela is the behavior of the volume of imports compared to their value. Although the gap between these two variables can grow when there is an increase in the external prices of imported products, if we look at their behavior in the Venezuelan economy we can see how, before the implementation of exchange controls, the two variables were in line with one another, then how, in 2003, the gap between them widened dramatically.

Volume vs. Value of Imports

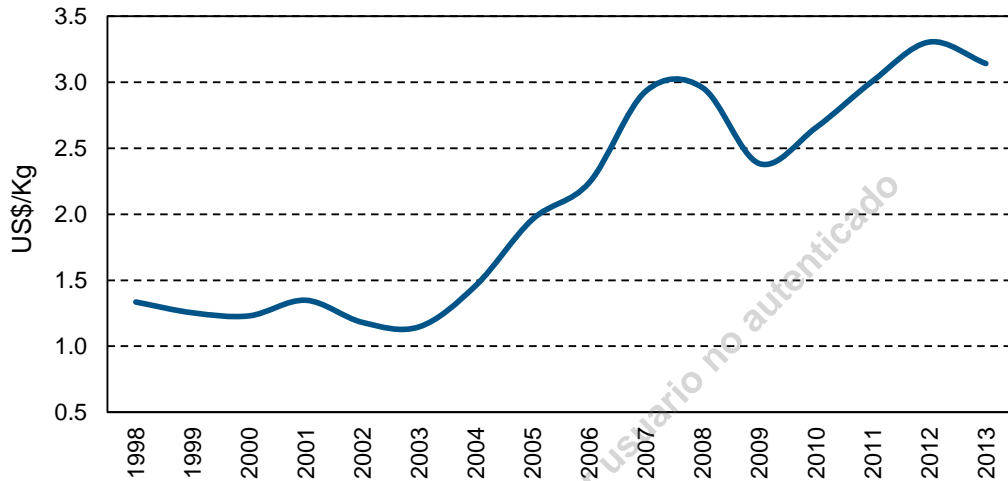


Source: INE, BCV and Ecoanalítica

* Until September.

So we can say that the price per kilogram per imported product has tripled between 1998 and 2014, going from US\$1.3 in 1998 to US\$3.1 in 2013.

Imports Cost



Source: INE, BCV and Ecoanalítica

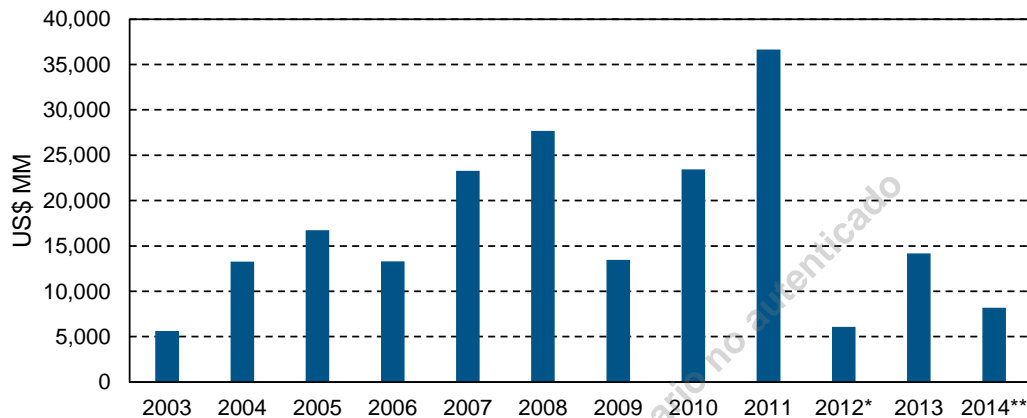
The incentives to “pay over the odds”

Over-invoicing of imports not only makes managing the economy complicated by artificially increasing the demand for foreign currency and loans in local currency in order to import goods and services, but it also affects tax receipts, as it is a mechanism that allows those who engage in it to evade taxes (by declaring higher costs and, therefore, lower earnings).

However, the biggest incentive to over-invoice imports is that it allows people to evade exchange controls; and that means that those who engage in this practice are able to repatriate capital and protect part of their earnings against high inflation in the local currency.

Since it is a vehicle for evading exchange controls, over-invoicing has become one of the main sources of financing capital flight. Of the US\$193.68 billion that left the country between 2003 and 2013 (despite exchange controls), nearly 51.9% (around US\$100.71 billion) was apparently financed, directly or indirectly, by over-invoicing imports.

Capital Flight



Source: BCV and Ecoanalítica

* In 2012 while capital outflows from the private sector reached US\$11.968 million, the public sector, during the presidential campaign, introduced capital by US\$5,906,000.

**Until September.

Over-invoicing is the queen

Just like the foreign exchange measures implemented over the past 15 years, over-invoicing is nothing new and has existed during other periods when there have been exchange controls (OTAC and RECADI) and when cheap (overvalued) dollars boosted the growth of imports and the number of fictitious invoices.

Although the outflow of capital measured via the balance of payments has existed throughout much of our recent history, it seems that the over-invoicing of imports is the queen of capital flight in the foreign exchange control mechanisms implemented in Venezuela.

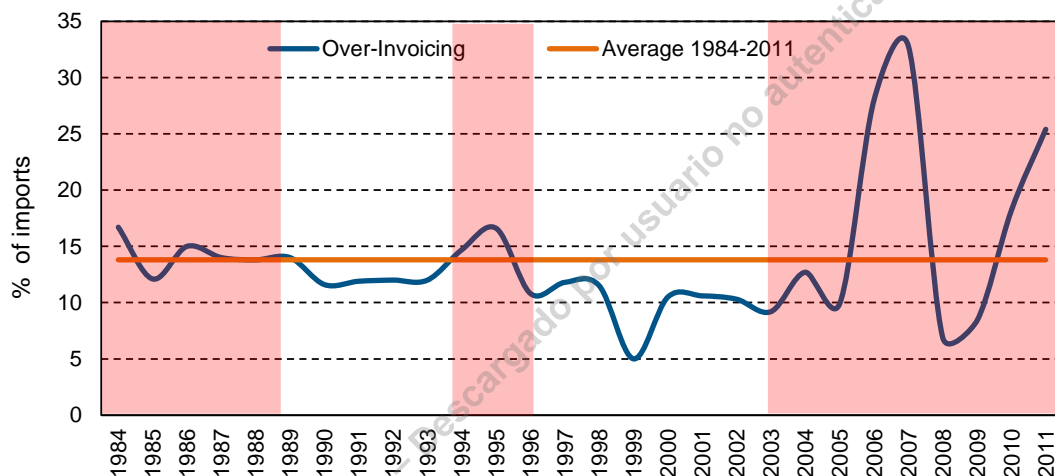
A study by Reinhart and Santos (2015)¹ compares the levels of imports reported by the Central Bank of Venezuela with total imports declared to the Venezuelan customs authorities (according to data supplied by the United Nations Commodity Trade Statistics), with a view to reach an approximation of the amount of capital flight in the external accounts as a result of this practice.

