



Weekly Report

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**The Parallel Foreign Exchange Market:
Uncertainty has become the norm**

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"Uncertainty is a daisy whose petals are never fully plucked"
Mario Vargas Llosa

An element that is very unique to Venezuela is its parallel foreign exchange market. It was declared illegal in 2010, and even though the number of exchange operations that are carried out on it has dropped, it still plays a key role in determining prices in Venezuela. These days, everyone is keeping a close eye on and wondering, what is going to happen to the parallel exchange market? This Report will focus on shedding a little light on this subject.

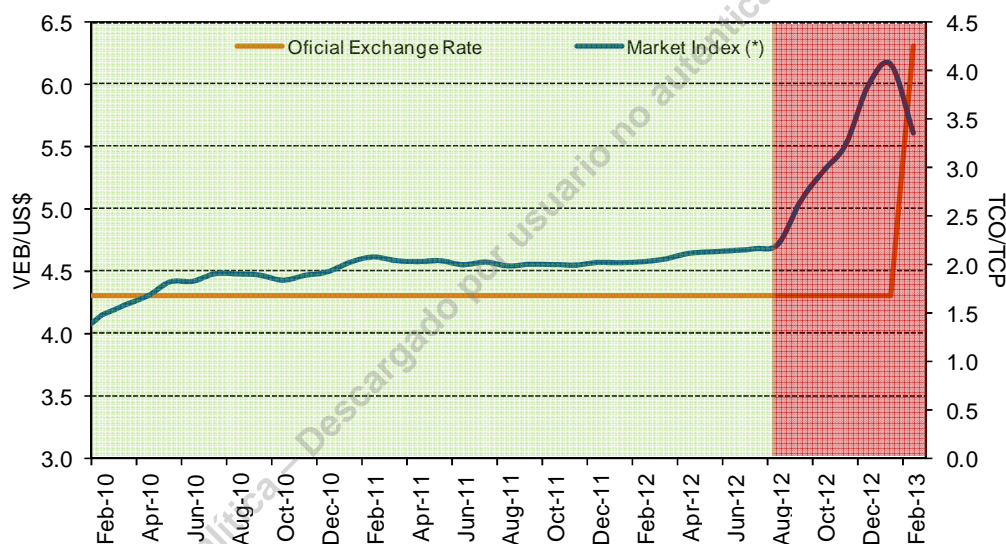
**What has
happened?**

During the course of last year, the unofficial exchange rate depreciated by 90.3%. This depreciation should be analyzed in two periods: from January to August 2012, during which the parallel exchange rate only depreciated 9.4%; and then during the fourth quarter 2012 when the unofficial exchange rate reached 73.9%. What happened? For the first nine months



of 2012, the supply of foreign currency for the public sector was stable and steady. Every week, through a number of mechanisms, between US\$ 90 and US\$ 125 million was being injected into the economy. Plus, through Cadivi and Sitme together, another US\$ 172 million on average was being supplied daily. This amount represents a 10.3% increase compared to the same period in 2011.

Official Exchange Rate vs. Market Index

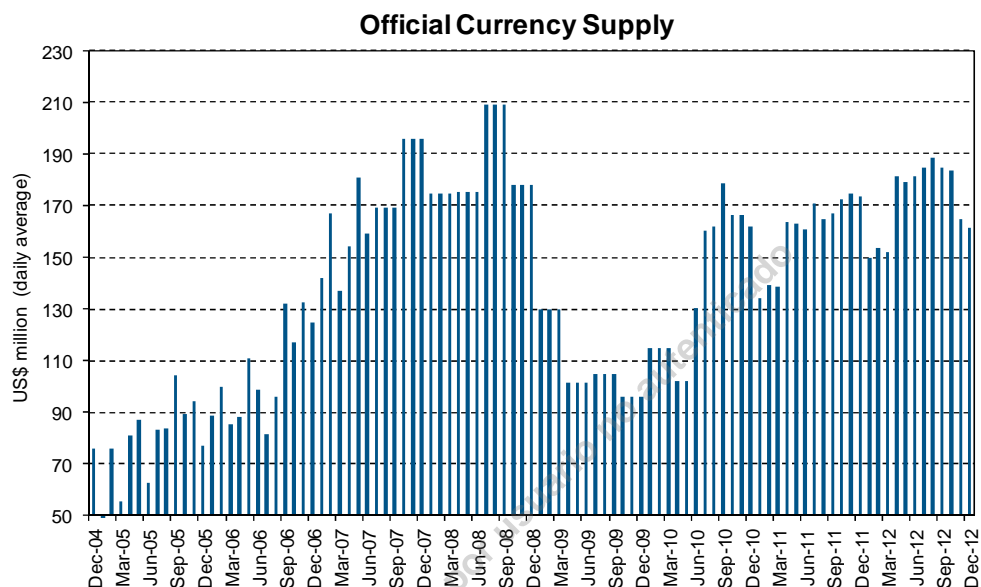


Sources: Ecoanalítica and BCV

*Note: Due to the Exchange Control Violation Law prevents the publication of the value of the parallel exchange rate, in *Ecoanalítica* we have created a market index, consisting of the ratio between the exchange rate in the parallel market (TCP) and the official exchange rate (TCO).

