



## Weekly Report

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***2013 Borrowing Law:  
In the end, who pays?***

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In our last Weekly Report, we focused on analyzing the 2013 Budget law, in this Report we will look at the 2013 Borrowing Law, an instrument which establishes the borrowing limits for the Administration, highlighting the most important aspects, and how it will affect fiscal accounts during the coming year. To begin with, we would like to highlight, that now, with the presidential election behind us, the Budget figures indicate that the Administration will begin to slow down the rhythm by which it has been borrowing, and that future borrowing will be earmarked in a greater proportion than in previous years to servicing the debt.

**What is said is  
not what you see**

In accordance to Article 1 of the Special Law for Yearly Borrowing, "the maximum amount in bolivars that the Administration is allowed to borrow during the 2013 fiscal year is VEB 94.732 billion (US\$22.03 billion). This amount is VEB 116.68 billion (US\$27.14 billion) less than the amount announced by Minister of Planning and Finance, Jorge Giordani, as the amount of borrowing programmed in the 2013 National Budget, as it was presented before the National Assembly. The difference is mostly due to



the VEB 21.33 billion included for the financing and restructuring of the debt, and a slight gap between the amount of resources slated to be used and the amount of resources to be taken in during the coming year. This doesn't include the VEB 9.28 billion in T-Bills that the Ministry of Finance is entitled to keep at the close of 2013, which would put the gross debt at VEB 125.34.

**So, how much is going to be borrowed?**

The amount of borrowing that is certain is: VEB 41.69 billion for projects to be carried out by public sector organizations and entities; VEB 20.0 billion to finance the government's fiscal management; VEB 33.04 billion to finance the debt service; VEB 21.33 to restructure the debt; and the VEB 9.28 billion of T-Bill stock that is in circulation. In total, VEB 125.34 billion, which represent 31.6% of the spending budget for 2013, and 6.8% of GDP for the coming year. This is also up by 12.9% compared to borrowing slated for 2012.

<b>Gross Indebtedness 2013 (VEB Million)</b>	
Projects	41,692
Fiscal Management	20,000
Debt service	33,041
Refinance	21,328
Treasury bond	9,280
<b>Total</b>	<b>125,341</b>

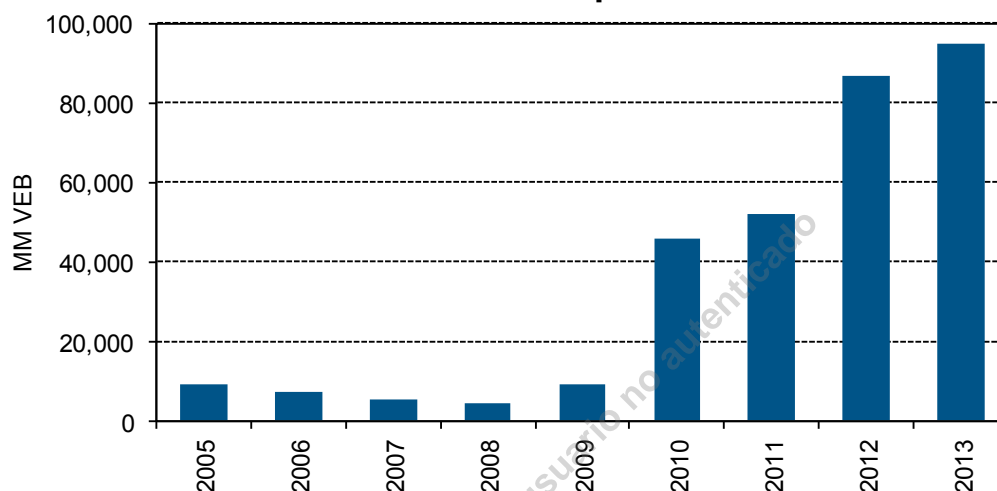
Sources: LEE2013 and Ecoanalítica

In order to truly be able to tell what the net effect this will have on public finances we must also take into account how much the Central Government will have to pay for the debt next year. Right now, it is estimated that debt payments for the coming year will be at VEB 8.69 billion, according to what's stated in the 2013 National Budget. Plus, take away from the gross debt to be incurred the VEB 21.33 billion earmarked for restructuring the debt. This leads us to the government's net debt being at VEB 95.32 billion for 2013, which is higher than the average increase in debt for the years between 2006 and 2012 which was at VEB 34.94 billion.





## Indebtedness expansion



Sources: Borrowing law 2013 and Ecoanalítica

### Why is borrowing increasing?

The main differences between the 2013 Borrowing Law and the current 2012 Borrowing Law that is still enforce, is the extra 28% that has been added earmarked to cover the debt service. This is a 23.5% increase in the limit of debt allowed to be acquired, destined for restructuring the debt, and a 34.7% increase in the amount of T-Bills that could be circulating by the close of the year. The rest, the amount of debt acquired to finance government projects and fiscal management remain almost the same as what was designated in the 2012 Borrowing Law.

