

## 2015: A year to be alert

2015 will be one of the most critical years in recent history for Venezuela, not only because of the implications of the economic crisis but also because of the social, business and political dynamic. In the specific case of the private sector, the challenges have to do with keeping businesses afloat in a context of recession, foreign currency restrictions, and spiraling inflation. The private sector should already be on red alert and viewing the coming year as a period for holding out.

Our last outlook update contained some major changes. On the oil price front, in view of the international situation, we have revised our projections downward, with the projection for 2014-2018 being reduced by 17.5% on average. Below we present the most salient of our projections for the main macroeconomic variables.

### Concern No. 1: the price of oil

Following the Organization of Petroleum Exporting Countries (OPEC) decision, crude prices plummeted to a four-year low. On the last week of 2014, Brent was US\$60.4/bbl., 44.7% lower than at the same time last year, and WTI was US\$56.0/bbl., down 42.6%. This behavior prompted the main energy agencies to revise their price estimates for the end of this year and for 2015. The investment bank Barclays Capital estimates an average of US\$66/bbl. for Brent in 1Q2015, nearly US\$5.0/bbl. below the current price and US\$22.0/bbl. lower than its previous estimate. As for WTI, Barclays Capital expects it to trade at US\$58/bbl. in 1Q2015 and that these marker crudes will close the year at around US\$72.0/bbl. and US\$66.0/bbl. At **Ecoanalítica** we expect Brent to be at US\$79.7/bbl. in 2015 and WTI at US\$72.8/bbl.

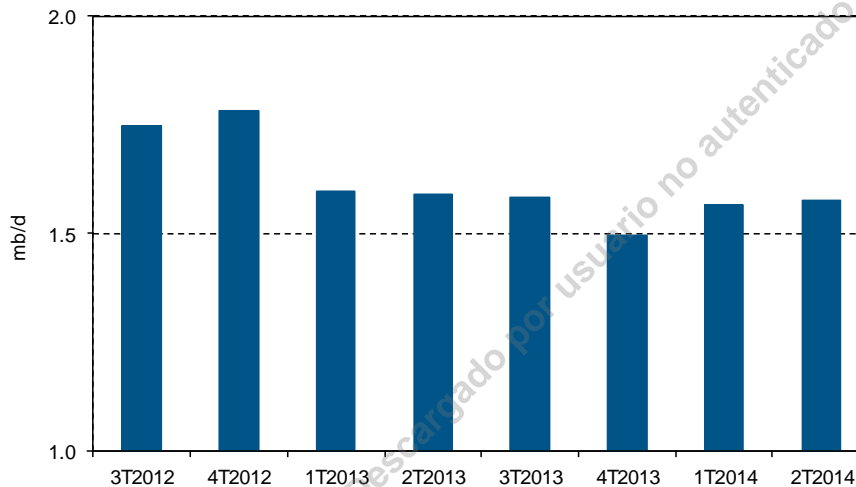
In 2014, the Venezuelan oil basket averaged US\$88.8/bbl., down 12.2% from a year ago. In 2015 the drop in revenues is expected to be in the range of between US\$9.2 billion and US\$24.0 billion, exacerbating the crisis, despite this being an election year.

Domestic consumption grew by 45,500 b/d between January and September 2014 compared to the same period in 2013. In the first nine months of the year, domestic consumption averaged 716,000 b/d, which meant that the barrels that generate cash

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(i.e. exports less shipments to China and countries that are parties to energy cooperation agreements) remained relatively stable, with an increase of 110,000 b/d over that period, whereas exports to countries under those agreements were cut by 95,000 b/d.

### Cash-Generating Barrels



Sources: Barclays Research and Ecoanalítica

### Headed for three-digit inflation

Despite the distortions in price measurements, we expect official inflation to go to three digits in 2015, something not seen since 1997. Prices will skyrocket mainly as a consequence of the pass-through effect of the exchange rate, given the major adjustment that the government will implement on the foreign exchange front, forced by the growing fiscal gap and the shortage of foreign currency. The devaluation of the bolivar will make imported inputs and final goods more expensive, which means that both manufacturers and merchants will be forced to charge more for the goods they sell. This effect is very apparent in Venezuela, where 33.2% of the domestic demand for final goods is covered by imports, which has resulted in the variations in the nominal exchange rate and prices in the economy (measured by the Nationwide Consumer Price Index) having a correlation of nearly 80.0%.

The magnitude of the pass-through effect in 2015 will depend on the type of foreign exchange adjustment the government implements. At **Ecoanalítica** we forecast four possible foreign exchange adjustment scenarios for 2015:

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- A scenario where a foreign currency allocation scheme similar to the present one is maintained, with slightly higher exchange rates and an average exchange rate of VEB 28.5/US\$.
- A second scenario with a dual system, where SICAD I (after unifying it with Cencoex) and SICAD II are maintained, with an average exchange rate of VEB 38.8/US\$.
- A third scenario where there is just one official exchange rate (following the unification of the different rates that exist at present: Cencoex, SICAD I and SICAD II), but where there continues to be a parallel market, which means a weighted exchange rate of VEB 59.6/US\$.
- And a last scenario where the idea is to take the exchange rate to a value close to the average real exchange rate for 2015 (VEB 36.5/US\$), but where the existence of a parallel market with high exchange rates implies an average exchange rate of VEB 73.7/US\$.

At **Ecoanalítica** we are of the opinion that, given the scenarios described above, inflation will be considerably exacerbated, at least in the short term. We forecast inflation by yearend of 122.4% for scenario A, of 170.6% for scenario B (which we are taking as our base scenario), of 136.0% for scenario C, and of 240.3% for scenario D.

