

What time's the party over?

Handling of sovereign debt is an issue that has gained in importance since the debt crisis faced by a number of countries at the end of 2009 and after a political debate on restricting that debt threatened to paralyze the United States (US) economy early this year. This issue has not been a matter of concern in emerging countries, particularly in Latin American, where they believe they have dealt with that problem following an episode of defaults that dragged the region into a lost decade in the 1980s, a situation they hope will not be repeated.

Venezuela has not escaped this shortsightedness. In the past 15 years, the growth of the State apparatus has brought with it a steadily growing debt that has not resulted in greater productivity of the public sector or sustained economic growth, a dangerous situation if account is taken of how vulnerable fiscal revenues are to external events.

Besides events originating from beyond our frontiers, the huge number of economic problems that are weighing heavily on the country today have distracted people's attention from the policy of indebtedness, which is a matter of general interest as important as inflation and shortages and one that we will attempt to address in this report.

When you spend what you don't have

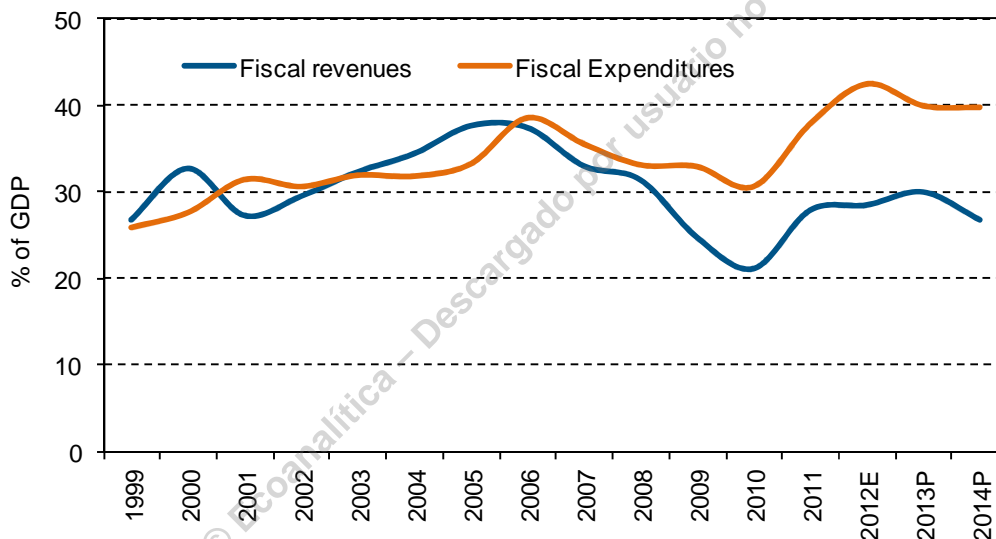
The fiscal result of doing this tends to be higher levels of indebtedness (if there is a deficit) or of financing (if there are surpluses). In Venezuela, several years running with sizeable deficits have resulted in sustained growth in the levels of indebtedness.

While it is true that, between 1999 and 2013, the revenues of the State grew at a rate of 33.2%, thanks to higher tax revenues (29.7%) due to improvements in tax collection and greater efforts to prevent evasion and also to nontax revenues (36.9%) as a result of greater control on earnings from the oil business (and, of course, higher oil prices), spending has grown at an even faster rate.

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A policy that, according to government spokespersons, has sought to pay “social debts” by increasing social spending and the weight of government services and, therefore, the size of the public sector payroll, has led to public spending increasing by 35.0% a year in the past 15 years and to go from representing 26.1% of Gross Domestic Product (GDP) at the close of the 90’s decade to 40.0% of GDP at the end of last year. Aside from the considerable possibilities offered by an increase in revenues, the growth in spending has led to deficits averaging 1.8% of GDP (more than 10.0% in the last five years), causing the debt to grow by 304.5% over the same period.

Fiscal Revenues vs. Fiscal Expenditures



Sources: Ministry of Finance and Ecoanalítica

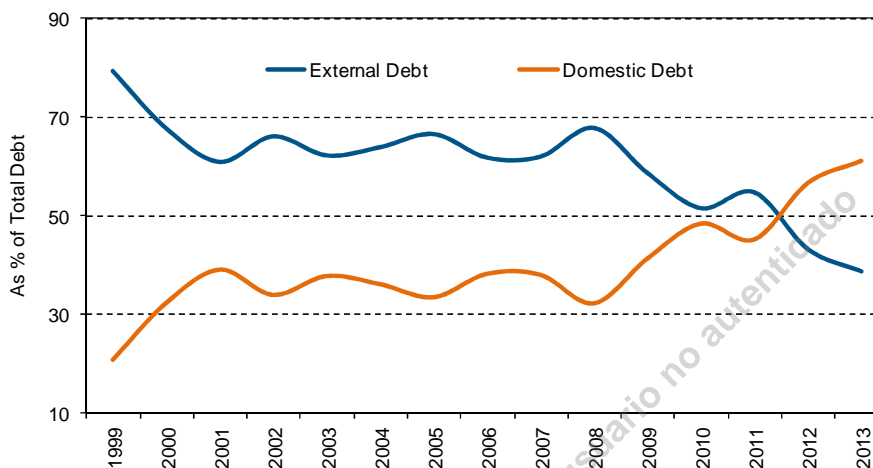
The borrowing has been in bolivars

The evident increase in the public debt since 1999 has been driven, first and foremost, by the increase in domestic debt, consisting of bonds, securities, and bolivars-denominated loans traded in Venezuela. At the end of 2013, domestic debt came to US\$59.4 billion, 904.3% higher than in 1999 (US\$5.9 billion), and that figure could have been bigger were it not for the devaluations in 2005, 2010, and 2013, which reduced it in dollar terms.

Despite having been, for many years, much less than foreign debt, the growth of the domestic debt has been so rapid that, in 2013, it accounted for the lion’s share of total debt, with 61.1%, when it represented only 20.7% in 1999.

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External Debt vs. Domestic Debt



Sources: Ministry of Finance and Ecoanalítica

This shift in the makeup of the debt from foreign to domestic did not happen by chance. Jorge Giordani, who was finance minister for many years, always had reducing the weight of foreign debt in total public sector debt as one of his plans during his time in government (1999 – 2014). The logic behind this strategy is that, constant devaluations tend to make domestic indebtedness cheaper, thus making it safer to borrow in bolivars than in dollars. Although it was only in 2009 that Giordani's plan with regard to the debt was finally consolidated in the economy, it was already apparent several years earlier how the former minister's policies in favor of borrowing in bolivars had gained ground.

