



Weekly Report

Year 9, Number 29
Week I, August 2013

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Debt in Venezuela: fast and furious

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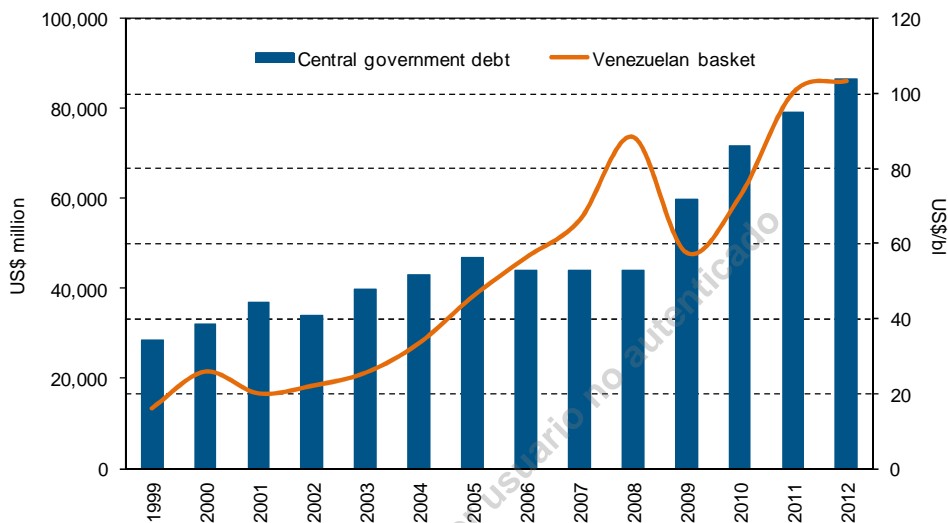
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After remaining stable during the first 10 years of Chávez's government, the drop in the international market oil price in 2008 due to the global crisis marked the beginning of an accelerated growth of the Venezuelan public debt, which didn't change its pace even when the price of the local oil basket started recovering in 2010. In the last years, although the preference has moved from foreign to domestic debt, the trend hasn't changed, and only the debt of the central government¹ (GC), leaving aside Pdvsa and its branches, Fonden, and any other financial and non-financial public entities, went from US\$44.06 billion (14.0% of Gross Domestic Product -GDP) in 2008, to US\$86.50 billion (22.7% of GDP) in 2012.

¹ The Central Government includes the central administration, governorships and mayoralties.



Central government debt Vs. Oil prices



Sources: Finance Ministry, Menpet and Ecoanalítica

In 2013, this behavior continued and 3 weeks ago, the National Assembly (NA) approved a complementary indebtedness law that expands the debt ceiling by 60.7% for the present year. In this report, we will review the debt situation and our estimates for the end of the year, and mention the sectors for which the new indebtedness is being destined.

Income increases, but expenses even more

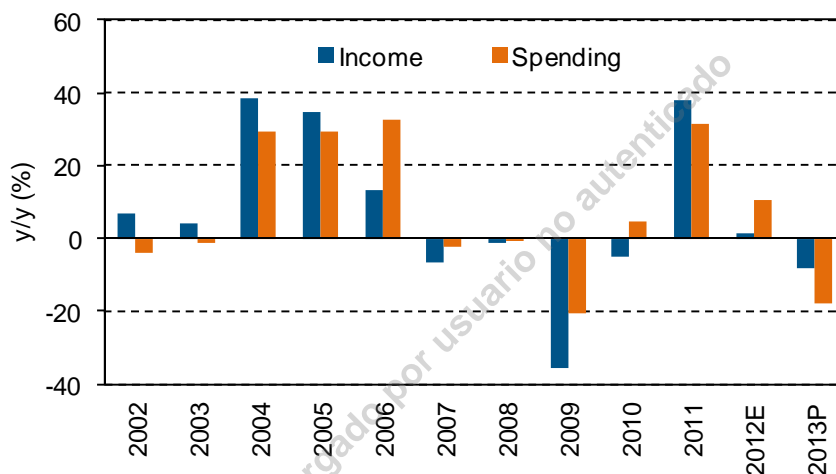
Although in the last three years the price of the Venezuelan oil basket recovered, and is around US\$100/bl, strengthening fiscal income, the dramatic growth of public spending has increased the fiscal deficit. At **Ecoanalítica** we estimate that, between 2010 and 2012 the income of the Restricted Public Sector (SPR) had an average real growth of 11.6%, while spending increased 15.6% in real terms. The behavior of 2010 is noteworthy, since in the wake of the parliamentary elections, there was an astounding increase in social spending (in that year, Pdvsa increased its social development contributions by 190.9%), there was a nationalization boom, and real spending increased 4.8% despite the fact that fiscal income fell almost in the same proportion (4.9%).

Although the Ministry of Finance hasn't published figures for the SPR of 2012, **Ecoanalítica** estimates that last year SPR income increased 1.6% in real terms, while the execution of the large *Misiones (vivienda, saber y trabajo)* fostered a real growth of spending of around 10.8%. For 2013, we expect the reduction of oil exports, and the stagnation of the average price of the local oil basket (which will average US\$102.3/bl) together with the



inflation rises, to negatively impact fiscal income, falling 8.2% in real terms, while the typical post electoral slowdown will contract the real spending of the SPR by 17.8%.

