

## BP January-September 2015: When the worst scenarios get together

Along with the economic activity figures, the Central Bank of Venezuela also published the balance of payment figures for the third quarter of 2015 (3Q2015) and the consolidated balance of economic relations between domestic agents and the rest of the world during 2014. The balance of payment figures show a significant change of sign in our relations with the external sector: the current account, which for years had posted a positive balance, showed a deficit for the past four quarters, a circumstance that had to be offset by the sizeable surpluses on the financial account, reflecting how both the public and private sectors had to dip into their external funds.

### Silent changes

The first detail in the balance of payments figures to which attention needs to be paid is that the Central Bank made an adjustment in the historical data starting in 2006. Making such an adjustment is not unusual given that it implies that preliminary data has been consolidated with final information gathered by the bank; what is remarkable in this case is that it implies major changes in the historic series. As a result, we find substantial changes from 2007 onward between the Central Bank's previous series and the present one; that year the balance entry on the current account went from US\$17.35 billion to US\$13.46 billion. This drop in the surplus on the current account is due mainly to increases in the deficit on the services balance sheet and the reduction in the surplus on the rent balance sheet.

2012 is possibly the most striking year, when the surplus on the current account shrank from US\$12.02 billion to only US\$2.59 billion. This change was not only due to increases in the deficits on the services and rent balance sheets, but, unlike in other years, there were also substantial increases on the oil imports and nonoil imports accounts, both of which were unchanged in the other years, except for 2011 and 2012.

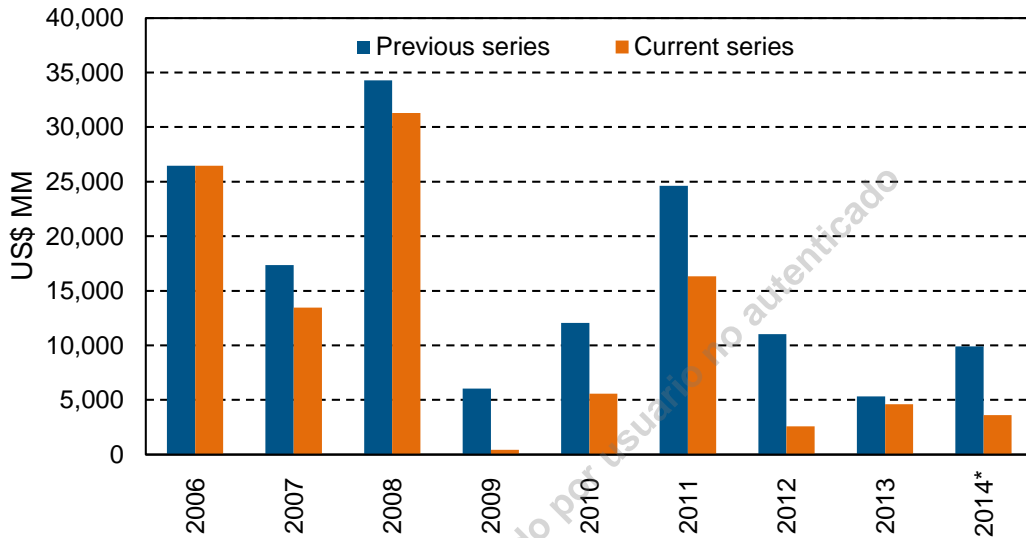
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These changes in the balance of payments made a posteriori point to a change in the Central Bank's methodology. In the absence of any official note explaining these differences we can only deliberate on them. In **Ecoanalítica's** opinion, these changes may have to do with changes in the posting of transactions under the Petrocaribe agreement and swaps of oil for goods and services, such as the Chinese Fund. It will be remembered that the Large Volume agreement for US\$10.0 billion was signed at the end of 2010 and that tranches A and B of the Fund were renewed in 2011 and 2012.

In a methodological note, the BCV explained that the changes are due to:

1. The inclusion of transactions of public companies associated with the Petrocaribe agreement, the exchange of oil for goods and services, and the Chinese Fund and the acquisition of goods strategic (military, power, etc.).
2. In the services account, technical assistance and health are linked to international conventions.
3. In the capital and financial flows of resources from mutual funds and compensation mechanisms of goods imports developed in the framework of international energy agreements they were incorporated.
4. Finally, it is important to emphasize that in the capital and financial account significant changes were observed "due to the application of a foreign exchange market", which caused a significant reduction of the deficit in the years reviewed given the case of the revaluation of assets to another exchange.

### Current Account Evolution



Source: BCV and Ecoanalítica

\* To 3Q2014.

### An upside down world

The above having been said, we find that, according to the Central Bank’s figures, Venezuela’s current account went from a surplus of US\$8.34 billion in the first nine months of 2014 to a deficit of US\$13.04 billion for the same period in 2015. This drop was influenced mainly by the 52.1% reduction in oil exports and the 25.7% reduction in nonoil exports and despite the 17.3% cut in imports, which came to US\$27.98 billion. As for the capital account, it too changed sign and posted a surplus of US\$8.9 billion for the first nine months of 2015, driven mainly by the positive balance on the public sector capital account.

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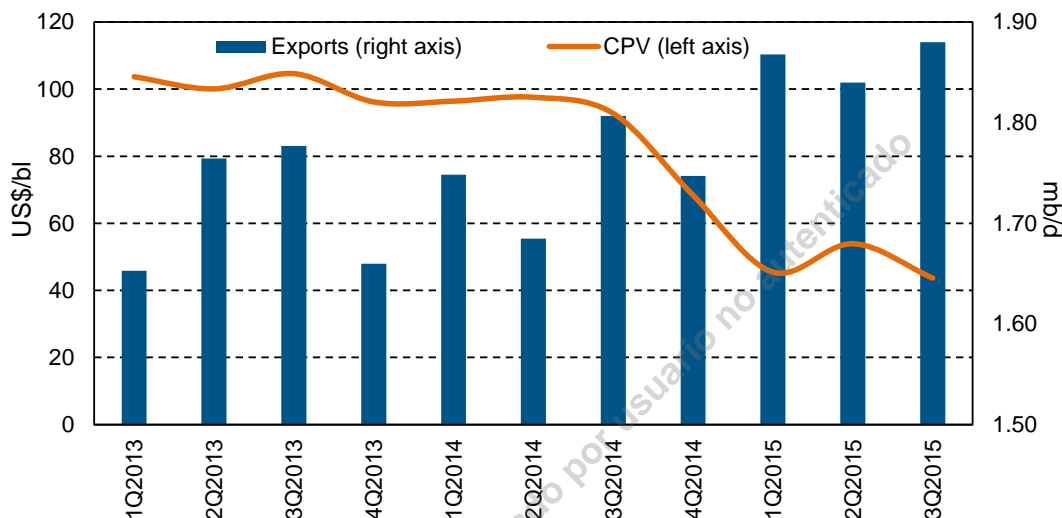
<b>BALANCE OF PAYMENTS</b>			
<b>General Summary</b>	<b>Accum. 3Q2015</b>	<b>Accum. 3Q2014</b>	<b>y/y (%)</b>
<b>(US\$ Bn)</b>			
<b>Current Account</b>	-13,04	8,34	-
<b>Goods</b>	1,55	26,53	-94,2
<b>Oil Exports</b>	27,83	58,07	-52,1
<b>Non-Oil Exports</b>	1,69	2,28	-25,7
<b>Import of goods f.o.b.</b>	-27,98	-33,83	-17,3
<b>Services</b>	-9,64	-11,23	-14,2
<b>Others</b>	-4,95	-6,96	-28,9
<b>Capital Account</b>	8,90	-9,14	-
<b>Public Sector</b>	7,32	-0,68	-
<b>Private Sector</b>	2,15	-8,65	-
<b>Reserves Variation</b>	-4,14	-0,81	414,2

