



Weekly Report

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Are we independent?

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The economic history of Venezuela for over almost a century now has been defined by one single variable: oil. Since around 1936, when oil revenues began to represent one third of the country's incoming revenue, the concern that has existed in Venezuela, and in many other countries that are dependent on the export of raw materials, revolves around the vulnerability and the negative impact of concentrating such a high percentage of the country's exports on a single (or few items) and how this will affect economic growth and development.

Taking into account how hopelessly dependent Venezuela has become on incoming oil revenue due to the policies that have been implemented by the current Administration for the last 10 years, and how our country has significantly increased its exports of crude oil and oil by-products to countries which economies are growing at a very fast pace; emergent economies, the most important of these being China. This new policy has been implemented at the expense of the United States, that continues to



receive Venezuelan oil exports, but at volumes that are being reduced. This Weekly Report will focus on Venezuela's foreign trade situation, specifically on trade with China and the United States, to determine just how dependent our economy is of these two economies, that not surprisingly, are the two largest economies in the world.

**Why does our
"oil situation"
affect us?**

First, we must begin by referring to the Law of Diminishing Returns, which states that the more a country continues to invest in a single activity, including an export activity, of a reduced number of items, the rate of economic return will tend to diminish over time.

Second, concentrating exports, regardless of whether the product is a high technology product such as a computer chip or a product such as oil, it is vulnerable to the periodic, *and sometimes unexpected*, drop in demand, along with a subsequent drop in prices, which in turn will lead to diminished incoming export revenue. This volatility with incoming revenues associated to exports may lead to significant negative consequences for the governments in charge of developing countries when trying budget public spending for education, infrastructure, healthcare, or any other item dependent on fiscal spending. This has been the never-ending-story for Venezuela.

Furthermore, there is a well-know hypothesis that states that over time, the terms of exchange for raw materials will drop. The idea is that as countries become wealthier, they will spend proportionately more on finished products, thereby leading to a relative drop in demand for raw materials.

**Dependent and
vulnerable**

If by concentrating exports on a single (or few) item(s) tends to exacerbate the volatility of the revenue these same exports generate, then this situation becomes even more pronounced and critical when said exports are raw materials and/or fuels. Raw materials tend to be very homogenous products generating very mono-exporting economies that face very fixed (not-elastic) demands. When international markets face adverse conditions, this quite often leads to main economies making adjustments on spending which in turn affects demand, which can significantly affect the amount of incoming revenue for economies dependent on a single basket of raw material and/or fuel export items.

**From theory
to practice
or practice
to theory?**

It's equally well-know that resource rich economies are better able to face Dutch disease. A boom in the export sector is usually a beneficial development for a country. But, in the case of an exporting economy of natural resources, this could lead to negative consequences. Increases in



the export of minerals and fuels are usually accompanied by an increase in the exporting country's real exchange rate, as well as across the board salary increases. This can lead to a loss of competitiveness and tends to diminish the size of the manufacturing sector, which in turns leads to a de-industrialization of the economy.

Condemned by oil revenues

Recent economic literature states that it is more difficult (less probable) to make significant leaps up the aggregated value ladder based on mineral or fuel exports that is exports were based on manufactured products. And, by concentrating exports on oil or other raw materials, domestic businessmen don't have the opportunity (or initiative) to realize the benefits of exploring for and discovering the adequate variety of products for exports. Therefore, economic growth through "auto-discovery" becomes less and less probable.

Then, there are those who sustain that, economies that generate their income through the production and export of raw materials, are usually economies characterized by weak institutions. Consequently, these countries tend to misuse the income generated by these exports and not invest enough to ensure the continued economic development of the country; even after it is clear that their source of export is about to be depleted.

We continue to do the same thing: oil for two giants

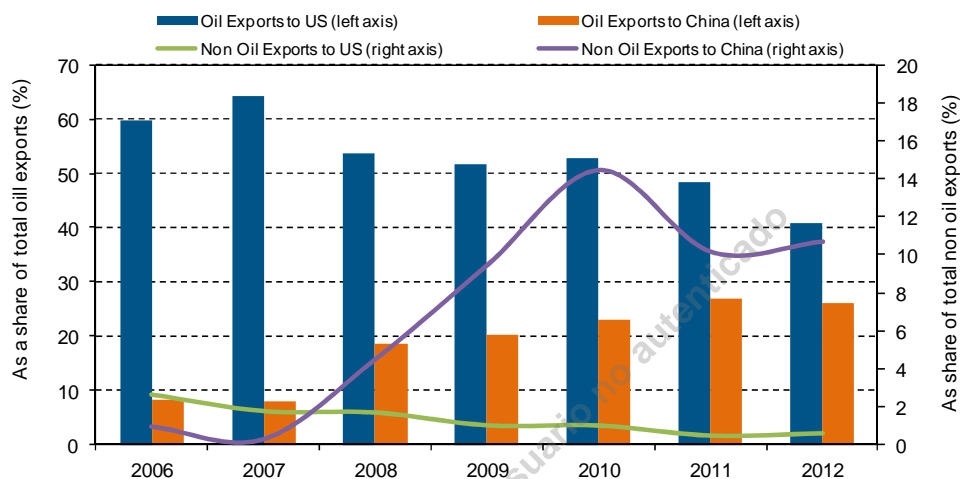
For all of Latin America, the United States, by far, continues to be the main country that receives all exports. Having said this, it is equally clear that China is becoming a major player in the regions, and in 2010, the amount of Latin American exports destined to the Asian giant almost reached the volume of exports destined to European Union (Euro Zone + UK), traditionally the second largest export destination for the region. With respect to raw materials, equal amounts are exported to the United States, the European Union, and China.

With respect to Venezuela, the tendencies are about the same. The United States continues to be the main destination for Venezuelan exports at 40.2%, and China, which in 2002 received virtually zero exports from Venezuela, at the close of 2012, received 25.6% of Venezuelan exports. Most of the exports in question, being sent to both countries, is oil.





Oil and Non Oil Exports to US and China



Sources: Pdvsa and Ecoanalítica

Why China?

