



Weekly Report

Year 9, Number 12
Week I, April 2013

By:
Asdrúbal Oliveros
José Luis Saboin
Pilar Navarro
María Andrea Manuzzato

The sad story of purchasing power in Venezuela

Ecoanalítica's Team*
* Jessica Grisanti, Gabriel Villamizar and Vanessa A. Flores

Reproduction or distribution prohibited

For ten years Venezuela has had exchange controls, and on February 8, the fourth exchange rate adjustment was implemented since 2003.

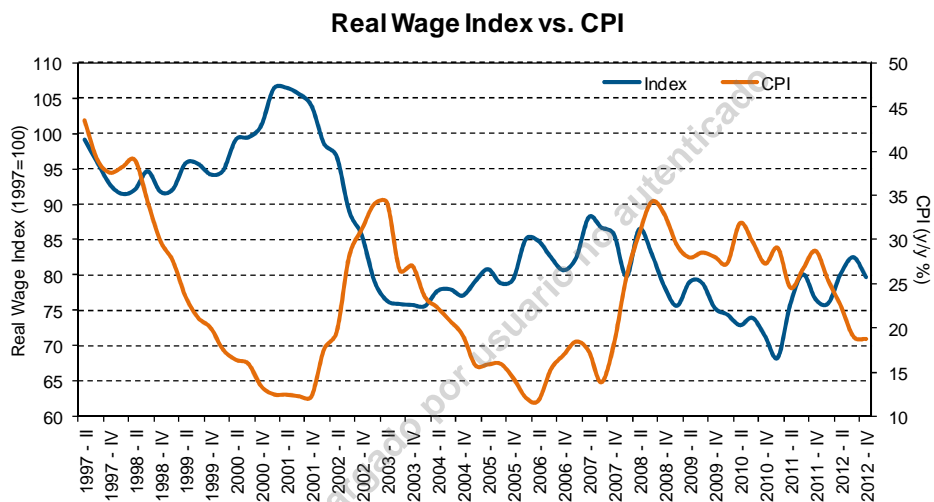
The official exchange rate went from VEB 4.3/US\$ to VEB 6.3/US\$, or a 31.8% loss in the value of the local currency. Last week, a new exchange rate, higher than the official one was implemented through a new system, which will increase the devaluation. This, together with the constant price increases, has meant a loss in the purchasing power of Venezuelans, a topic that will be explained in this report.

What is IRE?

We will start by analyzing the evolution of the wage earners remuneration index (IRE) a statistical indicator that measures the evolution of prices with respect to the work of wage earners in the formal sector, in both public and private activities. A limitation of this index is that it leaves out the remuneration of the informal sector, which represents 41.7% of the labor force.



The IRE is necessary to study inflation, the labor market, production, cost structures, competitiveness, and it is particularly important to compare it with the Consumer Price Index (Índice de Precios al Consumidor - IPC), to establish the purchasing power level of salaries.



Sources: BCV and Ecoanalítica

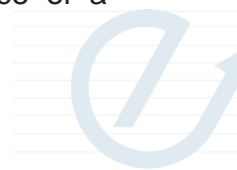
Observing the evolution of IRE in the last years, we see that low inflation periods are accompanied with an improvement or stability of wages in real terms.

Thus, we see that since the end of 2011, a lower inflation together with salary improvements (in 2012 the minimum wage increased 32.3% while inflation was 20.1%) enabled a recovery throughout the year in the worker's wages and salaries.

Analyzing this for the longer term, the inflation path covered during the last decade has hindered significantly the purchasing power in Venezuela, which is below 2001 levels and requires many salary improvements and price stability to recover. Will it be possible to start recovering in 2013?

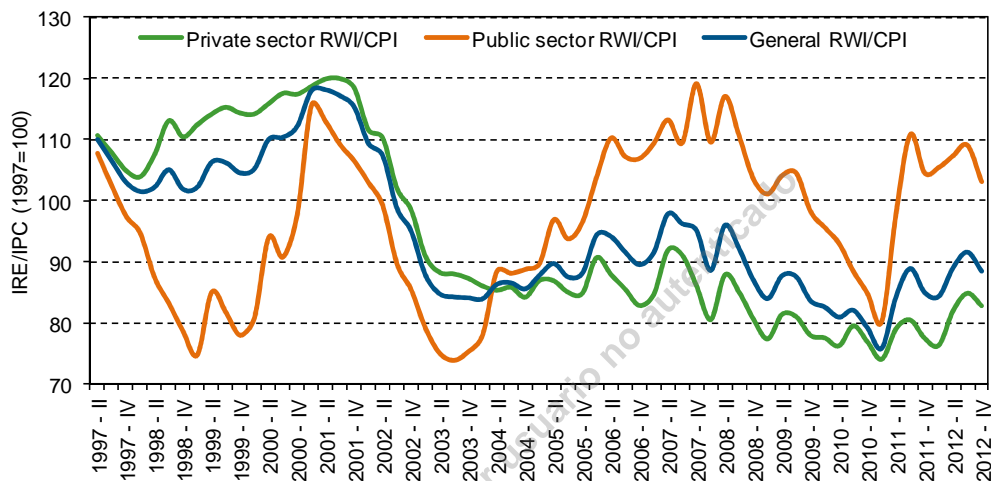
First sign: Prices and salaries, a lost race

Another important indicator in the evolution of purchasing power is the relative value of the wage earners remuneration index (IRE) compared to the consumer price index for the metropolitan area of Caracas (índice de precios al consumidor del área metropolitana de Caracas - IPC-AMC), which shows how remuneration evolves with respect to the price of a representative family basket.





Real Wage Index relative price compared to CPI



Sources: BCV and Ecoanalítica

As we can see, despite improvements during 2011-2012, in the last quarter of 2012 the IRE/IPC-AMC indicator fell 3.2 percent points, going from 89.3% in 3Q2012 to 86.1% in 4Q2012, as a result of the increase in the IPC-AMC at the end of the year. This indicates that salaries increase slower than prices, so the purchasing power of workers started dropping, and for **Ecoanalítica** this signals lower remunerations for 2013.

