



## Weekly Report

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***Dollarization: an illusion rather than a solution***

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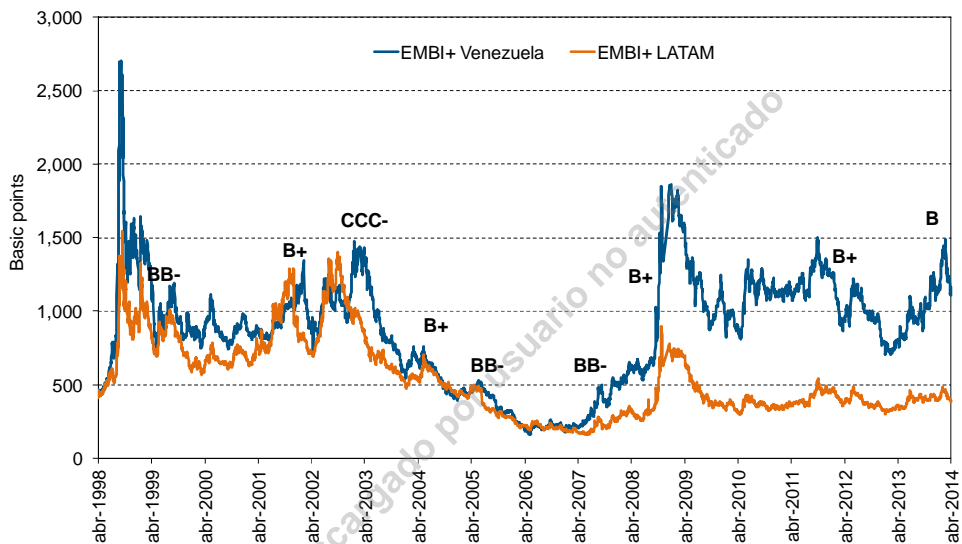
When determining the foreign exchange regime of a country, besides aspects having to do with economic stability, consideration tends to be given to financial factors (variability of capital flows) and the long-term objectives (with regard to growth, employment, prices) that the country hopes to achieve.

After ten years of a foreign exchange policy that, despite control over the administering of foreign currency, has permitted huge capital flight (US\$151.7 billion) and, even though it anchored the official exchange rate, has failed to contain inflation (prices have gone up by 1,209.3% in 11 years), there are currents of opinion that demand a change in how the foreign exchange matter is managed. The political handling of the issue has not helped either, where volatile and contradictory discourses have magnified the risk resulting from the bad handling of the economy to the point where the country has seen its sovereign risk increased to become the highest in Latin America at the same time as its country risk rating has



fallen to be the lowest (along with that of Argentina and Dominican Republic).

### Country Risk and Sovereign Risk Ratings for Venezuela



Sources: Peru's Central Bank, Fitch Ratings and Ecoanalítica

The two options for replacing the present foreign exchange policy that have gained most ground are freeing the exchange rate and dollarization. However, in a country where “adjustments” such as “freeing” markets are seen as being responsible for the tsunamis caused by the imbalances that have built up over a prolonged period of controls and regulations, dollarization has been seen as the first –and for some the only- solution to the present foreign exchange crisis.

Dollarization is the official use of a foreign currency –in this case the dollar- for all commercial and financial transactions carried out in a country, which makes it possible to eradicate the risk of devaluation and prevents monetary policy from being used to finance fiscal deficits, which should lead –in theory- to a climate of economic stability and an improved country risk perception in international markets

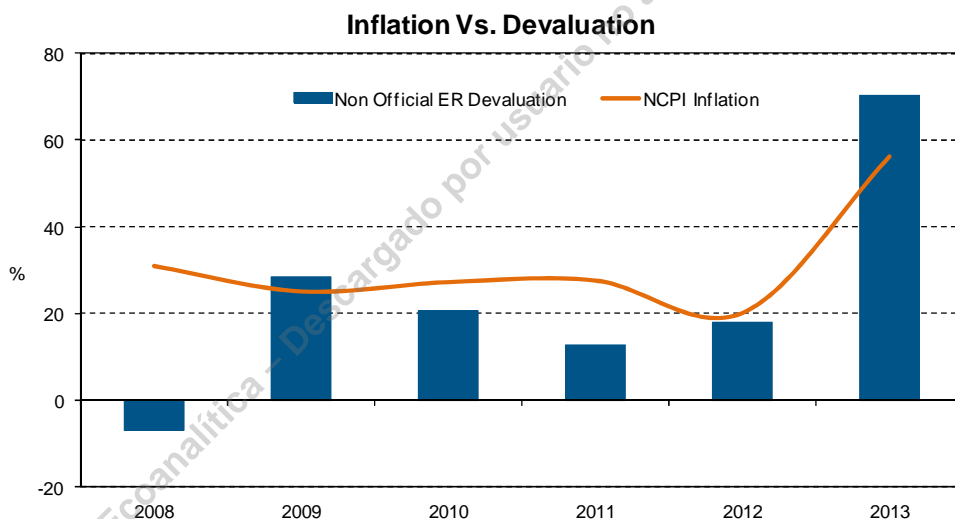
### Dollarized or indexed?

