



Weekly Report

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Foreign Exchange Regime and Foreign Exchange Crimes Act: is the swap market back?

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At a time of political uncertainty and social tension, the President of the Republic, Nicolás Maduro, has passed a new Foreign Exchange Regime and Foreign Exchange Crimes Act, an essential step for opening a legal foreign currency operations market. This measure, proposed nearly a year ago by the pragmatic wing of the government, was delayed first of all by last December's elections and later due to the existence of at least two other options for dealing with the foreign exchange issue and to the climate of ungovernability that has made the government hesitate to implement unpopular adjustments to the economy.

This is the second Foreign Exchange Crimes Act that has been passed in less than three months and, while at first glance it would seem to retain all the rigidity of its predecessor and leave everything having to do with new mechanisms to agreements between the Finance Ministry and the Central Bank (BCV), in theory, its approval means the opening of a new market and, therefore, another devaluation of the bolivar, with the fiscal relief for



the State –and above all for PDVSA- that a measure of this type usually implies.

A small change in the law, a huge change for the foreign exchange market

The first important change introduced by the new law has to do with the explicit distinction between priority and non-priority goods and services and with the existence of a mechanism for allocating foreign currency exclusively for the former. According to the new law, “foreign currency allocated to cover the expenses necessary for the acquisition of goods and services declared to be essential, consisting of medicines, food, housing, and education, shall be allocated and specifically channeled by Cencoex” (Article 6).

It is worth noting that the possibility exists that the items mentioned above will not be the only ones to receive the classification of priority items, as the Vice Presidency for the Economy will have the power to “establish priorities” for the purpose of allocating foreign currency, and, as has been the custom in recent years, a high level of discretion in taking these decisions will continue to prevail. At *Ecoanalítica* we estimate that around 55.0% of private imports will be covered via direct allocations by Cencoex (for the most part at the current exchange rate of VEB 6.3/US\$), mainly those in priority sectors: food, medicines, personal care products, and machinery and equipment.

The second important change has to do with allowing private individuals and companies to acquire foreign currency –via mechanisms that already exist or that are to be created- that will be offered initially by PDVSA, the Central Bank, and even other private agents. This not only implies depenalizing foreign currency operations between private agents –which will be regulated by norms to be published in the next foreign exchange agreement-, but also that, since under the new law, PDVSA is allowed to offer foreign currency at an exchange rate that will probably be much higher than VEB 6.3/US\$, this will improve the oil company’s cash flow in foreign currency (given that it will have to sell fewer dollars to obtain the bolivars it needs), making the monetary financing of its expenditures in local currency unnecessary, the main cause of the expansion in money supply in the past three years.

Will the Central Bank continue to monetize the deficit?

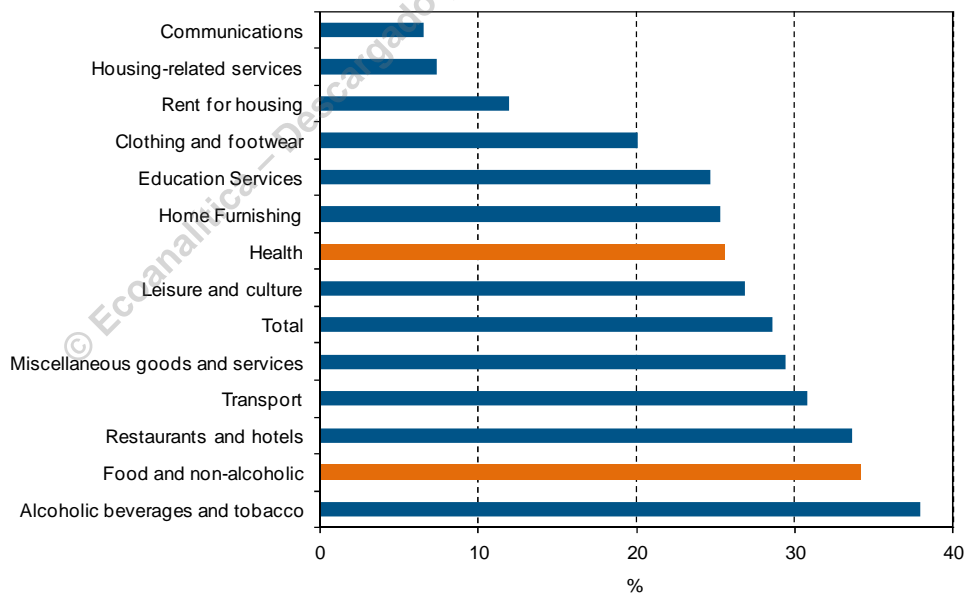
The effect that PDVSA’s participation in the new SICAD II will have on the financing of the company will depend on the new market’s exchange rate. With a rate of between VEB 25.0/US\$ and VEB 50.0/US\$, PDVSA could obtain between VEB 25.0 billion and VEB 50.0 billion for every US\$ 1.0



billion sold, which would be equivalent to between 10.3% and 20.6% of the amount financed by the Central Bank in 2013.