Source: BCV and Ecoanalítica

### And then oil plummeted

As for oil exports, we find that they were affected both by the drop of 50.0% in the price of the Venezuelan oil basket between January and September 2015 and by the reduction of 3.2% in oil production, which averaged 2.70 million daily barrels (2.70 mb/d) over that period. An attempt was made to offset the drop in prices and in production by redirecting sales to countries that do not have payment agreements, with the result that cash-generating exports rose by 4.1% between January and September 2015; however this was not enough to fully offset the effect of the lower prices.

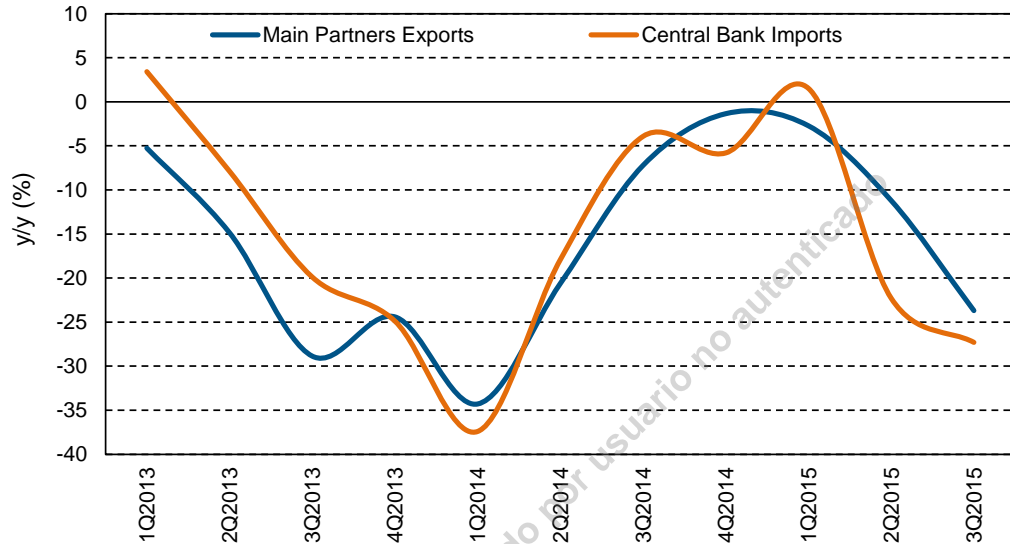
### Venezuelan Oil Basket vs. Cash Generating Exports



Source: Menpet and Ecoanalítica

As for imports, they posted a cumulative contraction year-on-year of 17.3%, which was due to the drops in oil imports (-24.2%) and nonoil imports (15.3%). We need to point out here that our estimator, constructed with the export data of our main trading partners, posted a smaller contraction than the one posted on the balance of payments (13.7% vs. 17.3%). This may be due to different factors, such as the delay in entering transactions and over-invoicing.

### Imports Evolution

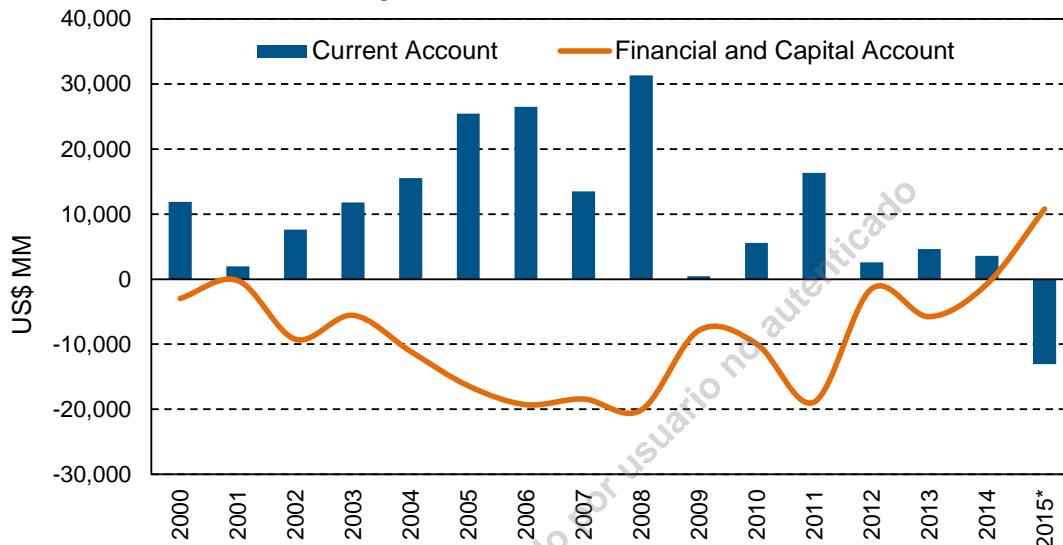


Source: Ministries of Commerce, Statistics Institutes and Central Banks of the US, China, Brazil, Mexico, Colombia, the European Union, Canada, Chile, Ecuador, BCV and Ecoanalítica

### Burning external assets

As for the capital and financial account, we find that it posted a cumulative surplus of US\$10.77 billion as at 3Q2015. This is an important change of sign in view of the fact that in recent decades, and because we are an oil country, Venezuela financed its deficit structurally from the financial account with the surpluses on the current account. However, given the difficult external situation, both the public and private sectors have resorted to using up external assets in order to survive.

