

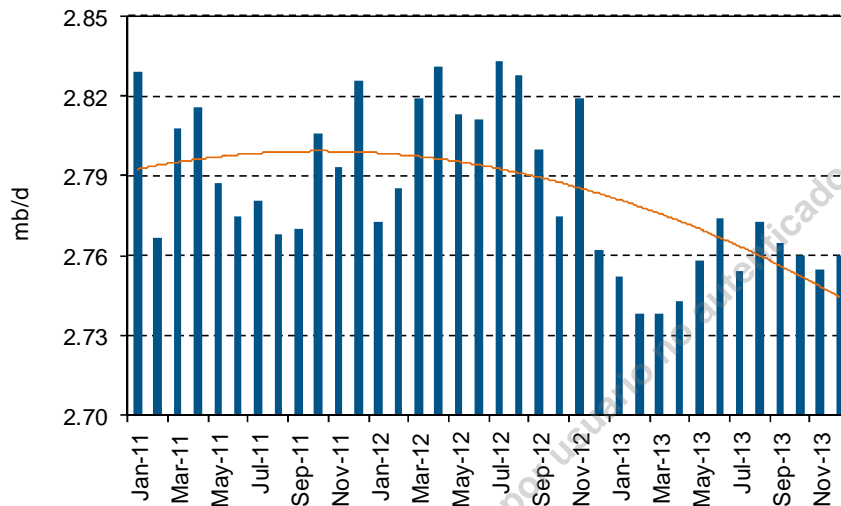
## A look at the oil sector in 2013

While waiting for PDVSA's annual report to be published, we decided to analyze the Ministry for Oil's (Menpet) Report and Accounts so as to have a better idea of what happened in the oil sector last year. According to the figures published by the Central Bank, oil Gross Domestic Product (GDP) barely grew by 0.9% in 2013, down 0.5 percentage points (pp) from 2012, proving that the oil industry needs to be activated more than ever, particularly when 96.1% of exports are oil exports; in a nutshell, the country's main source of income.

### A recovery in production that doesn't get started

Preliminary figures submitted to the National Assembly recently by Menpet state that PDVSA's production came to 2.78 million barrels a day (mb/d) in 2013. These figures represent a slight increase if compared to the figures published in its Report and Accounts for 2012, which indicate oil production of 2.67 mb/d for that year. However the production figure for 2013 in the Report and Accounts will apparently be below last year's 2.91 mb/d contained in PDVSA's performance report issued a year ago.

The ministry's report also states that PDVSA produced 1.69 mb/d; the traditional joint ventures 409,000 barrels a day (b/d); PDVSA in the Orinoco Oil Belt some 123,000 b/d, and the joint ventures 557,000 b/d. This brings total production in 2013, including oil, condensate, and natural gas liquids (NGL), to 3.01 mb/d. It is worth noting that, despite the longest oil boom ever, PDVSA has not been able to meet the goals of the Sow Oil Plan 2005-2011 and is very far from achieving those of the plan for 2012-2018; in fact, current production is even below production levels back when the plan was first signed

**Venezuelan Crude Oil Production**


Sources: Ecoanalítica

**The myth: we rely solely on the United States**

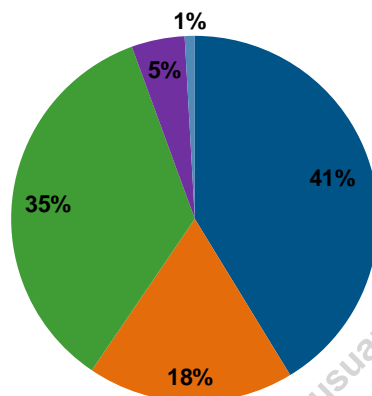
Exports came to 2.52 mb/d, 81.0% of which was crude and the remainder refined products. Exports to Asia increased by 13.0% (116 kb/d) compared to the previous year, whereas exports to the countries of South America, Central America, and the Caribbean were unchanged, in line with the strategy of supporting energy integration with Latin American countries, as the document says.

In terms of volumes dispatched, Asia ranked as PDVSA's first customer with total shipments of 1.04 mb/d, according to the ministry's figures, for an increase of 11.4% compared to 2012. Next was the United States, which, in inverse proportion, posted a reduction in volumes received of nearly 13.7%, from 1 mb/d in 2012 to 879 kb/d in 2013. Latin America is also mentioned with 457kb/d in 2013, whereas Central and South America and the Caribbean received 452 kb/d in 2012.

Year 10. Number 16. Week I  
May 2014

### Exports by destination in 2013

■ Asia ■ Latin America ■ North America ■ Europe ■ Africa



Sources: MENPET and Ecoanalítica

### Petrocaribe continues in the spotlight

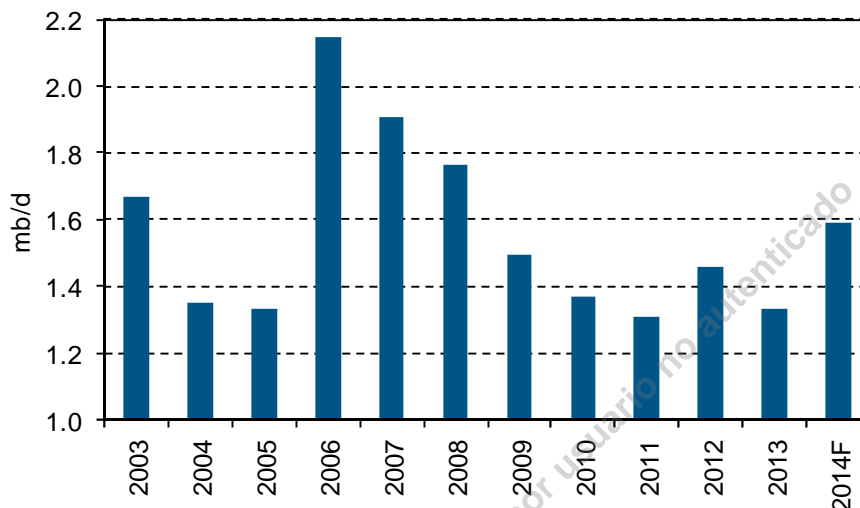
In 2013, PDVSA dispatched 122 kb/d of hydrocarbons to Petrocaribe countries, which gives an increase of 21.0% compared to 2012, broken down by country of destination as follows: Antigua and Barbuda, Belize, Dominica, Granada, Guyana, Haiti, Jamaica, Nicaragua, Dominican Republic, Saint Kitts and Nevis, Saint Vincent and The Grenadines, and Suriname, according to the Ministry for Oil's report and accounts.

