



Weekly Report

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Deflation by decree: when the consequences, not the causes, are attacked

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Following its ratification by the Supreme Tribunal of Justice, the Fair Prices Act went into effect last week. This is the instrument with which the government pretends to exercise greater control over the prices of goods and services and that restricts the profit margins of all economic activities inside Venezuela.

The Fair Prices Act was approved last November by the President of the Republic, Nicolás Maduro, under the Special Powers Act and has been presented as an instrument against the “economic war,” a problem that, according to the government, led the country to post inflation of 56.2% in 2013 –the highest in the world- and shortages averaging 20.8% -an all-time record for this indicator.

It should be remembered that this is not the first time that the government has attempted to control prices by enacting new laws. In July 2011, with a view to fighting “profiteering practices that were affecting inflation,” the Fair Costs and Prices Act was passed, a law that sought to establish a register



of the production and marketing costs of goods and services that were produced, imported or marketed in the economy so as to be able to determine fair selling prices for those goods and services. This law, like other similar legislation introduced under previous administrations, did not manage to control the rise in prices, not even the prices of controlled products.

In this report we will try to give an overview of the new law, highlighting the aspects that set it apart from its predecessors, and, in this way, we will attempt to determine whether the government has hit on the “magic formula” it has been looking for to solve the problems or whether, on the contrary, it is bent on tripping over the same stone every three years.

For the good of the country

According to its statement of intent, the purpose of the new law is “to ensure the development of the domestic economy by determining fair prices for goods and services (...), setting the maximum profit percentage and the effective monitoring of economic and commercial activity.” Furthermore, the new Fair Prices Act seeks to.

- Consolidate the socialist economic order.
- Give preference to the domestic production of goods and services.
- Protect the population from practices that affect their access to goods and services, whether they are declared to be essential or not.
- Anything else the Executive deems necessary.

Like its predecessor, the Fair Prices Act not only applies to goods and services that already exist, but establishes that, before being introduced into the market, new goods and services must first have their fair price determined by the new agency in charge of costs and prices.

The “new” executioner

In order to guarantee the application of and compliance with the new price regulations, the National Office for the Defense of Socioeconomic Rights (Sundde) has been created, which is attached to the Vice Presidency for the Economy. The Sundde is made up of the Fair Costs, Profits and Prices Office (previously the Fair Costs and Prices Office – Sundecop) and an Office for the Protection of Socioeconomic Rights (previously the Institute for the Defense of People’s Access to Goods and Services – Indepabis).

From now on, Sundde will be the agency responsible for supervising and regulating costs, prices and profit margins and also for keeping a register of private individuals and companies that engage in economic activities (as



Sundecop did). Sundde will also have powers to establish prices in the real estate market, mainly with regard to lease rentals.

Sundde	
Quartermaster Cost, Profit and Fair Prices	Quartermaster Protection of Economic
<ul style="list-style-type: none"> • Study and monitoring of cost structures. • Determination of fair prices • Setting of fees for lease of commercial premises. • Determination of the maximum earnings of subjects. 	<ul style="list-style-type: none"> • Inspection, monitoring and research. • Administrative procedures. • Impose the sanctions provided in the law. • Others attributed the Sundde.

Source: Official Gazette and Ecoanalítica.

30.0% tops

The main difference between the new law and the repealed Fair Costs and Prices Act is the introduction of a maximum profit margin for all companies that engage in business in Venezuela. The profit margin for domestic companies will be established each year by Sundde “*based on scientific criteria (...) and taking into account the recommendations of the Ministries for Commerce, Industries, Finance and State-owned Banks.*”

In order to determine profit margins, as well as the “fair” selling price of goods and services, Sundde will make use of information supplied by the companies and information in the hands of domestic or international private or public entities (provided it is of a public nature), taking the information provided in the companies’ financial statements as the upper limit for estimating the cost structure.

According to the new law, in no case “*shall the profit margin, of each actor in the marketing chain, exceed 30.0% of the good’s or service’s cost structure.*” This does not guarantee that the margins will be the same for all industries or for all companies within the same industry, as the law establishes that the margins may be “*different depending on the item, geographic space, marketing channel, economic activity or any other concept,*” leaving this totally to the discretion of the regulatory agency. Moreover, in special cases where the idea is to “*favor infant industries or strengthen existing ones,*” the President of the Republic may revise and modify the maximum profit margin regulated by the new law.



