



## Weekly Report

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*Structural or gradual adjustments or half measures: The economic policy of the Socialism of the 21st century*

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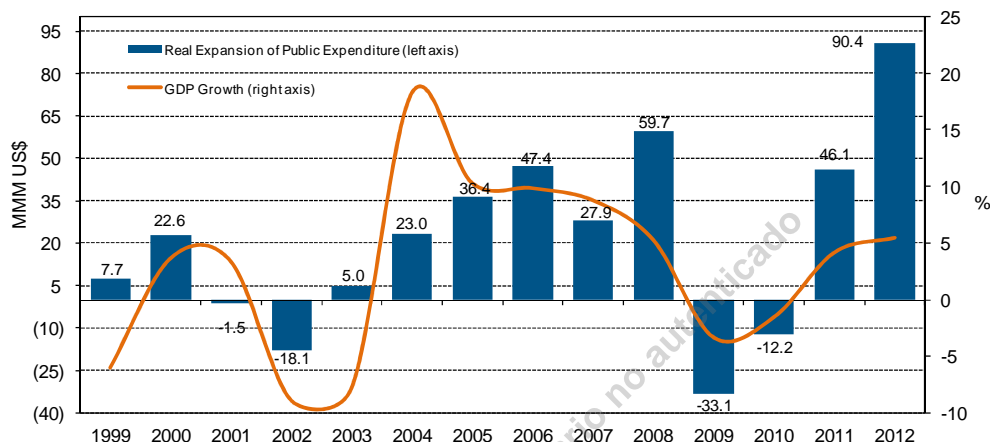
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Two years ago, "chavismo" was preparing for the most important electoral process since its arrival to power in 1998: the 2012 presidential elections, whose victory would become the "point of return" of the Bolivarian Revolution, according to President Chávez himself. Given the importance of the elections, from January 2011 until October 2012 Venezuela was immersed in the political business cycle more costly and inefficient from the economic point of view in its history: our indicator of real growth in public spending (that takes into account all revenues and expenditures of the State) was US\$90.44 billion, almost doubled the figure of 2006 (US\$ 47.37 billion) when the economy grew 9.9% (5.5% in 2012).





Public Expenditure expansion and GDP Growth



Sources: BCV, MF and Ecoanalítica

Given this and other imbalances, after the electoral process was over economic agents expected the victorious candidate to tackle the adjustments lagging because of the political cycle, not only in fiscal matters, but also, given the nature of the Venezuelan economy, in exchange rate and monetary matters. Unfortunately, both for the “reelected” Government and for the country, the illness of President Chávez has put important economic policy decisions in the back burner, since the political-economic cycle apparently continues.

Considering the magnitude of the imbalances, not only because of the delays in the adjustments of the last two years, but also because of the exacerbation of the policies that generate them, the Venezuelan economy is in a situation in which continuing the political-economic cycle (continue postponing the adjustments) has become a Damocles sword in the short, medium and long terms. So far, only an economic “measure” has been announced, which according to **Ecoanalítica**, means that the Administration keeps postponing important economic decisions, suggesting that we will continue mired in the political-economic cycle for the third consecutive year.

In this report we will try to tackle the impact of this measure in correcting the accumulated imbalances, and how sustainable the present economic model is; in other words: will the Government be able to keep generating the feeling of wellbeing? We will see.





**Taxing sudden earnings: a powerful measure**

Together with the oil price boom, Official Gazette N° 38.910 of April 15, 2008 published the Law of Special Contributions for Extraordinary prices in the International Hydrocarbon Market, establishing a special tax for hydrocarbon export and transportation activities, taking into account the average Brent price. This law is pertinent when the average price of this basket exceeded US\$70/bl according to the following percentages: 50% of the difference over the monthly average of US\$70/bl, as long as the amount doesn't exceed US\$100/bl, and 60% of the difference over the monthly average of US\$70/bl, if it exceeds US\$100/bl.

That year, the Administration's income in foreign currency from this tax was US\$8.19 billion. The following years, the amounts were US\$251 million and US\$1.7 billion, due to the drop and then the recovery of oil prices.

**First reform: we need resources**

With the imminent collapse of the economic model of the Socialism of the 21st century, given its great vulnerability against oil price shocks<sup>1</sup>, the Administration evaluated the possibility of making adjustments, given the upcoming 2012 elections. Let us remember that besides the devaluation of the end of 2010 (sold as an exchange rate "unification") the Government, which was about to approve a VAT increase, proposed a return to the Tax on Financial Transactions (Impuesto a las Transacciones Financieras - ITF) and, even thought about increasing gasoline prices. Fortunately, oil prices increased, and with the premise of "high oil prices" the measures were left aside.

However, the reality of the Venezuelan economy is different. Given a production drop in our only competitive industry for the last 7 years, and the restrictions created by the ideology, an oil price of US\$100 per barrel isn't enough to generate economic growth, let alone to consolidate the Socialism of the 21st century. In this context, and given the political cycle, a presidential decree with rank, value and force of law created the Law of Special Contributions for Extraordinary and Exorbitant Prices in the International Hydrocarbon Market.

Two special contributions were created, payable every month, for exporters of liquid hydrocarbons, both natural and upgraded, and by-products. The percentages would be paid as follows:

<sup>1</sup> Which unleashed the economic recession that affected the country for six consecutive quarters between 2009 and 2010.