While it could be thought that estimating the replacement cost of merchandise at the parallel exchange rate –as many companies do- means that the economy is dollarized, nothing is further from the truth. Unlike other emerging countries, in Venezuela, resident agents do not hold foreign currency and deposits in foreign currency in domestic banks – partly because until recently this was forbidden-, and while this is now



allowed under the new Foreign Exchange Crimes Act, the fact of the matter is that what Venezuelans seek to do is not to replace one currency for another, but to replace one asset with another.

In Venezuela, economic instability, high inflation, and the lack of coverage options have prompted resident economic agents to seek not only to exchange assets in local currency for assets in foreign currency, but to try to index their income. Put another way, they try to correct depreciation of the local currency by taking as a reference –in this case- the value of the dollar in the unofficial market.



Sources: BCV and Ecoanalítica

**Does dollarization help?**

What The “bounties” enumerated by defenders of dollarization are many. First of all, a country that dollarizes its economy completely eliminates the risk of foreign exchange devaluations and avoids sudden outflows of capital, thus avoiding the appearance of monetary and balance of payments crises. In eliminating these risks, both the government and private investors would be able to pay lower interest rates whenever they resort to international financial markets.

Lower interest rates and greater financial stability reduce the weight of servicing the debt, which permits a larger proportion of funds to be allocated to investment projects and to promoting growth.

Besides that, adopting a currency that is commonly used and whose value is stable facilitates commercial and financial integration not only with the



United States –in the case of dollarization- but also with other strong economies.

Lastly, since dollarization prevents the possibility of monetary financing of fiscal deficits, monetary-driven inflationary pressure is eliminated and the government is forced to have a much smaller deficit, conditions that are attractive for foreign investors.

While at **Ecoanalítica** we are aware of the positive effects that adopting a strong currency would have, we consider that what would be lost in terms of economic policy is much greater than what would be gained in stability, particularly bearing in mind the characteristics of the Venezuelan economy.

**It's just  
another utopia**

While dollarization would eliminate the devaluation risk premium, the fact is that the interest rate linked to sovereign risk does not depend entirely on this. Factors such as payment capacity (given by the flow in bolivars, which in Venezuela's case depends on the price of oil), the degree of leverage (which depends on macroeconomic and fiscal results), political stability and transparency in the handling of the economy are taken into account when measuring the risk of nonpayment of Venezuelan debt, and these factors –with the exception of the first- are totally controllable by means of moderate fiscal management (smaller deficits) and clearer communication of economic policy objectives and measures without the need to resort to an extreme measure such as dollarization.

Besides, dollarization does not completely eliminate the risk of an external crisis. Foreign capital will continue to move around as long as there are differences in terms of profitability and costs between domestic and foreign companies, an aspect where Venezuela could be at a disadvantage if account is taken of the fact that, at the official exchange rate, our minimum wage is one of the highest in Latin America and that, moreover, our country has been one of the least competitive in terms of infrastructure, red tape and defense of property rights in recent years.

As for controlling inflationary pressures, dollarization implies importing inflation from the issuing country in the case of tradable goods and does not prevent high inflation from continuing to occur in the case of non-tradable goods, particularly in our case where there is a considerable flow of foreign currency revenues from exports.



### Hands tied

Dollarization not only does not guarantee that the “bounties” that tend to be associated with it will come about, but it eliminates the possibility of state intervention in matters of monetary and foreign exchange policy.

As for monetary policy, the government would lose its capacity to obtain revenues from seigneurage (benefits the central bank obtains by being able to issue a currency that later will be worth less), a capacity that would be gained by the central bank of the economy whose currency is adopted (US Federal Reserve), and to expand or contract the amount of money in circulation to help achieve inflation and growth objectives, as happens in most countries. Besides that, in the event of a liquidity crisis in the financial system (a run on the banks), the central bank might not be in capacity to inject money into the economy, which would mean that, as a last resort, it would have to negotiate lines of credit with international banks in order to inject the necessary foreign currency.