Is implementing a maximum profit margin feasible?

At **Ecoanalítica** we consider the imposing of a ceiling on profits to be unviable, regardless of whether it is 30.0% or more. We say this for a number of good reasons.

- The difficulty of applying the same profit margin to industrial sectors with different levels of productivity and different financial costs and the difficulty of applying the same profit margin to companies within the same industry that have different levels of efficiency in the use of resources.
- The large number of commercial and industrial establishments in the country, the majority of them small and medium size enterprises (SMEs), calls for a much larger regulatory muscle than the State has available at present to guarantee proper compliance with the measure. However, this will not be a problem when it comes to implementing the measure with large companies, which are much fewer in number.
- The fact that the accounting systems do not give details of costs by product makes it difficult to estimate the unit cost structure of the products. In the case of large companies, although many of them know the combination of inputs, many of the goods they offer share processes within a same plant, which also makes estimating a cost structure difficult.

Solutions or more complications?

At **Ecoanalítica** we do not expect the enforcement of the new Fair Prices Act and the 30.0% profit margin to have a significant long-term impact on inflation and the supply of products.

Setting a profit margin based on costs could lead to companies that are subject to inspection underestimating production costs (as a way of avoiding regulation), while it would discourage any investment in efforts aimed at reducing manufacturing costs (why bother to reduce costs if I'm not going to get a bigger profit?). There is also the possibility of more complex business structures emerging that will make it possible to obtain lower profit margins for each phase of the same industrial activity, which would ensure that the businessman would be able to preserve part of the margin he already had (or at least keep it above inflation); but that would make large companies less efficient.

The new price regulations pose a problem for companies that make losses from manufacturing goods with regulated prices, while they keep themselves afloat by selling non-regulated goods with a profit margin of



more than 30.0% on their unit costs. This is the case of some companies in the food sector.

Restricting profits not only affects businessmen, it could also lead to a contraction in income tax revenues from the sectors affected (as restricting profits has a negative impact on a company's net enrichment), which would complicate the government's finances still further.

Last of all, but no less important for that, it is not known whether the new agency will have the tools to do an annual revision of prices and profit margins, as established in the Fair Prices Act, something that, in an economy such as Venezuela's with high, volatile inflation and where companies find their costs increasing in just a matter of months, needs to be done more than once a year.

Other major differences

At **Ecoanalítica** we consider that, besides setting a maximum profit margin, the most important difference between the new Fair Prices Act and the repealed Fair Costs and Prices Act stems from declaring all goods and services required to perform economic activities (production, manufacture, importing, storage, transportation, distribution, and marketing of goods and provision of services) within the country to be affected with a public purpose.

According to the Fair Prices Act, the Executive may initiate a process of expropriation when an economic offense established in the Constitution and the new price and costs law has been committed. Those offenses include, among other things, profiteering, hoarding, usury, cartelization, and smuggling out of the country.

At **Ecoanalítica** we believe that, together with the increased risk of expropriation, the heavy punishments (prison sentences of up to 14 years) are the only "incentives" included in the new law to ensure compliance.

Yet another certificate

The price and profits regulations will now also have an impact in the area of foreign exchange as, besides the formalities, certificates and requirements involved in applying for foreign currency *via Centro nacional de comercio exterior* (formerly CADIVI), companies will now have to show that they comply with the fair price criterion (profit margin that does not exceed 30.0%) set by Sundde, regardless of whether there has been an explicit setting of prices.





Moreover, anyone who receives foreign currency through official channels will have to sign a performance contract, which will include the obligation to use the foreign currency for the purpose for which it was requested. While this seeks to get businessmen whose production process involves imported components not to increase their prices after receiving the foreign currency, the fact that replacement costs are calculated at the parallel market rates makes it difficult to meet this obligation.

No solution works when the causes aren't attacked

In order to solve the problem of shortages and inflation, it is necessary to identify the causes, not attack their consequences. The reason why shortages have got worse and prices have gone up more in recent months is the ever greater imbalance between supply and demand (the local productive sector has been unable to increase its production at the same rate as the growth in demand), not because businessmen want it that way.

From the point of view of the supply of goods, the innumerable controls, red tape, and restrictions on access to foreign currency, besides the huge increase in costs, have limited the expansion of production, which, given a demand driven by public spending and monetary emission, has pushed up prices.

