



Weekly Report

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Foreign exchange policy in Venezuela: a price anchor or a competitiveness anchor?

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The success of any industry almost always depends on how efficient its managers are in allocating resources to the best effect and obtaining lower costs than their competitors; at other times it will depend on the market power they can exercise over consumers, either on their own or in collusion with other industries; and in special cases, the construction of “entry barriers” of new consumers through the development of cutting-edge technologies can also ensure the success of a company and/or industry.

Although many of these factors that can help an industry to be successful often depend on its managers or the characteristics intrinsic to that industry, many others will depend on the macroeconomic and regulatory environment. Tax breaks and stimulus policies for given sectors are examples of this and, in today's globalized world, foreign exchange advantages and foreign exchange policies are also of paramount importance.



By intervening in the foreign exchange market, a government can ensure a competitive advantage for its domestic industry (as in the case of China) or prevent a slowing down in demand in international markets from hitting its export industry harder (Colombia, for example). To do this, governments tend to take account of their industry's international competitiveness indicators and also to forecast and obtain, by means of monetary, foreign exchange, and fiscal policies, optimum values for macroeconomic variables that will help to boost their industries.

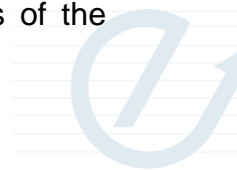
A number that should be born in mind

An essential indicator when it comes to assessing the competitiveness of a domestic industry, as compared to both its foreign competitors and the performance of the non-tradable sector (services), is the real exchange rate (RER).

On the one hand, the RER is a measurement that allows us to verify how prices in the economy are behaving compared to external prices, which gives us an idea of how competitive our exports are. An appreciated RER (below its equilibrium value) means that each bolivar can buy more goods and services abroad than in our domestic economy, which causes exports to become less competitive and acts as a stimulus for imports. When the RER is depreciated (above its equilibrium value), on the other hand, the goods produced in the local economy are cheaper than those produced abroad and, therefore, our exports become more competitive.

At the same time, the RER expresses the relative price of tradable (exportable) goods in terms of non-tradable goods, thus becoming a competitive performance indicator for the tradable sector of the economy versus the non-tradable sector. So, a low, or appreciated, real exchange rate tends to be a reflection of lower profitability of the tradable sector, which can lead to a larger allocation of productive resources to the non-tradable sector to the detriment of the former.

At **Ecoanalítica** we estimate that the Venezuelan economy's equilibrium RER is currently is near to VEB 14.0/US\$, which implies that the Cencorex exchange rate (VEB 6.3/US\$), the exchange rate of the SICAD auctions (this week at VEB 11.7/US\$), and even the economy's weighted exchange rate (estimated at VEB 11.5/US\$ for this year) are overvalued. This means that any initiative of exporting from Venezuela will die before it is born and that even companies that produce intermediate goods and basic inputs for manufacturing will lose ground against products from other parts of the world.





Devalued or overvalued?

Because the equilibrium RER tends to vary from month to month, given the freedom with which the exchange rates of our trading markets fluctuate and the volatility of prices in our economy, the bolivar's level of overvaluation has to be measured over time by constructing an RER index that derives a ratio of the exchange rate and the variation in relative prices in our economy to those of our main trading partners, taking a specific reference period as the baseline.

An RER index that is above 100 indicates that the local currency is undervalued and, therefore, that purchasing power is greater at home than abroad. If, on the contrary, the RER is below 100, this will tell us that the local currency is weakened and that purchasing power is greater abroad than in the domestic economy.

Moreover, a foreign exchange index below 100 implies the deterioration of a country's competitive position, which usually results in domestic goods (now more expensive) being replaced with imported goods (now cheaper) and in an increase in the domestic production of non-tradable goods at the expense of the production of tradable goods.

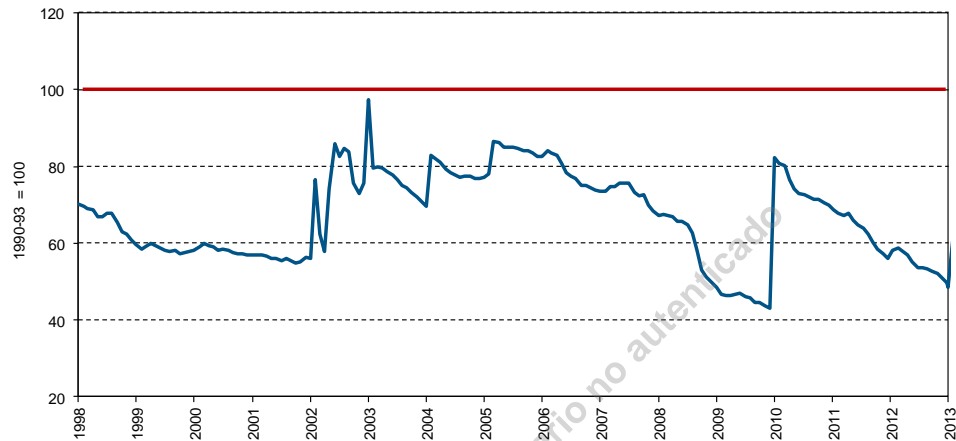
While Venezuelans have been more concerned in recent years with the evolution of the nominal exchange rate (the one we observe daily), which has depreciated considerably in the past 10 years, going from VEB 1.6/US\$ in 2003 to VEB 6.3/US\$ in 2013, account should also be taken of the fact that, for most of that time, the real exchange rate has been overvalued, to the detriment of domestic industry's competitiveness.

