



# Weekly Report

Year 8, Number 02  
Week III, January 2012

*The world economy: between  
uncertainty and austerity*

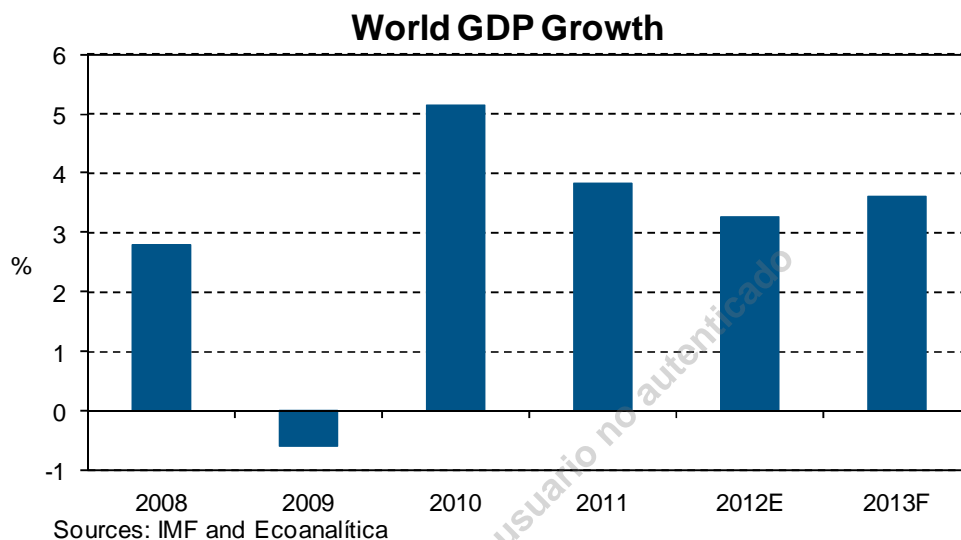
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2012 was heralded to be the year that the recovery of the world economy would be consolidated. Instead, we saw how the Euro-zone crisis became worse; the future of the euro (€) questioned; the possibility of Greece leaving the union considered; and how the United States economy began to slow down due to waning domestic consumption. All these events ended up significantly impacting the Chinese economy (mainly due to cuts in imports) which at the time was also showing signs of its economy slowing down, which in turn led to other emergent economies slowing down due to China's drop in demand for raw materials.





2013 has begun charged with uncertainties mainly due to the fact that the Euro-zone countries don't have a "master plan" in place to follow. A plan that all Euro-zone countries are committed to, that will unite the banking sector and allow greater fiscal integration; generating credibility that the finance sector is on the road to recovery and a positive outlook for midterm growth.

Another factors of uncertainties have been the spending cuts and increase in taxes that will go into effect this year in the United States (the "fiscal cliff" drama), which threatened to lead the US into a new recession, and that despite to been "avoided" remains latent due to the lack of measures that are intended to reduce spending in areas that do not impact on the government's provision of services and whose lower dynamism not significantly affect private consumption.

To all this we must add the discussion about a new debt ceiling, to be given in the senate, which could trigger, if its not approved, into a debt crisis or a recession. At **Ecoanalítica**, we consider of vital importance that the US government executes measures leading to make debt sustainably in the medium term and thereby prevent scenarios such as the "debt ceiling" concerns again.

#### The ripple effect of the big economies

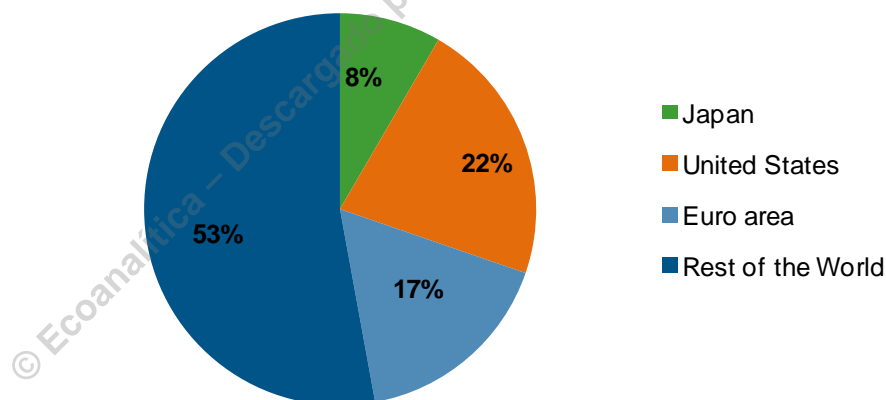
The ripple effect of the economies of the United States and Europe is such that the 3.6% growth of the world economy in 2013, estimated by the International Monetary Fund (IMF), will depend on if the US and European governments can control and properly manage their respective economic



challenges. This in turn will define whether 2012 was just one more turbulent year on the road to recovery or the beginning of the slide into a longer lasting recession scenario.

If the world economy grows by the 3.6% that the IMF predicts, this would signal that economic growth has begun to bounce back at a moderate rate, fueled mainly by having eliminated the uncertainties surrounding the economic measures to be implemented by the US and the Euro-zone countries. This scenario would see GDP growth for the developed countries at around 1.5%. This is 0.2% higher than what was estimated for 2012. Economic growth would be reflected in the following manner: 2.1% for the US; 1.2% for Japan; and just 0.2% for the Euro-zone countries.