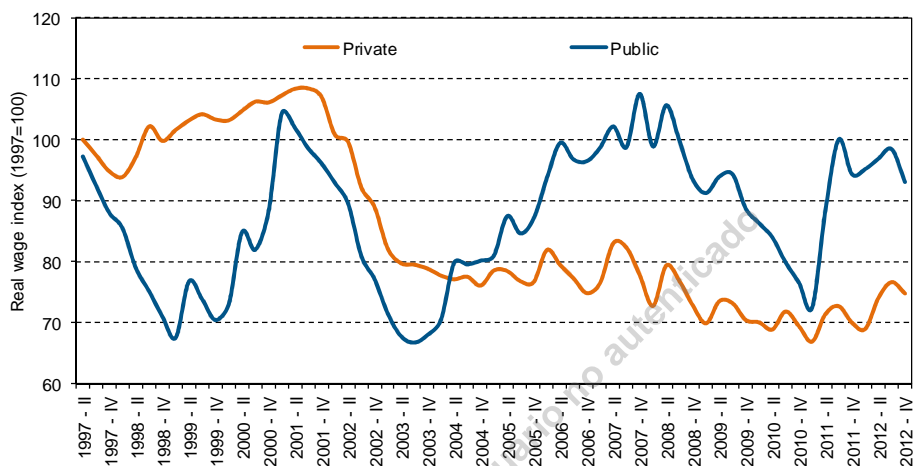
**Public sector:
biting off more
than it can chew**

Analyzing the evolution of remuneration by sector, there has been a significant change in the public and private components, and the turning point was in 4Q2004. Since then, the public sector started increasing considerably the wages and salaries of its employees, becoming the main driver of the improvement of the worker's purchasing power, while the remunerations of the private sector have been lagging.





Real wage index by sectors



Sources: BCV and Ecoanalítica

Nevertheless, as we have said at **Ecoanalítica**, the private sector is still the country's main employer (79.7% of the working population) so in the BCV's IRE calculation, its weight is 72.5% while the public sector represents 27.5%.

Thus, in terms of global remuneration, the behavior of the private sector is more important despite the increases in the public sector, so in its employment policy, the government cannot dismiss the role of private economic activity, and its effect on the wellbeing of most workers in the country.

Second sign: Devaluation

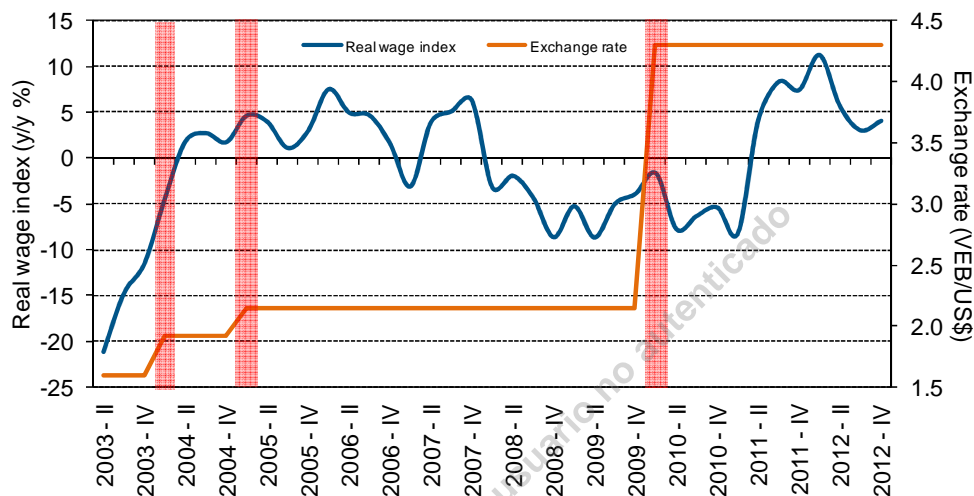
We cannot forget the impact of the latest devaluations on salary increases, and thus, the loss of purchasing power of Venezuelans.

In the last ten years, since the government implemented exchange controls, there have been four devaluations, which in an importing country like Venezuela (it imports 36.6% of private consumption) where the ratio between the exchange rate and inflation is close to 50%, this translates into higher inflation and thus, a lower purchasing power for workers





Real Wages Index vs. Exchange Rate

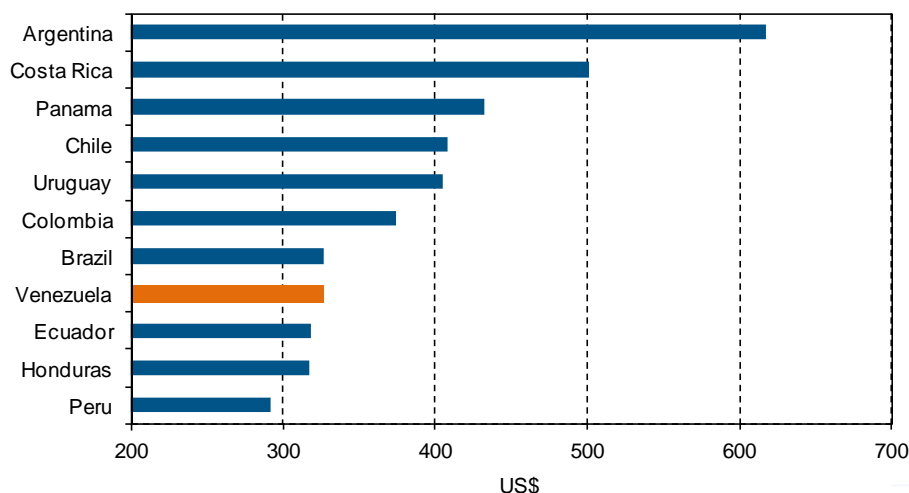


Sources: BCV and Ecoanalítica

The wonders are over

Although in 2012 we had *“the highest salaries in Latin America”*, because the total minimum wage increase was 32.3% taking it to VEB 2,047, placing Venezuela as the country with the highest minimum wage in the region, US\$476 at the official exchange of that time (VEB 4.3/US\$), with the devaluation of February 8, also known as “red Friday”, the Venezuelan minimum wage lost 31.7% of its purchasing power, and is now US\$325, or the eight place in the region.