1. **Percentage for extraordinary prices:** When the average monthly price of the Venezuelan basket is greater than that established in the Budget Law of the respective fiscal year, but equal or lower than US\$/70/bl, a 20% aliquot will be applied on the difference between both prices.
2. **Percentage for exorbitant prices:** This percentage will be divided into three segments, as follows:
  - When exorbitant prices are greater than US\$70/bl, but less than US\$90/bl, an aliquot equivalent to 80% of the total amount of the difference between both prices will be applied.
  - When exorbitant prices are greater or equal to US\$90/bl, but less than US\$100/bl, an aliquot equivalent to 90% of the total amount of the difference between both prices will be applied.
  - When exorbitant prices are equal or greater than US\$100/bl, an aliquot equivalent to 95% of the total amount of the difference between both prices will be applied.

That year, the foreign currency income of the Administration from this tax reached US\$14.73 billion, not negligible for an Administration facing a presidential election. However, what benefitted the Administration harmed two other important institutions: PDVSA and BCV. These institutions, like Fonden, play an important role in the process to generate an illusion of wellbeing in the Socialism of the 21st century.

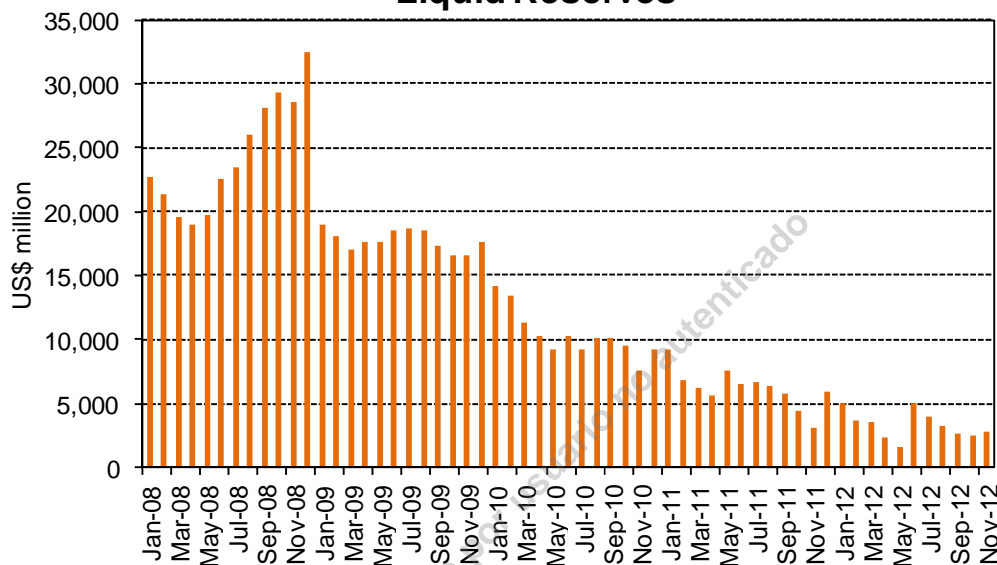
**Second reform:  
a break for BCV**

This appetite of the Administration for liquid resources forced the BCV to maintain a high exposure against monetary gold, allowing it to have an engrossed level of total reserves, but insufficient liquidity. The increase in the price of gold after the financial crisis of 2008 favored the increase of transfers to parallel funds, and negatively affected the level of liquid reserves, which went from US\$32.18 billion in 2008, to US\$5.58 billion at the end of 2011, a drop of 82.6%.





### Liquid Reserves



Sources: BCV and Ecoanalítica

Given the hoopla caused by the drop in operational reserves at the beginning of last year, their lowest since 1997, and in an electoral year where the lack of foreign currency would negatively affect key public opinion variables like inflation and shortages, the Administration modified the Law of Special Contributions for Extraordinary and Exorbitant Prices in the Hydrocarbon Market, so that the BCV could receive more foreign currency, and thus generate a feeling of wellbeing through imports.

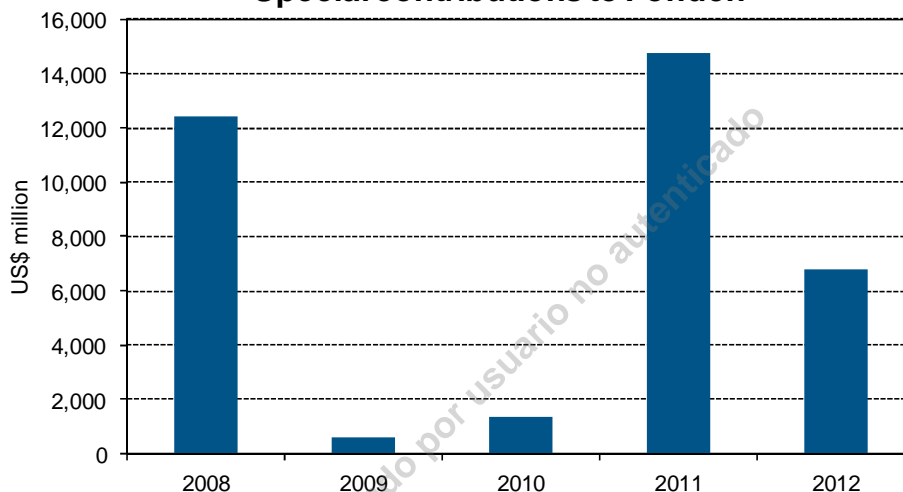
The reform of April 18, 2011 stated that these contributions would be fully paid in foreign currency, which would go directly to Fonden; the modification of February 27, 2012, in which Fonden (enabled to receive contributions both in foreign currency and in bolivars) requires contributions in local currency, makes PDVSA sell the foreign currency to BCV at the exchange rate in force, and of that amount, BCV could transfer 50% of what was sold to Fonden, unless the level of liquid international reserves allows a greater transfer.

