



# Weekly Report

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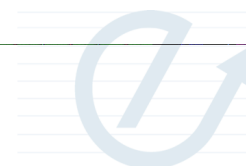
*How to make a 360° “turn”*

Ecoanalítica's Team\*  
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When addressing the issue of the economy during his speech on the Report and Accounts for 2013, Nicolás Maduro announced mergers, cabinet changes, more regulations, the elimination of the Foreign Currency Administration Commission (CADIVI) and the intention to maintain the official exchange rate at VEB 6.3/US\$, revealing that the government is refusing to raise the official exchange rate to realistic levels and will continue to avoid addressing the underlying problem in the foreign exchange market, where there is a differential of 1,149.7% between the official and parallel exchange rates.

In short, it is clear that the government does not have a clear plan of how to solve spiraling inflation and the shortages of products and is opting for continuing with its strategy of persecuting the private sector.





## Recycling ministers

President Nicolás Maduro started the year by renewing his cabinet, after the ministers submitted their resignations in order to “*facilitate the renewal of the government that is starting.*”

Last week, the only change in the economic cabinet was the appointment of Wilmer Barrientos as Minister for Industries, with Ricardo Menéndez being transferred to the Ministry for Higher Education. During the presentation of the Report and Accounts to the National Assembly, rumors that Nelson Merentes would return were confirmed; this time he comes back as the president of the Central Bank. At **Ecoanalítica** we consider this to be a positive change, as in the past Merentes has shown respect for institutional norms, a fundamental factor for a central bank. In addition, Rafael Ramírez was ratified as president of PDVSA, Minister for Oil, and Vice President for the Economy, which gives us grounds for expecting that he will continue with the opening up of the oil sector implemented last year.

In addition, the Ministry of Economy and Finance has been merged with the Ministry for State-owned Banks, which will now be headed up by Rodolfo Marco Torres from the pragmatic wing and closer to Merentes' group than Giordani's, but also from the ranks of the military, a fundamental factor when analyzing these changes. In **Ecoanalítica's** opinion, the point here is not whether this cabinet is more pragmatic or more radical, but that it is more militarists. The key issue is that, among the military, the view is that the solution to the problems has to do with implementing more laws and controls and carrying out more inspections, in addition to greater planning; and on this last point Giordani and the military agree. It is clear that the belief in a planned and controlled economy as the engine for the development model is the one that prevails.

## Bye, bye CADIVI... Will we miss you?

Other important measures announced by the President have to do with the mechanisms for the supply of foreign currency. For more than a decade, CADIVI was an omnipresent institution in the evolution of the country's economy, since it was the main agency to which people went to apply for foreign currency. Entangled in red tape, CADIVI allocated, at discretion, the foreign currency that the country's businesses, both public and private, needed in order to be able to import. However, by the end of 2012, CADIVI had started to show signs of having run its course, when it began to restrict the allocation of foreign currency to the private sector while imports by the public sector grew. This resulted in the public sector totting up a debt with the private sector that, today, comes to just over US\$56.22 billion. Also announced CADIVI's death sentence, since it is to be merged



with Cencoex, and the continuance of the exchange rate at VEB 6.3/US\$ for the foreign currency that is to be disbursed by this agency in 2014

**Non financial debt in foreign currency - Public Sector  
(US\$MM)**

CADIVI - Unliquidated Imports	8,700
CADIVI - Unliquidated approved dividends	4,290
CADIVI - Rent and Services**	4,280
Dividends dammed in CB*	10,530
Expropriation of foreign companies	14,215
Foreign oil contractors	7,850
Mixed firms -Partners PDVSA	6,350
<b>Total</b>	<b>56,215</b>

Sources: Ecoanalítica

\*Company Balance \*\*Includes debt with airlines

**And what said Ramirez?**

Economic Area Vice President Rafael Ramirez announced that the new exchange system will work with a system of bands. With the current rate lower limit of VEB 6.30/US\$ and the upper limit Sicad rate. More than a set of bands what we see is a system of gradual migration from areas from the rate of Cadivi to Sicad, or in other words devaluation in "slow motion". However, the announcement of the Minister Ramirez is novel and presents a more flexible system than the one announced by President Maduro in his recent address to the AN. Why? Maduro's approach was rigid, imposing, in our opinion a straitjacket on the exchange rate applied to public imports (which are about half today) and priority areas. Speaking of bands, and there is the magic of language and words, it is clear that the Executive can slide slowly the exchange rate used for these items, obtaining a greater tax benefit. We estimate may be closer to 5 percent of Gross Domestic Product (GDP).