According to the real exchange rate index estimated by **Ecoanalítica**, the overvaluation of the bolivar has averaged 32,0% in the past decade, with January 2010 being the month in which it was least overvalued as a result of a devaluation from VEB 2.15/US\$ to VEB 4.3/US\$, after having remained unchanged for almost 5 years (since March of 2005).





Ecoanalítica's Real Exchange Rate Index



Sources: Bloomberg and Ecoanalítica

A price anchor or a competitiveness anchor?

Economic theory dictates that the main causes of overvaluation are:

- A significant appreciation of the local currency combined with very small differentials in inflation compared to the main trading partners.
- High domestic inflation, very much higher than the average rate posted by the main trading partners.
- Depreciation of the local currency way below inflation differentials.

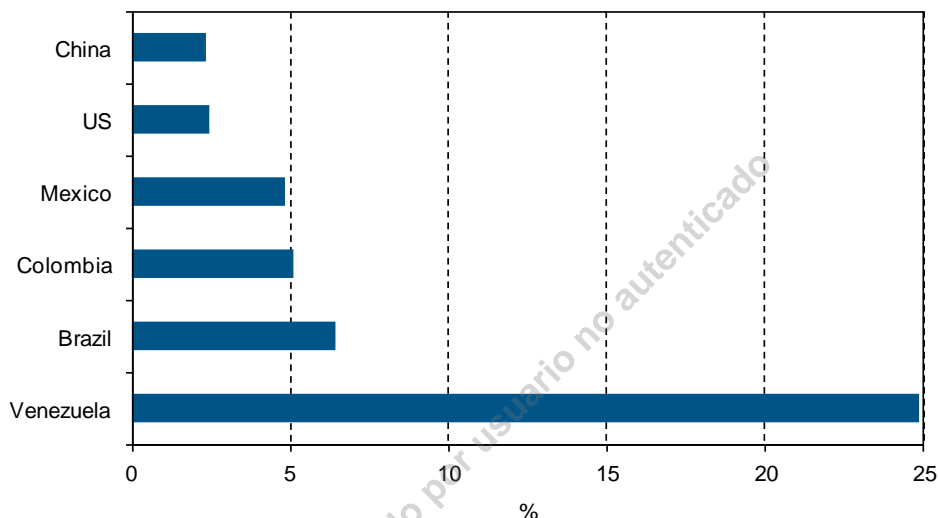
In Venezuela's case, we could say that high domestic inflation is converging with depreciation that is insufficient to offset that inflation, factors whose common denominator is the policy of anchoring the exchange rate and allocating foreign currency being implemented by the Executive.

First of all, the policy of maintaining a fixed exchange rate, whose main objective was to curb the escalation of prices by maintaining the prices of imported goods and inputs, has led to a scenario where the exchange rate systematically lags behind its equilibrium value, which fuels the demand for imported goods at the expense of domestic production. After all, why import inputs when I can import the finished product? Besides, I avoid the risks that a domestic producer runs.





**Venezuela's Inflation vs. Major Bussines Partners
(average 2000-2013)**



Sources: IMF and Ecoanalítica

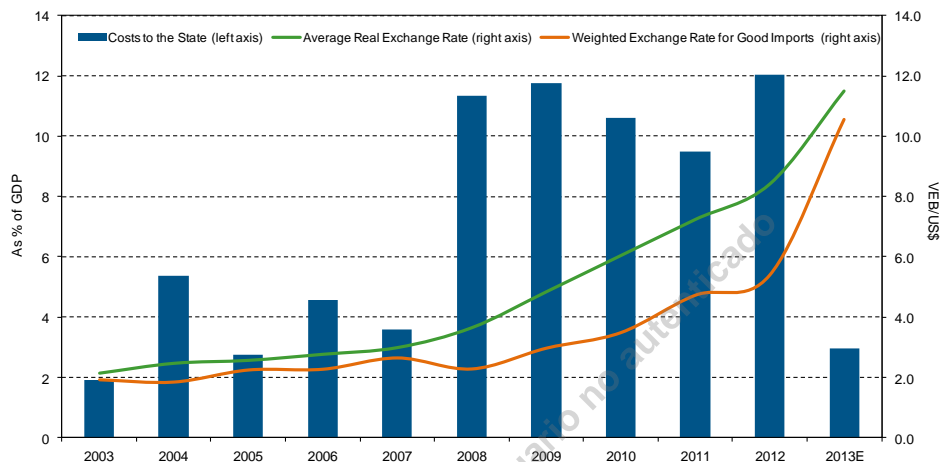
Together with the anchoring of the exchange rate, the appearance on the scene of mechanisms for allocating foreign currency (foreign exchange controls) has given rise to opportunities for arbitrage between those who regularly obtain foreign currency at the (overvalued) official exchange rate and those who need foreign currency and are prepared to pay a higher rate, leading to the emergence of a parallel foreign exchange market that has become the marker for inventory replenishment prices, given the scant credibility of the economic policies implemented by the government.

