

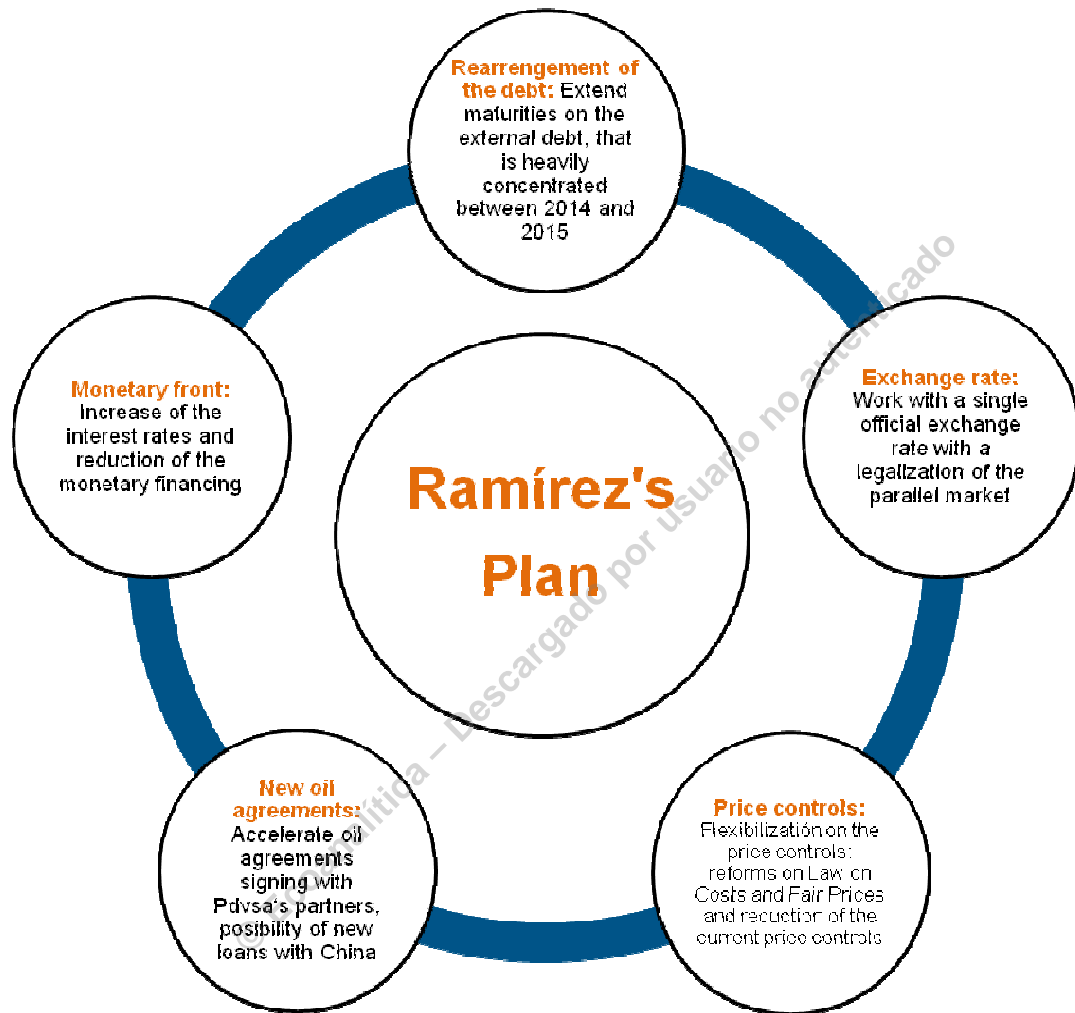
## The economic adjustment: changing curses?

If there is a word that describes the Nicolás Maduro administration it is inaction. For months economic agents have been waiting for adjustment measures to be implemented along the lines established by Rafael Ramírez and his team. But not one concrete measure has been taken to date, and time is running out.

In previous reports we have stressed the difficulties that Vice-president for the Economy Rafael Ramírez is facing in order to be able to carry out the series of measures he has been working on with his team since the first quarter of the year (1Q2014). The Maduro administration is still mulling over implementing these measures, partly because it fears the high political and social costs; and that is serious given the numbers obtained from the latest opinion poll on the president's performance and the parliamentary elections slated for 2015.

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### Just one plan?

The general perception is that Ramírez is in charge of decision-making when it comes to the economy and that his plan has already been fully accepted by the Executive. We are of the opinion that that is not the case. While it is true that Ramírez has increased his power in terms of decision-making, having supplanted other key actors such as Jorge Giordani (today ousted from the circle of power) or Nelson Merentes, he has not been able to convince Maduro of the appropriateness of his program of measures, as they are costly in terms of well-being and social impact in the short and medium terms. Apart from that, there are ideological reservations.

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Here there are two more groups that have also been working on measures to be taken by the Maduro administration. First we have the group headed up by Vice-president Jorge Arreaza and the president of the National Foreign Trade Center (Cencoex), Alejandro Fleming, and that has the support of Foreign Minister Elías Jaua. Then we have Nelson Merentes, who has also put forward suggestions regarding what needs to be done in terms of the economy.

### Consolidating the revolution

The argument used by the Arreaza-Fleming-Jaua proposal is that the plan proposed by Ramírez has too many elements that liken it to a “neoliberal package.” In fact, their main criticism is that the advisors are “rightwing economists” and even the International Monetary Fund (IMF) itself, which means that this would be a departure from what the *Chavista* model has been up until now. They say that the Maduro administration runs the risk of being left all alone, since the rank-and-file would not support this plan and the social and political costs are high. In other words, implementing this plan would put the stability of the Maduro administration at risk. Their proposals are more timid than Ramírez’s, namely:

1. A dual foreign exchange system: Work with two exchange rates, a Cencoex rate at around VEB 15/US\$ for priority goods and services and a SICAD II rate for the rest, mainly to make the new oil investments viable.
2. Adjust prices, but under no circumstances lift price controls. They propose that Superintendency for the Defense of Socioeconomic Rights (Sundde) work on a scheme for revising prices on a quarterly basis, but not that they be decontrolled.
3. A fiscal reform that seeks to raise more taxes from the banks, telecommunications, and liquor, as well as bringing back the financial transactions tax.
4. Increase the presence of the State in the marketing channels, given that the State currently controls imports to reduce profiteering.

