



Weekly Report

Year 9, Number 11
Week III, March 2014

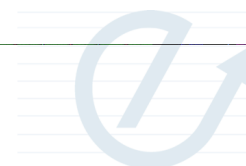
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Poverty: genuine concern or a political banner?

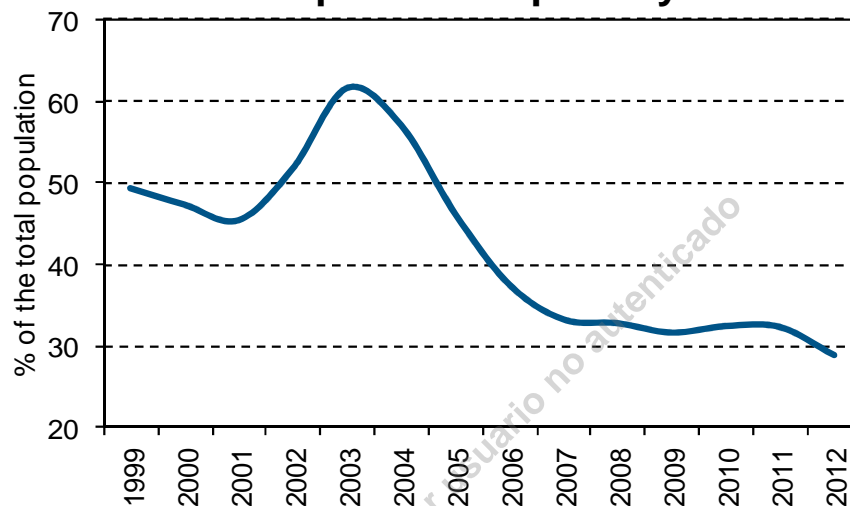
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During these 15 years of “revolution,” the Venezuelan Government has boasted about having highly positive results in reducing poverty and inequality. Thanks to those results, it has obtained the support of the lowest income groups and the admiration of foreign governments and citizens who, observing from afar, entertain the idea that Venezuela has a government that is really “for the poor.” At **Ecoanalítica** we have set ourselves the task of analyzing the causes of the improvement in the poverty indicators in our country over the past 15 years, with emphasis on the sustainability of the achievements that have been obtained.





Population in poverty



Sources: INE and Ecoanalítica

How is poverty measured?

In order to understand Venezuela's positive results in reducing poverty, it is important to understand what indicators define poverty and how those indicators are constructed.

The most commonly used method of measurement is the poverty line. According to this method, households with a per capita income that is below the value of the Food Basket are considered to be in a situation of extreme poverty, those with a per capita income below the Basic Basket¹ are in a situation of non-extreme poverty, and those with a per capita income above the Basic Basket are considered non-poor².

Then there is the "Unmet Basic Needs" (UBN) indicator, which is based on the idea that consumption capacity is not the only variable that generates well-being in the population and defines poverty as "*the situation in which households do not manage to pool, on a relatively stable basis, the necessary resources to meet the basic needs of their members.*" The variables taken into account in this method are non-attendance at school³, critical overcrowding⁴, having inadequate housing⁵, lack of basic services⁶,

¹ In Venezuela, the value of the Basic Basket is equivalent to twice the value of the Food Basket.

² A person is considered to be living in poverty if he comes from a household in a situation of poverty.

³ Non-assistance at school exists if there are children of school age (7 to 12 years) in the household who do not go to school.

⁴ A household is considered to be critically overcrowded where the ratio of the number of people to a room is greater than three.

⁵ According to the INE, inadequate housing is housing declared to be a shanty, trailer, vessel, tent, cave, and the like.

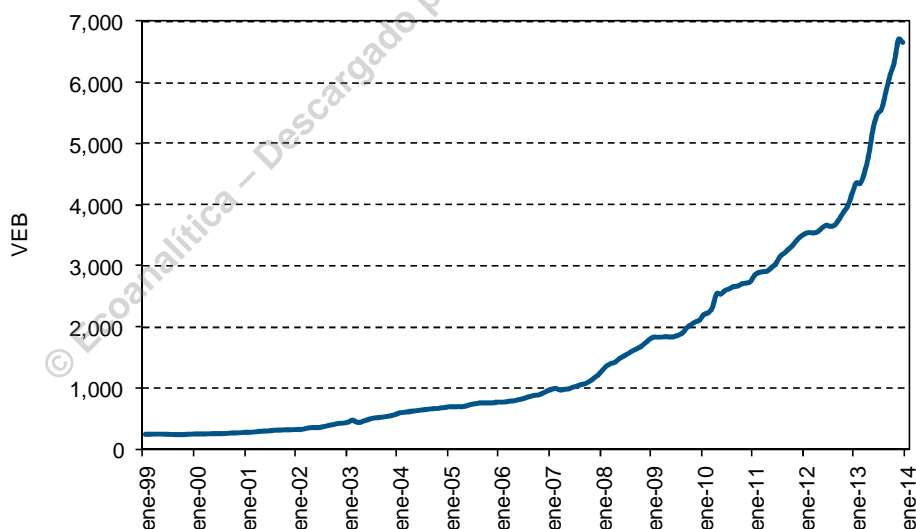
⁶ A household lacking basic services is one whose water supply comes from tanker trucks, ponds, wells, creeks or rainwater and that does not have a connection to a sewer system.



and high economic dependency⁷. In these terms, a household is considered to be poor if it classifies for inclusion in one of the aforementioned indicators, whereas a household in extreme poverty is a household that classifies for two or more.

