

## Dual economy: nothing for some, a lot for others

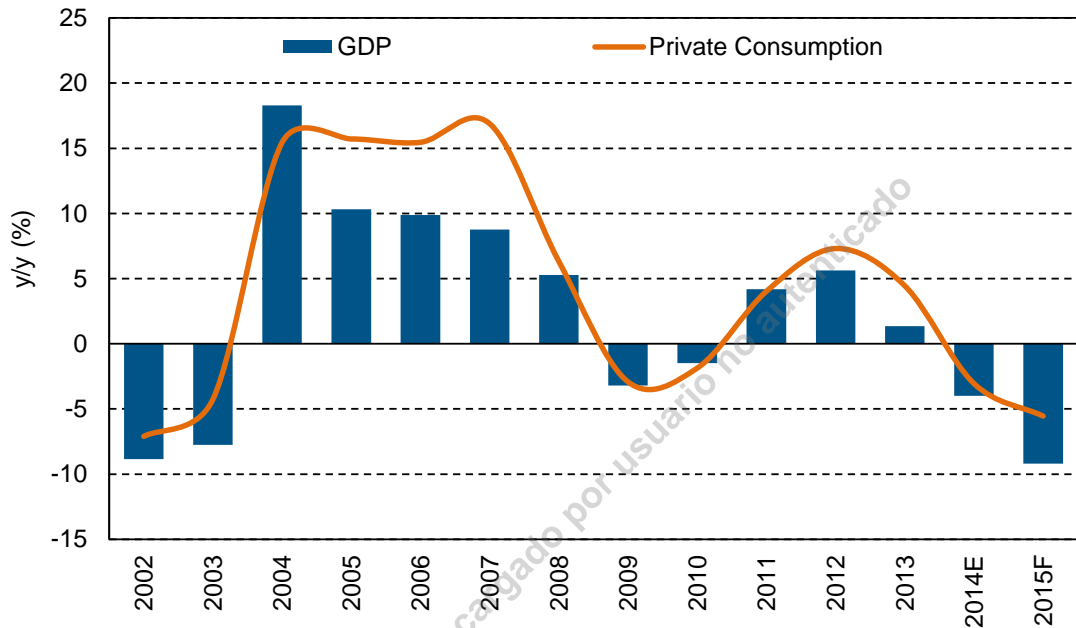
2015 has been one of the years with the worst economic performance in Venezuela's modern history. Economic distortions have paved their way in an increasingly weakened economy and have had a negative impact on nearly all the country's macroeconomic variables. Consumption is one of those variables, which is hardly surprising since high levels of inflation that cause real remunerations to shrink, shortages, and the depreciation of the bolivar on the parallel market have been wreaking their customary havoc.

In this report we are going to analyze whether, even though consumption has dropped (1.4% in 2014 and, according to our estimates, 6.7% in 2015), there is part of the economy that, thanks to the distortions, has managed to maintain its consumption pattern and has even expanded it.

### If taxes have not gone up, why has consumption fallen?

Economic theory tells us that the main determining factor of consumption is income, proposing a positive ratio between these two variables; in other words, income increases, consumption increases. It also proposes that taxes have a negative impact on consumption, given that, when they pay taxes, people have less money to spend. But if the government has not raised taxes, why is consumption falling?

### GDP Growth Vs. Private Consumption

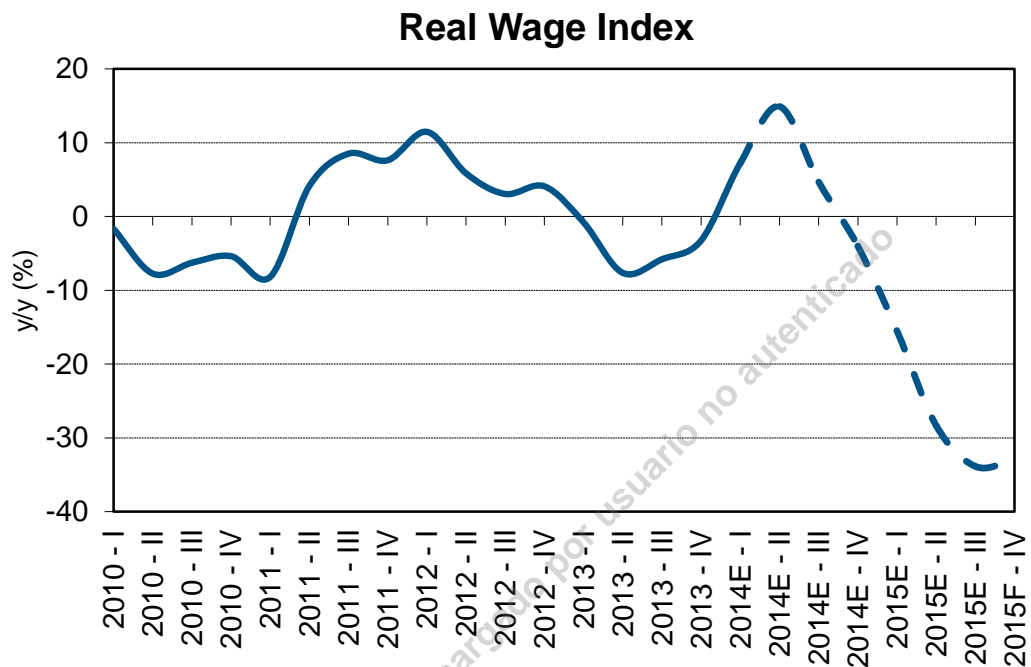


Source: BCV and Ecoanalítica

The answer is to be found in rising inflation (which in October this year we estimate will be at 187.5%, year-on-year, using the Central Bank’s methodology, and at 359.7% based on our underlying inflation calculations), shortages, shortfalls in supply, and the depreciation of the parallel exchange rate.

**Inflation** has been one of the main factors that has affected consumption, given that the higher inflation goes, the lower real incomes are going to be. The increase in prices has been so great that even acquiring a basket of basic goods and services is an uphill task for the average Venezuelan, and wage increases have been merely nominal as they have not been able to offset the increase in prices.