Monthly Minimum Wage in Latin America 2013



Sources: Official websites and Ecoanalítica



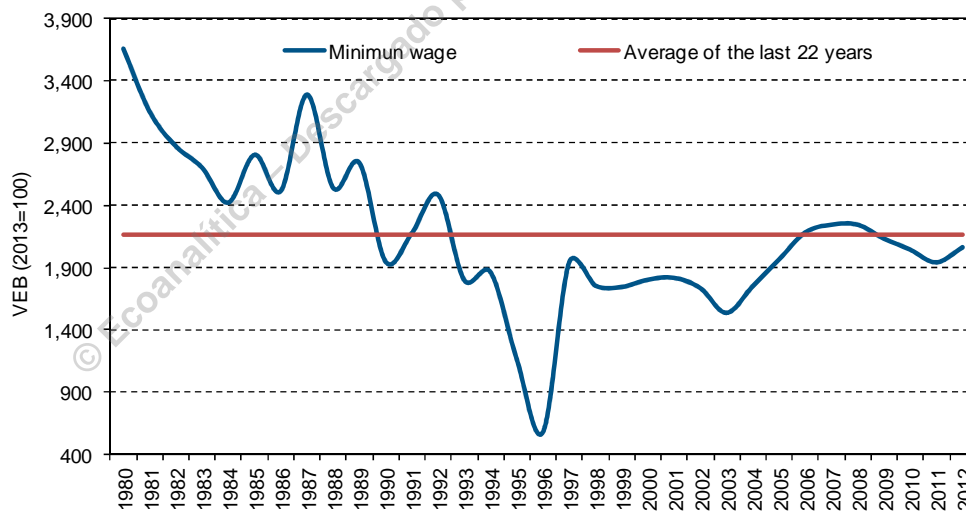
Looking in more detail

Comparing our minimum wages with that of the U.S., or US\$8 per hour, for an 8 hour work day, 21 days in a month, the monthly salary would be US\$1,344, therefore, the U.S. minimum wage is 4 times higher than in Venezuela. Closer to home, in February a minimum wage of 2,875 pesos or US\$619.6 dollars entered into force in Argentina, almost twice the minimum wage in Venezuela.

1983 Vs. 2013

We must mention that in 1983, year of the so called “black Friday”, Venezuela’s minimum wage was VEB 0.93, which today represents VEB 2,699, 24.2% higher than today’s minimum wage. Inflation at that time was 6.5%, much lower than the 22.1% of February of this year. Thus, a person earning the minimum wage in 1983 could at least cover the basic basket, which in February cost VEB 2,174, and today’s minimum wage only covers 94.1%. In 20 years, the minimum wage has had a negative evolution.

Evolution of the Minimum Legal Wage



Sources: INE and Ecoanalítica

So, how much have we lost?

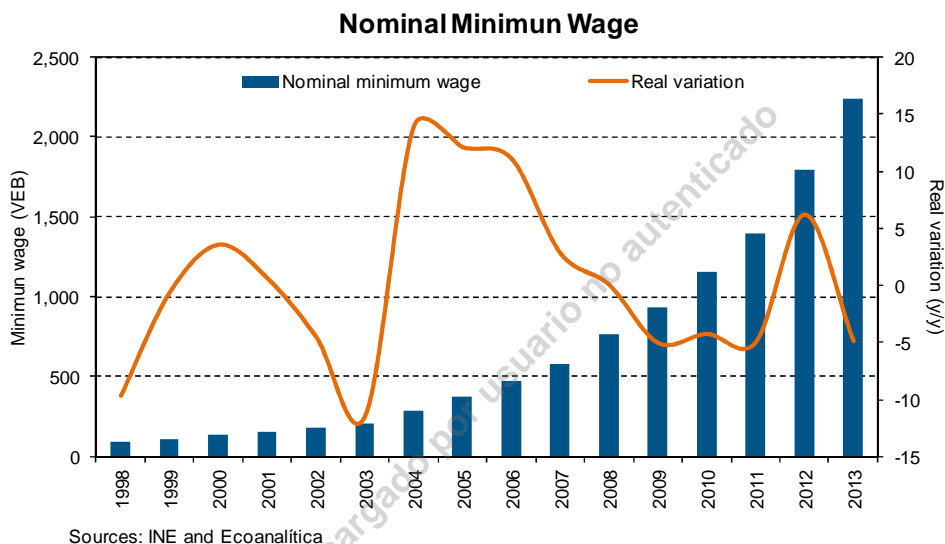
Analyzing the variation of IRE in the last 14 years, we see that from 1Q1997 to 4Q2012 it increased 2,028%; however discounting inflation, which increased 2,569% in the same period, remunerations have dropped 20.3% in real terms, or purchasing power that Venezuelans have lost in the last 14 years.

How will 2013 be?

With the new hard currency system, “Sistema Complementario de Adjudicación de Divisas” (Sicad), the weighted devaluation (of imports) for 2013 will be 71.3%. This devaluation will have a significant impact on inflation, so 2013 doesn’t look too good in terms of purchasing power.



Ecoanalítica estimates that the average annual increase of the minimum wage will be around 25% in 2013, taking it to VEB 2,224, but discounting an estimated inflation of around 31.9%, it would fall 5.2% in real terms.



Going further and considering the underlying inflation (which excludes the subsidies present in the INPC) it would end up being 37% in 2013, so the wage drop in real terms would be 8.8%.

Real remunerations won't behave much differently in 2013 and even though they encompass much more than salaries, **Ecoanalítica** estimates that after two years of recovery, they will fall again 7.7%.

