



Weekly Report

Year 8, Number 10
Week II, March 2013

*The lost bonanza decade:
What does the Balance
of Payments say?*

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Along with the numbers for economic activity, the Central Bank of Venezuela (BCV) also published the preliminary Balance-of-Payments (BP) figures corresponding to the fourth quarter of 2012 (4Q2012) and the consolidated results of the economic relations between the national agents and the rest of the world for the same year. 2012 BP shows a significant drop in current account surplus, resulting from imports' record levels, offset by a substantial decline in capital account deficit, which reflects how the public sector had to resort to its foreign funds. Oil balance appears to be falling short vis-à-vis an economic model that rather than promoting the production apparatus, has promoted imports and capital outflow.

At 2003 levels

According to BCV figures, BP posted a US\$996 million deficit in 2012, which is translated into a 75.3% decline with respect to 2011 (US\$4.03 billion). This decline in the BP global deficit is a consequence of the 58.1% contraction of the negative balance of the capital and financial account, which closed 2012 at US\$12.01 billion.



On its part, BP current account recorded a surplus of US\$11.01 billion, down 55.2% from the US\$24.61 billion surplus of 2011. This current account results are attributable to the 17.4% drop in the surplus in trade balance, which recorded US\$38.0 billion; this surplus resulted from a 26.8% expansion in imports, which was determined by a 96.1% and 16.5% increase in oil and non-oil imports, respectively, and impacted by the 16.5% increase in the service balance deficit of US\$15.95 billion.

| BALANCE OF PAYMENTS | | | |
|-------------------------------|-------------|-------------|-------------|
| General Summary | 2012 | 2011 | Var. |
| (US\$ billion) | | | |
| Current Account | 11.0 | 24.6 | -55.2% |
| Goods | 38.0 | 46.0 | -17.4% |
| Oil Exports | 93.6 | 88.1 | 6.2% |
| Non-Oil Exports | 3.8 | 4.7 | -19.4% |
| Import of goods f.o.b. | -59.3 | -46.8 | 26.8% |
| Services | -16.0 | -13.7 | 16.5% |
| Others | -11.0 | -7.7 | 43.5% |
| Capital Account | -12.0 | -28.6 | -58.1% |
| Public Sector | -0.9 | -14.5 | -93.8% |
| Private Sector | -11.1 | -14.1 | -21.4% |
| Reserves Variation | -1.0 | -4.0 | -75.3% |

Sources: BCV and Ecoanalítica

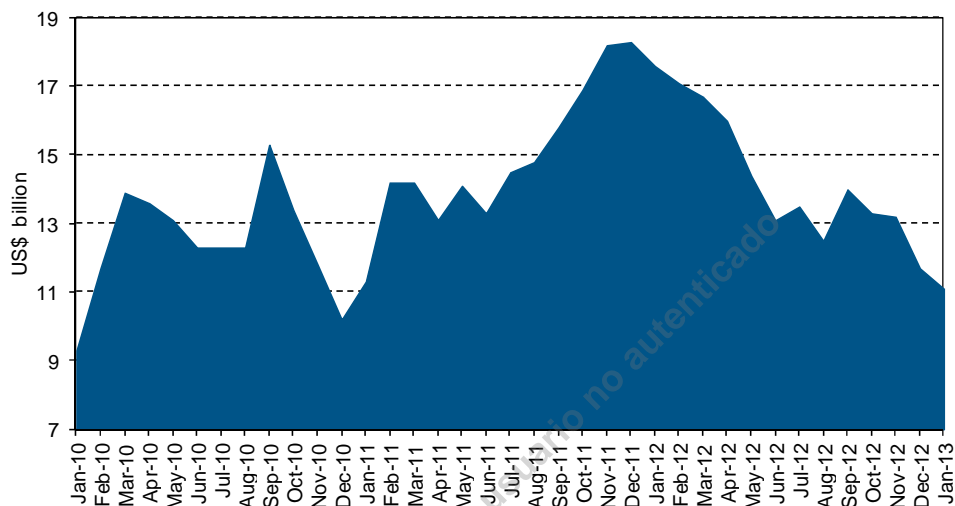
We at **Ecoanalítica** are concerned about the fact that current account surplus in 2012 reached levels close to those of 2003, even though oil export revenues have grown 324.8% over the past 10 years, whereas FOB imports have reached a record level of US\$59.33 billion, up 466% from 2003.

Sometimes we have seen that when oil revenues have lost elasticity, the decrease in public foreign funds has been used to finance current account deficit; however, the low availability of these funds in early-2013 (US\$17.1 billion, down US\$6.0 billion from 2012), leads us to warn that if situations that may render the current account panorama more complicated occur, we could be involved in a BP crisis in the medium term. The panorama would be even more complicated in the event of a drop in oil prices, because the availability of these funds also depends on oil rent. We are standing on a house of cards and it is clear that a change of model is imperative.





Extrabudgetary resources in currencies



Source: Ecoanalítica

Where has bonanza gone?

Given the impressive flow of foreign currency the economy has seen, one could wonder how did we end up being in such a worrying situation? The truth is that whereas some countries have been able to take advantage of their bonanza and have saved for difficult times, like Norway did between 2003 and 2012 when that country raised by 449.2% the market value of its Governmental Pension Fund (which is currently estimated at US\$655.55 billion), the questionable stimulus policies, which have proven to be successful to boost demand but haven't been able to stimulate production, leading the country to waste in imports a bonanza that could have well been translated into higher investment and productivity for the local industry.