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Source: BCV and Ecoanalítica

According to the latest report from CENDA, in September, the basic basket costs VEF 62,055, an increase in annual terms of 251.3%. This shows that people have to allocate an increasingly large part of their income to the consumption of basic goods and services and less to the consumption of leisure goods, in a situation where all the other variables remain constant. The chart shows how Venezuelans' purchasing power has followed a negative trend in real terms, to the point of being the worst of the last 25 years.

**Shortages and shortfalls in supply** have negative impacts on consumption: the fewer goods and services there are available in the market, the higher the transaction costs will necessarily be for consumers wishing to acquire those goods and services; uncertainty and profiteering result in higher prices; and people have to traipse from one store to the next and spend more time in queues. These are just some of the consequences.

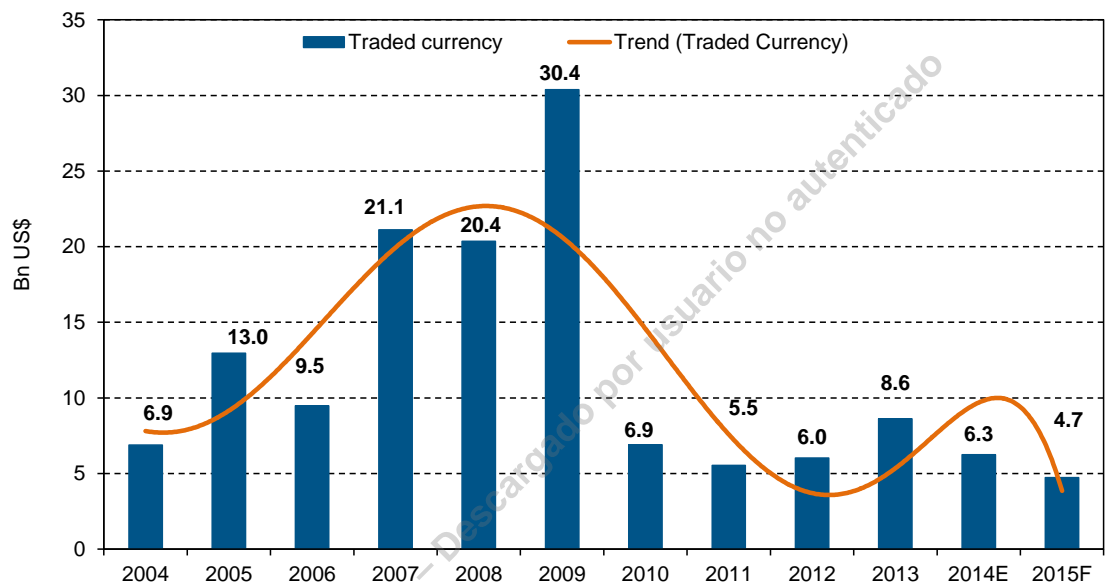
**Importing is becoming increasingly costly.** At **Ecoanalítica** we have pointed out in the past that the parallel market did not have a major impact on the economy. However, bit by bit, this market has been gaining ground. In 2014, the weight of imports conducted via the parallel market only represented 8.1% of total imports; in 2015, given the drop in the allocations of foreign currency via official mechanisms,

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uncertainty in the country, and profiteering, we estimate that those imports will represent 10.0% of total imports.

### Size of the Parallel Market



Source: Ecoanalítica

While an increase of 1.9 percentage points might not seem to have much of an impact, in a scenario where, according to our calculations, imports could contract by 11.2% this year and where the parallel exchange rate has depreciated by 80.0% so far this year, the parallel exchange rate has become a major headache. In fact, the high depreciation and the spreads between the parallel rate and the CENCOEX rate and the SICAD rate of 13,770.6% and 6,370.0%, respectively, show that the adjustments have been made via prices, as they almost always are in Venezuela, and when adjustments are made via prices, it is the consumer who pays.

### What is the consumer price?

In an economy where there are multiple official exchange rates, a parallel foreign currency market, delays in publishing official figures, price controls, ceilings on profits, and a high level of uncertainty, determining the price of a good is a difficult task. In fact this phenomenon is what economists call “*relative price distortion*.”

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That is why it is a mistake to say that all prices are indexed to the parallel exchange rate. The price dynamic in Venezuela is too complex for prices to follow just one indicator. Moreover, the recent amendment to the Fair Prices and Profits Act, which gives the government greater discretionary powers to regulate prices and forbid including the parallel exchange rate in cost structures, makes it more difficult for prices to adjust themselves to the “market.”

It is important to clarify here that what has increased its relative importance in the economy is the depreciation of the “unmentionable.” If we take as our basis the basic methodology that an imported good will cost its equivalent in bolivars at the exchange rate at which it was imported, the higher the exchange rate goes, the higher the price will be.

Given so many distortions, at **Ecoanalítica** we have constructed an exchange rate that reflects the “average dollar price” that a typical consumer pays for a basket of basic goods and services. In October, this indicator was VEF 249.3/US\$, whereas in December 2014 it was VEF 49.8/US\$, in other words a difference of VEF 199.5/US\$. The key question here is: Have wages gone up enough between December last year and October this year to cover the increase in the cost of the basic basket?