### Current, Capital and Financial Account Evolution

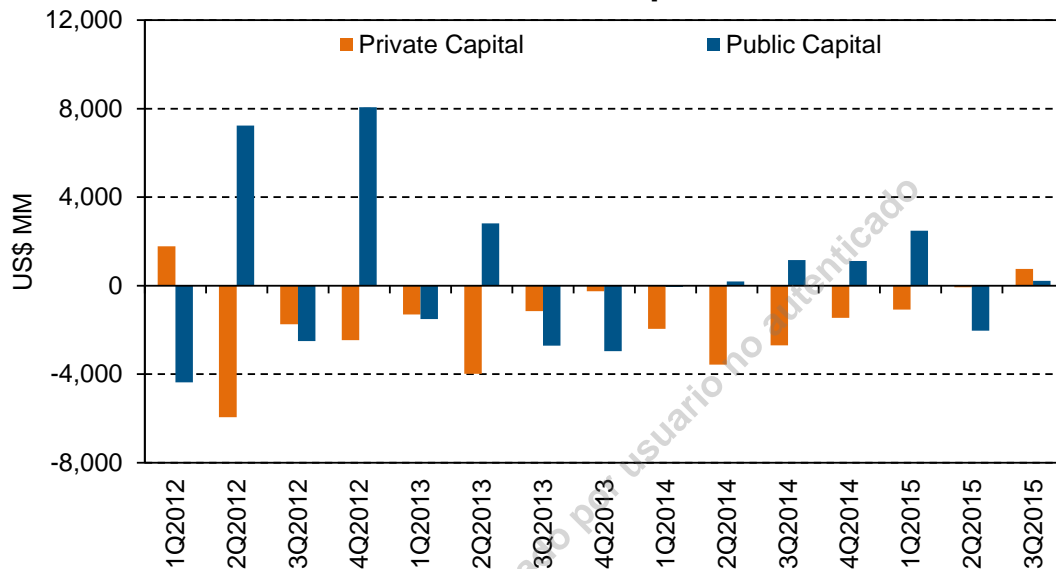


Source: BCV and Ecoanalítica  
\* To 3Q2015.

Upon doing a review by sub-balance, we find that the direct investment account posted a surplus of US\$2.5 billion for the first nine months of 2015 after posting a deficit of US\$484 million for the same period in 2014. This behavior is explained mainly by two things: the first, which is something typical of the past few years when there has been a tightening of the exchange controls, has to do with the reduction in the allocations of foreign currency to private companies and joint ventures for repatriating capital and profits, and the second, which is atypical, is due to different PDVSA operations in 1Q2015, which represented an entry of US\$1.76 billion.

In the case of the other investment sub-account, it posted a surplus of US\$10.78 billion for the first nine months of 2015, after posting a deficit of US\$8.79 billion in 2014. Since this account posts the movements of bank deposits, loans, and commercial loans assets and liabilities, it is associated with the outflow of capital and normally posts negative balances. However, as we mentioned earlier, given the harsh restriction imposed by the contraction in oil revenues, both the public and private sectors posted positive balances on this sub-balance sheet.

### Private and Public Capital Outflow



Source: BCV and Ecoanalítica

Unlike the previous sub-accounts, and as was to be expected, the portfolio investment account went from a surplus to a deficit of US\$2.51 billion, associated with public debt payments.

### Sense of self-preservation

That the Executive has a preference for its own survival is apparent when one reviews the satellite foreign currency income and outgoings account. While it is true that between January and September 2015, the Central Bank's foreign currency revenues contracted by 35.7% to US\$21.74 billion, the public sector received 65.8% of that amount and its annual allocation shrank by only 0.9% year-on-year. Public sector foreign currency outgoings were mainly for servicing the debt, however, what strikes one are the outgoings of Banderas amounting to US\$3.32 billion and the outgoings of the nonfinancial state-owned companies, which posted US\$2.2 billion.

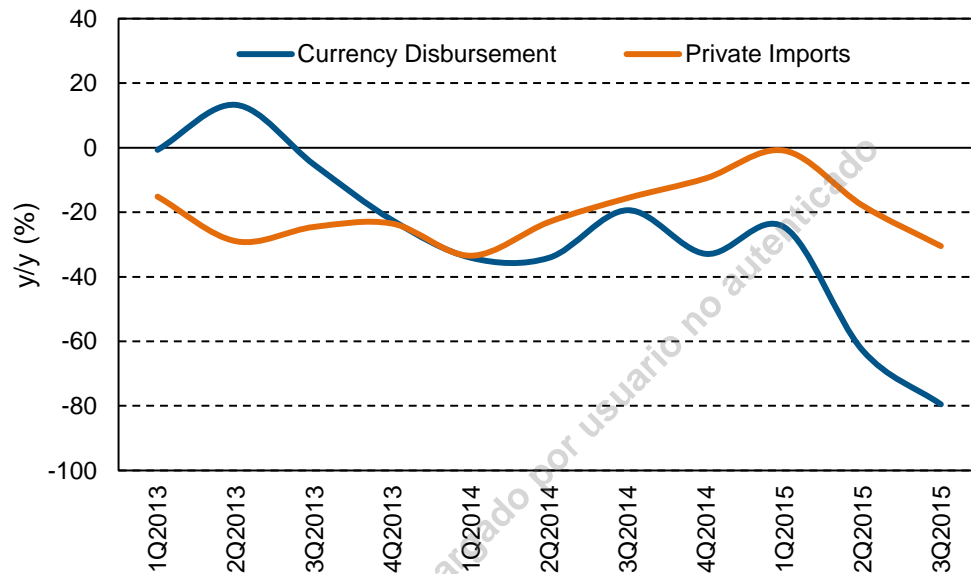
As for the private sector, it received the remaining 34.2%, which represented a drop in foreign currency allocations of 61.9% and were broken down as follows: US\$5.45 billion for foreign exchange operators and US\$2.19 billion for imports via ALADI. What strikes one is that, despite the strong contraction in the allocation of foreign currency to the private sector, its imports fell by only 17.4%, nearly the same as the drop in public sector imports (-17.2%).

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### Currency Disbursement vs. Private Imports



Source: BCV and Ecoanalítica

### With no protection from the storm

All these figures meant that Venezuela posted a drawing down of reserves of US\$4.1 billion in the first nine months of 2015 and, since crude prices continued to slide in the last quarter, this meant that the international reserves closed the year at US\$16.3 billion. Despite the contraction in imports, according to our calculations, last year Venezuela posted a cash flow deficit of US\$28.7 billion, which it managed to cover in part thanks to a series of unorthodox financial operations and the use of external assets.

As for 2016, the outlook seems to be even more complicated. We started off the year with the average oil basket at US\$24.6 per day (US\$24.6/bl) and oil production that has still not managed to pick up, which bodes an even bigger contraction in our foreign currency revenues. On the disbursements side, the situation is that our imports are already at minimal levels, which makes it critical and risky for the government to continue resorting to cutting external purchases in order to generate a cash base, as this could bring about a food and health crisis (or make it worse). The cherry on the cake is that, in 2016, the Executive faces a complicated external debt payment schedule, with payments of US\$2.2 billion and US\$3.0 billion in

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February and October, respectively. For that reason, several investment banks are suggesting the possibility of a default in 2016 in the current oil scenario, which poses a much more complicated situation than the one Venezuela faced in 2015.