The important thing about this energy agreement is that it provides a countertrade mechanism, because, while it is true that it would be wrong to assume that the oil is given away, it is an energy agreement that is unfavorable for Venezuela, which could be selling that oil at international prices. Last year, according to the ministry's Report and Accounts, products to the value of US\$609 million were received in countertrade in part payment of the energy bill run up by signatory countries of the ALBA and Petrocaribe Agreements (Guyana, Nicaragua, and Dominican Republic).

Based on the volume dispatched, it can be calculated that Petrocaribe's oil bill came to approximately US\$4.2 billion and that products received in countertrade covered only 13.7% of the value of the shipments. At **Ecoanalítica** we consider that agreements such as the Petrocaribe agreement should be revised and restructured, as they do not generate cash for PDVSA, which is one aspect of the foreign exchange problem.

Year 10. Number 16. Week I  
May 2014

### Cash Flow Generators Barrels



Sources: PDVSA and Ecoanalítica

Our calculations put oil exports that generate foreign currency at 1.3 mb/d at the close of 2013, which means a drop of 800,000 b/d compared to 2006. And with an oil barrel price in the region of US\$100, that meant a loss in revenues in 2013 equivalent to US\$29.2 billion.

### Revenues on the decline

PDVSA's operating and financial results in 2013, as given in the Ministry for Oil and Mining's Report and Accounts, show that, at the close of the year, PDVSA had suffered a drop of 7.0% in its revenues, which went from US\$124.46 billion in 2012 to US\$116.26 billion in 2013. The report explains that the reduction of US\$8.20 billion was caused mainly by the 2.0% drop in the average price of the Venezuelan export basket, which went from US\$103.42/bbl in 2012 to US\$101.40/bbl in 2013. Although price was a factor, the drop was also due, as mentioned earlier, to the 169,000 b/d reduction in the volume exported, approximately 7.0%.

Year 10. Number 16. Week I  
May 2014

### Statement of PDVSA and its Subsidiaries (US\$ Bn)

	2013	2012	y/y % var
Incomes	116.3	124.5	-6.6
Costs and Expenses	75.9	95.6	-20.6
<b>Operational Profits</b>	<b>40.4</b>	<b>28.8</b>	<b>40.0</b>
Contributions to Social Development	14.2	17.3	-18.3
<b>Profits before taxes</b>	<b>26.2</b>	<b>11.5</b>	<b>127.9</b>
Income Taxes	6.5	7.3	-10.2
<b>Net Profit</b>	<b>19.7</b>	<b>4.2</b>	<b>366.5</b>
Other integral results	0.2	0.0	768.2
<b>Total Integral Profit</b>	<b>19.9</b>	<b>4.2</b>	<b>368.6</b>

Sources: MENPET and Ecoanalítica

### And don't forget social spending...

Just as the revenues obtained by PDVSA fell in 2013, so did its contributions to social development, posting US\$3.17 billion, down 18.0% from 2012. This drop was mainly as a result of the reduction in its special contribution to Fonden owing to the entry into force in February 2013 of the amendment to the Special Oil Windfall Contribution Act, which meant that the government had fewer funds available to use at its discretion.

Year 10. Number 16. Week I  
May 2014

Contributions to Social Development and Fonden				
Concept	2013	2012	Variation (y/y)	
	US\$ Bn	US\$ Bn	US\$ Bn	%
Ribas Mission	0.2	0.4	-0.3	-63.0
Food Mission	1.2	0.3	0.9	290.5
Barrio Adentro Mission I, II and III	2.4	5.6	-3.1	-56.2
Energetic Revolution Mission	0.2	0.1	0.1	179.7
Infrastructure Projects	1.1	0.1	1.0	1,619.0
Bicentenary Fund	0.1	0.0	0.1	0.0
Miranda Fund	4.2	5.1	-0.9	-17.2
Road Projects	1.7	0.2	1.5	696.7
National Savings Fund of the Working Class	0.2	1.2	-1.0	-85.4
Contributions to Communities	1.0	3.8	-2.8	-74.5
Other Missions and contributions	3.2	5.8	-2.6	-45.0
<b>Contributions to Missions and Social Programs</b>	<b>15.4</b>	<b>22.5</b>	<b>-7.1</b>	<b>-31.5</b>
Contributions for Extraordinary Prices	4.2	2.1	2.0	93.9
Contributions for Exorbitant Prices	6.3	13.4	-7.2	-53.4
<b>Fonden</b>	<b>10.4</b>	<b>15.6</b>	<b>-5.2</b>	<b>-33.1</b>
<b>Contributions to Social Development and Fonden</b>	<b>25.9</b>	<b>38.1</b>	<b>-12.2</b>	<b>-32.1</b>

Sources: MENPET and Ecoanalítica

The areas that were particularly hard hit by this reduction were health and education. Contributions to the Ribas Mission (remedial high school level education) shrank by 63.0%, going from US\$405 million in 2012 to US\$150 million last year, and the amount disbursed for *Barrio Adentro* (primary health care) fell by 56.2% to US\$2.44 billion in 2013. So, last year, despite the holding of two elections, the government opted for increasing the amounts allocated to areas such as infrastructure and roads, while abandoning fundamental pillars for improving the country's human capital and that are also of key importance for increasing the well-being of the population and the quality of life.