The result has been catastrophic: inflation higher than the rate the authorities were trying to avoid, with an exchange rate that does not help domestic industry to compete with imported goods –it is no longer a question of exporting, but of maintaining market share–, and where the government has lost the opportunity to obtain nearly 6.9 points of GDP a year it would have achieved had it allocated dollars at an exchange rate approaching the equilibrium rate.





The Costs of the Overvaluation

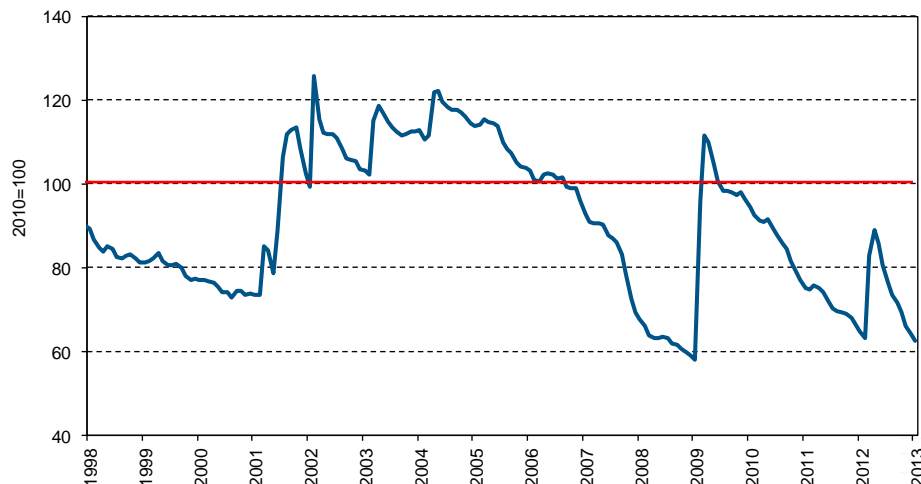


Sources: BCV and Ecoanalítica

The least competitive in the world

The foreign exchange policy has been so unfavorable that, at the close of December 2013, Venezuela ranked as the country with the most overvalued currency in the world according to the RER index prepared by the Bank for International Settlements (BIS). To get a clearer idea of how uncompetitive Venezuela's tradable sector is, according to the BIS, the bolivar was 55.0% above its equilibrium value (VEB 9.8/US\$ according to the bank). By way of comparison, we have the case of Argentina, a country that also maintained its fixed exchange rate scheme in 2013, but which did not imply a loss of competitiveness, according to the BIS' estimates.

Basileas' Effective Exchange Rate Index



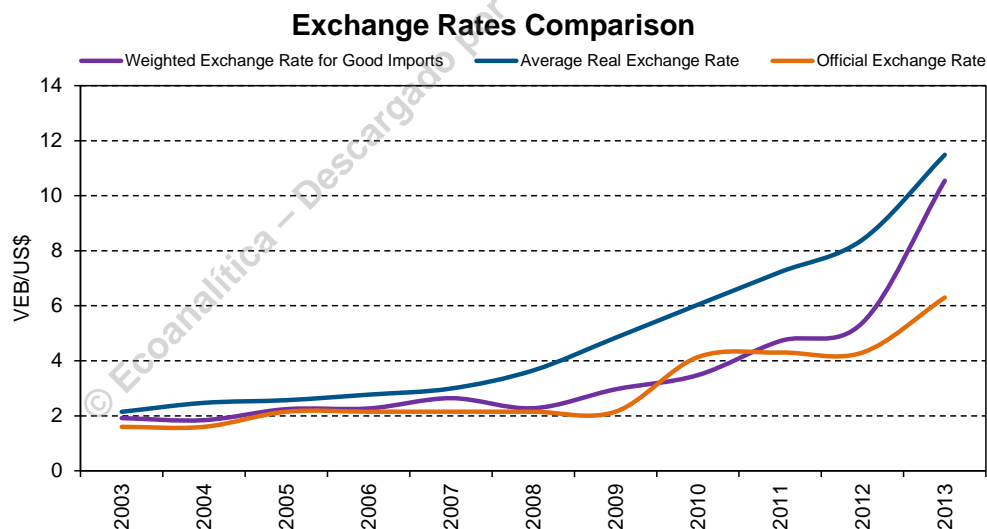
Sources: Bank for International Settlements and Ecoanalítica



It is worth noting that the index calculated according to the BIS uses 2010 as the period of reference (base period), when –according to our estimates- the official exchange rate remained fixed and below its equilibrium value, with the result that the index calculated by the BIS does not accurately measure the overvaluation of the bolivar (it underestimates it).

