



## Weekly Report

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*Outlook for 2014: Venezuela at a  
crossroads*

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The crisis in Venezuela has got worse. Inflation and shortages are out of control. In the case of inflation, the basic cause is monetary financing of the non-financial state-owned companies (in particular PDVSA) by the Central Bank. PDVSA's debt with the Venezuelan Central Bank (BCV) went from VEB 196 billion (at the official exchange rate) in July 2013 to VEB 408.9 billion in November, which is equivalent to an increase of 108.6% in only four months. That debt is equivalent to 93.0% of the monetary base, a worrying situation that prompts us to maintain our forecast of an increase in inflation in the medium term.

With the prospects of inflation and increasing monetary liquidity, saving has disappeared from the Venezuelan economy. Now is a time for consumption and borrowing in bolivars in Venezuela. However, given the outlook, the coverage that is needed is increasingly limited and costly.

Venezuela's current economic crisis is perceived as being the main problem according to the opinion polls, although people do not share the

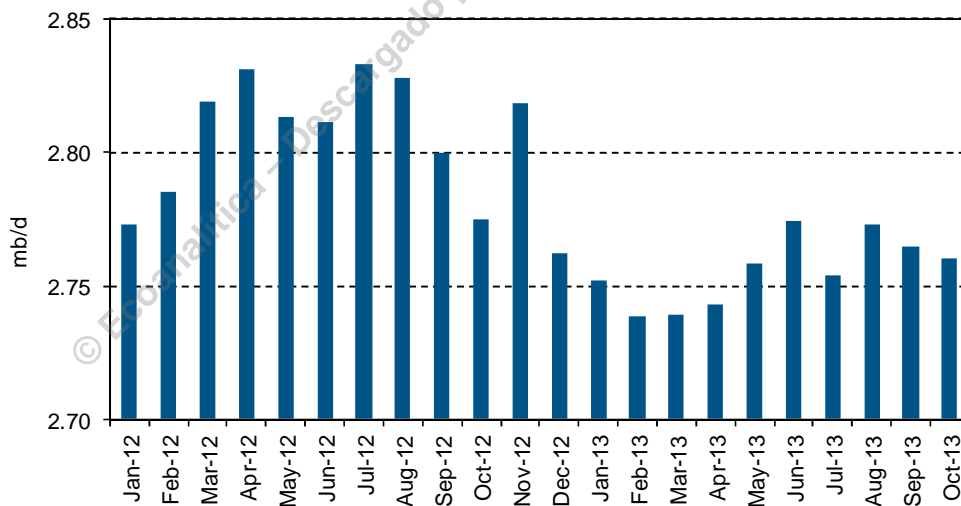


same perception when it comes to pinning the blame. At **Ecoanalítica** we are of the view that Venezuela has a serious problem that warrants an extensive program of profound short-, medium-, and long-term structural changes, besides an overall vision with measures in the fiscal, monetary, foreign exchange, oil, and other areas. As long as Venezuela's problem is not addressed in terms of a change in the model, the situation will continue to deteriorate.

### PDVSA has to increase production

On the oil front, while PDVSA is attempting to give signs of opening up the sector, this has not come to anything. Production figures are not encouraging. In just one year, according to PetroLogistics, Venezuela's oil production has fallen by 1.9% and the production that generates cash (a positive flow of foreign currency) is at 1.3 million barrels a day (mb/d), a reduction of 500,000 barrels compared to 2008.

### Venezuelan Oil Production



Sources: Barclays Research and Ecoalitica

The world oil market is in a state of uncertain equilibrium. On the one hand the shale oil boom is growing not only in North America but also because other countries seem to be moving in that direction, and it is thanks to this growth in supply that the market has managed to keep prices in the region of US\$100/bl in these past few months despite the constant interruptions in the Organization of the Petroleum Exporting Countries (OPEC) supply. The growth in world production of nonconventional crudes could mean a steady increase in supply and a drop in prices. However, shale oil is one of

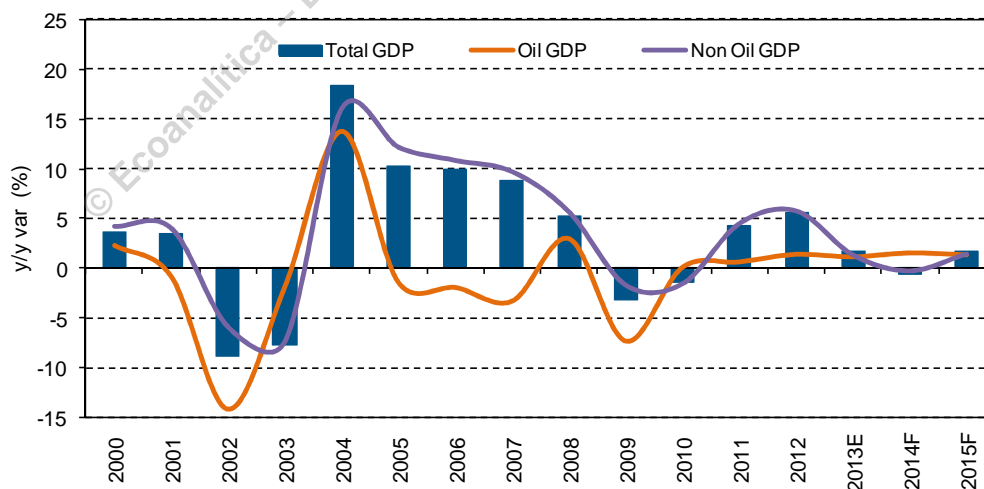


the most costly to produce worldwide and, for that reason, needs high prices for it to be profitable.