The imbalances are there. Whether they are monetary, foreign exchange or fiscal imbalances, they all affect supply and demand differently, widening the gap between the two, with serious consequences for consumers, workers, and businessmen. The present regulations attack none of these imbalances; they merely focus on penalizing practices that arise in an environment where uncertainty and opportunities for arbitrage are much greater.

In no instance are the new regulations designed in such a way that they provide incentives for domestic production, which would mitigate, in part, the present problems of shortages and inflation. Rather they introduce another measure that ends up exacerbating the problem, with the result that, as usual, "the remedy is worse than the disease."





Economic Tips

Since the 4th Republic. Venezuelan Central Bank (BCV) announced the inflation figures for December in a press release. The most remarkable increase was the one in food prices, which closed 2013 at 74.0%, the highest since 1996. The decrease in the supply of food was driven by the 11.8% drop in public sector food production, price controls, and the lack of foreign currency being experienced by the private sector.

A paternalistic State? According to Central Bank figures, between 3H1998 and 3H2013, non-oil public sector imports rose by 995.0%, going from US\$245 million to US\$2.68 billion. Over the past 15 years, the State, via the state-owned companies promoted by the government, has imported food, vehicles, household appliances, and other goods, which, while they have contained the shortage indices of some products, have helped to consolidate Venezuela as a country whose economy relies on imports.

Without foreign currency, there's no paradise. According to official figures, in 2103 disbursements of foreign currency for imports via CADIVI fell by 14.8% compared to the amount granted in 2012. This has made access to inputs and finished basic goods difficult, driving up the shortages indices. According to Central Bank, the shortages index averaged 20.08% in 2013, the highest since 1995.

Overvalued. According to Deutsche Bank, if the disbursements of foreign currency are made at the SICAD and CADIVI exchange rates in the same proportions announced by the vice President for the Economy, Rafael Ramírez (26.7% at VEB 11.4/US\$ and 73.3% at VEB 6.3/US\$), the average exchange rate for the economy would be VEB 7.6/US\$, whereas the SICAD rate would gradually increase to VEB 20.0/US\$.

The public are allowed to offer or things grind to a halt. Vice President for the Economy Rafael Ramírez said that if the supply of foreign currency is insufficient with the amendment to the Foreign Exchange Crimes Act, they will consider introducing another amendment that would allow private individuals and companies to take part in the swap market. However, should the general public be excluded from offering foreign currency in this market, this would create a market with a very low availability of foreign currency and a very high demand.





That does hurt us. At the close of 2013, US\$5.1 billion had been issued to travelers, which is equivalent to 13.7% of the total sum of foreign currency disbursed that year. The government has reduced the amount of foreign currency allocated yearly for consumption abroad from US\$3,900 to US\$3,000, whereas monthly remittances have been cut from US\$900 to US\$500. The president of Cencoex, Alejandro Fleming, stated that this will give a saving of US\$1.5 billion.

Mia culpa, mia grandissima culpa. Minister for Commerce José Khan said that the delays in issuing the Foreign Currency Acquisition Authorizations (AADs) had apparently had a negative impact on inventories and announced that they are looking for mechanisms to speed up the issuing of AADs *“immediately, without any kind of red tape.”*

PDSVA, a flood of dollars. According to figures from Central Bank and the Vice Presidency for the Economy, out of the US\$641.87 billion obtained from oil exports between 2005 and 2013, a total of US\$282.48 billion was allocated to the private sector via CADIVI, Aladi and Sucre, which represents 44.0% of the total sum of oil dollars that entered the country in the past eight years. On the other hand, the foreign currency from private sector exports fell by 56.0% between 3H2005 and 3H2013.

Bonds fall. The announcement of the new foreign exchange scheme scared off investors, who decided to get rid of Venezuela’s dollar-denominated bonds. Global 27, the Republic’s marker bond, fell to 68.9%, its lowest level since November 2011.

They’re keeping watch. Andreina Tarazón, the Superintendent for Socioeconomic Rights, announced that they will be carrying out more inspections of stores selling essential goods in order to prevent usury and profiteering offenses. Tarazón stated that the regulation of profit margins will be for all items.

No faith. According to PricewaterhouseCoopers (PwC) in a survey on the confidence of company directors and presidents regarding the growth of the economy in their countries, only 25.0% of company presidents in Venezuela said they had “some confidence in the future.” On the other hand, concerns over the excessive number of regulations, a heavier tax burden, lack of key skills among personnel, and the volatility of the exchange rate have increased worldwide, but more so in Venezuela

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 increased by 3.4%, going from US\$20.48 billion during the third week of January to US\$21.16 billion during the third week of the month. Compared to the same period last year, international reserves have decreased by 25.2%.