According to the poverty line method, the only requirement that a Venezuelan family needs to meet in order to be considered “non-poor” is to have an income of more than VEB 6,648.8, the value of the basic basket, regardless of its possibilities of obtaining access to basic services, among them health services, whereas using the unmet basic needs indicator, if we take, for example, a family of four where only the head of the household works and that person has not completed more than second grade primary education, then that family is considered poor, regardless of its level of income.

Basic Basket



Sources: INE and Ecoanalítica

The above examples show that poverty indicators leave out certain aspects when determining whether a household is poor or not. However, they are able to identify the deficiencies experienced by families suffering from the greatest deprivations, either in terms of income or of needs being met, and serve as a guide for orienting public policies with a view to solving those problems.

⁷ A household with high economic dependency is one where there are more than three persons for every employed person and where the head of the household has not completed more than second grade primary education.

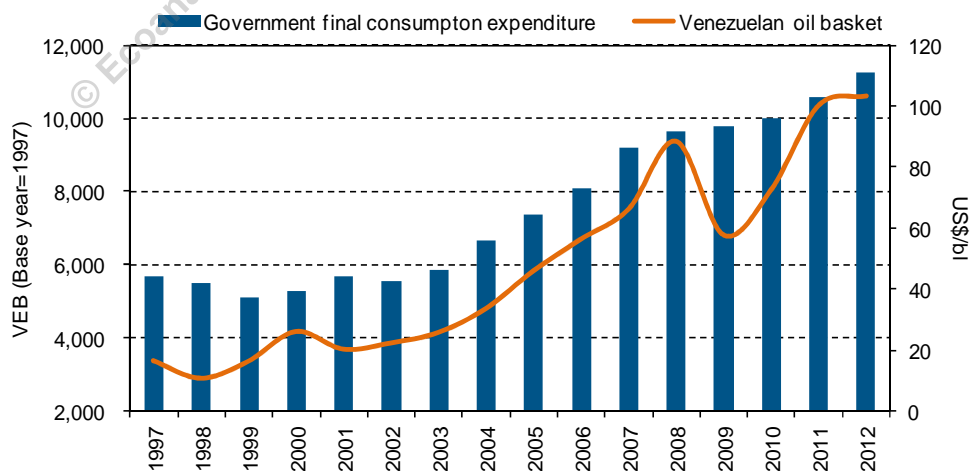


Playing with the poverty line

Based on the definition of poverty line, in order to reduce “poverty,” it is necessary to either bring down the cost of the Basic Basket or raise the population’s level of income. According to the National Statistic Institute’s figures, between 1997 and 2003, the average percentage of the population living in poverty in Venezuela was 52.3%, peaking at 62.1% in the 2S2003. Since then, the percentage of people living in poverty has dropped dramatically to a low of 25.4% in the 2S2012. It was precisely in 2003 that the policy of controlling prices started, along with the Mercal and Pdval operatives that sold products at subsidized prices and that are also taken into account when establishing the value of the poverty line.

On the other hand, the increase in oil prices from 2004 onwards has meant that there has been more revenue that can be distributed, leading to an increase in subsidies and government transfers, which, at the end of the day, has resulted in an increase in Venezuelans’ income that, clearly, is not associated with an increase in productivity. Moreover, it is likely that, once the cycle of high oil prices has run its course, there will be a reduction in income and an increase in the number of families under the poverty line as a result of the government’s inability to continue with the subsidies. Clearly, then, we are in the presence of an artificial reduction of poverty.

Government expenditure Vs. Oil prices



Sources: BCV, Menpet and Ecoanalítica

Another factor that helps to fight poverty over the long term is the level of formal schooling. According to a study conducted by the Economic and Social Research Institute of the Andrés Bello Catholic University (IIES-UCAB), a worker who has not received formal schooling has a 31.7%



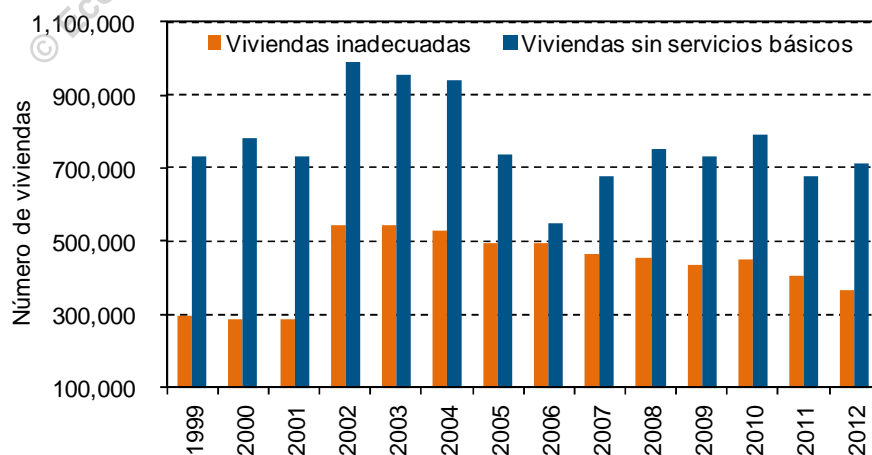
likelihood of finding himself in a situation of poverty compared to 8.3% for workers who have completed secondary education.

Are basic needs being met?