On the other hand, within OPEC, the current level of prices seems to be reasonable and Saudi Arabia, which has the cartel's largest surplus capacity, does not seem to be prepared to flood the market with production that would trigger a slump in prices and make shale oil unprofitable. For that reason, at **Ecoanalítica** we estimate that price levels will remain more or less within the same range for the next few years. We expect the annual average for the Venezuelan oil basket remain at around US\$95.7/bl in 2014.

**2014: lean times** Although growth figures for 2013 are not yet available, according to statements by the President, growth of 1.6% was achieved last year, not very far off our projections of 1.7%. As for growth this year, at **Ecoanalítica** we estimate that GDP will post a contraction of 1.0% as a result of growth of 1.3% in the oil sector meanwhile the non-oil sector will decrease 0.8%.

Evolution of GDP: Total, Oil and Non Oil



Sources: BCV and Ecoanalítica

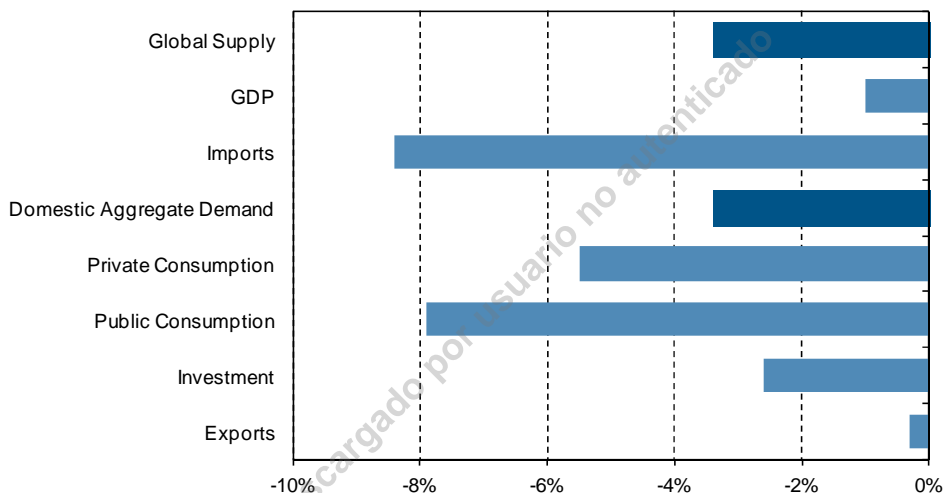
On the domestic supply front, the reduction in revenues from the oil business will mean that it will not be possible to offset the lower levels of production by the domestic productive apparatus (-1.0%) –due to the contraction in the official supply of foreign currency- by increased final goods imports, which will contract by 8.0% this year. As for aggregate demand, owing to the fact that 40.0% of public sector revenues are



dependent on the oil business, at **Ecoanalítica** we project a contraction of 7.1% in government spending on final goods, with a consequent contraction in private consumption (5.1%).

### Global Supply and Demand 2014

y/y % Var. (1997=100)

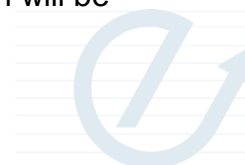


Sources: BCV and Ecoanalítica

### Inflation: a vicious circle

With a view to curbing spiraling inflation, reducing shortages, and creating an economic environment that would allow it to obtain victories in the December 8 elections, the government resorted to desperate measures. First of all, it decreed bringing down the prices of certain goods, such as household appliances, with discounts of up to 70.0%, while accusing merchants of profiteering, practices that, according to the government have unleashed the galloping inflation we are currently suffering from. However, at **Ecoanalítica** we consider that these measures taken by the government in recent weeks will not make any significant contribution to the fight against inflation, given that the prices that have been slashed thus far (household appliances) affect only 1.2% of Venezuelans' consumption basket.