A last aspect, which, while it seems new, had already been included in the December 2013 Foreign Exchange Crimes Act, has to do with the obligation of those who market products acquired with foreign currency at VEB 6.3/US\$, to inform the public which products were purchased with preferential dollars. This measure, along with the monetary and penal sanctions, are aimed at ensuring that the allocation of foreign currency at the VEB 6.3/US\$ rate is more effective at anchoring “basic” products such as food and medicines, which have experienced inflation averaging 31.4% and 25.4% in the past five years, while preventing companies that obtain foreign currency through Cencorex from taking advantage of arbitrage opportunities.

Average Inflation 2009-2013



Sources: BCV and Ecoanalítica

Is what has been omitted no longer forbidden?

Just as there are fresh articles in the new law, there are others that have disappeared with the repeal of the old one, which could permit the emergence of a more transparent market and also encourage foreign agents to invest their foreign currency in Venezuela.

The first aspect has to do with the disappearance of Article 17 of the repealed Foreign Currency Crimes Act, which established that anyone who disclosed “financial or stock exchange information regarding the



prices of foreign currencies other than the official price” by any physical or electronic means would be sanctioned with fines of up to 1,000 tax units. The disappearance of this article means that it will be possible to publicly announce the SICAD II exchange rate and the exchange rate resulting from any other mechanism, including the parallel market, which is a positive sign that perhaps the government hopes to reduce the gap between the parallel market rate and the official rate, a result it would be happy to announce.

The second has to do with the omission of Article 19 of the old law, which stated that anyone who was to “publicly or privately offer the purchase, sale or leasing of goods and services in foreign currency in the country” could be sanctioned with a fine equivalent to twice the sum of the offer made, which would permit the sale of non-tradable goods between national and foreign agents.

And now, what is considered a foreign exchange crime

The new law outlines the types of activities that are considered foreign exchange crimes under this new legal system, one being the acquisition of foreign currency by deceitful means, alleging false claims or some other fraudulent means, which carries a prison sentence of three to seven years. Another is the use of foreign currency for purposes other than those stated on the application submitted to Cencoex. Anyone who commits this offense will be sanctioned with a prison sentence of two to six years and a fine in bolivars that is twice the amount of the foreign current applied for.

The law also provides that companies and private individuals who obtain foreign currency by breaking any of the rules governing the allocation of foreign currency will receive a prison sentence of between two and five years. Lastly, the use of electronic means or knowledge of banking and finance to obtain foreign currency illegally to be an offense, as is the use of their public office by government officials to acquire foreign currency. So, while the government is trying to control corruption and the misappropriation of the foreign currency quotas for travelers, this does not attack the root cause of the problem and incentives generated by the way the current foreign exchange policy is designed.

What do we know so far?

So far SICAD II, which is to be created once the new law has been enacted, will apparently have more agents offering foreign currency than Cencoex and, while both the Vice President of the Economy, Rafael Ramírez and the new law state that “all sectors and even private individuals” –including companies that acquire foreign currency through Cencoex at VEB 6.3/US\$- will be able to participate as buyers, we will