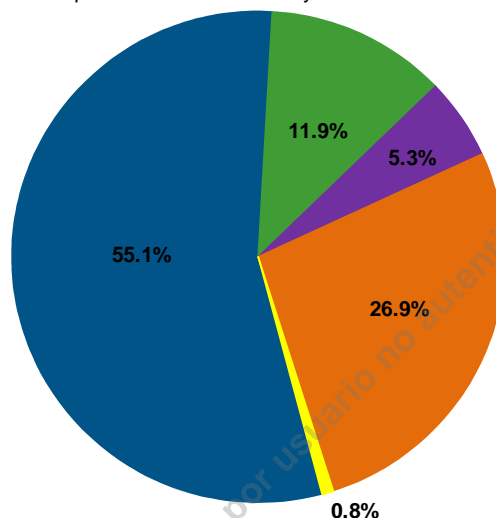
At **Ecoanalítica**, we estimate that the country through oil exports has received a total of about US\$666.69 billion, of which US\$367.13 billion have been earmarked for the import of goods, about US\$79.34 billion for the import of services; about US\$35.62 billion for rent payment and about US\$179.49 billion have left the country, thus increasing the assets position of both public and private agents.





Distribution of the Bonanza (2003-2012)

■ Imports of goods ■ Imports of services ■ Payment of rent ■ Flight of capital ■ Others



Sources: BCV and Ecoanalítica

Capital outflow: more a consequence than a cause

Capital outflow is currently one of the most significant concerns in terms of the analysis of the relation of Venezuela's economy to the rest of the world, which has a detrimental effect on domestic savings, ends up being an obstacle for investment expansion and represents one of the evils that most negatively impacted growth of Latin American economies in the '80s.

In Venezuela, the main determining factors of capital outflow have been the risk associated with high inflation and, therefore, with exchange rate depreciation and the risk derived from the legal and political environment. These factors tend to impact the expected return of investors or to influence the risk-yield ratio of local assets, thus bringing about a shift of the optimum composition of the investment portfolio of economic agents toward one with a higher share of foreign investment.

More specifically, capital outflow incentives include:

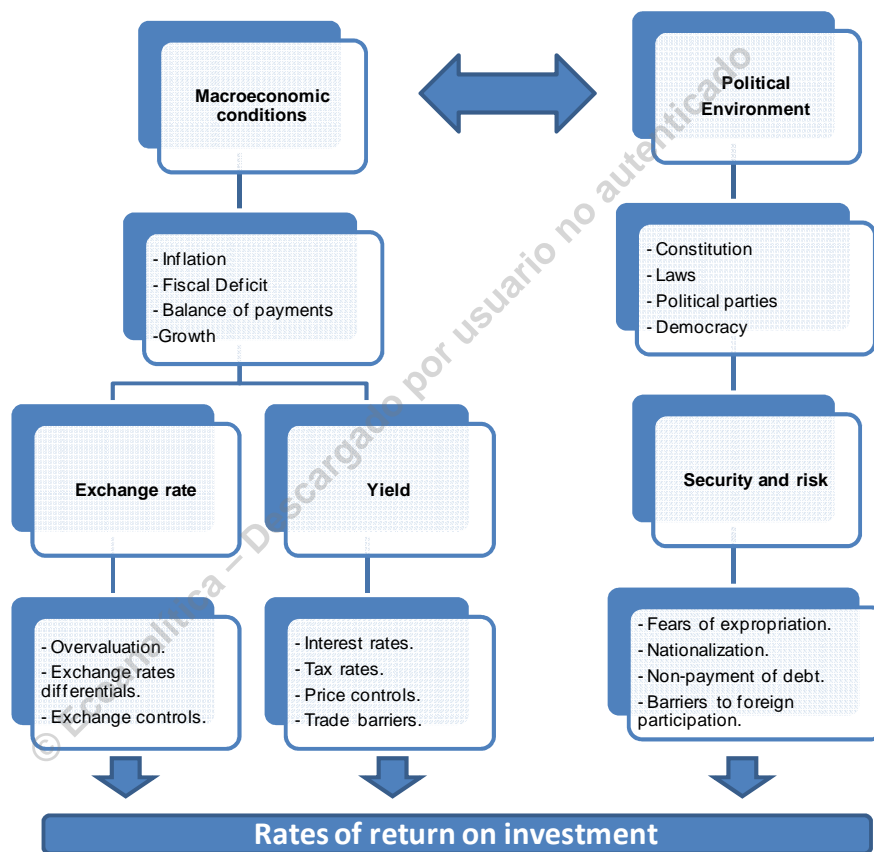
- Exchange rate overvaluation and, thus, devaluation risk;
- High and volatile inflation rates;
- The swift monetary expansion and high fiscal deficits;
- Political and legal instability;
- The burden of the tax system on investment return;
- Foreign incentives (improved profitability in foreign markets).





In summary, rather than determining, capital outflow is determined by the macroeconomic environment and by uncertainties about decisions and policies adopted by governments.