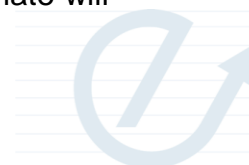
The situation is not irremediable

An interesting exercise is to see how, even though the official exchange rate has been maintained below the equilibrium RER, the complementary systems, the swap market, and the black market –with exchange rates that are considerably higher than the official rate- have resulted in the average exchange rate at which imports are financed tending to adjust itself –albeit not perfectly- to the RER, mitigating the loss of competitiveness somewhat.



Sources: BCV, Bloomberg and Ecoanalítica

The situation described above shows that adjusting to a competitive exchange rate does not depend solely on the official exchange rate, but on the other options offered by the foreign exchange market, options that the government itself has been creating. The gap between the weighted exchange rate and the RER gives the government room to be able to adjust the exchange rates of complementary mechanisms. For that reason, at **Ecoanalítica** we consider that the government's seeking to slide the SICAD rate up to meet the RER this year (which we estimate will be near to VEB 17.0/US\$) to be a viable option.





Moreover, at **Ecoanalítica** we view the new SICAD II as an opportunity for the Executive to obtain the fiscal financing –indirectly, since it will be PDVSA that will benefit directly from this mechanism- that it has not obtained as a result of maintaining the exchange rate at VEB 6.3/US\$. At **Ecoanalítica** we estimate that, depending on the extent to which the government interferes with the new foreign exchange mechanism, its rate could be between a minimum of VEB 25.0/US\$ and a maximum of VEB 50.0/US\$, with the possibility of it becoming, depending on the amount traded, a mechanism that will help to finance maintaining the exchange rate of VEB 6.30/US\$ for the dollars allocated thus far by Cencorex.

At **Ecoanalítica** we are in the obligation, as always, to point out that, while corrections to the exchange rate in Venezuela tend to favor fiscal stability and the competitiveness of the industrial sector (exporter and non-exporter), they do not solve the underlying problems and should be accompanied by measures that seek to fight the true causes of our loss of competitiveness: persistent high inflation, lack of transport infrastructure, red tape, and a complicated system for obtaining foreign currency. As long as those factors exist, devaluation and overvaluation will continue to be present in the day-to-day lives of Venezuelans.

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Economic Tips

New mechanisms. Vice President for the Economy Rafael Ramírez has commented on the swap market that is to start functioning in Venezuela shortly (named SICAD II by President Nicolás Maduro), explaining that it will provide a source of supply in addition to the US\$42 billion that they will be placing in the Venezuelan economy this year via CADIVI and SICAD I. *“All institutions will be able to supply the market. We can’t talk about that until the amendment to the Foreign Exchange Crimes Act comes out, and it’ll be coming out in a few days,”* added Ramírez.

Still there is no Gazette. The President of the Republic, Nicolas Maduro signed the Law for the Implementation of Administration of Foreign Exchange Regime and Exchange Crimes Act that supersedes Exchange Crimes and creates Sicad II. The President reported that the new system *“allows the creation of an alternative exchange market, exchange of securities, authorizes private to buy and sell currencies with each other under the supervision of exchange operators, the Central Bank and Finance”*. However, so far not published the Official Gazette, and still there is uncertainty about the performance of this new mechanism and possible restrictions persists.

But, what’s the new exchange rate? Economic Area Vice President, Rafael Ramirez, said that new Sicad II exchange rate will be *“product of the bid”* between supply and demand. Ramirez also appointed that the BCV is in charge of regulating the new exchange rate. Ramirez also said that all sectors of the economy are able to participate in Sicad II and that the amounts transacted in such mechanism will be additional to the US\$42.0 billion exchange budget submitted to the nation a month ago.

Things can always get worse. The director of Datanálisis, Luis Vicente León, explained that *“the situation of violence in the country will have high economic costs that will make the scenarios that were already negative even worse,”* and he maintained that, given that this critical shortages situation is only *“the tip of the iceberg,”* we should prepare ourselves for the coming weeks, which will bring *“infinitely”* greater shortages.

Government acknowledges some of its mistakes. Foreign Minister Elías Jaua confirmed the thesis, subscribed to by many, that the expropriated companies are unproductive when he admitted that *“some recovered companies have not been*



successful in terms of productivity. However, Jaua claimed that, in time, the government will show that those companies that they had to “*recover*” because “*capitalists had pushed them into bankruptcy*” can do better, proving that this decision was the right one.

New SICAD exchange rate: The Central Bank has already approved the new exchange rate for the upcoming SICAD auctions, which is VEB 11.7/US\$. This exchange rate, which was previously at VEB 11.3/US\$, will also be used for e-commerce operations, consumptions abroad, and non-priority imports.

