



Weekly Report

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Fiscal policy: in dire straights

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Last year, fiscal policy straddled the fence, responding, on the one hand, to the need to cut back government spending following the typical pre-election splurge in the run-up to the 2012 presidential elections and, on the other, to the demands of holding fresh presidential elections following the death of President Chávez as well as the municipal elections at the end of 2013, which prompted the government to maintain an expansive fiscal policy, at least during part of the year.

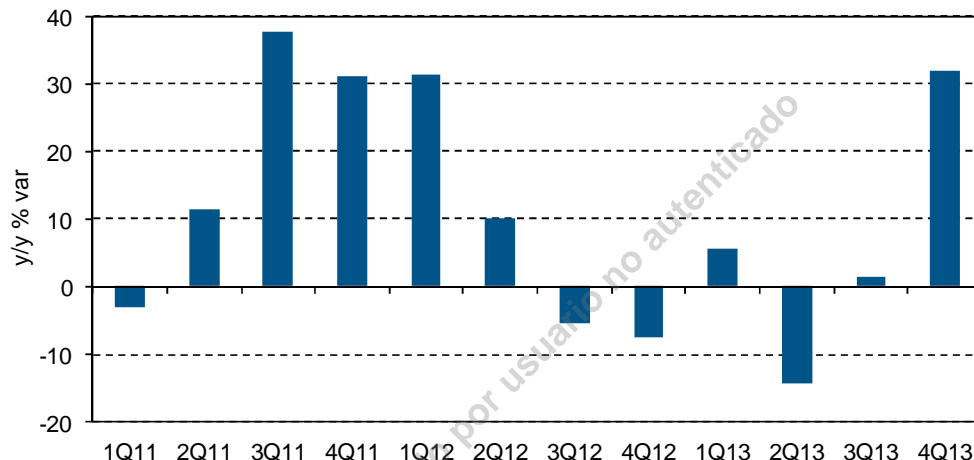
**Spending
soared, but
inflation won**

According to figures from the National Treasury Office, primary government spending started the year maintaining the same pace as in 2012 given the mini April election campaign, with cumulative real growth of 5.6% in the first quarter of 2013. However, after the first months of expansion, spending started to taper off in both nominal and real terms as a result of spiraling inflation, and only recovered again in 4Q2013 following the seasonal expenditures on salaries in the last quarter of the year and because of the municipal elections in December, posting real growth year-on-year of 22.1% for that quarter. Despite this, the slowing down of



spending throughout the year and the increase in prices resulted in cumulative primary spending growing by 2.1% in real terms in 2013.

Central Government Real Spending



Sources: ONT and Ecoanalítica

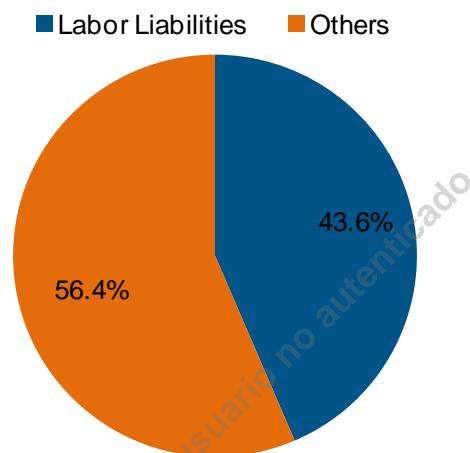
Supplementary appropriations continue to be central

Another fundamental feature of this administration's fiscal policy is its practice of underestimating revenues when calculating the annual budget, which means that extraordinary revenues obtained during the year owing to the difference between budgeted and actual oil revenues are allocated at discretion via supplementary appropriations. 2013 was not an exception, with VEB 216.04 billion in supplementary appropriations being decreed during the year, equivalent to a record 54.5% of the budget approved by the National Assembly for 2013, 56.4% of which was allocated to paying labor liabilities. With this decreed amount, the agreed budget (the original approved budget plus supplementary appropriations) came to VEB 612.44 billion in 2013, an increase of 37.6% compared to 2012.





Enacted Additional Credits



Sources: NA and Ecoanalítica

Chávez lives, the deficit continues...