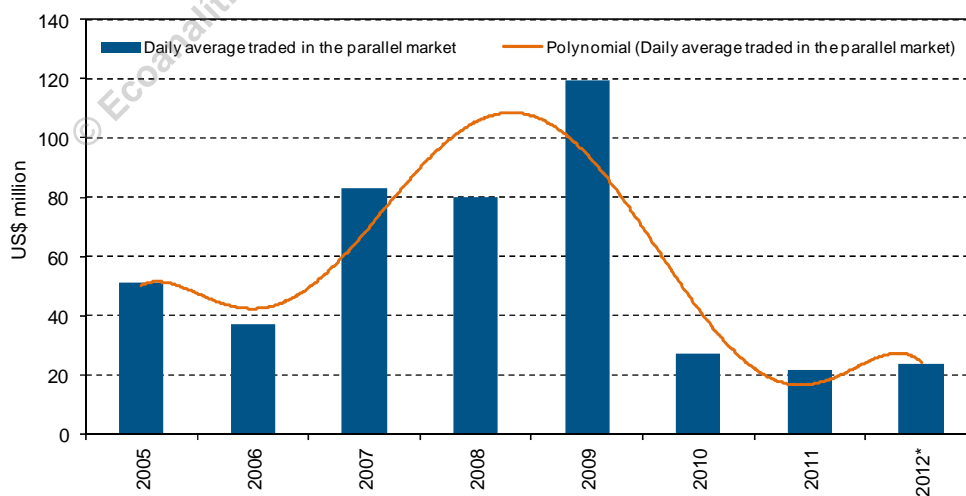


have to wait for the corresponding foreign exchange agreement that makes this system official to learn what the conditions and requirements are.

Ramírez also gave assurances that the new mechanism will disburse foreign currency on a daily basis, saying that the volume traded will depend on “the needs of the market itself,” implying that they had prior experience (swap market) to enable them to estimate the volume of the demand.

At **Ecoanalítica** we estimate that as much as US\$ 55.5 million a day were traded on the swap market, with a maximum of US\$ 119.6 million a day during 2009 and a minimum of US\$ 21.8 million a day during 2011, which gives us an idea of what Vice President Ramírez could be talking about. However, the accelerated growth of liquidity and the higher rates of inflation posted in recent years, together with the decline in expectations, could raise the demand for coverage much more. Based on the foregoing, we expect that the new foreign exchange agreement, yet to be published, will establish some kind of daily ceiling on the amount that can be acquired via this new mechanism.

Daily average traded in the parallel market



Sources: Ecoanalítica

As for the exchange rate, this will be a dirty float as the Central Bank will intervene by making placements. At **Ecoanalítica** we consider that any major restrictions on the maximum bids of buyers and on the exchange



rate could reduce the effectiveness of SICAD II in closing the gap between the exchange rate on the parallel market and the official exchange rate.

A “black” market or a “grey” market

One important aspect of this new law is contained in Article 9, according to which “*private individuals or companies requiring foreign currency may acquire it by means of transactions in foreign currency offered by private individuals and companies in the private sector, PDVSA, and the Central Bank.*” This means that operations between private agents has been depenalized and that companies will now be able to start conducting coverage operations, something that seemed a remote possibility until last week.

As for the impact on the black market, once again this will depend on the restrictions and on the intervention in the market, particularly in the exchange rate. If SICAD II ends up with a cheap exchange rate, and demand continues to be very high, the economy will then have four exchange rates, the last being what the government has dubbed the “phantom” exchange rate that increasingly plagues our economy.

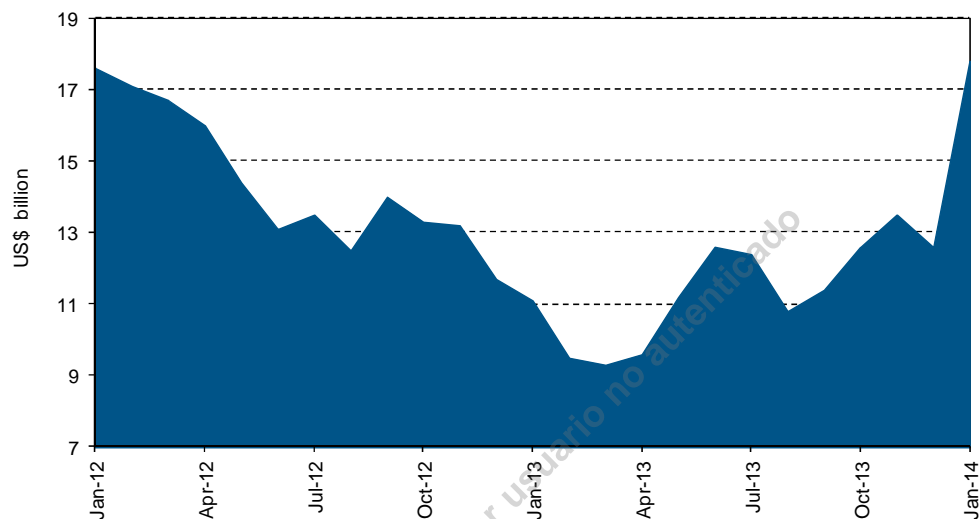
But do we have the wherewithal?