As can be seen, this is, essentially, more of the same, with a very timid improvement on the fiscal front based on the foreign exchange adjustment that is being suggested, but without addressing the underlying problems.

### Merentes on the attack

Since his departure from the Ministry of Finance, Nelson Merentes has lost influence in the Maduro administration. Contacts between the two are infrequent. However, in recent weeks, through friends in common, in particular the governor of Vargas state, Jorge L. García Carneiro, he has been “warning” the government that it would be

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counterproductive to carry out the plan suggested by Ramírez and his technicians. According to Merentes, what this plan seeks to do, basically, is to destroy Nicolás Maduro's political capital and put him out of the running for possible reelection in 2019.

So, Merentes is of the view that, in the short term, the government should put off any adjustment measures until after the parliamentary elections, which would allow him to retain control over the National Assembly; after that he would have a greater margin of maneuver for taking Ramírez-style adjustment measures. In his opinion, a measure such as converging the exchange rates would be highly inflationary and counterproductive given the government's scant political capital at the present time.

Merentes proposes a "simple" plan in the short term:

- Like A-F-J, a dual foreign exchange system, with the difference that Merentes proposes increasing the amount of foreign currency disbursed via SICAD II for non-priority sectors, and allowing PDVSA to sell a portion of the foreign currency it obtains from oil exports.
- Issuing foreign debt, once all the parallel funds have been centralized at the Central Bank (BCV).
- Being more aggressive in signing oil agreements to increase production.
- Establishing a schedule for paying the State's debt with the private sector, particularly with priority sectors, in order to deal with the shortages issue. In the short term, this would warrant a reduction in imports by the public sector.

Merentes is not one hundred percent against Ramírez's plan, but stresses that the timing is not right and that this plan should be implemented between 2016 and 2017, so as to be better positioned for the next presidential elections.

### What could happen?

Venezuela's economic situation is alarming. Much more serious than a traditional recession provoked by a drop in an autonomous component of demand is one provoked by an aggressive restriction in the supply of foreign currency in an institutional environment that is unfavorable for the performance of the private sector. So, as we have said previously, much more than isolated measures are needed; what is required is a far-reaching adjustment and stabilization plan with short-, medium- and long-term goals.

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We are of the opinion that, in the next few weeks, the government is going to take some measures, which will be a mixture of what the different actors within *Chavismo* have been proposing. These measures could be:

- Devaluation by implementing a dual system, as proposed by the A-F-J group and Merentes, discarding the convergence of the exchange rates suggested by Ramírez's team.
- Putting up the prices of a number of products, but accompanied by an anti-profiteering discourse. Here too, Ramírez's proposal of easing price controls would be defeated.
- Continuing with new oil agreements to avoid a drop in the production of barrels that generate cash, an issue where Ramírez would continue to have control.
- Reprofile the foreign debt by extending maturities but increasing the cost of servicing that debt. On this point, Ramírez would also end up winning.
- Fiscal reform, with emphasis on higher taxes for the banks.

### And putting up the price of gasoline?

On more than one occasion we have written about the advisability of increasing the prices of fuels on the domestic market. *Chavismo* has also been evaluating this measure for some time now. They are still fearful of the impacts that this measure would have, however, which is why they are still studying when would be the best time for taking it. So, it cannot be discarded that, first of all, the adjustment will be fairly small and, in the second place, that it will not be imminent.

### Venezuela loses

As can be seen, the big loser here will be Rafael Ramírez. *Chavismo* would seem to be opting for postponing major adjustments and continuing with half-measures that will allow them to cope with the problems. This means that the Venezuelan economy will continue with a mediocre performance marked by high inflation, negative growth, deindustrialization, greater political uncertainty, and growing social discontent. Based on our review of the data, we do not expect any surprises in the economic results for the first two quarters of 2014, as a result of which at **Ecoanalítica** we estimate that the variation in GDP in 1S2014 will be between 3.0% and 3.5%.

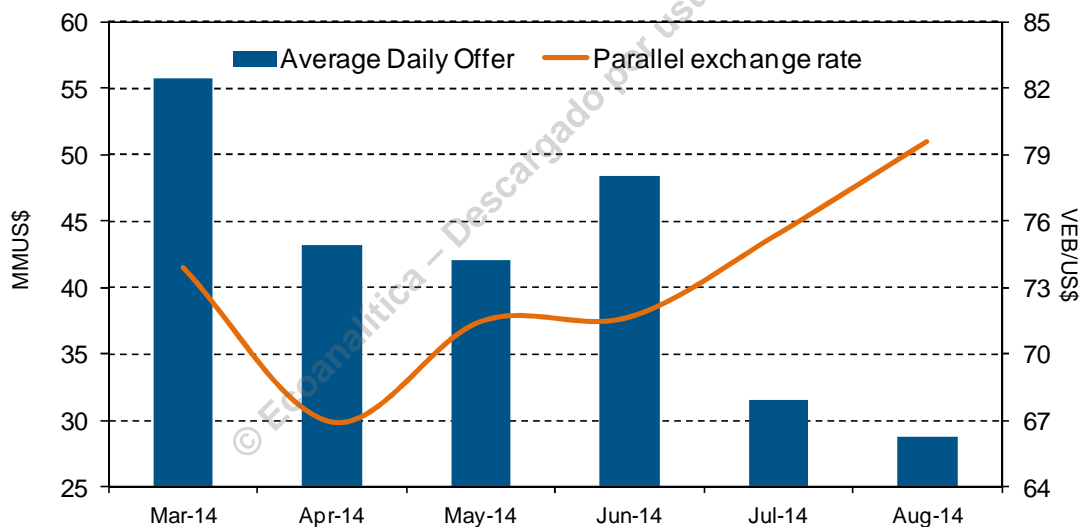
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## We insist, coverage is more than necessary

Some weeks ago we wrote: *“There is a high level of uncertainty. Given the present nonofficial exchange rate and disbursements via SICAD II averaging US\$44.5 million a day, our clients should be aggressive when it comes to coverage in the next three months. There are three variables that are crucial vis-à-vis the future: how the devaluation is implemented; monetary financing of the state-owned companies by the Central Bank; and Ramírez’s role in the economic cabinet.”*

This is even truer now. In recent weeks, disbursements via SICAD II have fallen: in July they averaged US\$31.5 million a day and in August to date they have averaged US\$28.8 million a day. This has pushed up the unofficial exchange rate.