The growth in spending combined with lower fiscal revenues owing to stable oil prices has resulted in the gap between revenues and spending becoming wider and has set the pace of expansion in the restricted public sector's financial debt, which went from 1.5% of GDP in 2002 (the year of the oil strike) to 15.6% in 2012, according to data from the Ministry of Finance, and that, according to our estimates closed at around 11.5% of GDP last year.





| Restricted Public Sector Annual Financial Results (% GDP) | | | | |
|---|--------|--------|--------|--------|
| | 2011 | 2012E | 2013E | 2014F |
| Total Revenues | 27.9% | 28.5% | 30.0% | 27.8% |
| Current Revenues | 26.9% | 27.5% | 29.0% | 27.8% |
| Capital Revenues | 1.0% | 1.0% | 1.0% | 0.0% |
| Total Expenditure and Net Lending | 39.5% | 44.0% | 41.5% | 43.2% |
| Total Expenditure | 37.9% | 42.5% | 40.0% | 40.6% |
| Current Expenditure | 29.6% | 33.0% | 31.5% | 29.9% |
| Capital Expenditure | 8.3% | 9.0% | 8.5% | 7.6% |
| Extra-budgetary expenditure | 0.0% | 0.5% | 0.0% | 0.6% |
| Net Lending | 1.6% | 1.5% | 1.5% | 0.0% |
| Primary Surplus or Deficit | -9.4% | -13.0% | -8.7% | -12.2% |
| Current Surplus or Deficit | -2.7% | -5.5% | -2.5% | -2.1% |
| Financial Surplus or Deficit | -11.6% | -15.5% | -11.5% | -15.4% |
| Financing | 11.6% | 15.5% | 11.5% | 4.6% |
| Internal | 9.2% | 13.0% | 8.5% | 3.6% |
| External | 2.4% | 2.5% | 3.0% | 1.0% |

Sources: Ministry of Planning and Finance and Ecoanalítica

Domestic debt rules

The difference between revenues and expenditures has had to be covered by financing. In recent years, the government has had a clear preference for domestic financing, marked by extremely high placements of sovereign public debt and treasury bills, a situation that has led to the passing of supplementary indebtedness laws in the past 3 years.

According to Ministry of Finance figures, at the close of 3Q2013, Central Government debt totaled US\$110.65 billion, up 9.6% from the same quarter in 2012. The biggest growth was in domestic debt, which expanded by 16.3%, whereas foreign debt remained practically static with growth of 0.8%. At *Ecoanalítica* we estimate that domestic debt closed 2013 at around US\$66.74 billion, whereas foreign debt came to US\$43.91 billion, both equivalent to 35.1% of GDP. Moreover, taking the public sector as a whole, we estimate that at the close of 2013, the total debt came to US\$259.13 billion, equivalent to 82.1 points of GDP.





| Public Debt (% GDP) | | | |
|--|-------------|--------------|--------------|
| | 2012 | 2013E | 2014F |
| Central Government: | 27.5 | 35.1 | 38.4 |
| Domestic | 15.6 | 21.2 | 26.0 |
| External | 11.9 | 13.9 | 12.4 |
| Pdvsa | 10.5 | 13.7 | 13.8 |
| Chinese Fund | 10.5 | 7.1 | 5.7 |
| Expropriations | 5.7 | 4.3 | 4.1 |
| Sub Total | 47.0 | 60.3 | 62.0 |
| Pdvsa's Funding to Government Agencies* | 11.0 | 21.8 | 21.9 |
| Total | 58.0 | 82.1 | 83.9 |

Sources: BCV, MF, Pdvsa and Ecoanalítica

To devalue or to not devalue?

As we have said in previous reports, the strategy of financing the deficit by means of domestic debt generates serious distortions in the economy, mainly by creating incentives to use devaluation of the official exchange rate as a mechanism for implementing fiscal correctives, since it makes it possible to dilute the debt (expressed in dollars) in bolivars besides increasing the Executive's revenues in bolivars. In 2013 alone, the Executive reduced the public sector debt by 9.8 pp of GDP thanks to the 46.1% devaluation of the bolivar.

Given the present circumstances, a deficit around 11.5%, a reduction in the inflows of foreign currency owing to the drop in oil prices, and the stagnation of PDVSA's production, as well as the spiraling of the unofficial exchange rate, an overall devaluation would seem to be the logical measure for putting the fiscal accounts on a slightly sounder footing and restoring equilibrium in the foreign exchange market.

However, the economic cabinet seems to be reluctant to take this measure and has decided to implement what we have termed "slow-motion devaluation." At *Ecoanalítica* we have opted for calculating the effect that an overall devaluation would have had if it had been implemented.