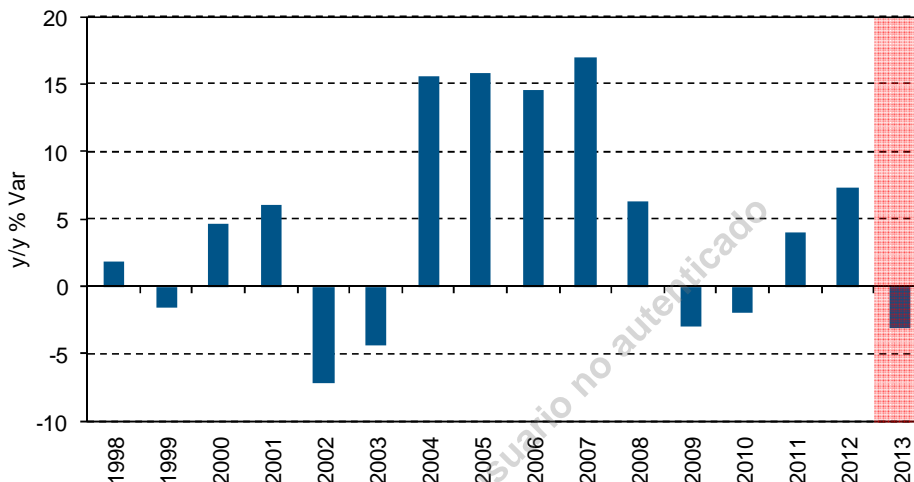
Consumption will suffer

This drop in the remuneration index will affect private consumption. **Ecoanalítica** estimates that in 2013 private consumption will drop 3.1% y/y, while Latin Focus Consensus, states that there will be an average 0.6% growth in private consumption, compared to 2012. It is important that our clients consider this information when making sales projections, since 2013 won't be a good year in this sense, particularly for the trade sector.





Private Consumption

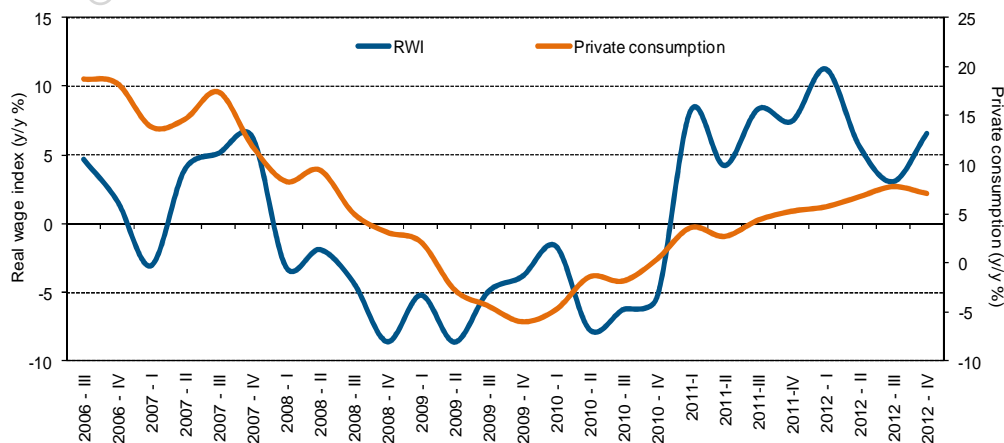


Sources: BCV and Ecoanalítica

Our sad situation

With the devaluation and the inflation increase of the last months, there is a new drop in the purchasing power of Venezuelans, who have increasingly difficult salary conditions. Whenever the purchasing power deteriorates, workers spend more of their salaries in basic items, so it is more difficult to protect from the purchasing power loss, falling into an impoverishment cycle with the obvious consequences for consumption, the main driver of growth in Venezuela.

Real Wage Index Vs. Private Consumption



Sources: BCV and Ecoanalítica

Ecoanalítica believes, on the one hand, that the Venezuelan government has made significant efforts to improve the salaries of its workers,



however, public policies focus only on that sector, striving to increase the State payroll, overlooking the role of the private sector in the labor market, generating instabilities since the government payroll and its benefits depend basically on oil income and the price of oil.

On the other hand, minimum wage increases, although necessary, won't compensate the loss of purchasing power or give to Venezuelans stability in their real income; what is needed is an economic policy that targets macroeconomic stability, that controls price and exchange rate increases, the main enemies of the purchasing power of Venezuelans, and where private and public initiatives merge to achieve a stable labor market. In this way, the conditions for a stable economic growth would be achieved, with a State that regulates rather than penalize, and makes the conditions of Venezuelan workers improve in the long term.

© Ecoanalítica – Descargado por usuario de Ecoanalítica





Economic Tips

Tax collection for February. According to the figures released by the National Integrated Service for Tax Administration (Seniat), VEB 16.25 billion were collected in taxes for the month of February. Of this amount, VEB 2.63 billion (17.2%) came from Income Tax, and VEB 8.34 billion (54.7%) from the VAT. The agency raised VEB 30.59 billion during the first two months of 2013, of which VEB 5.85 billion came from Income Tax (19.1%), and VEB 16.11 billion from Value Added Tax (VAT) (52.6% of the total).

In real terms, February tax collection was up by 4.1% compared to the same period last year. Both, the Customs revenue and the VAT increased in real terms compared to the same period last year, by 2.6% and 6.4%, respectively. Revenue coming in due to Income Tax went up by 11.2% in real terms compared to the same period last year. Total revenue in the first two months of this year grew by 6.5%. In turn, VAT and Other income from customs increased in real terms, 8.2% and 0.4%/y/y respectively. Meanwhile, income tax revenues increased 16.1% in real terms over the same period of 2012.

Concepts (VEB Million)	Feb-12	Feb-13	Var. (%)	Real Var.	Jan-Feb 2012	Jan-Feb 2013	Nominal Var	Real Var
Total Income	11,925	15,251	27.9%	4.1%	23,683	30,591	29.2%	6.5%
Income Tax	1,922	2,625	36.6%	11.2%	4,153	5,852	40.9%	16.1%
VAT (Internal)	6,382	8,341	30.7%	6.4%	12,278	16,113	31.2%	8.2%
Customs revenue*	2,836	3,573	26.0%	2.6%	5,604	6,822	21.7%	0.4%
Other Internal Revenue	629	595	-5.4%	-23.0%	1,425	1,583	11.0%	-8.5%
Spirits	51	48	-5.4%	-23.0%	102	95	-6.4%	-22.9%
Cigarettes	544	502	-7.7%	-24.8%	1,261	1,408	11.6%	-8.0%
Inheritance	28	35	28.1%	4.3%	49	62	27.5%	5.1%
Random games or bets	6	9	43.1%	16.5%	14	17	26.7%	4.5%
Others	156	117	-25.1%	-39.0%	222	222	-0.2%	-17.7%

Sources: Seniat and Ecoanalítica

* Includes VAT on imports

Unemployment rate at 7.6%. According to numbers released by the National Statistics Institute (INE), unemployment rate decreased 1.6 percentage points in February, as compared to the same period in 2012, when unemployment rate closed at 9.2%; this means that in the second month of the year, 1.027.994 people didn't have a job.