### Share of major economies in world GDP in 2012



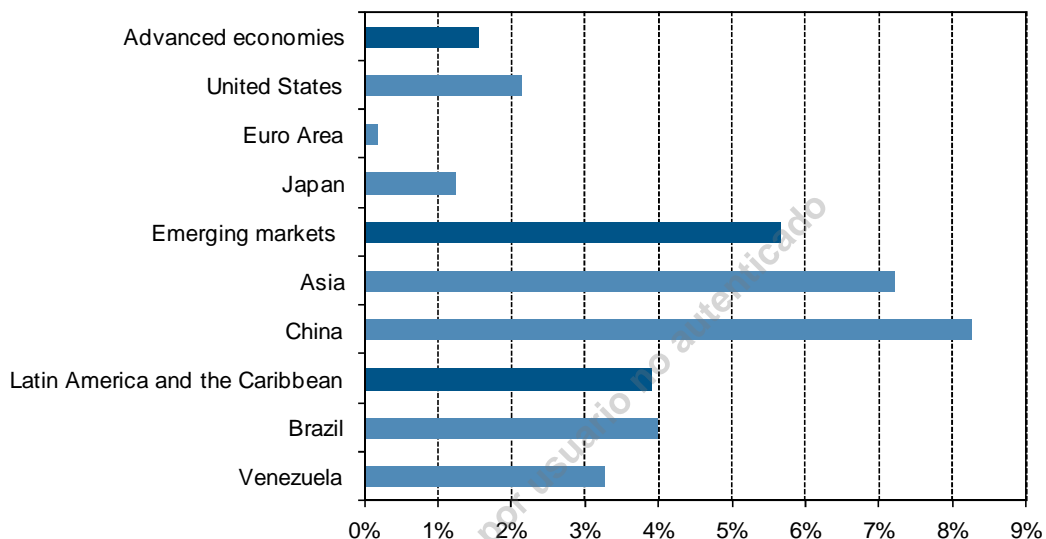
Sources: IMF and Ecoanalítica

With monetary and fiscal policies being relaxed and increased economic growth in the developed countries in 2013, this should fuel emergent economies to also grow. According to IMF projections for 2013, the economic growth rates for emergent countries should be around 5.6%, with developing countries in Asia (including China) growing by 7.2%, and Latin American and Caribbean countries growing by 3.9%.





### Growth Forecasts for 2013



Sources: IMF and Ecoanalítica

### Relaxing austerity measures

In the midst of the recession, more than the economic bailout funds, it's been austerity measures and monetary policies which have determined and will continue to determine the rate of world economic growth. Austerity measures have focused on cutting fiscal deficits to a level where they can be managed in a sustainable manner, thereby helping these countries be eligible for cheaper financing, now that they have lowered their risk factor.

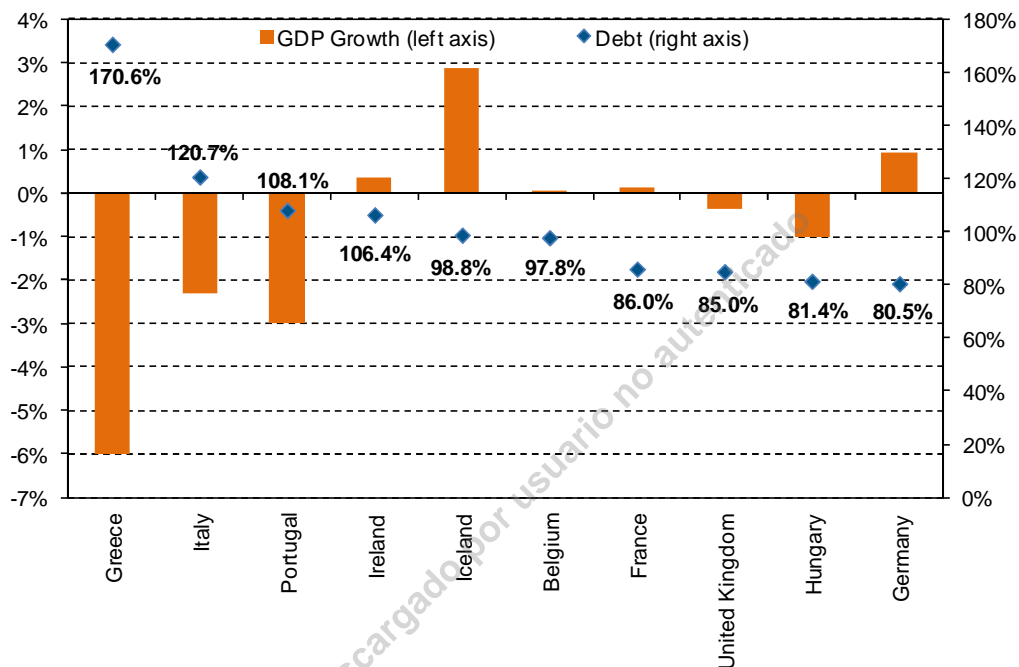
Fiscal adjustments have led to significant cutbacks in economic activities for a number of countries around the world, especially those economies with debt problems. This is something that will continue to affect the more advanced economies this year in a more direct manner.

In the Euro-zone region is where the most important adjustments have been made in terms of fiscal matters, austerity measures, and increase in taxes. These adjustments have affected countries such as Spain, Greece, Italy, Portugal, and even France, and have led to significant drops in demand for them and their neighbor countries. This has led to an extension of the recession in these areas.

It's expected that in 2013, austerity measures will continue to be present in Euro-zone countries, and where necessary, the consolidation of debt. Consequently, one can expect fiscal spending to continue to be cut or restrained at best.



### Debt as a share of GDP vs. GDP Growth



Sources: IMF, Eurostat and Ecoanalítica

With respect to the United States, having solved the issues regarding simultaneous spending cuts and tax increases that threatened to bring on another recession, the Obama Administration now has to negotiate with the republican opposition in the Senate to set a new debt ceiling which would allow for covering the current debt service without have to implement further fiscal cuts.

With respect to Japan, after political differences and discussions blocked the implementation of any new economic measures to address the countries problems, finally some progress has been made and a huge step forward has been made with the approval of an extraordinary budget earmarked for infrastructure investment for US\$220.0 billion. Among other things, these resources look to fuel domestic consumption and create 600,000 jobs.

Lastly, emergent countries and/or developing countries aren't expected to implement any new significant fiscal cutbacks since fiscal cutbacks have been in place for that last few years and considerable drops in debt in relation to GDP have been registered.





## New monetary policy

Monetary policies (such as lowering interest rates, and the purchase of assets by Central Banks) aimed at increasing liquidity to the finance sector, making financing cheaper for consumers and investors, in an attempt to enhance the dynamics of the spheres of supply and demand through the expansion of loans. Here, one has to highlight the change in priorities by monetary authorities, which are focused on increasing economic growth rates rather than focused on keeping a harness on inflation, considering that some recession scenarios have been accompanied by episodes of deflation.