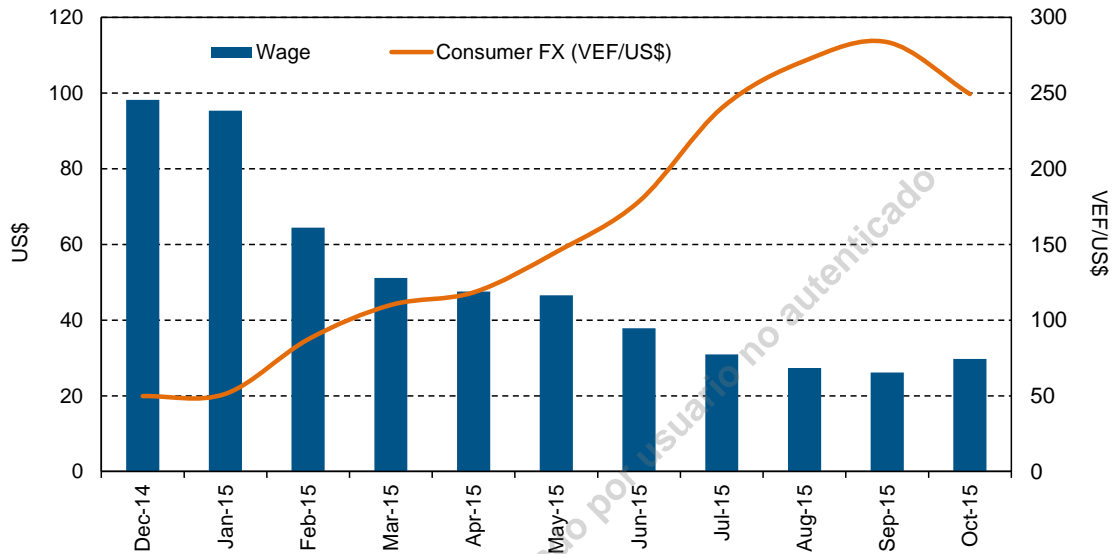
Let’s take a look: In December 2014, the minimum wage was VEF 4,889, which was equivalent to US\$98.1 at the consumer exchange rate; and in October, after three increases, the minimum wage was VEF 7,421, equivalent to US\$29.8 at that same exchange rate, in other words a drop of US\$65.5. Therefore, instead of wages increasing, they have in fact fallen, which shows that they have not been able to maintain their purchasing power.

Even if we perform this calculation using the new minimum wage decreed by the President of VEF 9,648, which went into force on November 1, and we maintain the October exchange rate unchanged for November and December, the minimum wage calculated at that exchange rate would come to US\$38.7 at the end of the year, US\$59.4 lower than the salary on the beginning of the year, this demonstrated again that the salary increases weren’t been able of increase the consumer’s purchasing power.

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**Minimum Wage (US Dollars)\***



Source: BCV and Ecoanalítica  
\* Calculated using the Consumer FX.

It should be noted that this calculation is a simplification of the actual situation, as, by taking the October exchange rate, account is not being taken of inflationary pressures during the last two months of the year. Consequently, it would come as no surprise if this figure were to shrink still further in the coming months.

**Given this scenario, who can consume?**

Unless a consumer has increased his wage by at least US\$65.5 calculated at the consumer exchange rate, maintaining his consumption patterns intact without using his savings or borrowing is impossible. However, thanks to the distortions, the atypical consumer in the Venezuelan market has been able to maintain his levels of consumption and even increase them.

A worker whose remuneration is in dollars can easily bypass all the negative effects mentioned earlier and even take advantage of them. Why? Because at the moment the spread between the consumer exchange rate and the parallel market exchange rate is 250.5%; in other words, there is a situation in which it has become impossible for some consumers to obtain certain goods, whereas anyone who has an income in dollars can obtain practically everything, albeit at a higher price.

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Given this spread, obtaining some kind of remuneration in dollars is the golden dream of any Venezuelan worker. However, given the rigidity of the employment contracts and the fact that the majority of local companies do not generate dollars and are unable to index wages to the increase in the parallel exchange rate, finding a job that pays in dollars or indexes wages to that rate is practically impossible.

However, there are two ways that people have found to index their income. The first is to keep their formal job but find ways to obtain remunerations in dollars and the second is to take advantage of the opportunities for arbitrage that the same distorted market has generated. The *raspa cupos* (credit card swipers who cash in the traveler's foreign currency allowance at the official exchange rate), *bachaqueros* (people who engage in the resale of subsidized products at inflated prices) at the border, gasoline smugglers, and the like are just some of those who are looking to earn more (but not necessarily in the best or most efficient manner).

Both of these practices increase informality in jobs and in income and, while it is not the purpose of this weekly report to point out the negative consequences of these phenomena, it must be stressed that their increase has negative repercussions on the performance of the economy.

### A scenario that will be difficult to sustain

Defeating the incentives for engaging in such a perverse dynamic as this is not easy. In previous reports we have pointed out that this type of scheme, where many suffer and only a few gain, has been maintained thanks to the clusters of power that have sprung up around the government and the oil rent. However, if the government really wants to implement serious adjustment measures, it will have to modify the foreign exchange regime.

In our country, there is a high correlation between social well-being and consumption. Governing without paying attention to this variable is a mistake. With every day that passes in which the government decides not to do anything to mitigate the effect, the parallel exchange rate, which has once again become the "unmentionable one," increases its weight within the economy. We have already passed the point of no return and there are still no clear signs that the government is going to implement pragmatic measures that would solve the distortions and bottlenecks that are strangling Venezuela; and even if it were to implement them, it does not have sufficient credibility for those policies to have a positive effect.

## What should companies do?

The middle class is gradually being left without purchasing power and our clients need to be ready for that. It is for that reason that, at **Ecoanalítica** we have made the following recommendations:



Apart from that, it is of key importance to get employees to understand that, given the present foreign exchange scenario, it is impossible for a company that does not generate dollars to pay them in dollars. Even so, it must be stressed that happy workers mean higher productivity and fewer problems associated with the Labor Law.

**Lesner Castillo**

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	1st Week November	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	21.3	0.1	2.6
	2nd Week November	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	5.3	2.3	-5.3
	2nd Week November	Weekly var. (%)	Annual var. (%)
International Reserves (Bn US\$)	14.67	-2.1	-23.0
	2nd Week November	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	155.9	323.0	70.2
	1st Week November	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	3,358	1.3	101.8
Price of International Oil Baskets (US\$/bl)			
	2nd Week November	Weekly var. (%)	Annual var. (%)
WTI	43.4	-6.5	-39.8
Brent	46.4	-5.5	-42.8
Price of the Venezuelan oil basket (US\$/bl)			
	2nd Week November	Weekly var. (%)	Annual var. (%)
Weekly Average	37.2	-6.7	-47.4
Annual Average	46.6	-0.4	-49.7