An important point that needs mentioning here is that being above the poverty line –in terms of income- does not guarantee adequate access to basic services. That is why some governments opt for measuring poverty using the UBN method, which makes it possible to have a clearer appreciation of some of the population’s needs and to promote policies focused not only on increasing people’s productivity, but also on guaranteeing that their “basic needs” are met.

When we observe the variables taken into account by the UBN method, we can see the reasoning behind the creation of some of the government’s main “missions” or social programs. In the case of high economic dependency, we have the creation of the “Robinson Mission,” which, in principle, sought to eliminate illiteracy, but later focused its efforts on getting participants to complete sixth grade. Attempts have been made to overcome non-attendance at school by increasing access to primary education, whereas creation of the Great Venezuela Housing Mission (GVHM) has been the starting point for overcoming overcrowding, the lack of basic services, and the large number of inadequate housing units, the government’s biggest challenge thus far.

Viviendas inadecuadas y sin servicios básicos



Fuentes: INE y Ecoanalítica

There is no denying the results obtained by the Robinson Mission in increasing literacy. However, as we have commented in previous reports, the use of education as a tool for overcoming poverty depends on the



quality of the service, and that is precisely one aspect that the government has been reluctant to measure. In 1998, the National Learning Measurement and Assessment System (SINEA) was eliminated and the government has rejected the use of international measurement tools such as the Program for International Student Assessment (PISA) test. Given this refusal on the part of the Executive, Miranda state (one of the country's largest and most highly populated states) agreed to conduct the test in 108 public and 17 private schools to measure the quality of education in Miranda. The results in 2009 were quite clear. Public education had the poorest results and the gap between public and private education was one of the biggest among the Latin American countries that applied the test, second only to Brazil.

PISA test result for public schools-2009

	Reading Comprehension	Mathematics	Science
Argentina	367	363	372
Brazil	398	373	393
Chile	423	398	425
Colombia	400	369	389
Mexico	420	414	411
Peru	350	346	351
Uruguay	409	411	411
Venezuela-Miranda State	313	316	323

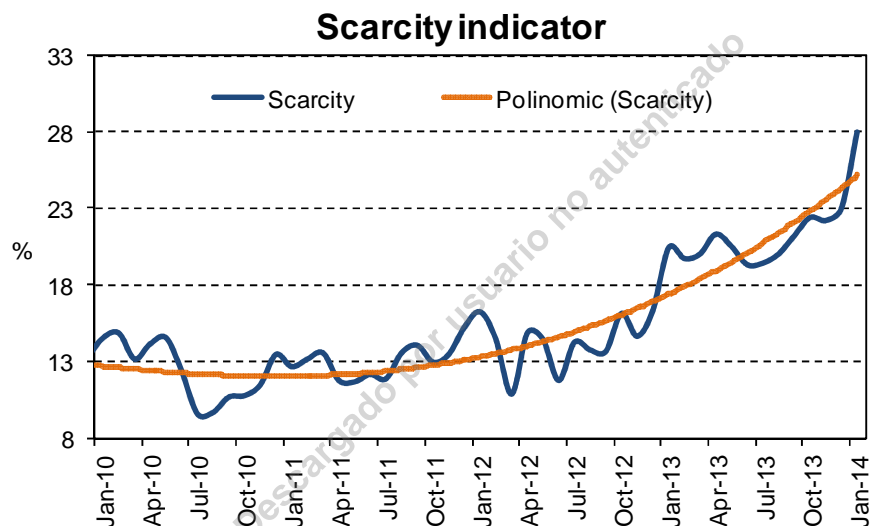
Sources: OCDE and Ecoanalítica

As for the possibility of having access to housing with all basic services, despite the significant improvements that the housing provided by the GVHM usually represents for a family in a situation of poverty, the quality of the housing is frequently not the most adequate. The president of the Venezuelan Real Estate Chamber, Aquiles Martini, has said that the problem of the buildings put up by the Great Venezuelan Housing mission is their quality, commenting that no attention has been paid to quality control and soil studies, among other things. We can mention as an example the homes built at Ciudad Caribia that were evacuated as strong winds in the area some walls collapsed.

Last of all, it should be born in mind that neither improving income nor the government's attempts to set up a network for supplying food and other goods have had a major impact on the quality or diversity of the goods making up the Food Basket, factors that are not taken into account likelihood in either the poverty line or unmet basic needs method. It should be remembered that people who live in poverty are, in many cases, the



ones who are hardest hit by problems in the distribution and shortages of goods, particularly food. Yet the fact of not being able to find articles included in the Food Basket is not taken into account in the UBN indicator either. The 28.0% for general shortages and the 26.2% for basic food shortages reported by the Central Bank for January are ignored.



Sources: BCV and Ecoanalítica

Now for the structural aspects

As is customary on the economic front, when it comes to poverty, the government's decision has always been to attack circumstantial problems instead of the structural problems that cause poverty: sustainability of income over time, difficult access to adequate housing, the quality of basic services, inflation, and shortages, for example.