Inactivity rate decreases. According to inactivity rate figures published by INE, shows that decreased 0.8 percentage points compared to February 2012, to settle at 36.3%. Within this, men inactivity decreased 0.7 percentage points, and stood at



22.1%. By the other hand, women inactivity, decreased 0.9 percentage points, and stood at 50.3%.

Informality rate at 40.9%. According to INE's figures, at end-February, 5.132.174 people were employed at the informal sector (40.9% of working population), decreasing 1.6 percentage points compared to the same period in 2012. For its part, formal sector, which employs 59.1% of working population, all thought increased in one year, from the previous month fell 0.6 percentage points.

Pragmatics at the head of Cadivi. Nicolás Maduro, President in charge of the Republic, appointed Eudomar Tovar, Vice-president of the Central Bank of Venezuela, as the new President of Cadivi, after Manuel Barroso quit because of health issues. Maduro also announced the creation of the vice-presidency of Cadivi, which will be held by José Khan. The new directors of Cadivi will be two officials of the pragmatic wing of the government.

Cadivi has refused applications for US\$40.0 billion. Through a press release, the Foreign Currency Administration Commission (Comisión de Administración de Divisas - Cadivi) informed that since the implementation of exchange controls, it has refused Authorizations to Purchase Hard Currency (Autorización de Adquisición de Divisas - AAD) for over US\$40.0 billion, due to non-compliance with the regulations; this occurred after the Commission's authorities monitored, inspected, reviewed and followed up the requesting companies revealing their non-compliance with the rules.

Sicad offered US\$200 million. US\$200 million were auctioned through the new Complementary System to Purchase Hard Currency (Sistema Complementario de Adquisición de Divisas - Sicad), according to data from the Ministry of Finance. The first offer of Dollars made by the government through the new system, assigned an average of US\$522,193 per company, to 383 private companies, and contemplated an assignment limit of up to 1% (around US\$2 million per company).

Sicad exchange rate is a secret. Although the government informed that it contemplated a base exchange rate of VEB 6.3/US\$ for the first auction of Sicad, it didn't provide information about the exchange rate that was derived from the offers. **Ecoanalítica** estimates that the exchange rate of the first Sicad auction was VEB 14/US\$, or a devaluation of 62.1% compared to the exchange rate used to assign currency through the defunct Sitme.

Balancing the accounts? According to a report of Barclays Capital, if the new Sicad sells US\$200 million per week, at an average rate of VEB 14/US\$ for the rest of the year, the government would be collecting around 4.1% of GDP in additional income. According to Barclays, this income would help improve the balance of the public



sector which ended last year with a deficit of 19.6% of GDP, and could be 10.2% of GDP in 2013.

Sicad for everybody. Nicolás Maduro, President in charge, announced that individuals may participate in the currency auctions of the new Sicad. *"I have the resolution here, we are fine tuning it, so that any Venezuelan can have access to Sicad"* said Maduro, who also reminded that he ordered the investigation of the promoters of the so-called parallel market to put them in "jail".

Hard currency to benefit the people. Elías Eljuri, President of the National Institute of Statistics (Instituto Nacional de Estadística - INE), said that the main objective of Sicad and the Entity to Optimize the Exchange Rate System (Órgano para la Optimización del Sistema Cambiario) is improve the use of hard currency to benefit Venezuelans and expand controls to prevent corruption. "The important thing is to fight against corruption, that is the goal of this commission (...) using hard currency with a stricter control, and improve Sitme's issue in the use of dollars", said Eljuri.

Government already placed 40% of the debt of 2013. According to figures of the Ministry of Finance, in the first three months of the year, VEB 30.0 billion were sold in debt bonds, around 40.4% of the VEB 74.3 billion planned to be placed this year. Despite the greater income due to high oil prices, and the devaluation, the government has already placed bonds for 25.9% of the total indebtedness established in the Indebtedness Law, which is VEB 116.0 billion this year.

Around VEB 27.3 billion will be placed in 2Q2012. The Ministry of Finances announced the start of the National Public Debt Securities Placement Plan for the second quarter of 2013, when it expects to sell VEB 18.20 billion in national public debt bonds through weekly auctions for VEB 1.40 billion and VEB 9.10 billion in treasury bonds through weekly auctions for VEB 700 million.

Boom of the Sucre hinders reserves. In a report sent to Nicolás Maduro, President in charge of the Republic, Jorge Giordani, Minister of Finance and Nelson Merentes, President of the Central Bank of Venezuela, warned about an *"unusual increase"* of imports through the Unitary System for the Regional Compensation of Payments (Sistema Unitario de Compensación Regional de Pagos - Sucre). The report says that if the trend continues, this year the country will have a trade deficit of US\$2.2 billion through this system, a *"considerable blow to the Republic's international reserves"*.

Interest rates. The lending rate for the third week of March was at 15.6%, down by 0.9 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 go up by 1.0%, going from US\$26.77 billion during the fourth week of March to US\$27.04 billion during the fifth week of March. Compared to the same period last year, international reserves have decreased by 2.0%.

Central government expenditure. On Friday March 29th according to figures from the National Treasury Office (ONT) primary spending was VEB 8.86 billion, which means an increase of 13.9% when compared to the previous week when it was VEB 7.78 billion; when compared to the same period last year we observe an increase of 15.8%.

Monetary liquidity. Monetary liquidity (M2) was increased 0.2% in the fourth week of March compared to the previous week, settling at VEB 746.05 billion. The M2 has increased 59.6% in relation with the same period last year.

Oil Tips

Pdvsa doesn't look good. Pdvsa's consolidated balances indicate that at the end of 2012, its debt with suppliers reached US\$14.65 billion, a 40% increase compared to its obligations in 2011. The financial statements of the state owned Oil Company showed a 51% drop in liquid assets, a considerable deterioration of its position to confront its obligations. Pdvsa has had to finance a series of government programs and projects, and also provide hard currency for the country, which has significantly affected its cash flow.