As for the foreign exchange policy, dollarization prevents devaluations from being used as fiscal and external adjustment mechanisms, something that is extremely important in our country, where more than half the fiscal revenues come from exports and are increased (in local currency) by means of devaluations when the situation so requires.

The capacity to devalue, in other words foreign exchange flexibility, makes it possible to cushion the impact of the price cycles of our export product (oil) on fiscal revenues and on the economy as a whole, otherwise the contraction of public spending and gross domestic product and the impact on employment and wages would be considerable.

### The costs of dollarization

Besides the opportunity costs that the loss of capacity to set policies implies, dollarizing the economy means that the monetary authority (Central Bank of Venezuela) would have to buy up all the local currency in circulation, which, at the time of going to press, comes to VEB 1.3 trillion. Another aspect that would have to be taken into account when dollarizing is the exchange rate to be used for converting local currency to the foreign currency, as well as the availability of funds for performing the conversion.

At *Ecoanalítica* we estimate that, taking into account the mass of money in circulation and total assets (reserves and other funds) in the hands of the State, the government would have to apply an exchange rate of VEB 34.8/US\$. To give an idea of the adjustment that this would mean, total budgeted spending for this year would go from US\$87.7 billion to US\$15.9 billion, the value of the general public's deposits in the banking system



from US\$225.2 billion to US\$40.8 billion, and the value of the minimum wage expressed in dollar would go from US\$519 to US\$93.7, and, overall, the value of assets, liabilities denominated in dollars would be reduced by 81.9%. If Venezuela wanted to dollarize at the official exchange rate of VEB 6.3/US\$, the Central Bank would have to have available US\$221.6 billion.

One option in this scenario would be to reduce the amount of money in circulation and build up a bigger stock of foreign currency by means of an adjustment in imports as a step prior to dollarization, but the simple fact that said “prerequisite” could be carried out would be proof that dollarization is not necessary in order to achieve monetary and foreign exchange stability. Furthermore, an adjustment in imports would further aggravate the shortage of goods in the domestic market.

**Imperceptible successes** Theory has much to say on the costs and benefits of dollarization, but in practice there are few experiences of countries that have implemented this measure, the best known being Ecuador, which adopted the US dollar in 2000 following a grave political and economic crisis. A year later, in 2001, the dollar also became the legal currency in El Salvador and, for those who still do not know, it has been the official currency in Panama since 1904.

The successes of dollarization in Ecuador and El Salvador are debatable. While it is true that both countries managed to bring down their average rates of inflation by 24.3 and 7.3 percentage points, respectively, compared to the 1990s, countries such as Colombia and Peru have had similar results by implementing fiscal and monetary rules, while maintaining the autonomy and flexibility of their policies and their local currency. Even our country, which has experienced major monetary and fiscal excesses and has won a place on the world’s inflation podium in the past six years, has managed to bring down its average inflation in the last decade.





The Achievements of Dollarization in Ecuador

|             | Inflation (%) |           | Growth (%) |           | Direct Foreign Investment (% of GDP) |           |
|-------------|---------------|-----------|------------|-----------|--------------------------------------|-----------|
|             | 1990-1999     | 2000-2012 | 1990-1999  | 2000-2012 | 1990-1999                            | 2000-2012 |
| Colombia    | 22.2          | 5.5       | 2.9        | 4.3       | 2.1                                  | 3.5       |
| Ecuador     | 39.0          | 14.7      | 2.3        | 4.2       | 2.1                                  | 1.3       |
| Panama      | 1.1           | 3.0       | 5.6        | 6.8       | 5.2                                  | 8.0       |
| Peru        | 807.9         | 2.7       | 3.2        | 5.6       | 3.1                                  | 4.1       |
| El Salvador | 10.6          | 3.3       | 4.9        | 1.9       | 1.3                                  | 2.6       |
| Venezuela   | 46.4          | 22.4      | 2.5        | 3.7       | 2.8                                  | 1.0       |

Sources: World Bank and Ecoanalítica

The results in terms of economic growth and foreign direct investment are not very different either. So, dollarization does not seem to have been of any great help to those that have implemented it, and those that have improved their macroeconomic performance seem not to have needed it.

**Opting for something less complicated**

Given that its benefits are not guaranteed and that its costs for the State in terms of capacity for carrying out macroeconomic and financial adjustments are high, at *Ecoanalítica* we consider that dollarization of the economy would be counterproductive. Besides, the fact that domestic industry would have a cost structure totally in dollars would make it less competitive compared to other countries.