With this, the BCV becomes a sort of filter between PDVSA and Fonden, limiting the amount of foreign currency that the latter receives (since it will now receive also bolivars at the official exchange rate) and opening up the possibility of increasing the operational reserves in the hands of the BCV (because the BCV keeps 50% of the foreign currency). Thus, **Ecoanalítica** estimates that last year the BCV received around US\$6.78 billion, allowing it to increase its liquid reserves, and assign them to the public and



private sectors to pay for imports and other commitments in foreign currency.

### Special contributions to Fonden



Sources: Pdvsa and Ecoanalítica

### But PDVSA was missing

We must note that the first reform increased the resources available to the Administration to spend through a less stringent extra-budgetary structure such as Fonden without having to devalue. Likewise, its second modification helped improve the assignments for imports and avoid shortages, given the increase in domestic demand. However, the law as it was before its third modification, increased government pressure on the much compromised and only competitive industry of the country: PDVSA.

### Understanding the Socialism of the 21st century

Given the political uncertainty due to President Chávez's health, the measures executed during the first month of the year agree with our thesis that the Government won't abandon the foundations and the trends to establish the socialism of the 21st century in Venezuela, although some of its guidelines must change in time. In our opinion, this model has a pragmatic basis –to remain in power– that is why there can always be adjustments. That is, the Government prefers to soften some radical economic policies before making a heterodox adjustment of the model that could be considered more open towards the market, and sacrifice economic power quotas towards the private sector. That is the advantage that controlling the oil rent provides the Administration.

Thus, in an excessively regulated economy, the Government can face the effects of devaluation through administrative decisions. So, the Government has the power to improve/compromise PDVSA's cash flow



increasing/reducing contributions to the Administration through diverse mechanisms (legal contributions, *misiones*, and Fonden). Also, the Government can increase/reduce foreign currency assignments to the private sector using different mechanisms, and thus improve/worsen foreign exchange distortions. These decisions about imports and exports have effects similar to devaluation, without its high political cost.

### Third reform: a break for PDVSA

The first economic measure goes in this direction. The reform of the law on taxes for extraordinary and exorbitant prices in the international hydrocarbon market will make PDVSA reduce its contributions to Fonden, increasing PDVSA's cash flow, and thus also increasing the foreign currency it will sell to the BCV, and, as Nelson Merentes, president of the BCV would say, "strengthen" international reserves, or what is the same, increase foreign currency assignments through Cadivi.

The new scheme of contributions due to extraordinary prices establishes that when the price of oil isn't over US\$80/bl (previously US\$70/bl), PDVSA's contribution to Fonden would be 20% of the difference between this, and the value estimated in the national budget (US\$55/bl). If the price is between US\$80/bl and US\$100/bl (previously US\$70/bl and US\$90/bl) the contribution would be 80%, and if it is between US\$100/bl and US\$110/bl (previously US\$90/bl and US\$100/bl) it will be 90%, and finally, when the price is over US\$110/bl (previously US\$100/bl) the contribution will be 95%.

Special Contributions to Fonden				
Previous Scheme	2011	2012	Current Scheme	2013
Venezuelan Basket Price (US\$/bbl)	101.4	103.4	Venezuelan Basket Price (US\$/bbl)	104.0
Oil exports (mb/d)	2.1	2.2	Oil exports (mb/d)	2.2
Cooperation Agreements and Financing (mb/d)	0.5	0.4	Cooperation Agreements and Financing (mb / d)	0.4
<b>Actual exports (mb/d)</b>	<b>1.6</b>	<b>1.8</b>	<b>Actual exports (mb / d)</b>	<b>1.8</b>
<b>How much collect the tax?</b>	<b>2011</b>	<b>2012</b>	<b>How the new tax will be raised?</b>	<b>2013</b>
<i>Exorbitant Price</i>		<i>Exorbitant Price</i>		
Serving > budget price ≤ US\$70/bl	30.0	20.0	Serving > budget price ≤ US\$70/bl	25.0
Aliquot: 20%	6.0	4.0	Aliquot: 20%	5.0
<i>exorbitant price</i>		<i>exorbitant price</i>		
Serving > US\$70/bl but < US\$90/bl	20.0	20.0	Serving > US\$70/bl but < US\$90/bl	20.0
Aliquot: 80%	16.0	16.0	Aliquot: 80%	16.0
Serving ≥ US\$90/bl but < US\$100/bl	10.0	10.0	Serving ≥ US\$90/bl but < US\$100/bl	4.0
Aliquot: 90%	9.0	9.0	Aliquot: 90%	3.6
Serving ≥ US\$100/bl	1.4	3.4	Serving ≥ US\$100/bl	0.0
Aliquot: 95%	1.3	3.2	Aliquot: 95%	0.0
Total to cancel for each exported barrel (US\$)	32.3	32.2	Total to cancel for each exported barrel (US\$)	24.6
<b>Total deposited in the Fonden (US\$MM)</b>	<b>12,984</b>	<b>21,188</b>	<b>Total deposited in the Fonden (US\$MM)</b>	<b>16,162</b>

Sources: OG, Bloomberg and Ecoanalítica

According to estimates of Rafael Ramírez, Minister of Energy and Oil (and President of PDVSA), the tax adjustment would increase the flow of foreign currency to the Central Bank by US\$2.47 billion, increase the



income of the treasury by US\$383 million, and PDVSA's cash flow by US\$1.42 billion. So, this measure would make the daily amount assigned through Cadivi increase US\$10 million compared to last year's average. Moreover, the measure constitutes an incentive for PDVSA's partners in order to increase production as it reduces tax burden by about US\$7.6/bl.