### A top ranking we don't want...

On the matter of the quality of life, it is worth mentioning that, in the first edition of the Misery Index compiled by the CATO Institute, Venezuela headed the list with the highest level of misery in the world. The formula used to compile the index, which was applied to 90 different countries, is the sum of unemployment, interest, and inflation rates minus the percentage change in real GDP per capita. Japan ranked as the country with the lowest index.

Year 10. Number 16. Week I  
May 2014

International Misery Index			
Rank	Country	Index	Major Contributing Factor
1	Venezuela	79.4	Inflation
2	Iran	61.6	Inflation
3	Serbia	44.8	Unemployment
4	Argentina	43.1	Inflation
5	Jamaica	42.3	Interest rate
6	Egypt	38.1	Unemployment
7	Spain	37.6	Unemployment
8	South Africa	37.4	Unemployment
9	Brazil	37.3	Interest rate
10	Greece	36.4	Unemployment
11	Macedonia	35.7	Unemployment
12	Palestinian Territory	32.9	Unemployment
13	Turkey	32.7	Interest rate
14	Cyprus	30.7	Unemployment
15	Croatia	30.5	Unemployment

Sources: CATO Institute and Ecoanalítica

Venezuela obtained a score of 79.4 and is followed by Argentina (43.1), which ranked fourth worldwide. Both countries obtained such high scores due to their galloping inflation. In fact, the biggest problem in three out of the first five countries in this ranking is inflation, a problem that **Ecoanalítica** considers the economic cabinet should address as a priority, along with shortages. Cumulative inflation this year (10.1%) to date is equivalent to five times of Colombia's inflation for all of last year.

It should be stressed, therefore, that, as we have mentioned before, it is not a matter of spending for spending's sake. In a battle between quantity and quality, the latter should prevail if we want present and future generations to enjoy a better quality of life and greater progress. To achieve that, an all-powerful State is not necessary. What is needed is a State that creates a transparent environment, guarantees property rights, and extends an invitation to and works with the private sector. As mentioned previously, we have seen some slight progress in the oil sector and, while things do not look good for 2014, the oil sector seems to be the exception to the rule.

Year 10. Number 16. Week I  
May 2014

## And what has been done?

The Executive has sent out some signals indicating change on the economic front, among them a timid opening up of the oil sector, which has been happening since last year. The process of change in the management of the oil business has been occurring with PDVSA's partners in the Orinoco Oil Belt for the purpose of underpinning production, a key issue, which, while it will not have an immediate impact, is significant in the medium and long terms. The first change occurred with the US company Chevron, which signed an agreement that contemplates a US\$2.0 billion line of credit for increasing production at the joint venture Petroboscan located in Zulia state. Based on this agreement, since dubbed the Chevron scheme, agreements have been reached with some of PDVSA's other partners, as shown below.

Financing to mixed companies						
Mixed Companies	Partner	Financing (US\$ Bn)	Term of payment (Years)	Current Production (kb/d)	Expected Production (kb/d)	Production increase (kb/d)
Petrolera Sinovensa	CNPC	4.0	10	140	330	190
Petroboscan	Chevron	2.0	13	100	130	22
Petrojunin	ENI	1.8	5	3	50	50
Petrozamora	Gazprombank	1.0	8	40	65	41
Petroquiriquire	Repsol	1.2	13	46	60	10
Petrocabimas	Suelopetrol	0.6	10	6	57	51
Petrowarao	Perenco	0.4	6	5	24	19

Sources: Pdvsa y Ecoanalítica

The total amount of financing obtained thus far is US\$11.0 billion, for an estimated increase in production at those joint ventures of 383 kb/d. Other incentives have been introduced to benefit the oil sector, such as the start of SICAD II, where not only PDVSA but its partners as well will be able to trade their dollars at a higher and more competitive exchange rate than the VEB 6.30/US\$ used previously. This system will go some way to alleviating PDVSA's cash flow problems, however it should not be the only measure. The company's cash flow situation will continue to be compromised if the barrels that generate cash are not increased, which means that total production has to increase and the Petrocaribe agreements and subsidies, such as the gasoline subsidy, have to be revised. In other words, there has to be a long-term plan that contemplates more than simply overcoming the present crisis, and for that measures need to be taken more quickly than they are being taken at present.

**Asdrúbal Oliveros**  
**Jessica Grisanti**

Year 10. Number 16. Week I  
May 2014

## ECONOMIC TIPS

**Tax collection for March.** According to the figures released by the National Integrated Service for Tax Administration (SENIAT), VEB 43.365 billion were collected in taxes for the month of March. Of this amount, VEB 26.904 billion (62.0%) came from Income Tax, and VEB 11.571 billion (26.7%) from the VAT. The agency raised VEB 88.608 billion during the first three months of 2014, of which VEB 35.995 billion came from Income Tax (40.6%), and VEB 38.641 billion from Value Added Tax (VAT) (43.6% of the total).

**In real terms.** Total revenue in March of this year compared with the same period last year grew by 0.8%. The VAT decreased 8.5% in real terms, while customs revenues decreased 38.3% in real terms. Meanwhile, income tax revenues increased 14.3% in real terms over the same period of 2013. Total revenues in the first three months of this year fell by 0.9%. VAT increased in real terms over the same period of 2013, at 3.8% and customs revenues declined 40.7%. Meanwhile, income tax revenues rose 11.7% in real terms over the same period of 2013.