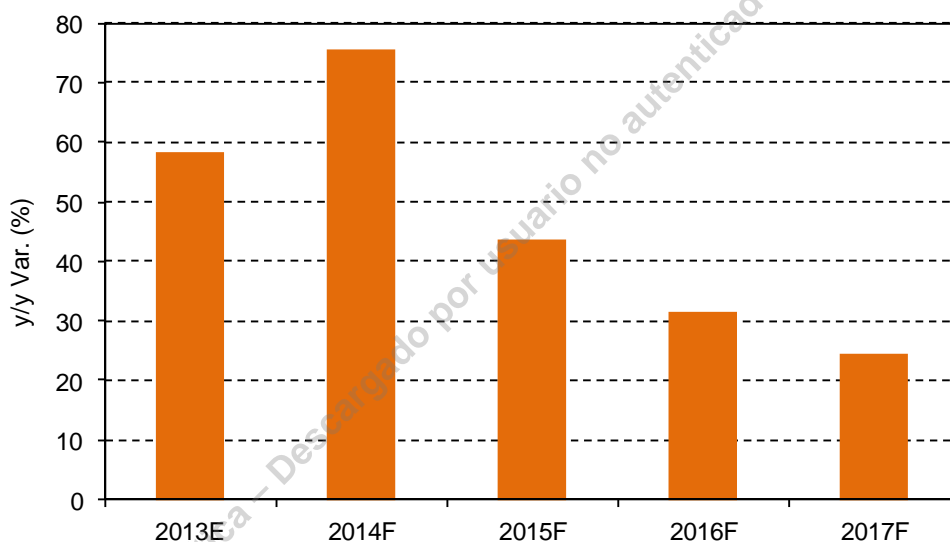
Apart from that, Minister Merentes has said that the big challenge for the government on the economic front in 2014 will be to *"increase productivity in items that are essential for Venezuelans,"* the main ones being food and personal hygiene and household cleaning products, with a view to *"making progress in slowing down inflation."* Even so, bringing down inflation will be no easy task.





We estimate that inflation will triple government estimates and reach 75.4% in 2014. Consequently, we can say that we will continue to be caught up in a vicious circle, which begins with a devaluation that triggers inflation, then shortages and, lastly, scant growth, only to start all over again.

### NCPI



Sources: BCV and Ecoanalítica

Furthermore, seeking to solve the problem of consumers' shrinking purchasing power, the government decreed three wage increases in 2013 for a total wage hike of 45.0%. While it is true that it was one of the biggest wage increases in recent years, it was not enough to offset the levels of inflation reported by the Central Bank. At **Ecoanalítica** we estimate that the wage increase for 2014 will be of 50.0% (including the latest adjust of 10.0%), which will also fall short of projected inflation for this year.

**High liquidity's here to stay, for now**

In 2014, given our forecasts of a drop in oil prices and, therefore, a slowing down in the oil boom, it is to be expected that the government will seek to maintain this high liquidity scenario in order to guarantee the placement of more debt.

Based on all the foregoing considerations, we have corrected our estimate for the expansion in liquidity from 43.5% to 82.6% for this year and average growth for that aggregate for the period 2015-2017 from 26.0% to 20.1%. As a consequence of the increased growth in liquidity, we will also



observe faster growth in the loans portfolio and in the banking sector (11.2%) on the one hand, and on the other, greater inflationary pressures and more pressure on the foreign exchange market, the latter being reflected in an increase in the implicit exchange rate (ratio of M2 to international reserves), which will reach VEB 86.6/US\$ by the end of 2014. This is equivalent to a depreciation of 68.2% compared to its estimated value at the close of 2013 (VEB 51.5/US\$).

### Monetary and Financial Sector Indicators

	2013E	2014F	2015-2017
M2 (VEB billion )	1,216	2,220	4,003
Var% (a/a)	70.1	82.6	30.1
Var% (a/a) (real)	8.4	3.7	-2.8
Average Lending Rate (%)	15.4	18.2	18.9
Average Savings Rate (%)	14.3	15.8	16.1

Source: Ecoanalítica

#### Foreign exchange policy: waiting for announcements

We maintain our forecast of an adjustment to the official exchange rate from VEB 6.3/US\$ to VEB 11.0/US\$. The date for implementing this adjustment could be any time between now and February 15, 2014. Moreover, it is likely that SICAD will be maintained (particularly if the opening of a new swap market does not happen), but the rate will fluctuate between VEB 14.0/US\$ and VEB16.0/US\$. It should be noted that the Central Bank's criterion is that this mechanism should have a rate that is near the real exchange rate for the bolivar. Statements by the President this week indicate that the ground is being prepared for taking such a measure.

Even though the authorities have been insisting that they are working on a new foreign exchange scheme, in our opinion, this will be a far cry from allowing a new parallel market. At **Ecoanalítica** we believe that the scheme will be designed to facilitate the operations of the companies that are PDVSA's joint venture partners, although few details have been revealed so far.

In the present circumstances, at **Ecoanalítica** we have three recommendations in the area of foreign exchange:

- This is not the time to speculate. If you have a surplus flow in bolivars, choose a day in a given period (month, quarter, half year, whichever you decide), and buy your dollars on that day in each period.



- Do not pass up the chance for preferential dollars. There are opportunities for investing in capital goods, because the government is seeking to boost the manufacturing sector.
- 2014 is the year for investing in your business: VEB 60 buys more in Venezuela than a dollar abroad, in our opinion; and this applies even more so if you plan to stay for the long haul.