Causes of capital outflow



Sources: BCV and Ecoanalítica

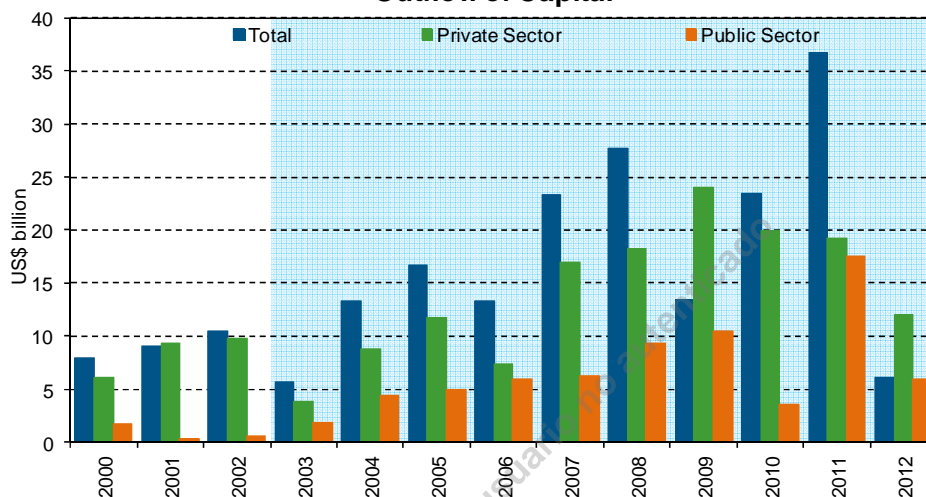
The solution is worse than the problem

The significant increase in capital outflow, from 113.1% on average during the three years before the implementation of exchange rate control was undoubtedly taken into account to justify it. However, the creation of Cadivi hasn't changed things much. At **Ecoanalítica**, we estimate the outflow of Venezuelan capitals at US\$179.49 billion, of which about US\$141.95 billion correspond to private capital.





Outflow of Capital



Sources: BCV and Ecoanalítica

It's also worth highlighting that private capital outflow has grown substantially more than imports, registering an average annual growth of 25.8%; whereas purchases of goods abroad grew at an average rate of 17.8% over the past 10 years; therefore, we can say that exchange controls have further restricted trade activity than financial sphere.

Public capital outflow: a parallel budget

It should be clarified that capital outflow of the public sector rather than having financial reasons or abiding by profitability and risk economic criteria, has been part of the development of that what some administration figures have called the "new financial institutional framework" and has been mainly determined by the increase in deposits in the Chinese Great Volume Fund and the National Development Fund (Fonden).

The increase in foreign assets of the public sector has become a sort of parallel budget in foreign currency, which the administration may use in a discretionary manner, for instance to execute large scale projects (mainly infrastructure), but that in case of emergency is used to offset oil rent momentary deficits in comparison to imports' demand.

Private capital outflow: a matter of coverage

Private capital outflow, which throughout the 10 years of exchange rate controls has amounted to US\$141.96 billion, can be attributed to the perception that the agents have of the different macroeconomic risks, such as inflation, devaluation, legal and political instability, as well as the potential adjustments in case of economic policies that are unsustainable in the long term (both in fiscal and monetary and exchange terms).



The largest share of private capital outflow was represented by the increase in the position in cash and deposits kept abroad, which has reached US\$112.27 billion in the 10 years of exchange rate controls, followed by an increase of US\$615 million in the net amount of trade credits granted, US\$4.50 billion in the net amount of loan granting and US\$86 million in other assets investment. Not declared capital outflow, in turn, reached US\$24.48 billion (estimated through errors and omissions in the BP).

| | Private Capitals Outflow (US\$ million) | | | | | | | | | | |
|---------------------------|---|--------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2003-2012 |
| Declared outflow | 2,988 | 6,294 | 8,145 | 5,153 | 15,254 | 17,488 | 20,484 | 17,564 | 15,325 | 8,785 | 117,480 |
| Trade credits | -114 | 193 | -464 | 78 | -672 | -621 | 687 | 2,005 | -247 | -230 | 615 |
| Loans | 1,101 | 803 | 607 | 735 | 288 | 553 | -19 | 335 | 103 | 1 | 4,507 |
| Currency and deposits | 1,965 | 5,299 | 7,935 | 4,186 | 15,701 | 17,666 | 19,840 | 15,207 | 15,468 | 9,005 | 112,272 |
| Others | 36 | -1 | 67 | 154 | -63 | -110 | -24 | 17 | 1 | 9 | 86 |
| Undeclared outflow | 795 | 2,503 | 3,593 | 2,211 | 1,747 | 785 | 3,520 | 2,313 | 3,829 | 3,183 | 24,479 |
| Errors and omissions | 795 | 2,503 | 3,593 | 2,211 | 1,747 | 785 | 3,520 | 2,313 | 3,829 | 3,183 | 24,479 |
| Total outflows | 3,783 | 8,797 | 11,738 | 7,364 | 17,001 | 18,273 | 24,004 | 19,877 | 19,154 | 11,968 | 141,959 |

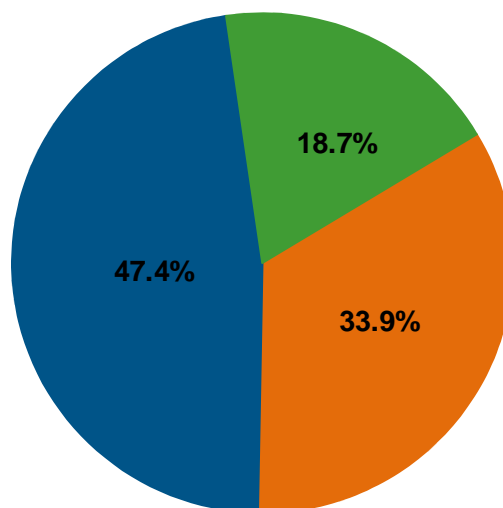
Sources: BCV and Ecoanalítica

And how is capital outflow financed?