**Average Daily Offered in Sicad II vs. Parallel Exchange Rate**



Source: Ecoanalítica  
\*Since March, 24

Moreover, if the Executive opts for a timid foreign exchange adjustment, monetary financing of the nonfinancial state-owned companies by the Central Bank will continue, putting pressure on the demand for foreign currency in the unofficial market.

**Asdrúbal Oliveros**

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## ECONOMIC TIPS

**No more bonds for now.** According to information supplied by the Superintendency of Institutions in the Banking Sector (Sudeban), the Ministry for Economy and Finance has ceased issuing public bonds, as a result of which there has been a slowing down in the growth of the volume of securities issued by the Republic in the banking sector's portfolios. At the close of 1H2014, public debt bonds and treasury bills in the hands of the banks came to VEB 336.18 billion, an increase of 14.0% compared to December 2013. Moreover, compared to the first half of 2013, the number of these financial instruments in the banking sector's portfolios went up by 52.0%.

**Hot on the trail.** Prosecutor General Luisa Ortega Díaz revealed two lists of companies that possibly committed some kind of foreign exchange offense, bringing the number of companies in the crosshairs of the Public Prosecutor's Office to 116. Initially, the Prosecutor General revealed the names of 56 companies and last Friday she named another 60 companies that are being charged with fraudulent use of foreign currency allocated by the government. Ortega also announced that the offenses with which the companies are being charged, the status of the cases, and even the companies that have already been found guilty will be made known.

**Where's the money?** Fifty-three percent of the companies investigated by the Public Prosecutor's Office for the alleged fraudulent use of foreign currency (63 of the 116 companies) received US\$1.5 billion as at 2012. It has not been possible to determine how many of the companies received foreign currency in 2013, since the National Foreign Trade Center (Cencoex) has not given details of the amounts of foreign currency approved by company in 2013. However, it has published a list of companies that were allocated foreign currency in the first four months of 2014, in which two of the companies currently being investigated appear as having received US\$29 million.

**Their time has come.** Cencoex issued an official communiqué announcing that 33 companies will be sanctioned for not having responded to the summons to have their correct use of foreign currency verified. The measures that Cencoex is to take against these companies include removing them from the Foreign Exchange Administration System Users Register

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(RUSAD), sending all the cases to the Public Prosecutor's Offices for the purpose of determining the proper use of foreign currency, and passing on the names of the companies to the Central Bank of Venezuela for them to be banned from taking part in SICAD II.

**They continue to fall.** According to statistics provided by the Central Bank, the international reserves came to US\$20.2 billion in the first week of August, which means that they have fallen by US\$1.1 billion (5.6%) in nearly eight months, given that they came to US\$21.4 billion in December 2013. One of the functions of the Central bank is that of handling the country's monetary policy. At **Ecoanalítica** we consider that this drop in the international reserves responds to an increase in the disbursements of foreign currency by Cencorex for the purpose of catering to new imports and paying old debts with suppliers.

**Painful increases.** The latest economic measures taken by the Executive with regard to the minimum wage and pensions have already had an impact on the fiscal accounts. The additional outlays that the Central Government has had to make in order to meet its liabilities this year come to VEB 92.0 billion, an increase of 140.0% compared to 2013, when the total cost of the adjustment as a result of wage increases came to VEB 38.0 billion.

**He just might increase them.** At the First Working Class Congress, President Nicolás Maduro announced a possible adjustment in prices due to the fact that, according to him, they have lagged seriously behind. *"If there are some imbalances in prices, as there are, as a result of the policy of protecting the people started by our Commander Chávez and continued by me, we're going to have to see what those imbalances are and make fair adjustments where it's necessary to adjust a price,"* he explained. At **Ecoanalítica** we are of the view that, as long as prices are regulated, it will not be possible to achieve optimum production of goods as there will be no incentive for companies to increase production.

**One more fund.** Even though President Nicolás Maduro gave assurances that they were in no hurry to put up the price of gasoline, he said that they would be setting up a special fund under the Special Powers Act for administering the additional revenues generated by increasing the price of gasoline. *"A fund is to be created under the Special Powers Act for depositing the resources from the adjustment in the price of fuels... There are plans (for using) the money raised for the country."* At **Ecoanalítica** we consider that

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the biggest problem with this type of mechanism is the high level of discretion it grants the government in handling those funds.

**Interest rates.** The lending rate for the first week of August was at 18.5%, up by 1.8 percentage points (pp) compared to the previous week. The time deposit rate was at 14.6%, down by 0.1 compared to the previous week, while the passive rate was at 14.1%, without variations compared to the previous week.

**International reserves.** International reserves decreased by 3.8%, going from US\$21.1 billion during the fifth week of July to US\$20.3 billion during the first week of August. Compared to the same period last year, international reserves have decreased by 14.1%.

**Central government expenditure.** On August 8th according to figures from the NTO primary spending was VEB 10.2 billion, which means an increase of 95.3%; when it is compared to the same period last year. So far this year, the primary expenditure accumulates VEB 490.8 billion 89.7% more than the same period last year.

**Monetary liquidity.** Money liquidity (M2) increased 0.9% in the fifth week of July from the week prior, to settle at VEB 1.50 trillion. The M2 has increased 71.0% in relation with the same period last year.

| Supply through SICAD II (US\$ MM) |              |               |              |                |              |
|-----------------------------------|--------------|---------------|--------------|----------------|--------------|
| Day                               | Total daily  | Public Sector | (%)          | Private Sector | (%)          |
| 8/5/2014                          | 33,8         | 28,7          | 84,9         | 5,1            | 15,1         |
| 8/6/2014                          | 44,7         | 32,1          | 71,8         | 12,6           | 28,2         |
| 8/7/2014                          | 20,1         | 19,0          | 94,5         | 1,1            | 5,5          |
| 8/8/2014                          | 22,4         | 19,5          | 87,1         | 2,9            | 12,9         |
| 8/11/2014                         | 22,8         | 20,5          | 89,9         | 2,3            | 10,1         |
|                                   | <b>3.703</b> | <b>3.357</b>  | <b>90,7%</b> | <b>370</b>     | <b>10,0%</b> |

Source: Ecoanalítica

## OIL TIPS

**Avoiding exposure.** In a report, JP Morgan stated that the sale of Citgo in the United States is due to a change in the government's oil policy, which has led PDVSA to increase its exports to China and India and to reduce exports to the United States. The report points out that PDVSA is probably seeking to

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reduce the “*exposure of its assets*” in the United States, bearing in mind the arbitration cases with ConocoPhillips and ExxonMobil that are currently before international courts, even though most of the claims are against the Republic, not PDVSA.