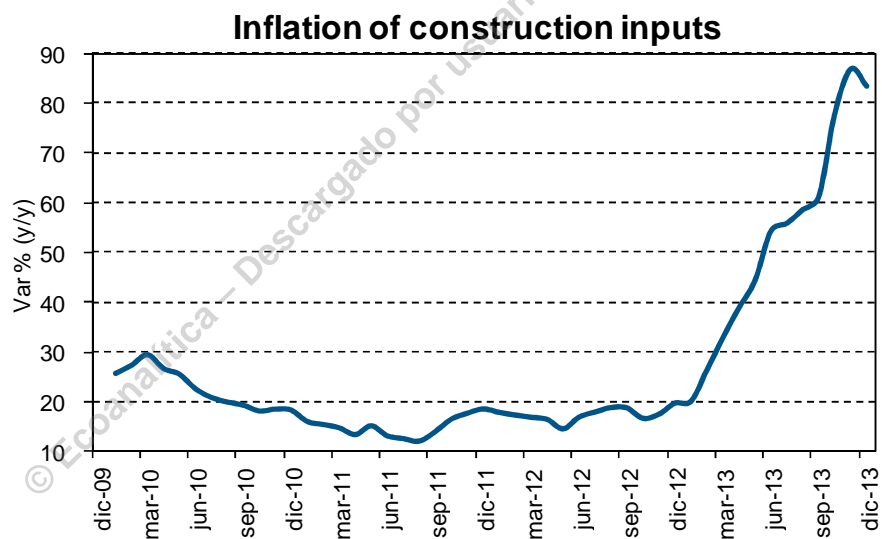
At **Ecoanalítica** we consider the existence of mechanisms that mitigate the external shocks produced by the fluctuations in oil prices to be of prime importance. The existence of stabilization funds that can be used more for emergencies and less for performing current spending and a foreign exchange policy that would allow a more flexible foreign exchange system are important in this regard. A less volatile Gross Domestic Product (GDP) –as well as the goal of higher rates of growth- is not an objective in itself, but a tool for guaranteeing that income will remain stable and grow steadily, so helping to fight poverty.

With regard to the stability of the prices of goods included in the Basic Basket and a greater supply of those goods, state intervention by means of price controls and direct marketing has not been the solution. At



Ecoanalítica we believe that eliminating the disincentives facing domestic agriculture and industry would help to increase the domestic production of basic items.

As for reducing the growing housing deficit, this too requires the participation of the private sector and necessarily involves solving the shortages of construction materials, such as cement and rebar, and bringing down inflation in construction inputs. It is worth recalling that the State has had control of the industry that supplies the construction sector with inputs since 2010. Today those inputs are in short supply as a result of price controls and the serious problems at the state-owned steel works, Siderúrgica del Orinoco (SIDOR).



Sources: BCV and Ecoanalítica

Last of all, guaranteeing access not only to primary education but to quality secondary education as well is a task that is still pending.

Poverty should not be treated as just another indicator. A government's objective should not be solely to get the numbers to work out right, but to improve the quality of life of those who have the least. There is no use in maintaining a very low poverty line if people cannot have access to the goods and services making up that indicator, nor is increasing the number of years of schooling much use if the education people get is of poor quality.



Economic Tips

Inflation reached 2.4% in February. According to figures published by the Central Bank of Venezuela (BCV), the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for February was 2.4%, or year on year inflation of 57.4%.

Meanwhile, core inflation registered an increase of 3.9% in February. The year on year inflation registered 61.3%

Health and Leisure and culture had the highest inflation in February. Among the 13 categories studied by the BCV, in February Health and Leisure and culture showed a higher inflation than the national average, with a variation of 4.1%, followed by alcoholic beverages and tobacco, restaurants and hotels with 3.9% and restaurants and services education with 2.8%.

CPI reached 2.6% in February. According to figures published by the BCV, consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for February was 2.6%, or a year on year inflation of 53.3% since February 2013.

Geographical results. Of the 11 cities surveyed in February, the greatest variations were observed in Barquisimeto with an inflation of 3.2%, followed by Maracaibo with 2.8%. The areas with the least variation in February were Ciudad Guayana and Maturin with 1.9 and 2.0% respectively.

Latin Focus Consensus. The results of The March survey 2014, the consensus of the analysts is a contraction of GDP this year to 0.8%, along with an inflation of 59.0%. Also the results provide that at the end of 2014 the central Government deficit is expected to be close to 4.1% of GDP. Regarding the exchange rate devaluation from VEB 6.3/US\$ to VEB 10.7/US\$ and projected that the average price of the Venezuelan basket locate oil around US\$95.4/bbl. Finally consider an unemployment rate of 8.1% for this year.

Unemployment rate at 9.5%. According to numbers released by the INE, unemployment rate increased 0.1 percentage points (pp) in January, compared to the same period in 2013, when unemployment rate closed at 9.4%. This means that in the first month of the year, 1,320,084 people didn't have a job.



Inactivity rate decreases. According to inactivity rate figures published by INE, shows that decreased 0.6 pp compared to January 2013, to settle at 36.1%. Within this, men inactivity decreased 0.8 pp, and stood at 21.7%. By the other hand, women inactivity decreased 0.3 pp compared to the same period in 2013, and stood at 50.3%.

Informality rate at 40.1%. According to INE's figures, at end-January, 5,021,358 people were employed at the informal sector (40.1% of working population), decreasing 0.2 pp compared to the same period in 2013. For its part, formal sector employed 59.0% of working population; increasing 0.2 pp compared to same period last year.

Worker's Food Basket reaches VEB 6,818.69. According to the last report by the CENDA, the Worker's Food Basket (CAT for its Spanish acronym) reached VEB 6,818.69 on February 2014. This represents an increase of 2.9% compared to the previous month and of 62.5% compared to February 2013. The accumulated variation of the CAT is 67.4% (VEB 3,439.3).