### Hard Currency Cash Flow (US\$ Bn)

Concept	2013	2014	2015E	2016F
<b>Venezuelan Oil Basket Price (US\$/bl)</b>	<b>98.1</b>	<b>88.4</b>	<b>44.7</b>	<b>30.0</b>
<b>Liquid foreign assets stock</b>				
Public Sector	18.44	12.67	15.38	4.13
<b>Total Income</b>	<b>67.19</b>	<b>62.06</b>	<b>31.10</b>	<b>20.19</b>
<b>Expenditure</b>				
<b>Non-oil-related public imports</b>	<b>15.99</b>	<b>14.71</b>	<b>13.55</b>	<b>13.24</b>
<b>Private imports via Cadivi</b>	<b>21.08</b>	<b>14.75</b>	<b>13.55</b>	<b>10.97</b>
<b>Non-priority private imports</b>	<b>11.41</b>	<b>11.10</b>	<b>6.20</b>	<b>4.70</b>
Services	12.63	11.13	9.87	5.20
Rent and current transfers	4.96	4.30	3.31	3.29
<b>Public external debt</b>	<b>14.04</b>	<b>13.71</b>	<b>12.53</b>	<b>12.79</b>
<b>Capitals outflow and others</b>	<b>6.68</b>	<b>9.66</b>	<b>0.79</b>	<b>1.49</b>
<b>Total Expenditures</b>	<b>86.79</b>	<b>79.36</b>	<b>59.78</b>	<b>51.68</b>
<b>Result</b>	<b>-19.61</b>	<b>-17.31</b>	<b>-28.68</b>	<b>-31.49</b>

Source: BCV, MEFBP, PDVSA and Ecoanalítica

Pilar Navarro

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## WEEKLY INDICATORS

Weekly Economic Indicators			
	2nd Week January	Weekly var. (pp)	Annual var. (pp)
Lending Interest Rate (%)	20.5	0.1	1.9
	3rd Week January	Weekly var. (pp)	Annual var. (pp)
Overnight Interest Rate (%)	0.9	0.7	0.7
	3rd Week January	Weekly var. (%)	Annual var. (%)
International Reserves (Bn US\$)	15.56	-0.1	-24.9
	3rd Week January	Weekly var. (%)	Annual var. (%)*
Central Government Spending (VEF Bn)	45.6	45.2	70.5
	2nd Week January	Weekly var. (%)	Annual var. (%)
Monetary Liquidity (VEF Bn)	4,027	0.2	95.2
Price of International Oil Baskets (US\$/bl)			
	3rd Week January	Weekly var. (%)	Annual var. (%)
WTI	29.0	-7.3	-34.1
Brent	28.7	-8.8	-41.4
Price of the Venezuelan oil basket (US\$/bl)			
	3rd Week January	Weekly var. (%)	Annual var. (%)
Weekly Average	21.6	-11.3	-45.3
Annual Average	24.6	-5.7	-41.4

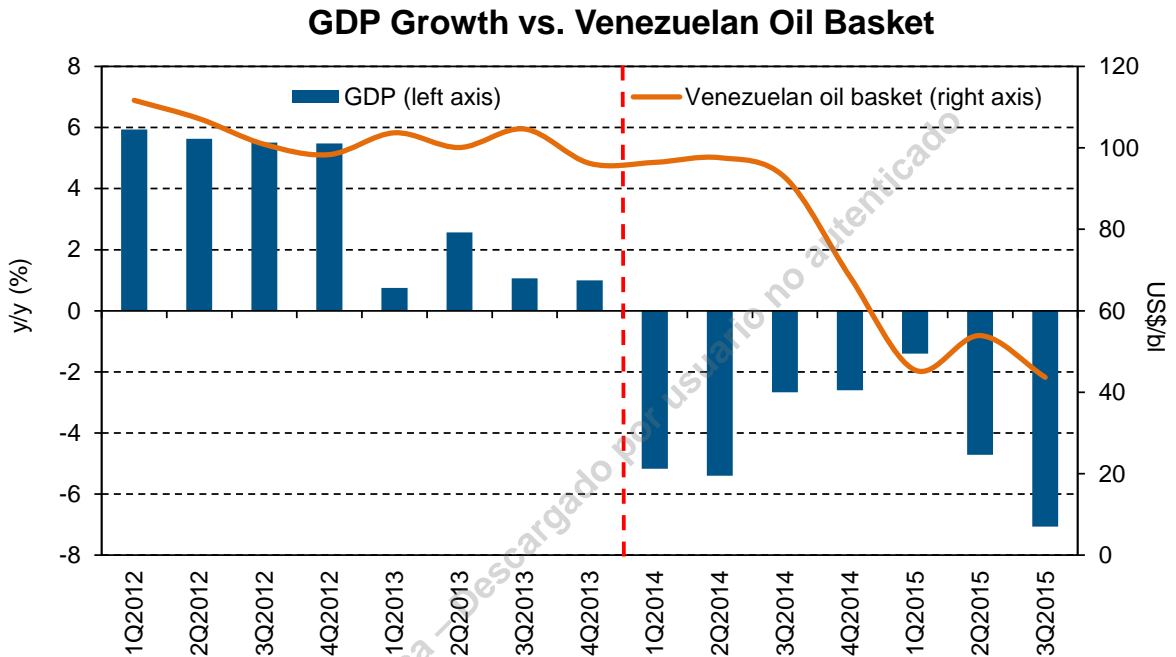
Source: BCV, MENPET, ONT and Ecoanalítica

\* Annual variation of accumulated expenditure.

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**CHART OF THE WEEK: “THE MODEL HAD ALREADY COLLAPSED BEFORE OIL PRICES PLUMMETED”**



Source: BCV, MENPET and Ecoanalítica

Lately, the government has been laying the blame for the present economic crisis at the door of the drop in oil prices due to an international geopolitical conflict. However, at **Ecoanalítica** we are of the opinion that it is the accumulation of foreign exchange and fiscal distortions that has generated the present deterioration of the economy is the result of an economic and political model that has collapsed and not the drop in oil prices.

The sharp drop in prices on the oil markets started in the 3Q2014, whereas it was apparent that growth in GDP had already started to slow down back in 1Q2012, which shows that the economic dynamic does not depend solely on crude prices. A serious and stable macroeconomic model is capable of responding to external shocks. Venezuela got used to living off the oil rent and did not invest in the production apparatus when it had the chance, with the result that, now, with such a steep drop in oil revenues we are seeing a bigger deterioration in the economy.

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**ECONOMIC TIPS**

**The decree was rejected.** The National Assembly rejected the validation of the economic emergency decree approved by President Nicolás Maduro to deal with the economic crisis as it considered it was tantamount to issuing the President with a “blank check.” The proposal was rejected with 107 opposition votes against to 53 votes in favor from the government benches after the Special Commission designated to evaluate the contents of the decree recommended that it not be approved.