Cut by half: Only US\$222 million of the US\$440 million that were to be offered at the auction called by Cencorex for last week ended up being allocated, according to Minister Rafael Ramírez. Ramírez considered this outcome a total success, as the reduction in the foreign currency sold at the auction was due to rigorous screening that managed to reduce the number of applicant companies that had irregularities. As a result of this screening, only 785 out of the 1175 companies that submitted applications to the state-owned banks benefitted, explained Ramírez.

Call for Cencorex. The National Foreign Trade Centre (Cencorex) invited on Monday February 17th a new auction for US\$ 220 million for Supplemental Currency Management System (Sicad). This auction will be conducted through public banks, and is aimed for companies in the textile sector (inputs), clothing and footwear and household appliances, electronics and computing.

Slowly but surely? Venezuela’s debt with Colombian exporters came to US\$306 million at the close of 2013 compared to US\$425 million in 2012, for a drop of only 28.0%. Colombia’s Treasury Minister Mauricio Cárdenas has been discussing this situation with Venezuela’s Finance Ministry to get the Venezuelan authorities to recognize prior outstanding payments to exporters. It is hoped that, with the progress made during the different talks, Colombian businessmen will recover their confidence in Venezuelan importers.

The Central Bank still has the authority. Cencorex will not have exclusive say over how the SICAD auctions are handled as, according to Foreign Exchange Agreement No. 26, the Central Bank, as the entity in charge of governing the foreign exchange policy, will continue to have authority over a number of aspects having to do with the scheme. The agreement, which, according to the *Gaceta Oficial*, has already gone into effect, establishes that Cencorex “*must abide by the maximum amount that the Central Bank has authorized for the auction, as well as by the offer of foreign currency or securities for sale that interested parties have made to the Central Bank and that is firm and irrevocable.*”



Negotiating: The Ministry for Foreign Affairs announced that, last week, the first high-level meeting for identifying illicit financial flows was held in Colombia. At this meeting, headed up by the foreign ministers of the two countries, Elías Jaua and María Ángela Holguín, Venezuela proposed as a possible first measure that remittances sent from Venezuela to Colombia be in pesos, not in dollars as has been the custom so far, in an attempt to avoid the irregular use of foreign currency.

Interest rates. The lending rate for the first week of January was at 17.1%, up by 0.3 percentage points (pp) compared to the previous week. The time deposit rate was at 15.0%, up by 0.5pp compared to previous week, while the passive rate, placed at 14.7%, up by 0.2 pp variation compared to previous week.

International reserves. International reserves decreased by 1.2%, going from US\$20.81 billion during the first week of February to US\$20.56 billion during the second week of February. Compared to the same period last year, international reserves have decreased by 25.7%.

Central government expenditure. On Friday February 07th according to figures from the ONT primary spending was VEB 5.72 billion, which means an decrease of 69.8% when compared to the previous week when it was VEB 18.96 billion; when compared to the same period last year we observe a decrease of 13.5%.

Monetary liquidity. Money liquidity (M2) increased 0.2% in the first week of February from the week prior, to settle at VEB 1.26 trillion. The M2 has increased 74.4% in relation with the same period last year.

Oil Tips

Oil production up: According to OPEC's monthly report, Venezuela's oil production increased by 4.4% in January 2014 compared to the same month last year. Production of crude in the first month of the year came to 2.88 million barrels a day (mb/d), 120,000 barrels more than in January 2013 (2.76 mb/d). This means that Venezuela's production in January was similar to that for 4Q2013, calculated at 2.85 mb/d, to close 2013 with an average of 2.78 mb/d, according to OPEC.

Revising PDVSA's agreements recommended: David Voght, the managing director of the energy consulting firm IPD Latin America, considers that Venezuela



should revise or restructure its oil supply agreements to improve the financial health of the country's fiscal accounts and, at the same time, allow PDVSA to have resources available to invest in its core business. In the same vein, at a forum on oil policy organized by the Institute of the Americas, he said that social spending and the burdens placed on PDVSA have been the causes of the state-owned company having to run up a debt with the Central Bank that comes to US\$40.0 billion. At **Ecoanalítica** we calculate that the barrels that generated cash for PDVSA in 2013 came to 1.3 mb/d.

Debate on oil “rentierism”: At the forum “The rentier model and Venezuela’s sustainable development” organized by the Fermín Toro Institute for Parliamentary Studies and the Universidad Católica Andrés Bello (UCAB), Universidad Central de Venezuela (UCV) professor and economist Humberto García Larralde said that the creation of a petrostate damages a nation’s institutions and promotes seeking revenue to the maximum and state interventionism in the economy. He also explained that sharing out the oil revenues *“has permitted private consumption to grow more than real wages and both to grow more than non-rentier productivity. And that has become more pronounced under the Bolivarian regime. If the revenue disappears, this situation is not sustainable.”*

Financing for this year: This year the government will have financing to the tune of nearly US\$10 billion for executing new projects in the Orinoco Oil Belt and other projects for the extraction of crude. Oil Minister Rafael Ramírez announced that, this year, agreements should be reached on financing for projects in the Orinoco Oil Belt, each in the sum of at least US\$1.2 billion, to be received by PDVSA. He also mentioned that two of those developments will be the joint venture with the Russian company Rosneft, Petromiranda, and the expansion of Petromonagas, also with Rosneft, which acquired TNK BP and its assets.