At *Ecoanalítica* we believe that there are other measures that are easier to implement and less costly that would contribute to improving the country risk perception among both international and other lenders. To take a case in point, consolidating extra-budgetary funds and international reserves would appreciate the implicit exchange rate by 78.2% and make it clear that the government is prepared to manage the discretionary funds with greater transparency, thus considerably improving the country risk perception.

As for control of fiscal spending and monetary expansion, implementing clear fiscal rules, as happens in Brazil and Colombia, would make monetizing the fiscal deficit more complicated and would contribute to reducing it, with positive effects on price stability.

Lastly, unlike countries that have dollarized their economies, Venezuela has a major advantage, oil, which, despite being a volatile factor, brings in considerable amounts of foreign currency revenue that, in 2013, were nearly equivalent to the goods exports, services, transfers of receipts and net capital inflows of the Colombian economy, the fourth largest in Latin America. Up until now, the revenues from oil have been taken by private



actors or used by governments to sustain escalating current spending with the ultimate purpose of maintaining their popularity, but their use in investment programs that would increase domestic productivity and saving with a view to stabilization is something that has not happened thus far and would be an important step for guaranteeing the country's growth and sustained development.

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## Economic Tips

**Central Bank sets the rules.** The Central Bank has authorized Foreign Exchange No. 28, which governs foreign currency sell operations by the oil sector, the Central Bank, and mining and export companies, as well as the participation of *bureaux de change* in the Complementary Currency Management System (SICAD II) market. This means that PDVSA, its affiliates and the joint ventures will be able to sell foreign currency at the SICAD II rate, less 0.25%. According to Article 5 of the Agreement, affiliates of the joint ventures will hand the dollars over to PDVSA for the state-owned oil company to perform the transaction.

**And the foreigners are happy.** Foreign Exchange Agreement No. 28 also establishes that charges made at commercial establishments inside Venezuela with credit cards drawn against accounts abroad will be registered at the SICAD II rate less 0.25%.

**Changing his horizon.** President Nicolás Maduro called on his team to set aside the “*mental deadwood*” and work together with private businessmen to strengthen a “*mixed economy in all fields.*” “*Let’s stop with the mental deadwood, because building socialism is achieved in developing the productive forces of the real economy,*” explained Maduro, saying that there are several members of his government who are proposing that the private sector be ignored, and he warned that his would be “*the biggest mistake*” that *Chavismo* could make.

**Ramírez isn’t worried.** Vice President for the Economy Rafael Ramírez said that the different mechanisms of Venezuela’s foreign exchange system are functioning normally and without interruptions. He also pointed out that the smooth functioning of SICAD II had allowed the government to make progress with a variety of agreements with productive sectors because, as he saw it, in order to achieve equilibrium in the foreign exchange system, one of the fundamental objectives is achieving equilibrium in the structure of fair costs and prices.

**Dispelling doubts:** Central Bank Director Armando León explained that it will take between 48 and 72 hours to disburse the foreign currency from SICAD II; although he warned that it could take longer owing to the revision of data by the banks. León further explained that, if the dollars are acquired using securities, disbursement could take 72 hours, whereas if they are purchased for cash, it could take 48 hours.



**Fedecámaras isn't giving up.** The Federation of Commerce and Production Chambers and Associations of Venezuela (Fedecámaras) has filed a petition for the annulment of the Fair Prices Act on the grounds that it is unconstitutional. *"In the law all the rights of consumers, who are just at the mercy of the arbitrary pricing in the state were removed. We are defending this motion to vacate not only the entrepreneur and producer, but also the consumer,"* said the president of Fedecámaras, Jorge Roig.

**Sanguino hints at possibility of greater flexibility.** The chairman of the National Assembly's Finance Committee, Ricardo Sanguino, hinted at the possibility of more changes in the area of foreign exchange when he explained that there will be no SICAD I or II in the medium or long term, saying that, at the moment, they *"are studying leaving a floating system with bands set by the monetary authority for greater flexibility in the VEB/US\$ rate."*

**Central Bank offers a security bearing 17.0% interest.** The Central Bank has announced a new investment instrument in bolivars for private individuals, which may be acquired through state-owned and private banks and stockbrokers. The amount that can be invested in this instrument, called *Directo BCV*, goes from a minimum of VEB 1,000 to a maximum of VEB 30,000 in increments of VEB 500. Interest payable will be 16.5% at 90 days and 17.0% at 180 days.