Although in principle there is no reason to assume persistent systematic differences in the years when there have been exchange controls, the study, which used data

¹ Reinhart, Carmen and Santos, Miguel (2015). From financial repression to external distress: The case of Venezuela. NBER Working Paper No. 21333.

for the period 1984-2011, when Venezuela had exchange control regimes for 13 of those years (72.0%), revealed that, while this practice has been chronic in Venezuela, being equivalent to 3.4% of GDP and 13.8% of imports, on average, the over-invoicing of imports has been significantly higher during periods when there have been exchange controls.

Over-Invoicing as a Percentage of Imports



Source: Reinhart and Santos (2015) and Ecoanalítica
 *The highlighted area refers to years with exchange control.

More incentives by the day

We have had exchange controls in Venezuela for 12 years now and still counting. The distortions generated in the foreign exchange market by the overvaluation of the bolivar given a cheap supply of dollars by the State have resulted in imports jumping from US\$10.48 billion in 2003 to US\$53.02 billion in 2013, while the increased spread between the exchange rates in official mechanisms and the exchange rate in the black market, as well as average inflation of 48.3% in the past three years, have increased the incentives for engaging in over-invoicing.

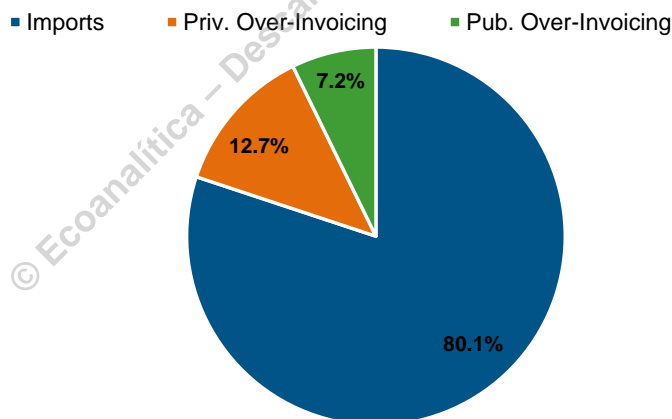
The public and private sectors are equally guilty

Between the start of exchange controls in 2003 and 2013 (the last complete year for which balance of payment figures are available), fictitious imports as a result of over-invoicing came to US\$83.63 billion, US\$53.26 billion of which corresponds to the private sector and US\$30.40 billion to the public sector.

Over-invoicing is not a phenomenon that is exclusive to the private sector. The public sector has been increasing its imports in recent years (they went from US\$2.48 billion in 2003 to US\$22.43 billion in 2013, an increase of 803.1%), which means that over-invoicing in this sector has also been on the rise. Although fictitious purchases by the public sector account for a smaller proportion of total imports, the proportion of over-invoicing of public sector imports is greater than in the case of private sector imports. So we find that this fraud against the nation was committed in 17.8% of total private sector imports and in 25.0% of public sector imports in 2013.

Even though the illegal practice of over-invoicing has been happening since the system of exchange controls was first introduced, it has become more marked in the past three years. Even government spokespersons have admitted that, between 2011 and 2013, offenses were committed involving the disbursement of dollars to importers for products that never entered the country amounting to nearly US\$20.0 billion.

Imports and Over-Invoicing by Sector



Source: BCV and Ecoanalítica

Exchange controls or a mechanism for controlling business?

The system of exchange controls was implemented at a specific time in history when the oil strike was seriously affecting foreign currency revenues and an overvalued fixed exchange rate (VEF 1.328/US\$) led to a 17.0% drop in the international reserves, from US\$16.99 billion in January 2002 to US\$13.9 billion in January 2003.

However, this system lost its *raison d'être* long ago and, in the past five years, it has become a mechanism for exercising political control where its initial objective has

become distorted, as it has not prevented significant capital flight via the over-invoicing of imports. Moreover, the buildup of internal distortions, such as the increase in the foreign exchange spread and spiraling inflation, has, today, become the biggest incentive for people to continue engaging in this practice.

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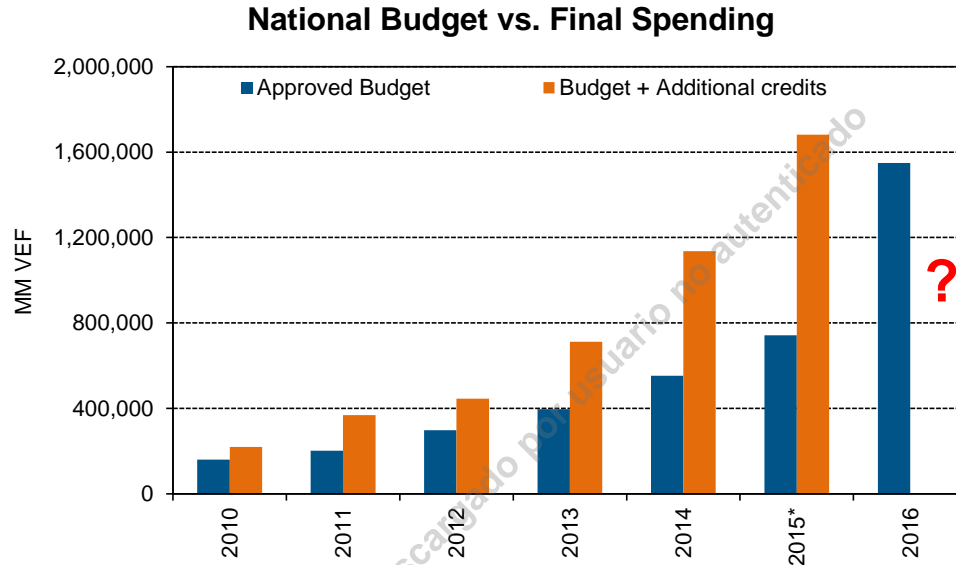
WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week October	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.1	-0.3	2.7
	2nd Week October	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	11.5	5.8	-2.3
	2nd Week October	Weekly var. (%)	Annual var. (%)
International Reserves (Bn US\$)	15.35	-4.0	-19.9
	2nd Week October	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	30.4	48.8	65.4
	2nd Week October	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	3,142	0.4	100.3
Price of International Oil Baskets (US\$/bl)			
	2nd Week October	Weekly var. (%)	Annual var. (%)
WTI	47.3	-0.5	-43.2
Brent	49.9	-1.6	-42.3
Price of the Venezuelan oil basket (US\$/bl)			
	2nd Week October	Weekly var. (%)	Annual var. (%)
Weekly Average	41.5	-1.6	-46.6
Annual Average	47.3	-0.3	-49.9