**Monthly Income for Devaluation With an ER of VEB 11.4/US\$
(VEB million)**

| | |
|---|---------------|
| Income tax (PDVSA and partnerships with third parties) | 3,069 |
| Oil Income (royalties, taxes Extraction and Exploitation) | 7,476 |
| Extraordinary and Exorbitant Oil Prices Taxes | 5,495 |
| Imports Taxes | 1,558 |
| New external borrowing | 2,530 |
| Effects on income | 20,128 |
| Interests | 1,637 |
| Amortization | 1,043 |
| Off-Budget Execution | 1,026 |
| Effects on costs | 3,706 |
| Monthly Net Effect | 16,422 |

Sources: MF, PDVSA, SENIAT and Ecoanalítica

According to our estimates, in the scenario where the exchange rate had been devalued for all purposes, additional fiscal revenues would have been around VEB 197.06 billion, which would have made it possible to close 2014 with a fiscal deficit of around 7.5% of GDP. However, if the government manages to maintain this dual exchange rate system throughout the entire year, the impacts on fiscal revenues will be practically zero, and for that reason, at **Ecoanalítica** we estimate that the restricted public sector deficit will close 2014 at around 15.4%. As can be seen, the economic measures implemented by the government seem, once again, to be no better than half measures.

Win here, lose there

Another alternative for raising revenues that the government could consider is to increase Value Added Tax (VAT). At **Ecoanalítica** we estimate that putting VAT up from 12.0% to 15.0% would mean an increase in government revenues of around 2.0% of GDP (US\$5.57 billion); however, one of the side effects of this measure would be a reduction in Venezuelans' consumption capacity, which would have repercussions on activity in the commercial sector.

Also the positive effect in terms of the amount collected from an increase in VAT could be neutralized by the negative effect of enforcing the Fair Prices Act in terms of the amount collected in income tax, as restricting profits will have a negative impact on the net enrichment of companies, which would make the government's finances even more complicated.

In dire straights

So far none of these imbalances have been addressed, however. The government continues to look the other way while the situation gets



steadily worse. In 2014, the Executive will continue to rely on domestic borrowing, a situation that is sustainable thanks mainly to the structure of exchange controls that generates liquidity surpluses. The most obvious consequence of this mechanism, besides the Central Bank's financing of PDVSA, is the spiraling inflation we will undoubtedly continue to see this year.

Maintaining this fiscal policy position this year means that Venezuela will continue with a growing level of debt and a slowing down in government spending, which will lead, sooner or later, to the use of devaluation as a mechanism for generating additional revenues.

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Economic Tips

Core inflation registered an increase of 2.3% in December. The year on year inflation registered 60.3%

Restaurants and hotels had the highest inflation. Among the 13 categories studied by the BCV, in December restaurants and hotels showed a higher inflation than the national average, with a variation of 3.9%, followed by alcoholic beverages and tobacco with 3.8%, food and non-alcoholic beverages with 2.5%, and transport with 2.1%.

Higher inflation for the poor. Although the year on year inflation in December of the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 52.7%, inflation for class I of the population, which includes the poorest families, increased 59.0%. Classes II, III and IV registered a variation of 56.1%, 53.3% and 49.5% respectively.

Inflation in controlled products increased 43.1%. In December the inflation of controlled and non-controlled products was 2.3% and 2.1%. But at the same time, non-regulated goods had an inflation of 64.8% and controlled goods of 43.2% since December 2012.

Scarcity index increases. In December, the scarcity index increased from 22.2% to 23.0%, which means that out of every 100 products that consumers requested in stores, supermarkets and other establishments throughout the country, 23 were not available.

Geographical results. Of the 11 cities surveyed in December, the greatest variations were observed in Barquisimeto with an inflation of 3.9%, followed by San Cristóbal with 3.2%. The areas with the least variation in December were Maracay with 1.4% and Mérida with 1.8%.

Annual geographic results. Of the 11 cities surveyed during 2013, the greatest variations were observed in Valencia with an inflation of 60.9%, followed by San Cristóbal with 60.5%. The areas with the least variation in the year were Caracas with 52.7% and Barcelona-Pto La Cruz with 52.8%.

Irregular suspension. The BCV decided to suspend the 16th Sicad auction, because of a "set" of anomalies in purchase orders and lack of compliance with the required



standards for the call, in which were offered US\$ 220 million were detected. Among the sectors that were invited to the auction were companies of paper, cardboard and wood, chemical companies, health companies and companies in the textile and footwear sector.

Maduro threatens to expropriate. During the closing ceremony commemorating the February 4th President Nicolas Maduro directly threatened companies that do not comply with the law of cost and fair prices by Monday February 10th. *"I'm going to take more radical measures (...) if we have to expropriate we are going to do it, no matter who, we have to defend the economy of the country"* Maduro said.