At *Ecoanalítica* we estimate that of the total private capital outflow over the 10 years of exchange rate controls, about US\$48.12 billion have been financed through the issuance of bonds denominated in foreign currency by the republic and Pdvsa; about US\$67.29 billion were financed with foreign currency from the black market and about US\$26.55 billion were financed by other sources, through practices such as import overbilling or export underbilling.

Sources of Funding for Capital Outflows

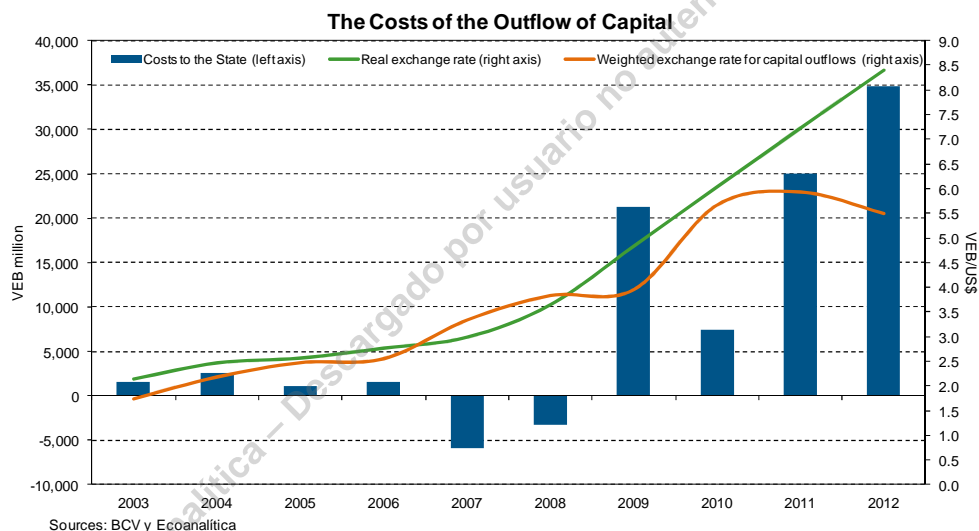
■ Bond Issues ■ Parallel Market ■ Others



Sources: Pdvsa and Ecoanalítica



Beyond the “runaway” capitals, it has to be considered that one of the consequences of the fixed exchange rate scheme has been that the cost of capital outflow is lower than the one that private agents would have incurred under free market conditions. At **Ecoanalítica** we estimate that if this capital outflow would have taken place in 2012 at the real exchange rate, the State would have collected about VEB 34.85 billion, equivalent to around US\$8.10 billion, or 62.6% of additional revenues to be received from February’s devaluation.



Our fate is still in our own hands

At **Ecoanalítica**, we believe that imbalances and macroeconomic conditions that increase risk for investors will continue at least in the short term; therefore, capital outflow will be a persistent aspect in our BP. This represents a significant access barrier for all those business willing to establish in Venezuela, but is a protection of sorts against competition for all already installed businesses.

Overall, our foreign purchasing capacity, our stabilization mechanisms and our reserve stock continue to depend on the oil sector performance, a risk which we have been warning and continue to warn about, thus rendering a significant diversification of Venezuelan imports increasingly necessary.

Finally, while we haven’t taken advantage of bonanza times, it is necessary to take into account that a large part of assets that the private sector keeps abroad are liquid and similarly as they went to look for coverage, they could comeback if macroeconomic conditions improved and imbalances are eliminated, thus potentiating investment and local



production. Our fate is in our hands and Venezuelans still have funds, although they are kept abroad.

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Economic Tips

Central Government spending increased 14.6%. The Ministry of Finance published the figures for fiscal management of the Central Government for the year 2012, they shows that total spending grew 14.6% last year in real terms over-year basis, this percentage is significantly lower than the figure 2011, when total government spending grew 18.0% in real terms year basis.

Revenue, meanwhile, rose 5.1% in real terms year basis, lower than in the previous period when it stood at 21.6%, within these, oil revenues grew 5.8% and the non-oil also rose 4.6%, both in real terms over the same period last year.

Higher domestic debt. The increase in the total debt of the Government goes together with a higher domestic indebtedness, according to data from the Ministry of Finance. At the end of December 2012, the domestic debt was US\$53.69 billion, while at the end of 2011 it was US\$35.84 billion, a 49.8% increase. *Ecoanalítica* believes that by the end of 2013, the domestic debt of the central government will be close to US\$ 48 billion, a 10.6% decrease compared to 2012.

What about the external debt? According to information published by the Office of Finance, at the end of 2012, external debt registered a balance of US\$45.41 billion, only 4.5% more than recorded in 2011. Regarding this, the Minister of Finance, Jorge Giordani, said that this is because there have been no new dollar issues, a policy expected to continue at least this year.

Unemployment rate at 9.5%. According to numbers released by the National Statistics Institute (INE), unemployment rate increased 0.8 percentage points (pp) in January, as compared to the same period in 2012, when unemployment rate closed at 10.3%; this means that in the first month of the year, 1.273.657 people didn't have a job.