Source: BCV, MENPET, ONT and Ecoanalítica

* Annual variation of accumulated expenditure.

WEEKLY CHART: “THE BUDGET IN VENEZUELA: ANOTHER LAW THAT ISN’T MET”



Source: National Budget Law and Ecoanalítica
*Additional credits until 09/11/2015.

Under a "conservative" scenario in the past four years has been underestimated the price of the oil barrel in the national budget, however, in the budget presented by 2016 the story has changed. With an annual average of US\$47.4 per barrel (US\$47.4/bl) so far in 2015, by 2016 it is estimated the oil price at US\$40.0/bl.

The budget surplus due to high oil prices did not lead to effective hedging mechanisms for a year of low prices as 2015. By contrast, so far this year the government have approved VEF 633,811 million in extra resources. Why they are incurred in this practice? The answer seems to be more political than economic. Underestimating the price of local oil basket was merely a mechanism that allowed the Executive to minimize the estimated income and planned expenditure, and allowing greater discretion when executing the expense.

What is certain is that we are concerned about the ease with which the budget was presented, with unrealistic assumptions and an estimated inflation of 60.0%, which is very difficult for 2016, considering the economic and political scenario that will be presented next year, and that the official exchange rate remains at VEF6.3 /US\$.

ECONOMIC TIPS

The budget's doubled. According to Minister for the Economy and Finance Rodolfo Marco Torres, the 2016 National Budget Bill is calculated at VEF 1.5 trillion, which means an increase of 108.8% compared to the budget approved for 2015 (VEF 741.71 billion). The 2016 Budget Bill estimates an average oil export price of US\$40/bl. On that point, Marcos Torres explained that, due to the steady drop in oil prices it had been necessary to reformulate fiscal policy in order to make it sustainable.

Indebtedness Giordani-style. Minister for the Economy and Finance Rodolfo Marco Torres also presented the 2016 Annual Indebtedness Bill, which estimates borrowing of VEF 195.21 billion. According to Torres, this will serve to consolidate social investment plans and strategic projects. He stressed that the Executive will resort to public borrowing with a view to continue providing assistance to the social missions, but *“with the focus on the local market in order to reduce vulnerability to foreign exchange risk.”*

A minimal increase. President Nicolás Maduro announced a 30.0% increase in the minimum monthly wage for workers and an increase in the basis for calculating the meals allowance, which will go into effect in November. The new minimum wage is VEF 9.649 (VEF 321.6/day in the case of day shifts) and the new meals allowance is 150% of the value of the tax unit (VEF 225.0) per month (30 days), in other words VEF 6,750.

For senior citizens as well. The new minimum wage of VEF 9, 649 will also be the new minimum amount that retirees and pensioners of the national government services and beneficiaries of the pensions granted by the Venezuelan Social Security Institute (IVSS) will receive. At **Ecoanalítica** we estimate that the increase in the minimum wage will mean an additional cost in pensions of around VEF 5.7 billion for the Venezuelan State.

The basic basket reaches VEF 54,120.52. According to the report of Worker's Documentation and Analysis Center (Centro de Documentación y Análisis para los Trabajadores - Cenda), the cost of *Basic Food, Goods and Services Basket* (Canasta Básica de Alimentos, Bienes y Servicios - CBT) in August 2015 was VEF 54,120.52, an increase of 22.8% with respect to the prior month, and 226,9% with respect to August 2014. So far this year the basket has a cumulative change of 151.3% (VEF 32,583.76).

The behavior of the CBF in August. Was marked by an increase in six of its seven items: health (6.1%), housing (3.5%), clothing and footwear (24.7%), items of personal hygiene (3.4%), food (22.2%) and education (56.0%). The basic public services item showed no changes.

Family income only covers 27.4% of the basket. According to Cenda's report, the hypothetical family income of a five members family where two members earn minimum wage (VEF 7,421.68) has a purchasing power of 27.4%, there is a deficit of 72.6% (VEF 39,277.16) for the purchase of food, basic goods and services. Therefore, a family requires a little more than four (7) minimum wages to cover their basic needs.

Creating more controls. The Vice President (VP), Jorge Arreaza said that a new price control will be extended to all products in the country, which "will not allow" any profits that exceed 30.0% and the importer profit will be 20.0%. *"Fair prices will be determine only the President, private sellers are prohibited from using or placing on their labels the term "fair price",* said Arreaza.

Threatening the economy. VP Arreaza reiterated that there will be severe penalties for traders who choose to offer products or services based on the non-official exchange rate. *"Sanctions will be lifted. The fines are now going to be on net income, we're going to take your annual net profit, 'Oh I'll breakdown'. Good go bankrupted and then leave the business to us",* said Arreaza.

Dismissing speculation. The International Monetary Fund (IMF) said that "there are no negotiations for a financial support program for Venezuela" in response to accusations by the Venezuelan government that the institution is designing a plan of economic adjustment after the release of an alleged call between the former minister Ricardo Hausmann and businessman Lorenzo Mendoza talking about it.