It's important to point out that the reason China has become such an important player in the Venezuelan economy, specifically, as a destination for significant amounts of Venezuelan oil exports, is not only due to the way the Chinese economy is growing so rapidly, but also due to: the economic situation in the United States and Europe; and Venezuela's foreign policy.

The significant drop in the volume of exports headed to the United States and Europe, an effect of the economic crisis in 2009, played a role in the increase in exports being sent to China, which demand for raw materials has been ever increasing in order to fuel its rapid industrialization and economic development. For Venezuela, this has helped cover the negative ripple effects of the overall world economic crisis. China's demand for raw material, helped many of the Latin American countries fill the void left by the U.S. and Europe due to the world crisis and is the main reason why Latin America weathered the world crisis better than most other regions (shorter recession and quicker recovery in GDP growth). With respect to foreign relations, there has been an overall increase in bilateral relations between China and Latin America. In Venezuela, these relations have gone a bit further, with ideological issues playing an important role.

Analyzing intra-regional trade, it's clear that the flow of goods into Latin America have mainly to do with finished goods. At the same time, a significant increase in cheap imports from China have been registered, but these have not had a negative impact on the flow of goods coming from

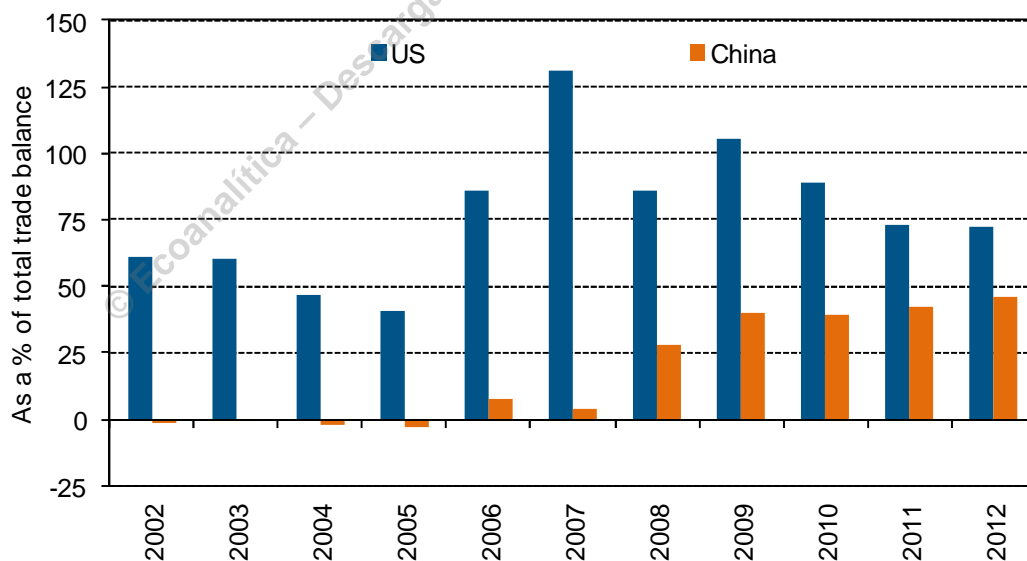


other trade partners such as: the United States and Europe. The latest figures show, that trade between Latin America and China has increased by a factor of 20, with the greatest increase coming from the Southern Cone and the Andean countries, especially Venezuela.

The same thing that is happening to the U.S. is happening to China

China has quickly become Venezuela's, and many other Latin American countries, number 1 or 2 trading partner. The arrival of China, as an economic player in the region, is seen by most as a blessing; with the region being overly dependent on the United States. But now, this perspective is beginning to change. Serious concerns are voiced regarding the possible negative effects associated with the Chinese demand for raw materials, and the "excessive" flow of cheap imports that are replacing domestic production. In other words, there is an increasing fear of the increased concentration of exports, and at the same time the threat of de-industrialization.

Trade Balance with U.S. and China



Sources: INE and Ecoanalítica

How much do we depend on these super-economies?

In an attempt to analyze the effect of the Chinese and U.S. demand for Venezuelan exports, based on a study carried out by the BBVA¹, we have created a dependency index in order to determine by just how much our country has become dependent on these two super economies.

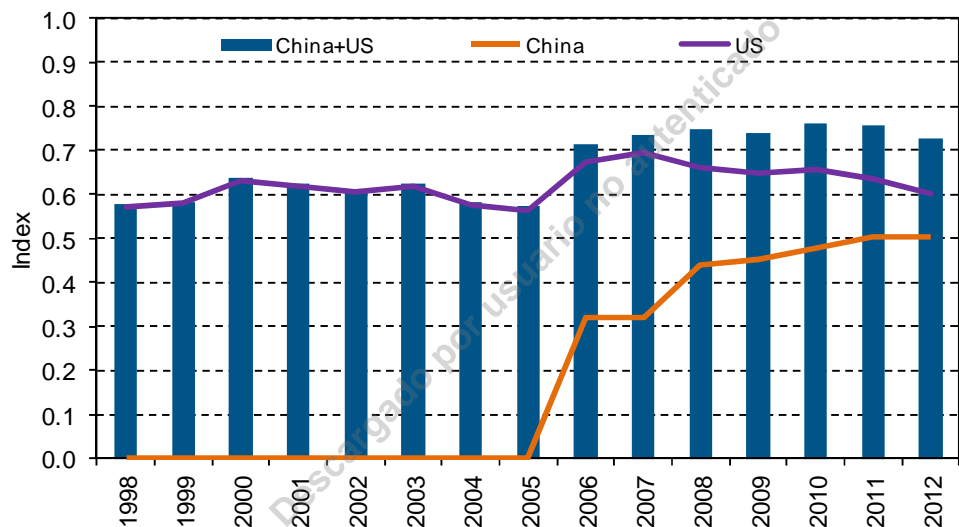
¹ "Evaluating Latin America's Commodity Dependence on China", BBVA Research, Hong Kong.





The index has a scale of 0 (no dependency) to 1 (complete dependency). In other words, the higher the points (closer to 1) the more vulnerable the Venezuelan economy is to any interruption in trade between any one of these two countries.