Scenario	Description	Exchange Mechanism	Weighted ER - Public Sector	Inflation	Economic Grow	M2/RRII ER (FLOOR)
A	Maintaining the Status Quo : the politically correct adjustment, but limited in scope	Cencoex: VEB 6.3/US\$ Sicad I: VEB 16.0/US\$ Sicad II: VEB 50.0/US\$	VEB 22.3/US\$	122.4%	-3.80%	VEB 190.0/US\$
B	Dual Exchange	Sicad I: VEB 15.0/US\$ Sicad II: VEB 50.0/US\$	VEB 32.5/US\$	170.6%	-5.3%	VEB 148.0/US\$
C	Incomplete Exchange Convergence	Official Exchange Rate: VEB 20.0/US\$	VEB 20.0/US\$	136.0%	-4.00%	VEB 195.0/US\$
D	Exchange Convergence	Official Exchange Rate: VEB 36.5/\$	VEB 36.5/US\$	240.3%	-6.00%	VEB 132.0/US\$

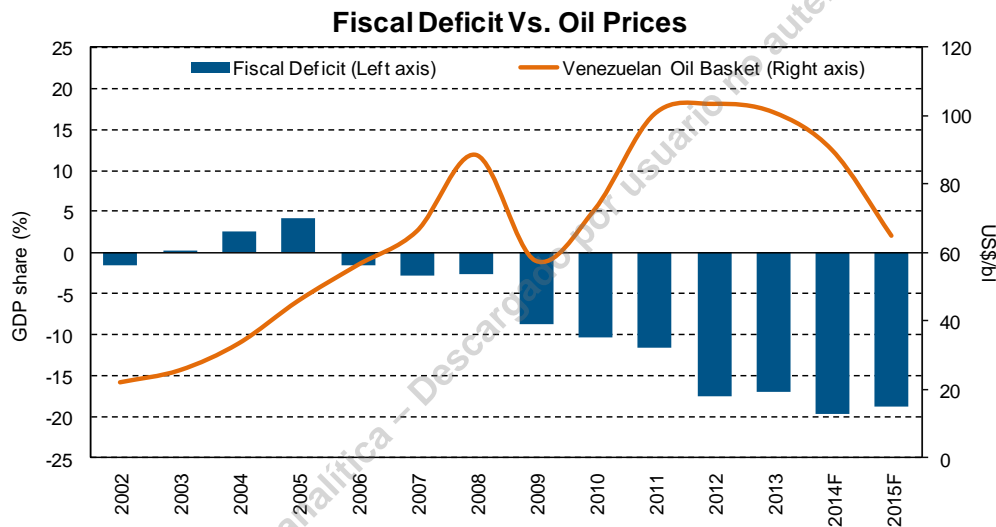
Sources: Ecoanalítica

The devaluation will not be the only factor fueling inflation in 2015. At **Ecoanalítica** we are of the view that consideration should also be given to the effects that greater monetary expansion -seeking to finance fiscal spending associated with the election campaign for the upcoming parliamentary elections- will have on prices. These factors will continue to be the main ones that will determine how liquidity evolves in 2015, resulting in it growing by around 79.8%.

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## The sustainability of the model

The two fundamental factors that have allowed the government to maintain such an inefficient model for allocating and controlling foreign currency have been oil prices and access to international credit. However, in such a difficult scenario as the one Venezuela is facing in 2015 –lower oil prices (a drop of US\$34.8/bbl.), high fiscal deficit, and a higher country risk rating that will make access to foreign credit more difficult- is putting pressure on the government to make changes on the foreign exchange front.



Sources: BCV and Ecoanalítica

An adjustment is now needed as a matter of urgency. Devaluing would allow the government to maintain a greater margin of maneuver in 2015. Devaluation would generate additional revenues and at the same time adjust the exchange rate in line with the country's economic situation and make exports more competitive, at least in the short term. However, devaluation alone is not enough.

The proposal being put forward by the economic cabinet includes centralizing imports via Cencorex, eliminating the VEB 6.3/US\$ exchange rate so that the SICAD I rate is applied to all Cencorex operations and public sector imports, and continuing with SICAD II, but with PDVSA and its partners entering as offerors and possibly moving the quotas for travelers and Internet purchases over to the SICAD II rate.

The proposal being promoted by former Finance Minister and Central Bank Director Nelson Merentes, on the other hand, includes a series of measures to try to alleviate the situation in the foreign exchange market and generate liquidity: tacit recognition of the

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parallel market; simplifying the process of importing via Cencoex; and paying the debt with the private sector with public sector securities and other assets. The problem with both these proposals is getting Maduro to sign off on them.

Regardless of the scenario chosen by the Executive, which at **Ecoanalítica** we estimate will be implemented in the next few weeks, the impact of the adjustment will depend on many factors, the most salient being the legalization of the parallel market and how much PDVSA contributes to the total supply of foreign currency.

### 2015 far from promising

The budget approved for 2015 specifies growth of 3.0%, which is way off base. As mentioned in previous reports, we will continue with an outlook of recession but, we are revising the figure we gave in our last outlook report for contraction in the economy from 2.9% to 4.6%, mainly as a result of the drastic drop in oil prices. The sector that will be hardest hit is the non-oil sector, in particular commerce, construction and mining. If 2014 was a difficult year, 2015 will definitely be even more complicated.

Our clients should bear in mind that, given the size of the foreign currency deficit, the devaluation of the official exchange rate will be accompanied by an aggressive restriction of foreign currency for the private sector. Hence we recommend adjusting balance sheets to the weighted average official exchange rate in order to mitigate impacts and step up coverage, as upward pressure on the unofficial exchange rate will continue.

In 2015 the sectors to be most affected will be the “non-priority” sectors: commerce, automotive (private vehicles), and electronics are just three. Imports will experience a significant cutback, a trend that has been apparent since 2013. However, imports can be cut only so far. More far-reaching measures are needed: we are going from “selective default” to running the risk of falling into default.

In order to actually achieve a structural change it is necessary for there to be a series of short-, medium-, and long-term policies that will have a profound impact on the economic dynamic: fiscal discipline, tax reform, an improvement in the country’s microeconomic structures, deregulation of the economy, and incentives for production are all areas where the government needs to take policy decisions if it really wants to stabilize Venezuela’s foreign exchange sector.