Thus, the Executive seems to opt for a more aggressive devaluation scheme but applied gradually and under the veil of an alleged band system, which is not so, because what is going to end up running a migration, without haste and surely, the Sicad rate. This is good news for PDVSA, the main company affected by the current exchange rate anchor.

Is it enough? Unfortunately, with the current context of the Venezuelan economy, overwhelmed by imbalances in different markets (this is the real economic warfare), announced by the Minister Ramirez helps, of course,



but it is insufficient. And is insufficient, because it needed additional measures on other fronts, such as monetary or tax. And does not attack the underlying problem that has to do with the model and the supply of currency. Making a long story short, the foreign exchange constraint will remain until the Executive does not recognize that the anchor currency is not the way and that in the current context if it has chosen to maintain exchange controls, the legalization of parallel market is the most convenient.

### **Fiscal impact of the devaluation**

In Venezuela, an adjustment to the exchange rate is clearly justified from the fiscal viewpoint. What is more, since we are an oil economy, it is the fiscal adjustment mechanism par excellence. However, in recent years, the public sector has been gaining ground in the import business to the point where, if the CADIVI exchange rate of VEB 6.3/US\$ is maintained for public sector imports, which this year could account for 51.5% of the total, the fiscal impact of the adjustment on the exchange rate would be extremely limited.

If the VEB 6.3/US\$ exchange rate is maintained for public sector imports and 40.0% of the requirements are catered to by the defunct CADIVI, the net fiscal impact would be only 1.8 points of GDP. A second possibility we have considered is that, if the VEB 6.3/US\$ exchange rate is maintained for public sector imports only and the remaining requirements are transferred to SICAD, the fiscal impact would be 3.0 points of GDP. The third and last scenario is that the VEB 6.3/US\$ is maintained for only 30.0% of public sector imports, in which case the fiscal impact would be 4.2 points of GDP.

In the current context, where our public sector deficit forecast for 2014 is 15,4% of GDP, it is evident that the devaluation in these circumstances is insufficient. This leads us to think that the Central Bank will continue to use the mechanism of monetary financing of the deficit via PDVSA, which means that inflation will continue its upward trend, as will the exchange rate on the unofficial market.

### **But that's not the last word**

It has to be stressed, moreover, that it would be premature to discard the devaluation scenario proposed by the ratified Vice President for the Economy, which contemplated adjusting the CADIVI rate from VEB 6.3/US\$ to VEB 11.0/US\$ and a SICAD rate of more than VEB 16.0/US\$. In this scenario, the fiscal impact would be significant, in the region of 7.5 points of GDP. The first two months continue to be crucial in terms of taking decisions and it would not be completely off the wall for them to be



considering further announcements such as changing the law to allow private to "swaps".

The fact that the Executive ended up opting for a timid foreign exchange mechanism is highly negative. The present imbalances in the Venezuelan economy warrant a much more aggressive adjustment, given the current overvaluation of the bolivar, the limitations on increasing dollar revenues, and the gap between the foreign exchange markets. The adjustment proposed by President Maduro makes it clear that the restrictions will be implemented via a reduction in private sector imports, with the impact that this will have on the shortages of goods and services.

**In short, we're  
back at square  
one**

Undoubtedly the most important announcement was the change in the foreign exchange game rules. The high political cost of devaluing the "official" exchange rate made it necessary for the government to resort to an implicit devaluation by transferring goods from CADIVI to SICAD. This measure and the announcement of CADIVI's elimination, since they were not explained in detail, have ended up generating greater uncertainty with regard to future flows of foreign currency to the private sector, a fundamental factor that, at the end of the day, will affect domestic production, the supply of goods, and economic growth.

At **Ecoanalítica** we consider that, in order to cope successfully with the delicate economic situation currently facing the country, it is necessary to implement public policies that are very different from those that have been implemented in recent years, otherwise our forecast of a decline in the economic variables (a 1.0% contraction of GDP and inflation of 75.1%) could fall short.