Dependency Index



Source: Ecoanalítica

As you can see by the graph, Venezuela has increased its dependency of both China and the United States. With respect to China, in 2006, when crude oil sales began with said country, the index was at 0.32. Now, at the close of 2012, the index is at 0.50. With respect to the United States, we can see that at the close of 1998, the index is at 0.57. Now, at the close of 2012, the index has increased to 0.60. If we consider the dependency to both economies put together, then we see that the index jumps to 0.73.

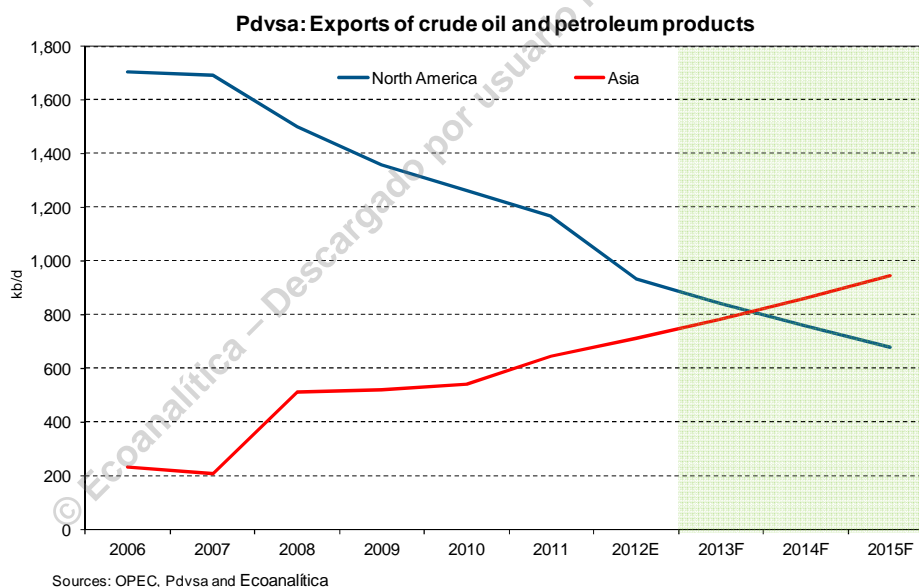
These very high dependency index levels show that Venezuela is extremely dependent on these two economies. It's important to point out that while there are other countries in Latin America, also exporters of raw materials, also dependent on these two economies, but none of these other countries with such high levels of dependency as Venezuela reflects in this graph. And if we were to include the export of intermediate and finished goods, the dependency level of these other Latin American countries drops, while Venezuela remains very high.





The diversification towards China has been beneficial, but up to what point?

At *Ecoanalítica*, we believe that though we continue to further concentrate our oil exports, Pdvsa's strategy to diversify to the Chinese market is partially a good thing. The recent world economic crisis showed the dangers of having all, or most, of your exports going to just one trade partner. But there are significant disadvantages when your second main business partner is also the second largest economy in the world. Any negative effect on international markets and demand will equally affect the United States as well as China. Then there are the financial conditions associated to exports, and which in Venezuela's case, plays a very important role, for example: Petrocaribe exports. But this is an issue we will not get into in this Report.



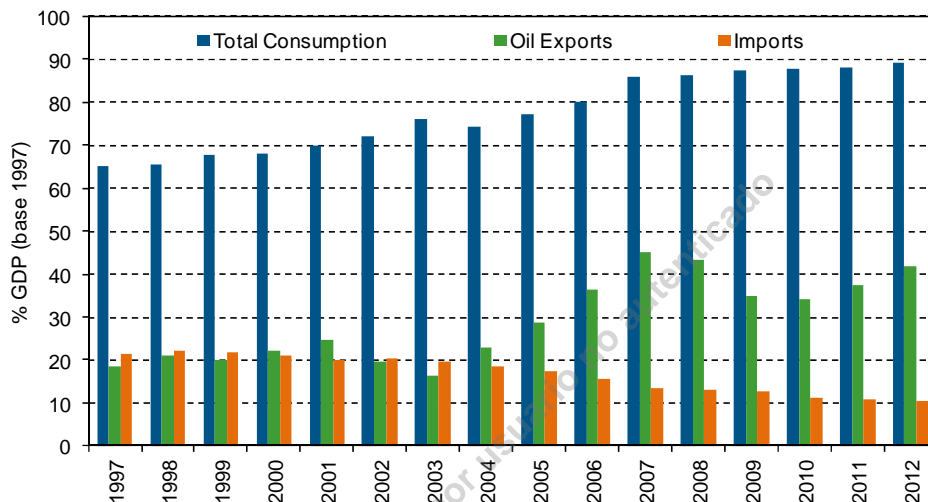
Beyond economic growth

The fact that we export most of our crude oil to these two economies doesn't absolutely mean that we are completely dependent on them per se. For example, when we see that Venezuelan oil exports equal 10.5% of GDP, we could think that the economy doesn't depend all that much on trade. However, when we analyze imports and consumption, we see that they represent 41.9% and 89.3% of GDP respectively.





Private consumption, exports and imports as % of real GDP



Sources: BCV and Ecoanalítica

In order to calculate the impact of the export of raw materials on economic growth is something that would require a much more research and extensive and complicated study. However, at **Ecoanalítica**, we believe that crude oil exports to these economies could have a direct, not very significant, impact on Venezuelan economic growth; while the indirect contribution through jobs, investment, fiscal revenue, etc. can be much more important, especially as a stimulus to domestic consumption which is the main engine behind our economy.

**Today, we
are not
independent**

Just like in Chile, where the copper has played a central role in the country's development and its export sector, Pdvsa is Venezuela's main economic player defining the country's political and economic identity. Oil production and exports is the country's main engine for economic growth, jobs, and fiscal revenue. It is the key between increasing trade relations with China. The increase in crude oil exports to China, especially when oil prices are high, have a significant impact on how much the Venezuelan economy can further develop beyond the oil sector.

So, any drop in demand for crude oil, especially if it is directly tied to China, will have significant negative consequences for the Venezuelan economy's GDP growth.