Now that Giordani's out of the picture, will things change?

It is undeniable that, with Giordani no longer in the economic cabinet, things could change, although whether or not that will happen is uncertain at the moment, which means that what form the re-composition of the public sector debt will take (in terms of foreign and domestic) is a mystery. Despite this, at **Ecoanalítica** we think that the most rational course of action would be to maintain Giordani's indebtedness policy, since it does not seem that Venezuela is going to get the bolivar to appreciate against the dollar for the time being; on the contrary, we are daily more subjected to devaluations, which have become part of a structural problem.

What is it that we're borrowing for?

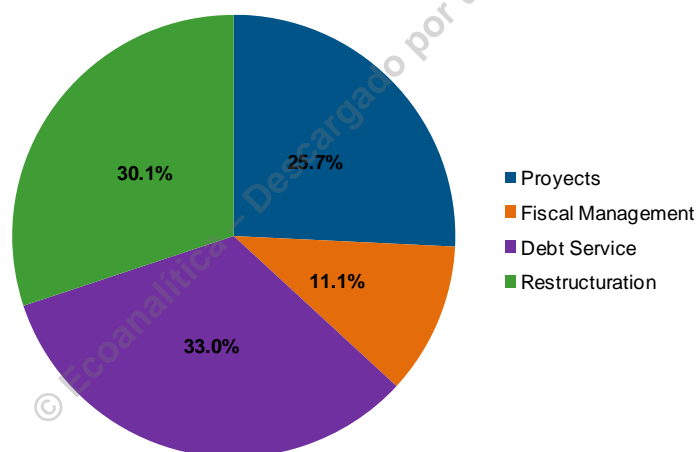
Generally speaking, the reason for increasing borrowing is to finance the carrying out of long-term projects that will guarantee a significant benefit in social terms. Studies show

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that investment in infrastructure in particular tends to have a significant influence on productivity as measured by GDP per worker. In Venezuela, however, less than half the debt taken out by the Central Government in the past ten years (25.7%) has been earmarked for investment projects, whereas servicing and restructuring the debt have accounted for 63.1%.

Allocating a larger slice of the debt to put off finally paying the piper means that opportunities to use borrowing in order to boost growth are lost. To make matters worse, in 2010 another factor came into play: the practice of resorting to borrowing to cover current spending, thereby increasing consumption and making conditions unfavorable for production.

**Purposes of Debt Recruitment
2005-2013**

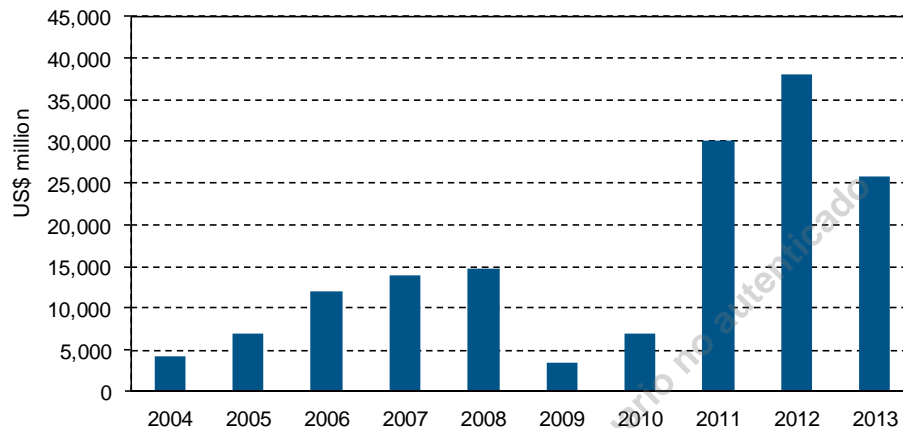


Sources: Borrowing Laws and Ecoanalítica

From sowing oil to sowing debt

When talking about public sector debt, mentioning PDVSA's debt is inevitable. Since losing its autonomy in 2003, when it started to have to allocate resources to Fonden (previously Fondespa) and to social spending (the missions), PDVSA has been forced to allocate a fair share of its revenues to executing quasi-fiscal spending instead of increasing investment to improve its productivity, with the result that a large part of its debt can be added to the public sector debt.

Contributions to social development

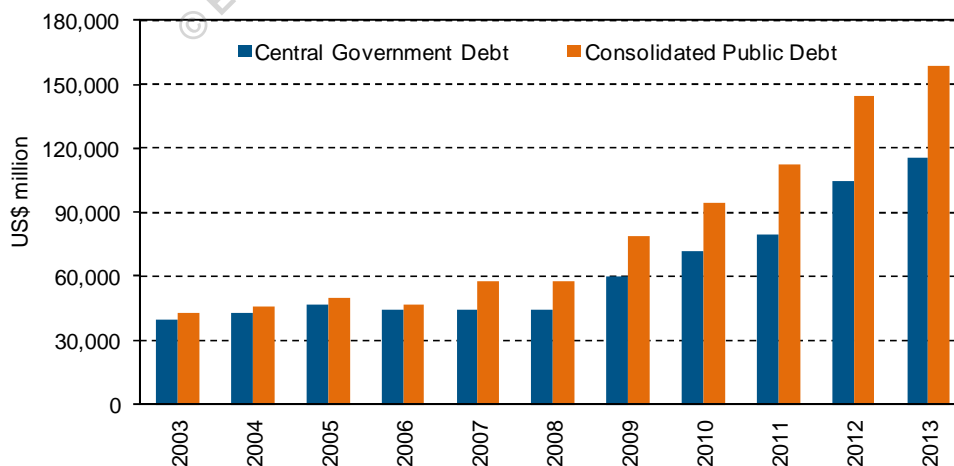


Sources: Pdvsa y Ecoanalítica

Note: Contributions to social development includes Fonden contributions

Both the size of the debt itself and the size of the debt as a percentage of GDP increase when PDVSA's debt is added to the Central Government's debt. At **Ecoanalítica** we estimate that the consolidated public sector debt (government and PDVSA) comes to US\$158.7 billion. When compared to the US\$28.5 billion posted at the end of 1999, this gives an increase of 456.9%, which is much bigger than it would be if only the Central Government's debt were taken into account.