But, starting in September 2012, the situation began to change. On the one hand, the supply of foreign currency from the administration to the unofficial market was for all purposes cut to zero, mainly due to an order issued by the Ministry of Finance to cease this type of operation. On top of this, the official supply of foreign currency via Cadivi and Sitme was cut by 14.5% compared to the same period in 2011 and cut by 6.5% compared to the first nine months of the year. These two factors fueled the increase of the non-official exchange rate.





Sources: Cadivi, BCV and Ecoanalítica

So, with a virtually non-existent supply of foreign currency trickling into the economy, and traditional market operators squeezed, and without much room to maneuver, trying to fix prices in this market environment has become distorted to say the least, and to try to calculate a reference price, or worse, try to estimate how prices will evolve, at this moment, is very difficult.

Two trains of thought...one conflict

When we analyze, just the foreign currency demanded by the Venezuelan A number of elements are embedded in and behind the problems with the foreign exchange market. How foreign currency revenue coming in from oil exports is stagnating is one of them. We have discussed this issue a number of times, along with the problem of how the Administration continues to siphon more and more foreign currency out of Pdvsa to finance projects promoting its political agenda. But the problem goes beyond this. At **Ecoanalítica**, we have also addressed the issue of there being two distinct ideological groups within the *Chavista* administration, a radical wing and a pragmatic one.

The conflict between these two groups is evidenced by the difference in criteria expressed by the Minister of Planning and Finance, Jorge Giordani, and the president of the Central Bank of Venezuela (BCV), Nelson Merentes. The latter defends the proposal that believes that the swap-market should be legalized and controlled by the central bank, allowing the banking sector to freely participate in it. This would alleviate



the pressures that currently exist in the exchange market. According to sources inside the BCV, and thinking along these lines, the unofficial exchange rate could have been set at between VEB 12 and VEB 15/US\$.

In fact, this was the proposal for the devaluation that took place this year turned into the Administration by the BCV. But, Minister Giordani opposed the idea, and furthermore, he imposed his criterion; which is that the foreign exchange should be in the hands of the Executive Office (now in the hands of the Higher Entity for the Use of the Foreign Exchange System). Giordani also managed to do away with Sitme, a system that he had never agreed with or endorsed.

It's time to contain ourselves...

One recurring question these days: Why Minister Giordani is so vehemently opposed to a legal parallel market? In our opinion, the reason is more political than economic. Minister Giordani believes that a legal parallel market would grant more importance to incipient economic groups, many of which are linked with *Chavismo*; besides providing PDVSA with financial independence, something Giordani considers counterproductive. In other words, legalizing the parallel foreign exchange market can be seen as strengthening the most pragmatic and "bourgeois" wing of *Chavismo* and displacing radical *Chavistas*.

In a crucial time for *Chavismo* like the present one, Minister Giordani's main concern is guaranteeing that the *Chavista* economic model, the so-called "21st Century Socialism" remains beyond President Chávez; according to Giordani's logic, allowing pragmatic minds to move forward jeopardizes this goal.

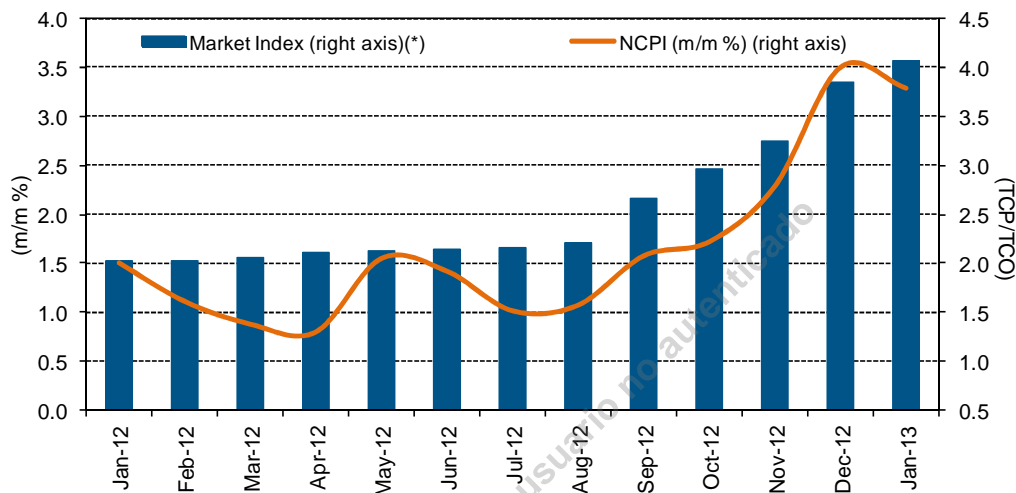
Slow but steady

BCV's president hasn't stopped. The exchange crisis is becoming acute, with direct impacts on shortages and inflation. The former has a relevant impact on how the government's performance is perceived; therefore, with presidential election in the horizon, it's clear that a new mechanism has to be implemented.





NCPI vs. Market Index



Sources: BCV y Ecoanalítica

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The mechanism that the government would be considering is selling foreign currency through titles and other instruments through the Bicentennial Public Stock Exchange (BPVB), using banks to channel operations. Reportedly, some banks are urging their clients to register with the BPVB; therefore this mechanism would be ready in the upcoming weeks.

Not yet...