In general, the result of a number of diverse studies suggests that a "China effect" does in fact exist. And that the increased role that this country will



play with respect to the demand for raw materials may lead to increased concentration of exports by countries exporting these types of goods. In our opinion, policy makers in Latin America and Venezuela must be aware of this situation so that they may proceed with caution, keeping a close eye on how China continues to develop its economy and carefully examine and be more critical of the extent of foreign trade relations with the Asian giant. In Venezuela's case, the problem is greater. It's not just about being dependent on a super-economy, the main problem continues to be: *Seeding Oil*.

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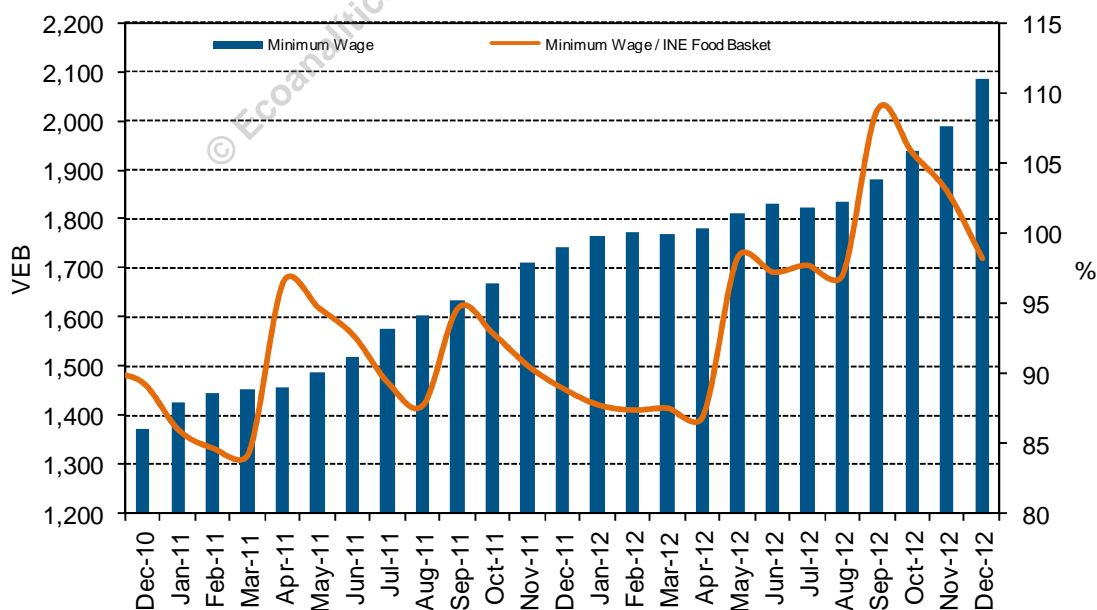
Economic Tips

Food basket increased by 4.8% in December. According to figures released by the National Statistics Institute (INE), the food basket value was VEB 2.085 in December, up by 4.8% from November and 19.7% from December 2011, thus meaning that the reference food basket increased VEB 344 in one year.

Precooked corn flour registered the highest price variations. VEB 70 was used to buy this product, its price increased 46% from November 2011. Meanwhile, rice for which VEB 34 was used, registered the second high price variation of 32% since November 2011.

Minimum wage covers 98.1%. The above signifies that minimum wage isn't enough to buy basic foodstuffs, because a worker earning the minimum wage (VEB 2.047) could only buy 98.1% of the basket estimated by INE.

INE's food basket Vs. Minimum wage's purchasing power



Sources: INE and Ecoanalítica





Everything as usual. The Government will not liberate the price of food or eliminate exchange controls, said Nicolás Maduro, Vice-President of the Republic, in response to the comments of Fedecámaras. *"In economic matters we are facing permanent threats, in the sectors that lived from the oil rent (...) and want an economic package"*, and according to him, *"proposed liberating product prices, eliminating exchange controls, Cadivi and Sitme, and privatizing public companies"*, said Maduro.

The drama of overvaluation. *Ecoanalítica* estimates that to fully correct the overvaluation of the currency, the Government would have to take the exchange rate to VEB 9.2/US\$, a devaluation of 113.9%, although it will most likely be a partial adjustment to VEB 6.3/US\$ (a devaluation of 46.5%). The over-valuation not only has affected the industry's competitiveness, but has also increased imports to a point where there isn't enough foreign currency to import everything demanded, and has become a determining factor for the actual shortage of materials and of finished products.

The bottomless fund. Since its creation, and up to the end of 2012, the National Development Fund (Fondo de Desarrollo Nacional - Fonden) has received US\$102.2 billion, 3.4 times the international reserves at the end of December. Fonden, which was created as a savings instrument to execute infrastructure works, has become a checkbook through which the Government has been financing current expenditures at its discretion.

Funds come... and go... So far, Fonden has received US\$59.90 billion transferred by Pdvsa (through the tax on extraordinary earnings), and 45.3 billion transferred by BCV (in a discretionary manner, and as long as the international reserves exceed the level established as optimum). But while its financing has been transparent, there is a complete lack of knowledge of the infrastructure projects that these resources are financing.

Less resources for Fonden. Rafael Ramírez, Minister of Oil and Mining, announced the reform of the Law of Contributions from Extraordinary Crude Oil Prices, modifying the price bands through which Pdvsa must make its contributions to Fonden. The reform is a readjustment through which Fonden will receive US\$2.96 billion less, the BCV will receive an additional US\$2.40, Pdvsa will keep an additional US\$1.42, and US\$38 billion will go to the Treasury from royalties.

New scheme. The new scheme of contributions due to extraordinary prices establishes that if oil prices are not over US\$80/bl (before it was US\$70/bl) Pdvsa's contribution to Fonden will be 20% of the difference between that price, and the value estimated in the national budget (US\$55/bl), when the price is between US\$80/bl and



US\$100/bl (earlier between US\$70/bl and US\$90/bl) the contribution climbs to 80%; 90% when it is between US\$100/bl and US\$110/bl (earlier between US\$90/bl and US\$100/bl), and finally, the contribution will 95% if the price is over US\$110/bl (earlier between US\$100/bl).