Source: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

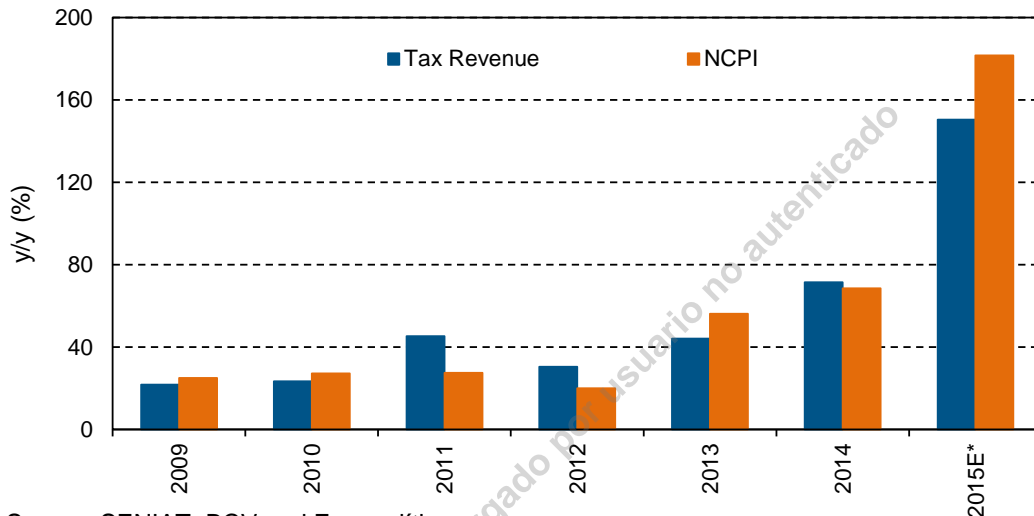
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### CHART OF THE WEEK: “HIGHER TAX INCOME OR NOMINAL ILLUSION?”

#### Tax Revenue Vs. Inflation



Source: SENIAT, BCV and Ecoanalítica

\* Until September.

Since the end of 2014 and during the 2015 the tax incomes rate has been increasing widely overtaken the established government goals. According to the National Tax Office (SENIAT), until September this office had an accumulated income of VEF 75.28 billion, which represents an increase of 139.7%, and an accomplishment of 250.5% of the office goal for that period.

We could think that this behavior is an indicator of the increase in the internal economic activity, but this is far away from reality. Two principal factors have had influence on the increase of the tax income of this year. First, the rate adjustment for tax imports on June of 2014, this settle the way for stronger increases on the customs rent on the first half of the year, causing that the tax income were higher than the inflation rate for some months.

The second factor is associated to the economy's internal price acceleration which settle the increase of tax of added value. After the first half of 2015, the effect of the rates increase has been demolished, making the tax income reduce in real terms. As we can notice, the monetary illusion has been artificially increasing the tax income figures, however, the bolivars worth less and less, even in the Government hands.

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## ECONOMIC TIPS

**A sad Christmas.** In its latest report, Barclays Capital joins different agents of opinion in supporting the idea of a complicated close for 2015 and a 2016 full of difficulties in the real economy. The investment bank estimates a contraction in GDP of 9.6% for 2015 and 4.1% for 2016, in addition to a drop in consumption 5.6% for 2015 and 4.3% for 2016. And a reduction in imports 10.0% for 2015 and 9.5% for 2016. Moreover, it estimates a deficit on the current account for the first time in years of nearly US\$11.0 billion.

**No respite for people's pockets.** Given the dynamic of low crude prices, combined with a crucial election year, Barclays Capital estimates a public sector deficit in the region of 26.2% of GDP and a GDP deficit of 17.7%, which could result in inflation of around 211.4%, the highest in the world. However, a slight improvement is expected in 2016, when it is anticipated that inflation will come to 141.8%.

## OIL TIPS

**PDVSA confirms purchase of crude.** Last week, PDVSA confirmed in a press release that it had been making purchases of light oil on the international market since July to supply Isla Refinery on Curacao, in order to be able to use part of the Venezuelan Mesa and Santa Bárbara crudes to dilute the extra heavy crude from the Orinoco Oil Belt. PDVSA stressed that it is carrying out a strategy of diluting heavy crudes, by blending them with light crudes, in order to promote early production in the new developments in the Orinoco Oil Belt.

**PDVSA pays interest.** PDVSA informed all holders of bonds maturing in 2021, 2035, 2026, and 2024 that, in accordance with the terms established in the bonds issued, payment of interest for the last half of this year was to be made on Monday 16 and Tuesday 17 of November. To that effect, all holders of PDVSA bonds were instructed to go to their custodian bank or to the institution where they acquired said bonds for information regarding the status and method of payment.

**Oversupply continues.** According to the November report put out by the International Energy Agency (IEA), the international crude markers in October posted scant changes as a consequence of oversupply in world markets and the

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appreciation of the dollar, factors that limited the impact of the strikes in Brazil and geopolitical tensions.

**Scant demand.** According to projections by the IEA, demand will grow in 2016 by only 1.20 million barrels a day (mb/d), after having gone up by 1.80 mb/d to a five-year maximum in 2015. The IEA estimates that this growth is close to the long-term trend, in view of the fact that the factors that have driven growth this year (low prices, a colder winter than last year, and an economic rebound in some countries) will have less impact next.

**A stable OPEC.** According to the IEA's latest report, the supply of crude from the Organization of Petroleum Exporting Countries (OPEC) continued stable in October at 31.76 mb/d, with drops in the output from Iraq and Kuwait, which were offset by increases in supply from Libya, Saudi Arabia, and Nigeria.

**OPEC outsiders put up a fight.** Global supply came to 97.00 mb/d in October, according to figures from the IEA, as production outside OPEC recovered from the lower levels of September. Despite resistance of some producers, such as Russia, it is expected that supply from outside OPEC will contract by more than 0.6 mb/d next year. The agency also expects the supply of US light tight oil (LTO), the engine of growth outside OPEC, to shrink by 0.60 mb/d in 2016.

**A 3.0 billion barrel cushion.** Despite seasonal factors, commercial inventories in OECD countries rose by 13.8 million barrels (13.8 mb) to 3.0 billion barrels at the end of September, driven by the low oil prices. This level of inventories is a record and is providing world markets with a margin of ease. According to the IEA, this level will be maintained until the world oil market adjusts to a price of US\$50.0 per barrel (US\$50.0/bl).

**The market is about to overflow.** Now that onshore storage facilities are about to overflow due to oversupply, tens of millions of barrels of oil are waiting onboard tankers for a destination, posing the threat of a paralysis in logistics. The IEA has said that the bottlenecks could force suppliers to make quick cut-price sales simply to free up space, thus putting more pressure on oil prices, already at a six-year low, at a time when the cost of leasing a supertanker has just reached its highest since 2008.