The behavior of the CAT was determined by the increase in ten of the eleven products that conform it: milk, cheese and eggs 8.9%, nonalcoholic beverages 8.4%, sugar and similar 8.0%, oilseed 5.0%, beef and derivatives 3.1%, tubers and others 2.6%, fats and oils 2.4%, fishes 0.8%, fruits and vegetables 0.7%, cereal and derivatives 0.3%.

Family income only covers 47.6% of the basket. According to the report by Cenda, the minimum wage of VEB 3,270.3, effective since January 1, 2014 has a hypothetical purchasing power of 48.0% and a deficit only to food acquisition of 52.0% (VEB 3,548.3). That means that, a family today requires more than twice the minimum wage just to cover their basic expenses on food.

SICAD I is drying up. Even though the government gave assurances at the end of January that Complementary Currency Management System (SICAD) I would allocate US\$220 million a week, the amount allocated at the last two auctions (February 28 and March 14) was less than that, a total of US\$173 million of the US\$440 million offered. According to National Center for Foreign Trade (Cencoex), this reduction is due to the fact that companies are not complying with the criteria established for acquiring foreign currency.

A substantial increase: According to the "Mystery Shopping" survey conducted by the pollster Datanálisis, food shortages came to 47.7% overall in February, for a substantial increase in this indicator, which was 15.9% in 2012 and 37.2% in 2013. According to Datanálisis, the basic food items posting serious shortages in February



were: corn oil, refined sugar, cornmeal, powdered milk, margarine, and mayonnaise. Shortages are expected to get worse as long as the government maintains price controls and continues to delay disbursements of foreign currency.

New “Secure Supply” card: President Nicolás Maduro announced the implementation of the “Secure Supply Card” that people will be able to use to purchase products via all the State’s marketing networks. Maduro pointed out that use of the card will be optional, but that using it will allow the consumer to take advantage of special offers and take part in raffles (prizes of 500 vehicles, 500 Housing Mission apartments, special bonuses, and tourism plans are to be offered each month). He also said that this new mechanism seeks to “protect” the people from and eliminate smuggling.

This crisis is merely circumstantial. According to the president of the Central Bank, Nelson Merentes, Venezuela’s current crisis is circumstantial and is not the worst crisis the country has faced. *“Yes there’s a crisis, but it’s not as profound as the analysts are saying. Venezuela has the means for quickly overcoming this moment.”* According to Merentes, the solution is already under way, as a variety of contractive monetary policies have been implemented (increase in the legal reserve and in interest rates), the government has held meetings with the private sector in order to increase production, and new foreign exchange measures have been taken (SICAD II).

Still awaiting the happy event: The new foreign exchange market, SICAD II, is still not operating. According to unofficial sources, this is due to the fact that there are still some technical details to be ironed out (adapting the platforms) and the mechanism is expected to start operating sometime between March 20 and 24. Also the Central Bank has said that it will be possible to see the buy and sells orders, that the average exchange rate will be issued every half hour, and that new anti-profiteering rules are to be implemented, such as the requirement of submitting tax returns in the case of private individuals.

A “new” phenomenon: Vice President for the Economy Rafael Ramírez claimed that the parallel dollar is a phenomenon that was generated in 2013 by *“big profiteering economic agents”* to attack the stability of the bolivar. He also pointed out that current inflation is “foreign exchange” inflation and that, because our country is an oil producer there is a lot of revenue, which brings with it inflationary pressures. *“Venezuela will always be subjected to inflationary pressures simply because now our people consume more,”* added Ramírez.

A debt that grows and grows. According to Finance Ministry figures, the Central Government’s debt at the close of 2013 came to US\$115.2 billion, an increase of



10.0% compared to the close of 2012, when it came to US\$104.21 billion. The increase in total debt was due to an 18.7% increase (yoy) of domestic debt, whereas foreign debt contracted by 1.4% (yoy).

The greenbacks won't pay interest. Dollar bank accounts that are opened in the domestic banking system, and which are a requirement for anyone wanting to take part in SICAD II, will not earn interest owing to the fact that banks in Venezuela do not perform financial intermediation in foreign currency. Opening a dollar-denominated account does not require an initial deposit and will have a debit card so that the account holder can make use of the foreign currency obtained via SICAD II abroad.

Interest rates. The lending rate for the first week of March was at 16.6%, up by 1.6 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 14.9%, up by 0,2 pp compared to fourth week of February.

International reserves. International reserves decreased by 0.8%, going from US\$21.91 billion during the first week of March to US\$21.74 billion during the second week of March. Compared to the same period last year, international reserves have decreased by 19.3%.

Central government expenditure. On Friday March 14th according to figures from the NTO primary spending was VEB 25.48 billion, which means an increase of 227.6%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 128.72 billion 40.4% more than the same period last year

Monetary liquidity. Money liquidity (M2) increased 0.5% in the first week of March from the week prior, to settle at VEB 1.29 trillion. The M2 has increased 75.0% in relation with the same period last year.

Oil Tips

SICAD gives PDVSA and its partners some breathing room. It will be possible for PDVSA and its partners to make their investments in bolivars at the SICAD rate, which will allow them to reduce the dollar cost of their investments by approximately



58,0% (assuming an average SICAD rate of VEB 15,0/US\$). They will also be able to offer foreign currency via the new SICAD II, which will allow them to reduce their foreign currency costs by up to 87,4%, assuming that the new mechanism's rate is in the region of VEB 50.0/US\$.