Contributions to social programs drop. Information presented by Pdvsa in its Report and Accounts for 2012, shows a 28% reduction in transfers to the "Misiones" and social plans. In 2011, Pdvsa disbursed US\$15.3 billion, and in 2012, US\$ 11.9 billion. This drop in contributions has had to be compensated with government funds in foreign currency, which dropped 44.4% a/a in February.

Deliveries to Petrocaribe increase. According to the Report and Accounts of the Ministry of Oil and Mining, in 2012 around 108 kb/d of hydrocarbons were sent to different countries within the framework of the Petrocaribe agreement, a 13.6%



increase compared to 2011. With an average price of US\$ 103.42/bl for the Venezuelan baskets, the deliveries represent around US\$4.076 billion, in a scheme that has no payment terms of up to two years, short term financing of up to 90 days, and long term financing of up to 25 years.

Payments speed up, to keep the suppliers. After Schlumberger, the world's largest oil services company, threatened to reduce its operations due to payment delays by Pdvsa, both companies reached a payment agreement to prevent this from happening. Paal Kibsgaard, Schlumberger Executive Director, said after a meeting with Pdvsa directors, that the Venezuelan oil company pledged to improve its payments, and expects to finalize a new payment contract soon to meet the present and future production and development plan needs of Pdvsa.

At half speed. Jesús Luongo, Pdvsa's refining director, acknowledged that the Amuay refinery, affected by last August's fire, is working at half speed, with an average refining capacity of 352 kb/d, well below the installed capacity to process 635 k/d. Loungo also announced that "with the startup of the Flexicoker and the progress made in the repairs of distillation unit No. 5", the situation of the refinery is expected to normalize soon.

Millionaire Credit for Ecopetrol. Ecopetrol, the Colombian oil company, informed about a financing operation for US\$847 million with four international banks, and the U.S. Export Credit Agency (US Eximbank) as warrantor. The credit will be in two steps, and resources "*may be disbursed only abroad (of Colombia) and used exclusively to pay for goods and services purchased from U.S. suppliers*".

Important finding. Ecopetrol reported a second hydrocarbon finding in the Department of "El Meta", in central Colombia, of at least 630 kb/d. Initial test results reveal a production of 17 API grades crude oil, an average flow of 630 kb/d, and 39% water cut. The new discovery consolidates Ecopetrol's position in the Meta department, a region that concentrates around 55% of the company's oil production.

Oil prices rising? The New York crude oil market, WTI, increased 1.53 dollars closing at 96.34 dollars, while the European market, the North Sea Brent, increased 1.1 % to US \$ 109.36 per barrel. According to Michael Lynch, expert at Strategic Energy and Economic Research, these indicators eclipsed the other less positive indicators, since people no longer fear a recession relapse, but consider that the recovery has solid foundations, and this will translate into more energy demand.

OPEC production drops. According to Reuters, "OPEC's oil production will reach this month its lowest level since October, 2011 due to the incidents in Libya, leaks in Nigeria, and export interruptions from Iraq". Saudi Arabia, OPEC's main producer, is



still slowing down production, which is expected to cause a drop in the organization's average daily barrels, to 30.18 mb/d.

International baskets. At closing time on Wall Street, WTI traded on last Friday March 29th at US\$ 95.7/bl, which means an increase of 2.8% from US\$93.1/bl recorded the previous week. Meanwhile, Brent increased by 0.4% to reach US\$109.0/bl compared to the previous week when it reached US\$108.6/bl.

Local basket price. On Friday, March 29th the Venezuelan oil basket price closed at US\$103.5/bl an increase of 1.5% compared to US\$102.0/bl recorded the previous week. Meanwhile, the average of the Venezuelan oil basket stands at US\$ 103.8/bl.

Business Sector Tips

Automobile production down by 51.1% in 1Q2013. Spokespersons for the auto industry have been alerting throughout the year of the difficulties they are having in obtaining foreign currency. Many of the seven automakers members of Cavenez are cutting back on production in order to make their materials last so as not to have to completely shutdown. This being the case, 1Q2013 figures show that production has dropped by 51.1% going from 29,261 cars in 1Q2012 to just 14,316 cars produced in 1Q2013.

Production of price-controlled products plummets. According to the Venezuelan Food-Processing Industry Chamber (Cavidea), production of price-controlled food products has been dropping for 2 years in a row. Representatives of the Chamber claimed that for February 2013, food production fell 2.1% with respect to the same month in 2012, adding that *"food production has been fluctuating for almost two years now: sometimes improves a little; other, on the contrary, it worsens; but at the end, the trend is negative."*

Inventories up until April. According to the Venezuelan Food-Processing Industry Chamber (Cavidea), local companies are producing at the maximum capacity their raw material stock allows them. Pablo Baraybar, Cavidea's president, stressed that the effort the industry is deploying by implementing extra shifts, working weekends and holidays and pointed out that stocks will last at least until April; therefore, they estimate that firms will be able to produce, for now.



Agricultural production grew in 2012. According to the Ministry of Agriculture and Land (MAT) 2012 report, last year more agricultural products were produced in Venezuela. Data says that agricultural production reported a 10% increase last year. The largest growth was observed in vegetable production (6.6%), in spite of weather-related events; whereas concerning animal food production, MAT's report points out that an increase of 4.5% was registered "by all items."

Supplementary work. The administration is analyzing economic compensation measures to prevent prices of cereals, oily seeds, sugarcane and other products from increasing in the short term. Pedro Rivas, Fedegro's president, explains that supplementary economic actions intended for prices to remain stable for the harvesting period, are being evaluated, in exchange of which, the government will provide producers and agro-industries with incentives for prices of controlled products not to be impacted.

Bankers' president reelected. At the regular general assembly for 2013 of the Association of Banks of Venezuela (ABV), Aristides Maza, president of Banco Caroní, was reelected as president of the Association for a new term. Pedro Rodríguez Serrano (BBVA Provincial), Miguel Ignacio Purroy (Bancaribe), Nelson Pinto (Mercantil) and Raúl Baltar (Exterior) were elected vice-presidents.

Electric power rates remain under control. According to Argenis Chávez, Corpoelec's president, electric power rates won't be raised, at least for the rest of the year, even though power service demand continues to increase, as it has been usual since Chávez said that rates won't be an issue on the agenda for this year, but only expansion plans and maintenance.