Concepts (VEB Million)	Mar-13	Mar-14	Var. (%)	Real Var.	1Q2013	1Q2014	Nominal Var.	Real Var.
<b>Total Income</b>	27,689	43,365	56.6%	0.8%	58,281	88,608	52.0%	-0.9%
<b>Income Tax</b>	15,153	26,904	77.5%	14.3%	21,005	35,995	71.4%	11.7%
<b>VAT (Internal)</b>	8,141	11,571	42.1%	-8.5%	24,254	38,641	59.3%	3.8%
<b>Customs revenue*</b>	3,403	3,260	-4.2%	-38.3%	10,225	9,300	-9.1%	-40.7%
<b>Other Internal Revenue</b>	741	1,521	105.2%	32.1%	2,324	4,295	84.8%	20.5%
Spirits	80	121	50.8%	-2.9%	176	232	31.8%	-14.1%
Cigarettes	741	1,521	105.2%	32.1%	2,149	4,295	99.9%	30.3%
Inheritance	35	57	62.3%	4.4%	98	159	62.5%	5.9%
Random games or bets	9	10	7.4%	-30.9%	26	33	27.9%	-16.7%
<b>Others</b>	251	109	-56.6%	-72.1%	473	376	-20.5%	-48.2%

Sources: Seniat and Ecoanalítica

\* Includes VAT on imports

**No funds without production.** Vice President for the Economy Rafael Ramírez said that the allocation of foreign currency from Fonden and the Chinese Fund to the private sector is going to be tied to a commitment to production. *“Businessmen cannot take a passive approach or view action by the government as simply supplying them with foreign currency,”* he added. At **Ecoanalítica** we estimate that the government has US\$15.80 billion in the different extra-budgetary funds.

**Dollars for sale retail.** According to the Vice President for the Economy, Rafael Ramírez, the government is working on a new stage of SICAD II,

Year 10. Number 16. Week I  
May 2014

which will focus on the “retail trade” so that someone who “has \$100, for example, and needs bolivars, can go and change them.” As for the doubts regarding the allocations via SICAD II, Ramírez pointed out that this mechanism is based on a “blind system of codes and transactions that executes a rejection or acceptance of bids based on the level of demand,” and this is what sets the exchange rate.

**It’s not a debt.** Vice President for the Economy Rafael Ramírez claimed that the debt that CADIVI currently has with businessmen “is not a debt”, and the government has said it will pay at least 30.0%. “Conceptually, it’s an outstanding disbursement, it isn’t a liability. Businessmen are subject to a foreign exchange risk in any country in the world,” added Ramírez, who also recalled that some companies that today are claiming outstanding disbursements “triangulated, over-invoiced or simply sold products calculated at the parallel rate.”

**Venezuela, the bank of Latin America.** According to International Monetary Fund (IMF) estimates, the nations of Latin America and the Caribbean received 1.5% of their GDP on average through cooperation agreements with Venezuela. According to the multilateral agency, some countries in the region rely heavily on Venezuelan financing, receiving support equivalent to nearly 7.0% of their GDP, in particular Haiti and Nicaragua, whose debts with Venezuela are currently equivalent to 15.05% and 20.0% of their GDP, respectively.

**The “remedy” is worse than the disease.** According to the IMF “imposing extensive controls on prices has worsened the economic distortions” in Venezuela, whereas the controls on commerce and the exchange rate “have impeded economic activity.” The IMF forecasts that the Venezuelan economy will contract by 0.5% this year and by 1.0% in 2015, making it the only economy in the region with a negative outlook.

**No reason for it.** During a meeting with businessmen, President Nicolás Maduro acknowledged that there was no justification for several of the problems currently affecting the domestic productive apparatus. “Sometimes, I look at the map of issues you put forward and, honestly, for the majority of them, I’d say 95.0%, there is no justification for the problems that have been piling up, and we have to admit that to the country and be self-critical. We have no justification for some of the problems that have piled up, well,

Year 10. Number 16. Week I  
May 2014

*sometimes, because of red tape, disorder, lack of priorities, lack of follow-up,” admitted Maduro.*

**Lack of synchronization.** As for Vice President Jorge Arreaza, he admitted that there had been a *“lack of synchronization among many formalities”* that private domestic companies have to deal with, particularly those having to do with labor issues. *“We have been gradually overcoming the obstacles that had been generated so that (...) our inspectorates work faster so that we can have a clearer idea of what serious faults are committed by some workers who do not fulfill their role, which is to work. Well, steps have been taken to solve that.”*

**Black predictions.** The Economic Commission for Latin America and the Caribbean (ECLAC) predicts, among other things, that the Venezuelan economy will contract by 0.5% and will be the only country with negative figures, whereas it reduced its forecast for growth in Latin America and the Caribbean from 3.2% to 2.7%. Panama was positioned as the country that will achieve highest growth in the region, with 7.0%.

**Investment deflates.** According to Central Bank figures, investment in machinery, equipment and inputs for increasing production (gross fixed capital formation) contracted by 9.0% in 2013 compared to 2012. This is the biggest contraction in investment spending since 2003, when it plummeted by 37.0% as an aftereffect of the oil strike. The slowing down of key areas, such as manufacturing and construction, which reduced their activity by 0.3% and 2.3% last year, is another factor that would explain the drop in investment.

**Interest rates.** The lending rate for the second week of April was at 16.9%, up by 0.1 percentage points (pp) compared to the previous week. The time deposit rate was at 14.5%, without variation compared to previous week, while the passive rate has not experienced any significant variation, placing well at 14.1%.

**International reserves.** International reserves decreased by 0.2%, going from US\$20.7 billion during the third week of April to US\$20.7 billion during the fourth week of April. Compared to the same period last year, international reserves have decreased by 21.5%.

**Central government expenditure.** On April 25<sup>th</sup> according to figures from the NTO primary spending was VEB 12.0 billion, which means an increase of

Year 10. Number 16. Week I  
May 2014

27.9%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 218.6 billion 67.2% more than the same period last year.