Goodbye to monetary financing: PDVSA's participation in SICAD I and SICAD II will also allow the company to obtain all the cash flow in bolivars it needs without having to resort to the Central Bank. At *Ecoanalítica* we estimate that PDVSA will obtain VEB 50 billion for every US\$1 billion it offers via SICAD II, which is equivalent to 20,6% of the financing it requested from the Central Bank in 2013.

No appeal: The International Centre for Settlement of Investment Disputes (ICSID) endorsed its ruling in favor of ConocoPhillips, in which it argued that PDVSA failed to act in good faith during the expropriation of ConocoPhillips' assets in Venezuela. In 2007, the US transnational had a 50.1% share in the Petrozuata joint venture, a 40.0% share in the Hamaca Project, and a 32.2% share in the Corocoro Development Consortium.

The most powerful state in the country: People's Power Minister for Oil and Mining Rafael Ramírez claimed that Anzoátegui state is the region with the highest oil growth, thanks to the development of the Orinoco Oil Belt. Ramírez stated that Anzoátegui has 6,645 oil wells that still have to be drilled and that it is the country's most powerful oil state, bearing in mind that, from the point of view of territory, the majority of the Orinoco Oil Belt's operations are carried out in the region.

Oil production up: According to OPEC's monthly report, Venezuela's oil production rose by 4.7% in February 2014 compared to the same month last year. Crude production came to 2.87 million barrels a day (mb/d) this February, up 130,000 barrels from production in February 2013 (2.74 mb/d). OPEC's statistic reflects a slight increase of more than 90,000 b/d compared to average production for 2013, which was 2.79 mb/d

Greater demand: In its latest monthly report, OPEC states that growth in world demand for crude in 2014 will be 1.14 mb/d, around 50,000 b/d more than forecast in January, which means that world demand is expected to come to 91.1 mb/d in 2014. According to OPEC, the countries of Latin America, China, and India will post the biggest increases in demand, up 3.7%, 3.3%, and 2.7% respectively from 2013.

Dipping into the reserves: The United States (US) Department of Energy has announced the test sale of 5.0 (mb/d) of crude from the strategic reserve, the first sale since 1990. "*Due to the recent dramatic increase in domestic crude oil production, significant changes in the system have occurred,*" Energy Department



spokesman Bill Gibbons said. For that reason, and to "*appropriately assess the system's capabilities in the event of a disruption,*" the test sale of more than 5 million barrels of heavy crude was authorized.

Winter is having an impact. The US Energy Information Administration (EIA) revised its forecast for US oil production downward owing to the impact of severe winter weather at the start of the year on getting wells into production. The EIA lowered its US crude oil production forecast from 8.42 mb/d to 8.39 mb/d (variation of 0.4%). "*Harsh winter conditions over the past few months negatively affected well completion activity in the northern US,*" added the agency.

Permission to bid: Two years after being banned from carrying out any type of extraction activity in the Gulf of Mexico, BP has been authorized to take part in the bidding on exploration blocks in the region. In 2010, the sinking of the Deepwater Horizon platform, owned by BP, caused the death of 11 employees and spilled some 780,000 cubic meters of crude into the sea owing to negligence in implementing safety standards, resulting in the company being fined US\$42 billion.

Whatever it takes to keep customers: Russia's largest natural gas producer Gazprom is considering making changes to its supply contracts in order to keep its European customers, foreseeing possible sanctions against Russia for its intervention in Ukraine. Unofficial sources have said that the company would be prepared to change its "take-or-pay" requirement, according to which consumers have to pay for a given volume of gas whether they actually consume it or not.

International oil baskets. At closing time on March 14th in the New York Stock Exchange, the price of the WTI was US\$99.9/bl, increasing by 8.2% when compared to the reported the previous week. The Brent decreased by 1.4% when compared to the previous week, to reach US\$108.2/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$95.7/bl on Friday March 14th, decreasing by 6.3% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.6/bl.



Business Sector Tips

Businessmen don't see a solution without more changes. The Commission for Truth in the Economy set up by the government to find a solution to the present economic crisis jointly with the different industrial sectors reached the conclusion that it is fundamental that the disbursement of foreign currency for reviving production be speeded up and that labor regulations that favor productivity and do not encourage absenteeism be discussed. On the creation of the commission, the president of Fedecámaras, Jorge Roig, said that *"dialog is going in the right direction, but the measures are not sufficient."*

They want their foreign currency. Representatives of the Venezuelan Dairy Industry Chamber requested the government to honor the outstanding foreign currency debts it has with a number of companies in the sector, among them Nestlé de Venezuela, Lactalis-Parlamat, Prollosa, Lumalac, Pasteurizadora Táchira, and the Genica Group. The letter from the chamber to Executive Vice President Jorge Arreaza makes specific mention of companies such as Nestlé, which have not received disbursements amounting to US\$19.0 billion for powdered milk, and the case of Parmalat, which has not received foreign currency since November last year.

Nothing new: The latest biweekly report published by Alimentos Polar claims that the delays on the part of the foreign exchange authorities in disbursing foreign currency that is needed to pay international suppliers continue. The report indicates that, as at the end of February, the number of foreign currency disbursement authorizations that had not been paid came to 421, equivalent to more than US\$220.0 million. Polar also explains that delays in disbursing foreign currency are anywhere between 141 and 796 days.