**Seeking economic peace?** Following five meetings between the government and different sectors of the economy in recent months, 56 of the 59 proposals put forward at those "Conferences for Economic Peace" have been approved. While the agreements have not been published, it has been possible to get a rough idea which direction they will take. One clear example is the government's collaboration with supplying 220 clothing and footwear stores, which leads one to suppose that the "allocation of foreign currency" issue was on the agenda.

**SICAD awards US\$161.9 million.** At the last auction SICAD awarded a total of US\$161.9 million of the US\$200 million offered to 204 companies in the health, food, textile, and footwear sectors. The breakdown of the amount awarded was as follows: US\$61.2 million for 148 companies in the health sector, US\$14 million for 24 companies in the food sector, and US\$86.7 million for 32 companies in the textile and footwear sectors. These US\$161.9 million will be exchanged at a rate of VEB 10/US\$.

**And the other US\$58.1 million?** Cencoex announced that less foreign currency than usual was allocated at the last auction as they had to reject 1,273 bids because they did not comply with several of the agency's requirements, such as submitting income tax returns or value added tax declarations.



**Enforcement of Fair Prices Act enhanced:** Fair Prices Superintendent Andreína Tarazón explained that RUPDAE (Single Register for Persons Engaged in Economic Activities), which the government is promoting to enforce the Fair Costs and Prices Act, is to have 224 municipal offices around the country. However, she did not say when all the offices would be open.

**Interest rates.** The lending rate for the fourth week of March was at 15.5%, up by 0.3 percentage points (pp) compared to the previous week. Meanwhile, the time deposits rate and the passive rate stood at 14.5% and 15.0% respectively, which were stable in comparison to the previous week.

**International reserves.** International reserves increased by 0.3%, going from US\$21.5 billion during the fourth week of March to US\$21.5 billion during the first week of April. Compared to the same period last year, international reserves have decreased by 20.2%.

**Central government expenditure.** On Friday April 04<sup>th</sup> according to figures from the NTO primary spending was VEB 5.4 billion, which means a decrease of 14.3%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 166.4 billion 45.3% more than the same period last year.

**Monetary liquidity.** Money liquidity (M2) increased 0.9% in the fourth week of March from the week prior, to settle at VEB 1.33 trillion. The M2 has increased 75.9% in relation with the same period last year.

## Oil Tips

**Importing of derivatives continues.** Statistics published by the US Department of Energy show that, since 2012, Venezuela's net imports from the United States have exceeded its exports to that country, with the gap between imports and exports averaging some 38,000 b/d that year. In 2013, Venezuela imported 84,000 b/d of oil derivatives from the United States and exported 43,000 b/d. Among Venezuela's imports reported in the past 22 months are large volumes of gasoline and diesel, particularly in the months following the catastrophe at Amuay

**More and more funding:** Including the agreement with Suelopetrol, over a period of more than one year PDVSA has successfully negotiating financing to the tune of



US\$11.0 billion with seven companies. It has reached agreements with China National Petroleum Corporation (CNCP) in the amount of US\$ 4.01 billion for Sinovensa; Chevron (US\$2.0 billion for Petroboscán); ENI (US\$1.70 billion for Petrojunín); Gazprom (US\$1.0 billion for Petrozamora); Repsol (US\$1.20 billion for Petroquiriquire); and Perenco (US\$420 million for Petroguarao). According to Minister Rafael Ramírez, the investment it is planned to make with these companies will permit oil production of 716,000 barrels a day.

**The accounts receivable keep mounting up.** Unofficial figures indicate that financing granted by PDVSA to the members of Petrocaribe alone came to US\$21.3 billion between 2005 and 2013. It has been possible to recover only 8.0% of that amount (US\$1.7 billion) either in cash or in kind (food, textile products and educational services). Since PDVSA's annual report for 2013 has not been published, so far there are no official figures, however, as at 2012 these accounts receivable under the different energy agreements increased by 64.5%.

**Lowest oil wage:** The general secretary of the Unitary Oil Workers Federation of Venezuela (FUTPV), Iván Freites, denounced that the Executive decided to create SICAD II mainly to bring down costs for the transnationals, particularly all those operating in the hydrocarbons sector. According to Freites, thanks to this decision, "Venezuela now has the lowest oil wage in the world because it dropped from US\$30 a day to US\$3.78, whereas they pay US\$300 a day in Arab countries." He also pointed out that Mexico pays basic daily wages in the oil industry of around US\$190, whereas in the United States the rate is US\$266.