#### Increases in the debt allowed to be acquired (Var% y/y)

	2012	2013
projects	91.3	1.5
Fiscal management	0.0	0.0
Debt SService	140.7	28.0
Restructuring debt	26.0	23.5
T-Bills	0.0	34.7
<b>Total</b>	<b>52.6</b>	<b>12.9</b>

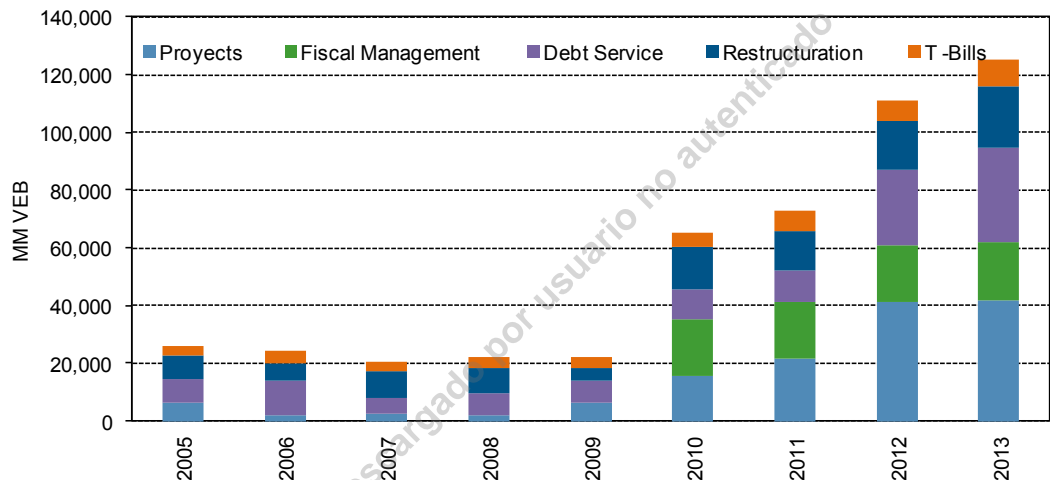
Sources: Borrowing Law 2012, Borrowing Law 2013 and Ecoanalítica

Though it is true that over the last few years there has been an increase in the amount of borrowing earmarked for government projects, going from 23.5% of total borrowing in 2005 to 33.3% in the 2013 Borrowing Law, it is worrying that over the last nine Borrowing Laws that have been submitted



for Parliament approval, an average of 54.4% of total borrowing stipulated has been destined to cover issues related to government debt, specifically, the service of the debt (averaging 28.5% of the total) and restructuring the debt (25.9%).

### Debt to be acquired



Sources: Borrowing Law and Ecoanalítica

### So much debt for what?

The resources taken in by the 2013 Borrowing Law will be used for the following things:

**Projects – Public sector: VEB 41.69 billion (US\$9.69 billion).** Most of these projects are related to transportation (30.9%), Electric Power (21.6%), Defense (20.6%), Health (8.4%), Steel industry (7.4%) among others. It's important to keep in mind that though the total cost of projects covered by the 2012 Borrowing Law reached VEB 41.69 billion, the total amount that will be covered by the 2013 Borrowing Law has been set at VEB 42.32 billion (US\$9.84 billion), which means that part of the resources to be used have been borrowed during previous fiscal years.

**Fiscal management: VEB 20.0 billion (US\$4.65 billion).** As has been the case since 2010, despite the fact that the average price set for a barrel of oil used to base the National Budget on is significantly underestimated, thereby ensuring that the Administration will have a significant amount of resources to manage without almost any oversight, a clause has been included in the Borrowing Law to allow a portion to be set aside for fiscal management, specifically, ordinary spending.





**Public debt service (domestic and foreign): VEB 33.04 billion (US\$7.68 billion).** This amount reflects 42.2% of the total amount of interest payment and debt payment owed by the Central Government for 2013 estimated in the 2013 National Budget at VEB 78.25 billion. The other VEB 45.21 billion (57.2%) will be financed with ordinary revenue.

**Refinancing and restructuring the public debt: VEB 21.33 billion (US\$4.96 billion).** Despite the fact that Article 8 of the 2012 Borrowing Law leaves a lot to the imagination, what the Ministry of Planning and Finance is contemplating here is the issuance of debt at a lower cost to take the place of more expensive debt that has been issued or replace debt with a current value that is less than the value at maturity (with discount), probably in the domestic market. However, it isn't out of the question that the Administration decide to buy-back foreign debt, given the attractive nature of the Venezuelan debt compared to other emergent markets, it won't be difficult for the Republic to place debt at a lower interest rate.

**Treasury Bills: VEF 9.28 billion (US\$2.16 million).** This amount represents that maximum amount of T-Bills in circulation at the close of 2012. T-Bills are short term (generally less than a year) financial instruments that allow the Administration to deal with specific cash flow problems.

### **The critical point of the debt**

Currently, Venezuela's foreign debt is paying one of the most expensive coupons on the world market, but despite this, it's expected that by maintaining a fixed exchange rate and the low coupon rates for domestic debt, the increase in the debt service denominated in bolivars will begin to slowdown. Between 2004 and the current 2013 National Budget Proposal, the debt service proposed by the Ministry of Planning and Finance has increased by 462.1%, and that a portion of this debt service is being paid off by new borrowing (52.3%). There is no doubt that the way in which the State apparatus, as a whole, has bloated and the increase in resources being used for social help and benefits has put enormous pressure on ordinary resources and required greater amounts of ordinary financing. This has forced the Administration to deal with this situation by borrowing in order to meet its obligations, which in turn makes the situation worse for the next year, and so on.