Country	Monetary Policy
<b>U.S.A</b>	The Fed decided to keep its benchmark interest rate at its lowest (0.25%) until 2014. At the same time carried out a program of quantitative easing (asset purchases) through which was injected liquidity into the economy.
<b>Japan</b>	The Bank of Japan kept interest rates at a minimum. Additionally, conducted a asset purchase program totaling YEN 90 trillion.
<b>Eurozone</b>	The ECB carried out a monetary transactions purchase (purchase of debt), also cut its interest rate and take them to record low of 0.75%.
<b>U.K</b>	Finance Program loans in which liquid is injected to banks in exchange for UK Treasury bills.
<b>Brazil</b>	By several cuts the Central Bank of Brazil bring down its interest rate from 11% to 7.25%.
<b>China</b>	The Bank of China made cuts its benchmark interest rate from 6.57% to 6.0%.

Source: Ecoanalítica

At the global level in 2013, it's expected that lax monetary policies will be the norm for developed as well as emergent and developing economies that don't have problems with inflation.

With respect to the United States, in 2012, the Federal Reserve announced its third round of quantitative easing or QE3, promising to buy bonds backed by mortgages at a rhythm of US\$40.0 billion a month, with the option to make additional and/or implement other not so conventional economic measures until the situation improves. We hope these measures



will be implemented throughout 2013. The Central Bank of Japan has also announced that it expects to increase liquidity by 5% this year which will be an important catalyst for fiscal stimulus being implemented.

In Europe, the European Central Bank (ECB) has recently decided to keep its monetary policy at historic low levels, this after early indicators point to the economy not worsening. This reveals that the European banking entity will react to drops in product, but that it doesn't expect recovery to come through monetary policies. So this means that at least in Europe's case, monetary policies, instead of fueling demand is more of a buffer mechanism and it's aimed at bringing relief to the finance system.

Emergent economies have answered the drop in the foreign markets by expansive monetary policies looking to fuel their domestic demand, changing the focus of their previous policies (focus on domestic instead of foreign). These policies will continue as long as foreign markets remain unattractive and their domestic inflation levels permit.

**“Good” inflation**

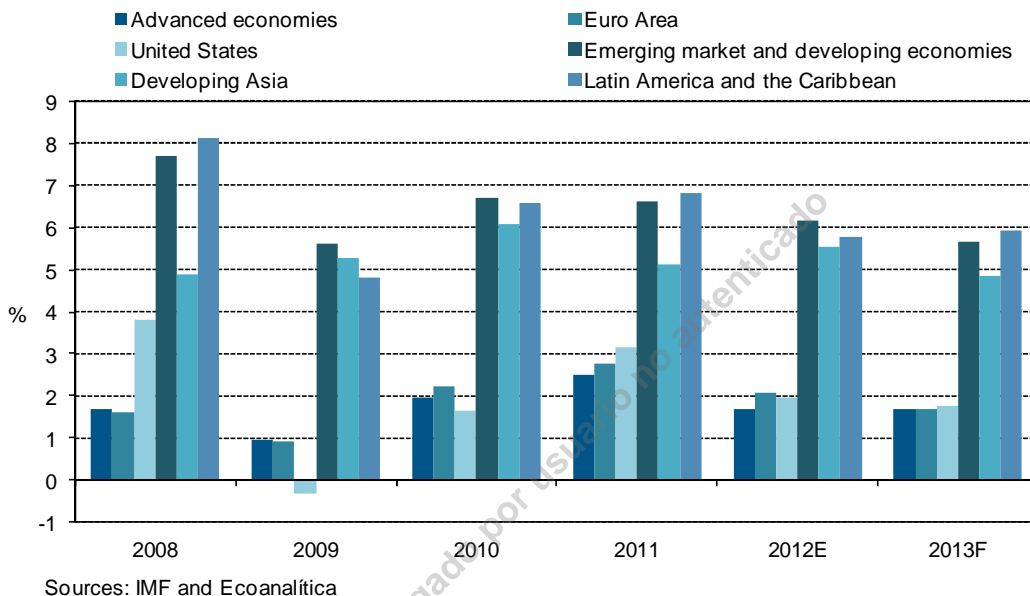
The overall drop in worldwide economic activity led to a significant drop in the price of raw materials. This has allowed the larger economies to count on good inflation levels in order to implement their expansive monetary policies. In 2013, inflationary pressures will continue to remain steady for the larger economies, as demand begins to slowly react and raw material and energy prices hold. Inflation for the larger economies should be between 1.7% and 2%.

For emergent economies and developing countries inflation is projected to around 5.8%, very close to 2012 levels.





### Performance of Inflation by countries



### Risks for Latin America

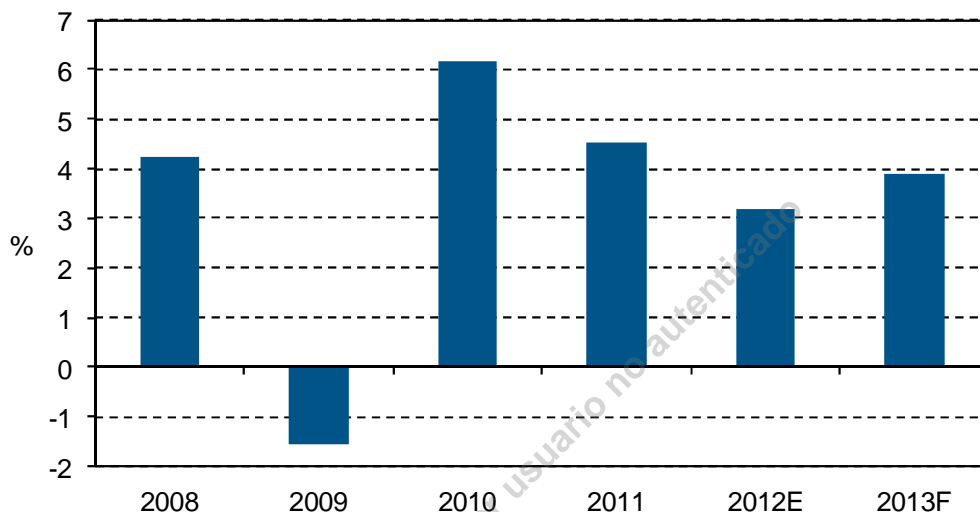
The Latin American economy slowed down in 2012 due to the negative ripple effect of the poor performance of the United States' economy and China and the negative effect this had on the demand for raw materials produced in the region. This also affected the significant slowdown that the Brazilian economy registered, which greatly affects the rest of the continent, and is very vulnerable to what happens in Europe due to the extensive economic ties it has with the region. Also, Brazil's monetary policies have not been very effective.