**Mexican, Saudis and Canadians rule.** According to the US Energy Information Administration (EIA), total US net crude imports fell in 2013. However, the proportion of purchases from its three main suppliers of crude (Canada, Saudi Arabia, and Mexico) was the highest in at least four decades. Combined purchases from the three main supplier countries fell by 1.5% last year to 4.6 mb/d, accounting for 61.0% of global US imports.

**Energy reforms:** The Mexican Government could make it compulsory for the state-owned oil company Pemex or a State financial agent to have a share in future hydrocarbon exploration and extraction contracts resulting from the energy reform enacted in December, according to a draft hydrocarbons bill. The Hydrocarbons Bill is one of some 20 new pieces of legislation that still have to be debated in Congress as a result of a profound energy reform that seeks to raise gas and crude production, of key importance for the country's public finances.

**International oil baskets.** At closing time on April 04th in the New York Stock Exchange, the price of the WTI was US\$100.6/bl, increasing by 0.6% when



compared to the reported the previous week. The Brent decreased by 0.6% when compared to the previous week, to reach US\$106.5/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$95.3/bl on Friday April 04<sup>th</sup>, decreasing by 0.1% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.0/bl.

## Business Sector Tips

**Labor disputes are a headache.** According to Fedecámaras' calculations around 35.0% of the country's productivity is being affected by workers' disputes, quite apart from other factors that are also causing disruptions, such as the lack of raw materials and a reduction in the number of companies. The president of Fedecámaras, Jorge Roig, lamented that the issue on which least progress has been made with the Executive has to do precisely with labor. He insisted on the need either to revise the present firing freeze decree that has been in force since 2002 or to get the Labor Inspectorates to speed up the process of authorizing dismissals the Labor Inspectorates.

**GMVV in crisis:** According to information released by the Housing Ministry, 8,128 housing units were completed in the first quarter of 2014, 65.0% fewer than in the same period last year, when 23,700 were completed. The number of units built this year represents only 2.0% of the goal set for 2014 of 440,000 homes. The way production of residential units is behaving indicates that construction has slowed down considerably compared to 2011 and 2012, which were the years when the Great Venezuela Housing Mission (GMVV) started up. Problems facing the sector include shortages of raw materials (cement, rebar, and others), spiraling prices of construction inputs, and a variety of labor problems.

**Monday closing deferred:** The Venezuelan Chamber of Shopping Centers, Retailers and Allied (Cavececo) announced that its board of directors had decided not to implement closing shopping malls on Mondays shortly after holding a meeting with Minister for Housing Ricardo Molina to discuss the new Commercial Premises Rentals Act. The new law establishes a single rate for commercial premises rentals of Bs.250 per square meter and also that condominium charges shall be equivalent



to 25.0% of that amount, a measure that has had a negative impact on business in shopping malls and also on their maintenance.

**Shopping malls see no light at the end of the tunnel.** The president of the Caracas Chamber of Commerce, Víctor Maldonado, claimed that shopping malls have lost nearly 60,000 jobs since the government's regulations went into effect. In Maldonado's opinion, the government wanted to pull a fast one when it tried to intervene in a sector that generates 586,000 jobs, but it backfired. He also warned that *"the stores don't know what to do and the shopping malls can continue operating only so long."*

**The list is endless.** Statistics from the Automotive Chamber of Venezuela (Cavenez) show that 1,721 cars were produced between January and February this year, a drop of 77.8% compared to the same period last year. If this pace of assembly continues, meeting the demand of customers who are already on the waiting list could take as long as five years, according to car sales personnel. The sharp contraction in the industry is also reflected in the scant sales made by dealerships so far this year, as in the case of Toyota, which sold only four vehicles.

**A tiny breathing space:** At the second meeting of the Presidential Agricultural Commission, the authorities announced that measures had been agreed to solve the shortages of spare parts, tractors, seeds, and agrochemicals and also to provide solutions to the foreign currency debt that the government has with these sectors. The measures include an agreement to release the foreign currency that has been approved for getting 950 tractors that have been held up at Venezuelan ports for three months through customs. However, this will be at the SICAD I exchange rate, even though the importers obtained the import permits at VEB 6.3/US\$ (the only official exchange rate in force in 2013).

**Registered and ready:** A total of 101,054 Venezuelans have signed up with the Secure Supply System since registration started on Tuesday, April 1, according to Food Minister Félix Osorio. The Venezuelan people will have access to the new Superior Secure Supply System by registering their biometric data, a process that started several days ago throughout the country. The system will then generate data that will permit better distribution of food, according to official information. Users of the public food network register their fingerprint and the system then generates a questionnaire that will allow the Ministry for Food to obtain a socioeconomic map of the people who buy at the network's establishments.