## Debt Service



Sources: Borrowing Law and Ecoanalítica

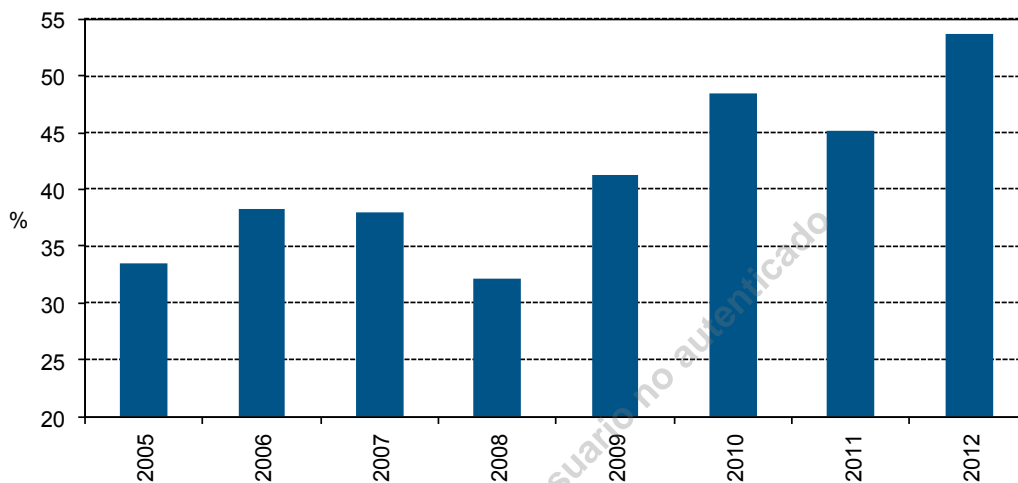
Up to now, the analysis of this situation seems to indicate that the Administration has been carrying out a systematic Ponzi<sup>1</sup> scheme system, acquiring debt for up to VEB 61.82 billion between 2005 and 2011 in order to pay debt service. This amount increases up to VEB 120.68 billion if you take into account what has been stipulated in the 2012 and 2013 Borrowing Laws. However, the country's significant assets, namely important oil reserves and the flow of incoming resources expected from oil production, mark the difference between Administration implementing a borrowing strategy and an elaborate system of fraud.

Another point in the Administration's favor is the increase in the proportion of domestic debt with respect to total debt. Minister Jorge Giordani has pointed out that this is a strategy to protect the country from foreign vulnerability. Consequently, domestic debt placement has become a significant source of government financing, something that would not be possible in another scenario without causing increased liquidity and a degree of financial repression that has been implemented.

<sup>1</sup> The Ponzi scheme is an investment operation that implies paying investor interest financed with the money invested by new investors.



### Internal Debt/Total Debt



Sources: MPF and Ecoanalítica

By increasing the amount of domestic debt it is placing, the Administration has been able to obtain financing at negative real interest rates, getting bolivars without having to introduce US-dollars into the economy, leaving it with more hard currency to inject into the exchange market or to use for the ever increasing amounts of public imports, liquidate debt through inflation, or if necessary, in case of a devaluation.

### Socializing the debt

One could ask, where does so much money for domestic debt come from? The answer is simpler than one may imagine.

In ever economic system, all savings tends to be used or invested in some project or other, even though the owner of said savings is not notified. Just like savings deposits are loaned out by banks to other clients, at the macroeconomic level, the national savings (the difference between incoming revenues and consumption) tends to be invested in order to increase the initial amount of capital, in order to be used to finance the Current Account deficit (if imports are greater than exports) or, if need be, to cover the deficit generated by the public sector (when spending is greater than incoming revenues). It's important to point out that in some cases, savings can be less than the investment. In this case, investors must be financed by the Central Government or the Current Account.

In order to know who is financing who, you only need to look at the government's accounts and the final fiscal results of the government. The first thing we can say is that the government's primary deficit has averaged 6.3 percentage points of GDP between 2006 and 2011. To know how the



government is getting financing (besides through collecting taxes and using oil revenues), you calculate the nation's savings surplus compared to fixed capital gross formation and the Current Account of the Balance of Payments, both measured as a percentage of GDP. The indicators that have been calculated reflect that the systemic deficits of the government have been, at least for the last six years, financed the nation's savings, trend is further accentuated during 2012.

Savings-Investment Account		
	Average (2006-2011)	2012E
Current Account (% GDP)	7.9	6.5
Public Sector Results (% GDP)	-6.3	-15.1
Savings - Investment of the public sector (% GC)	14.2	21.6

Sources: BCV and Ecoanalítica

At **Ecoanalítica**, we believe that Venezuela has a considerable amount of resources in savings, and that the Administration has made the correct decision by restructuring its portfolio and increasing its domestic debt component. However, we are still very critical of the fact that a significant part of said borrowing is being used for servicing the debt, thereby limiting the potential to develop infrastructure projects that will lead to improving the quality of those who in fact are paying for all this borrowing and subsequent financing, the Venezuelan people. This situation must and can change. The government has the capability to do so, it only needs a bit of discipline and commitment.