The IMF estimates that the region will post an economic growth rate of 4% in 2013, spearheaded by the Brazilian economy recovering with increased domestic demand and relaxed monetary policies, and increased fiscal stimulus if the government can modify current fiscal laws.





## GDP Growth in Latin America



Sources: IMF and Ecoanalítica

Whether the Latin American region economic growth levels reach expectations depends largely on how the world economy manages the current problems it is facing, highlighted by whether the United States manages to avoid falling into another recession. US markets and how they behave and are doing have the most significant effect on Latin America. Second, Europe, where 10% of all exports are destined; so a positive outcome in dealing with the Euro-zone crisis is very important. If either one of these situations turns bad, it will impact economic growth in the region, affecting the demand for exports. In the midterm, another scenario may occur. Raw material prices could significantly drop due to an overall drop in the demand for raw materials from the more developed economies and big emergent economies such as China.

### And what about Venezuela?

For now, Venezuela hasn't really been affected by the negative effects of the worldwide economic slowdown, as have many of its neighbors in the region. This is because the Venezuelan economy is virtually limited to supplying oil, and no other product, to the outside world, and oil prices have evolved favorably, not reacting to worldwide macroeconomic factors but rather being dictated by geopolitical events.

Trade relations with the United States, Europe, and more recently with China have been limited to the export of oil and the import of a wide range of products that are not being manufactured domestically. Financial ties with foreign banks have been limited to payments importers make to



foreign suppliers. Total financial and commercial separation from the rest of the world has protected Venezuela from any negative ripple effect produced by the worldwide crisis and which has affected countries such as Brazil. But we are still very vulnerable.

Just like the rest of Latin America, if there is a significant drop in worldwide GDP, along with a significant slowdown in the Chinese economy, Venezuela will also be affected. This scenario will lead to a significant drop in the price of raw materials as on the commodities prices like oil. And oil represents 95% of all Venezuela's exports.

Very important for Venezuela will also be to keep an eye out for how much oil the United States begins to produce in their campaign to become less dependent on foreign oil. So far, their increases in oil production have been able to cover drops in Non-OPEC country oil production. An important point to mention here is that the growth posted by the US in 2012 was also accompanied by a significant increase in the energy sector and its oil supply. If this continues in 2013, we will see how a favorable worldwide scenario becomes a negative scenario for Venezuela, if increased US oil supply pushes international oil prices down, which would have an immediate devastating effect on Venezuela.

In the end, being isolated from the rest of the world economy is not a benefit but rather a curse. It has left us with no means of escape, totally dependent on a single product, oil. And the day when our good friend oil, turns its back on us, as we know it must one day, we will have nowhere to go.





## Economic Tips

**Inflation skyrockets again.** In the first 10 months of last year, the government contained inflation by postponing the adjustment of controlled products, a long list of foods, medicines and personal care items whose price can only increase with its authorization, and through massive imports with cheap dollars, but the strategy is wearing down, and prices are starting to hike: in December, inflation increased 3.5%, the highest rise in 33 months; this result is mainly affected by food and non-alcoholic beverages (1/3 of the INPC) which increased 5.7%, the highest increase since April 2010, and agricultural products with an 11% increase, a variation that hadn't happened since July 2011.

**Inflation closed at 20.1% in 2012.** According to figures published by the Central Bank of Venezuela (BCV), the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for December was 3.5%, and the year on year inflation was 20.1%, 7.5 percentage points lower than the ones registered on the same period last year (27.6%)

**Alcoholic beverages and tobacco had the highest inflation.** Among the 13 categories studied by the BCV, in December alcoholic beverages and tobacco showed a higher inflation than the national average (5.7% m/m), reaching a year on year variation of 34.5% in 2012.

**Repressing inflation.** Decided to slow down price increases during 2012, year in which Hugo Chávez would be reelected, the government considerably reduced the adjustment of regulated products, a strategy that threatens to increase shortages. Central Bank statistics indicate that in 2012, the prices that can only be increased with government authorization accumulated a 15.1% increase, compared to 30.3% in 2011.

**Cendas: food basket stood at VEB 4,573.** According to the report of the Centre for Documentation and Social Analysis of the Venezuelan Federation of Teachers (Cendas) food basket was located in VEB 4,573, resulting in an increase of 9.4% from November and 28.5 % compared to December 2011, when it cost was of VEB 3,559, according to this it is required 2.2 minimum wage income to cover the purchase of food.





**In December, seven of the twelve items in the food basket price rose:** meat and meat preparations 32.9%, coffee 19.9%, cereals and cereal products 13.1%, sugar and salt 9.2 %, fruits and vegetables 8.8%, fish and seafood 3.7% and fats and oils 2.1%. Roots, tubers and other and milk, cheese and eggs posted declines of 2.1% and 1.8% in prices, respectively, while beans, peas and lentils, and sauces and mayonnaise kept November prices.

**The consequences of regulation ...** Data from several associations indicate that at the end of 2012 companies producing pasteurized milk lost 8% and 9% per liter processed; flour, VEB 0.8 per kilo, and rice VEB 1.9 per kilo; while in pasta, the difference between production costs and the regulated sale price is VEB 5.07 per kilo. Also, the imbalance between production costs and sale prices of cleaning and personal care products like detergents and diapers increased.