At **Ecoanalítica**, we believe that while this mechanism would help alleviate exchange pressure, it doesn't constitute a formal legalization of a parallel foreign exchange market. We believe that this mechanism will have some restrictions in terms of access to it, as well as limitations as to amounts to be allocated to individuals and businesses. Furthermore, its price will be cheaper than the parallel exchange rate. This last point will lead demand to become important (over supply) and will give rise to new arbitrage opportunities.

While Minister Giordani continues to play a relevant role as leader of the economic policy, we believe that legalizing a parallel exchange market, with few access restrictions and without significant limitations to purchase or sale foreign currency and with a price that responds to supply and demand, is unlikely.

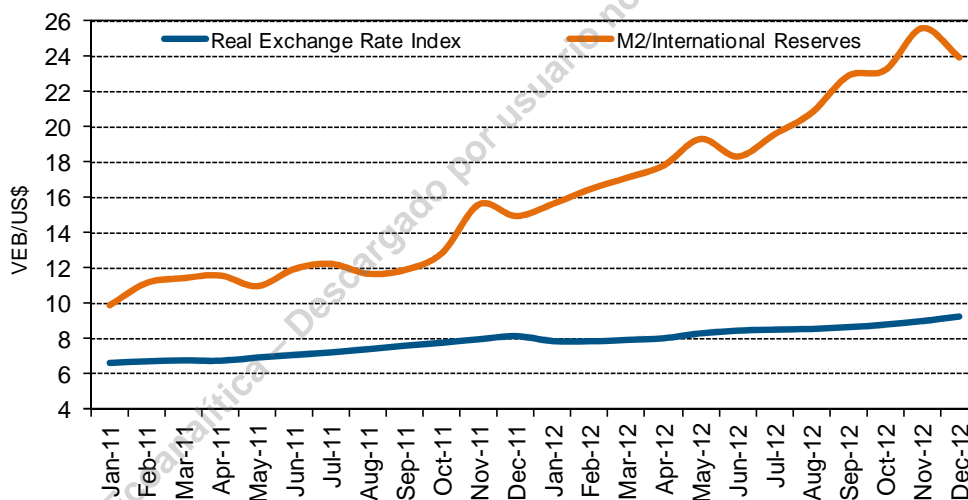




What is going to happen to the parallel exchange rate?

So far in the year, the parallel exchange rate has depreciated 35.6%. It's worth highlighting that the parallel exchange rate, when this market was legal, fluctuated within an upper and a lower limit; that is, the lower limit is defined by the index of the real exchange rate, which is widely known. Its upper limit was the M2 coefficient over the international reserves (IR). More simply put, the most optimistic view with regard to the parallel exchange rate was thinking that it would be close to the real exchange rate and the most pessimistic would be for it to be close to the M2/IR coefficient.

Exchange Rate Indicators



Sources: BCV and Ecoanalítica

The pessimistic view prevails...

For instance, in 2009 (the last year of the legal swap market), the parallel exchange rate averaged VEB 6.0/US\$ and was 23.9% over the real exchange rate and 10.3% below the M2/IR coefficient. In 2010, the average was VEB 7.6/US\$ and was 25.8% over the real exchange rate and 14.6% under M2/IR coefficient. For 2011, the average was VEB 8.7/US\$ and was 20.3% over the real exchange rate and 28.5% under M2/IR coefficient. And in 2012, figures speak for themselves: the average was VEB 10.2/US\$ and it was 49.2% below the M2/IR coefficient and 21.4% over the real exchange rate.

So far in 2013, with a supply that is almost zero, the indicators are as follows: 102.3% over the real exchange rate and 23.4% below the M2/IR coefficient, averaging VEB 19.3/US\$. It's clear that given the lack of transparency and the scarce supply, the unofficial exchange rate has moved toward its upper limit.



The key is in the public sector

Beyond the numbers, what is clear is that as long as the administration doesn't reestablish foreign currency supply toward this market, price won't stabilize and will rather have an upward trend. Additionally, the launching of a new foreign exchange scheme through the BPVB should be expected and, depending on its characteristics, it could be helpful to stabilize this market.

Refrain from purchasing

For the time being, we recommend our clients to purchase foreign currency at these prices that clearly appear to be distorted. For the coverage scheme, we recommend options that call for investments in real assets or, if possible, to accumulate inventories.

A hypothetical exercise

At *Ecoanalítica*, we developed two scenarios for the behavior of the unofficial exchange rate. The first scenario that could be described as optimistic includes a more expedite mechanism for the allocation of foreign currency through Cadivi and the BPVB, in addition to supply on the unofficial market. In this case, the market index averages 2.9 for 2013.

2013 Optimistic Scenario	
Market Index	
Jan-13	2.8
Feb-13	3.3
Mar-13	3.2
Apr-13	2.8
May-13	3.3
Jun-13	2.8
Jul-13	2.6
Aug-13	2.6
Sep-13	2.4
Oct-13	2.8
Nov-13	3.0
Dec-13	3.0

Sources: BCV and Ecoanalítica

In the pessimistic scenario, we consider a restrictive mechanism for the allocation of foreign currency through official channels, besides a scarce supply from the public sector on the parallel market. In this case, the market index averages 3.7 for 2013.