Massive fraud: Vice Minister for the Economy Rafael Ramírez claimed that 30.0% of the foreign currency authorized by the defunct Foreign Currency Administration Commission (CADIVI) was used for purposes other than those for which it was requested and that the presidential commission investigating the matter has a list of the companies that committed those frauds. During the ten years that the present system of exchange controls has been in force, CADIVI disbursed a total of US\$251.633 billion to the private sector, US\$75.49 billion of which had apparently been "improperly used," according to Ramírez.

A beefed-up SICAD: President Nicolás Maduro announced that SICAD will be expanded after the passing of the new Foreign Exchange Crimes Act, which will make it possible *"to participate with new modalities for obtaining access to foreign currency; but with everything governed by Cencoex."* Previously, Vice Minister for the Economy Rafael Ramírez had said that the amendment to the Foreign Exchange Crimes Act *"would open up the possibility (...) for sectors other than the State to place (foreign currency) in the economy or do swaps with private individuals or companies."*

US\$42.96 billion for priority items: Vice Minister for the Economy Rafael Ramírez announced that 82.0% of the foreign currency obtained by the State will be sold at the official rate of VEB 6.3/US\$. That percentage is equivalent to US\$ 42.96 billion, *"a huge, extraordinary number."* According to Ramírez, foreign currency will be made available at VEB 6.3/US\$ for investing *"in priorities"*: capital goods for increasing domestic production, food, and health and education services and products.

And US\$11.80 billion for the rest: Ramírez explained that the remaining 18.0% of foreign currency received by the State, equivalent to US\$11.80 billion, would be offered at SICAD auctions at an exchange rate resulting from those auctions, and that this would be the rate for *"nonessentials."* *"We're not going to deviate from our political proposal. Nearly 96.0% of the foreign currency from oil revenues belongs to the people and will be prioritized at the preferential rate (...). However, we've also*



made room for nonessentials and they're going to have foreign currency," added Ramírez.

Will they maintain the 6.30 rate? According to Bank of America, the government's decision to not devalue the local currency by an appropriate amount will mean that it will obtain most of the dollars from oil revenues at the same exchange rate as last year (VEB 6,3/US\$). As a result there is the risk that the Central Bank will continue to issue money to finance the fiscal deficit, which will contribute to fueling inflation and lead to a significant drop in its position in foreign currency.

More devaluation on the way: According to the Bank of America, the government will be forced to permit a bigger devaluation of the bolivar when it faces the impossible task of maintaining prices and rationing foreign currency in a situation of higher inflation. In its latest report, the investment bank insists that, while this potential devaluation would help to correct the imbalance on the public accounts (by providing the government with more revenue), it would probably be disorderly and cause a good deal of commotion, adding considerable political risk.

More red tape to fight shortages: President Nicolás Maduro announced the creation of the Special General Supply Staff, a body that is to be made up of the Ministries of Food and Industry and other agencies and whose mandate will be to draw up a map of and monitor the distribution and marketing of products throughout the country "24 hours a day." Vice President of the Republic Jorge Arreaza is to head up the new agency and his mission is "to fine tune the monitoring mechanisms" in order to combat the shortages of basic goods, said Maduro.

To self-what? President Nicolás Maduro announced that the round of store inspections under the Fair Costs, Profits and Prices Act is to start in February. Maduro called on housewives, workers, and businessmen to put fair prices on all items in the domestic economy. He explained that this new round of inspections is part of a "new stage in the economic offensive," and warned that the government would not change its mind about enforcing the law, calling on companies to "self-regulate."

Government starts debt placements. The Ministry for the Economy and Finance is to place public debt bonds in the sum of VEB 12.8 billion and treasury bills in the sum of up to VEB 1.3 billion between February and March. The government plans to use the proceeds to finance the rollover of the debt, part of its servicing, government spending, and different projects. Provision for issues amounting to VEB 105.0 billion has been made under the 2014 Special Indebtedness Act.





Seniat has started off on the right foot. Seniat has announced that tax collections for January came to VEB 23.34 billion, up 52.1% from January 2013. VEB 5.24 billion of that amount came from income tax, VEB 13.20 billion from VAT, and VEB 3.32 billion from customs duties and levies. This year's budget establishes a tax collection goal of VEB 317.00 billion.

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 31th according to figures from the ONT primary spending was VEB 18.96 billion, which means an increase of 104.1% when compared to the previous week when it was VEB 9.29 billion; when compared to the same period last year we observe a decrease of 25.2%.

Monetary liquidity. Money liquidity (M2) remained stable in the fourth week of January from the week prior, to settle at VEB 1.24 trillion. The M2 has increased 73.1% in relation with the same period last year.