**Is raising production the goal?** JP Morgan states that interest in obtaining funds to raise production in the western region of Venezuela (Zulia) could be behind the sale of Citgo. While it could be thought that this would add value to the oil company, “*We are not sure of the use to which these earnings will be put in view of the fact that PDVSA’s prior performance has been poor,*” says the report.

**Euraisa is of the same opinion.** In a report on Venezuela, Euraisa says that the government’s liquidity problems have to do with the possible sale of Citgo. It adds that the government is exploring financing options, as revealed by the recent US\$4.0 billion loan agreed with China. In the opinion of Eurasia, the sale of the refineries in the United States (US) will increase uncertainty among creditors (bondholders). It considers, moreover, that the sale could have a negative impact on PDVSA’s cash flow in the medium and long terms, particularly if the potential buyers are not prepared to sign supply contracts.

**A “reasonable” price.** The price of gasoline will be increased to a “reasonable” level, said Oil and Mining Minister Rafael Ramírez at a special session of the National Assembly in Mene Grande, Zulia state, to celebrate the 100<sup>th</sup> anniversary of the oil well Zumaque 1. Ramírez explained that a discussion of this increase was necessary, because “*it’s cheaper to fill a tank than to buy a cigarette.*” “*We’re the country with the highest per capita consumption of fuel in the world and we have the lowest fuel price in the world as well. There’s no justification for that,*” he added. However he also said that they were not thinking of putting up the price to international levels.

**There won’t be a referendum.** The decision to raise the price of gasoline will be taken by the government alone after having consulted the matter, said Oil and Mining Minister Rafael Ramírez. He discarded the possibility of a referendum on the issue. “*We assume the decision as the government. We have mechanisms for consultation, but we’re the government.*” He also explained that they will implement special policies by sector for lifting the subsidy.

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**United States hits a production high.** US crude production averaged an estimated 8.5 million barrels a day (mb/d) in July, the highest since April 1987, said the Energy Information Administration (EIA) on Tuesday. Crude production is expected to average some 8.5 mb/d in 2014 and 9.3 mb/d in 2015, according to the EIA's monthly update of its short-term pumping projections for the United States.

**Conflicts are pushing down prices.** The International Energy Agency (IEA) stated in its latest report that crude prices fell in July and early August as a result of concerns over escalating conflicts in Iraq, Libya, and Ukraine. Those pressures were offset, however, by scant refining activity in OECD countries. The AIE also revised its estimate for oil demand in 2014 down by 1.0 mb/d, in view of the IMF's downward revision of its estimate for world growth.

**OPEC supply increases.** Global supply increased by 230,000 barrels a day (b/d) in July to 98.0 mb/d, according to AIE figures. This increase was driven by the growth in supply from OPEC countries, which went up by 300,000 b/d to 30.44 mb/d, the highest supply figure in the past five months, thanks to an increase in Saudi production (10 mb/d) and the recovery of Libyan production, which offset the drops in Iraq, Iran, and Nigeria.

**Mexico's energy reform is ready.** The President of Mexico, Enrique Peña Nieto, promulgated the laws that are to regulate a historical reform of the energy sector. The energy package was approved last week following a debate that lasted nearly 170 hours. The new energy model undertakes to raise growth of Gross Domestic Product (GDP) by three percentage points by 2025, attract US\$10.0 billion in foreign investment, and create an additional 500,000 jobs a year. The Mexican State retains control of the industry and *"opens the doors to private investment and cutting-edge technology, which will make it possible to increase energy production,"* claimed Peña Nieto.

**International oil baskets.** At closing time on August 8th in the New York Stock Exchange, the price of the WTI was US\$97.5/bl, down by 3.1% when compared to the reported the previous week. The Brent decreased by 2.1% when compared to the previous week, to reach US\$104.9/bl.

**Local oil basket price.** The Venezuelan oil basket price closed at US\$92.2/bl on Friday August 8th, decreasing by 2.2% when compared to the reported the previous week. The annual average price of the Venezuelan oil basket is US\$96.7/bl.

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## BUSINESS SECTOR TIPS

**New car sales decreased 81.8%.** Data released by the Venezuelan Automotive Chamber (Cavenez), sales of new cars down 81.8% in July with respect to the same period in 2013. From January through July, 9,821 units were sold, down by 56,145 cars from the same period in 2013; of these, 9,748 correspond to local manufacture and 73 were imported, down 77.5% and up 99.7%, respectively.

**Production of new cars decreased 87.3%.** According to data released by Cavenez, the production of new cars decreased 87.3% with regard to the same period in 2013, to 876 units. Therefore, cumulative production from January through July 2014 was 7,037 units, a loss of 84.0% with respect to the 43,833 assembled in the same period in 2013.

**More and more cars, but they're Chinese.** It's a fact. Whether they are units assembled locally or imported vehicles, the presence of Chinese vehicles in the market is daily more marked and will continue to increase thanks to recent agreements between the Venezuelan and Chinese governments. Although there are no official figures on exactly how many of these vehicles have come into the country as a result of government purchases, they are estimated to be in the region of 20,000 units, if account is taken of the 9,400 that arrived in 2012, the 10,000 that, according to official spokespersons, arrived in 2013, and another 13,000 vehicles of Chinese makes that will be coming this year.

**Assemblers owe US\$1.9 billion.** Top executives of automobile assemblers and the auto parts industry met with the governor of Carabobo state, Francisco Ameliach, to find solutions to the crisis in the sector. The businessmen explained to the governor the acute crisis they are facing as a result of the restrictions in the foreign exchange system. They reminded him that the assemblers owe their parent companies US\$1.9 billion and that there has still been no commitment to pay that debt on the part of the Executive. They also claimed that it was necessary to "speed up" the release of dollars via SICAD, as some companies have still not received the dollars they were allocated at the auctions Cencoex held recently for the automotive sector.

**Prices remain unchanged.** The prices of vehicles on the domestic market, whether they are assembled locally or imported, remain unchanged after a

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new rule established that the sector will now purchase dollars at the VEB 11/US\$ exchange rate. *“The cost structure approved by Sundde is based on this exchange rate. The industry has already been working with that rate”*, said Jorge Díaz del Castillo, the senior commercial vice-president of MMC Automotriz, which is the representative of the Fusio and Mitsubishi makes.