**OPEC makes no changes.** In its November report, OPEC left its estimates from the previous month unchanged, with projected growth in demand for 2015 of 1.50 mb/d for an annual average of 92.86 mb/d, and growth of 1.25 mb/d for 2016, with

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an annual average of 94.14 mb/d. OPEC's demand estimates remain modest in view of the slowdown in the economies of developing countries.

**OPEC supply down in October.** OPEC's report announced that the cartel's supply contracted by 256,000 barrels a day (256 kb/d), according to secondary sources, to average 31.38 mb/d. Those sources also estimate that non-OPEC supply will average 57.24 mb/d in 2015, for an increase of 0.72 mb/d, and 57.11 mb/d in 2016, in other words a contraction of 0.13 mb/d.

**Joining forces for a higher price.** At the Fourth Summit of South American-Arab Countries, held in Riyadh, the presidents of Venezuela and Ecuador proposed that it was necessary to find mechanisms that would stabilize crude prices. Maduro and Correa met separately with King Salman Bin Abdelaziz of Saudi Arabia to explain their position. In his speech, President Maduro urged that a "formula" be created that would make it possible to establish a "fair price" for hydrocarbons and expressed his hope that progress would be made on this issue in "the short term."

**And it falls again.** Last week the price of Venezuelan crude closed at \$37.2/bl., a drop of US\$2.7/bl. compared to the previous week. The Ministry for Oil and Mining explained that "*prices (...) ended down in the week pressured by the increase in commercial crude inventories in the US, concern over the growth in world demand for oil, and the strengthening of the dollar against other currencies.*"

**Price of OPEC crude slumps.** Last week, the oil barrel price OPEC uses as a benchmark (a basket of 12 different types of crude, one for each member) closed at US\$41.8/bl., its lowest since February 24, 2009. The downward trend became more pronounced after the cartel announced that it had maintained its low estimates for world demand in 2016 and warned of the high levels of crude currently being stored.

## BUSINESS SECTOR TIPS

**More and more entangled in red tape.** Consecomercio has warned of "*the disappearance in masse of small merchants who are not able to meet their payments to suppliers and financial entities as a consequence of measures involving the seizure of goods or their sale at prices set by inspections.*" The business association denounced that "*the enforcement of the Fair Prices Act has become a kind of discretionary measure against merchants and service providers.*"

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**Some consequences of the controls.** Carlos Albornoz, the president of the National Cattlemen's Federation of Venezuela (FEDENAGA), announced on Monday that, in the absence of a response from the authorities, cattlemen would increase the price of beef by 332.0% and the price of milk by 968.0%. Albornoz pointed out that they were clear as far as their responsibility towards agricultural producers and consumers was concerned and that, therefore, they were prepared to consider a cost structure that would allow the producer a profit margin of 15.0%.

**The economy's out of eggs.** Táchira Poultry Farmers Association has denounced that the recent reduction in the price of a carton of eggs to VEF 420.0 puts production at risk. The association's president, Rafael Moreno, claimed that inputs have gone up by 800.0% and that besides "*we are not finding the medicines for the animals in the country. We were bringing them in from Colombia, but with the closing of the border we are not able to bring them in.*"

**Your ID card number dictates what you can eat.** Merchants at a number of establishments around the country have opted for selling the carton of eggs by the last digit of the shopper's ID card number because the queues for buying this product have multiplied following the setting of a maximum price.

**Continuing with the formula for failure.** The maximum retail prices for pork have been set, according to statements by Vice President Jorge Arreaza. "*This item had not been regulated, but after establishing the maximum selling price for balanced animal feed, we can set these prices,*" commented Arreaza.

**Another sector in crisis.** Tomás Ramos, the president of the Venezuelan Federation of Bakeries and Similar Industries (FEVIPAN), said that it was necessary to stabilize the wheat market. "*Today, the sector is processing 80,000 tons a month, but we need 300,000 tons for distribution and processing at the mills,*" claimed Ramos.

**We're continuing to support everyone else.** Chile has exported goods worth US\$400.0 million to Venezuela, with the priority being given to pharmaceutical products. Twenty-three percent of Chile's pharmaceutical exports go to Venezuela, according to Jorge Cáceres, the commercial attaché at the Chilean Embassy in Venezuela. "*Trade relations have always been good, particularly for Chile, but now we are trying to collaborate more in certain industries that are a priority in Venezuela,*" said Cáceres.

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**WORLD ECONOMY TIPS**

**Prepared to help one another.** The leaders of the world's 20 main economies (G-20) committed themselves to using all the tools available to combat disparity in growth within the group, which has not met market expectations. This group of countries also pointed out the need to “*carefully calibrate*” and clearly communicate the upcoming changes in monetary policy.

**We need the BRICS.** The leaders of Brazil, Russia, China, India, and South Africa, referred to as the BRICS, said before G-20 that the recovery of the world economy was still not sustainable and that, therefore, the group of the world's largest economies should cooperate with them. This cooperation is proposed with a view to strengthening macroeconomic policies so as to avoid the effects of weak global expansion and reduce the risks associated with scant growth.

**Let's give way to the yuan.** Christine Lagarde, the managing director of the International Monetary Fund (IMF), proposed including the Chinese yuan in the IMF's basket of reserve currencies. However, Lagarde did point out that the decision was up to the IMF's Executive Board and said that it would meet on November 30 to consider the proposal.

**Gold as a coverage option.** Following the attacks in Paris, the price of gold recovered by 1.0%, up from the six-year low posted early in the month. Before the attack, gold had fallen in 12 out of 13 trading sessions, reflecting expectations of a possible increase in interest rates by the US Federal Reserve (FED).

**Prices drop.** The US Bureau of Labor Statistics reported that, between October 2014 and October 2015, the indicator that reflects the behavior of the prices of final goods contracted by 4.8%. Moreover, the Producer Price Index (PPI) in October contracted by 1.6% compared to October last year. According to the Bureau, this index broke its contraction record by falling for the twelfth month running.