Even though CADIVI has not published the foreign currency disbursement figures for 2013, information that **Ecoanalítica** has managed to gather indicates that disbursements by the agency have fallen off considerably since November. Moreover, so far this year only four SICAD auctions have been held, which could indicate that there has been a buildup in foreign currency that has not been disbursed to the private sector in recent months.

So, is there any foreign currency? We definitely do not have the foreign currency we had in 2011 and which the authorities had available to defray the expenses of the elections in 2012. However, after observing the downward trend in extra budgetary resources in 2013, as at January this year, State resources in parallel funds in dollars came to US\$17.8 billion, for a drop of 60.4% year-on-year.



Extrabudgetary Resources in Currencies



Source: Ecoanalítica

We can also see that Venezuela's oil production closed last year at 2.75 mb/d, of which 1.83 mb/d were exported. It is also worth noting that, at the end of last year, oil imports had fallen by 26.6% (yoy) to close at 181.7 kb/d in December 2013, with a considerable impact on the foreign currency intended for oil purchases abroad. This definitely indicates that the government has been increasing its stock of dollars for this new market.

In conclusion

At **Ecoanalítica** we consider that the opening of SICAD II will have an impact on the foreign exchange market, but to what extent will depend on what is published in the latest foreign exchange agreement, as the law published in *Gaceta Oficial* is somewhat vague. One particular point we expect to be clarified is the mechanism for establishing the exchange rate on the parallel market, first of all because the law restricts the actors who can take part and secondly because the government could intervene to set the exchange rate. With regard to the relief for the fiscal accounts and the improvement in the flow of bolivars for PDVSA that the new market could bring about, that will be determined by the quantity of dollars PDVSA is able to offer.

Once again, there are a large number of "depends on" surrounding the appearance of this new mechanism that will mean yet another devaluation. However, with this new law, the government is starting to return to policies



that had been shelved owing to their high political cost but that need to be implemented in order to reduce the distortions in the economy.



Economic Tips

US\$623.06 billion invested in the people: The Vice President of the Republic, Jorge Arreaza, stressed that, since 1999, social investment has been the Executive's strong point and emphasized that US\$623.06 billion (64.1%) of the US\$972.57 billion that have entered the nation over the past 14 years have been allocated to the social policies implemented by the State. Arreaza claimed that, in 2013, the biggest social investment was made through "Street Government," with US\$25 billion being invested in projects.

SICAD allocated US\$219 million. According to information published by Cencorex, US\$219 million was awarded at the last auction to a total of 1,116 companies. The sectors that were allowed to take part were textiles (inputs), confection and footwear (goods not produced in the country), which together received a total of US\$116 million, and household appliances and electronic equipment and computer equipment, which obtained a total of US\$62 million and US\$40 million, respectively.

Devaluation of 4.4% in five auctions: The monetary and financial authorities implemented another adjustment to the SICAD exchange rate at the last auction. Information supplied by the Central Bank shows that the SICAD exchange rate went from VEB 11.7/US\$ to VEB 11.8/US\$, for an increase of 4.4% resulting from the auctions held by the Central Bank and Cencorex so far this year compared to the initial rate of VEB 11.3/US\$.

In this situation, it's impossible to replenish stocks. The auctions held by Cencorex have not managed to show that they are viable option for replenishing inventories in the different sectors of the economy. As a result, representatives of the sectors hardest hit by the shortage of foreign currency have expressed their concern, since the sporadic holding of the auctions and the low amounts offered prevents them from fully replenishing their inventories. On this matter, Fedecámaras warned that submitting bids for the SICAD auctions only through state-owned banks –as happened at the last one- is yet another hurdle that has to be overcome in order to obtain the foreign currency that is needed to revitalize the domestic productive apparatus and makes the inventory situation worse.

Eljuri admits to problems of productivity. The president of the National Statistics Institute, Elías Eljuri, admitted that there are shortcomings in Venezuela's productive apparatus that are putting the sustainability of the government's policies for reducing poverty at risk. *"The problem isn't that everyone is entitled to an old-age pension; the*



problem is that the State has to improve productivity, both in the oil companies and in the rest of the country's companies. We can't continue in a situation like the one that's happening in Guayana, where they're not performing as they should," emphasized Eljuri.

Problems that have consequences beyond our borders: Venezuelans are not the only ones affected by the serious situation currently facing the country. Our internal problems have had consequences for our Colombian neighbors: transport companies have incurred losses amounting to US\$4.8 million and nearly US\$1 million has been frozen in remittances and price increases of basic products. The main cause of all these problems has been the blocking of bridges between the two countries for several days.