**Trade with Colombia down.** The recently appointed executive president of Cavecol, Reinaldo Queijeiro, commented that, between January and June 2014, trade between Venezuela and Colombia came to US\$1.09 billion, a contraction of 21.0% compared to the same period in 2013. *“Venezuelan exports increased to US\$257 million, in other words an increase of 26.0%, whereas imports of Colombian products to our country fell by 29.0% compared to January-June 2013 to US\$837 million”*, explained Queijeiro.

**No sign of medicines.** Recent disbursements of foreign currency for the pharmaceutical sector provided some momentary relief for companies, allowing them to pay part of their old debts with international suppliers going back to the end of 2013. However, the process came to a halt more than two months ago due to delays by Cencorex in issuing authorizations for the acquisition of foreign currency so that the companies can place new orders. Although the pace of disbursements has stepped up in the case of applications submitted in 2014, delays in issuing authorizations for the acquisition of foreign currency (AADs) is making life difficult for the industry because it interrupts the flow in the chain of production and creates holes in supply.

**We're not seeing the fruit of the investment.** Despite the fact that the government invested VEB 72.7 billion in the fundamental areas of the National Grid between 2010 and 2013, rationing in the provinces continues, according to former consultant Manuel Guevara. The Ministry for Electric Power and Corpoelec have channeled investment into generation (VEB 48.3 billion), transmission (VEB 8.8 billion), distribution and marketing (VEB 9.3 billion), and other areas (VEB 63.0 billion), he explained. Guevara said that *“despite the substantial amounts spent on generation, the system still does not have sufficient margin”* to guarantee stability of the electricity service.

**Yes, but no.** On July 31, the Sundde published the new prices for precooked cornmeal on its web page: VEB 12.40 for the end consumer; VEB 11.92 for the distributor or wholesaler; and VEB 11.58 for industry. However, this information was removed from the web page that same day with no

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explanation, which has caused confusion both in the agro-industry and among merchants, as companies in both sectors believed the 67.3% increase to be a fact and have started to sell the product at the price authorized by Sundde.

**Contingency plan started for production of cans.** Domínguez & Cía, a company that manufactures tin cans for the food industry, has started a contingency plan owing to the shortage of raw materials. *"We have a shortage of raw materials. We're working just one shift until the end of August"*, said Robert Matheus, the secretary of the company's labor union. He explained that the main problem is that SIDOR is unable to supply the quantities of tinplate required by the company. A director, who preferred to remain anonymous, said that, according to the company's plans, they will be able to resume the three work shifts in mid-September, provided they receive a batch of imported raw materials that they purchased from suppliers in Brazil and Colombia.

**Flights down by half.** In the past year, the Venezuelan air travel market, one of the most active in the region given the country's privileged geographical location, has shrunk considerably. Sources close to the sector say that the supply of seats on international flights is down 50.0% compared to last year, when there were more than 57,000 seats available on some 24 international airlines that connected Venezuela with other destinations around the world. Today that figure has been cut to some 28,000, less than half.

**Trying to find a solution.** The government is continuing to hold meetings with representatives of the international airlines with a view to reversing the cutback in operations implemented by some companies. Government spokespersons met with Italy's Deputy Minister of Foreign Affairs, Mario Giro, Italy's ambassador to Venezuela, Paolo Serpis, and representatives of Alitalia to evaluate the resumption of the airline's operations in Venezuela. Minister for Air Transport Luis Graterol described the meeting with Alitalia as "very positive" and said that subsequently they set up a working group with representatives of the Portuguese airline TAP.

**No more air tickets for TAME flights until October.** The long queue of the past two days that stretched two blocks near Torre Centro Seguros Sudamericana in El Rosal is no longer there because TAME has run out of air tickets. The only comments forthcoming from the airline's representatives who were stamping customers' forearms and handing out numbers to avoid

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conflicts were, “*There are no more air tickets until October 2014 and we don’t know when sales will be resumed.*” TAME flies to Quito, Guayaquil, and Panama.

## WORLD ECONOMY TIPS

**Keeping an eye on Germany and Japan.** A report by the Organisation for Economic Co-operation and Development (OECD) reveals that the momentum of growth is stable in the majority of the large economies, despite the fact that Germany and Japan have shown signs of weakening. The OECD’s general indicator for measuring the growth of its members has remained stable at 100.5 since February, but it is worth noting that, individually, Germany and Japan experienced a slowing down in their growth between May and June, going from 100.4 to 100.2 and 100.4 to 100.1, respectively.

**Benign inflation in China.** The National Bureau of Statistics of China published the consumer price index, which posted a monthly increase for July of 0.1%, whereas the increase year-on-year was 2.3%, which is in line with market estimates and reinforces the idea that low pressures on prices will give the authorities room to make their monetary policy more flexible if it becomes necessary.

**A weak recovery.** In a communiqué, the Bank of Japan stated that sluggish Asian demand and a shift in Japanese production overseas will continue to weigh on exports, which demonstrates that the bank is no longer convinced that overseas shipments abroad will soon pick up and support a fragile economic recovery. The bank also said that, despite the likely increase in manufacturing production, the production of automobiles and personal computers could continue weak due to low demand.

**Productivity in the US recovers.** The US Bureau of Labor Statistics reported that productivity increased by 2.5% in 2Q2014 after experiencing a contraction in 1Q2014. The high spot in this upturn in productivity was the nonfarm sector, which grew more than expected. In this environment, the sharp slowing down in unit labor costs contained wage pressures, which could allow the Federal Reserve to maintain its expansive monetary policy.

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**One problem leads to another.** The European Central Bank (ECB) explained that the crisis in Ukraine has increased the risk for the weak and uneven recovery of the European Union, quite apart from the sanctions war between Russian and the West, which could make the problem worse. *“Geopolitical risks have grown, are greater than a few months ago. And some of them, such as the situation in Ukraine and Russia, will have a greater impact on the Eurozone than they have (...) in other parts of the world,”* explained the president of the ECB, Mario Draghi.

**Banned.** The Russian Government has banned the importing of a large number of food products from western countries in response to the sanctions imposed as a consequence of its role in the Ukraine crisis. This measure is much harsher than expected and, to cut a long story short, its effect is to cut Russian consumers off from world trade to an extent not seen since the days of the Soviet Union. There is another factor to be taken into account: the imminent impact that the drop in Russian demand for food will have on the international market for a number of the main food exporting countries, a situation that already has many worried.