Oil Tips

Imports of derivatives up: According to information supplied by the US Department of Energy (DOE), the volume of derivative imports continues to increase. Between January and November 2013, these imports grew by 10.6%, to 83,000 b/d compared to 75,000 b/d over the same period in 2012. The item that accounts for a large proportion of derivative imports from the United States is MTBE, with an average of 22,000 b/d. Another is liquefied petroleum gas (LPG), with a volume four times that of 2012.

Meanwhile sales drop. Venezuela's oil sales to the United States continue to decline. In the period January-November 2013, they fell by 16.0% compared to the



previous year, with shipments of crude and derivatives of 792,000 b/d versus 947,000 b/d, according to the DOE.

Cash from oil also down: For more than a decade, the policy of the Venezuelan Government has been to ship oil to its allies in Central and South America and the Caribbean in exchange for goods and services on extremely soft payment terms, and, in some cases, permitting payment arrears. It is estimated that 25.0% of the 2.5 million b/d that PDVSA exported in 2013 (some 620 kb) did not produce foreign currency for PDVSA's coffers, as they were shipments made under different energy agreements. At *Ecoanalítica* we calculate that, over the period 2006-2012, payment was received for around 800,000 b/d less. This failure to maintain production that generates cash in 2013 resulted in a loss of US\$ 29.0 billion.

Gas contract about to expire: The agreement with the Colombian company Ecopetrol for the purchase of gas, under which Venezuela has been receiving some 190 million cubic feet a day for the past seven years, expires in July this year. PDVSA has formally notified Ecopetrol that, this year, it will reverse the flow of gas along the Antonio Ricaurte gas pipeline to start exporting some 300 million cfd of gas to neighboring countries. However, energy sector sources say that it is possible that the agreement will be extended for a further two years to 2016 as the infrastructure for transporting the gas is not ready.

Buying more from abroad seems to be the norm. In order to make up for the shortfall caused by unscheduled shutdowns of some process units at El Palito Refinery and Paraguana Refining Center (CRP), PDVSA is trying to buy a shipment of 300,000 barrels of 95 octane unleaded gasoline on the open market for delivery between February 1 and 10 at any Venezuelan port, a trader close to the negotiations told Reuters. An operations report states that Amuay Refinery increased its level of operations to 59.0% of capacity compared to 42% three weeks ago. The flexicoker unit is still down, however.

The collective employment contract, a story without end: Some 1,000 oil workers in Anzoátegui protested yet again to demand the signing of the collective employment contract; the old one expired in 2013. At the meeting it was decided to carry out a series of mobilizations to demand that the new agreement be approved with an increase of VEB 300 a day and not VEB 215 a day as proposed in the draft contract presently being considered.

Sale of fuel: PDVSA, the Argentinean oil company Pluspetrol, and Cartagena Refinery in Colombia are selling natural gasoline, virgin naphtha, high sulfur diesel, and aviation fuel, whereas Ecopetrol is offering to buy a shipment of 195,000-200,000 barrels of RON 92 gasoline. PDVSA put out a call to bid on an additional



shipment of 240,000 barrels of aviation fuel for delivery between February 25 and 27 at El Palito Refinery. It will receive bids up until February 5 and payment is in euros.

Following in Venezuela's footsteps: The state-owned Argentinean oil company YPF has acquired the 38.5% share that the local affiliate of the Brazilian company Petrobras had in the area of Puesto Hernández, a block in the south of Argentina that produces more than 10,000 b/d of oil. The deal was closed at a price of US\$40.7 million and YPF, with a 61.6% share in the block that covers 147 square kilometers in the provinces of Neuquén and Mendoza, now has full control of the operation.

Iranian nuclear program: The director general of the international atomic energy agency (IAEA), Yukiya Amano, stated that they want to move on to "the more difficult matters," referring to the sensitive issue of the possible military chapter of Tehran's nuclear program. He also added, "*Of course, in the next stages we want to include issues regarding the possible military dimensions*" (of Iran's nuclear program). In a report published in 2011, the IAEA listed a series of elements, presented as credible, stating that that possibility could not be excluded. The report was rejected by Iran, which denied that it had built up or wanted to build up a nuclear military arsenal

Trade surplus: Pemex announced in a communiqué that the value of its exports of crude, gas and derivatives came to US\$48.59 billion, down 6.6% from 2012. While this gave a trade balance surplus of US\$20.26 billion, it too was down from 2012, by 3.5%. It also revealed that, last year, average daily gasoline imports posted a drop of 9.3% to 359,000 b/d.