The tax unit has gone up as well. The National Assembly's Finance Committee approved an increase in the tax unit from VEB 107 to VEB 127, which will put up the cost of transactions with the government and fines, as well as the minimum value of employee food vouchers. The value of food vouchers is established in the Workers' Food Act, which sets it at between 25.0% and 50.0% of the current tax unit.

Impact of the increase in the tax unit: The increase in the tax unit will have other consequences for the Venezuelan economy, such as the increase in gross income that companies will have to earn in 2014 before they become liable to special contributions under the Science, Technology and Innovation Act (new floor of VEB 12.7 million) and the Sports, Physical Activity and Physical Education Act (new floor of VEB 2.5 million).

Interest rates. The lending rate for the third week of February was at 16.9%, up by 0.2 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, stable in comparison to the previous week, while the passive rate, placed at 14.7%, up by 0,1pp compared to second week of February.

International reserves. International reserves increased by 2.2%, going from US\$20.56 billion during second week of February to US\$21.00 billion during the third week of February. Compared to the same period last year, international reserves have decreased by 22.6%.

Central government expenditure. On Friday February 21th according to figures from the NTO primary spending was VEB 18.12 billion, which means an increase of 172.8%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 87.60 billion 36.6% more than the same period last year



Monetary liquidity. Money liquidity (M2) increased 1.0% in the second week of February from the week prior, to settle at VEB 1.27 trillion. The M2 has increased 82.1% in relation with the same period last year.

Oil Tips

Gasoline subsidy has its days numbered. President Nicolás Maduro said that they are planning to sell gasoline at a “*fair price*,” explaining that a percentage of the additional revenues obtained from putting up the price of gasoline should be allocated to the Federal Council of Government. At **Ecoanalítica** we estimate that, if the price of gasoline (which is of VEB 0.01/lit) is not adjusted the subsidy for this fuel and oil derivatives will come to US\$26.0 billion this year.

Sanctioned for being anti-democratic? The Republican Congresswoman Ileana Ros-Lehtinen sent a letter to the secretary of the US Department of State requesting that crude purchases from Venezuela be cut by at least 10% in view of the fact that the action taken by the Venezuelan regime violates the democratic order. Ros-Lehtinen stated that the United States should not help to maintain a regime that undermines its national security and violates human rights.

Preventive measures: Minister for Oil and Mining Rafael Ramírez said that PDVSA will be forced to suspend the supply of fuel to “*zones under fascist protection*” for the security of those cities. Ramírez claimed that he had information that demonstrators planned to attack gasoline stations and also vehicles transporting fuel, although he did not clarify in which “zones” the measure would be implemented.

We’re covered. PDVSA Assistant Director Adolfo Molero announced that existing inventories are sufficient to guarantee the supply of fuel throughout the country. Molero said that the long queues at some service stations are a result of there not being access to others because demonstrators are blocking traffic. He also gave assurances that the refineries are working normally “*for the country and to export*.”

PDVSA is looking for other solutions. The president of PDVSA, Rafael Ramírez, gave assurances that they are looking for alternative mechanisms for distributing propane gas in Mérida and Táchira in view of the fact that supplies have been affected by the recent demonstrations. He stressed that, while there is a need to stop



the supply because of fears that the trucks transporting cylinders might be set on fire, the intention is to manage to supply the towns, not to punish the population.

Russia will get us producing. According to Venezuela's ambassador in Russia, Juan Vicente Paredes Torrealba, Russian technology could double or triple oil production in Venezuela. Paredes stressed the importance of the Russian oil company Rosneft for Venezuela's energy development and the exchange agreements in education, culture, infrastructure, and sports. In 2013, Venezuela's oil production came to 2.76 mb/d, down 1.6% from 2012.

Passing through Cuba, compulsory: The president of PDVSA, Rafael Ramírez, said that oil shipments to Cuba come to 70 kb/d. He also explained that they are processing 30 kb/d at Cienfuegos Refinery, from which the demand from other countries in the Caribbean is being met. Last of all he commented that PDVSA meets 49.0% of the Caribbean countries' demand for crude.

Seeking financing: PDVSA and the Anglo-French oil company Perenco are negotiating financing of US\$600 million for increasing production at Petrowarao, which according to Perenco, should be producing 4.5 kb/d, in order to step up pumping at its joint venture on the Eastern Coast of Lake Maracaibo. PDVSA's president, Rafael Ramírez, stressed that he also hopes to confirm US\$300 million in financing from the Venezuelan company Suelopetrol to increase pumping at its joint venture on the Eastern Coast of Lake Maracaibo.