## World Economy Tips

**Trade deficit grows.** The US Department of Commerce announced that the United States' trade deficit grew by 7.7% in February to US\$42.3 billion. The agency's report shows that US exports fell by 1.1% to US\$190.43 billion, whereas the value of imports rose by 0.4% to US\$232.7 billion.

**Employment on the right track:** The US Department of Labor reported that the US economy continued to show signs of picking up in March, with unemployment being maintained at 6.7%. The Department of Labor's report stated that total nonfarm payroll employment rose by 192,000 in March, after growing by 197,000 new jobs in February.

**World Bank trims its growth expectations for China.** The World Bank revised downward its growth forecast for China in 2014 from 7.7% to 7.6%, although it maintained its growth forecast for the Asian giant for 2015 at 7.5%. "*While the growth rate of industrial production has slowed, and exports contracted in the first two months of 2014, the trend is nevertheless strengthening, and we expect quarterly growth to rise at midyear as external demand from the high-income countries solidifies,*" added the World Bank said in its report.

**Lagarde supports the path of flexibilization.** The managing director of the International Monetary Fund (IMF), Christine Lagarde, called on the European Central Bank (ECB) to make its monetary policy more flexible in order to fight dangerously low inflation, which could negatively affect production and consumer spending in the euro zone. Lagarde anticipated the meeting that the IMF is to hold with the ECB shortly with these statements, adding that "*more monetary easing, including through unconventional measures, is needed in the euro area.*"

**Deutsche Bank gives the Green light.** Deutsche Bank co-CEO Juergen Fitschen said that the ECB would be right to buy bonds if low inflation were to turn into deflation. "*Should the price perspectives, contrary to our expectations, blur in a way that resembles deflation, a program to buy up current bonds by the ECB would probably mark an appropriate and in my opinion effective reaction,*" explained Fitschen.

**Slowly but surely:** Greece's finance minister, Yannis Stournaras, stated that Greece does not need to return to debt markets in the immediate future, reiterating that



Athens' first sale of Greek bonds in four years will take place at some point in the first half of 2014. At the moment Greece plans to sell some EUR 2.0 billion in five-year bonds, which would be its first foray into bond markets since the international bailout four years ago.

**Latin America needs changes.** At the Ninth World Economic Forum on Latin America today, in her closing remarks, the forum's chief for Latin America, Marisol Argueta, stressed the need to diversify the economies and to improve Latin America's competitiveness and productivity in order to compete globally. She also commented that the two big challenges facing Latin America today are reducing inequality and continuing to eradicate poverty.

**Formally informal:** Figures from the International Labour Organization (ILO) revealed the existence of a worrying number of informal workers in all parts of Latin America, which represent 47.7% of region's total economically active population, in other words 130 million people. Even so, this is definitely an improvement on the situation at the start of the 21<sup>st</sup> century, when informal workers accounted for 65.0% of the economically active population.

**Latin American pact:** Mexico and Panama signed a free trade agreement with which they aim to boost exports from both countries as well as regional integration, while facilitating Panama's joining the Pacific Alliance. Panama's President, Ricardo Marinelli, said that he was very pleased at this development, claiming that *"this treaty is highly favorable to both parties because both countries are going to have the opportunity to increase our trade and our investments."*

**Number one in Africa:** The Nigerian economy grew to US\$510.0 billion to become the largest economy in the African Continent by a wide margin, which would seem to be somewhat contradictory given that more than 70.0% of the Nigerian population lives in poverty. With this growth in Nigeria's economy, South Africa drops to second place with Gross Domestic Product (GDP) of US\$353.0 billion.

## Political Tips

**Democratic Unity Alliance is still strong.** The secretary general of *Acción Democrática*, Henry Ramos Allup, offered an analysis of the present situation in Venezuela, stressing that, in his opinion, even though the Democratic Unity Alliance



(MUD) has been the target of “a large number of disproportionate attacks,” it continues to be viewed positively by Venezuelans. Allup also spoke of the current situation inside the alliance and said that it was nothing more than a difference of criteria among its members.

**Constitutional methods?** Minister for Homeland Affairs, Justice and Peace Miguel Rodríguez Torres maintained that “if we go to the concepts of what terrorism is, what they’ve developed here as “guarimba” (protesting by setting up street barricades) is a terrorist method” in line with a “coup d’état” methodology that, according to him, constitutes “a third phase of heating up the streets.” For that reason, claimed Torres, the authorities are using “constitutional and institutional methods for defeating this (...) with justice.”