## Economic Tips

**Heaps of money:** According to Central Bank figures, surplus bank reserves came to VEB 109.9 billion at the close of the second week of January, a sign of the huge amounts of cash that the banks have been unable to lend or invest in bonds. The situation of high liquidity and the lack of vehicles for investment (given the negative interest rates, foreign exchange controls, and the shallowness of the capital market) favor the placement of domestic debt by the government, which has increased by 1,274.0% in the past five years.

**CADIVI owes the private sector US\$9 billion.** According to Fedecámaras' estimates, CADIVI's debt with private sector companies (foreign currency approved but not disbursed) comes to a total of US\$9 billion, which is equivalent to 43.8% of the international reserves in the hands of the Central Bank (US\$20.6 billion). Air transport (US\$2.6 billion), the automotive sector (US\$2.0 billion), and the chemicals industry (US\$500 million) are just three of the sectors that CADIVI owes.

**Open line of credit:** Financing that China has granted Venezuela via the Chinese Fund comes to US\$40 billion, according to an announcement by the president of Banesco, Gustavo Hernández. "*The access to financing that China has given us, which, taking account of all tranches, comes to more than US\$40 billion is an access that far exceeds other options (...), such as going to the IMF,*" said Hernández, who added that 226 infrastructure and growth projects have been financed via this fund.

**Measures fall short.** Different investment banks have described as "insufficient" the measures announced last week by the President of the Republic with regard to the foreign exchange market. While the migration of items from CADIVI to SICAD is an implicit devaluation, Bank of America maintains that, even if the government were to allow the SICAD exchange rate to go to VEB 15.0/US\$ and 50.0% of products were to be switched over to SICAD, the public sector deficit would not be less than 10.4% of GDP.

**Devaluation without adjustments won't do any good.** Although the devaluation has been used as a mechanism for balancing the fiscal accounts, the measure shows signs of being all played out. According to Alejandro Grisanti, an economist at Barclays covering Latin America, "*devaluation has reduced its power to generate revenues*" and at the same time "*there are no signs of a reduction in spending.*" The investment bank JP Morgan, on the other hand, stated that, even though the lion's share of the dollars for imports will be offered at between VEB 11.5/US\$ and VEB



17.0/US\$, the devaluation will have scant impact on the gap between revenues and spending.

**Hoist with his own petard:** Last week, the National Assembly approved VEB 5.0 billion to cover the 10.0% raise in the minimum wage (which also includes pensions) decreed by President Nicolás Maduro at the start of the month. High inflation, which came to 56.1% last year, prompted the head of state to approve the raise to compensate for the increase in prices. At **Ecoanalítica** we estimate that the 10.0% raise will impact government spending to the tune of at least VEB 23.60 billion.

**Everything stays the same, for now.** Vice President Jorge Arreaza stated that the government is working on designing a transitory regime in order to gradually phase out CADIVI and that, for now, the procedures for applying for foreign currency approvals will continue to be “exactly the same.” Arreaza added that “*people who have members of their family studying abroad, who have genuine reasons for traveling because they have someone who is sick*” need not worry, as the foreign currency for those purposes is going to be guaranteed.

**“Fundamental anchor”:** The VEB 6.3/US\$ exchange rate is to be maintained “*this year and for much longer,*” according to Vice President Jorge Arreaza. Arreaza claimed that keeping the dollar at VEB 6.3/US\$ is a “*fundamental anchor of our currency,*” particularly for keeping the prices of food, medicines, and basic inputs stable. At **Ecoanalítica** we are of the opinion that fixing the exchange rate has failed as a mechanism for anchoring prices; proof of this is that the CPI went up by 1,162.5% between 2002 and 2013 and the price of food by 2,051.5%.

**Are shortages due to hoarding or is hoarding causing shortages?** The president of the National Statistics Institute, Elías Eljuri, alleged that the food shortages in Venezuela are due to “*domestic hoarding, nervous purchases, and smuggling.*” “*There is considerable hoarding in many homes. There are a lot of families that buy 10 kg or 15 kg of cornmeal. If it weren't for these nervous purchases, the shelves would be stocked,*” claimed Eljuri, who also attributed “*nervous purchases*” to the media that broadcast “*these campaigns.*”

**Interest rates.** The lending rate for the second week of January was at 15.4%, up by 1.3 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, down by 0,5pp compared to previous week, while the passive rate, placed at 14.0%, without variation compared to previous week.