2013 Pesimistic Scenario

Market Index	
Jan-13	2.8
Feb-13	3.3
Mar-13	3.8
Apr-13	3.9
May-13	3.9
Jun-13	3.9
Jul-13	3.8
Aug-13	3.9
Sep-13	3.9
Oct-13	3.9
Nov-13	3.8
Dec-13	3.8

Sources: BCV and Ecoanalítica

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Economic Tips

GDP grew 5.5% 4Q2012. The Central Bank of Venezuela reported that the economy registered growth of 5.5% in 4Q2012, respect the same period 2011, which together with the increase of 5.7% observed during the first nine months of the previous year, resulted in an annual growth of 5.6% in 2012. When evaluating the performance by sector shows that the the oil sector grew 1.1% and non-oil 5.4% in 4Q2012.

GDP for non-oil sectors. The sectors that grew the most were: financial institutions and insurance (33.9%), construction (10.0%), trade and repair services (9.8%), communications (7.2%), electricity and water (6.5%), and transportation (5.4%). During this period the performance of these sectors was driven by the increase in aggregate domestic demand, greater availability of imported inputs, the increase in availability of electricity and the increase of public spending.

Results IVT2012 BP. According to figures released by the Central Bank of Venezuela, the balance of payments recorded a deficit IVT2012 of U\$3.287 million. The results of the balance of payments IVT2012 show a deficit of U.S\$ 598 million in the current account, a surplus of US\$ 4,734 million in capital account and financial and the negative balance of US\$849 million on account of errors and omissions.

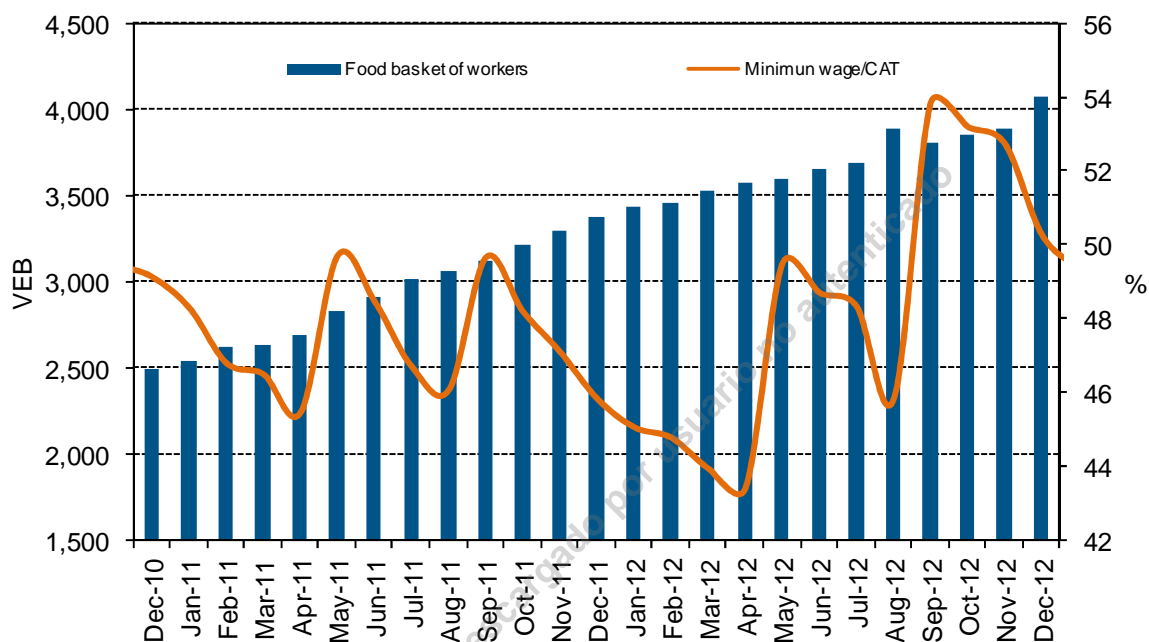
The basic basket reaches VEB 4,151.8. According to the report of Worker's Documentation and Analysis Center (Centro de Documentación y Análisis para los Trabajadores - Cenda), the cost of *Basic Food, Goods and Services Basket* (Canasta Básica de Alimentos- CAT) in January 2013 was VEB 4,151.8, an increase of 1,9% with respect to the prior month, and 20.8% with respect to January, 2012.

Family income only covers 98.6% of the basket. According to Cenda's report, the hypothetical family income of a five members family where two members earn minimum wage (VEB 4.094) has a purchasing power of 98.6%, there is a deficit of 1.4% (VEB 58.1) for the purchase of food. Therefore, a family requires a little more than two (2) minimum wages to cover their basic needs.





Minimum wage / CAT



Sources: Cenda and Ecoanalítica.

More measures are to com, but this time they are “happy.” Vice-President Nicolás Maduro assured that the administration will take over the coming weeks a number of “*economic actions that are going to make the people very happy*” and that would be assessed by President Hugo Chávez. Although Maduro didn’t specify the measures, he hinted that they could include an adjustment of the minimum wage, after remembering that “*the Constitution obliges us to make an annual adjustment of minimum wage, which equals inflation rate, so as to workers’ income can keep up with inflation.*”

Wage increase, now! Marlene Sifontes, member of the Autonomous Front for the Defense of Jobs, Wages and Unions (Fadess), assured that the economic measures announced by the administration, which include a 31.7% devaluation, impact the workers’ purchasing power and quality of living. Sifontes proposed that the minimum wage increase should be in line with the cost of the basic basket, which, according to calculations by Fadess, is at VEB 4,500, or an increase of 119.9%.