Taking advantage of a golden opportunity. Searching for more liquidity in foreign currency, and taking advantage of high international oil prices, the Government is studying the possibility of issuing certificates backed by non-monetary gold that comes from the mines in Guayana. The mechanism would convert the natural gold reserves into currency, to finance part of the imports and social spending, and thus avoid fiscal cuts and /or devaluation.

18K Bonds. The deal would be to leave the gold in consignment at a Central Bank or with an investor, and receive cash advances; then these intermediaries would issue certificates backed by the metal, which would earn interest for its holders (like any debt paper). The gold would become a guarantee, making the State assume the commitment to pay its obligations, and to pay its debt, if the nation cannot return the totality of the funds received.

Interest rates. The lending rate for the third week of January was at 15.5%, up by 0.4 percentage points compared to the previous week. The time deposit rate was at 14.5%, without variations 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 0.9%, going from US\$28.58 billion during the third week of January to US\$28.31 billion during the fourth week of January. Compared to the same period last year, international reserves have decreased by 4.5%.

Monetary liquidity. Monetary liquidity (M2) growth up 0.5% in the third week of January compared to the previous week, settling at VEB 713.63 billion. The M2 has increased 60.9% in relation with the same period last year.

Sitme figures. So far this year, US\$331 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$15.8 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents a decrease of US\$403 million (54.9%) over the same period of 2012, when US\$734 million were negotiated. Lastly, during the fourth week of January the amount traded reached US\$78.6 million, the same than the previous week, with a daily average of US\$15.7 million.



Oil Tips

Not for the EU! Alireza Nikzad, spokesman of the Ministry of Oil of Iran, informed last Monday January 28 that Iran banned the sale and export of any type of crude oil, liquid gas, and condensate to the 27 European Union (EU) countries due to the UN sanctions against its nuclear program. According to Nikzad, in its new contracts with other countries, Iran asks for the destination, where the product is consumed or transported, and has prohibited its transfer to European countries.

Petromonagas reached its target. Pdvsa announced in a press release that Petromonagas, a joint venture ascribed to the Executive Direction of the Carabobo Division of the Orinoco Oil Belt, reached this month the target of producing 145,000 barrels per day (kb/d) of extra heavy crude oil. He adds that *"to achieve the goal, the work team drilled four additional wells, with an average of 1.3 kb/d per well, adding approximately 5.2 kb/d to the total production of Petromonagas."*

Rosneft purchases Petromonagas. Rafael Ramírez, Minister of Oil, informed that the Russian Oil Company Rosneft purchased TNK-BP's share in Petromonagas. TNK-BP's share in the crude upgrader was 16.7%, and the remaining 83.3% will continue in Pdvsa's hands. The sale of the share in Petromonagas occurs when TNK-BP is going through a restructuring of its assets worldwide, while Pdvsa is pushing an ambitious investment plan with foreign partners in the Faja, and is trying to boost the capacity of the upgrader to 250 kb/d.

Flexicoker in Amuay is operating. The flexicoker of the Venezuelan Amuay refinery started up and is working at its maximum capacity, after shutting down for 10 days due to a leak, according to Pdvsa workers. The refinery's flexicoker, with the capacity to process up to 72 kb/d of heavy crude oil and convert it into gasoline and diesel, was shut down due to leaks in the transmission line. A Pdvsa report said that the Paraguaná Refining Center was operating at 57% of its capacity in January but the replacement of the flexicoker partially increases the operation of the unit.

Something is being done with the coke. Pdvsa informed that between November and December, 2012 new ships were loaded with a total of 450,000 tons of coke from the Orinoco Oil Belt. Pdvsa said that Petroanzoátegui's coke loading terminal *"recently went through a profound integral maintenance, that restored its operation capacity by 80% and presently, this strategic terminal is dispatching ships at an approximate rate of 1.500 tons of coke per hour."*



No more cuts. Abdullah al-Badri, Secretary General of OPEC, considers that it isn't necessary to make more production cuts. OPEC's production fell in December to its lowest level in more than one year because Saudi Arabia, the largest producer of the group, reduced its production. Al-Badri said that although the world economy is improving, *"we don't want to cut production if some countries are struggling with their economies."*

Market well supplied in 2013. The Secretary of OPEC also said that the global oil market should be well supplied in 2013 and *"unless something dramatic happens, 2013 will be a repeat of 2012."* Abdullah al-Badri also said that it is unlikely that OPEC will reduce the assignment of quotas for individual members (OPEC has a collective production target of 30 billion barrels per day) particularly in the case of Iraq which has been exempted for a long time from paying OPEC's rate.

Corporación Venezolana de Minería ascribed to Pdvsa. Rafael Ramírez, Minister of Oil and Mining, informed about two of the points that President Hugo Chávez approved last week in Havana regarding economic matters. Among them is the creation of the Venezuelan Mining Corporation (Corporación Venezolana de Minería - CVM), which will be ascribed to Pdvsa, to manage the extraction activity. Pdvsa Industrial will manage the CVM, and it is estimated that this year it will produce around 4 tons of gold, and 14 tons in 2019.

How to charge Petrocaribe. Another announcement of Minister Ramírez has to do with the intention to change the payment scheme for Petrocaribe beneficiaries. *"We have a proposal that will be presented at the next summit in February, regarding the issue of debts"*, he said. *"We are promoting a mechanism to manage the funds so that we can replace those resources faster and more directly"*, he added. He said that they are striving for a mechanism similar to the one negotiated with the Dominican Republic, where a refinery was acquired.

Ecopetrol displaces Petrobras. According to the *Financial Times*, the Colombian State Oil Company Ecopetrol surpassed the Brazilian Petrobras as the first company in Latin America in market capitalization (US\$129.5 billion vs. US\$126.8 billion). This, despite the fact that the production of Petrobras is almost three times larger; however, the huge resource base and its favorable business environment has attracted more international investments to the Colombian company.

International baskets. Last Friday, January 25th in New York, WTI closed at US\$95.5/bl, which shows an increase of 1.5% compared to US\$94.1/bl recorded the previous week. Meanwhile, Brent increased by 1.5% to reach US\$ 112.4/bl compared to the previous week when it reached US\$110.7/bl.