International oil baskets. At closing time on January 31th in the New York Stock Exchange, the price of the WTI was US\$97.1/bl, increasing by 1.6% when compared to the reported the previous week. The Brent increased by 0.4% when compared to the previous week, to reach US\$107.6/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$97.2/bl on Friday January 31th, a 1.2% increase compared to the US\$96.1/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$99.5/bl.





Business Sector Tips

Mercal is no longer such a favorite. The National Statistics Institute (INE) reported in its Food Consumption Monitoring Survey that 358,122 households stopped shopping at the Mercados de Alimentos (Mercal) network in the past year. In 1H2013, 3,371,538 households went to this chain to buy at least one product, whereas in 1H2012, 3,729,660 went, for a drop of 9.4%. The network has also ceased to be an option for acquiring priority products. The demand for the 10 products most purchased by families that shop at Mercal went down in the twelve-month period covered by the study; for example, the number of households that went to Mercal to buy full fat powdered milk in the first six months of 2013 was 23.9% fewer than in the same period in 2012.

The eternal problem of shortages: Vice President for the Economy Rafael Ramírez gave assurances that the government has been working for months to combat the shortages, saying, *"We've spent billions of dollars on bringing food into the country. If it weren't for the State's distribution systems, it wouldn't have been possible for our people to have had their needs catered to. We haven't stopped working on it. We've got the Special Supply Plan, which is functioning; the ports are operating fully."* He also pointed out that *"the problem of shortages is affecting only 40 products, which are also being pressured by inflation; and this has been an expression of the mechanisms of speculation."*

Steel production in the region: According to a document published by the Latin American Steel Association (Alacero), laminated steel production in the region came to 56.4 million tons between January and December 2013, for a slight increase of 1.0% compared to the same period in 2012. In its report, Alacero notes that the countries that increased their crude steel production were Ecuador (41.0%) and Peru (13.0%), whereas Chile and Venezuela reduced theirs by 20.0% and 9.0%, respectively, compared to 2012.

Operations on hold: The steel slabs and billets mills at Siderúrgica del Orinoco "Alfredo Maneiro" (SIDOR) have been shut down for more than a week owing to the lack of lime. This shutdown made it necessary to stop the production downstream of steel bars and rods, whose raw material comes from the steel mills. When they were left without material for processing, they stopped producing rebar, most of which goes to the Great Venezuela Housing Mission. Workers estimate that it could take



more than two weeks for operations to start up again. They will take this time to carry out preventive maintenance.

Airlines are still waiting. The aviation authorities had until Monday this week to review the sale of air tickets sold in 2013 together with the international airlines. Sector sources say that, once that step has been completed, the National Civil Aeronautics Institute (INAC) will compile the information and submit it to the Ministry for Aquatic and Air Transportation for it to establish payment schemes and dates. Some payment schemes will include part payments in fuel, bonds and cash. Tame is one of the airlines that have accepted such a payment scheme.

Graphics industry is also in difficulties. Edgar Fiol, the executive director of the Graphic Arts Association of Venezuela (AIAG) claimed that the sector's situation is "critical," as international suppliers have closed their lines of credit and companies are unable to replenish stocks. The association estimates that the debt with suppliers comes to US\$198 million and that the average delay in paying invoices is 190 days. Commenting on this situation, Fiol said, "*The lines have credit have been closed; suppliers are not even issuing us with pro forma invoices.*"

And the health sector too: The president of CADIVI and Cencoex, Alejandro Fleming, met with businessmen from the pharmaceutical sector and importers of medical equipment. Calculations by the business associations put the debt with suppliers in the case of pharmaceutical products at US\$3.5 billion and the amount owed by the importers of medical equipment at around US\$500 million. Fleming requested businessmen to let him know the minimum amount needed in order for international suppliers to recover their confidence in the Venezuelan market and resume normal dispatches.

Automotive sector hasn't started up. Ford Motor, General Motors, Chrysler, and MMC Automotriz have still not started assembly operations this year. Only Toyota de Venezuela started production two weeks ago. Automotive industry spokespersons warned the Executive at the end of last year that there would inevitably be problems in 2014 if the disbursement of approved foreign currency was not authorized and new applications for foreign currency were not approved. According to calculations by the automotive industry, assemblers' debts with their parent companies come to US\$1.8 billion, which has meant that no more materials have been purchased and this, added to the fact that what little they had in stock they used up last year, has resulted in production coming to a halt in the automotive industry.