## Economic Tips

**Inflation to reach 17.9%.** According to figures from the BCV, the variation of the National Consumer Price Index (INPC for its Spanish name) was 1.7% in October. The accumulated inflation of the first 10 months of the year is 13.4%, while the y/y reached 22.7%. Despite this, the group of non-alcoholic beverages, which is among the most weighted inside the INPC, registered a variation of 2.6% in October, while the 10-months-accumulated was of 13.5%.

**But the NCPI Core** experienced a 0.1 pp reduction between September and October of the current year, reaching 1.3%. The 12-month variation of the NCPI Core was of 20.2% and the cumulative variation was 15.4%.

**The poorest suffer inflation the most.** While the NCPI grew by 1.7% in the same month, the inflation of the social stratum I, which concentrates the poorest families of the country, was 1.6, an increase of 18.7% in one year. This behavior corresponds to the food costs.

**The inflation rate of price-controlled products is less strong,** since their price rocketed 15.1% y/y, while non-controlled products reached 19.8%.

**San Cristóbal with the highest inflation rate.** NCPI's geographic results show that the area with the biggest variation was San Cristóbal with 2.5, followed by Barcelona-Puerto La Cruz and Barquisimeto with 2.0%. The areas with the smallest variations were Mérida with 1.3 and Maracaibo with 1.5%.

**Product Scarcity index decreased.** This index up from 13.6% to 16.1%, while the Product Diversity Index decreased 9.6% compared to the previous month.

**Sitme cannot stand it anymore.** The amount of bonds traded through Sitme has been lower in recent days. This drop is seen as a sign that the BCV-operated system is running out of papers to negotiate. We at **Ecoanalítica** believe that Sitme's stock of bonds is only enough to cover the next 15 days and that unless new debt is issued, the Sitme will dry up.

**Another half billion for Fonden.** According to figures released by the Central Bank of Venezuela (BCV), another US\$500 million were transferred by the BCV to the National Development Fund (Fonden) in July-August. With this, the BCV has now



transferred US\$4.00 billion so far in the year. Since its inception in 2005, the Fund has received US\$87.82 billion.

**Payroll expenses at VEB 125.0 billion.** Expenses in wages and salaries budgeted by the government for this year at VEB 55.0 billion, have fallen short given the government's payroll requirements. To cover wage deficit, supplementary appropriations worth VEB 70.0 billion have been authorized so far this year. This has happened because over the past 10 years, the government payroll has grown 100.8%, while private businesses' has grown 25.7% only.

**VEB 20.0 billion for the Christmas bonus.** President Chávez informed that close to Bs. 20.000 billion has been approved to pay the respective Christmas bonuses to public servants. According to President Chávez, these funds could be approved only thanks to "*Venezuela's sound economic system, which will keep on growing.*" These moneys are part of surplus of Seniat (tax authority), Petróleos de Venezuela, S.A. (PDVSA) and the Treasury Fund.

**No more bonds in 2012.** The Central Bank of Venezuela announced that auctions of National Public Debt bonds have ended for the rest of 2012, even though the Ministry of Planning and Finance had plans to issue more debt to finance a number of investment projects.

**Let's calculate.** Indepabis (consumers' defense entity) has posted the lists of prices of restaurants in Venezuela. Now citizens may look up on Indepabis webpage ([www.indepabis.gob.ve](http://www.indepabis.gob.ve)) the menu of any restaurant from their own homes; they only need to know the tax payer's identification number, name and address of the restaurant. This tool can be very useful for those people that manage their budgets very strictly or even to plan expenses when they travel inside the country.

**Purchasing power will deteriorate in 2013.** At *Ecoanalítica*, we believe that the worst thing that can happen next year is that the government decides not to devalue. Distortions provoked by controls in the economy lead us to expect that adjustments have to be made in 2013, including devaluation of about 46.0%, i.e. an official exchange rate of VEB 6.3/US\$. If this doesn't happen, the standard of living would deteriorate in terms of wages.

**VEB 335 million in supplementary appropriations.** The Permanent Finance Committee approved 4 supplementary appropriations worth VEB 335 million. Of the funds approved, VEB 212 million will be used for payments of "*En Amor Mayor*" mission (elderly); VEB 123.5 million for the Correo del Orinoco Foundation, and VEB 50 million will be added to the Capital District expense budget and are earmarked for the recovery and rehabilitation of public areas.



**Interest rates.** The lending rate for the fourth week of October was at 17.5%, up by 1.4 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 1.4%, going from US\$25.9 billion during the third week of October to US\$25.5 billion during the fourth week of October. Compared to the same period last year, international reserves have decreased by 12.7%.

**Monetary liquidity.** Monetary liquidity (M2) up by 1.4% in the fourth week of October compared to the previous week, settling at VEB 592.6 billion. The M2 has increased 58.4% in relation with the same period last year.