**Monetary liquidity.** Money liquidity (M2) increased 1.2% in the third week of April from the week prior, to settle at VEB 1.35 trillion. The M2 has increased 76.5% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
4/22/2014	85.0	79.5	93.5	5.5	6.5
4/23/2014	50.1	46.7	93.2	3.4	6.8
4/24/2014	45.7	41.9	91.7	3.8	8.3
4/25/2014	40.5	39.1	96.5	1.4	3.5
4/28/2014	41.1	39.4	95.9	1.7	4.1

Sources: Ecoanalítica

## OIL TIPS

**Saving.** According to PDVSA's Vice President for Refining, Commerce and Supply, Asdrúbal Chávez, PDVSA has signed an agreement with NuSTAR Energy for leasing tanks for storing crude and derivatives on the island of Saint Eustatius. He also explained that this location will enable PDVSA to save money on exports to China, given that it is nearer to the Bahamas, where other storage facilities are located. He also commented that Venezuela needs ports for dispatching very large crude carriers (VLCCs, with a capacity of more than 2 mb).

**Lubricants to give everything they've got.** Asdrúbal Chávez stated that PDVSA is to promote working sessions with the country's productive sectors with a view to getting the lubricant canning companies working at 100.0% of capacity by June. According to him, canning of lubricants in Venezuela will increase by as much as 50.0% starting in May and he hopes that they will start to export lubricants to "our entire zone of strategic influence in the Caribbean and South and Central America" in June.

**Boosting the refineries.** Asdrúbal Chávez announced that PDVSA is to invest US\$3.0 billion in 2014 to boost the maintenance and expansion of

Year 10. Number 16. Week I  
May 2014

refineries with a view to guaranteeing fuel supplies and also to continue exporting to the rest of the world.

**PDVSA pays interest.** PDVSA paid out a total of US\$3.26 billion in interest to holders of bonds with maturities in 2014, 2015, and 2016. This operation was carried out in accordance with terms established in 2009.

**Colombia is getting ready.** Colombia's Minister for Mines, Amylkar Acosta, announced that they will restrict sales of gas to Venezuela with a view to guaranteeing their reserves during the time "El Niño" is expected to hit Colombia. He also said that new contingency measures are to be implemented aimed at rationing the use and consumption of water in Colombia.

**It was just one incident.** Boscán oil field, operated jointly by PDVSA and Chevron, is operating normally after firemen controlled a fire caused by lightening that struck two of the complex's stations during a thunder storm. The lack of maintenance of PDVSA's installations constantly affects activities there as well as crude and fuel exports.

**Amuay continues to give headaches.** The executive secretary of the Unitary Oil Workers Federation of Venezuela (Futpv), Iván Freites, said that PDVSA had not paid the indemnities due to the people affected by the explosion at Amuay Refinery that killed 42 and permanently injured 105. *"It is now 20 months since the fire at Amuay, and national prosecutors 72 and 63 have still not presented the findings of the investigation into the causes and to determine who were responsible,"* added Freites.

**Latin America sounds interesting.** China's Foreign Minister, Wang Yi, said that the Chinese Government is interested in setting up a fund to channel investment in infrastructure that Latin America needs. He added that the potential exists for greater cooperation with the region in oil and that they would be looking to form a partnership, mainly with Venezuela and Brazil.

**Clean energies, Venezuela's Armageddon.** José Luis Cordeiro, a representative of the Club of Rome, stated that Venezuela receives 96.0% of its foreign currency from oil exports, which could have extremely serious repercussions as first world countries move away from oil as an energy source in favor of cleaner energies. He claimed that, in ten years' time, oil will

Year 10. Number 16. Week I  
May 2014

no longer be used, which means that the opportunity for “sowing oil” is coming to an end.

**Will what happened to Mexico happen to us?** According to the coordinator for international affairs at Mexico’s Environmental Secretariat, Luciano Quadri, Mexico lost 40.0% of the oil discovered during the 1970s due to technical and technological problems. He also said that the reserves found between 1978 and 1979 were lost because they did not “administer abundance” and used oil to maintain the State’s current spending. Mexican oil currently maintains between 35.0% and 40.0% of public spending.

**Short-term approach.** The director general of the Mexican state-owned oil company Pemex, Emilio Lozoya, explained that, for now, the company is to focus on developing its more accessible resources, despite the fact that the recently passed energy reform has opened the door for it to expand beyond Mexico’s borders. *“There are a lot of reserves in Mexico that are accessible compared to other parts of the world. That doesn’t mean that Pemex won’t go international at some point in time, but the easiest opportunity is in Mexico, for now,”* added Lozoya.

**International oil baskets.** At closing time on April 25th in the New York Stock Exchange, the price of the WTI was US\$102.7/bl, increasing by 0.5% when compared to the reported the previous week. The Brent increased by 2.3% when compared to the previous week, to reach US\$109.6/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$97.7/bl on Friday April 25<sup>th</sup>, increasing by 1.4% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.4/bl.

## BUSINESS SECTOR TIPS

**Timidly daring.** The National Superintendency for the Defense of Socioeconomic Rights (SUNDDE) has published the list with the price increases for three food items in the basic basket. The food products whose prices have been raise are chicken, sugar, and rice. Whole chicken has gone up by 129.6% to VEB 43/kg, refined sugar by 96.7% to VEB 12/kg, and white

Year 10. Number 16. Week I  
May 2014

rice by 31.9% (type I) to VEB 9.5/kg, 31.8% (type II) to VEB 8.8/kg, and 32.2% (type III) to VEB 8.3/kg.