US\$200 million to be invested in combined-cycle power generation. The Minister of Petroleum and Mining, Rafael Ramírez, announced that the government will invest about US\$200 million earmarked for the installation of the new combined-cycle power generation system in thermal power plants existing in the country. Ramírez explained that the combined cycle will make it possible to install another power generation plant at the same places where thermal power plants are located, which will be powered by the combustion heat coming out from the plant chimneys.

The reform of the law will increase consumption of generic drug products. According to the National Chamber of Generic Drugs and Similar Products (Canamega), the new resolution issued by the Health Ministry, which provides for that prescriptions should contain the name of the active ingredient instead of the trademark, will increase consumption of generic drugs on the Venezuelan market. Data released by Canamega reveal that today generic drugs account for about 30% of drugs currently marketed.



Criticisms against Exchange Agreement No. 14. The Chamber of the Pharmaceutical Industry (Cifar) urged authorities to review Exchange Agreement No. 14. According to the Agreement, foreign currency applications for imports of this sector, which have been authorized by Cadivi between October 15, 2012 and February 12, 2013, will be allocated at VEB 4.3/US\$, but it doesn't explain if older applications (before October 15, 2012) will be recognized at VEB 4.3/US\$ or at the new rate of VEB 6.3/US\$. Cifar points out that *"more than 50% of foreign currency applications pending to be approved were presented before that date."*

Rusoro sues Venezuela at an arbitration panel. Rusoro Mining presented the lawsuit file related to the arbitration trial it has initiated against Venezuela at the International Center for Settlement of Investment Disputes (ICSID). According to Rusoro's claim, Venezuela would have breached a series of provisions of the Bilateral Investment Treaty between Venezuela and Canada, such as the expropriation of Rusoro's assets in Venezuela without paying a proper compensation; therefore, Rusoro is demanding compensation for its losses, which according to the Canadian firm amount to US\$3.03 billion.

World Economy Tips

U.S.A.: Better growth prospects for 4Q2012. U.S. GDP grew 0.4% (y/y) in 4Q2012, according to the final estimates by the U.S. Department of Commerce, up about 0.3 percentage points from estimates made one month ago. This upward adjustment was driven by the improved estimates concerning exports (a drop of 2.8% instead of the initial 3.9%) and investment (which grew 16.7% instead of the original 5.8%). Together, growth reached 2.2% throughout 2012, up from 1.8% of 2011.

Euro zone: more money but credit doesn't react. According to estimates by Eurostat, while liquidity has expanded 3.5% in 1Q2013, credit within the EU has contracted 4.6% (y/y). The reason why higher liquidity hasn't rendered credit more dynamic has to do with the fact the programs developed by the European Central Bank have been focused on channeling money toward banks to encourage local stock markets and assist them in the purchase of government-issued papers, without fostering the expansion of credit.



Cyprus reopens its banks and imposes controls on capitals. Cyprus reopened its banks and, at the same time, limited money withdrawals, banned the use of checks and restricted the use of credit cards by Cyprus citizen abroad, in an attempt to avoid a mass deposit withdrawal from banks after agreeing a severe bailout program with its international creditors. According to the agreement, the second largest lender of the country, the People's Bank of Cyprus, will be closed and accounts with less than EUR100,000 will be transferred to the Bank of Cyprus, the largest bank, whereas big depositors risk losing their moneys.

Cyprus won't leave the euro zone. Cyprus' president, Nicos Anastasiades, assured that the risk of bankruptcy for the small European island has been contained and the country isn't planning to leave the euro zone. Anastasiades reported that restrictions on bank movements intended to prevent a capital flight will be lifted gradually, and criticized bank authorities both from Cyprus and Europe, for flooding with money disabled banks, which now could be closed, as agreed upon in the recent bailout plan for EUR 10.0 billion.

France doesn't meet its targets. France reduced its public deficit less than expected last year. This means that the target set by the government hasn't been met and its credibility has been damaged, according to figures published by INSEE (French Statistics Office). Deficit was reduced from 5.3% of French GDP in 2011 to 4.8%, but it was three tenths short from the 4.5% target. The Ministry of Finance said that this was due not only to recapitalization of the French-Belgian bank Dexia, but also to contributions to the EU budget.

China: Manufacturing industry show signs of recovery. According to data released by China's National Statistics Office, Chinese industrial production expanded in March up to its highest level over the past 11 months, after the index of procurement managers, which is a leading indicator of manufacturing activity, reached 50.9 points, up about 0.8 pp from February. This increase in the industrial sector along with other macroeconomic indicators forecast good results for Chinese GDP for the first quarter of the year.

China changes tariffs to encourage its industry. Starting in April, China will eliminate import taxes for some technical equipment, as reported by the Chinese Ministry of Finance. This is a measure that will benefit local producer of key industries. The Ministry added that this action was basically related to equipment and raw materials that China is not capable of producing. However, as from April 1, 2013, the Ministry reestablished import taxes on other goods, such as hydraulic equipment.

Japan takes measures to fight deflation. The Bank of Japan (BOJ) will lift all restriction to allow price increases in an attempt to put an end to the two decades of



deflation that the country has experienced. The BOJ is expected to increase its purchases of bonds from the current YEN 2 trillion (US\$ 21.0 billion) per month, in the upcoming weeks, an action that was originally planned to be implemented in 2014. The BOJ's inflation target is 2% for 2013.

Brics postpone the creation of a new development bank. The BRICS countries, made up by five of the world's largest emerging economies (Brazil, Russia, India, China and South Africa) postponed the creation of a new development bank. The decision is believed to be due to differences of opinion about the capital to be raised and where the bank will be headquartered. The new bank would be intended to mobilize funds and promote infrastructure construction and sustainable development in emerging and developing countries.

Catastrophic 2012. According to a study by Swiss Re insurance firm, in 2012, natural and technical catastrophes caused 14,000 deaths worldwide and cost US\$ 186.0 billion. According to the firm, the part of losses covered by insurance firms amounted to US\$77.0 billion (about 41.4% of the catastrophes' costs); this means that 2012 is the third most expensive year in the history of insurance firms.