Central Government Debt vs. Consolidated Public Debt



Sources: Ministry of Finance, Pdvsa and Ecoanalítica

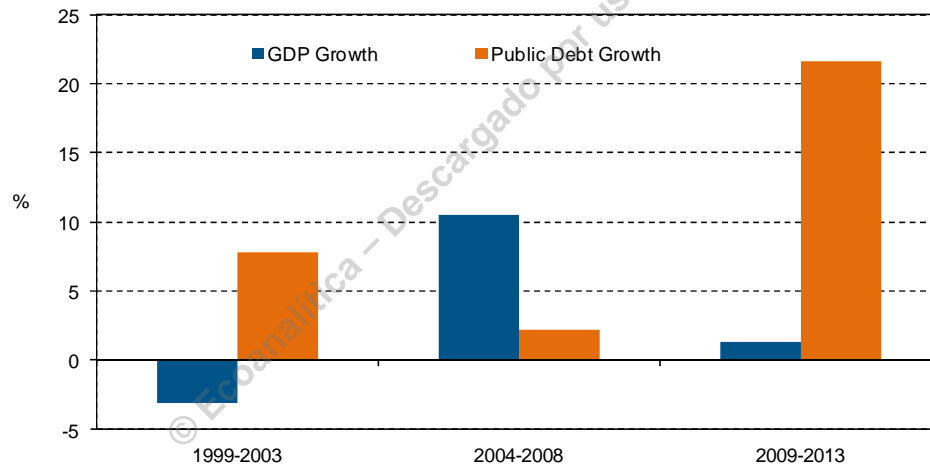
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Is this level of indebtedness sustainable?

Growth of the debt has exceeded growth in GDP by 20.4 percentage points (pp) a year in the last five years, which means that the weight of the debt has been steadily increasing. This is the first factor that is threatening the sustainability of the debt.

A second aspect that needs to be considered, besides the weight of the debt, is the weight of servicing that debt. A higher country risk rating has meant that Venezuela has to pay higher rates of interest on foreign debt (which currently represents 38.9% of total debt), and this has pushed up debt servicing from de US\$7.6 billion in 1999 to US\$14.1 billion in 2014, at a time when the international reserves are still at critical levels.

GDP variation vs. Public debt variation



Sources: BCV and Ecoanalítica

In third place, the days of restructuring and paying debt based on fresh borrowing are numbered, particularly if account is taken of the fact that an ever-increasing portion of that fresh debt is used to cover shortfalls in the current budget.

Just as, in real life, a happy-go-lucky lifestyle full of partying and lacking in responsibility, accompanied by scant work, ends up bankrupting anyone, at **Ecoanalítica** we observe with concern how the government is bent on maintaining a level of spending that has proved to be inefficient, even at times when political logic does not justify it (since this is not an election year).

Despite these factors, the strategy implemented in previous years, and promoted by Giordani, has meant that the debt may well be sustainable. The fact that, today, 61.1%

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of the total debt is domestic debt allows the government to dilute it via devaluations, so avoiding falling into default and, if necessary, permitting it to implement corrective measures to prevent the debt from spinning out of control. However, at **Ecoanalítica** we believe that major measures need to be taken, particularly with regard to the size of the deficit and fiscal expansion, in order to avoid greater weight of the debt causing problems in the future and so that it stops consuming resources that could be allocated to more productive activities.

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ECONOMIC TIPS

Renewal of the foreign exchange regime. Vice President for the Economy Rafael Ramírez gave assurances that a new foreign exchange scheme should be ready by the end of the year, since *“the one we’ve got has not proved to be adequate for the economy.”* Ramírez explained that *“SICAD I and II are the precursors to a new foreign exchange system,”* but without saying what the exchange rate would be. However, he did mention that measures would first have to be taken with regard to prices or the amount of money circulating in the economy.

Converging in slow motion. After remaining steady for seven weeks at VEB 10.0/US\$, Cencoex allowed the SICAD I exchange rate to slide up to VEB 10.6/US\$ at the last auction, the 15th this year. At **Ecoanalítica** we expect the average SICAD I exchange rate to be VEB 15.0/US\$ this year and that, each month, more and more products will be transferred from the Cencoex to the SICAD I rate.

Was there an increase in foreign investment? According to the World Investment Report prepared by the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment in Venezuela came to US\$7.0 billion in 2013, up 119.0% from 2012. Despite the “increase,” funds registered as investment do not correspond to capital entries, but are the result of larger amounts in dividends that companies have not been able to repatriate and coverage operations by transnational companies in Venezuela.

25,200 suspects. Cencoex has published the eighth list of people who are required to demonstrate proper use of foreign currency abroad, bringing the total number of people who must present the documents relating to the use of foreign currency, both the originals and a set of photocopies, to the agency to 25,000. The number of people who have been called to submit documents is twice the number of people who traveled in 2012, when 12,274 applications for foreign currency were submitted.

Fitch forecasts high inflation and a drop in GDP. Fitch Ratings estimates that, this year, the Venezuelan economy will suffer from high inflation of more than 50.0% and a contraction of more than 1.0%. According to Fitch, market conditions continue to be a challenge in Venezuela, as they are in Argentina,

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the two countries in the region that maintain strong controls on capital (in an attempt to stop the decline in their international reserves) and high inflation.

Others forecast a much blacker outlook. According to forecasts by Barclays Capital, the Venezuelan economy will contract by 2.9% this year and post inflation of 63.7% and a fiscal deficit of nearly 10.6% of GDP. The investment bank explains that its estimates are based on the loss of a sense of urgency by the authorities when it comes to implementing adjustments, while foreign exchange restrictions continue to affect the productive sector and inflation is hitting families' purchasing power hard.

There's still room for more borrowing. According to the Ministry for Finance, placements of government debt came to VEB 51.40 billion as at mid-June, 48.9% of the amount authorized under the 2014 Indebtedness Act (VEB 105.0 billion). Although the pace of issues has slowed down this year (given that, in 2013, the entire amount of the debt had been placed by June), the considerable increase in spending (15.9% in real terms as at the end of June) makes it look as though, as in previous years, supplementary borrowing will be necessary.