**The political  
cycle  
continues...**

It is obvious that the Administration is postponing the decision to adjust the official exchange rate. So far, the measures executed have focused on preventing an increase in shortages. On the one hand, more foreign currency is assigned to the BCV from PDVSA, and on the other, they try to streamline the import of priority products. **Ecoanalítica** believes that if the carnival holidays go by and the Administration doesn't make an exchange rate adjustment, it will be delayed until after an eventual presidential election.

However, the devaluation cannot be postponed too long. In our base scenario, postponing the exchange rate adjustment until the middle of the year would translate into a Central Government fiscal deficit of 6.5% of GDP, and if it is left for the beginning of 2014, it would mean a deficit of 9.5% of GDP. This would also translate into a greater overvaluation of the bolivar, and a 50% drop in foreign liquid assets, leaving the Venezuelan economy in an increasingly vulnerable position if oil prices fall.

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## *Economic Tips*

**In VEB 107 tributary unit.** The Finance Committee of the National Assembly yesterday approved an increase of 19% of the tax unit for fiscal 2013, increasing from VEB 90 to VEB 107. The proposal was sent by the National Integrated Customs and Tax Administration for an approval in this parliamentary body. The measure involves increasing the reference value for the payment of taxes, penalties and exemptions. The approved increase is similar to last year, when the increase was 18.4% and the tax unit went from VEB 76 to VEB 90.

**Foreign currency disbursements up by 2.5%.** The Foreign Currency Administration Commission (Cadivi for its Spanish acronym) disbursed a total of US\$31.14 billion in 2012, which represents an increase of 2.5% compared to 2011, when US\$20.38 billion were disbursed.

**Cadivi's authorized amount up by 6.3%.** The Foreign Currency Administration Commission (Cadivi for its Spanish acronym) authorized US\$33.15 billion during 2012. This represents an increase of 6.3% compared to 2011, when US\$31.40 billion were authorized.

**Foreign currency disbursement for imports up by 1.1%.** The BCV disbursed US\$23.67 billion for imports in the same period. This represents an increase of only 1.1% compared to 2011. This amount also includes the disbursements for imports through the Aladi Convention and the Sucre.





Amount disbursed (MMUS\$)			
Sector	2012	2011	Var%
Food	6,926	6,000	15.4%
Health	3,978	4,544	-12.4%
Automotive	2,593	2,257	14.9%
Trade	1,994	3,000	-33.5%
Machinery and equipment	1,571	1,722	-8.8%
Chemistry	1,905	1,384	37.6%
Telecommunications	280	472	-40.7%
Informatics-related	222	208	6.9%
Metallurgy	439	227	93.5%
Rubber and Plastic	691	416	66.0%
Electr. domestic appliances	239	285	-16.4%
Services	707	395	78.9%
Electric-related	426	421	1.2%
Electronics	191	124	54.6%
Non-metallic Minerals	96	105	-8.7%
Construction	94	152	-38.0%
Textile	526	797	-33.9%
Paper - Cardboard - Wood	250	317	-21.2%
Graphics	290	286	1.1%
Tobacco and Alcoholic Drinks	9	18	-49.6%
Books and School Supplies	84	95	-11.9%
Science and Technology	20	23	-13.0%
Communication - Press	65	73	-11.2%
Veterinary	74	82	-9.7%
<b>Total</b>	<b>23,670</b>	<b>23,404</b>	<b>1.1%</b>

Sources: CADIVI and Ecoanalítica

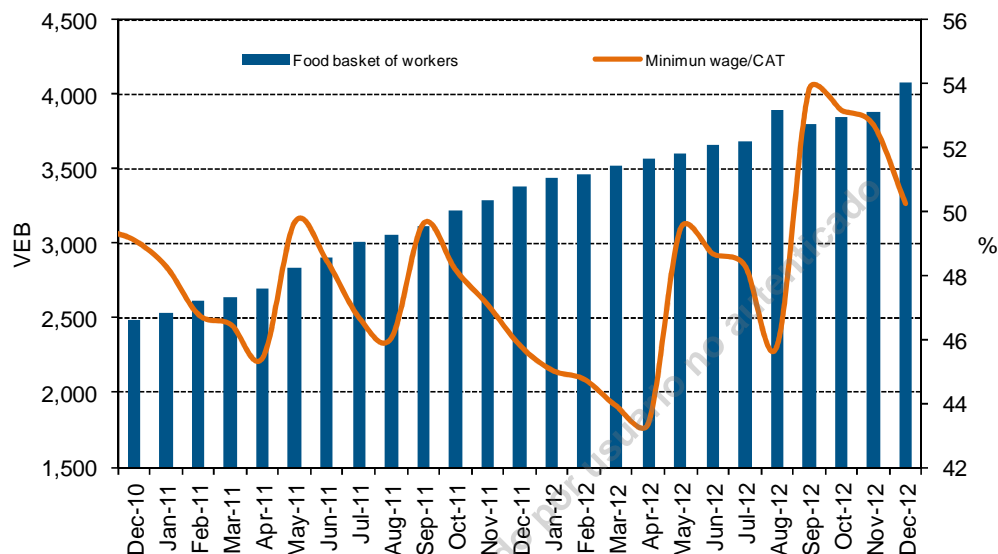
**Sucre operations marching on.** In 2012, exchanges through the Unitary System for Regional Payment Compensation (Sistema Unitario de Compensación Regional de Pagos - Sucre) were 13% over the BCV target, at US\$853 million. But for the first month of the year, operations could have reached US\$290 million, a higher assignment of foreign currency compared to last year for that concept, revealing the ease with which foreign currency is flowing for those that import products from Alba member states.