**Sitme figures.** So far this year, US\$8.7 billion have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$42.4 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents an increase of US\$1.6 billion (21.9%) over the same period of 2011, when US\$7.2 billion were negotiated. Lastly, during the first week of November the amount traded reached US\$160 million, US\$85.0 million more than the previous week when US\$246 million were traded, with a daily average of US\$49.2 million.

## Oil Tips

**Gasoline purchases from the US increase.** According to statistic data released by the Energy Department of the US government, the US delivered an average of 34,000 kb/d of finished gasoline to Venezuela, the highest level since the 36 kb/d that Venezuela bought in February 2003, when the oil industry was paralyzed due to the oil strike. Furthermore, the volume reported in August 2012 has no historical precedent for that period. Average gasolines purchases from the US for 2012 amount to about 16 kb/d and had increased from 6 kb/d to 34 kb/d in May-August.

**By-products also increase.** By-product purchases from the US in August 2012 grew 84.4%, up to 83 kb/d, vs. 45 kb/d reported in August 2011. Cumulative purchases from January to August 2012 averaged 54 kb/d, up 100% from 27 kb/d corresponding to the same period in 2011. It's worth pointing out that precisely in the



last week of August 2012, processing units of Amuay refinery were shut down for almost one week due to an explosion.

**On their part, exports...** The increase in by-product exports has also combined with a drop in exports of refined products to the US. In the eight months from January to August, 2012, Venezuelan oil by-product sales averaged 52 kb/d, down 43.4% from 92 kb/d in the same period of 2011.

**Strike 3 in the search for crude oil in Cuba.** In an official statement, the Cuban government informed that *"the well drilled by Cubapetróleo and PDVSA does not offer any possibility for commercial development."* This is the third failed attempt to find oil in Cuban waters in the Gulf of Mexico. However, since we live in hope, the statement adds that *"the results obtained in the exploration activities will allow us to orient and expand operations in the blocks of Cuba's Exclusive Economic Zone in the Gulf of Mexico, comprised in the contract signed between both companies."*

**Zero byproduct sales.** A source inside PDVSA informed that since the explosion in Amuay refinery, the oil company has ceased to sell byproducts on the open market and that only shipments to China are being made. Venezuela (apart from its sales to the US and China) is *"an important oil supplier in the Caribbean Basin."* According to Marine Traffic, *"the decreased in oil tanker activities around the docks at the Paraguaná Refining Complex (CRP), which includes Amuay and Cardón refineries"* is a striking sign. Although PDVSA denies a drop in production and sales, signs of a drop appear to be evident.

**EIA adjusts upwards its supply forecast for 2013.** Energy Information Administration (EIA) raised its forecasts of oil supply growth of non-OPEC countries for 2013, to 1.26 million b/d (mb/d) from 1.24 mb/d in last month. In its monthly report, EIA said that crude oil production in non-OPEC countries would total 53.67 mb/d in 2013.

**Ecopetrol: new finding.** Ecopetrol reported hydrocarbon finding in the prospect "Dalmatian Sur" located in deep waters in the Gulf of Mexico (USA). Dalmatian Sur is the second finding in 2012 and the third since 2011 in the Gulf of Mexico, one of the areas with the biggest hydrocarbon potential throughout the world. The results reported would contribute with Ecopetrol's strategy to increase reserves and reach a production of 1.3 mb/d by 2020.

**International baskets.** Last Friday, November 2<sup>nd</sup> in New York, WTI closed at US\$86.2/bl, which shows a decrease of 1.4% compared to US\$87.4/bl recorded the previous week. Meanwhile, Brent increases by 0.1% to reach US\$ 109.0/bl compared to the previous week when it reached US\$108.8/bl.



**Local basket price.** On Friday, November 2<sup>nd</sup> the Venezuelan oil basket price closed at US\$97.6/bl resulting in a decrease of 0.6% compared to US\$98.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 104.5/bl.

## Business Sector Tips

**Nose-diving exports.** According to INE figures, non-oil exports in Venezuela reached US\$1.43 billion in the first half of 2012, down 13.9% from the first semester of 2011. Main destination countries were the USA (to which US\$313 million, 21.8% of the total, were exported) followed by China (US\$250 million, 17.4% of the total), Colombia, Brazil and Chile. Main non-oil exports in the first six months of 2012 included common metals (39.2%) and chemical products (31.2%).

**Imports grow 28.3%.** Venezuela imported goods worth US\$20.30 billion, in January-June 2012, up 28.3% from the same period in 2011. Of the total imported in the first half of 2012, US\$14.36 billion (70.8%) correspond to private imports and US\$5.93 billion (29.2%) are public; private imports increased 37.3%, whereas public imports gained 10.7% in the first half of 2012, both with respect to the first half of 2011. The most part of Venezuela's imports (28.0%) in the first six months of 2012 came from the US.

**Relations revive.** Trade exchange between Colombia and Venezuela have restarted with a clear bias in favor of the first country, because, according to statistic data released by Colombia's National Statistics Administrative Department (DANE), in January-August, Venezuela bought US\$1.77 billion worth Colombian products, up 70% from the same period in 2011. Venezuelan exports to Colombia, in turn, don't show the same trend and only grew by 12.3%, to US\$425 million.