Central Bank to extend financing. According to unofficial sources, the Central Bank's board of directors has decided to increase the amount of the promissory note that PDVSA has opened with the bank and to extend it to other state-owned companies, raising it by up to 2.0% of GDP (VEB 49.2 billion). The economic cabinet plans to unify the exchange rates sometime between September and October, which means that the Central Bank expects that, thanks to this new devaluation, the weight of the state-owned companies outstanding debts will shrink.

Interest rates. The lending rate for the third week of June was at 17.2%, without variations compared to the previous week. The time deposit rate was at 14.5%, the same as the previous week, while the passive rate has not experienced any significant variation, placing well at 14.1%.

International reserves. International reserves decreased by 4.7%, going from US\$22.1 billion during the third week of June to US\$21.0 billion during the fourth week of June. Compared to the same period last year, international reserves have decreased by 18.5%.

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Central government expenditure. On Jun 13th according to figures from the NTO primary spending was VEB 18.3 billion, which means an increase of 41.8%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 345.3 billion 74.2% more than the same period last year.

Monetary liquidity. Money liquidity (M2) increased 1.0% in the third week of June from the week prior, to settle at VEB 1.4 trillion. The M2 has increased 73.1% in relation with the same period last year.

Supply through SICAD II (US\$ MM)					
Day	Total daily	Public Sector	(%)	Private Sector	(%)
6/25/2014	70.8	66.7	94.2	4.1	5.8
6/26/2014	56.4	53.1	94.1	3.3	5.9
6/27/2014	47.9	46.0	96.0	1.9	4.0
6/30/2014	50.5	49.5	98.0	1.0	2.0
7/1/2014	67.8	66.5	98.1	1.3	1.9

Sources: Ecoanalítica

OIL TIPS

I'll give you credit today and tomorrow as well. PDVSA continues entering accounts receivable from the Republic on its books, as its 2013 financial report indicates that Corpoelec owes it US\$2.86 billion, 6.7% more than the US\$2.68 billion reported for 2012. According to the auditor's notes on the financial report, the accounts receivable from Corpoelec *"include mainly the operations performed by PDVSA for the supply of light diesel and financial aid for the acquisition of equipment for the national electricity system."*

"Offsetting" accounts receivable. PDVSA considers that those debts can be offset against the energy supply service provided by Corpoelec and, following this practice, it offset accounts receivable from the electricity company amounting to a total of US\$4 million, 50.0% less than in 2012, when the amount offset came to US\$8 million.

Gas production up by 3.5%. Reinjection of natural gas in oil wells was reduced by nearly 100 million cubic feet a day (Mmcf) in 2013, which made it possible to raise net natural gas production last year, according to the 2013

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financial statements. Gross natural gas production was 7.40 billion cfd last year, practically unchanged from the 7.33 billion cfd registered in 2012. These numbers give a variation of 0.9% from one year to the next. Reinjection, which was reduced by 3.2%, left net production of 4.62 billion cfd of gas, equivalent to an increase of 3.5% compared to 2102's net production of 4.46 billion cfd.

The domestic market is taking everything. PDVSA's Report and Accounts for 2013 states that, last year, 690 Mmcf of methane gas were allocated to the electricity sector, 5.3% more than the 655 Mmcf allocated in 2012. Moreover, the electricity sector had a larger quota of total available methane gas in 2013, as much as 32.0% of the 2.18 billion cubic feet a day. Minister Ramírez admitted that the increase in domestic demand reduced oil exports in 2013.

PDVSA settles its accounts with local suppliers. The changes in the foreign exchange situation have allowed the oil industry to gradually settle its outstanding local currency debts with suppliers, according to Minister Rafael Ramírez. *"We've paid 70% of the bolivar debt with suppliers thanks to the sale of foreign currency via SICAD II,"* said the minister, who also claimed that they were working in order to *"settle these payments in full."*

Importers of diesel. Demand by the electricity sector that is dependent on thermoelectric generation has increased to the point where it is absorbing practically all the diesel refined by PDVSA. Information from PDVSA's financial report for 2013 indicate that diesel exports last year came to only 6,000 barrels a day, a huge drop of 86.0% compared to 2012. The domestic market, which is consuming ever larger volumes of diesel for thermoelectric generation, has gone from 599,000 b/d in 2009 to 703,000 b/d in 2013, for an increase of 17.3%. As for the consumption of diesel, it went up by 64.0% over the same period, from 152,000 b/d to 249,000 b/d.

Less money for the missions. 2011 and 2012 were election years, which meant that PDVSA increased its transfers of resources to the missions to more than US\$8.0 billion in each of those years. However, disbursements to those programs started to become smaller in 2013. PDVSA's Report and Accounts reveals that its contributions to programs in the areas of education, food, health, energy, and social assistance were cut by 20.5% in 2013, going from US\$8.3 billion in 2012 to US\$6.6 billion last year.

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Joint ventures bring down costs. According to the 2013 Annual Report and Accounts, PDVSA's "real costs" for the period 2006-2013 fell by US\$18.40 billion as a consequence of converting the Operating Agreements (which were eliminated) into Joint Ventures. According to the report, the costs of the operating agreements came to US\$38.59 billion, whereas those of the joint ventures totaled US\$20.19 billion.

Hyundai is to upgrade refineries. Hyundai Engineering & Construction announced that it had won a US\$3.48 billion contract to upgrade the refineries of PDVSA, the Venezuelan state-owned oil company. The South Korean construction company said that the contract would have a duration of approximately 47 months, although it noted that the commencement date still had to be set. The company did not specify which refineries would be upgraded.

International oil baskets. At closing time on June 27th in the New York Stock Exchange, the price of the WTI was US\$106.3/bl, down by 0.2% when compared to the reported the previous week. The Brent increased by 0.4% when compared to the previous week, to reach US\$114.1/bl.

Local oil basket price. The Venezuelan oil basket price closed at US\$100.6/bl on Friday June 27th, increasing by 0.4% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$97.0/bl.