SPR's real variation of income and spending

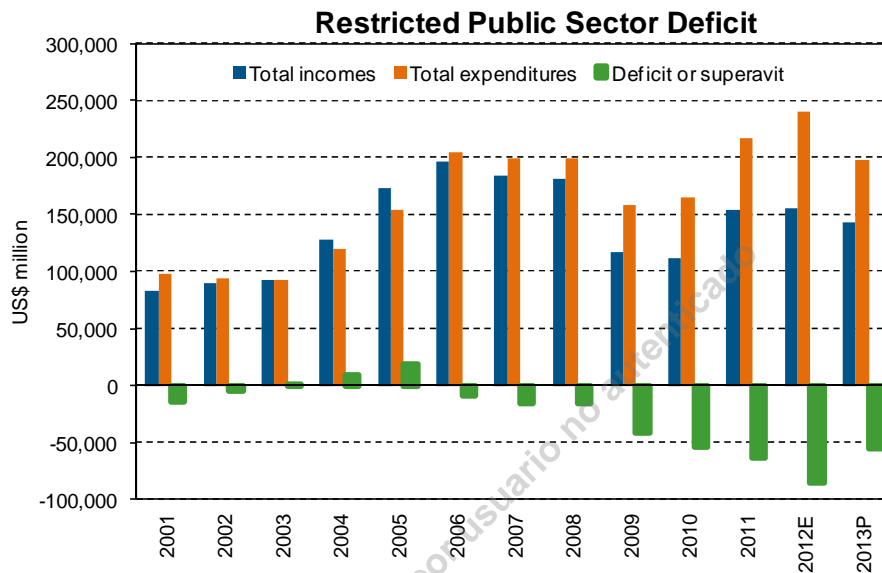


Sources: Finance Ministry and Ecoanalítica

**Who earns 2
and spends 3
doesn't need
pockets**

This behavior has widened the gap between income and expenditures, and has marked the pace of expansion of the SPR's financial deficit, going, according to Finance Ministry figures, from 1.5% of GDP in 2002 (year of the oil strike) to 11.6% of GDP in 2011, and **Ecoanalítica** estimates that in 2012 it closed at around 15.5%. In 2013 we expect the effects of the devaluation to reduce the gap, and be around 11.5% of GDP.





Sources: Finance Ministry and Ecoanalítica

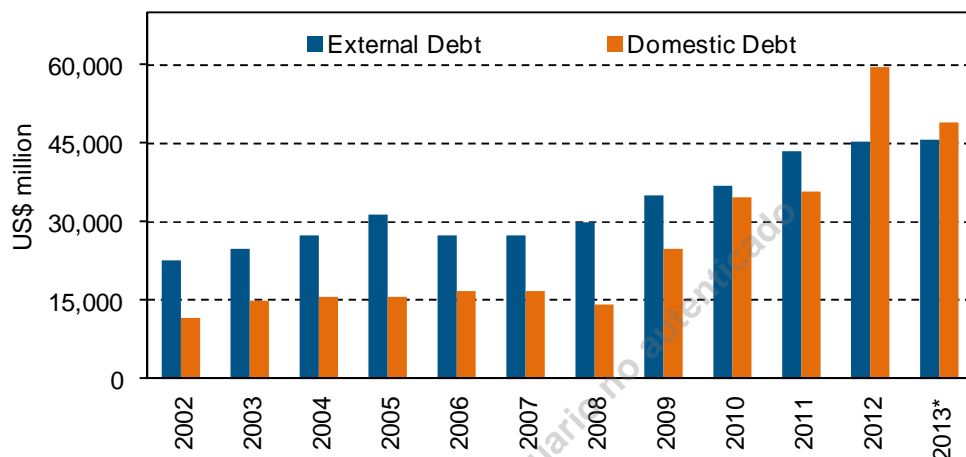
Start borrowing

The growth of the public debt has been the mayor consequence of the increase of the public financial deficit. This has been most evident in the case of the central government's public debt, whose finances were seriously affected by the fall in oil revenues between 2008 and 2009, jumping 35.9% in that period, and growing (on average) 13.1%, in recent three years, due to an 21.1% expansion in domestic debt because the rapid growth of spending. This year, the effects of the devaluation were felt, and in the first quarter of 2013 (1Q2013), despite the intense placement of National Public Debt bonds (DPN) and treasury letters, domestic debt fell 17.9% in that period.





Central Government Debt



Sources: Ministry of Finance and Ecoanalítica

* Results at the end of 1Q2013

Domestic debt: at full speed

Despite the slowdown of the economy, and the growth of inflation, domestic collections increased 12.0% in real terms during the first semester of the year (1S2013). However, this income fell short given the drop of oil prices; the government increased the pace of domestic debt placements, and in 1S2013 VEB 75.92 billion were assigned in the domestic market, representing 100.0% of what was established in the debt auction schedule for 2013² according to the indebtedness law (IL). The pace of placements was even higher than last year, an electoral year in which VEB 64.0 billion were placed in the domestic market within eight months.

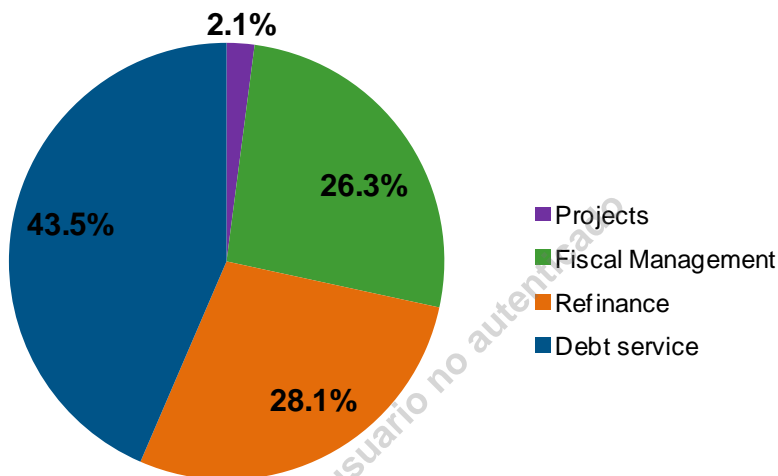
71.6% of these placements were to pay for the debt (VEB 33.04 billion for the debt service, and VEB 21.32 for refinancing), while 26.1% was for fiscal management spending (VEB 20.0 billion) and only 2.1% to finance projects. The latter is quite common, since although the 2013 indebtedness law establishes a maximum debt of VEB 42.31 billion to finance projects, these are mostly financed through credits with multilateral organizations, so subtracting the VEB 1.56 billion placed for that purpose in public credit operations, there are still VEB 40.75 billion (US\$6.46 billion) that can be financed through these mechanisms.