A large asymmetry. Finance Minister Jorge Giordani claimed that while the Venezuelan private sector is applying for about US\$30.0 billion, it only exports US\$3.0 billion, which according to Giordani is a large asymmetry and a structural element of the local economy. At **Ecoanalítica** we believe that overvaluation of the



exchange rate is the main culprit of this “asymmetry”, because it discourages domestic production and promotes demand for imported goods.

The Revolution’s goals. According to Minister Giordani, the main goals the government has set for 2013-2019 include production efficiency, rationalization of the use of foreign currency, preservation of social achievements and guaranteeing financial sustainability of the socialist model. At *Ecoanalítica* we believe that his will translate into an environment with few adjustments in terms of spending and significant access restrictions to foreign currency for private agents.

New engines. Giordani pointed out that the country has exhibited significant positive growth rates in 2011 and 2013, something that can be maintained provided the “engines” of the economy are on. Minister Giordani assured that in addition to the construction sector (through the Gran Misión Vivienda Venezuela) and the manufacturing sector (with a weight of almost 15% of GDP), the implemented economic measures (including devaluation) will constitute growth engines in 2013.

No new taxes, for now. The chairman of the Finance Committee of the AN, Ricardo Sanguino, assured that the economic measures to be taken soon will be oriented toward strengthening production activities, above all those with export capacity. Sanguino ruled out the review of VAT and the creation of new taxes such as Bank Debit Tax, although he pointed out that the Minister of Finance is working with the AN on a tax reform.

Autopsy of Sitme. The NA will investigate the assignments made through the defunct Sitme, according to Ricardo Sanguino, President of the Finance Commission, who said that the State assigned US\$26.0 billion through that system “*that were not used for what they were intended*”. The investigation will be to find entrepreneurs benefited with Sitme who used the currency to make “fake imports”, said Sanguino.

There is always another option. The Ministry of Finance may be analyzing the implementation of special contributions to finance some sectors, using a scheme similar to the one that establishes contributions for science, technology and sports based on the income that companies make. This measure will increase income quicker than a tax reform.

From bad to worse. According to a study by the Getulio Vargas Foundation (Brazil), and the University of Munich (Germany), the economic climate indicator for Venezuela was 1.5 points in January, well below the 5.5 points on average of the region. The value for January is a setback, since in the measurement for 3Q2012 the country scored 3.4. Obstacles to obtain currency, price controls, and the risk of



expropriation, are some of the elements that define the business climate in the country.

There are still dollars at VEB 4.3/US\$. BCV published on its website the Cadivi certified list of the Authorizations for Currency Liquidation (Autorizaciones de Liquidaciones de Divisas - ALD) in force until February 8, 2013, when the new exchange rate of VEB 6.3/US\$ entered into force. Exchange rate agreement N°14, establishing the new exchange rate, says that the foreign currency sale operations corresponding to the ALD approved by Cadivi and received by BCV until February 8 2013, will be liquidated at a rate of VEB 4,3/US\$.

International reserves. International reserves fell in 1.9%, going from US\$28.36 billion during the second week of February to US\$27.67 billion during the third week of February. Compared to the same period last year, international reserves have increased by 3.7%.

Monetary liquidity. Monetary liquidity (M2) was increased 0.5% in the third week of February compared to the previous week, settling at VEB 699.87 billion. The M2 has increased 57.4% in relation with the same period last year.

Central government expenditure. On Friday February 22nd according to figures from the National Treasury Office (ONT) primary spending was VEB 6.64 billion, which means a decrease of 17.7% when compared to the previous week when it was VEB 8.07 billion; when compared to the same period last year we observe an increase of 69.9%.

Oil Tips

Imports increasing. According to Petrologistics, Venezuelan oil production averaged 2.78 million barrels per day (mb/d) in January, an interannual drop of 0.8%. Exports averaged 1.67 mb/d, 8.1% more than in January, 2012, while the import of refined oil products averaged 255,000 barrels per day (kb/d) in the first month of the year, 70.4% more compared to January, 2012.

Unfulfilled promises. After the explosion in Amuay on August 25, the promises about the full recovery of the plant for December were not been fulfilled. The distillation unit fails, and the flexicoker was shutdown for corrective maintenance. The



plan indicates that the equipment will start up after March 15. Presently, the complex is operating at 53.4% of its capacity, and 345 kb/d are being processed, according to Minister Ramírez.

Six months later, nothing is known. Monday, February 25 was the six-month anniversary of the Amuay tragedy, and authorities haven't yet presented to the public opinion a conclusive report explaining the technical causes of the accident, the amount of the material losses, and the recommendations to prevent future accidents. Javier Larrañaga, former refining manager of Cardón, presented a preliminary report stating that the most probable cause was lack of maintenance, and ignoring the multiple signals received days before the tragedy.

Lack of investment. For Lindolfo León, President of the Venezuelan Association of Petroleum Engineers, there is no other hypothesis for the explosion in Amuay, except for lack of maintenance and investment, as evidenced by the decline in production. Pdvsa's Report and Balances of 2010, mentions budget cuts as the obstacle preventing the oil company from implementing its investment and maintenance program.