**2014 will be a difficult year**

Venezuela has the worst outlook in the region, with estimated growth of only 1.0% for 2014, according to the Economic Commission for Latin America and the Caribbean (ECLAC), whereas the rest of the region is expected to grow at a rate of 3.2%. Our economy continues to have huge imbalances, which unfortunately have not been addressed. It is worth noting that, unlike what happened in periods of stagnation in the past, the origin of this recession does not have to do with external shocks (generally oil shocks), but with the build-up of internal imbalances. In fact, the government's failure to act has made the situation even worse.

The fiscal, monetary, and financial imbalances have to be corrected by rationalizing spending, adjusting a multiplicity of public services charges, increasing the prices of the different products generated by the State, eliminating the Central Bank's financing of the government's deficit, restricting government borrowing, both domestic and foreign, eliminating the parallel budgets, and implementing an effective and efficient system for controlling the handling of public funds.

We maintain our thesis that Venezuela will not return to the path of sustained growth or solve its economic problems unless in-depth structural measures are taken. The time for postponing the inevitable and implementing half-measures has past.





## Economic Tips

**US\$5 billion for the country's "development":** The President of the Republic Nicolás Maduro announced that China has already deposited the US\$5 billion corresponding to tranche C of the Chinese Fund loan for 2013, which was approved in September. According to Maduro, the funds will be used to execute economic and social development works. The two tranches approved previously were for US\$6 billion each, with US\$4 billion being put up by China and US\$2 billion by Venezuela.

**Nearly US\$50 billion in seven years:** According to official figures, between 2007 and 2013, China granted the Republic and PDVSA credit facilities amounting to US\$49.5 billion, US\$20 billion of which have already been repaid with oil shipments to China. The lion's share of the funds, some US\$41 billion, has been handled by the Heavy Fund and the Large Volume Long-term Fund, whereas US\$8 billion are loans to PDVSA and US\$1.5 billion are a disbursement by the Industrial and Commercial Bank of China for housing projects.

**A good year at last?** President Nicolás Maduro has claimed that 2014 will be "a good year" that will allow the government to obtain a final victory in the "economic war" planned, according to him, from the United States (US). Maduro stressed that the opposition took advantage of events such as the death of his predecessor, Hugo Chávez, to "artificially intensify" the decline in all the macroeconomic variables and that the economic war had an impact on the low rate of growth (1.6%) and the high rate of inflation (56.1%), making 2013 a "very difficult" year.

**Inflation slows down.** According to a communiqué from the Central Bank of Venezuela, the nationwide consumer price index (NCPI) went up by 4.8% in November and by 2.2% in December 2013, which makes for a significant slowing down compared to the 5.1% posted in October. Taking the results for November and December into account, cumulative inflation at the close of 2013 came to 56.1%, some 36 percentage points higher than in 2012.

**Controls not effective:** Although the Central Bank emphasized that, had the inspections ordered by the Executive not been carried out, inflation in November would have come to "nearly 6.0%," it also admitted that the intervention measures focused on items "whose weight in the NCPI is relatively modest in the indicator's structure," whereas groups of products with a greater weight in the WCPI's structure, such as food and beverages, transport, and restaurants and hotels (which account for 64.8% of that structure) posted significant increases in prices.



**Time for new parameters, again:** As for the WCPI, the Central Bank has said that 2014 will be a suitable year for *“measuring aspects not covered by the conventional methodology”* and, to that end, it will be useful to *“explore new tools that will make it possible to appreciate the social impact of the government’s activities on the well-being of the population.”* This means that options such as the construction of an *“actual final household consumption (AFHC) index”* that takes account of the impact of direct transfers made by the government under its scheme of subsidies, missions and social investment programs on Venezuelans’ consumption basket are gaining ground.

**Supervision of prices and profits is here to stay.** National Costs and Prices Superintendent Karlín Granadillo said that *“the Christmas season served to further strengthen the agency’s supervisory muscle in the matter of prices,”* and that it will continue to adjust the costs of the chains of production in order to safeguard the purchasing power of workers’ wages. Granadillo affirmed that the supervision of prices and profits is a *“policy that is here to stay”* and, as a result, that the agency will work on generating awareness of what earnings and profit margins should be considered *“sufficient”* to permit the productive sector to function, but respecting workers’ income.

**The first adjustment of the year?** President Nicolás Maduro announced a 10.0% increase in the minimum wage effective January, bringing it up to VEB 3,270. The new raise brings the increase of the minimum wage between May 2013 and January 2014 to 59.0%, approximately 2.8 percentage points above cumulative inflation for 2013. Besides announcing the measure, Maduro stated that *“there will also be an increase in 2014 in line with the needs of our nation.”*

**Reserves languish.** According to Central Bank figures, in 2013 the international reserves posted their biggest drop in the past 25 years, falling by 28.1% and closing the year at US\$21.49 billion, some US\$7.52 billion (25.9%) below levels considered optimum by the Central Bank. The most serious decline in the reserves occurred in 1988, the last year of the exchange controls that were in effect during the Jaime Lusinchi administration, when they dropped by 29.7% in one year.