² Published in *Official Gazette* nº 40.087 of January 10, 2013.





Domestic Debt by Destination

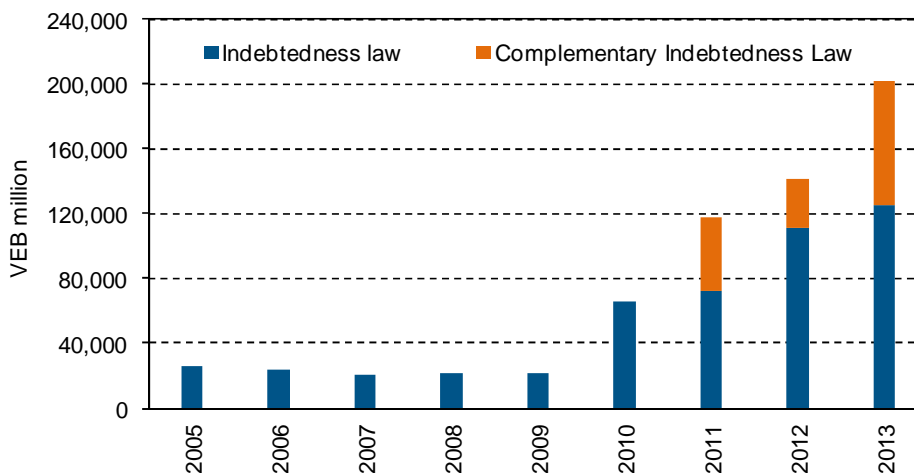


Sources: Finance Ministry and Ecoanalítica

Up to the limit

The placement of the total debt for 2013 in the first semester of the year, led the Ministry of Finance to present before the NA a complementary indebtedness law (CIL). This mechanism, to expand the maximum debt to be contracted during a fiscal year, is nothing new, since the Administration has been implementing it since 2011 and thanks to it, has been able to contract on average an additional debt of 56.3% during the last three years.

Total Indebtedness



Sources: IL, CIL and Ecoanalítica



The CIL allows an additional debt of VEB 76.0 billion, of which VEB 41.26 billion will be to pay pensions (54.3%), VEB 2.68 billion to pay social benefits (3.5%), VEB 10.0 billion for the Gran Misión Vivienda (13.%) and VEB 22.05 billion to refinance or restructure the National Public Debt (29.0%). Thus, the maximum indebtedness for the year is VEB 201.24 billion.

This law creates a debt ceiling for this year of VEB 201.23 billion (US\$31.94 billion), of which VEB 51.69 billion will go to projects (25.7%), while the bulk will go to current expenditure in fiscal management (VEB 63.95 billion, representing 31.8%) and to the service and public debt refinancing (VEB 76.33 billion, which is equivalent to 37.9%).

Weight of the State and of the service

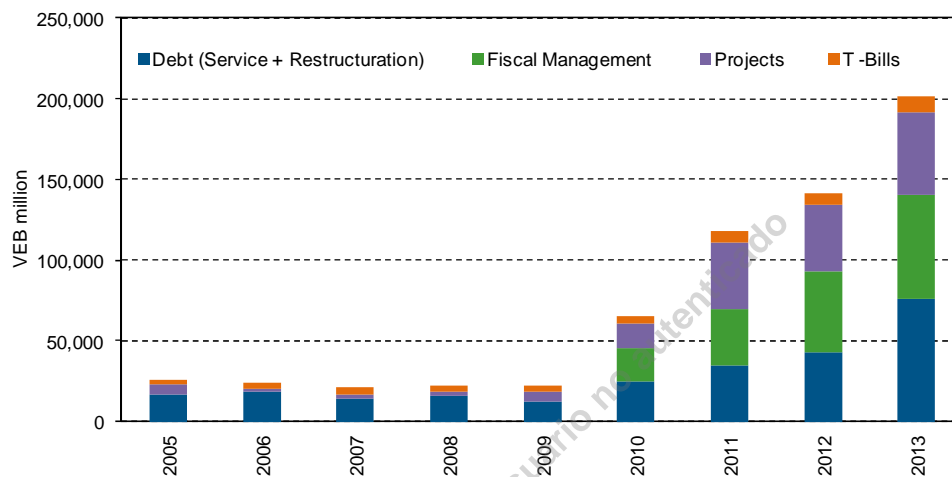
Analyzing the growth of indebtedness in the last years, *Ecoanalítica* highlights two aspects:

- 1) The expansion of the State to areas in the economy that used to be the private sector's competence, making it a large bureaucratic apparatus that manages many companies and entities inefficiently, putting financial viability in second place, and leading the Administration to become increasingly indebted since 2010 to meet the needs of the fiscal administration.
- 2) The debt that is contracted to pay for the debt is increasingly high. The government has contracted up to VEB 93.64 billion in debt between 2005 and 2012 to pay for the debt service, rising to VEB 179.51 billion if we consider what is stated in the indebtedness law for restructuring and refinancing.