Tax collection for September. According to the figures released by the SENIAT, VEF 113.9 billion were collected in taxes for the month of September. Of this amount, VEF 22.0 billion came from Income Tax, and VEF 60.7 billion from the VAT. The agency raised VEF 752.8 billion during the first nine months of 2015, of which VEF 171.5 billion came from Income Tax, and VEF 355.8 billion from Value Added Tax (VAT).

In real terms. The VAT increased 13.4%, while customs revenues increased 41.2%. Meanwhile, income tax revenues increased 20.4% in real terms over the

same period of 2014. Total revenues in the first two months of this year grew by 4.3%. VAT increased in real terms over the same period of 2014 at 5.5% and customs revenues grew 18.3%. Meanwhile, income tax revenues decrease 16.8% in real terms over the same period of 2014.

Concepts (VEF Million)	Sep-14	Sep-15	Var. (%)	Real Var.	Accum. 2014	Accum. 2015	Nominal Var.	Real Var.
Total Income	45,489	113,968	150.5%	-6.6%	314,041	752,828	139.7%	4.3%
Income Tax	10,331	22,056	113.5%	-20.4%	89,637	171,508	91.3%	-16.8%
VAT (Internal)	19,968	60,740	204.2%	13.4%	146,727	355,867	142.5%	5.5%
Customs revenue*	11,877	18,728	57.7%	-41.2%	54,983	149,558	172.0%	18.3%
Other Internal Revenue	3,031	11,668	285.0%	43.6%	19,345	69,456	259.0%	56.2%
Spirits	990	4,001	304.1%	50.7%	4,456	23,016	416.5%	124.7%
Cigarettes	3,031	11,668	285.0%	43.6%	19,345	69,456	259.0%	56.2%
Inheritance	158	348	120.2%	-17.9%	745	1,736	132.9%	1.3%
Random games or bets	14	23	59.6%	-40.5%	114	159	40.3%	-39.0%
Others	282	776	174.9%	2.5%	3,350	6,439	92.2%	-16.4%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports.

Inflation will be 80.0%. According to statements given by President Nicolás Maduro, “inflation in 2015 could be close to 80.0%,” based on projections that the Central Bank of Venezuela and the National Statistics Institute apparently sent to the Executive. Neither of these institutions has published inflation figures since December 2014.

Venezuela has the wherewithal. According to Francisco Rodríguez, the director of Bank of America-Merrill Lynch, Venezuela should not fall into default on its external debt because it has the capacity to continue to honor its liabilities. Rodríguez estimates external debt in the hands of foreign agents at US\$117.0 billion, which could represent, after some adjustments, close to 42.0% of gross domestic product (GDP), which is no higher than the debt of other countries.

Very costly. According to Rodríguez, falling into default would have huge costs for a country such as Venezuela, given that is an exporting country and has sizeable assets in other parts of the world that would be susceptible to embargo. Besides, bond holders could try to embargo oil billings and to freeze the credit that PDVSA needs to promote oil production. Consequently, falling into default would be extremely costly and is an action that could have “adverse, highly damaging long-term effects on the Venezuelan economy.”

It's not the price of oil, it's the model. In a communiqué, the National Academy of Economic Sciences (ANCE) said that, while the rapid deterioration in Venezuelans' standard of living over the past three years has been made worse by the drop in the export prices of oil, its causes are to be found in the economic project implemented by the Hugo Chávez and Nicolás Maduro administrations.

A lost opportunity. According to the ANCE, between 1999 and 2014, the Chávez and Maduro administrations had available to them resources in the region of US\$1.3 trillion from Central Government revenues, increases in the public sector debt, and PDVSA's social spending, which according to the academy were "*squandered while, at the same time, domestic production capacity was destroyed, fueling inflation and increasing our reliance on oil revenues and foreign suppliers.*"

"Plowing the sea." So far this year the Central Bank of Venezuela has placed VEF 268.47 billion in bonds to drain off excess liquidity via invitations to participate in mop-up operations and VEF 27.8 billion via 41 "*Directo BCV*" auctions. Despite these control measures, liquidity grew by 100.5% in the past 12 months due mainly to an expansion of 104.0% in the monetary base over the same period.

Only one third earn the minimum wage. Minister of Planning Ricardo Menéndez claimed that only 32.4% of Venezuelans currently earn just one minimum wage and that 51.7% of the population receives between one and two minimum wages a month, which is more than in 2000 when only 38.1% received an equivalent amount. Menéndez said that the distribution of revenue "*has been improving*" and that the latest wage increase will make it possible to cope with the levels of inflation.

OIL TIPS

And it continues to fall. Last week, the price of the Venezuelan crude basket closed at US\$41.5/bl., down US\$0.7/bl. from the previous week. Last week prices dropped several times after the US Energy Information Administration (EIA) reported a bigger than expected increase in the United States' stocks of crude. US crude inventories rose to 7.6 million barrels (7.6 mb), more than twice the increase of 2.9 mb forecast by analysts in a survey conducted by Reuters.

Venezuela is still insisting. During his weekly television program, President Nicolás Maduro said that Minister for Oil and Mining Eulogio Del Pino was the person charged with taking Venezuela's proposal, which calls for a floor of US\$70/bl., to the OPEC meeting to be held on October 21. Maduro explained that "*the world economy needs its main energy source to have stability in the market in the coming years.*"

It was in the cards. Before the meeting between experts from OPEC members and non-OPEC producers, OPEC delegates and analysts said that it was unlikely that

the price band proposed by Venezuela would be implemented, as the chances of implementing joint production cuts were slim. Although the majority of OPEC members sent crude experts with a ranking lower than minister, Venezuela's Minister for Oil and Mining Eulogio Del Pino did attend.

A cut in production wouldn't do much. Russia's Vice Minister for Energy Anatoly Yanovsky said that a deliberate cut in Russia's oil production would not encourage changes in prices. *"I don't think that some artificial production cuts will have a significant impact on (price) change,"* Yanovsky said. Yanovsky's comments indicate that Russia's position with regard to cutting its oil output remains unchanged, the argument being that its drills, most of which are located in Siberia, would not be easy to start up again when the decision is taken to raise production once more.