**The majority wants elections.** The latest opinion poll conducted by IVAD (Instituto Venezolano de Análisis de Datos) reveals that 70.0% of Venezuelans consider that elections are still a fundamental way for achieving a solution to the present situation in the country, since 72.0% believe that the situation in Venezuela is negative and that there is an economic crisis. When the results are broken down by political preferences, it emerges that 81.0% of those who said they were *Chavistas* support change via the ballot box, whereas this measure has the support of 77.0% of independents and 60.0% of those who side with the opposition.

**No letup in the guarimba:** Jorge Rodríguez, a director of the United Socialist Party of Venezuela (PSUV), claimed that “this phase of violence” had been overcome, with the exception of some municipalities, but that they were expecting another “terrorist outbreak given the desperation of sectors that didn’t achieve what they wanted.” “It’s obvious that this phase of the coup d’état has been dismantled. That doesn’t mean that we shouldn’t be on the alert. On the contrary, the desperation of these violent sectors could lead us to experience new forms of violence and terrorism, and we will confront them by the people standing firm,” added Rodríguez.

**Let’s dialog, again.** The main representatives of the Democratic Unity Alliance (MUD) had a second meeting with the foreign ministers of UNASUR to once again address the possibility of starting a process of dialog with the government, to be conducted in public and in respectful terms, with a view to reaching an agreement that will offer solutions to the Venezuelan crisis. The MUD ratified that it is prepared to dialog with the Venezuelan Government provided real bases are established for achieving concrete results.

**The government is prepared to dialog.** Foreign Minister Elías Jaua confirmed that a meeting had been held between the UNASUR commission of foreign ministers and representatives of both the government and the Venezuelan opposition for the



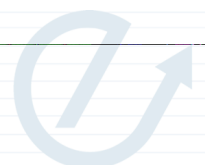
purpose of achieving “a true encounter between the President and the opposition so that this madness that has led to violent attacks comes to an end.” Among those who attended the meeting were the foreign affairs ministers of Brazil, Colombia, and Ecuador.

**Parlasur also met.** The MERCOSUR Parliament (Parlasur) met and one of the items on its agenda was peace and the state of democracy in Venezuela. The parliament, made up of Argentina, Brazil, Paraguay, Uruguay, and Venezuela, focused the political issue, in reference to which, Venezuelan Deputy Blanca Eekhout denounced the “*criminal violence, the psychological war, and media terrorism*” that, in her opinion, is being aimed at the Nicolás Maduro administration through marches and demonstrations.

**Chavistas but not Maduristas:** The coordinator of the National Socialist Middle Class Front, Carlos Hurtado, confirmed this group’s support of the protests against the Nicolás Maduro administration that have been taking place in Venezuela for nearly two months. “*We find comrades, people who belong to Chavismo, who have been in the demonstrations. They’re all there together, because they’re neighbors who are suffering when they go to the supermarket and stand in the same queues,*” said Hurtado.

**The Student Movement denounces threats.** The president of the Federation of Students Unions, Juan Requesens, denounced threats that several leaders of the Student Movement have received via the social networks. “*They’ve threatened fellow students via the social networks, giving their phone numbers. They’ve invited paramilitary groups to go and find them; they’ve posted their addresses and phone numbers. They ask people to go and get them because they’re fascists. They’ve leaked family photographs. They’ve declared them (the students) to be a military objective,*” claimed Requesens.

**Maduro doesn’t want guns.** President Nicolás Maduro said that he was against armed groups and criticized the photo showing a person inside the campus of the *Universidad Central de Venezuela (UCV)* brandishing a gun. “*They took a picture of a guy with a gun; I think that’s wrong. There’s no justification for anyone to have a gun (...) the guy with the gun has to be searched for by the Public Prosecutor’s Office. No one has any business taking out a gun here. Let’s not take any guff,*” added Maduro.

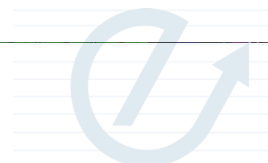




## Legislative Tips

**More cabinet changes:** *Gaceta Oficial* No. 40,384 officially announces the appointment of Rafael Ernesto Contreras Hernández as the new president of the Institute for the Development of Small and Medium Industry (Inapymi), attached to the People's Power Ministry for Industries, in the place of Wilmer Barrientos, who was appointed to the post in February 11, 2014.

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**ECONOMIC OVERVIEW**