**International reserves.** International reserves decreased by 1.9%, going from US\$20.87 billion during the second week of January to US\$20.48 billion during the



third week of the month. Compared to the same period last year, international reserves have decreased by 28.3%.

**Central government expenditure.** On Friday January 17<sup>th</sup> according to figures from the ONT primary spending was VEB 16.61 billion, which means an increase of 151.7% when compared to the previous week when it was VEB 6.61 billion; when compared to the same period last year we observe a increase of 54.9%.

**Monetary liquidity.** Money liquidity (M2) remained stable in the second week of January from the week prior, to settle at VEB 1.22 trillion. The M2 has increased 71.7% in relation with the same period last year.

## Oil Tips

**Production up in the last quarter:** According to figures published in OPEC's monthly report, Venezuela's production in 4Q2013 rose to 2.86 million barrels a day (mb/d), up 85,000 b/d from the preceding quarter, when production came to 2.77 mb/d, and up 96,000 b/d from 2Q2013, when average production was 2.76 mb/d.

**However, in 2013** the extraction of crude in Venezuela in 2013 slipped slightly in terms of volume, with the result that it remained practically unchanged from 2012. In its monthly report, OPEC indicated that, in December 2013, Venezuela extracted some 2.89 mb/d, 4.5% more than in December 2012. However, average production for 2013 was 2.78 mb/d, which means a drop of 0.7% compared to the average for 2012.

**Amuay still operating at half steam:** According to an operations report from Paraguaná Refining Center (CRP), Amuay Refinery is working with a load of 270,000 b/d, which is equivalent to 57.4% of the processing goal set for the complex of 470,000 b/d. Even though the refinery's installed capacity has a processing ceiling of 645,000 b/d, the run is normally in the region of 470,000 b/d as a result of problems in some units and scheduled maintenance in others, a situation that has resulted in a reduction in oil refining and an increase in the volumes of derivatives imported.

**And Cardón is operating at maximum.** According to the same report, Cardón Refinery, which is part of Paraguaná Refining Center together with Amuay and Bajo Grande, posted operating levels of 268,000 b/d, above the established goal of



260,000 b/d. The problems at Amuay have meant a heavier load for Cardón. However Cardón does not have Amuay's capacity, which means that the problems in the refining circuit have generated an increase in imports of both components and finished oil derivatives from countries such as the United States (EE.UU.).

**Some are getting out and others are arriving.** The Indian oil company Reliance Industries is considering acquiring the 11.0% share in the joint venture Petrocarabobo previously owned by the Malayan company Petronas, which announced its withdrawal from this project in the Orinoco Oil Belt in September. Reliance's senior vice president, Swagat Bam, said, *"We're seeking to take part in one of the heavy crude development projects and in a contract in Carabobo-1 block by taking Petronas' share."* Petrocarabobo plans to make investments of US\$20 billion over the next 25 years to develop the production of 200,000 b/d of heavy crude.

**Pay what you owe.** Venezuela's private oil sector hopes that, in 2014, PDVSA's expansion plans will mean greater growth in the oil industry and also that PDVSA will pay what it owes its suppliers. The president of the Venezuelan Petroleum Chamber, Alfredo Hernández Raffalli, said, *"We understand that PDVSA has taken upon itself to deal with payments to suppliers. Priorities have been established and this has been complied with in part..."* While no official figures are available, Minister Ramírez said that PDVSA paid suppliers US\$12.7 billion in 2013.

**Crude sales to the United States fall by 21.8%.** The volume of Venezuelan oil shipments to the United States continues to decline, according to figures from the US Department of Energy. The data indicate that, between January and December, Venezuela dispatched approximately 750,000 b/d, a reduction of 21.8% compared to the 959,000 b/d shipped in 2012. The drop in shipments to the United States coincides with a period of lower oil production in Venezuela –down by 0.7% according to OPEC statistics- and with the consolidation of energy relations between Venezuela and countries such as China and India.