It will take long. The possibilities for the recovery of the Amuay refinery this year seem remote. *"11 tanks were damaged, which must be reconstructed, and that would take at least 6 months if we started today. To this we must add the infrastructure work that must be done, and won't be ready by September of this year"*, said Nelson Hernández, energy consultant. Everything indicates that Venezuela will continue importing fuel during 2013.

Warnings because of spill in Colombia. Given the oil spill announced by Ecopetrol on February 22, which happened in the North Department of Santander, due to a break in the Caño Limón Coveñas pipeline, Pdvsa said that if necessary, it will implement a contingency plan to minimize the environmental impact that the spill may cause. However, the Venezuelan oil company said that *"so far, the Catatumbo River, in Venezuelan territory, has not been affected"*.

International baskets. When market close in New York, WTI traded on last Friday February 22nd at US\$95.3/bl, which a decrease of 1.1% from US\$96.9/bl recorded the previous week. Meanwhile, Brent decreased by 1.6% to reach US\$116.3/bl compared to the previous week when it reached US\$118.3/bl.

Local basket price. On Friday, February 22nd the Venezuelan oil basket price closed at US\$107.1/bl a decrease of 1.5% compared to US\$108.7/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 104.8/bl.



Business Sector Tips

Administration will guarantee foreign currency for health. Jorge Giordani, Minister of Finance, said that the health sector will be a priority in the distribution of currency, in the new exchange rate measures. *"We are now studying the priorities; there's no doubt that first comes health, everything related to health, medications, products, medical equipment"*, said Giordani adding that food comes in second place. He also ratified that they are working with Cadivi so that the flow of currency continues, particularly for these basic needs sectors.

"Serious problems ahead". *According to data from companies in the pharmaceutical sector, on average, the medication shortage is around 40%. Sector reports indicate that at the end of January the shortage was 49%, that is, a company could only supply half the units a distributor requested. So the pharmaceutical sector is choking, and the shortage of medications is beginning to be alarming.*

Not one left outside. The National Superintendence of Costs and Prices (Superintendencia Nacional de Costos and Precios - Sundecop) ratified in a communiqué, that the regulation of medication prices, which is being defined, *"will be applied to all" drugs, "based on the premise that medications are a social product"*. The entity stated that it doesn't have the legal or administrative power to classify these substances, so the regulation will cover them all. In this way, it refuted the thesis that said that some medications would be privileged.

Farmatria will monitor the price of regulated medications. Starting this week, all the country's pharmacies will start recording the price of medications in the Integral Medication Control System (Sistema Integral de Control de Medicamentos). *"Pharmacies will only record the sales price, because the follow-up of the distribution, and the rest of the production and marketing chain is already done through mobilization guides"*, said Fredy Arenas, President of Farmatria.

Price of medications will be reviewed periodically. Karlín Granadillo, National Superintendent of Costs and Prices, said that the price of medications in Venezuela, to be defined very soon, will be reviewed in a timely manner, so as to ensure that they are adapted to the sector's real cost structures. Granadillo tried to calm the sector, which had expressed concerns about the need for the regulation to be updated periodically (which will cover the 9,000 pharmaceutical presentations).



Basic enterprises increase their prices. Government is pressuring private companies to avoid price increases after the devaluation. However, state owned companies are increasing their prices after the exchange rate adjustment. Such is the case of the basic enterprises of Guayana. Since their rates are dollarized, clients must pay 31.7% more for products. Consulted entrepreneurs added that in the case of products paid before the devaluation, but have not been dispatched; they must pay the exchange rate difference.

Available capacity increases. Argenis Chávez, President of the National Electric Power Corporation (Corporación Eléctrica Nacional - Corpoelec), said that gross energy levels increased 4.5% in 2012, while the available capacity increased 9.6% going from 17,028 megawatts (Mw) to 18,664 Mw. He said that the goal for this year *"is for availability to be over 70%"* and ensure a better quality of service; to this end, they will implement an aggressive plan to revamp the units and to have new turbines.

And electric power outages too. In 2012 the electric power system increased its generation capacity, expanded and recovered distribution and transmission networks, and even so, equipment protection systems detected more anomalies than the year before. According to non-official sources, trips in transmission lines increased 2.8%, from 2,567 in 2011 to 2,639 in 2012, with September the month with the most events, 420 compared to 263 during the same month the year before.

Corpoelec collection increased 13.7%. In 2012, the collection of Corpoelec increased 13.7%, going from VEB 5.70 billion to VEB 6.49 billion. *"This is a historical figure, since the average interannual increase was only 3%"*, said Argénis Chávez. He explained that the monthly collection average in 2012 was close to VEB 600 million but for 2013, the expected monthly average is VEB 700 million; he said that to achieve this, they plan to install 300.000 meters this year, and continue with consumption inspections and reviews for large users.

Pdval covers 61% of domestic consumption. Heber Aguilar, Vice-President of the Food Producer and Distributor (Productora and Distribuidora de Alimentos -Pdval), said that it *"dispatches at least 50,000 tons of food per month, 61% of the domestic consumption of basic basket products, covering 17 million people in the country"*. Aguilar said that one of the challenges of the "Misión Alimentación" (which includes the food chains Mercal, Pdval, and Abastos Bicentenario) is the incorporation of new members to the network of food security defenders.