Local basket price. On Friday, January 25th the Venezuelan oil basket price closed at US\$103.2/bl an increase of 1.9% compared to US\$101.3/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 101.6/bl.

Business Sector Tips

Loan portfolio recorded an increase of 50%. According to figures published by the Superintendency of Banks (Sudeban) the loan portfolio of the banking system amounted to VEB 397.60 billion in December, a variation of 50% over December 2011 when it stood at VEB 265.01 billion.

Banking total assets. Registered a variation of 4.9% compared to November, closing in December at VEB 927.89 billion, an amount 57.6% higher compared to the VEB 588.92 billion of December 2011.

Investments in securities of the banking sector stood at VEB 250.11 billion in December, representing 27% of total assets, reflecting an increase of 4.8% compared to the previous month, when it stood at VEB 238.64 billion. Compared to the end of December 2011, the balance of investments in securities experienced a rise of 76.2%.

The public deposits amounted to VEB 788.81 billion at the end of December, an increase of 4.7% compared to the previous month. In connection with the month of December 2011, public deposits increased 63.2%.

Time deposits are still in free fall, to settle at VEB 3,738 million by the end of December, with a share of only 0.5% of total public deposits, experienced a decline of 6.3% compared to the previous month, and of 56.9% over the same period last year.

Banco de Venezuela leader in credits. In a press release, Banco de Venezuela informed that credits for the production sector increased 63.3%, from VEB 23.24 billion granted in December 2011, to VEB 37.95 billion during the same period in 2012, making it the financial system leader in granting credits for producing sectors. Thus, the compliance coefficient of the bank's credit portfolios closed at 41.9%, higher than the 24% minimum required by the law.





Restrictions eliminated for cargo vehicles in the country. In *Official Gazette* N° 40.096 of Friday, January 25, the Ministry of the Interior and Justice published a resolution eliminating the restriction for the transit of cargo vehicles weighing 3,500 kilos or more, in the national territory. Article 2 of this resolution states that restrictions of vehicles with this weight will only apply for those transporting alcoholic beverages.

Gold Fever. Minister Rafael Ramírez announced the assignment of three gold exploitation blocks to the Venezuelan Mining Corporation (Corporación Venezolana de Minería - CVM) where joint ventures will be created: the Guasipati-El Callao block, the El Callao block, and the Sifontes Sur block. He also defined five sectors for the small gold miners (8,651 hectares): the La Prueba, Hoja de Lata, Nuevo Corazón de Jesús, Apanao, and Bizkaitarra sectors. Ramírez said that there are 133 million ounces of gold reserves, of which 81.4 million ounces are for CVM, while the remaining ones are for other projects.

The Chinese now in mining. Ramírez informed about an agreement signed in Miraflores in September 2012 between the Government of Venezuela, and Chinese Citic Construction, for geological exploration to quantify the reservoirs of gold, diamonds, bauxite, iron, phosphate, and coltan. The document establishes six places where mineral reserve calculations will be made. In Bolívar, they will search for bauxite (El Parguaza), iron (Imataca) and gold (El Callao). In Zulia, Mérida and Falcón, they will search for phosphate and in Pregonero (Táchira) for copper. The starting date is October, 2013 and will end in April 2015.

Chinese institutions will execute the mining map. The document clarifies that although the entity responsible for the project is Citic Construction (the same that builds housing in the country), geological organizations will develop the plan, for example, the Geophysical and Geochemical Prospection Institute of the Chinese Academy of Geological Research, and the General Department of Geology and Mines of Sinopec. The latter is one of the largest oil companies in the world, and participates in the exploration of two blocks in the Junín area of the Orinoco Oil Belt.

Asking to reduce the shortage of flour. Tomás Ramos, President of the Federation of Bakery Industrialists (Federación de Industriales de la Panificación y Afines - Fevipan) urged the Administration in a press note to use mechanisms to reduce the scarcity caused by the shutdown of Monaca Industries. Ramos said that "*despite our great efforts, we have a deficit that needs immediate attention.*" The association leader said that the Administration has looked for alternatives, but so far, the bakeries nationwide have not been supplied.





More controlled products? The Administration, through the Ministry of Trade, is evaluating the possibility of implementing a price band scheme for products that are not subject to price controls. Trade Minister Edmée Betancourt, said that her office installed work groups with the different production sectors in the country to review cost structures, and evaluate the possibility of fixing suggested prices both in food *"and non-food items"*, like vehicles, and thus neutralize the price increases of other non-controlled products.

And what about controlled products? The manufacturers of the 19 items controlled by Sundecop once again requested a price review of these products. The request was made by the entrepreneurs during a meeting with Karlin Granadillo, National Superintendent of Costs and Prices. According to some of the participants in the meeting, Granadillo said that the cost structure of the companies will be reviewed in the first quarter of this year. However, the official didn't mention a date for the possible price adjustment.

50,000 licenses for import cars in 2013. Trade Minister Edmée Betancourt denied that the Government stopped granting import licenses for vehicles, and informed that this year the quota to bring cars from abroad is expected to remain at 50,000 units per year. *"In 2008, 250,000 vehicles were brought from abroad, and we couldn't allow Venezuela to become a parking lot. Also, we couldn't allow foreign currency to be granted for cars, which is not a necessity, like food"*, she added

Liquidation of currency for Cavidea drops. Juvenal Arvelaez, President the Administration of the Venezuela Chamber of the Food Industry (Cámara Venezolana de la Industria de Alimentos -Cavidea) informed that the amount liquidated to Cavidea companies is 7.5% less than in 2011, when more than US\$1.60 billion were received. Arvelaez said that in 2012, the companies affiliated to the chamber received only US\$1.48 billion, when the historical annual need is more than US\$2.0 billion.

Agricultural imports skyrocketing. According to INE figures, the import of agricultural vegetable and animal products amounted to US\$4.69 billion between January and October 2012, an increase of 93.8% compared to US\$2.42 billion imported in 10 months of 2011. In total, the country's non-oil imports up to October were US\$37.9 billion (33% more than 2011), mainly from the United States (26.1% of the total), China (15.4%), Brazil (9.4%) and Colombia (5.2%).