BUSINESS SECTOR TIPS

Roig: "I don't know why it should be considered a tragedy", was how the president of Fedecámaras, Jorge Roig, reacted to the differences within the government that, today, are more apparent than ever. Roig stressed that these internal confrontations are positive. *"It's a good thing that they're having their ideological debates. I don't know why it should be considered a tragedy. What a good thing that there are some dissidents!"* He also pointed out that the destruction of the country's productive apparatus has come about for two reasons: *"The state-owned companies don't work because they've been expropriated and are under bad management, and they aren't letting private companies produce."*

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Industries in Carabobo operating at half speed. Carabobo industrial park is working at 50% of capacity due to the restrictions on allocations of foreign currency that companies have been experiencing since last year and the resulting shortages of raw materials. Andrés Pérez, the president of Carabobo State Chamber of Industrialists, commented: *"In Carabobo, we've got more than 1,500 companies. We're talking about Venezuela's biggest industrial park. Stopping production in Carabobo has an impact on the entire country."* Pérez recognized that the Executive has tried to solve the situation of some companies, but warned that solutions are needed throughout the chain of production to avoid a bigger impact in the coming months.

Franchises experience drop in sales. Sales by franchises fell by 15.0% in the 1S2014 compared to the same period last year, according to information from the Venezuelan Franchise Chamber (Profranquicias). *"The drop could be around 15.0% in general this first half of the year,"* said Abel Calvo, the chamber's executive president. Calvo explained that, while not all franchise subsectors are experiencing a contraction in their sales, they are seeing that, on average, there has been a drop in the first six months of the year.

Air ticket sales drop. For travel agencies June has been a month of scant sales and an increase in the demand for seats, with losses in the sector making themselves felt. Sandra González, the vice president of the Venezuelan Travel and Tourism Agencies Association, claimed that sales in June did not come to 10.0% of total sales for last year. The debt that the Venezuelan State has with the airlines has prompted travel agency owners to evaluate the situation. *"We're talking about this being a month that's going to generate losses, and the travel agencies can't cope with this kind of situation because they're small companies."*

Chacón: "The electricity system is stable." Following the blackout on Friday, June 27, that affected 60% of the country, Minister for Electric Power Jesse Chacón stated that the electricity system was stable except for parts of Sucre and Monagas that suffered the consequences of eight high-voltage transmission towers being toppled by gale-force winds. Chacón explained that the blackout was not caused by *"maintenance on the 765 kV line. The reason for the failure is being investigated to see whether it was triggered because it was working with a bigger load or whether, taking advantage of the weakness of the system, a failure was provoked."*

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Minerven in the doldrums. On August 28, 2011, President Hugo Chávez (since deceased) signed the decree nationalizing gold, convinced of the potential of the gold deposits in the southern part of Bolívar state. However, in January this year, the industry produced only 79 kg of gold, 44.0% less than in 2013 and 88% less than in 2010 (before nationalization), despite the fact that it has more mines and processing plants as well as a commission to jumpstart the industry set up in 2011, whose mission was never carried out.

And now, a board of auditors. José Ávila, the president of PDVSA's Corporación del Oro, is the person in charge of the board of auditors that took control of Minerven on Wednesday, June 25. It was Energy and Mines Minister Rafael Ramírez who made the change. Franklin Patines was dismissed and the company's general manager, Alonso Peña, was not allowed to attend. Up until 2010, Minerven produced 450 kg of gold a month with 700 workers; now it has 4,300 workers and only produces 80 kg of gold a month.

There's inflation at Mercal as well. The prices of the products sold at Mercal were bumped up yet again. This is the third price increase this year for food products distributed by the government network. The fact of the matter is that the subsidized prices of all the products distributed via the network have shot up by between 70.0% (powdered milk) and 261% (margarine) in just six months. It seems they are putting up the prices at Mercal by installments so that they do not hit the poorest strata of the population all at once.

Local beef production covers 25.0% of consumption. According to Fedenaga, Venezuelan cattle ranchers produce only 25.0% of the beef consumed in the country, with the rest being met with imports. "*Here, the great beneficiaries are producers in other countries, to the detriment of domestic producers,*" said Rubén Barboza, the president of the National Cattlemen's Federation. Rubén Barboza claimed that the sector had met with the government on nine occasions to find a solution to the problems, but without obtaining any concrete answers.

Venmaíz calls for an increase. The Venezuelan Association of Cornmeal Industrialists (Venmaíz) claims that "*the pre-cooked cornmeal processing industry is in a situation that threatens to make continuing their operations unsustainable owing, among other problems, to the fact that the price of the product has lagged seriously behind, thus forcing companies to produce at a*

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loss,” explained the association in a communiqué. Venmaíz has pointed out that, while in numerous meetings with the Executive, the government has admitted the need for an increase, it has not yet materialized.

No tires on the horizon. Jaime Szulc, the president of Goodyear for Latin America, revealed that the US tire company hopes that the Venezuelan Government will allow it to repatriate nearly US\$400 million it has frozen in Venezuela. *“Because of the different exchange rates in Venezuela, the debt varies considerably. But officially we have nearly US\$400 million in cash, frozen. But the debt we’re most concerned about is the one we have with suppliers who send us raw materials to Venezuela.”*

WORLD ECONOMY TIPS

Worse than it was thought. According to the third revision by the US Department of State, GDP contracted by 2.9% in the first quarter of the year (compared to the previous quarter), due to reductions in investment spending (1.8%), exports (8.9%), and government spending (0.8%), whereas imports grew by 1.8%.

More credit, more growth. In July, the Chinese government is to raise the ceiling on the amount of deposits that Chinese Banks can give out in loans. It is expected that, by increasing the banks’ deposit base and allowing the banks to turn a larger proportion of those deposits into loans, a greater flow of funds will start to reach companies with financing needs and give an additional boost to the economy.

Industrial growth boosts optimism. Japan’s industrial production was up in May after companies reduced their production the previous month to counteract the impact of the increase in the national sales tax, which considerably affected consumption. Growth was 0.5% in May, which confirms expectations that the economy will recover from the increase in the sales tax that went into force in April and supports the optimistic view that the economy is back on the path to a moderate recovery.

Prices low but stable. According to the European Union’s statistics office (Eurostat), inflation in the 18 countries making up the Eurozone was 0.5% in June, year-on-year, which took immediate pressure off the European Central

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Bank to take further action soon given a possible deflation scenario. The results for June were due to a 0.2% drop in the prices of food, alcohol, and tobacco, whereas the prices of services went up by 1.3% and energy costs by 0.1%.