**International oil baskets.** At closing time on January 10<sup>th</sup> in the New York Stock Exchange, the price of the WTI was US\$93.0/bl, down by 3.9% when compared to the reported the previous week. The Brent decreased by 2.2% when compared to the previous week, to reach US\$106.9/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$94.3/bl on Friday January 10<sup>th</sup>, a 2.5% decrease compared to the US\$96.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$95.6/bl.



## Business Sector Tips

**Loan portfolio grew 4.6% in December.** According to last figures released by the Bank Superintendent's Office (Sudeban) in December, gross credit portfolio of commercial and universal banks grew 61.9% in nominal terms and in real terms (excluding inflation), it meant a year-to-year increase of 4.6%, down 19.8 pp from real increase experienced in December 2012 (24.4%).

**Economic destinations credit portfolio.** In relation to the structure of the banks' loan portfolio in terms of economic destination, all sectors showed year-to-year a variation in real terms, led by micro credits (+11.1%), followed by tourism (+17.8%), commercial credits (+12.3%), placements earmarked for the manufacturing sector (+1,3%), agricultural credits (-0.6%), consumption credits (+3,5%) and finally mortgages (-19,0%).

**Commercial credits' share increases.** Concerning share in loan portfolio, commercial loans grew a little more than 2.9 pp, from 40.2% in December 2012 to 43.1% in the same month 2013, followed by the 1.7 pp increases in credit cards, reaching 13.4% of total portfolio. Mortgages, in turn, recorded a marked drop, from 11.7% in December 2012 to 9.1% in December 2013. Similarly, the share of consumption and agricultural credits creased and decreased to 16.7% and 14.9%, respectively.

**We're still in the dark.** The president of Fedecámaras, Jorge Roig, said that Nicolás Maduro's statements prove that "*the model has failed.*" He also stressed that many things still need to be clarified, such as how the private sector is to obtain access to foreign currency and the disbursement of the amounts CADIVI owes local companies, adding that, in his opinion, it looks as though the mechanisms for importing will get more complicated.

**Disbursements still haven't taken off.** According to the president of Venezolana Airlines, William Posada, no disbursements have been made to the aviation sector for approximately eight months. In the case of Venezolana Airlines, it has been two years since they received dollars via CADIVI. William Posada also reminded people that Aserca is only using three of its nine aircraft. He explained that the delay in disbursing foreign currency could affect the operations of domestic commercial airlines in the short term.





**The government gets creative.** Representatives of Air Europe and Air Italy met with the president of the National Civil Aviation Institute (INAC), Pedro González Díaz, to agree the terms for the payment of dollars CADIVI owes the airlines. At the meetings a payment scheme involving “foreign currency, debt bonds and fuel based on a statement as at December 31, 2013” was proposed on the instructions of the Minister for Aquatic and Air Transport, Herbert García Plaza.

**Air Italy accepts the proposal.** The Italian airline accepted the Venezuelan Government’s proposal of settling 50.0% of the debt with aircraft fuel, 25.0% with sovereign bonds, and the remaining 25.0% in dollars. The airline’s representatives expressed their interest in maintaining ties with PDVSA in order to purchase fuel in Venezuela, because it costs more in Italy.

**They want to modernize Guri.** Corpoelec announced that it issued an international call to bid for the modernization of Units 1 through 6 of the main common electrical and mechanical auxiliary systems at Guri Hydroelectric Power Station’s Machine House I. The following companies qualified and took part in the bidding: Industrias Metalúrgicas Pescarmona Saic y F (Impsa), Dongfang Electric Machinery C.O. Ltd (DFEM), Hechydro Consortium, and Euro Bras Guri One Consortium (Andritz Hydro-Voith Hydro).

**Who’re they fooling?** The president of Fedecámaras, Jorge Roig, acknowledged that some of the measures announced by Nicolás Maduro in his speech to the NA are positive. However, he confessed that he found Maduro’s statements confusing and said that, rather than announcing that the exchange rate would be kept at VEB 6.30/US\$, but without specifying who would have access at that rate and to how many dollars and how this would be done, “*it would have been much more honest*” to have announced a devaluation.

**If we maintain subsidies, we won’t see the light.** Electric Power Minister Jesse Chacón stressed the need to raise electricity charges, which have remained unchanged for 14 years. He announced that there is a subsidy of more than 70.0% that has to be reduced in order for there to be sufficient revenues to provide an adequate service.