**More options for foreign tourists:** According to Tourism Minister Andrés Izarra, the government is preparing a series of measures that will allow foreign tourists to exchange foreign currency for bolivars at the SICAD rate, so making tourism more attractive and increasing the State’s capacity for obtaining foreign currency from this sector of the economy. Izarra explained that five-star hotels, private banks and, later on, exchange houses will be authorized to exchange foreign currency, something that only state-owned banks are authorized to do at present.



**SICAD auctioned US\$2.19 billion in 2013.** In 2013, US\$2.19 billion were awarded to private individuals and companies via the auctions of the SICAD, a mechanism that was approved last February. The total awarded by SICAD during the year was 72.3% less than the amount awarded by the defunct SITME in 2012.

**Tax collections came to VEB 277.24 billion in 2013.** At the close of 2013, the National Customs and Tax Administration Service (Seniat) reported collections of VEB 277.24 billion, 34.9% above the goal of VEB 205 billion and 44.1% more than the amount collected in 2012. The tax agency obtained VEB 68.42 billion from income tax (26.7% above the goal), VEB 138.57 billion from value added tax (VAT) (overshooting the goal by 36.2%), and VEB 51.88 billion (42.3% over the goal) from customs duties and charges.

**Stopgap measures:** Our director Asdrúbal Oliveros maintains that the 10.0% hike in the minimum wage authorized by the government seeks to cushion the imminent economic measures that will have to be taken, among them an adjustment to the exchange rate. He explained that, although the nominal increase in the minimum wage between January 2013 and January 2014 was 59.75%, the real increase was only 1.2%, if account is taken of estimated inflation of 57.8% for the same period.

**A warning from Maduro:** President Nicolás Maduro stated that new foreign exchange measures are to be announced shortly with a view to saving foreign currency and avoiding irregularities in authorizing dollars. *"We're going to correct that and if we have to ask for understanding in order to take some decisions, we'll have to do it,"* added Maduro, who gave assurances that there will not be *"a single dollar more for thieving phantom companies. I'm sure that the entire country supports me in this."*

**Interest rates.** The lending rate for the fourth week of December was at 15.1%, down by 0.4 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate, placed at 14.0%, up by 0.8 pp compared to previous week.

**International reserves.** International reserves increased by 3.3%, going from US\$20.87 billion during the fourth week of December to US\$21.57 billion during the first week of January. Compared to the same period last year, international reserves have decreased by 25.0%.

**Central government expenditure.** On Friday January 3<sup>rd</sup> according to figures from the ONT primary spending was VEB 5.77 billion, which means an increase of 3.0% when compared to the previous week when it was VEB 5.60 billion; when compared to the same period last year we observe a decrease of 51.5%.



**Monetary liquidity.** Monetary liquidity (M2) increased 1.6% in the third week of December compared to the previous week, settling at VEB 1.20 trillion. The M2 has increased 69.2% in relation with the same period last year.

## Oil Tips

**Falling short of the goal:** According to the reports that the Ministry for Oil and Mining sends to OPEC, between January and November, Venezuela's oil production averaged 2.79 mb/d, a figure that is not only below the 2.81 mb/d produced in 2012, but is equivalent to only 80.1% of the goal of 3.46 mb/d set for 2013. This drop in production is a consequence of the reduction in light and medium crude production and also of the maturing of the fields in the western region.

**Below zero:** During the first half of 2013 (1H2013), PDVSA's exports fell by 1.3% compared to the same period in 2012, with a drop of 9.0% in the sale of refined products, mainly as a result of operating problems at the refineries. Moreover, the increase in domestic demand, added to the problems of financing already mentioned, has forced PDVSA to import final products in order to supply the local market, generating losses for the company. This situation is forcing PDVSA and the government to put the possibility of increasing gasoline prices on the agenda.

**Prices fell as well.** Between the last week of 2012 and the last week of 2013, oil prices posted a drop of 2.2%. This drop complements the decline in PDVSA's exports, a situation that is reflected in the drop in revenues from oil exports. An increase in production from countries outside the OPEC and an increase in Iraqi production boosted the supply of oil and pushed prices downwards.

**In debt:** According to a report by the Executive, there is a possibility that PDVSA will receive US\$1.1 billion in fresh funding from China for developing Junín 4 bloc, through Petrourica, a joint venture in which PDVSA holds 60.0% of the shares and China Petroleum Corporation (CNPDC) 40.0%. If this new financing is approved, loans granted will come to US\$11.47 billion.

**Mariscal Sucre Project could be a joint venture.** In view of the need to increase gas production and take advantage of the reserves in order to reduce the deficit in and consumption of liquid fuels, PDVSA is to permit private partners to acquire shares in the project. The future shareholders will have to put up a bond in order to



take part in the project, which consists of the Patao, Mejillones, Rio Caribe, and Dragón fields containing a total of 14.3 trillion cubic feet of gas. It is expected that the project will reach peak performance in 2017 or thereabouts, when it will produce 1,250 million cubic feet of gas a day and 27,000 b/d of natural gas condensates.

**Starting with a clean slate.** As at the close of 2013, a total of at least 31 accidents had occurred at PDVSA's facilities, which means an accident every two weeks. The incidents included lightening, power-outs, and explosions, among other things. Some of the most serious accidents occurred at Puerto La Cruz Refinery, El Palito Refinery and Paraguaná Refining Center (PRC).