**And it was refused!** According to the Special National Assembly Commission created to study the Economic Emergency Decree, the decree was refused because it was based on an unsatisfactory diagnosis of the causes of the economic crisis and omitted key aspects that require urgent attention. The commission explained, moreover, that the decree would grant the government considerable discretionary powers and did not take the structural measures the Venezuelan economy needs into account.

**It was more of the same.** The commission that evaluated the decree also pointed out that this proposal would have promulgated the same foreign exchange imbalances that generate opportunities for corruption and that, therefore, approving it would mean more of the same. Similarly, the decree did not define what was meant by “economic emergency” so that it would not have been possible to evaluate the effects of the policy to be implemented subsequently.

**Now it's SIMADI's turn.** During the induction of the Working Group on Exporting, President Nicolás Maduro approved a measure whereby the Marginal Foreign Currency System (SIMADI) is to become the system that is to be used from now on to calculate the exchange rate for exporting and not the rate generated by the Alternative Foreign Currency Exchange System (SICAD II) (VEF 52/US\$). Thanks to the measure, exporters will be able to sell foreign currency at the Central Bank at the SIMADI rate.

**Eliminating the obstacles.** Moreover, in the interests of eliminating unnecessary obstacles and shortening the time it takes to export, the President abolished the Foreign Currency Administration System Users Register (RUSAD), which was managed by the Foreign Trade Center (Cencoex) and required private individuals and companies wishing to export to comply with certain requirements, controls, and formalities.

**Stop being afraid.** The economist Alejandro Grisanti pointed out that it was necessary to adjust the exchange rate, saying that the time has come to stop analyzing the situation and to take measures. He commented that he did not harbor favorable expectations with regard to the Venezuelan economy due to the mixed signals coming from the government. “The government has to stop being afraid and take decisions,” he added.

**It’s not enough.** In its latest report, the US firm Focus Economics said that, in line with economists consulted, they expect the bolivar-dollar ratio to be VEF 58.7/US\$ this year. However, they are of the opinion that this rate will not be sufficient to avoid the shortage of foreign currency as the government will seek to reduce allocations in view of the present drop in oil prices.

**The sky’s the limit.** According to the report from the Documentation and Social Analysis Center of the Venezuelan Teachers’ Federation (CENDAS-FVM), at the close of December the cost of the basic basket came to VEF 139,273, an increase of 361.5% compared to December 2014, equivalent to VEF 109,096. This increase brings the average monthly rate of inflation for 2015 to 30.1%.

**When bus fares go up.** According to CENDAS, the item public services went from VEF 3,650 to VEF 3,870, for an increase of 6.0%. This increase was due to the 33.3% increase in urban transport fares, which went up from VEF 15 to VEF 20 in Caracas.

## OIL TIPS

**PDVSA plans to bring down costs.** President of PDVSA and Minister of Oil and Mining Eulogio Del Pino announced that more stringent measures are being taken at the state-owned oil company to maintain its profitability in another year of low oil prices by reducing operating costs by 28.0% this year. He stressed that the main objective is to reach a production cost of around US\$10.0/bl. from the current US\$13.0/bl., according to his figures.

**Del Pino confirms the cost.** In view of information that has appeared in the press according to which Venezuela is already selling its crudes at below the cost of production, the president of PDVSA, Eulogio Del Pino, insisted that the average production cost of oil in Venezuela is US\$13.0/bl., and not US\$20.0/bl. as some people have commented. He explained that “*This average includes the production*

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*costs in the different fields, that go from US\$5 per barrel to other higher costs, and that include improved recovery and upgrading of crudes.”*

**The Orinoco Oil Belt must be profitable.** Following the induction of the National Assembly’s Energy and Oil Committee, its vice chairman, Elías Mata, emphasized that one of the concerns shared by the majority of deputies is “*whether production from the Orinoco Oil Belt continues to be profitable.*” Mata said he had information on an increase in the prices of blends, naphtha and gasoline for producing a profitable, exportable crude. “*The costs have gone up a lot,*” he stated.

**PDVSA’s debt has been reduced.** Following a meeting with his Ecuadorian counterpart, Carlos Pareja, Minister Del Pino said that PDVSA’s financial debt had been reduced by US\$1.99 billion, from US\$45.74 billion in 2014 to US\$43.75 billion in 2015, a drop of 4.3%. This drop is due to the fact that PDVSA has not issued more debt because of Venezuela’s extremely high country risk rating, but has been repaying its existing debt.

**OPEC is still evaluating a meeting.** The Organization of Producing Export Countries (OPEC) is still evaluating the need to call an extraordinary meeting after receiving a request for one to be held in view of the steep drop in oil prices, said Qatar’s minister of energy, Mohammed al-Sada. “*We received a request and oil ministers are discussing that,*” he said. Qatar assumed OPEC’s rotating presidency this year.

**OPEC calls on non-members to collaborate.** The secretary general of OPEC, Abdalla S. El-Badri, called on non-OPEC oil producing countries to collaborate to reduce the global oversupply of crude that has made prices plummet. “*At current price levels, it is clear that not all of the necessary future investment is viable (...) extreme prices – either too high or too low – are not in the interests of either producers or consumers,*” maintained El-Badri.

**Oil and gas for a long time to come.** Referring to the next meeting on climate change, the secretary general of OPEC said that, while renewable energies should continue to be developed, they cannot be seen as a replacement for fossil fuels. “*Combined, oil and gas are still expected to supply over 50 per cent of the global energy mix,*” said El-Badri.

**Oil closed at US\$21.6/bl.** The price of Venezuelan crude close last week at US\$21.6/bl., according to an announcement by the Ministry for Energy and Oil posted on its webpage. Venezuelan oil continued to slide after trading at US\$24.8/bl.

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last week. *“Crude prices continued to be affected by ample availability of supplies and signs of a slowdown in economic activity in China,”* reported the ministry.

**Prices will go up.** The president of British Petroleum (BP), Bob Dudley, forecast that oil prices will go up in the second half of the year, after the International Energy Agency (IEA) said in its report that prices may continue to sink due to oversupply. In Dudley’s opinion, although they could go as low as US\$10.0/bl., as some analysts forecast, such a price would not be unsustainable.

**A year with two halves.** In the opinion of the president of BP, Bob Dudley, although we are in a commodities cycle, the cut in investments around the world will finally have an effect. Dudley said: *“I think it’s going to be a year of two halves,”* adding, *“We could see some real volatility in the first quarter [and] second quarter.”*

**Fundamentals wake up.** The increase in demand from the United States and China added to production cuts in the United States will make prices start to climb in the second half of the year. *“The fundamentals of demand are definitely increasing,”* he said. However, it is unlikely that prices would reach the US\$100/bl. mark.

**Aramco could trade on international markets.** In an interview with The Economist, Saudi Arabia’s deputy crown prince, Mohammed bin Salman, said that Riyadh could sell shares in Aramco as part of a privatization process. Aramco has estimated crude reserves of nearly 256.0 billion barrels, more than 15.0% of the world’s oil deposits, which means it could become the first company to trade on the stock market valued at US\$1 trillion or more when launched.