**Stocks still not replenished:** After the wave of consumption at the end of 2013 as a consequence of the decree that slashed the prices of a variety of products, some stores say they still do not have a sufficient flow of foreign currency to replenish stocks. While some of these stores have resorted to domestic suppliers as an alternative for stocking their establishments, the possibility of domestic companies supplying the market also looks complicated owing to the fact that they too are experiencing delays in the allocation of foreign currency.



**Cornmeal supplies at risk:** Alimentos Polar has said that it notified the authorities 30 months ago of the need to import the tons that would permit the timely supply of cornmeal. At the moment, Polar is producing using “*raw material from its competitors that was transferred on the orders of Central Government.*” However, if the supply of white corn does not improve in the next few weeks, it will not be able to continue to produce at full capacity.

**Vehicle sales drop.** In 2013, only 98,878 new cars were sold, down 24.3% from 2012, according to data supplied by Cavenez. This means that sales by assemblers and importers fell by 31,675 units in one year. Between 2007 and 2013, there has been a contraction in sales of 79.9%.

**Rice production grew in 2013.** Rice production was up considerably in 2013, making it possible to cover 70.0% of domestic requirements. The Venezuelan Federation of Rice Producers Associations (Fevearroz) reported that production came to 980,000 tons in 2013, which gives an increase of 25.0% compared to 2012, when 784,000 tons were harvested. Domestic production in 2013 fell only 1.6% short of the record set in 2008, when 1,080,000 tons of paddy rice were produced.

**More requirements:** The Ministry for Food has asked companies that process food whose prices are regulated to submit a list of approvals and disbursements pending with CADIVI in order to try to speed up payment as well as their budgets specifying the foreign currency they need to import machinery, inputs, packaging and containers, raw agricultural materials, and finished products. It has been 40 days since most companies received fresh disbursements and, even though they were invited to take part in SICAD last week, they were unable to submit bids because they have applications pending at CADIVI.

**The “empire” to the rescue:** Plagued by the food shortage, on January 10, Venezuela purchased 125,000 tons of wheat from the United States, according to a report by the US Department of Agriculture. The purchases were made under a number of import licenses issued to the private sector and the funds were disbursed by CADIVI two weeks ago so that they could be made “immediately” available in order to deal with the emergency caused by the shortage of wheat.

**Controls versus Production:** The Ministry of Agriculture and Lands plans to stabilize vegetable prices by establishing price bands in order to minimize the impact on consumers. However, this measure has not been welcomed by farmers, who consider that the way to stabilize prices is to produce more. The president of Fedegro, Antonio Pestana, said that the Executive must guarantee the availability of inputs via Agropatria so that they can plant more and, thereby, stabilize prices.



**Trade with Colombia down:** The reforms to the foreign exchange system implemented last year, plus the drop in the supply of dollars, have brought about a reduction in trade between Colombia and Venezuela, according to Luis Alberto Russián, the executive president of the Venezuelan-Colombian Economic Integration Chamber. Total trade operations came to US\$2.6 billion at the close of 2013, for a drop of 9.0% compared to 2012.

**Colombia is owed money too.** Progress is being made in the negotiations between Colombia and Venezuela to revive bi-national trade relations. The president of Cavecol, Luis Alberto Russián, informs that, as part of the negotiations between the two countries, they are continuing to study a direct peso-bolívar clearing system to avoid relying on dollars. Although the clearing system for guaranteeing payments to exporters has been on the agenda since August 2013, no concrete agreements have yet been announced.

## World Economy Tips

**They have a budget up until September:** The US Senate approved a bill to fund the Federal Government in the sum of US\$1.1 trillion. The measure alleviates part of the automatic spending cuts with a US\$45 billion appropriation for domestic and military programs. Congress has now turned its attention to the debate on raising the federal debt ceiling to US\$17.0 trillion, which could be needed in less than six weeks.

**The Fed prefers growth to stability.** According to Fed Chairman Ben Bernanke, the US Federal Reserve should give the US economy the stimulus it needs despite fears that the mass purchase of bonds could destabilize the financial system. In one of his last speeches as chairman of the Fed, Bernanke commented that, at the Federal Reserve they did not believe that, at this time, concerns over financial stability should lessen the value of the need for expansion in monetary policy, which they continue to offer.