44,000 jobs at risk: The leaders of Falcón and Nueva Esparta worker federations, Carlos Colina and Lorenzo Salazar, warn that the recent events that have brought about a contraction in the commerce sector are putting the jobs of 44,000 people employed in the sector in Falcón and Nueva Esparta at risk. The leaders explain that this entire situation has come about because the promise to *"replenish inventories (domestic appliances, clothing and other goods) offered by the government after forcing the sale of stocks in November-December last year has come to nothing."*



No dollars, no seats: Data for the period up until March from the Venezuelan Airlines Association show that the delays in disbursements by CADIVI to the airlines' parent companies have forced the airlines to reduce the number of seats and the frequency of flights to and from Venezuela. The association specifically mentions that Avianca is the airline that has been forced to make the biggest cutbacks in the service it provides (81.0%), followed by the Aruban airline Tiara Air (78.0%).

In Wonderland: The Minister for Aquatic and Air Transport, General Hebert García Plaza, claimed that the airlines that operate in Venezuela do not want to leave, after the International Air Transport Association (IATA) warned how difficult it was to continue operating in Venezuela. *"That was information that IATA gave internationally. We've maintained talks with the international airlines, and part of the payment has been made to them. I venture to refute, responsibly, that some airlines are thinking of leaving the country,"* added García.

And another cutback! Chrysler's public relations manager, Milka Torres, explained that the US company's affiliate in Venezuela, which is one of the country's main automotive assemblers, has cut its production by 45.0%. The leader of the labor union at Chrysler de Venezuela, Christian Pereira, said that the lack of raw materials will lead to *"activities in the production lines being suspended,"* but denied that this would prompt the company to close down the plant where 1,150 people work.

Another auction: The treasurer of Consecomercio, Vicente Fernández, said that the Venezuelan economy's biggest problem is the exchange control, which is why businessmen do not have the foreign currency they need to operate. He also explained that SICAD II would seem to be a step in the right direction but that *"it's not a true foreign currency market; it's still an auction."* *"We have PDVSA as the main supplier of dollars, but PDVSA also finances the missions, which reduces the quantity of cash flow the country might have,"* added Fernández when commenting on the shortcomings of this new mechanism.

Without Panama there's no Paradise. The president of the Venezuelan-Panamanian Integration Chamber (Civenpa), Francisco de Sola, said that, following the breaking off of relations with Panama, the zones that are being hardest hit from the point of view of trade are the Island of Margarita and the Paraguaná Peninsula, as they are nearly 70.0% dependent on imports from Panama. *"The problem is not a question of studying how much is owed or not, the problem is that there are parts of Venezuela such as Margarita and the zone of Paraguaná that are nearly 70.0% dependent on imports from Colón Duty Free Zone because everything that comes from China goes through Panama,"* added Sola.



World Economy Tips

Ultimatum: US President Barack Obama announced the freezing of the assets of 11 Ukrainian and Russian government officials involved in the Crimea-Russia political conflict. According to the US Government, the referendum in Crimea was a clear violation of Ukrainian law. Obama said that if the insurrection in the peninsula continues, the US Government could take measures that would have political consequences for the area.

Food prices post a surprising hike. Inflation in the United States was 0.4% in February compared to the previous month and up 1.1% from February 2012, according to the latest figures published by the US Bureau of Labor Statistics. The sector that experienced the biggest increase in prices in February was food, with an increase of 0.4% in the month, the biggest monthly increase since the end of 2011.

Customs tariff truce: US President Barack Obama and European Union (EU) heads of state and government are to promise to remove all tariffs on bilateral trade at the end of this month, an undeniably ambitious step that points to the signing of what will be the world's largest free trade agreement. The leaders have opted for this measure following the tensions caused by Washington's offer to cut its customs tariffs by less than the EU had hoped for and after Brussels had pledged to remove nearly all of its own tariffs.

China's not living up to expectations. Data from China's National Bureau of Statistics show that China's industrial production grew by 8.6% in the first two months of the year compared to the same period in 2013, falling short of market expectations of 9.5%. As for retail sales, they also fell short of expectations, achieving annualized growth of 11.8%, 1.7 percentage points below market expectations.

ECB is ready for complications. ECB President Mario Draghi stated that the European Union's main bank has made preparations to take additional measures to protect the euro zone's economy from deflation while the strong euro is weighing on prices, despite the fact that the risks of deflation are "*quite limited.*" Draghi commented, however, that if low inflation continues on the present path, the probabilities of deflationary risks will grow.

A long way from what's recommended: The Governor of the Central Bank of Spain, Luis María Linde, expects Spain's inflation to be 0.4% (yoy) in 2014. "*The*



ECB aims to keep inflation at around 2.0%, and we're a long way from that right now. We think it will be around 0.4 percent or 0.5 percent," explained Linde. This statement is in line with what has been observed thus far this year, bearing in mind that both inflation and growth in February were 0.0% year-on-year.

When there's a tremor in Ukraine, Germany feels the shock waves. The Centre for European Economic Research (ZEW) monthly economic confidence index posted a drop from 55.7 in February to 46.6 in March, below market estimates. The ZEW's economists stated that the main cause of this sharp drop was the Ukrainian crisis, as there are fears that the problems Ukraine is currently experiencing could become a heavy burden for Europe's largest economy. This drop puts the index at its lowest since halfway through last year.

Japan's recovery: According to the latest monthly report published by the Japanese Government, Japan's economy has shown a moderate recovery and is growing on a firm basis, with corporate profits behaving as desired and the employment situation steadily improving. The report also mentions an increase in demand –both for automobiles and domestic appliances and furniture and clothing- and forecasts a slowing down in investment in housing.