Central government expenditure. On Friday January 24th according to figures from the ONT primary spending was VEB 9.29 billion, which means a decrease of 44.1% when compared to the previous week when it was VEB 16.63 billion; when compared to the same period last year we observe a decrease of 16.6%.

Monetary liquidity. Money liquidity (M2) remained stable in the second week of January from the week prior, to settle at VEB 1.23 trillion. The M2 has increased 72.7% in relation with the same period last year.

Oil Tips

Debt skyrockets. PDVSA's financial debt balance sheet shows a sharp increase in its liabilities of 171.0% in recent years. In 2007, its debt came to US\$16.01 billion and in 2013 it closed at US\$43.38 billion. This week, the president of PDVSA, Rafael Ramírez, stated that the industry *"has a manageable debt for an extraction plan for its production that aims to reach 6 million barrels a day."* However, PDVSA frequently obtains loans to deal with programs assigned to it by the Executive instead of using them for extracting oil.

State-owned banks are financing PDVSA as well. PDVSA's financial debt at the close of last year came to a record US\$43.38 billion. According to the 2013 results, PDVSA took out loans in bolivars with three state-owned banks (Banco de Venezuela, Banco del Tesoro, and Banco Bicentenario), which, at the exchange rate of VEB 6.3/US\$ are equivalent to US\$3.8 billion. Of that amount, US\$2.2 billion were granted to agro-industrial projects being executed by PDVSA.

PDVSA discards resorting to the Central Bank for financing in 2014. PDVSA reached an agreement with the Central Bank's board of directors to pay the debt it has with the bank. Although Minister Ramírez did not give any details of the payment scheme and simply mentioned that the debt (which comes to US\$42.0 billion) will be paid by creating a joint enterprise to mine gold, he did say that *"by the close of our fiscal year (...) that will no longer be an issue."*



Maduro has the last word. Negotiations between PDVSA and the Unitary Oil Workers Federation of Venezuela (FUTPV) on the collective oil industry employment contract for the period 2013-2015, which started in November last year, have stalled while President Maduro is taking a decision on the workers' wage demands. Sources at the oil labor union claimed that PDVSA submitted a report to the President that states that the oil workers' wage demands –an increase of 80.0% plus other benefits– are excessive, as they are well paid.

It's started up again. Last week, PDVSA announced that operations in the Fluid Catalytic Cracking Unit (FCC) at El Palito Refinery were stopped for six days in a "preventive shutdown" to correct an air and water steam leak. However, operations started up again on Saturday, January 25, and Sunday, January 26. In addition, PDVSA guaranteed that fuel distributions in the country's 10 central western states would be as normal and also that the refining units at El Palito would be operating fully.

Chevron is proud. The US oil company Chevron claims that it is proud of the result of its partnership with PDVSA for extracting crude from the Orinoco Oil Belt. "We're proud of the results obtained and of being partners in a company such as Petropiar," said Chevron's president for Latin America, Kelly Hartshorn, during her first visit to the Orinoco Oil Belt. Petropiar is one of the two joint ventures that Chevron has with PDVSA in the Orinoco Oil Belt.

The maneuver cost Petrobras dear. A labor court in Rio de Janeiro fined the state-owned oil company Petrobras US\$4.1 million for "violation of the right to strike" at a refinery in 2009. In a publication on the agreement reached in Rio de Janeiro, the Regional Labor Court stated that it "sentenced Petrobras to pay US\$4.1 million in moral and collective damages for engaging in anti-union behaviors and violating the right to strike." Said damages were caused by a Petrobras refinery in Duque Caxais, where the workers were prevented from responding to a call to strike because they had been arrested.

Demand grows. In recent months, a number of countries have been signing contracts to import natural gas from the United States, indicating a clear growth in the demand for US fuel. Ten long-term contracts, worth millions of dollars, have been closed with companies in China, Japan, Taiwan, Spain, France, and Chile, according to several gas industry sources.

International oil baskets. At closing time on January 24th in the New York Stock Exchange, the price of the WTI was US\$95.6/bl, increasing by 2.9% when compared to the reported the previous week. The Brent increased by 0.3% when compared to the previous week, to reach US\$107.1/bl.