**Higher growth, but with higher risks:** The International Monetary Fund (IMF) forecasts that there will be an acceleration of world growth this year, although it could remain below its potential rate of 4.0%, according to the IMF's Managing Director, Christine Lagarde. Lagarde also warned of the "growing risks" of deflation, given that the increase in prices remains below the objectives of several central banks.



**Is the boom over?** According to data published by China's National Bureau of Statistics, the world's second largest economy grew by 7.7% (yoy) in 2013, after slowing down in the last quarter due to a weak expansion in investment. China is currently implementing economic reforms to promote domestic demand to the detriment of exports and investment, which means that growth in China's GDP could slow down still further in 2014.

**Iran is back.** The foreign affairs ministers of the European Union (EU) agreed to lift part of their sanctions on Iran for six months, whereas the United States has started to relax the sanctions it has imposed on that country after Iran took steps to start to put a brake on its nuclear program. The European Union has suspended the ban on purchasing petrochemical products and is to permit the transportation of Iranian crude on EU vessels and trade in gold. The lifting of sanctions will also allow the Iranian Government to gain access to US\$4.2 billion in funds that had been frozen.

**Spain will grow in 2014.** The IMF expects the Spanish economy to grow by 0.6% in 2014 and by 0.8% in 2015, approximately 0.4 and 0.3 of a percentage point more, respectively, than forecast in October last year. The IMF's projections are close to the Spanish Government's estimates of an expansion of 0.7% in GDP this year, a figure that could be revised upwards following the good performance of the export, industrial production or tourism indicators. The improvement in the IMF's forecasts could have a positive impact on the rating of Spain's sovereign debt in the short term.

**The luck of the Irish gets even better.** The risk rating agency Moody's raised the rating of Ireland's sovereign debt from "Ba1" to "Baa3" (investment grade), with a positive outlook. Moody's based its upgrade on the recent acceleration in economic growth, "which indicates an increased likelihood of securing the sustained long-term growth needed to achieve a turnaround in Ireland's public finances." The new rating will allow the government to expand its debt market to include investors who cannot purchase bonds with a lower rating.

**Endogenous growth:** According to the report "World Economic Situation and Outlook 2014" published by the United Nations (UN), Latin America and the Caribbean will achieve growth of 3.6% overall in 2014, driven in particular by the increase in domestic demand, although they will continue to be vulnerable to possible turbulence in the world economy. The United Nation also expects the region to benefit from the strengthening of external demand in 2014 as the United States and Europe emerge from the crisis.

**A business that virtually moves millions.** A study conducted by the consulting firm OC&C and Google estimates that the value of e-commerce in the EE.UU, the United Kingdom, Germany, the Nordic countries, Holland, and France amounted to US\$25



billion in 2013. According to the report, the value of on-line exports in six of the main world e-commerce markets could multiply fivefold by 2020 to US\$130 billion.

## Political Tips

**One of the most violent:** According to the latest report by the Mexican NGO *Seguridad, Justicia y Paz* (Security, Justice and Peace) five of the world's 50 most violent cities are to be found in Venezuela. The report states that Caracas has become the world's second most dangerous metropolis, ahead of Acapulco (Mexico) and behind only San Pedro Sula (Honduras). Joining Caracas in this unsavory list are Barquisimeto (10th), Ciudad Guayana (17th), Maracaibo (42nd), and Valencia (50th).

***"We haven't been able to get crime under control."*** PSUV deputy to the National Assembly, Jesús Farías, admitted that the government has not been able to control the lack of security in Venezuela. *"The lack of security is a very serious problem in Venezuela. We haven't been able to get it under control (...), if the lack of security persists, then there has to be something in the system that isn't working. There's a police issue we need to address,"* he added. Farías claimed that the opposition is taking advantage of the shortcomings in citizen security to create *"a destabilizing breeding ground"* in order to manipulate and twist the truth.

**A lawless country:** After President Nicolás Maduro admitted that *"We still have a lot to do to revolutionize inside the justice administration system,"* a report by The World Justice Program (TWJP), a US NGO, classified Venezuela's criminal courts as the worst in the world out of a total of 97 nations assessed. The aspects evaluated by the study were the existence of an efficient criminal investigation system, the effectiveness of the prison system in reforming criminals, and the independence of the judiciary.