Credit is slowing down. Loans granted by banks to the private sector (households and companies) in the Eurozone fell by 2.0% in May compared to a year ago, according to data published by the ECB, which is another sign of the weakness being experienced by the economies in the region. Early in June the ECB cut its reference interest rate, which should allow the banking system greater liquidity and make it easier for banks to grant loans.

And confidence falls. Economic confidence in the Eurozone fell in June as a result of fears that the violence in Iraq will push up oil prices and that any escalation in the crisis in Ukraine will drag down growth in the bloc. The European Commission's economic sentiment index (ESI) for the 18 countries that share the euro fell to 102.0 in June from 102.6 in May, or 0.6%. The drop was due, above all, to declining confidence in industry and construction, and also among consumers.

If sanctions are applied. Russia's minister for the economy, Alexei Ulyukayev, claimed that Russia's economy would contract if "Western" countries applied sanctions on certain business sectors owing to the political situation with Ukraine. According to Ulyukayev, the sanctions would harm exports of both luxury products (such as furs and caviar), if they are mild, and metals, fertilizers, gas and oil, if they are harsher. So far the European Union, which is highly dependent on Russia to meet its energy needs, has been reluctant to impose sanctions.

More cuts in 2015. The Spanish Government is to reduce central administration spending from EUR 4.3 billion to EUR 129.06 billion in 2015, which, according to Finance Minister Cristóbal Montoro, "*shows the government's commitment to reducing the deficit.*" Putting a ceiling on spending is the first step to drawing up the budget that is to be submitted to parliament in September for its approval. The government has undertaken to reduce the public deficit to 4.2% of GDP in 2015 from 5.5% planned for this year.

It's the judge's fault. The Republic of Argentina is unable to honor a payment to the holders of its restructured bonds due to a ruling by a US

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judge according to which Argentina will first have to make payment of US\$1.33 billion demanded by holders of non-restructured bonds. *“It’s the first time that a judge pretends to alter a contract, a prospectus, a contractual relationship, and prevent payment to a holder of a restructured bond who voluntarily adhered to the same laws of New York State that he represents,”* said the head of the Argentine Government’s Cabinet of Ministers, Jorge Capitanich.

POLITICAL TIPS

Navarro defends Giordani. Former Education Minister and member of the PSUV’s central committee Héctor Navarro demanded that the irregularities committed in CADIVI be investigated and exhorted President Nicolás Maduro to behave like a “statesmen” in response to the criticisms. He said that Jorge Giordani was being labeled as a traitor for denouncing the allocation of dollars to shell companies.

Criticizing is not something friends do. This Wednesday evening President Nicolás Maduro demanded loyalty and discipline of the leaders of the revolution and stated that the recent criticisms by former ministers sought to *“justify their faults and errors.”* He also warned that, regardless of the actions the Venezuelan opposition takes and the recent criticism of the administration’s present performance, he would continue to do what he has been doing so far. As for the vice president of the PSUV, Diosdado Cabello, he said that neither loyalty nor humanism nor comradeship was above criticism.

Coming out in support of the “disloyal.” Former Minister for Industries and Mining Víctor Álvarez stated that *“criticisms with proposals”* are important so that there is no *“fear of being sanctioned or punished for being considered disloyal.”* Former Governor of Aragua Rafael Isea also spoke out, describing Héctor Navarro’s suspension as an *“extremely grave error.”* He commented that, from now on, *“thousands of honest government officials at different levels will keep quiet in the face of abuses, corruption, and faults simply to avoid being expelled from the party or losing their job.”*

UNT wakes up. Enrique Márquez, the president of the political party *Un Nuevo Tiempo* (UNT), announced that they have declared themselves to be

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“in direct opposition to the government, with no concessions.” He also recalled that the UNT is seeking to fix the Democratic Unity Alliance or even to modify its structure. Finally, Márquez said that the UNT wants to take the positive parts of the two strategies used by different sectors of the opposition: the call for a change of government (*La Salida*) and dialog with the government.

From the times of the Old Testament. The governor of Cojedes state, Érika Farías, explained that the problems currently being experienced by Venezuelan society have not been solved because *“it’s not possible to solve in 15 years problems that sometimes go back 3,000 years.”* She also said that, despite the problems, achieving free education and health systems, as well as access to science, technology, and means of communication, would guarantee the triumph of socialism.

A change is on its way. President Nicolás Maduro warned that he would use “street government” to promote a *“stage of revision and in-depth restructuring of all forms of governing, government structures, and of building a new system of popular government,”* since they are responsible for reviewing themselves *“meticulously, strictly, globally, exactingly.”*

Freddy tells of the failures. PSUV Deputy Freddy Bernal acknowledged that the companies that were expropriated have not been properly managed when he admitted that they (the authorities) were responsible for them failing. He also admitted that the problems in SITME and CADIVI were *“created with the intention of guaranteeing foreign currency, but there were strictly commercial businessmen who did not produce and contributed to the situation where today we are suffering from shortages.”* Finally he said that the names of the companies and government officials accused of fraud by former Minister Jorge Giordani should be made public.

Mine’s better. *Primero Justicia’s* national coordinator, Julio Borges, said that the government has distorted the idea of the First Job Bill submitted by his party in 2010. Whereas the government seeks to impose a compulsory 2.5% payroll increase, the bill submitted by *Primero Justicia* sought to get companies to voluntarily increase payrolls by between 5.0% and 10.0% by means of incentives.

They should take responsibility. The person in charge of electoral matters in Copei, Enrique Naime, asked the National Electoral Council (CNE) to give

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an explanation regarding Jorge Giordani's claim that public funds had been used for the PSUV's election campaigns in the run-up to the elections held in October and December 2012. He also exhorted the CNE to summon Jorge Giordani and Jorge Rodríguez, the PSUV's former campaign chief, to give explanations in both cases.

Is it Giordani's fault? Opposition deputy, Stalin González, rejected the suspension of the National Assembly's ordinary session scheduled for this Tuesday and demanded that the PSUV allow the National Assembly to actually function, claiming that "*the inability of the PSUV leaders to settle their internal disputes*" led to the session being suspended.

LEGISLATIVES TIPS

Tourists will have to justify their bolivars. In *Gaceta Oficial* No. 40,435 the Ministry for Tourism issued a series of rules that are to regulate the relationship between foreign tourists and establishments offering accommodation and travel agencies. According to the new rules, tourist service providers in establishments offering tourist accommodation and travel and tourism agencies must submit, each month, a list of the foreign tourists they have catered to, with the amount of the operations performed in foreign currency, to the Ministry for Tourism.