Local oil basket price. The Venezuelan oil basket price closed at US\$96.0/bl on Friday January 24th, a 2.0% increase compared to the US\$94.2/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$95.3/bl.

Business Sector Tips

Chain store sales up by 10.0%. A survey by the company Kantar Worldpanel, which measures consumption trends in terms of value, volume, and prices, reveals that last year in Venezuela, consumers purchased more when they managed to get products that were in short supply, given the uncertainty of not knowing whether there would be stocks of those goods the next time they went to the store. This meant that supermarket sales went up by 10.0% on average between July and September 2013 in terms of volume of units.

The State is expanding. The government is torn between its promise to diversify the Venezuelan economy and having to cope with a situation where there has been an increase in imports, particularly by the public sector. Between the third quarter of 1998 and the third quarter of 2013, public sector imports grew by 995.5%, going from only US\$245 million to US\$2.68 billion. This trend is continuing, as last week the creation of the company Venezolana de Servicios Tecnológicos para Equipos de Salud for importing medical equipment was made official.

Shopping malls are waiting for the law to continue working. The director of the Venezuelan Chamber of Shopping Malls, Claudia Itriago, stressed that they have been hard hit by the regulation of lease rentals and the lack of inventories, and for that reason they are waiting for a law that will allow them to continue operating adequately. She said that they have been "hard hit" by the lease rentals measure and explained that the shopping malls have not changed their opening hours, but that the stores do not have merchandise with which to stock their shelves. She commented that they are waiting for the new law, because at the moment they are under a "transitional decree."

Abandoned. There are 12,543 containers in Venezuelan ports that have been "legally abandoned," according to a report by the Minister of Aquatic and Air Transport, Hebert García Plaza. García Plaza led a meeting with representatives of the private sector to evaluate the "situation of containers in the country's ports,"



according to information circulating in the social networks. "Legal abandonment" occurs when a given period of time, established by the authorities, has elapsed and no one has expressed their desire to process the merchandise that has arrived in the country through customs.

Nothing to sell. The impossibility of replenishing stocks continues to be a cause of concern for the commerce sector. This was one of the issues addressed at the first board meeting held this year at Consecomercio. The chamber's president, Mauricio Tancredi, recalled that, between November and December, a large number of businesses exhausted their stocks as a result of the increase in demand fueled by the government-decreed price cuts. However, several weeks have elapsed since that measure was taken and merchants still do not know whether they will be able to replenish stocks this year.

Polar in jeopardy. Empresas Polar has warned that its production is at risk owing to the delays in the disbursement of foreign currency authorized by CADIVI, a debt that comes to US\$463 million and is preventing the company from paying its international suppliers. Polar pointed out that, in the past two years, CADIVI's debt with Empresas Polar has increased by 194.0% and that, before, the disbursement of foreign currency took 50 days, whereas now it takes 230 days. In the last 45 days, CADIVI has disbursed only 0.6% of what it owes Polar to date, "an unprecedented situation since exchange controls were introduced."

Shortages of medicines have become more acute. The possibility that the supply of medicines will get back to normal depends on the process of disbursing foreign currency being renewed. Information compiled by the pharmaceutical sector is discouraging. In January, "product shortfalls," an indicator that measures whether a company is unable to dispatch any batch at all of a given medicine, is in the region of 46.0%. Sector sources say that, a few days ago, CADIVI started to issue authorizations after a drought of three months. However, the amount of dollars approved is not the same as the amount the companies applied for.

Medicine stocks for 15 days. Since last week, the Ministry for Health has been meeting with chambers in the sector to set up a mechanism for paying what is owed international suppliers, given that the industry's inventories are at critical levels. It was learned that the pharmaceutical drug wholesalers have stocks of medicines for 30 days approximately, whereas the pharmacies have enough in stock to last between 12 and 15 days. The sector requested that the oldest applications be disbursed first, that is to say those that date back more than 120 days, in order to reactivate the lines of credit.





Inspections of airlines. On Monday, January 27, the inspections of airlines started following the meetings the authorities held with the airlines' representatives. The authorities notified the companies that payments of sales in 2014 will be regulated and that the debt situation as at the close of 2013 will be reviewed with each airline individually. They also stated that they are "going to check" the debt as at the close of 2013, after the prices of air tickets shot up in the last part of the year.