**Significant shortages.** Scarcity increased in July of last year and hasn't stopped. In December, the Central Bank reported that out of every 100 products consumers requested in the country's stores, supermarkets and the network of establishments, 16.3 were unavailable, the highest level since December 2008.

**And controls at full speed.** Karlin Granadillo, national superintendent of costs and prices, said at a surveillance operation in the Coche market that the inspections revealed that "there is compliance with price regulations". The official said that the inspections to stores and distributors started on January 4, and 400 have already been performed nationwide.

**The perspective of Bank of America.** In its last report, Bank of America considers that postponing exchange rate adjustments all year could mean an increase in Central Government deficit of 8.5% of GDP, and there would be no other alternative than to cut spending, print money, and reduce foreign assets.

**What do rating agencies think?** Moody's Investors Service warned that Venezuela's sovereign debt rating could be reviewed in the short term, if there is a political transition. Venezuela's debt rating by Moody's is B2 and looks stable, backed by its oil wealth. Standard & Poor's and Fitch Ratings have rated Venezuela's credit one step higher, at B+. S&P's outlook is stable, while Fitch's is negative.

**Inorganic money.** BCV figures regarding the monetary base reveal that at the end of 2012 the bank's financial aid to the oil company was VEB 163.80 billion, equivalent to US\$38.09 billion at the official exchange rate. In 12 months, aid increased 70.2%, since in 2011 it was VEB 96.26 billion. These data reveal that the Central Bank has had to make more bolivars to support Pdvsa's needs, significantly increasing liquidity.



Up to December, the nominal interannual increase of liquidity (M2) was 60.3%, while International Reserves remained constant.

**Credit line?** BCV's financial aid to Pdvsa started in 2010, when the former acquired the IOU's that the oil company had issued to the National Treasury. From then on, aid hasn't stopped. Although to pay liabilities Pdvsa has made private issues with the BCV for US\$7.21 billion, the industry pays and asks for funds again.

**To infinity and beyond.** BCV's financial aid isn't limited to the oil industry, it has had to channel resources to other state companies. According to figures of the monetary authority, at the end of last year, VEB 11.59 billion (US\$2.69 billion) were assigned to State industries. With this, BCV channeled VEB 83.11 billion (US\$ 19.33 billion) in 2012 to Pdvsa and to public non-oil companies. This is 48% higher than the balance of the international reserves.

**The issues Schedule is ready.** This week the National Assembly gave a green light to the government to start with the issues planned in the 2013 Indebtedness Law. The Ministry of Planning and Finances is authorized to offer titles for VEB 83.50 billion. Of this, VEB 74.30 billion correspond to debt bonds, and VEB 9.20 billion to Treasury Bonds. The financial conditions for the issues in the domestic market were published in the *Official Gazette*, but the government is empowered by the NA to carry out operations in dollars.

**VEB 15.40 billion in the first quarter.** The Ministry of Planning and Finances, through the Public Credit department, plans to place VEB 15.40 billion in National Public Debt (DPN) bonds during the first quarter of the year. Last Friday, the office published the bonds issue schedule, and will be auctioning VEB 1.40 billion in bonds every week.

**Interest rates.** The lending rate for the first week of January was at 11.4%, down by 3.3 percentage points compared to the previous week. The time deposit rate was at 14.5%, down by 0.3 percentage points compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

**International reserves.** International reserves decreased 2.7%, going from US\$28.79 billion during the first week of January to US\$28.03 billion during the second week of January. Compared to the same period last year, international reserves have decreased by 4.2%.





**Monetary liquidity.** Monetary liquidity (M2) went down by 0.8% in the first week of January compared to the previous week, settling at VEB 710.08 billion. The M2 has increased 59.8% in relation with the same period last year.

**Sitme figures.** So far this year, US\$174 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$15.9 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents a decrease of US\$152 million (46.6%) over the same period of 2012, when US\$326 million were negotiated. Lastly, during the second week of January the amount traded reached US\$80.7 million, US\$33.7 million more than the previous week when US\$47.1 million were traded, with a daily average of US\$16.2 million.

## Oil Tips

**Not enough.** Although several international hydrocarbons organizations indicate that Pdvsa increased its production slightly in 2012, and acknowledge a change in prioritizing its investment plan, its restrictions because of its social spending to the detriment of its own investments have made production fall well below the capacity increase announced for 2012, of 3.1 million barrels per day (mb/d).

**Not increasing.** The production figures that the government gave OPEC (the so-called direct sources) indicate that up to November of last year, 2.81 million barrels per day were being extracted, basically the same volume reported at the end of 2011 (2.80 mb/d). Figures from OPEC's secondary sources record a production of 2.34 mb/d by November 2012, that is, a 44 kb/d drop compared to the end of 2011 (2.38 mb/d).

**Exports increased in December.** According to Petrologistics, in December 2012 Venezuela's crude oil exports reached 2.28 mb/d, that is, 289 kb/d more than the previous month. The more significant increases were in exports to North America, around 860 kb/d (140 kb/d more than in November) and the Caribbean, at around 635 kb/d (100 kb/d more than in November), although shipments to Cuba, Jamaica and BORCO<sup>1</sup>, fell 45 kb/d.

<sup>1</sup> Bahamas Oil Refining Co.



**Refined products: that's the issue.** Petrologistics indicated that in December, the export of refined products remained unchanged, 360 kb/d on average, an increase of 32 kb/d compared to the previous month; however, there were no gasoil exports in December, which may explain the high level recorded in November. The import of refined products was 238 kb/d, 61 kb/d more than in November. During September-December (after the fire in Amuay in August) imports were 218 kb/d on average, almost twice than in the January-August period.

**Not good.** According to preliminary BCV figures, oil imports reached a record in 2012, over US\$10.0 billion, an increase of 71.3% compared to oil imports in 2011 (US\$6.01 billion). This amount includes both the acquisition of capital goods for the hydrocarbon sector, and fuel purchases abroad to meet the country's gasoline demand, among others. According to Rafael Quiroz, *"this way, Venezuela is at risk of becoming a net importer of oil products"*.