**Only Uruguayan beef.** According to Uruguay's Foreign Trade Report, the value of Venezuelan purchases from that country grew 42.9% in January-October with respect to the same period in 2011, to US\$365 million. Imports corresponded to fresh beef and grew 21.5% over the past year, from US\$249 million in January-October 2011 to US\$311 million in the same period in 2012.

**Fears among the cattle-raising sector.** With the recent accession of Venezuela to Mercosur, the national cattle-raising sector fears that beef and cattle imports grew out



of control and negatively affect local production. According to foreign trade figure released by the INE, beef imports from Uruguay have grown by more than 3,000% from May 2006 to 2012; even though, Minister of Agriculture and Lands Juan Carlos Loyo claims that 70% of beef consumption is covered with domestic production, representatives of the sector insisted that imports are covering 52% of the market.

**Foreign currency for food.** Cadivi reported at a meeting with the different chambers of the food sector that a total of US\$5.02 billion has been allocated since January 1<sup>st</sup> to September 30<sup>th</sup> for regular imports plus Aladi agreement and Sucre. Hugo Dell'Oglio, president of the Venezuelan Association of Plastic Industries (Avipla), said that this kind of meetings is necessary because *“they allow us to put forward situations to the representatives of government entities.”*

**Coffee producers demand efficiency.** After the promise by the Ministry of Agriculture and Lands (MAT), coffee producers are still waiting for financing to improve their plantations and some have even borrowed money counting on credits that didn't fully arrived. Harvest period officially started on October 1<sup>st</sup> and on that date, the Government was still promising producers that financing would come. The truth is that only a few were benefited with loans from state-owned banks. For this reason, coffee producers are demanding the administration to improve financial policies for the sector, which due to the low profitability cannot self sustain.

**Rice and corn flour waiting for adjustments.** Delays to adjust pre-cooked corn flour and white rice is adversely affecting harvest payment to primary producers, who aren't receiving 100% of the new price that is in force since August 2012. Sources from the agricultural sector reported that processing industries of both products welcome the 43% increase in the cost of raw materials; however they offer producer an “advance in price” until prices of finished products are adjusted.

**Puerto Cabello still in chaos.** Representative to Carabobo State Legislative Council, Neidy Rosal, reported that 28 ships are currently at Puerto Cabello bay waiting for a dock to be assigned to unload and added that 12 of these ships are carrying rice, sugar, and white and yellow corn, which unless they are unloaded, shortages of the aforementioned products could occur. Rosal explained that the average waiting time is at least five weeks and assured that port crowding might lead to an eventual loss of huge amounts of food products.

**Sales of six basic food products dropped.** The survey Trends on sales of food products in Venezuela, which is conducted every month by the Venezuelan Chamber of Food Industries (Cavidea), revealed that food sales in September dropped 3.3%. Products which registered the steepest drops were powdered milk (-24.5%),



pasteurized milk (-9.5%), wheat flour (-6.6%), corn flour (-4.1%), rice (-0.5%) and tuna (-0.5%).

**Sundecop is ready to control medicine prices.** Karlin Granadillo, National Superintendent for Costs and Prices, said that information required for a future regulation of medicine prices is currently being gathered, so that the reality of the sector is reflected without causing any distortions and guaranteeing fair indices for the Venezuelan consumers. Data required for the controls are being gathered through a series of workshops that have been held throughout the country on the National Registry of Good and Services. The last of these workshops took place in Porlamar, Nueva Esparta Estate, on November 1<sup>st</sup>.

**Production of the National Iron and Steel Complex grew 40%.** Ricardo Menéndez, Minister for Industries, informed that production of the National Iron and Steel Complex grew 40% in the first six months of the year. Menéndez denied the wave of rumors of mass firings: *"They said that all workers of former Sidetur had been fired. Since nationalization, only 0.032% workers have resigned: 12 people out of 1,851 workers,"* he assured.

**Aluminum production plummeted 54.8%.** Activities of Guayana basic industries continue to be depressed and their production capacity is far from reaching the levels registered five years ago. According to BCV figures, steel production shrank 54.8% from July 2011 and July 2012, while primary steel's fell 21.4%. For the year-to-date, Venalum and Alcasa were forced to shut down cells due to loss of control and the limited availability of raw material. Bauxilum had to restrict its aluminum oxide production due to problems with inputs and spare parts, as well as to the lack of resources, plus labor conflicts and disinvestment.

## World Economy Tips

**Unemployment is stable in the EU.** According to data released by the European Union Statistics office (Eurostat), unemployment rate in the 27 countries of the euro zone was at 10.6% in September, the same as in October, but up 0.8 pp from September 2011. Eurostat estimates that for September, a total of 25,751,000 people didn't have a job in the EU; of these, 5,520,000 are under 25 years.

**Inflation slows down.** According to a report by Eurostat, yearly inflation in the euro zone would close October at 2.5%, down 0.1 pp from September. Despite the 3.2%



inflation rate in terms of food (higher than September's 2.9%), an increase of 7.8% in fuel prices (up from 9.1% in September) would contribute to bring inflation down.