**The dollar appreciates.** The US dollar has posted its biggest appreciation against the euro in the past seven months, according to Bloomberg. In April the value of the euro against the dollar was EUR1.064/US\$ and last week it was EUR1.067/US\$.

**Breaking into new markets.** The United States is to start to export gas to Europe via Lithuania, which will provide relief for the Baltic countries that rely on supplies from Russia. This could be considered the first attack on Russia by the United States

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in terms of a price war on Russia's market share in its own supply territory. The shipment, which is to be made by sea from the United States in February, will consist of liquefied natural gas (LNG).

**Growing ever so slowly.** The European Union's statistics office, Eurostat, reported that the GDP of the 19 countries that share the euro grew by 0.3% in 3Q2015 compared to the previous quarter and by 1.6% compared to third quarter 2014 (3Q2014). This growth is considered very little by several analysts and is attributed to the extremely poor performances by the economies of Italy, Portugal, and Finland.

**Inflation in positive terrain.** The European Union's statistics office, Eurostat, reported that annual inflation in the euro area in October was 0.1%. This upturn in inflation was due to the increase in the prices of fruits and vegetables. Inflation in September was -0.1%, which means that in October it was 0.2 of a percentage point higher.

**The ECB under pressure.** In recent months, inflation in the European Union has been growing only slowly. Even though inflation in the euro area was up in October, prices in the European Union have remained almost constant, which is putting pressure on the European Central Bank (ECB) to ease up its monetary policy still further.

**Before and after.** The Mannheim Centre for European Economic Research (ZEW, as its name in German) reported that confidence among German investors rose in November after falling seven months in a row. The indicator, compiled from a monthly survey, posted an increase in economic sentiment index in November to 10.4 points compared to 1.9 in October. However, it is expected that this indicator will drop following the attacks in Paris.

**Japan in negative terrain.** Given the uncertainty in the world outlook, capital investment in the world's third largest economy (Japan) was down, which meant that Japan fell into a recession once again in the 3Q2015. Japan contracted by 0.8% year-on-year (3Q2015 versus 2Q2014), 0.6 of a percentage point more than expected by market forecasts (0.2%).

**Adjusting its interest rate.** The board of directors of the Central Reserve Bank of Peru (BCRP) decided to raise the monetary policy's benchmark interest rate despite weak economic activity. The benchmark interest rate is now 3.5%, 0.25 ppb higher than the previous rate (3.25%). The idea of raising the rate is to put a brake on

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inflation. The BCFP also said that it had not started a series of interest rate increases.

## POLITICAL TIPS

**On the home straight.** The start of the election campaign also marked the entry into the home straight for the December 6 parliamentary elections. Starting **last** Friday and up until three days before the elections, political parties, groups of voters, and candidates are free to promote their options, in accordance with a previously defined set of rules.

**In victorious spirits.** During an event organized by the Democratic Unity Alliance, Miranda State Governor Henrique Capriles invited those present to visualize the victory that, in his opinion, the opposition will obtain on December 6. *“Maduro, this is just Miranda. Get ready, because on December 6 it will be all of Venezuela. We’re going to win Miranda by a margin of 30.0%. There’s no way the Venezuelan communist united party (PSUV) and the Nicolás-Cabello couple will win on December 6. That day Venezuela will win,”* stated Capriles.

**A valid demand.** National Assembly deputy and candidate for reelection for Aragua state, Dinorah Figuera, claimed that Cilia Flores should withdraw her candidature to the parliamentary elections following alleged incidents that implicate members of her family in drug trafficking. Figuera demanded that the Venezuelan Ministry for Foreign Affairs make a public statement on the matter. *“Foreign Minister Delcy Rodríguez’ silence is mysterious,”* said Figuera.

**Any old excuse will do.** During his television program *“La Hojilla,”* Mario Silva claimed that Efraín Campo Flores and Francisco Flores were “kidnapped by the United States” in order to mount a campaign against Venezuela and against President Nicolás Maduro. *“My conclusion is that the US Government, together with its intelligence agencies plus the DEA, has kidnapped two young men to mount a campaign against the country,”* commented Silva.

**Defense counsel for those who are indefensible.** Efraín Antonio Campo Flores and Francisco Flores de Freitas were presented before Magistrate Judge James L. Cott in Manhattan Federal Court. Francisco Flores had private counsel, two lawyers led by defense counsel John Riley, and Campo opted for a public defender. The

defense counsel announced that their clients would be entering a plea of not guilty to the crimes with which they are being charged.

**Serious accusations.** The executive secretary of the Democratic Unity Alliance, Jesús “Chuo” Torrealba, claimed that there are sufficient elements to prove that there is a link between top echelons of the political powers in Venezuela and drug trafficking. *“In Venezuela there is reliable and clear proof of the relationship between important factors of the political powers and elements of the sinister world of drug trafficking,”* said Torrealba.

**The element that makes the difference.** Co-founder of Transparency International Frank Vogl claimed that corruption is the true cause of the economic crisis in Venezuela. *“How strong the economies in Argentina and Venezuela would be were it not for the rampant corruption,”* said Vogl during his participation at the Annual Assembly of the Latin American Federation of Banks (FELABAN).

**Further proof of injustices.** Family members of Manuel Rosales, the leader of the political party *Un Nuevo Tiempo* (UNT), have denounced that Rosales’ rights are being violated as he is not being allowed to go out into the yard at the SEBIN’s headquarters in El Helicoide, where he is being held. They claim that it has been 25 days since he has been out in the sunlight or fresh air. Rosales’ son, Carlos Rosales, described the prison as an unpleasant place and stressed that the opposition politician had been recommended to drink milk daily to avoid intoxication.

**Climbing the ladder.** Susana Barreiros, the judge who sentenced Leopoldo López to nearly 14 years in prison, is on the list of jurists wishing to head up the Public Defender’s Office for the next term. Last week a list of 32 aspiring candidates, from which the person who is to occupy this position will be selected, was submitted to the National Assembly’s Postulations Committee.

**The ultimate in cynicism.** Jesús Farías, PSUV candidate to the National Assembly, stated that the Venezuelan Government is not to blame for the lines of shoppers at supermarkets and commercial establishments. *“Making the people stand in line for six or seven hours, is the government to blame for that? That’s the fault of the businessmen who are the ones who handle distribution,”* explained this PSUV representative.