Unemployment among women was 9.8%. The labor unemployment affected women more than men. In January, the unemployment rate of women decreased 1.1 pp from January 2012, to settle at 9.8%. Meanwhile, men's unemployment stood at 9.3%, 0.6 percentage point lower than in January 2012.

Inactivity rate increases. According to inactivity rate figures published by INE, shows that increased 0.2 pp compared to January 2012, to settle at 36.7%. Within



this, men inactivity stayed the same at a rate of 22.6%. Women inactivity, in turn, increased 0.3 pp, and stood at 50.6%.

Informality rate at 40.3%. According to INE's figures, at end-January, 4,918,552 people were employed at the informal sector (40.3% of working population), which means that it decreased compared to January 2012. Formal sector, which employs 59.7% of working population, increased 4.9% with respect to the same period in 2012.

Tax collection in January. According to figures released by the National Integrated Service for Tax Administration (Seniat), VEB 15.34 billion were collected in taxes for the month of December. Of this amount, VEB 3.22 billion (21.0%) are Income Tax, while VEB 9.5 billion (61.9%) were collected as VAT.

In real terms, January tax collection was up by 7.3% compared to the same period last year. The VAT increased by 5.8% in real terms compared to the same period last year, while the Customs Revenue decreased 2.6% respectively. Revenue collected as Income Tax went up by 18.9% in real terms compared to the same period last year.

| Concepts (VEB Million) | Jan-12 | Jan-13 | Var. (%) | Real Var. |
|-------------------------------|--------|--------|----------|-----------|
| Total Income | 11,758 | 15,340 | 30.5% | 6.2% |
| Income Tax | 2,232 | 3,226 | 44.6% | 17.7% |
| VAT (Internal) | 7,853 | 7,772 | -1.0% | -19.4% |
| Customs revenue* | 1,277 | 1,513 | 18.5% | -3.5% |
| Other Internal Revenue | 797 | 988 | 24.0% | 1.0% |
| Spirits | 51 | 47 | -7.5% | -24.7% |
| Cigarettes | 717 | 906 | 26.3% | 2.8% |
| Inheritance | 21 | 27 | 26.8% | 3.2% |
| Random games or bets | 7 | 8 | 13.2% | -7.8% |
| Others | 66 | 105 | 58.6% | 29.1% |

Sources: Seniat and Ecoanalítica

* Includes VAT on imports

Venezuela is facing big challenges. After the passing of President Hugo Chávez, the coming administration will face big challenges in its attempt to swiftly move forward toward the establishment of more balanced and sustainable policies, according to Fitch Ratings. The rating agency kept its negative panorama in "B+" for Venezuela; according to Fitch Ratings, the new administration will face a series of



economic problems, such as reducing fiscal imbalances, among others. The agency estimates that fiscal deficit exceeded 7% of Gross Domestic Product (GDP) in 2012.

Imbalance grows. Inflation in January slowed down to reach 1.6% in February. Core inflation, which isolates seasonal factors and temporary effect of controls, gained 3.3%, accumulating a 6.6% increase in the two first months of the year. After past October 7 presidential election, the administration authorized adjustments in the prices of rice, coffee and precooked corn flour. At **Ecoanalítica**, we believe that after the upcoming presidential election, prices of products such as white cheese, pasteurized milk, chicken and beef, which have not been adjusted in more than one year, will have to be increased.

Not everything is bad with Maduro. After Maduro's swearing, the market responded positively with Pdvsa and Venezuelan bonds recovering 1.5 points, on average, since investors perceive that the Acting President will be more moderate concerning the economy than his predecessor. This will facilitate the Venezuelan economy's performance and attract foreign investors to the country.

And fiscal deficit continues. Information released by the Ministry of Planning and Finance reveals that in spite of high oil prices, the central government is posting its fifth year in a row of fiscal deficit. Since 2008, a gap between revenues and expenses, which became more acute in 2012, has been registering. According to the Ministry's figures for end-2012, the central government's deficit was at 4.9% of GDP, up from 2011's 4.0%.

Interest rates. The lending rate for the first week of March was at 16.4%, up by 0.3 pp compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves decreased 1.3%, going from US\$27.29 billion during the first week of March to US\$26.94 billion during the second week of March. Compared to the same period last year, international reserves have decreased by 3.0%.

Central government expenditure. On Friday March 8th according to figures from the National Treasury Office (ONT) primary spending was VEB 5.12 billion, which means an increase of 47.0% when compared to the previous week when it was VEB 9.65 billion; when compared to the same period last year we observe an increase of 2.8%.





Monetary liquidity. Monetary liquidity (M2) was increased 0.9% in the first week of March compared to the previous week, settling at VEB 708.87 billion. The M2 has increased 55.6% in relation with the same period last year.

Oil Tips

The best oil policy of the world... *“Our people are aware that Commander Chávez’ oil policy is national, popular and revolutionary in the most strict sense,”* Minister Rafael Ramírez stated. The Minister of Energy and Mining reiterated that Venezuela’s oil policy won’t be changed after the recent events occurred in Venezuela. He added that President Chávez’ passing came as a terrible blow, but that notwithstanding, it cannot be said that it will impact oil prices.

Looking after their interests... Representatives of Russian government attended President Chávez’ wake, but didn’t miss the chance to meet with Acting President Nicolás Maduro, to tell him about the doubts they have about hydrocarbon agreements signed by Pdvsa and to talk about delays with Russia’s Rus Hydro and Inter Rao concerning the electric power sector. Finally, agreements will continue with the plans previously signed.