## BUSINESS SECTOR TIPS

**What was never done.** Minister for Foreign Trade and International Investment Jesús Faría has said that, with a view to providing incentives for export companies, President Nicolás Maduro is to announce a series of measures that will reduce formalities in the export process. *“We’re going to take a big leap on the exports front. There are a series of announcements that the President is going to make that are going to mean much more dynamic procedures,”* claimed Faría.

**At last they’re listening.** Ramón Goyo, the president of the Venezuelan Exporters Association (AVEX), said that the measures announced by the government were the same ones that the sector had been proposing for years. According to Goyo,

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one of the most positive measures announced as far as exporters are concerned is that of replacing the Alternative Foreign Currency Exchange System (SICAD II) with the Marginal Foreign Currency System (SIMADI) for the sale to the Central Bank of 40.0% of the foreign currency generated by the sector.

**It's not enough.** On the matter of the measures approved at the request of exporters, the president of Conindustria, Juan Pablo Olalquiaga, considered that they will help the sale of products abroad but warned that Venezuela's integration into the regional market is not that simple. "*Competitiveness in the foreign market means facing prices with very low margins and the more advanced technologies of companies in other countries,*" he explained.

**Some hope!** Minister of Industry and Commerce Miguel Pérez Abad said that even though the country's current economic situation looks complicated it is encouraging. "*President Maduro is inviting all production sectors, regardless of their political position, to a great national debate to agree on and coordinate policies that will help tackle the rentier model in order to make contact with the needs of the production sectors,*" stated Pérez Abad.

**First things first.** Referring to this year's program of imports, Perez Abad gave assurances that they were "*coordinating the budget with two fundamental sectors, which are food and pharmacy.*" Minister Pérez said that "*initially, foreign currency will be allocated to 50 food product groups considered indispensable, besides groups of products having to do with health and medicines.*"

**An alarming figure.** The president of Consorcio Oleaginoso de Portuguesa (Coposa), Nelson Quijada, said that the country "*is worse off than three years ago; it's worse off than ever. We're producing very little; we're living off imports and the price of oil.*" Quijada claimed that Venezuelan industry is receiving fewer raw materials than it needs in order to be able to produce. "*Today, Venezuela is importing more than 75.0% of the food we consume,*" he said.

**But without paying the debt.** The Association of Chemical Industrialists (Asoquim) claims that the debts their members have been running up with their foreign suppliers since 2013 come to US\$526 million. Asoquim points out that these liabilities have resulted from Foreign Currency Disbursement Authorizations (ALDs) that were issued but not acted on. Given this situation, the chemicals and petrochemicals sector is operating at 30.0% of its installed capacity, according to Asoquim's president, Francisco Acevedo.

**The ultimate in cynicism.** Minister for Health Luisana Melo believes that the shortage of medicines is due to the fact that Venezuelans consume the highest number of medicines per person in the world and she invited people to be more rational. “*We Venezuelans consume the highest number of medicines per capita in the world,*” claimed Melo.

**Making history.** Antonio Suárez, the president of the National Unitary Federation of Government Service Employees (Fedeunep), said that the Umbrella Government Service Employment Contract, which went into force in January 2106, “*includes unprecedented clauses.*” According to Suárez, the most salient aspect is that adjustments to government service salary scales and tabulators will be made automatically every time an increase in the minimum wage is decreed.

**Let’s see if it works.** The Central Government approved US\$363.9 million for the agricultural sector after evaluating food production with businessmen in Acarigua, Portuguesa state. The information was given by Minister for Food Rodolfo Marco Torres, who explained that US\$354 million would be for agro-chemicals, fertilizers, agricultural machinery, and veterinary medicines and the remaining US\$3.9 million would be for agricultural loans.

## WORLD ECONOMY TIPS

**Keep calm, the crisis isn’t that serious.** The World Economic Forum concluded that the economic “crisis” China is experiencing will not cause a worldwide catastrophe. However, it also said that the region to be hit the hardest would be Latin America. It also explained that China has the necessary resources and a much bigger margin of maneuver for dealing with the crisis than other countries.

**Trying to curb capital flight.** The People’s Bank of China is to allow the funds in nonresidents’ accounts (NRA) to be converted into fixed deposits. This measure could encourage foreigners to keep their foreign trade profits in the country and so help the monetary authorities to curb capital flight.

**We’re not seeking to devalue.** China’s Vice President Li Yuanchao informed Bloomberg News that his government has no intention of devaluing the yuan (CNY). “*The fluctuations in the foreign currency markets are the result of market forces and the Chinese Government has no intention and no policy to devalue its currency,*”

said the vice president. Yuanchao also said that the volatility of the CNY was due to the raising of interest rates in the United States.

**Trying for higher inflation.** The president of the European Central Bank (EBC), Mario Draghi, said that the bank has numerous instruments at its disposal for increasing inflation and that he is prepared to meet the ECB's targets. *"We have plenty of instruments (...) and, above all, the Governing Council has the power, the willingness, the determination to act (...) and deploy all the instruments that are necessary,"* said Draghi at the World Economic Forum.

**Thanks for the help.** Spain's Minister for the Economy Luis de Guindos said that Spain is to return the aid received from the ECB to bail out the banking sector. According to Guindos, between EUR 6.0 billion and EUR 7.0 billion of the EUR 40.0 that was received has already been repaid. Guindos pointed out that, with payments that have been made, Spain can be considered to have overcome the problems that made the foreign exchange rescue package necessary and that now all that is left to do is to pay.

**In contraction, the same as Venezuela.** According to preliminary figures published by Russia's statistics office, Rosstat, the Russian economy posted a contraction of 3.7% in 2015, the biggest in the past six years and a big difference from the slight growth posted in 2014 (0.7%). Russia, like Venezuela, has been seriously affected by the sharp drop in oil prices and fiscal imbalances.

**Posting negative figures.** The International Monetary Fund (IMF) forecasts that Argentina, Venezuela, and Ecuador will join Brazil and close 2016 in recession, dragging down the region to negative growth -forecast at -0.3%- for the second year running. The IMF forecasts that GDP in Venezuela will contract by 8.0% in 2016, in Brazil by 3.5%, in Argentina by 1.0%, and in Ecuador by 0.1%.

**The best behaved.** On the other hand, the IMF has said that, despite the world outlook, there will still be economies in the Latin American region that will manage to recover from the negative scenario and post economic growth, among them Colombia (2.7 %), Chile (2.1 %), and Peru (3.3 %).

**2016, a difficult year.** The IMF states that, due to the recent outbreaks of financial volatility triggered by uncertainty regarding the slowing down of the Chinese economy, the drop in commodity prices, and the differing monetary policies being implemented by the advanced economies (raising interest rates by the United States), 2016 will be a year full of challenges for the Latin American economies.