**More than oil.** At the meeting of Petrocaribe Beneficiary Countries and Alba, Rafael Ramírez, President of Pdvsa and Minister of Oil, proposed the creation of a Petrocaribe Economic Zone. Ramírez proposed that the Petrocaribe Secretariat coordinates the work group, and that a proposal is presented in three months identifying productive sectors both in Venezuela and in Caribbean and Central American countries. *"We have been working to identify our needs, articulate, and create synergies for exchanges"*, said Ramírez.

**Accounts not that clear.** Pdvsa registers as income the products it receives from Central American and Caribbean countries, who were granted the possibility to pay with agricultural products, textiles or services, as established in Petrocaribe's Energy Cooperation Agreement.

**More species and less cash.** During 2012, US\$878 billion were planned for several of Petrocaribe's beneficiary countries to pay for part of their invoices with products like rice, beans, pasta, sugar and pants, an increase of 78.1% compared to US\$493 billion in 2011. This increase reduces the industry's cash income, which already has cash flow issues due to money transfers to the Government.

**Non-existent debt.** While the Dominican Republic records its debt with Petrocaribe as part of its foreign public debt, which reached a record US\$3.00 billion in November, and Pdvsa appears as the main creditor of that Nation, Nicaragua denied having payment obligations with Venezuela. *"There is no debt whatsoever"*, said Francisco López, President of Petronic, saying that half the bill is paid in cash within 90 days, and the remaining 50% for diesel and gasoline *"is paid with exports of beef, milk, beans, cattle, and other products"*.



**From Colombia to Latin America.** Pacific Rubiales, a Canadian Oil Company, informed that in 2013 it will allot US\$1.70 billion to exploration and development, mostly in Colombia, but also in Peru, Guatemala, and Brazil. The company, which presently produces around 310.000 barrels per day (kb/d), hopes to increase its daily oil production 15 to 30% in 2013, but warned that it will depend on the pace of approvals of environmental permits in Colombia, according to information of its President, Ronald Pantin, Venezuelan former Pdvsa expert.

**International baskets.** Last Friday, January 11<sup>th</sup> in New York, WTI closed at US\$93.3/bl, which shows an increase of 1.2% compared to US\$92.2/bl recorded the previous week. Meanwhile, Brent increased by 0.1% to reach US\$ 111.7/bl compared to the previous week when it reached US\$111.6/bl.

**Local basket price.** On Friday, January 11<sup>th</sup> the Venezuelan oil basket price closed at US\$101.3/bl resulting in an increase of 0.7% compared to the US\$100.6/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 100.9/bl.

## Business Sector Tips

**Automotive industry stagnant.** Although according to figures of the Venezuelan Automotive Chamber (Cámara Automotriz de Venezuela - Cavenez), in 2012 104,083 vehicles were assembled, 1.6% more than in 2011, last year's production level was 39.6% less than in 2007, when 172,418 units were assembled. Also, the 2012 figure only represents 41.0% of the installed capacity, estimated at 254,000 cars by Cavenez. The sector's situation in 2012 was marked by delays in foreign currency liquidations, limitations to import assembly materials, and several labor crises.

**Sales increased.** According to Cavenez, last year 130,553 new cars were marketed, 8.2% more than in 2011, when 120,691 were placed. The imported car segment grew 43.1%, and the domestic vehicle segment grew only 2.2%. General Motors led the sales, followed by Ford Motor de Venezuela, and Toyota de Venezuela. Among the importers, the leader was Kia with 6,017 units.

**Far from the goal.** The goal of diversifying the energy matrix of the national automotive park is far away. According to Cavenez, 104,083 vehicles were



assembled in 2012, of these, 53.501 units (51.4%) had the Natural Gas kit (Gas Natural Vehicular - GNV). According to *Official Gazette* N° 39.181 of 2009, starting in 2011 half of the production of local assembly companies had to have the dual fuel system. As we can see, although the industry is meeting its quota, Pdvsa is far from achieving the goals established initially, because there are few natural gas stations in the country.

**Food consumption increased 95.6% in 14 years.** *"Our people are better fed, due to the revolution led by Commander Hugo Chávez"*, said Carlos Osorio, Minister of Food. Presenting preliminary figures of the indicators, and comparing them with data of 14 years ago, there is an increase of 95.6%. He said that food consumption in 1998, a year before Chávez came to power, was 13.7 billion tons per year, while in 2012 it was 26.8 billion tons.

**Chinese millions to back Ferrominera.** According to Radwan Sabbagh, President of Ferrominera, CVG Ferrominera Orinoco, *"is among the Guayana companies that has received more contributions from the Chinese-Venezuela Fund (Fondo Chino Venezolano), contributions that have led to works"*. So far, *"around US\$ 1.83 billion have been approved, of which around US\$582 billion have been provided to acquire products, and for infrastructure projects"*.

**Sweet official blunder.** Last week, the government seized Polar's warehouses and "discovered" 8,520 tons of sugar that according to the Minister of Food, were being hoarded. But Pepsi Cola (one of the Polar companies) clarified that the stored sugar comes from the import of 12,500 tons of refined sugar, duly authorized by the Ministry of Food, and are for industrial use as raw material for only 27 days of production of juices and other beverages.

**And now... waiting.** Pepsi-Cola Venezuela is waiting for the government to release the 8,520 tons of sugar. Although last week government officials informed that they would distribute the product among the population, they are still in the company's facilities. Gustavo Grau, the company's legal adviser, said that Pepsi-Cola wasn't hoarding, since it is a lot of raw material to produce juice and sodas, for which it has all the necessary permits.

**Another blow for Pepsi.** Pedro Rodríguez, Attorney for Vargas, ratified through a written notice delivered to Pepsi-Cola de Venezuela representatives, that in 15 days at the most, one of its warehouses in Catia La Mar would be expropriated. Morela Pacheco, the company's National Trading Manager, said that they are surprised because it is an unjustified expropriation measure. *"More than 100 people work there, and they are jeopardizing the stability of workers and their families"*, she said.