Tenants give the thumbs up to a revision of the law. The different tenant organizations gave Housing and Habitat Minister Ricardo Molina the ok for him to start a revision of the Housing Rentals Regulation and Control Act after a meeting between the minister and 120 spokespersons from those groups. The controversy arose when Molina announced a possible reform of the law, promulgated in 2011. At that time, all the organizations involved agreed that it was not necessary to reform the law, what was needed was "to enforce it 100.0%, because there are many processes that have not been fully implemented," they explained in a communiqué.

Postulations committees stalled. The apparent urgency that existed in the National Assembly to appoint new authorities to replace incumbents whose terms had expired seems to have taken a back seat to the struggles inside the PSUV. What has happened is that leading members of the PSUV, who also happen to be in charge of the judicial and electoral postulations

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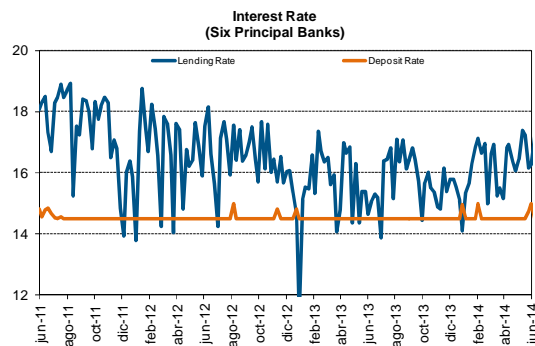
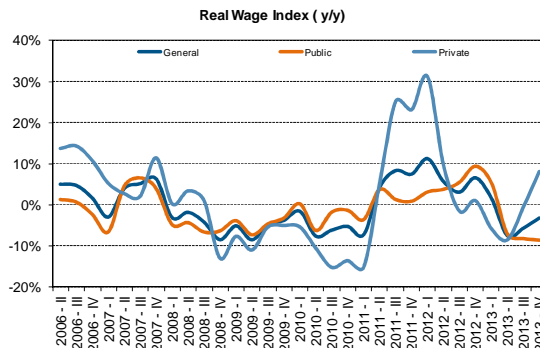
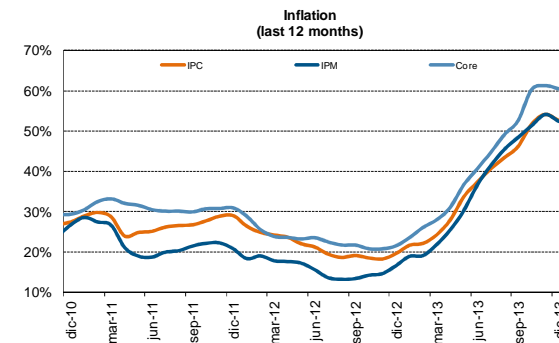
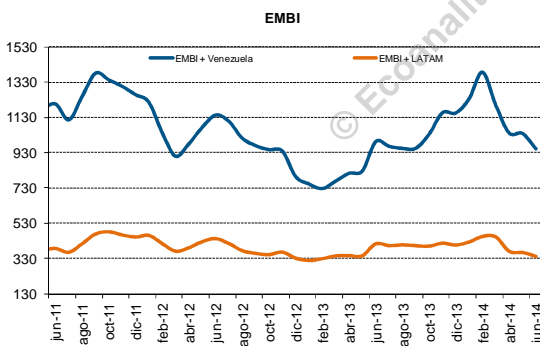
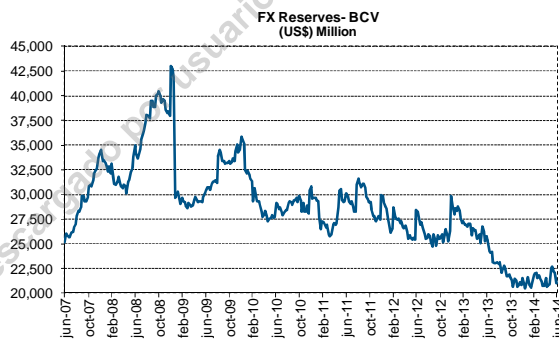
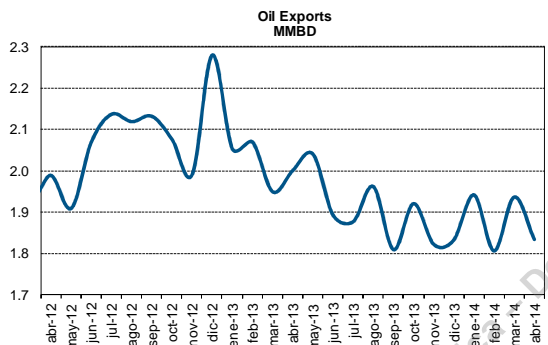
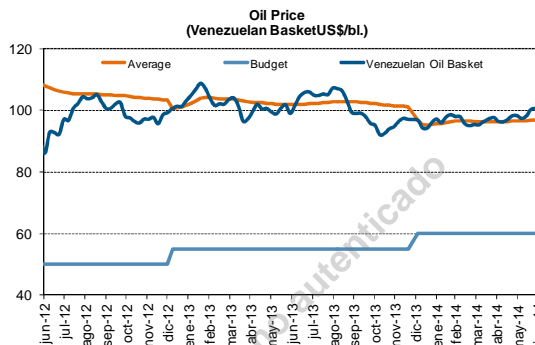
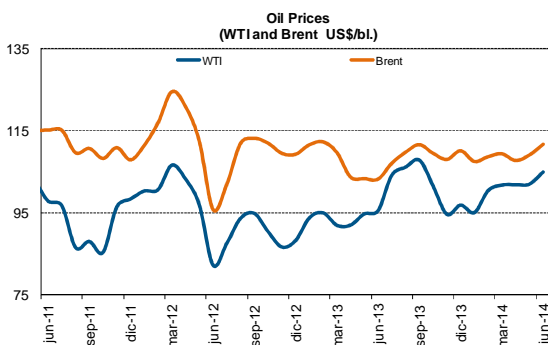
committees, have undertaken the task of traveling around the country to convince the Bolívar-Chávez Battle Units of the need for “revolutionary unity.” It has been a month since the committees met to draw up a list of people who are to help with reviewing the resúmenes of those who aspire to be justices of the Supreme Tribunal of Justice or directors of the National Electoral Council.