**The reserves are there to be used.** Brazil's President Dilma Rousseff said that her government could consider resorting to the country's international reserves at some point, an idea that has not been well received by investors as they are concerned over the problems the Brazilian economy is facing. Brazil's international reserves come to US\$370.0 billion. Dilma made it clear that the reserves "*are not sacred. There are times when they could become an option to be evaluated,*" she said

**Greece could be expelled.** One of the major issues at the World Economic Forum was the current migratory crisis that is threatening the European Union. During the debates, Greece was warned that it could be excluded temporarily from the Schengen zone (where there is free circulation of persons), if Athens does not manage to implement stricter border controls.

## POLITICAL TIPS

**They can't evade the issue.** Experts in constitutional law Román Duque Corredor and José Vicente Haro explain that neither citizens assemblies nor the "Communal Parliament" have the power to approve the economic emergency decree that was rejected by the National Assembly. "*If the government insists on implementing the decree, despite Parliament's rejection, it would be committing a coup against the country's institutions,*" said Duque Corredor.

**Two faces, two hearts.** The president of the National Assembly, Henry Ramos Allup, said that Venezuela is experiencing a crisis as a result of bad administration, although he did consider it positive that President Maduro has admitted that there is a problem. "*There's no economic war in the country, rather a government that is at odds with domestic production. The true war is the government's war against the economy, and they won,*" said Ramos Allup.

**They've nothing to fear.** According to the executive secretary of the Democratic Unity Alliance, Jesús Torrealba, "we'll win all" the electoral circuits in Amazonas if they repeat the parliamentary elections. "*It's obvious that the government is trapped, because if the processes (challenging the proclamations) go ahead and that ends up with a fresh election, we're not just going to get the three deputies again, we're going to get all four,*" claimed Torrealba.

**Let's investigate!** According to Zulia Legislative Council Deputy Lester Toledo, the governor of Zulia state, Francisco Arias Cárdenas, will be summoned to appear before the National Assembly's Comptroller's Committee for questioning. *"He's going to handle more than VEF 120 billion, six times the previous regional budget, and there isn't even one new outpatients clinic that's been built in the state in the past three years,"* stated Toledo.

**Making things clear.** Deputy for Miranda state Delsa Solorzano said that the National Assembly would not assume the competences of the government. *"They've not only got the legal capacity to solve the economic crisis, but the obligation as well. Now, if they're expecting to get the National Assembly's authorization to confiscate property and to set aside controls when awarding government service contracts, thereby increasing corruption, they can't count on us,"* explained Solorzano.

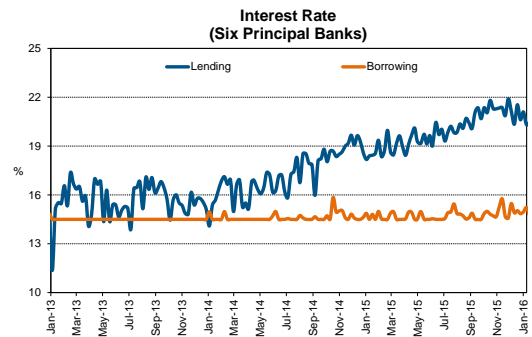
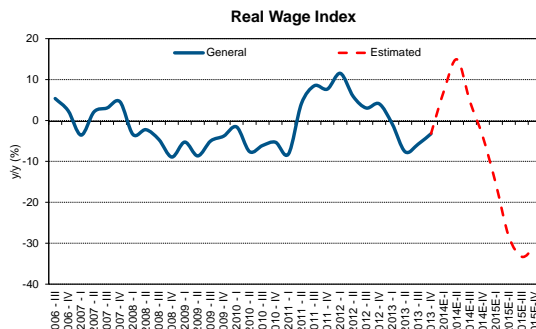
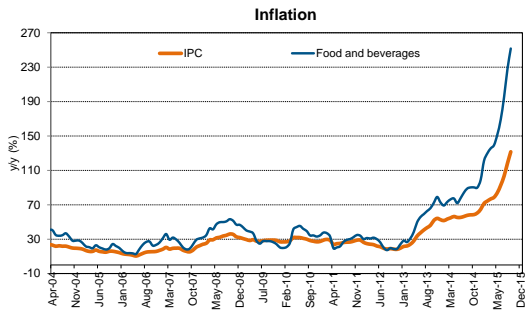
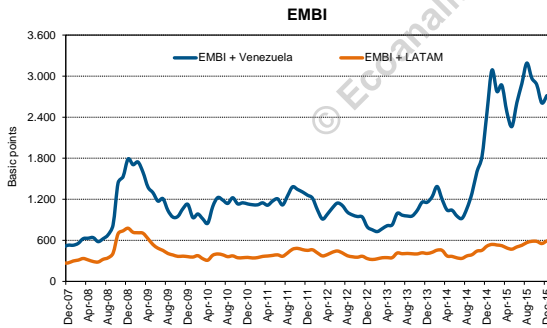
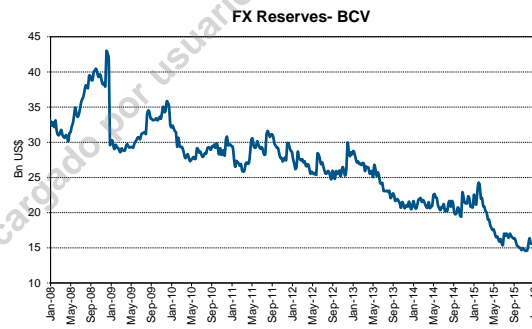
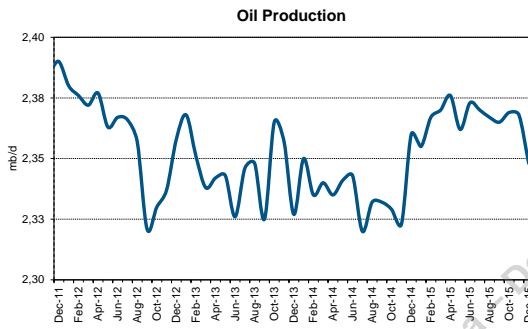
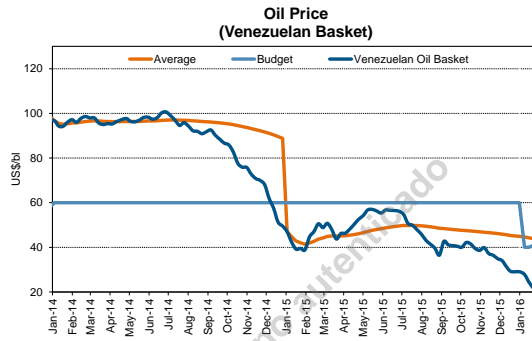
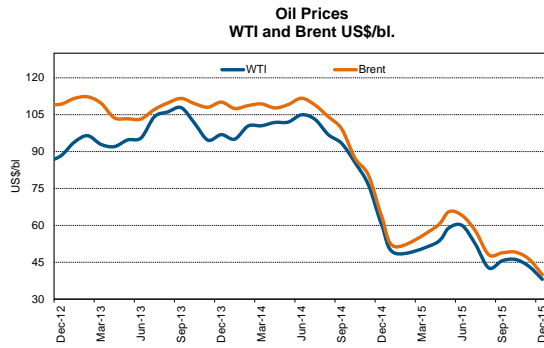
**International concern.** Argentina's Foreign Minister Susana Malcorra and Spain's Foreign Minister Spain José Manuel García-Margallo expressed their concern over the situation in Venezuela and expressed their commitment to a solution to the crisis based on dialog and consensus. *"We're following everything that's happening in Venezuela very closely, and anything that destabilizes the country will have a destabilizing impact as well throughout the region,"* said the Spanish minister.