**Coming next.** There are shortages in the municipal markets of Caracas, because products like sugar, wheat flour, and corn oil are missing from the shelves. Some sellers warn that the next products to be in shortage are rice, coffee, toilet paper, dishwashing liquid, and clothes, as warned by suppliers.

**Scarcity is an illusion.** The Administration tried to attack the shortage issue warning food sector entrepreneurs. However, the government discourse changed, and Carlos Osorio, Minister of Food, and Ricardo Menéndez Minister of Industries, said that there are full supplies in the country, urging the people not to purchase in excess. *"Don't fall into the anxiety that some media and political spokespersons want to generate"*, said Osorio.

**No schedule restrictions for food transport.** The government decided to eliminate the shipment schedule for food, except for alcoholic beverages, said Ricardo Menéndez last Thursday, January 10. Menéndez, Vice-president for the Economic-Productive Area, said that productive sectors must organize their logistics to allow the movement of food shipments at any hour, to strengthen the domestic production dynamics.

**Medication sales increased 9%.** 2012 was a good year for the pharmaceutical market. Preliminary sector figures indicate that the growth was 9%, measured in units sold. According to these estimates, a total of 650 billion units or packages were marketed in 2012. This indicates that per capita consumption is around 20 and 21 packs, more than in other Latin American countries. Nervous purchases, more liquidity, and frozen prices, sometimes since 2003 which led to the smuggling of products to other countries, are the main reasons of the sales increase.

## World Economy Tips

**2012 ended with signs of a slowdown.** According to data published by the European Union Statistics Office (Eurostat), the industrial production of the 17 countries of the Eurozone fell 0.3% last November, compared to the previous month. Compared with the estimates for November 2011, the drop in industrial production was around 3.7% in the Eurozone, no doubt affected by the region's weak domestic demand.





**But 2013 didn't start so bad.** The European Central Bank (ECB) decided to maintain its interest rates at a historical low level of 0.75%, after recent surveys suggested a recovery of trust among Eurozone investors, and because inflation in the region was over the 2% target presented by the entity. If necessary, new cuts would take passive interest rates to negative values, so banks would have to pay for their deposits at the ECB.

**Reforms must be maintained.** Olli Rehn, EU Economic and Monetary Matters Commissioner, said that although the worst part of the Eurozone's debt crisis may be over, the region's governments cannot abandon the reforms or the cuts, if they want to leave the chaos behind. Rehn also underscored the importance of prioritizing investment, continue reducing budget deficits, and achieving a greater economic integration among the 17 members of the monetary zone.

**Everything to get help.** The Greek Parliament approved a tax reform that included the elimination of exemptions, and the increase of property and earnings taxes, to collect EUR 2.50 billion between 2013 and 2014. The measure is part of an austerity package of EUR 13.50 billion approved in November, and is a necessary condition for Greece to qualify for new deliveries from rescue funds from the European Union and the International Monetary Fund to avoid bankruptcy.

**The German Wall fell.** The German economy, which hadn't had major setbacks despite being in the middle of the European crisis, fell 0.5% (a/a) in 4Q2012, due to drops in industrial production together with a weak demand. The weak fourth quarter made the product growth for 2012 be around 0.7% (a/a), a considerable 3% slowdown (a/a) compared to 2011.

**US: a good beginning of the year for public finances.** The US Federal Government announced a budget deficit of only US\$260 million for December 2012, given the 12% (a/a) increase in collections, and a 17% (a/a) drop in spending, both compared to December 2011. With this, the budget gap for the first three months of fiscal year 2013 (which started on October 1) was US\$292.0 billion, a drop of 9% compared to the first three months of the previous fiscal year.

**US: Trade isn't helping.** According to estimates of the US trade department, the country's trade deficit was US\$48.70 billion in November 2012, the highest level in seven months, an increase of 15.8% compared to November 2011. The higher deficit was the result of a 3.8% increase in imports, 1% more than exports. The low increase in exports made the US economic activity have difficulties taking-off.

**Japan á la Keynes.** The Japanese economic cabinet approved a new stimulus package for US\$220.0 billion, to reactivate the country's economy. Shinzo Abe,



Japan's Prime Minister, said that the goal of the measure is to increase economic growth by 2%, and create 600,000 new jobs. Most of the new spending will be in infrastructure works to be executed in the next months.

**China: trade fell short.** According to the Ministry of Trade of China, the country's exports increased 14.1% last December, compared to December 2011, higher than market estimates of 4%. Imports increased 6% (a/a) in December, also higher than market projections, of 3%. Despite the increase in imports and exports, China couldn't reach its 10% growth goal for trade in 2012.

**Cheaper food.** According to the index of the United Nations Food and Agriculture Organization (FAO), that measures monthly changes in the price of a basket formed by cereals, oil seeds, dairy products, meat, and sugar, world food prices fell in December to their lowest level since June. For 2012 as a whole, FAO said that the index was an average of 212 points, 7% lower compared to 2011, driven by drops in dairy products, sugar, and oils.

**ILO: 100 million employees unprotected.** According to conservative estimates of the International Labor Organization (ILO) based on official statistics of 117 countries, at least 52 million people around the world are domestic workers without social protection, although the entity says that the figure could be over 100 million. The ILO also underscores the 60% increase in the number of domestic workers in the world between 1995 and 2010.

## Political Tips

**Chavismo was sworn in without Chávez.** Interpreting the Constitution to its benefit, under the thesis of administrative continuity backed by the TSJ, the PSUV summoned "the people" to swear in on behalf of the re-elected but absent President. Arriving from the barrios and neighborhoods of Caracas, or brought by the hundreds in buses from different parts of the country, the new war cry of Chavistas, "I am Chávez" became the motto of the "swearing in ceremony".

**"Some" presidents attended.** High officials of several countries of the region participated, among them the President of Bolivia, Evo Morales; of Nicaragua, Daniel Ortega; and the Uruguayan José Mujica, who was very brief and called for "unity, peace, and work". However, the absence of heads of state was noteworthy,



specifically that of the presidents of Ecuador, Argentina, Brazil, Colombia, Peru, and Chile.