No to term deposits. The interest rate that the banks pay depositors is way below inflation, and that is why saving has become less attractive and term deposits have fallen. The Sudeban report explains that, at the close of the second half of 2013, deposits were down 3.0% from December 2012 and only represented 0.3% of deposits by the general public, the lowest since statistical records have been kept.

It's time to review. The executive president of the Clinics and Hospitals Association, Cristino García, said that Directive 294 issued by Sundecop, which applies to private clinics, has been in force since May last year and that the authorities had undertaken to conduct a periodic review, which has not been done. He claimed that, if this situation continues, they could start to close down some services, such as hematology and dialysis. On the matter of dividends, García said that in the private health system, they were between 2.0% and 9.0% at the close of fiscal year 2013.

World Economy Tips

Obama speaks for his administration. In his State of the Union speech, President Barack Obama announced that next year will be a year of action, as he will carry out real and concrete proposals to make the economy grow and to strengthen the middle class. It is expected that public spending will grow in the United States during the year. President Obama will continue to support his health system, Obama Care.

The dollar manages to pick up. After destabilizing last week as a result of the sale of assets by emerging markets, the dollar is managing to maintain its stability versus the yen and the Swiss franc. If expectations of a possible foreign exchange crisis in Argentina persist and Turkey's central bank continues to find it impossible to keep interest rates down, the dollar will be more vulnerable to losses.





Confidence in consumption increases. In the United States, consumer confidence has increased owing to optimism with regard to conditions for doing business and the labor market. The Expectations Index went up from 79 to 81.8, its highest level since September last year.

An end to direct recapitalization for European banks. Euro zone governments are considering a "review clause" on the direct recapitalization of banks so that they can reverse or renegotiate the agreement at a future date. This is an indication that some European countries have overcome the feeling of crisis, particularly Germany and Finland, as they were the main promoters of this clause.

Fear of deflation. The International Monetary Fund (FMI) has warned that several of the world's central banks have not met their inflation goal. Rates of inflation in several countries are below their goals, a situation that increases the risk of falling into deflation and having to go through long processes of recovery. Among those countries are the United States and the euro zone, where the Federal Reserve (Fed) and the European Central Bank (ECB) have also expressed their concern.

Private Chinese information. Local governments in China have published separate audits to increase transparency and quell investor concerns. According to these audits, China has a combined public debt of US\$3 trillion. Even so, criticism regarding the lack of transparency in China and the increase in nonprofit public spending persists.

Japan's deficit grows. Japan's trade balance has posted the worst results since trade balance information started to be compiled and, according to the latest figures, it has posted the biggest deficit since 1976, with a trade deficit of US\$112.41 billion. Some analysts maintain that this is due to the Japanese government's efforts to bring down the value of the yen as a way to increase exports, while making imports more expensive.

He hasn't kept his promises. The French President, François Hollande, was unable to keep his promise of bringing down unemployment. The number of people looking for a job is 3.3 million, 10,000 more than the previous month. This situation is putting more pressure on the French President, who, according to the opinion polls, is not enjoying his best moment.

Spain's GDP will grow. Spain's Economic Minister, Luis de Guindos, has claimed that Spain's Gross Domestic Product (GDP) will grow by 1.0 percentage points, 0.3 of a percentage point above government estimates and 0.4 of a percentage point more than estimated by the IMF. This growth would bring the two-year recession in



the Spanish economy to an end. The minister also said that these results are possible thanks to the implementation of stabilizing programs.

Emergency in Turkey. An emergency meeting has been held between Turkey's central bank and the government to try to save the lira. The IMF claims that Turkey, with a GDP of US\$822 billion, is not big enough to upset the global economy on its own. However, this could be a bad sign for the expectations of emerging countries that are trying to control capital flight and the increase in inflation.

Price of the dollar in Argentina stabilizes. After the government announced the sale of foreign currency to people who declare income in excess of 7,200 pesos (approximately US\$900), the price of the dollar in Argentina remained stable at 8 pesos/US\$, and the price on the unofficial market also remained stable at 12 pesos/US\$.

Political Tips

Problems in the Democratic Unity Alliance? Members of the Unity Alliance María Corina Machado and Leopoldo López, who attended an event organized by this political group to commemorate January 23, 1958, called on the Venezuelan people to turn out onto the streets to protest and to rise up with a fighting spirit. This irritated several members of the Unity Alliance, as this was not something that had been agreed by all of the alliance's actors.