**Renzi expects a deficit of 2.9%.** Prime Minister Matteo Renzi said that Italy would post a budget deficit of 2.9% of GDP in 2014, without the need to implement further fiscal adjustments. *“I’ve absolutely no intention of breaking the 3.0% ceiling. We expect to have better (growth) figures in the second half of the year and, consequently, it will be 2.9% (of GDP),”* said Renzi, referring to the ceiling of 3.0% of GDP set by the European Union as the fiscal deficit limit for Italy.

**Economic plan approved.** The Italian Government has approved a new package of measures for supporting the economy that offers some help to companies, but increases the pressure for Prime Minister Matteo Renzi to take firmer steps to solve the recession. The most salient measures in this new package are the cut in energy costs for small and medium companies, some tax breaks for companies that invest in machinery, and new rules that will allow insurance companies and credit brokers to lend to companies directly.

**Phasing out wage cuts.** Minister for Public Expenditure Brendan Howlin revealed the Irish Government’s intention to phase out the wage cuts imposed on the public sector during the financial crisis, explaining that

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meetings are being scheduled with the country's main labor unions next year to discuss the issue and find a solution.

## POLITICAL TIPS

**Changes in the Unity Alliance on the horizon.** Following Ramón Guillermo Aveledo's surprising resignation, the Democratic Unity Alliance plans to resume its debate with a firm agenda that includes proposals such as an internal reorganization to enable it to continue carrying out the activities that used to be performed by the alliance's former secretary. Three of the main parties making up the alliance (*Acción Democrática*, *Un Nuevo Tiempo*, and *Primero Justicia*) are to propose a proselytizing plan to increase participation in the parliamentary elections to be held in 2015.

**The last hope.** Former Mayor of Caracas Claudio Fermín said that the opposition should focus on countering the government's practice of taking unfair advantage at elections, as, if the opposition obtains the majority of seats in the National Assembly, this would give it the opportunity to make inroads in the other branches of government. *"The fact that there are setbacks, doesn't affect the value of an election. Let's take a look back in time. We've won elections despite the government's practice of taking unfair advantage."*

**We have to find unity.** Ramón Guillermo Aveledo, the former secretary of the Democratic Unity Alliance, considered that the conclave held on August 11 was extremely important as, according to him, it is necessary to renew forces within the opposition coalition. *"I'm convinced that there is sufficient experience in achieving unity to find points (in common) and establish a united, coherent policy. There have been differences, known to all. Those differences resulted in the Unity Alliance wasting the first half of the year... We must invest what is left of the year in reorienting things towards concrete paths, towards an agenda that is within reach."*

**Different visions.** The governor of Miranda, Henrique Capriles Radonski, said that there is a difference of visions within the Democratic Unity Alliance, since there are positions that do not give priority to contact with the people in the shanty districts and the people who sympathize with the government in order to promote a change in Venezuela. *"I'm one of those who think that it's*

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*impossible to achieve a change in our country without integrating, incorporating, acknowledging the people who live in our shanty districts, in the hamlets, in the farthest flung corners of Venezuela. On the other hand, there are those who think that neither the people who live in the shanty districts nor the people who support the government are necessary; that the group they represent is sufficient to make the changes and take power in the country,"* added Capriles.

**Capriles calls for a debate on the economy.** Governor Henrique Capriles Radonski demanded that the Nicolás Maduro administration promote a "serious" debate on how the economy is performing and on how the oil revenues are being administered, particularly now, as, according to Capriles "all the OPEC countries have increased their oil production, except our Venezuela. They've all increased their market share at our expense." "They promised that this year oil production would be more than 4 million b/d and OPEC says we're at 2.3 million b/d. What happened?" he asked the Venezuelan Government.

**December seems to be the date.** Deputy Bernardo Guerra, a member of the preliminary commission that is working on the renewal of the National Electoral Council's (CNE) directors, said that the appointing of the postulations committee that is to be responsible for overseeing the selection of the CNE's new directors will take place one month after the National Assembly sits again (mid-September). This process will be completed later, since the different steps involved in appointing the directors generally take approximately 60 days, based on the timeframes established in the Electoral Branch Act. That means that the tentative date for renewing the CNE's top authorities would be in December.

**Packing their bags.** According to the latest Omnibus poll conducted by Datanálisis, one in ten Venezuelans say that they are gathering information on emigrating or have already started the process that will allow them to emigrate. This figure is higher than the statistics obtained at other critical moments in the past ten years when Venezuelans were opting to emigrate, as happened after the coup d'état in 2002 and following the presidential recall referendum in 2004.

**They're the ones who're implementing the package.** Julio Borges, the national coordinator of *Primero Justicia*, blamed the government for making Venezuela's economic crisis more acute and profound as a consequence of

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implementing in slow motion what he called the “red package.” Borges said that the present crisis is one of the most severe the country has experienced in recent years and he pointed out that the measures needed to solve the current situation are not being taken.

## LEGISLATIVE TIPS

**Going on vacation with work pending.** On Friday, the National Assembly (AN) completes its first period of sessions with items outstanding in the three special committees created this year: the judicial and electoral committees for renewing the authorities of the Supreme Tribunal of Justice (TSJ) and the CNE and the Commission for the Truth charged with investigating the incidents that have occurred during the student and opposition protests since February 12. At the March 18<sup>th</sup> session, the National Assembly’s Board of Officers formed the Commission for the Truth. Its members met twice behind closed doors. The deputies have not established the regulations for the commission nor have they given a report of progress made as at the close of the first period of sessions.

**Yet to be defined.** With nine months to go before the deadline for employers to comply with the ban on outsourced labor, the Presidential Council for the Law on Labor and Male and Female Workers (LOTTT) has still not defined the regulations that will specify how this measure is to be implemented. Deputy Oswaldo Vera, a member of the working group, said that they are evaluating whether to wait for the Regulations to the LOTTT to be amended in full or whether to issue part of the regulations, as they did in the case of the work day, so that employers do not encounter problems in interpreting the measure.