**Maduro is not 100% in power.** While Chavismo celebrated the “alternative” inauguration in downtown Caracas, executing the decision of the Constitutional Hall of the Supreme Tribunal of Justice, authorizing the Government of President Hugo Chávez to continue its functions, even though the re-elected head of state couldn't be sworn in, jurists have said that the President in Office is Hugo Chávez and the Vice-president cannot do more than what is established in the Constitution, and what was delegated to him in December.

**Are we frozen?** Cecilia Sosa Gómez, former president of the extinct Supreme Court of Justice, also said that *“if a minister quits or dies in the next few hours, the Vice-president may not appoint a replacement. Internationally, new agreements or treaties may not be signed because that is an exclusive power of the President, so for the world we are frozen”*.

**New chancellor.** Vice-President Nicolas Maduro, who is in charge of the Executive Power during the absence of President Chavez, announced on January 15 in the plenary of the National Assembly, that the president appointed Elias Jaua as the new Minister for Foreign Affairs, Maduro assumed, before his appointment as Vice-President, this responsibilities.

**Economically, things “are not so serious”.** Jurist Luis Herrera Orellana said that the operations of the government apparatus are guaranteed, at least for now, because President Chávez delegated this power to his second in command before leaving to Cuba; thanks to this he can, for example, approve additional credits.

**Maduro will have problems with promotions.** If the present situation extends to the time for promotions in the Armed Forces there may be problems because the Vice-president doesn't have the attributes to make High Government decisions, said the jurist, reminding that the Constitution grants the Head of State the supreme direction of the military institutions, the promotion of officers, and the appointment of chiefs to the different units.

**And the OAS says:** José Miguel Insulza, Secretary General of the OAS, said that the organization “fully respects” the decision made by Venezuela's authorities regarding the postponement of President Hugo Chávez's swearing in, and declared the issue as “solved” and the domestic remedies “exhausted”. Without referring specifically to the demands of the opposition, Insulza said that the entity he heads acts “when there is an institutional crisis between the powers of a State”, which according to him isn't happening in Venezuela.



**Aveledo: Insulza's attitude is a shame.** Ramón Guillermo Aveledo, executive secretary of MUD, gave his opinion regarding the response of the Executive Secretary of the Organization of American States. "He shouldn't have rushed his opinion when talking about the matter, without weighing it in, and of course, without having our arguments, which he would receive during the hearing granted for Tuesday the 15<sup>th</sup>", he said, adding that the position of Venezuelan public powers, rather than denying, confirm and prove the serious constitutional situation of our country, where instead of controls and balances, there is aiding and abetting.

**Defending the Interamerican Democratic Charter.** Aveledo said that the statements are "far from being prudent" and reminded that this organization is responsible for overseeing compliance with the Interamerican Democratic Charter, whose article 20 states that if the constitutional order of a Member State is altered, seriously affecting its democratic order, any Member State or the Secretary General may request an immediate meeting of the Permanent Council to collectively analyze the situation and adopt the decisions it deems convenient.

**Mármol de León: the legal way has been used up.** From the Brión Square in Chacaíto, Blanca Rosa Mármol de León, former magistrate of the Supreme Tribunal of Justice (TSJ) participating in a citizen's assembly called by Voluntad Popular, said that in Venezuela there are no more legal resources to stand against the decision declaring the administrative continuity of the government of President Hugo Chávez, and invited the citizens to participate in actions of this type, because "the legal pathways have been exhausted".

**What does article 70 state?** Mármol de León urged to use article 70 of the Constitution which states that "*decisions made at citizen's assemblies shall be binding and this is a citizen's assembly; we must have many more until we have one that decides that we want to know what is happening with the President, and that we want to have a President according to the law*", she said.

**Brazil recommends elections quickly.** Brazil urged the Venezuelan Government to hold elections as soon as possible in the ailing head of state Hugo Chávez dies, said high ranking Brazilian officials, who expressed their opinion directly to Nicolás Maduro, Venezuelan Vice-president, anonymously; we believe it is the best way to guarantee a peaceful democratic transition, the main wish of Brazil .

**Unidad calls to a rally on the 23rd against the holding of power.** Unidad representatives called for a rally on January 23<sup>rd</sup>. "*We are calling all the Venezuelan people, without political or social distinctions, to become part of this civic, peaceful, and democratic fight (assemblies, forums, concentrations), until the Constitution is fully in force*".



## Legislative Tips

**Vehicles shift.** On Wednesday January 16 was presented to the vice president of National Assembly (AN), Dario Vivas, the draft law regulating the purchase and sale of new and used vehicles domestic and imported. Vivas said that the legislative agenda of the first half of the year will be designed at next week session and that this law could be sanctioned before June. Elvis Amoroso, chairman of the special Commission investigating the high costs said that in the business of buying and selling cars there are many gangs that must be eradicate.

**What does the draft said?** The draft law for the regularization and control of sale and purchase of vehicles provides, among other things, that websites cannot offer car above the suggested value also includes a ban for insurance companies to insure cars for amounts exceeding the maximum prices suggested.

**Maduro delivered 2012 report and accounts.** Vice President Nicolás Maduro delivered to the National Assembly (AN) on Tuesday January 15, the Report and Accounts of the Bolivarian Government. Maduro referred to Article 236 of the Constitution: *"The acts of the President of the Republic, except those specified in paragraphs 3 and 5, will be countersigned by the Executive Vice President and Executive Vice President and the Minister or respective Ministers."*

**"With this story we are not going to be dizzy."** While official section of NA argues that Maduro is empowered and authorized to deliver the report, the deputy and leader of the Causa R, Andres Velasquez, said the act must be performed only by President Chavez and that the Constitution *"does not support this story that we are all Chávez, with that story we are not going to be dizzy"*, he said.

**Now ministers.** Following the interpretation of Article 231 of the Constitution, the Constitutional Chamber of the Supreme Court of Justice ruled that Vice President, Nicolas Maduro, and ministerial train may deliver the 2012 report and accounts, since they enjoy administrative continuity. Now ministers need to submit their reports.





## ECONOMIC OVERVIEW