**Alternative rating.** Standard & Poors (S&P), Moody's and Fitch, the three US-based risk rating agencies, which have been harshly criticized in the wake of 2008 financial crisis, could cease to be alone very soon. The new rating agency, called Universal Credit Ratings Group, which is to be set up by Chinese, Russian and American firms, will offer an alternative voice to that of those which "uphold the interests of the most indebted country."

**More productive American workers.** Productivity of US workers grew at a yearly rate of 1.9% in 3Q2012, the same pace recorded in the second quarter, according to estimates by the Labor department of that country. The increase is higher than expected by analysts (1.6%) and is indicative that firms wouldn't be in a rush to increase personnel hiring pace.

**New map for Italy.** Italian government approved a decrease in the number of provinces (from 86 to 51) as part of a campaign to reduce the huge spending of local and regional governments in Italy. The decree will enter into force in 2013 and includes provisions to prevent local authorities from having more than one post at the same time. The government also approved a package of measures intended to cut spending of local governments by EUR40 million per year.

**Let's stick to the rules.** German Chancellor Angela Merkel stated at a regional CDU party congress that Europe is still far from overcoming the crisis. According to Merkel, criteria to join the EU were not fully met by countries like Greece, whereas the economic stability pact wasn't respected. Merkel stated that the EU needs to maintain tax rigor to convince markets that investing in Europe is worthwhile.

**Irrelevant G20?** Minister Jim Flaherty warned that G-20 countries could lose their economic and political international hegemony if they don't bring down their fiscal deficits to more sustainable levels and strengthen their banking system. Canada is one of the countries that speaks in favor of more fiscal discipline by the largest economies and keeps putting a strong pressure on the US for it to deliver its promise to cut its fiscal deficit by 50% by 2013.

**A global tax reform.** The European Parliament approved a tariff reform that reduces the benefits of cutting back tariffs for all products from countries considered by the EU as middle-income countries. This measure could impact about 100 countries of the 176 that are currently benefiting from tariff cuts. Countries that have overcome the income level of US\$4,000 per capita will be considered middle-income countries.



**FTA for Panama and the US.** The Free Trade Agreement (FTA) signed 5 years ago by Panama and the US entered into force on October 31<sup>st</sup>. At least 86% of final goods produced by the US industry will enter Panama without paying any tariff. This new relation will also allow American companies to have free access to infrastructure projects in Panama worth US\$15.000 billion and to its growing service market.

**Sandy is costing big bucks to the American economy.** Egecat adjusted upward its first estimates of losses provoked by Hurricane Sandy, which could cost the US industry up to US\$50.000 billion (5 times higher than original estimates). The new estimate mainly corresponds to the severe damage caused by the natural disaster to the national power grid and transportation ways; however, these estimates could increase even more.

**A break for Chinese industry.** After eight months in a row decelerating, the Chinese industrial sector has closed October showing signs of improvement. Both the Chinese government and the HSBC bank agree that the sector's purchasing index, which closed October at 49.1, up from September's 47.8, shows that policies to promote Chinese domestic demand and protect themselves from weaknesses of foreign demand are proving to be effective.

**Further adjustments in France.** French Prime Minister Jean-Marc Ayrault announces that France will raise its Value Added Tax (VAT) from 19.6% to 20% by 2014 and will cut back its public spending by EUR10.0 billion and business taxes over 2013 revenues by EUR20.0 billion. These measures are aimed at rendering French economy more competitive and ease business activities in France.

## Political Tips

**The table teeters.** Substitute representatives to the AN, Ricardo Sánchez, Andrés Álvarez and Carlos Vargas (UNT) decided to withdraw from the Democratic Unity Board (MUD). At a press conference, Sánchez criticized the MUD performance during the presidential campaign, which he described as "*marked by exclusion and false expectations for the people.*" Vargas, on his part, stated that they aren't negotiating with PSUV government party and that they will continue to support opposition candidates for governors and mayors.





**UNT maintains support.** Un Nuevo Tiempo (UNT) parte rejected the resignation of the above substitute representatives to the MUD and in a communiqué reaffirmed their stance in defense of unity vis-à-vis the upcoming elections of governors and mayors. The party described the decision of the representatives as contradictory and underscored the relevance of MUD as an essential strategic objective to attain a political majority in the country.

**Election campaign for governors has started.** November started and with it, the election campaign to elect governors for the 23 states of the country. The most prominent of them, former presidential candidate Henrique Capriles Radonski is running for reelection as governor of Miranda. *"We cannot come back to corruption past times,"* Capriles said in his first event of campaign in Miranda. On his part, President Hugo Chávez made a call for people's offensive to attain a *"new revolutionary victory"* on next December 16<sup>th</sup>.

**New voting modality.** Past Thursday, the National Electoral Board (CNE) approved a new modality for next December 16<sup>th</sup> gubernatorial elections, according to which, voting machines can be programmed to present voters with the possibility of casting one single vote for governor and councilman candidates of the same party. CNE's Vicente Díaz said that this decision *"is unnecessary and paves the way for party blocks to impose over the opinion of voters."*

***"The administration wants to destroy me."*** Candidate for reelection Henrique Capriles Radonski assured that the administration doesn't have any true interest in Miranda and that they are running in the electoral race only because *"they want to destroy me."* The opposition leader stressed that if he is reelected, his priorities will remain the same: education, health and personal security.