**Hey ho, hey ho, militarizing we go!** The draft military education bill that is being discussed by the National Assembly’s Defense Committee stipulates that military education shall be imparted in kindergartens, primary schools, secondary schools and universities, both public and private. Article 1 of the text being discussed in committee states that the purpose of the law is to regulate the “the teaching-learning process of the Bolivarian National Armed Force (FANB) and the people.” The military method of education is defined in Article 30 of the Education Act and in Article 114 of the Bolivarian National Armed Force Act. In both articles, mention is made of this method only in

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reference to the members of the FANB and its institutions, but in no instance does this involve the civilian population.

**Ready by September.** The chairman of the National Assembly's Security and Defense Committee, William Fariñas, gave assurances that the draft military education bill will be submitted to the National Assembly in plenary session during the next period of sessions, which commences in September. Ninety-eight articles of the draft bill have been discussed and the directors of some universities have been called upon for consultation.

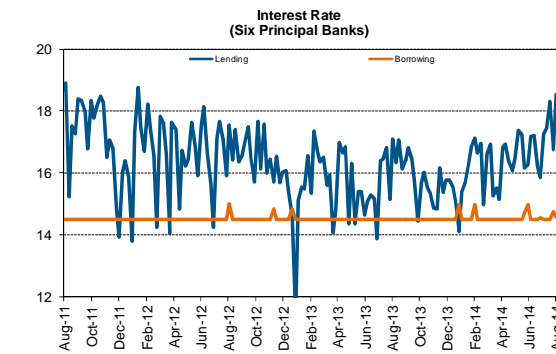
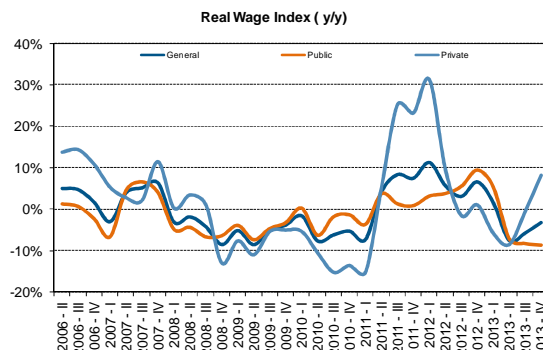
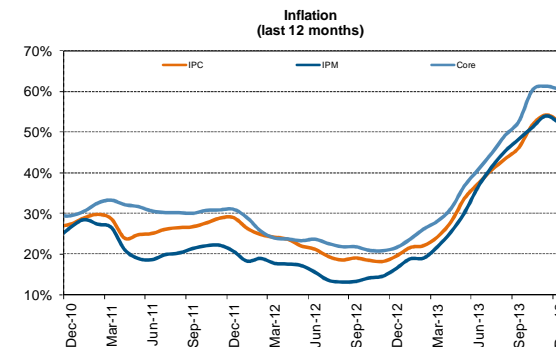
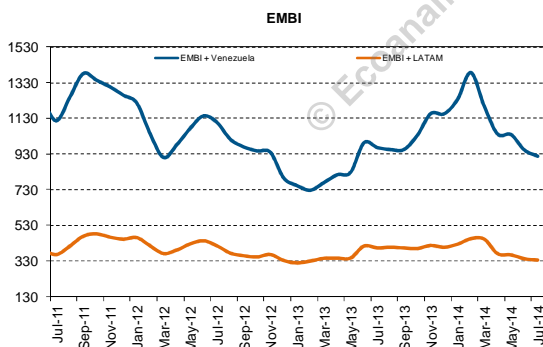
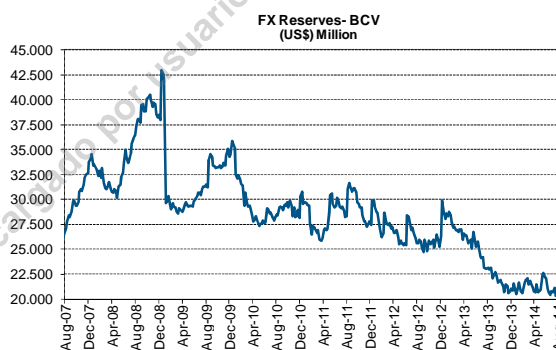
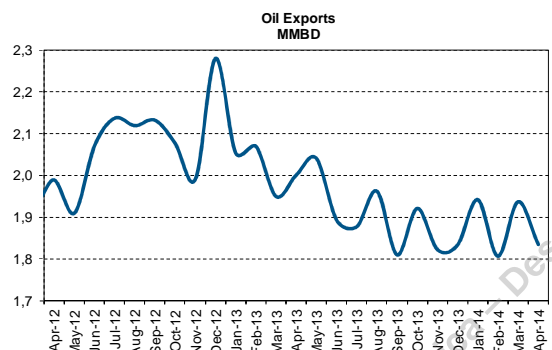
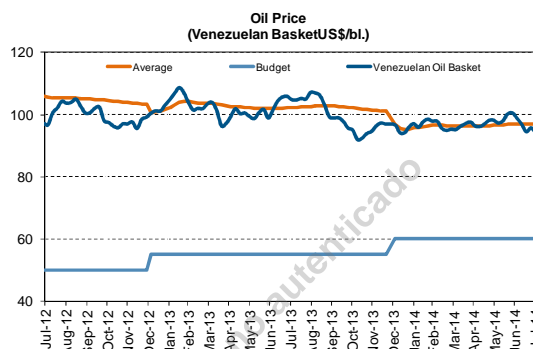
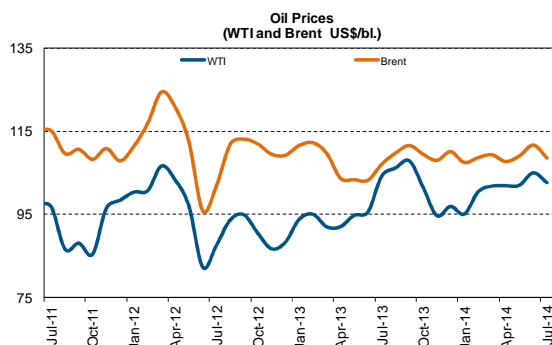
**Rules for air tickets postponed.** The National Civil Aeronautics Institute and the Integrated Customs and Tax Administration Service have postponed, for the second time and for nearly a year, implementing the directive on issuing and billing air tickets and other documents involved in the provision of air travel services. The date for the entry into force of the directive, which applies to both domestic and international flights, was postponed in February, when it should have gone into effect after being published in *Gaceta Oficial* on December 18, 2013. The new deadline was established in *Gaceta Oficial* No. 40,469.