I want to have a million friends. *“If China wants to find friends and loyal brothers in the world, we are here,”* Acting President assured after meeting with the delegate of the Chinese commission. Maduro stated that the Venezuelan administration will further deepen its relations to the Asian country. Therefore, we can expect that the country’s oil production will continue to be compromised to cover future agreements with China.

Petrocaribe stays. *“We told it to them (agreements signing countries) at the top of our voices, because I have to say that all heads of government of Petrocaribe were here. All of them,”* Maduro stated when referring to Petrocaribe permanence. Let’s remember that as per the agreement, Venezuela supplies fuel to the group members under preferential conditions, including long-term credits and the option of partial payment with services or goods.

What goes up must come down. Oil prices continue to drop, losing US\$2.3/bl, this past week due to the concerns about global economy, after the release of macroeconomic data for China, Europe and Japan, which weren’t very encouraging.



Venezuela falls behind...The price of the Venezuelan oil basket also fell, as a consequence of the recent events in the country, which have given rise to uncertainties as to Venezuela's oil supply for the political transition period the country is entering.

Unloyal competitive advantage. The legal battle between Repsol and Bidas goes on. This battle started due to the negotiations between Bidas and YPF regarding the development of the Vaca Muerta deposit, discovered before nationalization, which means a benefit for Repsol derived from an illegitimate expropriation. Since then, Repsol has been asking for a "fair compensation." The Repsol's general assistant secretary that coordinates YPF activities assured that going to courts is the only "alternative" they have to defend their shareholders, given the lack of dialogue with Argentina.

The battle grows worse. The legal battle of Spain's Repsol to defend its interest in YPF has intensified with the admission of a claim against Argentina's oil firm Bidas. This claim is based on the negotiation that Bidas started with YPF to develop the Vaca Muerta deposit, discovered before nationalization. This is just one of the nine legal lawsuits initiated by Repsol after nationalization by the Argentinean government of 51% of YPF shares, which belonged to the Spanish firm, in April 2012.

International baskets. When market close in New York, WTI traded on last Friday March 8th at US\$90.5/bl, which means a decrease of 2.7% from US\$93.0/bl recorded the previous week. Meanwhile, Brent decreased by 1.9% to reach US\$110.8/bl compared to the previous week when it reached US\$112.9/bl.

Local basket price. On Friday, March 8th the Venezuelan oil basket price closed at US\$101.6/bl a decrease of 2.2% compared to US\$103.9/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 103.9/bl.

Business Sector Tips

Trade flow. Members of the Venezuelan-Colombian Economic Integration Chamber (Cavecol) expect trade relations with Colombia to "*continue to flow freely*," throughout the current political transition period after President Hugo Chávez' passing. Luis Alberto Russián, executive president of Cavecol, believes that this expectation "*also*



depends on the economic measures to be applied by the Venezuelan administration; foreign currency availability and dialogue are to determine relations.”

The automotive industry won't start. According to Cavenez, the delay in the approval of import authorizations for assembly parts and the almost nil volume of foreign currency authorizations determined that only 7,762 vehicles, down 53.5% from the same period in 2012, have been assembled in January and February 2013. In January, just 1,945 vehicles left the seven private assembly plants operating in Venezuela, for the worst performance for that period in one decade.

Construction material prices are skyrocketing. Prices of construction materials continue their accelerating trend and, according to BCV figures, month-to-month variation in February was 7.2%, up from January's 1.4%. According to the BCV data, this overall behavior can be attributed to glass costs (+21.7%) and plumb-containing materials (+19.6%). It can be seen that the lower supply of materials is impacting costs of the inputs required to build homes and infrastructure works.

In stand by. Businesses active in the national productive sector fear that the President's passing and the official mourning days that have partially paralyzed the country may result in long overdue economic measures being postponed again. Tony Pestana, Fedeagro's vice-president, expects that the official mourning doesn't stop agricultural plans and that the meeting proposed by the Minister of Agriculture and Lands, Juan Carlos Loyo, be resumed soon. This meeting will deal with delays (up to eight months) at Cadivi to allocate foreign currency to business for import of agrochemicals.

No time to wait. Jorge Botti, president of Fedecámaras, believes that the country's economic dynamics don't allow the administration to wait for election results to apply the required economic measures, especially the supply of foreign currency for the private sector. Botti added that the scarce foreign currency supply over the past five months is becoming evident and that businesses are “*doing magic*” to maintain markets supplied, since the lack of dollars has aggravated stock levels.

Sidor increased production. Sidor president, Gil Barrios, informed that liquid steel production registered year-to-year increases of 20% and 30% in January and February, 2013. Barrios pointed out that in January and February, a total of 330,255 tons of liquid steel were produced and added that “*efforts to continue boosting production so as to efficiently contributing with large scale projects, like the Gran Misión Vivienda Venezuela (housing mission).*”

Fedeunep and Fentrased are merging. The National Federation of Public Sector Workers (Fentrased) and the Federation of Public Employees (Fedeunep) agreed to



merge into a single organization with a view to consolidating their struggle in favor of public administration workers. One of the fundamental tasks of the group is discussing the framework contract of public administration, which expired seven years ago. Both federations have presented proposals, but they haven't been able to continue their efforts because board elections haven't been held.