Debt Structure



Sources: IL, CIL and Ecoanalítica

Although debt for projects has increased over recent years, **Ecoanalítica** is still critical of the fact that a great part of the new debt has been allocated to current spending (debt service and fiscal management), limiting the amount available for real investment on great wingspan projects that result in permanent benefits, and the immediate increment or future of the State's property; this way, a vicious cycle is entered, in which every time the state expands and the debt is increased, it contracts, in turn, there is more debt for these purposes, limiting the resources available to boost strategic activities for national development.

Total, total...

In **Ecoanalítica** we estimate that with this additional funding, the central government's domestic debt will be around US\$ 56.39 billion by the end of 2013, which represents a decline of 5.0% from the end of 2012 (thanks to the effect of devaluation) but which accounts for a strong acceleration in domestic debt placements since the first quarter of the year, when local debt stood at US\$ 48.77 billion. On the other hand, we expect a new external debt placement from the Republic in this year's last quarters, which is why we believe that external debt will close at around US \$ 48.52 billion; this means that the two together will reach 33.7 percent points of GDP in 2013.

The diversity of non-traditional indebtedness mechanisms (Simón Bolívar Fund for Reconstruction, Fonden, and the National Housing Bank, among others), and the lack of figures about them, becomes difficult to estimate the level of global indebtedness of the Venezuelan economy. **Ecoanalítica** estimates that the public sector debt (central government,



Pdvsa, Chinese Fund, and debt contracted through funds for housing and agriculture, as well as the pending debt for nationalizations) would reach US\$219.15 billion for the end of 2013, even though this represents a decrease of 1.0% with respect to the estimated value of 2012, implies an increase of 12.4 percentage points of the debt/GDP ratio respect of 2012, locating this at 70.4% for 2013, a historic level that should trigger a revision of indebtedness.

	Public Debt (MMUS\$)					
	2011		2012		2013E	
	MMUS\$	% PIB	MMUS\$	% PIB	MMUS\$	% PIB
Central Government:	79,282	25.1	104,780	27.5	104,911	33.7
Domestic	35,840	11.4	59,363	15.6	56,393	18.1
External	43,443	13.8	45,417	11.9	48,518	15.6
Pdvsa (Financial Debt)	34,892	11.1	40,026	10.5	48,056	15.4
Chinese fund	21,400	6.8	21,933	10.5	22,467	7.2
Expropriations	13,454	4.3	12,454	5.7	13,720	4.4
Sub Total	149,028	47.2	179,194	47.0	189,154	60.8
BCV financing public institutions*	35,410	11.2	42,088	11.0	29,996	9.6
Total	184,438	58.4	221,282	58.0	219,150	70.4

*90% of this funding is between PDVSA and the BCV
Sources: BCV, MF, Pdvsa and Ecoanalítica

Although the growth of the proportion between the domestic and the total debt is positive, as a strategy to “protect from external vulnerabilities”, it has made domestic placements the main source of financing of the National Government, allowing it to finance itself at negative real interest rates, and dilute the debt through inflation and devaluation; the fact is that the Venezuelan debt and its service have increased dangerously in the last years, due to the high perception of risk, therefore, we believe that the incoming government must review the indebtedness policy.





Economic Tips

Winning draw of the San Ignacio Lottery. BCV called for the third auction of Sicad, where individuals could participate, including those whose placements were not assigned in the previous auction, and companies in the bookstore and school items sector, trade, manufacturing (only toys), computers (parts, spares and components), or companies domiciled in the free trade zones of Nueva Esparta and Falcón.

Less for most. The BCV announced that it granted a total of US\$210 million at the third Sicad auction, in which US\$178 were for juridical persons and US\$32 million for individuals. In total 868 companies were attended, with an average of US\$242,245, and 29,758 individuals, who received a maximum US\$1,000 for travel expenses and US\$2,500 under other assumptions.

More Chinese money. Temir Porras, President of the Economic and Social Development Bank (Bandes), announced that the government started negotiating a new financing with China for 5 billion dollars, through the so-called Heavy Fund (Fondo Pesado). According to the official, *"negotiations are just starting, so it would be premature to say when the disbursement will be done"*. Venezuela may request a new financing once it pays for this one.

We must be realistic. Armando León, director of BCV, said that every three or five months the price of controlled products and services will be reviewed, but this won't imply an immediate increase. León also said that inflation cannot be fought by trying to have the prices fixed for long periods of time, *"we cannot leave prices without modifying them, believing that this will fight inflation (...) this is absurd"*, he said.

Sicad against inflation. Armando León, director of BCV, said that they expect the Sicad auctions to have a positive impact in supply levels in the next months, and as the complementary system becomes routine, it *"will significantly affect price levels"*, reducing inflation. León also said that the Sicad auction *"is slowly stabilizing the exchange rate market"*, and that the price of the assignment will be similar for individuals and companies.

As if being poor weren't enough. According to an ECLAC report, Venezuela is the Latin American country where high inflation affects mostly the poor, whose spending is mostly for food, the items with the highest price increases. According to the entity, inflation is more serious in Venezuela than in the rest of the region, due to the



devaluations implemented to "correct previous imbalances caused by unsustainable spending increases".

Another year of high inflation. Edmée Betancourt, President of the Central Bank of Venezuela (BCV), said that the inflation increase of the second quarter of the year is being contained, and acknowledged that this year "we will have high inflation". Betancourt said that since the end of last year, some sectors started an economic war, taking advantage of circumstances like the health of then President Hugo Chávez which made inflation reach 20% last December.