**LEGISLATIVE TIPS**

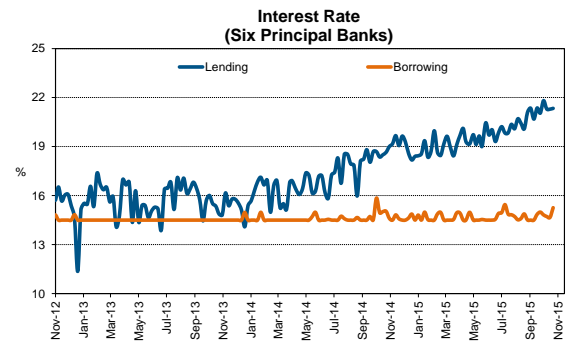
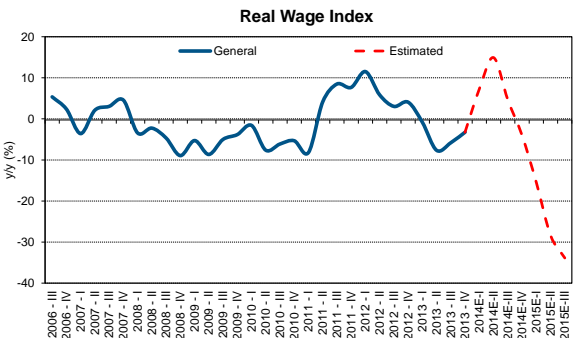
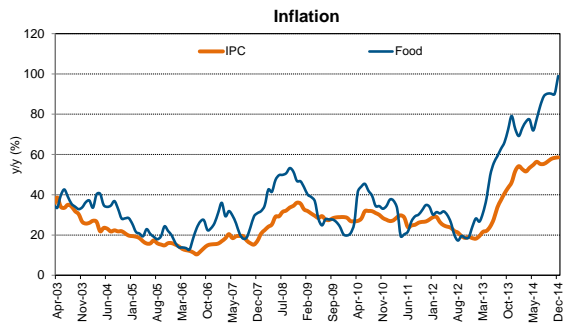
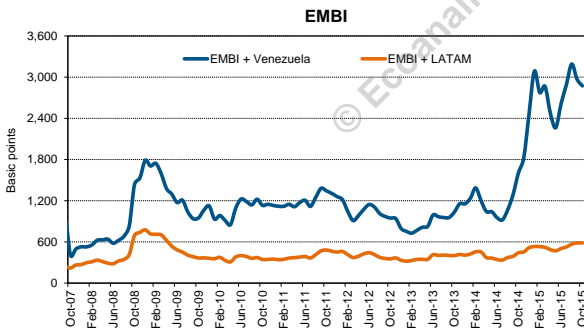
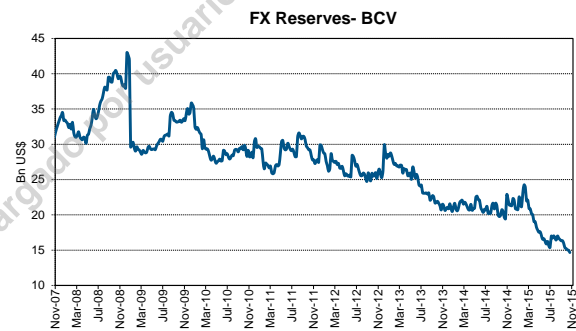
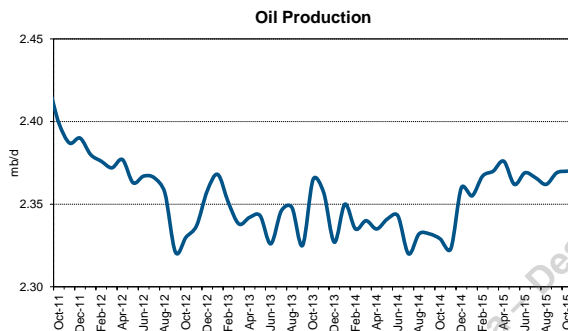
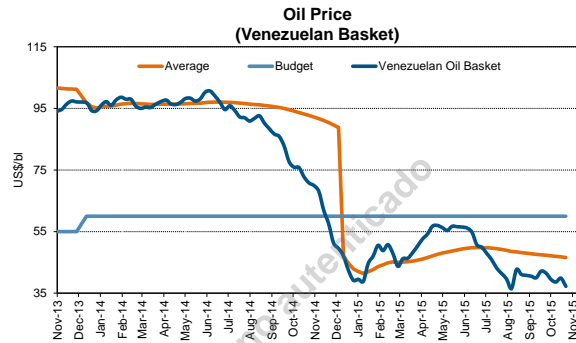
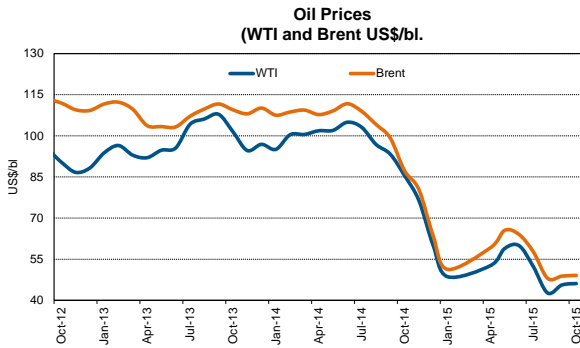
**They've corrected the Fair Prices Act...** This Thursday, the Vice Presidency of the Republic published a correction, due to a material error, to Decree No. 2092 containing the Fair Prices Act published on November 8.

**... And they've added to the grounds for sanctions.** With this correction to the law, the Vice Presidency of the Republic amended Article 46 of the Fair Prices Act to add new grounds for sanctions, increasing their number from 12 to 15. Some grounds were reformulated or eliminated and new elements, such as failure to present a government official with the mobilization waybill or invoice confirming the legality of the merchandise, were introduced.