PDVSA aims to innovate. According to PDVSA, it has reached an agreement with an Indian company for the construction of a stripper in the Orinoco Oil Belt at a cost of US\$400 million. The installation of this stripper, the first of its kind in the Orinoco Oil Belt, will make it possible to return the naphtha used to transport extra heavy crude from the oil field to the upgrader to be reused.

Eastern Refinery with the "knee on the ground". According to Pdvsa Eastern Refinery General Manager, Fernando Padrón, Pdvsa's subsidiary has a gasoline stock of 270 kb in different areas of de Puerto La Cruz refinery. He also established that oil production in this area is about 179.5 kb/d used for gasoline, diesel and jet oil production to be distributed to the eastern states. Finally, he affirmed that Easter Refinery is ready to defend itself from destabilizing attempts organized by the protesters.

New collective employment contract: President Nicolás Maduro signed the collective employment contract for PDVSA's workers that will benefit more than 53,000 workers in the oil and gas sector. The benefits include a 35.0% increase in



the electronic food card, the granting of an initial loan of VEB 400,000 for buying a home, and an increase in the marriage bonus to VEB 10,000.

International oil baskets. At closing time on February 21th in the New York Stock Exchange, the price of the WTI was US\$101.9/bl, increasing by 1.7% when compared to the reported the previous week. The Brent increased by 1.0% when compared to the previous week, to reach US\$109.9/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$98.6/bl on Friday February 21th, a 0.9% increase compared to the US\$97.8/bl of the previous week. The annual average price of the Venezuelan oil basket is US\$96.4/bl.

Business Sector Tips

Shopping malls in jeopardy: The Venezuelan Shopping Mall Chamber (Cavececo) has warned that 589,000 jobs in the sector are at risk and that stores could shut temporarily or close their doors permanently due to the fact that the latest regulations brought in by the Executive and the situation with regard to the allocation of foreign currency are making providing the service unsustainable. The chamber has also insisted that it needs to be included in the working groups where the final version of the regulations is to be drawn up with a view to trying to solve the problem.

Part-time. The president of the Cavececo, Alfredo Cohén, said that from February 23rd to March 5th, shopping malls will be open from 12 to 6 in the afternoon, as a response to President Maduro announcing this days as non-workable. This way, the 165 thousand members of Cavececo may rest their operational capacity and maintenance problems that have been affecting the sector since regulations were decreed by the Executive Power.

Insufficient incentives: Minister for Industries Wilmer Barrientos announced that VEB 253 million were authorized to boost production in the plastics sector by restarting equipment and processes. The plastics industry has been facing serious restrictions on production owing to delays in the allocation of the foreign currency it needs to purchase raw materials and equipment. This is the minimum required for there to be an increase in production in the sector, bearing in mind that the sector owes its suppliers more than US\$400 million.



Profits for the Transport Ministry: The Minister for Aquatic and Air Transport, Hebert García, announced that the companies attached to his ministry reported profits of VEB 1.1 billion in 2013, which will be used to finance the Executive's extraordinary operations. García estimated that this year profits generated by these companies will be in the region of VEB 2.7 billion, an increase of 145.0% compared to last year, which would be explained by the changeover from the CADIVI exchange rate to the SICAD rate.

A pittance for the automotive sector: This year the Executive plans to grant foreign currency for the assembly of 68,000 automobiles. According to the Venezuelan Automotive Chamber (Cavenez), this represents only 27.2% of the country's installed capacity, estimated at 250,000 units. However, the assembly of those units will depend on whether the assemblers are able to pay what they owe their parent companies, a debt that amounts to nearly US\$2 billion.

The State as a producer: This month 374 tons of vehicle assembly materials from the United Arab Emirates arrived at Puerto Cabello. This shipment is intended to supply the state-owned Venirauto with raw materials and to help the "re-launching" of the state-owned assembler and keep it operating. Minister for Industries Wilmer Barrientos commented that Venezuela is to sign more contracts with Iran, provided they are beneficial for the industry and for both nations.

Shortages will get worse. The companies that manufacture, process and import mass consumer products such as food, cleaning products, spares, containers and packaging are concerned at the drop in inventories of raw materials needed to produce these items. They forecast that shortages will become more acute in March, given the absence of a program for handing over foreign currency (needed to pay international suppliers) and the lack of an adjustment in the prices of controlled products, some of which have remained unchanged for two years.