In last place, again. The Economic Commission for Latin America and the Caribbean (ECLAC) expects Venezuela to be the country with the lowest growth in the region this year. ECLAC reviewed its growth projection downward for the Venezuelan economy, and estimates it will grow 1% in 2013, 1 percent point (pp) below the expectations months ago, mainly due to the 13.7% drop in exports during the first quarter.

More pessimistic. In its last report, Bank of America (BofA) expects the Venezuelan economy to drop 3.6% by the end of 2013, while inflation could be 48.4% at the end of the year. The US bank states that although the country has few economic activity indicators that coincide, those available suggest that the economy started contracting in the second quarter of 2013.

Interest rates. The lending rate for the third week of July was at 16.5%, up by 0.1 pp compared to the previous week. The time deposit rate was at 14.5%, without variations compared to the previous week, while the passive rate has not experienced any significant variation since November 2011, placing well at 12.5%.

International reserves. International reserves increased by 0.6%, going from US\$24.084 billion during the third week of July to US\$24.219 billion during the fourth week of July. Compared to the same period last year, international reserves have decreased by 10.8%.

Central government expenditure. On Friday July 19th according to figures from the ONT primary spending was VEB 1.28 billion, which means a decrease of 19.1% when compared to the previous week when it was VEB 9.55 billion; when compared to the same period last year we observe a decrease of 31.2%. Until July the cumulative primary expenditure in real terms (measured in 2007 prices) is VEB 58.57 billion, with a variation (y/y) of -16.3%.





Monetary liquidity. Monetary liquidity (M2) decreased 0.4% in the third week of July compared to the previous week, settling at VEB 854.76 billion. The M2 has increased 63.0% in relation with the same period last year.

Oil Tips

A drop in exports expected. During the first semester of 2013 (1S2013) according to statistics of the US Department of Energy, Venezuela obtained US\$ 25.0 billion from oil sales, with a projected income for the year of US\$ 50.0 billion. Thus, the country will close with a 3.9% drop in the value of its exports, when in 2012 the income was US\$ 52.0 billion (Panamá America)

Repsol invests in Venezuela. The Spanish company Repsol announced its investment goals in Latin America, including Venezuela. Miguel Martínez, financial director of the company, informed that by 2Q2013 they expect to invest EUR 1.20 billion for 2012-2016. The Spanish company has 50.0% of the gas license to develop the Cardon IV block, and has 11.0% of the shares of Petrocarabobo. Likewise, Repsol expects to produce 30 mil barrels per day (kb/d) by the beginning of 2014.

Pdvsa withholds tax collection. Evelyn Urdaneta, mayor of the Freites municipality in Anzoátegui, demanded before several institutions that the state owned Oil Company delivers the resources obtained from taxes to said municipality. The communiqué informs that from November of last year to June de 2013 around VEB 95 billion have been withheld, in violation of the contracts signed in 2012. This debt represents 65.0% of the annual budget of the municipality, and due to this arrears, the mayoralty has had to stop around 67.0% of the work plan for 2013.

Pdvsa's accounts. Rafael Ramírez, President of Pdvsa, said that contributions for the nation's social development have been US\$189.25 billion since 2001. During the closing of the sixth work meeting between the oil company and the production sector of Bolívar, he explained that US\$ 64.97 billion have gone to the National Development Fund (Fonden) since 2005. He also explained that through the Funds with China, the country has obtained US\$33.98 billion for development projects, of which US\$ 19.171 billion have already been paid off.

There are still problems in Paraguaná. The Paraguaná Refining Center (CRP) after resuming its operations to the level before the explosion still has some problems



in the units that produce high value products like gasoline. The Catalytic Disintegration Unit in Amuay is operating at 69.0% of its total capacity, while the Catalytic Disintegration Unit in Cardon is operating at 56.0% of its capacity of 110 thousand barrels, while in 2008 it processed around 90kb/d.

Export income increases for OPEC. OPEC's oil exports increased 10.0% (a/a) in 2012 and its respective GDP increased 12.0%, according to a report of the cartel; thus, the value of exports was US\$ 1.26 trillion in 2012, while in 2011 it was US\$1.15 trillion. Regarding proven reserves, there were little changes last year, increasing 0.2% to consolidate 1,200 kb/d, where Venezuela is still in first place.

Gas purchases from Colombia could extend. A gas supply contract agreed in November 2011 is still in force, which ends in mid-2014, but given the immediate gas needs of the country, the agreement with Ecopetrol and Chevron could be extended. Venezuela has been importing around 200 billion cubic feet per day (mmpcd) of gas from Colombia since 2008, and at the end of 2014 the amount was 187 mmpcd.

Gas from Mariscal Sucre could reduce the deficit. Pdvsa recently announced that this year, the first gas molecules of the Mariscal Sucre project in the East will be extracted. Production is expected to be 1,250 mmpcd of gas, and 27 kb/ of natural gas condensates, as the production top in 2017. Rafael Ramírez, Minister of Oil informed that although off shore gas production won't solve the deficit, it will improve supplies, and will be a relief for the Venezuelan oil company.

China and India will boost global consumption. According to the International Energy Agency (IEA) global oil consumption will increase 32.0% by 2040. China and India are expected to represent almost 56.0% of total global energy consumption for 2010-2040. Other projections of the agency estimate that the consumption of oil and other liquid fuels should increase from 87 billion barrels per day (mb/d) in 2010 to 97mb/d in 2020, to reach 115 mb/d in 2040.