The cobblers' children... Even though the government is talking for workers, public administration wage scale has fallen behind and the framework contract of this sector expired in 2006, thus affecting 900,000 workers. The increase which was implemented only in the minimum wage, which represents the wage scale bottom, has flattened the rest of the scale, with public servants, professionals and university technicians earning a little more than the minimum wage and VEB 3,000 per month, Antonio Suárez, president of Fentrased, explained.

Will it be enough? Agricultural production wasn't enough to cover domestic consumption; therefore food and agricultural product imports exceeded US\$7.0 billion in 2012. For 2013, the panorama appears to be different due to restrictions in foreign currency authorizations. According to the *Gran Misión Agro Venezuela*, presented by the Minister of Agriculture, Juan Carlos Loyo, imports of about 11 strategic products are expected to be reversed. For this purpose, raising production and exceeding yearly consumption is being proposed. These products include white corn, rice, sugar cane, and coffee, among others.

High costs affect rice production. Demetrio Fraile, president of the Producers' Association of the Guárico System, stated that the cost of raw materials, agrochemicals, equipment, mechanizing services, and labor, among others, have increased 57% so far in the year. Producers are requesting that rice price be set at VEB 4.33/kg. *"Unless prices are revised, we will be condemned to bankruptcy. There is also unfair competition with imports that are subsidized by the government,"* Demetrio Fraile warned.

More obstacles. Minister Giordani ordered 2012 pending foreign currency authorization and allocation applications to be reviewed so as to determine which will be recognized at VEB 4.3/US\$. This, even though the exchange agreement states that foreign currency applications introduced until October 15, 2012 will be recognized. In the case of new imports, authorizations at VEB 6.30/US\$ have also been restricted, because the priority is paying those introduced in 2012 and only approving those related to raw material, capital goods and inputs.

Corpoelec doesn't pay. Corporación Eléctrica Nacional's debt grew 25% in 2012, to close 2012 at US\$8.0 billion. The company has outstanding bills for more than 18 months, according to sources linked to the corporation. Notwithstanding, at least 60%



of Corpoelec's debt is believed to be in local currency, which implies that in the firm general balance for this year, a decrease of at least 20% could be posted.

Medicine drugs still waiting. Freddy Ceballos, president of the Pharmaceutical Federation of Venezuela, reported that given the stock deficiencies of more than 30 days for some drugs, pharmacies have been forced to restrict the sale of medicine drugs, because they don't have enough products to cover demand. *"There isn't such thing as 'nervous purchases'. What happens is that we cannot cover demand. We're working with waiting lists of patients and when drugs come to our businesses, we contact them via phone for them to pick them up,"* Ceballos explained.

World Economy Tips

Apparently six years of bad luck. Greece's industrial production reported its worst drop in four month due to a decline in manufacture and energy production, which signifies that the country, which is going through its sixth year of recession, is still experiencing a bad economic situation. Industrial production, which accounts for about 15% of the Gross Domestic Product (GDP), dropped 4.8% with respect to the same period in 2012, and registered a 0.9 contraction with respect to the previous month. Inspectors from the European Union, the European Central Bank and the International Monetary Fund have demanded Greece to implement an ambitious reform program to reverse its economic situation.

Analysts estimate that the euro zone crisis will continue. The German bank Bundesbank is concerned about the risks assumed by the European Central Bank to help banks to come out of the crisis, such as accepting low rating assets in exchange for cash, which might bring about further losses if any of those banks is not able to repay the money. The head of the German bank, Jens Widmann, urged governments to tackle the root of the problem through reforms; he also said at a press conference that the *"crisis hasn't ended in spite of the recent calm reigning on financial markets."*

Green light for budget veto. The plenary session of the European Parliament announced that the European Commission (EC) could approve or veto budgets, as well as implementing further community oversight measures for the States experiencing financial imbalances. Member states will have to submit every year, before October 15th, their budget projects to the Council and the EC. Later, the EC, before every November 30th, will issue its opinion as to the budget project and if a



particular case of non-compliance is detected, the country will be asked to review its accounts.

We demand a change. Wu Bangguo, president of the People's National Assembly (PNA), in his farewell speech as the head of the highest legislative body in China, highlighted the need for the Asian Country "*to change its economic model*" and become a more innovative and technological nation Wu assured that during his tenure as head of the legislative body, it has become clear that "*the extensive Chinese growth has become unsustainable.*" China's economy registered an expansion of 7.8% in 2012, with an increase of 7.9% in the last quarter of 2012.

Debate in the Capitol. U.S: President Barack Obama will meet with Republican senator at the Capitol on March 14th to move forward with discussion on federal spending and debt. Automatic cuts of US\$ 85.0 billion in the budget that will expire next September entered into force on Friday, March 1st. However, a formal negotiation between both parties hasn't taken place. Democrats are demanding an agreement on tax increase, whereas Republicans are refusing to discuss the issue.

Stable credit panorama. Moody's rating agency stated that the recent increase cycle in sovereign debt ratings of Latin American countries is likely to be ending and expects a stable credit panorama. In its last report, Moody's "*estimates that the pace at which ratings may increase in the medium term will be overtly slower, particularly for the group of countries rated Baa.*" Moody's also highlighted that inflation rates are still moderate in a large part of the region and that public finances are relatively orderly.

Political Tips

2013 elections. Directors of the National Electoral Council (CNE) announced that the new president for the 013-2019 period will be elected on Sunday, April 14th. They presented a draft schedule of election activities according to which, the election campaign will last ten days and the deadline for candidates' registrations will be March 8th. The CNE also informed that the same Voters' Roll used in October 7 presidential election will be applied for April electoral process.