Another shutdown: The slab and billet mills at Siderúrgica del Orinoco Alfredo Maneiro (SIDOR) reported another production shutdown due to the lack of lime. Workers claim that the lime that is being delivered to SIDOR is crude and insufficient and they also denounced operational problems owing to the lack of spare parts, security implements, timely payment of suppliers, and planning by the company's management.

Carnival with shortages: Fedecámaras leaders fear that the authorities' decision to grant more days off will not help to solve the present problems of shortages in supply. According to Fedecámaras, adding February 27 and 28 to the days off for Carnival brings the number of non-working days to six, which will make it difficult to keep the shelves filled. Fedecámaras' board of directors called on the authorities to think



carefully about the measure, saying “a country doesn’t progress with days off.” They consider that the political decisions taken by the government will not help the shortfalls in the supplies of products that are affecting the Venezuelan population.

World Economy Tips

A marginal increase in prices: Consumer prices in the United States went up in January owing to the unusually cold weather, which increased the demand for electricity and heating fuel, although inflationary pressures were contained. The CPI rose by 0.1% in January compared to the previous month and by 1.6% compared to January 2012. The Department of Labor explained that the prices of energy were the ones to post the biggest increase, going up by 0.6%.

The Fed will continue to taper aid. The members of the US Federal Reserve agreed to continue tapering support of the US economy, according to the minutes of the last meeting of the Federal Open Market Policy Committee (FOMC). If the world economy continues to perform as expected, further reductions will be adopted at a moderate pace, according to the FOMC.

Bullard’s in no doubt. The chairman of San Luis Fed, James Bullard, explained that the US economy is gaining enough impetus to allow the agency in charge of monetary policy to start to increase interest rates at the end of 2014 or in the first months of 2015. “*It should be a good year for the United States. There’s no reason for it not to be, even if some data were weak between December, January and February,*” added Bullard.

One step at a time. Boston’s Federal Reserve president, Eric Rosengren, suggest that the high number of part-time workers who would rather work full-time, the high unemployment rate, and the very low inflation indicates that the labor markets are having a very slow response, so he called for a “*very patient approach to removing monetary policy accommodation*”.

Congratulations. The President of the Spanish Government, Mariano Rajoy, announced higher growth for the economy in 2014 and 2015 as well as a hefty reduction in social security contributions for new hires, a positive measure for addressing Spain’s high unemployment. “*What I can tell you right now is that GDP will be revised upward (...). The forecast is that we’ll achieve growth of 1.0% in 2014*



and 1.5% in 2015,” said Rajoy, adding optimistically that “Spain was a burden for Europe, and now she is perceived as being part of the engine.”

Problems increase and goals are trimmed. Brazil brought its primary budget surplus goal for 2014 down to 1.9% of GDP from 2.3% last year. President Dilma Rousseff’s government took this measure to convince markets that Brazil will be able to meet the fiscal savings goals, to which end US\$18.44 billion of the public spending budget will be frozen. In this way, Rousseff could recover market confidence and attract new foreign investors to boost the economy.

Rousseff negotiates EU-MERCOSUR agreement. The Brazilian President Dilma Rousseff met with top euro zone authorities to discuss a trade agreement between the European Union and MERCOSUR. Rousseff took the opportunity to inform the euro zone authorities of the domestic problems facing her country, which is to host the 2014 FIFA World Cup in July and the next Olympic Games in 2016, commitments that are a source of considerable concern for the Brazilian President given the many economic difficulties facing her government.

Expectations low: A weekly opinion poll conducted by the Central Bank of Brazil revealed that forecasts for Brazil’s economic growth this year had been revised downward from 1.79% last week to 1.67%. In line with this downward revision, growth projections for 2015 were also down, going from 2.1% to 2.0%. Analysts at the Central Bank of Brazil have estimated that the Broad Consumer Price Index (BCPI) will be 6.0% in 2014 and 5.7% in 2015.

Resignation over disagreement: Peru’s Economic Minister, Cesar Villanueva, told a government source that he had decided to resign. This happened following the resignation of the prime minister over discrepancies in the cabinet regarding how much the increase in the minimum wage could be.

Gradual opening up of the economy: The Cuban Government has continued to reduce the number of public sector jobs and to transfer workers to the private sector, according to a report by the state-sponsored Workers’ Union published recently. This is in line with the plans started in 2011 to “modernize” the economy, make it more efficient, and improve the wages and jobs of employees of the State.