**Jessica Grisanti**

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## WEEKLY INDICATORS

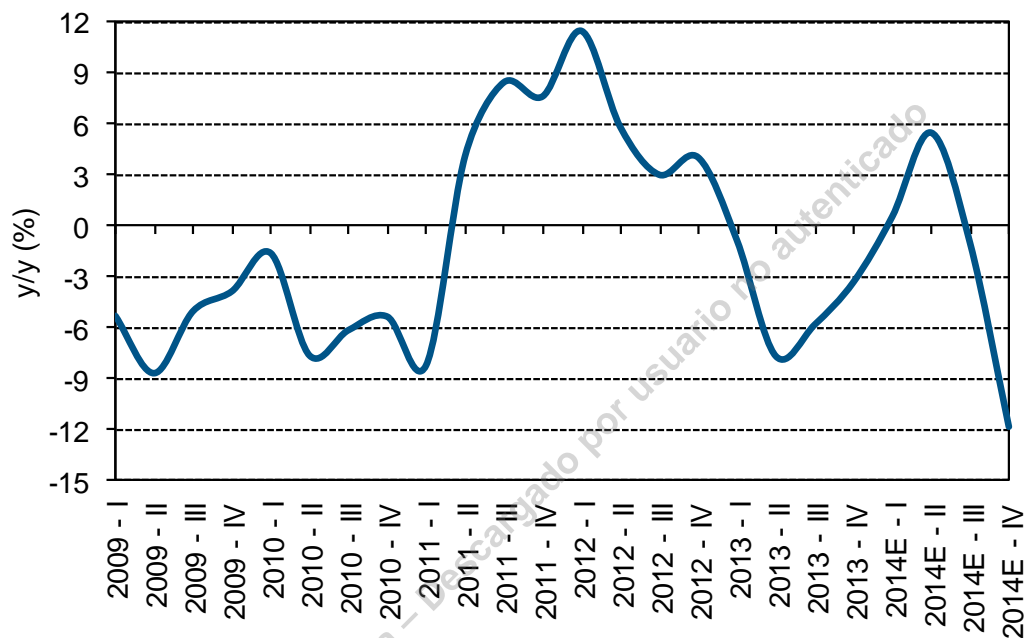
Weekly Economic Indicators			
	1st week January	Weekly var. (pp)	Annual var. (pp)
Lending interest rate (%)	19.06	-0.61	4.97
	1st week January	Weekly var. (pp)	Annual var. (pp)
Overnight interest rate (%)	0.42	-0.16	-0.08
	1st week January	Weekly var. (%)	Annual var. (%)
International reserves (MM US\$)	22,060	-1.1	-23.3
	4th week December	Weekly var. (%)	Accum. Var. (%)
Central Government spending (MM VEB)	8,539	38.4	58.6
	4th week December	Weekly var. (%)	Annual var. (%)
Monetary liquidity (MMM VEB)	1,951	1.5	64.0
Prices of international oil baskets (US\$/bl)			
	1st week January	Weekly var. (%)	Annual var. (%)
WTI	53.72	-4.0	-44.5
Brent	58.0	-4.0	-46.9
Price of the Venezuelan oil basket (US\$/bl)			
	1st week January	Weekly var. (%)	Annual var. (%)
Weekly average	47.1	-5.0	-51.4
Annual average	47.1	-	-

Sources: BCV, Menpet, ONT and Ecoanalítica

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## GRAPH OF THE WEEK: INFLATION EATS UP THE WAGES

### Real Wage Index



Source: BCV and Ecoanalítica

## SICAD II

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
12/23/2014	15.7	14.9	94.9	0.8	5.1
12/26/2014	24.8	23.5	94.8	1.3	5.2
12/29/2014	21.1	19.9	94.3	1.2	5.7

Source: Ecoanalítica

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## ECONOMIC TIPS

**2014 GDP decreased by 4.0%.** The Central Bank of Venezuela (BCV) said that the economy decreased by 4.0% from January to September 2014 compared to the same period of 2013. When evaluating the performance of sectors we obtain that the oil sector fell by 0.3% and non-oil grew 3,8%.

**GDP for non-oil sectors.** The sectors that drop the most were: trade and repair services (10.7%), construction (10.0%), manufacturing (9.2%), transport and storage (8.2%), mining (7.2%), renting and business services (1.9%), electricity and water (1.1%) while only four sectors recorded positive variations: financial institutions and insurance (14.2%), communications (5.0%), government services (1.7 %) and social and personal services (0.2%).

**Results of the BP.** According to figures released by the BCV, the balance of payments (BOP) from January to September 2014 recorded a deficit of US\$805 million. For this same period, the BOP shows a surplus of US\$9,909 million in the current account, a deficit of US\$10,714 million in the capital and financial account and a negative balance of US\$3,189 million in the errors and omissions account. These figures resulted in the country's net international reserves standing at US\$21,346 million.

BALANCE OF PAYMENTS			
General Summary (MMUS\$)	Accum. 3Q2014	Accum. 3Q2013	Var.
<b>Current Account</b>	9,909	4,939	100.6%
<b>Goods</b>	28,344	27,165	4.3%
<b>Oil Exports</b>	58,332	64,396	-9.4%
<b>Non-Oil Exports</b>	2,165	2,486	-12.9%
<b>Import of goods f.o.b.</b>	-32,153	-39,717	-19.0%
<b>Services</b>	-11,593	-13,161	-11.9%
<b>Others</b>	-6,842	-9,065	-24.5%
<b>Capital Account</b>	-10,714	-8,244	30.0%
<b>Public Sector</b>	98	-3,548	-102.8%
<b>Private Sector</b>	-11,935	-4,155	187.2%
<b>Reserves Variation</b>	-805	-3,305	-75.6%

Sources: BCV and Ecoanalítica

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**Inflation reached 60.1% in November.** According to figures published by the BCV, the National Consumer Price Index (Índice Nacional de Precios al Consumidor - INPC) variation for November was 4.7%, or year on year inflation of 60.1%.