One of the US\$1.2 billion agreements: Last week, PDVSA and the Spanish oil company Repsol signed an agreement under which Repsol will invest US\$1.2 billion in the joint venture Petroquiriquire located on Lake Maracaibo. The signing of this agreement, which was scheduled for December but had been postponed more than once, is in line with statements made by the president of PDVSA on the financing of projects for exploiting crude mentioned above.

Replacing liquid fuel with gas: PDVSA and the Ministry for Oil and Mining have proposed the goal of replacing approximately 250,000 b/d of liquid fuel consumed by the power generation sector with gas. Minister Ramírez maintains that they had already managed to replace some 50,000 b/d of liquid fuels with gas at the close of 2013, and that this step should have been taken *“yesterday.”* The current difficult situation arose following the electricity emergency in 2010, when thermoelectric



power stations, which run on diesel or fuel oil, were set up in different parts of the country.

Agreement renewed: Next month, Uruguay is to renew its contract for the purchase of Venezuelan oil and Venezuela is to increase its share in a Uruguayan state-owned company that produces alcohol. In addition, a consultancy agreement is to be signed under which technicians from the Uruguayan state-owned fuel company Ancap will advise Venezuela on the production of biofuel. At the meetings between the two countries, the possibility was discussed of Ancap acquiring a PDVSA subsidiary that produces mineral coal and coke or petcoke intended for two new cement plants belonging to the Uruguayan company.

Candidate for Petrocarabobo: The Indian oil company Reliance sent a communiqué to Minister for Oil and Mining Rafael Ramírez informing him of their intention to acquire the 11.0% in the joint venture Petrocarabobo in the Orinoco Oil Belt relinquished by the Malaysian company Petronas. Moreover, statements by Minister Ramírez confirmed that PDVSA will continue to have a 60.0% shareholding in this joint venture, with the remaining 40.0% being held by Reliance, the Spanish company Repsol, the Indian company ONGC, and two small companies also from India.

Exploding myths: “*Petrocaribe pays us with a large amount of food,*” stated Ramírez, explaining that, last year, those countries paid PDVSA US\$800 million in agricultural and food products that are sold through the network of supermarkets belonging to the State (Mercal and PDVAL). He also admitted that there is concern over the growth in the public debt of those nations owing to accounts payable and payments overdue. At **Ecoanalítica** we consider that, while it is not true that the fuel supplied under these energy agreements is not paid for, it is paid for in kind, which definitely does not generate cash for PDVSA.

International oil baskets. At closing time on February 14th in the New York Stock Exchange, the price of the WTI was US\$100.1/bl, increasing by 3.0% when compared to the reported the previous week. The Brent increased by 2.4% when compared to the previous week, to reach US\$108.9/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$97.8/bl on Friday February 14th, a 1.9% increase compared to the US\$96.0/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$96.8/bl.





Business Sector Tips

The economy's engine's been switched off. During an interview, the president of the Venezuelan Construction Chamber, Gilbert Dao, explained that *"construction has been stalled since January owing to the lack of materials. Companies have not started up again because production of materials is down and, after the inspections of stores in November, distributors have not wanted to sell products and those who do have stocks no longer know at what price to sell their products."*

Taking a look at Guri. The historical records of Guri hydroelectric power plant's performance show that the amount of power it generated in 2013 fell by 6.4% compared to 2012, making this the fourth year running with a drop in generation. According to the international consultant José Aguilar, *"Guayana has been rationing electricity continuously for 49 months. More than 42,000 gigawatt hours (GWh), or the equivalent of what Guri produces in an entire year, have been taken out of the Guayana region, harming its industries and the country's economy."* He also referred to the increase in the generation of thermal energy and its contribution to the national grid, a hydro-thermal operation that he considers to be more costly and that entails importing larger volumes of diesel at international prices.

Other measures are needed. Luis Alberto Russián, the president of Cavecol, said that he is concerned over the increase in the smuggling of Venezuelan products over the border to Colombia, insisting that the *"increase in smuggling is extremely serious. Efforts need to be made to put commerce on a formal footing. Measures need to be taken to facilitate and encourage it."* He also said that he *"understood and applauded the government's measures aimed at exercising greater control."* However, he argued that stepping up controls was not enough, as prices are so high that they create distortions and are an incentive for engaging in these illegal activities. He further commented that *"creative solutions should be applied, as this is a cultural and social problem and that, therefore, it is necessary for regional actors to be brought on board and for business and academia to be consulted."*

Claim being studied: The International Center for Settlement of International Investment Disputes (ICSID) has decided that it will study the complaint filed by Fama De América regarding the state takeover of the company by the Venezuelan Government in July 2009. The Dutch firm Longreef is petitioning to be indemnified for its shareholding in the company, but the Venezuelan Government has objected to the



claim since Venezuela had filed its objection to the bi-national agreement two years before it was filed.