**Capriles at full throttle.** According to an opinion survey conducted by IVAD (pollster), Henrique Capriles Radonski would be reelected as governor with a difference of 22 percentage points over PSUV candidate, Elías Jaua. The survey reports that 55% of citizens would vote for Capriles Radonski and 33.6% for Jaua, whereas 11.3% decided not to answer. According to the same pollster, 4 out of every 10 citizens that describe themselves as pro-*Chavista* would vote for Capriles.

**Campaigning.** President Hugo Chávez assured that he's involved in the campaigns of PSUV candidates for governors and that by winning in October 7 election and choosing PSUV candidates, a party that he also presides over, he has already been involved in the previous phase to the campaign. *"I'll be monitoring candidates (...) as a political leader, I will have to be somehow involved, even though, this is not my main task at this stage,"* Chávez added.



**Law = unfair playing field.** Rogelio Díaz, vice-president for communications of Copei party, urged the CNE to suspend, during this election campaign, the duties provided for in the Law on Social Accountability in Radio and TV (Resorte). Díaz punted out that during the campaign for 10/7 election, this Law allowed the government to have broadcasting time 300% higher than that of Henrique Capriles, something that he described as an unfair playing field.

**Witch hunting.** Representative Pedro Carreño (PSUV), president of the AN Control Committee, informed that governors Henri Falcón (Lara), Morel Rodríguez (Nueva Esparta) and José Gregorio Briceño (Monagas), who are being investigated for alleged corruption charges, will be questioned by the National Assembly. Carreño pointed out that investigations against Falcón, Briceño and Rodríguez are backed up by *“reliable evidence of damage to the nation’s public assets.”*

**Violating Human Rights?! Me?!** In response to recent reports of the Inter-American Commission on Human Rights (IACHR) on the situation of Human Rights in Venezuela, Germán Saltrón, Venezuelan representative to the Commission, assured that *“it’s impossible to ask the government of Hugo Chávez to solve in 14 years problems that have existed for 70 years.”* Saltrón asked for impartiality to deal with the Venezuelan cases received by the Commission.

## Legislative Tips

**15% compliance.** Past January, Diosdado Cabello, president of the National Assembly, decided not to set a target as to the number of laws to be passed in 2012. Although the different committees presented a list with 46 draft laws, Cabello preferred an open agenda. The truth is that of these 46 draft laws, only 7 has been passed, including Organized Crime, Social Security System, Fiscal Stamp of the Capital District, Air Space Defense and Financial Administration, which were included in the original list and another two that emerged throughout the way (Supplementary Borrowing and Regime of the Miranda Insular Territory).

**What happened with the rest?** Five were passed in January-June through the Special Powers Law (Labor, Organic Criminal Procedural Code, Tourism, Fund for Severance Payment and Management of Community Powers), whereas others like Disarmament, Criminal Code, Borders and First Job are still at the committees or are



waiting for the decision of the board to be put up for discussion. Meanwhile, Chávez approved 28 laws through the Special Powers law in 2012.

**Law on job assistance still pending.** Representative Robert Serra (PSUV) said that the law that will assist workers in job-related matters is still pending for approval. According to Serra, *“this is a reform that will allow young population to be incorporated to the labor market in an all-inclusive manner.”* Serra added that the draft law presented by opposition representatives proposes that *“Venezuelan young workers have access to jobs through the internship modality. This would mean that they wouldn’t enjoy labor benefits, wouldn’t earn any salary and would be considered a cheap work force”* and that government representatives to the AN are offering *“to restructure the current labor law so that young people not only have a job, but benefits and social security.”*

**Conindustria is demanding the Law on Costs and Prices to be annulled.** Past Tuesday, October 30<sup>th</sup>, the local manufacturing sector, represented by Conindustria, presented the Supreme Tribunal of Justice with a request for annulment of the law on Fair Costs and Prices on the grounds that it allegedly restricts the possibility of consumers and users of choosing the products of their preference and threatens free enterprise and property right of all Venezuelans. This move was endorsed by the different chambers of the manufacturing sector, such as the Chamber of Entrepreneurs of Zulia State.

**Falcón, Briceño and Rodríguez will be called upon by the National Assembly.** Governors Henri Falcón (Lara), Morel Rodríguez (Nueva Esparta) and José Gregorio Briceño (Monagas), who are being investigated for alleged corruption charges, will be questioned by the AN, Pedro Carreño, president of the Control Committee, informed. Carreño stated that in upholding the legitimate right to defense of every Venezuelan citizen, a period has been set for the governors to appear, give their testimonies, present their case for defense and refute evidence against them.

**Communal power is what comes.** The subcommittee of the People’s Power has plans to analyze the creation of a committee to review laws related to those matters, with the aim of preventing said laws from colliding to each other. They are also planning to draft a code of rules for the People’s Power. This information was provided by the Julio Chávez, president of the subcommittee, who also ratified that this will facilitate the construction of the Communal State.





## ECONOMIC OVERVIEW