64 laws in one year. Transparencia Venezuela published a report in which it gives a roundup of the National Assembly's activities in 2013, the most salient aspects being the approval of 64 laws and the swearing in of Nicolás Maduro as President for the period 2013-2019. The report also highlights the creation of four special committees, among them a committee charged with investigating Governor Henrique Capriles' alleged involvement in the deaths that occurred in April following the presidential elections.

"Save the Unity Alliance." Seeking to solve the problems generated by María Corina Machado's and Leopoldo López's recent publications and in an attempt to dispel any doubts regarding an internal conflict within the Democratic Unity Alliance, Metropolitan Mayor Antonio Ledezma explained that "here there are more than 3,000 demonstrations a month. The idea is for the Unity Alliance to survive over time. I call



on all the factors committed to unity, from my heart and my conscience, for us to save the Alliance; don't let's go crazy. If there's a need to rectify, let's do it; if there's a need to improve the Alliance's structure, let's each of us make a contribution."

Borges criticizes. Deputy Julio Borges criticized the foreign exchange and political decisions taken by the government and ratified that it is important to encourage the culture of dialog and that the government is the only one responsible for the violence in Venezuela. He also said that Venezuela had to become a country that produces.

Vice President for a bit. A decree issued by the Presidency of the Republic appoints Minister for Education Héctor Rodríguez as the new acting vice president during Jorge Rodríguez' absence. Jorge Rodríguez is currently in Honduras attending the swearing in of President José Orlando Hernández. The decree was published in Gaceta Oficial Extraordinaria No. 6,123.

Newspapers without pages. Media workers protested at the doors of CADIVI to demand the foreign currency to import newsprint, about the lack of which the owners of the main newspapers have been warning for more than three months. In addition, seven journalists, who are representatives of the Press Workers Union (SNTP) and the National Association of Journalists (CNP), handed in a communication to Cencoex President Alejandro Fleming requesting the "job stability of the print media workers."

With impunity, there's no progress. Following the meeting between the governor of Miranda state, Henrique Capriles Radonski and the mayors of the Caracas Metropolitan Area and the Minister of Homeland Affairs, Justice and Peace, Miguel Rodríguez Torres, Capriles Radonski stated that there has to be a change in the justice system in order for the indices of impunity to drop and to put an end to the problem of violence. He finally he called on those involved not to make the security problem a party issue and for them to "set their differences aside and work for the security of the people."

Following the guidelines left by Chávez. The recent economic decisions taken by the Executive have caused a stir among government party members. The governor of Anzoátegui, Aristóbulo Istúriz, defended the policies being implemented by President Nicolás Maduro saying that Maduro "has not implemented anything that isn't in the Plan of the Fatherland," a legacy of the late President Hugo Chávez.

Impunity is just a myth. According to Prosecutor General of the Republic Luisa Ortega Díaz, claims that there is a high level of impunity in Venezuela are irresponsible, have no legal or statistical foundation, and seek to create a climate of instability. She also said that impunity cannot be calculated based on the total



number of cases that are submitted to the Public Prosecutor's Office, as around 13.0% of them are "labor matters."

"Down our throats". Miranda Governor Henrique Capriles Radonski commented that, during the campaign for the April 14 presidential elections, people claimed that he would implement a "harsh package" were he to win, whereas now the series of economic measures implemented by President Nicolás Maduro are a truly "harsh package." He also said that, even though Maduro announced that he would maintain the exchange rate at VEB 6.3/US\$, the fact is that no one will have access to dollars at that price, but at VEB 11.3/US\$, which is why he considers that "they crammed a devaluation down Venezuelans' throats."

Diosdado goes after Tal Cual. The president of the National Assembly (AN), Diosdado Cabello, went to the Supreme Tribunal of Justice to file a lawsuit against the daily Tal Cual and the journalist Carlos Genatios for "attributing to him words he never said." The lawsuit was filed after the newspaper published a statement allegedly made by the president of the AN in which he said that those who didn't like the lack of security should leave the country. The newspaper and its owners had already acknowledged that the publication of these statements was an error.

Poorly nourished. The Democratic Unity Alliance claimed that, in the present situation of spiraling inflation and acute food shortages, "Venezuelans' right to nourishment is seriously at risk." They also commented on the disappearance of the "Mercalitos" and pointed out that government subsidies are mainly for food rich in calories and carbohydrates and that there is no proper education program in nutrition.