**Consecomercio speaks out.** The National Commerce and Services Council (Consecomercio) repeated its call to the Central Government to publish each of the agreements it reaches on prices in *Gaceta Oficial* so that consumers know what to expect. *“But also to avoid what is already happening in the operatives that have been carried out recently and whose consequence, besides the unfair sanctions to which some merchants are being subjected, is that the remaining merchants could stop selling certain products if they are going to end up being fined or tried,”* they said.

**It’s necessary.** Vice President for Electricity Development Franco Silva addressed electricity workers explaining that *“safety is a fundamental daily component of all activities in the electricity sector.”* Silva also said that *“it’s important to optimize operations and measures as regards the use of work materials to control the risk of accidents.”* To which Corpoelec’s National Safety Director, Elías Moreno, added, *“There’s a need to develop more prevention concepts; there are more human factors in accidents than technical factors.”*

**New collective employment contract.** The minister for the President’s Office and president of Corporación Venezolana de Guayana (CVG), Carlos Osorio, and the holding company’s monthly payroll employees signed a new collective employment contract. The CVG’s negotiating team highlighted the considerable improvements granted under the new contract, including salary increases, an adjustment in the food basket, and a percentage increase in the raises granted based on individual performance evaluations, an opinion that was endorsed by the secretary general of the CVG’s Single National Public Employee Union, Ramón Gómez, when he stated that the new contract will mean benefits for monthly payroll employees.

**US airlines’ bottom line hard hit.** Three of the main US airlines suffered huge losses as a result of the devaluation of the bolivar, added to which their profits are held up in Venezuela owing to problems with repatriating them because of exchange controls. The devaluation generated losses of US\$21 million for United Continental and US\$23 million for Delta Airlines, whereas American Airlines has an outstanding debt receivable from the Venezuelan Government of US\$750 million.

Year 10. Number 16. Week I  
May 2014

**New agreement.** The assemblers Toyota, Mitsubishi, and Chrysler signed a new cooperation agreement with the Venezuelan Government under which fair prices are to be established for the products they are to offer Venezuelans. Apparently the automotive companies will not be the only ones to take part in the agreement, as it is planned to include nine companies that market household appliances and other assemblers operating in Venezuela.

**Three special economic zones are to be created.** President Nicolás Maduro stated that the government is preparing a Special Powers Act that will make it possible to create three special zones to “drive the country’s economy.” Maduro explained that these zones will be in the “Hugo Chávez” Orinoco Oil Belt in the eastern region, in Carabobo state, from Puerto Cabello to Morón, and in Anzoátegui state. He added that they would pave the way for development in the industrial, agri-food, petrochemical, tourism, transport, fisheries, oil and financial sectors.

**Rentals Act in the offing.** Minister for Housing and Habitat Ricardo Molina has submitted a bill on the Leasing of Commercial Premises in the hope that it will be passed under the Special Powers Act. “We have reached an agreement with the shopping center sector regarding a Fair Law for the Regulation and Control of Real Estate Leasing for Commercial Use,” he said.

**11 working groups.** A Conference for Economic Peace was installed in Aragua state, which was attended by approximately 380 companies from states in the central region of the country. The companies formed 11 working groups to address development for driving the economy. Minister for Industry José David Cabello, who attended the opening ceremony, said that the main issues to be addressed by the working groups were oil, petrochemicals, construction, industry, the automotive industry, agriculture and livestock, the agroindustry, tourism, textiles and footwear, mining, communications, and technology.

**A change of mentality?** During the second phase of the economic offensive in Aragua state, Minister for Industry José David Cabello highlighted the importance of the private sector for the country, saying that “it’s undeniable that the economy of no country can become strong without the private sector, regardless of the model.”

**What industry wants.** The president of Fedeindustria, Miguel Pérez Abad, referred to the country’s present economic model as a rentier-socialist model,

Year 10. Number 16. Week I  
May 2014

which, in his opinion, is not in keeping with the productive socialist model that industrialists want. *“What Karl Marx proposed as the Rebellion of the productive forces is the people taking part in the productive act. Companies with private capital have to be incorporated with a new vision that transcends the specific aspect of individual enrichment replacing it with a system of prosperity,”* added Abad.

## WORLD ECONOMY TIPS

**Bigger profits.** According to data from the National Bureau of Statistics of China, profits obtained by the industrial companies (mining, manufacturing, and energy generation) of the world's second largest economy came to US\$82.06 billion in March, up 10.7% from the same period last year. The increase in profits is yet another sign of stabilization in the Chinese economy, which is currently undergoing structural reforms promoted by the government.

**China gets ambitious.** China's Ministry for Housing and Urban-Rural Development has announced that China wants to start the construction of more than 7 million public housing units this year, which is in line with the government's new policies for counteracting the high property prices. The top government of the world's second largest economy set the construction of 4.8 million units as the goal for 2014, which will support the growth of that economy and help to reduce the high levels of discontent in China over the high prices in the real estate market.

**Retail sales up.** Official figures from the Japanese Government indicate that retail sales in Japan posted the biggest increase, year-on-year, in the past 17 years: 11.0%. Apparently, this remarkable increase occurred thanks to consumers taking the precaution of buying before a sales tax went into force in April.

**A Central Bank forewarned is a Central Bank forearmed.** The vice president of the European Central Bank (ECB), Vitor Constancio, said that the bank is studying all policy tools, including the purchase of assets, in the event that it has to take action to deal with a prolonged period of excessively low inflation. According to Constancio, they are in a situation that requires less conventional measures and that they are prepared to consider such

Year 10. Number 16. Week I  
May 2014

measures. He gave assurances that they will continue to keep an eye the situation and to carry out their mandate to the best of their ability.

**Fitch views Spain as being stable.** Fitch upgraded its rating for Spain's sovereign debt one notch to BBB+, with a stable credit rating outlook. Fitch explained that this improvement in its rating reflects the fact that the risks to the creditworthiness of Spain's sovereign debt have decreased since the last cut in mid-2012. The agency also stressed that financial conditions in Spain have improved, the economic outlook is more stable, and the risk of Spanish banks creating an additional burden on the country's sovereign debt has lessened.