**New international telephony rules.** Conatel published a new directive in *Gaceta Oficial* No. 40,469 that establishes the rules for providing long-distance international telephony services and transit charges for incoming calls on fixed and mobile telephony networks in Venezuela. The purpose of the rules is to establish the transit charges that operators providing international long-distance telephony services will have to pay for calls made from foreign networks and delivered to fixed and/or mobile telephony networks in Venezuela, when the subscriber is not served directly by his or her network.

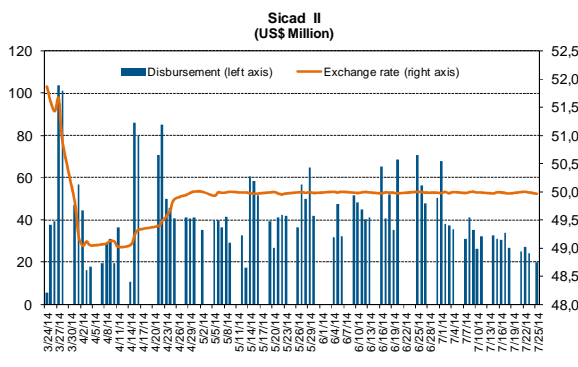
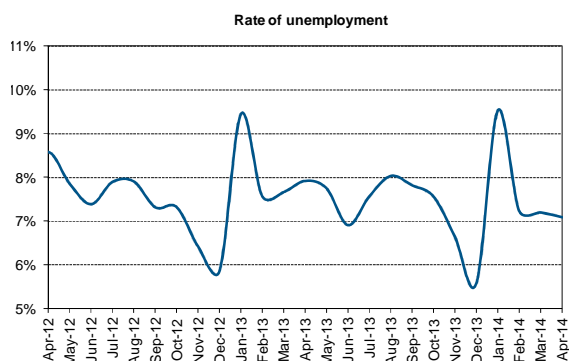
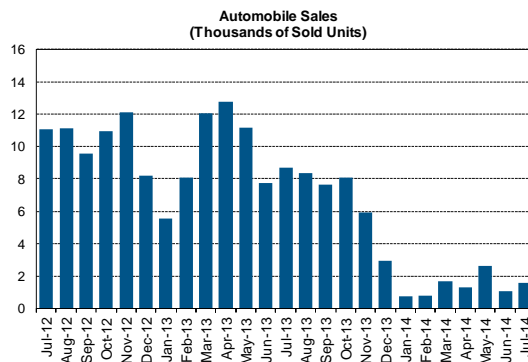
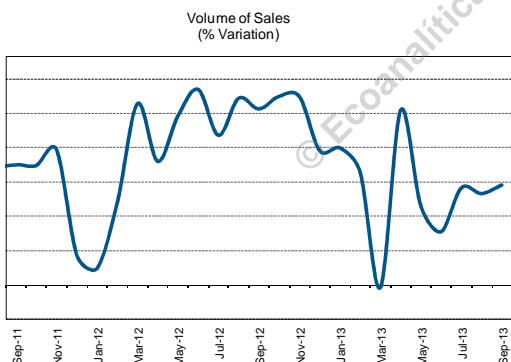
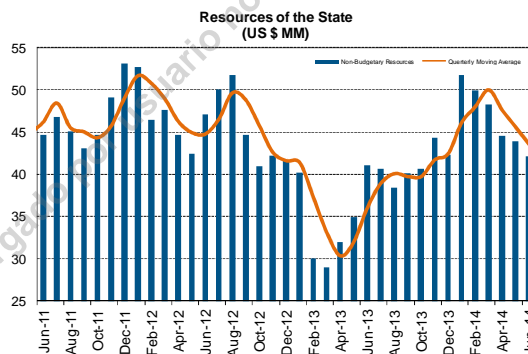
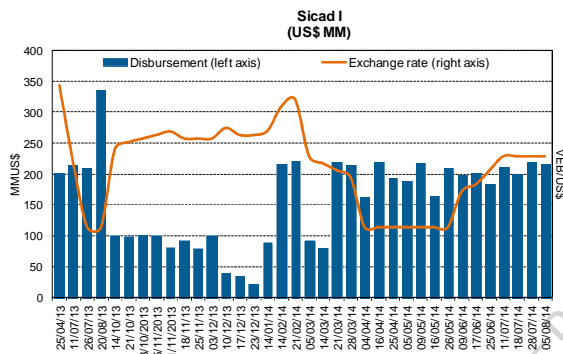
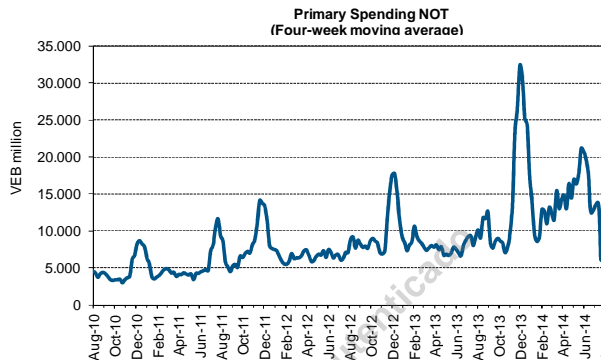
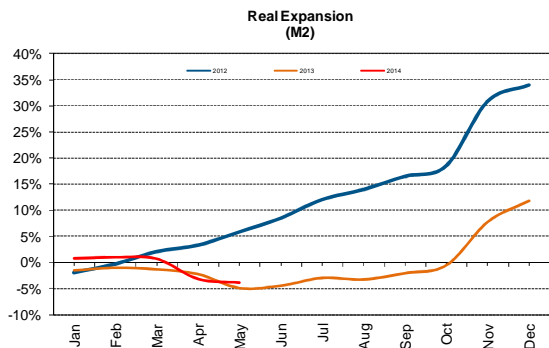
**Companies under investigation.** Jesús Faría, the vice-chairman of the National Assembly's Finance Committee and member of the presidential commission in charge of investigating the case of the embezzlement of dollars, gave assurances that "the country is going to know who was involved in this fraud." Although parliamentarians have said that the list of front companies will be revealed, Deputy Faría explained: "We aren't authorized to say when. The matter is under investigation." In Faría's opinion, the investigation will be taken to its ultimate consequences, saying, "We won't stop if government officials are involved."

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**ECONOMIC OVERVIEW**



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