Legislative Tips

Harsher sanctions. The Fair Prices Act, which was published in Gaceta Oficial N°. 40,340, increases the sanctions for offenses already provided for in two laws that were repealed, the Law for the Defense of People's Access to Goods and Services and the Fair Costs and Prices Act. This new law establishes fines of between 200 and 20,000 tax units, depending on the offense committed, whereas the periods for temporary occupations with the intervention of warehouses, industries, commercial establishments or the transportation of goods are increased from 90 to 180 days.



A long vacation. Even though the National Assembly's period of sessions for 2014 started officially in early January, as established in the Constitution, it has still not fully resumed its activities. While it is true that three sessions have already been held in chamber of the Federal Legislative Palace, the 15 parliamentary committees have still not been installed nor have their respective chairpersons and vice chairpersons been appointed.

Faces old and new. Gaceta Oficial No. 40,337 announces the appointment of new vice ministers and the ratification of others. Dixorys Cachima, Simón Zerpa, and Rocco Albisinni were appointed as the new Vice Ministers of Finance, Investment for Development, and the State and Socialist Economy, whereas Gustavo Hernández, Ramón Yáñez, Sheyla Hernández, Nancy López, and Beatriz Bolívar were ratified in their posts as vice ministers.

Remembering not such old times. The National Assembly ratified the appointment of Nelson Merentes as the president of the Central Bank in the place of Eudomar Tovar. During the last ordinary session of the National Assembly, its president, Diosdado Cabello, received a communication from Vice President Jorge Arreaza in which he requested the National Assembly to ratify Merentes "as a matter of urgency." Merentes had already held the post of president of the Central Bank from 2009 to 2013, when he was transferred to head up the Ministry of Finance.

It's now official. The board of the new Fair Costs, Profits and Prices Office has already been made official by presidential decree No. 750 published in Gaceta Oficial No. 40,341, which establishes (as already announced by President Nicolás Maduro) that Andreína Tarazón is to be the National Superintendent for the Defense of Socioeconomic Rights and Karlin Granadillo and General Luis Motta Domínguez are to occupy the posts of Superintendent of Fair Costs, Profits and Prices and Superintendent of Protection of Socioeconomic Rights, respectively.

Directives are to establish the guidelines for inspections. The Fair Costs, Profits and Prices Office is to publish shortly the directives that will establish the guidelines for analyzing cost structures and the definition of profits and fair prices, according to information given by the agency's chief, Andreína Tarazón. She also said that "until these directives are issued, it is understood that the maximum profit margin will be 30.0%. Businessmen and merchants had better abide by the law in the next few hours because we'll start a nationwide offensive to make sure that the law is complied with."

Is the game blocked? The director of the Higher Tourism Council (Conseturismo), Rafael Guerra, has insisted that the National Civil Aeronautics Institute (INAC) and the airlines must negotiate to solve the present problem that has affected the



provision of air transportation services in Venezuela. "The game could be somewhat blocked unless the government's willingness (to reach an agreement) manifests itself in something concrete," added Guerra, referring to the debt CADIVI has with the airlines and that it must pay.

There'll be no imports unless the debt is paid. A number of health sector representatives have warned Vice Minister of Health Resources Aurelio Tosta that it is highly likely that imports will stop if CADIVI does not release payments for the debt incurred by imports for which foreign currency has not been disbursed. A number of businessmen in the health sector have said that, without payment of at least 50.0% of what is owed, it is unlikely that suppliers will resume shipments of merchandise.

New president of Suvinca. According to Gaceta Oficial No. 40,342, Central Government has appointed Eduardo Escobar Castellano as the president of the state-owned company Suministros Venezolanos Industriales C.A (Suvinca), in the place of Alejandro Fleming, who had headed up Suvinca since 2013 and is now the president of Cencoex.

CADIVI directives published. Central Government has published the directives relating to the use of credit cards abroad, family remittances, and the payment of operations by airlines in Gaceta Oficial Extraordinaria No. 6,122. Also included are international investments, the payment of royalties, and the operations of insurance companies.

Bolivarian Military Doctrine Center created. Ministry of Defense Resolution No. 3,677 published in Gaceta Oficial No. 40,342 makes the creation of the Bolivarian Military Doctrine Center official. The center is to be attached to the Operational Strategic Command of the Bolivarian National Armed Force (Ceofanb).





ECONOMIC OVERVIEW