PDVSA is now a partner of WIOC. The Venezuelan Government has agreed to purchase a 25.0% share in the West Indies Oil Company (WIOC). WIOC operates a refinery on Antigua and Barbuda with capacity for storing up to 322,000 barrels (322.0 kb/d) of crude derivatives. PDVSA has been looking for more crude storage space in the Caribbean as an option for making the oil blends it produces. PDVSA also uses the Caribbean as a center for dispatching large tankers to Asia.

Now with more drills of its own. According to PDVSA, in the past 13 years, the oil company has managed to increase its control of the number of drilling rigs by 35.0%, which means that the park of rigs owned by the company accounts for 52.0% of the total operating in Venezuela (456 drills). Obtaining drilling rigs and operating them directly has been one of the major challenges PDVSA set itself as a result of the oil strike, which revealed its vulnerability in that regard.

PDVSA Gas announces progress. During the master class *"Natural Gas Projects in Venezuela"* given during the Third Natural Gas Technical Symposium, PDVSA board member and president of the gas affiliate, Antón Castillo, highlighted the progress made in this sector, particularly offshore. He underscored the achievements in Falcón state with the production of 340 million cubic feet a day (MMCFD) and also in the construction of gas pipelines.

Operating at below capacity. Even though PDVSA said in a communiqué that Amuay and Cardón refineries are operating, according to an internal report, Cardón is working at only 39.0% of its installed capacity and Amuay at 60.0%. The refineries were affected by an electrical failure early in the month, as a result of which minor repairs of the fluidized catalytic cracker's external accessories are currently being

carried out at Cardón. PDVSA announced that it is able to guarantee fuel supplies throughout the country as the Venezuelan refining circuit has sufficient inventories to cater to domestic demand.

Iran is about to pull out all the stops. Iran's Vice President Eshaq Yahangiri said that Iran expects to double its oil exports once the international community's sanctions against his country are lifted. In the months following the lifting of sanctions, Iran could be exporting up to two million barrels a day, according to Yahangiri. The sanctions imposed on Teheran meant that, in recent years, Iran has been exporting only half a million barrels of crude a day.

BUSINESS SECTOR TIPS

Collateral damage. According to the Chamber for Colombian-Venezuelan Integration (CAVECOL), trade between Venezuela and Colombia over the period January-September 2015 came to US\$954 million, a contraction of 40.0% compared to the US\$1.6 billion posted over the same period in 2014. In the third quarter of the year, bilateral trade posted a drop of US\$281 million from the US\$514 million registered in 2014.

Forging closer ties. Venezuela's minister for foreign affairs, Delcy Rodríguez, held a meeting with the ambassador of the Republic of Belarus in Venezuela, Oleg Paferov, during which bilateral cooperation agreements were strengthened. Cooperation between Venezuelan and Belarus includes the signing of more than 160 agreements that will give rise to projects in the areas of science and technology, education, commerce, industry, infrastructure, defense, and energy.

An increase that still falls short. On behalf of President Nicolás Maduro, Vice President for the Social Development and Revolution of the Missions Gladys Requena announced a 134.0% salary increase for the 63,262 doctors who work in the national public health system. *"This increase does justice for the doctors who attend (patients) in the network of hospitals, outpatient units and doctors' offices. It's the way we are continuing to guarantee the health of the people,"* said Requena.

Controls that are hitting hard. The president of Consecomericio, Cipriana Ramos, stressed that commerce has been hard hit by the tax burdens imposed by the Central Government. Out of the latest taxes announced, Ramos made specific mention of the licenses pharmaceutical establishments have to pay. *"Every day we*

have more para-fiscal charges that aren't seen. People don't know about the tax the merchant has to pay," explained Consecomericio's president.

Measure rejected. The Association of Cheese Industrialists (Aniquesos) expressed its rejection of the decision taken by the National Superintendency of Agricultural and Livestock Supplies (Sunagro) to set a cost in tax units for processing the issuing of the Integral Agri-food Control System's (SICA) mobilization waybills. *"That expense takes away financial resources from companies, which they need to honor their liabilities,"* said Aniquesos.

Another sector in crisis. The Venezuelan Fish Canning Industry Chamber (Cavenpesca) has declared a state of emergency given the total suspension of production as a result of the lack of raw materials. *"It's imperative that the authorities at the Ministry for Food create the conditions to promote the arrival of whole tuna at Venezuelan ports and that the applications for importing raw materials also be processed,"* said Cavenpesca's director, Trina Cordova.

Trying to fix the mess. Workers at Siderúrgica del Orinoco Alfredo Maneiro (SIDOR) are making progress on the maintenance of the steel sheet rolling system in order to increase production of a raw material that is fundamental for the fabrication of auto parts, cans, and piping for construction. Operations Manager Tony Cabrera explained that SIDOR is overhauling an engine, which it is hoped will be operating in about one week.

WORLD ECONOMY TIPS

Below 7.0%. The Chinese economy grew by 6.9% (y-o-y) in 3Q2015, a slowdown compared to the previous quarter (7.0% in 2Q2015) and the lowest rate of growth since 1Q2009. The slowdown of GDP is putting greater pressure on the Chinese Government to make further cuts in interest rates and to implement other support measures to avoid a sharper slowdown.

Time is running out. Secretary of the Treasury Jack Lew estimates that the US Treasury will have exhausted the special accounting measures that are keeping the country's debt below its legal limit *"no later than Tuesday, November 3."* Lew has said that, after that date, the Treasury Department will be left with only US\$30.0 billion cash on hand, plus any daily revenue, with which to pay the nation's accounts

which means that funds will not be available to cover the accounts in a few days' time, which could amount to US\$60.0 billion.

Goodbye to sanctions? US President Barack Obama requested his government to prepare the suspension of US sanctions against Iran, given the nuclear agreement signed by Teheran and the major powers in July. The date on which the suspension of sanctions will actually go into effect will depend on fulfillment of the agreement by the Iranian Government, which is interested in this happening shortly as it is looking to recover the funds frozen in foreign banks and give a respite to an economy that has been hit by the drop in oil prices.

Deflation's here. Inflation in the euro zone became negative in September due to much lower energy prices, according to estimates by the European Union's statistics office (Eurostat). Eurostat said that consumer prices in the 19 countries that share the euro fell by 0.1% (y-o-y) in September, dropping below zero for the first time since March. The drop in prices could prompt the European Central Bank (EBC) to expand its asset purchasing program in the coming months.