**Food and non- alcoholic beverages had the highest inflation in November.** Among the 13 categories studied by the BCV, in November food and non- alcoholic beverages showed a higher inflation than the national average, with a variation of 92.9%, followed by alcoholic beverages and tobacco with 85.7%, restaurants and hotels with 75.4% and education services with 58.9%.

**Geographical results.** Of the 11 cities surveyed in November, the greatest variations were observed in Valencia with an inflation of 69.7%, followed by Barquisimeto with 64.4%. The areas with the least variation in November were Barcelona-Puerto La Cruz and Caracas with 57.5%.

**CPI reached 60.5% in November.** According to figures published by the BCV) consumer price index for the Metropolitan Area of Caracas (IPC-AMC) variation for November was 4.9%, or a year on year inflation of 60.5% since November 2013.

**Higher inflation for the poor.** Although the year on year inflation in November of the consumer price index for the Metropolitan Area of Caracas (IPC-AMC) had a variation of 60.5%, inflation for class I of the population, which includes the poorest families, increased 59.0%. Classes II, III and IV registered a variation of 56.1%, 53.3% and 49.5% respectively.

**Unemployment rate at 5.9%.** According to numbers released by the National Statistics Institute (INE), unemployment rate grew 0.9 percentage points (pp) in November, compared to the same period in 2013, when unemployment rate closed at 6.6%. This means that in the eleventh month of the year, 838,946 people didn't have a job.

**Inactivity rate decreases.** According to inactivity rate figures published by INE, shows that increased 0.01 pp compared to November 2013, to settle at 35.5%. Within this, men inactivity increased 0.3 pp, and stood at 21.3%. By the other hand, women inactivity, increased 0.3 pp compared to the same period in 2013, and stood at 49.5%.

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**Informality rate at 41.6%.** According to INE's figures, at end-November, 5.530.486 people were employed at the informal sector (41.6% of working population), increasing 0.5 pp compared to the same period in 2013. For its part, formal sector employed 58.5% of working population; decreasing 0.5 pp compared to same period last year and 1.3 pp from the previous month.

**Is there the will to change?** In his most recent statements, President Nicolás Maduro has indicated that, in order to deal with the “*economic war*” in 2015, it is necessary to correct the mistakes that the state-owned companies have been committing and those they have inherited from the past. Maduro stressed that he hopes that 2015 “*will be the year of the great change in awareness and in the Venezuelan economic model.*” At **Ecoanalítica** we insist that Venezuela urgently needs to take structural economic policy decisions.

**Figures in the red.** According to data supplied by the BCV, the Gross Domestic Product (GDP) in 3Q2014 posted a drop of 2.3%. The slowing down of economic activity in Venezuela was due mostly to the performance of construction (-10.1%), commerce and repair services (-9.5%), and manufacturing (-4.4%). At **Ecoanalítica** we estimate that GDP will post a drop of 4.06% in 2014.

**The sector with highest growth.** According to figures published by the BCV, the GDP sector that performed best in the first three quarters of the year was financial institutions and insurance. Activity in the financial institutions and insurance sector grew by 15.3% in the first quarter, 14.4% in the second quarter, and 13.2% in the thirist quarter. At **Ecoanalítica** we estimate that activity in the financial institutions and insurance sector will post growth of 23.6% in 2014.

**Balance of payments posts a surplus again.** The trade balance on the balance of payments in 3Q2014 posted a surplus of US\$6.81 billion as a result of a 14.2% drop in total external sales and a slight contraction of 1.4% in goods imports (US\$12.25 billion). According to the BCV's provisional figures, the trade balance on the balance of payments will come to US\$28.34 billion in 2014.

**A dip in the current account.** The current account closed 3Q2014 with a positive balance of US\$899 million compared to US\$3.22 billion in 2Q2014, down US\$2.33 billion. At **Ecoanalítica** we estimate that the drop in the

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current account in 4Q2014 will be bigger due to the sharp reduction in oil prices.

**The increase in prices continues.** According to the latest figures published by the BCV, inflation in November was 63.6% year-on-year and 4.6% compared to October, resulting in cumulative inflation up to November of 60.0%. At **Ecoanalítica** we estimated that inflation in December will be in the region of 4.0% and that 2014 will close with inflation of nearly 66.5%.

**Seniat overshoots its target by a mile.** According to figures published by the National Integrated Customs and Tax Administration Service (Seniat), it obtained total tax receipts of VEB 474.69 billion in 2014, equivalent to 149.7% of its target for the year (VEB 317.0 billion) and up 71.2% in nominal terms if compared to the amount collected in 2013 (VEB 277.25 billion). At **Ecoanalítica** we estimate that, if inflation closes 2014 at 66.5%, the real increase in tax receipts will be 2.8%.

**Venezuela is lagging behind the rest of the continent.** In a preliminary report on the economies of the region, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Venezuela will close 2014 with a contraction of 3.0% of GDP. It also estimates growth of 1.1% for Latin America and the Caribbean, due mainly to the contractions in Venezuela and Argentina, the lowest rate of growth since 2009 (-1.8%).

**Fonden's baby brother.** In line with the eight new strategic guidelines proposed by the Central Government for recovering the economy, President Nicolás Maduro announced the creation of the Strategic Reserve Fund (FER). This purpose of this fund, which is in bolivars and in BCV accounts, is to guarantee "*social investment*" in Venezuela (i.e. payment of pensions and wage increases and maintaining the missions.)

**A degree of discretion is necessary.** At **Ecoanalítica** we are of the opinion that most of the transfers received by the FER will be revenues generated by devaluation. The creation of a new fund comes as no surprise, as the government needs tools that will allow it to maintain a degree of discretion when it comes to spending, particularly in 2015, when it is estimated that the average price of oil will be near the price established in the national budget (US\$60/bbl.).