ALBA Petróleos under investigation. A regulating entity in El Salvador, the Competence Superintendence (Superintendencia de Competencia - SC) investigates certain operations of ALBA Petróleos due to lack of authorization to execute five merger operations with other businesses. SC started the investigation in February of this year, based on a request of the National Association of private companies to establish whether the oil company had fulfilled the requirements when expanding its activities.

Exxon and BP were not charged. Attorneys Alejandro Gonzalez and Maria Zanella introduced last week for appeals before the Supreme Tribunal of Justice (TSJ) requesting the nullity of the agreement made by the major of the Independencia



municipality (Anzoátegui) waving tax collections for VEB 925 billion to Exxon and BP branches. The taxes correspond to 2000-2006 where those companies operated to upgrade the extra-heavy crude of the Orinoco Oil Belt (FPO).

International oil baskets. At closing time on July 26th in the New York Stock Exchange, the price of the WTI was US\$106.6/bl, remaining stable compared to the reported the previous week. The Brent decreased by 0.7% to reach US\$107.9/bl, compared to the previous week's US\$108.7/bl.

Local oil basket price. The Venezuelan oil basket price closed last week at US\$106.0/bl on Friday July 26th, a 0.3% increase compared to the US\$105.7 /bl of the previous week. The annual average price of the Venezuelan oil basket is US\$102.2/bl.

Business Sector Tips

Loan portfolio recorded an increase of 47.7%. According to figures published by the Superintendence of Banks (Sudeban) the loan portfolio of the banking system amounted to VEB 479.32 billion, a variation of 47.7% over June last year when it stood at VEB 324.47 billion.

Banking total assets. Registered a variation of 4.3% compared to May, closing in June in VEB 1.12 trillion, an amount 59.2% higher compared to million VEB 701.76 billion June 2011.

Investments in securities values of the banking sector. Stood at VEB 356.20 billion in June, representing 31.9% of total assets, reflecting an increase of 0.9% compared to the previous month, when it stood at VEB 353.15 billion. Compared to the end of June 2012, the balance of investments in securities experienced a rise of 78.4%.

The public deposits amounted to VEB 951.81 billion at the end of June, an increase of 4.4% compared to the previous month. In connection with the month of June 2012, public deposits increased 61.9%.





Time deposits grew, to settle at VEB 4.66 billion by the end of June, with a share of only 0.5% compared to total public deposits, experiencing an increase of 17.9% compared to the previous month, and 11.3% over the same period last year.

New requirements for banks. The Banking Superintendent (Sudeban) has issued a new provision requiring banks to create an additional “anti-cyclical” fund equivalent to one percent per month of a bank’s credit portfolio, which will be used upon authorization by Sudeban in times of recession. In addition, banks will be required to increase ratio between their own money and assets; equity will be set at 16.0% of assets for by the first half of 2016.

Outstanding banking system. A delinquency rate of 0.88% (the lowest in Latin America) and a coverage index of 340.0% are sample of the soundness of the Venezuelan banking system according to Édgar Hernández, Banking Superintendent. To further strengthen the financial sector, reforms in terms of capital adequacy were implemented including an increase from 8.0% to 12.0% by mid-2016.

Health sector still faces Cadivi’s backlogs. Avedem (the association gathering dealers of medical, dental and laboratory equipment) complained about delays in the allotment of foreign currency and the issuance of Non-Production Certificates (CNP) by Cadivi, which are required to pay foreign suppliers of medical equipment. The health sector, in general, is facing the same problem and foreign debts accrue US\$2.26 billion, which has been translated in 30.0-40.0% scarcity.

Home construction drops. According to recent data, 53,000 homes have been built in 1S2013 under the *Gran Misión Vivienda Venezuela* (GMVV), down 35.0% from the 82,134 homes built in the same period in 2012. This situation is mostly due to the irregular supply of raw materials for construction, which have fallen 12.0% over the three first months of 2013. The Minister of Housing, Ricardo Molina, has pointed out, however, that this year’s target of 380,000 homes will be reached, although only 14% of this target has been accomplished in 1S2013.

...No apartments either. For 1S2013, the Metropolitan Real Estate Chamber estimates that the supply of apartments for sale has dropped 15.0%. The president of the Chamber, Rosa Magaly Varela, points out that “*supply declines month after month and does not show any sign of recovery. Monthly average drop is 2.8%.*” Varela also reported that no new housing units are being produced today, thus reducing inventory of homes for sale.

The automotive sector falls short. The state-run system “Venezuela Productiva Automotriz” has assembled just 820 cars in one month, far below the 300 thousand applications for bank credits. Ricardo Menéndez, Minister of Industries, stated that,



notwithstanding, next year 30 thousand units will be assembled, because *“the design of the new plant is being developed, logistic and procurement procedures are being reviewed and infrastructure parameters are being estimated.”*

Airlines need foreign currency. Humberto Figuera, executive president of the Association of Airlines of Venezuela (ALAV), complained about the debt of Cadivi of US\$1.4 billion to airlines in Venezuela, adding that in this holiday season, sales of air tickets for international flights increased by 25.0% and that tickets for flights abroad are difficult to find at present.

Insufficient foreign currency for the telecommunication sector. In 2012, telecommunication firms in Venezuela only received US\$279 million, down 28.6% from 2011, and far below the US\$1.0 or US\$1.5 billion required by the sector. The upshot: scarcity of equipment in the market and delays in planned investments, thus leading to informal sales and deterioration in service quality.

Sidor paralyzed. The deficit of refractory products has forced a full shutdown of steelworks of billets and slabs at the steel and iron firm Siderúrgica del Orinoco "Alfredo Maneiro" (Sidor), thus compromising downstream operations of the firm as well as production of liquid steel. Sidor's president Javier Sarmiento reported that raw materials will arrive this Friday, thus allowing firms to be reactivated. Sidor has produced 960,940 tons of liquid steel in 1S2013, just equivalent to one third of this year's target.