At half speed. Within the framework of the "Alerta Alimentaria" plan, implemented by the National Alliance of Users and Consumers (Alianza Nacional de Usuarios and Consumidores - Anauco), Roberto León Parilli, President of Anauco, said that public manufacturers of pre-cooked corn meal and rice are either producing at 50% of their



capacity or are shut down, due to lack of raw materials and labor issues because of the new Labor Law. He also said that domestic demand is not met in those items in which the State is the producer.

Mortgage rates fall. Mario Isea, President of the “Banco Nacional de la Vivienda y Hábitat” (Banavih), said that rates for loans to acquire housing (presently at 4.7% and 11%) will fall one point, as part of the “Gran Misión Vivienda Venezuela” (GMVV). Ricardo Molina, Minister of Housing, said that interests will also drop for construction credits, and financing granted outside the mandatory portfolio, both for purchases and for the production of housing.

Agroindustria requests an expansion of the currency list. Companies in the agro-food sector that produce regulated basic products warn that the situation is worrisome, because Cadivi’s resolution states that only the currency authorized for liquidation up to October of last year will be recognized, and not the acquisition applications, when there are pending and unpaid request for currency since July, 2012.

Pharmaceutical sector hard hit by the devaluation. In the exchange rate agreement, the government will only recognize the debt assumed by companies until October 15, 2012, at VEB/US\$ 4.30. The Central Bank of Venezuela won’t acknowledge the US\$807 million that correspond to foreign currency applications negotiated before that date, at the previous exchange rate. The losses of the companies will reach VEB 1.60 billion.

World Economy Tips

U.S.: good signs in January. The index of the U.S. economy leading indicators, published by The Conference Board increased 0.2% in January (2.1% a/a), which implies that there have been improvements in the economic activity of that country. A sharp income curve, higher stock market prices, and an improvement in the credit index, are clear evidences that the US financial system and economy are looking better in January.

Q4 will continue on. The U.S. Federal Reserve (FED) will maintain its expansive monetary policy for a long time, despite that the asset purchase program may be increasing the risk of inflation, said James Bullard, President of the FED in St. Louis.



In January, several FED officials hinted at the possibility of having to slowdown or halt the purchase of securities before a reactivation of employment, the main goal of the program.

China: careful with the bubbles. According to the National Office of Statistics of China, real estate prices increased 0.5% in January, the highest increase since January, 2011. In the last decades, China reduced property rights restrictions, encouraging citizens to invest in real estate, but the increase of January can be attributed mostly to a lax monetary policy, and an increase of liquidity, measures adopted by the Government to counteract the slowdown of domestic demand.

Japan approves extra boost. The Japanese parliament approved an extra budget of YEN 13.1 trillion (US\$142.4 billion) for this year, designed by the Government to finance a stimulus package for the economy. This new budget is expected to increase GDP by 2%, and generate around 600,000 new jobs in the Asian country. In order to obtain funds for the additional budget, the Government will have to issue new debt for YEN 7.8 trillion (US\$85.0 billion).

The Eurozone will contract in 2013. According to estimates of the European Commission (EC) the GDP of the 17 Eurozone economies will fall around 0.3% in 2013, slightly more than the estimated drop of 0.1%. The EC considers the limited growth of credit, job cuts, and zero investment as determining factors that have delayed the recovery, and says that the Eurozone's GDP will increase at the expected rate of 1.4% in 2014.

But fiscal consolidation doesn't stop. Despite its continued recession, the EC expects most Eurozone countries to reduce their budget deficits in 2013. According to the European entity, the aggregate budget deficit of the Eurozone's 17 countries would go from 3.5% to 2.8% of GDP. In the region, only Spain, France and Portugal have not met their deficit targets, and are waiting for the EC's decision to grant them an extension.

The United Kingdom lost its high rating. The United Kingdom lost its highest credit rating of AAA for the first time since 1978, after Moody's lowered it to AA1. The Agency expects economic growth in the UK to be slow in the next years, due to the poor forecasts for the global economy and its effect on the British economy. It also said that the forecast is stable, so no further rating drops are expected in the near future.

After the storm... The EC expects Greece to come out of recession in 2014, supported by an increase in competitiveness, the stabilization and restructuring of the banking sector, and a higher foreign demand, so Greece may grow 0.6% next year.



In the meantime, GDP will drop 4.2 % in 2013, and unemployment will reach 27%, with a slow domestic demand.

If Paraguay isn't in, there's no agreement. Claude Robert Ellner, German Ambassador in Paraguay, said that for the UE "*Paraguay is still a full partner of Mercosur*", so the European block will not negotiate any trade agreement with the South American Block without its presence. Paraguay was suspended from Mercosur in June, 2012, when President Fernando Lugo was dismissed by Congress.

Business climate in Latin America improves. According to a study of the Getulio Vargas Foundation and the University of Munich, in January the business climate in Latin America was at its best level of the last 18 months, fostered by expectation of economic improvements in the region. The so-called Latin American Economic Climate Indicator was 5.5 points in January, over the 5.2 points of last October, and the 5.0 points of January, 2012, according to a survey of 38 specialists in 18 countries.

Political Tips

The opposition activates. The "Mesa de la Unidad Democrática" (MUD), held its first public act in Caracas since the electoral campaign ended in October of last year, with the participation of militants of the political parties Copei, AD, Un Nuevo Tiempo, Voluntad Popular, Avanzada Progresista, Alianza Bravo Pueblo and Primero Justicia. The leaders of the different political organizations reiterated the need to strengthen the opposition, with a view to a possible presidential election in the next months.