Delays are also affecting the food industry. The Venezuelan Food Industry Chamber (Cavidea) reported that the amount CADIVI owes the sector comes to US\$2.43 billion. It also pointed out that the failure to pay has resulted in lines of credit



being suspended. In recent months, the replenishment of raw materials inventories, such as wheat, sugar, milk, meat, and cereals, has been limited, a situation that has been reflected in the supply of finished products. Imports of inputs such as containers, packaging, chemicals and spares have also been affected, which, in turn is having an impact on production.

World Economy Tips

US GDP up by 3.2% in 4Q2013: The US economy grew in the 4Q2013 thanks to an increase in home consumption; however stagnating wages could mar this initial boost in 2014. US Gross Domestic Product (GDP) grew by 3.2% year-on-year, thanks to an increase of 3.3% (yoy) in private consumption, according to estimates by the Department of Commerce. The solid progress made by the economy is expected to set it on a firmer path of expansion this year.

Cuts in stimulus program: The Federal Reserve (Fed) has announced a reduction in the amount of dollars it will be injecting each month into the US economy. The measure, known as quantitative easing (purchase of assets that permits an expansion of the monetary base), is to be cut by US\$10 billion a month (from US\$75 billion to US\$65 billion), whereas interest rates will be maintained near zero as long as unemployment is above 6.5% and forecast inflation does not go above 2.5%.

Obama with “less” deficit: A federal agency has forecast that the administration’s budget deficit will drop to its lowest level since President Barack Obama took office five years ago. The Congressional Budget Office reduced its estimate for the deficit to US\$514.0 billion due to an increase in tax revenues and a reduction in government expenditures. It is expected that the deficit will start to grow in 2015 due to slower economic growth.

United States will grow by 2.0% in 2014. According to Richmond FED President Jeffrey Lacker, growth in GDP for this year is estimated at 2.0%, which is on the low end of the range of predictions, of between 2.2% and 3.3%, made in December by Fed policymakers. According to Richmond Fed, the muted growth of GDP will be due to a reduction in spending by consumers and businesses and modest labor productivity. Lacker also forecast that today’s low inflation will rise to the Fed’s goal of 2.0%.



Euro zone starts off on the right foot with its manufacturing sector.

Manufacturing companies in the euro zone had their best month since mid-2011, even though France, the bloc's second biggest economy, posted a slowing down in growth. This upturn in the sector was led by Germany's recovery. The final reading of the Eurozone Composite Purchasing Managers Index compiled by Markit rose to 54.0 for the first month of the year, clearly above the 53.7 posted in December.

Inflation, stop right there. Contrary to market expectations, the consumer price index for the euro zone slowed down in January. This was due to a drastic reduction in energy costs, which could give rise to the Central European Bank (ECB) boosting support measures. Inflation in the 18-country monetary union slowed down to 0.7% year-on-year in the first month of the year, below the 0.8% posted in December.

British economy forges ahead. In 2013, Great Britain posted its highest level of annual growth since the financial crisis. According to official figures from the United Kingdom's Office for National Statistics, Britain's GDP grew by 0.7% (yoy) in the fourth quarter of 2013. However, this growth did not exceed private sector forecasts, which caused the pound to lose ground briefly and generated doubts as to how long the Bank of England will be able to keep interest rates at record lows.

Disruptions forecast for Latin America. The International Monetary Fund (IMF) expects disruptions in the economic performance of Latin America in 2014. Among the main causes are "re-balancing" sources of growth in China and tapering of stimulus measures by the Fed. These IMF projections are based on the agency's own world economic outlook and, even though the outlook is very uncertain, Latin America is expected to experience a slowing down in regional growth.

Food is more expensive in Latin America. The United Nations Food and Agriculture Organization (FAO) confirmed the upward trend in food prices in Latin America, which also coincides with an overall upturn in inflation. In December last year, food prices rose by 1.0%. This increase in food prices had a considerable impact on the well-being of the poorest households and is detrimental for food security in the region.





Political Tips

Scapegoat: Miranda State Governor Henrique Capriles lamented that he is being accused from within the opposition ranks of being responsible for not having obtained the desired number of votes at the recent municipal elections held on December 8th. *“Defeats are orphans, but they’re going to blame someone. I don’t feel defeated because I wasn’t a candidate on December 8th. I’ve been candidate on two occasions; I lost some elections and won others. I’m not obsessed with being a candidate but with changing the country,”* said Capriles.