Fighting strike at Ferrominera. Workers of Ferrominera Orinoco (FMO), who have been on strike since last Monday, came back to work on Thursday evening, after a meeting where removing military troops from the plant was agreed. However, workers keep four-hour strikes every day as long as the other requests made by workers are being considered.

Attempt to control industries at Guayana. Ricardo Menéndez, Minister of Industries, announced that iron, steel and aluminum industries will be centralized and commercialized, adding that prices of these products will be revised to have a better financial and administrative control on these industries and reduce the power of intermediary firms, who over recent years have illegally enjoyed of privileged sales at lower prices, thus damaging state-owned industries.

Cheese production drops. The National Association of Cheese Producers (Aniquesos) stated that industries has reduced production by 50.0% over the last year and that for the sector to go back to normal, prices should be set based on supply and demand rules. Aniquesos' president Trina Michelangeli convened



authorities and the dairy sector to a meeting to review prices that have been frozen since last year.

Weak vital signs. Rafael Muci, President of the National Academy of Medicine reports that rules imposed on private clinics and hospitals will allow them to operate only another six months, thus leading them to bankruptcy. Muci asked the administration to rectify this measure that could leave without health care services 46.0% of the population using private health services.

New plan to stabilize prices. Yván Gil, Minister of Agriculture and Land, assures that a new plan is to be launched to stop increases in prices of agricultural products, which in the first half of the year grew 35.7%. Price stabilization is to be attained thanks to the increase in vegetable production as import substitution. Gil explained that with the plan, 80.0% of imports of industrial tomato pulp will be replaced in the short term.

Following up credits. Banking Superintendent and Ministries of Tourism, Industry and Agriculture have started to inspect firms in these sectors, which have received credits at preferential interest rates to check if their performance has been consistent with credits granted. Those sectors where irregularities are detected will be penalized and will have to pay regular interest rates.

New Sogatur. The administration created the new Association of Reciprocal Guarantees for the Tourism Sector (Sogatur) to support financing to small and medium-sized companies in the tourism sector, which are limited when they try to apply for credits from major banks.

World Economy Tips

U.S. is showing a better face. According to estimates of the Department of Commerce, the U.S. GDP grew at an annualized rate of 1.7% in the second quarter of the year, showing a significant acceleration from the 1.1% rate observed in the first three months of the year. The figures are encouraging, and although the result represents the third consecutive quarter in which GDP growths below the 2.0% rate, it is expected that the economy shows a faster pace in the second half of the year as automatic spending cuts slows down.



Clear timing, less volatile markets. IMF's Mission Chief to the U.S., Maria Milesi-Ferretti, said while the Fed had a range of tools to manage the normalization of monetary policy, there were risks and challenges associated with volatility of financial markets over recent weeks, which should be considered in the unwinding of the stimulus the central bank has lent the economy. For Milesi, *"to effectively communicate its exit strategy will be crucial to reduce risks."*

Less than 2%. In spite of strong monetary stimulus measures applied by FED, the IMF expects the US economy to expand 1.7% this year, down from FED prospects (between 2.3% and 2.6%) before accelerating 2.7% in 2014. A large part of the burden hindering GDP growth this year comes from budget restrictions applied in Washington, which were described as "too fast" by the IMF.

The sooner the better. Richmond Fed President Jeffrey Lacker says exit from bond-buying program by Fed must be quick. Lacker pointed to relatively low inflation and said a faster-than-expected fall in the U.S. jobless rate was sufficient to start winding down the program, which, in his opinion, has done nothing to bolster the economy that would grow 2% (down 0.3 pp from Fed estimates).

Decline in Chinese manufacture. According to last data of the Purchasing Managers' Index (PMI), published by HSBC, manufacture in China would have dropped to its lowest level over the past 11 months. The PMI decreased to 47.7 point in June, below the 50 point ceiling for the third month in a row. A reading below 50 indicates a contraction in manufacturing activity from the previous month, whereas a reading above indicates expansion.

Let's do the math. Central government of China's People Republic called for an audit on local government debt reflecting official unease about delinquent or unreported liabilities. The Minister of Finance said the total amount of borrowing was unknown, which could directly impact growth of Chinese economy. The last report, published in 2011, revealed a debt worth US\$1.7 trillion at end-2010.

Imports slow down. Japanese exports to China grew 4.8% (y/y) in June, down from May's rate (8.3%), hinting that the lower expansion in Chinese economy would be hitting demand of Japanese goods. Exports to the US, in turn, the other major trade partner of Japan, grew 14.6% (y/y), down 1.7pp from May, thus suggesting that demand in world's largest economy would be slightly moderate.

A weak currency: a double-edged sword. Japan's trade balance posted a deficit of YEN 180.8 billion (US\$1.81 billion), up from the consensus estimate that put them at YEN 160.6 billion. The contraction has boosted exports, but has also increased the



cost of energy imports, which have grown over recent years due to the closing of most nuclear plants after Fukushima disaster in March 2011.

Making peace. The European Commission and China yesterday settled their dispute over the alleged dumping” in exports of Chinese solar panels to Europe, after reaching a minimum price for imports from the Asian country. The agreement will prevent punitive tariffs from being imposed on solar imports from China (starting August), which amounted to EUR 21.0 billion last year.

From worse to bad. According to figures published by the National Statistics Institute (INE), Spain’s GDP shrank 0.1% (q/q) in 2Q2013 (in non-seasonal terms). Although the Spanish economy has contracted for the eighth quarter in a row, the drop pace has slowed down. According to the INE, contraction was 1.7% (a/a), due to the drop in domestic demand, which couldn’t be offset with the increase in imports.