Some move upward and others fall behind. According to a study by the ECB, the biggest drops in wealth per capita between 2009 and 2013 were posted in Ireland, Spain, and Greece, whereas in countries such as Germany and Holland wealth per capita increased. According to the EBC, wealth per capita in Ireland fell by EUR 18,000, in Greece by EUR 17,000, and in Spain by EUR 13,000, whereas in Holland it rose by EUR 33,000 and in Germany by EUR 19,000.

Differences that matter. Spaniards, the Irish and Greeks were all affected by the drop in real estate prices, unlike the Dutch and Germans, who saw an increase in their wealth backed by the increase in financial investments following the 2008 crisis. While the ECB has tried to remedy this situation, its plan of injecting massive amounts of money is distributed among the countries in the euro zone based on their relative size, which means that the richer countries will be the beneficiaries once again.

A black year. The value of exports from Latin America and the Caribbean have plummeted by 14.0% in 2015 due to the sharp drops in commodity prices and lower international demand, according to the Economic Commission for Latin America and the Caribbean (ECLAC). ECLAC reports that the exports posting the worst performance will be those of Venezuela (-41.0%), Bolivia (-30.0%), Colombia (-29.0%), and Ecuador (-25.0%). ECLAC considers it likely that exports will contract again in 2016, although it did not forecast by how much.

They're making an effort. The Brazilian Government has announced that it has been taking measures to stabilize its public sector debt and recover the nation's revenues and employment in the next few years. This announcement was in response to the decision by the credit rating agency Fitch to downgrade Brazil's credit rating from BBB to BBB-, the lowest investment grade. The government stressed that Brazil is among the countries that receive most foreign investment according to the United Nations Conference on Trade and Development (UNCTAD).

POLITICAL TIPS

Not a smart accusation. The president Nicolás Maduro considered the fact that Lorenzo Mendoza and Ricardo Hausmann discussed solutions to the economic crisis illegal and, therefore, liable to sanctions. "It's an offense for him to speak on behalf of the fatherland. Hausmann is a financial *sicario* (hit man) who is seeking out the IMF and the World Bank, because if the opposition wins, they will privatize education and implement a counterrevolutionary shock," denounced the Executive.

Death throes. The president of the National Assembly, Diosdado Cabello, accused the owner of Empresas Polar, Lorenzo Mendoza, of negotiating economic adjustments for Venezuela with the IMF, after making public a recording allegedly of Mendoza. It is a "*packet of adjustments to be imposed on Venezuela*," claimed Cabello making public a recording of an alleged conversation between this Venezuelan businessman and the economist and former Venezuelan minister Ricardo Hausmann.

The appropriate response. The president of Empresas Polar, Lorenzo Mendoza, issued a communiqué in which he strongly repudiated the government's attempts to manipulate public opinion. He also said that his conversation with Hausmann was that of a Venezuela who is concerned over the "*difficult economic situation that Venezuela is going through*." Moreover, Mendoza described the recording and its subsequent airing on television as illegal.

Starting off on the wrong foot. The National Electoral Council (CNE) counted a total of 500,000 votes at the trial run of the electoral system. The United Socialist Party of Venezuela (PSUV) has a membership of 1,500,000, which indicates that not everyone turned out. Even though Diosdado Cabello highlighted the participation of government supporters, he also said that "*the sample (taking part in)*

the dry run was limited. Twenty-four centers are not the same as 400 when it comes to communication.”

...an opinion from the other side of the street. The United Venezuela Command claimed that the trial run of the electoral system was not a service for the voters but a service for the PSUV. Their campaign chief, Jesús “Chuo” Torrealba, said: *“The trial run was nothing more than a space to activate the public sector payroll. We saw how they used PDVSA’s resources to carry out electoral proselytism. But something was clear: the PSUV’s (electoral) machine is leaking oil.”*

Refusing to allow observation. Once again, the Venezuelan Government has rejected the offer by the Organization of American States (OAS) to send a mission to observe the upcoming elections due to “lack of confidence” in the organization. *“The OAS has supported dictatorships and certified coups d’état and election frauds. It has not had any democratic practice in its functioning,”* stated the Venezuelan Government’s human rights representative, Germán Saltrón.

Negotiating with people’s hunger. The executive secretary of the Democratic Unity Alliance, Jesús “Chuo” Torrealba, denounced that the government is manipulating the people with food imports that are not sufficient to counteract the shortages the country is experiencing. *“In these times of political, social, and economic crisis, the Executive pretends to blackmail Venezuelans through their stomachs. The government is hiding the food to use it for electoral ends,”* insisted Torrealba.

A date with the unjust system of justice. November 12 is the date set for the preliminary court hearing of the founder of the party *Un Nuevo Tiempo* (UNT), Manuel Rosales, announced to Prosecutor General Luisa Ortega Díaz. The former governor of Zulia was arrested by members of the National Bolivarian Intelligence Service (SEBIN) when he disembarked from the aircraft that brought him back to Venezuela after spending six years in exile.

Human Rights Commission sounds the alarm. The commissioner of the Inter-American Commission on Human Rights (IACHR), Felipe González, said that the Venezuelan State has not taken action with regard to the observations on the general public’s right to information. González added that *“it is important that Venezuela comply with the ruling of the Inter-American Court of Human Rights regarding Radio Caracas Televisión (RCVT).”*

Others in the world are not happy. Former US Secretary of State and favorite for the Democrat nomination to the White House Hillary Clinton said she was “upset” at what is happening in Venezuela. *“I think it’s a setback. Venezuela was one of the first democracies (in the continent), and for a long time there was a positive approach on how to solve problems, how to leverage the many natural resources of Venezuela, on the challenges of the people,”* said Clinton.