**Worker's Food Basket reaches VEB 4,073.** According to the last report by the Cenda, the Worker's Food Basket (CAT for its Spanish acronym) reached VEB 4,073 on December 2012. This represents an increase of 4.7% compared to the previous month and of 20.5% compared to December 2011.





### Minimum wage / CAT



Sources: Cendas and Ecoanalítica.

**The behavior of the CAT was determined by the increase in ten of the eleven products that conform it:** beef and derivatives 15.1%, sugar and similar 11.9%, cereals and derivative products 9.9%, non-alcoholic beverages 8.4%, fruit and vegetables 2.7%, food products 1.1%, tubercles and other (vegetables) 0.8%, fish 0.8%, grains 0.5% and milk, cheese and eggs 0.4%

**Family income only covers 50.3% of the basket.** According to the report by Cenda, the new minimum wage of VEB 2,047.5, effective since September 1, 2012 has a hypothetical purchasing power of 50.3% and a deficit only to food acquisition of 47.3% (VEB 1,995). That means that, despite the recent 15% increase in the minimum wage it is still insufficient, as a family today requires almost twice the minimum wage just to cover their basic expenses on food.

**Paying with capital.** In order to reduce PDVSA's debt with the BCV, estimated at VEB 165.0 billion at the end of 2012, the Government may be considering an association of the BCV and the State-owned Oil Company, with the Corporación Venezolana de Minería, where PDVSA's capital contributions are discounted from its debt with the BCV. The operation would imply a re-composition of BCV assets, and would not lead to a reduction in the monetary base, as would happen if payments were made in bolivars.

**Rampant scarcity.** According to Datanálisis, the scarcity index for regulated items reached 30% in the first two weeks of January, an unprecedented level since January



2008. León said that *"the Government's hostility towards the national production sector"*, through expropriation threats and price controls, as well as the reduction and the delays in the delivery of foreign currency, have made the indicator increase since October of last year.

**Merciless.** The Executive Vice-President, Nicolás Maduro, announced that there will be no mercy with *"those who attempt to take advantage of the hunger of the people"*, in relation to the current shortages throughout the country, and warned that if shortages continue, the people would *"make the socialist revolution even more radical."* Maduro urged businesses not to create artificial shortages, because the administration's response will be severe.

**But with adjustments?** Carlos Osorio, minister in the food area, informed that the administration has held several meetings with private business representatives to assess cost structures of different food products, so as to *"make the adjustments that may be necessary."* Osorio stressed that the administration has already talked with producers from the dairy, beef, balanced food, precooked corn flour and poultry sectors and that although price adjustments are necessary, it does not mean that all adjustments will be upwards.

**The never-ending debt with former employees.** The Ministry of Planning and Finance and PDVSA have plans to pay a total of VEB5.0 billion during the first nine months of the year, owed to former workers of the central public administration. This debt corresponds to the reform of the 1977's severance payment regime. The payment will be in cash, because terms and conditions to issue the so-called "Petrorinoco" bonds through a deposit that PDVSA would make in a trust fund specially set up for this purpose with the Banco de Venezuela, are still to be determined.

**How much is the total?** The payment of the debt to former public workers will be subject to its previous calculation, which, as of June 2011, was at VEB 24.5 billion, and until August last year had been quantified at VEB 77.0 billion, according to data released by the Ministry of Finance in its annual report presented to the U.S. Security and Exchange Commission. The largest part of the debt corresponds to education and health sectors.

**House of cards.** Based on a report by the International Monetary Fund (IMF), Venezuela is one of the Latin American countries with the worst conditions to withstand a global economic collapse. Stress tests performed by the IMF determined that if a financial crisis like that of 2008 repeats, public debt could surge up to 145% of GDP, which would leave the administration a very reduced maneuver margin in terms of budget.



**Fail again.** According to International Budget Partnership's Open Budget Survey, Venezuela scored 37 points (out of 100) in 2012 Open Budget Index, thus occupying the 65th place (also out of 100 countries analyzed). This index assesses the public availability of 8 budget documents that governments should publish at key times of the budget cycle, of which only 4 are published in Venezuela.

**Interest rates.** The lending rate for the first week of February was at 16.6%, up by 1.1 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 increased 1.7%, going from US\$28.3 billion during the fourth week of January to US\$28.8 billion during the week of January. Compared to the same period last year, international reserves have decreased by 4.4%.

**Monetary liquidity.** Monetary liquidity (M2) growth up 0.1% in the fourth week of January compared to the previous week, settling at VEB 714.2 billion. The M2 has increased 60.7% in relation with the same period last year.

**Sitme figures.** So far this year, US\$424 million have been negotiated through the System for Foreign Currency Transactions (Sitme), averaging US\$15.7 million a day, with an implicit exchange rate of 5.3 VEB/US\$; this represents a decrease of US\$561 million (57.0%) over the same period of 2012, when US\$984 million were negotiated. Lastly, during the first week of January the amount traded reached US\$76.7 million, decreasing US\$2.0 million if compared to the previous week when US\$78 were negotiated, with a daily average of US\$15.5 million.