**SICAD sets the rules.** According to Foreign Exchange Agreement No. 24, published in *Gaceta Oficial* No. 40,324, both PDVSA and the joint ventures will be able to sell their foreign currency from activities other than the exporting of hydrocarbons at an exchange rate equivalent to that of the last auction held by the SICAD. Moreover, the operations for the purchase of gold engaged in by the Central Bank are also to be conducted at the exchange rate established by SICAD.

**Amuay undergoing maintenance:** According to a PDVSA press release, the flexicoker at Amuay Refinery is to be shut down for a week for "preventive maintenance" in an attempt to optimize its load levels. This unit, which is one of the PRC's largest, produces up to 72.0 kb/d.

**Outside the top 250:** According to the world ranking of energy companies compiled by Platts, the Venezuelan oil company is not among the first 250 in the 2013 ranking in terms of financial performance, a worrying situation for a company that deals with the world's largest reserves of crude.

**Not out of the question:** Representatives of the Unitary Federation of Oil, Gas and Associated Workers denied reports that PDVSA had refused to approve the new collective employment contract proposed by the labor union. With this proposal, the labor union had hoped that workers would go from earning VEB119.0 to VEB224.0 a day, an increase of 80.0%. Wills Rangel, the union's spokesman, said that negotiations have been stalled since October and that a date has still not been set for continuing the discussion of the 21 clauses that still have to be approved.

**International oil baskets.** At closing time on December 20<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$97.6/bl, down by 0.1% when compared to the reported the previous week. The Brent decreased by 0.4% when compared to the previous week, to reach US\$109.3/bl.





**Local oil basket price.** The Venezuelan oil basket price closed at US\$97.1/bl on Friday December 20<sup>th</sup>, a 0.3% decrease compared to the US\$97.4/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$101.2/bl.

## Business Sector Tips

**With no goods to sell:** The executive director of the Venezuelan Chamber of Shopping Malls, Merchants, and Similar Businesses (Cavececo), Claudia Itriago, stated that the replenishment of stocks is generating uncertainty in the commercial sector. Stores in the shopping malls are half full. Some businesses, such as toy stores and stores selling sports goods, received merchandise at the end of December with which to fill their shelves, but not in sufficient quantities to put in stock. This situation has prompted merchants to reschedule their opening hours.

**Assemblers still waiting:** After the assemblers submitted their cost structures to the authorities, spokespersons from Sundecop informed them of the results of its analysis. According to sector sources, the authorities questioned some elements in the cost structures, such as taxes, but did not go into any great detail. Based on the information provided by the authorities, a reduction in prices is expected, but it is still not possible to estimate how much it will be.

**Protests continue at SIDOR.** This Monday, January 6, outsourced workers at Siderúrgica del Orinoco (SIDOR) blocked Gate IV to the state-owned steel mill to demand that the company comply with the schedule for the incorporation of workers, a commitment entered into by the board of directors in October according to which 727 workers should have joined the permanent payroll between November and December 2013. The outsourced workers' spokesperson, Marilegnys Moreno, explained that SIDOR's board of directors has not issued any statement on this matter and has not given a tentative date for the incorporation of these workers.

**SIDOR stone-broke:** According to official sources, SIDOR's production at the close of 2013 came to 1.4 million metric tons, which means it fell 63.0% short of its goal. With these figures, SIDOR posts a decline of more than 1.3 million metric tons compared to two years ago, when production came to 2.4 million metric tons. SIDOR's president, Javier Sarmiento Márquez, reported that nearly 96.0% of production was allocated to the Great Venezuela Housing Mission, which also failed to meet its production goal for 2013 of 380,000 homes, posting a deficit of 47.0%.



**The centralizing State:** The outlook does not look encouraging for the household appliances sector. After being forced to sell their products at prices set by the Executive, stocks have run out and the companies still do not know whether they will be able to replace their merchandise. Sector sources say that they do not know whether the sector will obtain foreign currency to place orders this year and comment that everything indicates that there will be a centralization of imports by the State via the state-owned Venezolana de Exportaciones e Importaciones (Veximca).

**Shortages get more acute.** Consumers have reported that the shortages of products have got worse following the Christmas break. Products currently absent from the shelves range from basic food items to articles carried by hardware stores. In some parts of the country, such as the Eastern Region, there are extreme shortages of certain food items, a situation that has prompted some stores to not open their doors. The food items in shortest supply are cornmeal, sugar, rice, and margarine, as well as cleaning products.

**Zero efficiency:** The scant productivity reported by several companies that have been taken over by the State has been much criticized not only by sectors of the opposition but also by the government's own militants, who are now calling for a review of the situation. Wills Rangel, the president of the Bolivarian Workers' Confederation, warned that the sustainability of the "revolution" depends on productive development. He pointed out that it is necessary to review the situation of the "recovered" companies and also of the land that was expropriated.