We’re not looking to dismantle the Unity Alliance. Greater Caracas Mayor Antonio Ledezma said that the *“Movida Parlamentaria”* (a movement in favor of social protest) is not seeking to dismantle the Democratic Unity Alliance (MUD), but that it is trying to adapt it to a situation marked by a malaise and anxiety among the people. *“The Unity Alliance is indispensable and it would be suicide to make the mistake of crushing or doing away with a body that should be highly thought of as one of the best services rendered to the country in the matter of elections (...). What the Unity Alliance does need to do is to adapt to this situation. It’s a matter of the Unity Alliance becoming a catalyst for protest throughout the country, of mobilizing people,”* added Ledezma.

Venezuela and Cuba forge stronger ties. President Nicolás Maduro announced that Venezuela and Cuba signed 56 new cooperation agreements in the areas of energy, oil, health, agriculture, education, and sports amounting to US\$1.26 billion in 2014. Maduro recalled that social “missions” had been implemented in Venezuela for the benefit of the population thanks to the agreements that Venezuela has signed with Cuba, among them the *“Madres del Barrio”* (Slum Mothers), *“Barrio Adentro”* (Inside the Slums), and *“José Gregorio Hernández”* (health care) missions.

We have to disarm criminals, not the people. In the opinion of the Democratic Unity Alliance, the government should stop focusing its disarmament policy on people *“who have a legal weapons permit, who are a tiny minority,”* and focus it on the individuals who use unregistered weapons to commit crimes. The Unity Alliance recalled that, in June 2013, the National Assembly passed a Weapons, Munitions and Disarmament Act, which is dead letter law as most of its provisions have not even started to be enforced, a situation that suggests the Venezuelan Government’s scant political will to deal with this issue that is so important for the Venezuelan people.



Another remedy that's worse than the disease. The president of Fedecámaras, Jorge Roig, said that the business association is to file an appeal for annulment of the Fair Prices Act with the Supreme Tribunal of Justice. The business leader pointed out that this law restricts supply, scares off investment, and confiscates private property by declaring it to be affected with a public purpose. He further pointed out that it will not solve the shortages and that, on the contrary, it will make them worse. *"This law is no use for getting more products on the shelves,"* he said.

Discontent among the communists: The Communist Party of Venezuela (PCV) has claimed that President Nicolás Maduro's proposal to "reformulate" the Great Patriotic Pole is a "step backwards" that puts the late President Hugo Chávez' last initiatives at risk. During a speech last week, Maduro proposed that the government coalition resume a large bloc profile in the place of its present party council structure. PCV spokesman Carlos Aquino revealed that they learned of Maduro's initiative while watching him on television, because *"There has been no room for debating proposals"* since last September.

You don't understand. *"If they said that, they didn't interpret the announcement that President Maduro made correctly,"* was how Anzoátegui State Governor and PSUV spokesman Aristóbulo Istúriz responded to the criticism leveled by the communists. *"The Great Patriotic Pole contains the social and political organizations in a single institution. Maduro has said that it's necessary for the social organizations to have a single institution, without mixing it up with the parties, and for the parties to be brought together in a great institution,"* explained Istúriz, who denied that they are trying to "fragment" their allies; on the contrary, he claimed that they are seeking to *"strengthen relations with their comrades."*

It's necessary to appoint a new referee. The Venezuelan Electoral Observatory (OEV) has requested the National Assembly to start the process for appointing the three National Electoral Council directors whose constitutional period in office has already elapsed. The OEV considers that, while *"most of Venezuelan society seemed to have accepted (...) an extension of these directors' terms of office, which was never formally approved,"* because, in 2013, there was *"a commitment to an electoral agenda,"* the fact that there are no elections scheduled for 2014 means that there is no excuse for not *"restoring the legality of the agency in charge of the Electoral Branch."*





Legislatives Tips

Minister for 15 days: The appointment of Dante Rivas as the new Minister for Commerce was published in *Gaceta Oficial* No. 40,347. Rivas replaces José Khan, who held the post for just two weeks after being appointed to the job during President Nicolás Maduro's presentation of the Report and Accounts.

A new director: According to *Gaceta Oficial* No. 40,346, William Castillo Bolle has been appointed as the new director general of the National Telecommunications Commission (Conatel). He replaces Pedro Maldonado, who had held the post since August 2010 and before that was the president of the television station Tves, which now has Winston Vallenilla at its helm.

The race is on. The government can now start with the sovereign debt bond issues, since the financial terms of these papers have been published in *Gaceta Oficial* No. 40,344 of January 29. The terms published in the *Gaceta* are for issues in bolivars, although the Ministry of Finance has the authority to conduct operations in local and foreign currency, as it has the approval of the National Assembly.

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ECONOMIC OVERVIEW