## Oil Tips

**PDVSA is looking for help of its Russian partners.** Petróleos de Venezuela (PDVSA) and Russia's state-owned Rosneft signed several energy cooperation agreements, including the joining of the Russian firm into phase II of the gas project Mariscal Sucre for the development gas and oil condensate production.





**Russian-Venezuelan JV to build drilling rigs to be incorporated in Venezuela.**

The Minister of Petroleum and Mining, Rafael Ramírez, informed that Venezuela and Russia signed a drilling-rig supply agreement that will include the incorporation of a Russian-Venezuelan firm in Venezuela that would build the drilling rigs. The agreement is supplementary to the agreements on oil and gas development and production and will help reduce hydrocarbon lifting costs.

**Russians will lead oil production in the Orinoco.** The Russian oil giant Rosneft stated that will be leading the group of companies entrusted with oil production in the Orinoco Oil Belt. PDVSA had 60% in this area and the other 40% belonged to a consortium that included five Russian firms. Rosneft announced that it had acquired the interest of one of the firms of the consortium and is buying a part of another; therefore it was designed as the main operator in the Orinoco area by the other firms.

**PDVSA looted by the State.** Upon analyzing the implications of the new Law on Extraordinary and Exorbitant Hydrocarbon Prices, our director, Pedro Palma, explained that *“the Law is aimed at establishing a tax to guarantee that all proceedings from oil exports are transferred to the State.”* Furthermore, Palma assured that *“the administration has looted PDVSA, because as a result of the contributions paid by PDVSA for the government’s social missions and transfers to Fonden the industry hasn’t been able to produce income and has had to borrow massively.”*

**Oil accounts for more than 60% of trade with China.** According to a report released by ECLAC, titled *“La República Popular de China y América Latina y el Caribe: diálogo y cooperación ante los nuevos desafíos de la economía global”*, at end-2011, oil shipments accounted for 62.2% of Venezuelan exports to China, meaning that in 2013, relations between both countries will be vital. China has become the main financing source in a relation in which cash-for-oil loans flow freely.

**Another emergency shutdown.** Workers at Amuay Refinery, in the Paraguaná Refining Complex, Falcón State, reported that due to a leak in the transfer line from the reactor to the gasifier in the flexicoker plant, executing an emergency shutdown of the unit, which processes more than 60 kb/d, was decided. Three weeks ago, the same unit reported low density in the line, after which it remained out of line for 10 days.

**My first million.** Colombia’s oil production grew 7.6% (y/y) in January, to 1,011,992 b/d; the first time in its history that Colombia produces over one million b/d for one month, the Colombian government informed on Monday. The increase was attributed to an increased activity in the existing producing fields and to the entry into operation of new oil deposits.



**The U.S. raised its oil production.** The U.S. Energy Department informed that U.S. oil production increased 879 kb/d over the past year, closing November at 6.8 mb/d. In the period from November 2011-2012, oil and fuel imports dropped 9.9%, from 11.2 mb/d to 10.1 mb/d.

**International baskets.** Last Friday, February 01<sup>st</sup> in New York, WTI closed at US\$97.1/bl, which shows an increase of 1.6% compared to US\$95.6/bl recorded the previous week. Meanwhile, Brent increased by 1.6% to reach US\$ 114.3/bl compared to the previous week when it reached US\$112.4/bl.

**Local basket price.** On Friday, February 01<sup>st</sup> the Venezuelan oil basket price closed at US\$104.9/bl an increase of 1.7% compared to US\$103.1/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 102.2/bl.

## Business Sector Tips

**Consumption depends on adjustments.** *“We cannot predict what is going to happen in 2013; we rather wait to see what measures are to be taken,”* Carlos Fernández, president of Consecomercio, said. Fernández assured that the impact on trade of the economic decisions made by the administration will be difficult to estimate, although they expect this year’s scenario to be favorable and less dynamic.

**“Further controls will aggravate supply problems.”** Consecomercio’s Carlos Fernández pointed out that further price controls would aggravate supply problems already existing in the country. Fernández insisted that the formal business sector rejects any activity related to price gouging and hoarding and remembered that government authorities should oversee stocks of companies that produce and sale food products.

**“People are buying excess of products and this has to be stopped.”** Luis Rodríguez, president of ANSA (supermarket association), warned that the seal of products of the basic basket is not being conditioned, but that they are responsible for controlling sales somehow. Rodríguez stated that they are trying to normalize supply, but people doubt that the situation will become normal and continue to buy more than what they need.





**A red, red Sidor.** Siderúrgica del Orinoco (Sidor, iron and steel processing company) closed 2012 with losses for US\$961 million, more than twice the US\$358 million in losses it registered in 2011. The drop was 168%, in line with the lack of pot-carriers and mobile equipment in general, steel mill transformers, input and spare part deficits, maintenance shutdowns and worker strikes, which accounted for 9% of the results of the negative balance.

**Basic industries are operating at 32% of their rated capacity.** Guayana basic industries continue to register red numbers, in spite of the huge amount of funds earmarked for their reactivation. Leonardo Calderón, representative of the aluminum workers' union, assured that basic industries are operating at 23%-32% of their installed capacity. Calderón blamed the government for what is happening not only in relation to production but also for the deterioration of labor conditions because collective contracts haven't being discussed.

**Bauxilum requires VEB 1.4 billion to survive.** Wilfredo Flores from Bauxilum warned that the crisis in the aluminum industry is increasingly worsening. *"Bauxilum is facing a definite collapse if the situation of the company is not urgently dealt with."* The industry requires VEB 1.4 billion to sustain its production and authorization to import about 500 tons of bauxite to maintain alumina production.