Nobody escapes. Consuelo Cerrada, President of Indepabis, informed that in January 2,700 supervisions were made within the framework of the National Joint Inspection and Surveillance Plan 2013, which has the purpose of fighting hoarding and guarantee the distribution of basic articles. Cerrada, informed that from these



operations, 17,000 tons of food will be “*redistributed to the people, through supervised sales.*”

They refuse to receive the products. Said Edmée Betancourt, Minister of Trade, in an event of “Mi Casa Bien Equipada.” She said that the supply situation has been verified both in supermarket chains and in the private industry, proving that there are products, but they are not being distributed to the population. “*We won’t dismay in our battle, because we know that there is hoarding and speculation*”, said Betancourt.

Payment in local currency. Colombian entrepreneurs have proposed before “Superfinanciera” and “Banrep”, to pay in pesos and bolívares for imports and exports between Venezuela and Colombia to speed up the economic relations between both countries. Carlos Luna, member of the Cúcuta Chamber of Commerce, said that “*the idea is to present it also to the team negotiating the trade agreement with Venezuela, to be analyzed and presented formally in the partial reach agreement meeting.*”

World Economy Tips

Permit to become indebted. The U.S. House of Representatives approved a bill allowing an extension of the indebtedness capacity of the Federal Government until May 19. The measure, promoted by Republicans, temporarily prevents a repeat of the drama of the debt ceiling that shattered stock markets in 2001, and is a show of the political will of the legislative power to avoid scenarios that could lead to fiscal cuts.

All eyes on Europe. The International Monetary Fund (IMF) reduced its world growth forecasts for 2013 to 3.5% (previously 3.6%) and to 1.4% for advanced economies (previously 1.5%), given the persistent recession in the Eurozone and the weakness of Japanese growth. For 2014 the international organization forecasts a growth of around 4.1% depending on how firm the recovery is in Europe.

Financial system gives signs of recovery. Around 278 banks of a total of 523 institutions aided by the European Central Bank (ECB) through long term loans granted at the end of 2011, have announced that they will return around EUR 137.15 billion early to the Bank, a sign that at least part of the European financial system is recovering.



EU will tax financial transactions. European Union (EU) countries obtained the support of other members of the region to tax the transactions performed between the different financial institutions. The purpose is to reduce financial speculation and stabilize the markets, and it is estimated it will help collect approximately EUR 10.0 billion. The countries that made the commitment to implement the measure were: France, Germany, Belgium, Portugal, Slovenia, Austria, Greece, Italy, Spain, Slovakia and Estonia.

More debtors than in 2011. According to the Office of Statistics of the European Union (Eurostat), the consolidated public debt of the 27 countries of the monetary union was 85.1% of its GDP at the end of 3Q2012, 3.6% over what was registered during the same period in 2011. Public debt was formed by securities (80.4%), loans (15.8%), currency and deposits (3.8%) and inter-government debt (1.3%).

The most leveraged. The EU members with the greatest debt at the end of 3Q2012 were: Greece (152.6%), Italy (127.3%), Portugal (120.3%), and Ireland (117%), while the countries with the lowest debt were: Estonia (9.6%), Bulgaria (18.7%), and Luxembourg (20.9%). The countries with debt increases were: Ireland (5.9%), Greece (3.4%) and Portugal (2.9%), while those that reduced their debt were: Latvia (2.6%), Malta (2.5%), and Austria (1.3%).

God Save the Queen. According to data from the National Office of Statistics of the United Kingdom, GDP fell 0.3% (a/a) in 4Q2012, affected by lower oil production in the North Sea, lower industrial activity, and the decline after the Olympic Games in London. The drop was greater than analysts expected (0.1%) and is a big blow after the British GDP growth of 0.9% (a/a) the first nine months of 2012.

If you are looking for a job, don't go to Spain. According to data of the National Institute of Statistics of Spain (Instituto Nacional de Estadística - INE), unemployment in that country was over 26%, a new historical record since 1976. INE said that the unemployment rate increased to 26.02% in December, or an increase of 187,300 people unemployed between October and December last year, for a total of 5,965,400 people at the end of 2012.

Aid is still necessary. Mariano Rajoy, President of the Spanish Government, announced it will extend its aid plan for the unemployed until the unemployment rate in the country is less than 20%. The Government had been extending aid plans every 6 months, but it was forced to give it a "permanent" status given the latest unemployment results announced by INE.

The Pacific with free trade. The countries of the Pacific Alliance, a trade block that is leader in foreign exports and trade in Latin America, expect to reach a tariff



agreement by May 31, in which they will liberate 90% of the trade tariffs for its member countries. 10% of the tariffs will be liberated according to a calendar. Among the countries that are part of that alliance are Chile, Colombia, Peru, and Mexico.

A second dark year for Japan. According to data of the Ministry of Finance of Japan, the country had a record trade deficit of US\$78.27 billion in 2012. This is the second year in which the Rising Sun nation closes with a trade deficit, a negative sign for a country that had had surpluses since 1981, and that has implemented an expansive monetary policy striving to weaken the national currency (Yen) and favor exports.

China a food importer? Chen Xiwen, Director of the highest legislative entity for rural matters of the Communist Party of China, said that food supplies in the Asian giant will be under pressure as the income of the population increases, so it is necessary to foster a “*modern agriculture*” but without pursuing “*self-sufficiency*”, something difficult to achieve considering that during 2012, 12% of the food demand in China was met through imports.

Political Tips

Taking decisions. Upon returning from Cuba, Nicolás Maduro, vice-president of the Republic, said that after talking to President Hugo Chávez about several matters, economic decisions were made, specifically the management of the gold industry. In political matters, he approved the document “*to select the candidates for major’s offices*” of the ruling party for the local elections of July.