**Supervision is to continue in 2014.** Sundecop Chief Karlín Granadillo reported that, even during the festivities, the agency did not cease its inspection and supervision activities and that it will continue to analyze the cost structures of strategic sectors and design policies and structural measures in order to give continuity to the ground gained in the last quarter of 2013, when a plan for slashing prices in several sectors was implemented.

**30.0% profit for the automotive sector:** Even though the terms of the law for controlling costs, prices and profits approved by President Maduro are still not known, the government has already been stipulating a profit margin of 15.0% and 30.0% for several sectors, among them the concessionaires. National Assembly Deputy Claudio Farías revealed that concessionaires will have a profit margin of up to 30.0% once the "fair prices" of vehicles set by the authorities formally go into effect.





## World Economy Tips

**A permanent agreement:** US President Barack Obama ratified a budget agreement negotiated by Democrats and Republicans in Congress that eliminates some of the automatic spending cuts and avoids another shutdown of the federal government owing to a lack of funds, thus putting an end to three years of conflict over the budget, taxes and the health law promoted by Obama, which has twice led the country to the brink of a suspension of payments.

**Committed to stimuli and recovery:** Despite the decision last month by the US Federal Reserve (FED) to reduce its assets purchasing program, known as quantitative easing, by US\$10.0 billion to US\$75.0 billion a month, citing an improvement in the job market and more solid growth, the chairman of the FED, Ben Bernanke, gave assurances that the agency is not less committed to a highly expansive monetary policy that reduced its purchase of bonds since, in his opinion, economic recovery "*clearly remains incomplete*" in the United States.

**Deep in debt?** According to China's National Audit Office, the Asian giant's local governments had accumulated a debt totaling US\$2.95 million as at the close of June 2013, 67.0% higher than the cumulative debt at the end of 2010 (the last time this datum was published). Given that the debt is owned by Central Government the Chinese Government's total debt comes to US\$8.5 billion, equivalent to 58% of its Gross Domestic Product (GDP). Since a considerable portion of the amount borrowed has been used to finance non-lucrative infrastructure works, investors fear that it will be impossible to repay a substantial percentage of the loans.

**Everything's under control.** Following publication of the debt data, the National Development and Reform Commission (NDRC), China's main planning agency, has undertaken to limit the "disorderly expansion" of local debt. The NDRC said that, in general, the levels of debt were under control, but that some measures are needed to keep them down, including allowing the mayoralities' finance companies to issue bonds to replace current debt with short-term debt offering high rates of interest and encouraging private capital to invest in infrastructure projects.

**And with a prudent monetary policy:** Following its last monetary policy meeting, the People's Bank of China gave assurances that it will maintain adequate levels of liquidity and a prudent monetary policy that will make it possible to achieve



reasonable growth in credit. The bank also reiterated that it will promote the deregulation of interest rates and the reform of the Yuan.

**No rush:** The president of the European Central Bank (ECB), Mario Draghi, sees no urgent need to cut the euro zone's main interest rate further, nor does he believe that there are signs of deflation. Draghi explained that the European Union's crisis has still not been overcome, although there are numerous positive signs in the region, such as the economic recovery of some of the bloc's nations, fewer trade imbalances, and the reduction of budget deficits.

**The European Union could change its mind.** European Union Taxation Commissioner Algirdas Semeta has said that he is prepared to accept a more limited tax on financial transactions, following concerns from several countries that claim that the scope of the original proposal was overly broad. *"We would support a compromise with a more limited remit (...) the only red line for us is that any loopholes which would jeopardize the main principle of the tax be avoided,"* explained Semeta.

**They continue to break records.** The number of people employed in Germany hit a new high for the seventh consecutive year in 2013, despite the fact that the increase was smaller than in the previous two years, according to data published by Germany's Federal Statistical Office. The number of people with a job came to 41.8 million in 2013, with the creation of 232,000 jobs, whereas Germany's unemployment rate remained below 7.0%.

**Millionaires' tax given the green light:** France's Constitutional Council gave the green light to the "millionaires' tax" that is to be levied on companies paying salaries of more than one million euros a year. Originally, the measure introduced by François Hollande established that the tax should be 75.0% of income, but the council rejected that percentage, alleging that 66.0% was the legally permissible maximum. As a result, they ended up approving a tax of 50.0%.

## Political Tips

**No change:** The NA Board of Officers for the new term 2014-2015 was ratified by the government benches with 99 votes. Although the opposition benches opposed the motion with 64 votes, they were insufficient to prevent Diosdado Cabello from



continuing as the president of the National Assembly. Cabello took the opportunity to invite a number of deputies to accompany him on a visit to President Nicolás Maduro to inform him of the induction of the National Assembly's authorities, among them the five heads of the Democratic Unity faction.

**Maduro's requests will not be met with a "No."** During his speech following his reelection as president of the National Assembly, Diosdado Cabello did not hesitate to assure President Nicolás Maduro that all requests he submits to parliament will be approved. Cabello also added that, at this time, *"the Nation is at stake, and the egoism of some sectors leads them to insist on trying to destabilize the country,"* which is why they must *"work absolutely united for the people"* with the branches of the State, *"which must interconnect and cooperate with one another."*

**Higher registration than forecast:** Minister for the Communes Reinaldo Iturriza claimed that last year closed with the registration of 118.0% of the communes scheduled and explained that 2014 would start with 60.4% of the goal for the year - 900 communes- having already been met. The registration was conducted via a Communal Census carried out in September, in which 1,401 communes in different stages of development were called on to take part.