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Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
11/26/14	14.1	13.1	92.9	1.0	7.1
11/27/14	14.5	14.0	96.6	0.5	3.4
11/28/14	16.0	15.4	96.3	0.6	3.8
12/1/14	15.8	15.5	98.1	0.3	1.9
12/2/14	12.0	11.7	97.5	0.3	2.5
12/3/14	19.6	18.0	91.8	1.6	8.2

Source: Ecoanalítica

## OIL TIPS

**Venezuelan crude loses ground in 2014.** The average price of Venezuelan crude closed 2014 at US\$88.4/bbl., a drop of US\$9.7/bbl. compared to 2013, when the average price for the year came to US\$98.1/bbl., according to the Ministry for Oil and Mining. The prices of Venezuelan crude have been falling back since September last year, when the barrel was trading at US\$92.6.

**International benchmark prices plummet.** The oil barrel price on reference markets (New York and London) closed 2014 down by 48.7% and 46.0% respectively, the biggest drop since the outbreak of the global financial crisis in 2008. The price of WTI closed at US\$53.3/bbl. and North Sea crude, the European benchmark crude, ended the last session with a drop of US\$1.1 compared to the last trade and closed the year at US\$57.9/bbl.

**2015 started with changes and a poor outlook.** President Nicolás Maduro said that the price of Venezuelan crude continues to slide and that it closed 2014 at US\$47.0/bbl. He also announced that a new board of directors had been appointed at PDVSA, which is to be chaired by Eulogio del Pino. Orlando Chacín, Jesús Luongo, Aracelis Suez de Vallejo, Antón Castillo and Carlos Malpica will be the internal directors and Minister Rodolfo Marco Torres and Minister Ricardo Menéndez will act as external directors.

**The outlook hasn't improved.** International agencies agree that this year does not hold a promise of a return to oil barrel prices of US\$100. The best scenario they are forecasting is achieving a minimum level and prices stabilizing at around that level. According to the consulting firm IHS Energy, North Sea Brent –the highest priced crude- will be between US\$66.9/bbl. and US\$75/bbl. in 2015 and 2016.

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**Prices have still not bottomed out.** The economist Leonardo Buniak from the consulting firm Buniak & Co is of the view that oil prices have still not bottomed out and that their doing so will depend on the production cost of unconventional crudes. It will be recalled that OPEC's decision not to cut production was based on the need to get shale oil developments -which have generated a sizeable supply surplus and leveraged the sharp drop in prices- out of the game.

**They miscalculated.** The Saudis' calculations were not very precise, as this prominent producer and head of OPEC estimated that the majority of shale oil producers would be put out of production at US\$80/bbl., but only 4.0% of the unconventional crude developments are unviable at that price. The engineer and oil analyst Diego González Cruz said, for example, that the biggest shale fields being exploited in the United States (US), such as the Eagle Ford field, have a production cost of less than US\$50/bbl., whereas production costs in the Bakken formation average US\$36/bbl.

**A small miracle.** The chances of oil prices stabilizing could depend on one of two factors: either a reduction in the supply of crude or a major upturn in demand. In the case of supply, it seems that Saudi Arabia underestimated the impact of the supply surplus created by deciding not to cut production, as a result of which it seems that prices are not bottoming out. The market is now expecting an emergency OPEC meeting.

**Happy consumers.** The drop in oil prices has had an immediate impact on the cost of gasoline, generating estimated savings of US\$14.0 billion for US drivers compared to what they spent on filling up their tanks in 2013, according to the motor club and leisure travel organization, the AAA. In Colombia, the Ministry of Energy and Mines has ordered a reduction of COP 93 per gallon, bringing the price to COP 8,402 (about US\$3.5). These cuts in fuel costs are providing considerable relief to the transportation industry and bringing down freight costs in both countries.

**Harvest Natural was unable to sell its stake.** The oil and gas producer Harvest Natural Resources signed an agreement in 2009 to sell its remaining share (20.4%) in Petrodelta, a joint venture with PDVSA, Petroandina, and Pluspetrol Resources, for US\$275 million. However, the company announced that it has terminated this share purchase agreement since it was not approved by the Venezuelan Government, which resulted in its shares plummeting by 54.0% to an historic low.

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**PDVSA is exploring for oil and gas in Amazonia.** On Tuesday, December 30, Petroandina, in partnership with PDVSA and Bolivia's state-owned oil company, started to drill the first oil well in an unexplored area of Bolivian Amazonia. The partnership is to invest US\$54 million and expects to find reserves estimated at 10 million barrels of crude and 153 million cubic feet of gas, said Fernando Salazar, the company's manager.

## BUSINESS SECTOR TIPS

**Medicine shortages at 60%.** The president of the Venezuelan Pharmaceutical Federation (FFV), Freddy Ceballos, claimed that the shortage of medicines continues at more than 60.0% in Caracas and at more than 70.0% in the provinces and said that the lack of medicines in Venezuela is not due to "overconsumption" by patients. With regard to the change of president at Cencorex, he hoped that the transition "*would not delay the disbursement of outstanding foreign currency with all sectors still further.*"

**From one meeting to the next.** Vice President Jorge Arreaza commented that on Wednesday, January 7, he had a meeting with the poultry rearing sector and that the rest of the meat sector also met at Miraflores Palace. On Thursday, January 8, he had a meeting with the dairy sector, and on Friday another meeting with the food distribution chains. He stated that there would be structural changes in the country's economic model in order to "*finish building the Chavista model.*"

**Exports to Colombia up.** According to figures from the Venezuelan-Colombian Economic Integration Chamber (Cavecol), as at November trade between the two countries came to US\$2.03 billion, down 19.2% from 2013. This drop was due to a 23.2% reduction in imports from Colombia (US\$1.63 billion), whereas Venezuelan exports were up slightly from US\$388 million between January and November 2013 to US\$397 million (2.3%) over the same period in 2014.

**Osorio met with the automotive sector.** The minister for the Office of the Presidency and Monitoring of Government Performance met with businessmen in the automotive sector. As for Minister for Industry José David Cabello, he insisted yet again that the goal is to increase production not only in the automotive sector but in all sectors. He explained that the plans

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discussed at the meeting aim to make it possible to have between 60.0% and 70.0% of a vehicle's parts made in Venezuela within a period of 10 to 20 months.