The INE now comes under Planning. According to Presidential Decree 1,077, issued in *Gaceta Oficial* No. 40,443, dated June 30, the National Statistics Institute (INE) will now come under the Ministry for Planning. Previously, the INE was attached to the Ministry for the Office of the Presidency and Monitoring of Government Performance. According to Article 2 of the presidential decree “*the People’s Power Minister for the Office of the Presidency and Monitoring the Government Performance and the People’s Power Minister for Planning are charged with carrying out this decree.*”

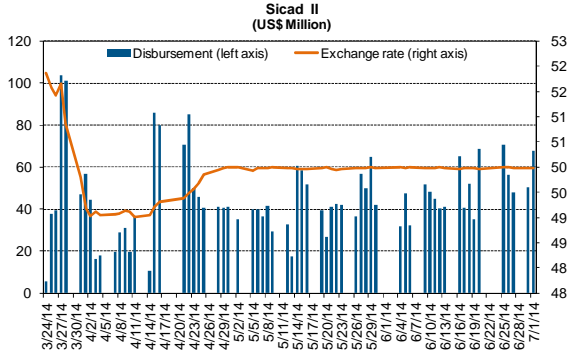
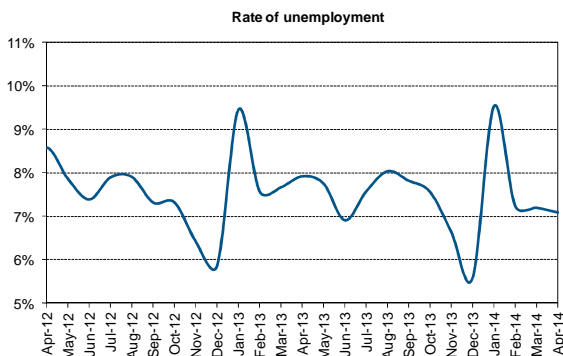
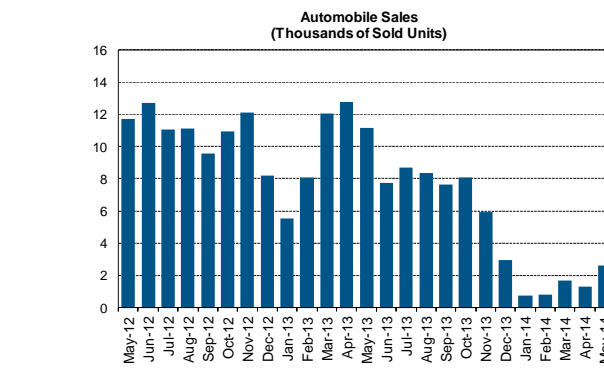
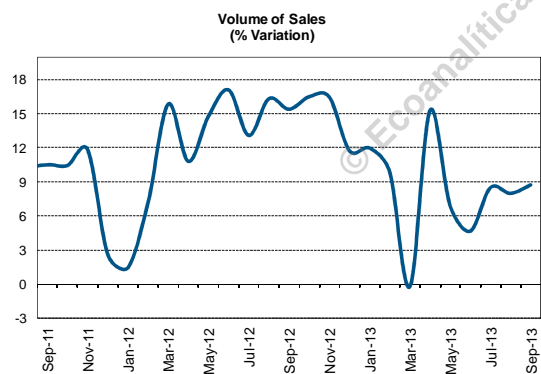
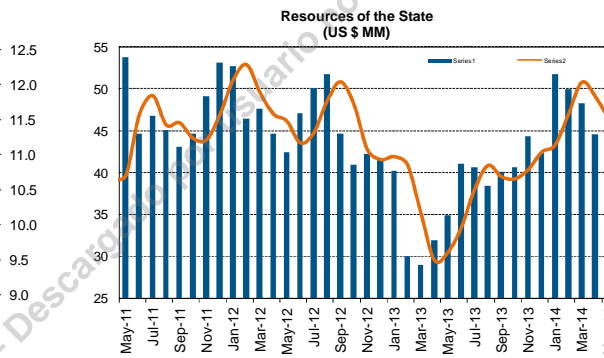
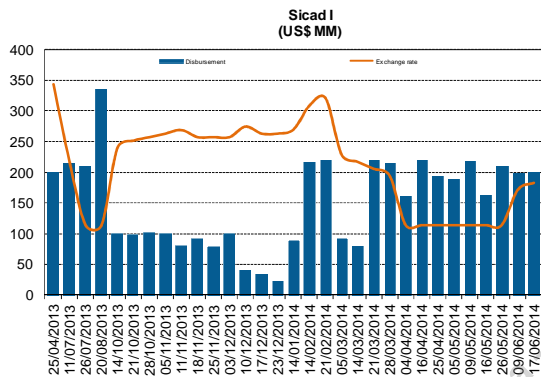
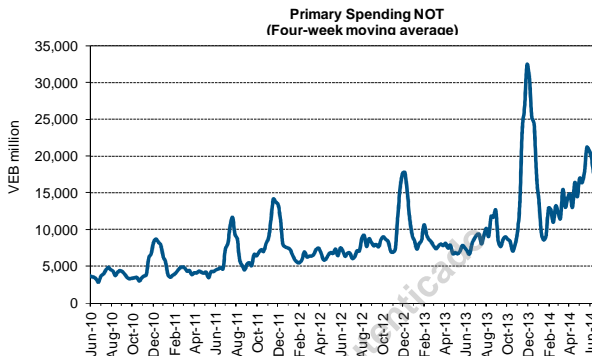
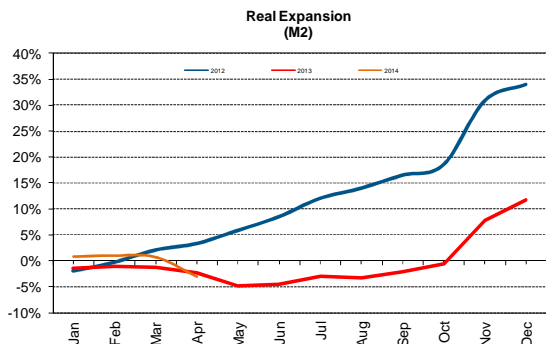
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ECONOMIC OVERVIEW



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