**"Technical default" for Sidetur.** The trustee, Deutsche Bank Trust Services, informed holders that the Venezuelan firm didn't pay the reserve funds used to pay interest to its creditors; therefore it was declares in technical default. With Sidetur takeover by the government two years ago, the administration assumed the responsibility for the company's finance and, thus, its debts.

**VEB 7.6 billion to be invested in electric power works.** According to estimates, the Ministry of Electric Power will invest VEB 7.6 billion in 2013 to continue with several electric power projects, including the completion of Tocoma hydrothermal power plant and Termozulia III power generation plant, which would help cover part of the generation deficit in the western part of the country; the investment would also include the construction of the Antonio José de Sucre thermal power plant, in Cumaná, which will produce 1,000 MW.

**Carriers raise freights 50%.** Since end-2012, carriers were analyzing the necessity of adjusting their rates and made the decision due to the increase in prices of truck spare parts, which grew 80% in October 2012-January 2013. Thus, freights were raised 50% according to the new table approved by Asotracontainer (carriers' association) members.





**Venezuela-Colombia trade recovers.** In 2012, trade exchange between Venezuela and Colombia reached US\$3.28 billion, up 40.4% from the US\$2.34 billion totaled in 2011, according to preliminary data published by Colombia's National Administrative Statistics Department (Dane) and National Tax and Tariff Agency (Dian).

## World Economy Tips

**U.S.: Economy loses its momentum in 4Q2012.** According to data released by the U.S. Department of Commerce, U.S. GDP contracted 0.1%, on a year-to-year basis, in 4Q2012, after having recorded a significant growth of 3.1% (y/y) over the first nine months of 2012. With this, grow in 2012 posted 2.2% (y/y). Although GDP estimate should be revised over the coming weeks, if the figure is confirmed, this would be the first GDP contraction since 2009 global recession.

**Obama expects to reduce deficit.** The U.S. President, Barack Obama, pointed out that although his administration needs more tax revenues to be able to reduce fiscal deficit over the upcoming years, tax increase isn't a key issue, but rather the implementation of a gradual form of "spending smart cuts" that do not hinder growth. Obama also assured that the administration has to reduce waste, reform the expensive social security programs and put an end to profitable fiscal gaps.

**Stable inflation in the euro zone.** Eurostat expects inflation in the euro zone to reach 2% (y/y) in January, the same rate as in December 2012. Price variation would be boosted by a 3.9% increase in fuel prices, 3.2% in food products, alcoholic beverages and tobacco, 1.7% in services, and 0.8% in manufactured goods.

**Is France bankrupt?** Michel Sapin, France's Minister of Labor, stated in an interview that the French State is bankrupt. It isn't still clear if the remarks of the high official were intended to prepare French people for more difficult times, because previous governments have also warned the same. When he tried to explain the importance of approving economic reforms, Sapin stated that the lack of money of the State would make it necessary to implement a plan to reduce deficit.

**China is looking for food security.** China's swift industrialization over recent years has led about 200 million people to move from rural areas to cities, thus increasing food demand. As a consequence, the government announced that it will promote modernization of the agricultural sector, increase subsidies for farmers and promote



efficiency of large-scale commercial agriculture so as to guarantee a reliable supply of cereals and agricultural products.

**Latin America has its own weight.** The chief economist of the Research Department at the Inter-American Development Bank (IADB), José Juan Ruiz, assured that in 2013, Latin America will grow at a pace of 3.6% (y/y), up 0.6% from 2012. In 1990, the region accounted for just 6.4% of global Gross Domestic Product (GDP), but after two decades of growth rates over 3%, the region could represent 10% of GDP this year.

**Brazil hasn't met its goals.** Brazilian government close 2012 with a primary fiscal surplus of BR 105.0 billion (US\$52.5 billion), down 24.9% from its goal (BR 139.8 billion, or about US\$69.9 billion), according to Brazil's Central Bank. The Bank attributed the poor performance of public accounts last year to the decreased growth rate of Brazilian economy derived from the global crisis, in addition to a drop in tax collection due to tax discounts granted to promote those sectors that have been hit the most by the crisis.

**Argentina will measure local inflation.** After the Board of the International Monetary Fund (IMF) issued for the first time in its history a "censure motion" against Argentina, and called upon the Argentinean administration to reform its macroeconomic statistics, Argentina's Minister of Economy, Hernán Lorenzino, assured that Cristina Fernández' government will apply a new price index this year, which is being developed since 2011. The new indicator will allow not only to take into account prices in Buenos Aires, but throughout the country, as a reference.

**Jobless people will amount to 202 million in 2013.** According to figures released by the International Labor Organization (ILO), the number of jobless people worldwide increased by 4.2 million in 2012. With this, the total figure of unemployed people amounts to 197 million. ILO expects that there will be about 5 million more jobless people this year, particularly among the youngest population, which registers an unemployment rate twice or three times higher than that of adult population.

## Political Tips

**Investigation against PJ is required.** National Assembly President, Diosdado Cabello, accused the opposition party Primero Justicia (PJ) to sit funded through



illegal activities. Cabello presented images of checks, deposit receipts and transfers addressed to Deputy Richard Mardo who is militant of PJ, he said funds were not declared to the CNE as required by law. Cabello branded PJ as "as an organized mob, which has used politics to do business."