**The secrets are starting to come out.** According to a report published by the Spanish daily ABC, the Center for Political and Social Studies (CEPS) Foundation apparently advised the late President Hugo Chávez on imprisoning journalists in Venezuela. According to ABC, the foundation insisted on certain strategies for restricting the Venezuelan media.

## LEGISLATIVE TIPS

**Don't bother dressing up, you're not going.** The National Assembly decided not to approve the Economic Emergency Decree presented by President Nicolás Maduro on Friday, January 14. The decree was submitted to the vote in the National Assembly and was refused with 107 votes against and 53 in favor. Minutes earlier, 108 deputies had voted in favor of the report by the special commission recommending that the Economic Emergency Decree not be approved.

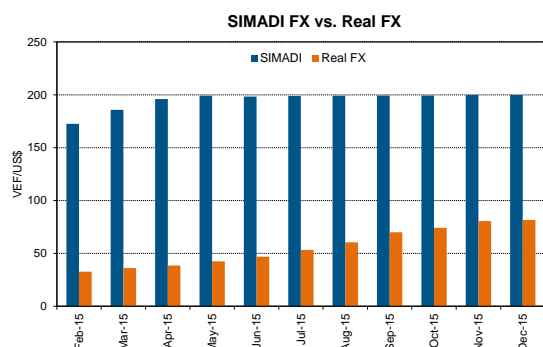
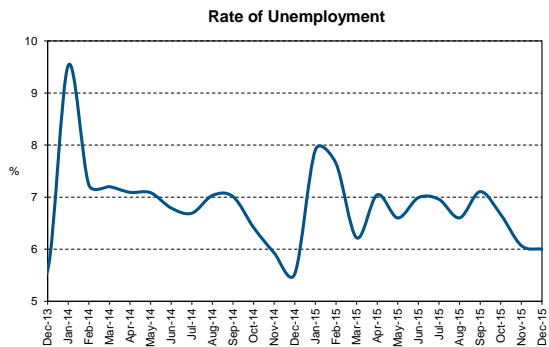
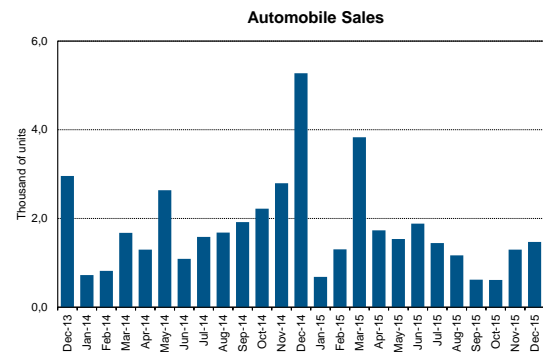
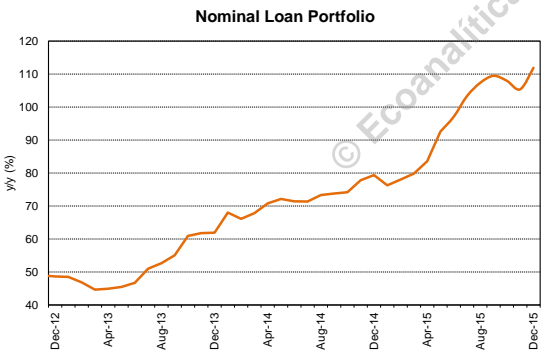
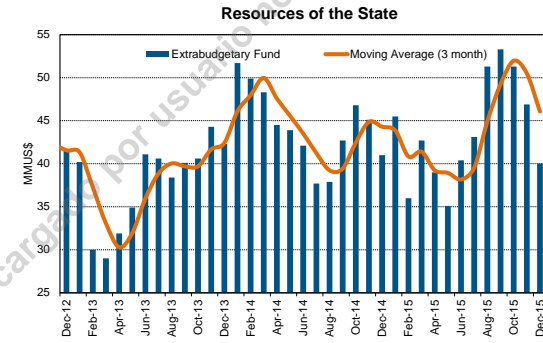
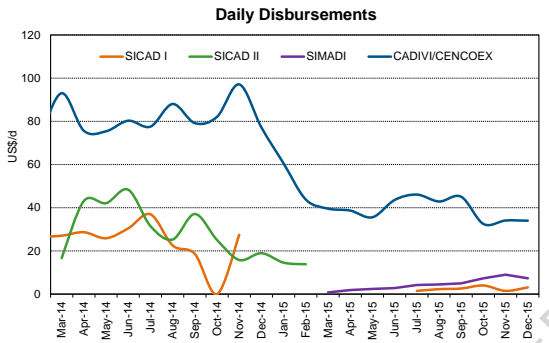
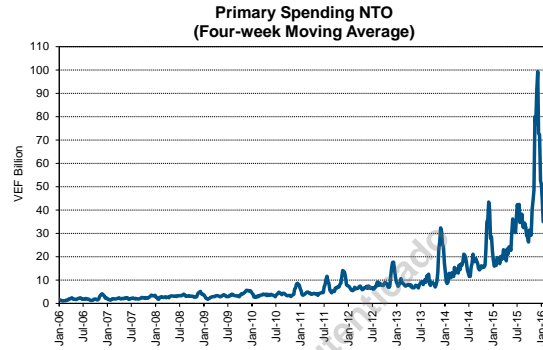
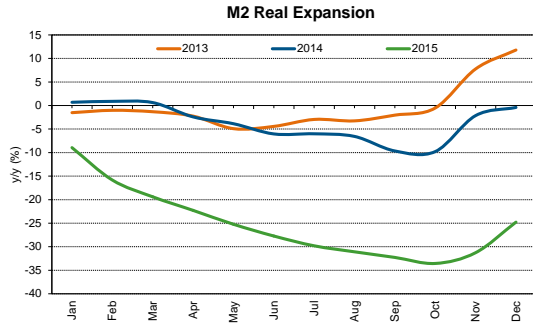
**ECONOMIC OVERVIEW**



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