LEGISLATIVE TIPS

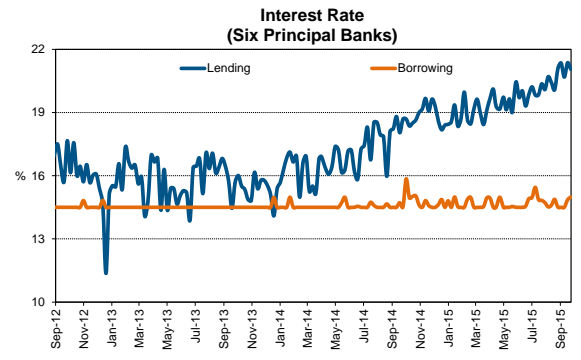
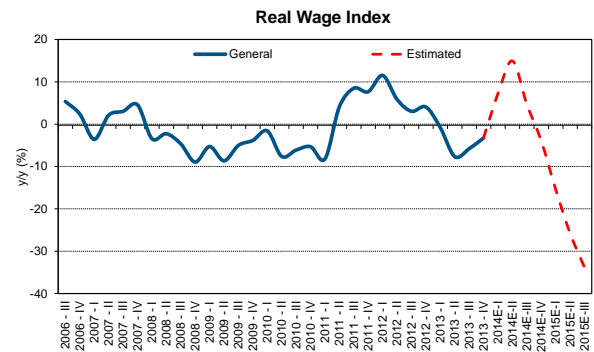
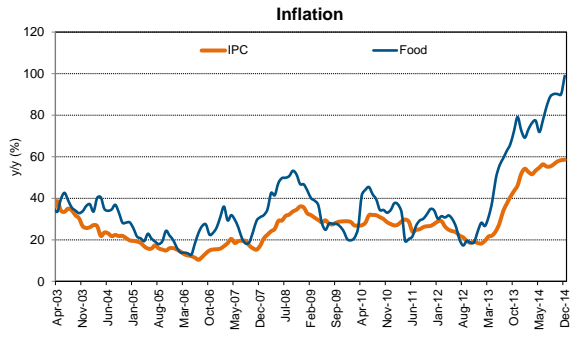
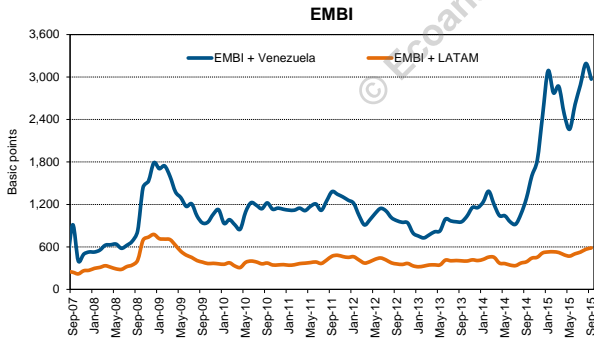
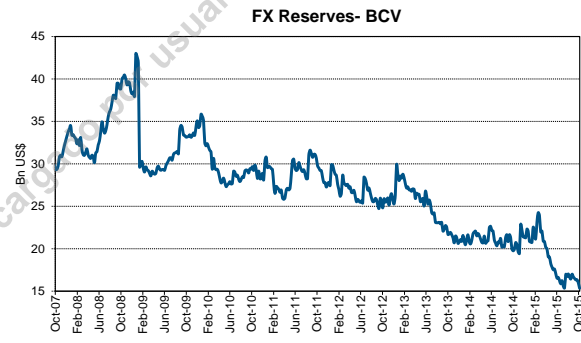
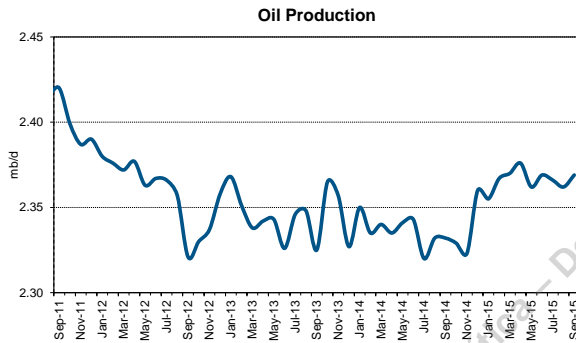
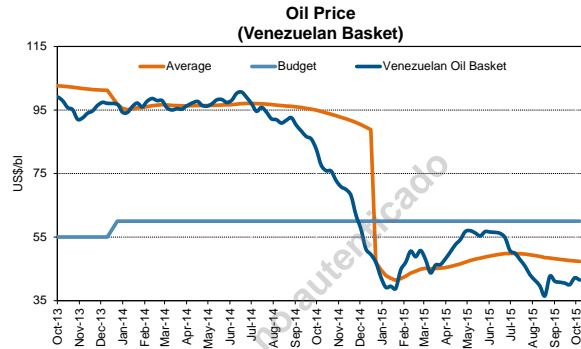
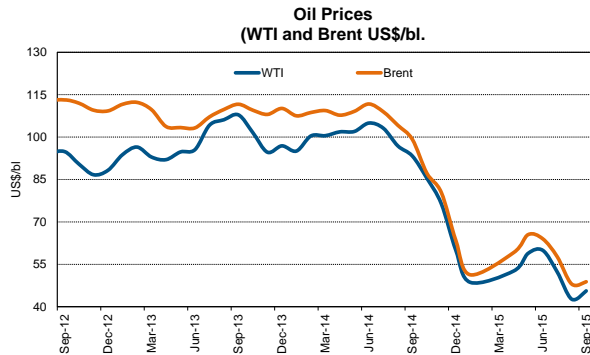
They’ve submitted the budget. Last Tuesday, October 20, the National Assembly received Minister of Finance Rodolfo Marco Torres to hear his presentation of the 2016 Budget Bill, the Indebtedness Bill for Fiscal Year 2016, and the Annual Operations Plan, as required under Article 38 of the Master Public Sector Financial Administration Act. The 2015 Budget Act established an oil barrel price of US\$60.0 (26.8% below the average price for this year), and the 2016 Budget Bill estimates an oil barrel price of US\$40.0.

New minimum wage is already law. The increase in the minimum wage to VEF 9,648.12, applicable to all entities in the public and private sectors commencing on November 1, was made official upon its publication in *Gaceta Oficial* No. 40,769, dated Monday, October 19, 2015. Presidential Decree No. 2,056 also sets the minimum monthly wage for adolescent apprentices at VEF 7,715.22 and stipulates the new minimum wage as the minimum pension payable to government service pensioners and retirees.