**Greece still needs help.** The European Commission explained in a report that the dynamic of Greece's debt has worsened slightly and that the country still relies on its international creditors to continue fully funded. It also forecast that Greek debt will be equivalent to nearly 125.0% of GDP in 2020 and to around 112.0% of GDP in 2022. Despite Greece's return to the bond market, it still depends on a promise of more aid made by countries of the Eurozone in order to be considered fully funded.

**Russia downgraded.** The credit rating agency Standard & Poor's (S&P) downgraded Russia's foreign currency sovereign debt, warning of capital flight and risk to investment due to the crisis in Ukraine. S&P downgraded Russia's long-term sovereign debt rating to BBB-, just one step above junk status.

**It will grow, but not that much.** The International Monetary Fund's latest economic outlook report for Latin America forecasts growth for the region of 2.5% in 2014, which is lower than the 2.8% posted in 2013. The report states that the main reason for the outlook for the region continuing subdued is that the region still faces a number of downside risks, among them the risk of a sharp drop in the prices of raw materials owing to a weakening in demand from some of the main raw-material importing economies.

**In good times and bad?** Moody's downgraded Cuba's credit rating from Caa1 to Caa2, the main reason being local and external risks. The credit rating agency explained that the likelihood of a financial collapse in Venezuela would result in huge additional risk for the Cubans, who are so dependent on Venezuelan oil. *"Given Venezuela's increasingly unsustainable macroeconomic imbalances and elevated risk of an economic and financial*

Year 10. Number 16. Week I  
May 2014

*collapse, the future of this arrangement is uncertain, rendering Cuba vulnerable to a sharp adjustment in the cost of energy imports,” said the report.*

## POLITICAL TIPS

**In Maduro’s hands.** President Nicolás Maduro has been named by *Time* magazine as one of the world’s most influential people. *“Maduro is struggling against inflation, food shortages, and increasing popular discontent; all this in a country with which many in the region trade or rely on its cheap oil. Whether the country collapses or progresses, now depends on Maduro,”* said *Time’s* editor, Nikhil Kumar.

**A potentially rich country.** During a brief visit to Venezuela to attend the forum “Latin America: Freedom is the future,” the Peruvian writer Mario Vargas Llosa said, *“It’s sad to see the richest country in Latin America, and potentially one of the richest in the world, today experiencing the highest inflation on the continent and the lowest growth.”* Vargas Llosa added that an economy in which the government nationalizes companies, considers businessmen to be enemies, and restricts private enterprise *“is going to start to get poorer, to grind to a halt.”*

**Protests, only with permission.** After stating that the right to demonstrate “is not an absolute right,” the Constitutional Chamber of the Supreme Tribunal of Justice authorized regional police forces, the Bolivarian National Police Force and the Bolivarian National Guard to *“ensure the right to free transit”* by dispersing any unauthorized gathering of people. The ruling was handed down just days after student leaders announced that they would march to downtown Caracas regardless of whether or not Mayor Jorge Rodríguez gave them the authorization to do so.

**The poor are the ones who pay the highest price.** Miranda Governor Henrique Capriles Radonski claimed that the economic measures taken so far by the government are not helping to solve the crisis the country is going through, where *“our poor people are the ones who are being hardest hit by the shortages and inflation.”* In view of the economic and political situation in the country, Capriles called on people not to get used to living like that, not to resign themselves.

Year 10. Number 16. Week I  
May 2014

**The criticisms have stopped; now it's time for proposals.** The Democratic Unity Alliance (MUD) handed in an analysis of the "Pacification Plan" to the Vice Presidency of the Republic, as agreed at the dialog meetings being held between the opposition and the government. In the document, the Democratic Alliance calls on the government to consolidate *"the policy of disarming the violent groups"* and considers that the scant information that the members of the armed forces have in the area of citizen security means that the National Armed Force is not best suited for carrying out civilian operatives.

**From four years to a month.** National Assembly Deputy Julio Borges accused the government of having multiplied the prices of food by 53 in the last 15 years to the point where *"what a Venezuelan family spends today on food for a month used to be enough for nearly four years."*

**Neither pact nor negotiation.** President Nicolás Maduro criticized the fact that the opposition demanded that the dialog groups produce results. *"There they are already issuing threats, saying that either there are concrete results or they'll stop the dialog,"* said Maduro. *"There's no pact or negotiation with the bourgeoisie. Anyone who wants to leave the dialog, just go (...), and those who want to dialog, welcome. No one's going to turn on the screws,"* insisted the President, adding that the opposition *"has to recognize that there is a majority force, the Chavista people."*

**Popular initiative calling for amnesty.** The political parties making up the Democratic Unity Alliance have started to collect signatures nationwide in support of an Amnesty Law, a proposal put forward during the dialog meetings between the opposition and the government. National Assembly Deputy Dinorah Figuera explained that the signatures will be handed in to the National Electoral Council (CNE) and the National Assembly along with a petition that a law be passed that grants freedom to those arrested during the demonstrations that have been occurring since February and recognizes their human rights and also grants amnesty in other cases.

**"Ruthless" opposition.** Foreign Minister Elías Jaua denounced the *"campaign of violence being waged by violent armed groups"* belonging to the opposition to the United Nations Educational, Scientific and Cultural Organization (UNESCO) and claimed that these group are attacking educational establishments, public transport, the media, and warehouses storing subsidized food products.