## WORLD ECONOMY TIPS

**Halfway through next year.** The president of the San Francisco Federal Reserve, John Williams, announced that discussions about raising interest rates in the US are still on track and that the middle of 2015 was a reasonable guess as to when they would discuss whether or not they should raise the rates.

**Confidence is improving.** According to the confidence index prepared by the research firm Sentix, which measures confidence among investors and analysts in the European Union (EU), confidence in that bloc of countries improved in January for the third month running due to investors and analysts setting aside their uncertainty over the elections in Greece and to the most optimistic long-term prospects for the EU's economic development in six months.

**The capital market is paying the consequences.** The European stock exchanges fell back in the first week of January to two-week lows given concerns over the future of Greece and a sharp drop in oil and copper prices, which hit mainly the financial and commodities sectors. The Eurostoxx 50 Index (which includes the 50 main shares in the EU) closed with a drop of 3.7%.

**Prices are sliding.** According to preliminary data from the Federal Statistics Office, annual inflation in Germany slowed down to 0.1% in December, the lowest in more than five years. Germany's annual inflation remained unchanged from the previous month and rose by 0.2% compared to last year.

**Tapering off at year-end.** According to a report by the financial consulting firm Markit, manufacturing in the EU ended 2014 on a subdued and depressed note, since production, new orders and employment posted slow growth at the end of the year. The report also indicates that factories cut their prices for the fourth month running and that activity was weak in Germany, the EU's main economy.

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**Japan is trying to revive its economy.** In an attempt by Prime Minister Shinzo to increase and encourage profitability and economic growth in Japan, his coalition has approved a tax reform plan that will reduce the company tax starting in April and has promised further tax reductions in the next few years. The “promise” consists of a 2.5% reduction in taxes that companies have to pay.

**China relaxes controls.** Last month China’s National Development and Reform Commission (NDRC) announced the lifting of controls on the prices of 24 commodities and services, thus doing away with nearly all controls on agricultural products, the most noteworthy being tobacco, which was the last agricultural product to be freed from government price control. The commission is also to permit rail freight transport, passenger transport and other prices to float freely.

**Things are getting complicated for Brazil.** Brazil’s Ministry for Development, Industry and Foreign Trade announced that Brazil posted its first annual trade deficit in 14 years due to the slowing down of economic growth and the drop in the prices of iron ore, soybeans and other key commodities that the country exports. Brazil’s trade deficit came to US\$3.93 billion in 2014, the biggest since 1998.

## POLITICAL TIPS

**I need your help.** On Monday, President Nicolás Maduro traveled to the People’s Republic of China to further strengthen bilateral economic and commercial cooperation relations with China. His work agenda includes a meeting with China’s business sector. Next Maduro will do a tour of members of the OPEC to discuss the drop in oil prices.

**We know you’re in a tight spot.** A spokesperson from China’s Foreign Affairs Ministry, Hong Lei, stated that China’s financial cooperation with Venezuela is “*mature and effective*” and gave assurances that China understands the problems that the oil producing countries are facing. Hong Lei stressed that the two countries have a “*mature and effective*” financial cooperation mechanism and that the lines of bilateral cooperation “*are open*” and functioning “*satisfactorily*.”

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**A corrupt National Assembly.** According to statements by Miranda State Governor Enrique Capriles Radonski, the National Assembly's present board of officers, headed by Diosdado Cabello, is the most corrupt in the country's history. *"The National Assembly's present board of officers is the most shameful in the country's history, the most corrupt. We hope that (the new board of officers) will be a National Assembly that will promote the final change we need in the country,"* he said.

**What are they doing there?** Miranda State Governor Enrique Capriles Radonski questioned President Nicolás Maduro's trip to China. According to the governor, it was not necessary to take the minister for defense or the minister for education along on this trip, the purpose of which is to get resources in order to cope with the present drop in oil prices. *"If they're going to talk about the economy, what's the minister for defense doing there (on the tour)? What does he have to do with economic issues? What's the minister for education doing there given all the complaints that teachers are making at the start of the year?"* exclaimed Capriles.

**I'll swap you.** President Nicolás Maduro said that the only way he would agree to release former Chacao Mayor Leopoldo López would be if the United States were to release the Puerto Rican independence activist Oscar López Riviera; in other words an exchange of prisoners. In response to these statements, the US Department of State said that there was no possibility of an exchange of prisoners with the Government of Venezuela at the present time.

**For the fourth time.** Deputy Diosdado Cabello was reelected as president of the National Assembly for the 2015 legislative term, making it his fourth period running as president of the National Assembly. His appointment was proposed by PSUV Deputy for Aragua state María León and approved by a simple majority. Elvis Amoroso and Tania Díaz were elected as the first and second vice presidents of the National Assembly.

**They have some explaining to do.** In 2015, the Venezuelan authorities will have to appear before the United Nations to report on what they have done to guarantee human rights. Between June 1 and 9, a review will be conducted at which the Venezuelan State will be able to present its achievements in the areas of basic literacy and the fight against malnutrition; and between June 29 and July 24, an assessment will be conducted where the Venezuelan

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State will have to explain what it has done to guarantee rights such as the right to life, personal safety and to demonstrate.

**Slated for the first quarter.** At a press conference, the secretary of the Democratic Unity Alliance, Chuo Torrealba, announced that the opposition will chose its candidates by means of two mechanisms -primaries and consensus- and promised that the Unity Alliance would announce the schedule for the primaries in the second week of January. *“The likely date for the primaries is in the first quarter (...), we have to have the Unity Alliance’s candidates by March at the latest,”* explained Torrealba.