But Russia remains defiant. Russian President Vladimir Putin and Crimea's leaders signed a treaty that makes the Crimean Peninsula part of the Russian Federation. Russian armed forces took control of the peninsula in the Black Sea at the end of February following the removal of the Ukrainian leader Viktor Yanukovich, who was close to Moscow, in the midst of protests unleashed by his decision to reject a free trade agreement with the European Union in order to maintain his good relations with the Kremlin.

Political Tips

UNASUR is to keep an eye on Venezuela. The Union of South American Nations (UNASUR) has agreed to send a mission of foreign ministers to Venezuela to advise the Nicolás Maduro administration with regard to a dialog aimed at restoring peaceful coexistence in the country. The measure was agreed at the last meeting of UNASUR's ministers for foreign affairs held in Santiago de Chile to discuss the present situation in Venezuela, in which more than 20 people have died in anti-government protests.



The same old, same old... President Nicolás Maduro denounced that the US Government intends to carry out a plan the purpose of which would be his assassination as an extreme measure to generate a crisis in Venezuela. *“If they were to carry out that plan one day, this people must continue in the streets making revolution, the armed forces and the people together. And we must extend the arms of the revolution beyond this Venezuelan fatherland,”* added Maduro.

The abuses continue. Reports of cases of torture suffered by people arrested during the protests that started in February have increased by 47.5%. The NGO *Foro Penal Venezolano* put the figure at 40 initially, but the number of cases had increased to 59 by mid-March. *“They are cases of torture, not excesses or inhuman treatment. That is, as the law says, suffering inflicted to obtain a confession, to intimidate, as a punishment or as an act of discrimination. Torture has been used to inflict punishment or as a sanction for demonstrating,”* specified the NGO’s director, Alfredo Romero.

The “rightwing” again: President Nicolás Maduro gave his opinion regarding the deaths in Venezuela as a result of the protests that are occurring at present in the country saying that *“according to investigations, practically all our fellow countrymen who have died can be attributed to violence by the rightwing. In only one of the 29 cases is there the possibility that a member of the Bolivarian National Guard may have been involved. The rest were deaths caused by the violent “guarimbas” (barricades put up by demonstrators).”*

Commissioner Diosdado: The president of the National Assembly is to be Venezuela’s new representative in a high-level commission for peace and respect for national sovereignty. Other members will be the US Government’s high commissioner and a representative of UNASUR. This means that Diosdado Cabello will be responsible for negotiating terms of peace and fraternity with the United States representing the interests of the Nicolás Maduro administration.

The “Commission for the Truth” is here. The president of the National Assembly, Diosdado Cabello, announced the creation of a Commission for the Truth in the National Assembly at the request of President Nicolás Maduro. *“We’re going to do it. We’re going to investigate and take things to their ultimate consequences. There’s not going to be impunity in Venezuela and that is the message we’re sending to the people so that they are reassured and continue to have confidence in Maduro’s leadership,”* added Cabello when explaining the functions of the new commission.

The numbers don’t favor Maduro. The pollster Datos conducted an opinion poll on the climate of opinion in Venezuela (*Exploración Clima País*). Taking responses indicating firm and soft support combined, the results revealed that 43.7% of the



Venezuelan population supports the opposition, 27.1% supports the government, 24.4% supports neither side, and 4.0% preferred not to answer. They also revealed that 70.8% of the population is in favor of President Nicolás Maduro being replaced by holding elections.

In short, most people want a change. The opinion poll “*Exploración Clima País*” by the pollster Datos also showed that 87.0% of the population believes that “*the government should rectify its policies on handling the country,*” 87.0% that the “*government and the opposition should reach agreements through dialog,*” 83.0% agrees that “*the collectives have to be disarmed,*” 86.0% that everyone should be disarmed, and that the action taken by the armed forces during the current protests has been “*out of proportion and wrong*” (noting that the responses to the last question is markedly biased by the individual’s political ideology).

With sanction in hand: US Secretary of State John Kerry gave assurances that the United States is continuing to try to get the Venezuelan crisis solved by means of dialog, while making it clear that Washington is “*prepared*” to impose sanctions on Caracas if the region’s mediation efforts are not successful. “We are prepared, if necessary, to invoke the Democratic Charter of the Organization of American States (OAS) and get involved in various ways, through sanctions,” added Kerry.

Covering up the problems: Deputy Julio Borges warned that Nicolás Maduro is attempting to gain time by blaming the current protests for the country’s economic problems -which are becoming more serious by the day- as they wait for the “*US\$7 billion in fresh debt that was negotiated recently with China and Russia*” to arrive. “*As they always do, now they’ll try to justify the economic disaster by pinning the blame on the “guarimbas” (barricades put up by demonstrators) and confrontations that they themselves are provoking by brutally repressing the people using the military, the police, and violent groups armed by the government,*” added Borges.

Legislatives Tips

A new Empresa Nacional de Transporte de Productos Industriales: *Gaceta Oficial* No. 40,373 publishing the decree authorizing the creation of the *Empresa Nacional de Transporte de Insumos y Productos Industriales* (National Industrial Inputs and Products Transport Company) has already been issued. According to the decree, the company has been set up because of the “*need to reduce freight costs*”



by activating the domestic provision of land and aquatic transportation services for heavy and light cargo, byproducts, raw materials, residual inputs and industrial wastes.”



ECONOMIC OVERVIEW