Assassination attempts in series. Nicolás Maduro, vice-president of the Republic, denounced the existence of opposition plans to assassinate him and the President of the National Assembly, Diosdado Cabello. During events commemorating the anniversary of January 23, Maduro denounced the presence of “*infiltrated groups*” in the country whose purpose, according to him, is to jeopardize his life and that of Cabello. It isn’t the first time that government spokespersons denounce assassination attempts, although none have led to judicial procedures.

There are wolves! Henrique Capriles, governor of Miranda, referred to the claims about the possible assassination attempts against the vice-president Nicolás Maduro, and the President of the AN, Diosdado Cabello. “*Now Maduro is telling the story that*



they want to assassinate him and Cabello”, while in the country “Venezuelans are assassinated every day, and the government does nothing about it” said Capriles.

Supplies: a political matter? Ricardo Menéndez, vice-president for the Economic Production Area, said that the issue of food supplies is being used by some sectors as political pressure against the government. *"Supply is a political matter, not economical. There are those that intend to affect politics through the economy",* said Menéndez, adding that in January the behavior was atypical, with a 30 % increase in consumption, a situation that some groups have used to create a matrix of shortages.

In Venezuela there are no shortages. Jesús Faría, National Assembly (NA) representative, said that there are no shortages in the country, but rather *“a campaign to destabilize the country”* by *“very important groups.”* Faría gave his statement in response to representative Yelitza Aray, who requested to debate the “shortages” situation at a plenary in the NA, a proposal that was voted and denied by the ruling party majority of the NA.

No elections until July. The deans of the National Electoral Council (Consejo Nacional Electoral - CNE) announced a new postponement of local elections, which should have been on May 26. This is the second time in which the entity postpones the elections to elect majors, council representatives, and indigenous municipal representatives. The new date for the local elections is July 14, said Tibusay Lucena, president of the entity.

PSUV will have primary elections. Diosdado Cabello, first vice-president of the Partido Socialista Unido de Venezuela (PSUV), informed that the “chavista” grass roots will participate in the selection of its candidates for the local elections of July through primaries, but a date has not yet been defined. Those in charge of postulating the candidates will be the “Unidades de Batalla de Carabobo” (UBC), and those with more than 50% of the valid votes in the internal elections will be elected.

The law is the law... starting in May. La Central Bolivariana de Trabajadores (CBT) expects the national Government to urge all employers to be up to date with the workday that will enter into force on April 30. Carlos López, general coordinator of the CBT, considers that there are no reasons to delay the implementation of the measure, which implies a reduction of the work day from 44 to 40 hours per week.

OAS hand-tied. Consulted about the measures that the Organization of American States (OAS) may take, after the interpretation of article 231 by the Supreme of Justice (TSJ), José Miguel Insulza, Secretary General of the Organization said that *“there is no rule, not even in the democratic charter or anywhere else”* authorizing the organization to interpret the constitution of a country, over and beyond its own



institutions, particularly when “No Venezuelan institution or power has given a contradictory opinion.”

Legislative Tips

Vehicle Law moving along. The NA approved the bill regulating the sale of new and used cars in the country, in a first round of votes. Representative Elvis Amoroso, who presented the bill, reiterated that other actors in the purchase-sale process must be investigated, like the well-known web portals that could be setting an artificial price for used vehicles. He said that there are even cases where *“the overprice is 400%.”*

Commission will evaluate the price of cars. A multi-sector commission will determine the price of new cars in the country, according to the regulation being discussed in Parliament. Article 5 of the bill establishes that a special commission formed by assemblers, importers, Seniat, and Indepabis will determine the maximum suggested prices. Used vehicles may never go over those prices, and even the cost of insurance will be regulated.

Car owners will be harmed. Sources in the insurance area said that car owners will be the most harmed by the measure, because if approved, the inflation will depreciate their property. *“It isn’t good for insured individuals for their vehicles to receive coverage with the same sales price, because Venezuela has an inflationary economy. Someone who bought a car two years ago cannot have a policy for the same amount, because inflation keeps increasing.”*

Opposition left out. Only ruling party representatives are part of the National Assembly (NA) sub commission investigating the uprising of January 25 in the Urbana penitentiary of Lara, during which, as informed by Iris Varela, Minister of Penitentiary Services 57 inmates, and one National Guard died. Representative Richard Blanco, of Alianza Bravo Pueblo, denounced that representatives of the Unity block were not summoned.

Must leave office. Representatives of Un Nuevo Tiempo, Primero Justicia, and Copei consider that Iris Varela, Minister of Penitentiary Services, must leave office. They say that she has been incapable and inefficient. On the other hand, representatives of Voluntad Popular are asking the President of the NA, Diosdado Cabello, to question both Varela and Diego Molero Bellavia, Minister of the Defense.



Not mentioned. The ruling party at the NA rejected the opposition proposal to debate the issue of basic item shortages in the country. Representative Deyalitzá Aray proposed in the ordinary meeting of Tuesday, February 22, a debate about the shortage of products of the basic basket in the markets, which is causing alarm in the country. But “chavismo” representative Jesús Faría stated that the shortages are part of a campaign “to destabilize.”

NA already talking about a tax reform. Ricardo Sanguino, President of the Finance Commission of the NA, said that “we are talking with Jorge Giordani, Minister of Finance, to adjust the tax regime”, in meetings where tax reform proposals have emerged during discussions of the Second Socialist Plan of the Nation. The conversations between the legislative power and the Administration, will also define whether it is necessary to reform some laws or issue new ones.

Attorney General presented a report to the NA. On Tuesday January 29, the Public Ministry presented the annual report of 2012 before the NA. Luisa Ortega Díaz, attorney general, took the floor during a regular session of the Assembly. There was also a discussion of cooperation agreements with Palestine regarding health, culture, and communication and information, as well as the first discussion of an extradition agreement between France and Venezuela.

NA approves Ambassadors to Mexico, Sudan and Iran. The NA approved on Tuesday, January 22 the appointment of ambassadors of Venezuela in the Republic of Iran, Mexico and Sudan. The new Venezuelan Ambassador in the Republic of Mexico will be Hugo José García Hernández, while the representative in Sudan will be Aníbal José Márquez. The Ambassador to the Islamic Republic of Iran is Amenotheop Zambrano.





ECONOMIC OVERVIEW