Greece: a bottomless pit. The International Monetary Fund released an additional US\$2.3 billion in aid for Greece after completing the fourth review of Greece’s performance under the international rescue program. The latest disbursement means that Greece has received a total of roughly US\$10.94 billion from the IMF under the bailout coordinated with the European Union and the European Central Bank.

Latin America slows down. Cepal revised downward its growth forecast for Latin America, to 3% for this year (from its 3.5% forecast in April). Cepal pointed out that this adjustment responds to the “*slow expansion in Brazil and Mexico,*” as well as a slowdown in economies that had been growing at high rates like Chile, Panama and Peru over recent months.

Political Tips

The 100-day curse. Governor of Miranda and opposition leader, Henrique Capriles, referred to the importance of “*a change*” (of administration), because in his opinion the first 100 days of Nicolás Maduro’s administration have been “*a curse.*” “*Governments come and go; Maduro’s is a curse on us, but this one will also pass, and faster. Some were saying that they (the administration) are making a truly big effort; we don’t see it,*” Capriles said.





The good Sheppard. President Nicolás Maduro insisted in calling for unity among those who believe in Chávez' legacy, above all now that mayoral elections are approaching (December). *"We should not let election frenzy to seize our minds and the energy we have to make the revolution, and to deviate us from our road (...) it's a virus that contaminates some people that want to have a post, but don't have a collective desire of improving the life of the people. We have to defeat false election illusions."*

High treason. President Nicolás Maduro admitted that there are pro-government leaders who *"receive moneys form bourgeoisie"* to provoke divisions vis-à-vis mayoral elections of December 8. Maduro said that he perfectly knows *"what and whom"* he's talking about, and assured, without telling names, that those government leaders *"are trying to divide the people for bourgeoisie to infiltrate and attain what they haven't been able to attain so far: destabilization."*

Worse problems than political ones. Hinterlaces' Oscar Schemel assured that *"the political conflict doesn't belong to essential concerns"* of Venezuelans, but it has been eclipsed by shortages, scarcity and economic problems, in general. Schemel believes that the administration has to respond with results to discontent and inconformity among the population in relation to the economy, and stated that after president Chávez' passing, *"the country is more rational than emotional (...) people construe reality rationally."*

Yes or yes. President Nicolás Maduro called to put the economy back on its feet and put an end to *"sabotage"* that, in his opinion, has a negative impact on the country's finance. *"We will revive this economy with the work of the homeland. We will defeat sabotage (...) Productive Venezuela, that of the working class, entrepreneurs (...) can count on a government that has the resources, policies and will for put the economy back into motion,"* Maduro assured.

The justice league to the rescue. President Nicolás Maduro assured that he created a *"secret team"* against corruption, which will do its work *"no matter who falls."* Maduro said that he will fight corruption in all its forms and added that ethical structures and fortunes amassed through corruption must be *"beaten with a mallet."* For Maduro, fight against corruption will be a priority of his administration.

With open arms. State Department spokesperson Jen Psaki said that her government *"is open to having a positive relationship with Venezuela moving forward. That's what our focus is on, and we still are leaving the door open for that."* Psaki denied that Washington had *"interfered"* as Venezuela's Foreign Minister Elías Jaua claimed and avoided to *"rectify"* as President Nicolás Maduro demanded in a speech in which he announced the end of discussions to restore relations after the



statements issued recently by the US ambassador nominee to the United Nations, Samantha Power.

Violence cannot be faced with more violence. Governor of Miranda, Henrique Capriles, said that he's willing to collaborate with the Minister of the Interior, Justice and Peace, Miguel Rodríguez Torres, in the fight against crime. Capriles criticized that the issue of violence is being faced from a military standpoint, adding that *"training of the Armed Forces is other than that of police corps."* Capriles remembered that the *"Patria Segura"* Plan is the 20th plan launched by the administration to fight crime over the last 14 years.

Waiting for the PSUV party. Just a few days before the date scheduled for mayor candidates to register before the National Election Council (CNE) to participate in next December 8 elections, the government PSUV party hasn't presented its list of candidates, unlike the other 11 parties belonging the Chavista alliance, which already published their lists. Patria Para Todos (PPT) party leader, Rafael Uzcátegui, said that the PSUV *"is late in relation to its candidates"* and expects that the red party to present its proposal, because *"it would be a bad example that the ruling party would register its candidates without consulting its political allies."*

Legislatives Tips

Lazy National Assembly. Of the 38 bills included in the legislative agenda, only five have been passed and two of them weren't included, so that 65 are pending for discussion by the AN. In 100 days of Nicolás Maduro's government, the AN has only authorized supplementary appropriations to cover budget deficits. As at June 15, VEB 54.0 billion had been approved.

Renewal of authorizations. The BCV modified the resolution allowing public entities to hold funds in foreign currency; now, as per resolution published in the Official Gazette No. 40,215, authorizations will have to be updated. Since 2009, public entities may have funds in foreign currency upon authorization by the BCV, but the previous resolution didn't state an expiration date for authorizations, which from now on will have to be renewed.

New guidelines for Misión Vivienda. A resolution of the Ministry of Housing and Habitat establishes new guidelines for the construction and design of housing



complex for “*Misión Vivienda.*” The resolution was published in the Official Gazette No. 40,215 and states the type of housing units, the number of units per housing complex, minimum recreational zones, among other things. The Ministry of Housing will also require construction firms to develop energy and water saving systems.

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ECONOMIC OVERVIEW