Political Tips

Let's remain active. Jorge Rodríguez, head of Hugo Chávez campaign command urged Bolivarian forces to remain their people mobilized through the so-called "one-for-ten" lists vis-à-vis next April 14 elections, in support for the socialist candidate Nicolás Maduro. Rodríguez explained that Chavistas are organized into 1,108,580 "one-for-ten" lists, which are, in turn, grouped into 859,770 lists posted on the pages of the Socialist United Party of Venezuela (PSUV) and the rest, which corresponds to the Great Patriotic Pole (GPP) and Hugo Chávez campaign command.

Let's get united for the development of Venezuela. Presidential candidate for the Democratic Unity Panel, Henrique Capriles, said that the only way to develop Venezuela *"is by uniting the people; understanding that we are a single country, a single future. There aren't two sides."* *"I'm here to tell you that I'm the solution for your problems; I'm here to prioritize the people. I'm not here to deprive you from what you have conquered,"* Capriles added.



Two devaluations in 100 days. Presidential candidate Henrique Capriles said that with just above three months ruling, Acting President Nicolás Maduro has applied “two economic packages”. “Two devaluation and has furthered destroyed the economy,” Capriles said referring to the recent Sicad auction, in which foreign currency quoted above the official exchange rate of VEB 6.30/US\$, which in his opinion is a further devaluation.

President of peace. Acting President and government candidate for the coming presidential election, Nicolás Maduro, assured that if he wins the election, he wants to be remembered as the President that defeated violence. “What I’m going to say is the truth. I want to be the President of this entire revolutionary era. I want us to be remembered as the men that were able to defeat violence, crime, the culture of death and the cult for weapons. I want to be the President of peace,” Maduro said.

Just a show. Primero Justicia’s national coordinator, Julio Borges, assured that the 100 days of government of Acting President and PSUV’s presidential candidate, Nicolás Maduro, represent the most violent period in the country’s history. “These days we have seen Nicolás Maduro repeating in his election show that for him personal security is a priority; but the truth is that in his 100 days as acting president, he hasn’t taken any concrete action to face this problem,” Borges remembered.

Homeland or imperialism? In next April 14 presidential election, the Venezuelan people will decide between homeland and imperialism, between socialism or capitalism, Nicolás Maduro, Acting President and presidential candidate. “Let the people decide if they want to have as President a man that is going to guarantee independence and the construction of socialism (himself) or a bourgeois that is going to hand over the homeland’s riches to bourgeoisie,” Maduro said.

There isn’t such thing as a post Chávez era. Executive Vice-President Jorge Arreaza assured that the so-called “post Chávez era” is an inexistent hypothesis. “Some analysts talk about post Chávez era; such a hypothesis doesn’t exist. This is the government of Hugo Chávez, the supreme commander of the revolution, and Chavismo is more alive than ever,” Arreaza stated.

Chávez yes; Maduro no. The head of the Simón Bolívar command campaign, Henri Falcón, said that abstention related to the absence of the late president Hugo Chávez in the coming April’s presidential election could negatively affect Acting President Nicolás Maduro’s candidacy, who, according to Falcón, “hasn’t convinced anybody in or out Chavista ranks.” “Many people that voted for Chávez before have put forward the possibility of voting for Capriles and, in some cases, of not voting. They prefer to abstain, instead of voting for Nicolás (Maduro),” Falcón pointed out.



UNASUR will observe but not evaluate. The National Electoral Council (CNE) signed an agreement with UNASUR according to which this organization will send an observers' mission for the coming April 14 presidential election. UNASUR mission will be headed by the current Aladi Secretary, Carlos Álvarez. Francisco Távara, president of UNASUR's Electoral Council, stated that the agreement allows them to send a mission that *"will attest the development of the process in which the successor of the late Hugo Chávez will be elected in an objective manner but without issuing any opinion."*

Legislative Tips

Vehicle price setting is still pending. Acting President Nicolás Maduro informed that the administration *"is working to control new and used vehicle prices,"* and assured that *"in his opinion, the National Assembly should pass a law to control the cost of brand new cars, as well as setting prices of used cars."* Maduro also announced that actions to be taken to fight gouging in this sector will be released soon.

Prescriptions cannot bear the trade name of drug products. The People's Ministry for Health announced in the Official Gazette No. 40,131, that all prescriptions should state the active ingredient instead of the trade name so as to guarantee that people have free-access right and the possibility of choosing drug products according to their cost. Furthermore, prescriptions should indicate dosage and the patient's identification, because they aren't transferrable. They cannot contain logos or advertising of pharmaceutical laboratories or drug products.

Partial reform of resolution on foreign currency accounts. The partial reform of the resolution concerning foreign currency accounts, which entered into force on February 13, 2013, was recently published in the Official Gazette. The reform eliminates references to Sitme and empowers PDVSA, its affiliate companies and joint ventures to hold accounts denominated in foreign currency with universal banks in Venezuela. According to the reform, foreign currency accounts with universal banks can be moved through total or partial withdrawals in bolivars, which are to be sold to the Central Bank at the current exchange rate.

The law on disarmament is coming. Recently, the draft law on disarmament was submitted to the National Assembly. The draft law provides for, among other things,



restricting the sale of firearms and ammunitions to individuals. According to information provided by the Disarmament Technical Unit, the draft law, which is to be passed soon by the AN, suggests total restricting sales of firearms to individuals and sets exceptions in the case of athletes officially practicing shooting, people and goods protection services and personal security entities.

Cicpc will have new organizational and functional structure. A new plan to restructure the Scientific Police (Cicpc) was published in the Official Gazette No. 40,135. This new structure will allow the Cicpc to *“strengthen inspection, control and surveillance mechanisms at state delegations, sub-delegations and investigation offices.”* With the new structure, six new Strategic Regions for Criminal Investigation (Redip) were created throughout the national territory.

Presidential Commission for the Communes is reactivated. Acting President Nicolás Maduro stated that the Presidential Commission for the Communes will be reactivated in April, so as to proceed with the fight started by the supreme leader of the Bolivarian Revolution, Hugo Chávez. Maduro said that the new plan should consider direct allocation of funds to promote social-productive projects by communes.

© Ecoanalítica – Descargado por el usuario no identificado





ECONOMIC OVERVIEW