## LEGISLATIVE TIPS

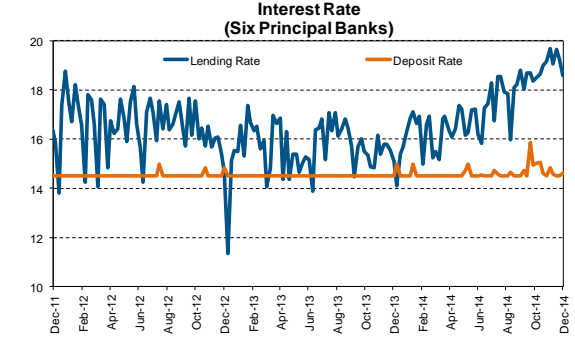
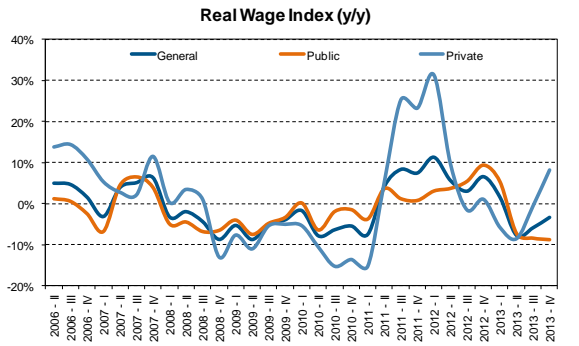
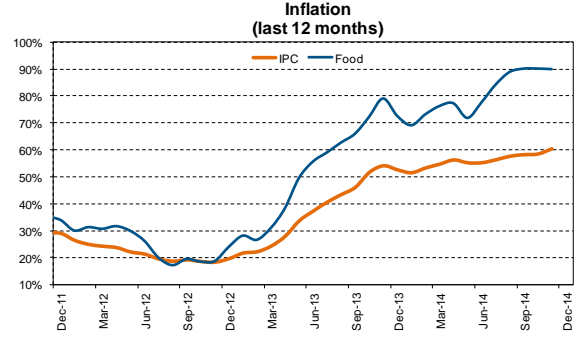
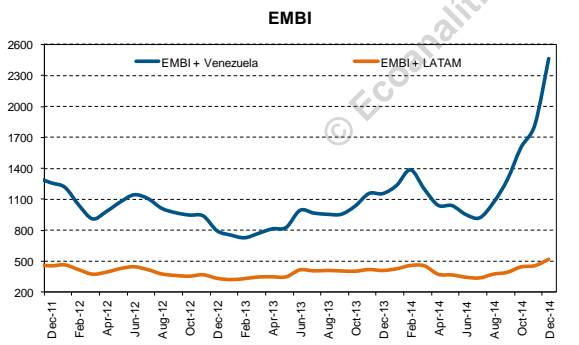
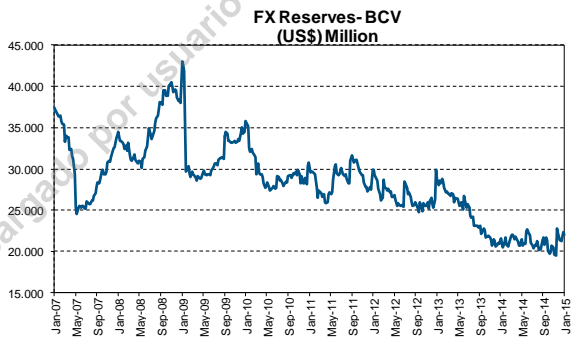
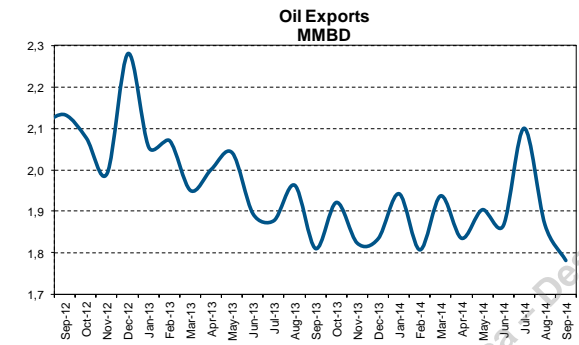
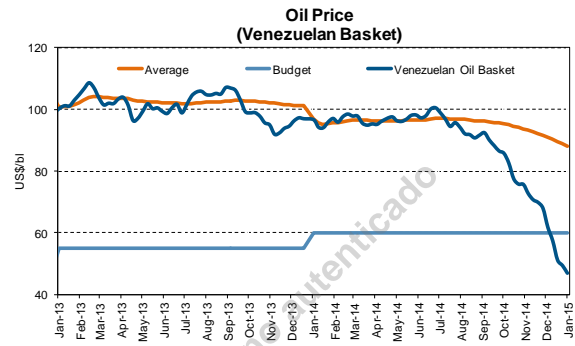
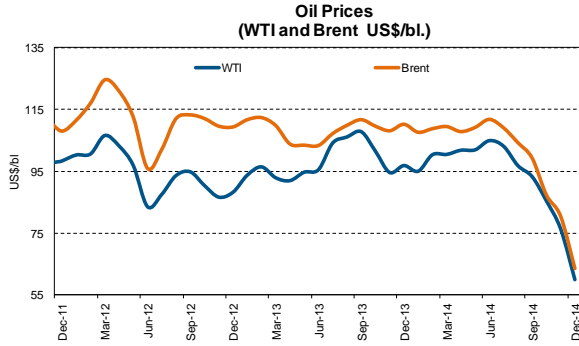
**Cencorex has new hands at the helm.** On Tuesday, January 6, the National Foreign Trade Center’s (Cencorex) new board of directors was made official, with Rocco Albisini as the president in the place of Alejandro Flemming, Fanny Márquez as vice president, and Rodolfo Clemente Marco Torres, José David Cabello, and José Salamat Khan as directors. At **Ecoanalítica** we view this change as a positive move, since Albisini is one of Finance Minister Marco Torres’ men.

**But things are still the same in the National Assembly.** *Gaceta Oficial* No. 40,573, which went into circulated on January 6, also officially announced that Deputy Diosdado Cabello will repeat as the president of the National Assembly for the 2015 period of sessions, with Deputies Elvis Amoroso and Tania Díaz acting as first and second vice presidents.