José David Cabello takes charge of Commerce. According to Presidential Decree No. 2055, published in *Gaceta Oficial* No. 40,769, José David Cabello has been appointed Minister of Commerce. Cabello, who is the brother of the president of the National Assembly, leaves his post as Superintendent of Customs Duties Assessment and Self-Assessment System (Seniat) and replaces Isabel Delgado, who was appointed as Minister of Commerce on September 2, 2014.

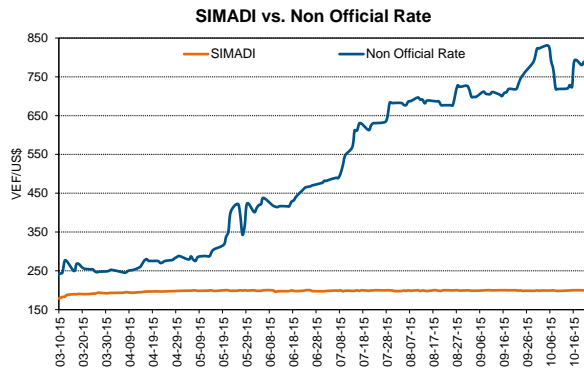
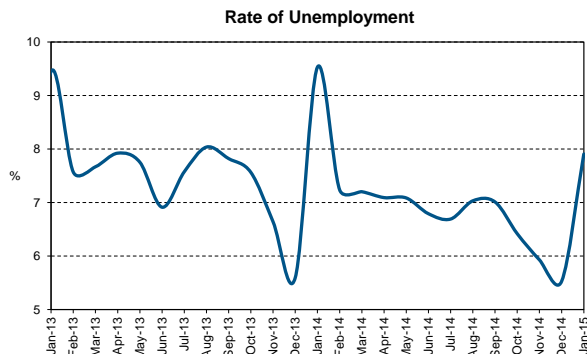
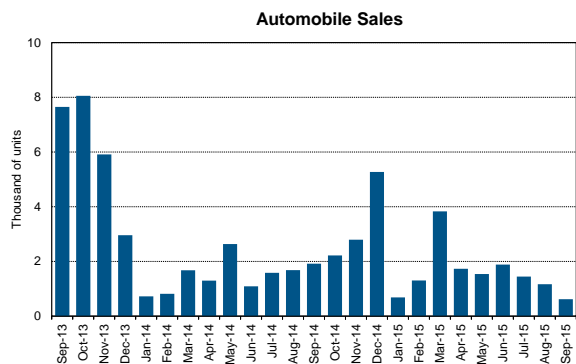
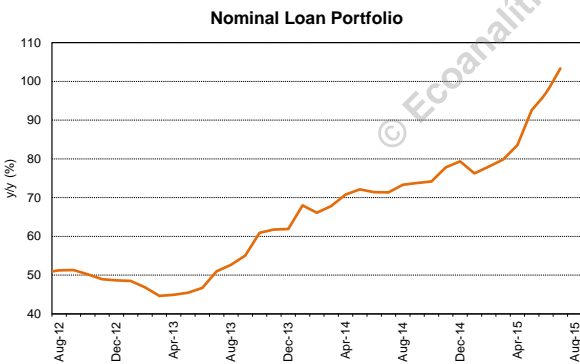
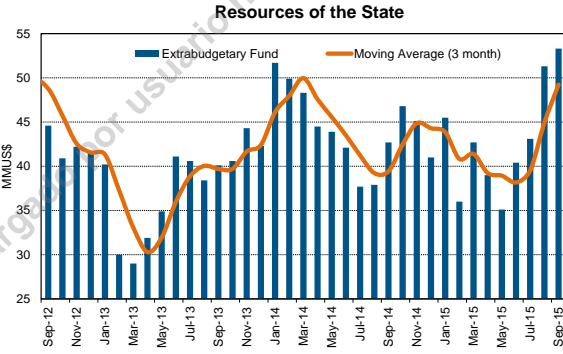
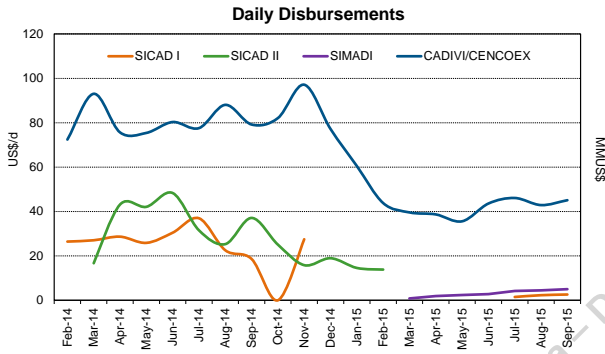
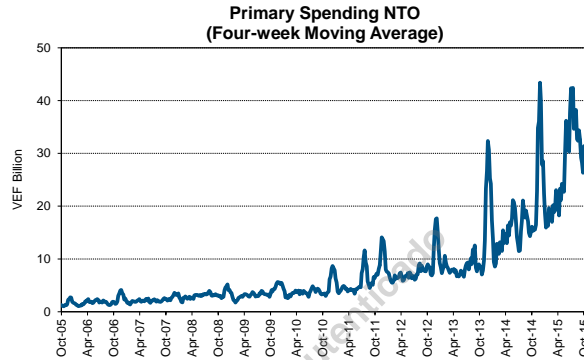
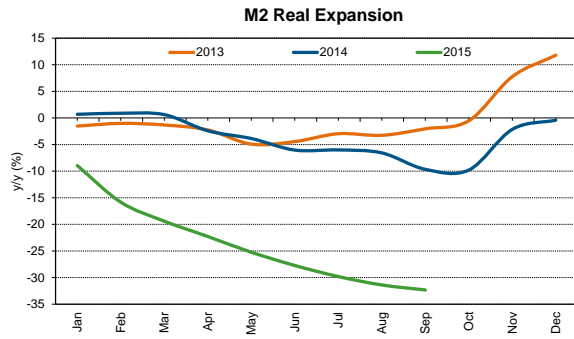
A new superintendent for Sunagro. According to *Gaceta Oficial* No. 4,767, dated October 15, 2015, Yambradi Alice Piñango Ramírez has been appointed as acting superintendent of the National Agri-food Management Superintendency (Sunagro) in the place of Homar Farahon Vieira Rodríguez, who held the post since February 4 this year. Sunagro reports to the Vice Presidency for Agri-food Security and Sovereignty.

ECONOMIC OVERVIEW



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