**Central Government leaves no cameras for anyone else.** The President of the Republic, Nicolás Maduro, announced the creation of a television channel for the Bolivarian National Armed Force called TVFANB and a Youth Channel. Maduro explained that what he is seeking to do with these television channels is to diversify the country's television and communications content with a view to building a new television culture in Venezuela. Minister for the Defense Carmen Meléndez said, during the presentation of TVFANB, that the purpose of this project is to foster the civilian-military union.

**The Rodríguez List:** Minister for Communication and Information Delcy Rodríguez published via Twitter a list of 27 names of party leaders, National Assembly deputies and former deputies, nonprofit organization activists, journalists, retired military personnel, and of some renowned entrepreneurs with their respective travel destinations abroad. Some of the better-known people on the list were Henrique Capriles, Leopoldo López, Antonio Ledezma, Carlos Ocariz, María Corina Machado, and Nelson Bocaranda.

**The opposition isn't worried.** Miranda Governor Henrique Capriles responded to Minister Rodríguez' accusations via Twitter by publishing two photos that proved he was not in Aruba. The first shows the Ávila Mountain Range and the second a Blackberry with the date and time when the photo was posted on Twitter. *"What a pathetic government! They are obsessed with us but aren't in the least worried about*



*the disaster of inflation, shortages, etc. Our objective in 2014 is for our country to find solutions to so many problems, not to get distracted by obsessions of persecution by these fascists,”* added Capriles.

**Opposition considers Venezuela is viewed abroad as being weak.** The Democratic Unity Alliance issued a communiqué with a roundup of 2013 in which it highlighted the weakening of Venezuela’s international image as a consequence of the government’s wrongheaded policies. The report expresses concern over *“the tendency towards fragmentation and disintegration apparent in the region due, among other things, to the excluding actions taken by the members of ALBA, the creation of regional bodies that duplicate activities, and the failure to honor commitments, particularly in the case of MERCOSUR.”*

**Looking for irregularities:** The mayor of Maturín Municipality, Warner Jiménez, is doing an audit of all the works paid for by the outgoing administration and those that are still in progress. The reason for the audit is that these works do not have memoranda describing the scope of the works or close-out reports. Jiménez explained that 155 of projects have been paid for and that the ones that have incurred in irregularities were not put out to bid in the proper way and do not have a photographic survey or a completion report.

**Annihilating democracy and demolishing the Republic:** National Assembly Deputy María Corina Machado maintained that the induction of the legislative term 2014 was an act that annihilates democracy and demolishes the Republic. During the ceremony, Machado gave a speech that was interrupted by shouts and singing from the government benches, in which she claimed that the board of officers had not been elected at that moment but 15 days previously in Havana, Cuba. Later, the deputy responded to the acts of aggression saying, *“each threat, each shout, each blow give us more reasons to fight for democracy.”*

## Legislatives Tips

**Firing freeze continues.** The firing freeze decree is to continue in force in Venezuela from January 1 to December 31, 2014. This decree forbids the dismissal of any worker without the consent of the Labor Inspectorates. The measure, which has been in force since 2002, was published in *Gaceta Oficial* No. 40,310 of December 6, 2013, the argument being that it is to guarantee job stability for all



workers regardless of the wage or salary earned. Only persons in management positions and seasonal workers are not covered by the decree.

**Labor unions are to render accounts.** Labor organizations will have to submit a detailed report of their administration of labor union funds approved by their members to the National Labor Union Organizations Register within the first three months of the year. According to Article 415 of the Labor Law, the board of officers is under the obligation to render an accounting of its administration of these funds and assets each year and to post a copy of the accounts it intends to submit on the labor union's bulletin board at least 15 days prior to the date on which the general assembly with the union's members is to be held.

**The employers too...** As for employers' organizations, they will have to submit a list with the data of the member work entities. In the case of federations or confederations, they will have to submit a list of labor unions or founding federations and copies of the minutes of the assemblies of those labor union organizations authorizing their joining the federation or confederation.

**New minimum wage goes into effect.** The presidential decree establishing the 10% increase in the minimum wage, which went into effect on January 6, was published in *Gaceta Oficial* No. 40,327 issued on Tuesday, January 7. This increase also applies to government service pensioners and retirees and those registered with the Venezuelan Social Security Institute (IVSS) as well as to apprentices.

**Dogs and cats grateful:** *Gaceta Oficial* No. 40,324 made the creation of *Misión Nevado* official. This social program seeks to coordinate policies and actions on the national, regional, municipal, and communal levels to guarantee the protection of domestic animals abandoned on the streets or that are mistreated by guaranteeing knowledge of animal rights and raising awareness.





## ECONOMIC OVERVIEW