Out of inventories: Last week, Toyota de Venezuela informed its workers that the plant would have to shut down indefinitely on February 13 “owing to the lack of parts.” Figures supplied by the Venezuelan Automotive Chamber (Cavenez) show that the situation of Toyota is not an isolated case. Only two of the seven automotive assemblers that are members of Cavenez started up their assembly lines again in January and they have only managed to assemble 296 vehicles. The reason why the companies are without inventories is the restrictions on disbursement of foreign currency in the last quarter of 2013 implemented by the Venezuelan Government.

Bolipuerto puts up its charges. Starting last Monday, port services in Venezuela are to be calculated based on the exchange rate resulting from the SICAD auction and not at VEB 6.30/US\$. This decision by Bolipuerto is backed by Foreign Exchange Agreement No. 25, published in *Gaceta Oficial Extraordinaria* No. 6,122 dated January 23. This means that importers and shipping lines will have to pay at least 80.0% more for Bolipuerto's services, based on the price that the dollar was last traded via SICAD (VEB 11.36/US\$).

World Economy Tips

Obama gets rid of a problem. US President Barack Obama signed a law that eliminates the ceiling on federal debt, thus allowing Federal Government to borrow the money it needs to make a variety of payments, including social security payments. The Treasury Department will now be able to borrow with no restrictions until mid-March 2015. Had this law, which was passed by the Senate with 67 votes to 31, not been signed, the stock market would probably have plummeted.

A task for the entire G20: A high-level Canadian government official said that the advanced economies should explain their monetary policies clearly to the rest of the world and that some emerging economies have to strengthen their policies to reduce market volatility during this current unprecedented period of transition. The government official, who asked not to be named during the interview, made these recommendations bearing in mind the upcoming G20 summit, which, according to him, is the perfect opportunity for taking the first step.



Wait and see. Ewald Nowotny, a member of the European Central Bank's Governing Council, said that it could be appropriate for the ECB to "*wait and see*" to decide whether it should change the interest rates, as inflation expectations are "*well anchored*." "*There might be good arguments to say let's wait and see (on interest rates)*," said Nowotny, claiming that there is no threat of deflation in the European Union so far. The current interest rates, which the ECB left at a record low at the start of February, could be changed in March, according to previous statements by the bank, although Nowotny has cast doubts on the likelihood of this happening.

ECB ready to take "*decisive action*": Benoît Coeuré, a member of the ECB's Executive Board, claimed that the ECB is ready to take "*decisive action if required*" should inflation risk become entrenched below the established target of 2.0%. Even though these statements could indicate that these measures will be taken soon, given that inflation slowed down to 0.7% in January, Coeuré maintained that inflation will gradually increase until it is in the region of the target set.

And the borrowing continues. The debt of Spain's central, regional and local government administrations grew in December by EUR 9.50 billion to around EUR 961.56 billion, according to the Banco de España. This amount, posted at the close of 2013, is equivalent to 94.0% of GDP, which puts Spain's debt slightly below the target set by the government for that year of 84.2%. However, there was a marked increase in the debt compared to 2012, 8 percentage points to be precise.

Technical recession in Brazil: Brazil's Central Bank gave the government bad news, on top of all the other bad news, when it confirmed the advent of a technical recession. This has been confirmed by the bank's figures that show that the Economic Activity Index (which tracks the behavior of GDP) for 4Q2013 was -0.17%, which, bearing in mind the -05% posted in 3Q2013, takes Brazil into a technical recession.

Argentina avoids polemics. Argentina put an end to seven years of suspicions regarding the manipulation of inflation figures with the presentation of a new price index, which, unlike the previous one, admits to a much bigger increase than had been recognized thus far and that is much closer to the figure calculated by private consulting firms. This new index puts inflation for December 2013 at 3.7%, which is nearer the 4.6% calculated by private consulting firms, revealing that prices were going up by more than claimed by the National Statistics and Census Institute (INDEC).

Argentina steps up price controls. Argentina's Secretary for Trade is to install chips in supermarket cash registers to control the prices and supplies of goods included in the *Precios Cuidados* (Watched Prices) program in real time. It seems



that the main reason for this new measure is to achieve a more computerized control and to not rely so much on citizen control, which does not permit monitoring compliance with the agreements reached with different sectors in real time.