Year 10. Number 16. Week I  
May 2014

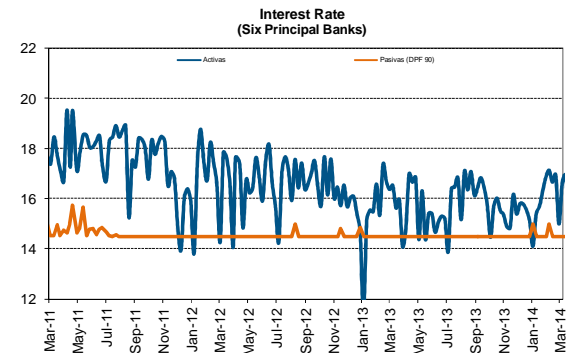
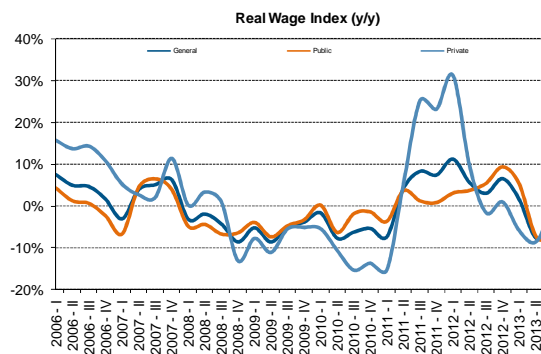
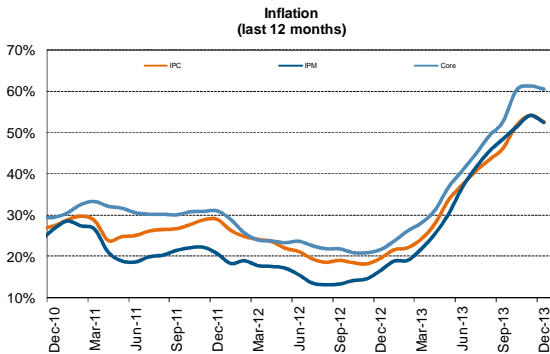
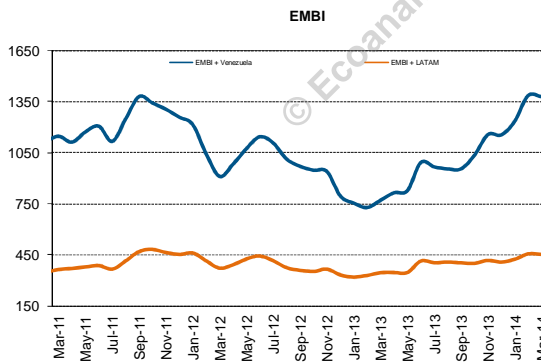
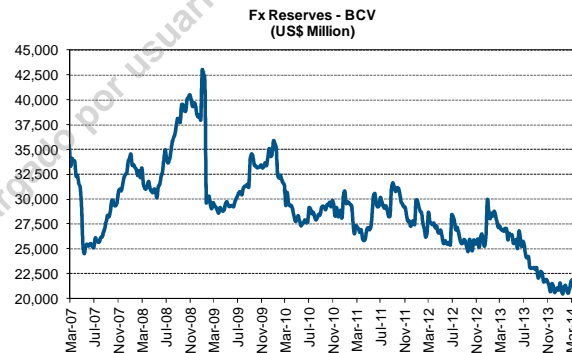
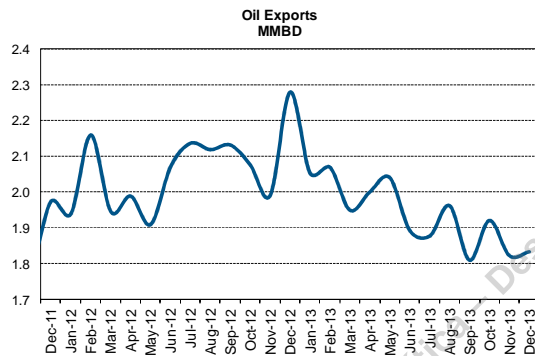
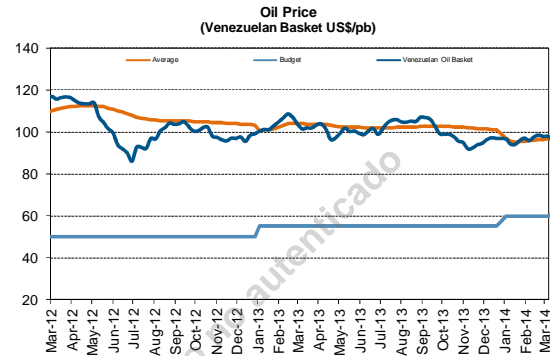
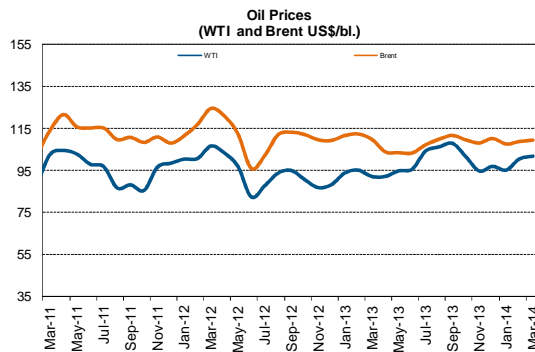
### LEGISLATIVES TIPS

**For a limited time only.** SUNDDE published in *Gaceta Oficial* No. 40,397 the requirements, controls, and formalities for “*authorizing promotions and special offers of products, goods and services, including any method used by and associated with the same,*” carried out by companies and individuals subject to the Fair Costs and Prices Act. According to the new regulations, promotions shall not last for more than three months and permission for the same should be requested at least 10 days beforehand.

#### Ecoanalítica’s Team:

**Gabriel Villamizar  
Daniel Cárdenas  
Lesner Castillo  
Benjamín Matos**

© Ecoanalítica – Descargado por usuario no autenticado

**ECONOMIC OVERVIEW**




WEEKLY REPORT

Year 10. Number 16. Week I  
May 2014

Helping make good decisions