**Will be investigated immediately.** The president of the Commission of the Comptroller of the National Assembly, Pedro Carreño, will develop communications to the Superintendency of Banks (Sudeban), the Public Ministry (MP) and the judiciary, among others, to focus on the investigation of the allegations of corruption against Richard Mardo and Gustavo Marcano, both members of PJ were accused of illegally financing their election campaigns.

**Conflict of interest?** The MUD executive secretary Ramon Guillermo Aveledo, underlined the gravity that the research is directed against opposition deputies being the accusers the same researchers. *"Naturally, the deputies are open to any investigation because they do not fear the accusations, but let's be clear that (...) an investigation led by the accusers have a clear result, may be effective but not legal "* said Aveledo

**MUD stands beside PJ.** Aveledo said that MUD supports Primero Justicia and *"feels that an attack on a party member is an attack on all."* The secretary of the MUD also qualified as a violation of the constitution is the fact that manipulating the government *"for the benefit of those in power"* to prosecute members of opposition parties.

**A country ruled with a remote control.** Diosdado Cabello, president of the National Assembly (AN), and Vice-President Nicolás Maduro have reiterated that President Hugo Chávez continues to rule, signing and giving *"orders about decisions to be made by the party and the administration."* The main government leaders, after Chávez, haven't given any details on the decisions made by President Chávez and insist in announcing that he's recovering.

**Chávez' decrees will be reviewed.** The Constitutional Chamber of the Supreme Tribunal of Justice (TSJ) will review the decree issued by President Chávez, designing Elías Jaua as Minister of Foreign Relations. The document will be analyzed upon request by the former judge Perkins Rocha, who brought a claim against President Chávez for perjury, because his recent decrees have been executed in Caracas, but he is still in Havana.

**Smoke Screen.** The Democratic Unity Panel (MUD) accused Vice-President Nicolás Maduro of using threats to disguise the government's failure to solve the current economic problems, including shortages, inflation and lack of personal security. *"Maduro believes that he can scare us with his threats (...) He forgets that, instead,*



people is tired of ineffectiveness and corruption of a government that controls the entire economy and is unable to produce any good," the MUD pointed out in a communiqué.

**Electoral mode.** After the announcement of the new date for mayoral elections, Henrique Capriles, governor of Miranda, assured that "the time has come to mobilize again for the election process," because *"the reality of many municipalities can change"* depending on the results; therefore, he called all Venezuelans to vote. Capriles also pledged to support local candidates in their campaigns.

**More voters than inhabitants.** According to an analysis performed by researchers of the Universidad Católica Andrés Bello, a comparison between the projections of the National Statistics Institute (INE) and the Electoral Roll reveals that in 48% of municipalities more voters would be registered than the number of people residing there. According to the report, this difference increases in places with lower numbers of inhabitants.

**National Electoral Council directors' term ends on April 28.** The 7-year term for Vicente Díaz, Sandra Oblitas and Tibusay Lucena expires on April 28. The decision to ratify these officials in their posts or appointing new directors will be made by the National Assembly, which should set up a commission that would name the candidates for those posts, who have to be approved by at least 2/3 of the assembly members.

**The anointed.** At the MUD re-launching in Lara State, Governor Henry Falcón said that he is convinced that if new presidential elections are to be held soon, the opposition candidate should be Henrique Capriles. Falcón took the opportunity to urge the members of the different parties in the MUD to resume street rallies and to make face-to-face contact with the people in poor sectors.

**Plotting in Colombia.** Vice-President Nicolás Maduro said that Governor Henrique Capriles Radonski met in Colombia *"with right-wing sectors to plot against Venezuela."* According to Maduro, the reports the administration has received about Capriles' moves abroad *"aren't good."* *"We know with whom and where he was plotting against the country's peace (...) he should be ashamed of himself,"* Maduro added.

**Defenseless against corruption.** A study by International Transparency, which evaluates corruption risks and vulnerability of governmental defense entities in 82 countries graded Venezuela with an "E", i.e. a "very high risk of corruption." According to Transparencia Venezuela, the study conducted by the international



organization “demonstrate a severe lack of transparence and poor adherence to current laws, which leads to poor results in all risk categories.”

## Legislatives Tips

**PSUV left the MUD only with four commissions.** The Consultative Commission gathered and this time, Diosdado Cabello decided to convene a conclave with chairmen and vice-chairmen of each permanent commission. In spite of rumors and some threats in the sense that the opposition would not have any commission in the National Assembly, the Board said they respected “proportionality” of each side and MUD representatives will chair Environment, Science, Technology and Innovation, Culture and Recreation and Family Commissions.

**Gold field development waits for AN approval.** The Minister of Petroleum and Mining, Rafael Ramírez, informed after a meeting of the Ministerial Council that gold developments in Bolívar State will be put for debate and subsequent approval to the AN. Ramírez explained that the mining areas to be allocated will include Guasipati-EI Callao, EI Callao and Sifontes Sur.

**AN Finance Commission will discuss tax reform.** The Finance and Economic Development Commission of the National Assembly (AN) is working during this new session term on a tax reform, the chairman of the commission, Ricardo Sanguino, informed. Sanguino explained that this reform is intended to streamline public spending and to attain a more effective and efficient tax collection.

**Labor Law Regulations in consultation.** The regulations of the Labor Organic Law (Lottt) are one of the legal instruments most awaited for by workers, due to immediate changes expected, such as a reduction in the workday. People drafting the regulations do not have a concrete date for their publication. According to Lottt, it should be April 30, 2013, the first anniversary of its enactment and the date when the new workday will enter into force.





**ECONOMIC OVERVIEW**