Fair conditions. A commission formed by nine MUD representatives will request fair electoral conditions to the directors of the National Electoral Council (Consejo Nacional Electoral - CNE), as part of the strategic re-launching of the opposition, which among other things, will try to reinforce the defense of a fair electoral battle. The commission will request a solution for the inequities observed in the 2012 elections, both for the upcoming municipal election, as well as for an eventual presidential election.

Like "The Bachelor". The political parties of the MUD started discussions to appoint the opposition presidential candidate for the possible presidential election. So far, among the options discussed by MUD are: Antonio Ledezma, Ramón Guillermo



Aveledo, Eduardo Fernández, María Corina Machado, Diego Arria, and Henrique Capriles Radonski.

Capriles and that's it. Luis Vicente León, director of Datanálisis, said that the advantage that Henrique Capriles Radonski, governor of Miranda, has over any other opposition leader "is brutal". "Survey results don't even identify a second option. Capriles stands alone as the preference of the opposition. It is natural for the parties to negotiate participation, but with the support that Capriles has, negotiation margins are low", said León.

Like tin soldiers. Ruling party governors met with Nicolás Maduro, Vice-President of the Republic, in support of the economic measures taken recently by the Government. Jorge Luis García Carneiro, governor of Vargas, said that the purpose of the measures is to strengthen the social "misiones" and benefit the people. Regional rulers used the opportunity to deal with political matters, given the upcoming regional elections of July.

Audit of REP postponed. The directors of the CNE decided to postpone the audit of the Permanent Electoral Registry (Registro Electoral Permanente - REP) for March 11, which was planned for February 25. During the audit, political organizations and CNE technicians will analyze the movements of the list of voters during the registration period, which lasted one month. The final REP will be published on April 20, after checking it during the first 15 days of March.

Nominations for the PSUV primaries begin. The United Socialist Party of Venezuela (Partido Socialista Unido de Venezuela - PSUV) started the nomination process of its pre-candidates for the primaries to be held on April 7, and elect the candidates for the municipal elections of July 14. The process started the week of the return of the "leader of the revolution", President Hugo Chávez, and with complaints by the grassroots of the red party, they reserved the appointments for the Metropolitan Mayor's Office of Caracas and the Metropolitan Mayor's Office of Alto Apure.

A party with a solid foundation. Diosdado Cabello, first Vice-President of the PSUV offered a balance of the nomination process that started last Saturday in the country for the internal elections of the PSUV to be held in April. He said that 8,656 assemblies of the Carabobo Battle Units (Unidades de Batalla de Carabobo - UBC) have been transcribed, for a total of 63% in the system, and stated that more than 19,000 individuals have postulated, around 4,000 individuals have registered for posts in mayoralties, and more than 6,000 have postulated for council offices. He added that more than 300,000 people have participated, which he qualified as "extraordinary".



Cabello: let Chávez decide. Diosdado Cabello, Vice-President of Psuv, said that “the PSUV is in no hurry for Chávez to be sworn in”. The NA ratified the permit, and the TSJ ruled that when the supervened circumstance is over, the President can agree with the Tribunal to take his post. Cabello, informed that the Head of State is recovering with no problems, and said that Chávez is informed of what happens in the country, making the pertinent economic and investment decisions.

Legislative Tips

Parliament approves the reform to the law of special contributions. In the extraordinary session of Wednesday, February 20, the National Assembly (NA) approved the reform of the Law of Special Contributions due to Extraordinary and Exorbitant Prices in the International Hydrocarbon Market. The reform contemplates an increase in the lower range of oil prices from US\$70/bl to US\$80/bl, and from there, Pdvsa will destine a percentage of its income to the National Development Fund (Fondo Desarrollo Nacional - Fonden).

Discussion of the vehicle sales law continues. The bill regulating the purchase and sale of vehicles could enter its second discussion in one month, said Elvis Amoroso, President of the Permanent Domestic Policy Commission. He also said that they are studying the possibility of the law being retroactive. “We are proposing (...) to have retroactivity for those who were sold a vehicle with overprice, so they get their money back”.

NA rejects salary increase proposal by the opposition. Ruling party follower at the NA rejected the proposal of opposition representative Alfonso Marquina, to approve a 46.5% increase of salaries and pensions (equivalent to the recent devaluation) and considered it “demagogical”. Marquina’s proposal was to present a bill to increase salaries and pensions by 46.5%, to counteract the recent devaluation of the bolivar, and suggested a first discussion.

Uribana case to be investigated. Andrés Eloy Méndez, President of the Commission on Religious Beliefs and Penitentiary Regime of the National Assembly (NA), informed that this commission will go to Lara to investigate the events of Uribana last January 25. The representative said that the most important this is to have the testimony of the inmate’s relatives. He also said that after the investigation



is over, they will analyze it so that the commission arrives at a conclusion and informs the country.

Consulting Commission installed. Last February 26, a Consulting Commission was installed, by request of Diosdado Cabello, President of Parliament. The purpose of the Commission is to analyze, evaluate, follow-up and care for issues of national and international interest, be informed about the work of the commissions, and the annual legislative agenda, and will be formed by members of the Board of Directors, and the presidents or vice-presidents of the Permanent Commissions.

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