**The situation of the tolls to be made official soon.** Minister for Land Transport Haiman El Troudi announced that full details of the new regulations for the 71 toll booths in different parts of the country would be published shortly in *Gaceta Oficial*. Each booth is to be refurbished and then handed over to the state government to be administered with a regulated toll, which will payable by freight transport only.

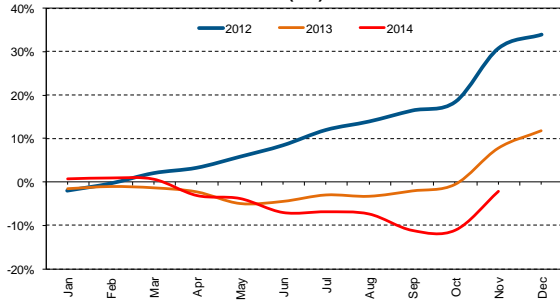
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**ECONOMIC OVERVIEW**

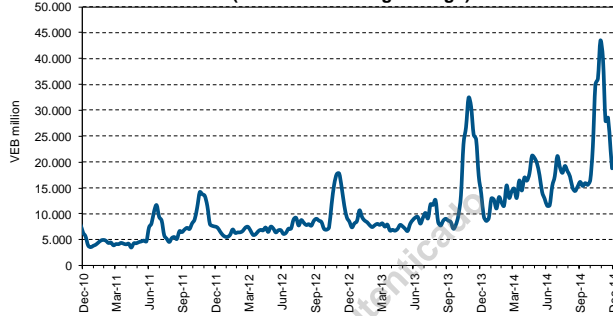


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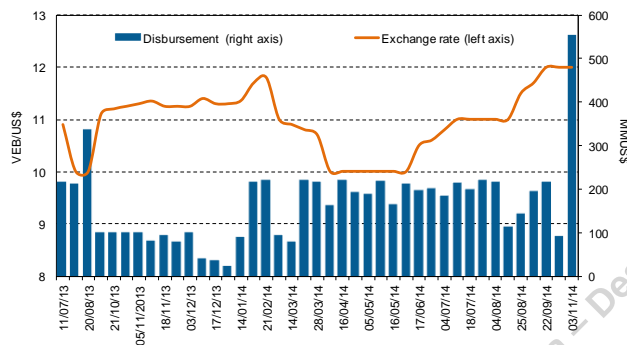
**Year on Year Real Expansion (M2)**



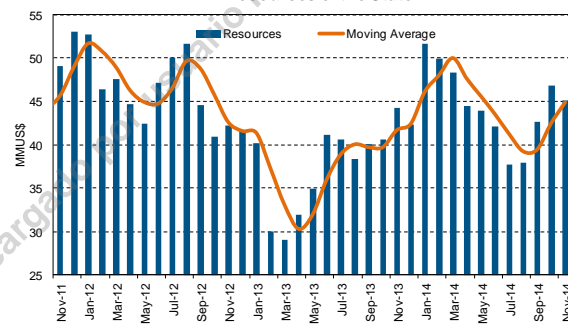
**Primary Spending NTO (Four-week Moving Average)**



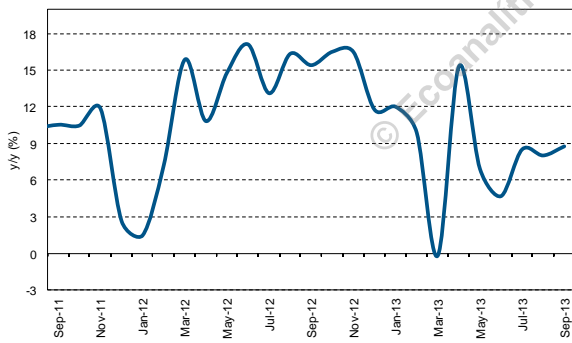
**SICAD I**



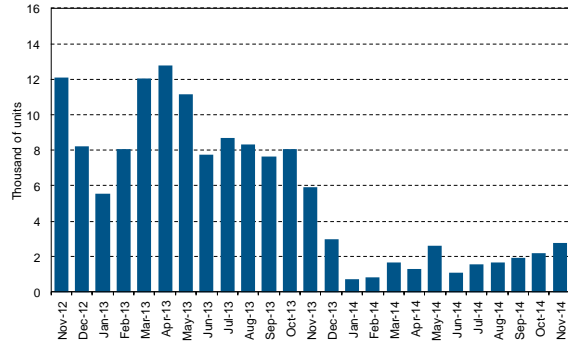
**Resources of the State**



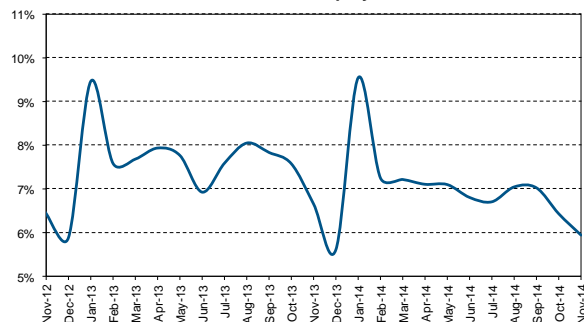
**Volume of Sales**



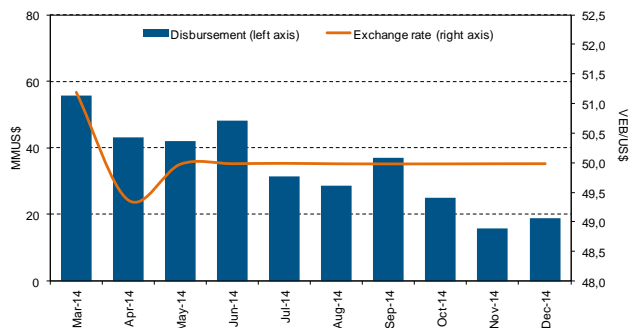
**Automobile Sales**



**Rate of unemployment**



**SICAD II**



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