**For Peace and Life:** President Nicolás Maduro invited the Venezuelan people to take part in a National Mobilization Day for Peace and Life to be held on Sunday, January 26. *"Those of us who want peace and respect for life are the majority, the overwhelming majority. It can't be that a minority puts us in a difficult situation for our social life,"* said Maduro, who added that the event will include *"a consultation drive"* so that people can make suggestions regarding what they believe needs to be included in the national pacification plan.



**That was the plan, my commander!** President Nicolás Maduro responded to those in *Chavismo*'s ranks who have denounced that the Plan of the Fatherland (plan of the nation) approved recently by the National Assembly contains "*falsehoods that manipulate Chávez' thinking, twist it towards capitalism and turn the Plan of the Fatherland into a clear restoration.*" "*I saw how this project of the Plan of the Fatherland was born; we lived it. I speak as President; I lived it,*" claimed Maduro, when referring to the proposal approved recently by the National Assembly and that was presented in October 2012 by the late President Hugo Chávez.

**No shortage of protests in 2013:** According to the Observatorio Venezolano de Conflictividad Social (OVCS), in 2013, there were 4,410 protest demonstrations. While this figure is high, it is 19.6% lower than the figure for 2012. The OVCS discarded the hypothesis that the reduction in the number of demonstrations was due to a lessening of social discontent and attributed it to the long period of convalescence following the death of President Hugo Chávez from cancer.

**Worker discontent:** According to OVCS' report, 40.6% of the demonstrations in 2013 had to do with labor demands, 23.7% were over security and the rights of persons deprived of liberty, 22.5% involved demands for housing, and 13.1% were held to demand a better education. The OVCS warned that last year marked the beginning of demonstrations over shortages of food and personal hygiene products, a situation that started to get worse from the end of 2012.

**If there's no newsprint, there are no newspapers.** According to the Press and Society Institute (IPYS), the problems in acquiring newsprint and other supplies needed to print newspapers (ink, film, and plates) owing to restrictions on access to foreign currency for purchasing raw materials have resulted in the temporary closure of seven daily newspapers in Venezuela, and at least 14 more have had to reduce their print run. According to the IPYS, the newsprint situation "*got worse in 2012, when the government removed newsprint from the list of imported goods warranting priority attention.*"

**Ready to talk:** After President Nicolás Maduro said that his administration was "*ready and willing*" to resume bilateral talks with the United States, Jen Psaki, a US Department of State spokesperson, stated that her government had not closed any doors and was "*ready to sit down with Venezuela,*" although she gave no details of how the dialog between the two countries –which was broken off in July 2013- might be resumed.





## Legislatives Tips

**Diosdado confirmed in the presidency:** With Diosdado Cabello at the helm, the National Assembly now has a captain for 2014. Darío Vivas and Blanca Eeckhout will continue at his side as first and second vice presidents, respectively. All of them hail from the government benches. However, apart from the board of officers, the composition of the rest of the National Assembly has still to be decided. To begin with, after Víctor Clark's appointment as Minister for Youth, the secretariat of the National Assembly has fallen vacant. Besides the secretariat, the National Assembly has to appoint the members of the 15 permanent committees and their chairpersons, a responsibility that, according to the National Assembly's rules of procedure, falls to Cabello.

**Cabinet changes published in *Gaceta*.** According to *Gaceta Oficial* No. 40,334, which went into circulation on Thursday, January 16, the Foreign Currency Administration Commission (CADIVI) and the People's Power Ministry for Commerce now have new chiefs. Decree 735 states that the new People's Power Minister for Commerce is José Salamat Khan, who has held other government posts, and that CADIVI's new president is José Antonio Fleming, previously Minister for Commerce.

**Issuing or renewing a passport now costs VEB 749.** *Gaceta Oficial* No. 40,335, which went into circulation on Friday, January 17, includes an amendment to 14 paragraphs of Article 7 of the Revenue Stamps Act, which refers to immigration services, such as passports, authorization of visas, and certificates of naturalization. Article 7 establishes the payment of seven tax units for issuing or renewing regular passports in the case of Venezuelan citizens and for issuing foreign citizens with emergency passports. Previously the charge was three tax units.





**ECONOMIC OVERVIEW**