**Prices of animal feed for livestock published.** The Fair Prices Superintendence has regulated the prices of animal feed for livestock (cattle, hens, chickens, and pigs) for the first time and has posted a directive containing the list of the types of animal feed with their fair prices on its webpage, thus making the announcement made by Vice President Jorge Arreaza official. So, for example, the prices for balanced feed for high efficiency broiler production are VEF 34.0 a kilo, loose, VEF 37.4 a kilo, bagged, and VEF 1,495 for a 40 kg bag.

**State of emergency for another two months.** An extension to the state of emergency decreed last September in several municipalities in Zulia and Apure was published in *Gaceta Oficial* last Monday. The measure is to be extended for another 60 days and is to apply to the municipalities of Machiques de Perijá, Rosario de Perijá, Jesús Enrique Lossada, La Cañada, Catatumbo, Jesús María Semprún, and Colón in Zulia state, and the municipalities of Páez, Rómulo Gallegos, and Pedro Camejo in Apure state.

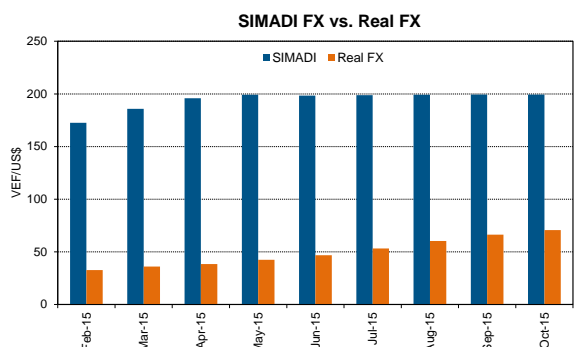
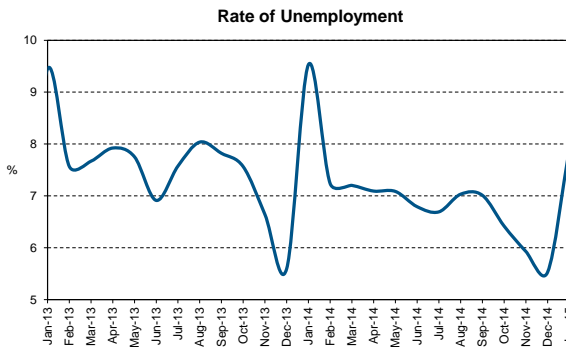
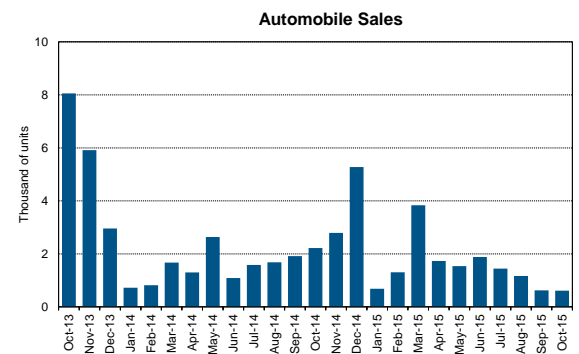
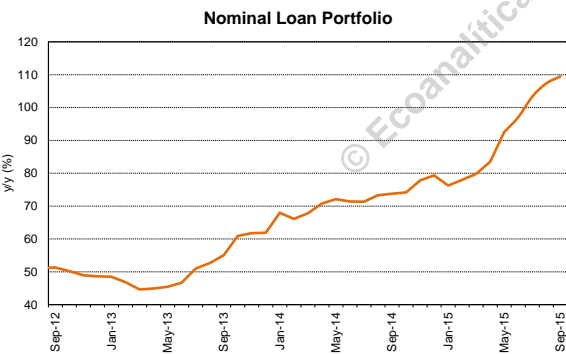
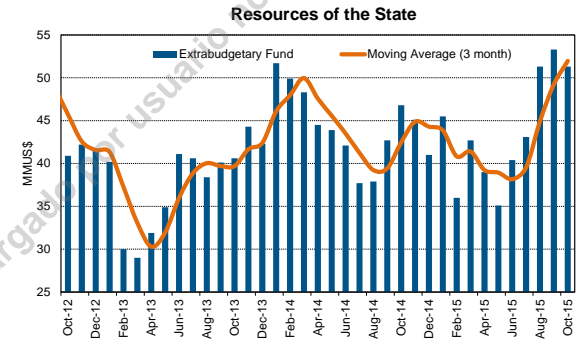
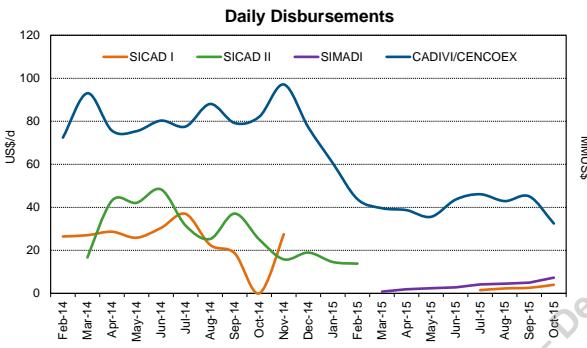
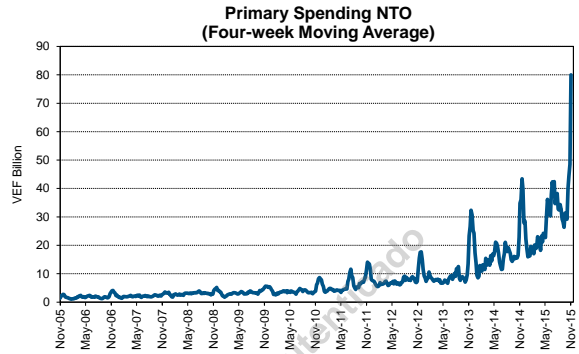
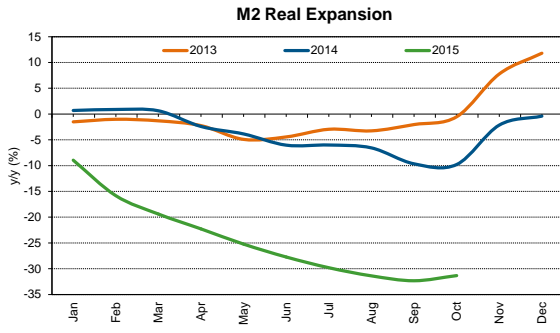
**ECONOMIC OVERVIEW**



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