Political Tips

National Conference... ¿for peace? President Nicolas Maduro take the lead of the "National Peace Conference" on the government palace in order to establish a dialogue to find a peace scenario in the country. The Conference was attended by political, economic, and media figures of Venezuela, like Jorge Roig, Lorenzo Mendoza, Diosdado Cabello, Ernesto Villegas, Jorge Rodriguez, Winston Vallenlilla, among others. The opposition leaders were the notable absentees in such conference.

"I'm sure we'll tame them." According to the President of the Republic, Nicolás Maduro, the wave of demonstrations in Venezuela that started two weeks ago is running out of steam. According to Maduro, this week demonstrations are continuing in only six of the 18 municipality where they started. *"The time will come when there'll be none (...)* Rest assured that we'll tame them," he added. He also called on people to put a stop to the "guarimbas" (safe haven used by demonstrators before returning to the fray) and asked opposition leaders to assume responsibility for them.

Goodbye protest, hallo party time. After two weeks of demonstrations that resulted in eight dead and more than 137 injured, President Nicolás Maduro said that there will be *"carnival, partying, happiness and joy"* in the country the first week and claimed that the demonstrations by the opposition want to deprive the country of its Carnival celebrations. *"We're going to defend Carnival as a right to peace, as a cultural right of our country. No one can come and decree that there's no Carnival,"* added Maduro.

Dignified dialog: President Nicolás Maduro urged his US counterpart Barack Obama to engage in a "dignified dialog" to iron out differences between the two countries. *"I propose a great dialog, that we appoint ambassadors, even if they haven't yet been accepted, to sit down and talk,"* added Maduro, while recalling that several US agencies *"have given the overthrow of the government (that he presides) the green light."*

First you should talk with your people. US Government spokesman Jay Carney said that President Nicolás Maduro *"should rather focus on a dialog with Venezuelans."* He said this in response to the call to dialog of the two governments issued some days ago by the Venezuelan President. Carney reiterated that, as President Barack Obama had said, instead of launching *"false accusations against*



the United States,” the Maduro administration “should focus on addressing the legitimate grievances of the Venezuelan people.”

We have an ambassador. Foreign Affairs Minister Elías Jaua has announced that the Venezuelan Government is to propose Maximilian Arveláez as its new ambassador to the United States. The announcement was made shortly after the United States announced the expulsion of three Venezuelan diplomats in response to the same measure taken by the Venezuelan Government against three US diplomats last week. Jaua maintained that *“the interference of the US Government in Venezuela’s internal affairs is a well-known fact,”* but trusted that the White House would “rectify” its attitude in order to resume bilateral relations.

Media without freedom: The president of the National Journalists’ Association (CNP), Tinedo Guía, denounced that State agencies have been pressuring the media in recent weeks *“to not perform their functions of informing.”* Guía also deplored that, according to him, there has been a *“wave of self-censorship as a result of which the media, particularly radio and television, have left the Venezuelan people misinformed about incidents that have happened in a number of towns and cities, where people have been killed, injured, and arrested.”*

Rectify, or else... President Nicolás Maduro accused the international television network CNN of “warmongering” programming and wanting to *“show the world that there’s a civil war in Venezuela,”* which is why he ordered Communications and Information Minister Delcy Rodríguez to start administrative proceedings to take CNN off the cable television grid *“if they don’t rectify.”* *“Enough of war propaganda. I won’t admit war propaganda against Venezuela. If they don’t rectify, CNN can get out of Venezuela. Out!”* added Maduro.

Excessive use of force: Táchira State Governor José Vielma Mora admitted that excesses have been committed in repressing the demonstrations and also in allowing military aircraft to fly over civilian populations in his state, which is why he requested that the chief of the Strategic Comprehensive Development Region (REDI) in Táchira be replaced. Vielma also said that he did not agree with keeping Iván Simonovis, Leopoldo López, and people who’d been arrested for political reasons in prison.

Capriles: **“Miraflores is not a scenario for calling for peace.”** Miranda State Governor Henrique Capriles justified his absence from the meeting of the Federal Council of Government claiming that this would endorse the actions taken by the President of the Republic following the stepping up of repression and violence by State security forces. *“That’s what they want, for me to go and shake hands as though the situation in the country were completely normal, as though nothing was happening,”* added Capriles.



Legislative Tips

New governor to the IMF: By means of a decree published in *Gaceta Oficial* No. 40,359, Nelson Merentes was appointed as the new governor to the IMF. On January 15, President Nicolás Maduro appointed Merentes as the president of the Central Bank and, as such, it falls to him to represent Venezuela before the IMF.



ECONOMIC OVERVIEW