Nicolás! You weren't elected as President. Miranda governor, Henrique Capriles Radonski, stated at a press conference that the sentence issued by the Supreme



Tribunal of Justice (TSJ) had political content and constituted a constitutional fraud. He also expressed that *“to become president, one has to be elected by the people; the Constitution is crystal clear;”* he also urged the TSJ to respect the will of the people: *“Justices at the TSJ: You are not the people, you don’t decide in Venezuela who is or isn’t the president, the people to.”*

There is still a way. Henrique Capriles accepted repeating as the opposition presidential candidate. In his acceptance speech he assured that he’s aware that competition conditions are much more disadvantageous now than before. *“Nicolás! I’m not going to stand aside; you will have to defeat me with votes, but I’m going to fight each vote with my own hands,”* Miranda governor claimed. Likewise, after calling on all Venezuelans for their support, Capriles asked the opposition parties to forgive him for his past mistakes. Capriles claimed that *“they have been lying,”* because different government officials assured that the President was getting better and that he was even walking.

Maduro registered as candidate. On March 8th, the candidate of Partido Socialista Unido de Venezuela (PSUV) registered as presidential candidate for April 14th elections. He also presented the same government program delivered by the late President Chávez in his campaign for last October elections. He said to his followers at the Diego Ibarra plaza in Caracas downtown *“I’m not Chávez, but I’m his son; we all together, the people, are Chávez.”*

There is an opponent. Representatives of the Democratic Unity Panel (MUD) registered Henrique Capriles Radonski with the CNE on March 8th as their presidential candidate. Ramón Guillermo Avelado, MUD Executive Secretary also announced that they unanimously decided to present a single polling card *“which joins all forces under a Venezuelan spirit, to launch a campaign for democracy, defense of rights and against lies and abuses.”*

Chávez to the Pantheon. Acting President Nicolás Maduro informed past Sunday that Hugo Chávez’ remains will be transferred to the Mountain’s Museum, in 23 de Enero (sector of Caracas) next Friday. Later, the remains will be transferred to the Pantheon upon compliance with the corresponding legal process. In the same message broadcasted by State-owned Venezolana de Televisión (VTV), Maduro dismissed the remarks by Miranda governor and described Capriles’ words them as a *“poisoned dart,”* adding that the opposition candidate was talking out of hatred. *“He appears as a mad man, blinded with hatred, to justify his defeat.”*





Legislative Tips

The “acting president”. The Constitutional Chamber of the Supreme Tribunal of Justice, considering the administrative continuance sentence of January 9, 2013, and given the absolute absence emerging from President Chávez’ passing, resolved that *“the Executive Vice-President will become Acting President and ceases to be Vice-President. In his capacity as Acting President, he will assume all constitutional and legal powers as a Head of State, Head of Government and Commander in Chief of the National Bolivarian Armed Forces.”*

President and candidate. Therefore, Nicolás Maduro assumes power as Acting President and enjoys all powers as a legitimately elected president, such as the power to run for presidential election. *“During the electoral process for the presidential election, the Acting President is not obliged to leave his post,”* the sentence reads.

Sworn in before the AN and the grave. Likewise, the Constitution Chamber resolved that the *“Acting President will be sworn in before the National Assembly,”* as Maduro did last Friday in a special session convened by the National Assembly president, Diosdado Cabello, which took place in the Honor Hall of the Military Academy of the National Bolivarian Guard.

New Vice-President. At the swearing in ceremony, the Acting President, Nicolás Maduro, appointed Jorge Arreaza, former Minister of Science and Technology, Vice-President of the Republic. *“We want to announce as our first act of government that we have decided to appoint comrade Jorge Arreaza for the constitutional post of Executive Vice-President of the Republic,”* Maduro said. This decree, issued by the president’s office, was published in the Official Gazette No. 40,126 of Tuesday, March 12th.

To the Pantheon! The National Assembly (AN) approved past Tuesday a draft amendment of Article 187 of the Constitution, which establishes that the AN has the power to *“grant the honor of the National Pantheon to illustrious Venezuelan citizens, who have rendered eminent services for the Republic, having elapsed 25 years of their passing.”* The Acting President, Nicolás Maduro, announced that the AN will promote the project to eliminate this last provision so that to be able to transfer Chávez’ remains to the Pantheon as soon as possible.



LOTTT Regulations are “almost ready”. Two months after the entering into force of the working hours cut, the administration hasn't definitely approved the partial Regulations of the Labor Organic Law, which contains the accurate details regarding working hours. Wills Rangel, member of the Labor Superior Council, assured that the document is “almost ready.” The only problem is that the political situation has disturbed the group's activities.

Guaranteed resting days. Sources reported that the Regulations contain some provisions in the case of businesses located in malls, so that the two consecutive free days per week established by the legal text are guaranteed. In terms of wages and salaries, Wills Rangel stressed that there are good economic perspectives for the people, including the working class.

Ban to sell alcoholic beverages has been extended. A resolution of the Minister of the Interior and Justice prohibited the sale and consumption of alcoholic beverages throughout the national territory from Tuesday, March 5th until March 12th; however, according to the Official Gazette No. 40,126, the banning was extended until Saturday, March 16th. Likewise, the Ministry of Defense suspended authorization to carry firearms in the entire country. The resolution provides for that this measure is taken with the aim of guaranteeing citizens' security, peace and order nationwide.

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ECONOMIC OVERVIEW