Growth of 3.9% forecast for Central America in 2014. The Secretariat for Central American Economic Integration (SIECA), based in Guatemala, estimates that the region's economy will post growth of 3.9% in 2014. This regional organization claimed that *"the Central American region has a projection of economic growth for 2014 of 3.9%, confirming a pattern of stable economic performance through to 2015,"* despite the *"stagnation of El Salvador's economy, whose growth is projected to be in the region of 1.5% in 2014 and 1.7% in 2015."*

Political Tips

Active mourning: On February 12, university students marched from Plaza Venezuela to the Prosecutor General's Office to demand the release of the students from Táchira who have been arrested and sent to the prison in Coro and to reject the criminalization of protests. Prosecutor General Luisa Ortega Díaz' refusal to receive the students prolonged their wait, which ended in a confrontation between the students and the National Guard and alleged members of collectives. The demonstrations went on into the night, leaving three people killed (two students and a member of the Leonardo José Pirela Collective).

Self-goal: The national coordinator of Voluntad Popular, Leopoldo López, maintained that the damage done to the headquarters of the Public Prosecutor's Office was organized by the government itself. He also denounced that the National Guard took no action against the *"small groups that stayed to throw stones at the Public Prosecutor's Office."*

Impunity finally makes it onto the agenda. The president of the National Assembly lamented the death of the leader of the Leonardo José Pirela Collective, Juan Montoya, saying that Deputy María Corina Machado and the leader of the political party Voluntad Popular, Leopoldo López, were responsible. He took advantage of the situation to ask the collectives to keep calm and to state that *"there'll be no more impunity."*



Two more who are being persecuted. The presiding judge at Caracas' Distribution Court 16, Ralenys Tovar Guillen, approved the warrant filed by the Public Prosecutor's Office for the arrest of opposition leader Leopoldo López on the grounds of his alleged responsibility in the violent incidents that occurred on February 12. President Nicolás Maduro said that warrants for the arrest of Iván Carratú Molina and Fernando Gerbasi were ready.

Leopoldo delivered. On February 18th after leading the opposition protest in Chacaíto, the national coordinator of Voluntad Popular, Leopoldo Lopez was delivered to the National Guard (GN), in the delivery opposition leader asked the protestants who had prudently and not incite a confrontation. Leopoldo in the concentration expressed their desire for peace and Venezuela criticized the corrupt judicial system, and said he is innocent and has nothing to fear.

Pro government march. Oil workers, other sectors of the ruling party and the youth of the United Socialist Party of Venezuela (PSUV) marched on February 18th from Plaza Venezuela to the presidential palace. This march was intended to provide support for President Nicolas Maduro and reject interference foreign governments. Concentration and President of PDVSA Oil Minister Rafael Ramirez delivered a speech in which offered full support for the decisions taken by the president.

Capriles speaks up. Miranda State Governor Henrique Capriles Radonski denounced that the government had infiltrated the student demonstrations to draw attention to the foci of violence and away from the true problems plaguing the country. Moreover, while he acknowledged that both Leopoldo López and María Corina Machado share his desire for change, he admitted that they have differences when it comes to the paths they believe to be the appropriate ones for achieving that change.

The US is accused of poking its nose in. President Nicolás Maduro ordered the expulsion of three US consular officers "*who were covering up a conspiracy.*" He stated that they had been holding meetings at private universities in Venezuela under the pretext of offering visas. He also stated that Venezuela's ambassador to the Organization of American States (OAS), Roy Chaderton, had informed him that Washington had demanded the release of the students who had been arrested and that the government dialog with the opposition and desist from taking legal measures against opposition leader Leopoldo López. The President's response to these demands was that they were "*unacceptable and insolent.*"

Playing dumb: President Nicolás Maduro gave assurances that he "*does not accept*" violent groups in *Chavismo's* ranks. "*Anyone who believes he's very revolutionary*"



because he carries a rifle is mistaken,” he said. He also commented that anyone who uses a gun to hurt a demonstrator *“is not a Chavista.”*

Media blackout: There was scant coverage by the Venezuelan media of last week’s demonstrations and the Colombian news channel NTN24, which had been covering what was happening, was taken off the air by the cable television providers that have this channel on their grid. President Nicolás Maduro said that taking the channel off the air was a decision of state. Meanwhile, Claudio Paolillo, the president of the Inter-American Press Association’s Freedom of Press and Information Committee, condemned the measure of taking the news channel off the air in an attempt to hide what was happening.

The press is a victim. According to the National Press Workers Union (SNTP), between Wednesday, February 12, and Sunday, February 16, a total of 11 journalists were arrested, five were beaten up or wounded by the National Guard, and another five had their materials and equipment as well as their personal belongings confiscated.

The OAS takes pity. The secretary general of the OAS, José Miguel Insulza, condemned the violence observed in Venezuela during last week’s demonstrations and urged the authorities to conduct a *“truthful, objective and transparent investigation to determine who are responsible for the deaths and the injuries inflicted.”* He also said that demonstrations and crimes should not be responded to with violence.

Legislatives Tips

New director: Gustavo Enrique González López has been appointed as the director of SEBIN in the place of Brigadier General Manuel Gregorio Bernal Martínez. The appointment, which occurred after President Nicolás Maduro said publicly that his orders that the military and the police be confined to barracks had been disobeyed, appeared in *Gaceta Oficial* No. 40,357 published on February 18.





ECONOMIC OVERVIEW

